


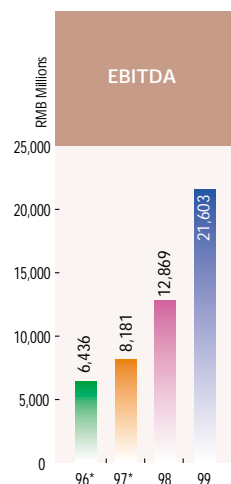
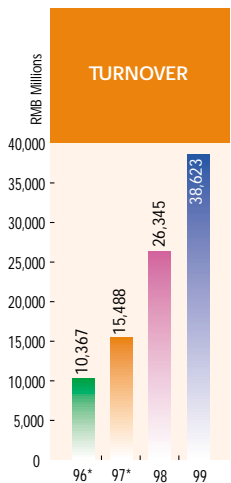
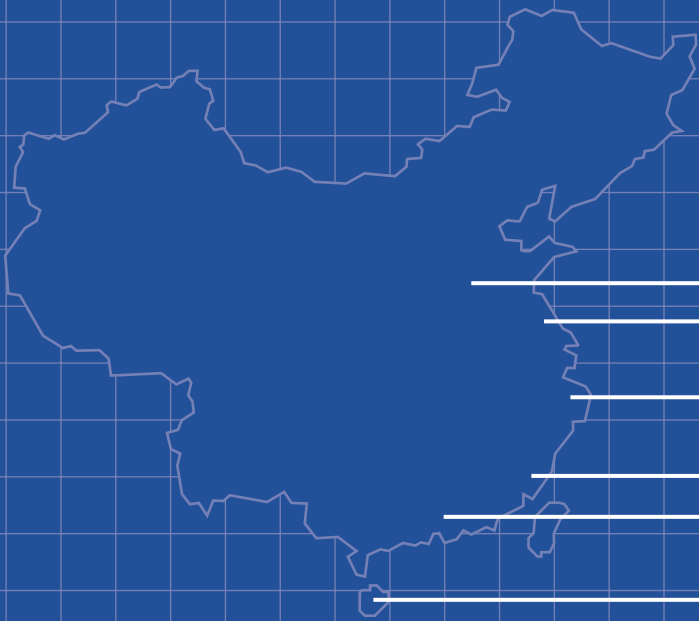
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The image shows a Netscape browser window with the address bar displaying "http://www.cttl.com/". The page content includes the China Telecom logo and the text "中国电信 CHINA TELECOM". Overlaid on the page is a table of contents with the following items and page numbers:

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Financial Highlights



	Consolidated Results of Operations	
	1999	1998
	RMB Million	RMB Million
Operating Revenue (Turnover)	38,623	26,345
Profit Attributable to Shareholders	4,797	6,900
Basic Earnings Per Share	RMB40 cents	RMB59 cents
EBITDA	21,603	12,869
Profit Attributable to Shareholders (before write-down and write-off of TACS network equipment, net of associated income taxes)	10,320	7,088
Basic Earnings Per Share (before write-down and write-off of TACS network equipment, net of associated income taxes)	RMB86 cents	RMB60 cents

* Data for the period from 1996 through 1997 assumes that Guangdong Mobile Communication Company Limited and Zhejiang Mobile Communication Company Limited were included in the Group during that entire period.



The Group provides mobile communication services in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan provinces in the People's Republic of China.

China Telecom (Hong Kong) Limited (the "Company" or, including its subsidiaries, the "Group") was incorporated in Hong Kong on 3 September 1997. It was listed on the New York Stock Exchange and the Stock Exchange of Hong Kong on 22 October 1997 and 23 October 1997, respectively. The Company was admitted as a constituent stock of the Hang Seng Index in Hong Kong on 27 January 1998. The Company is rated BBB by Standard and Poor's and Baa2 by Moody's.

The Company wholly owns Guangdong Mobile Communication Company Limited ("Guangdong Mobile"), Zhejiang Mobile Communication Company Limited ("Zhejiang Mobile"), Jiangsu Mobile Communication Company Limited ("Jiangsu Mobile"), Fujian Mobile Communication Company Limited ("Fujian Mobile"), Henan Mobile Communication Company Limited ("Henan Mobile"), and Hainan Mobile Communication Company Limited ("Hainan Mobile"), and provides mobile communication services in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan provinces in the People's Republic of China ("P.R. China") through these six subsidiaries.

As of 31 December 1999, the Group had a total of 20,243 employees and an aggregate mobile telecommunications subscriber base of 15.621 million, representing 36.1 per cent of all mobile telephone subscribers in mainland China at the end of 1999.

The Company's major shareholder is China Telecom (Hong Kong) Group Limited which indirectly held an equity interest of approximately 75 per cent in the Company at 31 December 1999 through a wholly-owned subsidiary, China Telecom Hong Kong (BVI) Limited. The remaining approximately 25 per cent equity interest in the Company was held by public investors.

Corporate Information

Executive Directors

Mr. WANG Xiaochu
(Chairman & President)

Mr. LI Ping
(Vice Chairman & Executive Vice President, Chief Operating Officer)

Mr. DING Donghua
(Director & Chief Financial Officer)

Mr. LI Gang
(Director of the Company, and President of Guangdong Mobile)

Mr. XU Long
(Director of the Company, and President of Zhejiang Mobile)

Mr. HE Ning
(Director of the Company, and President of Jiangsu Mobile)

Mr. LIU Ping
(Director of the Company, and President of Fujian Mobile)

Mr. YUAN Jianguo
(Director of the Company, and President of Henan Mobile)

Mr. WEI Yiping
(Director of the Company, and President of Hainan Mobile)

Non-executive Director

Mr. CUI Xun
(Vice Chairman of the Company)

Independent Non-executive Directors

Professor Arthur LI Kwok Cheung
Mr. Antony LEUNG Kam Chung

Joint Company Secretaries

Mr. LI Ping
Mr. Jacky YUNG Shun Loy

General Counsel

Mr. David Laurence KREIDER
(Licensed attorney in the United States and Hong Kong)

Auditors

KPMG

Legal Advisers

Linklaters
Freshfields
Sullivan & Cromwell

Registered Office

60/F The Center
99 Queen's Road Central
Hong Kong

Public and Investor Relations:

Telephone: 852 3121 8888
Fax: 852 2511 9092
Website: www.cthk.com
Stock code: (Hong Kong) 941
(New York) CHL

Subsidiaries

Guangdong Mobile Communication Company Limited

208 Yuexiu Road South, Guangzhou
Guangdong Province, P.R. China
Postal code: 510100
Tel: 86 20 83899555

Zhejiang Mobile Communication Company Limited

406, Ti Yu Chang Road, Hangzhou
Zhejiang Province, P.R. China
Postal code: 310006
Tel: 86 571 5060230

Jiangsu Mobile Communication Company Limited

51 Hu Ju Road, Nanjing
Jiangsu Province, P.R. China
Postal code: 210003
Tel: 86 25 6668120

Fujian Mobile Communication Company Limited

59 Wushan Road, Fuzhou
Fujian Province, P.R. China
Postal code: 350001
Tel: 86 591 3373384

Henan Mobile Communication Company Limited

115 Huanghe Road, Zhengzhou
Henan Province, P.R. China
Postal code: 450003
Tel: 86 371 5956333

Hainan Mobile Communication Company Limited

22 Nanbao Road, Haikou
Hainan Province, P.R. China
Postal code: 570206
Tel: 86 898 6785296

Share Registrar

HKSCC Registrars Limited
2/F Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

American Depositary Receipts Depository

Bank of New York
101 Barclay Street, New York
NY 10286, USA
Telephone: 1 888 269 2377
(toll free in USA)

Publications

As required by the United States securities laws, the Company will file an annual report on Form 20-F with the US Securities and Exchange Commission before 30 June 2000. Copies of the annual report as well as the Form 20-F, once filed, will be available at:

Hong Kong:

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

United States:

Bank of New York
101 Barclay Street, New York
NY 10286, USA

Biographical Details of Directors and Senior Management



Mr. Wang Xiaochu



Mr. Li Ping



Mr. Ding Donghua

Executive Directors

Mr. Wang Xiaochu, age 42, Chairman and President of the Company. Mr. Wang is in charge of the overall management of the Company. Prior to joining the Company, Mr. Wang served as the Director General of the Tianjin Posts and Telecommunications Administration. He also served as Director and Deputy Director of the Hangzhou Telecommunications Bureau in Zhejiang Province. He was responsible for the development of China Telecom's telephone network management systems and various other information technology projects. Mr. Wang graduated from the Beijing University of Posts and Telecommunications in 1980 and has over 19 years of management experience in the telecommunications industry.

Mr. Li Ping, age 46, Vice Chairman, Executive Vice President and Joint Company Secretary of the Company. Mr. Li is in charge of the Company's business operations and investor relations. He has served as Deputy Director General of the Directorate General of Telecommunications ("DGT"), and Deputy Director General of the Heilongjiang Posts and Telecommunications Administration. He graduated from the Beijing University of Posts and Telecommunications in 1976 and received an MBA degree from the State University of New York in 1989. Mr. Li has over 21 years' operational and management experience in the telecommunications industry.

Mr. Ding Donghua, age 63, Director and Chief Financial Officer of the Company. Mr. Ding is in charge of the financial management of the Company. He was previously the Chief Economist, Chief Accountant, Deputy Chief Economist and Department Director of the Guangdong Posts and Telecommunications Administration. He graduated from the Beijing University of Posts and Telecommunications in 1961 and has 38 years' management experience in the telecommunications industry, as well as in economics and finance.

Biographical Details of Directors and Senior Management



Mr. Li Gang



Mr. He Ning



Mr. Xu Long

Mr. Li Gang, age 43, Director of the Company. Mr. Li is responsible for the mobile telecommunications operations in Guangdong Province. He is also the Vice Chairman and President of Guangdong Mobile. Mr. Li previously served as the Chief of the Network Maintenance Division and a Deputy Chief of the Telecommunications Division of the Guangdong PTA. Mr. Li graduated from Beijing University of Posts and Telecommunications in 1985 and has over 26 years of experience in the telecommunications industry.

Mr. Xu Long, age 43, Director of the Company. Mr. Xu is responsible for the mobile telecommunications operations in Zhejiang Province. He is also the Chairman and President of Zhejiang Mobile. Mr. Xu previously served as a Deputy Director General of the Zhejiang PTA, the Director of the General Office of the Zhejiang PTA, the President of Zhejiang Nantian Posts and Telecommunications Group Company and a Deputy Director of the Shaoxing Posts and Telecommunications Bureau in Zhejiang Province. Mr. Xu graduated from Zhejiang University of Broadcasting and Television in 1985. He is a senior economist and has over 21 years of experience in the telecommunications industry.

Mr. He Ning, age 38, Director of the Company. Mr. He is responsible for the mobile telecommunications operations in Jiangsu Province. He is also the Chairman and President of Jiangsu Mobile. Mr. He previously served as a Deputy Director General of the Jiangsu PTA, the Director and Deputy Director of the Jiangsu Mobile Communications Bureau, and Deputy Director of the Zhenjiang Posts and Telecommunications Bureau in Jiangsu Province. He graduated from the Nanjing Institute of Posts and Telecommunications in 1983, and has 16 years of experience in the telecommunications industry.

Biographical Details of Directors and Senior Management



Mr. Liu Ping



Mr. Yuan Jianguo



Mr. Wei Yiping

Mr. Liu Ping, age 54, Director of the Company. Mr. Liu is responsible for the mobile telecommunications operations in Fujian Province. He is also the Chairman and President of Fujian Mobile Communication Company Limited. Mr. Liu previously served as the Deputy Director of the Fujian Posts and Telecommunications Administration and Director of the Fuzhou Posts and Telecommunications Bureau. He graduated from the Nanjing Institute of Posts and Telecommunications in 1985, and has 22 years' experience in the telecommunications industry.

Mr. Yuan Jianguo, age 49, Director of the Company. Mr. Yuan is responsible for the mobile telecommunications operations in Henan Province. He is also the Chairman and President of Henan Mobile Communication Company Limited. Mr. Yuan previously served as the Deputy Director of the Henan Posts and Telecommunications Administration, and as Director and Deputy Director of the Henan Mobile Communications Bureau. He holds a Masters degree in Economics Law from Chinese Academy of Social Sciences, and has 29 years' experience in the telecommunications industry.

