**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 in China Telecom (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 Shareholders' 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. Registration Statements relating to the Company's ordinary shares and debt securities have been filed with the United States Securities and Exchange Commission but have not become effective. Any sale of these securities in the United States will be made only after such registration statements have become effective and by means of prospectuses relating to such securities.

中国电信
CHINA TELECOM

# CHINA TELECOM (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*

**Schroders**

*Financial Advisers to China Telecom (Hong Kong) Limited*

Goldman Sachs

**Goldman Sachs (Asia) L.L.C.**

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

A letter from the Independent Board Committee of China Telecom (Hong Kong) Limited is set out on page 26 of this circular. A letter from Schroders Asia Limited containing its advice to the Independent Board Committee is set out on pages 27 to 50 of this circular.

A notice dated October 16, 1999 convening an Extraordinary General Meeting of the Company to be held in the Conference Room, 8th Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong, on November 11, 1999 at 11:00 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.

October 16, 1999

## 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 capital of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI pursuant to the Acquisition Agreement, as further described in this circular |
| ''Acquisition Agreement'' | the conditional sale and purchase agreement dated October 4, 1999 made between the Company, CTBVI and CTHKG relating to the Acquisition |
| ''ADSs'' | American depositary shares |
| ''Associates'' | as defined in the Listing Rules |
| ''Board'' | the board of directors of the Company |
| ''CDMA'' | Code Division Multiple Access technology, which 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 communications |
| ''China Mobile'' | China Mobile Communications Corporation, a state-owned company established in the PRC and controlled by the MII |
| ''CICC'' | China International Capital Corporation (Hong Kong) Limited, a registered investment adviser and financial adviser to the Company in respect of the Acquisition |
| ''Chesterton Petty'' | Chesterton Petty Limited, a chartered surveyor and independent property valuer to the Company |
| ''Combined Group'' | the Company, its existing subsidiaries and the Target Companies |
| ''Companies Ordinance'' | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) |
| ''Company'' or ''CTHK'' | China Telecom (Hong Kong) Limited, a company incorporated in Hong Kong whose shares are listed on the Stock Exchange and whose ADSs are listed on the New York Stock Exchange |
| ''Completion'' | completion of the Acquisition pursuant to the Acquisition Agreement |
| ''Connected Transactions'' | the transactions entered into between China Mobile, certain of its subsidiaries, the DGT, the relevant PTAs and the Target Companies or the Company or its subsidiaries, as set out in the section headed ''Letter from the Chairman'' under the paragraph headed ''Connected Transactions'' |
| ''Consideration Shares'' | the new Shares proposed to be allotted and issued to CTBVI as part of the total purchase price of the Acquisition |
| ''CSRC'' | China Securities Regulatory Commission |

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| "CTBVI" | China Telecom Hong Kong (BVI) Limited, a company indirectly controlled by the MII and the immediate controlling shareholder of the Company |
| "CTHKG" | China Telecom (Hong Kong) Group Limited, a company indirectly controlled by the MII and an indirect controlling shareholder of the Company |
| "DCS 1800" | Digital Cellular System for 1800 MHz, a European digital cellular standard based on GSM technology that operates in the 1800 MHz frequency band (also referred to as PCN) |
| "Debt Offering" | the proposed global offering of U.S. dollar denominated notes of the Company, as described in the section headed "Letter from the Chairman" under the paragraph headed "The Proposed Debt Offering" |
| "DGT" | The Directorate General of Telecommunications, a state-owned enterprise under the control of the MII |
| "Directors" | the directors of the Company |
| "EBITDA" | earnings before interest income, interest expense, non-operating income/expenses, income tax, depreciation and amortisation and provision for diminution in value of fixed assets |
| "Equity Offering" | the proposed global offering of Shares and American depositary shares of the Company, as described in the section headed "Letter from the Chairman" under the paragraph headed "The Proposed Equity Offering" |
| "Extraordinary General Meeting" | the extraordinary general meeting of the Company convened for November 11, 1999, notice of which is set out at the end of this circular, or any adjournment thereof |
| "Fujian Mobile" | Fujian Mobile Communication Company Limited, a company established on September 7, 1999 under the laws of the PRC and which is wholly-owned by Fujian Mobile BVI |
| "Fujian Mobile BVI" | Fujian Mobile (BVI) Limited, a company incorporated on September 1, 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 |

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| ''Hainan Mobile'' | Hainan Mobile Communication Company Limited, a company established on August 19, 1999 under the laws of the PRC and which is wholly-owned by Hainan Mobile BVI |
| ''Hainan Mobile BVI'' | Hainan Mobile (BVI) Limited, a company incorporated on September 1, 1999 in the British Virgin Islands |
| ''Henan Mobile'' | Henan Mobile Communication Company Limited, a company established on August 6, 1999 under the laws of the PRC and which is wholly-owned by Henan Mobile BVI |
| ''Henan Mobile BVI'' | Henan Mobile (BVI) Limited, a company incorporated on September 1, 1999 in the British Virgin Islands |
| ''Hong Kong'' | Hong Kong Special Administrative Region of the PRC |
| ''HK$'' | Hong Kong dollars, the lawful currency of Hong Kong |
| ''Independent Shareholders'' | Shareholders other than CTBVI and its Associates |
| ''Jiangsu Mobile'' | Jiangsu Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and a wholly-owned subsidiary of Jiangsu Mobile BVI |
| ''Jiangsu Mobile BVI'' | China Telecom Jiangsu Mobile (BVI) Limited, a company incorporated on March 6, 1998 in the British Virgin Islands |
| ''Latest Practicable Date'' | October 14, 1999, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| ''Listing Rules'' | the Rules Governing the Listing of Securities on the Stock Exchange |
| ''mainland China'' | the PRC, excluding Hong Kong 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 |
| ''Offer Price'' | the offer price per Share of the Equity Offering |
| ''PRC'' or ''China'' | The People's Republic of China |
| ''PTA'' | provincial level posts and telecommunications administrations under the administrative authority of the MII responsible for regulating the posts and telecommunications industry in the respective provinces; and, prior to the telecommunications industry restructuring in February 1999, was the leading provider of all public telecommunications services in mainland China; and, following such restructuring, is the leading provider of all public fixed line and data communications services in mainland China |
| ''Restructuring'' | the transfer by the relevant PTAs in Fujian, Henan and Hainan of their businesses, assets and liabilities related to cellular networks in those provinces to China Mobile and the |

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| | transfer by China Mobile of such businesses, assets and liabilities to the respective Target Companies, further details of which are set out in the paragraph headed ''Acquisition Restructuring'' in Appendix II |
| ''RMB'' | Renminbi, the lawful currency of mainland China |
| ''Schroders'' | Schroders Asia Limited, exempt securities dealer and exempt investment adviser and independent financial adviser to the Independent Board Committee |
| ''SDI Ordinance'' | the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the laws of Hong Kong) |
| ''SDPC'' | the State Development and Planning Commission of the PRC, formerly known as The State Planning Commission of the PRC |
| ''Share(s)'' | ordinary share(s) of HK$0.10 each in the capital of the Company |
| ''Shareholders'' | shareholders of the Company |
| ''State Council'' | the State Council of the PRC |
| ''Stock Exchange'' | The Stock Exchange of Hong Kong Limited |
| ''TACS'' | Total Access Communication Systems, a European standard for analog mobile telephone transmissions in the 800 and 900 MHz frequency bands |
| ''Target BVI Companies'' | Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI |
| ''Target Companies'' | Fujian Mobile, Henan Mobile and Hainan Mobile |
| ''Target Group'' | the Target Companies |
| ''Unicom'' | China United Telecommunications Corporation, a company established in 1994 under the laws of the PRC pursuant to an approval of the State Council dated December 1993 |
| ''U.S. dollars'' or ''US$'' | United States dollars, the lawful currency of the United States of America |
| ''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 RMB8.2787 = US$1.00, between Renminbi amounts and Hong Kong dollars at RMB1.0670 = HK$1.00, and between Hong Kong dollar amounts and U.S. dollars at HK$7.7586 = US$1.00, the prevailing rates on June 30, 1999, except that amounts in respect of the price of the Acquisition, the Equity Offering and the Debt Offering have been translated at RMB8.2777 = US$1.00, RMB1.0654 = HK$1.00 and HK$7.7695 = US$1.00, the prevailing noon buying rates on October 13, 1999. 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 September 3, 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 June 4, 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 January 1, 1998, as if the acquisition of Jiangsu Mobile had been completed on that date.

中国电信
CHINA TELECOM

# CHINA TELECOM (HONG KONG) LIMITED

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

*Executive Directors:*
Wang Xiaochu (Chairman)
Li Ping
Ding Donghua
Li Gang
Xu Long
He Ning

*Non-Executive Director:*
Cui Xun

*Independent Non-Executive Directors:*
Arthur Li Kwok Cheung
Antony Leung Kam Chung

*Registered Office:*
16th Floor
Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

October 16, 1999

*To the Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS**

**ACQUISITION OF FUJIAN MOBILE BVI, HENAN MOBILE BVI AND HAINAN MOBILE BVI**

## 1. INTRODUCTION

On October 4, 1999, the Board of Directors announced that the Company had entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire, and CTBVI, the Company's immediate controlling shareholder, agreed to sell, the entire issued share capital of each of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI, subject to certain conditions.

The total purchase price of the Acquisition is HK$49,715 million (equivalent to approximately US$6,400 million) and the net asset value of the Group as at June 30, 1999 was approximately HK$46,836 million (equivalent to approximately US$6,028 million). The Company will pay HK$19,031 million (equivalent to approximately US$2,450 million) of the total purchase price in cash and the remainder of HK$30,684 million (equivalent to approximately US$3,950 million) in the form of the Consideration Shares to be issued by the Company to CTBVI. The Company intends to finance the cash portion of the total purchase price using the net proceeds of the Equity Offering and the Debt Offering. The balance of the cash portion of the total purchase price (if any) will be satisfied from internal resources and/or from other forms of external funding.

As at the Latest Practicable Date, CTBVI owned approximately 76.43% of the issued share capital of the Company. 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 CTBVI 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 Connected Transactions. Schroders has been appointed as the independent financial adviser to the Independent Board Committee and a copy of its letter of advice is set out on pages 27 to 50 of this circular.

Goldman Sachs (Asia) L.L.C. and China International Capital Corporation (Hong Kong) Limited 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 Completion of the Acquisition and to seek your approval of the 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 26 of this circular.

## 2. THE ACQUISITION

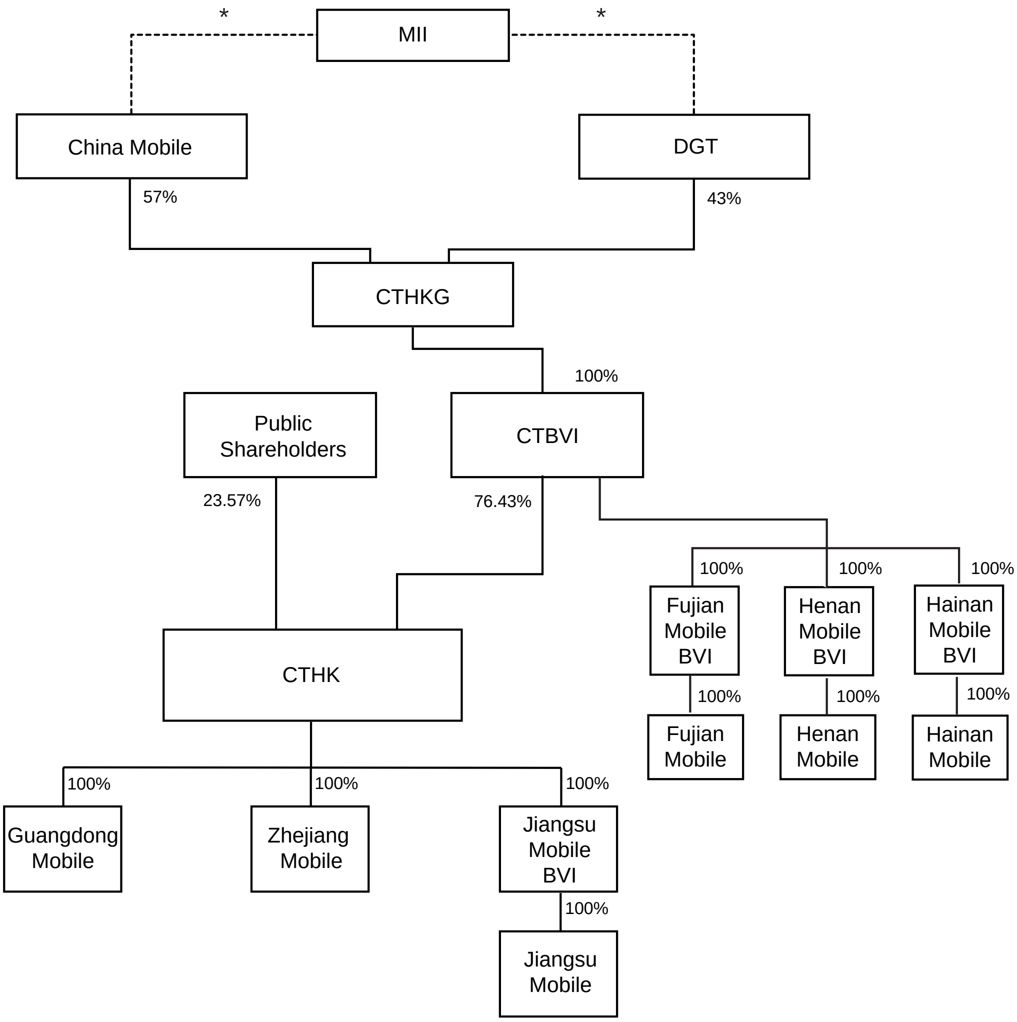
The Company has agreed, subject to certain conditions, to acquire from CTBVI the entire issued capital of each of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI for a total purchase price of HK$49,715 million (equivalent to approximately US$6,400 million). The Acquisition is in respect of the entire issued capital of all three Target BVI Companies. Unless the entire issued share capital of all three Target BVI Companies can be acquired, the Acquisition will not proceed. Upon Completion of the Acquisition, each of the Target BVI Companies will become a wholly-owned subsidiary of the Company. The only asset of each of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI is its interest in the entire issued share capital of Fujian Mobile, Henan Mobile and Hainan Mobile, respectively.

Fujian Mobile, Henan Mobile and Hainan Mobile are the leading providers of cellular telecommunications services in Fujian, Henan and Hainan provinces in China. As of June 30, 1999, the Target Companies had over 3.4 million subscribers which represented an estimated 10.1% of all cellular subscribers in mainland China. As of that date, Fujian Mobile had approximately 1.9 million subscribers, Henan Mobile had approximately 1.3 million subscribers and Hainan Mobile had approximately 0.2 million subscribers, which represented estimated market shares of 96.3%, 99.96% and 91.7% in Fujian, Henan and Hainan, respectively.

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 EBITDA and prospective profit contributions of the Target Companies to the Group, the quality of the assets being acquired, their growth prospects, earnings potential, competitive advantages in their respective markets and relevant valuation benchmarks.

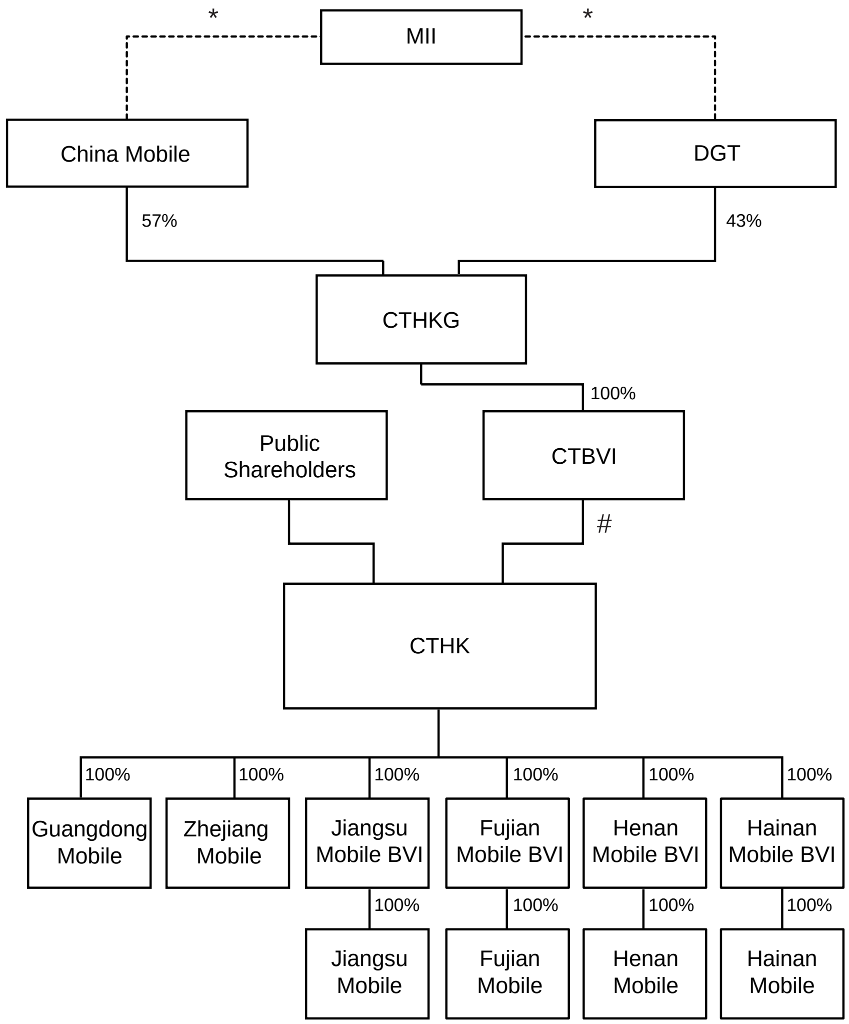
Set out below is the corporate structure of the Group, the Target BVI Companies and the Target Companies prior to and after the Acquisition and the Equity Offering.

**Corporate Structure immediately prior to the Acquisition**




* Administrative control and regulatory supervision.

**Corporate Structure immediately after Completion of the Acquisition and the Equity Offering**




* Administrative control and regulatory supervision.

\# CTBVI's percentage interest in CTHK after the Acquisition and the Equity Offering will depend on, amongst other things, the offer price of the new Shares and the ADSs under the Equity Offering. However, it is expected that following Completion of the Acquisition and the Equity Offering, CTBVI's shareholding in CTHK will not be less than 75% but will not exceed 76.43%.

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$49,715 million (equivalent to approximately US$6,400 million). The Company will pay HK$19,031 million (equivalent to approximately US$2,450 million) of the total purchase price in cash and the remainder of HK$30,684 million (equivalent to approximately US$3,950 million) in the form of the Consideration Shares to be issued by the Company to CTBVI.

The Company may, on or before the date of determination of the Offer Price, elect to increase the number of Consideration Shares, which shall reduce the cash portion of the total purchase price, provided that following Completion and the issue of the total number of Consideration Shares to CTBVI, CTBVI's shareholding in CTHK will not exceed 76.43%. If the number of Consideration Shares to be allotted to CTBVI is so increased pursuant to such election, the cash portion will be reduced correspondingly to keep the total purchase price the same. In such case, the size of the Equity Offering may be reduced. The Company will inform shareholders by way of announcement as soon as practicable following the making of any election described above.

The Company plans to use the proceeds from the Equity Offering of approximately US$1,650 million (equivalent to approximately HK$12,820 million) and the Debt Offering of approximately US$500 million (equivalent to approximately HK$3,885 million) to finance the cash portion of the total purchase price for its acquisition of the Target Companies. The balance of the cash portion of the total purchase price (if any) will be satisfied from internal resources and/or from other forms of external funding.

The number of Consideration Shares to be allotted and issued to CTBVI will be calculated by dividing the amount of the total purchase price to be paid in Consideration Shares by the Offer Price. For illustrative purposes only, assuming that the above-mentioned election is not made and that the ADSs and/or Shares offered pursuant to Equity Offering and the Consideration Shares are issued at HK$25.10 per Share, being the closing price of the Company's Shares on the Stock Exchange on the Latest Practicable Date, the number of Consideration Shares will represent approximately 10.37% of the existing issued share capital and 9.04% of the enlarged issued share capital of the Company after completion of the Equity Offering and the issue of the Consideration Shares.

The Directors take the view that the structure for determining the number of Consideration Shares payable by the Company are fair and reasonable and in the best interests of the Company. The Directors believe that it is fair and reasonable to use the Offer Price as the price for the Consideration Shares and for calculating the number of Consideration Shares.

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 Proposed Equity Offering**

The Company intends to offer certain ADSs pursuant to an international offering. Each ADS is equal to 20 Shares. Purchasers may elect to receive Shares instead of ADSs. The new Shares (including the Shares underlying the ADSs) will be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on June 16, 1999. The net proceeds of the Equity 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 issue of the Equity Offering (including the number of ADSs and/or Shares to be issued) have not yet been determined and are currently expected to be finalised in late October 1999. It is currently expected that approximately US$1,650 million (equivalent to approximately HK$12,820 million) will be raised under the Equity Offering. For illustrative purposes only, assuming that the ADSs and/or Shares offered pursuant to the Equity Offering and the Consideration Shares are issued at HK$25.10 per Share, being the closing price of the Shares on the Stock Exchange on the Latest Practicable Date, the new ADSs and/or Shares to be offered pursuant to the Equity Offering will represent approximately 4.33% of the existing issued share capital and 3.78% of the enlarged issued share capital of the Company after completion of the Equity Offering and the issue of the Consideration Shares. In addition, the underwriters of the Equity Offering are expected to be granted an over-allotment option to purchase ADSs representing up to 15% of the initial size of the Equity Offering. Assuming that the over-allotment option is exercised in full and that the ADSs and/or Shares offered pursuant to the Equity Offering, including those issued to cover the over-allotment option, and the Consideration Shares are issued at HK$25.10 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 Equity Offering will represent approximately 4.98% of the existing issued share capital and 4.32% of the enlarged issued share capital of the Company after completion of the Equity Offering and the issue of the Consideration Shares.

The Equity Offering will occur as soon as practicable and is expected to complete immediately following the agreement by the Company and the underwriters of the Equity Offering of pricing and other terms of the Equity Offering. It is currently expected that the price of the ADSs and the Shares will be determined in late October 1999 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 the prospective investors.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares underlying the ADSs to be offered (including the ADSs which may be issued pursuant to the exercise of the over-allotment option). Application will also be made to list the ADSs being offered on the New York Stock Exchange.

**The Proposed Debt Offering**

The Company currently intends to offer U.S. dollar denominated notes with a principal amount of approximately US$500 million (equivalent to approximately HK$3,885 million). It is currently intended that the notes will have a term of five years maturing in 2004. The net proceeds of the Debt Offering will also be used to finance part of the cash portion of the total purchase price of the Acquisition.

The notes will be general, unsecured obligations of the Company and will rank equal to all of the Company's other unsecured, unsubordinated indebtedness. The notes will be issued in fully registered form in 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 terms of the notes, including but not limited to the aggregate principal amount of the notes and interest rates, have not yet been finalised and are expected to be determined in late October 1999. The Company intends to apply for the listing of, and permission to deal in, the notes on the Stock Exchange, and to apply to list the notes on the Luxembourg Stock Exchange.

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

If the Acquisition is not completed, the net proceeds from the Equity Offering and/or the Debt Offering 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.

Certain information extracted from the prospectuses in respect of the Equity Offering and the Debt Offering is set out in Appendix IX for the general information of Shareholders.

## 4. CONDITIONS OF THE ACQUISITION AGREEMENT

Completion of the Acquisition Agreement is conditional upon the fulfilment of the following conditions on or before December 31, 1999, or such later date as CTBVI, the Company and CTHKG shall agree:

(a) the passing of resolutions by the Independent Shareholders approving the Acquisition, the issue of the Consideration Shares to CTBVI and the Connected Transactions;

(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 of the Acquisition;

(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 from the MOFTEC in relation to the transfer of assets outside the PRC and the establishment of the Target BVI Companies, the Ministry of Finance in relation to the PRC appraisal reports in respect of the Target Companies, the Ministry of State Land Resources in relation to the land valuation in respect of the Target Companies and the CSRC in relation to the acquisition of the Target Companies. In addition, the application to the MOFTEC for approval in relation to the registration of the Target Companies as wholly foreign-owned enterprises is pending.

Each of the Target Companies currently has a business licence as a state-owned enterprise. Upon approval by the MOFTEC, the business licence of each of the Target Companies will be amended 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 amending their 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 Equity Offering and the Debt Offering, or on the business day following the passing of the ordinary resolutions set out in this circular, whichever is later, or such other date as may be agreed between CTBVI and the Company following notification by the Company to CTBVI 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 December 31, 1999, or such other date as CTBVI, the Company and CTHKG may agree, the Acquisition Agreement shall lapse.

## 5. REASONS FOR AND BENEFITS OF THE ACQUISITION

One of the Group's principal strategies since the Company's initial public offering in October 1997 is to expand by aggressively pursuing strategic investment opportunities in the telecommunications industry in China. In line with this strategy, the Group acquired Jiangsu Mobile in June 1998.

Since then, the Group has continued to explore attractive investment opportunities in the PRC telecommunications industry.

The Acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile represents the Group's latest implementation of this strategy.

The Group believes that telecommunications industry in mainland China is undergoing a period of rapid development and has significant potential for substantial growth. The Acquisition represents an attractive opportunity for the Group to further capitalise on such growth potential.

Fujian Mobile, Henan Mobile and Hainan Mobile are the leading providers of cellular telecommunications services in Fujian, Henan and Hainan, respectively. Fujian is one of the most economically developed provinces in mainland China. Henan is located in the central part of China and is the most populous province in China. Hainan is the largest special economic zone and a popular tourist destination. These three provinces are adjacent to the Group's existing markets. The Acquisition will provide the Group with a geographically contiguous market, including extending its market reach to cover most of the southeast coastal region of mainland China.

The Acquisition will further consolidate the Group's overall market position. Based on December 31, 1998 data, the Acquisition will increase the population under the Group's coverage from 188 million people (15% of the national population) to 321 million people (26% of the national population), which the Company believes will represent a solid foundation for future growth. Based on June 30, 1999 subscriber data, the Acquisition will increase the Group's subscriber base as a percentage of all subscribers in China from approximately 26.2% to 36.3%.

Total subscribers of the Target Companies have increased from approximately 0.6 million at the end of 1996 to 3.4 million by the end of June, 1999. However, the cellular penetration rate in the provinces in which the Target Companies operate remains relatively low compared to other Asian and international markets, which indicates significant potential for future subscriber growth. As of June 30, 1999, the cellular penetration rate was approximately 5.9% in Fujian, 1.4% in Henan and 2.9% in Hainan. By comparison, cellular penetration rates in the United Kingdom, United States, Japan and Hong Kong in 1998 were 22.11%, 24.95%, 35.59% and 43.27%, respectively. The Group believes that the acquisition of high-growth assets in markets with lower penetration will enhance its overall growth profile.

Based on these and other factors, the Group believes that the Acquisition will enhance its growth prospects, further strengthen its leading position in the cellular telecommunications market in China and create value for the Group's investors.

Assuming that the Acquisition had taken place on January 1, 1998, the Pro Forma effects on the total operating revenue, EBITDA and net profit of the Group for the six-month period ended June 30, 1999 are set out below. No adjustments have been reflected in respect of the new operating agreements and other arrangements entered into by the Target Group or by the Company with

China Mobile. Accordingly, all the calculations set out in this section are for illustrative purposes only.

| | For the six-month period ended June 30, 1999 | | | |
|---|---|---|---|---|
| | Before Acquisition (the Group) | | Post Acquisition (the Combined Group) | |
| | (RMB in millions except per share data) | (HK$ millions except per share data) | (RMB in millions except per share data) | (HK$ millions except per share data) |
| Operating revenue | 16,940.0 | 15,876.3 | 21,483.3 | 20,134.3 |
| EBITDA | 9,578.3 | 8,976.9 | 11,986.1 | 11,233.5 |
| Net profit | 4,003.4 | 3,752.0 | 4,986.8 | 4,673.7 |
| Number of shares outstanding *(millions)* | 11,786.3 | 11,786.3 | 13,519.5 | 13,519.5 |
| Basic earnings per share | 34 cents | 32 cents | 37 cents | 34 cents |
| Diluted earnings per share | 34 cents | 32 cents | 37 cents | 34 cents |

The Pro Forma net profit of the Combined Group for the six-month period ended June 30, 1999 has been prepared giving effect to the following:

(a) the interest income of approximately RMB 65,648,000 (equivalent to approximately HK$ 61,525,000), calculated at a weighted average interest rate of 5.28% per annum, for the cash portion of the total purchase price to be paid from internal resources of the Company, as if the transaction had taken place on January 1, 1998; and

(b) the interest expense of approximately RMB 165,574,000 (equivalent to approximately HK$ 155,177,000) as a result of the issuance of the notes, calculated at an interest rate of 8% per annum, as if such issuance had taken place on January 1, 1998.

**Summary Operating and Other Data**

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

| | As of or for the year ended December 31, | | | As of or for the six months ended June 30, |
|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 |
| **The Group** | | | | |
| Combined population base (in millions)(1) | 113 | 115 | 188 | n/a |
| Cellular penetration (%)(3) | 1.84 | 3.04 | 3.68 | 5.11(2) |
| Subscribers (in thousands) | 2,043 | 3,405 | 6,531 | 8,813 |
| Market share (%)(3) | 98.3 | 97.6 | 94.5 | 91.4 |
| Average churn rate (%)(4) | 1.26 | 1.64 | 2.12 | 2.28 |
| Average minutes of usage per subscriber per month(5) | 507 | 441 | 385 | 385 |
| Average revenue per subscriber per month (RMB)(6) | 524 | 474 | n/a | 370 |

| | As of or for the year ended December 31, 1996 | 1997 | 1998 | As of or for the six months ended June 30, 1999 |
|---|---|---|---|---|
| **The Target Group** | | | | |
| Combined population base (in millions) (1) | 132 | 133 | 134 | n/a |
| Cellular penetration (%) (3) | 0.47 | 0.97 | 1.93 | 2.61 (2) |
| Subscribers (in thousands) | 616 | 1,265 | 2,525 | 3,414 |
| Market share (%) (3) | 99.8 | 97.9 | 97.8 | 97.4 |
| Average churn rate (%) (4) | 4.37 | 6.13 | 7.74 | 2.62 |
| Average minutes of usage per subscriber per month (5) | 593 | 522 | 435 | 361 |
| Average revenue per subscriber per month (RMB) (6) | 504 | 419 | 307 | 257 |
| **The Combined Group** | | | | |
| Combined population base (in millions) (1) | 245 | 248 | 321 | n/a |
| Cellular penetration (%) (3) | 1.10 | 1.93 | 2.95 | 4.07 (2) |
| Subscribers (in thousands) | 2,659 | 4,670 | 9,056 | 12,227 |
| Market share (%) (3) | 98.7 | 97.7 | 95.4 | 93.0 |
| Average churn rate (%) (4) | 1.94 | 2.78 | 3.58 | 2.37 |
| Average minutes of usage per subscriber per month (5) | 526 | 462 | 398 | 378 |
| Average revenue per subscriber per month (RMB) (6) | 519 | 460 | n/a (7) | 339 |

(1) *Source:* China Statistical Bureau.

(2) Estimate based on population as of December 31, 1998, assuming a 1% annual growth of population.

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

(4) Measures the rate of subscriber disconnections from cellular telephone service, determined by dividing the sum of voluntary and involuntary deactivations (excluding deactivations due to subscribers switching from the Group's TACS networks to its GSM networks) during the relevant period by the average of the numbers of subscribers at the beginning and end of the period for each of 1996, 1997 and 1998, and by the weighted average number of subscribers for the six months ended June 30, 1999. For ease of comparison, the calculation includes the relevant information of Jiangsu Mobile in respect of the full year of 1998.

(5) Calculated by (i) dividing the total minutes of usage during the relevant period by the average number of subscribers during the period (calculated as the average of the numbers of subscribers at the beginning and end of the period for each of 1996, 1997 and 1998, and by the weighted average number of subscribers for the six months ended June 30, 1999) 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.

(6) Calculated by (i) dividing the operating revenue during the relevant period by the average number of subscribers during the period (calculated as the average of the numbers of subscribers at the beginning and end of the period for each of 1996, 1997 and 1998, and by the weighted average number of subscribers for the six months ended June 30, 1999) and (ii) dividing the result by the number of months in the period. Average revenue per subscriber per month is 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 the Company.

(7) Not available because the operating revenues of Jiangsu Mobile are included in the Company's financial results only from June 4, 1998, the date of its acquisition by the Company. Excluding Jiangsu Mobile, average revenue per subscriber per month for 1998 was RMB 450 for the Group and RMB 406 for the Group and the Target Companies combined.

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

## 6. PROSPECTIVE FINANCIAL INFORMATION

The Target Companies have prepared certain prospective financial information in respect of the Target Companies for the year ending December 31, 1999. 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. 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 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 Target Companies' combined profit after taxation for the year ending December 31, 1999 is unlikely to be less than RMB2,475 million (equivalent to approximately HK$2,320 million) under generally accepted accounting principles of Hong Kong (''Hong Kong GAAP''). The texts of the letters from KPMG, Goldman Sachs and CICC 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 Group believes that combined EBITDA of the Target Companies for the year ending December 31, 1999 is unlikely to be less than RMB5,343 million (equivalent to approximately HK$5,008 million). 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 December 31, 1999 which would affect the prospective financial information presented.

The consolidated accounts of the Company and its subsidiaries for the year ending December 31, 1999 will be audited by its independent auditors. The Company's annual report for 1999 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 any material difference between such profit forecast and the audited results of the Target Group prepared under Hong Kong GAAP.

## 7. RELATIONSHIP WITH CHINA MOBILE AND THE CHINA TELECOM SYSTEM

As of September 30, 1999, the MII indirectly owned an aggregate of 76.43% of the Company's issued share capital. Each of the MII and China Mobile has undertaken that:

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

(b) the Group will be the only cellular telecommunications services company operating in mainland China regulated by the MII under China Mobile's control that will be listed on any securities exchange in Hong Kong or outside China;

(c) to the extent within the MII's scope of regulation or China Mobile's control (as the case may be), the Group will be treated equally with any other cellular network operators in respect of all approvals, transactions and arrangements between the Group and other entities regulated by the MII or between the Group and other cellular telecommunications operators controlled by China Mobile (as the case may be);

(d) China Mobile and the provincial entities under its control will not, and the MII will not allow them to, participate, directly or indirectly, in the provision of cellular telecommunications services in any province in which the Group currently operates or may operate in the future; and

(e) China Mobile will contribute to the Group, at the Group's option, the entire interest, if any, held by it in any CDMA project in any province in which the Group operates, when and if the CDMA project, after trial operations, becomes commercially feasible. The Group will also have the option to operate additional communications services that fall within China Mobile's scope of business (including the development and commercial operation of services using new technology such as ''third generation'' cellular technology).

As a result of the industry restructuring pursuant to which the MII's regulatory functions and commercial operations are being separated, the undertakings given by the former Ministry of Posts and Telecommunications (''MPT'') at the time of the Company's initial public offering in October 1997 have been replaced by the above undertakings given by the MII and China Mobile. The undertakings given by the former MPT and those given by the MII and China Mobile address substantially the same issues.

## 8. CONNECTED TRANSACTIONS

A number of transactions have been entered into between (a) the Target Companies and the respective PTAs, which are entities under the administrative authority of the MII, the controlling entity of the Company; (b) the Target Companies and certain of China Mobile's subsidiaries (the ''Receiving Companies''); and (c) the Company and DGT or China Mobile, which will constitute connected transactions for the Company under the Listing Rules upon the completion of the Acquisition. In addition, the Company and certain of its existing subsidiaries have, conditional upon Hong Kong regulatory and Independent Shareholders' approvals, entered into certain operating and other agreements with certain connected persons which constitute connected transactions under the Listing Rules.

Certain charges for the services under these transactions are 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 Target Companies and the PTAs / Receiving Companies or the Company and China Mobile, in each case on an arm's length basis. In this regard, the Company has the benefit of the undertakings from China Mobile and the MII that, to the extent within the MII's scope of regulation or China Mobile's control, as the case may be, the Company will be treated equally with any other cellular network operators in respect of all approvals, transactions and arrangements between the Company and other entities regulated by the MII or between the Company and cellular telecommunications operators controlled by China Mobile.

Substantially all of the agreements are effective from a date prior to the date of execution to comply with the timing schedule of the Restructuring as stipulated by the MII. Further details of the Connected Transactions are set out in Appendix II to this circular.

### Leasing of Certain Properties

Pursuant to property lease agreements entered into between each of the Target Companies and the respective PTAs, the respective PTAs have agreed to lease certain premises to the Target Companies for use as offices, retail outlets, warehouses and sites for locating equipment such as base transceiver stations, base station controllers and mobile switching centres. The Target Companies have also entered into property lease agreements with the Receiving Companies in terms similar to those of the property lease agreements between the Target Companies and the respective PTAs.

The rentals of these properties are based on the average of the market rents of all the properties leased. Chesterton Petty, an independent valuer, has confirmed that the rentals payable under the above property lease agreements are not more than market rates and all other terms of the property lease agreements are not onerous or unusual.

As at June 30, 1999, the aggregate area of the properties leased by Fujian Mobile, Hainan Mobile and Henan Mobile from the PTAs and the Receiving Companies is 370,245$m^2$, 16,595$m^2$ and 207,800$m^2$, respectively. An average monthly rental of RMB21.00, RMB16.00 and RMB21.00 per square metre leased will be payable by Fujian Mobile, Henan Mobile and Hainan Mobile, respectively. These agreements provide for the framework within which properties are leased to the Target Companies and, depending on the requirements of the Target Companies from time to time, the Target Companies may increase or decrease the number of properties leased. As a result, the number of properties and, therefore, the aggregate square metres leased to and the aggregate rentals payable by, the Target Companies may vary from time to time.

The rentals in respect of the properties leased to Jiangsu Mobile and Zhejiang Mobile are also based on an average rental per square metre while the properties leased to Guangdong Mobile are divided into five categories, where the rental for each such category is based on a separate average rental per square metre. This categorisation of properties is driven by the distinction in terms of land values between different geographical areas in Guangdong and by the relatively developed rental market in Guangdong.

The aggregate rentals payable by the Target Group in 1997 and 1998 were RMB69,892,000 (equivalent to approximately HK$65,503,000) and RMB93,285,000 (equivalent to approximately HK$87,427,000), respectively, representing 1.48% and 1.33% of the turnover of the Target Group and 0.35% and 0.28% of the turnover of the Combined Group. The estimated aggregate rentals payable by the Target Group in 1999 (inclusive of those properties leased from subsidiaries of China Mobile) are RMB148,987,000 (equivalent to approximately HK$139,632,000).

**Leasing of Transmission Lines**

Each of the Target Companies has entered into an agreement to lease certain transmission lines from the relevant PTAs in order to link its base transceiver stations, base station controllers and mobile switching centres and to interconnect its network to the fixed line network.

Lease payments are based on tariff schedules stipulated by the relevant regulatory authorities from time to time. The agreements further provide for a 30% discount on lease payments until new tariff schedules are stipulated whereupon the parties shall negotiate a new discount rate.

The aggregate transmission lines rentals payable by the Target Group in 1997 and 1998 were RMB488,398,000 (equivalent to approximately HK$457,731,000) and RMB832,759,000 (equivalent to approximately HK$780,468,000), respectively, representing 10.32% and 11.92% of the turnover of the Target Group and 2.42% and 2.50% of the turnover of the Combined Group. The estimated aggregate rentals payable by the Target Group in 1999 are RMB1,122,142,000 (equivalent to approximately HK$1,051,679,000).

The rental charges payable by the Target Companies are on the same basis as those for Guangdong Mobile, Jiangsu Mobile and Zhejiang Mobile.

**Leasing of Synchronised Clock Ports**

Each of the Target Companies has entered into an agreement with the respective PTAs to lease from the respective PTAs synchronised clock ports. The synchronised clocks are essential to the operations of the Target Companies in that they ensure both the mobile network and the fixed line network operate at the same point in time so that the quality of mobile communications can be maintained. No such agreements were entered into by Guangdong Mobile, Jiangsu Mobile or Zhejiang Mobile, which lease synchronised clock ports as part of their transmission lines leasing arrangements.

The annual rental of the synchronised clock ports, being RMB25,000 (equivalent to approximately HK$23,430) per clock port, is based on commercial negotiation between the Target Companies and the PTAs on an arms's length basis. The Target Companies may lease such number of synchronised clock ports as each of them may require from time to time. A total of 68 synchronised clocks are currently leased to the Target Group. No such charges were paid in 1997 and 1998. The estimated aggregate rentals payable by the Target Group in 1999 are RMB3,400,000 (equivalent to approximately HK$3,187,000).

**Equipment Maintenance Services**

Maintenance services in relation to certain operating equipment (including transmission equipment, power equipment and other ancillary facilities) are provided to Fujian Mobile by the Fujian PTA, pursuant to a maintenance services agreement entered into between Fujian Mobile and the Fujian PTA. No such agreements were entered into by Henan Mobile, Hainan Mobile, Guangdong Mobile, Jiangsu Mobile or Zhejiang Mobile, which are able to handle their own maintenance requirements.

The charges are based on tariff schedules stipulated by government authorities in the absence of which the parties will agree on certain terms. Currently, the parties have agreed a charge of 1% of the fixed asset value of the relevant asset. No such charges were paid in 1997 and 1998. The estimated aggregate charges payable by Fujian Mobile in 1999 are RMB6,260,000 (equivalent to approximately HK$5,867,000).

**Roaming Arrangements**

Each of the Target Companies offers automatic roaming services to its subscribers which permits subscribers (including the Target Companies' subscribers and those of China Mobile's other networks) to make and receive telephone calls while they are outside their registered service area, including while they are in the coverage area of other cellular networks with which the user's home location networks has a roaming arrangement. To enable such roaming services to be offered by each of the Target Companies, the Company has, subject to Hong Kong regulatory and Independent Shareholders' approvals, entered into an umbrella agreement with China Mobile with respect to domestic and international roaming services, which provides for the sharing of roaming revenue between the Company and China Mobile (in respect of inter-provincial roaming or international roaming) as well as procedures and timing of settlement.

This umbrella agreement covers the Target Companies, as well as the Company's existing networks, namely, Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile. The extension of this agreement to the Group's existing three networks has been made as a result of the provision of long distance transmission lines by China Mobile in relation to all roaming calls in China, which in turn requires a new pattern for sharing the roaming revenue as required by the relevant regulatory authorities.

The formula for sharing roaming usage fee between the home location network and the visitor location network is based on limits set by the Chinese regulatory authorities; whilst the charges for the use of the signalling lines owned or rented by China Mobile to be paid by both the operator of the visitor location network and the home location network operator is based on commercial negotiation between the parties on an arm's length basis. The new terms are only different from the previous terms in respect of the sharing of roaming revenue with China Mobile, which had not existed previously.

The aggregate roaming revenue for the Target Group in 1997 and 1998 were RMB142,315,000 (equivalent to approximately HK$133,379,000) and RMB232,872,000 (equivalent to approximately HK$218,249,000), respectively, representing 3.01% and 3.33% of the turnover of the Target Group and 0.70% of the turnover of the Combined Group for each year. The aggregate roaming expenses payable by the Target Group in 1997 and 1998 were RMB215,800,000 (equivalent to approximately HK$202,249,000) and RMB318,688,000 (equivalent to approximately HK$298,677,000), respectively, representing 4.56% of the turnover of the Target Group for both years and 1.07% and 0.96% of the turnover of the Combined Group in 1997 and 1998. The estimated roaming revenue for the Target Group in 1999 is RMB 323,712,000 (equivalent to approximately HK$303,385,000) and the estimated roaming expense for the Target Group in 1999 is RMB 401,783,000 (equivalent to approximately HK$376,554,000).

The aggregate roaming revenue for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile for the years 1997, 1998 and the six months ended 30 June 1999 were RMB470,258,000 (equivalent to approximately HK$440,729,000), RMB1,053,042,000 (equivalent to approximately HK$986,918,000) and RMB639,277,000 (equivalent to approximately HK$599,135,000), respectively, representing 3.04%, 4.00% and 3.77% of the turnover of the Group and 2.33%, 3.16% and 2.98% of the turnover of the Combined Group, respectively.

The aggregate roaming expenses for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile for the years 1997, 1998 and the six months ended 30 June 1999 were RMB475,709,000 (equivalent to approximately HK$445,838,000), RMB827,591,000 (equivalent to approximately HK$775,624,000) and RMB506,966,000 (equivalent to approximately HK$475,132,000), respectively, representing 3.07%, 3.14% and 2.99% of the turnover of the Group and 2.35%, 2.48% and 2.36% of the turnover of the Combined Group, respectively.

**Interconnection Arrangements**

The cellular networks of each of the Target Companies interconnect with the fixed line network owned by the provincial PTAs and the other networks of China Mobile, allowing the subscribers of each of the Target Companies to communicate with fixed line users and subscribers of other cellular networks and to make and receive domestic and international long distance calls. Each of the Target Companies has entered into an interconnection agreement with the respective PTAs. Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile have, subject to Hong Kong regulatory and Independent Shareholders approvals, entered into similar interconnection agreements with their respective PTAs. The new agreements for these three networks have been entered into as a result of the promulgation of new guidelines by the MII, which provide for the sharing of interconnection revenue.

In addition, the Company has, subject to Hong Kong regulatory and Independent Shareholders' approvals, entered into an agreement with China Mobile to share the revenue from inter-provincial calls which make use of the China Mobile's long distance transmission lines. This umbrella agreement covers the Target Companies, as well as the Company's existing networks, namely, Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile.

The charges for interconnection are based on guidelines issued by the MII in 1999. Prior to April 1, 1999, no formal interconnection agreements were in place for the Target Companies (other than certain interconnection arrangements of certain cities in the service area of Fujian Mobile and Hainan Mobile).

The estimated total operating revenues for the Target Group in 1999 include revenue arising from the interconnection arrangements totaling RMB1,383,995,000 (equivalent to approximately HK$1,297,090,000). Of this total amount, RMB1,143,612,000 (equivalent to approximately HK$1,071,801,000) relates to Domestic Long Distance Calls (''DDD'') and International Long Distance Calls (''IDD'') revenue generated by the Target Group's subscribers which are included in usage fees in 1999, and RMB240,383,000 (equivalent to approximately HK$225,289,000) relates to interconnection revenue received from other provincial telecommunication operators which are included in other operating revenues for the Target Group in 1999.

The estimated interconnection expenses payable by the Target Group in 1999 is RMB1,306,734,000 (equivalent to approximately HK$1,224,680,000).

The total operating revenue for the Group in 1998 and the six months ended June 30, 1999 includes revenue arising from the interconnection arrangements totaling RMB5,622,852,000 (equivalent to approximately HK$5,269,777,000) and RMB3,103,173,000 (equivalent to approximately HK$2,908,316,000), respectively representing 21.34% and 18.32% of the turnover of the Group and 16.87% and 14.44% of the turnover of the Combined Group. Of these totals, RMB4,870,798,000 (equivalent to approximately HK$4,564,947,000) and RMB2,686,233,000 (equivalent to approximately HK$2,517,557,000), respectively representing 18.49% and 15.86% of the turnover of the Group and 14.61% and 12.50% of the Combined Group, were related to DDD and IDD revenue generated by the Group's subscribers which have been included in usage fees in 1998 and the six months ended June 30, 1999 respectively, and, RMB752,054,000 (equivalent to approximately HK$704,830,000) and RMB416,940,000 (equivalent to approximately HK$390,759,000), respectively representing 2.85% and 2.46% of the turnover of the Group and 2.26% and 1.94% of the turnover of the Combined Group, were related to interconnection revenue received from other provincial telecommunication operators which have been included in other operating revenue in 1998 and the six months ended June 30, 1999, respectively.

The aggregate interconnection expenses for the Group for the years 1997, 1998 and the six months ended June 30 1999 were RMB738,520,000 (equivalent to approximately HK$692,146,000), RMB3,924,748,000 (equivalent to approximately HK$3,678,302,000) and RMB2,268,019,000 (equivalent to approximately HK$2,125,604,000), respectively representing 4.77%, 14.90% and 13.39% of the turnover of the Group and 3.65%, 11.77% and 10.56% of the turnover of the Combined Group, respectively.

**Collection Services**

Certain payment collection services relating to the Target Companies' cellular operations are provided by the respective PTAs pursuant to services agreements entered into between each of the Target Companies and the respective PTAs. Henan Mobile has also entered into an agreement with the relevant Receiving Company in respect of similar services on substantially the same terms as those entered into between the Target Companies and the PTAs. The collection service charges, being 1% of the fees collected, are based on commercial negotiation between the parties on an arm's length basis. The basis of these charges are the same as those payable by Guangdong Mobile, Jiangsu Mobile and Zhejiang Mobile.

The aggregate service charges payable by Hainan Mobile in 1998 were RMB21,190,000 (equivalent to approximately HK$19,859,000), representing 3.74% of the Hainan Mobile's turnover and 0.06% of the turnover of the Combined Group. No such charges were paid by Hainan Mobile in 1997. No such charges were paid by Fujian Mobile and Henan Mobile in 1997 and 1998. The estimated total service charge payable by the Target Group in 1999 is RMB30,147,000 (equivalent to approximately HK$28,254,000).

**Billing Services**

Each of the Target Companies has entered into an agreement with the respective PTAs pursuant to which the respective PTAs are to provide to the relevant Target Company certain billing services in relation to its cellular operations. Such services include the production of customer invoices by the respective PTAs through their respective billing system based on the monthly usage information of each mobile telephone number provided by the respective Target Companies. The charges pursuant to the agreement are RMB0.50 per mobile telephone number per month. This level of charges is higher than that for the billing services provided to Zhejiang Mobile (i.e. RMB0.20) due to the different nature and volume of work and services involved.

The billing service charges are based on commercial negotiation between the parties on an arm's length basis, by reference to the amount of billing work actually required of the service provider. No such charges were paid by the Target Companies in 1997 and 1998. The estimated service charges payable by the Target Group in 1999 are RMB11,458,000 (equivalent to approximately HK$10,739,000).

**Sales Arrangements**

Each of the Target Companies has entered into an agreement with the respective PTAs pursuant to which the respective PTAs have agreed to market and sell, through the outlets of the respective PTAs, the Target Companies' cellular services in the respective provinces. Henan Mobile has also entered into a sales services agreement with the relevant Receiving Company on substantially the same terms as that entered into between Henan Mobile and Henan PTA.

The sales service charges are based on commercial negotiation between the parties on an arm's length basis, by reference to the prevailing market rates which follows the rates specified in a framework agreement between China Mobile and the DGT which is applicable to all subsidiaries of China Mobile. The sales services charges are RMB250 per each mobile phone for Henan and RMB150 and RMB 250 (via retail sales and bulk sales respectively) for Hainan. Charges for Fujian will be agreed between the parties based on market rates. The charges payable by Guangdong Mobile, Jiangsu Mobile and Zhejiang Mobile for sales services are also based on prevailing market rates.

The service charges payable by Hainan Mobile in 1997 and 1998 were RMB24,168,000 (equivalent to approximately HK$22,650,000) and RMB23,728,000 (equivalent to approximately HK$22,238,000), respectively, representing 5.28% and 4.19% of Hainan Mobile's turnover and 0.12% and 0.07% of the turnover of the Combined Group, respectively. No such charges were paid by Fujian Mobile and Henan Mobile in 1997 and 1998. The estimated total service charge payable by the Target Group in 1999 is RMB144,910,000 (equivalent to approximately HK$135,811,000).

**Licensing of Trademark**

The Group has historically marketed its services under the ''China Telecom'' name and logo. The DGT is the owner of the ''China Telecom'' name and logo. The Company has, subject to Hong

Kong regulatory and Independent Shareholders approvals, entered into a supplemental agreement with the DGT providing for, *inter alia*, the extension of the terms and conditions of its non-exclusive licence agreement to each of the Target Companies upon completion of the Acquisition by the Company.

China Mobile has filed an application to register its logo as a trade mark in mainland China and Hong Kong and, in the case of mainland China, the registration is expected to become effective in August 2000. The Group intends to start marketing its services under the new brand name in all its markets at an appropriate time following the Acquisition. The Company has, conditional on Hong Kong regulatory and Independent Shareholders' approvals, entered into a non-exclusive licence agreement with China Mobile to obtain the right to use the ''China Mobile'' name and logo for a term which expires six years from the registration of the logo in mainland China becoming effective, subject to further renewal upon agreement by the parties.

This agreement covers the Target Companies as well as the Company's existing networks.

**Spectrum Fees**

The Company has, conditional on Hong Kong regulatory and Independent Shareholders' approvals, to enter into an agreement with China Mobile to obtain exclusive rights for its existing networks and the three Target Companies to use the frequency spectrum and telephone number allocation resources managed by China Mobile. This new agreement has been entered into as a result of the establishment of China Mobile which will share the payment of spectrum fees to the MII with the Target Companies as well as the Group.

The sharing of the spectrum fees payable to the MII between the parties is determined by the number of base stations of each party at the end of the preceding year and the bandwidth of the spectrum used by each party. The aggregate amount of fees payable will be set by the MII.

The aggregate spectrum fees payable by the Target Group in 1997 and 1998 were RMB2,597,000 (equivalent to approximately HK$2,434,000) and RMB3,796,000 (equivalent to approximately HK$3,558,000), respectively, representing 0.05% of the turnover of the Target Group for both years. The estimated total spectrum fees payable by the Target Group in 1999 is RMB3,959,000 (equivalent to approximately HK$3,710,000).

This agreement covers the Target Companies, as well as the Company's existing networks, namely, Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile. This agreement is extended to cover these three networks as a result of the establishment of China Mobile.

The combined spectrum fees expenses for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile in 1997, 1998 and the six months ended 30 June 1999 were RMB20,138,000 (equivalent to approximately HK$18,873,000), RMB12,431,000 (equivalent to approximately HK$11,650,000) and RMB4,495,000 (equivalent to approximately HK$4,213,000,) respectively, representing 0.13%, 0,05% and 0.03% of the turnover of the Group and 0.10%, 0.04% and 0.02% of the turnover of the Combined Group, respectively.

