中国移动通信
CHINA MOBILE

CHINA MOBILE (HONG KONG) LIMITED
中 國 移 動 (香 港) 有 限 公 司

Annual Report 2001
二 ○ ○ 一 年 年 報

China Mobile (Hong Kong) Limited (the "Company", together with 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 Limited 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, and has obtained a Sovereign Rating of BBB by Standard and Poor's and Baa2 by Moody's. The Company is the world's second largest mobile operator in terms of subscriber base.

The Company owns a 100 per cent. interest in 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"), Hainan Mobile Communication Company Limited ("Hainan Mobile"), 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"), and operates mobile telecommunications services in the above mentioned provinces, municipalities and autonomous region in the People's Republic of China through these thirteen subsidiaries.

As of 31 December 2001, the Group had an aggregate staff of 38,748 employees and an aggregate mobile telecommunications subscriber base of 69.643 million.

The Company's major shareholder is China Mobile (Hong Kong) Group Limited, which, as of 31 December 2001, indirectly held an equity interest of approximately 75.58 per cent. in the Company through a wholly-owned subsidiary, China Mobile Hong Kong (BVI) Limited. The remaining approximately 24.42 per cent. equity interest in the Company is held by public investors.

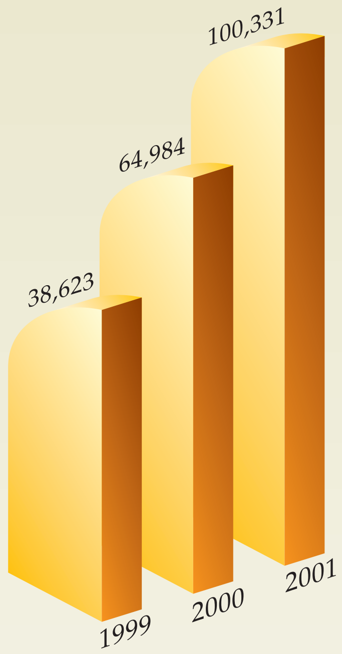
Contents

FINANCIAL HIGHLIGHTS

	2001	2000	Growth Rate
Operating revenue (Turnover) (RMB Million)	**100,331**	64,984	54%
EBITDA (RMB Million)	**60,270**	37,500	61%
EBITDA margin	**60.1%**	57.7%	
Profit attributable to shareholders (RMB Million)	**28,015**	18,027	55%
Earnings per share (RMB)	**1.51**	1.25	21%

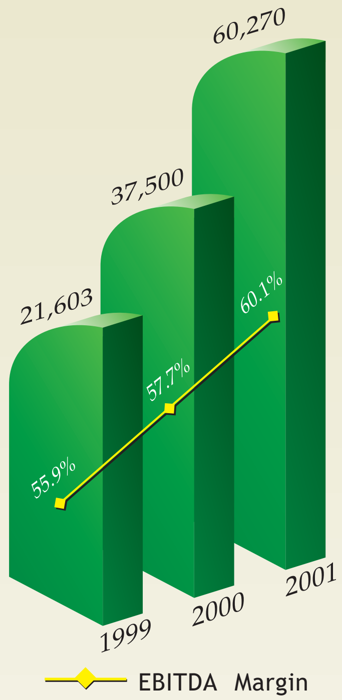
Operating Revenue (Turnover)

(RMB Million)



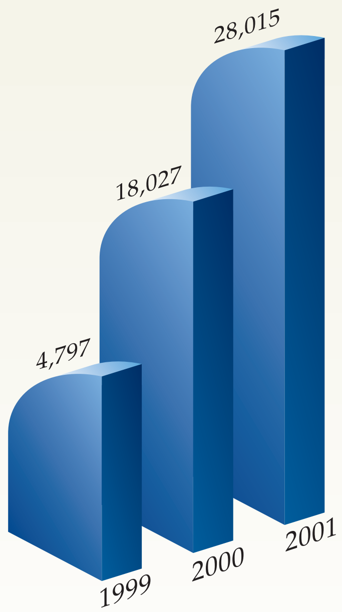
EBITDA

(RMB Million)



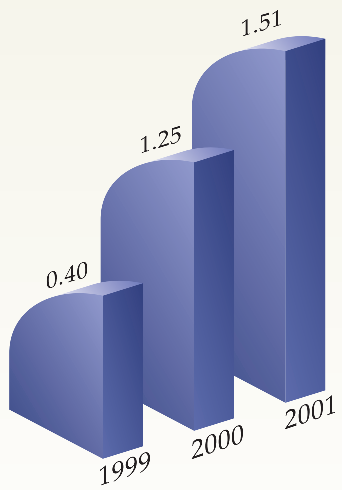
Profit Attributable to Shareholders

(RMB Million)



Earnings per Share

(RMB)



Awards since 2001

- In 2001, the Company received the "Best Managed Company, China" award from *FinanceAsia*

- In 2001, the Company ranked first in *Business Week*'s list of "Largest Emerging-Markets Companies"

- In 2001, the Company for the second time, ranked first in *CFO Asia*'s "The Performance 100 Awards" and received the "Top Value Creator in Asia" award from *CFO Asia*

- In 2001, the Company received the "Best Investor Relations by a Mainland Chinese Company" award from *Investor Relations*

- In 2002, the Company ranked third in terms of revenue in *FORTUNE*'s list of "The China 100"

- In 2002, the Company was selected as "Best in Corporate Governance, China" by *The Asset*

- In 2002, the Company ranked first in the "Best Financial Management" in the China division by *FinanceAsia*

1940's

1 November 1949

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

1980's

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.

1990's

December 1992

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

1 January 1996

The GSM network commenced pilot operations, providing automatic roaming service to 15 provinces and cities in China including Guangdong Province, Zhejiang Province and Jiangsu Province.

3 September 1997

China Telecom (Hong Kong) Limited was incorporated in Hong Kong and later changed its name to China Mobile (Hong Kong) Limited.

22 and 23 October 1997

China Telecom (Hong Kong) Limited raised US$4.2 billion in its Initial Public Offering, with its shares listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited.

4 June 1998

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

2 November 1999

China Telecom (Hong Kong) Limited completed an equity offering of approximately US$2 billion and an offering of notes due 2004 of US$600 million.

12 November 1999

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

2000's

5 June 2000

China Telecom (Hong Kong) Limited established Aspire Holdings Limited for the research and development of wireless data businesses.

9 June 2000

China Telecom (Shenzhen) Limited, a wholly-owned subsidiary of China Telecom (Hong Kong) Limited was established.

28 June 2000

China Telecom (Hong Kong) Limited changed its name to China Mobile (Hong Kong) Limited.

4 October 2000

Vodafone Group Plc. agreed to acquire new shares of China Mobile (Hong Kong) Limited for US$2.5 billion.

3 November 2000

China Mobile (Hong Kong) Limited completed an equity offering of approximately US$6.865 billion and an offering of convertible notes due 2005 of US$690 million. China Mobile (Hong Kong) Limited also raised RMB12.5 billion by way of syndicated loans.

13 November 2000

China Mobile (Hong Kong) Limited completed the acquisition of Beijing Mobile Communication Company Limited, Shanghai Mobile Communication Company Limited, Tianjin Mobile Communication Company Limited, Hebei Mobile Communication Company Limited, Liaoning Mobile Communication Company Limited, Shandong Mobile Communication Company Limited and Guangxi Mobile Communication Company Limited.

18 June 2001

China Mobile (Hong Kong) Limited, though its wholly-owned subsidiary Guangdong Mobile Communication Company Limited, issued RMB5 billion of corporate bonds in China which were listed on the Shanghai Securities Exchange on 23 October.

Board of Directors

Executive Directors

Mr. WANG Xiaochu
(Chairman & Chief Executive Officer)

Mr. LI Zhenqun
(Vice Chairman & 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)

Independent Non-executive Directors

Professor Arthur LI Kwok Cheung

Sir Chris GENT

Dr. LO Ka Shui

Principal Board Committees

Audit Committee

Professor Arthur LI Kwok Cheung
(Chairman)

Dr. LO Ka Shui

Remuneration Committee

Professor Arthur LI Kwok Cheung
(Chairman)

Dr. LO Ka Shui

Nomination Committee

Mr. WANG Xiaochu
(Chairman)

Professor Arthur LI Kwok Cheung
Dr. LO Ka Shui

Company Secretary

Mr. Jacky YUNG Shun Loy
(FCCA (UK), FHKSA, CPA (Australia))

General Counsel

Mr. David Laurence KREIDER
(Licensed American attorney and English and Hong Kong solicitor)

Auditors

KPMG

Legal Advisers

Linklaters
Sullivan & Cromwell

Registered Office

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

Public and Investor Relations:

Tel: 852 3121 8888
Fax: 852 2511 9092
Website: www.chinamobilehk.com
Stock code: (Hong Kong) 941
(New York) CHL
CUSIP Reference Number: 16941M109

Share Registrar

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

American Depositary Receipts Depositary

Bank of New York
620 Avenue of the Americas, 6/F
New York NY10011, USA
Tel: 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 2002. Copies of the annual report of the Company as well as the annual report on Form 20-F, once filed, will be available at:

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

United States:
Bank of New York
620 Avenue of the Americas, 6/F
New York NY10011, USA

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Director & Chief Financial Officer
Mr. Ding Donghua

Chairman & Chief Executive Officer
Mr. Wang Xiaochu

Vice Chairman & Chief Operating Officer
Mr. Li Zhenqun

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wang Xiaochu

Mr. Li Zhenqun

Mr. Ding Donghua

Mr. Wang Xiaochu, age 44, Chairman and Chief Executive Officer of the Company. He joined the Board of Directors of the Company in March 1999. Mr. Wang is in charge of the overall management of the Company. He is also Vice President of China Mobile Communications Corporation and the Chairman of China Mobile (Hong Kong) Group Limited and China Mobile Hong Kong (BVI) Limited, the controlling shareholders 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 and as a result, received the Class Three National Science and Technology Advancement Award and the former Posts and Telecommunications Bureau's Class One Science and Technology Advancement Award. Mr Wang graduated from the Beijing University of Posts and Telecommunications in 1980 and has over 21 years of management experience in the telecommunications industry.

Mr. Li Zhenqun, age 56, Vice Chairman and Chief Operating Officer of the Company. He joined the Board of Directors of the Company in August 2000. Mr. Li is in charge of the Company's business operations and investor relations. He is also the Vice Chairman of China Mobile (Hong Kong) Group Limited and China Mobile Hong Kong (BVI) Limited, the controlling shareholders of the Company. Since 1998 and prior to joining the Company, Mr. Li was the Director of the Xiamen Telecommunications Bureau in Fujian Province. He also served as the Director of the Xiamen Posts and Telecommunications Bureau in Fujian Province from 1984 to 1998. He graduated from Peking University in 1970. Mr. Li has 30 years of management experience in the telecommunications industry.

Mr. Ding Donghua, age 65, Director and Chief Financial Officer of the Company. He joined the Board of Directors of the Company in September 1997. Mr. Ding is in charge of the financial management of the Company. Mr. Ding is also a director of China Mobile Hong Kong (BVI) Limited, the immediate controlling shareholder of the Company. Prior to joining the Company, Mr. Ding 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 40 years of management experience in the telecommunications industry, as well as in economics and finance.

Mr. Li Gang

Mr. Xu Long

Mr. He Ning

Mr. Li Gang, age 45, joined the Board of Directors of the Company in August 1999. Mr. Li is responsible for the mobile telecommunications operations in Guangdong Province. He is also the Chairman and President of Guangdong Mobile. He was formerly the Vice Chairman and President of Guangdong Mobile. He previously served as Director of the Network Maintenance Division and a Deputy Director of the Telecommunications Division of the Guangdong Posts and Telecommunications Administration. He graduated from the Beijing University of Posts and Telecommunications in 1985, and has 28 years of experience in the telecommunications industry.

Mr. Xu Long, age 45, joined the Board of Directors of the Company in August 1999. Mr. Xu is responsible for the mobile telecommunications operations in Zhejiang Province. He is also the Chairman and President of Zhejiang Mobile. He previously served as the Deputy Director General and the Director of the General Office of Zhejiang Posts and Telecommunications Administration, the President of Zhejiang Nantian Posts and Telecommunications Group Company and Deputy Director of Shaoxing Posts and Telecommunications Bureau in Zhejiang Province. He graduated from the Zhejiang Radio and Television University in 1985, and has 24 years of experience in the telecommunications industry.

Mr. He Ning, age 40, joined the Board of Directors of the Company in August 1998. 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 the Deputy Director General of the Jiangsu Posts and Telecommunications Administration, 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 18 years of experience in the telecommunications industry.

Mr. Liu Ping

Mr. Yuan Jianguo

Mr. Wei Yiping

Mr. Liu Ping, age 56, joined the Board of Directors of the Company in November 1999. Mr. Liu is responsible for the mobile telecommunications operations in Fujian Province. He is also the Chairman and President of Fujian Mobile. Mr. Liu previously served as the Deputy Director General 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 24 years of experience in the telecommunications industry.

Mr. Yuan Jianguo, age 51, joined the Board of Directors of the Company in November 1999. Mr. Yuan is responsible for the mobile telecommunications operations in Henan Province. He is also the Chairman and President of Henan Mobile. Mr. Yuan previously served as the Deputy Director General 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 the Chinese Academy of Social Sciences, and has 31 years of experience in the telecommunications industry.

Mr. Wei Yiping, age 50, joined the Board of Directors of the Company in November 1999. Mr. Wei is responsible for the mobile telecommunications operations in Hainan Province. He is also the Chairman and President of Hainan Mobile. Mr. Wei previously served as the Deputy Director General 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 received a Masters Degree in Political Economics from the Beijing Normal University, and has 31 years of experience in the telecommunications industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Arthur Li Kwok Cheung

Sir Chris Gent

Dr. Lo Ka Shui

Professor Arthur Li Kwok Cheung, age 56, joined the Board of Directors of the Company in September 1997. Professor Li is the Vice-Chancellor of The Chinese University of Hong Kong, a Director of The Bank of East Asia Limited, a Non-Executive Director and Chairman of the Board of the Corus and Regal Hotels plc, a Non-Executive Director of the Henderson Cyber Limited and a Non-Executive Director of The Wharf (Holdings) Limited. He holds a doctorate degree in medicine from Cambridge University, an honorary doctorate degree in science from The University of Hull, an honorary doctorate degree in letters from Hong Kong University of Science and Technology and an honorary doctorate from Soka University, Japan. He previously served as Board Member of the Hong Kong Hospital Authority and President of the College of Surgeons of Hong Kong. Professor Li was 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 National Committee Member of the Ninth Chinese People's Political Consultative Conference.

Sir Chris Gent, age 53, joined the Board of Directors of the Company in February 2001. Sir Chris is the Chief Executive of Vodafone Group Plc., the world's largest mobile telecommunications company. Sir Chris joined the Vodafone Group as Managing Director of Vodafone Limited in 1985 when Vodafone launched its first mobile phone service in the UK, and held the position until December 1996, when he became Group Chief Executive. He is also the Chairman of the supervisory board of Mannesmann AG. Sir Chris has many years of management experience in the telecommunications industry worldwide.

Dr. Lo Ka Shui, age 55, joined the Board of Directors of the Company in April 2001. Dr. Lo is Deputy Chairman and Managing Director of Great Eagle Holdings Limited. He is also a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited and Phoenix Satellite Television Holdings Limited. He is also a Director of Hong Kong Exchanges and Clearing Limited and Chairman of the Listing Committee of Growth Enterprise Market, a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research, a Member of Long Term Housing Strategy Advisory Committee and a member of the Council of Advisors on Innovation and Technology and Chairman of the Hospital Authority. He graduated with a bachelor of science degree from McGill University and a doctorate degree in medicine from Cornell University. He is certified in cardiology. He has more than 22 years of experience in property and hotel development and investment both in Hong Kong and overseas.

Vast development potential
Strong growth momentum
Quality customer services
Leading market position

Despite the far more moderate pace of growth in the international telecommunications market as a whole during 2001, the Group maintained its strong growth owing to the adoption of appropriate business strategies and the huge momentum of the domestic market in Mainland China. In addition, the Group further consolidated and strengthened its position as the market leader in mobile telecommunications in Mainland China. During the past year, the Company enhanced the progress of its corporate governance, further improved its internal management mechanisms, increased operational efficiency and actively developed new businesses, while continuing to provide quality services. The Group also broadened its financing channels and, in its first ever bond offering in Mainland China, successfully issued RMB (Renminbi) 5 billion of corporate bonds, marking a successful entry into Mainland China's domestic capital markets.

Highly effective management and increased operational efficiency led the Group to further consolidate its market position and achieve good results. In 2001, the Group's subscriber base increased by 24.509 million, to a total of 69.643 million subscribers, representing a market share of approximately 72.4 per cent. Total usage volume reached 161.27 billion minutes. In 2001, total volume of SMS (Short Message Service) exceeded 6 billion messages. Operating revenue reached RMB100.3 billion, representing an increase of 54 per cent. compared to the previous year. Net profit and EBITDA were RMB28.0 billion and RMB60.3 billion, representing an increase of 55 per cent. and 61 per cent. compared to the previous year, respectively. EBITDA margin was 60.1 per cent. and net profit margin reached 28 per cent. The Group's earnings per share was RMB1.51, representing an increase of 21 per cent. compared to the previous year.

Providing subscribers with superior mobile telecommunications services is a prerequisite for market leadership. In 2001, the Group developed and implemented a number of effective measures to further enhance customer satisfaction. In particular, the Company conducted a survey and analysis of customer satisfaction, in accordance with international standards, and implemented service enhancement programs to address the specific needs identified. As a result, the Group's customer satisfaction was significantly enhanced. At the same time, the Group also conducted research into market segmentation and customer relationship management in order to further enhance customer relationships, expand service offerings to high-value customers and improve its service and distribution network, thereby highlighting the Group's competitive advantages.

