

Notes to the Accounts

(expressed in Renminbi)

1 Principal accounting policies

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure 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 each year. 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.

1 Principal accounting policies (cont'd)

(f) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and associates are as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (ii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(g) Fixed assets and depreciation

- (i) Fixed assets are stated at cost less accumulated depreciation.
- (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. Expenditure incurred after the fixed asset has been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.
- (iii) Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the 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.

Notes to the Accounts

(expressed in Renminbi)

1 Principal accounting policies (cont'd)

(g) Fixed assets and depreciation (cont'd)

- (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%

(h) Leased assets

Where assets are acquired under finance leases, the amounts representing the outright purchase price, which approximate the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the shorter of the period of the leases or the estimated useful lives of the assets as set out in note 1(g) 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.

(i) 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.

(j) 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.

1 Principal accounting policies (cont'd)

(k) Deferred revenue

Deferred revenue, which consists primarily of deferred revenue from prepaid service fees received from subscribers and deferred revenue from assignment of rights to income from subscribers with distributors of telecommunications services are stated in the balance sheet at the amount of consideration received according to the relevant assignment contracts if applicable, less income recognised in the profit and loss account up to the balance sheet date.

Income from assignment of rights 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.

Revenue from prepaid service fees is recognised when the cellular services are rendered.

(l) Fixed rate notes

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

(m) Convertible notes

Convertible notes are stated on the balance sheet at the principal amount.

(n) Deferred expenses

Deferred expenses comprise incidental costs incurred in relation to the issue of the Company's fixed rate notes and convertible 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.

(o) 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.

(p) 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 basis:

- (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;

Notes to the Accounts

(expressed in Renminbi)

1 Principal accounting policies (cont'd)

(p) Revenue recognition (cont'd)

- (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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) Operating leases

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

1 Principal accounting policies (cont'd)

(v) 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.

(w) 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, Hainan, Shandong, Liaoning and Hebei provinces, Beijing, Shanghai and Tianjin municipalities and Guangxi autonomous region of the People's Republic of China (the "PRC"). 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 is 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") in respect of calls made by non-subscribers using the Group's cellular telecommunications networks.

3 Other operating expenses

Other operating expenses primarily comprise 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

(expressed in Renminbi)

4 Write-down and write-off of analog network equipment

	2000 RMB million	1999 RMB million
Write-down of analog network equipment (a)	1,330	6,720
Write-off of analog network equipment (b)	195	1,522
	1,525	8,242

(a) The Group reviewed the carrying value of all analog network and related equipment at 31 December 1999. Based on the estimated recoverable value of these assets, a write-down of RMB6,720 million was made in 1999. In 2000, based on the operations and net cash flow position of the analog network, the Group considers that the recoverable amount of the analog network has declined to below its carrying amount. Based on the expected future cash flows to be generated by the analog network, a full provision has been made against the carrying amount of the analog network at 31 December 2000. The amount of the write-down of RMB1,330 million has been recognised as an expense in the profit and loss account.

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

5 Other net income

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

	2000 RMB million	1999 RMB million
Sales of SIM cards and handsets	1,928	1,242
Cost of SIM cards and handsets	(1,013)	(690)
	915	552

6 Non-operating net (expenses)/income

	2000 RMB million	1999 RMB million
Exchange loss	(60)	(9)
Loss on disposal of fixed assets	(126)	(1)
Penalty income on overdue accounts	149	72
Others	32	8
	(5)	70

Notes to the Accounts

(expressed in Renminbi)

7 Profit from ordinary activities before taxation

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

(a) Finance costs

	2000 RMB million	1999 RMB million
Interest on bank loans and other borrowings repayable within five years	403	395
Interest on other loans	74	90
Interest on fixed rate notes	393	—
Interest on convertible notes	21	—
Finance charges on obligations under finance lease	52	1
Total borrowings costs	943	486
Less: Amount capitalised as construction in progress (Note)	(119)	(143)
	824	343

Note: Borrowing costs have been capitalised at a rate of 5.02 per cent to 7.6 per cent (1999: 5.58 per cent to 7.56 per cent) per annum for construction in progress.