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 by the Group in the ordinary and usual course of its business on terms that are fair and reasonable so far as the shareholders of the Company 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 brief 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 transaction;

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

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

   (iv) the total consideration and the terms; and

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

(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 paragraph (a)(i) and (ii) 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, details of which shall be set out in the Company's annual report and accounts, and shall confirm to the Directors in writing whether 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 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, China Mobile and its Associates will undertake 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 Group:

   (i) properties lease payments to the PTAs in any financial year shall not exceed 0.34% of the Combined Group's total turnover in that financial year;

   (ii) synchronised clock ports rentals in any financial year shall not exceed 0.008% of the Combined Group's total turnover in that financial year;

   (iii) equipment maintenance charges payable by Fujian Mobile to Fujian PTA in any financial year shall not exceed 0.019% of the Combined Group's total turnover in that financial year.

## 9. EXTRAORDINARY GENERAL MEETING

A notice of the Extraordinary General Meeting to be held in the Conference Room, 8th Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong, on November 11, 1999 at 11:00 a.m., is set out at the end of this circular. Ordinary resolutions will be proposed to approve the Acquisition, the issue of the Consideration Shares and the Connected Transactions.

In accordance with the Listing Rules, CTBVI, the controlling shareholder of the Company which is beneficially interested in approximately 76.43% 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.

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 16th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, 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.

## 10. RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

Schroders has been appointed as the independent financial adviser to advise the Company's 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 Connected Transactions.

The Independent Board Committee, having taken into account the advice of Schroders, considers the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the Connected Transactions to be fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition to be in the interests 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 mechanism for the determination of the issue price of the Consideration Shares and the Connected Transactions at the Extraordinary General Meeting. The letter from Schroders containing its advice and recommendation and the principal factors and reasons taken into account in arriving at its recommendation is set out on pages 27 to 50 of this circular.

## 11. ADDITIONAL INFORMATION

Your attention is drawn to the letter of the Independent Board Committee set out on page 26 of this circular, the letter set out on pages 27 to 50 of this circular from Schroders, the independent financial adviser to the Company's Independent Board Committee in respect of the Acquisition, the issue 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 Telecom (Hong Kong) Limited**
**Wang Xiaochu**
*Chairman*

中国电信
CHINA TELECOM

# CHINA TELECOM (HONG KONG) LIMITED

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

October 16, 1999

*To the Independent Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS**

We refer to the circular (the ''Circular'') dated October 16, 1999 issued by the Company to its Shareholders 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 October 4, 1999, the Board of Directors announced that the Company had entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire, and CTBVI agreed to sell, the entire issued share capital of each of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI, subject to certain conditions.

The Independent Board Committee was formed on October 4, 1999 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, the Connected Transactions (which term shall include ''Connected Transactions'' and ''Other Connected Transactions'', both terms as defined in the letter from Schroders) from a financial perspective are fair and reasonable so far as the Independent Shareholders are concerned. Schroders has been appointed 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 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 6 to 25 of the Circular. The terms of the Connected Transactions are also summarised in the Letter from the Chairman.

As your Independent Board Committee, we 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 Connected Transactions and the basis upon which their terms have been determined. We have also considered the key factors taken into account by Schroders in arriving at its opinion regarding the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the Connected Transactions as set out in the letter from Schroders on pages 27 to 50 of the Circular, which we urge you to read carefully.

**The Independent Board Committee concurs with the views of Schroders and considers that the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the Connected Transactions from a financial perspective are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders vote in favour of the ordinary resolutions 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*

Schroders
Investment Banking
寶源投資有限公司

16th October, 1999

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

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS**

We refer to the document dated 16th October, 1999 (the ''Circular'') addressed to the shareholders of the Company. This letter has been prepared for inclusion in the Circular.

We have been appointed by the Independent Board Committee as independent financial adviser to advise whether the terms of the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the terms of the transactions entered into between the Company or the Target Companies and the respective PTAs and/or China Mobile and/or certain subsidiaries of China Mobile (the ''Connected Transactions'') from a financial perspective are fair and reasonable so far as the Independent Shareholders are concerned. Details of these are set out in the Letter from the Chairman of the Circular. We have also been appointed to advise the Independent Board Committee on whether certain of the Connected Transactions (which are not only intended to cover the Target Companies but extended to cover the Company's existing network operators, namely, Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile (the ''Existing Network Operators'') and certain other connected transactions entered into between the Existing Network Operators and the respective PTAs (the ''Other Connected Transactions''), which are conditional upon Hong Kong regulatory and Independent Shareholders' approvals, from a financial perspective are fair and reasonable so far as the Independent Shareholders are concerned. Terms not otherwise defined in this letter shall have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

The Acquisition constitutes a very substantial acquisition and a connected transaction for the Company under the Listing Rules and, pursuant to Rule 14.26 of the Listing Rules, is subject to approval by an ordinary resolution of the Independent Shareholders. The Connected Transactions relate to existing or future arrangements between the Target Companies and the respective PTAs, which are entities under the administrative authority of the MII, the controlling entity of the Company; the Target Companies and certain subsidiaries of China Mobile; and the Company and DGT or China Mobile which would, on completion of the Acquisition, constitute connected transactions for the Company under the Listing Rules. Certain of the Connected Transactions and the Other Connected Transactions relate to existing and future arrangements between the Existing Network Operators and the respective PTAs; and the Company and China Mobile which constitute connected transactions for the Company under the Listing Rules. Pursuant to Rule 14.23(2) of the Listing Rules, the Company is seeking from the Stock Exchange waivers from the disclosure and other requirements of the Listing Rules in relation to the Connected Transactions and the Other Connected Transactions. The Stock Exchange has informed the Company that such waivers, in relation to the Connected Transactions and the Other Connected Transactions, will be effective until 31st December, 2001 and will be granted conditional on, inter alia, (i) Independent Shareholders' approval of the Connected Transactions and the Other Connected Transactions; and (ii) the Company complying with such other conditions stated in the Letter from the Chairman on page 24 of the Circular. We have brought to the attention of the Independent Board Committee the conditions on which the waivers in respect of the Connected Transactions and the Other Connected Transactions are granted by the Stock Exchange.

In formulating our opinion with regard to the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the Connected Transactions and the Other Connected Transactions, we have placed reliance upon the commercial assessment of the executive directors of the Board (the ''Executive Directors'') of the Acquisition, the financing structure of the Acquisition and the Connected Transactions and the Other Connected Transactions. We have assumed that all information, representations and opinions concerning the Group, the Target BVI Companies, the Target Companies, the Acquisition, the mechanism for the determination of the issue price of the Consideration Shares and the Connected Transactions and the Other Connected Transactions contained or referred to in the Circular, which have been provided by the Executive Directors and for which they are wholly responsible, are true and accurate in all respects as at the date hereof and may be relied upon. We have also assumed there is no other material information which has not been made available to us. We have further assumed that all statements relating to expectations and intentions of the Executive Directors as set out in the Circular will be achieved or implemented as the case may be. With respect to any financial forecasts, estimates and projections, we have assumed that they have been reasonably prepared on bases reflecting the best currently available information, views and judgements of the future financial performance of the Target Companies and may be relied upon by us in formulating our opinion. We have also assumed that all appraisal reports and valuations undertaken by Chesterton Petty Limited, an independent firm of professional valuers, are fair and accurate as at the date hereof and accordingly have relied on them. We have not conducted a physical inspection of the properties and facilities of the respective Target Companies.

Subject to the above assumptions, we consider that we have obtained sufficient information on which to base our opinion and have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and the representations made to us untrue, incomplete, inaccurate or misleading. The Executive Directors have confirmed to us, after having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other material facts the omission of which would make any statement in the Circular misleading. We have not carried out any independent verification of the information nor have we conducted any form of in-depth investigation into the business and affairs, commercial viability or the future prospects of the Group, Target BVI Companies, the Target Companies or any of their respective Associates.

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they exist, and the information made available to us by the Group and its advisers, as at the date hereof. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein which may come or be brought to our attention after the date hereof. We have not considered any taxation or regulatory consequences of any of the transactions referred to in this letter so far as the Company or the Target Companies are concerned.

## PRINCIPAL FACTORS AND REASONS

In arriving at our advice to the Independent Board Committee as to the fairness and reasonableness 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 and of the Other Connected Transactions, which form an integral part of the operations of the respective Target Companies and the Existing Network Operators, we have considered, inter alia, the following principal factors and reasons:-

### I. The Acquisition

***The Consideration***

(a) The consideration payable by the Company to CTBVI will be HK$49,715 million (equivalent to approximately US$6,400 million) (the ''Consideration''). The Executive Directors have confirmed to us that the Acquisition was negotiated and entered into on an arm's length basis based on normal commercial terms. As stated in the letter from the Chairman, the Consideration was determined based on various factors, including the prospective EBITDA and prospective profit contributions of the Target Companies to the Group, the quality of the assets being acquired, their growth prospects, earnings potential, competitive advantages in their respective markets and relevant valuation benchmarks.

(b) Under the Acquisition Agreement, the Company will pay HK$19,031 million in cash (equivalent to approximately US$2,450 million) (''Cash Consideration'') and the remainder of HK$30,684 million (equivalent to approximately US$3,950 million) in the form of the Consideration Shares to be issued by the Company to CTBVI at the Offer Price. The Company may, on or before the date of determination of the Offer Price, elect to increase the number of Consideration Shares, which shall reduce the Cash Consideration, provided that following completion of the Acquisition and the issue of the total number of Consideration Shares to CTBVI, CTBVI's shareholding in CTHK will not exceed 76.43%. If the number of Consideration Shares to be allotted to CTBVI is so increased pursuant to such election, the Cash Consideration will be reduced correspondingly to keep the Consideration the same. In such case, the size of the Equity Offering may be reduced. The Company will inform Shareholders by way of announcement as soon as practicable following the making of an election as described above.

(c) The Company plans to finance the Cash Consideration using the proceeds from the Equity Offering and the Debt Offering. The balance of the Cash Consideration (if any) will be satisfied from internal resources and/or from other forms of external funding.

(d) The Proposed Debt Offering

    (i) Under the proposed Debt Offering, the Company currently intends to offer U.S. dollar denominated notes with a principal amount of approximately US$500 million (equivalent to approximately HK$3,885 million). It is currently intended that the notes will have a term of five years maturing in 2004. The notes will be general, unsecured obligations of the Company and will rank equal to all of the Company's other unsecured, unsubordinated indebtedness. The notes will be issued in fully registered form in 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.

(ii) The terms of the notes, including but not limited to the aggregate principal amount of the notes and interest rates, have not yet been finalised and are expected to be determined in late October 1999. The Company intends to apply for the listing of, and permission to deal in, the notes on the Stock Exchange, and to apply to list the notes on the Luxembourg Stock Exchange.

(e) The Proposed Equity Offering

(i) Under the Equity Offering, the Company intends to offer certain ordinary shares and ADSs, pursuant to an international placing (''Book-building''). Each ADS is equal to 20 Shares. Purchasers may elect to receive either Shares or ADSs. The net proceeds of the Equity Offering will be used to finance a portion of the Cash Consideration.

(ii) It is presently intended that the Equity Offering will occur as soon as practicable and is expected to complete immediately following the agreement by the Company and the underwriters of the Equity Offering on pricing and other terms of the Equity Offering. The Equity Offering is expected to be underwritten by the underwriters to the Equity Offering (''Placing Underwriters''), subject to the signing of an Equity Offering underwriting agreement with terms and conditions acceptable to the Placing Underwriters and the Company.

(iii) Under the Book-building process, the Placing Underwriters will be soliciting from prospective investors (independent of CTBVI and its associates) indications of interests in acquiring new Shares in the Equity Offering (''Marketing Phase''). Prospective investors will be required to specify either the number or the dollar amount of new Shares they would be prepared to acquire either at different prices or at a particular price. This Marketing Phase of the Book-building process is expected to continue up to, and to cease in late October 1999 where the Offer Price of the new Shares (including ADSs) and the number of Shares to be issued will be fixed with reference to the then current market prices of the ADSs and Shares and the level of interest for the ADS and Shares expressed by the prospective investors (''Price Determination Date''). On the Price Determination Date, the Placing Underwriters together with the Company would agree on the total number of new Shares to be issued under the Equity Offering and the Offer Price and sign the Underwriting Agreement. If for whatever reason the Company and the Placing Underwriters fail to agree on the Offer Price and does not execute the underwriting agreement, the Equity Offering will lapse.

(iv) It is currently expected that approximately HK$12,820 million (equivalent to approximately US$1,650 million) will be raised under the Equity Offering. For illustrative purposes only, assuming that the ADSs and/or Shares offered pursuant to the Equity Offering and the Consideration Shares are issued at HK$25.10 per Share, being the closing price of the Shares on the Stock Exchange on the Latest Practicable Date, the new ADSs and/or Shares to be offered pursuant to the Equity Offering will represent approximately 4.33% of the existing issued share capital and 3.78% of the enlarged issued share capital of the Company after completion of the Equity Offering and the issue of the Consideration Shares. On the same basis, the Consideration Shares would represent approximately 10.37% of the existing issued share capital and 9.04%

of the enlarged issued share capital of the Company after completion of the Equity Offering and the issue of the Consideration Shares. In addition, the Company is expected to grant the underwriters of the Equity Offering an over-allotment option of up to 15% of the initial size of the Equity Offering to purchase additional ADSs and/or Shares at the same Offer Price to cover over allocations, if any (''Over-allotment Option''). Assuming that the Over-allotment Option is exercised in full and that the ADSs and/or Shares offered pursuant to the Equity Offering, including those issued to cover the Over-allotment Option, and the Consideration Shares are issued at HK$25.10 per Share, the ADSs and/or Shares to be offered pursuant to the Equity Offering will represent approximately 4.98% of the existing issued share capital and 4.32% of the enlarged issued share capital of the Company after completion of the Equity Offering and the issue of the Consideration Shares.

(v) The new Shares (including the Shares underlying the ADSs) will be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 16th June, 1999. The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares to be offered (including the ADSs which may be issued pursuant to the exercise of the Over-allotment Option). Application will also be made to list the ADSs being offered on the New York Stock Exchange.

(f) It should be noted that neither the Equity Offering nor the Debt Offering is conditional on the completion of the Acquisition. In the Letter from the Chairman, it is stated that if the Acquisition is not completed, the net proceeds from either the Equity Offering or the Debt Offering (assuming that either of them is or both are completed), 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.

(g) The Company will make further announcements as soon as practicable following the date on which the sizes and other terms of the Equity Offering (including the number of Shares and/or ADSs to be issued pursuant thereto) and the Debt Offering are determined.

***Prospective financial information***

(a) It is stated in the Letter from the Chairman of the Circular that:-

(i) The Target Companies have prepared certain prospective financial information for the year ending 31st December, 1999. 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. This information is necessarily based upon a number of assumptions 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 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 as stated therein may vary from actual results, and these variations may be material.

(ii) The Company and the Target Companies believe that, on the bases and the assumptions discussed in Appendix VII to the Circular and in the absence of unforeseen circumstances, the Target Companies' combined profit after taxation for the year ending 31st December, 1999 is unlikely to be less than RMB2,475 million (equivalent to approximately HK$2,320 million) (''Forecast Earnings'') under Hong Kong GAAP.

(iii) On the same bases and assumptions for the Forecast Earnings, the Company and the Target Group believe that the combined EBITDA of the Target Companies for the year ending 31st December, 1999 is unlikely to be less than RMB5,343 million (equivalent to approximately HK$5,008 million) (''Forecast EBITDA''). 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 31st December, 1999 which would affect the prospective financial information presented in the Circular.

(b) The texts of the letters from Goldman Sachs, CICC and KPMG in respect of the Forecast Earnings are set out in Appendix VII to the Circular.

(c) It should be noted that when compiling the Forecast Earnings:-

(i) No enterprise income tax on connection fee revenue and certain surcharges is accounted for as the new tax treatment on connection fees and surcharge revenue will only become effective as and when the Target Companies become wholly foreign-owned enterprises.

(ii) The accounting of interconnection revenue and expense items were, depending on the period involved, prepared on bases different from those stipulated in the latest agreements going forward. For purposes of compiling the Forecast Earnings, the Company could only adopt the latest policies concerning the interconnection arrangements as and when they come into effect. Shareholders should note that the Target Group expects the new interconnection arrangements will have a material effect on their results of operations in future periods, however such impact cannot be quantified.

(d) As stated in the letter from KPMG set out in Appendix VII to the Circular, KPMG, the reporting accountants of the Target Companies, have confirmed that, in their opinion, so far as the accounting polices and calculations are concerned, the Forecast Earnings of the Target Group has been properly compiled based on the management assumptions set out in Part (A) of Appendix VII to the Circular and is presented on a basis consistent in all material respects with the accounting policies adopted by the Target Companies as set out in the Accountants' Report in Appendix III to the Circular.

***Valuation of the Target Companies***

(a) The Consideration represents:-

(i) an enterprise value (equivalent to the sum of the Consideration and net debt of the Target Companies as at 30th June, 1999)/EBITDA multiple and a price/earnings multiple of approximately 10.33 times and approximately 21.41 times the Target Companies' Forecast EBITDA and Forecast Earnings (before exceptional items), respectively, for the twelve months ending 31st December, 1999;

(ii) a premium of approximately 456.3% over the combined net asset value of the Target Group as at 30th June, 1999 of approximately RMB9,523.9 million (approximately US$1,150.4 million).

(b) By way of comparison, the prospective enterprise value (equivalent to the sum of the market capitalisation and net debt of the listed cellular operators)/EBITDA multiples and price / earnings (before exceptional items) multiples for selected worldwide listed cellular operators ranged from approximately 7.50 times to 25.70 times and approximately 11.59 times to 47.57 times, respectively, as at the Latest Practicable Date. The average prospective enterprise value / EBITDA and price / earnings multiples of these operators were approximately 17.04 times and 26.47 times, respectively, as at the Latest Practicable Date.

(c) Given the strong growth potential of the Target Group, the heavy capital expenditure requirements in the early years of the Target Group's operations and the cash flow generating ability of the Target Group, we are of the opinion that comparison with the traded enterprise value / EBITDA multiples of listed cellular operators is one of the more appropriate yardsticks to measure the value of the Target Group. This avoids the complication of differing depreciation and tax treatments between the listed cellular operators. Furthermore, we have omitted the conventional P / E ratios as a comparable benchmark due to the considerable differences in accounting principles between the respective markets where the listed telecom companies operate which in turn reduce the comparability of the net earnings potential of such companies. We have not taken into account the price to net asset value ratio in our analysis as it is generally not considered an appropriate or relevant value measure in the telecommunications industry.

(d) We have also taken into consideration the information set out in the section headed ''Reasons for and benefits of the Acquisition'' on pages 12 to 16 of the Letter from the Chairman.

(e) The Acquisition is in respect of the entire issued share capital of all three Target BVI Companies. Unless the entire issued share capital of all three Target BVI Companies can be acquired, the Acquisition will not proceed. Upon completion of the Acquisition, each of the Target BVI Companies will become a wholly-owned subsidiary of the Company.

Our analysis included, inter alia: (i) comparison with certain selected worldwide listed cellular operators (as described in (b) and (c) under the paragraph headed ''Valuation of the Target Companies'' above); (ii) consideration of prices paid in transactions in the cellular sector since 1998 where information is publicly available (including the acquisition of Jiangsu Mobile by the Company in 1998) and taking into account, inter alia, the business nature of the subject cellular companies, their operational and financial performance, competitive and regulatory environment as well as whether any change in control was involved in these transactions; and (iii) using financial modelling techniques including discounted cash flow analysis. Based on our analysis, we consider the Consideration payable to be fair and reasonable.

**II. Mechanism for determining the issue price of the Consideration Shares**

(a) Of the Consideration payable under the Acquisition, the Company will pay HK$19,031 million (equivalent to approximately US$2,450 million) in cash and the remainder of HK$30,684 million (equivalent to approximately US$3,950 million) in the form of the Consideration Shares. The number of Consideration Shares to be allotted and issued to CTBVI will be calculated by dividing HK$30,684 million (equivalent to approximately US$3,950 million) by the Offer Price of the Equity Offering. As at the Latest Practicable Date, CTBVI owned approximately 76.43% of the total issued share capital of the Company. In any event, it is expected that CTBVI's shareholding interests in the Company following completion of the Acquisition and the Equity Offering will not be less than 75% but will not exceed 76.43% of the enlarged issued share capital of the Company.

(b) The Placing Underwriters would use the Marketing Phase of the Book-building process to establish a preliminary basis for the determination of the Offer Price for the new Shares to be issued under the Equity Offering and the Consideration Shares. This procedure during the Marketing Phase is made independent of any influence of CTBVI and its associates. The Company itself, being an associate of CTBVI, would of course have influence on the final determination of the Offer Price as the Offer Price has to be agreed between the Company and the Placing Underwriters. The Offer Price is normally the maximum price at which the Placing Underwriters reasonably believe they can complete the Equity Offering based on the level of demand generated during the Marketing Phase of the Book-building process. It should be noted that the Offer Price may or may not be the prevailing market price of the Shares of CTHK at the time of the signing of the Underwriting Agreement. Unless the Company believes that the Offer Price thus determined is significantly below its expectations, whereby it would call off the Equity Offering, it would normally accept the Offer Price and proceed to sign the underwriting agreement. Shareholders should note that the Debt Offering may still proceed even if the Equity Offering is called off. In the event that the Equity Offering does not proceed, there is a possibility that the Acquisition cannot be completed.

(c) The issue price of the Consideration Shares will be the same as the Offer Price which will be driven by the level of interests of independent third parties being solicited under the Equity Offering including professional and institutional investors.

(d) The Company will benefit from the issue of the Consideration Shares and the new Shares under the Equity Offering (and the Over-allotment Option if it is exercised) as these are effective ways to fund the Acquisition without having to rely solely on the available resources of the Company. Furthermore, the issuance of the new Shares and the Consideration Shares will strengthen the capital base of the Company.

(e) The Consideration Shares and the new Shares offered under the Equity Offering and the Over-allotment Option will rank pari passu in all respects with the exiting issued Shares of the Company.

(f) The Board takes the view that the structure for the determination of the number of Consideration Shares payable by the Company is fair and reasonable and is in the best interests of the Company. The Directors believe that it is fair and reasonable to use the Offer Price of the Equity Offering as the price for calculating the number of Consideration Shares.

(g) Please refer to the section headed ''Pro-forma effects of the Acquisition on the Group'' below for further information on the financial effects of the Acquisition on the Group based on assumptions set out therein which include, but not limited to, the financing structure of the Acquisition described above.

In the absence of any unforeseen circumstances and unusual market conditions, we would consider the mechanism for determining the issue price of the Consideration Shares to be fair and reasonable so far as the Independent Shareholders are concerned.

**III. The Connected Transactions and Other Connected Transactions**

It should be noted that certain charges for the services under these transactions are according to tariffs set by the Chinese regulatory authorities. Those transactions where the charges are not set by the Chinese regulatory authorities are based on commercial negotiations between the Target

Companies or the Existing Network Operators and the PTAs or certain subsidiaries of China Mobile, or the Company and China Mobile, in each case on an arm's length basis. In this regard, the Company has the benefit of the undertakings from China Mobile and the MII that to the extent within the MII's scope of regulation or China Mobile's control, as the case may be, the Company will be treated equally with any other cellular network operators in respect of all approvals, transactions and arrangements between the Company and other entities regulated by the MII or between the Company and cellular telecommunications operators controlled by China Mobile. Substantially all of the agreements relating to the Connected Transactions and the Other Connected Transactions are effective from a date prior to the date of execution to comply with the timing schedule of the Restructuring as stipulated by the MII.

The Directors have confirmed to us that each of the Connected Transactions and Other Connected Transactions was entered into in the ordinary course of business of the Target Companies and/or the Existing Network Operators following arm's length negotiations between (a) the Target Companies and/or the Existing Network Operators and the respective PTAs; (b) the Target Companies and certain subsidiaries of China Mobile; and (c) the Company and DGT or China Mobile. Substantially all of such connected transactions are of a continuing nature and are expected to be continued in the future. Furthermore, the services provided under the Connected Transactions and the Other Connected Transactions form an integral part of the operations of the Target Companies and/or the Existing Network Operators.

***The Connected Transactions that are intended to cover the Target Companies only***

***(A) Leasing of offices and sites for network equipment***

Chesterton Petty, an independent firm of professional property valuers, has been engaged by the Company to evaluate the terms of, and the rental payable under, the property lease agreements, and has confirmed to us that the rentals payable under the property lease agreements are not more than market rates and all other terms of such agreements are not onerous or unusual. We have discussed with Chesterton Petty the basis of their evaluation and consider such basis reasonable.

***(B) Leasing of transmission lines***

(a) The purpose for the leasing of local and long-distance transmission lines is to enable the Target Companies to link their base transceiver stations, base station controllers and mobile switching centres and to interconnect with the fixed line networks owned by the PTAs. Accordingly, the leasing of transmission lines from the respective PTAs are essential for the operations of the Target Companies.

(b) These local and long-distance transmission lines can only facilitate calls made within the same province i.e. intra-province calls. In order for a cellular subscriber to make a call to a cellular or fixed line user outside of the province i.e. inter-province calls, it is necessary for the caller province cellular operator to interconnect through the inter-province transmission lines. Please refer to the section headed ''The Connected Transactions that are intended to cover the Target Companies and the Existing Network Operators and Other Connected Transactions'' under the paragraph headed ''Interconnection Arrangements'' below for a more detailed description of inter-province interconnection arrangements.

(c) The Executive Directors have confirmed to us that the respective PTAs, at present, are the only entities capable of providing the sufficient quantity of local and long-distance transmission lines which satisfy the quality and technological standards required for the operations of the Target Companies in the respective provinces.

(d) In the Letter from the Chairman, it is stated that the lease payments under the leased line agreements are based on tariff schedules stipulated by the relevant regulatory authorities from time to time which are also applicable to other cellular operators owned by China Mobile that are not part of the Combined Group. The agreements further provide for a 30% discount on lease payments until new tariff schedules are stipulated whereupon the parties to the agreements will negotiate a new discount rate. The Executive Directors have confirmed to us that the discount on lease payments are determined by the relevant regulatory authorities in the PRC and that the same 30% discount, which is currently the highest discount rate offered by the relevant regulatory authorities in the PRC, is also available to the Existing Network Operators.

(e) The leased line agreements entered into by Fujian Mobile, Henan Mobile and Hainan Mobile are effective from 1st April, 1999 to 31st December, 1999, from 1st April, 1999 to 31st December, 1999 and from 1st April, 1999 to 1st April, 2000, respectively. They will be automatically renewed for a period of one year on an annual basis unless either party notifies the other of its intention to terminate in writing at least 3 months prior to its expiration date. We have received confirmation from the Executive Directors that there is no present intention for either the Target Companies or the relevant PTAs to terminate these leased line agreements.

***(C) Leasing of Synchronised Clock Ports***

(a) The synchronised clock ports are essential to the operations of the Target Companies as they are used to ensure that both the mobile network and the fixed line network operate at the same point in time so that the quality of mobile communications can be maintained.

(b) The Executive Directors have confirmed to us that the Existing Network Operators did not enter into an agreement with their respective PTAs regarding the leasing of synchronised clock ports. We were advised by the Executive Directors that the Guangdong, Zhejiang and Jiangsu PTAs did not require the Existing Network Operators to enter into similar agreements with respect to the leasing of synchronised clock ports at the time of the Company's initial public offering and acquisition of Jiangsu Mobile.

(c) The Executive Directors have confirmed to us that the rental charges payable by the Target Companies to the PTA under the synchronised clock agreements are based on commercial negotiation between the Target Group and the PTAs on an arm's length basis and are the same as those being charged to the other cellular operators owned by China Mobile that are not part of the Combined Group. The Executive Directors have confirmed to us that as far as they are aware, the PTAs at present are not leasing synchronised clock ports to any independent third party engaged in cellular operations in the PRC.

(d) The synchronised clock agreements entered into by Fujian Mobile, Henan Mobile and Hainan Mobile are effective from 1st April, 1999 to 31st December, 1999, from 1st July, 1999 to 31st December, 1999 and from 1st April, 1999 to 1st April, 2000. These agreements 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 of such agreements.

(e) The Executive Directors have confirmed to us that there is no present intention of any of the Target Companies or the relevant PTAs to terminate such agreement.

***(D) Equipment Maintenance Services***

(a) The Executive Directors have confirmed to us that given that some of the equipment owned by Fujian Mobile is located in remote areas of the Fujian Province and taking into consideration that such equipment only represents a small percentage of the total assets owned by Fujian Mobile, the Executive Directors are of the view that it would be more cost efficient to obtain maintenance services from Fujian PTA than to send its own maintenance team to service the remote regions of the Fujian Province.

(b) No similar agreement was entered into by Hainan Mobile and Henan Mobile or the Existing Network Operators as these entities were capable of handling the maintenance of their own equipment and did not need to rely on the services from their respective PTAs.

(c) The Executive Directors have confirmed to us that the charges for such service are based on tariff standards stipulated by government authorities from time to time. In the absence of such tariff standards, the rates agreed between the parties shall apply.

(d) The Executive Directors have confirmed to us that the terms and basis of the maintenance costs charged by the PTAs in respect of services provided to other cellular operators owned by China Mobile that are not part of the Combined Group are similar to those stipulated under this equipment maintenance agreement. The Executive Directors have confirmed to us that as far as they are aware, the PTAs at present are not providing equipment maintenance services to any independent third party engaged in cellular operations in the PRC.

(e) The Company has provided to us certain information with regard to the historical equipment maintenance costs incurred by the Existing Network Operators. Such information indicated that the historical equipment maintenance expenses when expressed as a percentage of the original costs of such equipment are similar to the rates payable by Fujian Mobile under this equipment maintenance agreement. Such information has been reviewed and confirmed by KPMG that it has been properly extracted and/or recomputed from the amounts stated in the financial statements of the Group as of 30th June, 1999.

(f) The equipment maintenance agreement is automatically renewable on an annual basis. Either party to the agreement may terminate the agreement at any time by giving the other party a written notification of termination at least three months prior to the expiration of the terms of such agreement. The Executive Directors have confirmed to us that there is no present intention of either Fujian Mobile or Fujian PTA to terminate such agreement.

***(E) Collection Services***

(a) The Executive Directors have confirmed to us that entering into the collection services agreements is an effective method to collect revenue from the Target Companies' subscribers. Under the collection services agreement, the Target Companies are entitled to use the outlets of the PTAs (and outlets of China Mobile in the case of Henan Mobile) for revenue collection.

(b) Collection services are provided to the Target Companies by the PTAs at the current rate of 1% of the aggregate payments collected. The collection service charges are based on commercial negotiation between the parties on an arm's length basis. Guangdong Mobile and Jiangsu Mobile have also entered into their own separate collection services agreement with the respective PTAs in Guangdong and Jiangsu. The Executive Directors have confirmed to us that the fee payable by Guangdong Mobile and Jiangsu Mobile to the respective PTAs under such agreements are the same as those payable by the Target Companies under these agreements. Zhejiang Mobile did not enter into a similar agreement because it already had in place its own system of revenue collections and therefore did not require such services to be performed by the Zhejiang PTA.

(c) The Executive Directors have confirmed to us that these agreements were entered into because the Target Companies have not yet set up their own systems to enable subscribers to settle their telephone charges efficiently or conveniently. The Target Companies may consider putting into place the infrastructure necessary to carry out the collection services in the future. Accordingly, the Executive Directors have confirmed to us that there is no present intention for any of the Target Companies or the relevant PTAs to terminate the collection services agreements.

(d) The collection services agreements entered into by Fujian Mobile, Henan Mobile and Hainan Mobile are effective from 1st April, 1999 to 31st December, 1999, from 1st July, 1999 to 31st December, 1999 and from 1st April, 1999 to 1st April, 2000, respectively. The collection services agreement will be automatically renewed for a period of one year unless either party notifies the other of its intention to terminate in writing at least 3 months prior to expiration of the term of such agreements.

***(F) Billing Services***

(a) Under the billing agreements, the PTAs will provide to the Target Companies services including, inter alia, the production of customer invoices through their billing systems based on the monthly subscriber usage information of each mobile telephone number provided by the respective Target Companies.

(b) The Executive Directors have confirmed to us that entering into the billing agreements is an effective way of managing the subscriber accounts and handling the billing arrangements. The Executive Directors have confirmed to us that the billing service charges are based on commercial negotiations between the parties on an arm's length basis by reference to the amount of billing work actually required of the service provider.

(c) The Executive Directors have also confirmed to us that such arrangement is transitional in nature and that the Target Companies may consider developing their own billing systems in the future, if possible, whereby reliance upon the respective PTAs for such services will be reduced gradually.

(d) We understand that similar billing arrangements have been entered into between Zhejiang Mobile and the Zhejiang PTA. The charges under the billing agreement entered into by Zhejiang Mobile are lower than the rates stipulated under the Target Companies' billing agreements. The differences in charges are mainly due to the different nature and volume of work and services required of the service provider. In the case of Zhejiang Mobile, Zhejiang PTA is only required to process certain raw data provided by Zhejiang Mobile. As regards the billing services that are contemplated by the Target Companies' billing services agreements, it is currently envisaged that the respective PTAs will, in addition to providing the same type of information processing services currently provided under the Zhejiang Mobile billing services agreement, also provide certain services that categorises the different billing charges by reference to the different types of calls made or received by the customers of the Target Companies. The Executive Directors have confirmed to us that Zhejiang Mobile at present does not require additional services in respect of the categorisation of bills because its systems were sufficiently advanced to handle the process. We have been advised by the Executive Directors that the billing agreement in respect of Zhejiang Mobile will expire in October 1999 and the Company at present has no intention to renew such agreement as Zhejiang Mobile has established its own facilities to handle billing processes after expiry of its billing agreement with the Zhejiang PTA.

(e) The billing agreements entered into by Fujian Mobile, Henan Mobile and Hainan Mobile are effective from 1st April, 1999 to 31st December, 1999, from 1st July, 1999 to 31st December, 1999 and from 1st April, 1999 to 1st April, 2000, respectively. The billing agreement for Fujian Mobile and Hainan Mobile will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate in writing at least 3 months prior to the expiration of the term of such agreement. The billing agreement for Henan Mobile provides for an automatic renewal for another year upon the expiration of the initial term of the agreement unless terminated by either party giving 3 months prior written notice.

(f) The Company believes that such billing service agreements are only transitional in nature and once the Target Companies have properly set up their own billing system, they are expected to be able to handle the billing themselves without relying on the PTAs which also explains the relatively short term nature of these agreements.

(g) The Executive Directors have confirmed to us that there is no present intention for any of the Target Companies or the relevant PTAs to terminate such billing services agreements.

***(G) Sales arrangements***

(a) The Executive Directors have informed us that entering into the sales arrangements with the PTAs (and the subsidiary of China Mobile in the case of Henan Mobile) is an effective method to market the services of the Target Companies and to attract new subscribers as the PTAs have a very extensive and efficient distribution network given their experience in marketing cellular services.

(b) The Executive Directors have confirmed to us that the sales service charges payable to the respective PTAs are based on commercial negotiations between the parties on an arm's length basis by reference to the prevailing market rates which follow the rates specified in a framework agreement between China Mobile and the DGT which is applicable to all subsidiaries of China Mobile. The Executive Directors have further confirmed that the sales service charges under the sales arrangements are similar to those entered into between the Target Companies and other authorised dealers not affiliated with the PTAs.

(c) The Executive Directors have confirmed to us that the sales service charges payable to the relevant PTAs by those cellular operators owned by China Mobile that are not part of the Combined Group are similar to the rates contemplated in the abovementioned agreements. The Executive Directors have confirmed to us that as far as they are aware, the PTAs at present are not providing similar services to any independent third party engaged in cellular operations in the PRC.

(d) The agency agreements entered into by Fujian Mobile, Henan Mobile and Hainan Mobile are effective from 1st April, 1999 to 31st December, 1999, from 1st July, 1999 to 31st December, 1999 and from 1st April, 1999 to 1st April, 2000, respectively. The agency agreements will be automatically renewed for a period of one year unless either party notifies the other of its intention to terminate in writing at least three months prior to the expiration of the initial term of such agreement.

(e) The Executive Directors have confirmed to us that there is no present intention for any of the Target Companies or the relevant PTAs to terminate the agency agreements.

**The Connected Transactions that are intended to cover the Target Companies and the Existing Network Operators and Other Connected Transactions**

The Executive Directors have informed us that CTHK has, subject to Hong Kong regulatory and Independent Shareholders' approvals, entered into certain new agreements with China Mobile covering both the existing subsidiaries of the Company and the Target Companies. The Executive Directors have confirmed to us that the purpose of the new agreements is to reflect the changes in the financial terms as stipulated under the new approval documents as well as the outcome of negotiations with China Mobile.

***(A) Interconnection Arrangements***

(a) The cellular networks of each of the Target Companies and the Existing Network Operators interconnect with the fixed line network owned by the provincial PTAs and the other networks of China Mobile, allowing the subscribers of each of the Target Companies and the Existing Network Operators to communicate with fixed line users and subscribers of other cellular networks and to make and receive local, domestic and international long-distance calls.

The interconnection arrangements of the Target Companies and the Existing Network Operators are governed by the following agreements:-

(i) Each of Fujian Mobile, Henan Mobile and Hainan Mobile entered into an interconnection agreement dated 30th August, 1999, 20th August, 1999 and 20th August, 1999, respectively with the respective provincial PTAs which provide for the sharing of revenue between the respective PTAs and the Target Companies for the following types of calls:-

- all inbound calls (both local and long-distance) to the Target Companies' subscribers which originate from the fixed line network
- all outbound calls (both local and long-distance) made by the Target Companies' subscribers which terminate on the fixed line network

- all outbound domestic long-distance calls made by the Target Companies' subscribers which terminate on the fixed line network using the respective PTAs' transmission lines
- all inbound domestic long-distance calls made by fixed line subscribers to a Target Company subscribers using the transmission lines leased by the Target Company / China Mobile
- all outbound and inbound international calls made by the Target Companies' subscribers

(hereinafter referred to as ''PTA Interconnection Agreements'')

(ii) Each of the Existing Network Operators has, subject to Hong Kong regulatory and Independent Shareholders' approvals, entered into a similar interconnection agreement with their respective provincial PTAs which provides for the sharing of revenue between the relevant PTAs and the relevant Existing Network Operator for the following types of calls:-

- all inbound calls (both local and long-distance) to the Existing Network Operators' subscribers which originate from the fixed line network
- all outbound calls (both local and long-distance) made by the Existing Network Operators' subscribers which terminate on the fixed line network
- all outbound domestic long-distance calls made by the Existing Network Operators' subscribers which terminate on the fixed line network using the respective PTAs' transmission lines
- all inbound domestic long-distance calls made by fixed line subscribers to the Existing Network Operators' subscribers using the transmission lines leased by the Existing Network Operators / China Mobile
- all outbound and inbound international calls made by the Existing Network Operators' subscribers

(hereinafter referred to as the ''Conditional PTA Interconnection Agreements'' or ''Other Connected Transactions'' both terms used interchangeably as the context requires)

(iii) The Company has, subject to Hong Kong regulatory and Independent Shareholders' approvals, entered into an agreement with China Mobile to share the revenue from inter-provincial calls which make use of the long-distance transmission lines leased by China Mobile (''Interconnection Umbrella Agreement'').

(b) The interconnection arrangements contemplated by the abovementioned agreements are essential for the operations of the Target Companies and the Existing Network Operators.

(c) The Executive Directors have confirmed to us that the PTAs, at present, are the only entities in the respective provinces capable of providing the interconnection arrangements with the fixed line networks owned by the PTAs contemplated by the PTA Interconnection Agreements and the Conditional PTA Interconnection Agreements.

(d) The Executive Directors have confirmed to us that the terms being offered to the Target Companies and the Existing Network Operators under the PTA Interconnection

Agreements and the Conditional PTA Interconnection Agreements are the same as those being offered to the cellular operators owned by China Mobile who are not part of the Combined Group.

(e) The PTA Interconnection Agreements entered into by Fujian Mobile and Hainan Mobile are effective from 1st October, 1999 to 1st October, 2000 and that entered into by Henan Mobile is effective from 1st October, 1999 to 31st December, 1999. Each of these agreements will be automatically renewed for a period of one year 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 date.

The Conditional PTA Interconnection Agreements entered into by the Existing Network Operators are proposed to be effective on 1st October, 1999 and will be automatically renewed for a period of one year 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 date of such agreements.

(f) The Executive Directors have confirmed to us that there is no present intention for any of the Target Companies or the relevant PTAs to terminate the PTA Interconnection Agreements.

(g) The relevant revenue sharing arrangements contemplated by the Interconnection Umbrella Agreement are based on guidelines issued by the MII in 1999 as set out in Document No. 730.

(h) The Interconnection Umbrella Agreement is proposed to be effective from 1st October, 1999 to 1st October, 2000 and will be automatically renewable annually unless either party notifies the other party of its intention to terminate in writing at least three months prior to the expiration date of such agreement.

***(B) Roaming Agreements***

(a) Each of the Target Companies and the Existing Network Operators offer automatic roaming services to its subscribers allowing them to make and receive telephone calls while they are outside of their registered service area, including while they are in the coverage area of other cellular networks with which the user's home location networks has a roaming arrangement. To enable such roaming services to be offered by each of the Target Companies and the Existing Network Operators, CTHK has, subject to Hong Kong regulatory and Independent Shareholders' approvals, entered into an umbrella agreement with China Mobile with respect to domestic and international roaming services which provides for (i) the sharing of roaming revenue between the Target Companies and the Existing Network Operators on the one hand, and other cellular operators owned by China Mobile that are not part of the Combined Group (in respect of inter-provincial roaming) and China Mobile (in respect of international roaming) on the other hand; and (ii) procedures and timing of settlement (''Umbrella Roaming Agreement'').

(b) The Executive Directors have confirmed to us that the extension of the Umbrella Roaming Agreement to the Existing Network Operators has been made as a result of the provision of long distance transmission lines by China Mobile in relation to all roaming calls in China, which in turn requires a new pattern for sharing the roaming revenue as required by the relevant regulatory authorities.

(c) The roaming arrangements provided by China Mobile under the Umbrella Roaming Agreement are essential for the operations of the Target Companies and the Existing Network Operators.

(d) The Executive Directors have confirmed to us that China Mobile at present is the entity in the PRC which has the widest cellular network coverage and largest subscriber base in the provinces outside where the Company operates. Accordingly, the Executive Directors are of the view that it would be more favourable for the Company to enter into roaming arrangements with China Mobile than with other telecom operators.

(e) The Executive Directors have confirmed to us that the allocation of roaming revenue between the Existing Network Operators, the Target Companies and China Mobile under the Umbrella Roaming Agreement is based on limits set by the Chinese regulatory authorities, while the charges for the use of signalling lines owned or rented by China Mobile to be paid by both the operator of the visitor location network and the home location network operator is based on commercial negotiations between the parties on an arms length basis. The Executive Directors have further confirmed that the roaming revenue payable to China Mobile by other cellular operators owned by China Mobile that are not part of the Combined Group are similar to that payable by the Target Companies and the Existing Network Operators. The Executive Directors have confirmed to us that as far as they are aware, China Mobile has not entered into roaming arrangements with any independent third party cellular operator in the PRC which provides for the sharing of roaming revenues.

(f) The Umbrella Roaming Agreement is intended to last for a term of one year from the date of the agreement and thereafter to be automatically extended for successive terms of one year unless terminated by either party in writing at least three months prior to the expiration of such agreement.

(g) The Executive Directors have confirmed to us that there is no present intention for either the Company or China Mobile to terminate the Umbrella Roaming Agreement.

***(C) Licensing of Trademark***

*Use of the ''China Telecom'' logo and ''China Mobile logo'*

(a) According to the terms of the non-exclusive licence agreement entered into between the Company and the DGT on 27th September, 1997 as supplemented by another agreement dated 27th April, 1998 between the Company and the DGT, the Company has obtained the right to use the ''CHINA TELECOM'' trademark for a term of six years from 20th October, 1997. No licence fee is payable in respect of the first three years and the fees payable thereafter shall be no less favourable than fees paid by other entities within the China Telecom system for the use of the relevant trademark and logo.

(b) In view of the Acquisition, the Company entered into a supplemental agreement with the DGT on 8th October, 1999 whereby the terms and conditions under the License Agreement mentioned in (a) above would be extended to each of the Target Companies upon completion of the Acquisition.

(c) The non-exclusive licence agreement and supplements thereto may not be unilaterally terminated by the DGT.

(d) Pursuant to the restructuring of the telecommunications industry in the PRC, details of which are provided in Appendix I to the Circular, China Mobile has filed applications to register its logo as a trademark in the PRC and Hong Kong. We understand from the Company that China Mobile may consider launching a nation-wide promotion campaign using the ''CHINA MOBILE'' name and logo at the appropriate time. The Group intends to start marketing its services under the new brand name in all its markets at an appropriate time following the Acquisition.

(e) According to the terms of the licence agreement which is expected to be entered into by the Company with China Mobile on or before completion of the Acquisition and conditional on Hong Kong regulatory and Independent Shareholders' approval, no licence fee is payable for the period up to the date the registration of the ''CHINA MOBILE'' name and logo is completed nor is any licence fee payable by the Company for the first three years calculated from the effective date of registration of the logo. Thereafter any fees payable shall be determined by the parties to the agreement provided that such fees shall not exceed the amount payable to China Mobile by its affiliates for the use of the logo. We consider the fee basis to be justifiable particularly in view of the term that no fees are payable for the first three years from the effective date of registration of the logo.

***(D) Spectrum arrangements***

(a) The Company has, conditional on Hong Kong regulatory and Independent Shareholders' approvals, entered into an agreement with China Mobile to obtain exclusive rights for the Target Companies and the Existing Network Operators to use the frequency spectrum and telephone number allocation resources managed by China Mobile (''Frequency Spectrum Agreement''). The Frequency Spectrum Agreement has been entered into as a result of the establishment of China Mobile and its purpose is to establish a benchmark for the sharing of spectrum fees payable to the MII by the Target Companies and the Existing Network Operators.

(b) China Mobile determines the amount of fees to be paid to the MII for spectrum usage by each cellular network operator under its control based on bandwidth of the frequency used and the number of base transceiver stations within the operator's network at the end of the preceding year, subject to the limitation that the total annual payment by all such operators in the PRC shall equal RMB1.0 million per MHz of frequency allocated by the MII.

(c) The Executive Directors have confirmed to us that obtaining the right to use the allocated frequency spectrum is essential for the operations of the Target Companies and the Existing Network Operators.

(d) The Executive Directors have confirmed to us that the spectrum fees payable by other cellular operators owned by China Mobile which are not part of the Combined Group to China Mobile are similar to that contemplated under the Frequency Spectrum Agreement.

(e) The Executive Directors have confirmed that China Mobile is the only entity in the PRC that individual cellular operators under its control can negotiate with as regards the payment of frequency spectrum fees.

(f) The Frequency Spectrum Agreement is expected to be valid for one year and to 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 of such agreement.

(g) The Executive Directors have confirmed that there is no present intention of either the Company or China Mobile to terminate this agreement.

In arriving at our opinion in relation to the Connected Transactions, we have including but not limited to: (i) reviewed the financial terms of the relevant agreements in respect of the Connected Transactions and the Other Connected Transactions; (ii) discussed with the Executive Directors in respect of the rationale and the financial terms of the Connected Transactions and of the Other Connected Transactions; (iii) reviewed the guidelines issued by the MII in 1999 in respect of the relevant revenue sharing arrangements as set out in Document No. 730 of the MII; (iv) discussed with Chesterton Petty Limited in relation to the property valuation performed by them as well as the bases on which they arrived at their opinion with regard to the property lease agreements entered into by the Target Companies; and (v) discussed with KPMG the basis on how the Company determined the historical costs of equipment maintenance services provided to the Existing Network Operators.

Having taken into account all of the principal factors and reasons set out on pages 12 to 16 of the Circular, including, inter alia, those stated herein in relation to our advice in respect of the Acquisition and the mechanism for determining the issue price of the Consideration Shares, we are of the opinion that the financial terms of the Connected Transactions and of the Other Connected Transactions from a financial perspective are fair and reasonable so far as the Independent Shareholders are concerned.

### IV. Pro-forma effects of the Acquisition on the Group

It should be noted that the unaudited pro-forma financial information of the Combined Group set out below is based upon the historical combined financial statements of the Target Group (as set out in the Accountants' Report in Appendix III and the section headed ''Historical Financial Information of the Target Group'' set out in Section A of Appendix IV to the Circular) and the consolidated financial statements of the Group (as set out under ''Introduction to Unaudited Pro-forma Financial Information of the Combined Group'' in Appendix VI to the Circular) without giving effect to the pro-forma adjustments in respect of the new operating and other agreements entered into by the Target Group as set out in Section B headed ''Introduction to Unaudited Pro Forma Combined Financial Information of the Target Group'' in Appendix IV to the circular. The unaudited pro-forma financial information of the Combined Group does not purport to represent what the results of the operations of the Combined Group would actually have been if the events described below had in fact occurred at the beginning of 1998, or any other date, or to project the net profit of the Combined Group for any future period. However, no adjustments have been reflected in respect of the new operating and other agreements entered into by the Target Group. Accordingly, all the calculations set out in this section are for illustrative purposes only.

#### *(A) EBITDA and earnings*

The table below sets out the actual and pro-forma EBITDA, consolidated net profit and earnings per share of the Group and the Combined Group for the year ended 31st December, 1998 and the six months ended 30th June, 1999 before and after the Acquisition. The pro-forma calculations assume, inter alia, that (i) completion of the Acquisition (''Completion'') had taken place on 1st January, 1998 and 1st January, 1999 as the case may be; (ii) the Equity Offering was completed immediately prior to Completion at an Offer Price of HK$25.10 per Share (which is equivalent to the closing Share price of CTHK as at the Latest Practicable Date) which resulted in the issuance of a total number of 510,744,024 new Shares and the proceeds of the Equity Offering amounted to HK$12,819.7 million (without giving effect to the expenses associated with the Equity Offering); (iii) the Company issued 1,222,470,119 Consideration Shares at the Offer Price of HK$25.10; (iv) the Debt Offering was completed immediately prior to Completion resulting in the Company raising HK$3,885 million of debt and that the interest payable on such debt securities were 8% per annum; (v) the Company had paid HK$2,326.5 million from the cash on hand to satisfy the remaining balance of the Cash Consideration; and (vi) the Company having to forego the interest income that could have been earned on the cash portion of the Consideration which was paid from the cash on hand of HK$2,326.5 million (and that such forgone interest income was calculated at a weighted average interest rate of 5.28% per annum for the relevant periods).

| | Year ended 31st December, 1998 | | Six months ended 30th June, 1999 | |
|---|---|---|---|---|
| | **The Group** | **The Combined Group** | **The Group** | **The Combined Group** |
| EBITDA | | | | |
| *(RMB million)* | 12,868.1 | 16,752.4 | 9,578.4 | 11,986.1 |
| Net profits *(million)* | | | | |
| — RMB | 6,899.8 | 8,663.2 | 4,003.4 | 4,986.8 |
| — HK$ | 6,466.6 | 8,119.2 | 3,752.1 | 4,673.6 |
| Earnings per share (''EPS'') | | | | |
| — RMB | 0.586 | 0.641 | 0.340 | 0.369 |
| — HK$ | 0.549 | 0.601 | 0.318 | 0.346 |

On a pro-forma basis set out above, the Acquisition would have resulted in an increase in the Combined Group's EBITDA of approximately 30% and 25%, respectively, and Combined Group's EPS of approximately 9.4% and 8.5%, respectively for the year ended 31st December, 1998 and for the six months ended 30th June, 1999.

### *(B) Net assets*

The table below sets out the actual and pro forma net asset value and net asset value per share of the Group and the Combined Group as at 30th June, 1999. The pro-forma calculations, assume, inter alia, that (i) Completion had taken place on 30th June, 1999 and that the goodwill of approximately RMB43,442.9 million arising from the Acquisition had been eliminated from the Company's reserves; (ii) the Equity Offering was completed immediately prior to Completion at an Offer Price of HK$25.10 per Share (which is equivalent to the closing share price of CTHK as at the Latest Practicable Date) which resulted in issuance of a total number of 510,744,024 new Shares and the proceeds of the Equity Offering amounted to HK$12,819.7 million (without giving effect to the expenses associated with the Equity Offering); (iii) the Company issued 1,222,470,119 Consideration Shares at the Offer Price of HK$25.10; (iv) the Debt Offering was completed immediately prior to Completion resulting in the Company raising HK$3,885 million of debt; and (v) the Company had paid HK$2,326.5 million from the cash on hand to satisfy the remaining balance of the Cash Consideration:-

| | As at 30th June, 1999 | |
|---|---|---|
| | The Group | The Combined Group |
| Net assets *(million)* | | |
| — RMB | 49,899.6 | 52,806.0 |
| — HK$ | 46,766.3 | 49,490.1 |
| Net assets per Share (''NAV per Share'') | | |
| — RMB | 4.2 | 3.9 |
| — HK$ | 4.0 | 3.7 |

On a pro-forma basis, the Acquisition would have resulted in an increase in the net assets of the Combined Group of approximately RMB2,906.4 million, equivalent to an increase in the net assets of the Combined Group of approximately 5.8%, but a decrease in the NAV per Share of the Combined Group of approximately RMB0.30 per Share, equivalent to a decrease of approximately 7.75% in the NAV per Share of the Combined Group.

***(C) Gearing level***

The table below sets out the actual and pro-forma information on the gearing level of the Group and the Combined Group as at 30th June, 1999. The pro-forma calculations assume, inter alia, that (i) Completion had taken place on 30th June, 1999; (ii) the Equity Offering was completed immediately prior to Completion at an Offer Price of HK$25.10 per Share (which is equivalent to the closing share price of CTHK as at the Latest Practicable Date) which resulted in the issuance of a total number of 510,744,024 new Shares and the proceeds of the Equity Offering amounted to HK$12,819.7 million (without giving effect to the expenses associated with the Equity Offering); (iii) the Company issued 1,222,470,119 Consideration Shares at the Offer Price of HK$25.10; and (iv) Debt Offering was completed immediately prior to Completion resulting in the Company raising HK$3,885 million of debt; and (v) the Company had paid HK$2,326.5 million from the cash on hand to satisfy the remaining balance of the Cash Consideration:-

| | As at 30th June, 1999 | |
|---|---|---|
| | The Group | The Combined Group |
| Total debt *(RMB million)* | 6,195.3 | 14,181.0 |
| Cash *(RMB million)* | 22,790.4 | 21,935.7 |
| Total capitalisation *(RMB million)* | 56,095.0 | 66,987.0 |
| Total debt *(Note 1)*/total capitalisation *(Note 2)* | 11% | 21% |
| Net debt *(Note 3)*/total capitalisation | Net cash | Net cash |

*Notes:-*

(1) Total debt is the sum of long-term loans and bonds, obligations under finance leases and short-term debt. Short term debt includes the current portion of long-term loans and liabilities and the current portion of obligations under finance leases, as well as bank overdrafts and short-term loans.