Although the ARPU (Average Revenue Per User Per Month) of the Group's subscribers for 2001 decreased due to the fact that the majority of new subscribers were low-usage customers and given a one-off tariff adjustment and reductions, the AEPU (Average Expenses Per User Per Month) also declined significantly, as the new subscribers were relatively low-usage customers, and because the Company had implemented effective cost controls. Therefore, from the perspective of assessing the Company's operational efficiency, the Company's profitability has been improving and the EBITDA margin has also maintained steady growth at a relatively high level.

The wireless data business will be one of the key areas for the Group's future business development. The Group was the first to offer wireless data services on its own Mobile Information Service Center (MISC) platform, which is capable of "single sign-on total network-wide access", and effectively improving customer information management. Since its introduction, the Group's unified mobile data services brand, "Monternet", has received an enthusiastic response from customers and service providers, and its market penetration rate has increased. At present, more than 300 service providers nationwide participate in the Monternet project. On the most recent Chinese New Year's Eve alone, the total SMS usage volume exceeded 100 million messages.

As the industry leader in Mainland China, the Group places heavy emphasis on its internal management mechanisms and enterprise operational efficiency. In 2001, through an examination of the advanced models of world-class companies in relation to the Company's needs, the Group enhanced the performance evaluation systems and management measures relating to the job positions, remuneration and performance of the employees of its thirteen operating subsidiaries. The individual job performance and remuneration of the Company's employees, in particular those of the senior management, are closely linked with the operating results of the Company and its subsidiaries, thereby ensuring more effective implementation of the Company's strategies. While on the one hand these measures maximise the enthusiasm and creativity of employees, on the other, they effectively control the Group's human resources costs, thereby allowing the Group to further capitalise on its human resource cost advantage. At the same time, in addressing the specific needs of the market, we have improved employee development and training, and have sought to optimise our planning and budget management.

Implementing sound corporate governance has always been important to the Group. Since 2001, the Company has taken steps to enhance the functioning of the Board and augment the role of the independent non-executive directors and, following the establishment of the audit committee and remuneration committee, further established the nomination committee. The Company also strengthened its internal controls and internal audit function. All these measures were implemented with the aim of protecting the Company's assets and ensuring the accuracy and reliability of information regarding the Company's financial position. Furthermore, the Company has significantly enhanced transparency and, in particular, has introduced the practice of releasing certain key operating statistics on a quarterly basis and periodically updating the "Frequently Asked Questions" forum on its Internet web-site. The Company is at the forefront in this regard among "blue chip" companies in Hong Kong.

In June 2001, the Group issued RMB5 billion of corporate bonds in Mainland China. The bond offering not only marked the Company's successful entry into Mainland China's capital markets, but also broadened the Company's financing channels and investors base, thereby enhancing the Company's capital structure and lowering financing costs. The bond offering has also provided valuable experience, which will benefit the Company, should it conduct even larger capital markets transactions in Mainland China hereafter.

The outstanding performance of the Company won popular recognition and acclaim from various sectors. In 2001, the Company received the "Best Managed Company, China" award from *FinanceAsia*, ranked first in *Business Week*'s list of "Largest Emerging-Markets Companies", and for the second time ranked first in the professional financial journal, *CFO Asia*'s "The Performance 100 Awards", and received the "Top Value Creator in Asia" award from *CFO Asia*. In 2002, the Company ranked third in terms of revenue in *FORTUNE*'s list of "The China 100", was selected as "Best in Corporate Governance, China" by *The Asset*, and ranked first in the "Best Financial Management" in the China division by *FinanceAsia*.

The Company has always focused on investing in Mainland Chinese telecommunications market opportunities that offer high growth, such as the current acquisition of mobile telecommunications assets, in order to create shareholder value. As a result, although the Company has a substantial cash balance as well as strong and sustained cash flow, the Board does not recommend the payment of a dividend for the 2001 financial year. The Board will review its dividend policy upon the conclusion of the current acquisition project. The Board intends to commence paying appropriate dividends in subsequent financial years on the condition, however, that the Company's business operations, financial and cash flow position, capital expenditures and other related considerations are appropriate. In particular, the Company must be assured that financial resources available at that time will be sufficient to achieve sustained and favourable long-term growth and complete investment or acquisition projects that will create shareholder value.

Looking over the past year, I am pleased with the results but, at the same time, I am compelled by a sense of mission and purpose. Looking ahead, our goal is to further extend our reach to generate even greater returns for our shareholders.

With the global economic slowdown, the development of the telecommunications markets worldwide has also moderated significantly over the past two years. However, Mainland China is still one of the most active countries in terms of global economic development. The relevant government authority has estimated that Mainland China's economy will maintain an annual growth rate of approximately 7 per cent. over the next few years, and that the telecommunications industry in Mainland China will also maintain a relatively rapid growth rate. When compared with more advanced nations and regions of the world, the mobile telecommunications penetration rate in Mainland China is still very low. This implies that the Group still has vast potential for development. In addition, the introduction of CDMA and "Xiaolingtong" services has perceptibly influenced the competitive environment of the Mainland Chinese telecommunications market. In response to these changes, we intend to implement a number of measures, taking into account the current level of tariff charges, to respond to the needs of the market and to improve operational efficiency. Targeting the specific needs of customers, these measures, including further market segmentation, brand name re-positioning and the maintenance and consolidation of market share in the high-value customer segment, and the active cultivation of the latent potential high-value subscriber market, are aimed at bolstering the Company's sustained rapid growth. Utilising the Group's advanced mobile networks, its broad and solid customer base and its quality brand name, as well as through the Group's ever improving and expanding service offerings, we firmly believe that the Group will continue to maintain a relatively high growth rate and its position as the market leader.

Following Mainland China's entry into the World Trade Organisation (WTO), the telecommunications industry regulatory environment in Mainland China will become more orderly and transparent. The proposed division and reorganisation of China Telecom has also been confirmed. These changes will enable the Group to become more pro-active in its business operations and to better realise operational flexibility, as well as improvements to its cost controls and operational efficiency. The Company will, on a consistent basis, persist in pursuing business development strategies that will combine organic and external growth. In relation to organic growth, the Company will continue to strengthen its internal management, realise operating synergies, continue research and development and develop new businesses. As for external growth, we will continue to focus on our long-standing strategies of actively identifying acquisition opportunities of quality mobile telecommunications assets in Mainland China. With the vast development potential of the Mainland China mobile telecommunications market, and with the support of our shareholders, I am confident and optimistic about the Company's prospects. On the premise of emphasising customer value, we will strive to maximise our enterprise value and generate greater returns for our shareholders.

I would like to take this opportunity to express my sincere thanks to all shareholders and members of various sectors who have expressed their care and support for the Company. To Mr. Antony Leung Kam Chung, who resigned from his post as a director of the Company last year, I wish to express my gratitude. I would also like to express my warmest welcome to Sir Chris Gent and Dr. Lo Ka Shui as new members of the Board. Finally, on behalf of the Board, I would like to express my deep and sincere thanks to all employees for their hard work over the past year.

Wang Xiaochu
Chairman and Chief Executive Officer

Hong Kong, 18 March 2002

Strengthening corporate governance
Enhancing corporate value
Generating greater returns to shareholders

The Company has always focused on actively enhancing corporate value, with the core focus on the stable and positive long-term growth of EBITDA, net profit and cash flow, to ensure the sustainable long-term development of the Company and the generation of greater returns to our shareholders. We are also dedicated to implementing highly effective corporate governance, and firmly believe that through strengthening our corporate management, improving transparency and establishing effective accountability mechanisms, the Company will be able to better achieve the above objectives and will also operate in a more orderly manner. These will, in turn, promote investor confidence in the Company. Since 2001, the Company further implemented a series of measures to enhance corporate governance. The Company's efforts and noteworthy achievements in these areas won popular recognition from various communities, and the Company received a number of awards from internationally-renowned professional organisations and journals. These awards and honors have brought much pride and encouragement to the Company's management and employees, prompting continuous efforts and a drive to achieve even greater accomplishments.

Enhancing the Functioning of the Board and Augmenting the Role of the Independent Non-Executive Directors

The Board is responsible for the management of the Company and must be accountable to the shareholders for their entrusted assets and resources. The key responsibilities of the Board include the formulation of the Group's overall strategies, the setting of management targets and the supervision of management performance. In 2001, the Company improved the board practices, including those relating to reporting and supervision. In addition, the Company has increased the number of independent non-executive directors to three directors and augmented their role in the functioning of the Board and the various board committees. Independent non-executive directors are appointed from among individuals whose objective judgements are not subject to the influence of the Company or its major shareholders. Furthermore, these individuals cannot assume any executive positions in the Company. Independent non-executive directors owe a fiduciary duty to the Company and its shareholders and, in particular, must protect the interests of the minority shareholders. They serve as an important balancing factor in the functioning of the Board and are a crucial element in corporate governance.

To enhance corporate governance, the Company established two board committees, the audit committee and the remuneration committee, in 1998 and 2000, respectively. These committees are comprised solely of independent non-executive directors. In 2001, having considered the relevant rules on corporate governance and the Code of Best Practice of the Listing Rules of the London Stock Exchange, the Company established the nomination committee. The nomination committee is comprised primarily of independent non-executive directors, to ensure that proper and transparent procedures are followed in relation to the appointment and re-appointment of directors. In addition, the terms of reference of the remuneration committee have also been updated.

Audit Committee

The audit committee is responsible for reviewing the Group's financial reports, the related auditors' review report and management's responses to the review report. The audit committee will also discuss the audit procedures with the auditors, as well as any issues arising out of such procedures, and will review the auditors' appointment, the auditors' fees and any matters relating to the termination or resignation of the auditors. In addition, the audit committee will also examine the effectiveness of the Group's internal controls, review the Group's internal audit plan, and submit relevant reports and recommendations to the Board on a regular basis. The audit committee usually meets four times each year.

Remuneration Committee

The primary responsibilities of the remuneration committee include advising the Board in relation to the remuneration structure and costs of the Company's executive directors and executives, as well as representing the Board in confirming the individual remuneration packages and employment terms of executive directors and approving their related employment contracts. Meetings of the remuneration committee are held when necessary. In 2001, the remuneration committee reviewed and endorsed the Group's reform proposal of employee positioning, remuneration and performance evaluation, as well as grants of share options to the executive directors.

Nomination Committee

The primary responsibilities of the nomination committee include reviewing, advising and making recommendations to the Board on matters in relation to the appointment and re-appointment of board members and ensuring the proper and transparent procedures for the appointment and re-appointment of directors. Meetings of the nomination committee are held when necessary.

Strengthen Internal Controls and Internal Audit

To protect its assets and to ensure the accuracy and reliability of the financial information that the Company uses internally and releases to the public, the Company conducts regular reviews of the effectiveness of the Group's internal control systems. The scope of these reviews includes finance and operations, regulatory compliance and risk management.

In 2001, the Company completed the assessment of its subsidiaries' internal controls relative to areas of perceived potential risk in respect of the subsidiaries' corporate structures and business processes. Furthermore, the Company commenced internal audit of the various corporate structures and business processes according to their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the achievability of its corporate objectives and strategies. The head of internal audit submits working reports and recommendations on a regular basis to the audit committee which, in turn, reports regularly to the Board.

Enhancing Corporate Transparency and Investor Communications

The Company reports its financial position to shareholders and investors on a semi-annual and annual basis in accordance with the relevant regulatory requirements. The Company also, from time to time, informs the market in a timely fashion of the latest significant developments of the Company via press releases, announcements and publications on its web-site. In addition, the Company has set up an Investor Relations Department which focuses on serving the information needs of our shareholders and investors. To further increase the Group's transparency and to provide shareholders, investors and the general public with additional timely information so as to facilitate their understanding of the Group's position, the Company implemented the practice of making quarterly disclosure of certain key unaudited operational data. The Company also regularly updates the "Frequently Asked Questions" forum on its web-site to provide succinct responses to the latest key issues of concern to investors. In addition, the Company publishes in real-time on its own web-site the important enquiries of investors and the news media, together with the Company's responses.

Supplementing its regular meetings with securities analysts and investors, the Company also hosted two large-scale on-site meetings in 2001 to enable investors to inspect the actual operations of some of the Group's operating subsidiaries. Investors were also able to engage the management of the relevant operating subsidiaries and the Company's holding company, China Mobile Communications Corporation, as well as officials from the relevant regulatory authorities, in direct discussions. These measures assist investors in better understanding the development of the Group's business and the overall telecommunications industry in China.

Consolidating resources
Creating new businesses
Ensuring customer satisfaction

Efficient, Quality, Unified and All-Digital Networks

During 2001, the Group continued to actively develop its market and enhance its network functionality. On the basis of thorough customer analysis and market segmentation, the Group proactively combined various operational and sales strategies to provide a wide range of differentiated and personalised services to subscribers. These enabled the Group to achieve good operating results in 2001, to capitalise on the increasing benefits of achieving economies of scale and to secure the Group's position as the market leader in Mainland China's mobile telecommunications industry.

The table below summarizes the key operating data of the Group for the period from 1999 to 2001. Operating figures shown in this table and the "Business Review" section for the year 2001 are consolidated results. Unless otherwise stated, all other figures are pro-forma combined figures, which means that it is assumed that the Group's existing structure (including thirteen mobile telecommunications companies) was in place during the three years from 1 January 1998 to 31 December 2000.

A World of
Information
Appears on Your Screen

Key Operating Data of the Group for 1999 through 2001

	1999	2000	**2001**
Mobile Subscribers ('000)	25,742.6	45,133.9	**69,642.7**
Net Additional Subscribers ('000)	10,214.9	19,391.3	**24,508.8**
Total Usage (Million Minutes)	89,440.7	125,143.1	**161,270.8**
Average Usage per User per Month (MOU) (Minutes/User/Month)	366	299	**233**
Average Revenue per User per Month (ARPU) (RMB/User/Month)*	299	221	**145**
SMS Usage Volume (Million Messages)	N.A.	440.1	**6,075.4**

	1999	2000	**2001**
Contract Subscribers			
Mobile Subscribers ('000)	25,742.6	32,408.5	**34,010.3**
Average Usage per User per Month (MOU) (Minutes/User/Month)	366	326	**329**
Average Revenue per User per Month (ARPU) (RMB/User/Month)	299	241	**199**

	1999	2000	**2001**
Prepaid Subscribers			
Mobile Subscribers ('000)	N.A.	12,725.4	**35,632.4**
Average Usage per User per Month (MOU) (Minutes/User/Month)	N.A.	125	**103**
Average Revenue per User per Month (ARPU) (RMB/User/Month)	N.A.	87	**72**

* Except as otherwise noted, all figures shown are expressed in Renminbi.

As at the end of 2001, the Group's subscriber base totalled 69.643 million subscribers, representing an increase of 54.3 per cent. compared to the previous year. The aggregate subscriber usage volume reached 161.27 billion minutes, representing an increase of 28.9 per cent. compared to the previous year. The number of mobile data services users reached 21.319 million, representing an increase of 74.9 per cent. compared to the previous year. SMS usage volume in 2001 reached 6.075 billion messages, representing an increase of 12.8 times compared to the previous year. At the same time, customer loyalty in 2001 also improved significantly.

Sustained Rapid Growth of Voice-related Mobile Telecommunications Services

Rapid Growth of Subscriber Base Approaching 70 Million Subscribers

The Group's subscriber base continued its strong growth trend in 2001. As at 31 December 2001, the Group's subscriber base totalled 69.643 million subscribers, of which 34.01 million were contract and 35.632 million were pre-paid subscribers. When compared to the Group's subscriber base in 2000 of 45.134 million subscribers, the net increase in the Group's subscriber base in 2001 totalled 24.509 million subscribers.

As at the end of 2001, the Group's market share in its service areas was approximately 72.4 per cent. and the Group captured approximately 64.5 per cent. of the net additional subscribers in the market for the year 2001, thereby maintaining its position as the market leader in Mainland China.

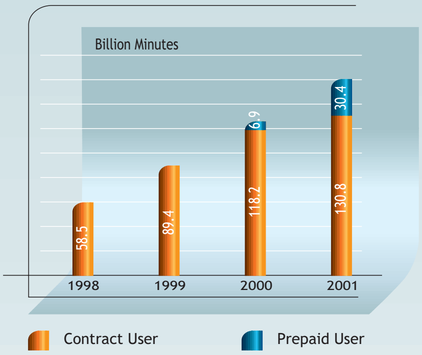
As at 31 December 2001, the overall mobile telephone penetration rate in areas serviced by the Group was 15.2 per cent., with penetration rates in some provinces remaining at relatively low levels. For instance, the penetration rate in Shandong province is less than 9 per cent., while the penetration rate in Henan province is at a mere 5.4 per cent. Despite the slowdown in global economical growth, China's domestic economy has continued to maintain its high growth trend, demonstrating the enormous potential of the mobile telecommunications market in Mainland China.

Rapid Growth in Subscriber Base

Steady Growth in Usage Volume

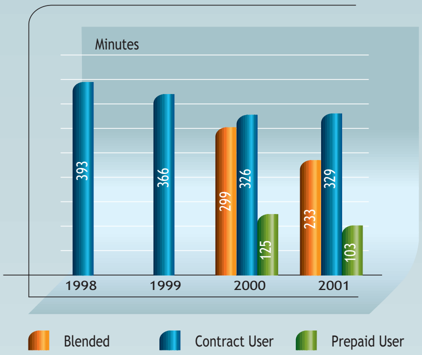
The Group's aggregate subscriber usage volume in 2001 reached 161.27 billion minutes, representing an increase of 28.9 per cent. over 2000. This was mainly due to the rapid growth in subscriber base and the Group's targeted promotion of differentiated services, thereby prompting an increase in subscriber usage volume.