Mr. Wei Yiping, age 48, Director of the Company. Mr. Wei is responsible for the mobile telecommunications operations in Hainan Province. He is also the Chairman and President of Hainan Mobile Communication Company Limited. Mr. Wei previously served as the Deputy Director of the Hainan Posts and Telecommunications Administration, and as Director of the Sanya Posts and Telecommunications Bureau. He graduated from Xi'an Foreign Languages Institute in 1976, and has 29 years' experience in the telecommunications industry.

Biographical Details of Directors and Senior Management



Non-executive Directors

Mr. Cui Xun, age 61, Vice Chairman of the Company. Mr. Cui is also the Director General of the Guangdong PTA and the Chairman of Guangdong Mobile. He has served as Deputy Director General and Chief Engineer of the Guangdong PTA as well as Chief Engineer, Deputy Director and Deputy Chief Engineer of the Guangzhou Telecommunications Bureau in Guangdong Province. Mr. Cui graduated from the Beijing University of Posts and Telecommunications in 1962. He has 37 years of experience in the telecommunications industry.

Independent Non-executive Directors

Professor Arthur Li Kwok Cheung, age 54, Director. Professor Li is the Vice Chancellor of the Chinese University of Hong Kong, a Non-Executive Director of Glaxo Wellcome plc, a Director of the Bank of East Asia Limited and a Non-Executive Director and Chairman of the Board of Regal Hotel Group plc. He holds a doctorate degree in medicine from Cambridge University and an honorary doctorate degree in science. He previously served as Board Member of the Hong Kong Hospital Authority and President of the College of Surgeons of Hong Kong. Professor Li has been an Advisor on Hong Kong Affairs to the People's Republic of China, a Member of the Basic Law Consultative Committee, a Member of the Preparatory Committee of the Hong Kong Special Administrative Region of the National People's Congress, a Member of the Selection Committee of the First Government of the Hong Kong Special Administrative Region. Professor Li is a Committee Member of the Ninth Annual Chinese People's Political Consultative Conference.

Mr. Antony Leung Kam Chung, age 48, Director. Mr. Leung is the Chairman for Asia Pacific of the Chase Manhattan Bank. He graduated from the University of Hong Kong and completed the Advanced Management Program at the Harvard Business School. Mr. Leung's public service appointments include Member of the Executive Council of the Hong Kong Special Administrative Region, Chairman of the Education Commission and Member of the Exchange Fund Advisory Committee.

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

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

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

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

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


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

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

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

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

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



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

Wang Xiaochu

Chairman and President

13 April 2000

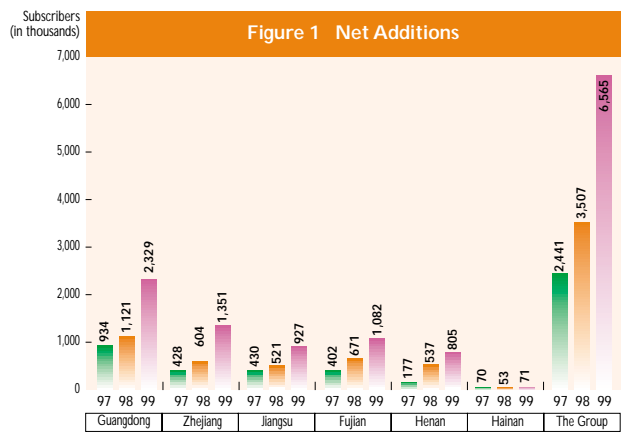
Introduction

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

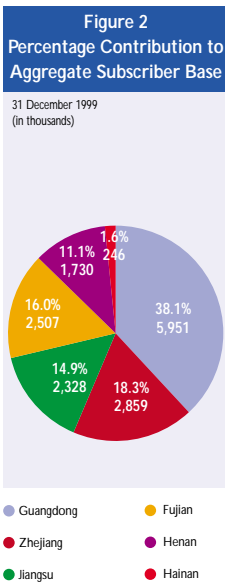
Subscriber Base

The Group's subscriber base in the Guangdong, Zhejiang, Jiangsu, Fujian, Henan, and Hainan mobile markets has grown rapidly. At the end of 1999, the Group's aggregate subscriber base reached 15.621 million (excluding 128,000 prepaid card users), representing an increase of 6.565 million subscribers and a growth rate of 72.5 per cent over the pro forma combined subscriber base of 9.056 million at the end of 1998. As shown in Figure 1, of the Group's total new subscribers, Guangdong

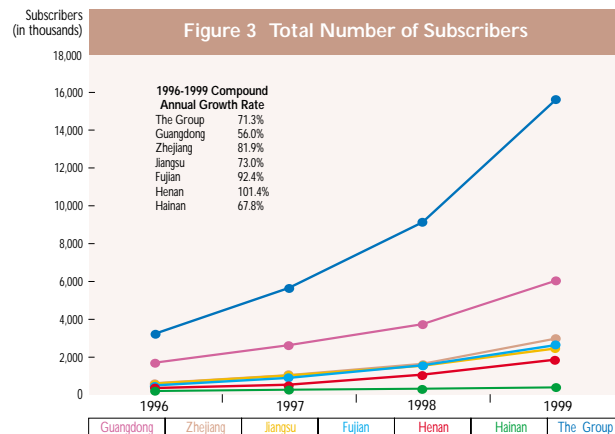
Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile accounted for 2.329 million, 1.351 million, 927,000, 1.082 million, 805,000 and 71,000, respectively, reflecting year-to-year increases of 64.3 per cent, 89.7 per cent, 66.2 per cent, 75.9 per cent, 87.0



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



Since 1996, the Company has achieved a pro forma combined compound annual growth rate of 71.3 per cent in total subscriber base (see Figure 3). The 1999 combined subscriber growth rate for Fujian Mobile, Henan Mobile and Hainan Mobile, the three provincial mobile



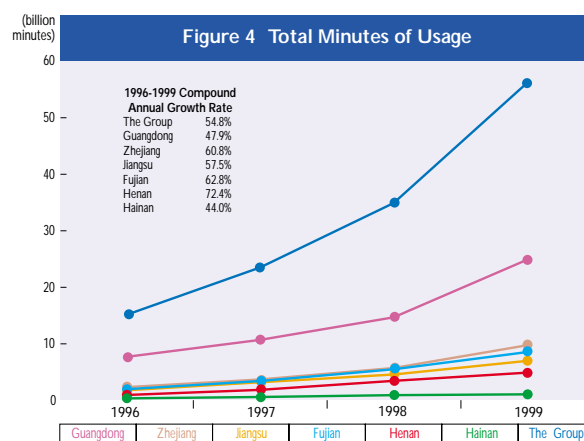
companies that the Group acquired on 12 November 1999, was 77.5 per cent. As the Group's average cellular penetration rate of 5.5 per cent in the six provinces is relatively low compared to those of other major international markets, the Group believes there is significant potential for future

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

Usage Volume

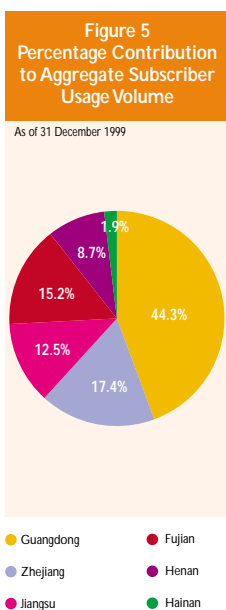
The Group's 1999 pro forma combined aggregate subscriber usage volume reached 56.158 billion minutes (see Figure 4), representing an increase of 21.263 billion minutes, or 60.9 per cent, from the pro forma aggregate subscriber usage volume of 34.895 billion minutes in 1998.

Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile accounted for 24.88 billion minutes,



9.75 billion minutes, and 6.99 billion minutes, respectively, representing increases of 69.4 per cent, 70.2 per cent and 52.6 per cent, respectively, over 1998. Fujian Mobile, Henan Mobile and Hainan Mobile accounted for 8.55 billion minutes, 4.91 billion minutes and 1.07 billion minutes, respectively, representing increases of 55.3 per cent, 41.9

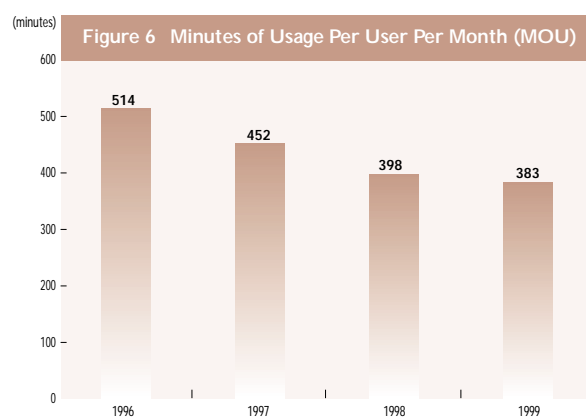
per cent and 15.5 per cent, respectively, over 1998. Figure 5 shows the relative percentage contribution of each of the six operating subsidiaries to the Group's pro forma combined aggregate subscriber usage volume.



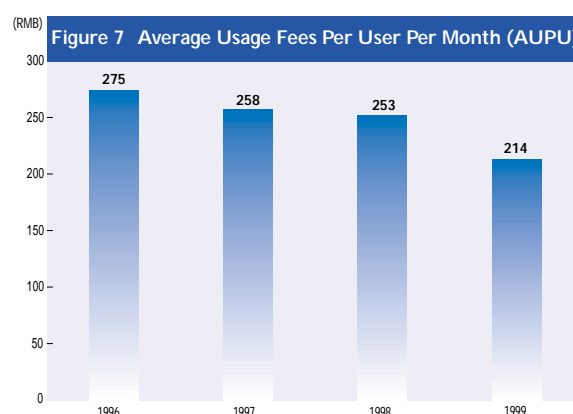
Based on the pro forma combined figures from 1996 through 1999, total subscriber usage volume grew at a compound annual rate of 54.8 per cent for the period, in line with the rapid expansion of the Group's subscriber base, which has contributed to the Group's revenue growth.

Monthly Average Minutes of Usage and Revenue Per User

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



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



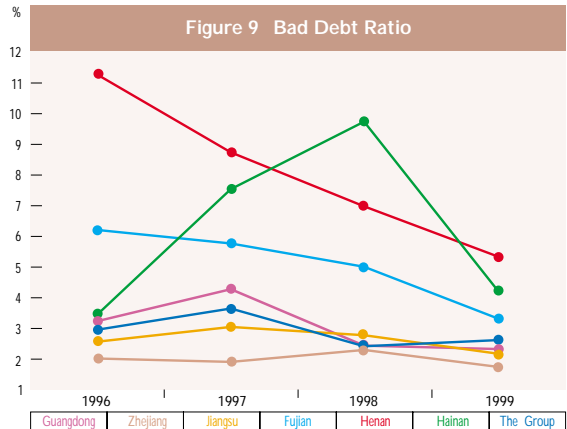
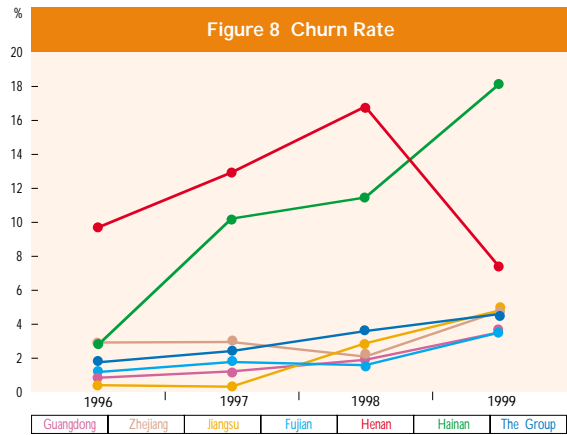


The Group's management believes that the decline in MOU is usual and in accordance with the experiences of mobile telecommunications companies operating in other countries. Different from the above trend, Guangdong Mobile's increased MOU resulted from newly offered Value Added Services ("VAS"), and an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

Churn Rate and Bad Debts

The Group's pro forma combined churn rate was 4.59 per cent in 1999. For a historical analysis by province, see Figure 8. The Group believes that the changing trend in the churn rate during the 1996 through 1999 period was in line with the experiences of other international mobile telecommunications companies. In addition, the upward trend in the churn rate was attributable, in part, to the Group's tightened credit control policies. The policy requiring temporary suspension of service where accounts are delinquent for one month; the making of 100 per cent provision for accounts that are overdue for three or more months in the Group's financial records; and the compulsory termination of services where accounts are overdue for six or more months, has contributed to the favorable declining trend in the Group's total bad debt ratio (bad debt provision expressed as a percentage of operating revenue, excluding connection fees), as shown in Figure 9. By conducting thorough credit reviews of new customers and promoting prepaid card services for low-end users, the Group believes that bad debts and churn rate can be maintained at a reasonably low level.