(2) Sum of shareholders' equity and total debt.

(3) Net debt is equivalent to total debt less cash holdings.

### *(D) Interest coverage*

The actual and pro-forma interest coverage of the Group and the Combined Group for the year ended 31st December, 1998 and the six months ended 30th June, 1999 are set out below. The pro-forma calculations assume, inter alia, that (i) Completion had taken place on 1st January, 1998 and 1st January 1999 as the case may be; (ii) the Equity Offering was completed immediately prior to Completion at an Offer Price of HK$25.10 per Share (which is equivalent to the closing share price of CTHK as at the Latest Practicable Date) which resulted in the issuance of a total number of 510,744,024 new Shares and the proceeds of the Equity Offering amounted to HK$12,819.7 million (without giving effect to the expenses associated with the Equity Offering); (iii) the Company issued 1,222,470,119 Consideration Shares at the Offer Price of HK$25.10; (iv) the Debt Offering was completed immediately prior to Completion resulting in the Company raising HK$3,885 million of debt and that the interest payable on such bank borrowings/debt securities were 8% per annum; and (v) the Company had paid HK$2,326.5 million from the cash on hand to satisfy the remaining balance of the Consideration; and (vi) the Company having to forego the interest income that could have been earned on the cash portion of the Consideration which was paid from the cash on hand of HK$2,326.5 million (and that such foregone interest income was calculated at a weighted average interest rate of 5.28% per annum for the relevant periods).

(i) The actual and pro-forma interest coverage of the Group and the Combined Group for the year ended 31st December, 1998 and the six months ended 30th June, 1999 are set out below.

| | Year ended 31st December, 1998 | | Six months ended 30th June, 1999 | |
|---|---|---|---|---|
| | **The Group** | **The Combined Group** | **The Group** | **The Combined Group** |
| Profits before interest expense, taxation and minority interests (A) *(RMB million)* | 9,546.3 | 11,834.1 | 6,080.4 | 7,495.5 |
| Interest expense (B) *(RMB million)* | 159.8 | 529.2 | 106.7 | 349.0 |
| Interest cover (A/B) (times) | 59.8x | 22.4x | 57.0x | 21.5x |

(ii) On a pro-forma basis, the Acquisition would have resulted in a decrease in the interest coverage ratio of the Combined Group from 59.8 times to 22.4 times for the year ended 31st December, 1998 and from 57.0 times to 21.5 times for the six-months ended 30th June, 1999.

## V. Other factors

(a) The Directors have confirmed to us their favourable commercial assessment of the Acquisition.

(b) The Directors have confirmed to us that the Acquisition is made in accordance with the Group's business strategy in respect of its operations and have further informed us that they expect the Acquisition to provide synergies with the Group's existing operations.

Further details of the reasons for and benefits of the Acquisition are set out in the Letter from the Chairman on pages 12 to 16 of the Circular.

(c) The Directors have confirmed to us that other forms of consideration had been considered. After discussions and negotiations with CTBVI, the financing arrangements set out on pages 9 to 12 in the Letter from the Chairman were agreed to be the most appropriate form of consideration.

(d) The Directors have confirmed to us that they are of the opinion that after taking into account the proceeds from the Equity Offering and the Debt Offering, the Combined Group will, following the completion of the Acquisition, have sufficient working capital for its present requirements in the absence of unforeseen circumstances.

(e) As of 30th September, 1999, the MII indirectly owned an aggregate of, 76.43% of the Company's issued share capital. As stated in the Letter from the Chairman, each of the MII and China Mobile has undertaken that:-

- they will extend their full support to the Group's present operations and future development;
- the Group will be the only cellular telecommunications services company operating in mainland China regulated by the MII under China Mobile's control that will be listed on any securities exchange in Hong Kong or outside China;
- to the extent within the MII's scope of regulation or China Mobile's control (as the case may be), the Group will be treated equally with any other cellular network operators in respect of all approvals, transactions and arrangements between the Group and other entities regulated by the MII or between the Group and other cellular telecommunications operators controlled by China Mobile (as the case may be);
- China Mobile and the provincial entities under its control will not, and the MII will not allow them to, participate, directly or indirectly, in the provision of cellular telecommunications services in any province in which the Group currently operates or may operate in the future; and
- China Mobile will contribute to the Group, at the Group's option, the entire interest, if any, held by it in any CDMA project in any province in which the Group operates, when and if the CDMA project, after trial operations, becomes commercially feasible. The Group will also have the option to operate additional communications services that fall within China Mobile's scope of business (including the development and commercial operation of services using new technology such as ''third generation'' cellular technology).

As a result of the industry restructuring pursuant to which the MII's regulatory functions and commercial operations are required to be separated, the undertakings given by the former Ministry of Posts and Telecommunications (''MPT'') at the time of the Company's initial public offering in October 1997 have been replaced by the above undertakings given by the MII and China Mobile. The undertakings given by the former MPT and those given by the MII and China Mobile address substantially the same issues.

(f) We have brought to the attention of the Independent Board Committee the risk factors associated with the Acquisition which are set out in Appendix IX of the Circular.

(g) We have also brought to the attention of the Independent Board Committee that the business of the Target Companies relies heavily upon computer and information technology systems. The Executive Directors have confirmed to us that each of the Target Companies has finished assessment of all material computer systems, equipment and other electronic devices for Year 2000 compliance and completed all planned testing and the relevant remedial and upgrading work. Emergency procedures have been formulated to prepare for any system failures which may be caused by the Year 2000 issue. The Acquisition Agreement provides that the Company shall be fully indemnified against any or all loss or damage arising out of or in connection with any failure of Year 2000 compliance of the systems of the Target Companies.

(h) We noted that the Acquisition Agreement contains certain provisions pursuant to which CTHKG shall deliver Year 2000 test plans and results to the Company upon written request and shall participate at no charge to the Company in additional tests to determine Year 2000 compliance matters. We have not performed any review or investigation in respect of Year 2000 compliance matters of the Target Companies and our opinions in this letter are based on each of the Target Companies and their strategic suppliers being fully Year 2000 complaint.

Unless otherwise stated, this letter contains translations between Renminbi amounts and U.S. dollars at RMB8.2787 = US$1.00, between Renminbi amounts and Hong Kong dollars at RMB1.0670 = HK$1.00, and between Hong Kong dollar amounts and U.S. dollars at HK$7.7586 = US$1.00, the prevailing rates on 30th June, 1999, except that amounts in respect of the price of the Acquisition, the Equity Offering and the Debt Offering have been translated at RMB8.2777 = US$1.00, RMB1.0654 = HK$1.00 and HK$7.7695 = US$1.00, the prevailing noon buying rates on 13th October, 1999. 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.

**RECOMMENDATIONS**

Having taken into account all of the principal factors and reasons set out above, we are of the opinion that the terms of the Acquisition and the terms of Connected Transactions and of the Other Connected Transactions from a financial perspective are fair and reasonable so far as the Independent Shareholders are concerned.

Details of the resolutions are set out in the notice of the Extraordinary General Meeting at the end of the Circular.

Yours faithfully,
for and on behalf of
**SCHRODERS ASIA LIMITED**
**Mark Cheung**
*Director*

**Overview**

With the transformation of the Chinese economy from a planned economy to a more market-oriented economy, the telecommunications industry in China has experienced rapid growth and has become one of the fastest developing industries in China. The Chinese telecommunications network has become one of the largest in the world in terms of number of subscribers. While the number of subscribers of paging, fixed line telecommunications services and cellular telecommunications services in China has grown substantially in the last five years, penetration rates remain relatively low compared to other Asian and international markets, indicating significant potential for continued rapid growth.

**Industry Structure**

***History of China Telecom System***

Prior to 1993, the China Telecom system, under the control of the MII, was the sole provider of all public telecommunications services in China. The China Telecom system comprises the DGT and the telecommunications business of the provincial PTAs, and city and county telecommunications bureaus (''CCTBs''). Prior to the industry restructuring described below, the China Telecom system provided a range of telecommunications services, including domestic and international telephone, telegraph, data, facsimile, internet access and electronic mail services, as well as mobile and satellite communications. The PTAs and CCTBs are local entities established with the approval and under the administrative authority of the MII. Prior to the industry restructuring, they exercised day-to-day operational responsibilities over the China Telecom system's networks. The PTAs also exercised regulatory responsibilities over posts and telecommunications operations and services at the provincial level as well as administrative responsibilities over telecommunications services provided by the CCTBs within their respective jurisdictions.

***Introduction of Competition***

In 1993, the State Council issued regulations permitting the MII to license domestic companies other than the China Telecom system to provide non-basic telecommunications services, such as radio paging, voicemail and other domestic communications services. In December 1993, the State Council approved the establishment of Unicom to introduce competition to the telecommunications sector. Unicom provides cellular, fixed line, paging and other telecommunications services. Currently, Unicom is the second largest cellular telecommunications service provider and the leading provider of paging services in mainland China. Unicom's shareholders are mainly state-owned enterprises in mainland China.

***Industry Restructuring***

In February 1999, the State Council approved a restructuring plan for the telecommunications industry in mainland China. According to the plan, the telecommunications operations of the China Telecom system controlled by the MII are being separated along four business lines: fixed line communications, mobile communications, paging and satellite communications services. China Mobile was established in July 1999 as a state owned company under the Company Law of the PRC to hold the mobile communications assets resulting from this separation and operate mobile telecommunications networks nationwide. A separate company will be responsible for satellite networks following the restructuring, while the paging operations have been merged into Unicom. As a result of the restructuring, the China Telecom system now operates only fixed line networks and provides only fixed line telephone and data communications services. The DGT is expected to become the holding company of the China Telecom system.

As part of the Chinese government's industry restructuring initiatives, the regulatory functions of the MII and the PTAs will be separated from the operational functions of the state-owned companies under their control. Following this separation, it is expected that the MII will act exclusively as the industry regulator and will no longer manage the day-to-day operations of telecommunications service providers in China. The separation of the regulatory and operational functions of the MII and the PTAs has not been completed.

## Industry Development

### *Telecommunications Services*

The telecommunications industry in mainland China has experienced rapid growth over the last five years. From 1994 to 1998, over US$61 billion was invested in telecommunications infrastructure. Fixed line subscribers increased from approximately 27.30 million at the end of 1994 to approximately 87.42 million at the end of 1998. According to the MII, total revenue from telecommunications services was RMB 176.4 billion in 1998, compared to RMB 86.6 billion in 1994.

The following table sets out certain information relating to the telecommunications industry in mainland China for the five-year period ended December 31, 1998.

| | As of December 31, | | | | | Compound annual growth rate |
|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1994 – 1998 |
| Population (in millions) | 1,198 | 1,211 | 1,224 | 1,236 | 1,248 | 1.03% |
| Fixed line subscribers (in millions) | 27.30 | 40.71 | 54.95 | 70.31 | 87.42 | 33.77% |
| Fixed line penetration | 2.28% | 3.36% | 4.49% | 5.69% | 7.00% | — |
| Cellular subscribers* (in millions) | 1.57 | 3.67 | 6.95 | 13.66 | 24.98 | 99.72% |
| Cellular penetration* | 0.13% | 0.31% | 0.57% | 1.10% | 2.00% | — |

* Includes Unicom subscribers based on CTHK's estimate.

*Sources:* China Statistical Bureau; and the MII's estimate.

The table below sets out comparative industry and economic information for mainland China and certain other countries and regions.

| Country/Region | Cellular penetration 1998 (%) | Total cellular subscribers 1998 (millions) | Fixed line penetration 1998 (%) | GDP per capita 1998 (US$) |
|---|---|---|---|---|
| India | 0.11 | 1.077 | 2.2 | 442 |
| Pakistan | 0.20 | 0.276 | 2.0 | 450 |
| China | 2.00 | 24.981 | 7.0 | 772 |
| Philippines | 2.31 | 1.736 | 3.2 | 867 |
| Thailand | 3.54 | 2.162 | 8.9 | 1,858 |
| Brazil | 4.42 | 7.298 | 12.1 | 4,866 |
| Turkey | 4.84 | 3.131 | 26.2 | 3,125 |
| Chile | 6.77 | 1.003 | 20.3 | 5,161 |
| Argentina | 8.48 | 3.058 | 20.3 | 9,410 |
| Malaysia | 10.64 | 2.283 | 20.4 | 3,239 |
| United Kingdom | 22.11 | 13.001 | 59.2 | 22,848 |
| United States | 24.95 | 67.312 | 68.5 | 31,239 |
| South Korea | 30.02 | 13.988 | 45.8 | 6,913 |
| Singapore | 32.51 | 1.025 | 58.1 | 26,757 |
| Japan | 35.59 | 44.979 | 53.6 | 29,879 |
| Hong Kong | 43.27 | 2.858 | 58.8 | 24,818 |

*Sources:* Prodata and The Economist Intelligence Unit and MII.

***Cellular Services***

The cellular 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 1.57 million at the end of 1994 to approximately 24.98 million at the end of 1998, representing a compound annual growth rate of 99.7%, compared to a compound annual growth rate of 33.8% in the number of fixed line subscribers over the same period. Recent MII data indicate that the number of cellular subscribers increased to approximately 33.7 million as of June 30, 1999, of which 92.3%, or 31.1 million, were subscribers of the Group or subscribers of China Mobile and its subsidiaries. Mainland China currently has the third largest number of cellular subscribers in the world after the United States and Japan. Cellular services are currently available in almost all cities in mainland China. Despite the rapid growth in the number of subscribers, the cellular penetration rate in mainland China is still low compared to other Asian and international markets.

The first cellular network in mainland China was established in the mid-1980s. Currently, the two primary standards used by public cellular networks in mainland China are the digital GSM standard and the analog TACS standard. As of June 30, 1999, GSM and TACS networks accounted for approximately 81.3% and 18.7%, respectively, of all cellular subscribers in mainland China.

**Acquisition Restructuring**

Fujian Mobile, Henan Mobile and Hainan Mobile were established on September 7, 1999, August 6, 1999 and August 19, 1999, respectively, by China Mobile. On September 29, 1999, China Mobile transferred its entire interests in Fujian Mobile, Henan Mobile and Hainan Mobile to Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI, respectively, through a series of transfers.

Each of Fujian Mobile, Henan Mobile and Hainan Mobile has entered into a number of operational agreements and other changes will take place in connection with their restructuring and the Acquisition. Some of these operational agreements and changes that will have a material impact on the overall results of operations of each of these companies include:

- new agreements with respect to interconnection revenue and costs;
- new agreements relating to transmission line leases;
- new service agreements relating to collection and marketing services, and repair and maintenance of equipment;
- new lease agreements relating to property leases;
- changes in the tax treatment of connection fees and certain surcharge revenue for their services; and
- the revaluation of certain fixed assets.

The new leased line agreements in all three provinces became effective on April 1, 1999. The other agreements above became effective as of April 1, 1999 in Fujian and Hainan and July 1, 1999 in Henan. The revaluations of fixed assets became effective as of June 30, 1999. The tax treatment on connection fees and certain surcharge revenues will be effective once the companies register as wholly foreign-owned enterprises after the Acquisition.

**Operations of Target Companies**

Fujian Mobile, Henan Mobile and Hainan Mobile are the leading providers of cellular telecommunications services in their respective provinces. Each Target Company offers cellular services using GSM and TACS technologies. Their cellular telephone networks cover all cities and counties and most major roads and highways in the three provinces.

The following table sets out certain demographic and industry data for Fujian, Henan and Hainan provinces for the periods indicated:

| | As of or for the year ended December 31, | | |
|---|---|---|---|
| | 1996 | 1997 | 1998 |
| Population (in thousands) (1) | | | |
| Fujian | 32,610 | 32,820 | 32,990 |
| Henan | 91,720 | 92,430 | 93,150 |
| Hainan | 7,340 | 7,430 | 7,530 |
| GDP per capita (RMB) (1) | | | |
| Fujian | 7,923 | 9,146 | 10,121 |
| Henan | 3,992 | 4,413 | 4,676 |
| Hainan | 5,307 | 5,516 | 5,869 |

| | As of or for the year ended December 31, | | |
|---|---|---|---|
| | 1996 | 1997 | 1998 |
| Cellular penetration (%) (2) | | | |
| Fujian | 1.08 | 2.37 | 4.46 |
| Henan | 0.23 | 0.42 | 0.99 |
| Hainan | 0.71 | 1.68 | 2.47 |
| Fixed line penetration (%) (3) | | | |
| Fujian | 6.72 | 8.70 | 10.53 |
| Henan | 2.24 | 3.16 | 4.75 |
| Hainan | 4.63 | 5.21 | 5.76 |

(1) *Source:* China Statistical Bureau.

(2) *Source:* Calculated based on total number of subscribers estimated by CTHK.

(3) *Source:* MII.

### *Subscribers and Usage*

The Target Companies had a total of approximately 3.4 million cellular subscribers as of June 30, 1999. The following table sets out selected historical information about the cellular subscriber base of the Target Companies for the periods indicated:

| | As of or for the year ended December 31, | | | As of or for the six months ended June 30, |
|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 |
| Subscribers (in thousands) | | | | |
| Fujian | 352 | 754 | 1,425 | 1,879 |
| Henan | 212 | 389 | 925 | 1,330 |
| Hainan | 52 | 122 | 175 | 204 |
| Total | 616 | 1,265 | 2,525 | 3,414 |
| Average churn rate (%) (1) | | | | |
| Fujian | 1.14 | 1.74 | 1.67 | 1.01 |
| Henan | 9.74 | 13.02 | 16.94 | 3.66 |
| Hainan | 2.74 | 10.27 | 11.53 | 10.26 |
| Market share (%) (2) | | | | |
| Fujian | 99.7 | 96.9 | 96.9 | 96.3 |
| Henan | 100.0 | 100.0 | 100.0 | 99.96 |
| Hainan | 100.0 | 97.6 | 94.1 | 91.7 |

(1) Measures the rate of subscriber disconnections from cellular telephone service, determined by dividing the sum of voluntary and involuntary deactivations (excluding deactivations due to subscribers switching from the Target Companies' TACS networks to their GSM networks) during a period by the average of the numbers of subscribers at the beginning and end of the period for 1996, 1997 and 1998, and by the weighted average number of subscribers for the six months ended June 30, 1999.

(2) *Source:* Calculated based on total number of subscribers estimated by CTHK.

The average usage and revenue per subscriber for the Target Companies have declined over the last few years as cellular penetration and the number of low usage subscribers have increased. Notwithstanding these declines, total minutes of usage and operating revenue increased significantly from 1996 to 1998.

The following table sets forth selected historical information about cellular subscriber usage for the Target Companies for the periods indicated:

| | Year ended December 31, 1996 | 1997 | 1998 | Six months ended June 30, 1999 |
|---|---|---|---|---|
| Minutes of usage (in billions) | | | | |
| Fujian | 2.0 | 3.4 | 5.5 | 3.7 |
| Henan | 1.0 | 1.9 | 3.5 | 2.2 |
| Hainan | 0.4 | 0.6 | 0.9 | 0.5 |
| Average minutes of usage per subscriber per month(1) | | | | |
| Fujian | 646 | 516 | 421 | 378 |
| Henan | 479 | 517 | 439 | 326 |
| Hainan | 722 | 578 | 522 | 427 |
| Average revenue per subscriber per month (RMB)(2) | | | | |
| Fujian | 550 | 431 | 313 | 256 |
| Henan | 411 | 392 | 296 | 252 |
| Hainan | 596 | 438 | 318 | 293 |

(1) Calculated by (i) dividing the total minutes of usage during the relevant period by the average number of subscribers during the period (calculated as the average of the numbers of subscribers at the beginning and end of the period for each of 1996, 1997 and 1998, and as the weighted average number of subscribers for the six months ended June 30, 1999) and (ii) dividing the result by the number of months in the period.

(2) Calculated by (i) dividing the operating revenue during the relevant period by the average number of subscribers during the period (calculated as the average of the numbers of subscribers at the beginning and end of the period for each of 1996, 1997 and 1998, and as the weighted average number of subscribers for the six months ended June 30, 1999) and (ii) dividing the result by the number of months in the period.

***Tariffs***

As with subscribers of the Group's existing networks, on initial subscription, new subscribers of the Target Companies are charged a one-time 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 domestic and international long distance charges. For calls made or received by subscribers who are roaming outside of their registered home location, subscribers incur a roaming charge, plus applicable domestic and international long distance charges. Subscribers may also be charged fees for value added services and pay various local surcharges. The following table summarises some of the current charges of the Target Companies for cellular services:

| | Fujian (RMB) | Henan (RMB) | Hainan (RMB) |
|---|---|---|---|
| Connection fee(1) | up to 700 | up to 1,500 | up to 800 |
| Monthly fee(2) | 50 | 60 | 50 |
| Usage charge(3) | 0.40 | 0.48 | 0.40 |
| Domestic roaming charge(4) | 0.60 | 0.72 | 0.60 |

(1) The Target Companies offer different service packages which have different connection fee rates. From time to time and across different regions, the Target Companies may also offer promotional connection fee rates in order to best target the subscriber base in the local markets, which could be substantially lower than the upper limit indicated.

(2) Henan Mobile's monthly charge contains an additional 20% surcharge. Different monthly fees may be charged for different service packages which offer more limited functions. For example, Fujian Mobile's ''Ba Min Tong'' GSM package, which does not include domestic and international roaming and international long distance calls, charges a RMB 10.00 monthly fee.

(3) Henan Mobile's usage charge includes an additional 20% surcharge. Some packages have different usage charges for incoming calls.

(4) Hanan Mobile's roaming charge includes an additional 20% surcharge.

The rates on the different service packages and on occasional promotional packages are subject to governmental approval or ratification. Failure to obtain the relevant approval or ratification may affect their ability to offer these packages or rates to subscribers.

Like the Group's existing networks and other cellular operators in mainland China, the tariffs of the Target Companies are subject to regulation by various government authorities, including the MII, the SDPC and the relevant provincial price regulatory authorities and PTAs.

Connection fees in Fujian, Henan and Hainan have been substantially reduced in the past three years, accompanying a reduction in the guidance prices for connection fees over that period as cellular operations in these provinces developed. However, the Group believes that while connection fee reductions may reduce revenue in the short term, they may help to expand the subscriber base of the Target Companies and result in increased total subscriber usage, thereby contributing to revenue growth in the long term.

***Interconnection***

As with the Group's existing networks, the networks of each of Fujian Mobile, Henan Mobile and Hainan Mobile interconnect with the China Telecom system's fixed line network and other networks of China Mobile. A majority of all calls on the networks of the Target Companies involve interconnection with the fixed line network, including certain calls made between cellular subscribers of the Target Companies and other cellular operators.

Each of Fujian Mobile, Henan Mobile and Hainan Mobile has entered into an interconnection agreement dated August 30, 1999, August 20, 1999 and August 20, 1999, respectively, with the relevant provincial PTA. Prior to these agreements, no formal interconnection arrangements existed for the networks of the Target Companies (other than certain interconnection arrangements of certain cities under Fujian Mobile and Hainan Mobile). These interconnection agreements provide for similar interconnection arrangements as those for the Group's existing networks. These arrangements are described in the section headed ''Letter from the Chairman'' under the paragraph headed ''Connected Transactions''.

The Company has, subject to regulatory and Independent Shareholders' approvals, entered into an agreement with China Mobile which provides for arrangements on inter-provincial interconnection. This Agreement covers the existing subsidiaries of the Company and will extend to the Target Companies following the Acquisition.

***Roaming***

Each of Fujian Mobile, Henan Mobile and Hainan Mobile offers roaming services to its subscribers. Both GSM and TACS networks of each Target Company offer roaming services throughout mainland China. The Target Group's GSM networks offer international roaming in 44 countries and regions around the world. The scope of international roaming is determined by applicable agreements between China Mobile, on behalf of the Target Companies and other cellular service providers under its control, and international cellular operators.

The Company has, conditional on Hong Kong regulatory and Independent Shareholders' approvals, entered into an agreement with China Mobile relating to domestic and international roaming. This Agreement covers the existing subsidiaries of the Company and will extend to the Target Companies following the Acquisition.

A cellular telephone customer using roaming services is charged at the roaming usage rate for both incoming and outgoing calls, plus applicable long distance charges.

The operator of the roaming caller's home location network will charge the roaming caller RMB 0.60 per minute and pay RMB 0.48 to the operator of the visitor location network and RMB 0.12 per minute will be kept by the caller's home location network operator. When a cellular subscriber roams using inter-province signalling lines owned and leased by China Mobile, both the operator of the visitor location network and the caller's home location network operator shall pay RMB 0.04 to China Mobile.

With respect to roaming in Hong Kong, Taiwan and Macau and international locations, the Group shares roaming revenues with other cellular operators in accordance with the applicable roaming agreements between China Mobile and those operators. The Group and the Target Companies settle all payments and revenue relating to roaming through China Mobile.

***Value Added Services***

Each of the Target Companies offers a number of optional value added services to their subscribers. These services include call forwarding, call waiting, conference calling, call limitation, voicemail and short message services. Each of the Target Companies has also introduced pre-paid SIM cards (including fixed value and rechargeable stored value SIM cards) and public mobile phone cards for the convenience of their customers.

***Customer Service, Billing and Information Systems***

The after-sales customer support service centres of Fujian Mobile, Henan Mobile and Hainan Mobile include 24-hour service hotlines in their service areas, which provide customers with billing and service information, as well as receive customer reports of service problems.

Pursuant to applicable regulations, the Target Companies do not require subscribers to pay any deposit before the initiation of local cellular services.

Each Target Company has implemented subscriber registration procedures, such as identity checking for individual customers and background checking for corporate customers, to assist in credit control. Provision for doubtful accounts for Fujian Mobile, Henan Mobile and Hainan Mobile represented 4.04%, 6.52% and 8.34%, respectively, of operating revenue in 1998 and 3.13%, 5.14% and 4.42%, respectively, of operating revenue in the six months ended June 30, 1999.

Currently, each of Fujian Mobile, Henan Mobile and Hainan Mobile maintains computerised information systems to compile billing and subscriber registration information, and to monitor subscriber satisfaction to assist in developing marketing strategies and improving operating efficiency.

### *Service Distribution and Marketing*

The Target Companies market their cellular services through a wide network of authorised dealers and through their own retail outlets. As of June 30, 1999, the Target Companies had 1,687 authorized dealers and owned and operated 280 retail outlets as set forth in the following table.

| | Fujian | Henan | Hainan |
|---|---|---|---|
| Authorised dealers | 941 | 576 | 170 |
| Retail outlets | 33 | 246 | 1 |
| Total | 974 | 822 | 171 |

As part of the restructuring effected in connection with the Acquisition, each of Fujian Mobile, Henan Mobile and Hainan Mobile has entered into an agency agreement dated August 30, 1999, August 20, 1999 and August 20, 1999, respectively, with the relevant provincial PTA to market its cellular services through the relevant PTA's outlets in Fujian, Henan and Hainan, respectively. In addition to marketing network services for the Target Companies, the relevant PTAs and dealers also perform services for the Target Companies such as payment collection. The authorised dealers market and sell cellular 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 Group has historically marketed its services under its ''China Telecom'' name and logo. The DGT is the owner of the ''China Telecom'' logo. Pursuant to a non-exclusive licence agreement entered into between the DGT and the Company in September 1997, as supplemented, the Company has obtained the right to use the ''China Telecom'' trademark in Guangdong, Zhejiang and Jiangsu provinces. Pursuant to a supplemental agreement entered into between the DGT and the Company on October 8, 1999, the DGT has, subject to Hong Kong regulatory and Independent Shareholders' approvals, extended to the Company, upon completion of the Acquisition, the right of use of the trademark by the Target Companies for the same term as the original licence agreement.

The Company has, conditional upon Hong Kong regulatory and Independent Shareholders' approvals, entered into a licensing agreement with China Mobile for the use of the ''China Mobile'' name and logo in the provinces of the Group's existing operations. Under the agreement, the Group will also be able to market its services under the name and logo in Fujian, Henan and Hainan after the Acquisition.

In connection with the restructuring of the telecommunications industry in the PRC, China Mobile was established to hold the mobile telecommunications assets resulting from the separation of the telecommunications businesses previously operated by the MII, and to operate mobile telecommunications networks nationwide. China Mobile will launch a nationwide re-branding campaign from the ''China Telecom'' name to ''China Mobile''. The Group intends to start marketing its services under the ''China Mobile'' brand name in all its markets, including the markets of the Target Companies at an appropriate time following the Acquisition.

### *Cellular Networks*

Fujian Mobile, Henan Mobile and Hainan Mobile commenced offering cellular telephone services with the establishment of TACS networks in their provinces in May 1991, August 1991 and March 1992, respectively, and launched their GSM cellular networks in their respective provinces in November 1995, April 1996 and May 1995, respectively.

The following table sets out certain selected information regarding the GSM and TACS networks for each of the Target Companies as of June 30, 1999:

| | As of June 30, 1999 | | |
|---|---|---|---|
| | Fujian | Henan | Hainan |
| Subscribers (in thousands) | | | |
| GSM | 1,640 | 1,108 | 176 |
| TACS | 239 | 223 | 29 |
| Total | 1,879 | 1,330 | 204 |
| Standard network capacity (in thousands)(1) | | | |
| GSM | 2,028 | 1,309 | 249 |
| TACS | 419 | 342 | 31 |
| Total | 2,446 | 1,651 | 280 |
| Mobile switching centres | | | |
| GSM | 24 | 23 | 3 |
| TACS | 10 | 6 | 2 |
| Total | 34 | 29 | 5 |
| Base station controllers(2) | | | |
| GSM | 98 | 47 | 16 |
| Base transceiver stations | | | |
| GSM | 2,228 | 1,436 | 167 |
| TACS | 640 | 200 | 43 |
| Total | 2,868 | 1,636 | 210 |

(1) The number of subscribers that a network can adequately support at any given time varies according to the level of network traffic. The standard network capacity, which is for statistical convenience, is based on the reporting standard stipulated by the MII. It assumes each installed voice channel can support voice traffic of 20 subscribers. The actual number of subscribers a network can adequately support at any given time may differ substantially from this standard capacity without materially affecting service quality.

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

Each of Fujian Mobile, Henan Mobile and Hainan Mobile has entered into two agreements dated August 30, 1999, August 20, 1999 and August 20, 1999, respectively, in relation to the leasing of local and long distance transmission lines with the relevant provincial PTA, with retroactive effect from April 1, 1999. Lease payments under these agreements are based on tariff schedules stipulated by the relevant government authorities from time to time. The agreements provide for a 30% discount from the standard tariff rates from April 1, 1999 until such time as the new tariff rates may be implemented, after which the parties expect to negotiate a new discount rate.

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

### *Network Capacity Expansion Plans*

Since their networks began operation, the Target Companies have reached a network capacity of approximately 2.4 million, 1.7 million, and 0.3 million subscribers for Fujian, Henan and Hainan, respectively, as of June 30, 1999. Each of the Target Companies intends to continue its network development, with an emphasis on increasing the coverage and capacity of its GSM networks, mainly through installation of more base stations, and optimising the operating efficiency of its GSM and TACS networks. Depending on capacity requirements, each Target Company has introduced, or plans to introduce, GSM-compatible DCS 1800 systems in selected high traffic areas.

As set out in the following table, Fujian Mobile, Henan Mobile and Hainan Mobile plan to invest approximately RMB 10.1 billion (equivalent to approximately HK$9.5 billion), RMB 11.9 billion (equivalent to approximately HK$11.2 billion) and RMB 0.6 billion (equivalent to approximately HK$0.6 billion), respectively, between the years 1999 and 2001 to improve the quality of their existing networks and to expand their capacity. The actual rate of network expansion, however, will depend upon the rate of increase in subscriber demand and financing resources.

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| | (RMB in millions) | | |
| Fujian | 3,000 | 3,720 | 3,400 |
| Henan | 2,800 | 4,500 | 4,600 |
| Hainan | 77 | 290 | 258 |
| Total | 5,877 | 8,510 | 8,258 |

If the Acquisition is completed, the Group intends to fund the capital expenditures of the Target Companies through cash flow from operations and external financing.

***Spectrum***

Since March 1998, the MII has assumed all the government functions of the former State Radio Regulatory Commission. In coordination with the relevant provincial authorities, the MII allocates frequency, including the 900 MHz and the 1800 MHz frequency bands (which are reserved for cellular mobile applications). In accordance with a joint circular from the SDPC and the Ministry of Finance, China Mobile determines the amount of fees to be paid to the MII for spectrum usage by each cellular network operator under its control based on 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 the PRC shall equal RMB 1.0 million per MHz of frequency allocated by the MII.

Fujian Mobile, Henan Mobile and Hainan Mobile have each been approved by the MII to use 19 MHz of spectrum in the 900 MHz frequency band for an indefinite term in their respective provinces and, in addition, 5 MHz of spectrum in the 900 MHz frequency band until 2005. Each of the Target Companies may adjust its current spectrum allocation between its GSM and TACS networks by reallocating spectrum from TACS networks to GSM networks to satisfy anticipated capacity requirements.

Fujian Mobile has obtained permission to use 10 MHz of spectrum in the 1800 MHz frequency band for an indefinite term in Fujian. Fujian Mobile has used this spectrum to introduce GSM-compatible DCS 1800 systems to expand the capacity of its GSM networks by adding cell sites in selected high traffic areas. Henan Mobile and Hainan Mobile expect that they will be given a similar permission if required.

***Competition***

Fujian Mobile, Henan Mobile and Hainan Mobile were the only providers of commercial cellular network services in their respective provinces until Unicom commenced operation of its GSM cellular networks in these provinces in October 1996, May 1999 and August 1997, respectively. As of June 30, 1999, Fujian Mobile, Henan Mobile and Hainan Mobile had estimated market shares in their provinces of 96.3%, 99.96% and 91.7%, respectively. The Target Companies are facing increasing competition from Unicom in these provinces. However, given the relatively low cellular penetration rates in these provinces, the Group believes that there is substantial growth potential for cellular services in general in these markets. In addition, the Group believes that the Target Companies have a significant competitive advantage due to their wider network coverage, high network performance standards, greater roaming capabilities, wide range of value added service features offered, and their relationship with China Mobile and the China Telecom system.

***Employees***

The following table sets out information regarding employees of the Target Companies as of June 30, 1999.

| | Fujian | Henan | Hainan |
|---|---|---|---|
| Management | 581 | 518 | 76 |
| Technical and engineering | 1,223 | 1,250 | 236 |
| Sales and marketing | 1,118 | 1,179 | 223 |
| Financial and accounting | 183 | 155 | 23 |
| Total | 3,105 | 3,102 | 558 |

***Properties***

Fujian Mobile, Henan Mobile and Hainan Mobile together own 15 properties, comprising 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 appointed by the Company, has valued Fujian Mobile, Henan Mobile and Hainan Mobile's interest in these properties as of July 31, 1999 at RMB 175.2 million (equivalent to approximately HK$164.2 million). Of the 15 owned properties, the relevant Target Company has obtained both land use right certificates and building ownership certificates (or the composite real estate title certificates) in respect of 11 owned properties. The relevant Target Company has obtained a land use right certificate in respect of one additional owned property. The Target Companies are in the process of obtaining land use right certificates and building ownership certificates for these three properties, which have been valued by Chesterton Petty at RMB 60,650,000. Appropriate adjustments have been made to the accounts of the Target Group to reflect the valuation surplus. The Company has obtained a legal opinion from its Chinese counsel dated October 10, 1999 on the title of these properties. Fujian Mobile, Henan Mobile and Hainan Mobile also collectively lease from the provincial PTAs and Receiving Companies some 1,633 offices, administrative centres, retail outlets and technical facilities. In addition, the Target Companies lease from other subsidiaries of China Mobile or otherwise has the right to use various properties for cell sites and switching equipment. These subsidiaries of China Mobile are in the process of obtaining land use right certificates and property title certificates for these properties.

***Legal Proceedings***

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

***Year 2000 Readiness Disclosure***

Similar to the Group's progress on the Year 2000 compliance, each Target Company has finished assessment of all material computer systems, equipment and other electronic devices for Year 2000 compliance and completed all planned testing and the relevant remedial and upgrading work. Emergency procedures have been formulated and are being improved to prepare for any system failures which may be caused by the Year 2000 issue.

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 X, a copy of the Accountants' Report is available for inspection.

KPMG

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

October 16, 1999

The Directors
China Telecom (Hong Kong) Limited
16/F Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

We set out below our report on the combined financial information relating to Fujian Mobile Communication Company Limited (''Fujian Mobile''), Henan Mobile Communication Company Limited (''Henan Mobile'') and Hainan Mobile Communication Company Limited (''Hainan Mobile'') for each of the three years ended December 31, 1998 and the six months ended June 30, 1999 (the ''relevant period'') for inclusion in the shareholders' circular of China Telecom (Hong Kong) Limited (''the Company'') dated October 16, 1999 (the ''circular'').

Fujian Mobile, Henan Mobile and Hainan Mobile are principally engaged in the provision of cellular telephone and related services in Fujian, Henan and Hainan provinces of the People's Republic of China (''PRC'') respectively and markets their services under the ''CHINA TELECOM'' logo, which is a registered trademark owned by the Directorate General of Telecommunications (the ''DGT''), a state-owned enterprise under the control of the PRC Ministry of Information Industry (''MII'').

Fujian Mobile, Henan Mobile and Hainan Mobile were incorporated in the PRC on September 7, 1999, August 6, 1999 and August 19, 1999, respectively. References to the ''Target Group'' are to these companies which have been formed to hold the cellular service operations in Fujian, Henan and Hainan provinces or in respect of references to any time prior to the incorporation of these companies, the cellular telecommunications businesses in Fujian, Henan and Hainan provinces ultimately acquired by the Company pursuant to the Acquisition.

The cellular service operations in Fujian, Henan and Hainan provinces were operated and controlled by the China Mobile Communications Corporation (''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 Fujian, Henan and Hainan provinces were owned and operated directly by the Fujian PTA, the Henan PTA and the Hainan PTA respectively, and ultimately under the control of the MII.

Prior to the Acquisition, the equity interests of Fujian Mobile, Henan Mobile and Hainan Mobile were transferred to Fujian Mobile (BVI) Limited (''Fujian Mobile BVI''), Henan Mobile (BVI) Limited (''Henan Mobile BVI'') and Hainan Mobile (BVI) Limited (''Hainan 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 Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI. Following the acquisition, Fujian Mobile, Henan Mobile and Hainan Mobile will become wholly foreign-owned enterprises.

No financial statements have been prepared for Fujian Mobile, Henan Mobile and Hainan 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 Fujian, Henan and Hainan provinces now comprising the Target Group for the relevant period to June 30, 1999 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 June 30, 1999.

We have also 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 summaries of the combined results of the Target Group for the relevant period and of the combined net assets of the Target Group as at June 30, 1999 (the ''Summaries''), set out in this report have been prepared based on the audited financial statements of the cellular service operations in Fujian, Henan and Hainan provinces now comprising the Target Group on the basis set out in Section 1 below.

In our opinion, the Summaries set out below together with the notes thereto, for the purpose of this report, and on the basis of presentation set out below, give a true and fair view of the combined results of the Target Group for each of the three years ended December 31, 1998 and the six months ended June 30, 1999 and of the combined net assets of the Target Group as at June 30, 1999 in accordance with the Statements of Standard Accounting Practice (''SSAPs'') issued by the Hong Kong Society of Accountants.

**1. Basis of presentation**

The summary of the combined results of the Target Group for the relevant period has 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 June 30, 1999 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.

All significant intercompany transactions and balances have been eliminated on combination.

## 2. Principal accounting policies

The principal accounting policies adopted by the Target Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are as follows:

### (a) *Associated company*

An associated company is a company, not being a subsidiary, in which the Target Group's interest is for the long term and the Target Group is in a position to exercise significant influence over the company in which the investment is made.

The Target Group's share of the result of its associated company is not included in the combined profit and loss account. Such amount was immaterial for the periods presented. In the combined balance sheet, interest in an associated company is stated at cost less any provisions for permanent diminution in value, if necessary, as determined by the directors.

### (b) *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 details in Note 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 profit and loss account in the period in which it is 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 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 combined 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 combined 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. 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 centers and other network equipment | 7 years | 3% |
| Office equipment, furniture and fixtures and others | 4-18 years | 3% |

### (c) *Leased assets*

Where assets are acquired under finance lease, 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 2(b) above. Finance charges implicit in the lease payments are charged to the combined 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.

### (d) *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.

### (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. 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 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.

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

(v) 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 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 in the combined profit and loss account.

**(j) *Deferred taxation***

Deferred taxation is provided in respect of the tax effect arising from all significant timing differences which are expected with reasonable probability to crystallise in the foreseeable future and is calculated under the liability method. 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 profit and loss account as and when incurred (see Note 3(f)).

**(l) *Operating leases***

Operating lease payments are charged to the combined profit and loss account on a straight-line basis over the periods of the respective leases.

### (m) *Related parties*

For the purposes of these accounts, 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.

## 3. Combined Results

The following is a summary of the combined results of the Target Group for each of the three years ended December 31, 1998 and the six months ended June 30, 1999, prepared on the basis set out in Section 1 above, after making such adjustments as we consider appropriate:

| | Note | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|---|
| | | 1996 | 1997 | 1998 | 1999 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Operating revenue | (a) | | | | |
| Usage fees | | 1,476,416 | 2,722,685 | 4,503,047 | 3,160,460 |
| Monthly fees | | 289,942 | 604,321 | 1,164,562 | 817,041 |
| Connection fees | | 922,128 | 1,229,339 | 1,029,462 | 298,605 |
| Others | | 118,806 | 174,085 | 291,104 | 267,223 |
| Total operating revenue | | 2,807,292 | 4,730,430 | 6,988,175 | 4,543,329 |
| Operating expenses | | | | | |
| Leased lines | | 276,874 | 488,398 | 832,759 | 547,033 |
| Interconnection | | 91,803 | 251,428 | 400,539 | 650,722 |
| Depreciation | | 404,066 | 806,000 | 1,412,211 | 942,192 |
| Personnel | | 40,737 | 68,978 | 120,633 | 78,942 |
| Selling, general and administrative and others | | 508,455 | 1,041,454 | 1,737,556 | 882,089 |
| Total operating expenses | | 1,321,935 | 2,656,258 | 4,503,698 | 3,100,978 |
| Operating profit | | 1,485,357 | 2,074,172 | 2,484,477 | 1,442,351 |
| Other income / (expenses) | | 14,587 | (5,185) | (12,464) | 23,197 |
| Non-operating income / (expenses) | | 7,489 | 22,253 | 6,015 | 15,182 |
| Interest expense | | (120) | (240) | (38,272) | (76,731) |
| Profit before tax | (b) | 1,507,313 | 2,091,000 | 2,439,756 | 1,403,999 |
| Income tax | (c) | (83,916) | (116,618) | (155,062) | (189,468) |
| Net profit | | 1,423,397 | 1,974,382 | 2,284,694 | 1,214,531 |

### (a) *Operating revenue (Turnover)*

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.

**(b) *Profit before tax***

Profit before tax is arrived at

| | Year ended December 31, 1996 RMB'000 | Year ended December 31, 1997 RMB'000 | Year ended December 31, 1998 RMB'000 | Six months ended June 30, 1999 RMB'000 |
|---|---|---|---|---|
| ***after crediting:*** | | | | |
| Interest income on bank deposits | 5,695 | 7,002 | 5,661 | 4,204 |
| Penalty income on overdue accounts | 5,765 | 15,432 | 18,800 | 9,279 |
| Exchange gain, net | — | 486 | — | 960 |
| ***and after charging:*** | | | | |
| Interest on bank advances and other borrowings repayable within five years | 120 | 9,465 | 93,093 | 103,884 |
| Finance charges on obligations under finance lease | — | — | 8,854 | 3,646 |
| Less: Amount capitalised as construction in progress (Note) | — | (9,225) | (63,675) | (30,799) |
| | 120 | 240 | 38,272 | 76,731 |
| Provision for obsolete inventories | 10,306 | 16,648 | 28,235 | 33,997 |
| Operating lease charges in respect of | | | | |
| — Properties | 52,881 | 73,028 | 100,131 | 64,031 |
| — Leased lines | 276,874 | 488,398 | 832,759 | 547,033 |
| Exchange loss, net | 5 | — | 1,108 | — |
| Loss on sale of fixed assets | — | — | 4,184 | 429 |
| Contribution to retirement scheme | 7,510 | 10,248 | 17,230 | 9,538 |
| Provision for doubtful accounts | 141,093 | 241,066 | 364,453 | 180,468 |
| Auditors' remuneration | — | — | — | — |

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

| Year ended December 31, 1996 | Year ended December 31, 1997 | Year ended December 31, 1998 | Six months ended June 30, 1999 |
|---|---|---|---|
| — | 7.20% to 15.00% | 6.39% to 15.00% | 6.12% to 15.00% |

**(c) *Income tax***

Income tax in the summary of combined results represents:

| | Year ended December 31, 1996 RMB'000 | Year ended December 31, 1997 RMB'000 | Year ended December 31, 1998 RMB'000 | Six months ended June 30, 1999 RMB'000 |
|---|---|---|---|---|
| Provision for PRC income tax | 84,848 | 119,665 | 158,460 | 194,628 |
| Deferred tax assets (Note 4(c)) | (932) | (3,047) | (3,398) | (5,160) |
| | 83,916 | 116,618 | 155,062 | 189,468 |

The Target Group is subject to the statutory income tax rate of 33% for each of the years ended December 31, 1996, 1997 and 1998 and for the six months ended June 30, 1999.

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

| | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Expected PRC taxation at statutory tax rates | 497,413 | 690,030 | 805,119 | 463,320 |
| Non-taxable items | | | | |
| — Connection fee | (304,301) | (405,682) | (339,722) | (98,540) |
| — Surcharge | (30,105) | (54,749) | (106,432) | (68,749) |
| Non-deductible expenses | — | — | 2,132 | — |
| Non-recognition of deferred taxes | | | | |
| — Generation of timing differences | (79,765) | (112,215) | (179,255) | (95,697) |
| — Reversal of timing differences | — | (170) | (26,181) | (10,404) |
| Others | 674 | (596) | (599) | (462) |
| Income tax | 83,916 | 116,618 | 155,062 | 189,468 |

In accordance with an approval document issued by the Ministry of Finance, the connection fee revenue and certain surcharge revenue of the Target Companies will be taxable at the income tax rate of 33% when Fujian Mobile, Henan Mobile and Hainan Mobile become wholly foreign-owned enterprises.

**(d)** ***Directors' remuneration***

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

| | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 |
| RMB Nil-RMB1,000,000 | — | — | — | — |

| | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| (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 period.

**(e) *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 December 31, 1996 | 1997 | 1998 | Six months ended June 30, 1999 |
|---|---|---|---|---|
| RMB Nil - RMB1,000,000 | 5 | 5 | 5 | 5 |

| | Year ended December 31, 1996 RMB'000 | 1997 RMB'000 | 1998 RMB'000 | Six months ended June 30, 1999 RMB'000 |
|---|---|---|---|---|
| (ii) Salaries, allowance and benefits in kind | 396 | 438 | 466 | 252 |
| (iii) Retirement benefits | 47 | 63 | 77 | 42 |
| (iv) Bonuses | — | — | — | 40 |

**(f) *Employee and retirement benefits***

The employees of the Target Group participate in a defined benefit retirement plan managed by the MII whereby the Target Group is required to contribute to the scheme at a fixed rate of 19.1% of their 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 the regulation 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. Subsequent to the Acquisition, the Target Group intends to continue with the housing schemes.

The Target Group estimates the total future cost of the subsidy to be provided subsequent to June 30, 1999 to be approximately RMB 204 million. This liability has not been recorded in the accompanying combined financial statements, but will be recognised as an expense over the estimated remaining years of the program. The previous costs incurred by the relevant PTAs for each of three years ended December 31, 1998 and the six months ended June 30, 1999 which have not been charged to the Target Group are RMB 35,693,000, RMB 39,290,000, RMB 72,878,000 and RMB 78,847,000 respectively.

**(g) *Related party transactions***

The following summaries 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, including spectrum allocation. The MII, together with other PRC government entities, also regulates tariff policy, foreign investment and spectrum usage fees. Specifically, the Target Group's tariffs are subject to the regulation by various Government authorities, including the State Development Planning Commission (''SDPC''), the MII, the PTAs and the relevant provincial price regulatory authorities. The 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 relevant PTA in consultation with the relevant provincial price regulatory authorities. In general, the Target 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 between the DGT and other cellular operators. The principal recurring and non-recurring related party transactions, which were entered into with the MII and other entities under the control of the MII, are as follows:

| | | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|---|
| | Note | 1996 | 1997 | 1998 | 1999 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Recurring transactions** | | | | | |
| Interconnection revenue | (i) | 7,568 | 10,227 | 23,487 | 79,475 |
| Interconnection charges | (ii) | 19,484 | 35,628 | 81,851 | 459,074 |
| Leased line charges | (iii) | 276,874 | 488,398 | 832,759 | 547,033 |
| Roaming revenue | (iv) | 61,467 | 142,315 | 232,872 | 159,809 |
| Roaming expenses | (v) | 72,319 | 215,800 | 318,688 | 191,648 |
| Spectrum fees | (vi) | 3,650 | 2,597 | 3,796 | 1,966 |
| Operating lease charges | (vii) | 52,630 | 69,892 | 93,285 | 61,489 |
| Purchase of mobile phones and equipment | | 2,193 | 8,536 | 24,041 | 1,457 |
| Sales commission | (viii) | 6,672 | 24,168 | 23,728 | 19,318 |
| Debt collection service fees | (viii) | — | — | 21,190 | 11,215 |
| Billing service fees | (viii) | — | — | — | 1,743 |
| Interest paid/payable | (ix) | 9 | 109 | 387 | 250 |
| Repairs and maintenance service fee | (x) | — | — | — | 2,053 |

***Notes:***

(i) Interconnection revenue represents the amounts received or receivable from the PTAs in respect of calls made between the TACS / GSM networks and the fixed line network in Fujian, Henan and Hainan. Prior to April 1, 1999, no formal interconnection agreements existed for the networks of the Target Group and therefore no interconnection revenue was recorded by the Target Group, except for Hainan Province and certain cities in Fujian Province. Pursuant to the interconnection agreements, with effect from April 1, 1999, the Target Group records the amounts receivable from the relevant PTAs for inbound calls which originate from the fixed line network and terminate on the Target Group's networks as interconnection revenue.

(ii) Interconnection charges represent the amounts paid or payable to the Fujian PTA, the Henan PTA and the Hainan PTA in respect of calls made between the TACS / GSM networks and the fixed line network in Fujian, Henan and Hainan respectively. Prior to April 1, 1999, no formal interconnection agreements existed for the networks of the Target Group and therefore no interconnection fees were charged to the Target Group, except for Hainan Province and certain cities in Fujian Province. Pursuant to the interconnection agreements, with effect from April 1, 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 as interconnection charges.

(iii) Leased line charges represent expenses paid or payable to the Fujian PTA, the Henan PTA and the Hainan PTA 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 PTAs and international cellular telephone operators through 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 PTAs and international cellular telephone operators for their share of the roaming revenue through the MII.

(vi) Spectrum fees represent the spectrum usage fees paid or payable to the MII through DGT for the usage of the frequency bands allocated to Fujian Mobile, Henan Mobile and Hainan Mobile.

(vii) Operating lease charges represent the rental paid or payable to the Fujian PTA, Henan PTA and the Hainan PTA for operating leases in respect of land and buildings and others.

(viii) With effect from April 1, 1999, for the Fujian PTA and the Hainan PTA, and July 1, 1999, for the Henan PTA, the Target Group entered into certain services agreements in respect of marketing services with authorised dealers, debt collection services and billing services. Sales commission represents the amounts paid or payable to the respective PTA for their marketing of the cellular services in Fujian and Hainan, respectively.

Debt collection service fees represent the amounts paid or payable to the Fujian PTA and the Hainan PTA for their provision of debt collection services to Fujian Mobile and Hainan Mobile, respectively.

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

(ix) Interest paid/payable represents the interest incurred on loans borrowed from Henan PTA.

(x) Repairs and maintenance service fee represent expenses paid or payable by Fujian Mobile to the Fujian PTA for repair and maintenance services rendered on base stations and properties of Fujian Mobile.

The directors of Fujian Mobile, Henan Mobile and Hainan 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, except for (a) roaming, certain interconnection and spectrum usage transactions which have been entered into between the Target Group and China Mobile in accordance with the terms as stipulated in the umbrella agreement signed between the Company and China Mobile on October 8, 1999, and (b) certain operating lease agreements which will be entered into between the Target Group and China Mobile and its subsidiaries.

| | Note | Year ended December 31, 1996 | 1997 | 1998 | Six months ended June 30, 1999 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Non-recurring transactions** | | | | | |
| Capital contributions | (i) | 543,809 | 1,871,065 | 207,316 | 351,256 |
| Distributions | (ii) | — | 16,222 | 1,528,109 | 1,335,523 |

***Notes:***

(i) Capital contributions represent capital contributions in the form of cash received from the Fujian PTA, the Henan PTA and the Hainan PTA, respectively.

(ii) Distributions represent cash payments by the Target Group to the Fujian PTA and the Hainan PTA.

**(h) *Reserves***

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

| | Year ended December 31, 1996 | 1997 | 1998 | Six months ended June 30, 1999 |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| (i) Revaluation reserves | | | | |
| Balance brought forward | — | — | — | — |
| Revaluation surplus | — | — | — | 391,629 |
| Balance carried forward | — | — | — | 391,629 |
| (ii) Retained profits | | | | |
| Balance brought forward | 1,617,143 | 3,040,540 | 4,998,700 | 5,755,285 |
| Transfer from combined profit and loss account | 1,423,397 | 1,974,382 | 2,284,694 | 1,214,531 |
| Distribution to owner | — | (16,222) | (1,528,109) | (1,335,523) |
| Balance carried forward | 3,040,540 | 4,998,700 | 5,755,285 | 5,634,293 |

**(i) *Dividends***

No dividends have been declared or paid by Fujian Mobile, Henan Mobile and Hainan Mobile, respectively, since their incorporation.

