

## REPORT OF THE DIRECTORS

The directors take pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2003.

### Principal activities

The Group's principal activity is providing mobile telecommunications 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 2003.

Purchases from the largest supplier for the year represented 12 per cent. of the Group's total purchases. The five largest suppliers accounted for an aggregate of 39 per cent. of the Group's purchases in 2003. 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.

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 five largest suppliers.

### Subsidiaries and associates

Particulars of the Company's subsidiaries and the Group's associates as at 31 December 2003 are set out in Note 17 and Note 18, respectively, to the financial statements.

### Financial statements

The profit of the Group for the year ended 31 December 2003 and the state of the Company's and the Group's financial affairs as at that date are set out in the financial statements on pages 66 to 112.

### Dividends

The Company holds in the highest regard the interests of its shareholders and the returns achieved for its shareholders, especially minority shareholders. Having taken into account such factors as the Company's financial position, cash flow position and requirements to ensure the sustainable future growth of the Company's business, particularly the current acquisition of the mobile telecommunications companies in 10 provinces and autonomous regions in Mainland China, the Board recommends payment of a final dividend of HK\$0.20 per share for the financial year ended 31 December 2003. This, together with the interim dividend of HK\$0.16 per share already paid during 2003, amounts to an aggregate dividend payment of HK\$0.36 per share for the full financial year, representing an increase of 12.5 per cent. over the annual dividend of HK\$0.32 per share for the financial year 2002 and a dividend payout ratio of 21 per cent. The Board is of the view that the Company's strong free cash flow will be capable of supporting the investments required for sustained and steady growth and to generate a good cash return to shareholders. The Company will endeavour to achieve a long-term 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 RMB22,006,752 (2002: RMB9,545,750).

### Fixed assets

Changes to the fixed assets of the Group and the Company during the year are set out in Note 14 to the financial statements.

### Share capital and share option scheme

Details of the Company's share capital and share option scheme are set out in Note 31 and Note 32, respectively, to the financial statements.

### Fixed rate notes and bonds

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

### Convertible notes

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

### Reserves

Changes to the reserves of the Group and the Company during the year are set out in Note 33 to the financial statements.

### Directors

The directors during the financial year were:

#### Executive directors:

|                         |                              |
|-------------------------|------------------------------|
| WANG Xiaochu (Chairman) |                              |
| LI Yue                  | (appointed on 18 March 2003) |
| LU Xiangdong            | (appointed on 18 March 2003) |
| XUE Taohai              |                              |
| HE Ning                 |                              |
| LI Gang                 |                              |
| XU Long                 |                              |
| LI Zhenqun              | (resigned on 18 March 2003)  |
| LIU Ping                | (resigned on 18 March 2003)  |
| YUAN Jianguo            | (resigned on 18 March 2003)  |
| WEI Yiping              | (resigned on 18 March 2003)  |

#### Independent non-executive directors:

|                        |                              |
|------------------------|------------------------------|
| Sir Christopher GENT   | (resigned on 12 August 2003) |
| Dr. LO Ka Shui         |                              |
| Frank WONG Kwong Shing |                              |
| Moses CHENG Mo Chi     | (appointed on 18 March 2003) |

#### Non-executive directors:

|                    |                               |
|--------------------|-------------------------------|
| ZHANG Ligui        | (appointed on 18 March 2003)  |
| Dr. J. Brian CLARK | (appointed on 12 August 2003) |

In accordance with Article 97 of the Company's Articles of Association, Messrs XUE Taohai, LI Gang, XU Long and Moses CHENG Mo Chi 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, Dr. J. Brian CLARK, will also retire at the forthcoming annual general meeting and, being eligible, offer himself 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' and chief executive's interest and short positions in shares, underlying shares and debentures

The director and chief executive of the Company who held office at 31 December 2003 had the following interests or short positions in any of the shares, underlying shares or debentures of the Company, or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:

| Name of director | Personal interest                     |
|------------------|---------------------------------------|
| WANG Xiaochu     | 500 American depositary shares (Note) |

Note: As at 31 December 2003, one 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 were granted pursuant to the terms of the share option schemes adopted by the Company.

Apart from those disclosed herein, as at 31 December 2003, none of the directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations that is required to be recorded and kept in the register in accordance with section 352 of the Ordinance, any interests required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### 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 the current share option scheme (the "Current 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 in the Company.