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Sales

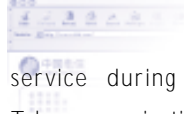
The Group's distribution network consisted of 9,175 sales outlets at the end of 1999, including 8,725 authorized dealers and 450 wholly-owned sales outlets, representing 95 per cent and five per cent of the overall distribution network, respectively. By admitting a significant number of authorized dealers,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

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

Products, Services and Pricing

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

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



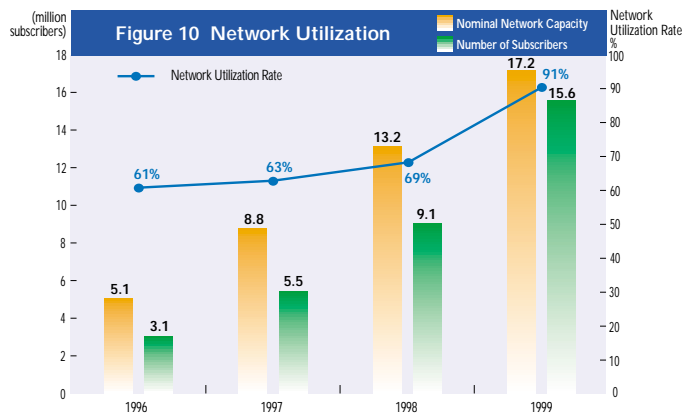
service during evening and nighttime hours and special May 17 International Telecommunications Day and Teachers' Day discounts. While connection fee rates have continued to decline, compared with tariffs in other countries, the Group's management believes mobile telephone tariffs in mainland China are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

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

Network

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

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



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

Synergy

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

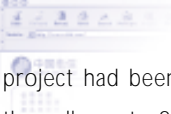
- Optimizing and dynamically adjusting the Group's network structure. The Group minimizes the total number of leased lines and thereby reduces leased line expenses, while ensuring the maintenance of voice quality;
- Negotiations with fixed-line operators resulted in several leased line tariff reductions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

Capital Expenditure

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

Year 2000 Issue

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



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

Growth Strategy

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

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

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

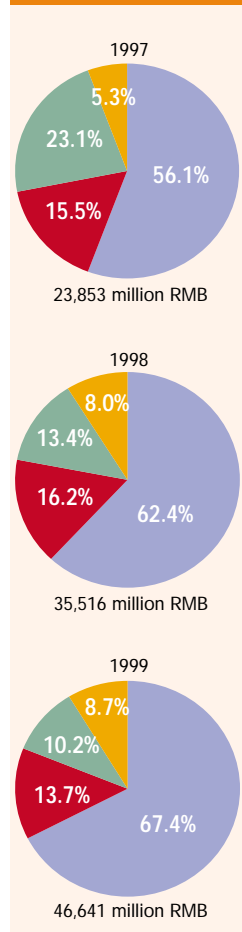


	Consolidated Operating Results			Pro Forma Combined Operating Results		
	1999 RMB million	1998 RMB million	Change	1999 RMB million	1998 RMB million	Change
Profit from operations	13,640	7,935	71.9%	<u>16,205</u>	<u>10,910</u>	<u>48.5%</u>
Write-down and write-off of TACS network equipment	(8,242)	(282)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

Information for reference

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

Pro Forma Combined Turnover Composition



- Usage fees
- Monthly fees
- Connection fees
- Other Operating revenue


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

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

Operating Revenue (Turnover)

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

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

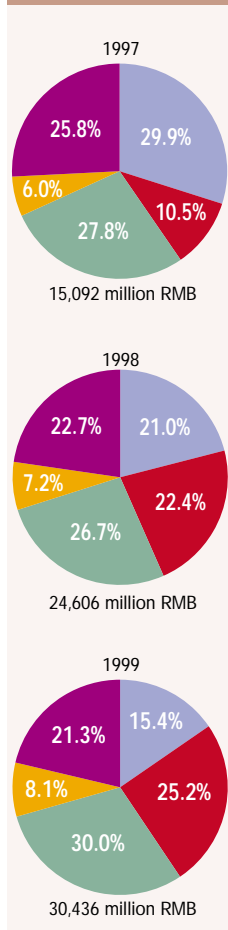


Revenue from monthly fees for 1999 totalled RMB4,981 million, representing a 14.6 per cent increase over the previous year. Pro forma combined monthly fees amounted to RMB6,371 million, representing a 10.7 per cent increase over the previous year. The increase in monthly fees was less than the increase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

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

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

Pro Forma Combined Operating Expenses Structure



- Leased Lines
- Interconnection
- Depreciation
- Personnel
- Other Operating Expenses

Operating Expenses

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

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

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

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

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

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

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

Write-down and write-off of TACS network equipment

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

Other Income, Non-operating Income/(Expense)

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

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

Interest income and Finance Costs

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

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

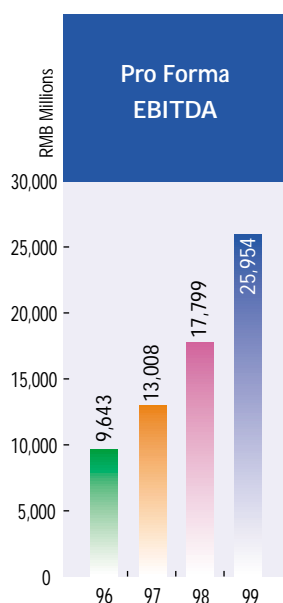
The Group has initiated measures to enhance capital allocation to ensure the optimal utilisation of resources.

Income Taxes

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

Profit attributable to shareholders

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



EBITDA

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

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

Profitability of the Acquired Operating Subsidiaries

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

Capital Resources and Utilisation

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

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

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

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

Financial Policies

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

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

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 December 1999.

Principal activities

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

The turnover of the Group during the financial year consists solely of income generated from the provision of mobile communications and related services.

Major customers and suppliers

The Group's sales to the five largest customers did not exceed 30 per cent of the Group's total turnover in 1999.

Purchases from the largest supplier for the year represented 25 per cent of the Group's total purchases of network equipment. The five largest suppliers accounted for an aggregate of 62 per cent of the Group's network equipment purchases in 1999. Purchases from suppliers, other than suppliers of network equipment, were not a material component of the Group's total purchases.

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5 per cent of the Company's share capital) had any interest in these major suppliers.

Subsidiaries and associated companies

Particulars of the Company's subsidiaries and the Group's associated companies at 31 December 1999 are set out in Note 17 and Note 18 respectively to the accounts.

Accounts

The profit of the Group for the year ended 31 December 1999 and the state of the Company's and the Group's financial affairs as at that date are set out in the accounts on pages 43 to 80.

The Board of Directors considers that with the increase in the number of operating subsidiaries as well as the expansion of the Group's business after the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile, the Group will require additional funds for network expansion and integration in order to sustain rapid business growth. At the same time, with the rapid development of wireless communication technology, it is necessary for the Group to maintain sufficient flexibility in the employment of capital for future investment and development in new mobile technologies and business opportunities in order to obtain a favourable return to shareholders. Therefore, the Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 1999.



Charitable donations

Donations made by the Group during the year amounted to RMB3,546,227 (1998: RMB7,701,660).

Fixed assets

Movements in fixed assets of the Group and the Company during the year are set out in Note 15 to the accounts.

Share capital and share option scheme

Details of the increase in share capital during the year and share option scheme of the Company are set out in Note 28 and Note 29 respectively to the accounts.

Shares were issued during the year to finance the acquisition of the entire issued share capital of Fujian Mobile (BVI) Limited, Henan Mobile (BVI) Limited and Hainan Mobile (BVI) Limited from China Telecom Hong Kong (BVI) Limited ("CTHK(BVI)") (the "acquisition").

In connection with the balance of proceeds of RMB5,697,000,000 at 31 December 1998 which was raised by the Company from the listing of shares in 1997, approximately RMB1,744,000,000 was applied to fund the expansion of the Group's mobile networks in Guangdong, Zhejiang and Jiangsu provinces during the year.

The balance of the proceeds of RMB3,953,000,000 will be applied as planned to fund the expansion of the Group's cellular networks, the implementation of a new management information system and billing, clearance and collection systems and strategic investments in telecommunications industry, and for general corporate purposes.

Fixed rate notes

Details of the Company's fixed rate notes are set out in Note 27 to the accounts. These notes were issued for financing the acquisition.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in Note 30 to the accounts.



Directors

The directors during the financial year and up to the date of this report were:

Executive directors:

Wang Xiaochu (<i>Chairman</i>)	(appointed on 30 March 1999)
Li Ping	
Ding Donghua	
Li Gang	(appointed on 30 August 1999)
Xu Long	(appointed on 30 August 1999)
He Ning	
Liu Ping	(appointed on 26 November 1999)
Yuan Jianguo	(appointed on 26 November 1999)
Wei Yiping	(appointed on 26 November 1999)
Shi Cuiming (<i>Chairman</i>)	(resigned on 30 March 1999)
Chen Zhaobin	(resigned on 30 March 1999)
Lu Errui	(resigned on 30 August 1999)
Zhu Jianhua	(resigned on 30 August 1999)

Non-executive directors:

Cui Xun	
Hu Wangshan	(resigned on 30 August 1999)
Zhang Bingyin	(resigned on 30 August 1999)

Independent non-executive directors:

Professor Arthur Li Kwok Cheung
Antony Leung Kam Chung

In accordance with Article 97 of the Company's Articles of Association, Cui Xun and Ding Donghua will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election. In accordance with Article 101 of the Company's Articles of Association, Li Gang, Xu Long, Liu Ping, Yuan Jianguo and Wei Yiping will also retire at the forthcoming meeting and, being eligible, offer themselves for re-election.

Directors' service contracts

None of those directors proposed for re-election at the forthcoming annual general meeting have an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' interests in contracts

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in shares

As at 31 December 1999, the interests of the directors and the chief executive of the Company in the equity securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "Ordinance") as recorded in the register required to be kept under section 29 of the Ordinance were as follows:

Name of Directors	Personal Interest
Wang Xiaochu	100 American depositary shares (note 1)
Li Ping	200 American depositary shares (note 1)
Ding Donghua	100 American depositary shares (note 1)

Note 1: One American depositary share represents 20 ordinary shares of HK\$0.10 each of the Company.

In addition, certain directors personally hold options to purchase ordinary shares of the Company as disclosed under the paragraph "Directors' rights to acquire shares" below. These share options are granted pursuant to the terms of the share option scheme adopted by the Company.

Apart from the foregoing, as at 31 December 1999, none of the directors had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Ordinance.

Directors' rights to acquire shares

On 8 October 1997, the Company adopted a share option scheme pursuant to which the directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares up to a maximum aggregate number of shares equal to 10 per cent of the total issued share capital of the Company. According to the share option scheme, the consideration payable by a participant for the grant of an option 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.

During the year ended 31 December 1999, the directors of the Company had the following personal interests in options to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one share.

Name of directors	Date of options granted	Period during which options exercisable	Price per share to be paid on exercise of options HK\$	No. of options granted	No. of options exercised during the year	Market value per share on exercise of options HK\$	No. of options outstanding at year end
Wang Xiaochu	26/11/99	26/11/99–7/10/07	33.91	1,950,000	—	—	1,950,000
	26/11/99	26/11/02–7/10/07	33.91	1,950,000	—	—	1,950,000
Li Ping	9/3/98	9/3/98–8/3/06	11.10	2,400,000	—	—	2,400,000
	26/11/99	26/11/99–7/10/07	33.91	600,000	—	—	600,000
	26/11/99	26/11/02–7/10/07	33.91	600,000	—	—	600,000
Ding Donghua	9/3/98	9/3/98–8/3/06	11.10	2,100,000	—	—	2,100,000
	26/11/99	26/11/99–7/10/07	33.91	550,000	—	—	550,000
	26/11/99	26/11/02–7/10/07	33.91	550,000	—	—	550,000
Li Gang	26/11/99	26/11/99–7/10/07	33.91	500,000	—	—	500,000
	26/11/99	26/11/02–7/10/07	33.91	500,000	—	—	500,000
He Ling	26/11/99	26/11/99–7/10/07	33.91	500,000	—	—	500,000
	26/11/99	26/11/02–7/10/07	33.91	500,000	—	—	500,000
Shi Cuiming	9/3/98	9/3/98–8/3/06	11.10	2,900,000	2,900,000	15.15	—
Chen Zhaobin	9/3/98	9/3/98–8/3/06	11.10	2,600,000	2,600,000	15.15	—
Lu Errui	9/3/98	9/3/98–8/3/06	11.10	1,000,000	1,000,000	25.15	—
Zhu Jianhua	9/3/98	9/3/98–8/3/06	11.10	1,000,000	1,000,000	25.15	—

Apart from the foregoing, at no time during the year was the Company, or any of its holding companies or subsidiaries, a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial interests in the share capital of the Company

The Company has been notified of the following interests in the Company's issued shares at 31 December 1999 amounting to 10 per cent or more of the ordinary shares in issue:

	Ordinary shares held		Percentage of total issued shares
	Held directly	Held indirectly	
(i) The Ministry of Information Industry ("MII")	—	10,283,195,021	75.03%
(ii) China Mobile Communications Corporation ("China Mobile")	—	10,283,195,021	75.03%
(iii) The Directorate General of Telecommunications ("DGT")	—	10,283,195,021	75.03%
(iv) China Telecom (Hong Kong) Group Limited ("CTHK (Group)")	—	10,283,195,021	75.03%
(v) CTHK (BVI)	10,283,195,021	—	75.03%

Note: Because of the fact that MII, China Mobile, DGT and CTHK (Group) directly or indirectly control one-third or more of the voting rights in the shareholders' meetings of CTHK (BVI), in accordance with the Securities (Disclosure of Interests) Ordinance, the interests of CTHK(BVI) are deemed to be, and have therefore been included in, the interests of MII, China Mobile, DGT and CTHK (Group).