**4. Net assets**

The following is a summary of the combined net assets of the Target Group as at June 30, 1999, prepared on the basis set out in Section 1 above and after making such adjustments as we considered appropriate.

| | Note | RMB'000 |
|---|---|---|
| **Assets** | | |
| Fixed assets | (a) | 10,684,361 |
| Construction in progress | | 1,724,792 |
| Interest in an associated company | (b) | 15,730 |
| Deferred tax assets | (c) | 13,235 |
| Current assets | | |
| Inventories | | 90,770 |
| Amounts due from related parties | (d) | 1,470,162 |
| Accounts receivable | | 932,658 |
| Other receivables | | 93,138 |
| Prepaid expenses and other current assets | | 11,337 |
| Cash and bank balances | | 1,623,993 |
| Total current assets | | 4,222,058 |
| **Total assets** | | 16,660,176 |
| **Liabilities** | | |
| Current liabilities | | |
| Bank and other loans | (e) | 1,857,426 |
| Current instalments of obligations under finance lease | (g) | 68,105 |
| Amounts due to related parties | (f) | 959,634 |
| Accounts payable | | 1,509,625 |
| Accrued expenses and other payables | | 695,456 |
| Taxation | | 124,644 |
| Total current liabilities | | 5,214,890 |
| Bank and other loans | (e) | 1,780,250 |
| Obligations under finance lease, excluding current instalments | (g) | 141,100 |
| **Total liabilities** | | 7,136,240 |
| **Net assets** | | 9,523,936 |

***Notes:***

**(a)** ***Fixed assets***

| | At valuation |
|---|---|
| | RMB'000 |
| Land use rights and buildings | 158,822 |
| Telecommunication transceivers, switching centers and other network equipment | 10,322,386 |
| Office equipment, furniture and fixtures and others | 203,153 |
| | 10,684,361 |

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

| | RMB'000 |
|---|---|
| Long leases | 1,764 |
| Medium-term leases | 25,639 |

All of the Target Group's buildings are located in the PRC.

In connection with the Acquisition and pursuant to an approval document dated September 27, 1999 issued by the Ministry of Finance, the fixed assets of the Target Group as at June 30, 1999 were valued by China International Engineering Consulting Corporation (''CIECC'') on a depreciated replacement cost basis. The value of fixed assets of the Target Group has been determined at RMB 10,684,361,000. The surplus on revaluation of approximately RMB 391,629,000 has been incorporated in the combined net assets of the Target Group as at June 30, 1999.

The Target Group's land and buildings were also valued separately by Chesterton Petty Limited as at June 30, 1999, independent qualified valuers in Hong Kong. The value of such report has been determined at approximately the same amount as the CIECC report.

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 71,722,000 for future years commencing in 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 June 30, 1999 would have been RMB 10,292,732,000, made up as follows:

| | Net book value |
|---|---|
| | RMB'000 |
| Land use rights and buildings | 152,133 |
| Telecommunication transceivers, switching centers and other network equipment | 9,931,129 |
| Office equipment, furniture and fixtures and others | 209,470 |
| | 10,292,732 |

The net book value of fixed assets includes an amount of RMB 244,815,000 in respect of telecommunication equipment held under finance lease.

**(b) Interest in an associated company**

| | June 30, 1999 |
|---|---|
| | RMB'000 |
| Capital contribution, at cost | 15,730 |

Details of the associated company are as follows:

| Name of company | Place of incorporation | Attributable Interest held by The Target Group | Principal Activities |
|---|---|---|---|
| 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. |

**(c) Deferred tax assets**

Deferred tax assets provided for consist of provision for obsolete inventories as follows:

| | RMB'000 |
|---|---|
| Balance at January 1, 1999 | 8,075 |
| Transferred from combined profit and loss account (Note 3(c)) | 5,160 |
| Balance at June 30, 1999 | 13,235 |

Deferred tax asset not provided for is as follows:

| | June 30, 1999 RMB'000 |
|---|---|
| Provision for doubtful accounts | 279,521 |

As described in Note 4(a), in connection with the Acquisition, the fixed assets of Fujian Mobile, Henan Mobile and Hainan Mobile have been revalued at June 30, 1999. As a result of such valuation, the fixed assets basis differences that gave rise to the potential deferred tax liabilities were eliminated (RMB 824,715,000 in total as at June 30, 1999).

**(d) Amounts due from related parties**

Amounts due from related parties are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business (see Note 3(g)).

**(e) Bank and other loans**

***(1) Short-term***

| | June 30, 1999 RMB'000 |
|---|---|
| Bank loans | 1,851,767 |
| Loans from related parties | 5,659 |
| | 1,857,426 |

As at June 30, 1999, certain short term loans were guaranteed by the following parties:

| | RMB'000 |
|---|---|
| Fujian PTA | 648,000 |
| Hebei PTA | 600,000 |
| Henan PTA | 38,500 |
| | 1,286,500 |

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 4.4% to 15% at June 30, 1999. The Target Group's weighted average interest rate on short-term loans was 6.8% at June 30, 1999.

***(2) Long-term***

Details of interest rates and maturity dates of long-term bank loans as at June 30, 1999 are as follows:

| | Interest rate and final maturity | RMB'000 |
|---|---|---|
| **Renminbi denominated bank loans:** | | |
| For construction of telecommunications network | Floating interest rates ranging from 6.66% to 9% per annum as at June 30, 1999 with maturity through 2001(i) | 1,330,250 |
| For construction of telecommunications network | Fixed interest of 7.56% to 9.16% per annum with maturity through 2002(ii) | 450,000 |
| Total long-term loans | | 1,780,250 |

(i) As at June 30, 1999, a long term loan amounted to RMB177,000,000 was guaranteed by Fujian PTA.
(ii) Guaranteed by Hebei PTA.

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

| | Bank loans RMB'000 |
|---|---|
| Balance due: | |
| On demand or within one year | — |
| In the second year | 940,250 |
| After two years but within five years | 840,000 |
| | 1,780,250 |

**(f) Amounts due to related parties**

Amounts due to related parties are unsecured, non-interest bearing and repayable on demand and arose in the ordinary course of business (See Note 3(g)).

**(g) Obligations under finance lease**

As at June 30, 1999, the Target Group had obligations under finance lease repayable as follows:

| | June 30, 1999 |
|---|---|
| | RMB'000 |
| Within one year | 74,680 |
| In the second year | 75,753 |
| After two years but within five years | 71,914 |
| | 222,347 |
| Less: Finance charges relating to future periods | (13,142) |
| | 209,205 |
| Less: Current instalments of obligations under finance lease | (68,105) |
| | 141,100 |

**(h) Distributable reserve**

As at June 30, 1999, Fujian Mobile, Henan Mobile and Hainan Mobile had not been incorporated and hence there was no reserve available for distribution.

**(i) Operating lease commitments**

As at June 30, 1999, the Target Group had commitments under operating leases to make payments in the following year as follows:

| | Land and buildings | Telecommunications leased lines |
|---|---|---|
| | RMB'000 | RMB'000 |
| Leases expiring in: | | |
| July to December 31, 1999 | 82,525 | 493,029 |
| 2000 | 4,675 | 56,275 |
| 2001 | 36 | — |
| 2002 | 186 | — |
| 2003 | 196 | — |
| 2004 | — | — |
| Thereafter | 625 | — |
| | 88,243 | 549,304 |

**(j) Capital commitments**

As at June 30, 1999, the Target Group had capital commitments as follows:

| | Land and buildings | Telecommunications equipment | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Authorised and contracted for | 46,570 | 4,719,979 | 4,766,549 |
| Authorised but not contracted for | 172,115 | 165,791 | 337,906 |
| | 218,685 | 4,885,770 | 5,104,455 |

**5. Ultimate holding company**

Following the Acquisition, the directors consider the ultimate holding company of Fujian Mobile, Henan Mobile and Hainan Mobile to be China Mobile Communications Corporation, incorporated in the PRC.

**6. Subsequent events**

There was no material event occurred to the Target Group subsequent to June 30, 1999.

**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 December 31, 1999 is approximately RMB 1,048,000.

**8. Subsequent financial statements**

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to June 30, 1999.

KPMG

Certified Public Accountants
Hong Kong, China

The information set out in this Appendix does not form part of the 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 Company's prospectus for the equity 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 Balance Sheets

| | December 31, | | |
|---|---|---|---|
| | 1997 | 1998 | June 30, 1999 |
| | RMB'000 | RMB'000 | RMB'000 |
| **Assets** | | | |
| Fixed assets | 6,264,889 | 10,413,383 | 10,684,361 |
| Construction in progress | 1,657,585 | 387,844 | 1,724,792 |
| Interest in an associated company | — | 15,730 | 15,730 |
| Deferred tax assets | 4,677 | 8,075 | 13,235 |
| Current assets | | | |
| Inventories | 63,882 | 97,252 | 90,770 |
| Amounts due from related parties | 760,744 | 1,449,237 | 1,470,162 |
| Accounts receivable | 522,046 | 818,467 | 932,658 |
| Other receivables | 71,822 | 82,199 | 93,138 |
| Prepaid expenses and other current assets | 21,143 | 35,285 | 11,337 |
| Cash and bank balances | 198,779 | 201,752 | 1,623,993 |
| Total current assets | 1,638,416 | 2,684,192 | 4,222,058 |
| **Total assets** | 9,565,567 | 13,509,224 | 16,660,176 |
| **Liabilities and owner's equity** | | | |
| Current liabilities | | | |
| Bank and other loans | 40,660 | 1,386,525 | 1,857,426 |
| Current instalments of obligations under finance lease | — | 62,823 | 68,105 |
| Amounts due to related parties | 529,430 | 546,464 | 959,634 |
| Accounts payable | 762,223 | 657,033 | 1,509,625 |
| Accrued expenses and other payables | 264,122 | 473,971 | 695,456 |
| Taxation | — | — | 124,644 |
| Total current liabilities | 1,596,435 | 3,126,816 | 5,214,890 |
| Bank and other loans | 30,990 | 1,303,250 | 1,780,250 |
| Obligations under finance lease, excluding current instalments | — | 177,115 | 141,100 |
| **Total liabilities** | 1,627,425 | 4,607,181 | 7,136,240 |
| **Owner's equity** | 7,938,142 | 8,902,043 | 9,523,936 |
| **Total liabilities and owner's equity** | 9,565,567 | 13,509,224 | 16,660,176 |

## Combined Statements of Cash Flows

| | Note | Year ended December 31, 1996 | 1997 | 1998 | Six months ended June 30, 1999 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Net cash inflows from operating activities** | (a) | 1,617,511 | 2,906,551 | 3,088,088 | 3,418,279 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received | | 5,695 | 7,002 | 5,661 | 4,204 |
| Interest paid | | (120) | (9,465) | (93,093) | (103,884) |
| Interest element of finance lease | | — | — | (4,822) | (4,242) |
| Distribution to owner | | — | (16,222) | (1,528,109) | (1,335,523) |
| **Net cash inflow/(outflow) from returns on investments and servicing of finance** | | 5,575 | (18,685) | (1,620,363) | (1,439,445) |
| **Taxation** | | | | | |
| PRC income tax paid | | (84,848) | (119,665) | (158,460) | (69,984) |
| **Tax paid** | | (84,848) | (119,665) | (158,460) | (69,984) |
| **Investing activities** | | | | | |
| Capital expenditures | | (1,989,123) | (4,690,978) | (4,102,464) | (1,759,180) |
| Proceeds from sale of fixed assets | | — | 4,162 | 992 | 4,147 |
| **Net cash outflow from investing activities** | | (1,989,123) | (4,686,816) | (4,101,472) | (1,755,033) |
| **Net cash (outflow)/inflow before financing activities** | | (450,885) | (1,918,615) | (2,792,207) | 153,817 |
| **Financing activities** | | | | | |
| Repayment of principal under finance lease | (b) | — | — | (30,261) | (30,733) |
| Proceeds from bank and other loans | (b) | 30,990 | 40,660 | 2,649,425 | 1,462,038 |
| Repayments of bank and other loans | (b) | — | — | (31,300) | (514,137) |
| Proceeds from capital contribution | | 543,809 | 1,871,065 | 207,316 | 351,256 |
| **Net cash inflow from financing activities** | | 574,799 | 1,911,725 | 2,795,180 | 1,268,424 |
| **Increase/(decrease) in cash and cash equivalents** | | 123,914 | (6,890) | 2,973 | 1,422,241 |
| **Cash and cash equivalents at beginning of year/period** | | 81,755 | 205,669 | 198,779 | 201,752 |
| **Cash and cash equivalents at end of year/period** | | 205,669 | 198,779 | 201,752 | 1,623,993 |
| **Analysis of the balances of cash and cash equivalents** | | | | | |
| Cash and bank balances | | 205,669 | 198,779 | 201,752 | 1,623,993 |

**Notes to Combined Statements of Cash Flows**

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

| | Year ended December 31, | | | Six months ended June 30, |
|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Profit before tax | 1,507,313 | 2,091,000 | 2,439,756 | 1,403,999 |
| Depreciation of fixed assets | 404,066 | 806,000 | 1,412,211 | 942,192 |
| Provision for doubtful accounts | 141,093 | 241,066 | 364,453 | 180,468 |
| Loss on sale of fixed assets | — | — | 4,184 | 429 |
| Interest income | (5,695) | (7,002) | (5,661) | (4,204) |
| Interest expense | 120 | 240 | 38,272 | 76,731 |
| Increase in accounts receivable | (305,870) | (453,223) | (660,874) | (294,659) |
| Decrease/(increase) in other receivables | 55,554 | (46,611) | (10,377) | (10,939) |
| (Increase)/decrease in inventories | (25,827) | (7,581) | (33,370) | 6,482 |
| Decrease/(increase) in prepaid expenses and other current assets | 1,087 | (21,023) | (14,142) | 23,948 |
| Increase in amounts due from related parties | (52,305) | (190,257) | (669,900) | (20,925) |
| (Decrease)/increase in accounts payable | (21,652) | (5,201) | 16,415 | 479,506 |
| (Decrease)/increase in amounts due to related parties | (3,483) | 400,850 | 17,034 | 413,170 |
| (Decrease)/increase in accrued expenses and other payables | (76,890) | 98,293 | 190,087 | 222,081 |
| Net cash inflows from operating activities | 1,617,511 | 2,906,551 | 3,088,088 | 3,418,279 |

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

| | Bank and other loans | Obligations under finance lease |
|---|---|---|
| | RMB'000 | RMB'000 |
| Balance at January 1, 1996 | — | — |
| Proceeds from bank and other loans | 30,990 | — |
| Balance at December 31, 1996 | 30,990 | — |
| Balance at January 1, 1997 | 30,990 | — |
| Proceeds from bank and other loans | 40,660 | — |
| Balance at December 31, 1997 | 71,650 | — |
| Balance at January 1, 1998 | 71,650 | — |
| Proceeds from bank and other loans | 2,649,425 | — |
| Inception of finance lease contracts (Note (c)) | — | 270,199 |
| Repayment of principal under finance lease | — | (30,261) |
| Repayments of bank and other loans | (31,300) | — |
| Balance at December 31, 1998 | 2,689,775 | 239,938 |
| **Analysis of changes in financing during the period:** | | |
| Balance at January 1, 1999 | 2,689,775 | 239,938 |
| Repayment of principal under finance lease | — | (30,733) |
| Proceeds from bank and other loans | 1,462,038 | — |
| Repayments of bank and other loans | (514,137) | — |
| Balance at June 30, 1999 | 3,637,676 | 209,205 |

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

The Target Group incurred payables of RMB 126,288,000, RMB 663,039,000 and RMB 342,237,000 from equipment suppliers for additions of construction in progress during the years ended December 31, 1996, 1997 and 1998, respectively.

The Target Group also acquired equipment of RMB 270,199,000 under finance lease during the year ended December 31, 1998.

The Target Group incurred payables of RMB 899,870,000 from equipment suppliers for additions of construction in progress during the six months ended June 30, 1999.

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

In connection with the proposed Acquisition, Fujian Mobile, Henan Mobile and Hainan Mobile have entered into various service and other agreements with China Mobile and its subsidiaries, the DGT and the relevant provincial PTAs. The Target Group expects that these agreements and certain other events will have a material impact on its overall results of operations. These agreements and events include (i) entering into new agreements for interconnection revenue and cost; (ii) entering into new leased line agreements; (iii) the revaluation of fixed assets as at June 30, 1999; (iv) entering into new service agreements; and (v) connection fee revenue and certain surcharge revenue, previously not taxable under PRC regulations, becoming subject to enterprise income tax at a 33% rate. For these reasons, Pro Forma Combined Financial Information for the year ended December 31, 1998 and for the six-month period ended June 30, 1999 is necessary to supplement the historical financial information presented herein. However, prior to the Restructuring and Acquisition of the Target Group, the Target Group's operations were not separated from those of the respective PTAs' fixed line operations and thus certain operating information for the purpose of calculating interconnection revenue and expenses was not available. Therefore, the Pro Forma Financial Information disclosed does not provide a full Pro Forma effect of all the changes in relation to the agreements and events described above for the Target Group.

The accompanying Unaudited Pro Forma Combined Profit and Loss Accounts of the Target Group for the year ended December 31, 1998 and for the six-month period ended June 30, 1999 have been adjusted to give effect to the arrangements and events as if they had been entered into, or consummated on January 1, 1998.

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 1998, or any other date, or to project the combined net profit of the Target Group for any future period. No adjustment has been reflected for new agreements for interconnection revenue and cost due to insufficient historical data. The other adjustments are based on currently available information and certain estimates and assumptions. 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 Accounts of the Target Group should be read in conjunction with the Accountant's Report set out in Appendix III and other financial information in connection with the new operating agreements entered into between the Target Companies and the respective PTAs included under ''Letter from the Chairman''. The following illustrative Pro Forma Combined Profit and Loss Accounts of the Target Group and the accompanying notes are extracted from the Company's prospectus for the Equity Offering.

**Unaudited Pro Forma Combined Profit and**
**Loss Account of the Target Group**
**For the six-month period ended June 30, 1999**

| | Target Group historical | Pro Forma adjustments | Note | Adjusted balance |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | | RMB'000 |
| **Operating revenue** | | | | |
| Usage fees (b) | 3,160,460 | | | 3,160,460 |
| Monthly fees | 817,041 | | | 817,041 |
| Connection fees | 298,605 | | | 298,605 |
| Others (b) | 267,223 | | | 267,223 |
| Total operating revenue | 4,543,329 | | | 4,543,329 |
| **Operating expenses** | | | | |
| Leased lines | 547,033 | (39,698) | (a) | 507,335 |
| Interconnection (b) | 650,722 | | | 650,722 |
| Depreciation | 942,192 | 27,383 | (c) | 969,575 |
| Personnel | 78,942 | | | 78,942 |
| Selling, general and administrative and others | 882,089 | 60,180 | (d) | 942,269 |
| Total operating expenses | 3,100,978 | | | 3,148,843 |
| Operating profit | 1,442,351 | | | 1,394,486 |
| Other income | 23,197 | | | 23,197 |
| Non-operating income | 15,182 | | | 15,182 |
| Interest expense | (76,731) | | | (76,731) |
| Profit before tax | 1,403,999 | | | 1,356,134 |
| | | 15,795 | (e) | |
| Income tax | (189,468) | (167,289) | (f) | (340,962) |
| Net profit | 1,214,531 | | | 1,015,172 |

See accompanying 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 December 31, 1998**

| | Target Group historical | Pro Forma adjustments | Note | Adjusted balance |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | | RMB'000 |
| **Operating revenue** | | | | |
| Usage fees (b) | 4,503,047 | | | 4,503,047 |
| Monthly fees | 1,164,562 | | | 1,164,562 |
| Connection fees | 1,029,462 | | | 1,029,462 |
| Others (b) | 291,104 | | | 291,104 |
| Total operating revenue | 6,988,175 | | | 6,988,175 |
| **Operating expenses** | | | | |
| Leased lines | 832,759 | (111,083) | (a) | 721,676 |
| Interconnection (b) | 400,539 | | | 400,539 |
| Depreciation | 1,412,211 | 42,068 | (c) | 1,454,279 |
| Personnel | 120,633 | | | 120,633 |
| Selling, general and administrative and others | 1,737,556 | 86,345 | (d) | 1,823,901 |
| Total operating expenses | 4,503,698 | | | 4,521,028 |
| Operating profit | 2,484,477 | | | 2,467,147 |
| Other expenses | (12,464) | | | (12,464) |
| Non-operating income | 6,015 | | | 6,015 |
| Interest expense | (38,272) | | | (38,272) |
| Profit before tax | 2,439,756 | | | 2,422,426 |
| | | 5,719 | (e) | |
| Income tax | (155,062) | (446,154) | (f) | (595,497) |
| Net profit | 2,284,694 | | | 1,826,929 |

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

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

**1. Description of Pro Forma Adjustments**

(a) The Target Group and the respective PTAs entered into agreements adjusting leased line rental costs charged to the Target Group, effective April 1, 1999. The adjustment records the charges as if the new agreements had been in place since January 1, 1998.

(b) Prior to April 1, 1999, no formal interconnection agreements existed for the networks between the Target Group and respective PTAs and therefore no interconnection revenue was receivable and no interconnection charge was payable by the Target Group except for Hainan province and certain cities in Fujian province. Pursuant to the new interconnection agreements, such revenues and costs have been recorded by the Target Group with effect from April 1, 1999. Usage fee and other revenue and Interconnection expenses have not been adjusted to reflect these new arrangements due to insufficient historical data. Prior to the Acquisition, the Target Group's operations were not separated from those of the respective PTAs' fixed line operations and thus certain operating information for the purpose of calculating interconnection revenue and expenses was not available. **The Target Group expects the new arrangements would have had and will have a material effect on the results of operations for the periods presented and in future periods, respectively, although such impact cannot be quantified.**

(c) The Target Group's fixed assets were revalued as at June 30, 1999, 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 January 1, 1998.

(d) The Target Group entered into service agreements with the respective PTAs, adjusting the fees for the provision of certain billing and collection, marketing, selling, and other services. The adjustment records the additional costs as if the new agreements had been in place since January 1, 1998.

(e) The adjustment records the tax effect of the above Pro Forma adjustments.

(f) 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 December 31, 1998 and for the six-month period ended June 30, 1999. 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 January 1, 1998.

Set out below are extracts of the audited financial statements of China Telecom (Hong Kong) Limited (''the Company'') and its subsidiaries (''the Group'') for the period from September 3, 1997 (date of incorporation) to December 31, 1997 and the year ended December 31, 1998 together with notes thereto and the unaudited interim report of the Group and the audited financial statements of the Group for the six months ended June 30, 1999 as disclosed in the Company's prospectus for the Equity Offering.

## 1. Extracts of the audited financial statements of the Group

### Consolidated profit and loss accounts

| | Note | 1998 | Period from September 3, 1997 (date of incorporation) to December 31, 1997 |
|---|---|---|---|
| | | RMB'000 | RMB'000 |
| Turnover | 3 | 26,345,393 | 4,696,333 |
| Profit before exceptional item | | 7,777,101 | 1,342,642 |
| Exceptional item | 4 | 1,609,419 | 599,915 |
| Profit before tax and minority interests | 5 | 9,386,520 | 1,942,557 |
| Income tax | 8(a) | (2,485,950) | (427,836) |
| Profit before minority interests | | 6,900,570 | 1,514,721 |
| Minority interests | | (728) | (998) |
| Profit attributable to shareholders | | 6,899,842 | 1,513,723 |
| Appropriations | | | |
| Transfer to general reserve | | — | (72,463) |
| Transfer to PRC statutory reserves | 21 | (2,091,944) | (110,946) |
| Retained profits for the year/period | | 4,807,898 | 1,330,314 |
| Earnings per share | | | |
| Basic | 10(a) | RMB59 cents | RMB17 cents |
| Diluted | 10(b) | RMB59 cents | |

**Consolidated balance sheets**

| | Note | 1998 RMB'000 | 1997 RMB'000 |
|---|---|---|---|
| Fixed assets | 11 | 33,986,326 | 18,634,237 |
| Construction in progress | 12 | 7,339,152 | 3,557,665 |
| Interest in associated companies | 14 | 30,430 | 30,430 |
| Amounts due from related parties | 15 | — | 72,546 |
| Deferred tax assets | 16 | 151,610 | 24,140 |
| Current assets | | | |
| Inventories | | 101,296 | 77,138 |
| Amounts due from related parties | 15 | 287,264 | — |
| Accounts receivable | | 2,481,704 | 1,591,919 |
| Other receivables | | 326,067 | 786,449 |
| Prepaid expenses and other current assets | | 1,045,826 | 104,923 |
| Deposits with banks | | 8,849,322 | 33,912,852 |
| Cash and bank balances | | 9,943,040 | 6,157,805 |
| | | 23,034,519 | 42,631,086 |
| Less: Current liabilities | | | |
| Bank and other loans | 17(a) | 5,337,368 | 2,147,558 |
| Amounts due to intermediate holding company | | 1,025 | 31,613 |
| Amounts due to related parties | | 596,155 | 221,786 |
| Accounts payable | | 5,962,692 | 1,769,134 |
| Accrued expenses and other payables | | 2,755,151 | 1,720,432 |
| Taxation | 8(b) | 1,298,988 | 272,440 |
| | | 15,951,379 | 6,162,963 |
| Net current assets | | 7,083,140 | 36,468,123 |
| Bank and other loans | 17(b) | (991,170) | (2,870,326) |
| Deferred revenue | 18 | (1,756,726) | (1,352,863) |
| | | 45,842,762 | 54,563,952 |
| Representing: | | | |
| Share capital | 19 | 1,261,419 | 1,261,419 |
| Reserves | 21 | 44,566,332 | 53,288,250 |
| Shareholders' equity | | 45,827,751 | 54,549,669 |
| Minority interests | | 15,011 | 14,283 |
| | | 45,842,762 | 54,563,952 |

**Consolidated cash flow statements**

| | Note | 1998 RMB'000 | 1997 RMB'000 |
|---|---|---|---|
| Net cash inflows from operating activities | (a) | 13,566,801 | 8,825,543 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 1,814,895 | 413,958 |
| Interest paid | | (352,178) | (268,424) |
| Distributions | | — | (221,812) |
| Net cash inflow/(outflow) from returns on investments and servicing of finance | | 1,462,717 | (76,278) |
| Taxation | | | |
| Hong Kong profits tax paid | | (10,780) | — |
| PRC income tax paid | | (1,574,701) | (546,216) |
| Tax paid | | (1,585,481) | (546,216) |
| Investing activities | | | |
| Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired) | (d) and (e) | (24,114,617) | — |
| Capital expenditures | | (11,040,277) | (5,806,798) |
| Investment in associated companies | | — | (30,430) |
| Proceeds from disposal of fixed assets | | 36,224 | 12,591 |
| Decrease in amounts due from related parties | | 72,546 | 497,551 |
| Increase in deposits with banks | | (1,310,863) | — |
| Net cash outflow from investing activities | | (36,356,987) | (5,327,086) |
| Net cash (outflow)/inflow before financing activities | | (22,912,950) | 2,875,963 |
| Financing activities | | | |
| Proceeds from issue of shares, net of expenses | | — | 33,570,231 |
| Proceeds from bank and other loans | (f) | 3,752,500 | 710,139 |
| Repayments of bank and other loans | (f) | (3,206,922) | (523,853) |
| (Decrease)/increase in amounts due to related parties | (f) | (221,786) | 216,237 |
| Proceeds from capital contribution | | — | 245,700 |
| Net cash inflow from financing activities | | 323,792 | 34,218,454 |
| (Decrease)/increase in cash and cash equivalents | (b) | (22,589,158) | 37,094,417 |
| Cash and cash equivalents at beginning of year | | 40,070,657 | 2,976,240 |
| Cash and cash equivalents at end of year | (c) | 17,481,499 | 40,070,657 |

**Notes to the consolidated cash flow statements**

***(a) Reconciliation of profit before tax and minority interests to net cash inflows from operating activities***

| | 1998<br>RMB'000 | 1997<br>RMB'000 |
|---|---|---|
| Profit before tax and minority interests | 9,386,520 | 5,953,325 |
| Depreciation of fixed assets | 4,598,151 | 2,680,538 |
| Provision for diminution in value of fixed assets | 281,560 | — |
| Provision for doubtful accounts | 558,090 | 449,124 |
| Loss on disposal of fixed assets | 59,320 | 12,668 |
| Exceptional item | (1,609,419) | (656,607) |
| Interest expense | 159,751 | 175,335 |
| Unrealised exchange loss/(gain), net | 931 | (1,497) |
| Decrease in inventories | 48,788 | 157,309 |
| Increase in amounts due from related parties | (54,685) | — |
| Increase in accounts receivable | (1,080,191) | (953,693) |
| Decrease/(increase) in other receivables | 392,047 | (29,161) |
| Increase in prepaid expenses and other current assets | (931,668) | (85,992) |
| (Decrease)/increase in amounts due to intermediate holding company | (30,588) | 31,613 |
| Increase in amounts due to related parties | 579,486 | — |
| Decrease in accounts payable | (117,130) | (7,175) |
| Increase/(decrease) in accrued expenses and other payables | 921,975 | (54,500) |
| Increase in deferred revenue | 403,863 | 1,154,256 |
| Net cash inflows from operating activities | 13,566,801 | 8,825,543 |

***(b) Increase in cash and cash equivalents***

Increase in cash and cash equivalents of RMB37,094,417,000 for the year ended December 31, 1997 includes RMB34,656,469,000 which relates to the increase in cash and cash equivalents for the period from September 3, 1997 to December 31, 1997.

***(c) Analysis of the balances of cash and cash equivalents***

| | 1998<br>RMB'000 | 1997<br>RMB'000 |
|---|---|---|
| Deposits with banks maturing within three months | 7,538,459 | 33,912,852 |
| Cash and bank balances | 9,943,040 | 6,157,805 |
| | 17,481,499 | 40,070,657 |

### *(d) Acquisition of subsidiaries*

| | RMB'000 |
|---|---|
| **Net assets acquired:** | |
| Fixed assets | 7,443,235 |
| Construction in progress | 1,488,261 |
| Deferred tax assets | 1,391 |
| Inventories | 72,946 |
| Amounts due from related parties | 232,579 |
| Accounts receivable | 367,684 |
| Other receivables | 137,141 |
| Prepaid expenses and other current assets | 9,235 |
| Cash and bank balances | 6,097 |
| Bank and other loans | (683,500) |
| Amounts due to related parties | (3,994) |
| Accounts payable | (333,466) |
| Accrued expenses and other payables | (158,010) |
| Long-term bank and other loans | (80,645) |
| | 8,498,954 |
| Goodwill arising on acquisition | 15,621,760 |
| | 24,120,714 |
| Satisfied by: Cash paid | 24,120,714 |

The subsidiaries acquired during the year ended December 31, 1998 contributed RMB1,339,562,000 to the Group's net operating cash flows, paid RMB44,492,000 in respect of the net returns on investments and servicing of finance, utilised RMB2,533,394,000 for investing activities and contributed RMB2,207,796,000 for financing activities.

### *(e) Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries*

| | RMB'000 |
|---|---|
| Cash consideration | 24,120,714 |
| Cash and bank balances acquired | (6,097) |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | 24,114,617 |

***(f) Analysis of changes in financing during the year***

| | Bank and other loans | Amounts due to related parties |
|---|---|---|
| | RMB'000 | RMB'000 |
| Balance at January 1, 1998 | 5,017,884 | 221,786 |
| Acquired on acquisition of subsidiaries | 764,145 | 3,994 |
| | 5,782,029 | 225,780 |
| **Changes in financing:** | | |
| Cash flows from financing | 3,752,500 | (221,786) |
| Repayments of loans | (3,206,922) | — |
| | 6,327,607 | 3,994 |
| **Operating activities:** | | |
| Payables for additions of construction in progress | — | 12,675 |
| Increase in amounts due to related parties included under operating activities | — | 579,486 |
| Effect of changes in foreign exchange rates | 931 | — |
| Balance at December 31, 1998 | 6,328,538 | 596,155 |

***(g) Significant non-cash transactions***

The Group incurred payables of RMB3,977,222,000 and RMB12,675,000 from equipment suppliers and related parties respectively for additions of construction in progress during the year ended December 31, 1998.

In addition, the Group incurred payables of RMB1,529,934,000 from equipment suppliers and a loan of RMB1,382,395,000 from its ultimate holding company for additions of construction in progress during the year ended December 31, 1997.

**Notes to the accounts**

**1 Basis of presentation of accounts**

The consolidated profit and loss account of the Group for the year ended December 31, 1998 includes the results of the Company and its subsidiaries in Guangdong province (i.e. Guangdong Mobile Communication Company Limited (''Guangdong Mobile'')) and in Zhejiang province (i.e. Zhejiang Mobile Communication Company Limited (''Zhejiang Mobile'')) for the year ended December 31, 1998. Pursuant to the ordinary resolution passed by the Company's shareholders on June 3, 1998, the Company acquired the entire issued share capital of China Telecom Jiangsu Mobile (BVI) Limited (''Jiangsu Mobile BVI'') from China Telecom Hong Kong (BVI) Limited. The only asset of Jiangsu Mobile BVI is its interest in the entire equity of Jiangsu Mobile Communication Company Limited (''Jiangsu Mobile''). As such, the consolidated profit and loss account of the Group for the year ended December 31, 1998 also includes the results of Jiangsu Mobile for the period from June 4, 1998 to December 31, 1998.

The consolidated profit and loss account for the period ended December 31, 1997 includes the results of the Company for the period from September 3, 1997 to December 31, 1997 and the post-acquisition results of Guangdong Mobile and Zhejiang Mobile for the period from September 27, 1997 to December 31, 1997. The consolidated cash flow statement for the period ended December 1997 is prepared based on the consolidated balance sheet at December 31, 1997 and the proforma combined balance sheet (i.e. the combination of the balance sheets of Guangdong Mobile and Zhejiang Mobile) at December 31, 1996. A separate note is included in the notes to the consolidated cash flow statement which shows the increase in the amount of cash and cash equivalents for the period from September 3, 1997 to December 31, 1997.

**2 Principal accounting policies**

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

***(a) Basis of consolidation***

(i) The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to December 31, 1998. 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 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 of investments in these companies is credited to capital reserve.

***(b) Associated companies***

An associated company is a company, not being a subsidiary, in which the Group's interest is for the long term and the Group is in a position to exercise significant influence over the company in which the investment is made.

The Group's share of the post-acquisition results of its associated companies 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 associated companies is stated at cost less any provisions for permanent diminution in value, if necessary, as determined by the directors.

***(c) 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 details in Note 11 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 it is 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 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, 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% |
| Telecommunications transceivers, switching centres and other network equipment | 7 years | 3% |
| Office equipment, furniture and fixtures and others | 4-18 years | 3% |

***(d) 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.

***(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.

***(f) 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.

***(g) 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.

***(h) 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) 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.

***(i) 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.

***(j) 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.

***(k) Deferred taxation***

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

***(l) Retirement benefits***

The employees of the subsidiaries participate in a defined benefit retirement plan managed by the MII whereby the subsidiaries are required to contribute to the scheme at a fixed rate of 19.1 per cent 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.

***(m) Operating leases***

Operating lease payments are charged to the profit and loss account on a straight-line basis over the periods of the respective leases.

***(n) 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.

### 3 Turnover

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 per cent of the corresponding revenue and central irrigation construction levy was charged at approximately 3 per cent of certain connection and surcharge revenue. Turnover is analysed as follows:

| | 1998 | Period from September 3, 1997 (date of incorporation) to December 31, 1997 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Usage fees | 16,345,713 | 2,760,412 |
| Monthly fees | 4,347,218 | 771,414 |
| Connection fees | 3,323,191 | 851,057 |
| Others | 2,329,271 | 313,450 |
| | 26,345,393 | 4,696,333 |

Others mainly represent telephone number selection fees, charges for value added services, interconnection revenue and roaming in fees. Roaming in fees are received from the MII and other operators in respect of calls made by non-subscribers using the Group's cellular telecommunications networks.

### 4 Exceptional item

Exceptional item represents interest income earned by the Group, of which RMB1,425,635,000 (1997: RMB570,606,000) relates to the interest income earned by the Company from the proceeds received on the issue of new shares in 1997.

### 5 Profit before tax and minority interests

**Profit before tax and minority interests is arrived at**

| | 1998 | Period from September 3, 1997 (date of incorporation) to December 31, 1997 |
|---|---|---|
| | RMB'000 | RMB'000 |
| **after crediting:** | | |
| Amortisation of deferred revenue from assignment of rights to income from subscribers | 284,733 | 49,710 |
| Penalty income on overdue accounts | 64,594 | 23,738 |
| Exchange gain, net | 19,283 | — |
| **and after charging:** | | |
| Interest on bank advances and other borrowings repayable within five years | 125,272 | 11,834 |
| Interest on other loans | 181,640 | 81,715 |
| Less: Amount capitalised as construction in progress (Note) | (147,161) | (55,176) |
| Interest expense | 159,751 | 38,373 |
| Depreciation | 4,598,151 | 854,268 |
| Operating lease charges in respect of | | |
| — properties | 260,926 | 60,735 |
| — leased lines | 3,917,362 | 791,512 |
| — others | 40,375 | 6,061 |
| Exchange loss, net | — | 57,877 |
| Loss on disposal of fixed assets | 59,320 | 12,476 |
| Provision for diminution in value of fixed assets | 281,560 | — |
| Contribution to retirement scheme | 209,391 | 26,916 |
| Provision for doubtful accounts | 558,090 | 139,662 |
| Provision for obsolete inventories | 8,346 | 3,086 |
| Auditors' remuneration | | |
| — current year/period | 14,748 | 10,703 |
| — prior period | 1,069 | — |

Note: The borrowing costs have been capitalised at a rate of 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.

### 6 Directors' remuneration

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

| | 1998 | Period from September 3, 1997 (date of incorporation) to December 31, 1997 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Fees | 2,371 | 642 |
| Salaries, allowances and benefits in kind | 9,501 | 2,829 |
| Retirement benefits | 106 | 33 |
| Bonuses | 78 | 30 |
| | 12,056 | 3,534 |

Included in the directors' remuneration were fees of RMB385,000 (1997: RMB129,000) paid to the independent non-executive directors during the year/period.

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:

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

### 7 Five highest paid individuals

Of the five highest paid individuals in this year, four (1997: four) are directors of the Company and their remuneration has been included in Note 6 above. The remuneration of the remaining highest paid individual is as follows:

| | 1998 | Period from September 3, 1997 (date or incorporation) to December 31, 1997 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Salaries, allowances and benefits in kind | 1,118 | 231 |

During the year/period, 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.

## 8 Income tax

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

| | 1998 | Period from September 3, 1997 (date of incorporation) to December 31, 1997 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Provision for Hong Kong profits tax for the year/period | 3,564 | 8,161 |
| Over-provision in respect of Hong Kong profits tax for prior period | (144) | — |
| | 3,420 | 8,161 |
| Provision for PRC income tax on the estimated taxable profits for the year/period | 2,608,609 | 421,684 |
| Deferred tax assets (Note 16(a)) | (126,079) | (2,009) |
| | 2,485,950 | 427,836 |

(i) The provision for Hong Kong profits tax is calculated at 16 per cent (1997: 16.5 per cent) of the estimated assessable profits for the year.

(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 December 31, 1998. 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 income tax rate of 33 per cent with effect from October 23, 1997 for Guangdong Mobile and Zhejiang Mobile and August 26, 1998 for Jiangsu Mobile.

### (b) *Taxation in the balance sheet represents:*

| | 1998 | 1997 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Provision for Hong Kong profits tax for the year/period | 3,564 | 8,161 |
| Provision for PRC income tax for the year | 2,608,609 | 984,867 |
| Balance of PRC income tax payable/(recoverable) relating to prior year | 43,609 | (174,372) |
| Hong Kong provisional profits tax paid | (2,763) | — |
| PRC income tax paid | (1,354,031) | (546,216) |
| | 1,298,988 | 272,440 |

## 9 Dividends

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

## 10 Earnings per share

### (a) *Basic earnings per share*

The calculation of basic earnings per share for the year/period is based on the profit attributable to shareholders of RMB6,899,842,000 (1997: RMB1,513,723,000) and the weighted average number of 11,780,788,000 shares (1997: 8,802,944,500 shares) in issue during the year/period.

***(b) Diluted earnings per share***

The calculation of diluted earnings per share for the year is based on the profit attributable to shareholders of RMB6,899,842,000 and the weighted average number of 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. There were no dilutive potential ordinary shares in existence during 1997.

***(c) Reconciliations***

| | 1998 Number of shares | 1997 Number of shares |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 11,780,788,000 | 8,802,944,500 |
| Deemed issue of ordinary shares for no consideration | 1,732,775 | |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 11,782,520,775 | |

## 11 Fixed assets

| | Land use rights and buildings | Telecommunications Transceivers, Switching centres and other network equipment | Office equipment, furniture and fixtures and others | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost:** | | | | |
| At January 1, 1998 | 775,889 | 19,083,349 | 583,860 | 20,443,098 |
| Acquired on acquisition of subsidiaries | 37,020 | 7,950,022 | 13,609 | 8,000,651 |
| Additions | 446,618 | 224,223 | 154,741 | 825,582 |
| Transferred from construction in progress | 537,998 | 11,427,123 | 93,406 | 12,058,527 |
| Disposals | (36,329) | (83,568) | (1,622) | (121,519) |
| Provision for diminution in value of fixed assets | — | (281,560) | — | (281,560) |
| At December 31, 1998 | 1,761,196 | 38,319,589 | 843,994 | 40,924,779 |
| **Accumulated depreciation:** | | | | |
| At January 1, 1998 | 13,481 | 1,738,353 | 57,027 | 1,808,861 |
| Acquired on acquisition of subsidiaries | 429 | 552,196 | 4,791 | 557,416 |
| Charge for the year | 54,953 | 4,427,467 | 115,731 | 4,598,151 |
| Written back on disposals | (702) | (24,457) | (816) | (25,975) |
| At December 31, 1998 | 68,161 | 6,693,559 | 176,733 | 6,938,453 |
| **Net book value:** | | | | |
| At December 31, 1998 | 1,693,035 | 31,626,030 | 667,261 | 33,986,326 |
| At December 31, 1997 | 762,408 | 17,344,996 | 526,833 | 18,634,237 |

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

| | 1998 | 1997 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Long leases | 248,294 | 85,691 |
| Medium-term leases | 1,098,960 | 77,950 |
| | 1,347,254 | 163,641 |

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

As part of the Group restructuring in 1997, the cellular telephone businesses of Guangdong Mobile and Zhejiang Mobile together with the relevant assets and liabilities were transferred to the Company. Pursuant to the ordinary resolution passed by the Company's shareholders on June 3, 1998, the Group acquired the cellular telephone business of Jiangsu Mobile together with its relevant assets and liabilities.

As required by the relevant PRC rules and regulations, a valuation of the assets and liabilities of Guangdong Mobile and Zhejiang Mobile to be injected into the Group was carried out at May 31, 1997 and a valuation of the assets and liabilities of Jiangsu Mobile to be acquired by the Group was carried out at December 31, 1997. These valuations were approved by the State-owned Assets Administration Bureau on September 5, 1997 and April 7, 1998 respectively and the injected / acquired assets and liabilities were reflected in the accounts on this basis. These valuations were each regarded as one-off exercises which established the deemed cost of the fixed assets acquired by the Group.

The effect of the above valuations on the fixed assets of Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile is to increase the depreciation charges reflected in the consolidated profit and loss account for the year ended December 31, 1998 by approximately RMB925,693,000.

**12 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 December 31, 1998.

## 13 Interest 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 activities |
|---|---|---|---|---|---|
| Guangdong Mobile ..... | PRC | RMB5,594,840,700 | 100% | — | Cellular telephone operator |
| Zhejiang Mobile........ | PRC | RMB2,117,790,000 | 99.63% | — | Cellular telephone operator |
| Jiangsu Mobile BVI .... | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| Jiangsu Mobile ........ | PRC | RMB2,800,000,000 | — | 100% | Cellular telephone operator |

## 14 Interest in associated companies

| | 1998 RMB'000 | 1997 RMB'000 |
|---|---|---|
| Unlisted shares, at cost | 21,430 | 21,430 |
| Capital contributions, at cost | 9,000 | 9,000 |
| | 30,430 | 30,430 |

Details of the associated companies are as follows:

| Name of company | Place of incorporation | Attributable interest held by the Group | Principal activities |
|---|---|---|---|
| China Motion United Telecom Limited ..... | Hong Kong | 30% | Provision of telecommunication services |
| Shenzhen China Motion Telecom United Limited ..... | PRC | 30% | Provision of telecommunication services |

## 15 Amounts due from related parties

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

## 16 Deferred taxation

### *(a) Movements on deferred taxation comprise:*

| | 1998 RMB'000 | 1997 RMB'000 |
|---|---|---|
| Balance at January 1 | 24,140 | — |
| Acquired on acquisition of subsidiaries | 1,391 | 22,131 |
| Transfer from the profit and loss account (Note 8(a)) | 126,079 | 2,009 |
| Balance at December 31 | 151,610 | 24,140 |

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

| | 1998 RMB'000 | 1997 RMB'000 |
|---|---|---|
| Provision for obsolete inventories | 26,276 | 24,140 |
| Provision for diminution in value of fixed assets | 43,415 | — |
| Amortisation of deferred revenue | 81,919 | — |
| | 151,610 | 24,140 |

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

| | 1998 RMB'000 | 1997 RMB'000 |
|---|---|---|
| Provision for doubtful accounts | 283,293 | 228,082 |

## 17 Bank and other loans

### *(a) Short-term*

| | 1998 RMB'000 | 1997 RMB'000 |
|---|---|---|
| Bank loans | 4,112,500 | 600,000 |
| Loans from related parties | — | 227,000 |
| | 4,112,500 | 827,000 |
| Current portion of long-term bank and other loans (Note 17(b)) | 1,224,868 | 1,320,558 |
| | 5,337,368 | 2,147,558 |

All of the above short-term loans are unsecured.

***(b) Long-term***

| | 1998 | 1997 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Bank loans | 344,580 | 413,990 |
| Loans from related parties | 800,000 | 800,000 |
| Loan from ultimate holding company | — | 1,382,395 |
| Other loans | 1,071,458 | 1,594,499 |
| | 2,216,038 | 4,190,884 |
| Less: Current portion (Note 17(a)) | (1,224,868) | (1,320,558) |
| | 991,170 | 2,870,326 |

All of the above long-term loans are unsecured. Loans from related parties represent long-term loans from Zhejiang Posts and Telecommunications Administrations (''Zhejiang PTA''), bearing interest at 10.98 per cent per annum with maturities in 1999. Other loans bear interest at various rates between 6.4 per cent to 7.5 per cent per annum with maturities in 1999 to 2004.

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

*At December 31, 1998:*

| | Bank loans | Other loans | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| On demand or within one year | 137,498 | 1,087,370 | 1,224,868 |
| After one year but within two years | 103,541 | 181,304 | 284,845 |
| After two years but within five years | 103,541 | 520,101 | 623,642 |
| After five years | — | 82,683 | 82,683 |
| | 207,082 | 784,088 | 991,170 |
| | 344,580 | 1,871,458 | 2,216,038 |

*At December 31, 1997:*

| | Bank loans | Other loans | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| On demand or within one year | 103,498 | 1,217,060 | 1,320,558 |
| After one year but within two years | 103,498 | 1,248,236 | 1,351,734 |
| After two years but within five years | 206,994 | 997,005 | 1,203,999 |
| After five years | — | 314,593 | 314,593 |
| | 310,492 | 2,559,834 | 2,870,326 |
| | 413,990 | 3,776,894 | 4,190,884 |

**18 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 RMB9,167 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.

| | 1998<br>RMB'000 | 1997<br>RMB'000 |
|---|---|---|
| Balance at January 1 | 1,352,863 | — |
| Acquired on acquisition of subsidiaries | — | 1,174,573 |
| Additions | 688,596 | 228,000 |
| Recognised in profit and loss account | (284,733) | (49,710) |
| Balance at December 31 | 1,756,726 | 1,352,863 |

### 19 Share capital

| | 1998<br>HK$'000 | 1997<br>HK$'000 |
|---|---|---|
| **Authorised:** | | |
| 16,000,000,000 ordinary shares of HK$0.1 each | 1,600,000 | 1,600,000 |

| | 1998<br>HK$'000 | 1997<br>HK$'000 |
|---|---|---|
| **Issued and fully paid:** | | |
| 11,780,788,000 ordinary shares of HK$0.1 each | 1,178,079 | 1,178,079 |
| RMB'000 equivalent | 1,261,419 | 1,261,419 |

### 20 Share option scheme

On October 8, 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 March 9, 1998, share options for a total of 12,000,000 shares at an exercise price of HK$11.1 per share (which can be exercised during the period from March 9, 1998 to March 8, 2006) were granted under the share option scheme to certain directors of the Company.

At December 31, 1998, the outstanding options were:

| Date options granted | Period during which options exercisable | Exercise price | Number of options outstanding at the year end |
|---|---|---|---|
| March 9, 1998 | March 9, 1998 to March 8, 2006 | HK$11.1 | 12,000,000 |

On April 20, 1999, 5,500,000 share options were exercised to subscribe for 5,500,000 ordinary shares in the Company at a consideration of HK$61,050,000, of which HK$550,000 was credited to share capital and the balance of HK$60,500,000 was credited to the share premium account. These ordinary shares were issued by the Company on April 23, 1999.

## 21 Reserves

| | Share premium | Capital reserve/ (goodwill) | General reserve | PRC statutory reserves | Retained profits | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At January 1, 1998 | 50,642,577 | 1,131,950 | 72,463 | 110,946 | 1,330,314 | 53,288,250 |
| Goodwill arising on acquisition of subsidiaries ...... | — | (15,621,760) | — | — | — | (15,621,760) |
| Net profit for the year ............. | — | — | — | — | 6,899,842 | 6,899,842 |
| Transfer to PRC statutory reserves, net of minority interests' share ... | — | — | — | 2,091,944 | (2,091,944) | — |
| At December 31, 1998............. | 50,642,577 | (14,489,810) | 72,463 | 2,202,890 | 6,138,212 | 44,566,332 |

### PRC statutory reserves

In accordance with the Articles of Association and Regulations on Posts and Telecommunications Enterprises, for the period ended December 31, 1997, Guangdong Mobile and Zhejiang Mobile are required to transfer a certain percentage of the profit after taxation to the statutory surplus reserve and statutory public welfare reserve as determined by accounting principles generally accepted in the PRC (''PRC GAAP''). As Guangdong Mobile and Jiangsu Mobile were wholly-owned foreign enterprises at December 31, 1998 and Zhejiang Mobile was a sino-foreign joint venture company at December 31, 1998, they are not required to make the above transfers for the year ended December 31, 1998. At December 31, 1998, the balances of statutory surplus reserve and statutory public welfare reserve were RMB73,964,000 (1997: RMB73,964,000) and RMB36,982,000 (1997: RMB36,982,000) respectively.

Statutory surplus reserve can be used to make good previous years' losses, provided that the balance after such offset is not less than 25 per cent of the registered capital. Statutory public welfare reserve 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.

In accordance with the Regulations on Enterprises with Foreign Investment, Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile are required to transfer a certain percentage of profit after taxation, as determined under PRC GAAP, to the general reserve fund and the enterprise expansion fund. In case of Guangdong Mobile and Jiangsu Mobile, since they are wholly foreign-owned enterprises, at least 10 per cent of their profit after taxation determined under the PRC GAAP should be transferred to the general reserve fund until the balance of the general reserve fund is equal to 50 per cent of the registered capital. During the year, appropriations were made to the general reserve fund and the enterprise expansion fund by Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile at 10 per cent and 30 per cent respectively of the profit after taxation determined under PRC GAAP. At December 31, 1998, the balances of the general reserve fund and the enterprise expansion fund were RMB522,986,000 (1997: RMB Nil) and RMB1,568,958,000 (1997: RMB Nil) respectively.

The general reserve fund 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.

**22 Connected and related party transactions**

(a) The Group's operations 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 Group's tariffs are subject to the regulation by various Government authorities, including the State Planning Commission (''SPC''), the MII, the PTAs and the relevant Provincial Price Bureaus (''PPBs''). The connection fees charged by the Group are based on a guidance price range set jointly by the MII and SPC, with each actual fee determined by the relevant PTA in consultation with the relevant PPB. In general, the Group's base usage charges and domestic roaming usage charges are set by the MII and SPC. International roaming charges are set by the MII pursuant to agreements between the DGT 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 | 1998 RMB'000 |
|---|---|---|
| Interconnection revenue | (i) | 752,054 |
| Interconnection charges | (ii) | 3,924,748 |
| Leased line charges | (iii) | 3,917,362 |
| Roaming revenue | (iv) | 1,053,042 |
| Roaming expenses | (v) | 827,591 |
| Spectrum fees | (vi) | 12,431 |
| Operating lease charges | (vii) | 226,670 |
| Sales commission | (viii) | 263,859 |
| Debt collection service fees | (viii) | 133,270 |
| Billing service fees | (viii) | 1,723 |
| Interest paid/payable | (ix) | 83,253 |

***Notes:***

(i) Interconnection revenue represents the amounts received or receivable from the Guangdong PTA, the Zhejiang PTA and the Jiangsu PTA in respect of calls made between the Total Access Communication Systems (''TACS'')/Global System for Mobile Communications (''GSM'') networks and the Public Switched Telephone Network (''PSTN'') in Guangdong, Zhejiang and Jiangsu respectively.

(ii) Interconnection charges represent the amounts paid or payable to the Guangdong PTA, the Zhejiang PTA and the Jiangsu PTA in respect of calls made between the TACS/GSM networks and the PSTN in Guangdong, Zhejiang and Jiangsu respectively.

(iii) Leased line charges represent expenses paid or payable to the Guangdong PTA/Posts and Telecommunications Bureaus (''PTBs''), the Zhejiang PTA/PTBs and the Jiangsu PTA/PTBs 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 PTAs and international cellular telephone operators through 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 PTAs and international cellular telephone operators for their share of the roaming revenue through MII.

(vi) Spectrum fees represent the spectrum usage fees paid or payable to DGT for the usage of the frequency bands allocated to Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile.

(vii) Operating lease charges represent the rental paid or payable to the Guangdong PTA/PTBs, the Zhejiang PTA/PTBs, the Jiangsu PTA/PTBs and Telpo for operating leases in respect of land and buildings and others.