(b) Other items

	2000 RMB million	1999 RMB million
Depreciation		
- owned assets	9,486	7,400
- assets held under finance leases	273	11
Amortisation of deferred expenses	15	2
Exchange loss on foreign currency borrowings less deposits	217	—
Operating lease charges in respect of		
- properties	602	373
- leased lines	5,501	3,723
- others	471	163
Contribution to retirement scheme	335	251
Provision for doubtful accounts	1,346	771
Provision for obsolete inventories	25	4
Auditors' remuneration	26	16
Amortisation of deferred revenue from assignment of rights to income from subscribers	(307)	(313)

Notes to the Accounts

(expressed in Renminbi)

8 Directors' remuneration

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

	2000 RMB million	1999 RMB million
Fees	2	2
Salaries, allowances and benefits in kind	10	9
	12	11

Included in the directors' remuneration were fees of RMB382,000 (1999: RMB384,000) 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:

	2000	1999
HK\$ equivalent		
Nil to 1,000,000	10	15
1,000,001 to 1,500,000	1	—
2,000,001 to 2,500,000	2	3

9 Five highest paid individuals

Of the five highest paid individuals in this year, three (1999: three) are directors of the Company and their remuneration has been included in Note 8 above. The remuneration of each of the remaining two highest paid individuals falls within the band from HK\$1,500,001 to HK\$2,000,000 (1999: from HK\$1,000,001 up to HK\$1,500,000) and their aggregate remuneration is as follows:

	2000 RMB million	1999 RMB million
Salaries, allowances and benefits in kind	4	3

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

(expressed in Renminbi)

10 Taxation

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

	2000 RMB million	1999 RMB million
Provision for PRC income tax on the estimated taxable profits for the year	8,371	3,776
Under-provision in respect of PRC income tax for prior year	12	24
Over-provision in respect of Hong Kong profits tax for prior year	—	(2)
	8,383	3,798
Deferred tax assets (Note 19(a))	(17)	(2,151)
	8,366	1,647

- (i) No provision has been made for Hong Kong profits tax as there were no estimated Hong Kong assessable profits for the years ended 31 December 2000 and 1999.
- (ii) Pursuant to the income tax rules and regulations of the PRC, the Group's subsidiaries in the PRC were subject to the statutory income tax rate of 33 per cent. for the year ended 31 December 2000, except for Hainan Mobile Communication Company Limited ("Hainan Mobile") and certain cellular telephone operations of Guangdong Mobile Communication Company Limited ("Guangdong Mobile") located at Special Economic Zones in the PRC, which were subject to a tax rate of 15 per cent. According to notices from the PRC Ministry of Finance, connection fees and certain surcharges of Beijing Mobile Communication Company Limited ("Beijing Mobile"), Shanghai Mobile Communication Company Limited ("Shanghai Mobile"), Tianjin Mobile Communication Company Limited ("Tianjin Mobile"), Hebei Mobile Communication Company Limited ("Hebei Mobile"), Liaoning Mobile Communication Company Limited ("Liaoning Mobile"), Shandong Mobile Communication Company Limited ("Shandong Mobile") and Guangxi Mobile Communication Company Limited ("Guangxi Mobile") which were previously not subject to income tax, are subject to income tax at the rate of 33 per cent. after these companies were registered as wholly-foreign owned enterprises.

(b) Taxation in the balance sheets represents:

	The Group	
	2000 RMB million	1999 RMB million
Provision for PRC income tax for the year	8,371	3,776
Balance of PRC income tax payable relating to prior year	478	556
Balance of PRC income tax payable arising on acquisition of subsidiaries	1,405	—
PRC income tax paid	(3,519)	(1,464)
	6,735	2,868

Notes to the Accounts

(expressed in Renminbi)

11 Profit attributable to shareholders

Profit attributable to shareholders includes a profit of RMB4,670,000,000 (1999: RMB1,234,000,000) which has been dealt with in the accounts of the Company.

12 Dividends

The board of directors of the Company does not recommend the payment of any dividends for the year ended 31 December 2000 (1999: RMB Nil).

13 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the year is based on the profit attributable to shareholders of RMB18,027,000,000 (1999: RMB4,797,000,000) and the weighted average number of 14,394,312,587 shares (1999: 12,069,107,688 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 RMB18,027,000,000 (1999: RMB4,797,000,000) and the weighted average number of 14,409,503,167 shares (1999: 12,072,382,655 shares) after adjusting for the effects of all dilutive potential ordinary shares, as if all the outstanding share options issued by the Company had been exercised at the date of issue. Since all potential ordinary shares arising from the convertible notes, if converted to ordinary shares, would increase profit attributable to shareholders per share as a result of the savings on the interest payable on the convertible notes, the effects of anti-dilutive potential ordinary shares are ignored in calculating diluted earnings per share.