Apart from the foregoing, no person or corporation had any interest in the share capital of the Company as recorded in the registers required to be kept under section 16(1) of the Securities (Disclosure of Interests) Ordinance as having an interest in 10 per cent or more of the issued share capital of the Company.

Connected transactions which are the subject of exemption under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”)

Details of the transactions as set out in rule 14.23(2) of the Listing Rules are set out in Note 31 to the accounts. In the opinion of the independent non-executive directors, these transactions were entered into by the Group:

- (i) 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;
- (ii) on normal commercial terms and in accordance with the terms of the agreements governing such transactions; and
- (iii) connected transactions of the following types do not exceed the upper limits set out below for the financial year ended 31 December 1999:
 - (1) properties lease payments payable by Fujian Mobile, Henan Mobile and Hainan Mobile to respective Posts and Telecommunications Administrations (“PTAs”) have not exceeded 0.34 per cent of the Group’s turnover for the year ended 31 December 1999;
 - (2) synchronised clock ports rentals payable by Fujian Mobile, Henan Mobile and Hainan Mobile to respective PTAs have not exceeded 0.008 per cent of the Group’s turnover for the year ended 31 December 1999;
 - (3) equipment maintenance charges payable by Fujian Mobile to Fujian PTA have not exceeded 0.019 per cent of the Group’s turnover for the year ended 31 December 1999.

The Company has received from the auditors a letter stating that the above connected transactions:

- (a) have received the approval of the Directors;
- (b) were in accordance with the pricing policy as stated in the notes to the accounts; and
- (c) have been conducted in the manner as stated in (ii) above.

Purchase, sale or redemption of the Company’s listed securities

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

Bank and other loans

Particulars of bank and other loans of the Group as at 31 December 1999 are set out in Note 24 to the accounts.

Financial summary

A summary of the pro forma combined results of the Group for each of the three years ended 31 December 1995, 1996 and 1997, the results of the Group for the year ended 31 December 1998 and 1999, the Group's assets and liabilities as at 31 December 1997, 1998 and 1999, together with the pro forma combined statements of the Group's assets and liabilities as at 31 December 1995 and 1996 are set out on pages 87 and 88.

The Group's pro forma combined results for each of the three years ended 31 December 1995, 1996 and 1997 have been prepared on a combined basis as if Guangdong Mobile and Zhejiang Mobile were subsidiaries of the Company since 1 January 1995 or since the respective dates of incorporation where these are shorter periods. The Group's results for the year ended 31 December 1998 include the results of the Company, Guangdong Mobile and Zhejiang Mobile for the year ended 31 December 1998 and the post-acquisition results of Jiangsu Mobile for the period from 4 June 1998 to 31 December 1998. The Group's results for the year ended 31 December 1999 include the results of the Company, Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile for the year ended 31 December 1999 and the post-acquisition results of Fujian Mobile, Henan Mobile and Hainan Mobile for the period from 12 November 1999 to 31 December 1999.

The Group's pro forma combined statements of assets and liabilities as at 31 December 1995 and 1996 are combinations of the statements of assets and liabilities of Guangdong Mobile and Zhejiang Mobile as at 31 December 1995 and 1996 respectively.

Compliance with the Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules except that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

Auditors

A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

Wang Xiaochu

Chairman

Hong Kong, 13 April 2000

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of China Telecom (Hong Kong) Limited will be held on 16 June 2000 at 11:00 a.m. in the Conference Room, 5th Floor, Island Shangri-La, Pacific Place, Supreme Court Road, Central, Hong Kong, for the following purposes:

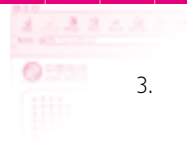
As Ordinary Business:

1. To receive and consider the financial statements for the year ended 31 December 1999 and the Reports of the Directors and the Auditors.
2. To elect Directors and fix their remuneration.
3. To re-appoint Auditors and authorise the Directors to fix their remuneration.

And as Special Business, to consider and, if thought fit, to pass the following as ordinary resolutions:

ORDINARY RESOLUTIONS

4. **“THAT:**
 - (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase shares of HK\$0.10 each in the capital of the Company including any form of depositary receipt representing the right to receive such shares (“Shares”) be and is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of Shares which may be purchased on The Stock Exchange of Hong Kong Limited or any other stock exchange on which securities of the Company may be listed and which is recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited pursuant to the approval in paragraph (a) above shall not exceed or represent more than 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly;
 - (c) for the purpose of this Resolution “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
 1. the conclusion of the next annual general meeting of the Company;
 2. the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and



3. the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting.”
5. “**THAT** a general mandate be and is hereby unconditionally given to the Directors to exercise full powers of the Company to allot, issue and deal with additional shares in the Company (including the making and granting of offers, agreements and options which might require shares to be allotted, whether during the continuance of such mandate or thereafter) provided that, otherwise than pursuant to (i) a rights issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares, (ii) the exercise of options granted under any share option scheme adopted by the Company or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend in accordance with the Articles of Association of the Company, the aggregate nominal amount of the shares allotted shall not exceed the aggregate of:
 - (a) 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, plus
 - (b) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of the share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution),

and the said mandate shall be limited accordingly.

Such mandate shall expire at the earlier of:

1. the conclusion of the next annual general meeting of the Company;
2. the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
3. the date of any revocation or variation of the mandate given under this Resolution by ordinary resolution of the shareholders of the Company at a general meeting.”

Notice of Annual General Meeting

6. "THAT the Directors of the Company be and they are hereby authorised to exercise the powers of the Company referred to in the resolution set out in item 5 in the notice of this meeting in respect of the share capital of the Company referred to in paragraph (b) of such resolution."

By order of the Board

Li Ping Yung Shun Loy Jacky

Joint Company Secretaries

13 April 2000

Notes:

1. Any member entitled to attend and vote at the above 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 the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's registered office at 60/F, the Center, 99 Queen's Road Central, Central, Hong Kong at least 36 hours before the time for holding the above Meeting. Completion and return of a form of proxy will not preclude a member from attending and voting in person if he is subsequently able to be present.
3. Concerning item 4 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares of the Company in circumstances which they deem appropriate for the benefit of the shareholders. The Explanatory Statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchase by the Company of its own shares, as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), will be set out in a separate letter from the Company to be enclosed with the 1999 Annual Report.
4. Concerning item 5 above, the Directors wish to state that they have no immediate plans to issue any new shares of the Company. Approval is being sought from the members as a general mandate for the purposes of Section 57B of the Companies Ordinance and the Listing Rules.



**TO THE SHAREHOLDERS OF
CHINA TELECOM (HONG KONG) LIMITED**

(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 43 to 80 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31 December 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 13 April 2000

Consolidated Profit and Loss Account

for the year ended 31 December 1999
(Expressed in Renminbi)

	Note	1999 RMB million	1998 RMB million
Operating revenue (Turnover)	2		
Usage fees		25,812	16,346
Monthly fees		4,981	4,347
Connection fees		4,319	3,323
Other operating revenue		<u>3,511</u>	<u>2,329</u>
		<u>38,623</u>	<u>26,345</u>
Operating expenses			
Leased lines		3,723	3,917
Interconnection		6,453	4,752
Depreciation		7,411	4,598
Personnel		2,256	1,595
Other operating expenses	3	<u>5,140</u>	<u>3,548</u>
		<u>24,983</u>	<u>18,410</u>
Profit from operations		13,640	7,935
Write-down and write-off of TACS network equipment	4	(8,242)	(282)
Other income	5	552	336
Non-operating income/(expenses)	6	70	(51)
Interest income	7	767	1,609
Finance costs	8	<u>(343)</u>	<u>(160)</u>
Profit from ordinary activities before taxation	8	6,444	9,387
Income tax	11(a)	<u>(1,647)</u>	<u>(2,486)</u>
Profit from ordinary activities after taxation		4,797	6,901
Minority interests		<u>—</u>	<u>(1)</u>
Profit attributable to shareholders	12	4,797	6,900
Appropriations			
Transfer to PRC statutory reserves	30	<u>(3,524)</u>	<u>(2,092)</u>
Retained profits for the year		<u>1,273</u>	<u>4,808</u>
Earnings per share			
Basic	14(a)	<u>RMB40 cents</u>	<u>RMB59 cents</u>
Diluted	14(b)	<u>RMB40 cents</u>	<u>RMB59 cents</u>

The notes on pages 53 to 80 form part of these accounts.

Consolidated Statement of Recognised Gains and Losses

for the year ended 31 December 1999
(Expressed in Renminbi)

	Note	1999 RMB million	1998 RMB million
Net profit for the year		4,797	6,900
Elimination of goodwill arising on the acquisition of subsidiaries against reserves	30	<u>(42,440)</u>	<u>(15,622)</u>
		<u>(37,643)</u>	<u>(8,722)</u>

The notes on pages 53 to 80 form part of these accounts.

Consolidated Balance Sheet

at 31 December 1999
(Expressed in Renminbi)

	Note	1999 RMB million	1998 RMB million
Non-current assets			
Fixed assets	15	<u>42,699</u>	<u>33,986</u>
Construction in progress	16	<u>6,735</u>	<u>7,339</u>
Interest in associates	18	<u>46</u>	<u>30</u>
Deferred tax assets	19	<u>2,306</u>	<u>152</u>
Deferred expenses	20	<u>51</u>	<u>—</u>
Current assets			
Inventories		207	101
Amount due from ultimate holding company	21	92	—
Amounts due from related parties	22	1,700	287
Accounts receivable		4,957	2,482
Other receivables		549	326
Prepaid expenses and other current assets		517	1,046
Deposits with banks		8,227	1,311
Cash and cash equivalents	23	<u>19,349</u>	<u>17,481</u>
		<u>35,598</u>	<u>23,034</u>
Current liabilities			
Bank and other loans	24(a)	4,351	5,337
Bills payable		1,779	—
Current instalments of obligations under finance lease	25	68	—
Amount due to ultimate holding company	21	664	—
Amounts due to related parties	22	1,696	596
Accounts payable		6,026	5,963
Accrued expenses and other payables		4,115	2,756
Taxation	11(b)	<u>2,868</u>	<u>1,299</u>
		<u>21,567</u>	<u>15,951</u>
Net current assets		<u>14,031</u>	<u>7,083</u>
Total assets less current liabilities carried forward		<u>65,868</u>	<u>48,590</u>

Consolidated Balance Sheet (Cont'd)

at 31 December 1999
(Expressed in Renminbi)

	Note	1999 RMB million	1998 RMB million
Total assets less current liabilities brought forward		65,868	48,590
Non-current liabilities			
Bank and other loans	24(b)	(2,225)	(991)
Obligations under finance lease, excluding current instalments	25	(107)	—
Deferred revenue	26	(1,492)	(1,757)
Fixed rate notes	27	(4,952)	—
Minority interests		—	(15)
NET ASSETS		<u>57,092</u>	<u>45,827</u>
CAPITAL AND RESERVES			
Share capital	28	1,467	1,261
Reserves	30	<u>55,625</u>	<u>44,566</u>
		<u>57,092</u>	<u>45,827</u>

Approved by the board of directors on 13 April 2000.

Wang Xiaochu
Director

Ding Donghua
Director

The notes on pages 53 to 80 form part of these accounts.

