

# 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 2004.

## Principal activities

The Group's principal activity is providing mobile telecommunications and related services in thirty-one provinces, autonomous regions and directly-administered municipalities in Mainland 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 telecommunications 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 2004.

Purchases from the largest supplier for the year represented 16 per cent. of the Group's total purchases. The five largest suppliers accounted for an aggregate of 46 per cent. of the Group's purchases in 2004. 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 2004 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 2004 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 76 to 140.

## Dividends

The Board considers that the Company's strong free cash flow is capable of supporting the Company's development, while also providing shareholders with a favorable cash return. 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, the Board recommends payment of a final dividend of HK\$0.46 per share for the financial year ended 31 December 2004. This, together with the interim dividend of HK\$0.20 per share already paid during 2004, amounts to an aggregate dividend payment of HK\$0.66 per share for the full financial year, representing an increase of 83.3 per cent. over the annual dividend of HK\$0.36 per share for the financial year 2003 and a dividend payout ratio of 32.7 per cent.

The Company will endeavor to achieve a sustainable and 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 RMB20,127,742 (2003: RMB22,006,752).

### **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 Jianzhou (Chairman)	(appointed on 5 November 2004)
WANG Xiaochu	(resigned on 5 November 2004)
LI Yue	
LU Xiangdong	
XUE Taohai	
ZHANG Chenshuang	(appointed on 20 July 2004)
LI Mofang	(appointed on 20 July 2004)
HE Ning	
LI Gang	
XU Long	

### Independent non-executive directors:

Dr. LO Ka Shui  
 Frank WONG Kwong Shing  
 Moses CHENG Mo Chi

### Non-executive directors:

ZHANG Ligui (resigned on 5 November 2004)  
 Dr. J. Brian CLARK

On 11 March 2005, Dr. J. Brian CLARK resigned and Sir Julian Michael HORN-SMITH was appointed as a non-executive director.

In accordance with Article 97 of the Company's Articles of Association, Mr. LI Yue, Mr. HE Ning and Mr. Frank WONG Kwong Shing 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, Mr. WANG Jianzhou, Mr. ZHANG Chenshuang, Madam LI Mofang and Sir Julian Michael HORN-SMITH, will also retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The biographical details of the directors proposed for re-election at the forthcoming annual general meeting ("Directors for Re-election") are set out on pages 6 to 9. Except as disclosed in such biographical details, the Directors for Re-election have not held any other directorships in any listed public companies in the last three years. Further, except as noted in the biographical details, none of the Directors for Re-election is connected with any directors, senior management or substantial or controlling shareholders of the Company and, except for the share options granted to the Directors for Re-election (other than Mr. Frank WONG Kwong Shing and Sir Julian Michael HORN-SMITH) as set out in the paragraph "Share option schemes" below, none of them has any interests in the shares of the Company within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO").

The service contracts of all the Directors for Re-election do not provide for a specified length of services and each of such directors will be subject to retirement by rotation and re-election at annual general meetings of the Company every three years. Each of the Directors for Re-election is entitled to an annual director's fee of HK\$180,000 as proposed by the board of directors and approved by the shareholders of the Company.

Director's fees are payable on a time pro-rata basis for any non full year's service. Mr. Frank WONG Kwong Shing is also entitled to an additional annual fee of HK\$140,000 as members of the Audit Committee and the Remuneration Committee. In addition, for the financial year ended 31 December 2004, Mr. WANG Jianzhou, Mr. LI Yue, Mr. ZHANG Chenshuang, Madam LI Mofang and Mr. HE Ning received a monthly salary of HK\$138,000, HK\$128,000, HK\$128,000, HK\$128,000 and HK\$128,000, respectively, plus a discretionary bonus and a discretionary award of share options as determined by the board of directors with respect to the director's performance. The remuneration of these directors has been determined with reference to the individual's duties, responsibilities and experience, and to prevailing market conditions.

None of the Directors for Re-election 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.

Save as disclosed herein, there are no other matters relating to the re-election of the Directors for Re-election that need to be brought to the attention of the shareholders of the Company.