(c) Reconciliations

Weighted average number of ordinary shares used in calculating basic earnings per share

Deemed issue of ordinary shares for no consideration

Weighted average number of ordinary shares used in calculating diluted earnings per share

2000 Number of shares	1999 Number of shares
14,394,312,587	12,069,107,688
15,190,580	3,274,967
14,409,503,167	12,072,382,655

Notes to the Accounts

(expressed in Renminbi)

14 Fixed assets

	Land use rights and buildings RMB million	Telecommunications transceivers, switching centres and other network equipment RMB million	Office equipment, furniture and fixtures and others RMB million	Total RMB million
(a) The Group				
Cost:				
At 1 January 2000	2,878	58,173	1,797	62,848
Acquired on acquisition of subsidiaries	3,903	34,655	1,116	39,674
Additions	470	454	440	1,364
Transferred from construction in progress	1,009	16,191	477	17,677
Disposals	(264)	(1,249)	(112)	(1,625)
Assets written-off	—	(313)	(16)	(329)
At 31 December 2000	7,996	107,911	3,702	119,609
Accumulated depreciation:				
At 1 January 2000	147	19,486	516	20,149
Acquired on acquisition of subsidiaries	44	2,124	115	2,283
Charge for the year	145	9,232	382	9,759
Additional provision	—	1,330	—	1,330
Written back on disposal	(21)	(1,184)	(61)	(1,266)
Assets written-off	—	(103)	(8)	(111)
At 31 December 2000	315	30,885	944	32,144
Net book value:				
At 31 December 2000	7,681	77,026	2,758	87,465
At 31 December 1999	2,731	38,687	1,281	42,699

Notes to the Accounts

(expressed in Renminbi)

14 Fixed assets (cont'd)

(b) The Company

Cost:

At 1 January 2000

Additions

Disposals

At 31 December 2000

Accumulated depreciation:

At 1 January 2000

Charge for the year

Written back on disposal

At 31 December 2000

Net book value:

At 31 December 2000

At 31 December 1999

**Office equipment,
furniture and
fixtures and others**
RMB million

12

2

(9)

5

4

2

(5)

1

4

8

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

	The Group	
	2000 RMB million	1999 RMB million
Long leases	2,482	81
Medium-term leases	5,103	2,650
Short-term leases	96	—
	7,681	2,731

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

(d) The net book value of fixed assets of the Group includes an amount of RMB7,046,000,000 (1999: 431,000,000) in respect of assets held under finance leases.

15 Construction in progress

Construction in progress comprises expenditure incurred on the network expansion projects, construction of office buildings and construction of staff quarters not yet completed at 31 December 2000.

Notes to the Accounts

(expressed in Renminbi)

16 Investments in subsidiaries

	The Company	
	2000 RMB million	1999 RMB million
Unlisted equity investments, at cost	367,053	95,423

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 10 November 2000, the Company acquired the entire issued share capital of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI from CMHK BVI. The only assets of each of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI are their interests in the entire equity of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, respectively.

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 Communication Company Limited * ("Zhejiang Mobile")	PRC	RMB2,117,790,000	100%	—	Cellular telephone operator
Jiangsu Mobile (BVI) Limited ("Jiangsu Mobile BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company
Jiangsu Mobile Communication Company Limited* ("Jiangsu Mobile")	PRC	RMB2,800,000,000	—	100%	Cellular telephone operator
Fujian Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company

Notes to the Accounts

(expressed in Renminbi)

16 Investments in subsidiaries (cont'd)

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	
Fujian Mobile Communication Company Limited* ("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 Communication Company Limited* ("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
Beijing Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company
Beijing Mobile*	PRC	RMB5,357,539,000	—	100%	Cellular telephone operator
Shanghai Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company
Shanghai Mobile*	PRC	RMB5,404,715,000	—	100%	Cellular telephone operator
Tianjin Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company
Tianjin Mobile*	PRC	RMB1,856,720,000	—	100%	Cellular telephone operator

Notes to the Accounts

(expressed in Renminbi)

16 Investments in subsidiaries (cont'd)

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	
Hebei Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company
Hebei Mobile*	PRC	RMB4,015,276,000	—	100%	Cellular telephone operator
Liaoning Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company
Liaoning Mobile*	PRC	RMB4,758,431,000	—	100%	Cellular telephone operator
Shandong Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company
Shandong Mobile*	PRC	RMB5,772,040,000	—	100%	Cellular telephone operator
Guangxi Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company
Guangxi Mobile*	PRC	RMB2,094,590,000	—	100%	Cellular telephone operator
China Mobile (Shenzhen) Limited*	PRC	USD30,000,000	100%	—	Corporate operation controller
Aspire Holdings Limited	Cayman Islands	HKD78,000,000	80%	—	Investment holding company
Aspire (BVI) Limited	BVI	USD1,000	—	100%	Investment holding company

* Companies registered as wholly-foreign owned enterprises in the PRC (except for Shanghai Mobile which has not completed the relevant registration procedures at 31 December 2000).