Balance Sheet

at 31 December 1999
(Expressed in Renminbi)

	Note	1999 RMB million	1998 RMB million
Non-current assets			
Fixed assets	15	<u>8</u>	<u>5</u>
Construction in progress	16	<u>14</u>	<u>6</u>
Investments in subsidiaries	17	<u>101,904</u>	<u>46,207</u>
Deferred expenses	20	<u>51</u>	<u>—</u>
Current assets			
Interest receivable		54	39
Prepaid expenses and other current assets		4	26
Deposits with banks		327	—
Cash and cash equivalents	23	<u>6,578</u>	<u>7,496</u>
		<u>6,963</u>	<u>7,561</u>
Current liabilities			
Accrued expenses and other payables		94	26
Taxation	11(b)	<u>—</u>	<u>1</u>
		<u>94</u>	<u>27</u>
Net current assets		<u>6,869</u>	<u>7,534</u>
Total assets less current liabilities		<u>108,846</u>	<u>53,752</u>
Non-current liabilities			
Fixed rates notes	27	<u>4,952</u>	<u>—</u>
NET ASSETS		<u>103,894</u>	<u>53,752</u>
CAPITAL AND RESERVES			
Share capital	28	1,467	1,261
Reserves	30	<u>102,427</u>	<u>52,491</u>
		<u>103,894</u>	<u>53,752</u>

Approved by the board of directors on 13 April 2000.

Wang Xiaochu
Director

Ding Donghua
Director

The notes on pages 53 to 80 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 1999

(Expressed in Renminbi)

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

The notes on pages 53 to 80 form part of these accounts.

Consolidated Cash Flow Statement (Cont'd)

for the year ended 31 December 1999
(Expressed in Renminbi)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

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

	1999 RMB'000	1998 RMB'000
Deposits with banks with maturity period within three months when placed	6,986	7,538
Cash and bank balances	<u>12,363</u>	<u>9,943</u>
	<u>19,349</u>	<u>17,481</u>

Consolidated Cash Flow Statement (Cont'd)

for the year ended 31 December 1999
(Expressed in Renminbi)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Acquisition of subsidiaries

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

The subsidiaries acquired during the year ended 31 December 1999 contributed RMB1,439,000,000 to the Group's net operating cash flows, paid RMB44,000,000 in respect of the net returns on investments and servicing of finance, and utilised RMB657,000,000 for investing activities and RMB717,000,000 for financing activities.

The subsidiaries acquired during the year ended 31 December 1998 contributed RMB1,340,000,000 to the Group's net operating cash flows, paid RMB44,000,000 in respect of the net returns on investments and servicing of finance, utilised RMB2,533,000,000 for investing activities and contributed RMB2,208,000,000 for financing activities.

Consolidated Cash Flow Statement (Cont'd)

for the year ended 31 December 1999
(Expressed in Renminbi)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

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

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

(e) Analysis of changes in financing during the year

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

Consolidated Cash Flow Statement (Cont'd)

for the year ended 31 December 1999
(Expressed in Renminbi)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(e) Analysis of changes in financing during the year (Cont'd)

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

(f) Significant non-cash transactions

The Group incurred payables of RMB3,374,000,000 and RMB1,486,000,000 to equipment suppliers and banks respectively for additions of construction in progress during the year ended 31 December 1999.

The Group incurred payables of RMB3,977,000,000 and RMB13,000,000 to equipment suppliers and related parties respectively for additions of construction in progress during the year ended 31 December 1998.

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

Notes to the Accounts

(Expressed in Renminbi)

I. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation of the accounts

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

(c) Basis of consolidation

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

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

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

(d) Investments in subsidiaries

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

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) Associates

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

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

(f) Fixed assets and depreciation

(i) Fixed assets are stated at cost less accumulated depreciation. The circumstances and basis under which the cost is arrived at are set out in details in Note 15 to the accounts.

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

I. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Fixed assets and depreciation (Cont'd)

- (ii) The cost of fixed assets comprises the purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed asset has been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the profit and loss account in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.
- (iii) Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.
- (iv) The carrying amount of fixed assets carried at depreciated cost is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

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

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

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

(g) Leased assets

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

I. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Construction in progress

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

(i) Inventories

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

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

(j) Deferred revenue

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

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

(k) Fixed rate notes

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

(l) Deferred expenses

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

(m) Borrowing costs

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

I. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Revenue recognition

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

- (i) usage fees are recognised as revenue when the service is rendered;
- (ii) monthly fees are recognised as revenue in the month during which the service is rendered;
- (iii) connection fees are recognised as revenue when received;
- (iv) deferred revenue from assignment of rights to income from subscribers is recognised on a straight-line basis over the duration of the assignment period;
- (v) interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable; and
- (vi) sale of SIM cards and handsets are recognised on delivery of goods to the buyer. Such revenue, net of cost of goods sold, is included in other income due to its insignificance.

(o) Allowance for doubtful accounts

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

(p) Translation of foreign currencies

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

(q) Deferred taxation

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

(r) Retirement benefits

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Operating leases

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

(t) Related parties

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

(u) Cash equivalents

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

2. TURNOVER

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

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

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

3. OTHER OPERATING EXPENSES

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

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

	1999 RMB million	1998 RMB million
Write-down of TACS network equipment (a)	6,720	282
Write-off of TACS network equipment (b)	<u>1,522</u>	<u>—</u>
	<u><u>8,242</u></u>	<u><u>282</u></u>

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

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

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

5. OTHER INCOME

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

	1999 RMB million	1998 RMB million
Sales of SIM cards and handsets	1,242	1,134
Cost of SIM cards and handsets	<u>(690)</u>	<u>(798)</u>
	<u><u>552</u></u>	<u><u>336</u></u>

6. NON-OPERATING INCOME/(EXPENSES)

	1999 RMB million	1998 RMB million
Exchange (loss)/gain	(9)	19
Loss on disposal of fixed assets	(1)	(59)
Penalty income on overdue accounts	72	64
Others	<u>8</u>	<u>(75)</u>
	<u><u>70</u></u>	<u><u>(51)</u></u>

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

7. INTEREST INCOME

Interest income earned by the Group amounted to RMB767,000,000 (1998: RMB1,609,000,000), of which RMB410,000,000 (1998: RMB1,426,000,000) relates to the interest income earned by the Company. Interest income was classified as an exceptional item in the accounts for the year ended 31 December 1998.

8. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

(a) Finance costs

	1999 RMB million	1998 RMB million
Interest on bank advances and other borrowings repayable within five years	395	125
Interest on other loans	90	182
Finance charges on obligations under finance lease	<u>1</u>	<u>—</u>
Total borrowings costs	486	307
Less: Amount capitalised as construction in progress (Note)	<u>(143)</u>	<u>(147)</u>
	<u><u>343</u></u>	<u><u>160</u></u>

Note: Borrowing costs have been capitalised at a rate of 5.58 per cent to 7.56 per cent (1998: 5.81 per cent to 9.50 per cent) per annum for construction in progress.

(b) Other items

	1999 RMB million	1998 RMB million
Depreciation		
— owned assets	7,400	4,598
— assets held under finance leases	11	—
Amortisation of deferred expenses	2	—
Operating lease charges in respect of		
— properties	373	261
— others	163	40
Contribution to retirement scheme	251	209
Provision for doubtful accounts	771	558
Provision for obsolete inventories	4	8
Auditors' remuneration	16	13
Amortisation of deferred revenue from assignment of rights to income from subscribers	<u>(313)</u>	<u>(285)</u>

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

9. DIRECTORS' REMUNERATION

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

	1999	1998
	RMB million	RMB million
Fees	2	2
Salaries, allowances and benefits in kind	<u>9</u>	<u>10</u>
	<u>11</u>	<u>12</u>

Included in the directors' remuneration were fees of RMB384,000 (1998: RMB385,000) paid to the independent non-executive directors during the year.

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

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

	1999	1998
HK\$ equivalent		
Nil to 1,000,000	15	8
2,000,001 to 2,500,000	3	4

10. FIVE HIGHEST PAID INDIVIDUALS

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

	1999	1998
	RMB million	RMB million
Salaries, allowances and benefits in kind	<u>3</u>	<u>1</u>

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

II. INCOME TAX

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

	1999 RMB million	1998 RMB million
Provision for Hong Kong profits tax for the year	—	3
Over-provision in respect of Hong Kong profits tax for prior year	<u>(2)</u>	<u>—</u>
	(2)	3
Under-provision in respect of PRC income tax for prior year	24	—
Provision for PRC income tax on the estimated taxable profits for the year	<u>3,776</u>	<u>2,609</u>
	3,798	2,612
Deferred tax assets (Note 19(a))	<u>(2,151)</u>	<u>(126)</u>
	<u><u>1,647</u></u>	<u><u>2,486</u></u>

- (i) No provision has been made for Hong Kong profits tax as there was no estimated assessable profits for the year ended 31 December 1999.
- (ii) Pursuant to the income tax rules and regulations of the PRC, the Group's subsidiaries in the PRC are subject to the statutory income tax rate of 33 per cent for the year ended 31 December 1999, except Hainan Mobile Communication Company Limited ("Hainan Mobile") at a tax rate of 15 per cent. According to notices from the PRC Ministry of Finance, connection fees and certain surcharges, which were previously not subject to income tax, are subject to an income tax rate of 33 per cent with effect from 1 January 2000 for Fujian Mobile Communication Company Limited ("Fujian Mobile") and 27 January 2000 for Henan Mobile Communication Company Limited ("Henan Mobile") and 15 per cent with effect from 19 January 2000 for Hainan Mobile.

(b) Taxation in the balance sheets represents:

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders includes a profit of RMB1,234,000,000 (1998: RMB1,365,000,000) which has been dealt with in the accounts of the Company.

13. DIVIDENDS

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

14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year is based on the profit attributable to shareholders of RMB4,797,000,000 (1998: RMB6,900,000,000) and the weighted average number of 12,069,107,688 shares (1998: 11,780,788,000 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the profit attributable to shareholders of RMB4,797,000,000 (1998: RMB6,900,000,000) and the weighted average number of 12,072,382,655 shares (1998: 11,782,520,775 shares) after adjusting for the effects of all dilutive potential ordinary shares. All dilutive potential ordinary shares arise from the share options granted to the directors under the share option scheme which, if converted to ordinary shares, would decrease profit attributable to shareholders per share.

(c) Reconciliations

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

15. FIXED ASSETS

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

15. FIXED ASSETS (Cont'd)

	Office equipment, furniture and fixtures and others RMB million
(b) The Company	
Cost:	
At 1 January 1999	6
Additions	<u>6</u>
At 31 December 1999	----- 12
Accumulated depreciation:	
At 1 January 1999	1
Charge for the year	<u>3</u>
At 31 December 1999	----- <u>4</u>
Net book value:	
At 31 December 1999	<u><u>8</u></u>
At 31 December 1998	<u><u>5</u></u>

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

	The Group	
	1999	1998
	RMB million	RMB million
Long leases	81	56
Medium-term leases	<u>2,650</u>	<u>1,637</u>
	<u><u>2,731</u></u>	<u><u>1,693</u></u>

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

15. FIXED ASSETS (Cont'd)

- (d) The net book value of fixed assets of the Group includes an amount of RMB431,000,000 (1998: Nil) in respect of assets held under finance lease.

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

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

The effect of the above valuations on the fixed assets is to increase the depreciation charges reflected in the consolidated profit and loss account for the year ended 31 December 1999 by approximately RMB1,014,000,000 (1998: approximately RMB926,000,000).

16. CONSTRUCTION IN PROGRESS

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

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	1999	1998
	RMB million	RMB million
Unlisted equity investments, at cost	95,423	42,455
Amounts due from subsidiaries	<u>6,481</u>	<u>3,752</u>
	<u>101,904</u>	<u>46,207</u>

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 11 November 1999, the Company acquired the entire issued share capital of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI from CTHK (BVI). The only assets of each of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI are their interests in the entire equity of Fujian Mobile, Henan Mobile and Hainan Mobile, respectively.

The Company acquired the remaining 0.37 per cent interest in Zhejiang Mobile during 1999.