### **Independent non-executive directors' confirmation of independence**

The Company has received independence confirmation from each of the independent non-executive directors, namely Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi, and considers them to be independent.

### **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**

Certain directors of the Company personally hold options to subscribe for ordinary shares of the Company. Details of such options are 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 2004, 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 (within the meaning of the SFO) that is required to be recorded and kept in the register in accordance with section 352 of the SFO, 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 Issuers ("Model Code").

## 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 Current Scheme shall be valid and effective for a period of 10 years commencing on its adoption date.

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 2004, the total number of shares which may be issued on the exercise of the outstanding options granted under the Old Scheme is 102,859,000, representing approximately 0.52 per cent. of the issued share capital of the Company as at the latest practicable date prior to the printing 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 1,738,692,445, representing approximately 8.82 per cent. of the issued share capital of the Company as at the latest

practicable date prior to the printing 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.

Share options involving 290,176,000 shares were granted under the Current Scheme during the year ended 31 December 2004.

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 2004, 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	No. of shares involved in the options lapsed 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\$
<b>Directors</b>						
WANG Jianzhou (also the chief executive officer)	—	600,000	21 December 2004	—	—	26.75
LI Yue	—	320,000	28 October 2004	—	—	22.75
LU Xiangdong	—	320,000	28 October 2004	—	—	22.75
XUE Taohai	200,000	200,000	3 July 2002	—	—	22.85
	—	320,000	28 October 2004	—	—	22.75
ZHANG Chenshuang	—	320,000	28 October 2004	—	—	22.75
LI Mofang	—	320,000	28 October 2004	—	—	22.75
HE Ning	1,000,000	1,000,000	26 November 1999	—	—	33.91
	166,000	166,000	25 April 2000	—	—	45.04
	90,000	90,000	22 June 2001	—	—	32.10
	180,000	180,000	3 July 2002	—	—	22.85
	—	320,000	28 October 2004	—	—	22.75
LI Gang	1,000,000	1,000,000	26 November 1999	—	—	33.91
	180,000	180,000	25 April 2000	—	—	45.04
	100,000	100,000	22 June 2001	—	—	32.10
	190,000	190,000	3 July 2002	—	—	22.85
	—	270,000	28 October 2004	—	—	22.75

	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	No. of shares involved in the options lapsed 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\$
XU Long	1,170,000	1,170,000	25 April 2000	—	—	45.04
	95,000	95,000	22 June 2001	—	—	32.10
	180,000	180,000	3 July 2002	—	—	22.85
	—	260,000	28 October 2004	—	—	22.75
<b>Employees*</b>	5,000,000	—	26 November 1999	5,000,000	—	33.91
	27,856,000	26,854,000	25 April 2000	1,002,000	—	45.04
	73,819,500	72,204,000	22 June 2001	1,615,500	—	32.10
	147,737,500	118,408,500	3 July 2002	1,608,000	27,721,000	22.85
	—	<u>285,743,500</u>	28 October 2004	118,000	1,264,500	22.75
		<u>510,811,000</u> (Note (a))				

\* The number of shares involved in the options outstanding at the beginning of the year included share options granted to Mr. WANG Xiaochu involving 4,520,000 shares. Mr. WANG Xiaochu resigned as chairman and chief executive officer of the Company on 5 November 2004.

Notes: (a) The total number of shares involved in the options outstanding at the end of the year represents 2.59 per cent. of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report.

(b) During 2004, options were granted on 28 October 2004 and 21 December 2004. The closing prices per share in the trading day immediately before 28 October 2004 and 21 December 2004 are HK\$22.15 and HK\$26.95, respectively.