Notes to the Accounts

(expressed in Renminbi)

17 Interest in associates

	The Group	
	2000 RMB million	1999 RMB million
Unlisted shares, at cost	37	37
Capital contributions, at cost	9	9
	46	46

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

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

18 Investment securities

	The Group	
	2000 RMB million	1999 RMB million
Unlisted equity securities in the PRC, at cost	61	—

Notes to the Accounts

(expressed in Renminbi)

19 Deferred tax assets

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

	The Group	
	2000 RMB million	1999 RMB million
Balance at 1 January	2,306	152
Acquired on acquisition of subsidiaries	723	3
Transfer from the profit and loss account (Note 10(a))	17	2,151
Balance at 31 December	3,046	2,306

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

	The Group	
	2000 RMB million	1999 RMB million
Provision for obsolete inventories	12	51
Write-down of fixed assets relating to analog network	2,102	2,182
Amortisation of deferred revenue	60	73
Income recognition on prepaid service fees	872	—
	3,046	2,306

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

	The Group	
	2000 RMB million	1999 RMB million
Provision for doubtful accounts	989	402

20 Deferred expenses

	The Group and the Company	
	2000 RMB million	1999 RMB million
Balance at 1 January	51	—
Additions during the year	128	53
Less: Amortisation for the year	(15)	(2)
Balance at 31 December	164	51

Notes to the Accounts

(expressed in Renminbi)

21 Amounts due from/to ultimate holding company and amount due to immediate 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 (see note 33).

Amount due to immediate holding company primarily represents the balance of the purchase consideration for acquisition of subsidiaries (see note 16), which is unsecured, non-interest bearing and repayable on demand.

22 Amounts due from/to related parties

The balances of amounts due from/to related parties at 31 December 1999 represented balances due from/to the Ministry of Information Industry (the "MII") and entities under the control of the MII, including primarily the Directorate General of Telecommunications (the "DGT") and the provincial telecommunications companies (the "PTCs"). As a result of the PRC telecommunication industry restructuring (the "restructuring") in May 2000, the MII and entities under the control of the MII are not considered related parties. China Telecommunications Corporation ("China Telecom") was established in May 2000 as a state-owned enterprise to operate the fixed line telephone and data communications networks nationwide in the PRC, formerly operated by the DGT and the PTCs, and is also not considered to be a related party (see note 33(a)). As at 31 December 2000, all balances due from/to China Telecom and its subsidiaries (the "China Telecom Group") are separately disclosed from amounts due from/to related parties (see notes 24 and 28). The balances of amounts due from/to related parties at 31 December 1999 were unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business.

23 Accounts receivable

Accounts receivable, net of provision for doubtful accounts, are all outstanding for less than three months with the following ageing analysis:

	The Group	
	2000 RMB million	1999 RMB million
Within 30 days	6,451	4,298
31-60 days	524	399
61-90 days	277	260
	7,252	4,957

Balances are due for payment within one month from the date of billing. Customers with balances that are overdue or exceed credit limits are required to settle all outstanding balances before any further phone calls can be made.

24 Other receivables

Included in other receivables as at 31 December 2000 are amounts due from the China Telecom Group amounting to RMB998,000,000 (see note 22), representing primarily revenue collected on behalf of the Group. The balances with the China Telecom Group were unsecured, non-interest bearing and repayable within one year.

Notes to the Accounts

(expressed in Renminbi)

25 Cash and cash equivalents

	The Group		The Company	
	2000 RMB million	1999 RMB million	2000 RMB million	1999 RMB million
Deposits with banks	6,457	6,986	4,720	6,550
Cash at banks and in hand	21,245	12,363	28	28
	27,702	19,349	4,748	6,578

26 Bank loans and other interest-bearing borrowings

(a) The Group

Note	2000			1999		
	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million
Bank loans (c)	10,267	12,014	22,281	4,170	1,623	5,793
Other loans (c)	204	459	663	181	602	783
Fixed rate notes (d)	—	4,953	4,953	—	4,952	4,952
Convertible notes (e)	—	5,708	5,708	—	—	—
	10,471	23,134	33,605	4,351	7,177	11,528

Included in the current liabilities are short-term bank and other loans amounting to RMB100,000,000 (1999: 100,000,000) which are secured by cash at banks amounting to RMB113,000,000 (1999: 100,000,000). All other short-term bank and other loans are unsecured.

All of the above bank and other loans under non-current liabilities are unsecured.

Other loans bear interest at various rates between 6.03 per cent to 8.24 per cent (1999: 5.7 per cent to 7.6 per cent) with maturities in 2001 to 2004.