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

17. INVESTMENTS IN SUBSIDIARIES (Cont'd)

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		Principal activity
			Held by the Company	Held by subsidiary	
Guangdong Mobile	PRC	RMB5,594,840,700	100%	—	Cellular telephone operator
Zhejiang Mobile	PRC	RMB2,117,790,000	100%	—	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
Fujian Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company
Fujian Mobile	PRC	RMB5,247,488,000	—	100%	Cellular telephone operator
Henan Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company
Henan Mobile	PRC	RMB4,367,733,000	—	100%	Cellular telephone operator
Hainan Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company
Hainan Mobile	PRC	RMB643,000,000	—	100%	Cellular telephone operator

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

18. INTEREST IN ASSOCIATES

	The Group	
	1999	1998
	RMB million	RMB million
Unlisted shares, at cost	37	21
Capital contributions, at cost	<u>9</u>	<u>9</u>
	<u><u>46</u></u>	<u><u>30</u></u>

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

Name of associate	Place of incorporation and operation	Attributable interest held by the Group	Principal activity
China Motion United Telecom Limited	Hong Kong	30%	Provision of telecommunication services
Shenzhen China Motion Telecom United Limited	PRC	30%	Provision of telecommunication services
Fujian Nokia Mobile Communication Technology Company Limited	PRC	50%	Network planning and optimising construction-testing and supervising, technology support, development and training of Nokia GSM 900/1800 Mobile Communication System

19. DEFERRED TAX ASSETS

(a) Movements on deferred taxation comprise:

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

19. DEFERRED TAX ASSETS (Cont'd)

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

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

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

	The Group	
	1999	1998
	RMB million	RMB million
Provision for doubtful accounts	<u>402</u>	<u>283</u>

20. DEFERRED EXPENSES

	The Group and the Company	
	1999	1998
	RMB million	RMB million
Additions during the year	53	—
Less: Amortisation for the year	<u>(2)</u>	<u>—</u>
Balance at 31 December 1999	<u>51</u>	<u>—</u>

21. AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY

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

22. AMOUNTS DUE FROM/TO RELATED PARTIES

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	1999	1998	1999	1998
	RMB million	RMB million	RMB million	RMB million
Deposits with banks	6,986	7,538	6,550	7,489
Cash at banks and in hand	<u>12,363</u>	<u>9,943</u>	<u>28</u>	<u>7</u>
	<u>19,349</u>	<u>17,481</u>	<u>6,578</u>	<u>7,496</u>

24. BANK AND OTHER LOANS

(a) Short-term

	The Group	
	1999	1998
	RMB million	RMB million
Bank loans	3,957	4,112
Current portion of long-term bank and other loans (Note 24(b) and (c))	<u>394</u>	<u>1,225</u>
	<u>4,351</u>	<u>5,337</u>

Included in the short-term loans is an amount of RMB100,000,000 (1998: Nil) which is secured by cash at bank amounting to RMB100,000,000 (1998: Nil). All other short-term loans are unsecured.

(b) Long-term

	The Group	
	1999	1998
	RMB million	RMB million
Bank loans	1,836	345
Loans from related parties	—	800
Other loans	<u>783</u>	<u>1,071</u>
	2,619	2,216
Less: Current portion (Note 24(a))	<u>(394)</u>	<u>(1,225)</u>
	<u>2,225</u>	<u>991</u>

All of the above long-term loans are unsecured.

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

24. BANK AND OTHER LOANS (Cont'd)

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

At 31 December 1999:

	Bank loans RMB million	The Group Other loans RMB million	Total RMB million
On demand or within one year (Note 24(a))	----- 213	----- 181	----- 394
After one year but within two years	795	181	976
After two years but within five years	----- 828	----- 421	----- 1,249
	----- 1,623	----- 602	----- 2,225
	----- 1,836	----- 783	----- 2,619

At 31 December 1998:

	Bank loans RMB million	The Group Other loans RMB million	Total RMB million
On demand or within one year (Note 24(a))	----- 138	----- 1,087	----- 1,225
After one year but within two years	104	181	285
After two years but within five years	103	520	623
After five years	----- —	----- 83	----- 83
	----- 207	----- 784	----- 991
	----- 345	----- 1,871	----- 2,216

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

25. OBLIGATIONS UNDER FINANCE LEASE

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

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

26. 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.

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

27. FIXED RATE NOTES

	The Group and the Company	
	1999	1998
	RMB million	RMB million
US dollar 7.875% fixed rate notes due 2004	<u>4,952</u>	<u>—</u>

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

28. SHARE CAPITAL

	1999	1998
	HK\$ million	HK\$ million
Authorised:		
16,000,000,000 ordinary shares of HK\$0.1 each	<u>1,600</u>	<u>1,600</u>

Issued and fully paid:

	1999		1998	
	No. of shares	HK\$ million	No. of shares	HK\$ million
At 1 January	11,780,788,000	1,178	11,780,788,000	1,178
Issue of new shares to the professional and institutional investors	644,804,000	65	—	—
Issue of consideration shares for acquisition of subsidiaries	1,273,195,021	127	—	—
Shares issued under share option scheme (Note 29)	<u>7,500,000</u>	<u>1</u>	<u>—</u>	<u>—</u>
At 31 December	<u>13,706,287,021</u>	<u>1,371</u>	<u>11,780,788,000</u>	<u>1,178</u>
RMB million equivalent		<u>1,467</u>		<u>1,261</u>

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

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

29. SHARE OPTION SCHEME

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

- (i) the nominal value of a share; and
- (ii) 80 per cent of the average of the closing prices of shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option.

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

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

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

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

30. RESERVES

	Share premium	Capital reserve/ (goodwill)	General reserve	PRC statutory reserves	Retained profits	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
(a) The Group						
At 1 January 1998	50,643	1,132	72	111	1,330	53,288
Goodwill arising on acquisition of subsidiaries	—	(15,622)	—	—	—	(15,622)
Net profit for the year	—	—	—	—	6,900	6,900
Transfer to PRC statutory reserves, net of minority interests' share	—	—	—	2,092	(2,092)	—
At 31 December 1998	50,643	(14,490)	72	2,203	6,138	44,566
At 1 January 1999	50,643	(14,490)	72	2,203	6,138	44,566
Issue of new shares to professional and institutional investors (Note 28)	16,484	—	—	—	—	16,484
Issue of consideration shares for acquisition of subsidiaries (Note 28)	32,549	—	—	—	—	32,549
Expenses incurred in connection with the issue of new shares to professional and institutional investors (Note 28)	(419)	—	—	—	—	(419)
Goodwill arising on acquisition of subsidiaries	—	(42,440)	—	—	—	(42,440)
Shares issued under share option scheme (Note 29)	88	—	—	—	—	88
Net profit for the year	—	—	—	—	4,797	4,797
Transfer to PRC statutory reserves	—	—	—	3,524	(3,524)	—
At 31 December 1999	99,345	(56,930)	72	5,727	7,411	55,625

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

30. RESERVES (Cont'd)

	Share premium	Capital reserve/ (goodwill)	General reserve	PRC statutory reserves	Retained profits	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
(b) The Company						
At 1 January 1998	50,643	—	72	—	411	51,126
Net profit for the year (Note 12)	—	—	—	—	1,365	1,365
At 31 December 1998	50,643	—	72	—	1,776	52,491
At 1 January 1999	50,643	—	72	—	1,776	52,491
Issue of new shares to professional and institutional investors (Note 28)	16,484	—	—	—	—	16,484
Issue of consideration shares for acquisition of subsidiaries (Note 28)	32,549	—	—	—	—	32,549
Expenses incurred in connection with the issue of new shares to professional and institutional investors (Note 28)	(419)	—	—	—	—	(419)
Shares issued under share option scheme (Note 29)	88	—	—	—	—	88
Net profit for the year (Note 12)	—	—	—	—	1,234	1,234
At 31 December 1999	99,345	—	72	—	3,010	102,427

At 31 December 1999, the amount of distributable reserves of the Company amounted to RMB3,082,000,000 (1998: RMB1,848,000,000).

Share premium

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

PRC statutory reserves

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

30. RESERVES (Cont'd)

PRC statutory reserves (Cont'd)

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

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

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

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

At 31 December 1999, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund were RMB1,400,000,000 (1998: RMB523,000,000), RMB4,198,000,000 (1998: RMB1,569,000,000), RMB83,000,000 (1998: RMB74,000,000) and RMB46,000,000 (1998: RMB37,000,000) respectively.

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

31. CONNECTED AND RELATED PARTY TRANSACTIONS

- (a) The Group's operations are subject to extensive regulation by the PRC government. The Ministry of Information Industry ("MII"), pursuant to the authority delegated to it by the PRC State Council, directly or indirectly regulates licensing, competition, interconnection, technology and equipment standards, and other aspects of the PRC telecommunications industry. The MII, together with other PRC government entities, also regulates tariff policy, foreign investment and spectrum allocation and spectrum usage fees. Specifically, the Group's tariffs are subject to the regulation by various Government authorities, including the State Development Planning Commission ("SDPC"), the MII, the Provincial Posts and Telecommunications Administrations ("PTAs") and the relevant provincial price regulatory authorities. Connection fees charged by the Group are based on a guidance price range set jointly by the MII and SDPC, with each actual fee determined by the Group in consultation with the relevant provincial price regulatory authorities. In general, the Group's base usage charges and domestic roaming usage charges are set by the MII and SDPC. International roaming charges are determined pursuant to agreements formed between the Directorate General of Telecommunications (the "DGT") or China Mobile and other cellular operators. The principal connected and related party transactions, which were entered into with the MII and other entities under the control of MII, are as follows:

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

Notes:

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

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

31. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

- (ii) Interconnection charges represent the amounts paid or payable to China Mobile or the relevant PTAs in respect of calls made between the Group's cellular networks, the fixed line networks in the relevant provinces and other GSM network operators in other provinces in the PRC. Prior to 1 October 1999, no interconnection charges were paid/payable in respect of inter-provincial outbound calls made from the fixed line networks in the relevant provinces to other GSM networks in other provinces in the PRC. Pursuant to the interconnection agreement dated 8 October, 1999 and with effect from 1 October 1999, the Group records the amounts payable to China Mobile for inter-provincial outbound calls originating from the fixed line networks in the relevant provinces, which terminate on other GSM networks in other provinces in the PRC as interconnection charges.
- (iii) Leased line charges represent expenses paid or payable to the relevant PTAs for the use of leased lines between the base transceiver stations, base station controllers, base stations, fixed line network connectors, long distance network connectors and main switches.
- (iv) A cellular telephone user using roaming services is charged at the respective roaming usage rate for roaming in calls, in addition to applicable long distance charges. Roaming revenue represents domestic and international roaming in usage charges from non-subscribers received or receivable from the relevant domestic and international cellular telephone operators through the MII or China Mobile. With effect from 1 April 1999, all settlements of inter-provincial roaming and corresponding interconnection revenues are made through China Mobile instead of the MII.
- (v) A cellular telephone user using roaming services is charged at the respective roaming usage rate for roaming out calls, in addition to applicable long distance charges. Roaming expenses represent the amount of domestic and international roaming out usage charges received or receivable from subscribers which is to be remitted to the relevant domestic and international cellular telephone operators for their share of the roaming revenue through the MII or China Mobile. With effect from 1 April 1999, all settlements of inter-provincial roaming and corresponding interconnection charges are made through China Mobile instead of the MII.
- (vi) Spectrum fees represent the spectrum usage fees paid or payable to the MII through China Mobile for the usage of the frequency bands allocated to the Company's subsidiaries in the PRC.
- (vii) Operating lease charges represent the rental paid or payable to the relevant PTAs for operating leases in respect of land and buildings and others.
- (viii) With effect from 20 October 1997 for Guangdong Mobile and Zhejiang Mobile, 1 January 1998 for Jiangsu Mobile, 1 April 1999 for Fujian Mobile and Hainan Mobile, and 1 July 1999 for Henan Mobile, each of these subsidiaries entered into certain services agreements in respect of marketing services with authorised dealers, debt collection services and billing services with the relevant PTAs.

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

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

Billing service fees represent the amounts paid or payable to the Fujian PTA and the Henan PTA for their provision of billing services to Fujian Mobile and Henan Mobile.
- (ix) Equipment maintenance services fees represent the amount paid or payable to the Fujian PTA for its provision of the maintenance services to Fujian Mobile. No such expenses were incurred for the year ended 31 December 1999.
- (x) Rental charges of synchronised clock ports represent expenses paid or payable to the relevant PTAs for leasing of synchronised clock ports by the Company's subsidiaries.

