

## Chairman's Statement

In the first six months of 1999, the cellular telecommunications operations of the Group sustained continued steady growth in the three provinces of Guangdong, Zhejiang and Jiangsu, and achieved satisfactory results.

The Group achieved favorable financial results in the first half of 1999. For the six months ended 30 June 1999, the Group's operating revenue was RMB16.94 billion, an increase of 49% from RMB11.37 billion for the same period in 1998. After tax net profit was RMB3.95 billion, an increase of 14% from RMB3.47 billion for the same period in 1998. Average earnings per share were RMB0.34, representing an increase from RMB0.29 for the same period last year.

During the first six months of 1999, the Group's aggregate subscriber base increased by 2.282 million customers, reflecting favorable growth. As at 30 June 1999, the Group's aggregate subscriber base reached 8.813 million, representing an increase of 35% from 6.531 million at the end of 1998. Of the Group's aggregate subscriber base, Guangdong Mobile Communication Company Limited ("Guangdong Mobile") comprised 4.890 million subscribers, representing an increase of 35% and a net addition of 1.267 million customers from the end of 1998. Zhejiang Mobile Communication Company Limited ("Zhejiang Mobile") comprised 2.122 million subscribers, representing an increase of 41% and a net addition of 0.615 million customers from the end of 1998. Jiangsu Mobile Communication Company Limited ("Jiangsu Mobile") comprised 1.801 million subscribers, representing an increase of 29% and a net addition of 0.400 million customers from the end of 1998.

In the first six months of 1999, the total minutes of usage of the Group's subscribers were 17.62 billion minutes, compared with the pro forma combined\* total minutes of usage of 11.51 billion minutes for the same period last year, an increase of 53%. The total minutes of usage of the Group's subscribers during the first half of 1999 represent 70% of the pro forma combined total minutes of usage of 25.0 billion minutes for the whole of 1998. Of the total minutes of usage in the first six months of 1999,

Guangdong Mobile subscribers accounted for 10.82 billion minutes, Zhejiang Mobile subscribers accounted for 3.87 billion minutes, and Jiangsu Mobile subscribers accounted for 2.93 billion minutes.

During the first six months of 1999, the Group's average minutes of usage per subscriber per month ("MOU") were 385 minutes, the same level as the Group's pro forma combined average MOU in 1998. The average MOU for Guangdong Mobile were 424 minutes, an increase from 400 minutes in 1998. This increase was largely attributable to a substantial reduction in 1999 in the monthly fee charged by Guangdong Mobile and the favourable economic development of Guangdong province. The average MOU for Zhejiang Mobile were 356 minutes, and the average MOU for Jiangsu Mobile were 312 minutes, both reflecting a declining trend from 1998. For the first six months of 1999, the Group's average monthly revenue per subscriber was RMB370, a decline from the pro forma combined average monthly revenue per subscriber of RMB440 in 1998. This decrease resulted principally from various tariff adjustments by the Group during the period. The Group believes that these adjustments may further enhance the competitiveness of the Group's tariff structure, and may expand its subscriber base while increasing total usage.

During the first six months of 1999, the Group's standard leasing fees for transmission lines declined, thereby reducing the Group's leased line expenses.

In the first six months of 1999, the Group's subscriber base continued to expand, and the subscribers' total usage volume continued to increase. The Group continued to improve service quality in addition to enhancing its existing networks and increasing network capacity to accommodate subscriber growth. In the first six months of the year, the Group increased the number of customer care centers, further emphasizing the importance of customer service awareness and enhancing the quality of customer information services, strengthening after-sales support services and improving billing and collection service standards. The response to tailored service packages offered by the Group

\* The Group's current structure was established in June 1998 following the completion of the acquisition of Jiangsu Mobile. For ease of comparison, the pro forma combined results of operations described herein assume that the current Group structure existed during the periods discussed.

last year has been excellent, and “Provincial Access” and “Local Access” packages are now available in Guangdong, Zhejiang and Jiangsu provinces. Additionally, Guangdong Mobile initiated the “Chinese Secretary” value added service during the period. In the first six months of 1999, the Group’s “Global Access” digital cellular network was extended to offer roaming services in six additional countries and regions, covering a total of 44 countries and regions.

As we approach the new millennium, the Group’s Year 2000 preparations are nearly complete. The Group’s compliance program and progress updates regarding Year 2000 compliance efforts have been disclosed previously in the 1998 Interim Report and the 1998 Annual Report. The Group’s subsidiaries, Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile, have already completed the modification and upgrading of relevant equipment and software as planned, and have concluded the unit off-line testing and verification work for the Group’s principal equipment and on-line testing of each subsidiary’s internal systems. The final on-line testing of each subsidiary’s communications systems, network management systems, accounting and billing systems, and customer service systems, as well as the on-line testing of connections with fixed-line telephone networks and other roaming parties, is expected to be completed by the end of September pursuant to the integrated plan of China Mobile Communications Corporation. Certain equipment used in conjunction with Jiangsu Mobile’s analog “A” network (with a net book value of approximately US\$3.5 million) was found to be non-compliant with Year 2000 standards, and has been withdrawn from service. In the first six months of 1999, the Group’s expenditures related to the Year 2000 issue were approximately US\$26 million. Including the US\$6 million previously spent in 1998, the Group has expended a total of US\$32 million, which exceeds the original budget for Year 2000 modification and upgrading work by 7%. As at 30 June 1999, the Group is under no commitment to incur any further material expenditures in relation to Year 2000 compliance.