(b) The Company

Note	2000			1999		
	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million
Fixed rate notes (d)	—	4,953	4,953	—	4,952	4,952
Convertible notes (e)	—	5,708	5,708	—	—	—
	—	10,661	10,661	—	4,952	4,952

Notes to the Accounts

(expressed in Renminbi)

26 Bank loans and other interest-bearing borrowings (cont'd)

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

	The Group		
	Bank loans	Other loans	Total
	RMB million	RMB million	RMB million
At 31 December 2000			
On demand or within one year (Note 26(a))	3,560	204	3,764
After one year but within two years	5,071	211	5,282
After two years but within five years	6,873	248	7,121
After five years	70	—	70
	12,014	459	12,473
	15,574	663	16,237
At 31 December 1999			
On demand or within one year (Note 26(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

The current portion of long-term bank and other loans are included in the current liabilities of bank and other loans as set out in note 26(a) above.

(d) **Fixed rate notes**

On 2 November 1999, the Company issued unsecured fixed rate notes (the "notes") with a principal amount of US\$600,000,000 at an issue price equal to 99.724 per cent of the principal amount of the notes, 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.

(e) **Convertible notes**

- (i) On 3 November 2000, the Company issued convertible notes (the "Notes") in an aggregate principal amount of US\$690,000,000 at an issue price equal to 100 per cent of the principal amount of the Notes. The Notes bear interest at the rate of 2.25 per cent per annum, payable semi-annually on 3 May and 3 November of each year commencing 3 May 2001. Unless previously redeemed, converted or purchased and cancelled, the Notes will be redeemed at 100 per cent of the principal amount, plus any accrued and unpaid interest on 3 November 2005. The notes are unsecured, senior and unsubordinated obligations of the Company.
- (ii) The Notes are convertible at any time on or after 3 December 2000 and before the close of business on the third business day prior to the earlier of (1) the maturity date of 3 November 2005 or (2) the redemption date fixed for early redemption, at an initial conversion price, subject to adjustment in certain events, of HK\$59.04 per share.
- (iii) During the year, no Notes were converted into ordinary shares of the Company.

Notes to the Accounts

(expressed in Renminbi)

27 Obligations under finance leases

As at 31 December 2000, the Group had obligations under finance leases repayable as follows:

	The Group	
	2000 RMB million	1999 RMB million
Within one year	1,778	78
In the second year	1,077	73
After two years but within five years	216	35
	3,071	186
Less: Finance charges relating to future periods	(212)	(11)
	2,859	175
Less: Amount due within one year	(1,624)	(68)
	1,235	107

28 Accounts payable

Included in accounts payable as at 31 December 2000 are amounts due to the China Telecom Group amounting to RMB3,449,000,000 (see note 22), representing primarily payables for leased lines and interconnection expenses.

The ageing analysis of accounts payable as at 31 December is as follows:

	The Group	
	2000 RMB million	1999 RMB million
Amounts payable in the next:		
1 month or on demand	6,614	4,317
2-3 months	560	395
4-6 months	1,672	198
7-9 months	827	660
10-12 months	1,908	456
	11,581	6,026

29 Deferred revenue

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

Deferred revenue also includes income from assignment of rights. The balance at year end 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 retains 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.

Notes to the Accounts

(expressed in Renminbi)

29 Deferred revenue (cont'd)

	The Group	
	2000 RMB million	1999 RMB million
Balance at 1 January	1,492	1,757
Additions on acquisition of subsidiaries	1,039	—
Additions during the year	5,689	48
Recognised in profit and loss account	(4,566)	(313)
Balance at 31 December	3,654	1,492

30 Share capital

	The Group	
	2000 HK\$ million	1999 HK\$ million
Authorised:		
30,000,000,000 (1999: 16,000,000,000) ordinary shares of HK\$0.10 each	3,000	1,600

Issued and fully paid:

	2000			1999		
	No. of shares	HK\$ million	RMB equivalent RMB million	No. of shares	HK\$ million	RMB equivalent RMB million
At 1 January	13,706,287,021	1,371	1,467	11,780,788,000	1,178	1,261
Issue of new shares to the professional and institutional investors	1,115,643,845	112	119	644,804,000	65	69
Issue of consideration shares for acquisition of subsidiaries	3,779,407,375	378	400	1,273,195,021	127	136
Shares issued under share option scheme (Note 31)	3,974,000	—	—	7,500,000	1	1
At 31 December	18,605,312,241	1,861	1,986	13,706,287,021	1,371	1,467

Pursuant to resolutions passed at directors' meetings held on 2 November 2000 and 8 November 2000 respectively, the Company issued 1,068,396,405 and 47,247,440 ordinary shares of HK\$0.10 each to professional and institutional investors, at a consideration of HK\$48 per share, for financing the acquisition of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI.

30 Share capital (cont'd)

Pursuant to ordinary resolutions passed at an extraordinary general meeting held on 10 November 2000, the Company's authorised share capital was increased to HK\$3,000,000,000 by the creation of an additional 14,000,000,000 ordinary shares of HK\$0.10 each, ranking pari passu with the existing shares of the Company, and 3,779,407,375 ordinary shares of HK\$0.10 each were issued and credited as fully paid to CMHK BVI, at a consideration of HK\$48 per share as part of the consideration for the acquisition of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI.