Total Usage



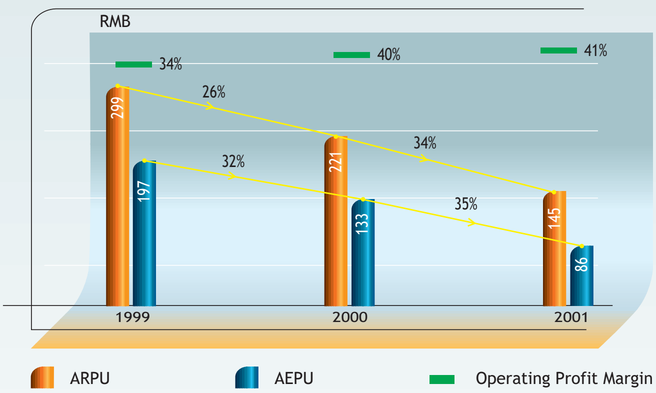
The average minutes of usage per user per month (MOU) in 2001 was 233 minutes. The average revenue per user per month (ARPU) in 2001 was RMB145. The MOU and ARPU of contract subscribers in 2001 were 329 minutes and RMB199, respectively. The MOU and ARPU of prepaid subscribers in 2001 were 103 minutes and RMB72, respectively.

MOU



The Group's MOU and ARPU in 2001 declined when compared to that of 2000, which was partly attributable to the fact that 93.5 per cent. of the Group's net increase in subscribers in 2001 were prepaid subscribers. The decline was also attributable to one-off tariff adjustments such as the cancellation of connection fees and surcharges and the adjustment of long distance call tariffs, the increasing popularity of IP-based long distance call services, which carry lower tariffs when compared to traditional long distance call services, and the various privileges that the Group offers to its high-value customers under the Group's loyalty programs. The Group also consolidated its market share of the high-value subscriber segment through increasing economies of scale and by adopting business strategies of services differentiation. In 2001, the churn rate of the Group's subscribers with ARPU exceeding RMB300 was maintained at a very low level of 0.5 per cent.

ARPU, AEPU and Operational Efficiency



As a result of improving management standards and continuously raising operational efficiency, the Group's average expenses per user per month (AEPU) has been decreasing in recent years. The Group's AEPU in 2001 was RMB86, representing a decrease of 35.3 per cent. when compared to the figure in 2000. As a result, the Group's operating profit margin maintained its positive growth trend, notwithstanding the decline in ARPU due to factors such as one-off tariff adjustments.

Rapid Development of New Businesses

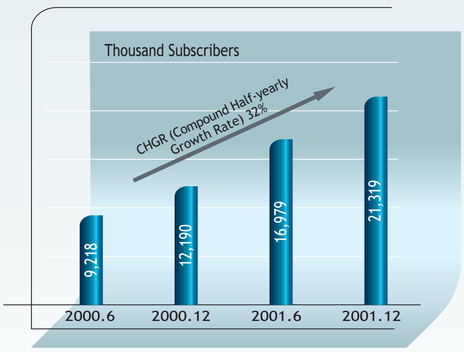
Convenient and Useful New Businesses

In 2001, the Group achieved remarkable progress in the development of new businesses such as mobile data services and voice value-added services. The Group also strengthened its co-operation with key members throughout the wireless data value chain on joint product development. The "one key log on to Monternet home page" and "pre-configuration of our proprietary user interface" for numerous manufacturers' handsets have been completed. In conjunction with other leading market participants, the Group has cultivated a vibrant service provider (SP) community to develop rich and innovative content and applications. The Group has also been exploring and developing the mobile data services market with the introduction of combined voice-data services such as "M-Secretary" and "M-Magazine". These new services increase the Group's revenue from voice and new services. In 2001, the Group's revenue from new businesses grew steadily to RMB3.03 billion, representing an annual growth rate of 57.0 per cent.

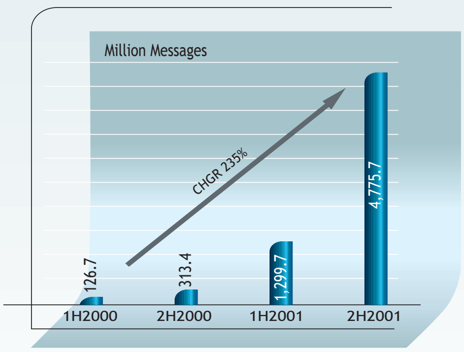
Rapid Growth in Short Message Service (SMS)

The Group achieved encouraging progress in the expansion of its subscriber base for mobile data services. As at the end of 2001, the number of mobile data services subscribers reached 21.319 million, representing 30.6 per cent. of the Group's subscribers base and an increase of 74.9 per cent. over the Group's subscriber base for mobile data services of 12.19 million subscribers in 2000. At the same time, the Group's Short Message Service (SMS) maintained its rapid growth trend in 2001. SMS usage volume in 2001 reached 6.08

Number of Mobile Data Services Users



SMS Usage



Monternet — My Travel Companion

billion messages, representing an increase of 12.8 times over the total usage volume of 440 million messages in 2000. SMS has for the first time assumed the scale of a distinct line of business.

Solid Progress in the Development of the "Monternet" Business

The Group commenced the implementation of the "Monternet" Project in the fourth quarter of 2000 with a view to developing a unified Mobile Information Service Center (MISC) platform to enhance the management of wireless data business and to position the wireless data business as one of the key areas for new business development. The Group's wireless data brand name "Monternet" has attained a high level of brand recognition. At present, there are more than 300 service providers in China who participate in the "Monternet" Project.

With the "Monternet" business as its core, the Group has continued to develop new businesses targeting different market segments and customer groups. In 2001, the Group launched over 5,000 distinct "Monternet" applications and services, including "M-Zone" targeting the youth market and "M-Office" targeting the corporate subscriber and individual business subscriber markets. In the Group's view, the provision to the corporate subscribers of an integrated, unified mobile voice-data solution, utilising a combination of such technologies as Virtual Private Mobile Network (VPMN) and group SMS, can foster the development of data businesses and assist the Group in making its services more appealing to customers and in retaining corporate subscribers. This has greatly increased the Group's profitability. The implementation of the "Monternet" Project represents a tremendous push in the development of wireless data businesses.

Quality Services Enhance Customer Satisfaction

Quality Networks

The Group discontinued the use of its analogue networks at the end of 2001 and achieved the goal of operating unified, all-digital networks, thereby lowering the Group's operating costs, raising operational efficiency, and establishing the platform on which the Group can offer new services to all subscribers.

In 2001, through network optimisation and improvements to network coverage, the Group specifically improved network quality in high traffic areas, particularly in commercial buildings, busy streets, subways, major highways and at tourist attractions. The wireless connection rate of the Group's networks reached 99.78 per cent. while the voice call drop rate was only 0.46 per cent. As at the end of 2001, the number of mobile switching centers and base stations in the Group's GSM network reached 599 and 43,223, respectively. Network capacity and network utilisation rate reached 83.618 million subscribers and 83.3 per cent., respectively. Each of these benchmarks represented an increase over last year. Both the quality and scale of our network have established a leading standard among international mobile telecommunications companies.

In 2001, the Group further expanded its roaming service reach to include international roaming services in the United States, Japan and Korea. As at the end of 2001, the Group's international roaming services covered 90 countries and regions, connecting 152 operators.

Comprehensive Customer Satisfaction Surveys and Specifically Targeted Service Enhancement Programs

The Group considers the continuous improvement in "customer satisfaction" as the key indicator of high-quality customer service. As mobile telecommunications services gain ever-increasing acceptance, the demands placed on mobile service providers by subscribers are also increasing. Given this circumstance, the Company, together with top-tier international market research companies, has conducted regular customer satisfaction surveys for the Group's 13 mobile telecommunications subsidiaries and has undertaken a comprehensive examination of the business promotion activities of these subsidiaries, as well as service processes that involve direct interaction with customers, including network quality, sales, payments and after-sales service.

At the same time, when evaluating the results of the Group's 13 mobile communications subsidiaries under these evaluation criteria, the Group has steadily raised the standards required in relation to "customer satisfaction" as an evaluation criterion, and has tailored evaluation guidelines for each subsidiary to measure those performance indicators where the results obtained suggested a need for improvement. The Group will continue to guide each subsidiary to enhance its business processes and improve service standards, urge each relevant subsidiary to prepare and implement corresponding service improvements by prescribed deadlines.

According to two customer satisfaction surveys conducted in 2001, marked progress has been made to the Group's overall service quality. "Customers' perceived network quality" improved significantly in the second half of 2001 and "customer loyalty" increased from 58 per cent. in the

Improved network quality in high traffic areas first half of 2001 to 61 per cent. in the second half of 2001, thus placing the Group within the range comparable with other leading international mobile telecommunications operators.

Enhancing Our Sales Network

The Group organises its sales network in accordance with established grades and levels, and a combination of sales and service channels has gradually emerged, with the Group's proprietary sales outlets and the customer service hotline forming the core, franchised stores serving as the main sales and service entities, and retail outlets comprising the main sales force. Online sales outlets and mobile sales outlets comprise the latest and most contemporary sales and service model. The Group's proprietary sales outlets, while relatively few in number, provide excellent service and have evolved to become the Group's flagship sales and service vehicle. Franchised stores provide sales and a variety of other quality services to customers, whereas retail outlets focus mainly on providing sales services through their widespread networks. As of the end of 2001, the Group had a sales network consisting of approximately 35,000 outlets, representing an increase of 31.7 per cent. over 2000. Among these outlets, about 1,500 were the Group's proprietary sales outlets.

By enhancing the management, training and support of sales channels, further improving the incentive schemes and extending the evaluation criteria for the service quality of sales outlets, the Group has raised the loyalty and service standards of its sales network.

Improved Business Operation Support System (BOSS) Enhances Service Capacity

The Group's BOSS is a unified, comprehensive business support system, which enables the sharing of information resources. It standardises and integrates the Group's sales, billing, settlement, customer service and network failure handling databases in a centralised and orderly manner. Through implementing BOSS, the Group has realised links with sales and service channels such as banks and post offices, gradually improving business processes and increasing the support and customer service capabilities of BOSS.

Innovative Diversified Services

By promoting VPMN services and programs such as a reward point accumulation scheme for high-usage customers, the Group has increased customer retention, thereby consolidating the base of high-value subscribers and corporate customers.

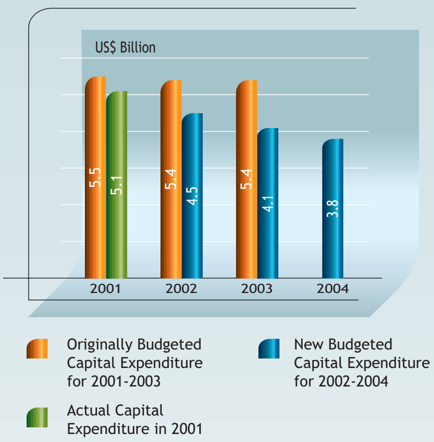
VPMN was implemented in certain market segments, taking into consideration estimates of the internal usage of individual corporate customers and following a targeted approach premised on ensuring the Group's revenue growth. The Group provides comprehensive solutions to corporate customers through VPMN, which not only enhances the loyalty of corporate customers and stimulates usage, but also attracts potential customers to switch over to the Group's services. The Group does not advocate the strategy of relying on price cutting to increase its subscriber base. However, on the basis of maintaining long-term, sustained and favourable development and in accordance with the overall net profit and cash flow targets, the Group may offer short-term preferential pricing privileges in such locations and in response to market competition as may be considered appropriate to ensure the optimisation of the Group's competitive advantage.

Through dedicated account executives, the Group provides comprehensive VIP services to high-value customers and corporate customers, often including such personalised accommodations as on-site visits and analyses, so as to ensure better and timely understanding of the needs of such customers. Through co-operation with other industries, the Group also issues VIP cards to its high-value subscribers so that they may enjoy privileges in other industries. The Group also provides training in the use of new services to its high-value subscribers on a timely basis, as well as preferential trial use of new services.

Capital Expenditure

Capital expenditure of the Group in 2001 was approximately US$5.1 billion. When compared to the original budgeted capital expenditure, the Group achieved a savings of approximately US$400 million mainly as a result of the decline in the cost of telecommunications equipment. Capital expenditure in 2001 was devoted primarily to the construction of GSM networks, transmission facilities and infrastructure buildings. In addition to meeting the planned construction targets, the Group has acquired and constructed additional transmission networks in certain high-traffic areas after carrying out a cost-benefit analysis, in order to bolster the Group's cost competitiveness, operational flexibility and long-term profitability. Moreover, in accordance with its business development requirements, the Group also acquired and constructed additional infrastructure buildings to take advantage of the flat property market. To accommodate the restructuring and optimisation of business processes and improvements to operational efficiency, the Group also stepped up investments in the construction of the support systems that incorporate information systems.

Capital Expenditure



Note: Minimal capital expenditure is currently budgeted annually for 3G monitoring and experimentation.

The Group has budgeted US$12.4 billion for capital expenditure for 2002 to 2004, after taking into consideration the projection that the Group's future business will continue to grow at a steady rate, the costs savings that can be achieved through focusing upon centralising large scale procurement of telecommunications equipment and the fact that the advantages of the economies of scale attained by the Group's networks are becoming increasingly apparent. The capital expenditure planned for 2002 to 2003 has been reduced by 20 per cent. or US$2.2 billion from originally budgeted amounts. This will help strengthen the Group's free cash flow. The capital expenditure planned for 2002 through 2004 will be used mainly in the construction of GSM networks, support systems, transmission facilities and infrastructure buildings and the development of new technologies and new businesses. The required funds will be sourced largely from cash generated by the Group's operational activities.

In relation to the management of investment and construction projects and capital expenditure

planning, the Group will continue to optimise the business process for procurement and investment management, focus on centralising large scale procurement, emphasise market research and model analysis and fully realise operational synergies, so as to effectively manage capital expenditure and ensure investment returns.

The Group will continue its long-standing development strategies to pursue rapid growth while ensuring subscriber quality, to maintain its position as the market leader in Mainland China's mobile telecommunications market. These development strategies include relying upon market demand as a general guide as well as leveraging upon the goodwill of the Group's reputable brand name, the quality of the Group's network, the tremendous development potential of the Group's new businesses, the Group's increasingly sophisticated sales channels and continuously improving customer services.

Outstanding economies of scale

Impressive profitability

Strong cash flow

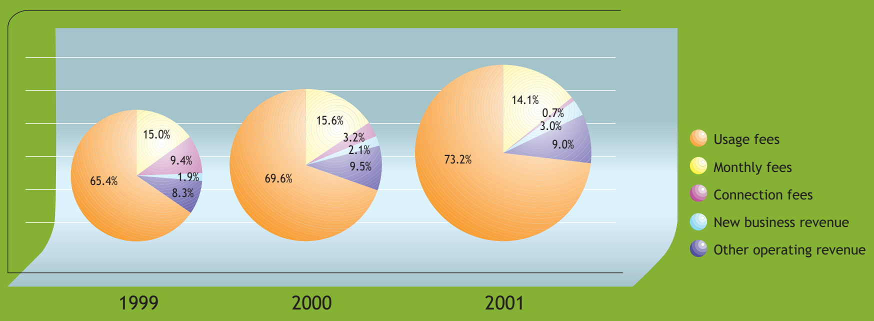
Creating Value for Shareholders

The Group's revenue in 2001 exceeded RMB100 billion for the first time. Benefiting from enhancements to management and the increased effects of economies of scale, EBITDA margin reached 60.1 per cent., with the Group's profitability rising well ahead of its peers. The Group has achieved good financial results, with a sound capital structure, strong free cash flow and a net cash balance of RMB7.5 billion.

The 2001 data set out in this Financial Review represents the Group's consolidated results. For ease of comparison, the 1999 and 2000 data set out below represents unaudited pro-forma combined ("Pro-forma Combined") results, assuming that the existing corporate structure of the Group with 13 operating subsidiaries was in place since 1 January 1999.

	2001 Consolidated RMB Million	2000 Pro-forma Combined RMB Million	Change %
Operating revenue (Turnover)			
Usage fees	73,458	64,220	14
Monthly fees	14,085	14,364	(2)
Connection fees	711	2,976	(76)
New business revenue	3,034	1,932	57
Other operating revenue	9,043	8,723	4
	100,331	92,215	9
Operating expenses			
Leased lines	5,005	8,092	(38)
Interconnection	13,055	13,094	—
Depreciation	17,664	14,694	20
Personnel	5,325	4,773	12
Other operating expenses	18,270	14,800	23
	59,319	55,453	7
Profit from operations	41,012	36,762	12
Profit attributable to shareholders	28,015	24,666	14
EBITDA	60,270	52,562	15
Total debt to total capitalization ratio	20.8%	30.9%	
Interest coverage multiple	24.5X	16.6X	

Composition of Operating Revenue



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

Summary of Financial Results for 2001

Despite the far more moderate pace of growth of the global economy in 2001, the Chinese economy maintained its rapid growth which, in turn, continued to drive the strong demand for mobile telecommunications services. Benefiting from the strong economic growth in Mainland China, together with the Group's pro-active business development strategy and careful and effective management and operation, the financial results in 2001 continued to maintain favourable growth. The audited consolidated operating revenue, EBITDA and EBITDA margin of the Group for 2001 were RMB100,331 million (all monetary amounts below are expressed in RMB unless otherwise specified), 60,270 million and 60.1 per cent., respectively, representing increases of 9 per cent., 15 per cent. and approximately 3 percentage points over the 2000 Pro-forma Combined figures, respectively. Profit attributable to shareholders was 28,015 million, representing an increase of 14 per cent. over the 2000 Pro-forma Combined figure, while earnings per share was 1.51, representing an increase of 21 per cent. over the actual figure in 2000. Overall consolidated financial results were satisfactory.