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

31. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

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

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

32. COMMITMENTS

(a) Capital commitments

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

	The Group		The Company	
	1999	1998	1999	1998
	RMB million	RMB million	RMB million	RMB million
Commitments in respect of land and buildings				
— authorised and contracted for	161	77	—	—
— authorised but not contracted for	<u>2,676</u>	<u>919</u>	<u>—</u>	<u>—</u>
	<u>2,837</u>	<u>996</u>	<u>—</u>	<u>—</u>
Commitments in respect of telecommunications equipment				
— authorised and contracted for	7,328	3,089	2,557	1,240
— authorised but not contracted for	<u>13,312</u>	<u>14,599</u>	<u>—</u>	<u>—</u>
	<u>20,640</u>	<u>17,688</u>	<u>2,557</u>	<u>1,240</u>
Total commitments				
— authorised and contracted for	7,489	3,166	2,557	1,240
— authorised but not contracted for	<u>15,988</u>	<u>15,518</u>	<u>—</u>	<u>—</u>
	<u>23,477</u>	<u>18,684</u>	<u>2,557</u>	<u>1,240</u>

Notes to the Accounts (Cont'd)

(Expressed in Renminbi)

32. COMMITMENTS (Cont'd)

(b) Operating lease commitments

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

At 31 December 1999:

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

At 31 December 1998:

	The Group			The Company	
	Land and buildings RMB million	Leased lines RMB million	Others RMB million	Total RMB million	Land and buildings RMB million
Leases expiring:					
Within one year	4	—	—	4	2
After one year but within five years	31	1,048	—	1,079	3
After five years	<u>193</u>	<u>3,088</u>	<u>39</u>	<u>3,320</u>	<u>—</u>
	<u>228</u>	<u>4,136</u>	<u>39</u>	<u>4,403</u>	<u>5</u>

33. COMPARATIVE FIGURES

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

34. ULTIMATE HOLDING COMPANY

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

Supplementary Information for ADR Holders

The Group's accounting policies conform with generally accepted accounting principles in Hong Kong ("HK GAAP") which differ in certain material respects from those applicable generally accepted accounting principles in the United States of America ("US GAAP").

The significant differences relate principally to the following items and the adjustments considered necessary to present the net profit and shareholders' equity in accordance with US GAAP are shown in the tables set out below.

(a) Effect of combination of entities under common control

Under HK GAAP, the Group adopted the acquisition method to account for the purchase of Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile. Under the acquisition method, the acquired results are included in the results of operations from the date of their acquisition. Goodwill arising on the acquisition, 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.

As a result of the Group, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile being under common control prior to the acquisition, such acquisition under US GAAP is considered a "combination of entities under common control". Under US GAAP, combinations of entities under common control are accounted for under the "as if pooling-of-interests" method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination generally are restated on a combined basis. The consideration paid by the Group has been treated as an equity transaction in the year of acquisition for US GAAP purposes.

(b) Capitalisation of interest

Under HK GAAP, the Group capitalises interest costs to the extent that the related borrowings are 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.

Under US GAAP, interest costs capitalised are determined based on specific borrowings related to the acquisition or construction of an asset, if an entity's financing plans associate a specific new borrowing with a qualifying asset. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with an asset, additional interest costs capitalised are based on the weighted average interest rate applicable to other borrowings of the entity.

(c) Revaluation and impairment of fixed assets

For certain periods prior to 31 May 1997, the fixed assets of the subsidiaries were revalued in compliance with PRC rules and regulations, resulting in an increase in shareholders' equity.

Additionally, the fixed assets of Guangdong Mobile and Zhejiang Mobile were revalued as of 31 May 1997 as a result of the Restructuring occurred in 1997. The fixed assets of Jiangsu Mobile were revalued as of 31 December 1997 upon its acquisition by the Group on 3 June 1998. The fixed assets of Fujian Mobile, Henan Mobile and Hainan Mobile were revalued as of 30 June 1999 upon their acquisitions by the Group on 11 November 1999. These fixed asset revaluations result in an increase in shareholders' equity with respect to the increase in carrying amount of certain fixed assets above their historical cost bases.

The carrying amount of fixed assets under HK GAAP is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline occurs, the carrying amount is reduced to the recoverable amount based on the expected future cash flows generated by the fixed assets, discounted to their present values. A subsequent increase in the recoverable amount is written back to the results of operations when circumstances and events that led to the write-down or write-off cease to exist.

Supplementary Information for ADR Holders (Cont'd)

(c) Revaluation and impairment of fixed assets (Cont'd)

Under US GAAP, fixed assets are stated at their historical cost, less accumulated depreciation. However, as a result of the tax deductibility of the revaluation reserve, a deferred tax asset related to the reversal of the revaluation reserve is created under US GAAP with a corresponding increase in shareholders' equity.

Under US GAAP, fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(d) Employee housing scheme

The Group provides staff quarters under its employee housing schemes at below market prices. Under HK GAAP, employee housing scheme costs borne by the corresponding PTAs and not charged to the subsidiaries are not recognised by the subsidiaries.

Under US GAAP, employee housing scheme costs borne by the corresponding PTAs and not charged to the subsidiaries are reflected as an expense in the results of operations and a corresponding capital contribution. Additionally, under US GAAP, the costs to be borne by the subsidiaries are accrued over the term of the program.

(e) Deferred taxation

Under HK GAAP, the Group provides for deferred tax liabilities only to the extent that there is a reasonable probability that such deferred tax liabilities will become payable in the foreseeable future. Deferred tax assets are not recognised unless their realisation is assured beyond reasonable doubt.

Under US GAAP, provisions are made for all deferred taxes as they arise, except a valuation allowance is provided against deferred tax assets when realisation of such amounts does not meet the criterion of "more likely than not".

(f) Share option scheme

The Group grants share options to directors and employees. Under HK GAAP, the proceeds received are recognised as an increase to capital upon the exercise of the share options.

Under US GAAP, the Group determines compensation expenses based upon the excess, if any, of the quoted market price of the shares on the date of grant over the exercise price of the options and amortises this amount over the vesting period of the option concerned.

(g) Revenue recognition

Until 30 June 1999, under both HK GAAP and US GAAP, connection fee revenue was recognized as received. Under US GAAP, effective 1 July 1999, net connection fees received in excess of direct costs are deferred and recognized over the estimated customer usage period for the related service.

Supplementary Information for ADR Holders (Cont'd)

(h) Recently issued accounting standards

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. SFAS 133, as amended, is effective for fiscal years beginning after 15 June 2000. The Company has not yet assessed the impact of the adoption of SFAS 133.

Effect on net profit of significant differences between HK GAAP and US GAAP is as follows:

	1999 US\$ million	1999 RMB million	1998 RMB million	1997 RMB million
		(except per share data)		
Net profit under HK GAAP	579	4,797	6,900	4,955
Adjustments:				
Effect of combination of entities under common control	266	2,204	2,774	3,219
Capitalised interest	1	7	58	59
Revaluation of fixed assets	457	3,781	1,250	411
Employee housing scheme	(7)	(57)	(45)	(186)
Deferred taxation	(32)	(267)	(188)	(155)
Share option scheme	(3)	(22)	(32)	—
Recognition of connection fees	(146)	(1,214)	—	—
Deferred tax effects of US GAAP adjustments	(120)	(995)	(432)	(155)
Net profit under US GAAP	<u>995</u>	<u>8,234</u>	<u>10,285</u>	<u>8,148</u>
Basic and diluted net profit per share in accordance with US GAAP	<u>0.08</u>	<u>0.63</u>	<u>0.79</u>	<u>0.75</u>
Basic and diluted net profit per ADS in accordance with US GAAP*	<u>1.51</u>	<u>12.51</u>	<u>15.76</u>	<u>15.08</u>

* Based on a ratio of 20 ordinary shares to one ADS.

Supplementary Information for ADR Holders (Cont'd)

Effect on shareholders' equity of significant differences between HK GAAP and US GAAP is as follows:

	1999 US\$ million	1999 RMB million	1998 RMB million
Shareholders' equity under HK GAAP	6,896	57,092	45,827
Adjustments:			
Effect of combination of entities under common control	—	—	8,902
Capitalised interest	36	301	294
Revaluation of fixed assets			
— Cost	(796)	(6,586)	(6,195)
— Accumulated depreciation and other	665	5,506	1,725
Deferred tax adjustments on revaluations	37	304	1,475
Employee housing scheme	(74)	(610)	(553)
Deemed capital contribution for employee housing scheme	63	525	442
Recognition of connection fees	(146)	(1,214)	—
Recognition of deferred taxes	49	402	(155)
Deferred tax effects of US GAAP adjustments	<u>25</u>	<u>207</u>	<u>(97)</u>
Shareholders' equity under US GAAP	<u>6,755</u>	<u>55,927</u>	<u>51,665</u>

Solely for the convenience of the reader, the 31 December 1999 tables above and following information have been translated into United States dollars at the rate of US\$1.00 = RMB8.2793 quoted by the People's Bank of China on 31 December 1999. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate or at any other certain rate on 31 December 1999, or any other certain date.

Supplementary Information for ADR Holders (Cont'd)

Consolidated Statements of Income prepared under US GAAP

	1999 US\$ million	1999 RMB million	1998 RMB million	1997 RMB million
		(except per share data)		
Operating revenue				
Usage fees	3,798	31,441	22,169	13,379
Monthly fees	770	6,371	5,755	3,707
Connection fees	430	3,557	4,753	5,509
Other operating revenue	490	4,057	2,839	1,258
	<u>5,488</u>	<u>45,426</u>	<u>35,516</u>	<u>23,853</u>
Operating expenses				
Leased lines	566	4,690	5,165	4,518
Interconnection	928	7,683	5,511	1,589
Depreciation	985	8,152	5,463	3,783
Personnel	309	2,555	1,844	1,089
Other operating expenses	780	6,457	5,642	3,888
Write-down and write-off of TACS network equipment	636	5,267	136	—
	<u>4,204</u>	<u>34,804</u>	<u>23,761</u>	<u>14,867</u>
Profit from operations	1,284	10,622	11,755	8,986
Other income	75	619	321	52
Non-operating expenses	(17)	(136)	(1)	(12)
Interest income	93	773	1,615	664
Finance costs	(48)	(396)	(142)	(119)
Profit from ordinary activities before taxation	1,387	11,482	13,548	9,571
Income tax	(392)	(3,248)	(3,262)	(1,416)
Profit from ordinary activities after tax	995	8,234	10,286	8,155
Minority interests	—	—	(1)	(7)
Net profit	<u>995</u>	<u>8,234</u>	<u>10,285</u>	<u>8,148</u>
Basic and diluted net profit per share	<u>0.08</u>	<u>0.63</u>	<u>0.79</u>	<u>0.75</u>
Basic and diluted net profit per ADS*	<u>1.51</u>	<u>12.51</u>	<u>15.76</u>	<u>15.08</u>

* Based on a ratio of 20 ordinary shares to one ADS.

Supplementary Information for ADR Holders (Cont'd)

Consolidated Balance Sheets prepared under US GAAP

	1999 US\$ million	1999 RMB million	1998 RMB million
Assets			
Current assets			
Cash and cash equivalents	2,338	19,349	17,683
Deposits with banks	994	8,227	1,311
Accounts receivable	599	4,957	3,300
Other receivables	66	549	408
Inventories	25	207	199
Prepaid expenses and other current assets	62	517	1,081
Amount due from ultimate holding companies	11	92	—
Amounts due from related parties	205	1,700	1,737
Total current assets	4,300	35,598	25,719
Fixed assets	5,027	41,618	39,930
Construction in progress	850	7,036	8,021
Interest in associates	5	46	46
Deferred tax assets	389	3,221	1,382
Deferred expenses	6	51	—
Total assets	10,577	87,570	75,098
Liabilities and shareholders' equity			
Current liabilities			
Bills payable	215	1,779	—
Accounts payable	728	6,026	6,620
Bank and other loans	526	4,351	6,724
Obligations under capital lease — current portion	8	68	63
Taxes payable	346	2,868	1,299
Amounts due to related parties	205	1,696	1,143
Accrued expenses and other payables	507	4,200	3,340
Amount due to ultimate holding company	80	664	—
Total current liabilities	2,615	21,652	19,189
Bank and other loans	269	2,226	2,295
Deferred revenue	327	2,706	1,757
Obligation under capital lease — long term portion	13	107	177
Fixed rate notes	598	4,952	—
Total liabilities	3,822	31,643	23,418
Minority interests	—	—	15
Shareholders' equity	6,755	55,927	51,665
Total liabilities and shareholders' equity	10,577	87,570	75,098

Note: The above "Consolidated Balance Sheets" and "Consolidated Statements of Income" as at 31 December 1998 and 1999 and for each of the three years ended 31 December 1997, 1998 and 1999 include the results of the Company and its subsidiaries, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile BVI and Jiangsu Mobile, Fujian Mobile BVI and Fujian Mobile, Henan Mobile BVI and Henan Mobile and Hainan Mobile BVI and Hainan Mobile prepared under US GAAP as if the current Group structure had been in place throughout the relevant periods.

