

Report of the Directors

The directors take pleasure in submitting their annual report together with the audited accounts for the year ended 31 December 2002.

Principal activities

The Group's principal activity is providing mobile communications and related services in Guangdong, Zhejiang, Jiangsu, Fujian, Henan, Hainan, Shandong, Liaoning, Hebei, Anhui, Jiangxi, Sichuan, Hubei, Hunan, Shaanxi and Shanxi provinces, Beijing, Shanghai, Tianjin and Chongqing municipalities and Guangxi Zhuang Autonomous Region of the People's Republic of China ("China"). The principal activity of the Company is investment holding.

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

Major customers and suppliers

The Group's aggregate turnover with its five largest customers did not exceed 30 per cent. of the Group's total turnover in 2002.

Purchases from the largest supplier for the year represented 11 per cent. of the Group's total purchases. The five largest suppliers accounted for an aggregate of 38 per cent. of the Group's purchases in 2002. Purchases for the Group include 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 material to the Group's total purchases.

One of the five largest suppliers above is the Company's ultimate holding company and its subsidiaries (other than the Group). Details of such 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 as at 31 December 2002 are set out in Note 16 and Note 17, respectively, to the Accounts.

Accounts

The profit of the Group for the year ended 31 December 2002 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 64 to 115.

Dividends

The Company holds in the highest regard the interests of its shareholders and the returns achieved for its shareholders, especially minority shareholders. Taking into account such factors as the Company's business growth, financial position and cash flow, the Board is of the view that the Company has sufficient cash flow and financial strength to support its long-term development targets and to make a cash payout to shareholders. Having also considered the need to maintain sufficient financial resources and the capability to complete future acquisitions and investments in quality assets, as well as a possible share buy-back under appropriate circumstances with a view to generating the best possible return for shareholders, the Board recommends the first ever payment of a final dividend of HK\$0.32 per share for the financial year ended 31 December 2002, representing a dividend payout ratio of 20 per cent. The Company will



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endeavor to achieve a sustainable, steadily increasing dividend, with a view to generating the best possible return for shareholders.

Charitable donations

Donations made by the Group during the year amounted to RMB9,545,750 (2001: RMB2,334,179).

Fixed assets

Changes to the fixed assets of the Group and the Company during the year are set out in Note 13 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.

Shares were issued during the year to finance the acquisition of the entire issued share capital of Anhui Mobile (BVI) Limited, Jiangxi Mobile (BVI) Limited, Chongqing Mobile (BVI) Limited, Sichuan Mobile (BVI) Limited, Hubei Mobile (BVI) Limited, Hunan Mobile (BVI) Limited, Shaanxi Mobile (BVI) Limited and Shanxi Mobile Communication (BVI) Limited by China Mobile Hong Kong (BVI) Limited ("CMHK (BVI)").

Fixed rate notes and bonds

Details of the fixed rate notes and bonds of the Group are set out in Note 25 to the Accounts.

Convertible notes

Details of the convertible notes of the Group are set out in Note 25 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 (<i>Chairman</i>)	
XUE Taohai	(appointed on 3 July 2002)
LI Zhenqun	
DING Donghua	(resigned on 3 July 2002)
LI Gang	
XU Long	
HE Ning	
LIU Ping	
YUAN Jianguo	
WEI Yiping	

Independent non-executive directors:

Sir Christopher GENT	
Dr. LO Ka Shui	
Frank WONG Kwong Shing	(appointed on 14 August 2002)
Professor Arthur LI Kwok Cheung	(resigned on 1 August 2002)

On 18 March 2003, Messrs LI Yue and LU Xiangdong were appointed as executive directors and Messrs ZHANG Ligui and CHENG Mo Chi, Moses, were appointed as a non-executive director and an independent non-executive director of the Company, respectively.

On 18 March 2003, Messrs LI Zhenqun, LIU Ping, YUAN Jianguo and WEI Yiping resigned from their posts as directors of the Company.