Operating Revenue (Turnover)

Despite the effects of various one-off tariff adjustments and reductions, the Group's revenue in 2001 continued to maintain favorable growth. Revenue exceeded 100 billion for the first time. New businesses have become the Group's important growth drivers.

Operating revenue for 2001 was 100,331 million, representing an increase of 9 per cent. over the 2000 Pro-forma Combined figure, benefiting principally from the expansion of the subscriber base and the continued growth in usage volume. However, due to the sizeable one-off tariff adjustments in early 2001, which included the cancellation of various surcharges, the adjustment of long distance call tariffs and the cancellation of connection fees from 1 July 2001, revenue growth in 2001 slowed relative to the trend evidenced over the last few years. Despite the pressure put on the Group's revenue growth in 2001 by various one-off tariff adjustments and reductions, the Group believes that these factors have contributed positively to stimulating growth in the subscriber base and usage volume.

Revenue from new businesses grew steadily in 2001, reaching 3,034 million and representing an increase of 57 per cent. over the 2000 Pro-forma Combined figure. Revenue from new businesses accounted for 3.0 per cent. of operating revenue, representing an increase of approximately 1.0 percentage point over the 2000 Pro-forma Combined figure. Revenue from new businesses of a number of the Group's subsidiaries, including those in Guangdong and Tianjin, reached approximately 4 per cent. of their operating revenue. Revenue from new businesses has gradually become an important contributor to the Group's revenue growth, reflecting positive prospects for the further future development of mobile data businesses.

As the number of subscribers has continued to increase, the combined revenue from usage fees and monthly fees increased by approximately 11 per cent. over the 2000 Pro-forma Combined figures, accounting for 87.3 per cent. of operating revenue and representing an increase of 2.1 percentage points over the 2000 Pro-forma Combined figure. The increase in such recurrent revenue as a proportion of total revenue further bolstered the Group's revenue foundation.

Operating Expenses

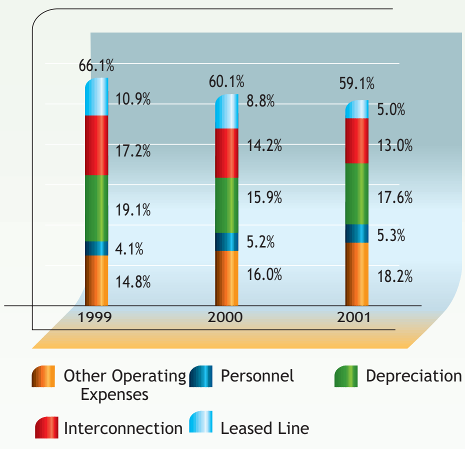
Benefiting from enhancements to management and the increased effects of economies of scale, the Group's operating expenses were well managed, with the increase in operating expenses remaining below the increase in operating revenue for the third consecutive year. Average Expenses per User per Month and Average Expenses per Minute continued to decrease, resulting in a more rationalized cost structure .

Operating expenses for 2001 were 59,319 million, representing a mere increase of 7 per cent. over the 2000 Pro-forma Combined figure, which was lower than the growth rate in operating revenue for the same period. Although the Average Revenue per User per Month decreased by 34 per cent. in 2001 as a result of factors such as the one-off tariff adjustments and reductions, the Average Expenses per User per Month over the same period decreased by 35 per cent. to 86, resulting in an operating profit margin of 41 per cent., an increase of 1 percentage point over the 2000 Pro-forma Combined figure.

The Group continued to enhance its control over operating costs during the year, and realized the benefits of economies of scale and synergies. The results were reflected in a decrease in the Average Expenses per User per Month, as well as enhancements to the Group's cost structure.

Leased line expenses for 2001 were 5,005 million, representing a significant decrease of 38 per cent. from the 2000 Pro-forma Combined figure. Leased line expenses as a percentage of total operating revenue also decreased to 5.0 per cent., representing a decrease of 3.8 percentage points from the 2000 Pro-forma Combined figure. This was partly due to a significant decrease in leased line tariffs since early 2001. Moreover, the Group continued to improve its networks by constructing on its own certain transmission lines serving high traffic areas, on a gradual basis. This has curtailed leased line expenses and interconnection expenses, while injecting flexibility into the Company's operations and enhancing its cost competitiveness.

Proportion of operating expenses in total operating revenue



Despite the increase of 29 per cent. on a Pro-forma Combined basis in traffic volume in 2001 when compared to 2000, interconnection expenses remained substantially the same as the 2000 Pro-forma Combined figure at 13,055 million, accounting for 13.0 per cent. of total operating revenue. This represents a decrease of 1.2 percentage points from the 2000 Pro-forma Combined figure, mainly resulting from the realization of economies of scale which allowed the Group to increase the traffic volume transmitted over the Group's networks. Moreover, the interconnection expenses of the Group have decreased commensurately as a result of IP (Internet Protocol) long distance telephony services gaining wider acceptance.

Depreciation expenses increased by 20 per cent. from the 2000 Pro-forma Combined figure, accounting for 17.6 per cent. of total operating revenue. The increase in depreciation expenses was mainly due to the corresponding increase in network capacity in line with the continued steady business growth of the Group, the investments made in GSM networks to enhance network coverage and quality, and additional strategic investments in certain transmission networks and stations initiated in light of business needs and economic benefits.

The Group had a total of 38,748 employees as at 31 December 2001. Personnel expenses were 5,325 million in 2001, accounting for 5.3 per cent. of total operating revenue, which was similar to the 2000 Pro-forma Combined figure. The Group's advantageous personnel cost structure was further optimised, with increased incentives to outstanding employees, which enabled the Group to retain and attract talented staff. The Group also made efforts to effectively control the total personnel expenses and maintain salaries at a reasonable percentage of operating revenue. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option scheme. Shares options involving 76,773,000 shares were granted during the year 2001. Further details of the share option scheme are set forth in the "Directors' Report" and Note 31 of the "Notes to the Accounts" in this Annual Report.

Other operating expenses (principally including selling and promotion expenses, administrative expenses and one-off analog subscriber migration costs) increased by 23 per cent. over the 2000 Pro-forma Combined figure, accounting for 18.2 per cent. of total operating revenue. This was mainly due to the effects of the one-off migration costs incurred as a result of the Group expediting the migration of analog subscribers in 2001. The migration of analog subscribers was completed in 2001 and all analog networks operated by the Group ceased operation on 31 December 2001. The discontinuation of analog networks will help the Group to curtail such expenses as analog network maintenance and leased line expenses. Operating a unified, all-digital network will help promote operational efficiency and facilitate offerings of high quality digital communications services and additional value-added services to the original analog mobile telecommunications subscribers. Another important factor for the increase in other operating expenses was the rapid increase in the number of subscribers which resulted in an increase in selling and promotion expenses over 2000. Selling and promotion expenses (including, among others, advertising, marketing and promotion expenses and sales commissions) for 2001 were approximately 6,548 million. Benefiting from economies of scale, the Group's average other operating expenses per user per month continued to decrease to 26 in 2001, representing a decrease of 25 per cent. from the 2000 Pro-forma Combined figure. Bad debt expenses continued to be held at a favorable level, given the increase in pre-paid subscribers, coupled with the Group's strengthened customers credit management. Bad debt ratio in 2001 was only 1.7 per cent., and remained at a low level.

EBITDA and Profit Attributable to Shareholders

The sound management of revenues and expenditures and the benefits of economies of scale led to strong profitability, with EBITDA margin reaching 60.1 per cent.

The Group's EBITDA for 2001 was 60,270 million, representing an increase of 15 per cent. over the 2000 Pro-forma Combined figure and continuing the favorable trend. The EBITDA margin of the Group grew by approximately 3 percentage points from the Pro-forma Combined figure of 57.0 per cent. in 2000 to 60.1 per cent. in 2001, and maintained its high-level steady growth. The Group's profit attributable to shareholders in 2001 was 28,015 million, representing an increase of 14 per cent. over the 2000 Pro-forma Combined figure. The Group's Average Revenue per Minute for 2001 was 0.622, representing a decrease of 16 per cent. over the 2000 Pro-forma Combined figure, which was mainly resulting from the one-off tariff adjustments in early 2001. The Group's Average Expenses per Minute for 2001 were 0.369, representing a decrease of 17 per cent. from the 2000 Pro-forma Combined figure. This reflects the solid growth of the Group's operating revenue and the heightened controls over operating expenses, as well as the further realization of the benefits of economies of scale and synergies, resulting in the continued increase in the Group's operational efficiency. The Group will continue to focus on developing its core businesses and will adopt optimal strategies to manage EBITDA and profit levels, with a view to achieving sustainable and favorable development over the long term.

Strong Cash Flow and Sound Capital Structure

Sound business growth, pro-active cost control and effective management of capital expenditures led to strong free cash flow. A sound capital structure enables the Group to accumulate reserves in order to capture business development opportunities.

The Group's continued strong cash flow has benefited from the increase in the Group's revenue and its effective cost management efforts. The Group's free cash flow (net cash inflow from operating activities after deducting capital expenditure) for 2001 was 24,390 million, and its net cash inflow from operating activities reached as much as 63,890 million.

The Group's total debt to total capitalization ratio (total capitalization represents the sum of total debts and shareholders' equity) by the end of 2001 was approximately 20.8 per cent., representing a decrease of 10.1 percentage points from 2000. This reflects the Group's efforts in adopting prudent financial risk management policies and maintaining a sound capital structure, which establishes a solid foundation for the Group's continued organic and external development in the future. At the end of 2001, the total cash balances (including bank deposits) of the Group was 36,791 million, of which 82.9 per cent., 13.9 per cent. and 3.2 per cent. were denominated in RMB, US dollars and Hong Kong dollars, respectively.

During 2001, the Group further strengthened the centralized treasury function with a view to reducing cost of capital. Funds were allocated appropriately among subsidiaries to ensure that the capital resources of the Group are fully utilised. At the end of 2001, short-term and long-term borrowings of the Group totalled 29,300 million, representing a decrease of 8,169 million from those at the end of 2000. Of the total borrowings, 59.5 per cent. was in RMB (consisting principally of RMB-denominated bonds, bank loans and finance leases) and 40.5 per cent. was in US dollars (consisting principally of US dollar-denominated fixed rate notes and convertible notes). Approximately 34.1 per cent. of the borrowings of the Group were made at floating interest rates. The average interest rate of borrowings (ratio of interest expenses to the average balance of borrowings) of the Group in 2001 was maintained at approximately 5 per cent., whereas the interest coverage multiple (ratio of profit before interest and tax to interest expenses) was 24.5 times, and net cash amounted to 7,491 million. This reflects the Group's long-standing prudent financial risk management policies, as well as its solid cash flow and sound repayment capabilities.

The Group will continue to pursue prudent financial policies, strictly control financial risks, improve financial management procedures, maintain debts at a stable level, continue to enhance its capital structure, endeavour to broaden revenue sources and reduce expenditures, and reinforce and develop favorable economic efficiency, with a view to generating greater returns to our shareholders.

The directors take pleasure in submitting their annual report together with the audited accounts for the year ended 31 December 2001.

Principal activities

The principal activities of the Group are the provision of mobile communications 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 principal activity of the Company is investment holding.

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

Major customers and suppliers

The Group's sales to its five largest customers did not exceed 30 per cent. of the Group's total turnover in 2001.

Purchases from the largest supplier for the year represented 20 per cent. of the Group's total purchases. The five largest suppliers accounted for an aggregate of 57 per cent. of the Group's purchases in 2001. Purchases for the Group included network equipment purchases, leasing of transmission lines and payments in relation to interconnection arrangements. Purchases from suppliers, other than suppliers of leased lines and network equipment and interconnection arrangements, were not a material component of the Group's total purchases.

One of the five largest suppliers is the Company's ultimate holding company and its subsidiaries (other than the Group). Details of the transactions are set out in Note 33 to the accounts.

Apart from the foregoing, 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 associates

Particulars of the Company's subsidiaries and the Group's associates at 31 December 2001 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 2001 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 58 to 100.

The Company has always focused on investing in Mainland Chinese telecommunications market opportunities that offer high growth, such as the current acquisition of mobile telecommunications assets, in order to create shareholder value. As a result, although the Company has a substantial cash balance as well as strong and sustained cash flow, the Board does not recommend the payment of a dividend for the 2001 financial year. The Board will review its dividend policy upon the conclusion of the current acquisition project. The Board intends to commence paying appropriate dividends in subsequent financial years on the condition, however, that the Company's business operations, financial and cash flow position, capital expenditures and other related considerations are appropriate. In particular, the Company must be assured that financial resources available at that time will be sufficient to achieve sustained and favourable long-term growth and complete investment or acquisition projects that will create shareholder value.

Charitable donations

Donations made by the Group during the year amounted to RMB2,334,179 (2000: RMB12,240,811).

Fixed assets

Changes to the 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 Company's share capital and share option scheme are set out in Note 30 and Note 31, respectively, to the accounts.

Fixed rate notes and bonds

Details of the fixed rate notes and bonds of the Group are set out in Note 26 to the accounts.

Convertible notes

Details of the convertible notes of the Group are set out in Note 26 to the accounts.

Reserves

Changes to the reserves of the Group and the Company during the year are set out in Note 32 to the accounts.

Directors

The directors during the financial year were:

Executive directors:

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

Independent non-executive directors:

Professor Arthur Li Kwok Cheung
Sir Chris Gent (appointed on 27 February 2001)
Dr. Lo Ka Shui (appointed on 10 April 2001)
Antony Leung Kam Chung (resigned on 10 April 2001)

In accordance with Article 97 of the Company's Articles of Association, Mr. Li Gang, Mr. Xu Long, Mr. Liu Ping and Mr. Yuan Jianguo will retire by rotation at the forthcoming annual general meeting of the Company 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 has 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 2001, the interests of the directors and the chief executives 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	500 American depositary shares *(note)*
Li Zhenqun	100 American depositary shares *(note)*
Ding Donghua	500 American depositary shares *(note)*

Note: 1 American depositary share represents 5 ordinary shares of HK$0.10 each of the Company.

In addition, certain directors personally hold options to subscribe for ordinary shares of the Company as disclosed under the paragraph "Share option scheme" 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 2001, 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.

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 will be HK$1.00. The price of a share payable by a participant upon the exercise of an option is 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 the shares on The Stock Exchange of Hong Kong Limited (the "SEHK") on the five trading days immediately preceding the date of grant of the option.

With effect from 1 September 2001, the SEHK requires that the exercise price of options to be at least the higher of the closing price of the shares on the SEHK on the date of grant and the average closing prices of the shares on the SEHK for the five trading days immediately preceding the date of grant. Up to the date of this report, the Company has not granted any options on or after 1 September 2001.

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.

At 31 December 2001, the directors and employees of the Company had the following personal interests in options to subscribe for shares of the Company granted under the share option scheme of the Company.