31 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.

During the year, a total number of share options of 31,590,000 (1999: 8,200,000) were granted under the share option scheme to certain directors and employees of the Company. During the year, options were exercised to subscribe for 3,974,000 (1999: 7,500,000) ordinary shares of HK\$0.10 each at a total consideration of HK\$84,000,000 (equivalent to RMB89,000,000) (1999: HK\$84,000,000 (equivalent to RMB88,000,000)).

Notes to the Accounts

(expressed in Renminbi)

31 Share option scheme (cont'd)

At 31 December 2000 and 1999, the outstanding options were as follows:

Date options granted	Normal period during which options exercisable	Price per share to be paid on exercise of options	No. of shares involved in the options outstanding at the year end
At 31 December 2000			
9 March 1998	9 March 1998 to 8 March 2006	HK\$11.10	2,100,000
26 November 1999	26 November 1999 to 7 October 2007	HK\$33.91	3,500,000
26 November 1999	26 November 2002 to 7 October 2007	HK\$33.91	3,500,000
25 April 2000	25 April 2002 to 7 October 2007	HK\$45.04	15,608,000
25 April 2000	25 April 2005 to 7 October 2007	HK\$45.04	15,608,000
At 31 December 1999			
9 March 1998	9 March 1998 to 8 March 2006	HK\$11.10	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

Notes to the Accounts

(expressed in Renminbi)

32 Reserves

	Share premium RMB million	Capital reserve RMB million	General reserve RMB million	PRC statutory reserves RMB million	Retained profits RMB million	Total RMB million
(a) The Group						
At 1 January 1999	50,643	(14,490)	72	2,203	6,138	44,566
Issue of new shares to professional and institutional investors	16,484	—	—	—	—	16,484
Issue of consideration shares for acquisition of subsidiaries	32,549	—	—	—	—	32,549
Expenses incurred in connection with the issue of new shares to professional and institutional investors	(419)	—	—	—	—	(419)
Goodwill arising on acquisition of subsidiaries	—	(42,440)	—	—	—	(42,440)
Shares issued under share option scheme	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
At 1 January 2000	99,345	(56,930)	72	5,727	7,411	55,625
Issue of new shares to professional and institutional investors (note 30)	56,694	—	—	—	—	56,694
Issue of consideration shares for acquisition of subsidiaries (note 30)	191,969	—	—	—	—	191,969
Expenses incurred in connection with the issue of new shares to professional and institutional investors (note 30)	(1,090)	—	—	—	—	(1,090)
Goodwill arising on acquisition of subsidiaries	—	(239,540)	—	—	—	(239,540)
Shares issued under share option scheme (Note 31)	89	—	—	—	—	89
Net profit for the year	—	—	—	—	18,027	18,027
Transfer to PRC statutory reserves	—	—	—	6,916	(6,916)	—
At 31 December 2000	347,007	(296,470)	72	12,643	18,522	81,774

Notes to the Accounts

(expressed in Renminbi)

32 Reserves (cont'd)

	Share premium RMB million	General reserve RMB million	Retained profits RMB million	Total RMB million
(b) The Company				
At 1 January 1999	50,643	72	1,776	52,491
Issue of new shares to professional and institutional investors	16,484	—	—	16,484
Issue of consideration shares for acquisition of subsidiaries	32,549	—	—	32,549
Expenses incurred in connection with the issue of new shares to professional and institutional investors	(419)	—	—	(419)
Shares issued under share option scheme	88	—	—	88
Net profit for the year	—	—	1,234	1,234
At 31 December 1999	99,345	72	3,010	102,427
At 1 January 2000	99,345	72	3,010	102,427
Issue of new shares to professional and institutional investors (Note 30)	56,694	—	—	56,694
Issue of consideration shares for acquisition of subsidiaries (Note 30)	191,969	—	—	191,969
Expenses incurred in connection with the issue of new shares to professional and institutional investors (Note 30)	(1,090)	—	—	(1,090)
Shares issued under share option scheme (Note 31)	89	—	—	89
Net profit for the year (Note 11)	—	—	4,670	4,670
At 31 December 2000	347,007	72	7,680	354,759

At 31 December 2000, the amount of distributable reserves of the Company amounted to RMB7,752,000,000 (1999: RMB3,082,000,000).

32 Reserves (cont'd)

Share premium

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

Capital reserve

At 31 December 2000, balance of capital reserve represents primarily goodwill arising on the acquisition of subsidiaries.