## (c) Particulars of share options:

<b>Date of grant</b>	<b>Exercise period</b>
26 November 1999	26 November 1999 to 7 October 2007 (in respect of 50% of the options granted) 26 November 2002 to 7 October 2007 (in respect of the remaining 50% of the options granted)
25 April 2000	25 April 2002 to 7 October 2007 (in respect of 50% of the options granted) 25 April 2005 to 7 October 2007 (in respect of the remaining 50% of the options granted)
22 June 2001	22 June 2003 to 7 October 2007 (in respect of 50% of the options granted) 22 June 2006 to 7 October 2007 (in respect of the remaining 50% of the options granted)
3 July 2002	3 July 2004 to 2 July 2012 (in respect of 50% of the options granted) 3 July 2007 to 2 July 2012 (in respect of the remaining 50% of the options granted)
28 October 2004	28 October 2005 to 27 October 2014 (in respect of 40% of the options granted) 28 October 2006 to 27 October 2014 (in respect of 30% of the options granted) 28 October 2007 to 27 October 2014 (in respect of the remaining 30% of the options granted)
21 December 2004	21 December 2005 to 20 December 2014 (in respect of 40% of the options granted) 21 December 2006 to 20 December 2014 (in respect of 30% of the options granted) 21 December 2007 to 20 December 2014 (in respect of the remaining 30% of the options granted)

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

The weighted average value per option granted in 2004 estimated on the date on which the options were granted by using the Black-Scholes option pricing model was HK\$6.64 (2002: HK\$9.15). The weighted average was calculated by using the following assumptions:

	<b>2004</b>	<b>2002*</b>
Risk-free interest rate	4.1%	5.3%
Expected life (in years)	10	10
Volatility	27.38%	32.44%
Expected dividend per share (based on historical dividend)	HK\$0.66	HK\$0.32

\* No options were granted in 2003. Hence 2002 comparative figures were disclosed.

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, which may deviate over any period of time depending on market conditions. 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.

Details of share options exercised during the year:

Period during which options were exercised	Exercise price	Weighted average closing price per share immediately before dates of exercise of options	Proceeds received	Number of shares involved in the options
7 January 2004 to 31 December 2004	HK\$22.85	HK\$26.46	HK\$633,424,850	27,721,000
8 November 2004 to 30 December 2004	HK\$22.75	HK\$25.01	HK\$28,767,375	1,264,500

#### 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. The Aspire Scheme shall be valid and effective for a period of 10 years commencing on its adoption date.

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 2004, 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 2004, 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 lapsed during the year	Price per share to be paid on exercise of options US\$
Director of Aspire*	2,800,000	2,800,000	18 February 2003	(Note 2)	—	0.182
Employees of Aspire*	13,315,000	11,545,000	18 February 2003	(Note 3)	1,770,000	0.298
	820,000	730,000	18 April 2003	(Note 3)	90,000	0.298
	3,280,000	2,810,000	16 September 2003	(Note 3)	470,000	0.298
	—	2,470,000	18 March 2004	(Note 3)	570,000	0.298
	—	<u>1,115,000</u>	28 May 2004	(Note 3)	340,000	0.298
		<u>21,470,000</u> (Note 1)				

Notes:

\* During the year ended 31 December 2004, no share options have been granted under the Aspire Scheme for the directors and chief executive of the Company.

(1) The total number of shares involved in the options outstanding at the end of the year represents 2.28 per cent. of the issued share capital of Aspire as at the date of this report.

(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.

(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.

No options granted under the Aspire Scheme were exercised during the year ended 31 December 2004.

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 ("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 2004 amounting to 5 per cent. or more of the ordinary shares in issue:

	Ordinary shares held		Percentage of
	directly	indirectly	total issued shares
(i) China Mobile Communications Corporation ("China Mobile")	—	14,890,116,842	75.58%
(ii) China Mobile (Hong Kong) Group Limited ("CMHK (Group)")	—	14,890,116,842	75.58%
(iii) China Mobile Hong Kong (BVI) Limited ("CMHK (BVI)")	14,890,116,842	—	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 SFO, 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 2004, 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 SFO 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