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	Normal period during which options are exercisable	No. of shares involved in the options cancelled during the year	No. of shares acquired on exercise of options during the year	Price per share to be paid on exercise of options *HK$*	Closing price per share immediately before the date of exercise of options *HK$*
Directors								
Wang Xiaochu	1,950,000	1,950,000	26 November 1999	26 November 1999 to 7 October 2007	–	–	33.91	–
	1,950,000	1,950,000	26 November 1999	26 November 2002 to 7 October 2007	–	–	33.91	–
	100,000	100,000	25 April 2000	25 April 2002 to 7 October 2007	–	–	45.04	–
	100,000	100,000	25 April 2000	25 April 2005 to 7 October 2007	–	–	45.04	–
	–	60,000	22 June 2001	22 June 2003 to 7 October 2007	–	–	32.10	–
	–	60,000	22 June 2001	22 June 2006 to 7 October 2007	–	–	32.10	–
Li Zhenqun	–	560,000	22 June 2001	22 June 2003 to 7 October 2007	–	–	32.10	–
	–	560,000	22 June 2001	22 June 2006 to 7 October 2007	–	–	32.10	–
Ding Donghua	2,100,000	2,100,000	9 March 1998	9 March 1998 to 8 March 2006	–	–	11.10	–
	550,000	550,000	26 November 1999	26 November 1999 to 7 October 2007	–	–	33.91	–
	550,000	550,000	26 November 1999	26 November 2002 to 7 October 2007	–	–	33.91	–
	100,000	100,000	25 April 2000	25 April 2002 to 7 October 2007	–	–	45.04	–
	100,000	100,000	25 April 2000	25 April 2005 to 7 October 2007	–	–	45.04	–
	–	60,000	22 June 2001	22 June 2003 to 7 October 2007	–	–	32.10	–
	–	60,000	22 June 2001	22 June 2006 to 7 October 2007	–	–	32.10	–

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	Normal period during which options are exercisable	No. of shares involved in the options cancelled during the year	No. of shares acquired on exercise of options during the year	Price per share to be paid on exercise of options *HK$*	Closing price per share immediately before the date of exercise of options *HK$*
Li Gang	500,000	500,000	26 November 1999	26 November 1999 to 7 October 2007	–	–	33.91	–
	500,000	500,000	26 November 1999	26 November 2002 to 7 October 2007	–	–	33.91	–
	90,000	90,000	25 April 2000	25 April 2002 to 7 October 2007	–	–	45.04	–
	90,000	90,000	25 April 2000	25 April 2005 to 7 October 2007	–	–	45.04	–
	–	50,000	22 June 2001	22 June 2003 to 7 October 2007	–	–	32.10	–
	–	50,000	22 June 2001	22 June 2006 to 7 October 2007	–	–	32.10	–
Xu Long	585,000	585,000	25 April 2000	25 April 2002 to 7 October 2007	–	–	45.04	–
	585,000	585,000	25 April 2000	25 April 2005 to 7 October 2007	–	–	45.04	–
	–	47,500	22 June 2001	22 June 2003 to 7 October 2007	–	–	32.10	–
	–	47,500	22 June 2001	22 June 2006 to 7 October 2007	–	–	32.10	–
He Ning	500,000	500,000	26 November 1999	26 November 1999 to 7 October 2007	–	–	33.91	–
	500,000	500,000	26 November 1999	26 November 2002 to 7 October 2007	–	–	33.91	–
	83,000	83,000	25 April 2000	25 April 2002 to 7 October 2007	–	–	45.04	–
	83,000	83,000	25 April 2000	25 April 2005 to 7 October 2007	–	–	45.04	–
	–	45,000	22 June 2001	22 June 2003 to 7 October 2007	–	–	32.10	–
	–	45,000	22 June 2001	22 June 2006 to 7 October 2007	–	–	32.10	–
Liu Ping	581,000	581,000	25 April 2000	25 April 2002 to 7 October 2007	–	–	45.04	–
	581,000	581,000	25 April 2000	25 April 2005 to 7 October 2007	–	–	45.04	–
	–	40,000	22 June 2001	22 June 2003 to 7 October 2007	–	–	32.10	–
	–	40,000	22 June 2001	22 June 2006 to 7 October 2007	–	–	32.10	–

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	Normal period during which options are exercisable	No. of shares involved in the options cancelled during the year	No. of shares acquired on exercise of options during the year	Price per share to be paid on exercise of options *HK$*	Closing price per share immediately before the date of exercise of options *HK$*
Yuan Jianguo	580,000	580,000	25 April 2000	25 April 2002 to 7 October 2007	–	–	45.04	–
	580,000	580,000	25 April 2000	25 April 2005 to 7 October 2007	–	–	45.04	–
	–	45,000	22 June 2001	22 June 2003 to 7 October 2007	–	–	32.10	–
	–	45,000	22 June 2001	22 June 2006 to 7 October 2007	–	–	32.10	–
Wei Yiping	578,000	578,000	25 April 2000	25 April 2002 to 7 October 2007	–	–	45.04	–
	578,000	578,000	25 April 2000	25 April 2005 to 7 October 2007	–	–	45.04	–
	–	40,000	22 June 2001	22 June 2003 to 7 October 2007	–	–	32.10	–
	–	40,000	22 June 2001	22 June 2006 to 7 October 2007	–	–	32.10	–
Employees	12,911,000	12,567,000	25 April 2000	25 April 2002 to 7 October 2007	326,000	18,000	45.04	50.50
	12,911,000	12,567,000	25 April 2000	25 April 2005 to 7 October 2007	326,000	18,000	45.04	50.50
	–	37,164,000	22 June 2001	22 June 2003 to 7 October 2007	246,500	28,500	32.10	37.50
	–	37,164,000	22 June 2001	22 June 2006 to 7 October 2007	246,500	28,500	32.10	37.50
		115,851,000						
		(note)						

Note: The total number of shares involved in the options outstanding at year end represents 0.6 per cent. of the issued share capital of the Company as at the date of this report.

The closing price per share immediately before the date on which the options were granted during the year was HK$41.00.

The share options granted are not recognised in the accounts until they are exercised.

The weighted average value per share of share options granted in 2001 estimated at the date of grant using the Black-Scholes pricing model was HK$29.46. The weighted average assumptions used are as follows:

	2001
Risk-free interest rate	5.5%
Expected life (in years)	6
Volatility	65.92%
Expected dividend per share (based on historical dividend)	HK$Nil

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Apart from the foregoing, at no time during the year was the Company, 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 2001 amounting to 10 per cent. or more of the ordinary shares in issue:

	Ordinary shares held		Percentage of total issued shares
	directly	indirectly	
(i) China Mobile Communications Corporation ("China Mobile")	–	14,062,602,396	75.58%
(ii) China Mobile (Hong Kong) Group Limited ("CMHK (Group)")	–	14,062,602,396	75.58%
(iii) China Mobile Hong Kong (BVI) Limited ("CMHK (BVI)")	14,062,602,396	–	75.58%

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

Apart from the foregoing, as at 31 December 2001, 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 33 to the accounts. In addition, during the year, Aspire Holdings Limited (or its subsidiaries), being a non-wholly owned subsidiary of the Group provided technology platform development services to certain fellow subsidiaries. The platform development charges payable by the Group's subsidiaries to Aspire Holdings Limited (or its subsidiaries) amounted to RMB207,000,000 for the year ended 31 December 2001.

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 2001:

(1) properties lease payments payable by Fujian Mobile Communication Company Limited, Henan Mobile Communication Company Limited and Hainan Mobile Communication Company Limited to subsidiaries of China Mobile have not exceeded 0.34 per cent. of the Group's turnover for the year ended 31 December 2001;

(2) rental and property management fees payments payable by Beijing Mobile Communication Company Limited ("Beijing Mobile"), Shanghai Mobile Communication Company Limited ("Shanghai Mobile"), Tianjin Mobile Communication Company Limited, 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 to subsidiaries of China Mobile have not exceeded RMB85,000,000 for the year ended 31 December 2001;

(3) construction and related services payments payable by Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile to subsidiaries of China Mobile have not exceeded 0.25 per cent. of the Group's turnover for the year ended 31 December 2001;

(4) equipment maintenance and related services payments payable by Beijing Mobile, Shanghai Mobile and Liaoning Mobile to subsidiaries of China Mobile have not exceeded 0.05 per cent. of the Group's turnover for the year ended 31 December 2001;

(5) purchase of transmission towers and transmission tower-related services and antenna maintenance services payments

payable by Hebei Mobile to the relevant subsidiaries of China Mobile have not exceeded 0.06 per cent. of the Group's turnover for the year ended 31 December 2001;

(6) handling charges received by the Group from subsidiaries of China Mobile in respect of prepaid services have not exceeded 2 per cent. of the Group's turnover for the year ended 31 December 2001 and handling charges paid by the Group to subsidiaries of China Mobile in respect of prepaid services have not exceeded 2 per cent. of the Group's turnover for the year ended 31 December 2001; and

(7) platform development charges payable by each of the Group and China Mobile to Aspire Holdings Limited or its subsidiaries have not exceeded 3 per cent. of the Group's consolidated net tangible assets as at 31 December 2001.

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 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 2001 are set out in Note 26 to the accounts.

Financial summary

A summary of the pro-forma combined results of the Group for the year ended 31 December 1997, the audited results of the Group for the years ended 31 December 1998, 1999, 2000 and 2001, together with the audited statements of the Group's assets and liabilities as at 31 December 1997, 1998, 1999, 2000 and 2001 are set out on pages 107 to 108.

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, 18 March 2002

Notice is hereby given that the Annual General Meeting of China Mobile (Hong Kong) Limited will be held on 24 June 2002 at 11:00 a.m. in the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway Road, Hong Kong for the following purposes:

As Ordinary Business:

1 To receive and consider the financial statements for the year ended 31 December 2001 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).

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."

6 "**THAT** the Directors 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."

7 "**THAT** the Directors be and they are hereby authorised to fix the remuneration of the members of any committee appointed by the Directors as they think fit from time to time and charge such remuneration to the current expenses of the Company."

8 "**THAT**:

(a) the new share option scheme of the Company (a copy of which has been initialled by the chairman of this meeting and for the purpose of identification marked "A") be and is hereby adopted with immediate effect;

(b) the existing share option scheme of the Company adopted pursuant to an ordinary resolution of the shareholders of the Company passed on 8 October 1997 be terminated with immediate effect; and

(c) the new share option scheme of Aspire Holdings Limited (a copy of which has been initialled by the chairman of this meeting and for the purpose of identification marked "B") be and is hereby adopted with immediate effect.

And as Special Business, to consider and, if thought fit, to pass the following as a special resolution:

SPECIAL RESOLUTION

9 "THAT:

(a) Article 144 of the Company's Articles of Association be amended by deleting:

'Provided that this Article shall not require a copy of those documents to be sent to any person of whose address the Company is not aware nor to more than one of the joint holders of any shares or debentures.'

and replacing with:

'Provided that this Article shall be subject to Article 144B and shall not require a copy of those documents to be sent to any person of whose address the Company is not aware, to more than one of the joint holders of any shares or debentures, nor to any person to whom the Company has duly sent a copy of a summary financial report (as defined in the Ordinance) in accordance with the provisions of the Ordinance and Article 144A.';

(b) the following Article 144A be added to the Company's Articles of Association:

'144A Subject to Article 144B, a copy of a summary financial report in the form and containing the contents as required by the Ordinance shall be sent by the Company in accordance with the provisions of the Ordinance to a person who has been offered and agreed, in accordance with the provisions of the Ordinance, to be sent a copy of such summary financial report.';

(c) the following Article 144B be added to the Company's Articles of Association:

'144B Where a person has, in accordance with the provisions of the Ordinance where applicable, consented to treat the publication or the making available of the relevant financial documents and/or the summary financial report (each as defined in the Ordinance) on a computer network or by such other means as discharging the Company's obligation under the Ordinance to send a copy of the relevant financial documents and/or the summary financial report (each as defined in the Ordinance), then the publication or the making available by the Company, in accordance with the provisions of the Ordinance where applicable, on such computer network or by such other means of the relevant financial documents or the summary financial report (each as defined in the Ordinance) shall, in relation to each consenting person, be deemed to discharge the Company's obligations under Article 144 and/or Article 144A.';

(d) Article 148 of the Company's Articles of Association be deleted and replaced with the following:

'148 Any notice, document or communication to be given or issued shall be in writing in any one or more languages to the members, may be served by the Company upon any member either personally or by sending it by mail, postage prepaid, addressed to such member at his registered address, and, in any case where the registered address of a member is outside Hong Kong, by prepaid airmail, or may be delivered, sent or otherwise made available using electronic or other means to such member.'; and

(e) Article 151 of the Company's Articles of Association be deleted and replaced with the following:

'151 Any notice, document or communication delivered or sent by mail to, or left at the registered address of or made available using electronic or other means to any member, in pursuance of these Articles, shall, notwithstanding such member be then deceased or bankrupt, and whether or not the Company have notice of his decease or bankruptcy, be deemed to have been duly served in respect of any shares held by such member, whether held solely or jointly with other persons by such member, until some other person be registered in his stead as the holder or joint holder thereof, and such service shall for all purposes of these Articles be deemed a sufficient service of such notice, document or communication on his executors, administrators or assigns and all persons (if any) jointly interested with him in any such share.' "

By order of the Board
Yung Shun Loy Jacky
Company Secretary

18 March 2002

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 2001 Annual Report.

4. Concerning item 7 above, pursuant to Article 118 of the Articles of Association of the Company (the "Articles"), the Directors have the power, with the consent of the shareholders in general meeting, to remunerate the members of any committee, and charge such remuneration to the current expenses of the Company. Currently, the Directors have appointed three standing committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The Directors intend to fix the remuneration of the members of such committees at levels which are commensurate with the relevant member's responsibility and workload.

5. Concerning item 8 above, a circular containing, amongst other things, principal terms of the new share option scheme of the Company and the share option scheme of Aspire Holdings Limited will be despatched to the shareholders.

6. Concerning item 9 above, as the Articles only exist in English, the English text of the relevant proposed resolution shall prevail over the Chinese text. The purpose of the amendments to the Articles is to take advantage of the amendments to the Companies Ordinance and to the Listing Rules which provide the Company with the flexibility to offer members the choice of receiving a summary financial report in place of the full annual report and accounts and the choice of receiving financial documents and/or other corporate communication via electronic means. The Company currently has no definitive plan in preparing summary financial reports and sending them to members in place of full annual report and accounts nor delivering financial documents and/or other corporate communication via electronic means. Any decision to prepare and send summary financial reports or to deliver financial documents and/or other corporate communication via electronic means will only be made after ascertaining the wishes of members and in full compliance of the relevant provisions of the Companies Ordinance and the Listing Rules. A circular containing, amongst other things, an explanation for the proposed amendments to the Articles will be despatched to the shareholders.

To the shareholders of
China Mobile (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 58 to 100 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 of the state of affairs of the Company and of the Group as at 31 December 2001 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, 18 March 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2001 (expressed in Renminbi)

	Note	2001 RMB million	2000 RMB million
Operating revenue (Turnover)	3		
Usage fees		**73,458**	46,287
Monthly fees		**14,085**	9,623
Connection fees		**711**	2,213
Other operating revenue		**12,077**	6,861
		100,331	64,984
Operating expenses			
Leased lines		**5,005**	5,501
Interconnection		**13,055**	8,329
Depreciation		**17,664**	9,759
Personnel		**5,325**	3,991
Other operating expenses	4	**18,270**	10,578
		59,319	38,158
Profit from operations		**41,012**	26,826
Write-down and write-off of analog network equipment	5	**—**	(1,525)
Other net income	6	**1,594**	915
Non-operating net expenses	7	**(6)**	(5)
Interest income		**857**	1,006
Finance costs	8(a)	**(1,740)**	(824)
Profit from ordinary activities before taxation	8	**41,717**	26,393
Taxation	11(a)	**(13,703)**	(8,366)
Profit from ordinary activities after taxation		**28,014**	18,027
Minority interest		**1**	—
Profit attributable to shareholders	12	**28,015**	18,027
Transfer to PRC statutory reserves	32	**(5,033)**	(6,916)
Retained profits for the year		**22,982**	11,111
Earnings per share			
Basic	14(a)	**RMB1.51**	RMB1.25
Diluted	14(b)	**RMB1.51**	RMB1.25

The notes on pages 66 to 100 form part of these accounts.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2001 (expressed in Renminbi)

	Note	**2001** **RMB million**	2000 RMB million
Net profit for the year		**28,015**	18,027
Elimination of goodwill arising on the acquisition of subsidiaries against reserves	32(a)	**–**	(239,540)
		28,015	(221,513)

The notes on pages 66 to 100 form part of these accounts.

CONSOLIDATED BALANCE SHEET

at 31 December 2001 (expressed in Renminbi)

	Note	2001 RMB million	2000 RMB million
Non-current assets			
Fixed assets	15(a)	**105,208**	87,465
Construction in progress	16	**19,981**	13,527
Interest in associates	18	**16**	46
Investment securities	19	**77**	61
Deferred tax assets	20	**1,476**	3,046
Deferred expenses	21	**180**	164
		126,938	104,309
Current assets			
Inventories		**1,029**	828
Amount due from ultimate holding company	22	**503**	557
Accounts receivable	23	**5,728**	7,252
Other receivables	24	**1,189**	2,297
Prepayments and other current assets		**1,571**	1,289
Deposits with banks		**14,970**	12,204
Cash and cash equivalents	25	**21,821**	27,702
		46,811	52,129
Current liabilities			
Bank loans and other interest-bearing borrowings	26(a)	**4,531**	10,471
Bills payable		**1,458**	1,005
Current instalments of obligations under finance leases	27	**908**	1,624
Amount due to immediate holding company	22	**—**	4,136
Amount due to ultimate holding company	22	**241**	678
Accounts payable	28	**11,317**	11,581
Accrued expenses and other payables		**10,840**	8,408
Taxation	11(b)	**6,003**	6,735
		35,298	44,638
Net current assets		**11,513**	7,491
Total assets less current liabilities carried forward		**138,451**	111,800

The notes on pages 66 to 100 form part of these accounts.

	Note	2001 RMB million	2000 RMB million
Total assets less current liabilities brought forward		**138,451**	111,800
Non-current liabilities			
Bank loans and other interest-bearing borrowings	26(a)	**(21,591)**	(23,134)
Obligations under finance leases, excluding current instalments	27	**(812)**	(1,235)
Deferred revenue	29	**(4,237)**	(3,654)
		(26,640)	(28,023)
Minority interests		**(32)**	(17)
NET ASSETS		**111,779**	83,760
CAPITAL AND RESERVES			
Share capital	30	**1,986**	1,986
Reserves	32(a)	**109,793**	81,774
		111,779	83,760

Approved by the board of directors on 18 March 2002

Wang Xiaochu
Director

Ding Donghua
Director

The notes on pages 66 to 100 form part of these accounts.