As set out in the Company's circular to shareholders dated 8 April 2002, the purpose of the Current 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 Current Scheme, the directors of the Company may, at their discretion, invite the Participants to take up options to subscribe for shares in 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 Current Scheme. Options lapsed or cancelled in accordance with the terms of the Old Scheme or the Current 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 were granted under the Old Scheme thereafter. As at 31 December 2003, the total number of shares which may be issued on the exercise of the outstanding options granted under the Old Scheme is 110,476,500, representing approximately 0.56 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 Current Scheme is 1,760,060,445, representing approximately 8.95 per cent. of the issued share capital of the Company as at the date of this annual report. However, the total number of shares in the Company issued and to be issued upon exercise of the options granted to a Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the issued share capital of the Company. The consideration payable for the grant of each option under each of the Old Scheme and the Current Scheme is HK\$1.00.

For options granted before 1 September 2001 under the Old Scheme, the exercise price of 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 on the five trading days immediately preceding the date on which the option was granted.

With effect from 1 September 2001, the Stock Exchange 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 Stock Exchange on the date on which the option was granted and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date on which the option was granted.

For options granted under the Current 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 Stock Exchange on the date on which the option was granted; and
- (iii) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date on which the option was granted.

No share options were granted under the Current Scheme, and no share options granted under the Old Scheme or the Current Scheme were exercised, during the year ended 31 December 2003.

Under both the Old Scheme and the Current 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 Current Scheme).

As at 31 December 2003, the directors, chief executive and employees of the Company had the following personal interests in options to subscribe for shares of the Company granted under the Old Scheme and the Current 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 lapsed during the year | Price per share to be paid on exercise of options HK\$ |
|--|--|---|------------------------------------|--|--|--|
| <b>Directors</b>                                   |  |   |                                    |  |  |  |
| WANG Xiaochu<br>(also the chief executive officer) | 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  | 150,000   | 3 July 2002                        | 3 July 2004 to 2 July 2012                         | —  | 22.85  |
|  | 150,000  | 150,000   | 3 July 2002                        | 3 July 2007 to 2 July 2012                         | —  | 22.85  |
| XUE Taohai   | 100,000  | 100,000   | 3 July 2002                        | 3 July 2004 to 2 July 2012                         | —  | 22.85  |
|  | 100,000  | 100,000   | 3 July 2002                        | 3 July 2007 to 2 July 2012                         | —  | 22.85  |
| 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   | 90,000  | 3 July 2002                        | 3 July 2004 to 2 July 2012                         | —  | 22.85  |
|  | 90,000   | 90,000  | 3 July 2002                        | 3 July 2007 to 2 July 2012                         | —  | 22.85  |

|         | 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 lapsed during the year | Price per share to be paid on 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   | 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   | 95,000  | 3 July 2002                        | 3 July 2004 to 2 July 2012                         | —  | 22.85  |
|         | 95,000   | 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   | 90,000  | 3 July 2002                        | 3 July 2004 to 2 July 2012                         | —  | 22.85  |
|         | 90,000   | 90,000  | 3 July 2002                        | 3 July 2007 to 2 July 2012                         | —  | 22.85  |

|                   | 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 lapsed during the year | Price per share to be paid on exercise of options HK\$ |
|-------------------|--|---|------------------------------------|--|--|--|
| <b>Employees*</b> | 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  |
|                   | 14,303,000   | 13,828,000  | 25 April 2000                      | 25 April 2002 to 7 October 2007                    | 475,000  | 45.04  |
|                   | 14,303,000   | 13,828,000  | 25 April 2000                      | 25 April 2005 to 7 October 2007                    | 475,000  | 45.04  |
|                   | 37,517,250   | 36,849,750  | 22 June 2001                       | 22 June 2003 to 7 October 2007                     | 667,500  | 32.10  |
|                   | 37,517,250   | 36,849,750  | 22 June 2001                       | 22 June 2006 to 7 October 2007                     | 667,500  | 32.10  |
|                   | 74,579,500   | 73,718,750  | 3 July 2002                        | 3 July 2004 to 2 July 2012                         | 860,750  | 22.85  |
|                   | 74,579,500   | 73,718,750  | 3 July 2002                        | 3 July 2007 to 2 July 2012                         | 860,750  | 22.85  |
|                   |  | <u>258,964,000</u> (Note)                                     |                                    |  |  |  |

\* The number of shares involved in the options outstanding at the beginning of the year included share options granted to Messrs LI Zhenqun, LIU Ping, YUAN Jianguo and WEI Yiping involving 1,320,000 shares, 1,342,000 shares, 1,410,000 shares and 1,336,000 shares, respectively. All of these persons resigned as directors of the Company on 18 March 2003.

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 annual report.