Financial Summary

(Expressed in Renminbi)

Results

	1999	1998	Proforma combined 1997	Proforma combined 1996	Proforma combined 1995
	RMB million	RMB million	RMB million	RMB million	RMB million
Operating revenue					
Usage fees	25,812	16,346	8,718	5,528	3,243
Monthly fees	4,981	4,347	2,692	1,658	940
Connection fees	4,319	3,323	3,174	2,673	2,981
Other operating revenue	<u>3,511</u>	<u>2,329</u>	<u>904</u>	<u>508</u>	<u>434</u>
	<u>38,623</u>	<u>26,345</u>	<u>15,488</u>	<u>10,367</u>	<u>7,598</u>
Operating expenses					
Leased lines	3,723	3,917	3,134	2,214	1,244
Interconnection	6,453	4,752	1,214	196	26
Depreciation	7,411	4,598	2,681	1,424	789
Personnel	2,256	1,595	756	416	214
Other operating expenses	<u>5,140</u>	<u>3,548</u>	<u>2,289</u>	<u>1,154</u>	<u>583</u>
	<u>24,983</u>	<u>18,410</u>	<u>10,074</u>	<u>5,404</u>	<u>2,856</u>
Profit from operations	13,640	7,935	5,414	4,963	4,742
Write-down and write-off of TACS network equipment	(8,242)	(282)	—	—	—
Other income	552	336	85	48	176
Non-operating income/(expenses)	70	(51)	(27)	23	38
Interest income	767	1,609	656	73	87
Finance costs	<u>(343)</u>	<u>(160)</u>	<u>(175)</u>	<u>(167)</u>	<u>(89)</u>
Profit from ordinary activities before taxation	6,444	9,387	5,953	4,940	4,954
Income tax	<u>(1,647)</u>	<u>(2,486)</u>	<u>(991)</u>	<u>(427)</u>	<u>(285)</u>
Profit from ordinary activities after taxation	4,797	6,901	4,962	4,513	4,669
Minority interests	<u>—</u>	<u>(1)</u>	<u>(7)</u>	<u>(4)</u>	<u>—</u>
Profit attributable to shareholders	<u>4,797</u>	<u>6,900</u>	<u>4,955</u>	<u>4,509</u>	<u>4,669</u>

Financial Summary (Cont'd)

(Expressed in Renminbi)

Assets and liabilities

	1999	1998	1997	Proforma combined 1996	Proforma combined 1995
	RMB million	RMB million	RMB million	RMB million	RMB million
Fixed assets	42,699	33,986	18,634	11,536	7,346
Construction in progress	6,735	7,339	3,558	1,001	821
Interest in associates	46	30	30	—	—
Amounts due from related parties	—	—	73	570	790
Deferred tax assets	2,306	152	24	22	—
Deferred expenses	51	—	—	—	—
Net current assets	<u>14,031</u>	<u>7,083</u>	<u>36,468</u>	<u>1,494</u>	<u>2,088</u>
Total assets less current liabilities	65,868	48,590	58,787	14,623	11,045
Long term bank and other loans	(2,225)	(991)	(2,870)	(1,946)	(2,004)
Obligations under finance lease, excluding current instalments	(107)	—	—	—	—
Deferred revenue	(1,492)	(1,757)	(1,353)	(199)	—
Fixed rates notes	(4,952)	—	—	—	—
Minority interests	<u>—</u>	<u>(15)</u>	<u>(14)</u>	<u>(7)</u>	<u>—</u>
Net assets	<u>57,092</u>	<u>45,827</u>	<u>54,550</u>	<u>12,471</u>	<u>9,041</u>

Note: The above tables summarise the Group's proforma combined results for each of the three years ended 31 December 1995, 1996 and 1997, the results of the Group for the year ended 31 December 1998 and 1999, the Group's assets and liabilities as at 31 December 1997, 1998 and 1999, together with the proforma combined statements of the Group's assets and liabilities as at 31 December 1995 and 1996.

The Group's proforma combined results for each of the three years ended 31 December 1995, 1996 and 1997 have been prepared on a combined basis as if Guangdong Mobile and Zhejiang Mobile were subsidiaries of the Company since 1 January 1995 or since the respective dates of incorporation where these are shorter periods. The Group's results for the year ended 31 December 1998 include the results of the Company, Guangdong Mobile and Zhejiang Mobile for the year ended 31 December 1998 and the post-acquisition results of Jiangsu Mobile for the period from 4 June 1998 to 31 December 1998. The Group's results for the year ended 31 December 1999 include the results of the Company, Guangdong Mobile, Zhejiang Mobile, and Jiangsu Mobile for the year ended 31 December 1999 and the post-acquisition results of Fujian Mobile, Henan Mobile and Hainan Mobile for the period from 12 November 1999 to 31 December 1999.

The Group's proforma combined assets and liabilities as at 31 December 1995 and 1996 are combinations of the statements of assets and liabilities of Guangdong Mobile and Zhejiang Mobile as at 31 December 1995 and 1996.

Milestones

1 November 1949

The Ministry of Posts and Telecommunications was established under the People's Central Government of the People's Republic of China.

February 1987

The first cellular mobile telephone system was introduced in China. The Guangdong Posts and Telecommunications Administration signed the contract for the first phase of the Pearl Delta Mobile Telecommunications Project, the total investment being US\$8.9 million.

18 November 1987

The Guangzhou Exchange, China's first cellular telecommunications exchange, opened with a subscriber base of 150. It had 3 base stations and 40 channels.

September 1988

Guangdong Mobile Communication Corporation was established.

October 1989

The Pearl Delta Mobile network introduced automated roaming service.

December 1992

Automatic cellular roaming service was inaugurated between Guangdong Province, Hong Kong and Macau.

1 December 1993

Telco Communications Development Limited, later renamed Telco Communications (Group) Limited, a company wholly owned by the Ministry of Posts and Telecommunications, was established in Hong Kong.

9 February 1994

The State Council of the People's Republic of China approved the Ministry of Posts and Telecommunications' Three Directions proposal to change the status of the Directorate General of Telecommunications to an independently audited enterprise managing telecommunications networks and services throughout China.

27 April 1995

The Directorate General of Telecommunications was registered as a legal enterprise and was renamed Directorate General of Telecommunications of China Posts and Telecommunications — China Telecom for short.

June 1995

National analog mobile telecommunications networks A and B were connected to provide automatic roaming within their respective areas.

1 January 1996

The GSM network commenced pilot operations, providing automatic roaming service to 15 provinces and cities in China.

10 January 1996

Interconnection of national analog mobile networks A and B commenced pilot operations.

February 1996

Zhejiang GSM Mobile Communication Company Limited was established. The name was later changed to Zhejiang Mobile Communication Company Limited.

18 July 1996

China Telecom launched international GSM roaming service and roaming services to Hong Kong and Macau. Automatic roaming service was established with Hongkong Telecom CSL.

Milestones (Cont'd)

21 March 1997

China Telecom (Hong Kong) Limited was established in Hong Kong. It was later renamed China Telecom (Hong Kong) Group Limited.

17 July 1997

The cellular subscriber base of the China Telecom (DGT) system exceeded 10 million subscribers and was ranked the third largest cellular subscriber base in the world.

3 September 1997

China Telecom (Hong Kong) Limited was incorporated in Hong Kong.

22 and 23 October 1997

The ordinary shares of China Telecom (Hong Kong) Limited were listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited.

3 June 1998

China Telecom (Hong Kong) Limited successfully completed its acquisition of Jiangsu Mobile Communication Company Limited.

26 June 1998

The China Telecom (Hong Kong) Limited Shenzhen Representative Office was established in Shenzhen, P.R. China.

18 August 1998

The cellular subscriber base of the China Telecom (DGT) system throughout China exceeded 20 million.

28 September 1999

The 51 per cent interest in China Telecom (Hong Kong) Group Limited held by Telpo Communication Group Limited was transferred to China Mobile Communications Corporation.

30 September 1999

The cellular subscriber base of China Telecom (Hong Kong) Limited in Guangdong, Zhejiang and Jiangsu provinces exceeded 10 million.

6 October 1999

China Telecom (Hong Kong) Limited was assigned a credit rating of BBB by Standard and Poor's.

7 October 1999

China Telecom (Hong Kong) Limited was assigned a credit rating of Baa2 by Moody's.

2 November 1999

China Telecom (Hong Kong) Limited successfully completed its initial US\$600 million global bond offering.

2 and 4 November 1999

China Telecom (Hong Kong) Limited successfully completed its US\$2 billion follow-on offering of ordinary shares.

12 November 1999

China Telecom (Hong Kong) Limited successfully completed its acquisition of Fujian Mobile Communication Company Limited, Henan Mobile Communication Company Limited and Hainan Mobile Communication Company Limited.

Glossary

This glossary contains certain definitions and other terms as they relate to the Company and the Group and as they are used in the Annual Report. These definitions may, or may not, correspond to standard industry definitions.

Analog	Communications by transmission of continuously varying representations of the input signal, as compared with binary coding of words in digital transmission.
average number of subscribers	For each of 1996, 1997 and 1998, the average of the number of subscribers at the beginning and the end of the calendar year. For 1999, the weighted average number of subscribers in each calendar month in that year. Average number of subscribers is used to calculate Minutes of Usage (MOU), Average Revenue Per User (ARPU), Average Usage Fees Per User (AUPU) and Churn Rate.
base station; base transceiver station	Transmitter and receiver which serves as a bridge between all mobile users in a cell and connects mobile calls to the mobile switching centre.
call completion rate	The total number of calling attempts answered by the called parties divided by total number of calling attempts.
cellular system	A telephone system based on a grid of cells deployed at a specified frequency.
channel	Communication path for transmitting voice or non-voice signals.
churn rate	Subscriber disconnection rate for a given period, determined by dividing the sum of voluntary and involuntary disconnections during the period by the average number of subscribers during the same period.
Digital	A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary digits 0 and 1. Digital transmission and switching technologies employ a sequence of discrete, distinct pulses to represent information, as opposed to the continuously variable analog signal.
GPRS	General Packet Switched Radio Service refers to packet-switched technology for wireless telecommunications which allows the dynamic sharing of network capacity to improve network efficiency, thereby facilitating higher data access speeds for GSM mobile telephone users.
GSM	Global System for Mobile Communications, a pan-European mobile telephone system operating in the 900 MHz frequency band based on digital transmission and cellular network architecture with roaming. GSM is the standard accepted in most of Europe, the Middle East, Africa, Australia and Asia (with the exception of, among others, Japan and South Korea).
interconnect	Any variety of hardware arrangements that permits the connection of telecommunications equipment to a communications common carrier network such as a public switched telephone network.

Glossary (Cont'd)

mobile switching centre	A central switching point to which each call is connected, which controls the routing of calls. A mobile switching centre allows cellular telephone users to move freely from cell to cell while continuing their calls.
network infrastructure	Fixed infrastructure equipment consisting of base transceiver stations, base station controllers, antennas, switches, management information systems and other equipment that receives, transmits and processes signals from and to subscriber equipment and/or between wireless systems and the public switched telephone network.
penetration rate	The estimated total number of subscribers (including subscribers using the services of other operators) divided by the total population in the designated area. The total population in the designated area in 1999 is derived from the population number in the designated area in 1998, plus a natural increase in population of 1 per cent per annum.
roaming	A service offered by mobile communications network operators which allows a subscriber to use his or her handset while in the service area of another carrier. Roaming requires an agreement between operators of different individual markets to permit customers of either operator to access the other's system.
SIM card	Subscriber Identity Module card, an electronic card that is inserted into a handset and identifies the subscriber to the network. The SIM card contains the personal identification number of the subscriber and identifies the network to which the subscriber belongs.
TACS	Total Access Communication System, a European standard for analog mobile telephone transmissions in the 800 and 900 MHz frequency bands.
WAP	Wireless Application Protocol is a software protocol stack that defines a standardized means of transmitting Internet-based content and data to mobile handsets and other wireless handheld devices.
2.5G	2.5 Generation mobile telecommunication technologies are interim mobile phone technologies that are designed to facilitate an eventual migration from current Second Generation mobile telecommunication technologies (including GSM and CDMA) to Third Generation mobile telecommunication technologies, including WAP and GPRS. These technologies enhance the data communication capabilities of current Second Generation wireless telecommunication systems.
3G	Third Generation digital wireless telecommunication technologies, include those that support packet data switching, wireless broadband, multi-media and global roaming.