BALANCE SHEET

at 31 December 2001 (expressed in Renminbi)

	Note	2001 RMB million	2000 (Restated) RMB million
Non-current assets			
Fixed assets	15(b)	**4**	4
Investments in subsidiaries	17	**367,219**	367,053
Deferred expenses	21	**180**	164
		367,403	367,221
Current assets			
Amounts due from subsidiaries	17	**2,405**	2,426
Interest receivable		**15**	26
Other receivables		**2**	4
Prepayments and other current assets		**—**	1
Deposits with banks		**570**	—
Cash and cash equivalents	25	**3,235**	4,748
		6,227	7,205
Current liabilities			
Amount due to subsidiaries	17	**2,064**	7,566
Amount due to immediate holding company	22	**—**	4,136
Accrued expenses and other payables		**125**	181
		2,189	11,883
Net current assets/(liabilities)		**4,038**	(4,678)
Total assets less current liabilities		**371,441**	362,543
Non-current liabilities			
Amount due to subsidiary	17	**(5,000)**	—
Bank loans and other interest-bearing borrowings	26(b)	**(10,664)**	(10,661)
		(15,664)	(10,661)
NET ASSETS		**355,777**	351,882
CAPITAL AND RESERVES			
Share capital	30	**1,986**	1,986
Reserves	32(b)	**353,791**	349,896
		355,777	351,882

Approved by the board of directors on 18 March 2002

Wang Xiaochu
Director

Ding Donghua
Director

The notes on pages 66 to 100 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2001 (expressed in Renminbi)

	Note	2001 RMB million	2000 RMB million
Net cash inflows from operating activities	(a)	**63,890**	41,401
Returns on investments and servicing of finance			
Interest received		**867**	994
Interest paid		**(2,008)**	(863)
Dividend received from associate		**14**	–
Net cash (outflow)/inflow from returns on investments and servicing of finance		**(1,127)**	131
Taxation			
PRC income tax paid		**(12,865)**	(5,952)
Tax paid		**(12,865)**	(5,952)
Investing activities			
Payment of amount due to immediate holding company in respect of acquisition of subsidiaries		**(4,136)**	–
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)		**–**	(67,299)
Capital expenditure		**(39,500)**	(21,964)
Proceeds from disposal of fixed assets		**204**	264
Increase in deposits with banks		**(2,766)**	(3,881)
Net cash outflow from investing activities		**(46,198)**	(92,880)
Net cash inflow/(outflow) before financing activities		**3,700**	(57,300)
Financing activities			
Proceeds from issue of shares, net of expenses	(c)	**4**	55,812
New bank and other loans	(c)	**5,407**	12,736
Repayments of bank and other loans	(c)	**(17,897)**	(8,130)
Capital elements of finance leases rental	(c)	**(2,055)**	(362)
Proceeds from issue of convertible notes	(c)	**–**	5,708
Expenses on issue of convertible notes		**–**	(128)
Proceeds from issue of bonds	(c)	**5,000**	–
Expenses on issue of bonds		**(55)**	–
Increase in amounts due to minority interests	(c)	**15**	17
Net cash (outflow)/inflow from financing activities		**(9,581)**	65,653
(Decrease)/increase in cash and cash equivalents		**(5,881)**	8,353
Cash and cash equivalents at beginning of year		**27,702**	19,349
Cash and cash equivalents at end of year	(b)	**21,821**	27,702

The notes on pages 66 to 100 form part of these accounts.

Notes to the consolidated cash flow statement

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

	2001 RMB million	2000 RMB million
Profit from ordinary activities before taxation	**41,717**	26,393
Depreciation of fixed assets	**17,664**	9,759
Write-down and write-off of analog network equipment	**–**	1,525
Provision for interest in associates	**30**	–
Loss on disposal of fixed assets	**275**	126
Provision for doubtful accounts	**1,737**	1,346
Amortisation of deferred expenses	**39**	15
Interest income	**(857)**	(1,006)
Interest expense and finance lease charges	**1,740**	824
Dividend income	**(43)**	(26)
Unrealised exchange loss/(gain), net	**4**	(2)
Increase in inventories	**(124)**	(408)
Decrease in amount due from ultimate holding company	**54**	409
Decrease in amounts due from related parties	**–**	1,700
Increase in accounts receivable	**(213)**	(985)
Decrease in other receivables	**1,111**	54
Increase in prepayments and other current assets	**(282)**	(262)
(Decrease)/increase in amount due to ultimate holding company	**(437)**	14
Decrease in amounts due to related parties	**–**	(1,696)
(Decrease)/increase in accounts payable	**(1,724)**	1,179
Increase in accrued expenses and other payables	**2,616**	1,319
Increase in deferred revenue	**583**	1,123
Net cash inflows from operating activities	**63,890**	41,401

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

	2001 RMB million	2000 RMB million
Deposits with banks maturing within three months when placed	**3,818**	6,457
Cash and bank balances	**18,003**	21,245
	21,821	27,702

Notes to the consolidated cash flow statement (cont'd)

(c) Analysis of changes in financing during the year

	Share capital (including share premium) RMB million	Bank and other loans RMB million	Obligations under finance leases RMB million	Convertible notes RMB million	Bonds RMB million	Minority interests RMB million
Balance at 1 January 2000	100,812	6,576	175	–	–	–
Acquired on acquisition of subsidiaries	–	11,762	3,011	–	–	–
	100,812	18,338	3,186	–	–	–
Inception of finance lease contracts	–	–	35	–	–	–
Changes in financing:						
Cash flows from financing	55,812	12,736	–	5,708	–	17
Repayments of bank and other loans	–	(8,130)	–	–	–	–
Repayments of capital elements of finance leases	–	–	(362)	–	–	–
	156,624	22,944	2,859	5,708	–	17
Non-cash transaction:						
Issue of shares as consideration for acquisition of subsidiaries	192,369	–	–	–	–	–
Balance at 31 December 2000	348,993	22,944	2,859	5,708	–	17
Balance at 1 January 2001	348,993	22,944	2,859	5,708	–	17
Inception of finance lease contracts	–	–	916	–	–	–
Effect of foreign exchange difference	–	4	–	–	–	–
Changes in financing:						
Cash flows from financing	4	5,407	–	–	5,000	15
Repayments of bank and other loans	–	(17,897)	–	–	–	–
Repayments of capital elements of finance leases	–	–	(2,055)	–	–	–
Balance at 31 December 2001	348,997	10,458	1,720	5,708	5,000	32

(d) Significant non-cash transactions

The Group incurred payables of RMB8,679,000,000 (2000: RMB5,555,000,000) and RMB1,337,000,000 (2000: RMB1,005,000,000) to equipment suppliers and banks respectively for additions of construction in progress during the year ended 31 December 2001.

1 Principal accounting policies

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). 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) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, 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. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.

Material intra-group balances and transactions, and any unrealised profit arising from intra-group transactions, are eliminated in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

(d) Associates

An associate is an entity 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 impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

1 Principal accounting policies (cont'd)

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

— for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 1(i)); and

— for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life of not exceeding 20 years. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(i)) is included in the carrying amount of the interest in associates.

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

— for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

— for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

— for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

— for associates, such negative goodwill is included in the carrying amount of the interests in associates.

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 and impairment losses (see note 1(i)).

(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 a fixed asset 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) 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%

1 Principal accounting policies (cont'd)

(h) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases.

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in the fixed assets and the corresponding liabilities, net of finance of 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 term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). 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) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- construction in progress;
- investments in subsidiaries and associates; and
- positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

1 Principal accounting policies (cont'd)

(j) 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.

(k) 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.

(l) 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 distributions 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.

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

Income from assignment of rights is deferred and recognised on a straight-line basis over the relevant assignment period. For assignment contract 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.

(m) Fixed rate notes, bonds and convertible notes

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

(n) Deferred expenses

Deferred expenses comprise incidental costs incurred in relation to the issue of the fixed rate notes, bonds and convertible notes of the Group and are amortised on a straight-line basis over the periods 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.

1 Principal accounting policies (cont'd)

(o) Borrowing costs

Borrowing costs are expressed in the profit and loss account in the period in which they are incurred, except to the extent that they 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

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(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 receivable;

(iv) deferred revenue from prepaid service is recognised as income when the cellular telephone services are rendered upon actual usage by subscribers;

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

(vi) interest income is recognised on a time proportion basis by reference to the principal outstanding and the rate applicable; and

(vii) sales 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 net 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 using the liability method in respect of the taxation 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.

1 Principal accounting policies (cont'd)

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) 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 Group's contributions to the schemes are charged to the profit and loss account when incurred. The subsidiaries have no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

The Company's contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred.

(v) Operating leases

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating lease, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

(w) 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.

(x) Cash equivalents

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

1 Principal accounting policies (cont'd)

(y) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

No analysis of the Group's turnover and contribution to profit from operations by geographical segment or business segment has been presented as all the Group's operating activities are carried out in the People's Republic of China (the "PRC") and less than 10 per cent. of the Group's turnover and contribution to profit from operations were derived from activities outside the Group's cellular telephone and related services activities. There is no other geographical or business segment with segment assets equal to or greater than 10 per cent. of the Group's total assets.

2 Changes in accounting policies

(i) Dividend income

In prior years, dividend income from subsidiaries was recognised as income in the Company's profit and loss account in the period in which they related. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) issued by the Hong Kong Society of Accountants, the Company recognises dividend income as income in the accounting period in which the dividends are declared or proposed and approved by the shareholders of the relevant subsidiaries.

The new accounting policy has no impact on the Group's net assets as at the year ends and on the Group's profit attributable to shareholders for the years presented. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information of the Company adjusted for the amounts relating to prior periods (note 32(b)).

(ii) Goodwill

In prior years, positive or negative goodwill arising on acquisition of subsidiaries was eliminated against reserves or was credited to a capital reserve respectively. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 30 ("SSAP 30") issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for goodwill as set out in note 1(e).

The Group has adopted the transitional provisions set out in paragraph 88 of SSAP 30 with the effect that the new accounting policy has been adopted prospectively and no adjustments have been made to the opening balances of retained profits and reserves and comparative information.

The new accounting policy has no impact on the Group's net assets as at the year ends and on the Group's profit attributable to shareholders for the years presented.

3 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 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. Business tax and government surcharges are charged at approximately 3 to 3.33 per cent. of the corresponding revenue.

Other operating revenue mainly represents charges for wireless data and value added services, telephone number selection fees, 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.

4 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.

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

	2001 **RMB million**	2000 RMB million
Write-down of analog network equipment (Note (a))	–	1,330
Write-off of analog network equipment (Note (b))	–	195
	–	1,525

Notes:

(a) In 2000, based on the operations and net cash flow position of the analog network, the Group considered that the recoverable amount of the analog network equipment had declined below its carrying amount. Based on the expected future cash flows to be generated by the analog network, a full provision was made against the carrying amount of the analog network equipment at 31 December 2000. The amount of the write-down of RMB1,330 million was recognised as an expense in the profit and loss account. At 31 December 2001, all analog network equipment which had been written down in previous years had been removed from service.

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

6 Other net income

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

	2001 RMB million	2000 RMB million
Sales of SIM cards and handsets	3,338	1,928
Cost of SIM cards and handsets	(1,744)	(1,013)
	1,594	915

7 Non-operating net expenses

	2001 RMB million	2000 RMB million
Exchange loss	**(39)**	(60)
Loss on disposal of fixed assets	**(275)**	(126)
Penalty income on overdue accounts	**165**	149
Others	**143**	32
	(6)	(5)

8 Profit from ordinary activities before taxation

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

	2001 RMB million	2000 RMB million
(a) Finance costs:		
Interest on bank loans and other borrowings repayable within five years	**1,064**	403
Interest on bank loans and other borrowings repayable after five years	**4**	74
Interest on fixed rate notes	**394**	393
Interest on bonds	**108**	—
Interest on convertible notes	**129**	21
Finance charges on obligations under finance leases	**129**	52
Total borrowings costs	**1,828**	943
Less: Amount capitalised as construction in progress (Note)	**(88)**	(119)
	1,740	824

Note: Borrowing costs have been capitalised at a rate of 4.57 per cent. to 8.16 per cent. (2000: 5.02 per cent. to 7.6 per cent.) per annum for construction in progress.

8 Profit from ordinary activities before taxation (cont'd)

	2001 RMB million	2000 RMB million
(b) Other items:		
Depreciation		
— owned assets	**16,494**	9,486
— assets held under finance leases	**1,170**	273
Amortisation of deferred expenses	**39**	15
Exchange loss on foreign currency borrowings less deposits	**—**	217
Operating lease charges in respect of		
— properties	**890**	602
— leased lines	**5,005**	5,501
— others	**457**	471
Contribution to retirement scheme	**287**	335
Provision for doubtful accounts	**1,737**	1,346
Provision for obsolete inventories	**—**	25
Auditors' remuneration	**26**	26
Dividend income from unlisted associate	**(43)**	(26)

9 Directors' remuneration

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

	2001 RMB million	2000 RMB million
Fees	**2**	2
Salaries, allowances and benefits in kind	**8**	8
Retirement benefits	**1**	—
Performance related bonuses	**3**	2
	14	12

Included in the directors' remuneration were fees of RMB543,000 (2000: RMB382,000) 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 "Share option scheme" in the report of the directors.

9 Directors' remuneration (cont'd)

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

	2001	2000
HK$ equivalent		
Nil to 1,000,000	**9**	10
1,000,001 to 1,500,000	**1**	1
2,000,001 to 2,500,000	**1**	2
2,500,001 to 3,000,000	**2**	—

10 Five highest paid individuals

Of the five highest paid individuals in this year, three (2000: three) 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$1,500,001 to HK$2,500,000 (2000: from HK$1,500,001 up to HK$2,000,000) and their aggregate remuneration is as follows:

	2001 RMB million	2000 RMB million
Salaries, allowances and benefits in kind	3	3
Performance related bonuses	1	1
	4	4

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

11 Taxation

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

	2001 RMB million	2000 RMB million
Provision for PRC enterprise income tax on the estimated taxable profits for the year	**12,153**	8,371
(Over)/under-provision in respect of PRC enterprise income tax for prior year	**(20)**	12
	12,133	8,383
Transfer from/(to) deferred tax assets (Note 20(a))	**1,570**	(17)
	13,703	8,366

11 Taxation (cont'd)

(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 2001 and 2000.

(ii) The provision for the PRC enterprise income tax is based on a statutory rate of 33 per cent. of the assessable profit of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC during the year, except for certain subsidiaries of the Company and certain operations of the subsidiaries located within special economic zones in the PRC, which enjoy a preferential rate of 30 per cent. and 15 per cent., respectively.

(b) Taxation in the balance sheets represents:

	The Group	
	2001 RMB million	2000 RMB million
Provision for PRC enterprise income tax for the year	**12,153**	8,371
Balance of PRC enterprise income tax payable relating to prior year	**455**	478
Balance of PRC enterprise income tax payable arising on acquisition of subsidiaries	**–**	1,405
PRC enterprise income tax paid	**(6,605)**	(3,519)
	6,003	6,735

12 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a loss of RMB972,000,000 (2000: RMB193,000,000 (restated)) which has been dealt with in the accounts of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2001 RMB million	2000 RMB million
Amount of consolidated profit attributable to shareholders dealt with in the Company accounts	**(972)**	(193)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**4,863**	985
Company's profit for the year (note 32)	**3,891**	792

13 Dividends

The board of directors of the Company does not recommend the payment of any dividends for the year ended 31 December 2001 (2000: 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 RMB28,015,000,000 (2000: RMB18,027,000,000) and the weighted average of 18,605,371,320 shares (2000: 14,394,312,587 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 adjusted profit attributable to shareholders of RMB28,144,000,000 (2000: RMB18,027,000,000), after adding back the interest expense on the convertible notes, and the weighted average number of 18,698,023,159 shares (2000: 14,409,503,167 shares) issued and issuable after adjusting for the effects of all dilutive potential ordinary shares, as if all the outstanding share options and convertible notes issued by the Company had been exercised or converted into ordinary shares at the date of issue. In 2000, 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 were ignored in calculating diluted earnings per share.

(c) Reconciliations

	2001 RMB million	2000 RMB million
Profit attributable to shareholders used in calculating basic earnings per share	**28,015**	18,027
Interest expense on the convertible notes	**129**	—
Profit attributable to shareholders used in calculating diluted earnings per share	**28,144**	18,027

	2001 Number of shares	2000 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**18,605,371,320**	14,394,312,587
Deemed issue of ordinary shares for no consideration	**92,651,839**	15,190,580
Weighted average number of ordinary shares used in calculating diluted earnings per share	**18,698,023,159**	14,409,503,167

(expressed in Renminbi)

15 Fixed assets

(a) The Group

	Land use rights and buildings RMB million	Telecommunications transceivers, switching centres and other network equipment RMB million	Office equipment, furniture and fixtures and others RMB million	Total RMB million
Cost:				
At 1 January 2001	7,996	107,911	3,702	119,609
Additions	517	851	520	1,888
Transferred from construction in progress	2,297	29,697	2,004	33,998
Disposals	(216)	(690)	(131)	(1,037)
Assets written-off	–	(10,377)	–	(10,377)
At 31 December 2001	10,594	127,392	6,095	144,081
Accumulated depreciation:				
At 1 January 2001	315	30,885	944	32,144
Charge for the year	379	15,883	1,402	17,664
Written back on disposals	(55)	(427)	(76)	(558)
Assets written-off	–	(10,377)	–	(10,377)
At 31 December 2001	639	35,964	2,270	38,873
Net book value:				
At 31 December 2001	9,955	91,428	3,825	105,208
At 31 December 2000	7,681	77,026	2,758	87,465

15 Fixed assets (cont'd)

(b) The Company

	Office equipment, furniture and fixtures and others RMB million
Cost:	
At 1 January 2001	5
Additions	2
At 31 December 2001	7
Accumulated depreciation:	
At 1 January 2001	1
Charge for the year	2
At 31 December 2001	3
Net book value:	
At 31 December 2001	4
At 31 December 2000	4

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

	The Group	
	2001 RMB million	2000 RMB million
Long leases	**1,638**	2,482
Medium-term leases	**8,247**	5,103
Short-term leases	**70**	96
	9,955	7,681

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 RMB6,836,000,000 (2000: RMB7,046,000,000) in respect of assets held under finance leases.

(e) The Group leases certain telecommunications equipment under finance leases. None of the leases includes contingent rentals.

16 Construction in progress

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed at 31 December 2001.

17 Investments in subsidiaries

	The Company	
	2001 RMB million	2000 RMB million
Unlisted equity investments, at cost	**367,219**	367,053

Amounts due from/to subsidiaries under current assets and liabilities are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business. Amount due to subsidiary included under non-current liabilities represents amount due to Guangdong Mobile Communication Company Limited ("Guangdong Mobile") in relation to the guaranteed bonds, which is unsecured, interest bearing and repayable over one year (note 26(f)).