(viii) With effect from October 20, 1997 for Guangdong PTA and Zhejiang PTA, and January 1, 1998 for Jiangsu PTA, the Group entered into certain services agreements in respect of marketing services with authorised dealers, debt collection services and billing services.

Sales commission represents the amounts paid or payable to the Guangdong PTA/PTBs, the Zhejiang PTA/PTBs and the Jiangsu PTA/PTBs for their marketing of the cellular services in Guangdong, Zhejiang and Jiangsu respectively.

Debt collection service fees represent the amounts paid or payable to the Guangdong PTA/PTBs, the Zhejiang PTA/PTBs and the Jiangsu PTA/PTBs for their provision of debt collection services to Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile respectively.

Billing service fees represent the amounts paid or payable to the Zhejiang PTA/PTBs for their provision of the billing services to Zhejiang Mobile.

(ix) Interest paid/payable represents the interest incurred on loans borrowed from Zhejiang PTA and Telpo.

Advantage has been taken of the transitional provisions set out in paragraph 28 of Statement of Standard Accounting Practice 20 ''Related Party Disclosures'' issued by the Hong Kong Society of Accountants which provides exemption from the need to present comparative information for prior periods when this Statement is first adopted and such information is not available.

(b) Pursuant to the ordinary resolution passed by the Company's shareholders on June 3, 1998, the Company acquired the entire issued share capital of Jiangsu Mobile BVI from China Telecom Hong Kong (BVI) Limited, the immediate holding company of the Company, by a total cash consideration of HK$22,475,000,000. The only asset of Jiangsu Mobile BVI is its interest in the entire equity of Jiangsu Mobile.

## 23 Commitments

### *(a) Capital commitments*

Capital commitments outstanding at December 31, 1998 not provided for in the accounts were as follows:

| | 1998 RMB'000 | 1997 RMB'000 |
|---|---|---|
| Commitments in respect of land and buildings | | |
| — authorised and contracted for | 77,340 | 298,226 |
| — authorised but not contracted for | 919,046 | 865,987 |
| | 996,386 | 1,164,213 |
| Commitments in respect of telecommunications equipment | | |
| — authorised and contracted for | 3,088,654 | 6,788,040 |
| — authorised but not contracted for | 14,598,708 | 9,919,129 |
| | 17,687,362 | 16,707,169 |
| Total commitments | | |
| — authorised and contracted for | 3,165,994 | 7,086,266 |
| — authorised but not contracted for | 15,517,754 | 10,785,116 |
| | 18,683,748 | 17,871,382 |

### *(b) Operating lease commitments*

At December 31, 1998, the Group had commitments under operating leases to make payments in the next year as follows:

*At December 31, 1998:*

| | Land and buildings | Leased lines | Others | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Leases expiring:** | | | | |
| Within one year | 4,385 | — | — | 4,385 |
| After one year but within five years | 30,711 | 1,047,873 | — | 1,078,584 |
| After five years | 192,502 | 3,088,246 | 39,094 | 3,319,842 |
| | 227,598 | 4,136,119 | 39,094 | 4,402,811 |

*At December 31, 1997:*

| | Land and buildings | Leased lines | Others | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Leases expiring:** | | | | |
| Within one year | 5,392 | — | — | 5,392 |
| After one year but within five years | 30,172 | 830,318 | — | 860,490 |
| After five years | 107,282 | 1,592,195 | 17,116 | 1,716,593 |
| | 142,846 | 2,422,513 | 17,116 | 2,582,475 |

### 24 Post balance sheet events

Subsequent to the balance sheet date, in connection with the exercise of share options, the Company issued 5,500,000 ordinary shares of HK$0.1 each at HK$11.1 per share.

### 25 Comparative figures

Certain comparative figures in the accounts have been reclassified to conform with the current year's presentation.

### 26 Ultimate holding company

The directors consider the ultimate holding company at December 31, 1998 to be Telpo Communications (Group) Limited, incorporated in Hong Kong.

**2. Extracts of the unaudited interim report of the Group and the audited financial statements of the Group for the six months ended June 30, 1999 as disclosed in the Company's prospectus for the Equity Offering.**

**Interim results of the Group in respect of the six months ended June 30, 1999 and 1998**

| | Note | Audited | Unaudited | |
|---|---|---|---|---|
| | | For the six months ended June 30, 1999 consolidated | For the six months ended June 30, 1999 consolidated | For the six months ended June 30, 1998 consolidated |
| | | Rmb'000 | Rmb'000 | Rmb'000 |
| **Operating revenue (Turnover)** | 2 | | | |
| Usage fees | | 11,012,153 | 11,012,153 | 6,838,997 |
| Monthly fees | | 2,080,559 | 2,080,559 | 1,841,264 |
| Connection fees | | 2,416,866 | 2,416,866 | 1,732,618 |
| Others | 3 | 1,430,359 | 1,430,359 | 954,261 |
| | | 16,939,937 | 16,939,937 | 11,367,140 |
| **Operating expenses** | | | | |
| Leased lines | (a) | 2,013,919 | 2,093,135 | 1,683,252 |
| Interconnection | | 2,774,985 | 2,774,985 | 2,130,654 |
| Depreciation | | 3,296,403 | 3,296,403 | 1,884,730 |
| Personnel | | 680,386 | 680,386 | 603,669 |
| Selling, general and administrative and others | | 2,662,332 | 2,662,332 | 1,476,785 |
| | | 11,428,025 | 11,507,241 | 7,779,090 |
| **Operating profit** | | 5,511,912 | 5,432,696 | 3,588,050 |
| **Other income** | | 269,859 | 269,859 | 118,779 |
| **Non-operating income** | | 298,600 | 298,600 | 1,197,202 |
| **Interest expense** | | (106,695) | (106,695) | (73,197) |
| **Profit before tax and minority interests** | 4 | 5,973,676 | 5,894,460 | 4,830,834 |
| **Income tax** | 5/(b) | (1,970,222) | (1,944,081) | (1,357,887) |
| **Profit before minority interests** | | 4,003,454 | 3,950,379 | 3,472,947 |
| **Minority interests** | | — | — | (728) |
| **Net profit** | (a) | 4,003,454 | 3,950,379 | 3,472,219 |
| **Earnings per share** | | | | |
| **Basic** | **6(a)** | **Rmb 34 cents** | **Rmb 34 cents** | **Rmb 29 cents** |
| **Diluted** | **6(b)** | **Rmb 34 cents** | **Rmb 34 cents** | **Rmb 29 cents** |

a) On September 27, 1999 the Company was notified by the relevant government authorities that a further 10 per cent large volume discount on the standard leasing fees was granted with retrospective effect from April 1, 1999. As a result, the total large volume discount on the standard leasing fees is increased to 30 per cent, which is the same discount given to the Target Group and other cellular telecommunications operators owned by China Mobile for such period. The difference between the unaudited and audited net profit of the Group for the six months ended June 30, 1999 represents the adjustment of such reduction for the leased line expenses and the related tax effect.

b) The difference represents the tax effect of a) above.

**Balance Sheet as at June 30, 1999**

| | Audited June 30, 1999 RMB '000 |
|---|---|
| **Assets** | |
| Current assets | |
| Cash and cash equivalents | 17,556,564 |
| Deposits with banks | 5,233,882 |
| Accounts receivable | 3,243,645 |
| Other receivables | 449,404 |
| Inventories | 85,679 |
| Prepaid expenses and other current assets | 296,191 |
| Amounts due from related parties | 353,524 |
| Total current assets | 27,218,889 |
| Fixed assets | 35,296,922 |
| Construction in progress | 5,750,506 |
| Interest in associated companies | 30,430 |
| Deferred tax assets | 312,908 |
| Total assets | 68,609,655 |
| **Liabilities and shareholders' equity** | |
| Current liabilities | |
| Accounts payable | 4,855,372 |
| Bank and other loans | 4,994,837 |
| Taxes payable | 2,106,520 |
| Amounts due to related parties | 548,942 |
| Accrued expenses and other payables | 3,364,011 |
| Total current liabilities | 15,869,682 |
| Bank and other loans | 1,200,462 |
| Deferred revenue | 1,639,891 |
| Total liabilities | 18,710,035 |
| Shareholders' equity | 49,899,620 |
| Total liabilities and shareholders' equity | 68,609,655 |

***Notes: —***

**(1) Basis of presentation**

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

The consolidated results of the Group for the six months ended June 30, 1998 included the results of the Company and its subsidiaries in Guangdong and Zhejiang provinces for the six months ended June 30, 1998 and the post-acquisition results of its subsidiary in Jiangsu province for the period from June 4, 1998 to June 30, 1998.

**(2) Turnover**

Turnover primarily represents usage fees, monthly fees and connection fees for the use of the Group's cellular telephone networks, net of the People's Republic of China (''PRC'') business tax and government surcharges. Business tax and government surcharges are charged at approximately 3.3% of the corresponding revenue.

**(3) Other operating revenue**

Other operating revenue primarily represents telephone number selection fees, value-added services fees and interconnection income in respect of calls made by other networks' subscribers using the Group's cellular networks.

**(4) Profit before tax and minority interests**

Included in profit before tax and minority interests are an amount of Rmb 288,514,000 (1998: Rmb 1,176,239,000) representing the interest income of the Group, of which Rmb 188,753,000 (1998: Rmb 1,082,712,000) relates to the interest income earned by the Company from the proceeds received on the issue of new shares in 1997, and a provision for diminution in value of part of the TACS network communication equipment made by the Group of Rmb 500,150,000 (1998: Rmb 84,000,000).

**(5) Income tax**

| | Audited | Unaudited | Unaudited |
|---|---|---|---|
| | For the six months ended June 30, 1999 consolidated | For the six months ended June 30, 1999 consolidated | For the six months ended June 30, 1998 consolidated |
| | Rmb'000 | Rmb'000 | Rmb'000 |
| Provision for Hong Kong profits tax for the period | — | — | 3,421 |
| Overprovision of Hong Kong profits tax in respect of prior periods | (682) | (682) | — |
| Overprovision of PRC income tax in respect of prior periods | (13,066) | (13,066) | — |
| Provision for PRC income tax on the estimated taxable profits for the period | 2,145,268 | 2,119,127 | 1,357,497 |
| Deferred tax | (161,298) | (161,298) | (3,031) |
| | 1,970,222 | 1,944,081 | 1,357,887 |

The provision for Hong Kong profits tax is calculated at 16% (1998: 16%) of the estimated assessable profits for the six months ended June 30, 1999. Pursuant to the income tax rules and regulations of the PRC, the profit of the Group's subsidiaries in the PRC are subject to the statutory income tax rate of 33% (1998: 33%) for the six months ended June 30, 1999. 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 income tax at the rate of 33 per cent with effect from August 26, 1998 for the Group's subsidiary in Jiangsu province.

**(6) Earnings per share**

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended June 30, 1999 is based on the consolidated profit attributable to shareholders of Rmb 4,003,454,000 (1998: Rmb 3,472,219,000) and the weighted average number of 11,782,884,685 shares (1998: 11,780,788,000 shares) in issue during the six months ended June 30, 1999.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended June 30, 1999 is based on the consolidated profit attributable to shareholders of Rmb 4,003,454,000 (1998: Rmb 3,472,219,000) and the weighted average number of 11,785,447,499 shares (1998: 11,782,488,765 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 Company's directors under the Company's share option scheme which, if converted to ordinary shares, would decrease profit attributable to shareholders per share.

(c) Reconciliations

| | 1999<br>Number of shares | 1998<br>Number of shares |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 11,782,884,685 | 11,780,788,000 |
| Deemed issue of ordinary shares for no consideration | 2,562,814 | 1,700,765 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 11,785,447,499 | 11,782,488,765 |

**Transfers To and From Reserves**

There were no transfers to or from the PRC statutory reserve and the general reserve of the Group during the six months ended June 30, 1999.

**3. Indebtedness**

At the close of business on August 31, 1999, being the latest practicable date for the purpose of this indebtedness statement, the Group had total outstanding borrowings of approximately RMB 6,143 million in aggregate. These borrowings comprise unsecured bank loans of approximately RMB 5,321 million and other unsecured loans of approximately RMB 822 million.

Approximately RMB 3,050 million of the unsecured bank loans and other unsecured loans of approximately RMB 48 million are guaranteed by related 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 August 31, 1999 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 Accounts of the Combined Group gives effect to the following transactions as if such transactions had taken place on January 1, 1998. A description of the transactions is as follows:

(i) Acquisition of the Fujian Mobile, Henan Mobile and Hainan Mobile at consideration of HK$49,715 million (equivalent to approximately RMB 52,967 million) in the form of cash and shares;

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

(iii) the issuance of shares by the Company pursuant to an international offering resulting in cash proceeds of approximately RMB 13,658 million for financing the cash portion of the acquisition consideration; and

(iv) the issuance of notes of the Company resulting in cash proceeds of approximately RMB 4,139 million for financing the cash portion of the acquisition consideration.

It is assumed that the above transactions would have given rise to interest expenses incurred attributable to the issuance of the notes, at an interest rate of 8% per annum as if such issuance were consummated on January 1, 1998.

The accompanying Unaudited Pro Forma Balance Sheet of the Combined Group as at June 30, 1999 gives effect to the Acquisition and the financing transactions described above as if they had been consummated on June 30, 1999. The accompanying Unaudited Pro Forma Profit and Loss Accounts of the Combined Group for the year ended December 31, 1998 and for the six-month period ended June 30, 1999 have been further adjusted to give effect to the Acquisition and the financing transactions described above as if they had been consummated on January 1, 1998.

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 1998, 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 new operating and other agreements entered into by the Target Group.

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 June 30, 1999**

| | Target Group historical | The Group historical | Pro Forma adjustments | Note | Adjusted balance |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | | RMB'000 |
| **Operating revenue** | | | | | |
| Usage fees | 3,160,460 | 11,012,153 | | | 14,172,613 |
| Monthly fees | 817,041 | 2,080,559 | | | 2,897,600 |
| Connection fees | 298,605 | 2,416,866 | | | 2,715,471 |
| Others | 267,223 | 1,430,359 | | | 1,697,582 |
| | 4,543,329 | 16,939,937 | | | 21,483,266 |
| **Operating expenses** | | | | | |
| Leased lines | 547,033 | 2,013,919 | | | 2,560,952 |
| Interconnection | 650,722 | 2,774,985 | | | 3,425,707 |
| Depreciation | 942,192 | 3,296,403 | | | 4,238,595 |
| Personnel | 78,942 | 680,386 | | | 759,328 |
| Selling, general and administrative and others | 882,089 | 2,662,332 | | | 3,544,421 |
| | 3,100,978 | 11,428,025 | | | 14,529,003 |
| Operating profit | 1,442,351 | 5,511,912 | | | 6,954,263 |
| Other income | 23,197 | 269,859 | | | 293,056 |
| Non-operating income | 15,182 | 298,600 | (65,648) | (a) | 248,134 |
| Interest expense | (76,731) | (106,695) | (165,574) | (b) | (349,000) |
| Profit before tax | 1,403,999 | 5,973,676 | | | 7,146,453 |
| Income tax | (189,468) | (1,970,222) | | | (2,159,690) |
| Net profit | 1,214,531 | 4,003,454 | | | 4,986,763 |
| Basic and diluted earnings per share/Pro Forma share | | RMB 0.34 | | | RMB 0.37 |
| Shares or Pro Forma shares utilised in basic calculations (thousands) | | 11,782,885 | | | 13,516,099 |
| Shares or Pro Forma shares utilised in diluted calculation (thousands) | | 11,785,447 | | | 13,518,662 |

**Unaudited Pro Forma Profit and**
**Loss Account of the Combined Group**
**For the year ended December 31, 1998**

| | Target Group historical | The Group historical | Pro Forma adjustments | Note | Adjusted balance |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | | RMB'000 |
| **Operating revenue** | | | | | |
| Usage fees | 4,503,047 | 16,345,713 | | | 20,848,760 |
| Monthly fees | 1,164,562 | 4,347,218 | | | 5,511,780 |
| Connection fees | 1,029,462 | 3,323,191 | | | 4,352,653 |
| Others | 291,104 | 2,329,271 | | | 2,620,375 |
| | 6,988,175 | 26,345,393 | | | 33,333,568 |
| **Operating expenses** | | | | | |
| Leased lines | 832,759 | 3,917,362 | | | 4,750,121 |
| Interconnection | 400,539 | 4,752,339 | | | 5,152,878 |
| Depreciation | 1,412,211 | 4,598,151 | | | 6,010,362 |
| Personnel | 120,633 | 1,336,010 | | | 1,456,643 |
| Selling, general and administrative and others | 1,737,556 | 4,089,036 | | | 5,826,592 |
| | 4,503,698 | 18,692,898 | | | 23,196,596 |
| Operating profit | 2,484,477 | 7,652,495 | | | 10,136,972 |
| Other income / (expenses) | (12,464) | 335,934 | | | 323,470 |
| Non-operating income | 6,015 | 1,557,842 | (190,174) | (a) | 1,373,683 |
| Interest expense | (38,272) | (159,751) | (331,148) | (b) | (529,171) |
| Profit before tax and minority interests | 2,439,756 | 9,386,520 | | | 11,304,954 |
| Income tax | (155,062) | (2,485,950) | | | (2,641,012) |
| Profit before minority interests | 2,284,694 | 6,900,570 | | | 8,663,942 |
| Minority interests | — | (728) | | | (728) |
| Net profit | 2,284,694 | 6,899,842 | | | 8,663,214 |
| Basic and diluted earnings per share / Pro Forma share | | RMB 0.59 | | | RMB 0.64 |
| Shares or Pro Forma shares utilised in basic calculation (thousands) | | 11,780,788 | | | 13,514,002 |
| Shares or Pro Forma shares in utilised diluted calculation (thousands) | | 11,782,521 | | | 13,515,735 |

## Unaudited Pro Forma Balance Sheet of the Combined Group at June 30, 1999

| | Target Group historical | The Group historical | Pro Forma adjustments | Note | Adjusted balance |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | | RMB'000 |
| **Assets** | | | | | |
| Current assets | | | | | |
| Cash and bank balances | 1,623,993 | 22,790,446 | (2,478,755) | (c) | 21,935,684 |
| Accounts receivable | 932,658 | 3,243,645 | | | 4,176,303 |
| Other receivables | 93,138 | 449,404 | | | 542,542 |
| Inventories | 90,770 | 85,679 | | | 176,449 |
| Prepaid expenses and other current assets | 11,337 | 296,191 | | | 307,528 |
| Amounts due from related parties | 1,470,162 | 353,524 | | | 1,823,686 |
| Total current assets | 4,222,058 | 27,218,889 | | | 28,962,192 |
| Fixed assets | 10,684,361 | 35,296,922 | | | 45,981,283 |
| Construction in progress | 1,724,792 | 5,750,506 | | | 7,475,298 |
| Interest in associated companies | 15,730 | 30,430 | | | 46,160 |
| Deferred tax assets | 13,235 | 312,908 | | | 326,143 |
| **Total assets** | 16,660,176 | 68,609,655 | | | 82,791,076 |
| **Liabilities and owners' equity** | | | | | |
| Current liabilities | | | | | |
| Accounts payable | 1,509,625 | 4,855,372 | | | 6,364,997 |
| Bank and other loans | 1,857,426 | 4,994,837 | | | 6,852,263 |
| Taxes payable | 124,644 | 2,106,520 | | | 2,231,164 |
| Current installment of obligations under finance lease | 68,105 | — | | | 68,105 |
| Amounts due to related parties | 959,634 | 548,942 | | | 1,508,576 |
| Accrued expenses and other payables | 695,456 | 3,364,011 | | | 4,059,467 |
| Total current liabilities | 5,214,890 | 15,869,682 | | | 21,084,572 |
| Bank and other loans | 1,780,250 | 1,200,462 | | | 2,980,712 |
| Deferred revenue | — | 1,639,891 | | | 1,639,891 |
| Obligations under finance lease excluding current instalments | 141,100 | — | | | 141,100 |
| Notes | — | — | 4,138,850 | (d) | 4,138,850 |
| **Total liabilities** | 7,136,240 | 18,710,035 | | | 29,985,125 |
| | | | 46,349,234 | (e) | |
| | | | (9,523,936) | (f) | |
| Owners' equity | 9,523,936 | 49,899,620 | (43,442,903) | (g) | 52,805,951 |
| **Total liabilities and owners' equity** | 16,660,176 | 68,609,655 | | | 82,791,076 |

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

(a) To adjust for 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, 1998. This interest income is not subject to income tax.

(b) To record the interest expense as a result of the use of proceeds attributable to the issuance of the notes, at an interest rate of 8% per annum as if such issuance were consummated on January 1, 1998. The interest expense of the notes is 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 June 30, 1999.

(d) To record the liability arising from the issuance of notes for financing the Acquisition of the Target Group as at June 30, 1999.

(e) To record the additional share capital arising from the issuance of shares pursuant to an international offering and to China Telecom Hong Kong (BVI) Limited for financing the Acquisition of the Target Group as at June 30, 1999.

(f) To eliminate the owners' equity of the Target Group as at June 30, 1999.

(g) To record goodwill as a result of Acquisition of the Target Group as if the Acquisition had taken place on June 30, 1999. The goodwill has been eliminated against reserves of the Company. Goodwill represents the difference between the purchase consideration of HK$49,715 million (equivalent to approximately RMB 52,967 million) and the estimated fair value of the underlying net assets of the Target Group as at June 30, 1999.

**2. Working Capital**

The Directors are of the opinion that after taking into account the proceeds from the Equity Offering and Debt Offering, the Combined Group will, following the completion of the Acquisition, have sufficient working capital for its present requirements in the absence of unforeseen circumstances.

**3. Indebtedness**

At the close of business on August 31, 1999, being the latest practicable date for the purpose of this indebtedness statement, the Combined Group had outstanding borrowings of approximately RMB 9,983 million in aggregate. These borrowings comprise unsecured bank loans of approximately RMB 8,986 million, other unsecured loans of approximately RMB 828 million and finance lease obligations of approximately RMB 169 million.

Approximately RMB 4,925 million of the unsecured bank loans, approximately RMB 48 million of unsecured loans and the finance lease obligations of approximately RMB 169 million are guaranteed by related parties.

Save as aforesaid and a part from intra-group liabilities, none of the companies in the Combined Group had outstanding at the close of business on August 31, 1999 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 Fujian Mobile, Henan Mobile and Hainan Mobile (the ''Target Group'') for the year ending December 31, 1999 is set out in the section headed ''Prospective Financial Information'' in the Letter from the Chairman.

**(A) Bases and Assumptions**

The Management of Fujian Mobile, Henan Mobile and Hainan Mobile have prepared the forecast combined profit after taxation but before extraordinary items of Fujian Mobile, Henan Mobile and Hainan Mobile for the year ending December 31, 1999. The Management of Fujian Mobile, Henan Mobile and Hainan Mobile are not currently aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending December 31, 1999. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by Fujian Mobile, Henan Mobile and Hainan Mobile 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 Fujian Mobile, Henan Mobile and Hainan Mobile;

(3) inflation, interest rates and Renminbi exchange rates will not differ materially from those prevailing as at the date of this circular; and

(4) there will be no material changes in the bases or rates of taxation appropriate to Fujian Mobile, Henan Mobile and Hainan Mobile, except as otherwise disclosed in this circular.

**(B) Letters**

Set out below are the texts 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

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

October 16, 1999

The Directors
China Telecom (Hong Kong) Limited
Goldman Sachs (Asia) L.L.C.
China International Capital
Corporation (Hong Kong) Limited

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 Fujian Mobile Communication Company Limited (''Fujian Mobile''), Henan Mobile Communication Company Limited (''Henan Mobile'') and Hainan Mobile Communication Company Limited (''Hainan Mobile'') (''the Target Group'') for the year ending December 31, 1999, for which the Management of Fujian Mobile, Henan Mobile and Hainan Mobile are solely responsible, as set out in the circular dated October 16, 1999 issued by the Company. The forecast is based on the audited combined results of the Target Group for the six months ended June 30, 1999 and a forecast for the remaining six months of the year ending December 31, 1999.

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 Management of Fujian Mobile, Henan Mobile and Hainan Mobile, respectively, 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 October 16, 1999 the text of which is set out in Appendix III of the said circular.

Yours faithfully

**KPMG**

Certified Public Accountants

Goldman Sachs (Asia) L.L.C.
68th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

China International Capital Corporation
(Hong Kong) Limited
Room 4302, 43rd Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

October 16, 1999

The Directors
China Telecom (Hong Kong) Limited
16/F Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

We refer to the forecast of the combined profit after taxation but before extraordinary items of Fujian Mobile Communication Company Limited (''Fujian Mobile''), Henan Mobile Communication Company Limited (''Henan Mobile'') and Hainan Mobile Communication Company Limited (''Hainan Mobile'') for the year ending December 31, 1999 as set out in the circular issued by the Company dated October 16, 1999.

We have discussed with you the bases and assumptions upon which the profit forecast has been made. We have also considered the letter dated October 16, 1999 addressed to yourselves and ourselves 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 Fujian Mobile, Henan Mobile and Hainan 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 Fujian Mobile, Henan Mobile and Hainan Mobile are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
**GOLDMAN SACHS (ASIA) L.L.C.**
Frank K. Tang
Executive Director

Yours faithfully,
For and on behalf of
**CHINA INTERNATIONAL CAPITAL CORPORATION (HONG KONG) LIMITED**
Michael M. Chang
General Manager

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 July 31, 1999.

Chesterton
PETTY
卓德

International Property Consultants

Chesterton Petty Ltd
16/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

October 16, 1999

The Directors
China Telecom (Hong Kong) Limited
16th Floor Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

Dear Sirs

In accordance with your instructions to value the properties held by Henan Mobile, Fujian Mobile and Hainan Mobile (herein together referred to as the ''Target Companies'') in 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 properties as at July 31, 1999.

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 property would 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 the 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;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion''.

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 property nos. 1 to 3 in Group II of Category A by reference to sales evidence as available on the market and where appropriate on the basis of capitalization of the net income shown on the leasing contracts handed to us and in appropriate cases made provisions for reversionary income potential. For the rest of the properties in Category A, due to the fact that the specific uses for those properties have been restricted, there are no readily identifiable market comparables, 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 economical, physical 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 Category B, which are under construction, have been valued by reference to sales evidence taking into account of 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 Category C (listed in our valuation summary only) which are leased by the Target Companies have no commercial value due to the prohibition against assignment, sub-letting or lack of substantial profit rent.

In the course of our valuation, we have assumed that transferable land use rights in respect of the properties for their respective specific terms at nominal land use fees have been granted and that premium payable has already been fully paid. In valuing the properties, we have also assumed that the Target Companies have an enforceable legal title to each of the properties and have free and uninterrupted rights to use, occupy or assign (unless otherwise prohibited under some leases) the properties for the whole of the respective unexpired terms as granted.

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 Target Companies and its legal advisers on PRC laws regarding the titles of the properties.

We have relied to a very considerable extent on information given by the Target Companies and the legal opinion of Commerce & Finance Law Office. We have no reason to doubt the truth and accuracy of the information provided to us by the Target Companies and/or its PRC legal advisers 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, occupancy status, 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 Target Companies that no material facts have been omitted from the information supplied.

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 of the properties in Category B 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 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 affecting a sale. Unless otherwise stated, it is assumed that all properties are free from encumbrances, restrictions and outgoing 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 of the Listing Rules of 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 and there has been no significant fluctuation in the exchange rate for Renminbi against Hong Kong dollars between that and the date of this letter.

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 MCIArb RPS(GP)
Executive Director

Note: Mr Charles C K Chan, A.R.I.C.S., F.H.K.I.S., M.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

### Category A

### Group I — Properties held by Henan Mobile in Henan Province of the PRC

| | Property | Open market value in existing state as at July 31, 1999 RMB | HK$ |
|---|---|---|---|
| 1. | Portion of the Guesthouse Building, 186 Zhongzhouzhong Road, Xigong District, Luoyang, Henan Province, The PRC | 2,530,000 | 2,364,486 |
| 2. | A building at Changchun Road, Luanchuan County, Luoyang, Henan Province, The PRC | 150,000 | 140,187 |
| 3. | Two buildings in Gaolongyuan PTB, Yanshi Shi, Luoyang, Henan Province, The PRC | 140,000 | 130,841 |
| 4. | An office building,19 Xinningzhong Road, Luoning County, Luoyang, Henan Province, The PRC | 1,360,000 | 1,271,028 |
| 5. | A composite building at Suohe Road Dong, Xingyang Shi, Zhengzhou, Henan Province, The PRC | 5,810,000 | 5,429,907 |
| 6. | A composite building at Jicheng Road, Xihua County, Zhoukou, Henan Province, The PRC | 540,000 | 504,673 |
| 7. | Various units in Telecom Composite Building at Qinhan Road, Xia County, Shanmenxia, Henan Province, The PRC | 1,050,000 | 981,308 |
| | Sub-total | 11,580,000 | 10,822,430 |

### Group II — Properties held by Fujian Mobile in Fujian Province of the PRC

| | Property | Open market value in existing state as at July 31, 1999 RMB | HK$ |
|---|---|---|---|
| 1. | Wushan Building, 59 Qushan Road, Gulou District, Fuzhou, Fujian Province, The PRC | 89,030,000 | 83,205,607 |
| 2. | A portion of Level 1 and portions on each level from Level 2 to Level 12 of Zhuwei Composite Building, Junction of southwestern corner of Xinpu Road and Dongyihao, Zhangzhou, Fujian Province, The PRC | 25,360,000 | 23,700,935 |
| 3. | Portion of ground floor and three carparking spaces on ground floor, Block No. 72, Chonggui Xin Village, Meilie District, Sanming, Fujian Province, The PRC | 2,110,000 | 1,971,963 |
| 4. | Level 5 in Shanhou Telecom Ancillary Building, Shanhou Village, Haicheng Town, Longhai County, Zhangzhou, Fujian Province, The PRC | 810,000 | 757,009 |
| | Sub-total | 117,310,000 | 109,635,514 |

### Group III — Property held by Hainan Mobile in Hainan Province of the PRC

| | Property | Open market value in existing state as at July 31, 1999 RMB | HK$ |
|---|---|---|---|
| 1. | Telecom Composite Building, Telecom Fen Qu, Jinjiling, Sanya, Hainan Province, The PRC | 9,220,000 | 8,616,822 |
| | Sub-total | 9,220,000 | 8,616,822 |

## Category B

### Group I — Properties Under Development held by Henan Mobile in Henan Province of the PRC

| Property | Open market value in existing state as at July 31, 1999 | |
|---|---|---|
| | RMB | HK$ |
| 1. A composite building at Huaishang Road, Beiguan, Huaiyang County, Zhoukou, Henan Province, The PRC | 1,220,000 | 1,140,187 |
| 2. Two buildings in No. 3 sub-branch development, Junction of Jianshe Road and Dongyuanhe Road, Pingdingshan, Henan Province, The PRC | 1,400,000 | 1,308,411 |
| Sub-total: | 2,620,000 | 2,448,598 |

### Group II — Property Under Development held by Hainan Mobile in Hainan Province of the PRC

| Property | Open market value in existing state as at July 31, 1999 | |
|---|---|---|
| | RMB | HK$ |
| 1. Jinmao Composite Building, A4 Small District, Southern Portion of Financial Trading District, Haikou, Hainan Province, The PRC | 34,480,000 | 32,224,299 |
| Sub-total: | 34,480,000 | 32,224,299 |
| Grand-total: | 175,210,000 | 163,747,664 |

## Category C

### Group I — Properties leased by Henan Mobile in Henan Province of the PRC

| Property | Open market value in existing state as July 31, 1999 |
|---|---|
| 1. Carport at Zhong Main Street, Ruzhou Shi, Pingdingshan, Henan Province, The PRC | No commercial value |
| 2. Dong Building at Longxingbei Road, Baofeng County, Pingdingshan, Henan Province, The PRC | No commercial value |
| 3. Bei Building at Longxingbei Road, Baofeng County, Pingdingshan, Henan Province, The PRC | No commercial value |
| 4. Xixiao Building at Longxibei Road, Baofeng County, Pindingshan, Henan Province, The PRC | No commercial value |
| 5. Level 2 and Level 3 in Xi Building at Longxingbei Road, Baofeng County, Pindingshan, Henan Province, The PRC | No commercial value |
| 6. Tele-exchange Building and three ancillary buildings at Yelian Road, Ye County, Pingdingshan, Henan Province, The PRC | No commercial value |
| 7. No. 3 Sub-branch Composite Building in Zhulan, Wugang County, Pingdingshan, Henan Province, The PRC | No commercial value |
| 8. Four single-storey buildings, 36 Shichang Street, Pingdingshan, Henan Province, The PRC | No commercial value |
| 9. Fuguangyi building at Dongmen of Chinese Medicine Hospital at Zhongxing Road, Pingdingshan, Henan Province, The PRC | No commercial value |

| | Property | Open market value in existing state as July 31, 1999 |
|---|---|---|
| 10. | Bei Building, 41 Xiangyang Road West, Lushan County, Pingdingshan, Henan Province, The PRC | No commercial value |
| 11. | Hong Building, 53 Renmin Road, Lushan County, Pingdingshan, Henan Province, The PRC | No commercial value |
| 12. | Post Office Guesthouse at Xinchengzhong Road, Xia County, Pingdingshan, Henan Province, The PRC | No commercial value |
| 13. | Post & Telecom Composite Building at Xinchengzhong Road, Xia County, Pingdingshan, Henan Province, The PRC | No commercial value |
| 14. | Two buildings in No. 3 Sub-branch at 107 National Road, Jinniushan, Xingyang Shi, Xinyang, Henan Province, The PRC | No commercial value |
| 15. | Portion of the Office Building at Yuejindong Road, Huangchuan County, Xinyang, Henan Province, The PRC | No commercial value |
| 16. | Composite Building in Huaibin County, Xinyang, Henan Province, The PRC | No commercial value |
| 17. | Warehouse in Chengbei Sanliwin, Luoshan County, Xinyang, Henan Province, The PRC | No commercial value |
| 18. | Level 2 of Luoshan PTB West Courtyard, Luoshan County, Xinyang, Henan Province, The PRC | No commercial value |
| 19. | Post & Telecom Composite Building, 168 Zheng Main Street, Quanshan County, Xinyang, Henan Province, The PRC | No commercial value |
| 20. | Staff Quarter at Donghuan Road, Xi County, Xinyang, Henan Province, The PRC | No commercial value |
| 21. | A single-storey building at Donghuan Road, Xi County, Xinyang, Henan Province, The PRC | No commercial value |
| 22. | Portion of the Telecom Building, 65 Dongfang Main Street, Xinyang, Henan Province, The PRC | No commercial value |
| 23. | Level 1 of the Post & Telecom Building, Luoshan County, Xinyang, Henan Province, The PRC | No commercial value |
| 24. | A room in Post & Telecom Building, 2 Yingyuan Street, Shangcheng County, Xinyang, Henan Province, The PRC | No commercial value |
| 25. | Portion of the Telecom Building at Xi Main Street, Shangcheng County, Xinyang, Henan Province, The PRC | No commercial value |
| 26. | Yingbin Staff-quarter at Yingbinzhong Road, Gushi County, Xinyang, Henan Province, The PRC | No commercial value |
| 27. | A unit to level 1 of China Construction Bank Office Building in Xiguan, Gushi County, Xinyang, Henan Province, The PRC | No commercial value |
| 28. | Block 3, 53 Renmin Road, Pingqiao District, Xinyang, Henan Province, The PRC | No commercial value |
| 29. | Machine Building, 002 Gaoxin Sanshan Road, Luoyang Shi, Luoyang, Henan Province, The PRC | No commercial value |
| 30. | Four buildings, structures and ancillary buildings, 2 Sanshan Road, Luoyang, Henan Province, The PRC | No commercial value |
| 31. | Two office buildings at Xinhua Road, Ruyang County, Luoyang, Henan Province, The PRC | No commercial value |

| Property | Open market value in existing state as July 31, 1999 |
|---|---|
| 32. Two production buildings at Daokang Brewery, Ruyang County, Luoyang, Henan Province, The PRC | No commercial value |
| 33. 8 units in Level 2 of Yanshi Telecom Building, Shangdu Road, Yanshi County, Luoyang, Henan Province, The PRC | No commercial value |
| 34. Level 2 and Level 3 of the Ancillary Building at Minzhu Street, Yichuan County, Luoyang, Henan Province, The PRC | No commercial value |
| 35. Composite Building at Duan Village, Yiyang County, Luoyang, Henan Province, The PRC | No commercial value |
| 36. Portion of the Telecom Building, 216 Zhongzhouzhong Road, Luoyang, Henan Province, The PRC | No commercial value |
| 37. Guard Room, 13 Jiankangxi Road, Luoyang, Henan Province, The PRC | No commercial value |
| 38. Two single-storey buildings, 19 Dingjia Street, Laocheng, Luoyang, Henan Province, The PRC | No commercial value |
| 39. A building in PTB Courtyard, Jili District, Luoyang, Henan Province, The PRC | No commercial value |
| 40. Level 1 and Level 3 of PTB Production Building and Dong Building in County Centre of Mengjin County, Luoyang, Henan Province, The PRC | No commercial value |
| 41. Huimeng Building in Huimeng Town, Mengjin County, Luoyang, Henan Province, The PRC | No commercial value |
| 42. A single-storey building in Huimeng Town, Mengjin County, Luoyang, Henan Province, The PRC | No commercial value |
| 43. Lucun Building at Huimeng Town, Mengjin County, Luoyang, Henan Province, The PRC | No commercial value |
| 44. A building in the construction site in Huimeng Town, Mengjin County, Luoyang, Henan Province, The PRC | No commercial value |
| 45. Matun Building and power room in Xiaolangdi Town, Mengjin County, Luoyang, Henan Province, The PRC | No commercial value |
| 46. Baihe Building in Baihe, Mengjin County, Luoyang, Henan Province, The PRC | No commercial value |
| 47. Portion of the PTB Production Building, 51 Suizhou Main Street, Xian County, Luoyang, The PRC | No commercial value |
| 48. Portion of the PTB Production Building, 2 Renmin Road, Song County, Luoyang, The PRC | No commercial value |
| 49. Level 1 of PTB Building, Yiyang County, Luoyang, Henan Province, The PRC | No commercial value |
| 50. Level 1 of PTB Building at Shizi Street in County Centre, Luchuan County, Luoyang, Henan Province, The PRC | No commercial value |
| 51. Two units in Level 1 of Post and Telecom Building, Minzhu Street, Yichuan County, Luoyang, Henan Province, The PRC | No commercial value |
| 52. A retail unit in PTB Building, Dianhu Town, Song County, Luoyang, Henan Province, The PRC | No commercial value |
| 53. A retail unit in PTB Building, Che Village, Song County, Luoyang, Henan Province, The PRC | No commercial value |

| Property | Open market value in existing state as July 31, 1999 |
|---|---|
| 54. Portion of the 29 Shi PTB Sub-branch, opposite Route No. 1 Bus station at Huanghe Road West, Sanmenxia, Henan Province, The PRC | No commercial value |
| 55. Portion of A retail unit in the PTB Composite Building in Liulounan, Linbao County, Sanmenxia, Henan Province, The PRC | No commercial value |
| 56. 3 units on Level 2 of the 3-storey building and 7 units on Level 1 of the 2-storey building in PTB Courtyard, Lushi County, Shamenxia Henan Province, The PRC | No commercial value |
| 57. PTB Main Building, various units in PTB East Building and two units in the ancillary building, 2122 Zhujiang Road, Yimashi, Shamenxia, Henan Province, The PRC | No commercial value |
| 58. Portion of the Mobile Production Office Building and ancillary buildings in North side of No. 1 Courtyard at Yangshao Main Street, Mianchi County, Shamenxia, Henan Province, The PRC | No commercial value |
| 59. Portion of the Post & Telecom Building, 18 Jincheng Main Road, Lingbao County, Sanmenxia, Henan Province, The PRC | No commercial value |
| 60. Two units in two buildings at Xi Street in County Centre, Lushi County, Sanmenxia, Henan Province, The PRC | No commercial value |
| 61. Portion of the Xiaozhuang Composite Building, 368 Shitanan Road, Jiaozuo, Henan Province, The PRC | No commercial value |
| 62. Portion of No. 2 Sub-branch Telecom Building, 139 Jiefang Road, Jiaozuo, Henan Province, The PRC | No commercial value |
| 63. Portion of the Mobile Composite Building, 51 Huaifuxi Road, Qinyang County, Jiaozuo, Henan Province, The PRC | No commercial value |
| 64. A single-storey building, 198 Huanxi Road, Xinwu County, Jiaozuo, Henan Province, The PRC | No commercial value |
| 65. Portion of the Composite Building and ancillary buildings, 75 Hinghua Road, Wuzhi County, Jiaozuo, Henan Province, The PRC | No commercial value |
| 66. Portion of the Old PTB building at Dong Main Street, Wuzhi County, Jiaozuo, Henan Province, The PRC | No commercial value |
| 67. Portion of a 3-storey building in Town Centre, Wen County, Jiaozhu, Henan Province, The PRC | No commercial value |
| 68. Level 2 of Dong Er Building in Xicheng Sub-branch, Boai County, Jiaozuo, Henan Province, The PRC | No commercial value |
| 69. Two units in Level 1 of the Dongcheng Sub-branch, Boai County, Jiaozuo, Henen Province, The PRC | No commercial value |
| 70. Portion of the Telecom Production Building, 298 Huanxi Road, Wuzhi County, Jiaozuo, Henan Province, The PRC | No commercial value |
| 71. Portion of the PTB Building in Mengzhou County, Jiaozuo, Henan Province, The PRC | No commercial value |
| 72. A building in Shanbexin Village, Jiyuan, Henan Province, The PRC | No commercial value |
| 73. Portion of the Post and Telecom Sub-branch in Yaqiao Village, Jiyuan, Henan Province, The PRC | No commercial value |
| 74. Portion of the Jiyuan PTB Building, jiyuan, Henan Province, The PRC | No commercial value |

| Property | Open market value in existing state as July 31, 1999 |
|---|---|
| 75. Yanggang Composite Building, Junction of Heping Road, 53 Beiling and Dongling Heping Road, Hongqi District, Xinxiang, Henan Province, The PRC | No commercial value |
| 76. A building in Bei Courtyard at Xianchangxi Street, Changyuan County, Xinxiang, Henan Province, The PRC | No commercial value |
| 77. Bei Building in Bei Courtyard at Xianchangxi Street, Changyuan County, Xinxiang, Henan Province, The PRC | No commercial value |
| 78. Level 6 in Telecom Building, 1 Nan Main Street, Fengqiu County, Xinxiang, Henan Province, The PRC | No commercial value |
| 79. Portion of the Carport Building and portion of the Telecom Building in Weihui PTB Courtyard, Weihui Main Road, Weihui, Xianxiang, Henan Province, The PRC | No commercial value |
| 80. Eastern Portion in Level 4 of Telecom Building, 4 Jianshe Street, Chengquan Town, Yuanyang County, Xinxiang, Henan Province, The PRC | No commercial value |
| 81. Level 1 and 2 in Xinxiang County PTB Building, Laodongnan Road, Xinxiang, Henan Province, The PRC | No commercial value |
| 82. Level 2 in East Building of Mobile Office Buildings, 12 Hongqi Street, Huajia County, Xinxiang, Henan Province, The PRC | No commercial value |
| 83. Portion of the Mobile Office Building, 11 Dong Main street, Ynjin County, Xinxiang, Henan Province, The PRC | No commercial value |
| 84. Portion of the Telecom Building and ancillary buildings, 192 Heping Road, Hongqi District, Xinxiang, Henan Province, The PRC | No commercial value |
| 85. A retail unit in Level 1 of South Building, 1 Shichangbei Street, Beizhan District, Xinxiang, Henan Province, The PRC | No commercial value |
| 86. Level 1 and Level 2 of 22nd Sub-branch, 16 Pingyuan Road, Xinha District, Xinxiang, Henan Province, The PRC | No commercial value |
| 87. Portion of the Post & Telecom Building, 89 Chengnei Dong Main Street, Hui County, Xinxiang, Henan Province, The PRC | No commercial value |
| 88. Tele-exchange Building and four ancillary buildings at junction of Dongfeng Road and Anzhang Road, Anyang, Henan Province, The PRC | No commercial value |
| 89. Portion of the Office Building, Bei Building and ten ancillary buildings in Supply Department at Tiexi Road, Anyang, Henan Province, The PRC | No commercial value |
| 90. Portion of the Post Office Building West Block, 72 Renmin Road, Linzhou County, Anyang, Henan Province, The PRC | No commercial value |
| 91. Two units in Post Office Building North Block, 74 Renmin Road, Linzhou County, Anyang, Henan Province, The PRC | No commercial value |
| 92. Portion of the Composite Building at Jingzhong Road, Tangyan County, Anyang, Henan Province, The PRC | No commercial value |
| 93. Portion of the Sales Office at Yuemiao Street, Tangyan County, Anyang, Henan Province, The PRC | No commercial value |
| 94. Dong Building, 1 Gongren Road, Neihuang County, Anyang, Henan Province, The PRC | No commercial value |

| Property | Open market value in existing state as July 31, 1999 |
|---|---|
| 95. Administration Building at Jiefangnan Road, Taokou Town, Hua County, Anyang, Henan Province, The PRC | No commercial value |
| 96. Levels 6 to 8, Qibin Telecom Building at junction of Qihe Road South and Xinghe Main Street West, Hebi, Henan Province, The PRC | No commercial value |
| 97. Portion of the Zhongshan Sub-branch Telecom Building at West of the Zhongshan Road, Hebi, Henan Province, The PRC | No commercial value |
| 98. Portion of the Post & Telecom Sub-branch, Gao Village, Qi County, Hebi, Henan Province, The PRC | No commercial value |
| 99. Portion of the Post & Telecom Building, 13 Hongqi Road, Qi County, Hebi, Henan Province, The PRC | No commercial value |
| 100. Portion of the Post Production Building, 46 Huanchengbei Road, Jun County, Hebi, Henan Province, The PRC | No commercial value |
| 101. Portion of the Juqiao Production Building, south of the Jun Di Highway, Juqiao Town, Hebi, Henan Province, The PRC | No commercial value |
| 102. Portion of the Post and Telecom Sub-branch, Shaniang Town, Hebi, Henan Province, The PRC | No commercial value |
| 103. Portion of the Telecom Building and Carport, 17 Lingyuan Road, Lankao County, Kaifeng, Henan Province, The PRC | No commercial value |
| 104. Portion of Office Building in Bei Courtyard and portion of Sale Office Building in Nan Courtyard at Xingfu Road, Tongxu Country, Kaifeng, Henan Province, The PRC | No commercial value |
| 105. Portion of the Telecom North Building, 49 Wenhuadong Street, Qi County, Kaifeng, Henan Province, The PRC | No commercial value |
| 106. Portion of the Telecom South Building, 49 Wenhuadong Street, Qi County, Kaifeng, Henan Province, The PRC | No commercial value |
| 107. Portion of the office building, 57 Xi Main Street, Weishi County, Kaifeng, Henan Province, The PRC | No commercial value |
| 108. Portion of the 5th Sub-branch Telecom Composite Building, 17 Xueyuanmen, Kaifeng, Henan, The PRC | No commercial value |
| 109. A room in Telecom Building, 19 Xueyuanmen, Kaifeng, Henan, The PRC | No commercial value |
| 110. Portion of the 3rd Sub-branch, portion of the Post Office Buildings, portion of the Huangchenggen Hotel and seven ancillary buildings in 3rd Sub-branch, Binghe Road, Kaifeng, Henan Province, The PRC | No commercial value |
| 111. Portion of the Post Office Staff-quarter Building, 9 Xianfuxi Street, Kaifeng County, Kaifeng, Henan Province, The PRC | No commercial value |
| 112. Portion of the Post Office Composite Building, 9 Xianfuxi Street, Kaifeng County, Kaifeng, Henan Province, The PRC | No commercial value |
| 113. A retail unit in Shixin Restaurant, Xi Main Street, Weishi County, Kaifeng, Henan Province, The PRC | No commercial value |
| 114. Portion of the Exchange Building, 106 Shijianshe Road, Nanyang, Henan Province, The PRC | No commercial value |
| 115. A room in Level 3 of South Building in PTB Countyard, Nei County, Nanyang, Henan Province, The PRC | No commercial value |

| | Property | Open market value in existing state as July 31, 1999 |
|---|---|---|
| 116. | 7 rooms in basement of North Building in PTB Countyard, Nei County, Nanyang, Henan Province, The PRC | No commercial value |
| 117. | Four retail units in PTB Building Nei County, Nanyang, Henan Province, The PRC | No commercial value |
| 118. | Portion of the Composite Production Building at middle part of Yunan Road, Fangcheng County, Nanyang, Henan Province, The PRC | No commercial value |
| 119. | Portion of the Composite Building at West of Nanhuan Road, Fangcheng County, Nanyang, Henan Province, The PRC | No commercial value |
| 120. | Level 3 to Level 5 of PTB Building, 83 Shanxian Road, Dengzhou Nanyang, Henan Province, The PRC | No commercial value |
| 121. | Level 4 of Sheqi County PTB countyard, Sheqi County, Nanyang, Henan Province, The PRC | No commercial value |
| 122. | Portion of the Post & Telecom Building, 1 Xinmen Street, Chengguan Town, Tanghe County, Nanyang, The PRC | No commercial value |
| 123. | Level 4 and 3 rooms in Level 2 of the Composite Building, 92, Datong Street, Tongbai County, Nanyang, Henan Province, The PRC | No commercial value |
| 124. | Portion of the Post & Telecom Building, 168 Jiefang Road, Xichun County, Nanyang, Henan Province, The PRC | No commercial value |
| 125. | Level 6 and 3 units in Level 1, Tele-exchange Building at Renmin Road, Xinyie County, Nanyang, Henan Province, The PRC | No commercial value |
| 126. | Portion of the Post Office Building, 64 Hansang Road, Xinyie County, Nanyang, Henan Province, The PRC | No commercial value |
| 127. | Portion of the Wangzhuang Post Office Sub-branch, Wangzhuang Town, Xinyie County, Nanyang, Henan Province, The PRC | No commercial value |
| 128. | Portion of the Shian Post Office Sub-branch, Shian Town, Xinyie County, Nanyang, Henan Province, The PRC | No commercial value |
| 129. | Portion of the Shangzhuang Post Office Sub-branch, Shangzhuang Town, Xinyie County, Nanyang, Henan Province, The PRC | No commercial value |
| 130. | Portion of the Waizi Post Office Sub-branch, Waizi Town, Xinyie County, Nanyang, Henan Province, The PRC | No commercial value |
| 131. | A Composite Building at Xinhuaxi Road, Nanyang, Henan Province, The PRC | No commercial value |
| 132. | Portion of the Atmospheric Bureau House at South of the Huangyang Road, Nanyang, Henan Province, The PRC | No commercial value |
| 133. | Portion of the Post Office Production Building, 295 Renmin Road, Nanzhao County, Nanyang, Henan Province, The PRC | No commercial value |
| 134. | Portion of the Yunyang Communication Building in Yunyang Town, Nanzhao County, Nanyang, Henan Province, The PRC | No commercial value |
| 135. | Portion of the Telecom Sub-branch, in Huangludian Town, Nanzhao County, Nanyang, Henan Province, The PRC | No commercial value |
| 136. | Portion of the Telecom Office Building and portion of the Carport Building at Liangmao Main Street, Sheqi County, Nanyang, Henan Province, The PRC | No commercial value |
| 137. | Portion of the Telecom Building in Tongbai County, Nanyang, Henan Province, The PRC | No commercial value |

| | Property | Open market value in existing state as July 31, 1999 |
|---|---|---|
| 138. | Portion of the Telecom Building, 202 Gongyie Road, Nanyang, Henan Province, The PRC | No commercial value |
| 139. | Portion of the 38th Sub-branch at Qianjinlu Zhongduan, Zhumadian, Henan Province, The PRC | No commercial value |
| 140. | Portion of the 5502 Teaching House at Jiefang Road, Xiduan, Zhumadian , Henan Province, The PRC | No commercial value |
| 141. | A room in Shenzhuang National Revenue Bureau, North Countryside of Zhumadian, Henan Province, The PRC | No commercial value |
| 142. | A room in Jinqiao Development Zone, Zhumadian, Henan Province, The PRC | No commercial value |
| 143. | Portion of the PTB Building, 5 Xingzheng Road, Qinshui Town, Qinyang County, Zhumadian, Henan Province, The PRC | No commercial value |
| 144. | Portion of the Level 3 and a unit in Level 1 of Telecom Composite Building, 286 Jianshe Road, Suiping County, Zhumadian, Henan Province, The PRC | No commercial value |
| 145. | Portion of the Level 2 in Telecom Production Building, 234 Huchenghe Road, Xiping County, Zhumadian, Henan Province, The PRC | No commercial value |
| 146. | Portion of the Level 2 and portion of the Level 1 of Telecom Production Building, 9 Xi Main Street, Shangcai County, Zhumadian, Henan Province, The PRC | No commercial value |
| 147. | Portion of the Level 2 in the Post Office Building, Runan County, Zhumadian, Henan Province, The PRC | No commercial value |
| 148. | Portion of the Level 1 and Level 2 in the Post & Telecom Building, Pingyu County, Zhumadian, Henan Province, The PRC | No commercial value |
| 149. | Portion of the Level 4 and portion of the Level 1 in Telecom Composite Building, Xincai County, Zhumadian, Henan Province, The PRC | No commercial value |
| 150. | Portion of the Level 4 in the Telecom Composite Building ,17 Xia Street, Zhengyang County, Zhumadian, Henan Province, The PRC | No commercial value |
| 151. | Portion of the Level 2 and portion of the Level 1 in the Telecom Office Building, Gueshan County, Zhumadian, Henan Province, The PRC | No commercial value |
| 152. | A retail unit in Level 1 Jianyuan Building, Jiefang Road, Zhumadian, Henan Province, The PRC | No commercial value |
| 153. | Level 5 of Tele-exchange Building, 13 Shuizhaizhan Main Street, Xiangcheng County, Zhoukou, Henan province, The PRC | No commercial value |
| 154. | A retail unit and a single-storey building at Xizheng Road Shangshui County, Zhoukou, Henan Province, The PRC | No commercial value |
| 155. | Portion of the Post Office Building and portion of the Dong Office Building, 9 Xinjian Road, Fugou County, Zhokon, Henan Province, The PRC | No commercial value |
| 156. | Portion of the Office Building, portion of the Production Building and portion of the ancillary buildings at Xiean Road, Taihang County, Zhoukou, Henan Province, The PRC | No commercial value |