PRC statutory reserves

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

At 31 December 2000, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile and Beijing Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi 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 at 10 per cent of their profit after taxation determined under PRC GAAP. During the year, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile transferred 30 per cent of their profit after taxation, as determined under PRC GAAP, to the enterprise expansion fund. Beijing Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile did not make any appropriation to the enterprise expansion fund during the year.

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 Shanghai Mobile has not yet registered as a wholly-foreign owned enterprise at 31 December 2000, it is not required to make the above transfers for the year ended 31 December 2000. According to the Articles of Association, Shanghai Mobile is 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 Shanghai Mobile to the statutory surplus reserve and the statutory public welfare fund both at 10 per cent of its profit after taxation determined under PRC GAAP.

Notes to the Accounts

(expressed in Renminbi)

32 Reserves (cont'd)

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 2000, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund were RMB3,263,000,000 (1999: RMB1,400,000,000), RMB9,067,000,000 (1999: RMB4,198,000,000), RMB175,000,000 (1999: RMB83,000,000) and RMB138,000,000 (1999: RMB46,000,000) respectively.

33 Related party transactions

- (a) Parties are considered to be related if the one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The majority of the Group's business activities are conducted with China Mobile (the Company's ultimate holding company) and its subsidiaries (the "China Mobile Group") and the China Telecom Group (see note 22).

As a result of the restructuring in May 2000, the MII ceased to have controlling interests in China Mobile and the DGT and the PTCs and no longer exercises control over telecommunications operations. As described in note 22, China Telecom was set up as a result of the restructuring to operate the fixed line telephone networks in the PRC previously operated by the DGT and the PTCs, and is owned by the PRC government. The MII continues in its capacity as the industry regulator providing policy guidance and exercising regulatory authority over all telecommunications services providers in the PRC. As such, the MII or entities under the control of the MII including the DGT and the PTCs, and the China Telecom Group are no longer considered to be related parties of the Group since May 2000.

The following is a summary of principal transactions which were entered into by the Group with the China Mobile Group since its formation, and transactions which were carried out by the Group with the MII and the entities under the control of the MII including the DGT and the PTCs prior to May 2000.

Notes to the Accounts

(expressed in Renminbi)

33 Related party transactions (cont'd)

	Note	2000 RMB million	1999 RMB million
Interconnection revenue	(i)	1,744	1,242
Interconnection charges	(ii)	2,864	5,275
Leased line charges	(iii)	2,464	3,723
Roaming revenue	(iv)	2,674	1,497
Roaming expenses	(v)	2,076	1,178
Spectrum fees	(vi)	15	12
Operating lease charges	(vii)	226	280
Sales commission	(viii)	248	378
Debt collection service fees	(viii)	91	143
Billing service fees	(viii)	—	2
Roaming billing processing fees	(viii)	148	—
Equipment maintenance service fees	(ix)	1	—
Rental charges of synchronised clock ports	(x)	3	2
Construction and related service fees	(xi)	20	—
Purchase of transmission tower and transmission tower-related service and antenna maintenance service fees	(xii)	16	—
Prepaid card sales commission income	(xiii)	114	—
Prepaid card sales commission expenses	(xiii)	99	—

Notes:

- (i) Interconnection revenue represents the amounts received or receivable from the Guangdong PTC, the Zhejiang PTC, the Jiangsu PTC, the Fujian PTC, the Henan PTC and the Hainan PTC ("the relevant PTCs") or the DGT or the China Mobile Group since its formation in respect of long distance calls made by non-subscribers in Guangdong, Zhejiang, Jiangsu, Fujian, Henan, Hainan, Hebei, Liaoning and Shandong provinces, Beijing, Shanghai and Tianjin municipalities, and Guangxi autonomous region ("the relevant provinces") and from the relevant PTCs in respect of calls made between the Group's cellular networks and the fixed line networks in the relevant provinces and outbound calls originating from the fixed line networks in the relevant provinces which terminate on GSM network operators in other provinces in the PRC.
- (ii) Interconnection charges represent the amounts paid or payable to the relevant PTCs or the DGT or China Mobile Group since its formation in respect of long distance calls made by the Group's subscribers roaming outside their registered provinces and 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.

Notes to the Accounts

(expressed in Renminbi)

33 Related party transactions (cont'd)

Notes (cont'd):

- (iii) Leased line charges represent expenses paid or payable to the China Mobile Group or the relevant PTCs 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 China Mobile Group.
- (v) A cellular telephone user using roaming services is charged at the respective roaming usage rate for roaming out calls, in addition to applicable long distance charges. Roaming expenses represent the amount of domestic and international roaming out charges received or receivable from subscribers which is to be remitted to the relevant domestic and international cellular telephone operators for their share of the roaming revenue through the China Mobile Group.
- (vi) Spectrum fees represent the spectrum usage fees paid or payable to the China Mobile Group for the usage of the frequency bands allocated to the Company's subsidiaries in the PRC.
- (vii) Operating lease charges represent the rental and property management fees paid or payable to the relevant PTCs prior to May 2000 or subsidiaries of China Mobile for operating leases in respect of land and buildings and others.
- (viii) The Group entered into certain services agreements in respect of marketing services with authorised dealers, debt collection services and billing services with the relevant PTCs or subsidiaries of China Mobile.

