

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 (<i>note</i>)
Li Zhenqun	100 American depositary shares (<i>note</i>)
Ding Donghua	500 American depositary shares (<i>note</i>)

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	—

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	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
		<u>115,851,000</u>						
		(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