| Property | Open market value in existing state as July 31, 1999 |
|---|---|
| 157. Three rooms in Sanjiao Building and three retail units in a single-storey building, 1 Chengbei Main Street, Xihua County, Zhoukou, Henan Province, The PRC | No commercial value |
| 158. Portion of the Telecom Office Building, 2 Xinhua Street, Shenqiu County, Zhoukou, Henan Province, The PRC | No commercial value |
| 159. Portion of the Bank of China Building, Bayi Road, Zhoukou, Henan Province, The PRC | No commercial value |
| 160. Portion of the Telecom Production Building, 81 Qiyi Road, Zhoukou, Henan Province, The PRC | No commercial value |
| 161. Portion of the Production Building, 13 Xi Main Street, Shuizhai Town, Xiangcheng County, Zhoukou, Henan Province, The PRC | No commercial value |
| 162. Portion of the Dongquan Staff-quarter, opposite Dongquan Huixiao, Shenqiu County, Zhoukou, Henan Province, The PRC | No commercial value |
| 163. Portion of the Telecom Building, 1 Nan Main Street, Luyi County, Zhoukou, Henan Province, The PRC | No commercial value |
| 164. Portion of the 26th Sub-branch at Minzhudong Road, Shangqiu, Henan Province, The PRC | No commercial value |
| 165. Office Composite Building in Zhecheng Nanhuan PTB, Zhecheng County, Shangqiu, Henan Province, The PRC | No commercial value |
| 166. Portion of the Composite Building at Zhengxun Road, Zhecheng County, Shangqiu, Henan Province, The PRC | No commercial value |
| 167. Portion of Level 1, Level 2 and portion of Level 6 of the Office Composite Building, 1 Jiansherelu Road, Sui County, Shangqiu, Henan Province, The PRC | No commercial value |
| 168. Portion of the Office Building, 51 Zhongshan Street, Yongcheng County, Shangqiu, Henan Province, The PRC | No commercial value |
| 169. Portion of the Sale Office Building at Dongfang Main Road, Yongcheng County, Shangqiu, Henan Province, The PRC | No commercial value |
| 170. Portion of the Office Building in Beiquan, Yongcheng County, Shangqiu, Henan Province, The PRC | No commercial value |
| 171. Portion of the Office Building in Dongquan, Yongcheng County, Shangqiu, Henan Province, The PRC | No commercial value |
| 172. A retail unit in Yucheng PTB, Yucheng County, Shangqiu, Henan Province, The PRC | No commercial value |
| 173. Portion of the Office Building, 157 Renmin Road, Yucheng, Shangqiu, Henan Province, The PRC | No commercial value |
| 174. A retail unit, 23 Kejixin Village, Ningling County, Shangqiu, Henan Province, The PRC | No commercial value |
| 175. A single-storey building, 23 Kejixin Village, Ningling County, Shangqiu, Henan Province, The PRC | No commercial value |
| 176. Portion of the Sale Office Building, 107 National Highway, Ningling County, Shangqiu, Henan Province, The PRC | No commercial value |
| 177. Portion of the Composite Building, 54 Xianfu Road, Xiayi County, Shangqiu, Henan Province, The PRC | No commercial value |

| | Property | Open market value in existing state as July 31, 1999 |
|---|---|---|
| 178. | Portion of the Post Office Composite Building at Zhongshan Street, Sui County, Shangqiu, Henan Province, The PRC | No commercial value |
| 179. | A retail unit at Xingyun Street, Shangqiu, Henan Province, The PRC | No commercial value |
| 180. | A retail unit at Kongzu Main Road, Xiayi County, Shangqiu, Henan Province, The PRC | No commercial value |
| 181. | Portion of the Office Building, 1 Shanglan Road, Minquan County, Shangqiu, Henan Province, The PRC | No commercial value |
| 182. | Old Post Office Building at Dongjie Street, Yancheng County Bureau, Luohe, Henan Province, The PRC | No commercial value |
| 183. | Portion of the PTB Building at Renmin Road, Luohe, Henan Province, The PRC | No commercial value |
| 184. | Portion of the Tele-exchange Building at Tiedong 5th Sub-branch, Luohe, Henan Province, The PRC | No commercial value |
| 185. | South Building at Lingying PTB, Linying County, Luohe, Henan Province, The PRC | No commercial value |
| 186. | South Office Building at Renmin Road Post & Telecom Sub-branch, Wuyang County, Luohe, Henan Province, The PRC | No commercial value |
| 187. | Carport at Renmin Road Post & Telecom Sub-branch, Wuyang County, Luohe, Henan Province, The PRC | No commercial value |
| 188. | North Office Building at Renmin Road Post & Telecom Sub-branch, Wuyang County, Luohe, Henan Province, The PRC | No commercial value |
| 189. | An Office Building at Renmin Road, Wuyang County, Luohe, Henan Province, The PRC | No commercial value |
| 190. | Portion of the Office Building in Yancheng PTB at Haibe Road, Yancheng County, Luohe, Henan Province, The PRC | No commercial value |
| 191. | A Warehouse in Old Post Office at Dong Street, Yancheng County, Luohe, Henan Province, The PRC | No commercial value |
| 192. | Shuanglong Office Building in Shuanglong PTB, Luohe, Henan Province, The PRC | No commercial value |
| 193. | Level 3 of Post & Telecom Building West Block at Renmin Road, Luohe, Henan Province, The PRC | No commercial value |
| 194. | Level 4 of the Microwave Building at Renmin Road, Luohe, Henan Province, The PRC | No commercial value |
| 195. | Portion of the PTB Sales Office Building, Malu Street, Yuanhui District, Luohe, Henan Province, The PRC | No commercial value |
| 196. | Mobile Office Building at junction between Huanghe Road and Weihe Road, Puyang, Henan Province, The PRC | No commercial value |
| 197. | Portion of the Office Building at 1 XianWenhua Street, Taiqian County, Puyang, Henan Province, The PRC | No commercial value |
| 198. | Portion of the Office Building and portion of the Production Building at Qingfeng PTB, Qingfeng County, Puyang, Henan Province, The PRC | No commercial value |
| 199. | Portion of the Office Building and three ancillary building, 74 Jiefang Road, Puyang, Henan Province, The PRC | No commercial value |

| Property | Open market value in existing state as July 31, 1999 |
|---|---|
| 200. Office Composite Building, 14 Guangming Road, Nanle County, Puyang, Henan Province, The PRC | No commercial value |
| 201. Portion of the Sales Office in PTB, 76 Renmin Road, Puyang, Henan Province, The PRC | No commercial value |
| 202. Portion of the Youzhi Sales Office, 112 Zhongyuan Road, Puyang, Henan Province, The PRC | No commercial value |
| 203. Portion of the No. 3 Road Sales Office at junction of Jianshe Road and Jingkai Road, Puyang, Henan Province, The PRC | No commercial value |
| 204. A unit in Post & Telecom Sales Office, 3 Jinshai Road, Taiqian County, Puyang, Henan Province, The PRC | No commercial value |
| 205. A unit in Level 1 of Lianhua Square at junction of Shengli Road and Jinkai Road, Puyang, Henan Province, The PRC | No commercial value |
| 206. Wanfu Garden Office Building at Hanghaixi Road, Zhengzhou, Henan Province, The PRC | No commercial value |
| 207. Six ancillary buildings in Wanfu Garden at Hanghaixi Road, Zhengzhou, Henan Province, The PRC | No commercial value |
| 208. Xiaoduzhuang Office Building at Zhengzhou, Henan Province, The PRC | No commercial value |
| 209. Portion of the Composite Office Building in Telecom Bureau Courtyard, Zhongmu County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 210. Boiler Room in Telecom Bureau Courtyard, Zhongmu County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 211. Two buildings, 3 Zhonghua South Road, Xinzheng County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 212. A room in 4 Zhonghua South Road, Xinzheng County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 213. Portion of the Telecom Office Building, 26 Hangzheng Road, Xinmi County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 214. Portion of the Office Building, 55 Xinxing Road, Gongyi County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 215. Portion of the Office Building, 56 Xinxing Road, Gongyi County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 216. Portion of the South Production Building in Telecom Building, Xinmi County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 217. A retail unit, 55 Xinxing Road, Gongyi County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 218. Portion of the Post & Telecom Apartment, at Wangxia Road, Dengfeng County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 219. Two ancillary buildings at 55 Xinxing Road, Gongyi County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 220. Portion of the Telecom Building at Suohedong Road, Xingyang County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 221. Portion of the Songbiao Post Office Sub-branch, Dengfeng County, Zhengzhou, Henan Province, The PRC | No commercial value |

| Property | Open market value in existing state as July 31, 1999 |
|---|---|
| 222. Portion of the Dongjin Post Office Sub-branch, Dengfeng County, Zhengzhou, Henan Province, The PRC | No commercial value |
| 223. Portion of the Sales Office Building 104 Nan Main Street, Yuzhou County, Xuchang, Henan Province, The PRC | No commercial value |
| 224. Portion of the Office Building 1 Nan Main Street, Yanling County, Xuchang, Henan Province, The PRC | No commercial value |
| 225. Portion of the Office Building at Zhongxin Road, Xiang County, Xuchang, Henan Province, The PRC | No commercial value |
| 226. Seven single-storey buildings and two buildings in 502 Courtyard at Xufu Road, Xuchang, Henan Province, The PRC | No commercial value |

**Group II — Properties Leased by Fujian Mobile in Fujian Province of the PRC**

| Property | Open market value in existing state as at July 31, 1999 |
|---|---|
| 1. Portion of Hongyu Building, 96 Wuyi North Road, Fuzhou, Fujian Province, The PRC | No commercial value |
| 2. Levels 3 and 4 of Telecom Main Building, 11 Donghuan Road, Fengshan Town, Luoyuan County, Fujian Province, The PRC | No commercial value |
| 3. Level 2, Hubingxia, Habing Road, Chengguan, Fuqing, Fuzhou, Fujian Province, The PRC | No commercial value |
| 4. Portion of Composite Main Building, 3 Guanyin Alley, Tancheng Town, Pingtan County, Fujian Province, The PRC | No commercial value |
| 5. Portion of Composite Building, Gongchen Village, Chixi , Putian, Fujian Province, The PRC | No commercial value |
| 6. Portion of Composite Building, 1 Hanjiangjianqian Road, Putian, Fujian Province, The PRC | No commercial value |
| 7. Portion of Composite Building, Jiugongye Road, Putou Village, Fengting Town, Putian, Fujian Province, The PRC | No commercial value |
| 8. Portion of Composite Building, West of Junction of Nanmenerhuan Road and Shangshengli Road, Putian, Fujian Province, The PRC | No commercial value |
| 9. Portion of Ancillary Building, 1 Hanjiangjianqian Road, Putian, Fujian Province, The PRC | No commercial value |
| 10. Portion of Office Building, Huixian, Putian, Fujian Province, The PRC | No commercial value |
| 11. Levels 6 to 7, Composite Building, Huangfashan Road, Jianyang County, Nanping, Fujian Province,The PRC | No commercial value |
| 12. Portion of Building, 75 Liantang Road, Chengxi, Pucheng County, Nanping, Fujian Province, The PRC | No commercial value |
| 13. Portion of North Building, Xiashuinan, Pucheng County, Nanping, Fujian, Province, The PRC | No commercial value |
| 14. Levels 2 to 4 of Sihe Composite Building, Sihe Plaza, Nanping, Fujian Province, The PRC | No commercial value |
| 15. Levels 4 to 7 and 13 of Telecom Communication Building, 127 Binqiangkouzhong Road, Nanping, Fujian Province, The PRC | No commercial value |
| 16. Levels 4 to 5 of Telecom Building, 204 Chengnanzhong Road, Shunchang County, Nanping, Fujian Province, The PRC | No commercial value |

| | Property | Open market value in existing state as at July 31, 1999 |
|---|---|---|
| 17. | Portion of Composite Building, 227 Jiefang Street, Songxi County, Nanping, Fujian Province, The PRC | No commercial value |
| 18. | Level 2 of Post & Telecom Main Building, 15 Bayi Road, Shaowu County, Nanping, Fujian Province, The PRC | No commercial value |
| 19. | Portion of Gucheng Road Sub-branch, Gucheng Road, Shaowu County, Nanping, Fujian Province, The PRC | No commercial value |
| 20. | Level 2 of Jizi Building, Dongfeng Street, Wuyishan County, Nanping, Fujian Province, The PRC | No commercial value |
| 21. | Level 2 of Ancillary Building, 52 Jiefang Street, Zhenghe County, Nanping, Fujian Province, The PRC | No commercial value |
| 22. | Levels 1 and 5, Telecom Building, 52 Jiefang Street, Zhenghe County, Nanping, Fujian Province, The PRC | No commercial value |
| 23. | Portion of Post & Telecom Sub-branch, West Side of Middle Section of, Junxingcheng West Road, Xiapu County, Ningde, Fujian Province, The PRC | No commercial value |
| 24. | 7 Rooms on Level 5, Telecom Building, 36 Dong Street, Xiapu County, Ningde, Fujian Province, The PRC | No commercial value |
| 25. | Level 4 and Portion of Level 5, Telecom Building, 37 North Street, Zhouning County, Ningde, Fujian Province, The PRC | No commercial value |
| 26. | Portion of Telecom Building, 27 Gongye Road, Shouning County, Ningde, Fujian Province The PRC | No commercial value |
| 27. | Portion of Levels 4 and 5, Composite Building, 14 Liuxi Road, Zherong County, Ningde, Fujian Province, The PRC | No commercial value |
| 28. | Level 5 of Chuibei Sub-branch, Chengquang, Pingnan County, Fujian Province, The PRC | No commercial value |
| 29. | Level 11-14, Hougang Building, Ningde, Fujian Province, The PRC | No commercial value |
| 30. | Meeting Room, level 5, Hougang Ancillary Building, Ningde, Fujian Province, The PRC | No commercial value |
| 31. | Portion of Old Post & Telecom Quarters, 13 Jinshan road, Fuan Shi, Ningde, Fujian Province, The PRC | No commercial value |
| 32. | Portion of Dongda Lu Composite Building,13 Dongxin Road, Xuefeng Town, Mingxi County, Sanming, Fujian Province, The PRC | No commercial value |
| 33. | Post & Telecom Main Building, 60 Yanjiang Middle Road, Yongan County, Sanming, Fujian Province, The PRC | No commercial value |
| 34. | Portion of Sanyuan Telecom Building, 10 Sanyuan Street, Chengquang, Sanming, Fujian Province, The PRC | No commercial value |
| 35. | Portion of Liedong Telecom Building, 69-73 Liedong Street, Sanming, Fujian Province, The PRC | No commercial value |
| 36. | Portion of Liexi Post & Telecom Composite Building, 8 Liexi Wusixin Estate, Sanming, Fujian Province, The PRC | No commercial value |
| 37. | Level 5 Telecom Building, 3 Longcheng Street, Qingliu County, Fujian Province, The PRC | No commercial value |
| 38. | Level 7 Telecom Building, 3 Longcheng Street, Qingliu County, Sanming, Fujian Province, The PRC | No commercial value |

| | Property | Open market value in existing state as at July 31, 1999 |
|---|---|---|
| 39. | Portion of Postal Composite Main Building, 22 South Main Street, Ninghua County, Sanming, Fujian Province, The PRC | No commercial value |
| 40. | Levels 2 and 3 of Office Composite Building, 44 Hongshan West Road, Datian County, Sanming, Fujian Province, The PRC | No commercial value |
| 41. | Portion of Office Building, Telecom Bureau, 2 Qiwu Road, Chengquang, Youxi County, Sanming, Fujian Province, The PRC | No commercial value |
| 42. | Portion of Jianning Post & Telecom Building, 25 Minzhu Street, Old City Town Area, Jianning County, Sanming, Fujian Province, The PRC | No commercial value |
| 43. | Portion of Chengko Ancillary Building, 8 Dong Main Street, Minju Street, Jiangle County, Sanming, Fujian Province, The PRC | No commercial value |
| 44. | Levels 1 to 11 of Zhongliantun Main Building, Lianqian West Road, Xiamen, Fujian Province, The PRC | No commercial value |
| 45. | Nanmen Post & Telecom Sub-branch, 79-85 Nanmen Road, Old Bureau, Tonan District, Xiamen, Fujian Province, The PRC | No commercial value |
| 46. | Portion of Luyang Office Building, Chengnan, Huian County, Quanzhou, Fujian Province, The PRC | No commercial value |
| 47. | Portion of SPC Model Bureau Ancillary, Building, Meifa Village, Tongmei Town, Anxi County, Quanzhou, Fujian Province, The PRC | No commercial value |
| 48. | Portion of Block F, Wuqian, Chengquang, Wuqian Road, Dehua County, Quanzhou, Fujian Province, The PRC | No commercial value |
| 49. | Mobile Building, Shuanggou Village, Qinyang Town, Jinjiang County, Quanzhou, Fujian Province, The PRC | No commercial value |
| 50. | Qianlang Office Building, Qianlang Village, Baogai Town, Shishi, Quanzhou, Fujian Province, The PRC | No commercial value |
| 51. | Heyong Room, Fengze SPC Model Bureau, Shenghu Small District, Fengze, Quanzhou, Fujian Province, The PRC | No commercial value |
| 52. | Portion of Humei Telecom Sub-branch, Humei Xin Estate, Bangtou Village, Taocheng Town, Yongchun County, Quanzhou, Fujian Province, The PRC | No commercial value |
| 53. | Levels 2 to 5, Renmin Road Sub-branch, 68 Renmin Road, Shancheng Town, Nanjing County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 54. | Post & Telecom Building, 533 Dongda Road, Xiaoxi Town, Pinghe County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 55. | Levels 3 to 9, Renmin East Road, Telecom Building, Junction between Renmin East Road and Jianshebei Road, Wuan Town, Changtai County, Zhangzhou, Fujian Province. The PRC | No commercial value |
| 56. | Level 2 of Xipu Office Building, Xipu Nanshi, Dongshan County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 57. | Portions of Levels 4 and 5, Datong Post & Telecom Building, 23 Datong Road, Huaanchengguan, Huaan County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 58. | Level 5 of Telecom Building, Gaoziyang District, Pudong Village, Pumei, Yunxiao County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 59. | 4th to 7th Floor in Post & Telecom Composite Building, 39 Renmin Road, Shima Town, Longhai, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 60. | 3rd to 5th Floor in Telecom Business Building, 35 Renmin Road, Shima Town, Longhai, Zhangzhou, Fujian Province, The PRC | No commercial value |

| | Property | Open market value in existing state as at July 31, 1999 |
|---|---|---|
| 61. | 3rd Floor in Block A, Jianbian Office Building, Changting, Longyan, Fujian Province, The PRC | No commercial value |
| 62. | Post Office Building, Longchuan East Road, Dongcheng, Longyan, Fujian Province, The PRC | No commercial value |
| 63. | Level 2 of 1860 Customer Service Centre, Yinhe Commercial City, Jiuyi Road, Longyan, Fujian Province, The PRC | No commercial value |
| 64. | Portion of Composite Building, Pingchuan Town, Wuping County, Longyan, Fujian Province, The PRC | No commercial value |
| 65. | 14th to 16th Floor in Post Office Building, Heping Road, Zhangping County, Longyan, Fujian Province, The PRC | No commercial value |
| 66. | Portion of Level 1, Jinlong Building, Wusi North Road, Fuzhou, Fujian Province, The PRC | No commercial value |
| 67. | Sale office at Level 1, 816 North Road Sub-branch, 816 North Road, Chengguan, Lianjiang County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 68. | Lianhuacheng Sale Office, Units 9 and 10 on Level 1, Block 8, Lianhuacheng, Luoyuan County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 69. | Sale Office, Level 1, 125 Meixidong Road, Minqing County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 70. | Portion of Post Office, Fukou Street, Fukou Town, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 71. | Portion of Post Office, Beian Street, Tangqian Village, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 72. | Portion of Post Office, Gaiyang Street, Gaiyang Village, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 73. | Portion of Post Office, Dongyang Street, Dongyang Village, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 74. | Portion of Post Office, Chixi Street, Chixi Village, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 75. | Portion of Post Office, Baiyun Street, Baiyun Village, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 76. | Portion of Post Office, Tongan Street, Tongan Town, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 77. | Portion of Post Office, Hongxing Street, Hongxing Village, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 78. | Portion of Post Office, Qingliang Street, Qingliang Village, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 79. | Portion of Post Office, Fuquan Street, Fuquan Village, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 80. | Portion of Longfeng Post Office, Chengguan, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 81. | Portion of Yangguang Sale Office, 21 Yifu Road, Chengguan, Fuqing County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 82. | Portion of Shainan Supermarket, Xinyaleyuan, Chengguan, Fuqing County, Fuzhou, Fujian Province, The PRC | No commercial value |

| | Property | Open market value in existing state as at July 31, 1999 |
|---|---|---|
| 83. | Portion of Anhua Shop, Kanghong Road, Honglu Town, Fuqing County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 84. | Portion of Cuiyuan Sub-branch, Zhengfu Road, Chengguan, Pingtan County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 85. | Sale Office, Jingcheng Road, Changle County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 86. | Sale Office, Huanghuashan Road, Jianyang County, Nanping, Fujian Province, The PRC | No commercial value |
| 87. | Level 1 of Sihe Plaza Mobile Sale Office, Sihe Plaza, Nanping, Fujian Province, The PRC | No commercial value |
| 88. | Unit 4 to 5 on Level 2, Gongnongzhong Road Sale Office, Area 1 of Market at Gongnong East Side, Songxi County, Nanping, Fujian Province, The PRC | No commercial value |
| 89. | Level 2, Post & Telecom Main Building, 15 Bayi Road, Shaowu County, Nanping, Fujian Province, The PRC | No commercial value |
| 90. | Level 1 Yiliuba Plaza, Weiliya Xin Estate, Ligang Road, Shaowu County, Nanping, Fujian Province, The PRC | No commercial value |
| 91. | Level 1 of Gucheng Road Sub-branch, Gucheng Road, Shaowu County, Nanping, Fujian Province, The PRC | No commercial value |
| 92. | Level 1 Jizi Building, Dongfeng Street, Wuyishan County, Nanping, Fujian Province, The PRC | No commercial value |
| 93. | Portion of Level 1, Post & Telecom Building, West Wing, Middle of Juxingcheng West Road, Xiapu, Ningde, Fujian Province, The PRC | No commercial value |
| 94. | A Shop at Level 1, Post & Telecom Building, 36 Xiapu East, Xiapu County, Ningde, Fujian Province, The PRC | No commercial value |
| 95. | Portion of Level 1, Telecom Building, 37 Zhouningnan Street, Zhouning County, Ningde, Fujian Province, The PRC | No commercial value |
| 96. | Two Units on Level 1, Huancheng Quarters, Huancheng Sub-branch, Pingnan County, Ningde, Fujian Province, The PRC | No commercial value |
| 97. | Sale Office at Level 2, Block AB, Laiyin City, Ningde, Fujian Province, The PRC | No commercial value |
| 98. | Hougang Mobile Sale Office at Level 2, Hougang Main Building, Ningde, Fujian Province, The PRC | No commercial value |
| 99. | Level 1, 3 and 5, Dongcheng Restarant, 32 Dongxin Road, Minxi County, Sanming, Fujian Province, The PRC | No commercial value |
| 100. | Portion of Xinan Post & Telecom Main Building, Xinan Small Area, Yongan County, Sanming Fujian Province, The PRC | No commercial value |
| 101. | Ground Level, Telecom Building, 3 Longcheng Street, Qingliu County, Sanming, Fujian Province, The PRC | No commercial value |
| 102. | Portion of Level 1, Post Composite Building, 24 Nan Main Street, Ninghua County, Sanming, Fujian Province, The PRC | No commercial value |
| 103. | Sale Office at Level 1, 44 Fengshan Xi Road, Datian County, Sanming, Fujian Province, The PRC | No commercial value |
| 104. | Portion of Telecom Building, 22 Heping Zhong Street, Taining County, Sanming, Fujian Province, The PRC | No commercial value |

| | Property | Open market value in existing state as at July 31, 1999 |
|---|---|---|
| 105. | Portion of Level 2, Jianning Post & Telecom Building, 25 Minzhu Street, Jianning County, Sanming, Fujian Province, The PRC | No commercial value |
| 106. | Portion of Mobile Composite Building, 26 Qixing Street, Jiangle County, Sanming, Fujian Province, The PRC | No commercial value |
| 107. | Renmin Road Sub-branch, 68 Renmin Road, Shancheng Town, Nanjing County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 108. | 4 units on Level 1, Telecom Ancillary Building Sale Office, 135 Renmin West Road, Wuan Town, Changtai County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 109. | Portion of Level 1, Xipu Office Building, Xipu North Market, Dongshan County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 110. | Shop 7 to 9 from West to East on Level 1, Datong Postal Telecom Main Building, 23 Datong Road, Chengquang, Huaan County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 111. | Level 2, Telecom Composite Building, Gaoziyang District, Pudong Village, Pumei Town, Yunxiao County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 112. | Level 1, Zixin Building 83, Renmin Road, Shima Town, Longhai County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 113. | Level 1, Qiaolian Commercial Building, Gongyuan West Road, Shima Town, Longhai County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 114. | Level 1, Renmin Road Sale Office, 122 Renmin Road, Shanghang County, Longyan, Fujian Province, The PRC | No commercial value |
| 115. | Portion of Composite Building, Zhengfu Road, Pingchuan Town, Wuping County Longyan, Fujian Province, The PRC | No commercial value |
| 116. | Portion of Telecom Building, Guizhong Road, Chengguang, Zhangping County, Longyan, Fujian Province, The PRC | No commercial value |
| 117. | Telecom Building Sale Office, 33 North Dazhong Road, Liancheng County, Longyan, Fujian Province, The PRC | No commercial value |
| 118. | Various Buildings, 81 Lianfa Road, Musi, Jianou County, Nanping, Fujian Province, The PRC | No commercial value |
| 119. | Machine Room, 45 Wenchang Road, Guangze County, Nanping, Fujian Province, The PRC | No commercial value |
| 120. | Level 1 of Carpark Building, 204 Chengnanzhong Road, Shunchang County, Nanping, Fujian Province, The PRC | No commercial value |
| 121. | Canteen on Level 1, 204 Chengnanzhong Road, Shunchang County, Nanping, Fujian Province, The PRC | No commercial value |
| 122. | Guard Room, 204 Chengnanzhong Road, Shunchang County, Nanping, Fujian Province, The PRC | No commercial value |
| 123. | Tailao Post Building, Top of Tailao Mountain, Fuding County, Ningde, Fujian Province, The PRC | No commercial value |
| 124. | Level 1 of a Warehouse in Tianma Xincun, Chengguan, Fuan County, Ningde, Fujian Province, The PRC | No commercial value |
| 125. | Car Parking Area, Liexi Post Telecom Composite Building, No. 8 Building, Wusi Xin Estate, Liexi, Sanming, Fujian Province, The PRC | No commercial value |
| 126. | Chaihuo Room, Block 5, Sanyuan Hongyinshan, Sanming, Fujian Province, The PRC | No commercial value |

| | Property | Open market value in existing state as at July 31, 1999 |
|---|---|---|
| 127. | A kitchen in Post & Telecom Hostel, Liedong Street, Sanming, Fujian Province, The PRC | No commercial value |
| 128. | Carpark in Post & Telecom Building, Leidong Street, Sanming, Fujian Province, The PRC | No commercial value |
| 129. | Post & Telecom Hostel, Liedong Street, Sanming, Fujian Province, The PRC | No commercial value |
| 130. | Level 6 in Telecom Building, 3 Longcheng Street, Qingliu County, Sanming, Fujian Province, The PRC | No commercial value |
| 131. | Houkeng Warehouse Building, Houkeng Post Telecom Composite Building, Houkeng Village, Xiamen, Fujian Province, The PRC | No commercial value |
| 132. | Level 2 of New Function Theatre, Xipunanshi, Sipu Town, Dongshan County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 133. | Level 4 of Telecom Composite Building, Gaoyang District, Pudong Village, Pumei Town, Yunxiao County, Zhangzhou, Fujian Province, The PRC | No commercial value |
| 134. | Various Buildings, Niukeng Machine Room, Xinluo, Dongbao, Dongcheng Longyan, Fujian Province, The PRC | No commercial value |
| 135. | Dongfeng Bridge Warehouse, 13 Denggao East Road, Xingfeng, Nancheng, Longyan, Fujian Province, The PRC | No commercial value |
| 136. | Water Pump Room, Longchuan East Road, Longyan, Fujian Province, The PRC | No commercial value |
| 137. | Machine Room, Houpulinshan, Yanshan Village, Longyan, Fujian Province, The PRC | No commercial value |
| 138. | Warehouse, 22 Dongda Street, Pingchuan, Wuping Count, Longyan, Fujian Province, The PRC | No commercial value |
| 139. | Warehouse, North Main Road Sub-branch, Liancheng, Longyan, Fujian Province, The PRC | No commercial value |
| 140. | A room at Level 9, Post Office Building, 3 Longcheng Street, Qingliu County, Sanming, Fujian Province, The PRC | No commercial value |
| 141. | Portion of Post Office, Qingyang Xin Main Street South Road, Jinjiang County, Quanzhou, Fujian Province, The PRC | No commercial value |
| 142. | Portion of Post Office Building, 199 Xinhua Road, Ximei Town, Nanan Shi, Quanzhou, Fujian, Province, The PRC | No commercial value |
| 143. | Portion of Post & Telecom Bureau, Jiuyi Road, Longyan, Fujian Province, The PRC | No commercial value |
| 144. | Portion of Telecom Building, 142 Jiexin Road, Chengguang, Minhou County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 145. | Portion of Telecom Building, 27 South Hu Road, Zhancheng, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 146. | Portion of Telecom Composite Building, 21 Yifu Road, Chengguang, Fuqing, Fuzhou, Fujian Province, The PRC | No commercial value |
| 147. | Portion of Block B, Huixian, Shizi Street, Shengli Road, Chengguan, Xianyou, Putian, Fujian Province, The PRC | No commercial value |
| 148. | Level 2 of Composite Building, 14 Liuxi Road Side, Zherong County, Ningde, Fujian Province, The PRC | No commercial value |

| | Property | Open market value in existing state as at July 31, 1999 |
|---|---|---|
| 149. | Level 4, Office Building, 200 Jiefang Road, Gutian County, Ningde, Fujian Province, The PRC | No commercial value |
| 150. | Liedong Telecom Composite Building, Block No. 52, Meiling Xin Estate, Sanming, Fujian Province, The PRC | No commercial value |
| 151. | Level 7 of Post Office Building, 24 Nanda Street, Cuijiang Town, Ninghua County, Sanming, Fujian Province, The PRC | No commercial value |
| 152. | Suite Room 202 on Level 2, Huqian Road, Chengguang, Dehua, Quanzhou, Fujian Province, The PRC | No commercial value |
| 153. | Level 5 of Longchuan Connection Building, Adjacent to Longchuan Telecom Building, Longchuan East Road, Longyan, Fujian Province, The PRC | No commercial value |
| 154. | Level 8, No. 9 Building, Wenxian East Road, Putian, Fujian Province, The PRC | No commercial value |
| 155. | Level 3, No. 9 Building, Wenxian East Road, Putian, Fujian Province, The PRC | No commercial value |
| 156. | Unit 303, Block 17, 823 Donglu Commodity Building, Taocheng Town, Yongchun County, Quanzhou, Fujian Province, The PRC | No commercial value |
| 157. | Portion of Post Saving Building, Adjacent Side of Zhen Government, Yangqian Town, Minhou County, Fuzhou Fujian Province, The PRC | No commercial value |
| 158. | Level 2 of Post Building, 358 Zhongshan Road, Jianou Shi, Nanping, Fujian Province, The PRC | No commercial value |
| 159. | Postal Sale Office, 52 Jiefang Street, Chengguan, Zhenghe County, Nanping, Fujian Province, The PRC | No commercial value |
| 160. | Mobile Communication Sale Office, 1 Xinan Road, Fengcheng Town, Anxi County, Quanzhou, Fujian Province, The PRC | No commercial value |
| 161. | Centing Telecom Bureau, Biaobian, Qingyang, Jinjiang County, Quanzhou, Fujian Province, The PRC | No commercial value |
| 162. | Portion of Qingyang Telecom Building, 38 South Road, Qingyang Xin Main Street, Jinjiang County, Quanzhou, Fujian Province, The PRC | No commercial value |
| 163. | Potion of Post Office Building, 199 Xinhua Street, Ximei Town, Nanan Shi, Quanzhou, Fujian Province, The PRC | No commercial value |
| 164. | Jiuyi Road Sale Office, Ground Level, Post Telecom Building, Jiuyi Road, Quanzhou, Fujian Province, The PRC | No commercial value |
| 165. | Portion of Citong Exchange Centre, Citong Road, Quanzhou, Fujian Province, The PRC | No commercial value |
| 166. | Portion of Post Office Building, 180 Baersan Dong Road, Taocheng Town, Yongchun County, Quanzhou, Fujian Province, The PRC | No commercial value |
| 167. | Portion of Post & Telecom Bureau, Jiuyi Road, Longyan, Fujian Province, The PRC | No commercial value |
| 168. | Portion of Mobile Communication Sale Centre, Jiuyi Road, Longyan, Fujian Province, The PRC | No commercial value |
| 169. | Portion of Post Composite Building, 154 Jiuyi Zhong Road, Yongding County, Longyan, Fujian Province, The PRC | No commercial value |
| 170. | Dong Street Sale Office, Portion of Level 1 and Level 2, Post Telecom Building, Dong Street Junction, Fuzhou, Fujian Province, The PRC | No commercial value |

| | Property | Open market value in existing state as at July 31, 1999 |
|---|---|---|
| 171. | Shuniu Sale Office, East Side of Level 1, Telecom Shuniu Building, Wuyi Zhong Road Fuzhou, Fujian Province, The PRC | No commercial value |
| 172. | Portion of Telecom Building, Guo Road Side, Nanyu Town, Minhou County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 173. | Portion of Telecom Building, 27 Nanhu Road, Zhancheng, Yongtai County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 174. | Telecom Sale Office on Level 1, 17 Huanghuashan Road, Jianyang County, Nanping, Fujian Province, The PRC | No commercial value |
| 175. | Level 1 of Chengxi Telecom Building, 75 Liantang Road, Pucheng County, Nanping, Fujian Province, The PRC | No commercial value |
| 176. | Level 1 of Beimen Telecom Building, 188 Xingpu Road, Pucheng County, Nanping, Fujian Province, The PRC | No commercial value |
| 177. | Portion of Telecom Composite Building, 52 Jiefang Street, Chengguan, Zhenghe County, Nanping, Fujian Province, The PRC | No commercial value |
| 178. | Level 1 of Composite Building, 14 Liuxi Road Side, Zherong County, Ningde, Fujian Province, The PRC | No commercial value |
| 179. | Sale Office on Level 1, 200 Jiefang Road, Gutian County, Ningde, Fujian Province, The PRC | No commercial value |
| 180. | Sale Office Level 1, 55 Jiefang Road, Xuefeng Town, Mingxi County, Sanming, Fujian Province, The PRC | No commercial value |
| 181. | Sale Office on Level 1, 7 New Street, Longjin Town, Qingliu County, Sanming, Fujian Province, The PRC | No commercial value |
| 182. | Sale Office in Telecom Building, 122 Renmin Road, Shanghang County, Longyan, Fujian Province, The PRC | No commercial value |
| 183. | Sale Office in Post Office Building, 161 Zhaozheng Road, Changting County, Longyan, Fujian Province, The PRC | No commercial value |
| 184. | Sale Office, Zhengfu Road, Wuping County, Longyan, Fujian Province, The PRC | No commercial value |
| 185. | Shangjie Maintenance Point, Zhen Government Side, Shangjie Town, Minhou County, Fuzhou, Fujian Province, The PRC | No commercial value |
| 186. | Hexiang East Sale Office, Xiamen MTB, 27 Hexiang Dong Road, Xiamen, Fujian Province, The PRC | No commercial value |
| 187. | Mobile Sale Office, Level 1 of People's Court, Dehua County, Quanzhou, Fujian Province The PRC | No commercial value |
| 188. | Linjie Shop, 154 Jiuyi Road, Yongding County, Longyan, Fujian Province, The PRC | No commercial value |
| 189. | Portion of Meixian Village Post & Telecom Sub-branch, Meinian Town, Longxi County, Sanming, Fujian Province, The PRC | No commercial value |
| 190. | Longhu Machine Room, Post Telecom Office, Taining County, Sanming, Fujian Province, The PRC | No commercial value |
| 191. | Shuniu Machine Room, Telecom Shuniu Main Building, Wuyizhong Road, Fuzhou, Fujian Province, The PRC | No commercial value |
| 192. | Godown in Telecom Composite Building, 52 Jiefang Street, Chengguan, Zhenghe County, Nanping, Fujian Province, The PRC | No commercial value |

| Property | Open market value in existing state as at July 31, 1999 |
|---|---|
| 193. Level 1 of Houlou Village Telecom Office, Houlou Village, Yangzhong Town, Youxi County, Sanming, Fujian Province, The PRC | No commercial value |
| 194. Level 1 of Banmian Telecom Building, Banmian Town, Youxi County, Sanming, Fujian Province, The PRC | No commercial value |

**Group III — Properties leased by Hainan Mobile in Hainan Province of the PRC**

| Property | Open market value in existing state as at July 31, 1999 |
|---|---|
| 1. Level 1 & 2 at Block A, Guomao Centre, Guomao Building, Longkun North Road, Haikou, Hainan Province, The PRC | No commercial value |
| 2. A Room on Level 1, Composite Production Building at 6-1 Yacha Middle Road, Baisha County, Hainan Province, The PRC | No commercial value |
| 3. Level 2 of Telecom Bureau Warehouse at Youdianxincun, Da Dao Taling, Jianlong Main Road, Dingan County, Hainan Province, The PRC | No commercial value |
| 4. Portion of Telecom Building in Telecom Bureau at Dongfang Main Road, Dongfang, Hainan Province, The PRC | No commercial value |
| 5. Level 4 of Communication Building at No. 22, Block 1, Dongfeng Road, Shiliu Town, Changjiang County, Hainan Province, The PRC | No commercial value |
| 6. Level 11 of Communication Building, Zhongxing Street, Danzhou, Hainan Province, The PRC | No commercial value |
| 7. A Sale Office at Level 1, Telecom Composite Building, 34 Jiefang Road, Lingao County, Hainan Province, The PRC | No commercial value |
| 8. Level 5 of Telecom Building at Chengxing Road, Tunchang County, Hainan Province, The PRC | No commercial value |
| 9. Level 2, West side of Telecom Office Building at Jiefang Zhong Road, Jinjiang Town, Chengmai County, Hainan Province, The PRC | No commercial value |
| 10. Portion of PTB Office Building at Block 1, 45 Wenling Lane, Wencheng Town, Wenchang, Hainan Province, The PRC | No commercial value |
| 11. Portion of Telecom Composite Building, 48 Dongfeng Road, Qionghai, Hainan Province, The PRC | No commercial value |
| 12. Portion of Xinfeng Communication Building at Telecom Building, 13 Jiefang San Road, Sanya Hainan Province, The PRC | No commercial value |
| 13. Portion of Communication Building, Telecom Main Building, 2 Haiyu North Road, Tongshi, Hainan Province, The PRC | No commercial value |
| 14. Level 5 in Telecom Building, 50 Baoxingdong Road, Baoting County, Hainan Province, The PRC | No commercial value |
| 15. Portion of Telecom Building, 45 Jianshe Road, Lincheng Town, Linshui County, Hainan Province, The PRC | No commercial value |
| 16. Portion of Telecom Building, 1 Hungzhuanzhong Road, Wencheng Town, Wenling County, Hainan Province, The PRC | No commercial value |
| 17. Level 5 of Telecom Office Building in Telecom Building, 77 Yinggen Street, Yinggen Town, Qiongzhong County, Hainan Province, The PRC | No commercial value |
| 18. A Room on Level 1 Composite Production Building, 6-1 Yachazhong Road, Baisha County, Hainan Province, The PRC | No commercial value |
| 19. A Sale Office, Telecom Building, Telecom Bureau, Dongfang Main Road, Dongfang, Hainan Province, The PRC | No commercial value |

| Property | Open market value in existing state as at July 31, 1999 |
|---|---|
| 20. Level 3 of Telecom Communication Building at No. 22, Block 1 Dongfeng Road, Shiliu Town, Changjian County Hainan Province, The PRC | No commercial value |
| 21. Sale Office at Ground Level of Communication Building, Zhongxing Street, Danzhou, Hainan Province, The PRC | No commercial value |
| 22. Telecom Sale Office in Post Building, Danzhou, Hainan Province, The PRC | No commercial value |
| 23. Telecom Sale Office in Level 2 of Telecom Composite Building in Telecom Building at Changsheng Road, Tunchang County, Hainan Province, The PRC | No commercial value |
| 24. Level 7 of Post Building at Huancheng West Road, Jinjiang Town, Chengmai County, Hainan Province, The PRC | No commercial value |
| 25. Portion of PTB Office Building at Block 1, 45 Wenling Lane, Wencheng Town, Wenchang, Hainan Province, The PRC | No commercial value |
| 26. Portion of Telecom Composite Building, 48 Dongfang Road, Qionghai, Hainan Province, The PRC | No commercial value |
| 27. Portion of Chuangye Building at Xinfeng Road, Sanya, Hainan Province, The PRC | No commercial value |
| 28. Portion of Communication Building in Telecom Building, 2 Haiyu North Road, Tongshi, Hainan Province, The PRC | No commercial value |
| 29. Level 1 of Telecom Sale Office, 338 Lean Road, Ledong County, Hainan Province, The PRC | No commercial value |
| 30. Level 1 of Telecom Main Building, 50 Baoxing East Road, Baozheng Town, Baoting County, Hainan Province, The PRC | No commercial value |
| 31. Portion of Telecom Building, 45 Jianshe Road, Lincheng Town, Linshui County, Hainan Province, The PRC | No commercial value |
| 32. Portion of Telecom Building, 1 Hongzhuan Middle Road, Wancheng Town, Wanning County, Hainan Province, The PRC | No commercial value |
| 33. Right Corner of the Telecom Sale Office Main Lobby, 77 Yinggen Street, Yinggen Town, Qiongzhong County, Hainan Province, The PRC | No commercial value |
| 34. Room 501, Level 5 Post Composite Building, 34 Jiefang Road, Lincheng Town, Lingao County, Hainan Province, The PRC | No commercial value |
| 35. Second Level of Post Composite Building, 45 Zhongshan Road, Fucheng Town, Qiongshan, Hainan Province, The PRC | No commercial value |
| 36. Portion of Post Material Godown, 10 Ledong Road, Ledong County, Hainan Province, The PRC | No commercial value |
| 37. Second Level of Post Telecom Main Building, 18 Dazhong Middle Road, Dingan County, Hainan Province, The PRC | No commercial value |
| 38. Portion of Post Staff Quarters, 1 Wancheng Hongzhuan Middle Road, Wanning County, Hainan Province, The PRC | No commercial value |
| 39. Post Sale Office of Level 1 at No. 2 Building, Da Yuan Post Bureau, Chengdong Main Road, Fucheng Town, Qiongshan, Hainan Province, The PRC | No commercial value |
| 40. Post Building of Level 2, Post Composite Building, 45 Zhongshan Road, Fucheng Town, Qiongshan, Hainan Province, The PRC | No commercial value |

## VALUATION CERTIFICATE

### Category A

### Group I — Properties held by Henan Mobile in Henan Province of the PRC

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 | |
|---|---|---|---|---|---|
| | | | | RMB | HK$ |
| 1 | Portion of the Guesthouse Building<br>186 Zhongzhouzhong Road<br>Xigong District<br>Luoyang<br>Henan Province<br>The PRC | The property comprises a 4-storey main building and a 3-storey extension building both of concrete/brick construction completed in about 1972 and 1986 respectively.<br><br>Details of the said buildings are as follows:-<br><br>Property — Gross Floor Area sq. m (sq. ft)<br>4-storey main building 1,029.27 (11,079)<br>3-storey extension building 132.40 (1,425)<br>Total 1,161.67 (12,504)<br><br>The land use rights of the property have been granted for a term of 50 years commencing from September 8, 1999 to September 7, 2049 for office use. | The property is occupied by the Group as an administration office. | 2,530,000 | 2,364,486 |

*Notes:*

(1) Pursuant to a State-owned Land Use Right Certificate Luo Shi Guo Yong (1999) Zi Di No. 162 dated September 8, 1999 issued by Luoyang Land Planning Administration Bureau, the land use rights of the property comprising a site with an area of 1,356.39 sq.m. have been granted to Henan Mobile for a term of 50 years commencing from September 8, 1999 to September 7, 2049 for office use.

(2) Pursuant to the Contract for Grant of State-owned Land Use Right dated August 16, 1999 entered into between Luoyang Land Planning Administration Bureau (Party A) and Henan Mobile (Party B), Party A has agreed to grant the land use rights to Party B. The salient terms stipulated in the contract are summarized as follows:

| | | |
|---|---|---|
| (a) | Location: | the land is bounded by Luoyang Glass Factory Residential Courtyard to the east, Xiaotain Film City to the west, Zhongzhou Road to the south and Luoyang Telecom Staff-quarter Building to the north. |
| (b) | Site area: | 1,356.39 sq.m. |
| (c) | Use: | Office |
| (d) | Land uses term: | 50 years |
| (e) | Premium: | RMB879,754 |

(3) Pursuant to the Building Ownership Certificate Luo Shi Fang Guan Zi Di No. 03330 dated March 17, 1988 issued by Luoyang People's Government, the registered owner of the said buildings is Luoyang PTB.

(4) We have been provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:-

(i) Pursuant to the Contract for Grant of State-Owned Land Use Right and State-owned Land Use Right Certificate Luo Shi Guo Xong (1999) Zi Di No. 162 both issued by Luoyang Land Planning Administration Bureau, Henan Mobile has been granted the land use rights of the property with an area of 1,356.39 sq.m. for a term of 50 years commencing from September 8, 1999 to September 7, 2049 for office use. Henan Mobile has an enforceable title to the land for the whole of the unexpired term as granted.

(ii) Pursuant to the document dated August 27, 1999 issued by Luoyang Real Estate Title Registration Department and the Building Ownership Certificate Lou Shi Fang Guan Zi Di No. 03330, the ownership of the said building is vested in Luoyang PTB. According to the transfer and allocation agreement made between China Mobile and Henan Mobile, the said building has been allocated to Henan Mobile. Henan Moblie is in the process of applying to the relevant authorities for appropriate registration to reflect the fact that the building has been transferred to Henan Mobile and there are no legal impediments for Henan Mobile to obtain the Building Ownership Certificate.

(iii) Upon obtaining the Building Ownership Certificate, the property can be transferred, leased or mortgaged by Henan Mobile.

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 | |
|---|---|---|---|---|---|
| | | | | RMB | HK$ |
| 2 | A building at Changchun Road<br>Luanchuan County<br>Luoyang<br>Henan Province<br>The PRC | The property comprises a 2-storey building of concrete/brick construction completed in about 1979. The gross floor area of the property is approximately 333.70 sq.m. (3,592 sq.ft.).<br>The land use rights of the property have been granted for a term of 50 years commencing from September 5, 1999 to September 4, 2049 for urban and public facilities uses. | The property is occupied by the Group as an administration office. | 150,000 | 140,187 |

*Notes:*

(1) Pursuant to a State-owned Land Use Right Certificate Luan Guo Yong (1999) Zi Di No. 118 dated September 5, 1999 issued by Luanchuan Land and Building Administration Bureau, the land use rights of the property comprising a site with an area of 292 sq.m. have been granted to Henan Mobile for a term of 50 years commencing from September 5, 1999 to September 4, 2049 for urban and public facilities uses.

(2) Pursuant to the Contract for Grant of State-owned Land Use Right dated August 27, 1999 entered into between Luanchuan County Land and Building Administration Bureau (Party A)

and Henan Mobile (Party B), Party A has agreed to grant the land use rights to Party B. The salient terms stipulated in the contract are summarized as follows:

| | | |
|---|---|---|
| (a) | Location: | the land is bounded by Telecom Courtyard to the east, Changchun Road to the west, Telecom Composite Building to the south and Post Office to the north. |
| (b) | Site area: | 292 sq.m. |
| (c) | Use: | Not mentioned |
| (d) | Land uses term: | 50 years |
| (e) | Premium: | RMB21,269.20 |

(3) Pursuant to the Building Ownership Certificate Fang Quan Zheng 1999 Zi Di No. 00000008 dated September 7, 1999 issued by Luanchuan Land and Building Administration Bureau, the registered owner of the said buildings is Henan Mobile.

(4) We have been provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:-

i) Pursuant to the Contract for Grant of State-owned Land Use Right Grant Contract and State-owned Land Use Right Certificate Luan Guo Yong (1999) Zi Di No. 118 both issued by Luanchuan Land and Building Administration Bureau, Henan Mobile has been granted the land use rights of the property with an area of 292 sq.m. for a term of 50 years commencing from September 5, 1999 to September 4, 2049 for urban and public facilities uses. Henan Mobile has an enforceable title to the land for the whole of the term as granted.

ii) Pursuant to the transfer and allocation agreement made between China Mobile and Henan Mobile and the Building Ownership Certificate Fang Quan Zhong 1999 Zi Di No. 00000008, the aforesaid building has been allocated to Henan Mobile. Henan Mobile has obtained the Building Ownership Certificate and lawfully owns the building.

iii) The property can be transferred, leased or mortgaged by Henan Mobile.

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 | |
|---|---|---|---|---|---|
| | | | | RMB | HK$ |
| 3. | Two buildings in Gaolongyuan PTB<br>Yanshi Shi<br>Luoyang Henan Province<br>The PRC | The property comprises a 2-storey building and a single storey building of concrete/brick and simple constructions completed in about 1990.<br>The total gross floor area of the property is approximately 271.48 sq.m. (2,922 sq.ft.)<br>The land use rights of the property have been granted for a term expiring on August 1, 2049 for public facilities use. | The property is occupied by the Group as an administration office and public facilities uses. | 140,000 | 130,841 |

*Notes:*

(1) Pursuant to a State-owned Land Use Right Certificate Yan Guo Yong (1999) Zi Di No. 0697 dated August 5, 1999 issued by Yanshi Shi Land Planning Administration Bureau, the land use rights of the property comprising a site with an area of 626 sq.m. have been granted to Henan Mobile expiring on August 1, 2049 for public facilities uses.

(2) Pursuant to the Contract for Grant of State-owned Land Use Right dated August 27, 1999 entered into between Yanshi Shi Land Planning Administration Bureau (Party A) and Henan

Mobile (Party B), Party A agreed to grant the land use rights to Party B. The salient terms stipulated in the contract are summarized as follows:

| | | |
|---|---|---|
| (a) | Location: | the land is bounded by private residential to the east and west, cultivated land to the south and Gulong Road to the north. |
| (b) | Site area: | 626 sq.m. |
| (c) | Use: | Public facilities |
| (d) | Land use term: | 50 years expiring on August 1, 2049 |
| (e) | Premium: | RMB 21,900 |

(3) Pursuant to two Building Ownership Certificates Zi Di Nos. 10773 and 10775 both dated September 6, 1999 issued by Yanshi Property Administration Bureau, the registered owner of the said buildings is Henan Mobile.

(4) We have been provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:-

i) Pursuant to the Contract for Grant of Stated-owned Land Use Right Grant Contract and State-owned Land Use Right Certificate Yan Guo Yong (1999) Zi Di No. 697 issued by Yanshi Shi Land Planning Administration Bureau, Henan Mobile has been granted the land use rights of the property with an area of 626 sq.m. expiring on August 1, 2049 for public facilities uses. Henan Mobile has an enforceable title to the land for the whole of the term as granted.

ii) Pursuant to the transfer and allocation agreement made between China Mobile and Henan Mobile and two Building Ownership Certificates Zi Di No. 10773 and 10775, the aforesaid building has been allocated to Henan Mobile. Henan Mobile has obtained the Building Ownership Certificate and lawfully owns the buildings.

iii) The property can be transferred, leased or mortgaged by Henan Mobile.

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 RMB | HK$ |
|---|---|---|---|---|---|
| 4 | An office building 19 Xinningzhong Road Luoning County Luoyang Henan Province The PRC | The property comprises a 5-storey building of concrete/ brick construction completed in about 1988<br>The total gross floor area of the property is approximately 1,847.33 sq.m. (19,885 sq.ft.)<br>The land use rights of the property have been granted for expiring on August 26, 2049 for urban facilities uses. | The property is occupied by the Group as an administration office. | 1,360,000 | 1,271,028 |

*Notes:*

(1) Pursuant to a State-owned Land Use Right Certificate Luoning County Guo Zong (1999) Zi Di No. 001 dated September 5, 1999 issued by Luoning Land Administration Bureau, the land use rights of the property comprising a site with an area of 746.2 sq.m. have been granted for a term expiring on August 26, 2049 for urban facilities uses.

(2) Pursuant to the Contract for Grant of State-owned Land Use Right dated August 26, 1999 entered into between Luoning Land Administration Bureau (Party A) and Henan Mobile (Party B), Party A agreed to grant the land use rights to Party B. The salient terms stipulated in the contract are summarized as follows:

| | | |
|---|---|---|
| (a) | Location: | the land is bounded by local PTB to the east, Bei Main Street to the west, Xinning Road to the south and PTB to the north. |
| (b) | Site area: | 746.2 sq.m. |
| (c) | Use: | not mentioned |
| (d) | Land use term: | 50 years |
| (e) | Premium: | RMB102,826.36 |

(3) Pursuant to the Building Ownership Certificate Fang Zi Di No. 0000270 dated August 30, 1999 issued by Luoning Property Administration Bureau, the registered owner of the said buildings is Henan Mobile.

(4) We have been provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:-

i) Pursuant to the Contract for Grant of State-owned Land Use Right Grant Contract and State-owned Land Use Right Certificate Luoning County Guo Zong (1999) Zi Di No. 001 both issued by Luoning Land Administration Bureau, Henan Mobile has been granted the land use rights of the property with an area of 746.2 sq.m. for a term expiring on August 26, 2049 for urban facilities uses. Henan Mobile has an enforceable land use rights to the land for the whole of the term as granted.

ii) Pursuant to the transfer and allocation agreement made between China Mobile and Henan Mobile and the Building Ownership Certificate Fang Zi Di No. 0000270, the aforesaid building has been allocated to Henan Mobile. Henan Mobile has obtained the Building Ownership Certificate and lawfully owns the building.

iii) The property can be transferred, leased or mortgaged by Henan Mobile.