In 1999, we have seen the smooth implementation of the restructuring of the Chinese telecommunications industry, which we believe will promote the development of telecommunications enterprises and create a fair,

healthy and beneficial competitive environment, while at the same time encouraging the Group’s own development. China’s mobile telephone penetration rates remain relatively low, while demand remains high. This expansive market with its significant development potential provides the Group with substantial room for continued growth. Because of this, we are confident about the Group’s prospects for growth. We will continue to endeavor to make optimal use of our extensive capital resources to develop new markets and grow our company, and to actively explore opportunities for new investment in the Chinese telecommunications sector for acquiring high-quality telecommunications assets. In this regard, the Group is currently pursuing negotiations regarding the possible acquisition of mobile telecommunications assets in the provinces of Fujian, Henan and Hainan. At the same time, the Group intends to take advantage of its leading networks and its stable operational base to standardize its businesses, actively implement and improve the Business Operation Support System of each subsidiary, enhance operating efficiency, and provide the highest quality mobile telecommunications services to its customers and improved economic returns to its shareholders.

**Wang Xiaochu**  
*Chairman*

Hong Kong, 30 August 1999

## Unaudited Group Results

For the six months ended 30 June 1999

The unaudited consolidated results of the Group for the six months ended 30 June 1999 are presented as follows:

	Note	Unaudited	
		For the six months ended 30 June 1999 consolidated Rmb'000	For the six months ended 30 June 1998 consolidated Rmb'000
<b>Turnover</b>	2		
Usage fees		11,012,153	6,838,997
Monthly fees		2,080,559	1,841,264
Connection fees		2,416,866	1,732,618
Others	3	1,430,359	954,261
		<u>16,939,937</u>	<u>11,367,140</u>
<b>Operating expenses</b>			
Leased lines		2,093,135	1,683,252
Interconnection		2,774,985	2,130,654
Depreciation		3,296,403	1,884,730
Personnel		680,386	603,669
Selling, general and administrative and others		2,662,332	1,476,785
		<u>11,507,241</u>	<u>7,779,090</u>
<b>Operating profit</b>		5,432,696	3,588,050
<b>Other income</b>		269,859	118,779
<b>Non-operating income</b>		298,600	1,197,202
<b>Interest expense</b>		<u>(106,695)</u>	<u>(73,197)</u>
<b>Profit before tax and minority interests</b>	4	5,894,460	4,830,834
<b>Income tax</b>	5	<u>(1,944,081)</u>	<u>(1,357,887)</u>
<b>Profit before minority interests</b>		3,950,379	3,472,947
<b>Minority interests</b>		<u>—</u>	<u>(728)</u>
<b>Net profit</b>		<u>3,950,379</u>	<u>3,472,219</u>
<b>Earnings per share</b>			
Basic	6(a)	Rmb34 cents	Rmb29 cents
Diluted	6(b)	Rmb34 cents	Rmb29 cents
<b>EBITDA (Rmb million)</b>	7	9,499	5,676

Notes:

### (1) Basis of presentation

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

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

### (2) Turnover

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

### (3) Other operating revenue

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

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

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

### (5) Income tax

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

The provision for Hong Kong profits tax is calculated at 16% (1998: 16%) of the estimated assessable profits for the six months ended 30 June 1999. Pursuant to the income tax rules and regulations of the PRC, the profit of the Group's subsidiaries in the PRC are subject to the statutory income tax rate of 33% (1998: 33%) for the six months ended 30 June 1999. According to notices from the PRC Ministry of Finance, connection fees and certain surcharges, which were previously not subject to income tax, are subject to income tax at the rate of 33 per cent with effect from 26 August 1998 for the Group's subsidiary in Jiangsu province.

## (6) Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 1999 is based on the consolidated profit attributable to shareholders of Rmb 3,950,379,000 (1998: Rmb 3,472,219,000) and the weighted average number of 11,782,884,685 shares (1998: 11,780,788,000 shares) in issue during the six months ended 30 June 1999.

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 1999 is based on the consolidated profit attributable to shareholders of Rmb 3,950,379,000 (1998: Rmb 3,472,219,000) and the weighted average number of 11,785,447,499 shares (1998: 11,782,488,765 shares) after adjusting for the effects of all dilutive potential ordinary shares. All dilutive potential ordinary shares arise from the share options granted to the Company's directors under the Company's share option scheme which, if converted to ordinary shares, would decrease profit attributable to shareholders per share.