In accordance with Article 97 of the Company's Articles of Association, Mr. HE Ning and Dr. LO Ka Shui will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election. In accordance with Article 101 of the Company's Articles of Association, Messrs ZHANG Ligui, LI Yue, LU Xiangdong, XUE Taohai, Frank WONG Kwong Shing and CHENG Mo Chi, Moses, will also retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' service contracts

None of those directors proposed for re-election at the forthcoming annual general meeting 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 under 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 2002, 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>)

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 schemes" below. These share options are granted to the relevant directors pursuant to the terms of the share option schemes adopted by the Company.

Apart from the foregoing, as at 31 December 2002, 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 schemes

Share Option Schemes of the Company

Pursuant to a resolution passed at the annual general meeting held on 24 June 2002, the share option scheme established on 8 October 1997 (the "Old Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted.

The purpose of the Old Scheme was to provide an incentive to the employees and directors of the Company and/or its subsidiaries. Under the Old Scheme, 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 of the Company. As set out in the Company's circular to shareholders dated 8 April 2002, the purpose of the New Scheme is to provide the Company with a flexible and effective means of remunerating and providing benefits to the employees, the executive directors and the non-executive directors of the Company, any of its holdings companies and their respective subsidiaries and any entity in which the Company or any of its subsidiaries holds any equity interest (the "Participants"), thereby incentivizing the Participants. Under the New Scheme, the directors of the



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Company may, at their discretion, invite the Participants to take up options to subscribe for shares of the Company.

The maximum aggregate number of shares which can be subscribed pursuant to options that are or may be granted under the above schemes equals to 10 per cent. of the total issued share capital of the Company as at the date of adoption of the New Scheme. Options lapsed or cancelled in accordance with the terms of the Old Scheme or the New Scheme will not be counted for the purpose of calculating this 10 per cent. limit.

As the Old Scheme was terminated with effect on 24 June 2002, no further options can be granted under the Old Scheme thereafter. As at 31 December 2002, the total number of shares which may be issued on the exercise of the outstanding options granted under the Old Scheme is 112,761,500, representing approximately 0.57 per cent. of the issued share capital of the Company as at the date of this annual report. As at the same date, the total number of shares which may be issued on the exercise of the outstanding options granted or to be granted under the New Scheme is 1,773,844,445, representing approximately 9.02 per cent. of the issued share capital of the Company as at the date of this annual report. The consideration payable for the grant of each option under each of the Old Scheme and the New Scheme is HK\$1.00.

For options granted before 1 September 2001 under the Old Scheme, the exercise price of the options was determined by the directors of the Company at their discretion provided 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 price of the share on The Stock Exchange of Hong Kong Limited (the "SEHK") on the five trading days immediately preceding the date on which the option was granted.

With effect from 1 September 2001, the SEHK requires that the exercise price of options to be at least the higher of the nominal value of a share, the closing price of the shares on the SEHK on the date on which the option was granted and the average closing price of the shares on the SEHK for the five trading days immediately preceding the date on which the option was granted. During the year ended 31 December 2002, no option was granted under the Old Scheme.

For options granted under the New Scheme, the exercise price of the options shall be determined by the directors of the Company at their discretion provided that such price may not be set below a minimum price which is the highest of:

- (i) the nominal value of a share;
- (ii) the closing price of the shares on the SEHK on the date on which the option was granted; and
- (iii) the average closing price of the shares on the SEHK for the five trading days immediately preceding the date on which the option was granted.

Share options involving 150,476,500 shares were granted under the New Scheme during the year ended 31 December 2002.

Under both the Old Scheme and the New Scheme, the term of the option is determined by the directors at their discretion, provided that all options shall be exercised within 10 years after the adoption of the scheme (in the case of the Old Scheme) and within 10 years after the date on which the option is granted (in the case of the New Scheme).



As at 31 December 2002, the directors and employees of the Company had the following personal interests in the options to subscribe for shares of the Company granted under both the Old Scheme and, from 24 June 2002 onwards, the New Scheme.