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 RMB | HK$ |
|---|---|---|---|---|---|
| 5 | A composite building at Suohe Road Dong Xingyang Shi Zhengzhou Henan Province The PRC | The property comprises a 5-storey building of reinforced concrete construction completed in about 1996.<br><br>The total gross floor area of the property is approximately 4,493.17 sq.m. (48,364 sq.ft.)<br><br>The land use rights of the property have been granted for a term of 40 years commencing from September 6, 1999 to September 5, 2039 for office use. | The property is occupied by the Group as an administration office. | 5,810,000 | 5,429,907 |

*Notes:*

(1) Pursuant to a State-owned Land Use Right Certificate Xing Guo Yong (1999) Zi Di No. 0035 dated September 6, 1999 issued by Xingyang Land Administration Bureau, the land use rights of the property comprising a site with an area of 3,473.56 sq.m. have been granted to Henan Mobile for a term of 40 years commencing from September 6, 1999 to September 5, 2039 for office uses.

(2) Pursuant to the Contract for Grant of State-owned Land Use Right dated August 27, 1999 entered into between Xingyang Land Administration Bureau (Party A) and Henan Mobile (Party B), Party A agreed to grant the land use rights to Party B. The salient terms stipulated in the contract are summarized as follows:

| | | |
|---|---|---|
| (a) | Location: | the land is situated near the junction of Shuohe Road and Gongyie Road |
| (b) | Site area: | 3,473.56 sq.m. |
| (c) | Use: | Commercial |
| (d) | Land use term: | 40 years |
| (e) | Premium: | RMB 648,896 |

(3) Pursuant to the Building Ownership Certificate Xing Fang Quan Zi Di No. 2830 dated August 27, 1999 issued by Xingyang Property Administration Bureau, the registered owner of the said buildings is Henan Mobile.

(4) We have been provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:

i) Pursuant to the Contract for Grant of State-owned Land Use Right and State-owned Land Use Right Certificate Xing Guo Yong (1999) Zi Di No. 0035 both issued by Xingyang Land Administration Bureau, Henan Mobile has been granted the land use rights of the property with an area of 3,473.56 sq.m. for a term of 40 years commencing from September 6, 1999 to September 5, 2039 for office use. Henan Mobile has an enforceable land use rights to the land for the whole of the respective terms as granted.

ii) Pursuant to the transfer and allocation agreement made between China Mobile and Henan Mobile and the Building Ownership Certificate Xing Fang Quan Zi Di No. 2830, the aforesaid building has been allocated to Henan Mobile. Henan Mobile has obtained the Building Ownership Certificate and lawfully owns the building

iii) The property can be transferred, leased or mortgaged by Henan Mobile.

| | Property | Description and tenure | Particular of occupancy | Open market value in existing state as at July 31, 1999 | |
|---|---|---|---|---|---|
| | | | | RMB | HK$ |
| 6 | A composite building at Jicheng Road<br>Xihua County<br>Zhoukou<br>Henan Province<br>The PRC | The property comprises a 3-storey building of concrete/brick construction completed in about 1991.<br><br>The total gross floor area of the property is approximately 426.24sq.m. (4,588sq.ft.)<br><br>The land use rights of the property have been granted for a term of 50 years commencing from August 26, 1999 to August 25, 2049 for business uses. | The property is occupied by the Group as an administration office and sale office. | 540,000 | 504,673 |

*Notes:*

(1) Pursuant to a State-owned Land Use Right Certificate Xi Tu Guo Yong (1999) Zi Di dated August 6, 1999 issued by Xihua County Land Administration Bureau, the land use rights of the property comprising a site with an area of 167.5sq.m. have been granted to Henan Mobile for a term of 50 years commencing from August 26, 1999 for business uses.

(2) Pursuant to the Contract for Grant of State-owned Land Use Right dated August 26, 1999 entered into between Xihua County Land Administration Bureau (Party A) and Henan Mobile (Party B), Party A agreed to grant the land use rights to Party B. The salient terms stipulated in the contract are summarized as follows:

(a) Location: the land is situated in the north of Jicheng Road
(b) Site area: 167.5 sq.m.
(c) Use: comprehensive uses
(d) Land use term: 50 years commencing from August 26, 1999
(e) Premium: RMB135,541

(3) Pursuant to the Building Ownership Certificate No. 2-1406 dated August 27, 1999 issued by Xihua People's Government, the registered owner of the said buildings is Henan Mobile.

(4) We have been provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:-

i) Pursuant to the Contract for Grant of State-owned Land Use Right and State-owned Land Use Right Certificate Xi Tu Guo Yong (1999) Zi Di both issued by Xihua County Land Administration Bureau, Henan Mobile has been granted the land use rights of the property with an area of 167.5 sq.m. for a term of 50 years commencing from August 26, 1999 for business uses. Henan Mobile has an enforceable land use rights to the land for the whole of the respective terms as granted.

ii) In according to the transfer and allocation agreement made between China Mobile and Henan Mobile and the Building Ownership Certificate No. 2-1406, the aforesaid building has been allocated to Henan Mobile. Henan Mobile has obtained the Building Ownership Certificate and lawfully owns the building.

iii) The property can be transferred, leased or mortgaged by Henan Mobile.

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 RMB | HK$ |
|---|---|---|---|---|---|
| 7 | Various units in Telecom Composite Building at Qinhan Road Xia County Shanmenxia Henan Province The PRC | The property comprises portion of the 8-storey main building and 7-storey ancillary building with reinforced concrete construction completed in about 1998 and a unit in a single storey building of reinforced concrete construction completed in about 1980. The total gross floor area of the property is 802.46 sq.m. (8,638 sq. ft)<br>The land use rights of the property have been granted for a term of 50 years commencing from September 8, 1999 to September 7, 2049 for industrial use. | The property is occupied by the Group as administration office, sale office and plant room | 1,050,000 | 981,308 |

*Notes:*

(1) Pursuant to a State-owned Land Use Right Certificate Xia Guo Yong (1999) Zi Di No. 0897 dated September 8, 1999 issued by Xia County Land Administration Bureau, the land use rights of the property comprising a site with an area of 131.67 sq.m. have been granted to Henan Mobile for a term of 50 years commencing from September 8, 1999 to September 7, 2049 for industrial uses.

(2) Pursuant to the Contract for Grant of State-owned Land Use Right dated August 26, 1999 entered into between Xia County Land Administration Bureau (Party A) and Henan Mobile (Party B), Party A agreed to grant the land use rights to Party B. The salient terms stipulated in the contract are summarized as follows:

(a) Location: the land is situated in the north of Qinhan Road
(b) Site area: 131.67 sq.m.
(c) Use: Construction for mobile communication use
(d) Land use term: 50 years
(e) Premium: RMB30,810.78

(3) Pursuant to the Building Ownership Certificate Xia Fang Zheng Zi Di Nos. 4196, 4198, 4199, 4200 and 4201 all dated September 7, 1999 issued by Xia County People's Government, the registered owner of the said property is Henan Mobile.

(4) We have been provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:-

(i) Pursuant to the Contract for Grant of State-owned Land Use Right and State-owned Land Use Right Certificate Xia Guo Yong (1999) Zi Di No. 0897 both issued by Xia County Land Administration Bureau, Henan Mobile has been granted the land use rights of the property with an area of 131.67 sq.m. for a term commencing from September 8, 1999 to September 7, 2049 for industrial uses. Henan Mobile has an enforceable land use rights to land for the whole of the respective terms as granted.

(ii) Pursuant to the transfer and allocation agreement made between China Mobile and Henan Mobile and the Building Ownership Certificate Xia Fang Zheng Zi Di Nos. 4196, 4198, 4199, 4200 and 4201, the aforesaid portion of the respective buildings have been allocated to Henan Mobile. Henan Mobile has obtained the Building Ownership Certificates and lawfully owns the respective portion of the buildings.

(iii) The property can be transferred, leased or mortgaged by Henan Mobile.

## Group II — Properties held by Fujian Mobile in Fujian Province of the PRC

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 RMB | HK$ |
|---|---|---|---|---|---|
| 1 | Wushan Building<br>59 Qushan Road<br>Gulou District<br>Fuzhou<br>Fujian Province<br>The PRC | The property comprises an 11- storey commercial building with a commercial ground level and two car parking basements completed in about 1996.<br>The gross floor area of the subject building is approximately 20,947.99 sq.m. (225,484 sq. ft.).<br>The land use rights are held for a term expiring on December 12, 2045 for office use. | The property is occupied by the Group as office and sales outlet. | 89,030,000 | 83,205,607 |

*Notes:*

(1) Pursuant to a Building Ownership Certificate Rong Fang Quan Zheng R Zi No. 9919034 dated September 23, 1999 issued by the Fuzhou Real Estate Title Administration Office, the registered owner of the said building is Fujian Mobile.

(2) Pursuant to a Stated-owned Land Use Right Certificate Min Guo Yong (1999) Zi No. 017 dated September 24, 1999 issued by the Fuzhou Land Administration Bureau, the land use rights of the property comprising a site with an area of 2,696.80 sq.m. have been granted to Fujian Mobile for a term expiring on December 12, 2045 for office use.

(3) We are provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:

i) Pursuant to the State-owned Land Use Right Certificate issued by Fuzhou Land Administration Bureau, Fujian Mobile has been granted a land use right of the property with an area of 2,696.80 sq.m. commencing from September 24, 1999 to December 12, 2045 for office use. Fujian Mobile has an enforceable title to the land for the whole of the term as granted.

ii) Pursuant to the transfer and allocation agreement made between China Mobile and Fujian Mobile and the Building Ownership Certificate Rong Fang Quan Zheng R Zi No. 9919034, the aforesaid building has been allocated to Fujian Mobile. Fujian Mobile has obtained the Building Ownership Certificate and lawfully owns the building.

iii) The property can be transferred, leased or mortgaged by Fujian Mobile.

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 RMB | HK$ |
|---|---|---|---|---|---|
| 2 | A portion of Level 1 and portions on each level from Level 2 to Level 12 of Zhuwei Composite Building Junction of southwestern corner of Xinpu Road and Dongyihao Zhangzhou Fujian Province The PRC | The property comprises portion of ground floor and portions of level 2 to 12 in a 12-storey commercial building completed in about 1998.<br><br>The total gross floor area of the subject property is approximately 7,275.43 sq.m. (78,313 sq. ft.).<br><br>The land use rights are held for a term expiring on February 2, 2046 for SPC Model Building and residential uses. | The property is occupied by the Group as an administration office and sales outlet. | 25,360,000 | 23,700,935 |

*Notes:*

(1) Pursuant to a Stated-owned Land Use Right Certificate Zhang Guo Yong (96) Zi No.17299 dated February 1996 issued by the Zhangzhou Land Administration Bureau, the land use rights of the property comprising a site with an area of 20,867.10 sq.m. have been granted to Zhang Zhou PTB for a term expiring on February 2, 2046 for SPC Model Building and residential uses.

(2) Pursuant to an entitlement certificate dated August 12, 1999 issued by the Zhangzhou Land Registration Office, the user of the land portion of the subject property with an area of 2,931.33 sq.m. is Zhangzhou MTB and the use is restricted for SPC Model Building and residential uses.

(3) Pursuant to a Building Ownership Certificate Chuan Min Chan Zi No.101008 dated August 14, 1999 issued by the Zhangzhou Land and Building Administration Bureau, the, the registered owner of the said building is Zhangzhou MTB.

(4) We are provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:

i) Pursuant to the State-owned Land Use Right Certificate issued by Zhangzhou Land Administration Bureau, Zhangzhou PTB has been granted a land use right of the property with an area of 20,867.10 sq.m. Pursuant to the entitlement certificates dated August 12, 1999, the registered owner of the land portion of the subject property with an area of 2,931.33 is Zhangzhou MTB. Fujian Mobile is in the process of applying to the relevant authorities for appropriate changes to the land use right certificate to reflect the fact that the relative portion of land has been transferred to Fujian Mobile and there are no legal impediments for Fujian Mobile to obtain the land use right certificate.

ii) Pursuant to the transfer and allocation agreement made between China Mobile and Fujian Mobile and the Building Ownership Certificate Chuan Min Chan Zi No.101008, the registered owner of the aforesaid portion of building is Zhangzhou MTB. Fujian Mobile is in the process of applying to the relevant authorities for appropriate change to the Building Ownership Certificate to reflect the fact that the building has been transferred to Fujian Mobile and there is no legal impediments for Fujian Mobile to obtain the Building Ownership Certificate.

iii) Upon obtaining the Building Ownership Certificate and the Land Use Right Certificate the property can be transferred, leased or mortgaged by Fujian Mobile.

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 RMB | HK$ |
|---|---|---|---|---|---|
| 3 | Portion of ground floor and three carparking spaces on ground floor Block No. 72 Chonggui Xin Village Meilie District Sanming Fujian Province The PRC | The property comprises portion of ground floor and 3 carparking spaces on ground floor in a 9-storey composite building completed in about 1996.<br><br>The total gross floor area of the subject property is approximately 531.03 sq.m. (5,716 sq. ft.).<br><br>The land use rights are held for a term expiring on July 14, 2049 for retail and carpark uses. | Two units on the ground floor are let under two tenancies for terms of 1 to 3 years with the latest expiry date on June 2001 yielding a total monthly income of RMB 1,520. The remaining portion of the property is occupied by the Group as sales outlet and carport. | 2,110,000 | 1,971,963 |

*Notes:*

(1) Pursuant to a State-owned Land Use Right Certificate Ming Guo Yong (1999) Zi No. 10349 dated September 16, 1999 issued by the Sanming Land Administration Bureau, the title to the site with an area of 99.56 sq.m. is held by Fujian Mobile for a term expiring on July 14, 2049 for retail and carpark uses.

(2) Pursuant to a Building Ownership Certificate Ming Fang Quan Zheng No. 026829 dated September 20, 1999 issued by Sanming Real Estate Administration Office, the registered owner of the property is Fujian Mobile.

(3) We are provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:

i) Pursuant to the State-owned Land Use Right Certificate Ming Guo Yong (1997) Zi No. 10349 issued by Sanming Land Administration Bureau, Fujian Mobile has been granted the land use rights of the property with an area of 99.56 sq.m. commencing from September 16, 1999 to July 14, 2049 for retail and carpark uses. Fujian Mobile has an enforceable title to the land for the whole of the term as granted.

ii) Pursuant to the transfer and allocation agreement made between China Mobile and Fujian Mobile and the Building Ownership Certificate Ming Fang Quan Zheng No. 026829, the aforesaid portion of building has been allocated to Fujian Mobile. Fujian Mobile has obtained the Building Ownership Certificate and lawfully owns the set portion of building.

iii) The property can be transferred, leased or mortgaged by Fujian Mobile.

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 RMB | HK$ |
|---|---|---|---|---|---|
| 4 | Level 5<br>Shanhou Telecom Ancillary Building<br>Shanhou Village<br>Haicheng Town<br>Longhai County<br>Zhangzhou<br>Fujian Province<br>The PRC | The Property comprises a machine room on the 5 level of a 5-storey office building completed in 1999. The gross floor area of the property is approximately 493.51 sq.m. (5,312 sq.ft.).<br>The land use rights are held for a term expiring on December 1, 2042 for telecommunication equipment use. | The property is currently vacant. | 810,000 | 757,009 |

*Notes:*

(1) Pursuant to a State-owned Land Use Right Certificate Long Te Guo Yong (1990) Zi No. 0045 dated September 3, 1996 issued by the Longhai Land Administration Bureau, the land use rights of the property comprising a site with an area of 11,730.00 sq.m. have been granted to Longhai PTB for a term from April 2, 1996 to February 1, 2042 for telecommunication equipment use.

(2) Pursuant to an entitlement certificate (No. 99005) dated 12th August 1999 issued by Longhai Land Administration Bureau, the title to the site with an area of 120.00 sq.m. (1,292 sq.ft.) is held by Fujian Mobile Longhai Sub-branch for a term expiring on December 1, 2042 for mobile telecommunication use.

(3) Pursuant to an entitlement certificate (No. 99006) dated 14th August 1999, the title to the said portion of the subject building is Fujian Mobile Longhai Sub-branch.

(4) We are provided with a legal opinion on the title to the property issued by Commerce & Finance Law office, which contains, inter alia, the following information.

i) Pursuant to the State-owned Land Use Right Certificate issued by Longhai Land Administration Bureau, 11,730.00 sq.m. has been allocated to Longhai PTB. Longhai PTB has been granted a land use right to the property. Pursuant to the transfer and allocation agreement made between China Mobile and Fujian Mobile and an entitlement certificate (No. 99005) issued by Longhai Land Administration Bureau, the title to the site with an area of 120.00 sq.m. is held by Fujian Mobile Longhai Sub-branch for telecommunication use. Fujian Mobile is in the process of applying to the relevant authorities for appropriate changes to the land use right certificate to reflect the fact that the land has been transferred to Fujian Mobile and there are no legal impediments for Fujian Mobile to obtain the land use right certificate.

ii) Pursuant to the transfer and allocation agreement made between China Mobile and Fujian Mobile and an entitlement certificate (No. 99006), the aforesaid portion of the building has been allocated to Fujian Mobile Longhai Sub-branch. Fujian Mobile is in the process of applying to the relevant authorities for appropriate changes to the Building Ownership Certificate to reflect the fact that the building has been transferred to Fujian Mobile and these is no legal impediments for Fujian Mobile to obtain the Building Ownership Certificate.

iii) Upon obtaining the Building Ownership Certificate, the property can be transferred, leased or mortgaged by Fujian Mobile.

## Group III — Property held by Hainan Mobile in Hainan Province of the PRC

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 RMB | HK$ |
|---|---|---|---|---|---|
| 1 | Telecom Composite Building<br>Telecom Fen Qu<br>Jinjiling<br>Sanya<br>Hainan Province<br>The PRC | The property comprises a 5 storey commercial building, an electricity generator room and a covered bicycle parking area all completed in about 1999.<br>The total gross floor area of the subject property is approximately 4,534.00 sq.m. (48,804 sq. ft.).<br>The land use rights are held for a term expiring on February 25, 2047 for urban public facilities use. | The property is occupied by the Group as office. | 9,220,000 | 8,616,822 |

*Notes:*

(1) Pursuant to the Real Estate Title Certificate San Tu Fang (1999) Zi No. 1118, issued by Sanya Real Estate Administration Bureau, Hainan Mobile has been granted a land use right of the property with a land area of 3,417.30 sq.m. for urban public facilities uses commencing from September 23, 1999 to February 25, 2047.

(2) We are provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:

i) Hainan Mobile has obtained the Real Estate Title Certificate San Tu Fnag (1998) Zi No. 1118 of the subject property for a term commencing from September 23, 1999 and expiring on February 25, 2047. Hainan Mobile thus has the land use right of the subject property within the specified term of the land use right certificate.

ii) The state law has stipulated that the registered land use right owner of a parcel of land must be the one who also owns the building, which erected upon the land. Hainan Mobile thus owns the buildings of the subject property according to the Real Estate Title Certificate San Tu Fnag (1998) Zi No. 1118. The subject property can be transferred, mortgaged or let by Hainan Mobile.

## Category B

### Group I—Properties Under Development held by Henan Mobile in Henan Province of the PRC

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 | |
|---|---|---|---|---|---|
| | | | | RMB | HK$ |
| 1 | A composite building at Huaishang Road Beiguan Huaiyang County Zhoukou Henan Province The PRC | The property comprises a parcel of land with an area of 3,160.40 sq.m. (34,019 sq.ft.).<br>The property is planned to be developed into a 3-storey building with a total gross floor area of approximately 685.13 sq.m. (7,375 sq.ft.). The construction was completed in July 1999.<br>The land use rights of the property have been granted for a term of 50 years commencing from the date of issuance of the land use right certificate. | The property is vacant and awaiting for the issuance of occupation permit. | 1,220,000 | 1,140,187 |

*Notes:*

(1) Pursuant to the Contract for Grant of State-owned Land Use Right dated August 27, 1999 entered into between Huaiyang Land Administration Bureau (Party A) and Henan Mobile (Party B), Party A agreed to grant the land use rights to Party B. The salient terms stipulated in the Contract are summarized as follows:

| | | |
|---|---|---|
| (a) | Location: | the land is situated in the north side of Huaishang Road |
| (b) | Site area: | 3,160.4 sq.m. |
| (c) | Use: | Construction of Mobile Plant Room |
| (d) | Land use term: | 50 years |
| (e) | Premium: | RMB420,333 |

(2) Pursuant to the Construction Work Planning Permit No. 9832 dated August 19, 1998, Huaiyang PTB has been permitted to construct a building with a gross floor area of 1,440.00 sq.m.

(3) As advised by the Group the construction cost paid as at date of valuation is RMB800,000.

(4) The capital value when completed as at date of valuation is approximately RMB1,220,000.

(5) We have been provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:-

(i) Pursuant to the Contract for Grant of State-owned Land Use Right dated August 27, 1999, the land use rights of the property with an area of 3,160.40 sq.m. have been granted to Henan Mobile for a term of 50 years. The land use rights transfer fee has been fully paid by Henan Mobile. Henan Mobile is in the process of applying to the relevant authorities for the land use right certificate and there are no legal impediments for Henan Mobile to obtain the land use right certificate.

(ii) Pursuant to the application form for separation of the real estate title, the Construction Work Planning Permit No. 9832 and the transfer and allocation agreement made between China Mobile and Henan Mobile dated August 17, 1999 issued by the Huaiyang Real Estate Market Exchange Office, the said building has been allocated to Henan Mobile. The construction of the said building has been completed recently.

(iii) According to the relevant PRC laws, the holder of the land use rights of the land and the building ownership of the building hereon shall be the same entity or same person. Since Henan Mobile is in the progress of obtaining the land use rights of the said land, therefore, Henan Mobile shall be treated as the owner of the building hereon. In conjunction with the document issued by the Huaiyang Real Estate Market Exchange Office, Henan Mobile has been confirmed as the holder and owner of the above mentioned land and building and there is no legal impediments for Henan Mobile to obtaining the Building Ownership Certificate.

(iv) Upon obtaining the Building Ownership Certificate and Land Use Right Certificate, the property can be transferred, leased or mortgaged by Henan Mobile.

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 | |
|---|---|---|---|---|---|
| | | | | RMB | HK$ |
| 2 | Two buildings in No. 3 sub-branch development Junction of Jianshe Road and Dongyuanhe Road Pingdingshan Henan Province The PRC | The property comprises a parcel of land with an area of 3,638.96 sq.m. (39,170 sq.ft.).<br>The development is planned to be developed into a 10-storey office building and three single storey ancillary buildings of reinforced concrete and concrete/brick constructions. The carport and the water pump room have been completed in 1993 and the office building and the power room are scheduled to be completed in October 1999.<br>The subject property comprises the carport and the water pump room of the development with a total gross floor area of 95.00 sq.m. (1,023 sq.ft.)<br>The land use rights of the property have been granted for a term of 50 years commencing from July 27, 1999 for industrial use. | The property is occupied by the Group as carport and plant room and the remaining buildings are under construction. | 1,400,000 | 1,308,411 |

*Notes:*

(1) Pursuant to a State-owned Land Use Right Certificate Ping Guo Yang (1999) dated July 27, 1999 issued by Pingdingshan Land Administration Bureau, the land use rights of the property comprising a site with an area of 3,638.96 sq.m. have been granted to Henan Mobile for a term of 50 years commencing from July 27, 1999 for industrial use.

(2) Pursuant to the Contract for Grant of State-owned Land Use Right dated August 18, 1999 entered into between Pingdingshan Land Administration Bureau (Party A) and Henan Mobile (Party B), Party A agreed to grant the land use rights to Party B. The salient terms stipulated in the contract are summarized as follows:

(a) Location: the land is situated in Jianshe Road
(b) Site area: 3,638.96 sq.m.
(c) Use: Industrial
(d) Land use term: 50 years
(e) Premium: RMB547,300

(3) Pursuant to the approval document Ping Ji Jiao Zi (88) Di No. 241 dated October 29, 1988 issued by Pingdingshan Planning Committee, Pingdingshan PTB has been granted permission to construct the No. 3 sub-branch.

(4) As advised by the Group the construction cost paid for the development as at date of valuation is RMB7,637,352.84.

(5) The capital value for the development when completed as at date of valuation is approximately RMB9,800,800.

(6) We have been provided with a legal opinion on the title to the property issued by Commerce & Finance Law Office, which contains, inter alia, the following information:-

(i) Pursuant to the Contract for Grant of State-owned Land Use Right and the Land Use Rights Certificate Ping Guo Yong (1999) Zi Di No. W-0035 dated July 27, 1999 both issued by Pingdingshan Land Administration Bureau, Henan Mobile has been granted land use rights of the property with an area of 3,638.96 sq.m. for a term of 50 years commencing from July 17, 1999 to July 28, 2049 for industrial use. Henan Mobile has an enforceable land use rights to the land for the whole term as granted.

(ii) Pursuant to the document dated August 14, 1999 issued by Pingdingshan Real Estate Title Registration Office and the transfer and allocation agreement made between China Mobile and Henan Mobile, the aforesaid building has been allocated to Henan Mobile. The construction of the said building is still in progress.

(iii) According to the relevant PRC laws, the holder of the land use rights of the land and the building ownership of the building hereon shall be the same entity or same person. Henan Mobile has obtained the land use rights of the said land and in conjunction with the confirmation by Pingdingshan Real Estate Title Registration Office, Henan Mobile has been confirmed as the owner of the said buildings. There are no legal impediments for Henan Mobile to apply for the Building Ownership Certificate upon completion of the construction works.

(iv) Upon obtaining the Building Ownership Certificate, the property can be transferred, leased or mortgaged by Henan Mobile.

## Group II — Property Under Development held by Hainan Mobile in Hainan Province of the PRC

| | Property | Description and tenure | Particulars of occupancy | Open market value in existing state as at July 31, 1999 | |
|---|---|---|---|---|---|
| | | | | RMB | HK$ |
| 1 | Jinmao Composite Building<br>A4 Small District<br>Southern Portion of Financial Trading District<br>Haikou<br>Hainan Province<br>The PRC | The property comprises a parcel of land with an area of 3,416.20 sq.m. (36,772 sq.ft.).<br>The property is planned to be developed into a 17-storey commercial building with a total gross floor area of approximately 21,719.25 sq.m. (233,786 sq.ft.). The construction is scheduled to be completed in about December 1999.<br>The land use rights is held for a term of 70 years commencing from March 3, 1992 for postal telecommunications main building. | The property is currently under construction. | 34,480,000 | 32,224,299 |

*Notes:*

(1) Pursuant to the State-owned Land Use Right Certificate Haikou Shi Guo Yong Ji Zi No. Q0680, the land use rights of the property comprising a site with an area of 3,416.20 sq.m. (36,772 sq.ft.) have been granted to the Haikou Telecommunication Bureau for a term of 70 years commencing from March 3, 1992 for postal telecommunication main building use.

(2) According to an entitlement certificate (99 Haikou No. 010), the land portion of the subject property is held by Haikou Mobile.

(3) The estimated construction cost paid as at date of valuation is approximately RMB 31,583,000.

(4) The capital value when completed as at date of valuation is approximately RMB 59,184,000.

(5) Pursuant to the Copy of Construction Land Use Planning Permit dated December 18, 1993 issued by Haikou Planning Bureau of the PRC, the development is subject to the following development constraints:

| | |
|---|---|
| Plot Ratio: | less than 7.35 |
| Greenery Ratio: | more than 35% |
| Building Density: | less than 30% |
| Building Levels: | not more than 27 |

(6) We are provided with a legal opinion on the title to the property by Commerce & Finance Law Office, which contains, inter alia, the following information:

(i) According to the State-owned Land Use Right Certificate Haikou Shi Guo Yong Ji Zi No. Q0600 and an entitlement certificate (99 Haikou No. 010), the land use right of the subject property was granted to the Hainan Telecommunication Bureau for postal telecommunication main building use. Pursuant to an allocation agreement made between the China Mobile and Hainan Mobile, the subject land has subsequently been allocated for the use of Hainan Mobile. The relevant legal procedures in transferring the title are currently processing and there is no legal obstacle in the transfer. Upon completing the transfer of land title, Hainan Mobile will legally owns the land use rights of the subject property for a term commencing from March 3, 1992 and expiring on March 2, 2062.

(ii) The subject building has been allocated to Hainan Mobile. The building is under construction. Upon completion, Hainan Mobile shall apply to the relevant authorities for Building Ownership Certificate to reflect the fact that the building has been transferred from to Hainan Mobile and there is no legal impediment to obtain the Building Ownership Certificate.

(iii) Upon obtaining the Building Ownership Certificate, the property can be transferred, leased or mortgaged by Hainan Mobile.

Certain information extracted from the preliminary prospectuses dated October 16, 1999 in respect of the Equity Offering and the Debt Offering is set out in this Appendix for the general information of Shareholders. References to ''adjusted EBITDA'' in this Appendix IX shall have the same meaning as ''EBITDA'' as defined in this circular.

## "PROSPECTUS SUMMARY

### Introduction

We are the leading provider of cellular telecommunications services in Guangdong, Zhejiang and Jiangsu provinces in China. Guangdong, Zhejiang and Jiangsu are among mainland China's most economically developed provinces and, as of June 30, 1999, they were also among the provinces in mainland China with the largest number of cellular subscribers. As of that date, we serviced a total of approximately 8.8 million subscribers. This represented an estimated market share of 91.4% in these three provinces and an estimated 26.2% of all cellular subscribers in mainland China. As of the end of September 1999, the total number of our subscribers reached 10.0 million.

On October 4, 1999, we agreed to acquire Fujian Mobile Communication Company Limited, Henan Mobile Communication Company Limited and Hainan Mobile Communication Company Limited, subject to regulatory and shareholder approvals and other conditions. Each of the target companies is the leading provider of cellular telecommunications services in its province. These three provinces are adjacent to our existing markets. The acquisition will provide us with a geographically contiguous market, extending our market reach to cover most of the southeast coastal region of mainland China. As of June 30, 1999, our existing operations and the target companies collectively serviced a total of approximately 12.2 million subscribers. This represented an estimated market share of 93.0% in these six provinces and an estimated 36.3% of all cellular subscribers in mainland China as of that date.

The telecommunications industry in China has experienced rapid growth in recent years. The cellular communications sector is one of the fastest growing sectors within the telecommunications industry. The number of cellular subscribers in mainland China increased from approximately 6.95 million as of December 31, 1996 to approximately 33.7 million as of June 30, 1999. Our total subscriber base has grown from approximately 2.0 million subscribers as of December 31, 1996 to approximately 8.8 million as of June 30, 1999. As of June 30, 1999, the total number of cellular subscribers as a percentage of total population, or the cellular penetration rate, was approximately 7.3% in Guangdong, 5.2% in Zhejiang, 2.9% in Jiangsu, 5.9% in Fujian, 1.4% in Henan and 2.9% in Hainan. These figures are relatively low compared to cellular penetration rates in other Asian and international markets. Accordingly, we believe that there is potential for significant future subscriber growth in our existing markets and the markets of the target companies.

### Operations

Our cellular telecommunications networks are based on digital GSM technology and analog TACS technology. These technologies were originally introduced in Europe and are currently the only two commercially available cellular technologies in mainland China. As of June 30, 1999, our networks had an aggregate capacity of approximately 10.9 million subscribers. Our networks reach all cities and counties in Guangdong, Zhejiang and Jiangsu.

Cellular telecommunications systems are based on radio transmission, and the capacity of cellular systems depends on the amount of radio frequency spectrum available for use. Our networks currently use a total of 24-25 MHz of frequency spectrum in the 900 MHz frequency band.

In addition, we are using 10 MHz of spectrum in the 1800 MHz frequency band to develop GSM-compatible DCS 1800 systems to further expand the capacity of our GSM networks. We may require additional spectrum for our future network expansion.

Our cellular networks are connected to China's national fixed line telephone network, which allows our cellular subscribers to communicate with fixed line telephone subscribers and subscribers of other cellular networks. This also allows our subscribers to make and receive domestic and international long distance calls. In addition, we offer incoming and outgoing roaming services throughout mainland China and in 44 foreign countries and regions. Any difficulty in maintaining or obtaining interconnection and roaming arrangements on acceptable terms with China Mobile and the relevant provincial Posts and Telecommunications Administrations will affect our business and financial results.

We distribute our cellular services through our own retail outlets and a wide network of authorized dealers.

### The Acquisition

We have agreed to acquire Fujian Mobile, Henan Mobile and Hainan Mobile from China Telecom Hong Kong (BVI) Limited, our immediate controlling shareholder, for a total purchase price of HK$49.715 billion (US$6.4 billion). This acquisition is in accordance with our strategy to enhance our market reach and further strengthen our leading position in the cellular telecommunications market in China. We will pay HK$19.031 billion (US$2.45 billion) of the total purchase price in cash and the remaining HK$30.684 billion (US$3.95 billion) in the form of new shares. The number of new shares to be issued as part of the purchase price will be determined by dividing HK$30.684 billion by the initial price to public in this offering. For illustrative purposes only, assuming that the initial price to public is HK$25.10 per share, the closing price of our shares on the Hong Kong Stock Exchange on October 14, 1999, the number of new shares to be issued as part of the purchase price will be 1,222,470,119. We may elect to satisfy a larger portion of the purchase price in the form of new shares, which will reduce the cash portion of the total purchase price, provided that following the completion of the acquisition, our immediate controlling shareholder's shareholding in us will not exceed 76.43%. We intend to finance the cash portion of the purchase price using the net proceeds from this offering and a concurrent global offering of debt securities, together with internal resources and other forms of external financing, if necessary.

If the acquisition is completed, Fujian Mobile, Henan Mobile and Hainan 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 shareholder approvals for the acquisition.

As of June 30, 1999, Fujian Mobile had approximately 1.9 million subscribers, Henan Mobile had approximately 1.3 million subscribers and Hainan Mobile had approximately 0.2 million subscribers. As of that date, these represented estimated market shares of 96.3%, 99.96% and 91.7% in Fujian, Henan and Hainan, respectively, and an estimated 10.1% of all cellular subscribers in mainland China.

In connection with our proposed acquisition, each of the target companies has also entered into a number of transactions and arrangements. These arrangements include new interconnection and leased line agreements and new service agreements. Following the acquisition and on a combined basis, we expect that these new interconnection arrangements, together with the new interconnection arrangements for our existing subsidiaries, will increase both our operating revenue (in the form of usage fees and other operating revenues) and our operating expenses (in the form of interconnection expenses), the new leased line arrangements of the target companies will decrease our operating expenses (in the form of leased line expenses), and the various new service agreements of the target companies will increase our operating expenses (in the form of selling, general and administrative and other expenses). In addition, connection fee revenue and certain surcharge revenue of the target companies, which previously were not subject to taxation, will become fully taxable at the rate of 33% following the acquisition. In connection with the acquisition, the fixed assets of each target company were revalued as of June 30, 1999. The surplus of RMB 391.6 million recognized upon this revaluation is expected to increase our operating expenses (in the form of depreciation expenses) on a pro forma basis.

Fujian is one of the most economically developed provinces in mainland China. Henan is located in the central part of China and is the most populous province in China. Hainan is the largest special economic zone and a popular tourist destination. As of June 30, 1999, the cellular penetration rate was approximately 5.9% in Fujian, 1.4% in Henan and 2.9% in Hainan. We believe these rates indicate significant potential for subscriber growth in these provinces. Based on these and other factors, we believe that the acquisition will enhance our growth prospects, further strengthen our leading position in the cellular telecommunications market in China and create value for our investors. This will depend on our successful integration of the target companies' operations with our existing operations.

**Strategy**

We believe that the cellular telecommunications industry in mainland China is undergoing a period of rapid development and has significant potential for substantial growth. Our principal objective is to take advantage of this potential through:

- internal growth, including:
  - expanding our subscriber base and increasing usage;
  - strengthening cost control and improving operating efficiency; and
  - enhancing profitability; and
- external expansion by aggressively pursuing strategic investment opportunities in the telecommunications industry in China.

In particular, we have formulated a business strategy to achieve internal growth by:

- enhancing our network quality and functional capabilities;
- developing customized value added service packages and expanding our distribution channels;
- developing brand awareness and promoting customer loyalty;
- controlling operating costs and improving operating efficiency; and
- introducing advanced real time billing systems and measures to ensure timely collection of receivables.

Because the telecommunications industry in mainland China is subject to a high degree of government regulation, our ability to make strategic investments in the telecommunications industry in mainland China will be subject to relevant government approvals.

### Capital Expenditure Program

We intend to continue our network expansion and improvement in Guangdong, Zhejiang and Jiangsu, with an emphasis on improving quality and increasing coverage and capacity. We estimate that our capital expenditures from 1999 through the end of 2001 will amount to approximately RMB 46,634 million (US$5,633 million). The target companies also have ongoing network expansion and improvement plans. We estimate that the target companies will require approximately RMB 22,645 million (US$2,735 million) for capital expenditures from 1999 through the end of 2001 to implement these plans. Our network expansion plan will depend on our ability to obtain sufficient funding (including from external sources) as well as a number of factors described in ''Risk Factors — Factors Beyond Our Control Could Affect Our Expansion Plans''.

### Industry Restructuring

The Ministry of Information Industry regulates the telecommunications industry in China. The MII was established in March 1998 to assume, among other things, the regulatory, administrative and other governmental duties of the former Ministry of Posts and Telecommunications. Where applicable, references to the MII in this prospectus include the former Ministry of Posts and Telecommunications.

In February 1999, the State Council approved a restructuring plan for the telecommunications industry in mainland China. According to this plan, the telecommunications operations of the China Telecom system (which was the sole provider of all public telecommunications services in mainland China prior to 1993) are being separated along four business lines: fixed line communications, mobile communications, paging and satellite communications services. The Directorate General of Telecommunications, a state-owned enterprise under the control of the MII and previously responsible for determining the operational goals and policies at the national level for the telecommunications businesses controlled by the MII, will hold the fixed line telephone and data communications assets after this separation and operate the fixed line telephone and data communications networks nationwide. In addition, China Mobile Communications Corporation was established in July 1999 as a state owned company to hold the mobile communications assets resulting from this separation and to operate mobile telecommunications networks nationwide (including through provincial mobile companies that directly own these assets and operate these networks). 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 will have on our business and operations.

The MII indirectly controls approximately 76.43% of our outstanding shares through China Telecom (Hong Kong) Group Limited (or China Telecom (HK) Group). The current shareholders of China Telecom (HK) Group are China Mobile and the DGT, both of which are companies controlled by the MII. The MII will continue to exercise administrative control over China Mobile and the DGT prior to the completion of the industry restructuring. As a result, the MII will continue to indirectly control us.

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Our principal executive office is located at 16th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong, China and our telephone number at the above address is (852) 2877-3332.

## SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

| | As of or for the year ended December 31, | | | | | | As of or for the six months ended June 30, | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1998 | 1998 | 1999 | 1999 |
| | RMB | RMB | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | (in millions, except per share and per ADS information and share numbers) | | | | | | | | |
| **Income Statement Data:** | | | | | | | | | |
| **Hong Kong GAAP** | | | | | | | | | |
| Operating revenue | 4,590.3 | 7,598.1 | 10,367.2 | 15,487.8 | 26,345.4 | 3,182.3 | 11,367.1 | 16,939.9 | 2,046.2 |
| Operating expenses | 1,614.8 | 2,856.2 | 5,404.8 | 10,073.6 | 18,692.9 | 2,258.0 | 7,779.1 | 11,428.0 | 1,380.4 |
| Operating profit | 2,975.6 | 4,741.9 | 4,962.4 | 5,414.2 | 7,652.5 | 924.4 | 3,588.1 | 5,511.9 | 665.8 |
| Profit before tax and minority interests | 3,021.1 | 4,954.3 | 4,940.8 | 5,953.3 | 9,386.5 | 1,133.8 | 4,830.8 | 5,973.7 | 721.6 |
| Income tax | 201.5 | 285.7 | 427.5 | 991.0 | 2,486.0 | 300.3 | 1,357.9 | 1,970.2 | 238.0 |
| Net profit | 2,819.6 | 4,668.6 | 4,509.2 | 4,955.4 | 6,899.8 | 833.4 | 3,472.2 | 4,003.5 | 483.6 |
| Basic and diluted net profit per share(1) | | | 0.50 | 0.52 | 0.59 | 0.07 | 0.29 | 0.34 | 0.04 |
| Shares utilized in basic calculation (in thousands) | | | 9,010,000 | 9,534,365 | 11,780,788 | 11,780,788 | 11,780,788 | 11,782,885 | 11,782,885 |
| Shares utilized in diluted calculation (in thousands) | | | 9,010,000 | 9,534,365 | 11,782,521 | 11,782,521 | 11,782,489 | 11,785,447 | 11,785,447 |
| Basic and diluted net profit per ADS(1) | | | 10.02 | 10.39 | 11.71 | 1.41 | 5.89 | 6.80 | 0.82 |
| **Balance Sheet Data:** | | | | | | | | | |
| **Hong Kong GAAP** | | | | | | | | | |
| Current assets | | | | | | | | | |
| Cash and cash equivalents | 2,314.0 | 3,127.6 | 2,976.2 | 40,070.7 | 17,481.5 | 2,111.6 | 18,035.4 | 17,556.6 | 2,120.7 |
| Deposits with banks | — | — | — | — | 1,310.9 | 158.3 | — | 5,233.9 | 632.2 |
| Accounts receivable | 610.4 | 807.3 | 1,087.4 | 1,591.9 | 2,481.7 | 299.8 | 2,385.6 | 3,243.6 | 391.8 |
| Fixed assets | 3,828.5 | 7,345.8 | 11,536.0 | 18,634.2 | 33,986.3 | 4,105.3 | 25,813.7 | 35,296.9 | 4,263.6 |
| Total assets | 8,672.2 | 13,562.8 | 18,135.7 | 64,950.1 | 64,542.0 | 7,796.2 | 54,924.3 | 68,609.7 | 8,287.5 |
| Short-term bank and other loans(2) | 377.5 | 512.8 | 1,504.3 | 2,147.6 | 5,337.4 | 644.7 | 2,428.8 | 4,994.8 | 603.3 |
| Long-term bank and other loans | 1,118.3 | 2,004.0 | 1,946.4 | 2,870.3 | 991.2 | 119.7 | 1,269.9 | 1,200.5 | 145.0 |
| Total liabilities | 3,624.0 | 4,522.1 | 5,657.3 | 10,386.2 | 18,699.3 | 2,258.7 | 12,509.2 | 18,710.0 | 2,260.0 |
| Shareholders' equity | 5,048.2 | 9,040.7 | 12,471.1 | 54,549.7 | 45,827.8 | 5,535.6 | 42,400.1 | 49,899.6 | 6,027.5 |
| **Other Financial Data:** | | | | | | | | | |
| **Hong Kong GAAP** | | | | | | | | | |
| Capital expenditures | 2,284.0 | 2,652.5 | 5,510.9 | 5,806.8 | 11,040.3 | 1,333.6 | 3,744.0 | 4,590.6 | 554.5 |
| Adjusted cash flow(3) | 3,400.2 | 4,450.3 | 4,213.3 | 8,203.0 | 13,444.0 | 1,623.9 | 8,044.7 | 8,581.4 | 1,036.6 |
| Net cash inflow from operating activities | 3,868.0 | 5,331.2 | 6,418.4 | 8,825.5 | 13,566.8 | 1,638.8 | 7,197.3 | 9,800.8 | 1,183.9 |
| Net cash outflow from investing activities | (2,026.8) | (3,169.4) | (5,263.6) | (5,327.1) | (36,356.9) | (4,391.6) | (27,774.8) | (8,438.3) | (1,019.3) |
| Net cash inflow/(outflow) from financing activities | 102.0 | (467.3) | 898.9 | 34,218.5 | 323.8 | 39.1 | (2,305.2) | (68.0) | (8.2) |
| Adjusted EBITDA(4) | 3,372.6 | 5,707.0 | 6,435.7 | 8,179.7 | 12,868.1 | 1,554.4 | 5,675.6 | 9,578.3 | 1,157.0 |

(1) The basic and diluted net profit per share and per ADS amounts under Hong Kong generally accepted accounting principles for the years ended December 31, 1995, 1996 and 1997 have been computed by dividing net profit

under Hong Kong GAAP by the weighted average number of shares outstanding as if 9,010,000,000 shares issued in the IPO restructuring were outstanding during these periods (In addition to shares actually issued, if any). The calculation of basic net profit per share for the year ended December 31, 1998 and the six months ended June 30, 1998 and 1999 are based on the net profit and the weighted average number of shares in issue during the year/periods. The calculation of diluted net profit per share for the year ended December 31, 1998 and the six months ended June 30, 1998 and 1999 have been computed after adjusting for the effects of all dilutive potential ordinary shares. The basic and diluted net profit per ADS amounts have been calculated based on a ratio of 20 shares to one ADS.

(2) Includes current portion of long-term bank and other loans.

(3) Represents net cash inflows from operating activities less net cash outflows (inflows) from returns on investments and servicing of finance and taxation.

(4) Adjusted EBITDA represents earnings before interest income, interest expense, income taxes, depreciation and amortization, non-operating income (expense) and provision for diminution in value of fixed assets. For the years ended December 31, 1994, 1995, 1996, 1997 and 1998, and the six months ended June 30, 1998 and 1999, non-operating income (expense) under Hong Kong GAAP was RMB 67.5 million, RMB125.3 million RMB96.5 million, RMB 629.5 million, RMB1,557.8 million, RMB1,197.2 million and RMB298.6 million, respectively. Provision for diminution in value of fixed assets under Hong Kong GAAP for the year ended December 31, 1998 and the six months ended June 30, 1998 and 1999 was RMB281.6 million, RMB84.0 million and RMB500.2 million, respectively. 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, | | |
|---|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1998 | 1998 | 1999 | 1999 |
| | RMB | RMB | RMB | US$ | RMB | RMB | US$ |
| | | | | (in millions) | | | |
| **Income Statement Data:** | | | | | | | |
| **Hong Kong GAAP** | | | | | | | |
| Operating revenue | 2,807.3 | 4,730.4 | 6,988.2 | 844.1 | 3,279.0 | 4,543.3 | 548.8 |
| Operating expenses | 1,321.9 | 2,656.3 | 4,503.7 | 544.0 | 1,996.1 | 3,101.0 | 374.5 |
| Operating profit | 1,485.4 | 2,074.1 | 2,484.5 | 300.1 | 1,282.9 | 1,442.3 | 174.2 |
| Profit before tax | 1,507.3 | 2,091.0 | 2,439.8 | 294.7 | 1,278.6 | 1,404.0 | 169.6 |
| Income tax | 83.9 | 116.6 | 155.1 | 18.7 | 103.3 | 189.5 | 22.9 |
| Net profit | 1,423.4 | 1,974.4 | 2,284.7 | 276.0 | 1,175.3 | 1,214.5 | 146.7 |
| **Balance Sheet Data:** | | | | | | | |
| **Hong Kong GAAP** | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | | 198.8 | 201.8 | 24.4 | | 1,624.0 | 196.2 |
| Accounts receivable | | 522.0 | 818.5 | 98.9 | | 932.7 | 112.7 |
| Fixed assets | | 6,264.9 | 10,413.4 | 1,257.9 | | 10,684.4 | 1,290.6 |
| Total assets | | 9,565.6 | 13,509.2 | 1,631.8 | | 16,660.2 | 2,012.4 |
| Short-term bank and other loans(1) | | 40.7 | 1,386.5 | 167.5 | | 1,857.4 | 224.4 |
| Long-term bank and other loans | | 31.0 | 1,303.2 | 157.4 | | 1,780.3 | 215.0 |
| Total liabilities | | 1,627.4 | 4,607.1 | 556.5 | | 7,136.2 | 862.0 |
| Owner's equity | | 7,938.1 | 8,902.0 | 1,075.3 | | 9,523.9 | 1,150.4 |
| **Other Financial Data:** | | | | | | | |
| **Hong Kong GAAP** | | | | | | | |
| Capital expenditures | 1,989.1 | 4,691.0 | 4,102.5 | 495.5 | 1,873.6 | 1,759.2 | 212.5 |
| Adjusted cash flow(2) | 1,538.2 | 2,768.2 | 1,309.3 | 158.1 | 367.5 | 1,908.9 | 230.6 |
| Net cash inflow from operating activities | 1,617.5 | 2,906.6 | 3,088.1 | 373.0 | 1,661.6 | 3,418.3 | 412.9 |
| Net cash outflow from investing activities | (1,989.1) | (4,686.8) | (4,101.5) | (495.4) | (1,873.6) | (1,755.0) | (212.0) |
| Net cash inflow from financing activities | 574.8 | 1,911.7 | 2,795.2 | 337.6 | 1,509.5 | 1,268.4 | 153.2 |
| Adjusted EBITDA(3) | 1,904.0 | 2,875.0 | 3,884.2 | 469.2 | 1,861.5 | 2,407.7 | 290.8 |

(1) Including current portion of long-term bank and other loans.

(2) Represents net cash inflows from operating activities less net cash outflows (inflows) from returns on investments and servicing of finance and taxation.

(3) Adjusted EBITDA represents earnings before interest income, interest expense, income taxes, depreciation and amortization, non-operating income (expense) and provision for diminution in value of fixed assets. Non-operating income (expense) both under Hong Kong GAAP for the years ended 1996, 1997 and 1998, and the six months ended June 30, 1998 and 1999 was RMB7.5 million, RMB22.3 million, RMB6.0 million, RMB14.2 million and RMB15.2 million, respectively. There was no provision for diminution in value of fixed assets for the periods shown. 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 target companies, 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 target companies contained elsewhere in this prospectus.

## SUMMARY OPERATING AND OTHER DATA

| | As of or for the year ended December 31, | | | As of or for the six months ended June 30, |
|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 |
| **China Telecom (HK)** | | | | |
| Combined population base (in millions)(1) | 113 | 115 | 188 | n/a |
| Cellular penetration (%)(3) | 1.84 | 3.04 | 3.68 | 5.11(2) |
| Subscribers (in thousands) | 2,043 | 3,405 | 6,531 | 8,813 |
| Market share (%)(3) | 98.3 | 97.6 | 94.5 | 91.4 |
| Average churn rate (%)(4) | 1.26 | 1.64 | 2.12 | 2.28 |
| Average minutes of use per subscriber per month(5) | 507 | 441 | 385 | 385 |
| Average revenue per subscriber per month (RMB)(6) | 524 | 474 | n/a(7) | 370 |
| **Target Companies** | | | | |
| Combined population base (in millions)(1) | 132 | 133 | 134 | n/a |
| Cellular penetration (%)(3) | 0.47 | 0.97 | 1.93 | 2.61(2) |
| Subscribers (in thousands) | 616 | 1,265 | 2,525 | 3,414 |
| Market share (%)(3) | 99.8 | 97.9 | 97.8 | 97.4 |
| Average churn rate (%)(4) | 4.37 | 6.13 | 7.74 | 2.62 |
| Average minutes of use per subscriber per month(5) | 593 | 522 | 435 | 361 |
| Average revenue per subscriber per month (RMB)(6) | 504 | 419 | 307 | 257 |
| **China Telecom (HK) and Target Companies Combined** | | | | |
| Combined population base (in millions)(1) | 245 | 248 | 321 | n/a |
| Cellular penetration (%)(3) | 1.10 | 1.93 | 2.95 | 4.07(2) |
| Subscribers (in thousands) | 2,659 | 4,670 | 9,056 | 12,227 |
| Market share (%)(3) | 98.7 | 97.7 | 95.4 | 93.0 |
| Average churn rate (%)(4) | 1.94 | 2.78 | 3.58 | 2.37 |
| Average minutes of use per subscriber per month(5) | 526 | 462 | 398 | 378 |
| Average revenue per subscriber per month (RMB)(6) | 519 | 460 | n/a(7) | 339 |

(1) *Source:* China Statistical Bureau.

(2) Estimate based on population as of December 31, 1998, assuming a 1% annual population growth rate.

(3) Calculated based on total number of cellular subscribers estimated by us.

(4) Measures the rate of subscriber disconnections from cellular telephone service, determined by dividing the sum of voluntary and involuntary deactivations (excluding deactivations due to subscribers switching from our TACS networks to our GSM networks) during the relevant period by the average of the numbers of subscribers at the beginning and end of the period for each of 1996, 1997 and 1998, and by the weighted average number of subscribers for the six months ended June 30, 1999. For ease of comparison, the calculation includes the relevant information of Jiangsu Mobile in respect of the full year of 1998.

(5) Calculated by (i) dividing the total minutes of usage during the relevant period by the average number of subscribers during the period (calculated as the average of the numbers of subscribers at the beginning and end of the period for each of 1996, 1997 and 1998, and by the weighted average number of subscribers for the six months ended June 30, 1999) 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.

(6) Calculated by (i) dividing the operating revenue during the relevant period by the average number of subscribers during the period (calculated as the average of the numbers of subscribers at the beginning and end of the period for each of 1996, 1997 and 1998, and by the weighted average number of subscribers for the six months ended June 30, 1999) and (ii) dividing the result by the number of months in the period. Average revenue per subscriber per month is 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.

(7) Not available 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. Excluding Jiangsu Mobile, average revenue per subscriber per month for 1998 was RMB 450 for us and RMB 406 for us and the target companies combined.

## 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 in the telecommunications industry under the leadership of the State Council:

- granting of licenses to provide telecommunications services;
- scope of permissible business of industry participants;
- tariff policies;
- interconnection, roaming and transmission line leasing;
- technology and equipment standards;
- major capital investment projects and network planning; and
- spectrum allocation.

Other Chinese government authorities also take part in regulating tariff policies and foreign investment. The regulatory framework within which we operate may limit our flexibility to respond to market conditions, competition or changes in our cost structure.

We operate our businesses pursuant to approvals granted by the State Council and licenses granted by the MII. If these approvals or licenses are revoked or suspended, we will be adversely affected.

We have adjusted our tariffs in recent years. In particular, as the government guidance price ranges for connection fees have decreased, we have lowered our connection fee tariffs substantially. We believe that these decreases have had the effect of stimulating our subscriber growth, thereby increasing subscriber usage. However, future changes in tariff policies and rates could immediately decrease our revenues.