Sales commission represents the amounts paid or payable to the relevant PTCs or subsidiaries of China Mobile for their marketing of the cellular services in the relevant provinces.

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

Billing service fees represent the amounts paid or payable to the relevant PTCs for their provision of billing services to the Company's subsidiaries.

Roaming billing processing fees represent the amounts paid or payable to the China Mobile Group for the provision of the roaming billing processing services to the Company's subsidiaries .

33 Related party transactions (cont'd)

Notes (cont'd):

- (ix) Equipment maintenance service fees represent the amount paid or payable to the Fujian PTC or subsidiaries of China Mobile for the provision of the maintenance services to Fujian Mobile, Beijing Mobile, Shanghai Mobile and Liaoning Mobile.
 - (x) Rental charges of synchronised clock ports represent expenses paid or payable to the relevant PTCs for leasing of synchronised clock ports by the Company's subsidiaries.
 - (xi) Construction and related service fees represent the amount paid or payable to subsidiaries of China Mobile for the provision of construction services to Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile.
 - (xii) Payment represents cash payment by Hebei Mobile to acquire transmission towers from relevant subsidiaries of China Mobile and expenses paid or payable to relevant subsidiaries of China Mobile for the provision of transmission tower related services and antenna maintenance services provided to Hebei Mobile.
 - (xiii) Prepaid card sales commission income and commission expenses represent handling charges received/receivable from subsidiaries of China Mobile to the Company's subsidiaries or paid/payable by the Company's subsidiaries to subsidiaries of China Mobile in respect of prepaid card services.
- (b)** Pursuant to the ordinary resolution passed by the Company's shareholders on 10 November 2000, the Company acquired the entire issued share capital of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI from CMHK BVI, the immediate holding company of the Company, for a total consideration of HK\$256,021,000,000 (equivalent to RMB271,485,000,000). The consideration was satisfied by a cash of HK\$74,609,000,000 (equivalent to RMB79,116,000,000) and allotment of shares to CMHK BVI amounted to HK\$181,412,000,000 (equivalent to RMB192,369,000,000). The only assets of each of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI are their interests in the entire equity of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, respectively.

Pursuant to an ordinary resolution passed by the Company's shareholders on 11 November 1999, the Company acquired the entire issued share capital of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI from CMHK BVI (formerly China Telecom Hong Kong (BVI) Limited), the immediate holding company of the Company, for a total consideration of HK\$49,715,000,000 (equivalent to RMB52,953,000,000). The consideration was satisfied by a cash of HK\$19,031,000,000 (equivalent to RMB20,268,000,000) and allotment of shares to CMHK BVI amounted to HK\$30,684,000,000 (equivalent to RMB32,685,000,000). 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 BVI, Henan Mobile BVI and Hainan Mobile, respectively.

Notes to the Accounts

(expressed in Renminbi)

34 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2000 not provided for in the accounts were as follows:

	The Group		The Company	
	2000 RMB million	1999 RMB million	2000 RMB million	1999 RMB million
Commitments in respect of land and buildings				
- authorised and contracted for	1,632	161	—	—
- authorised but not contracted for	3,275	2,676	—	—
	4,907	2,837	—	—
Commitments in respect of telecommunications equipment				
- authorised and contracted for	9,080	7,328	1,737	2,557
- authorised but not contracted for	30,781	13,312	—	—
	39,861	20,640	1,737	2,557
Total commitments				
- authorised and contracted for	10,712	7,489	1,737	2,557
- authorised but not contracted for	34,056	15,988	—	—
	44,768	23,477	1,737	2,557

Notes to the Accounts

(expressed in Renminbi)

34 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:

	The Group			The Company	
	Land and buildings RMB million	Leased lines RMB million	Others RMB million	Total RMB million	Land and buildings RMB million
At 31 December 2000					
Leases expiring:					
Within one year	138	1,389	15	1,542	2
After one year but within five years	150	684	223	1,057	1
After five years	323	2,046	51	2,420	—
	611	4,119	289	5,019	3
At 31 December 1999					
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	221	2,010	40	2,271	—
	415	3,887	342	4,644	3

35 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2000 to be China Mobile, a company incorporated in the PRC.