	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\$
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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	60,000	22 June 2001	22 June 2003 to 7 October 2007	—	—	32.10	—
	60,000	60,000	22 June 2001	22 June 2006 to 7 October 2007	—	—	32.10	—
	—	150,000	3 July 2002	3 July 2004 to 2 July 2012	—	—	22.85	—
	—	150,000	3 July 2002	3 July 2007 to 2 July 2012	—	—	22.85	—
XUE Taohai	—	100,000	3 July 2002	3 July 2004 to 2 July 2012	—	—	22.85	—
	—	100,000	3 July 2002	3 July 2007 to 2 July 2012	—	—	22.85	—
LI Zhenqun	560,000	560,000	22 June 2001	22 June 2003 to 7 October 2007	—	—	32.10	—
	560,000	560,000	22 June 2001	22 June 2006 to 7 October 2007	—	—	32.10	—
	—	100,000	3 July 2002	3 July 2004 to 2 July 2012	—	—	22.85	—
	—	100,000	3 July 2002	3 July 2007 to 2 July 2012	—	—	22.85	—
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	50,000	22 June 2001	22 June 2003 to 7 October 2007	—	—	32.10	—
	50,000	50,000	22 June 2001	22 June 2006 to 7 October 2007	—	—	32.10	—
	—	95,000	3 July 2002	3 July 2004 to 2 July 2012	—	—	22.85	—
	—	95,000	3 July 2002	3 July 2007 to 2 July 2012	—	—	22.85	—
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	47,500	22 June 2001	22 June 2003 to 7 October 2007	—	—	32.10	—
	47,500	47,500	22 June 2001	22 June 2006 to 7 October 2007	—	—	32.10	—
	—	90,000	3 July 2002	3 July 2004 to 2 July 2012	—	—	22.85	—
	—	90,000	3 July 2002	3 July 2007 to 2 July 2012	—	—	22.85	—



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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\$
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	45,000	22 June 2001	22 June 2003 to 7 October 2007	—	—	32.10	—
	45,000	45,000	22 June 2001	22 June 2006 to 7 October 2007	—	—	32.10	—
	—	90,000	3 July 2002	3 July 2004 to 2 July 2012	—	—	22.85	—
	—	90,000	3 July 2002	3 July 2007 to 2 July 2012	—	—	22.85	—
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	40,000	22 June 2001	22 June 2003 to 7 October 2007	—	—	32.10	—
	40,000	40,000	22 June 2001	22 June 2006 to 7 October 2007	—	—	32.10	—
	—	50,000	3 July 2002	3 July 2004 to 2 July 2012	—	—	22.85	—
	—	50,000	3 July 2002	3 July 2007 to 2 July 2012	—	—	22.85	—
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	45,000	22 June 2001	22 June 2003 to 7 October 2007	—	—	32.10	—
	45,000	45,000	22 June 2001	22 June 2006 to 7 October 2007	—	—	32.10	—
	—	80,000	3 July 2002	3 July 2004 to 2 July 2012	—	—	22.85	—
	—	80,000	3 July 2002	3 July 2007 to 2 July 2012	—	—	22.85	—
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	40,000	22 June 2001	22 June 2003 to 7 October 2007	—	—	32.10	—
	40,000	40,000	22 June 2001	22 June 2006 to 7 October 2007	—	—	32.10	—
	—	50,000	3 July 2002	3 July 2004 to 2 July 2012	—	—	22.85	—
	—	50,000	3 July 2002	3 July 2007 to 2 July 2012	—	—	22.85	—
Employees*	2,100,000	—	9 March 1998	9 March 1998 to 8 March 2006	—	2,100,000	11.10	22.65
	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	—
	12,667,000	12,564,000	25 April 2000	25 April 2002 to 7 October 2007	103,000	—	45.04	—
	12,667,000	12,564,000	25 April 2000	25 April 2005 to 7 October 2007	103,000	—	45.04	—



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\$
37,224,000	36,832,250	22 June 2001	22 June 2003 to 7 October 2007	391,750	—	32.10	—
37,224,000	36,832,250	22 June 2001	22 June 2006 to 7 October 2007	391,750	—	32.10	—
—	74,299,500	3 July 2002	3 July 2004 to 2 July 2012	133,750	—	22.85	—
—	74,299,500	3 July 2002	3 July 2007 to 2 July 2012	133,750	—	22.85	—
	<u>262,970,500</u>						

(note)

* The number of shares involved in the options outstanding at the beginning of the year included Mr. DING Donghua's share options involving 3,520,000 shares. Mr. DING Donghua resigned as a director of the Company on 3 July 2002.