***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 is currently preparing a draft of telecommunications administration regulations that will be subject to approval by the State Council. These regulations are expected to clarify the regulatory rules and guidelines for the telecommunications industry 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 China, we do not fully know what the nature and scope of 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/or results of operations.

**We Are Controlled by the MII, Which May Not Always Act in Your Best Interest**

Upon completion of this offering and the payment of the share consideration in connection with the acquisition of the target companies, the MII will indirectly control an aggregate of 75.68% of our shares. The MII will control 75.25% of our shares if the underwriters exercise in full their option to purchase additional ADSs. These percentage shareholdings are provided for illustrative purposes only and assume that the initial price to public will be HK$25.10 per share, the closing price of our shares on the Hong Kong Stock Exchange on October 14, 1999. Accordingly, the MII is and will be able to:

- elect our entire board of directors;
- 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 the MII as our ultimate controlling person could conflict with the interests of our minority shareholders.

***The MII and China Telecom (HK) Group May Not Always Act in Our Best Interest***

A number of entities under the control of the MII provide services to us. These services include interconnection services and the leasing of transmission lines. In this respect, the interests of the MII may conflict with our own interests. The MII has undertaken that, to the extent within its scope of regulation, it will treat us equally with other cellular network operators in respect of all approvals, transactions and arrangements between us and other entities regulated by the MII. However, in some areas, such as tariff setting, the MII shares regulatory responsibilities with other government authorities, in which case the MII undertaking may not be effective. For example, the State Development and Planning Commission has given permission to China United Telecommunications Corporation (known as Unicom) to maintain its tariffs at levels that are 10% below the government guidance rates. In addition, the Chinese government could modify or revoke this and other undertakings by the MII as relevant laws and policies evolve.

China Telecom (HK) Group, which is under the control of the MII, is our controlling shareholder. In connection with our proposed acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile, we have obtained certain representations, warranties and indemnities from China Telecom (HK) Group, including with respect to any undisclosed contingent liabilities of the target companies. However, these may not be fully or effectively enforced against China Telecom (HK) Group.

***Restructuring of the Telecommunications Industry Could Affect Our Business and Operations***

In February 1999, the State Council approved a restructuring plan for the telecommunications industry in mainland China. According to the plan, the telecommunications operations of the China Telecom system controlled by the MII are being separated along four business lines: fixed line communications, mobile communications, paging and satellite communications services. 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 will have on our business and operations. In addition, the industry restructuring may affect some of our existing arrangements with other telecommunications service providers in China. We cannot predict what effect, if any, this may have on our business and operations.

***We May Not Successfully Acquire the Target Companies***

We will only be able to acquire Fujian Mobile, Henan Mobile and Hainan Mobile 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 target companies. If we are not able to or choose not to acquire the target companies, the information regarding the target companies and the pro forma information in this prospectus giving effect to the acquisition would not be relevant. Our net income per share and per ADS may also be significantly diluted following this offering, especially if we do not complete the acquisition.

***We May Face Difficulties and Incur Additional Costs in Integrating the Acquired Operations with Our Existing Operations***

We expect to use the net proceeds from this offering and the concurrent global debt offering to finance the cash portion of the purchase price for our acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile. Once we complete the acquisition, we will have to integrate the acquired operations with our existing operations. The integration process may subject us to risks. In particular, we may experience difficulties in assimilating the operations, assets, systems, structure and personnel of previously separate operations into our operations.

***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 service 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;
- recruit or retain qualified management and technical personnel; 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 adversely and materially affect our business, results of operations and financial condition.

***The Limited Spectrum Allocated to Us May Constrain Our Future Network Capacity Growth***

A cellular network's capacity is limited by the amount of frequency spectrum available for it to use. Our subsidiaries and the target companies currently use 24-25 MHz and 24 MHz, respectively, of frequency spectrum in the 900 MHz frequency band. Of this spectrum, 5 MHz is allocated to us and the target companies for use only until 2005. In addition, Guangdong Mobile and Fujian Mobile currently use 10 MHz of spectrum in the 1800 MHz frequency band.

Due to high subscriber growth in recent years, a number of larger cities with high densities of cellular subscribers have experienced capacity-related service constraints. We expect that the technical development of our networks will result in more efficient use of frequency spectrum. We have reallocated some of the spectrum currently used by our TACS networks to our GSM networks to achieve more efficient spectrum use, and we plan to continue this reallocation.

We believe that our current spectrum allocation is sufficient for anticipated subscriber growth in the near term, but we may need additional spectrum to accommodate future subscriber growth. However, the MII may not allocate additional spectrum to us or renew our allocation of the 5 MHz spectrum beyond 2005. Our network expansion plans may be materially affected if we are unable to obtain additional spectrum or maintain our current spectrum allocation in the future.

***Changes to Our Interconnection and Leased Line Arrangements May Adversely Affect Our Profitability***

Our cellular telecommunications services depend, in large part, upon interconnection with the fixed line telephone network. Currently, interconnection is necessary in the case of all local calls between our subscribers and subscribers of fixed line or other cellular networks. Interconnection is also necessary for most domestic long distance calls and all international calls. We have entered into transmission line leasing agreements with the relevant PTAs. In addition, we have entered into new interconnection agreements with the relevant PTAs and China Mobile. Our new interconnection agreements will be subject to regulatory and shareholder approvals. The target companies 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.

***Competition from Other Cellular Telephone Service Providers May Affect Our Subscriber Growth and Profitability***

Competition in the cellular telephone industry mainly involves competition for subscribers, as profitability in the industry is fundamentally driven by subscriber growth.

Unicom, the second largest cellular telecommunications service provider in mainland China, operates in all six provinces where our subsidiaries and the target companies are located. Unicom was established pursuant to government approval in December 1993 and started commercial operations in 1994. As of June 30, 1999, Unicom had an estimated share of approximately 8.6% of the cellular telecommunications services market in the three provinces in which we operate. In addition to aggressively seeking to expand its network coverage and capacity, Unicom is also aggressively marketing its services to expand its subscriber base. In order to support Unicom's development, the government has permitted Unicom to maintain its tariffs at levels that are 10% below the government guidance rates. In addition, the MII has injected the paging operations of the China Telecom system into Unicom. We could experience increased competition if the government takes other actions in the future to enhance Unicom's competitive position. Unicom's estimated combined market share in Guangdong, Zhejiang and Jiangsu has increased from 1.7% as of December 31, 1996 to 8.6% as of June 30, 1999.

In addition to Unicom, the State Council and the MII may approve additional cellular 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. More generally, we cannot predict what effect the restructuring of the telecommunications industry in mainland China will have on competition in the industry.

Since 1995, China has been engaged in extensive negotiations to join the World Trade Organization. We may face increased competition from additional cellular service providers if China joins the World Trade Organization.

We are currently the largest cellular service provider in the provinces in which we operate. However, increased competition from Unicom and other telecommunications service providers in the future may affect our subscriber growth and lead to reductions in tariffs for our services. This could have a material adverse effect on our results of operations.

***We May Be Unable to Obtain Sufficient Financing to Fund Our Substantial Capital Requirements***

We estimate that we will require approximately RMB 46,634 million (US$5,633 million) for capital expenditures from 1999 through the end of 2001 for a range of projects. These projects principally relate to the expansion of our existing cellular networks and the improvement of their operating efficiency. We estimate that the target companies will require approximately RMB 22,645 million (US$2,735 million) for capital expenditures from 1999 through the end of 2001 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 this offering and the concurrent global debt offering 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 China, which may require additional capital resources.

Our ability to obtain financing depends 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 equity securities to foreign investors will require approval from the China Securities Regulatory

Commission or the State Council, and other relevant government authorities. If adequate capital is not available, our business prospects could be adversely affected.

***Our Use of a New Marketing Name and Logo May Increase Our Marketing Expenses and May Be Challenged***

We have historically marketed our services under the ''China Telecom'' name and logo. In connection with the restructuring of the telecommunications industry in mainland China, we intend to start marketing our services under the ''China Mobile'' name and logo in coordination with China Mobile's brand name promotion plan. We have entered into a licensing agreement with China Mobile for the use of the ''China Mobile'' name and logo. China Mobile has filed an application to register the name and logo as a trademark and the registration is expected to become effective in August 2000. Under Chinese law, until the trademark registration is effective, our use of the ''China Mobile'' name and logo is subject to challenge by third parties claiming rights to the name and logo. Our shift to the new marketing name and logo could result in some confusion in the market and result in increases in our marketing and promotion expenses.

***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 technological standards, the cellular technologies currently employed by us may become obsolete or subject to competition from new technologies in the future. The cost of implementing new technologies, upgrading our networks or expanding capacity could be significant. In addition, our ability to respond to technological changes, including the introduction of ''third-generation'' cellular technology, may depend upon our ability to obtain additional financing.

***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 cellular equipment manufacturers to provide network equipment and technical support. We believe that comparable equipment and support are 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 adversely and materially affected.

***Our Computer Systems, and Those of Others on Whom We Rely, May Be Affected by the Year 2000 Problem***

In accordance with our Year 2000 compliance plan, we have reviewed and implemented changes to ensure that our computer and network systems are Year 2000 compliant. We have a Year 2000 project team that manages our compliance program. We have completed the final on-line testing of all our communications systems, network management systems, accounting and billing systems and customer service systems and the final on-line testing of connections with the fixed line network and other cellular networks.

Despite our efforts, we may experience serious unanticipated negative consequences from the Year 2000 problem, including material costs caused by undetected Year 2000-related errors or defects in the technologies used in our internal systems. This could have a material adverse effect on our business, operating results and financial condition. In addition, because of the interdependent nature of business systems, we could be materially adversely affected if other service providers, such as operators of the fixed line telephone network and other cellular networks, our equipment suppliers or other entities with which we do business, are not Year 2000 compliant. If we or our key business partners are not completely Year 2000 compliant by December 31, 1999, we may experience:

- temporary network outages;
- interruption in basic cellular services and / or value added services;
- inability to provide long distance interconnection or roaming services;
- billing and collection errors;
- interruption in our internal management systems, including information systems and financial control systems; and
- other adverse consequences.

Any of these occurrences could adversely and materially affect our business and results of operations.

The target companies have implemented similar Year 2000 compliance programs and have completed all reviews, upgrades, modifications and tests. However, for similar reasons, their businesses are also subject to the same risks and uncertainties that we face.

***Concerns About the Alleged Health Risks Associated with Cellular Communications Could Negatively Affect our Subscriber Growth***

Reports have suggested that radio emissions from portable cellular handsets might have an adverse effect on the health of cellular telephone users. Although the findings in such reports are disputed, the actual or perceived health risks of using cellular communication devices could adversely affect us through reduced subscriber growth, reduction in subscribers, or reduced usage per subscriber.

***Risks Relating to the Prospective Financial Information***

The financial projections for the target companies included in this prospectus under ''The Acquisition — Prospective Financial Information'' represent our best estimate of the target companies' results of operations for the year ending December 31, 1999. 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 target companies. Consequently, actual results may materially vary 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.

***There will be a Three-day Time Gap Between Pricing and Trading of the Shares***

The initial price to the public of the shares sold in this offering will be determined on the date of pricing. However, those 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 dealings in the shares offered in this offering begin.

## 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 results of operations and financial condition 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 adversely affect our results of operations and financial condition.

The economy of mainland China differs from the economies of most countries belonging to the Organization for Economic Co-operation 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 the Chinese government still owns the majority of productive assets in mainland China, economic reform policies since the late 1970s have emphasized autonomous enterprises and the utilization of market mechanisms. Although we believe that economic reform and the macroeconomic measures adopted by the Chinese government have had a positive effect on the 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, including the notes offered in the concurrent global debt offering, are denominated in U.S. dollars and other foreign currencies. The Renminbi is currently 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.

Our subsidiaries in Guangdong, Zhejiang and Jiangsu are foreign investment enterprises. Currently, they may purchase foreign exchange for settlement of ''current account transactions'', including payment of dividends, without the approval of the State Administration for Foreign Exchange (SAFE). 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 Fujian Mobile, Henan Mobile and Hainan Mobile 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, we cannot be sure 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 pay dividends to us or satisfy their foreign exchange 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 U.S. dollars has been stable, with the Renminbi appreciating slightly against the U.S. dollar since 1994, the exchange rate of the Renminbi may become volatile against the U.S. dollar or other currencies in the future. Substantially all of our operating revenue is denominated in Renminbi, while a major portion of our capital expenditures are denominated in U.S. dollars. In addition, the interest payments on the notes offered in the concurrent global debt offering will be in U.S. 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 results of operations and financial condition.

**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. The overall effect of 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 target companies will be, ''wholly foreign owned enterprises'' (or WFOEs), which are enterprises incorporated in mainland China and wholly owned by Hong Kong or foreign investors. They are subject to laws and regulations applicable to foreign investment in mainland China in general and laws and regulations applicable to WFOEs in particular. However, these laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors, including you.

## CAPITALIZATION

The following table sets forth our consolidated short-term debt and capitalization:

- as of June 30, 1999; and
- as adjusted to give effect to the following events as if they had occurred on June 30, 1999:
  - our sale of 510,744,024 shares offered in this offering (before deducting underwriters' discounts and commissions and other expenses of the global offering);
  - our sale of the notes offered in the concurrent global debt offering (before deducting underwriters' discounts and commissions and other expenses of the concurrent debt offering);
  - the application of total gross proceeds from the offerings to the purchase price of the proposed acquisition; and
  - the issuance of 1,222,470,119 shares to China Telecom Hong Kong (BVI) Limited as part of the purchase price of the acquisition.

The numbers of shares to be issued in this 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$25.10 per share, the closing price of our shares on the Hong Kong Stock Exchange on October 14, 1999.

You should read this table together with our consolidated financial statements, the combined financial statements of Fujian Mobile, Henan Mobile and Hainan Mobile, and the pro forma financial statements included elsewhere in this prospectus.

| | June 30, 1999 | | | |
|---|---|---|---|---|
| | Actual | As adjusted | Actual | As adjusted |
| | RMB | RMB | US$ | US$ |
| | | (in thousands) | | |
| **Short-term debt:** | | | | |
| Short-term bank and other loans | 4,710,000 | 6,567,426 | 568,930 | 793,292 |
| Current portion of long-term bank and other loans | 284,837 | 284,837 | 34,406 | 34,406 |
| Current instalments of obligation under capital lease | — | 68,105 | — | 8,227 |
| Total short-term debt | 4,994,837 | 6,920,368 | 603,336 | 835,925 |

| | June 30, 1999 | | | |
|---|---|---|---|---|
| | Actual | As adjusted | Actual | As adjusted |
| | RMB | RMB | US$ | US$ |
| | (in thousands) | | | |
| **Capitalization:** | | | | |
| Long-term bank and other loans, net of current portion | 1,200,462 | 2,980,712 | 145,006 | 360,046 |
| Obligations under capital lease — long term | — | 141,100 | — | 17,044 |
| Notes | — | 4,138,850 | — | 500,000 |
| Shareholders' equity(1) | | | | |
| Ordinary shares, par value HK$0.10 per share: 16,000,000,000 shares authorized, 11,786,288,000 shares issued and outstanding; 13,519,502,143 shares as adjusted | 1,262,006 | 1,446,664 | 152,440 | 174,748 |
| Reserves(2) | 48,637,614 | 51,359,287 | 5,875,030 | 6,203,826 |
| Total shareholders' equity | 49,899,620 | 52,805,951 | 6,027,470 | 6,378,574 |
| Total capitalization | 56,094,919 | 66,986,981 | 6,775,812 | 8,091,589 |

(1) Does not take into account the issuance of 2 million shares on September 10, 1999 to two of our former senior management officers upon their exercise of share options after resignation.

(2) Include the effect of eliminating the excess of the purchase price over the estimated fair value of the underlying net assets of the target companies as of June 30, 1999 against reserves.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Operating Arrangements We Entered Into in 1997 and 1998 Materially Impacted Our Financial Results

Our current organizational structure was established pursuant to our IPO restructuring completed in September 1997 and our acquisition of Jiangsu Mobile completed in June 1998. In connection with the IPO restructuring, we entered into various operating arrangements to facilitate the transfer of the operations from the Guangdong PTA and the Zhejiang PTA to us, to integrate these operations within our operating structure and to improve our overall operational efficiency. These arrangements included:

- new agreements with respect to interconnection revenue and costs, including an adjustment to the risk sharing arrangement with the relevant PTAs for uncollectible subscriber receivables for domestic and international long distance calls;
- a new leased line agreement in Guangdong;
- an agreement with the Guangdong PTA allowing us to retain local network service charge revenue;
- new service agreements;
- 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.

In connection with the acquisition of Jiangsu Mobile, we entered into similar arrangements with respect to interconnection, property leases, services, and tax treatment of connection fees and surcharge revenue. In addition, Jiangsu Mobile's fixed assets were revalued as of December 31, 1997.

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 new interconnection agreements in 1997 and 1998 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, selling, general and administrative (or SG&A) and other expenses 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 in connection with the IPO restructuring and the acquisition of Jiangsu Mobile, while income tax increased as a result of connection fees and certain surcharges becoming fully taxable following the IPO restructuring.

### Recent Changes to Our Interconnection and Roaming Arrangements May Affect Our Financial Results

In connection with the restructuring of the telecommunications industry, we have entered into new interconnection arrangements with the relevant provincial PTAs in Guangdong, Zhejiang and Jiangsu. In addition, we have entered into a new agreement with China Mobile for inter-provincial interconnection and domestic and international roaming. These new agreements with the PTAs and with China Mobile will be subject to applicable regulatory and shareholder approvals.

***Interconnection Arrangements***

Pursuant to the new arrangements with the PTAs, for every call made by subscribers of our networks to a fixed line network user directly or to a subscriber of other cellular networks through interconnection with the fixed line network, we pay the relevant PTA RMB 0.05 per minute. For calls made by subscribers of the fixed line network or subscribers of other cellular networks to our subscribers, no fee is payable by either us or the relevant PTA.

In addition, for every domestic long distance call made by our subscribers using the relevant PTAs' transmission lines, we receive RMB 0.14 per minute and the relevant PTA will receive the rest of the long distance charges. Conversely, for every domestic long distance call by fixed line subscribers of the relevant PTA using any transmission line leased to us or China Mobile, the relevant PTA will receive RMB 0.14 per minute, and we or China Mobile (as the case may be) will receive the rest of the long distance charges. When our subscribers make international long distance calls, we receive RMB 0.20 per minute and the relevant PTAs will keep the rest of the international long distance charges.

Under our new agreement with China Mobile, when a fixed line user in any province where we operate makes a call to a cellular subscriber outside that province using China Mobile's long distance transmission lines, the fixed line operator will keep RMB 0.14 per minute out of the total long distance call charges (including long distance surcharge). We will be entitled to 20% of the balance of the charges, while China Mobile will receive the remaining 80%.

When our GSM subscribers in Guangdong, Zhejiang and Jiangsu make calls to cellular subscribers outside of their respective provinces using China Mobile's long distance transmission lines, we will keep RMB 0.14 per minute of the total long distance call charges. We will also receive 20% of the balance of the long distance call charges (including any surcharge), while China Mobile will receive the remaining 80%.

***Roaming Arrangements***

Under our new roaming arrangements with China Mobile, the caller's home service network charges the roaming caller RMB 0.60 per minute and pays RMB 0.48 to the operator of the visited network. When a cellular subscriber roams using China Mobile's inter-province signalling lines, both the operator of the visited network and the operator of the caller's home service network shall pay RMB 0.04 to China Mobile for the use of China Mobile's transmission lines. With respect to roaming in Hong Kong, Taiwan and Macau and international locations, we continue to share roaming revenues with other cellular operators in accordance with the existing roaming arrangements between China Mobile and those operators.

We expect that the new interconnection and roaming arrangements will have a material impact on our results of operations.

**We Expect That the Proposed Acquisition Will Materially Impact Our Financial Results**

We have conditionally agreed to acquire Fujian Mobile, Henan Mobile and Hainan Mobile from China Telecom Hong Kong (BVI) Limited, our immediate controlling shareholder, for a total purchase price of HK$49.715 billion (US$6.4 billion). 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.

In addition, in connection with the industry restructuring and the proposed acquisition, each of the target companies has entered into a number of transactions and arrangements, including:

- new interconnection agreements between each target company and the relevant PTA and China Mobile;
- new leased line agreements between each target company and the relevant PTA;
- new service agreements for billing, payment collection, marketing and distribution and/or equipment maintenance and repair, and property lease agreements between each target company and the relevant PTA and/or other parties;
- revaluation of fixed assets of each target company as of June 30, 1999; and
- connection fees and certain surcharges becoming taxable revenues at the enterprise income tax of 33% under Chinese regulations.

If and when we complete the acquisition, we expect that these transactions and arrangements of the target companies will have a material impact on our overall results following the acquisition. In particular:

- the new interconnection agreements are expected to significantly increase operating revenue (in the form of usage fees and other operating revenues) and operating expenses (in the form of interconnection expenses);
- the new leased line agreements are expected to lead to lower leased line expenses for the target companies;
- the new service agreements are expected to increase selling, general and administrative and other expenses;
- the revaluation of assets is expected to increase depreciation expenses; and
- as connection fee and certain surcharge become taxable revenue, income tax is expected to increase, although this increase is expected to be partially offset by the combined tax effect of the above arrangements.

### Geographical Breakdown of Our Operations in Guangdong, Zhejiang and Jiangsu

We conduct our cellular operations in Guangdong, Zhejiang and Jiangsu. Launched approximately five years earlier than our cellular operations in Zhejiang and Jiangsu, our networks in Guangdong have greater capacity, serve the majority of our subscribers and account for the majority of our operating revenue, expenses and profit. As of June 30, 1999, our subscribers in Guangdong, Zhejiang and Jiangsu represented 55.5%, 24.1% and 20.4% of our total subscribers, respectively. During the six months ended June 30, 1999, our operations in Guangdong, Zhejiang and Jiangsu accounted for 59.4%, 22.2% and 18.4% of our operating revenue and 66.5%, 19.7% and 13.8% of our operating profit, respectively. The following table sets forth certain financial information by geographical regions for 1996, 1997, 1998 and the first six months of 1999:

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 1996 | | 1997 | |
| | Guangdong Mobile | Zhejiang Mobile | Guangdong Mobile | Zhejiang Mobile |
| Operating revenue (RMB in millions) | 7,708.5 | 2,658.8 | 11,074.7 | 4,413.0 |
| Operating margin | 45.5% | 54.6% | 36.6% | 31.2% |
| Adjusted EBITDA margin | 59.9% | 68.4% | 53.8% | 50.8% |

| | Year ended December 31, 1998 | | | Six months ended June 30, 1999 | | |
|---|---|---|---|---|---|---|
| | Guangdong Mobile | Zhejiang Mobile | Jiangsu Mobile | Guangdong Mobile | Zhejiang Mobile | Jiangsu Mobile |
| Operating revenue (RMB in millions) | 16,628.9 | 6,406.2 | 3,310.3 | 10,056.6 | 3,762.7 | 3,120.6 |
| Operating margin | 30.5% | 29.3% | 23.6% | 36.6% | 28.9% | 24.6% |
| Adjusted EBITDA margin | 46.8% | 55.9% | 48.0% | 54.7% | 62.2% | 56.4% |

### Results of Operations

On June 4, 1998, we acquired Jiangsu Mobile. We have adopted the acquisition method to account for the acquisition of Jiangsu Mobile under Hong Kong GAAP. Accordingly, the consolidated financial statements include the results of Jiangsu Mobile from June 4, 1998, the date of the acquisition. As a result, our results of operations for the six months ended June 30, 1999 are not directly comparable with those for the same period in 1998, and our results of operations for 1998 are not directly comparable with those for 1997. In addition, the various arrangements that we entered into in connection with our IPO restructuring had a material impact on our results of operations for the full year in 1998 as compared to less than three months in 1997.

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, | |
|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1998 | 1999 |
| Operating revenue: | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Usage fees | 53.3 | 56.3 | 62.0 | 60.2 | 65.0 |
| Monthly fees | 16.0 | 17.4 | 16.5 | 16.2 | 12.3 |
| Connection fees | 25.8 | 20.5 | 12.6 | 15.2 | 14.3 |
| Others | 4.9 | 5.8 | 8.8 | 8.4 | 8.4 |
| Operating expenses: | | | | | |
| Leased lines | 21.4 | 20.2 | 14.9 | 14.8 | 11.9 |
| Interconnection | 1.9 | 7.8 | 18.0 | 18.7 | 16.4 |
| Depreciation | 13.7 | 17.3 | 17.5 | 16.6 | 19.5 |
| Personnel | 4.0 | 4.9 | 5.1 | 5.3 | 4.0 |
| SG&A and others | 11.1 | 14.8 | 15.5 | 13.0 | 15.7 |
| Total operating expenses | 52.1 | 65.0 | 71.0 | 68.4 | 67.5 |
| Operating profit | 47.9 | 35.0 | 29.0 | 31.6 | 32.5 |
| Other income | 0.5 | 0.5 | 1.3 | 1.0 | 1.6 |
| Interest expense | (1.6) | (1.1) | (0.6) | (0.6) | (0.6) |
| Non-operating income (expenses) | 0.9 | 4.0 | 5.9 | 10.5 | 1.8 |
| Profit before tax and minority interests | 47.7 | 38.4 | 35.6 | 42.5 | 35.3 |
| Income tax | (4.1) | (6.4) | (9.4) | (11.9) | (11.6) |
| Profit before minority interests | 43.5 | 32.0 | 26.2 | 30.6 | 23.6 |
| Net profit | 43.5% | 32.0% | 26.2% | 30.6% | 23.6% |

**Six Months Ended June 30, 1999 Compared to Six Months Ended June 30, 1998**

***Operating Revenue.*** We derive operating revenue principally from usage fees, monthly fees, and one-time connection fees charged to new subscribers. Usage fees represent standard local usage fees for airtime and applicable domestic and international long distance charges receivable 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 receive fees for other services we provide, including interconnection revenue, fees charged for certain value added services and telephone number selection and for roaming services provided to other cellular networks' subscribers.

Operating revenue increased 49.0% from RMB 11,367.1 million in the six months ended June 30, 1998 to RMB 16,940.0 million in the same period in 1999. This increase was due primarily to the increase in usage fees as a result of subscriber growth in Guangdong and Zhejiang and the addition of subscribers in Jiangsu as a result of its acquisition by us. Our total number of subscribers was 8.8 million at June 30, 1999, compared to 6.5 million at December 31, 1998. Excluding Jiangsu Mobile, operating revenue increased 26.7% from RMB 10,910.5 million in the six months ended June 30, 1998 to RMB 13,819.3 million in the same period in 1999. Excluding connection fees, operating revenue increased from RMB 9,634.5 million to RMB 14,523.1 million.

Revenue from usage fees increased 61.0% from RMB 6,839.0 million in the six months ended June 30, 1998 to RMB 11,012.2 million in the same period 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 fixed line and cellular networks throughout mainland China. Excluding Jiangsu Mobile, usage fees increased 38.2% from RMB 6,568.6 million to RMB 9,080.8 million. As a percentage of operating revenue, usage fees increased from 60.2% in the six months ended June 30, 1998 to 65.0% in the same period in 1999.

Revenue from monthly fees increased 13.0% from RMB 1,841.3 million in the six months ended June 30, 1998 to RMB 2,080.6 million in the same period in 1999 due to the increase in total subscriber numbers. Excluding Jiangsu Mobile, monthly fees decreased 10.1% from RMB 1,789.0 million to RMB 1,609.1 million primarily due to decreases in the monthly fee tariff in Guangdong and Zhejiang. As a percentage of operating revenue, monthly fees decreased from 16.2% in the six months ended June 30, 1998 to 12.3% in the same period in 1999.

Although monthly fee and international long distance call tariffs decreased, revenue from usage fees and monthly fees as a percentage of operating revenue increased from 76.4% in the six months ended June 30, 1998 to 77.3% in the same period in 1999. Usage fees and monthly fees closely relate to our subscriber base and subscriber usage. Accordingly, we believe that their increased relative importance as revenue components represents a more effective revenue structure and will lead to more reliable revenue growth in the long run. We expect that usage fees and monthly fees will collectively constitute an increasingly larger component of our operating revenue.

Revenue from connection fees increased 39.5% from RMB 1,732.6 million in the six months ended June 30, 1998 to RMB 2,416.9 million in the same period in 1999 due to the increase in total subscribers, partially offset by decreases in average connection fees charged to new subscribers. Excluding Jiangsu Mobile, connection fees increased 24.7% from RMB 1,641.7 million to RMB 2,047.7 million. We believe that the reduction and possible eventual elimination of connection fees for new subscribers may help to expand our subscriber base and result in increased total subscriber usage of our cellular services, and may reduce our reliance on connection fees to drive revenue growth. As a percentage of operating revenue, connection fees decreased from 15.2% in the six months ended June 30, 1998 to 14.3% in the same period in 1999.

Other operating revenue increased 50.0% from RMB 954.3 million in the six months ended June 30, 1998 to RMB 1,430.4 million in the same period in 1999. This increase reflected primarily the inclusion of Jiangsu Mobile's other operating revenue, as well as increases in revenue charged to subscribers of other network operations for visitor-location roaming (roaming in) within our service areas and revenue from interconnection settlement. Excluding Jiangsu Mobile, other revenue increased 18.7% from RMB 911.3 million to RMB 1,081.7 million.

***Operating Expenses.*** Operating expenses include principally leased line expenses, interconnection expenses, depreciation expense relating to our cellular network and other fixed assets, personnel expenses and selling, general and administrative and other expenses, which primarily consist of selling and promotion expenses, network maintenance costs, provision for doubtful accounts and operating lease charges.

Operating expenses increased 46.9% from RMB 7,779.1 million in the six months ended June 30, 1998 to RMB 11,428.0 million in the same period in 1999, due primarily to increases in depreciation expense, SG&A and other expenses, interconnection expenses and leased line payments. Of the total increase in operating expenses, 9.1%, 17.7%, 38.7%, 2.1% and 32.4% was accounted for by increases in leased line payments, interconnection expenses, depreciation expense, personnel expenses, and SG&A and other expenses, respectively. Excluding Jiangsu Mobile, operating expenses increased 22.1% from RMB 7,430.6 million to RMB 9,074.7 million.

Total leased line payments increased 19.6% from RMB 1,683.3 million in the six months ended June 30, 1998 to RMB 2,013.9 million in the same period in 1999, due primarily to our acquisition of Jiangsu Mobile and our network expansion to include new coverage areas and to increase network transmission capacity within the existing coverage areas. Excluding Jiangsu Mobile, leased line payments decreased 7.8% from RMB 1,600.2 million to RMB 1,475.0 million, due to decreases in leased line tariffs. As a percentage of operating expenses, total leased line payments decreased from 21.6% in the six months ended June 30, 1998 to 17.6% in the same period in 1999, reflecting decreases in leased line tariffs as well as greater efficiency in our utilization of leased lines.

Interconnection expenses increased 30.2% from RMB 2,130.7 million in the six months ended June 30, 1998 to RMB 2,775.0 million in the same period in 1999, due primarily to the implementation of a new interconnection agreement in Jiangsu as well as the increase in roaming out and inter-network traffic. Excluding Jiangsu Mobile, interconnection expenses increased 12.4% from RMB 2,055.0 million to RMB 2,310.8 million. As a percentage of operating expenses, interconnection expenses decreased from 27.4% in the six months ended June 30, 1998 to 24.3% in the same period in 1999.

Depreciation expense increased 74.9% from RMB 1,884.7 million in the six months ended June 30, 1998 to RMB 3,296.4 million in the same period in 1999, due to the increase in fixed assets following our acquisition of Jiangsu Mobile as well as increased capital expenditures that we made to improve and expand our networks. Excluding Jiangsu Mobile, depreciation expense increased 33.3% from RMB 1,772.4 million to RMB 2,362.3 million. As a percentage of operating expenses, depreciation expense increased from 24.2% in the six months ended June 30, 1998 to 28.8% in the same period in 1999.

Personnel expenses increased 12.7% from RMB 603.7 million in the six months ended June 30, 1998 to RMB 680.4 million in the same period in 1999, due primarily to the addition of employees in Jiangsu. Excluding Jiangsu Mobile, personnel expenses increased slightly from RMB 593.4 million to RMB 603.7 million. As a percentage of operating expenses, personnel expenses decreased from 7.8% in the six months ended June 30, 1998 to 6.0% in the same period in 1999.

SG&A and other operating expenses increased 80.3% from RMB 1,476.8 million in the six months ended June 30, 1998 to RMB 2,662.3 million in the same period in 1999. This increase was due mainly to a RMB 500.2 million provision for diminution in value primarily of our TACS-B network in Zhejiang and certain TACS network equipment in Guangdong in the six months ended June 30, 1999, and the inclusion of SG&A and other operating expenses of Jiangsu Mobile. Other contributing factors included the increases in selling and promotion expenses primarily from marketing and distribution operations, and network maintenance costs. Excluding Jiangsu Mobile, SG&A and other operating expenses increased 64.8% from RMB 1,409.6 million to RMB 2,322.8 million. Since 1998, we have implemented a number of measures in all three provinces to control bad debt risks and fraud, such as enhanced subscriber registration procedures, the imposition of credit limits for high usage subscribers and tightened controls to improve timely payment by subscribers. As a result, provisions for doubtful accounts as a percentage of operating revenue decreased from 1.75% in the six months ended June 30, 1998 to 1.13% in the same period in 1999. In addition, as a percentage of recurring revenue (i.e., total operating revenue less connection fees), provisions for doubtful accounts decreased from 2.06% to 1.32%. As a percentage of operating expenses, SG&A and other operating expenses increased from 19.0% in the six months ended June 30, 1998 to 23.3% in the same period in 1999.

***Operating Profit.*** Operating profit increased 53.6% from RMB 3,588.0 million in the six months ended June 30, 1998 to RMB 5,511.9 million in the same period in 1999 and operating margin (operating profit as a percentage of operating revenue) increased from 31.6% to 32.5%. Excluding Jiangsu Mobile, operating profit increased 36.3% from RMB 3,480.0 million to RMB 4,744.6 million and operating margin increased from 31.9% to 34.3%. The increase in operating margin reflects faster subscriber growth and total usage increase as well as more efficient network and cost structure.

***Adjusted EBITDA.*** Adjusted EBITDA represents earnings before interest income, interest expense, income taxes, depreciation and amortization, non-operating income (expenses) and provision for diminution in value of fixed assets. Adjusted EBITDA increased 68.8% from RMB 5,675.6 million in the six months ended June 30, 1998 to RMB 9,578.3 million in the same period in 1999. This increase was primarily a result of 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 50.0% to 56.5%. Excluding Jiangsu Mobile, adjusted EBITDA increased 43.4% from RMB 5,452.5 million to RMB 7,818.6 million and adjusted EBITDA margin increased from 50.0% to 56.6%. 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; Non-Operating Income; Interest Expense.*** Other income, which includes primarily gross profit from sales of SIM cards, handsets and accessories, increased 127.2% from RMB 118.8 million in the six months ended June 30, 1998 to RMB 269.9 million in the same period in 1999. This increase reflected primarily increased sales of SIM cards resulting from the increase in subscribers to our GSM networks and a decrease in SIM card costs.

Non-operating income, which includes mainly the interest income earned on the net proceeds from our initial public offering, decreased 75.1% from RMB 1,197.2 million in the six months ended June 30, 1998 to RMB 298.6 million in the same period in 1999 as HK$22,475 million of the net proceeds were used to pay for the purchase price of Jiangsu Mobile.

Interest expense increased 45.8% from RMB 73.2 million in the six months ended June 30, 1998 to RMB 106.7 million in the same period in 1999 as a result of the inclusion of the interest expense of Jiangsu Mobile.

Profit before tax and minority interests increased 23.7% from RMB 4,830.8 million in the six months ended June 30, 1998 to RMB 5,973.7 million in the same period in 1999. The rate of increase was smaller than that of adjusted EBITDA primarily due to the lower interest income and higher provision relating to our TACS networks in the six months ended June 30, 1999.

***Taxation.*** We incurred an income tax expense of RMB 1,357.9 million in the six months ended June 30, 1998 and RMB 1,970.2 million in the same period in 1999, reflecting an effective tax rate of 28.1% and 33.0%, respectively. The lower effective tax rate in the first half of 1998 was primarily a result of the lower Hong Kong statutory tax rate of 16% applicable to our interest income earned in Hong Kong.

***Net profit.*** Net profit increased from RMB 3,472.2 million in the six months ended June 30, 1998 to RMB 4,003.5 million in the same period in 1999. Net profit margin (net profit as a percentage of operating revenue) decreased from 30.6% to 23.6% primarily as a result of the lower interest income and higher provision relating to our TACS networks in the six months ended June 30, 1999.

## REGULATION

The cellular telecommunications industry is subject to a high degree of regulation by the government. Regulations issued or implemented by the State Council, the MII and other relevant government authorities, including the MOFTEC and the SDPC, encompass virtually every aspect of cellular network operations, including entry into the telecommunications industry, scope of permissible business, interconnection and transmission line arrangements, technology and equipment standards, tariff policy, capital investment priorities, foreign investment and spectrum allocation.

The MII was established in March 1998 to assume, among other things, the regulatory, administrative and other governmental duties of, and rights previously exercised or enjoyed by, the former Ministry of Posts and Telecommunications. The MII, under the leadership of the State Council, is responsible for, among other things:

- formulating overall industry policy and regulations;
- coordinating telecommunications projects and networks at the national level;
- enforcing industry standards and regulations;
- granting of licenses to provide telecommunications services;
- formulating interconnection and settlement standards for implementation between telecommunications networks;
- formulating tariff and service charge policies for telecommunications services;
- supervising the operations of telecommunications service providers;
- maintaining fair and orderly market competition among operators;
- allocating and administering public communications resources, such as national radio frequencies, number resources, domain names and addresses of communications networks;
- examining and approving the establishment of radio stations; and
- managing the day-to-day administration of the national telecommunications sector.

In order to provide a uniform regulatory framework to encourage the orderly development of the telecommunications industry, the 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 basic telecommunications statute and the legal source of telecommunications regulations in China. In addition, the MII is currently preparing a draft of the telecommunications administration 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 China, we do not fully know the nature and scope of what the telecommunications law and the regulations will be.

Pursuant to the State Council document approving our IPO restructuring and initial public offering, the MII adopted guidelines to regulate our domestic operations in mainland China. The guidelines provide, among other things, that the existing regulatory framework governing state owned telecommunications companies in mainland China also applies with equal effect to our operating subsidiaries in mainland China.

### 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 government opened certain non-basic sectors of the telecommunications industry, such as paging, to Chinese entities not affiliated with the MII. Cellular network operators and providers of 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 China Mobile, the State Council has granted approval to Unicom to provide cellular services.

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 from the State Council. We were granted special authorization from the State Council to effect our IPO restructuring and initial public offering and have been granted special government authorization to effect the acquisition and this offering.

### Spectrum Usage

The Radio Administration Regulations, effective on September 11, 1993, promulgated pursuant to a joint statement issued by the State Council and the China Central Military Commission, empowers the former SRRC, under the joint leadership of the State Council and the China Central Military Commission, to undertake the centralized regulation of all radio frequencies. As part of the government restructuring approved by the National People's Congress in March 1998, the MII assumed all the government functions of the former SRRC. In coordination with the relevant provincial authorities, the MII allocates frequency, including the 900 MHz and the 1800 MHz frequency bands (which are reserved for mobile cellular applications). 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, China Mobile determines the amount of fees to be paid to the MII for spectrum usage by each cellular network operator under its control based on 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.

### Tariff Setting

Our tariffs are subject to regulation by various government authorities, including the MII, the SDPC, the relevant provincial price regulatory authorities and the relevant PTAs. 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 PTAs in consultation with the relevant price regulatory authorities. In general, base usage charges, monthly fees, domestic roaming usage charges and tariffs for all long distance and international calls are fixed jointly by the MII and the SDPC. International roaming charges are set pursuant to agreements between China Mobile and the relevant foreign cellular operators.

### Interconnection and Leased Line Arrangements

Cellular networks must interconnect with the China Telecom system's fixed line network to enable subscribers to a cellular network to communicate with fixed line subscribers and subscribers to other cellular networks and to make and receive domestic and international long distance calls. The MII is responsible for approving applications for and regulating interconnection with the fixed line network, while the DGT and China Mobile 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. The MII also determines the amounts of lease payments to be collected by the PTAs, which operate the fixed line network, with respect to leasing of transmission lines that facilitate interconnection to be made between cellular networks and the fixed line network. The PTAs and CCTBs are responsible for the maintenance of the transmission lines and related equipment.

### Technical Standards

The MII sets technical standards and controls the type of cellular equipment used in public networks by requiring all network operators under its control 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 (the SETC), the MOFTEC and the General Administration of Customs, effective January 1, 1996, provides that before radio transmission equipment (including cellular 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 cellular 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 terminal equipment to be used for interconnection, whether the equipment is imported or manufactured domestically.

The establishment of base transceiver stations requires approval of the relevant provincial regulatory authorities. A number of these approvals are currently pending. We have not experienced and do not expect to experience difficulty in obtaining permission to establish additional sites.''

## 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, Mr. Li Ping had a personal interest in 100 American depositary shares (representing 2,000 ordinary shares) in the Company.

(ii) As at the Latest Practicable Date, options exercisable for an aggregate of 4,500,000 shares had been granted to the following Directors under the Company's share option scheme:

| Director | Number of shares covered by options |
|---|---|
| Li Ping | 2,400,000 |
| Ding Donghua | 2,100,000 |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had or was deemed to have any interests in the share capital 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 to the business of the Group taken as a whole.

Since 30 June 1999, 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 7 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 Group, or are proposed to be acquired or disposed of by or leased to any member of the 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 per cent. or more of the issued share capital carrying rights to vote at general meetings of any member of the Group:

| | No. of shares | Percentage of shares held |
|---|---|---|
| MII | 9,010,000,000 | 76.43% |
| China Mobile | 9,010,000,000 | 76.43% |
| DGT | 9,010,000,000 | 76.43% |
| CTHKG | 9,010,000,000 | 76.43% |
| CTBVI | 9,010,000,000 | 76.43% |

*Note:* The interest disclosed by CTBVI includes the 9,010,000,000 shares disclosed by MII, China Mobile, DGT and CTHKG separately.

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 per cent. or more of the nominal value of the issued share capital of any member of the 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 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 June 30, 1999, being the date of the latest published audited consolidated accounts of the Company.

**7. Consents**

CICC, Goldman Sachs, Schroders, Chesterton Petty 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, Schroders, Chesterton Petty 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 |
|---|---|
| Chesterton Petty | Chartered surveyor |
| CICC | Registered investment adviser |
| Goldman Sachs | Registered investment adviser |
| KPMG | Certified public accountants |
| Schroders | Exempt securities dealer and exempt investment adviser |

## 9. Miscellaneous

(a) The joint company secretaries of the Company are Li Ping and Yung Shun Loy, Jacky (FCCA, FHKSA, CPA (Australia)).

(b) The registered office and head office of the Company is at 16th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong.

(c) The English text of this circular and form of proxy shall prevail over the Chinese text.

(d) Antony Leung Kam Chung, an independent non-executive director of the Company, is Managing Director and Regional Manager for Greater China and the Philippines of The Chase Manhattan Bank. Chase Securities Inc., an affiliate of The Chase Manhattan Bank, is a lead manager of the Debt Offering. Accordingly, Mr. Leung is not a member of the Independent Board Committee.

## 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) Conditional Acquisition Agreement, dated April 28, 1998, between the Company and CTBVI, pursuant to which the Company acquired the entire issued share capital in Jiangsu Mobile BVI from CTBVI at a consideration of HK$22,475 million.

(b) Network Interconnection and Settlement Agreement dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA, pursuant to which Jiangsu PTA agreed to provide interconnection services to Jiangsu Mobile for an interconnection fee calculated on a similar basis as the fees paid by the Group to Guangdong PTA and Zhejiang PTA.

(c) Transmission Lines Lease Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA, pursuant to which certain transmission lines were to be leased to Jiangsu Mobile from Jiangsu PTA for lease payments determined according to the standards set by the MII.

(d) Collection Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA, pursuant to which Jiangsu PTA provides collection services to Jiangsu Mobile for service charges equivalent to 1% of the aggregate of selected fees payable by Jiangsu Mobile's subscribers.

(e) Distribution and Marketing Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA, pursuant to which Jiangsu Mobile's cellular services can be marketed through the post offices and other outlets of Jiangsu PTA for a service fee of RMB 300 per new subscriber.

(f) Supplemental Agreement, dated April 27, 1998, to Domestic and International Roaming Agreement between the Company and the DGT. The agreement is supplementary to the agreement on September 27, 1997 in respect of roaming services for Guangdong Mobile and Zhejiang Mobile. The supplementary agreement provides for the extension of the original arrangements to Jiangsu Mobile upon completion of the acquisition of Jiangsu Mobile by the Company.

(g) Property Lease Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA, pursuant to which Jiangsu PTA has leased approximately 1,471 premises with an aggregate area of approximately 139,863$m^2$ to Jiangsu Mobile. Jiangsu PTA agreed to lease the premises for a period of 15 years at an annual rental of RMB 78,065,000 which will be negotiated annually with an adjustment capped by reference to inflation.

(h) Asset Partitioning Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA, pursuant to which all assets and liabilities in relation to the cellular telecommunications services in Jiangsu province were assigned to Jiangsu Mobile by Jiangsu PTA as part of the restructuring of the telecommunications sector in mainland China.

(i) Supplemental Agreement, dated November 26, 1998, to the Billing Agreement, Distribution and Marketing Agreement, and the Network Interconnection and Settlement of Accounts Agreement, each between Zhejiang Mobile and Zhejiang PTA. The supplementary agreement provides for the renewal, on the same terms, of the original agreements in relation to billing, marketing and interconnection which had expired on 20 October 1998.

(j) Agreement Regarding Network Interconnection and Settlement, dated October 15, 1998, between Guangdong Mobile and Guangdong PTA, which provides for the sharing of revenue under certain interconnection situations.

(k) Marketing Agreement, dated October 15, 1998, between Guangdong Mobile and Guangdong PTA, pursuant to which Guangdong Mobile's cellular services can be marketed through the post offices and other outlets of Guangdong PTA for a service fee of RMB 300 per new subscriber.

(l) Asset Acquisition Agreement, dated April 27, 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 RMB 3,716,555.

(m) Agreement Regarding the Assignment of Personnel, Assets and Properties Related to Mobile Telecommunications Business, dated September 25, 1999 between China Mobile and Fujian Mobile, pursuant to which assets and liabilities in relation to the cellular 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.

(n) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business, dated September 25, 1999 between China Mobile, Fujian Mobile and the Receiving Company in Fujian, pursuant to which selected real estate properties, staff employment contracts and liabilities not directly related to the cellular telecommunications services in Fujian province were assigned to the Receiving Company in Fujian by Fujian Mobile and confirmed by China Mobile as part of the restructuring of the telecommunications sector in the PRC.

(o) Agreement Regarding the Assignment of Personnel, Assets and Properties Related to Mobile Telecommunications Business, dated October 15, 1999 between China Mobile and Henan Mobile, pursuant to which assets and liabilities in relation to the cellular telecommunications services in Henan province were assigned to Henan Mobile by China Mobile as part of the restructuring of the telecommunications sector in the PRC.

(p) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business, dated October 15, 1999 between China Mobile, Henan Mobile and the Receiving Company in Henan, pursuant to which selected real estate properties, staff employment contracts and liabilities not directly related to the cellular telecommunications services in Henan province were assigned to the Receiving Company in Henan by Henan Mobile and confirmed by China Mobile as part of the restructuring of the telecommunications sector in the PRC.

(q) Agreement Regarding the Assignment of Personnel, Assets and Properties Related to Mobile Telecommunications Business, dated October 15, 1999 between China Mobile and Hainan Mobile, pursuant to which all assets and liabilities in relation to the cellular telecommunications services in Hainan province were assigned to Hainan Mobile by China Mobile as part of the restructuring of the telecommunications sector in the PRC.

(r) Agreement Regarding the Assignment of Personnel, Assets and Properties Not Directly Related to Mobile Telecommunications Business, dated October 15, 1999 between China Mobile, Hainan Mobile and the Receiving Company in Hainan, pursuant to which selected real estate properties, staff employment contracts and liabilities not directly related to the cellular telecommunications services in Hainan province were assigned to the Receiving Company in Hainan by Hainan Mobile and confirmed by China Mobile as part of the restructuring of the telecommunications sector in the PRC.

(s) Acquisition Agreement.

(t) 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 Freshfields, 12th Floor, Two Exchange Square, Hong Kong during normal business hours on any business day from the date of this circular until November 3, 1999:

(a) the Acquisition Agreement;

(b) the memorandum and articles of association of the Company;

(c) the audited financial statements of the Company for the period ended December 31, 1997 and the year ended December 31, 1998 and the interim report of the Company for the six months ended June 30, 1999;

(d) the letters of consent referred to in this circular;

(e) the letter from Schroders dated October 16, 1999, the text of which is set out on pages 27 to 50 of this circular;

(f) the accountants' report from KPMG dated October 16, 1999, the text of which is set out in Appendix III of this circular;

(g) the letters from KPMG and the Company's financial advisers, the texts of which are set out in Appendix VII of this circular;

(h) the valuation report dated October 16, 1999 from Chesterton Petty, the text of which is set out in Appendix VIII of this circular; and

(i) the material contracts referred to under the paragraph headed ''Material Contracts'' in this Appendix and each other agreement referred to in this circular.

中国电信
CHINA TELECOM

# CHINA TELECOM (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 Telecom (Hong Kong) Limited (the ''Company'') will be held at 11:00 a.m. on November 11, 1999 in the Conference Room, 8th Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, 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 October 4, 1999 (the ''Acquisition Agreement'') between the Company, China Telecom Hong Kong (BVI) Limited (''CTBVI'') and China Telecom (Hong Kong) Group Limited, 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,* CTBVI has agreed as beneficial owner to sell, and the Company has agreed to purchase, the entire issued share capital of each of Fujian Mobile (BVI) Limited, Henan Mobile (BVI) Limited and Hainan Mobile (BVI) Limited, which hold 100% of each of Fujian Mobile Communication Company Limited, Henan Mobile Communication Company Limited and Hainan Mobile Communication Company Limited, respectively, at a consideration of the aggregate of HK$49,715 million comprising:

   (a) HK$19,031 million payable in cash; and

   (b) HK$30,684 million to be satisfied by the allotment by the Company to CTBVI 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$30,684 million by the offering price of the proposed equity offering of new Shares pursuant to a registration statement on Form F-3 which was filed with the United States Securities and Exchange Commission on October 4, 1999 (which is described in more detail in the Shareholders' Circular and the preliminary prospectus dated both October 16, 1999); 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 by such additional number of Consideration Shares and that such election can only be made if CTBVI's shareholding in the Company following completion of the Acquisition Agreement and the issue of the Consideration Shares will not exceed 76.43%,

   is hereby generally and unconditionally approved.''

2. **"THAT** subject to the passing of Ordinary Resolution No. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, the allotment by the Company to CTBVI of the Consideration Shares (including such additional Consideration Shares which may be issued pursuant to an election made in accordance therewith) set out in paragraph (b) of Ordinary Resolution No. 1 is hereby approved.''

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 Connected Transactions as described in the paragraph headed ''Connected Transactions'' under the section ''Letter from the Chairman'' of the Shareholders' Circular dated October 16, 1999, 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.''

By Order of the Board
**Li Ping**
**Yung Shun Loy, Jacky**
*Joint Company Secretaries*

Hong Kong, October 16, 1999.

**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 or authority, must be deposited at the Company's registered office at 16th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, 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.

中国电信
CHINA TELECOM

# CHINA TELECOM (HONG KONG) LIMITED

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

**Form of proxy for the Extraordinary General Meeting**
**to be held on November 11, 1999**

I/We *(Note 1)* ______________________________________________

of ______________________________________________

being the registered holder(s) of ____________________ shares *(Note 2)* of HK$0.10 each in the share capital of the above-named Company HEREBY APPOINT THE CHAIRMAN OF THE MEETING *(Note 3)* or ______________________________________________

of ______________________________________________

______________________________________________

as my/our proxy to attend and act for me/us at the Extraordinary General Meeting (and any adjournment thereof) of the said Company to be held at 11:00 a.m. on November 11, 1999 in the Conference Room, 8th Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong for the purposes of considering and, if thought fit, passing the Resolutions as set out in the Notice of Extraordinary General Meeting and at such Meeting (and at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the Resolutions as indicated below *(Note 4)*.

| | **FOR** *(Note 4)* | **AGAINST** *(Note 4)* |
|---|---|---|
| ORDINARY RESOLUTION 1. | | |
| ORDINARY RESOLUTION 2. | | |
| ORDINARY RESOLUTION 3. | | |

Dated this __________ day of __________ 1999        Signed *(Note 5)* ____________________

*Notes:*

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
2. Please insert the number of shares registered in your name(s) to which this proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the shares in the Company registered in your name(s).
3. If any proxy other than the Chairman is preferred, strike out the words ''THE CHAIRMAN OF THE MEETING'' and insert the name and address of the proxy desired in the space provided. A member may appoint one or more proxies to attend and vote in his stead. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.
4. IMPORTANT: IF YOU WISH TO VOTE FOR ANY OF THE RESOLUTIONS, TICK THE APPROPRIATE BOXES MARKED ''FOR''. IF YOU WISH TO VOTE AGAINST ANY OF THE RESOLUTIONS, TICK THE APPROPRIATE BOXES MARKED ''AGAINST''. Failure to complete any or all the boxes will entitle your proxy to cast his votes at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the Meeting other than those referred to in the Notice of Extraordinary General Meeting.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be either executed under its common seal or under the hand of an officer or attorney or other person duly authorised to sign the same.
6. In the case of joint holders of any share, any one of such joint holders may vote at the Meeting either personally or by proxy, in respect of such shares as if he were solely entitled thereto. However, if more than one of such joint holders are present at the Meeting, personally or by proxy, the vote of the joint holder whose name stands first in the Register of Members and who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s).
7. To be valid, this form of proxy together with the power of attorney (if any) or other authority under which it is signed (if any) or a notarially certified copy thereof, must be deposited at the registered office of the Company at 16th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong at least 36 hours before the time for holding the Meeting.
8. The proxy need not be a member of the Company but must attend the Meeting in person to represent you.
9. Completion and delivery of the form of proxy will not preclude you from attending and voting at the Meeting if you so wish. In such event, the instrument appointing a proxy shall be deemed to be revoked.