Details of the subsidiaries are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by subsidiary	Principal activity
Guangdong Mobile*	PRC	RMB5,594,840,700	100%	–	Cellular telephone operator
Zhejiang Mobile Communication Company Limited*	PRC	RMB2,117,790,000	100%	–	Cellular telephone operator
Jiangsu Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Jiangsu Mobile Communication Company Limited*	PRC	RMB2,800,000,000	–	100%	Cellular telephone operator
Fujian Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Fujian Mobile Communication Company Limited*	PRC	RMB5,247,488,000	–	100%	Cellular telephone operator
Henan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company

17 Investments in subsidiaries (cont'd)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by subsidiary	
Henan Mobile Communication Company Limited*	PRC	RMB4,367,733,000	–	100%	Cellular telephone operator
Hainan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Hainan Mobile Communication Company Limited*	PRC	RMB643,000,000	–	100%	Cellular telephone operator
Beijing Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Beijing Mobile Communication Company Limited* ("Beijing Mobile")	PRC	RMB5,357,539,000	–	100%	Cellular telephone operator
Shanghai Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Shanghai Mobile Communication Company Limited* ("Shanghai Mobile")	PRC	RMB5,404,715,000	–	100%	Cellular telephone operator
Tianjin Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Tianjin Mobile Communication Company Limited*	PRC	RMB1,856,720,000	–	100%	Cellular telephone operator
Hebei Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company

(expressed in Renminbi)

17 Investments in subsidiaries (cont'd)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Principal activity
Hebei Mobile Communication Company Limited* ("Hebei Mobile")	PRC	RMB4,015,276,000	–	100%	Cellular telephone operator
Liaoning Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Liaoning Mobile Communication Company Limited* ("Liaoning Mobile")	PRC	RMB4,758,431,000	–	100%	Cellular telephone operator
Shandong Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Shandong Mobile Communication Company Limited* ("Shandong Mobile")	PRC	RMB5,772,040,000	–	100%	Cellular telephone operator
Guangxi Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Guangxi Mobile Communication Company Limited*	PRC	RMB2,094,590,000	–	100%	Cellular telephone operator
China Mobile (Shenzhen) Limited*	PRC	US$30,000,000	100%	–	Corporate operation controller
Aspire Holdings Limited	Cayman Islands	HK$79,348,932	78.64%	–	Investment holding company
Aspire (BVI) Limited	BVI	US$1,000	–	100%	Investment holding company
Aspire Technologies (Shenzhen) Limited*	PRC	US$1,500,000	–	100%	Technology platform development and maintenance

* Companies registered as wholly-foreign owned enterprises in the PRC.

18 Interest in associates

	The Group	
	2001	2000
	RMB million	RMB million
Unlisted shares, at cost	**37**	37
Capital contributions, at cost	**9**	9
	46	46
Less: Provision for impairment	**(30)**	—
	16	46

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

Name of associate	Place of incorporation and operation	Proportion of ownership interest held by subsidiary	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

(expressed in Renminbi)

19 Investment securities

	The Group	
	2001 RMB million	2000 RMB million
Unlisted equity securities in the PRC, at cost	**77**	61

20 Deferred tax assets

(a) Movements on deferred taxation comprise:

	The Group	
	2001 RMB million	2000 RMB million
Balance at 1 January	**3,046**	2,306
Acquired on acquisition of subsidiaries	**—**	723
Transfer (to)/from the profit and loss account (Note 11(a))	**(1,570)**	17
Balance at 31 December	**1,476**	3,046

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

	The Group	
	2001 RMB million	2000 RMB million
Provision for obsolete inventories	**4**	12
Write-down of fixed assets relating to analog network equipment	**171**	2,102
Amortisation of deferred revenue	**140**	60
Income recognition on prepaid service fees	**1,161**	872
	1,476	3,046

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

	The Group	
	2001 RMB million	2000 RMB million
Provision for doubtful accounts	**1,204**	989

21 Deferred expenses

	The Group and the Company	
	2001	2000
	RMB million	RMB million
Balance at 1 January	**164**	51
Additions during the year	**55**	128
Less: Amortisation for the year	**(39)**	(15)
Balance at 31 December	**180**	164

22 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).

At 31 December 2000, amount due to immediate holding company primarily represented the balance of the purchase consideration for acquisition of subsidiaries, which was unsecured, non-interest bearing and was repaid during the year.

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	
	2001	2000
	RMB million	RMB million
Within 30 days	**5,100**	6,451
31–60 days	**443**	524
61–90 days	**185**	277
	5,728	7,252

Balances are due for payment within one month from 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 2001 are amounts due from the China Telecommunications Corporation ("China Telecom") and its subsidiaries (collectively the "China Telecom Group") amounting to RMB108,000,000 (2000: RMB998,000,000), representing primarily revenue collected on behalf of the Group. The balances with China Telecom Group were unsecured, non-interest bearing and repayable within one year.

25 Cash and cash equivalents

	The Group		The Company	
	2001 RMB million	2000 RMB million	**2001 RMB million**	2000 RMB million
Deposits with banks	**3,818**	6,457	**3,223**	4,720
Cash at banks and in hand	**18,003**	21,245	**12**	28
	21,821	27,702	**3,235**	4,748

26 Bank loans and other interest-bearing borrowings

(a) The Group

		2001			2000		
	Note	**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)	**4,319**	**5,680**	**9,999**	10,267	12,014	22,281
Other loans	(c)	**212**	**247**	**459**	204	459	663
Fixed rate notes	(d)	**–**	**4,956**	**4,956**	–	4,953	4,953
Convertible notes	(e)	**–**	**5,708**	**5,708**	–	5,708	5,708
Bonds	(f)	**–**	**5,000**	**5,000**	–	–	–
		4,531	**21,591**	**26,122**	10,471	23,134	33,605

The short-term bank and other loans as at 31 December 2001 are unsecured. Included in the current liabilities as at 31 December 2000 are short-term bank and other loans amounting to RMB100,000,000 which are secured by cash at banks amounting to RMB113,000,000. 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 4.36 per cent. to 8.24 per cent. (2000: 6.03 per cent. to 8.24 per cent.) with maturities in 2002 to 2004.

(b) The Company

		2001			2000		
	Note	**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)	–	4,956	4,956	–	4,953	4,953
Convertible notes	(e)	–	5,708	5,708	–	5,708	5,708
		–	10,664	10,664	–	10,661	10,661

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 RMB million	**Other loans** RMB million	**Total** RMB million
At 31 December 2001:			
On demand or within one year (Note 26(a))	2,617	212	2,829
After one year but within two years	3,377	165	3,542
After two years but within five years	2,233	82	2,315
After five years	70	—	70
	5,680	247	5,927
	8,297	459	8,756
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

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.

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

(f) Bonds

On 18 June 2001, Guangdong Mobile issued guaranteed bonds (the "Bonds") with a principal amount of RMB5,000,000,000 at an issue price equal to the face value of the Bonds.

The Bonds bear interest at a floating rate, adjusted annually from the first day of each interest payable year and payable annually. The first annual interest rate of the Bonds is 4 per cent. The Bonds, redeemable at 100 per cent. of the principal amount, will mature on 18 June 2011 and the interest will be accrued up to 17 June 2011. Incidental costs incurred in relation to the issue of the Bonds are amortised on a straight-line basis over the period from the date of issue to the date of maturity.

The Company has issued a joint and irrevocable guarantee (the "Guarantee") for the performance of the Bonds. China Mobile has also issued a further guarantee in relation to the performance by the Company of its obligations under the Guarantee.

27 Obligations under finance leases

As at 31 December 2001, the Group had obligations under finance leases repayable as follows:

	The Group					
	2001			2000		
	Present value of the minimum lease payments RMB million	**Interest expense relating to future periods RMB million**	**Total minimum lease payments RMB million**	Present value of the minimum lease payments RMB million	Interest expense relating to future periods RMB million	Total minimum lease payments RMB million
Within 1 year	**908**	**61**	**969**	1,624	154	1,778
After 1 year but within 2 years	**506**	**24**	**530**	1,023	54	1,077
After 2 years but within 5 years	**306**	**5**	**311**	212	4	216
	812	**29**	**841**	1,235	58	1,293
	1,720	**90**	**1,810**	2,859	212	3,071

28 Accounts payable

Included in accounts payable as at 31 December 2001 are amounts due to China Telecom Group amounting to RMB1,725,000,000 (2000: RMB3,449,000,000), representing primarily payables for leased lines and interconnection expenses.

28 Accounts payable (cont'd)

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

	The Group	
	2001	2000
	RMB million	RMB million
Amounts payable in the next:		
1 month or on demand	**5,964**	6,614
2-3 months	**1,634**	560
4-6 months	**1,022**	1,672
7-9 months	**1,049**	827
10-12 months	**1,648**	1,908
	11,317	11,581

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. of 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.

	The Group	
	2001	2000
	RMB million	RMB million
Balance at 1 January	**3,654**	1,492
Additions on acquisition of subsidiaries	**—**	1,039
Additions during the year	**23,191**	5,689
Recognised in profit and loss account	**(22,608)**	(4,566)
Balance at 31 December	**4,237**	3,654

30 Share capital

	The Group	
	2001 **HK$ million**	2000 HK$ million
Authorised:		
30,000,000,000 ordinary shares of HK$0.10 each	**3,000**	3,000

Issued and fully paid:

	2001			2000		
	No. of shares	**HK$ million**	**RMB equivalent RMB million**	No. of shares	HK$ million	RMB equivalent RMB million
At 1 January	**18,605,312,241**	**1,861**	**1,986**	13,706,287,021	1,371	1,467
Issue of new shares to the professional and institutional investors	**–**	**–**	**–**	1,115,643,845	112	119
Issue of consideration shares for acquisition of subsidiaries	**–**	**–**	**–**	3,779,407,375	378	400
Shares issued under share option scheme (Note 31)	**93,000**	**–**	**–**	3,974,000	–	–
At 31 December	**18,605,405,241**	**1,861**	**1,986**	18,605,312,241	1,861	1,986

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 is 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 the 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.

31 Share option scheme (cont'd)

During the year, share options involving a total number of 76,773,000 (2000: 31,590,000) ordinary shares were granted under the share option scheme to certain directors and employees of the Company. During the year, options were exercised to subscribe for 93,000 (2000: 3,974,000) ordinary shares of HK$0.10 each at a total consideration of HK$3,451,140 (equivalent to RMB3,661,000) (2000: HK$84,000,000 (equivalent to RMB89,000,000)).

Date of 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 2001	2000
9 March 1998	9 March 1998 to 8 March 2006	HK$11.10	2,100,000	2,100,000
26 November 1999	26 November 1999 to 7 October 2007	HK$33.91	3,500,000	3,500,000
26 November 1999	26 November 2002 to 7 October 2007	HK$33.91	3,500,000	3,500,000
25 April 2000	25 April 2002 to 7 October 2007	HK$45.04	15,264,000	15,608,000
25 April 2000	25 April 2005 to 7 October 2007	HK$45.04	15,264,000	15,608,000
22 June 2001	22 June 2003 to 7 October 2007	HK$32.10	38,111,500	–
22 June 2001	22 June 2006 to 7 October 2007	HK$32.10	38,111,500	–
			115,851,000	40,316,000

32 Reserves

(a) The Group

	Share premium RMB million	Capital reserve RMB million	General reserve RMB million	PRC statutory reserves RMB million	Retained profits RMB million	Total RMB million
At 1 January 2000	99,345	(56,930)	72	5,727	7,411	55,625
Issue of new shares to professional and institutional investors	56,694	–	–	–	–	56,694
Issue of consideration shares for acquisition of subsidiaries	191,969	–	–	–	–	191,969
Expenses incurred in connection with the issue of new shares to professional and institutional investors	(1,090)	–	–	–	–	(1,090)
Goodwill arising on acquisition of subsidiaries	–	(239,540)	–	–	–	(239,540)
Shares issued under share option scheme	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
At 1 January 2001	347,007	(296,470)	72	12,643	18,522	81,774
Shares issued under share option scheme (Note 31)	4	–	–	–	–	4
Net profit for the year	–	–	–	–	28,015	28,015
Transfer to PRC statutory reserves	–	–	–	5,033	(5,033)	–
At 31 December 2001	347,011	(296,470)	72	17,676	41,504	109,793

32 Reserves (cont'd)

(b) The Company

	Share premium RMB million	General reserve RMB million	Retained profits RMB million	Total RMB million
At 1 January 2000				
— as previously reported	99,345	72	3,010	102,427
— prior year adjustment in respect of dividend income (Note 2)	—	—	(985)	(985)
— as restated	99,345	72	2,025	101,442
Issue of new shares to professional and institutional investors	56,694	—	—	56,694
Issue of consideration shares for acquisition of subsidiaries	191,969	—	—	191,969
Expenses incurred in connection with the issue of new shares to professional and institutional investors	(1,090)	—	—	(1,090)
Shares issued under share option scheme	89	—	—	89
Net profit for the year (Note 12)	—	—	792	792
At 31 December 2000	347,007	72	2,817	349,896
At 1 January 2001				
— as previously reported	347,007	72	7,680	354,759
— prior year adjustment in respect of dividend income (Note 2)	—	—	(4,863)	(4,863)
— as restated	347,007	72	2,817	349,896
Shares issued under share option scheme	4	—	—	4
Net profit for the year (Note 12)	—	—	3,891	3,891
At 31 December 2001	347,011	72	6,708	353,791

At 31 December 2001, the amount of distributable reserves of the Company amounted to RMB6,780,000,000 (2000: RMB2,889,000,000 (restated)).

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 2001, debit balance of capital reserve is primarily due to the elimination of goodwill arising on the acquisition of subsidiaries in previous years.

32 Reserves (cont'd)

PRC statutory reserves

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

In accordance with Accounting Regulations for PRC Enterprises with Foreign Investment, foreign investment enterprises in the PRC 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 each at 10 per cent. 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.

At 31 December 2000, Shanghai Mobile has not yet registered as a wholly-foreign owned enterprise. As a result, appropriations were made by Shanghai Mobile, according to its Articles of Association 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 during the year ended 31 December 2000.

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 2001, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund were RMB5,766,000,000 (2000: RMB3,263,000,000), RMB11,590,000,000 (2000: RMB9,067,000,000), RMB181,000,000 (2000: RMB175,000,000) and RMB139,000,000 (2000: RMB138,000,000) respectively.

33 Related party transactions

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, other than the Group, (the "China Mobile Group") and the China Telecom Group.

33 Related party transactions (cont'd)

As a result of the restructuring in May 2000, the Ministry of Information Industry (the "MII") ceased to have controlling interests in China Mobile, the Directorate General of Telecommunications (the "DGT") and the Provincial Telecommunications Companies (the "PTCs"). However, 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. 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. As such, the MII or entities under control of MII including the DGT and the PTCs, and the China Telecom Group since its formation, are no longer considered to be related parties of the Group since May 2000.

The following is a summary of principal related party transactions of the Group for the years ended 31 December 2001 and 2000. These transactions also constitute connected transactions under the Listing Rules. Further details of these transactions are disclosed under the paragraph "Connected transactions which are the subject of exemption under the Listing Rules" in the directors' report.

	Note	2001 RMB million	2000 RMB million
Interconnection revenue	(i)	**1,793**	1,744
Interconnection charges	(ii)	**1,772**	2,864
Leased line charges	(iii)	**278**	2,464
Roaming revenue	(iv)	**4,688**	2,674
Roaming expenses	(v)	**4,559**	2,076
Spectrum fees	(vi)	**18**	15
Operating lease charges	(vii)	**138**	226
Sales commission	(viii)	**—**	248
Debt collection service fees	(viii)	**—**	91
Roaming billing processing fees	(viii)	**201**	148
Equipment maintenance service fees	(ix)	**46**	1
Rental charges of synchronised clock ports	(x)	**—**	3
Construction and related service fees	(xi)	**161**	20
Purchase of transmission tower and transmission tower-related service and antenna maintenance service fees	(xii)	**55**	16
Prepaid card sales commission income	(xiii)	**241**	114
Prepaid card sales commission expenses	(xiii)	**315**	99

33 Related party transactions (cont'd)

Notes:

(i) Interconnection revenue represents the amounts received or receivable from the China Mobile Group in respect of long distance calls made by non-Group's subscribers.

For the year ended 31 December 2000, interconnection revenue also included amounts received or receivable from the DGT in respect of long distance calls made by non-subscribers in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan provinces ("the relevant provinces") and 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") in respect of long distance 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 China Mobile Group in respect of long distance calls made by the Group's subscribers roaming outside their registered provinces.

For the year ended 31 December 2000, interconnection expenses also included amounts paid or payable to the DGT in respect of long distance calls made by the Group's subscribers in the relevant provinces roaming outside their registered provinces and amounts paid or payable to the relevant PTCs in respect of calls made between the Group's cellular network, the fixed line networks in the relevant provinces and other GSM network operators in other provinces in the PRC.

(iii) Leased line charges represent expenses paid or payable to the China Mobile Group for the use of inter-provincial leased lines which link the Group's mobile switching centres together and with other mobile switching centres of the China Mobile Group.

For the year ended 31 December 2000, leased line charges also included expenses paid or payable to the relevant PTCs for the use of leased line.

(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 subsidiaries of China Mobile for operating leases in respect of land and buildings and others.

For the year ended 31 December 2000, operating lease charges also included rental and property management fee paid or payable to the relevant PTCs prior to May 2000.

(viii) The Group entered into certain services agreements in respect of marketing services with authorised dealers, debt collection services and roaming billing processing with subsidiaries of China Mobile or the relevant PTCs prior to May 2000.

Debt collection service fees represent the amounts paid or payable to subsidiaries of China Mobile for their provision of debt collection 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.