Note: The total number of shares involved in the options outstanding at the end of the year represents 1.3 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 options were granted during the year was HK\$22.65.

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

The weighted average value per option granted in 2002 estimated on the date on which the options were granted by using the Black-Scholes option pricing model was HK\$9.15 (2001: HK\$29.46). The weighted average was calculated by using the following assumptions:

	2002	2001
Risk-free interest rate	5.3%	5.5%
Expected life (in years)	10	6
Volatility	32.44%	65.92%
Expected dividend per share (based on historical dividend)	HK\$0.32	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. Since the characteristics of the Company's share options are significantly different from those of traded options, and the changes in the subjective assumptions can materially affect the estimated fair value of the share options, the Black-Scholes option pricing model does not necessarily provide a reliable calculation of the fair value of the share options.

Share Option Scheme of Aspire Holdings Limited

Pursuant to a resolution passed at the annual general meeting of the Company held on 24 June 2002, the share option scheme (the "Aspire Scheme") of Aspire Holdings Limited ("Aspire") was adopted.

As set out in the Company's circular to shareholders dated 8 April 2002, the purpose of the Aspire Scheme is to provide Aspire with a flexible and effective means of remunerating and providing benefits to the employees, the executive directors and the non-executive directors of



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Aspire or any of its subsidiaries (the "Aspire Participants"), thereby incentivizing the Aspire Participants. Under the Aspire Scheme, the board of directors of Aspire may, at their discretion, invite the Aspire Participants to take up options to subscribe for shares of Aspire (the "Aspire Shares").

The maximum aggregate number of Aspire Shares which can be subscribed pursuant to options that are or may be granted under the Aspire Scheme equals to 10 per cent. of the total issued share capital of Aspire as at the date of adoption of the Aspire Scheme. Options lapsed or cancelled in accordance with the terms of the Aspire Scheme will not be counted for the purpose of calculating this 10 per cent. limit. As at 31 December 2002, the total number of shares which may be issued on the exercise of the outstanding options granted or to be granted under the Aspire Scheme was 93,964,582, representing 10 per cent. of the issued share capital of Aspire as at the date of this annual report.

The consideration payable by an Aspire Participant for the grant of each option is HK\$1.00.

For options granted under the Aspire Scheme, the exercise price of the options shall be determined by the directors of Aspire at their discretion provided that such price may not be set below a minimum price which is the higher of:

- (i) US\$0.298; and
- (ii) the price determined by applying a maximum discount of 20 per cent. to the price per Aspire Share calculated by dividing the valuation of Aspire as a whole by the aggregate number of issued Aspire Shares at the time of employment/ appointment of the Aspire Participant or the grant of the options to the Aspire Participant (as the case may be),

provided, however, that 10 per cent. of the options to be granted under the Aspire Scheme may have an exercise price less than (i) and (ii) above but not less than US\$0.182.

Under the Aspire Scheme, the term of the option is determined by the directors of Aspire at their discretion, provided that all options shall be exercised within 10 years after the date on which the option is granted.

Under the vesting conditions of the options under the Aspire Scheme:

- (a) 50 per cent. of any options granted shall be exercisable (i) 2 years after the time of commencement of employment (or the appointment as director) of the relevant Aspire Participant (in the case of options specified in the employment contract with the relevant Aspire Participant) or (in other cases) the date on which the Aspire Participant is offered with the option or (ii) after listing of Aspire, whichever is later; and
- (b) the remaining 50 per cent. of such options shall be exercisable 3 years after the initial 50 per cent. of the options becomes exercisable.

No options were granted under the Aspire Scheme during the year.