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

#### Share Option Scheme of Aspire Holdings Limited (“Aspire”)

Pursuant to a resolution passed at the annual general meeting of the Company held on 24 June 2002, the share option scheme of Aspire (the “Aspire Scheme”) 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 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 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 2003, 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. However, the total number of Aspire Shares issued and to be issued upon exercise of the options granted to an Aspire Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the issued share capital of Aspire.

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 of which the option is granted.

Under the vesting conditions of the options under 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.

As at 31 December 2003, a director and the employees of Aspire had the following personal interests in options to subscribe for shares of Aspire granted under the Aspire 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<br>US\$ |
|-----------------------|--|---|------------------------------------|--|---|---|---|
| Director of Aspire *  | —  | 2,800,000   | 18 February 2003                   | (Note 2)   | —   | —   | 0.182   |
| Employees of Aspire * | —  | 13,315,000  | 18 February 2003                   | (Note 3)   | 865,000   | —   | 0.298   |
|                       | —  | 820,000   | 18 April 2003                      | (Note 3)   | 30,000  | —   | 0.298   |
|                       | —  | <u>3,280,000</u>  | 16 September 2003                  | (Note 3)   | 1,880,000   | —   | 0.298   |
|                       |  | <u>20,215,000</u> (Note 1)                                    |                                    |  |   |   |   |

\* During the year ended 31 December 2003, no share options have been granted under the Aspire Scheme for the directors and chief executive of the Company.



Note 1: The total number of shares involved in the options outstanding at the end of the year represents 2.15 per cent. of the issued share capital of Aspire as at the date of this annual report.

Note 2: (a) 50 per cent. of the options are exercisable between the period:

- commencing on the later of: (i) two years after the date of appointment as director or (ii) the listing of the shares of Aspire; and
- ending on 17 February 2013; and

(b) the remaining 50 per cent. of such options shall be exercisable between the period commencing three years after the initial 50 per cent. of the option becomes exercisable and ending on 17 February 2013.

Note 3: (a) 50 per cent. of the options granted to a particular employee are exercisable between the period:

- commencing on the later of: (i) two years after the commencement of employment of that employee or the option offer date (as the case may be) or (ii) the listing of the shares of Aspire; and
- ending on the date falling 10 years from the option grant date; and

(b) the remaining 50 per cent. of such options shall be exercisable between the period commencing three years after the initial 50 per cent. of the option becomes exercisable and ending on the date falling 10 years from the option grant date.

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

Since the options granted pursuant to the Aspire Scheme are for the subscription of shares in Aspire which are not listed, the value of the options granted is not required to be disclosed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In any event, since (i) the shares in Aspire are not listed, (ii) the options granted under the Aspire Scheme are not freely transferable (and hence there is no open market for transacting these options); and (iii) the grantee of an option will also not be able to charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any option, any valuation of the options will necessarily be based on subjective assumptions, and may not provide a reliable measure of the fair value of the options and would potentially be misleading to the shareholders of the Company.

Apart from the foregoing, at no time during the year was the Company, any of its holding companies or subsidiaries, a party for any arrangement to enable the directors or chief executive 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 Shareholders' and other persons' interests and short positions in shares and underlying shares

The Company has been notified of the following interests in the Company's issued shares at 31 December 2003 amounting to 5 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") | —                    | 14,890,116,842 | 75.69%                            |
| (ii) China Mobile (Hong Kong) Group Limited ("CMHK (Group)") | —                    | 14,890,116,842 | 75.69%                            |
| (iii) China Mobile Hong Kong (BVI) Limited ("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 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 2003, 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 336 of the Ordinance as having an interest in 5 per cent. or more of, or any short position in, the issued share capital of the Company.

### Connected transactions which are the subject of exemption under the Listing Rules

Details of the transactions as set out in rule 14.23(2) of the Listing Rules are set out in Note 34 to the financial statements. 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 RMB19,000,000 for the year ended 31 December 2003 (2002: RMB26,000,000).

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 2003:
- (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 2003; and sales service charges 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 2003;
  - (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 2003;
  - (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 2003;
  - (5) payments to the relevant subsidiaries of China Mobile by Hebei Mobile Communication Company Limited 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 2003;
  - (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 2003 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 2003;
  - (7) 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 2003 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 2003;
  - (8) platform development charges payable by each of the Group and China Mobile to Aspire or its subsidiaries have not exceeded 3 per cent. of the Group’s consolidated net tangible assets as at 31 December 2003;
  - (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 2003;
  - (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 2003;

- (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 2003; 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 2003.

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 financial statements; 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 2003 are set out in Note 26 to the financial statements.

### **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 121 and 122.

### **Employee retirement benefits**

Particulars of the employee retirement benefits of the Group are set out in Note 30 to the financial statements.

### **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 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 2004