### (c) Reconciliations

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

## (7) EBITDA

EBITDA represents earnings before interest income, interest expense, non-operating income / expenses, income tax, provision for diminution in value of fixed assets, depreciation and amortisation. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities. The 1998 comparative figure has already been recomputed in accordance with the above definition, under which provision for diminution in value of fixed assets has not been deducted.

## Transfer To And From Reserves

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

## Interim Dividend

The Board of Directors considers the Group is experiencing a period of rapid growth and it is desirable that more capital be retained for additional investments, network expansion and acquisitions of quality assets, in order to give a better return to shareholders. Hence, the Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 1999.

## Directors' Interests In Shares

As at 30 June 1999, one of the directors of the Company, Li Ping, personally had an interest in 100 American depositary shares (representing 2,000 ordinary shares) in 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 were granted pursuant to the terms of the share option scheme adopted by the Company.

Apart from the foregoing, as at 30 June 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 Hong Kong Securities (Disclosure of Interests) 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 percent 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.

Set out below is a list of the options that have been granted to the Company's directors under the share option scheme:

Directors	Number of Share options
Shi Cuiming (resigned on 30 March 1999)	2,900,000
Chen Zhaobin (resigned on 30 March 1999)	2,600,000
Li Ping	2,400,000
Ding Donghua	2,100,000
Lu Errui (resigned on 30 August 1999)	1,000,000
Zhu Jianhua (resigned on 30 August 1999)	1,000,000

The share options are exercisable at a price of HK\$11.1 per share during the period from 9 March 1998 to 8 March 2006.

Mr. Shi Cuiming and Mr. Chen Zhaobin exercised all their share options on 20 April 1999 at a price of HK\$11.1 per share. The market value per share on exercise of the share options was HK\$15.15.

Apart from the foregoing, at no time during the six months ended 30 June 1999 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 30 June 1999 amounting to 10% 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")	—	9,010,000,000	76.44%
(ii) Telpo Communications (Group) Limited ("Telpo")	—	9,010,000,000	76.44%
(iii) The Directorate General of Telecommunications ("DGT")	—	9,010,000,000	76.44%
(iv) China Telecom (Hong Kong) Group Limited ("CTHK (Group)")	—	9,010,000,000	76.44%
(v) China Telecom Hong Kong (BVI) Limited ("CTHK (BVI)")	9,010,000,000	—	76.44%

*Note:* Because of the fact that the MII, Telpo, DGT and CTHK (Group) directly or indirectly own 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, Telpo, 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.

**Purchase, Sale Or Redemption Of The  
Company's Listed Securities**

During the six months ended 30 June 1999, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

**Compliance With The Code Of Best  
Practice**

The Company has complied throughout the six months ended 30 June 1999 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.

By order of the Board

**Li Ping    Yung Shun Loy Jacky**  
*Joint Company Secretaries*

Hong Kong, 30 August 1999

## Supplementary Information For North American Shareholders

The above unaudited financial information have been prepared in accordance with the generally accepted accounting principles applicable in Hong Kong ("HK GAAP"), which differ in certain significant respects from those applicable in the United States ("US GAAP"). The significant differences between HK GAAP and US GAAP that affect the Group's results for the six months ended 30 June 1999 are substantially the same as those disclosed in the Company's 1998 annual report. The effect on the Group's unaudited consolidated net profit of the significant differences between HK GAAP and US GAAP for the six months ended 30 June 1999 is set out below. The US GAAP adjustments shown below have been prepared by management and have not been subject to independent audit:

	Unaudited			
	For the six months ended 30 June 1999 consolidated		For the six months ended 30 June 1998 consolidated	
	US\$'000	Rmb'000	US\$'000	Rmb'000
Net profit under HK GAAP	477,180	3,950,379	419,360	3,472,219
US GAAP adjustments	<u>66,631</u>	<u>551,616</u>	<u>121,547</u>	<u>1,006,384</u>
Approximate net profit under US GAAP	<u><u>543,811</u></u>	<u><u>4,501,995</u></u>	<u><u>540,907</u></u>	<u><u>4,478,603</u></u>
Approximate basic and diluted net profit Per share in accordance with US GAAP	<u>0.05</u>	<u>0.38</u>	<u>0.05</u>	<u>0.38</u>
Approximate basic and diluted net profit Per ADS in accordance with US GAAP*	<u>0.92</u>	<u>7.64</u>	<u>0.92</u>	<u>7.60</u>

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

Solely for the convenience of the reader, amounts in Renminbi have been translated into United States dollars at the rate of US\$1.00 = Rmb 8.2786 quoted by the People's Bank of China on 30 June 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 rate on 30 June 1999 or on any other date.

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