Apart from the foregoing, at no time during the year was the Company, or any 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 that, as at 31 December 2002, the following interests in the Company's issued shares amount to 10 per cent. or more of the ordinary shares in issue:

	Ordinary shares held directly	Ordinary shares held indirectly	Percentage of total issued shares
(i) China Mobile Communications Corporation ("China Mobile")	—	14,890,116,842	75.69%
(ii) China Mobile (Hong Kong) Group Limited ("CMHK (Group)")	—	14,890,116,842	75.69%
(iii) CMHK (BVI)	14,890,116,842	—	75.69%

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 2002, 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 (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 (and its subsidiaries) amounted to RMB26,000,000 for the year ended 31 December 2002.

In the opinion of the independent non-executive directors, the connected 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 2002:
 - (1) collection service charges payments payable by the Group, other than Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile (collectively, the "Relevant Subsidiaries") to subsidiaries of China Mobile have not exceeded 0.1 per cent. of the Group's turnover for the year ended 31 December 2002; and sales service charges



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- payments payable by the Group, other than the Relevant Subsidiaries, to subsidiaries of China Mobile have not exceeded 0.3 per cent. of the Group's turnover for the year;
- (2) rental payments and property management fees payable by the Group (other than the Relevant Subsidiaries) to subsidiaries of China Mobile have not exceeded 0.56 per cent. of the Group's turnover for the year ended 31 December 2002;
- (3) construction and related services fees payable by the Group (other than the Relevant Subsidiaries) to subsidiaries of China Mobile have not exceeded 0.25 per cent. of the Group's turnover for the year ended 31 December 2002;
- (4) equipment maintenance and related services fees payable by the Group (other than the Relevant Subsidiaries) to subsidiaries of China Mobile have not exceeded 0.05 per cent. of the Group's turnover for the year ended 31 December 2002;
- (5) payments to the relevant subsidiaries of China Mobile by Hebei Mobile in respect of the purchase of transmission towers, transmission tower-related services and antenna maintenance services have not exceeded 0.06 per cent. of the Group's turnover for the year ended 31 December 2002;
- (6) handling charges received by the Group (other than the Relevant Subsidiaries) 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 2002 and handling charges paid by the Group (other than the Relevant Subsidiaries) 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 2002;
- (7) platform development charges payable by each of the Group (other than the Relevant Subsidiaries) 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 2002;
- (8) handling charges received by the Relevant Subsidiaries from the subsidiaries of China Mobile in respect of prepaid services have not exceeded 1 per cent. of the Group's turnover for the year ended 31 December 2002 and handling charges paid by the Relevant Subsidiaries to subsidiaries of China Mobile in respect of prepaid services have not exceeded 1 per cent. of the Group's turnover for the year ended 31 December 2002;
- (9) payment in respect of telecommunications projects planning, design and construction services and telecommunications lines and pipelines construction services payable by the Relevant Subsidiaries to the subsidiaries of China Mobile have not exceeded 0.25 per cent. of the Group's turnover for the year ended 31 December 2002;
- (10) telecommunications lines maintenance services payments payable by the Relevant Subsidiaries to the subsidiaries of China Mobile have not exceeded 0.04 per cent. of the Group's turnover for the year ended 31 December 2002;
- (11) property leasing and property management services payments payable by the Relevant Subsidiaries to the subsidiaries of China



Mobile have not exceeded 0.25 per cent. of the Group's turnover for the year ended 31 December 2002; and

- (12) payments to Hubei Communication Services Company (a subsidiary of China Mobile) by the Group in respect of the purchase of transmission towers and related services have not exceeded 0.5 per cent. of the Group's turnover for the year ended 31 December 2002.

The Company has received a letter from the auditors 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 2002 are set out in Note 25 to the Accounts.

Financial summary

A summary of the audited results and of the audited statements of the assets and liabilities of the Group for the last five financial years is set out on pages 125 and 126.

Employee retirement benefits

Particulars of the employee retirement benefits of the Group are set out in Note 29 to the Accounts.

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 shall be proposed at the forthcoming annual general meeting.

By order of the board

Wang Xiaochu

Chairman

Hong Kong, 18 March 2003