For the year ended 31 December 2000, sales commission, debt collection service fees and roaming billing processing fees also included amounts paid or payable to the relevant PTCs for services rendered in the relevant provinces.

33 Related party transactions (cont'd)

(ix) Equipment maintenance service fees represent the amount paid or payable to subsidiaries of China Mobile for the provision of the maintenance services to Beijing Mobile, Shanghai Mobile and Liaoning Mobile.

For the year ended 31 December 2000, equipment maintenance service fees included amounts paid or payable to Fujian PTC for services rendered in the relevant province.

(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) This represents payment made 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.

34 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2001 not provided for in the accounts were as follows:

	The Group		The Company	
	2001 RMB million	2000 RMB million	**2001 RMB million**	2000 RMB million
Commitments in respect of land and buildings				
— authorised and contracted for	**1,447**	1,632	**—**	—
— authorised but not contracted for	**3,915**	3,275	**—**	—
	5,362	4,907	**—**	—
Commitments in respect of telecommunications equipment				
— authorised and contracted for	**8,919**	9,080	**1,587**	1,737
— authorised but not contracted for	**31,419**	30,781	**—**	—
	40,338	39,861	**1,587**	1,737
Total commitments				
— authorised and contracted for	**10,366**	10,712	**1,587**	1,737
— authorised but not contracted for	**35,334**	34,056	**—**	—
	45,700	44,768	**1,587**	1,737

34 Commitments (cont'd)

(b) Operating lease commitments

At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases are payable 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 2001:					
Within one year	647	4,013	397	5,057	2
After one year but within five years	1,588	4,746	788	7,122	1
After five years	1,170	919	438	2,527	–
	3,405	9,678	1,623	14,706	3
At 31 December 2000:					
Within one year	611	4,119	289	5,019	3
After one year but within five years	1,654	8,891	757	11,302	1
After five years	1,495	2,051	305	3,851	–
	3,760	15,061	1,351	20,172	4

The Group leases certain land and buildings, leased lines and other equipment under operating leases. None of the leases includes contingent rentals.

35 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2001 to be China Mobile, a company incorporated in the PRC.

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, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi 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, was eliminated against reserves immediately on acquisition.

As a result of the Group, Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile being under common control prior to the acquisition, such acquisitions under US GAAP are considered "combinations 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 cash 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. The fixed assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were revalued as of 30 June 2000 upon their acquisitions by the Group on 10 November 2000. 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 results of operations when circumstances and events that led to the write-down or write-off cease to exist.

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 statement of income 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 and telephone number selection fee were recognised as received. Under US GAAP, effective 1 July 1999, net connection fees and telephone number selection fees received in excess of direct costs are deferred and recognised over the estimated customer usage period for the related service.

Under US GAAP, effective 1 January 2000, the Group adopted provisions of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB101"). Under SAB101, connection fees and telephone number selection fees received and incremental direct costs up to, but not exceeding such fees, are deferred and amortised over the estimated customer usage period for the related service. The cumulative effect from the adoption of SAB101 was not material.

(h) Interconnection, roaming and leased line agreements

In May 2000, the Group entered into new agreements with China Mobile for inter-provincial interconnection and domestic and international roaming services, and inter-provincial long distance transmission leased line arrangement with retrospective effect from 1 October 1999 for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile and from 1 April 1999 for Fujian Mobile, Henan Mobile and Hainan Mobile. Under HK GAAP, the net savings refunded to the Group as a result of the two agreements taking retrospective effect were recorded in operations for the year ended 31 December 2000. Under US GAAP, such net savings are deferred and amortised on a straight-line basis over seven years.

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

	2001 US$ million	**2001 RMB million**	2000 RMB million	1999 RMB million
		(except per share data)		
Net profit under HK GAAP	**3,385**	**28,015**	18,027	4,797
Adjustments:				
Effect of combination of entities under common control	**–**	**–**	7,139	4,886
Capitalised interest	**10**	**85**	17	96
Revaluation of fixed assets	**133**	**1,098**	603	3,781
Employee housing scheme	**–**	**–**	2	(227)
Deferred taxation	**(6)**	**(46)**	(395)	352
Share option scheme	**(33)**	**(277)**	(99)	(22)
Amortisation of net connection fees and telephone number selection fees	**80**	**661**	(542)	(1,511)
Amortisation of net savings from interconnection, roaming and leased line agreements	**10**	**86**	(543)	–
Deferred tax effects of US GAAP adjustments	**(66)**	**(547)**	71	(1,159)
Net profit under US GAAP	**3,513**	**29,075**	24,280	10,993
Basic and diluted net profit per share in accordance with US GAAP	**US$0.19**	**RMB1.56**	RMB1.37	RMB0.65
Basic and diluted net profit per ADS in accordance with US GAAP*	**US$0.94**	**RMB7.81**	RMB6.87	RMB3.24

* Based on a ratio of 5 ordinary shares to one ADS.

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

	2001 US$ million	2001 RMB million	2000 RMB million
Shareholders' equity under HK GAAP	**13,505**	**111,779**	83,760
Adjustments:			
Capitalised interest	**70**	**576**	491
Revaluation of fixed assets			
— cost	**(1,379)**	**(11,410)**	(11,410)
— accumulated depreciation and other	**878**	**7,265**	6,167
Deferred tax adjustments on revaluations	**156**	**1,295**	1,697
Employee housing scheme	**(144)**	**(1,193)**	(1,193)
Deemed capital contribution for employee housing scheme	**144**	**1,193**	1,193
Deferral of net connection fees and telephone number selection fees	**(168)**	**(1,393)**	(2,054)
Deferral of net savings from interconnection, roaming and leased line agreements	**(55)**	**(457)**	(543)
Recognition of deferred taxes	**146**	**1,204**	1,264
Deferred tax effects of US GAAP adjustments	**19**	**157**	288
Shareholders' equity under US GAAP	**13,172**	**109,016**	79,660

Solely for the convenience of the reader, the 31 December 2001 tables above and following information have been translated into United States dollars at the rate of US$1.00 = RMB8.2766 quoted by the People's Bank of China on 31 December 2001. 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 2001, or any other certain date.

Consolidated Statements of Income prepared under US GAAP

	Year ended 31 December			
	2001 US$ million	2001 RMB million	2000 RMB million	1999 RMB million
	(except per share data)			
Operating revenue				
Usage fees	**8,875**	**73,458**	64,220	47,726
Monthly fees	**1,702**	**14,085**	14,364	10,935
Connection fees	**223**	**1,848**	1,811	4,479
Other operating revenue	**1,460**	**12,085**	10,585	7,463
	12,260	**101,476**	90,980	70,603
Operating expenses				
Leased lines	**608**	**5,029**	7,937	7,999
Interconnection	**1,564**	**12,948**	13,773	12,550
Depreciation	**2,015**	**16,675**	14,169	12,952
Personnel	**677**	**5,602**	4,871	3,271
Other operating expenses	**2,299**	**19,026**	14,306	10,136
Write-down and write-off of analog network equipment	**–**	**–**	1,547	9,775
	7,163	**59,280**	56,603	56,683
Profit from operations	**5,097**	**42,196**	34,377	13,920
Other net income	**193**	**1,594**	1,107	628
Non-operating net income	**33**	**269**	223	191
Interest income	**104**	**857**	1,070	809
Finance costs	**(187)**	**(1,546)**	(1,399)	(938)
Profit from ordinary activities before taxation	**5,240**	**43,370**	35,378	14,610
Taxation	**(1,727)**	**(14,296)**	(11,097)	(3,617)
Profit from ordinary activities after taxation	**3,513**	**29,074**	24,281	10,993
Minority interests	**–**	**1**	(1)	–
Net profit	**3,513**	**29,075**	24,280	10,993
Basic and diluted net profit per share	**US$0.19**	**RMB1.56**	RMB1.37	RMB0.65
Basic and diluted net profit per ADS*	**US$0.94**	**RMB7.81**	RMB6.87	RMB3.24

* Based on a ratio of 5 ordinary shares to one ADS.

Consolidated Balance Sheets prepared under US GAAP

	31 December		
	2001 US$ million	2001 RMB million	2000 RMB million
ASSETS			
Current assets			
Cash and cash equivalents	**2,636**	**21,821**	27,702
Deposits with banks	**1,809**	**14,970**	12,204
Accounts receivable	**692**	**5,728**	7,252
Other receivables	**131**	**1,081**	1,299
Inventories	**124**	**1,029**	828
Prepayments and other current assets	**190**	**1,571**	1,289
Amount due from ultimate holding company	**61**	**503**	557
Amounts due from related parties	**13**	**108**	998
Total current assets	**5,656**	**46,811**	52,129
Fixed assets	**12,211**	**101,063**	82,223
Construction in progress	**2,484**	**20,557**	14,019
Investment securities	**9**	**77**	61
Interest in associates	**2**	**16**	46
Deferred tax assets	**499**	**4,132**	5,031
Deferred expenses	**157**	**1,298**	1,765
Total assets	**21,018**	**173,954**	155,274
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	**1,159**	**9,592**	8,132
Bills payable	**176**	**1,458**	1,005
Bank loans and other interest-bearing borrowings	**548**	**4,531**	10,471
Current instalments of obligations under finance leases	**110**	**908**	1,624
Taxation	**725**	**6,003**	5,471
Amounts due to related parties	**208**	**1,725**	3,449
Accrued expenses and other payables	**1,310**	**10,840**	8,408
Amount due to immediate holding company	**—**	**—**	4,136
Amount due to ultimate holding company	**29**	**241**	678
Total current liabilities	**4,265**	**35,298**	43,374
Bank loans and other interest-bearing borrowings	**2,608**	**21,591**	23,134
Deferred revenue	**871**	**7,205**	7,854
Obligation under finance leases, excluding current instalments	**98**	**812**	1,235
Total liabilities	**7,842**	**64,906**	75,597
Minority interests	**4**	**32**	17
Shareholders' equity	**13,172**	**109,016**	79,660
Total liabilities and shareholders' equity	**21,018**	**173,954**	155,274

Note: The above "Consolidated balance sheets" and "Consolidated statements of income" as at 31 December 2000 and 2001 and for each of the three years ended 31 December 1999, 2000 and 2001 include the results of the Company and its subsidiaries prepared under US GAAP as if the current Group structure had been in place throughout the relevant periods. Certain comparative figures have been reclassified to conform with current year's presentation.

FINANCIAL SUMMARY

(expressed in Renminbi)

Results

	2001 RMB million	2000 RMB million	1999 RMB million	1998 RMB million	Proforma combined 1997 RMB million
Operating revenue					
Usage fees	**73,458**	46,287	25,812	16,346	8,718
Monthly fees	**14,085**	9,623	4,981	4,347	2,692
Connection fees	**711**	2,213	4,319	3,323	3,174
Other operating revenue	**12,077**	6,861	3,511	2,329	904
	100,331	64,984	38,623	26,345	15,488
Operating expenses					
Leased lines	**5,005**	5,501	3,723	3,917	3,134
Interconnection	**13,055**	8,329	6,453	4,752	1,214
Depreciation	**17,664**	9,759	7,411	4,598	2,681
Personnel	**5,325**	3,991	2,256	1,595	756
Other operating expenses	**18,270**	10,578	5,140	3,548	2,289
	59,319	38,158	24,983	18,410	10,074
Profit from operations	**41,012**	26,826	13,640	7,935	5,414
Write-down and write-off of analog network equipment	**—**	(1,525)	(8,242)	(282)	—
Other net income	**1,594**	915	552	336	85
Non-operating net (expenses)/income	**(6)**	(5)	70	(51)	(27)
Interest income	**857**	1,006	767	1,609	656
Finance costs	**(1,740)**	(824)	(343)	(160)	(175)
Profit from ordinary activities before taxation	**41,717**	26,393	6,444	9,387	5,953
Taxation	**(13,703)**	(8,366)	(1,647)	(2,486)	(991)
Profit from ordinary activities after taxation	**28,014**	18,027	4,797	6,901	4,962
Minority interests	**1**	—	—	(1)	(7)
Profit attributable to shareholders	**28,015**	18,027	4,797	6,900	4,955

(expressed in Renminbi)

Assets and liabilities

	2001 RMB million	2000 RMB million	1999 RMB million	1998 RMB million	1997 RMB million
Fixed assets	**105,208**	87,465	42,699	33,986	18,634
Construction in progress	**19,981**	13,527	6,735	7,339	3,558
Interest in associates	**16**	46	46	30	30
Investment securities	**77**	61	–	–	–
Amounts due from related parties	**–**	–	–	–	73
Deferred tax assets	**1,476**	3,046	2,306	152	24
Deferred expenses	**180**	164	51	–	–
Net current assets	**11,513**	7,491	14,031	7,083	36,468
Total assets less current liabilities	**138,451**	111,800	65,868	48,590	58,787
Long term bank loans and other interest-bearing borrowings	**(21,591)**	(23,134)	(7,177)	(991)	(2,870)
Obligations under finance leases, excluding current instalments	**(812)**	(1,235)	(107)	–	–
Deferred revenue	**(4,237)**	(3,654)	(1,492)	(1,757)	(1,353)
Minority interests	**(32)**	(17)	–	(15)	(14)
Net assets	**111,779**	83,760	57,092	45,827	54,550

Note: The above tables summarise the Group's proforma combined results for the year ended 31 December 1997, the results of the Group for the years ended 31 December 1998, 1999, 2000 and 2001, together with the Group's assets and liabilities as at 31 December 1997, 1998, 1999, 2000 and 2001.

The Group's proforma combined results for the year ended 31 December 1997 have been prepared on a combined basis as if Guangdong Mobile and Zhejiang Mobile were subsidiaries of the Company since 1 January 1997 or since the respective dates of incorporation where these are shorter periods. The Group's results for the years ended 31 December 1998, 1999, 2000 and 2001 include the results of the Company and its subsidiaries for the period from 1 January or the date of incorporation or acquisition, if later, to 31 December of the year.

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 — A type of mobile communications technology which transmits analog signals between base stations and mobile subscribers.

Average number of subscribers — For 1998, the average number of subscribers is the arithmetic average of the number of subscribers at the beginning and the end of the corresponding calendar year. For each of 1999, 2000 and 2001, it is the weighted average of the number of subscribers in each calendar month in that year. In this annual report, the average number of subscribers is used to calculate indicators such as Minutes of Usage Per User Per Month (MOU) and Average Revenue Per User Per Month (ARPU).

Base (transceiver) station — Base (transceiver) station refers to transmitters, receivers, and antennas serving each wireless network cell. Their transmission power will determine the radius of each cell.

BOSS — Business Operation Support System, which includes billing and collecting systems, customer care centers, and sales and marketing systems.

Cellular mobile telephone system — In a cellular mobile telephone system, the coverage of an operator is divided into various cells. Each cell corresponds to the area covered by a set of transmitters and receivers and is allocated a fixed set of frequencies.

Channel — For mobile communications, a channel is a pair of frequencies for signal transmission. There are two types of channels for GSM: voice channels for the transmission of voice and data; and control channels for the transmission of network management information and channel control information, and application data information such as short message services.

Digital mobile communications	A type of mobile communications technology which transmits digital signals between base stations and mobile subscribers. Digital signals are produced by modulating the analog signals.
GSM	Global System for Mobile Communications, a pan-European mobile telephone system 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).
Interconnection	The establishment of effective communication links between telecommunications networks so as to permit the subscribers of a telecommunications service operator to communicate with the subscribers of another telecommunications service operator or to utilize the telecommunications services provided by another telecommunications service operator.
IP	Internet Protocol, the standard communication protocol used in the exchange of information between terminals or network equipment over the Internet.
IP-based long distance call	IP-based long distance call refers to the encoding of long distance call voice signals using IP Protocol and transmitting them over an IP network. In this case, the voice signals are divided into several packets and each packet is sent separately instead of setting up and maintaining a voice channel between the calling and called parties for the duration of a call.
Mobile switching center	Mobile switching center processes communications between mobile subscribers and other subscribers (such as mobile subscribers, ISDN subscribers and fixed line subscribers, etc.). Mobile switching centre includes the necessary database for the storage of subscriber information and equipment to perform subscriber mobility functions.

M-Office	"Monternet" services introduced by the Group that target the corporate subscriber and individual business subscriber markets. These services include Virtual Private Mobile Network (VPMN) and total corporate application solutions, such as group IP phone and new businesses, such as integrated corporate internal information distribution.
M-Zone	"Monternet" services introduced by the Group that target the critical "youth" market. A variety of these popular "Monternet" services are directly embedded in each user's SIM card and can be readily activated and personalised.
Network utilisation rate	The ratio of the aggregate subscriber base to the capacity of the mobile telecommunications network. At present, the capacity of the mobile telecommunications network is calculated on the basis that each wireless voice channel can support 30 subscribers.
Penetration rate	The total number of subscribers (including the estimated subscribers using the services of other operators) divided by the total population in the designated area.
Roaming	A service which allows a subscriber to use his or her handset while outside of his or her home location. Roaming requires an agreement between operators in order to permit subscribers to access the other operator's system.
SIM card	Subscriber Identity Module card which is the necessary identification for subscribers to connect to the network and which contains a GSM encryption algorithm to ensure secure communications. The SIM card contains the personal identification number of the subscriber as well as basic subscriber data and network information.

VPMN	A flexible and convenient telecommunication service which is provided to the corporate customers by means of a dedicated logical network on the Group's mobile telecommunications network, utilising methodologies such as unique code planning. VPMN provides personalised services and a means for providing comprehensive solutions to the corporate customers.
3G (Third Generation mobile telecommunications technologies)	Third Generation mobile telecommunications technologies are focused on providing wireless broadband multi-media communications services including high-speed data services, imaging services and global roaming.