### (i) Acquisition

The Company entered into a sale and purchase agreement (the "Acquisition Agreement") on 28 April 2004 in relation to the acquisition (the "Acquisition") from CMHK (BVI), the Company's immediate controlling shareholder, the entire interests in Neimenggu Mobile Communication Company Limited, Jilin Mobile Communication Company Limited, Heilongjiang Mobile Communication Company Limited, Guizhou Mobile Communication Company Limited, Yunnan Mobile Communication Company Limited, Xizang Mobile Communication Company Limited, Gansu Mobile Communication Company Limited, Qinghai Mobile Communication Company Limited, Ningxia Mobile Communication Company Limited, Xinjiang Mobile Communication Company Limited, Beijing P&T Consulting & Design Institute Company Limited and China Mobile Communication Company Limited (collectively, the "2004 Acquired Subsidiaries"). The total consideration for the Acquisition was US\$3,650 million, and consisted of payment of an initial consideration of US\$2,000 million on completion of the Acquisition and the payment of a deferred consideration of US\$1,650 million. The deferred consideration is payable fifteen years after the date of completion of the Acquisition. The Company will pay interest to CMHK (BVI) at half-yearly intervals on the actual amount of deferred consideration remaining unpaid. The Acquisition was announced by the Company on 28 April 2004 and details of the Acquisition were included in a circular dated 3 May 2004 and sent to shareholders of the Company. Completion of the Acquisition took place on 1 July 2004.

### (ii) Continuing Connected Transactions which were subject to waivers previously granted by the Stock Exchange

Details of the continuing connected transactions which were subject to waivers previously granted by the Stock Exchange (the "Continuing Connected Transactions subject to waivers") are set out in note 34 to the financial statements.

For the financial year ended 31 December 2004, the Continuing Connected Transactions subject to waivers have not exceeded their respective upper limits:

- (1) collection service charges payable by the Group, other than Anhui Mobile Communication Company Limited, Jiangxi Mobile Communication Company Limited, Chongqing Mobile Communication Company Limited, Sichuan Mobile Communication Company Limited, Hubei Mobile Communication Company Limited, Hunan Mobile Communication Company Limited, Shaanxi Mobile Communication Company Limited and Shanxi Mobile Communication Company Limited (collectively, the "2002 Acquired Subsidiaries") and the 2004 Acquired Subsidiaries, to subsidiaries of China Mobile have not exceeded 0.1 per cent. of the Group's turnover for the year ended 31 December 2004; and sales service charges payable by the Group, other than the 2002 Acquired Subsidiaries and the 2004 Acquired Subsidiaries, to subsidiaries of China Mobile have not exceeded 0.3 per cent. of the Group's turnover for the year. The collection service charges are determined based on the amount of collections; whilst the sales service charges are determined in accordance with the number of subscribers acquired;
- (2) rental payments and property management fees payable by the Group (other than the 2002 Acquired Subsidiaries and the 2004 Acquired Subsidiaries) to subsidiaries of China Mobile have not exceeded 0.56 per cent. of the Group's turnover for the year ended 31 December 2004. In relation to leased properties, the rental payments were determined with reference to market rates. In relation to properties sub-leased to the Group (other than the 2002 Acquired Subsidiaries and the 2004 Acquired Subsidiaries) by subsidiaries of China Mobile, the rental payments were equal to the rental payments payable to such third parties by the relevant subsidiaries of China Mobile. Property management fees were determined with reference to market rates;
- (3) construction and related services fees payable by the Group (other than the 2002 Acquired Subsidiaries and the 2004 Acquired Subsidiaries) to subsidiaries of China Mobile have not exceeded 0.25 per cent. of the Group's turnover for the year ended 31 December 2004. The charges payable for construction and related services were determined according to standards laid down by the relevant government departments and/or by reference to market rates;
- (4) equipment maintenance and related services fees payable by the Group (other than the 2002 Acquired Subsidiaries and the 2004 Acquired Subsidiaries) to subsidiaries of China Mobile have not exceeded 0.05 per cent. of the Group's turnover for the year ended 31 December 2004. The charges and fees payable for equipment maintenance and related services were determined according to standards laid down by the relevant government departments and/or by reference to market rates;

- (5) payments by Hebei Mobile Communication Company Limited to the relevant subsidiaries of China 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 2004. The price of such transmission towers and spare parts and the charges payable for services rendered were determined according to standards laid down by relevant government departments and/or by reference to market rates;
- (6) handling charges received by the Group (other than the 2002 Acquired Subsidiaries and the 2004 Acquired Subsidiaries) from 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 2004, and handling charges paid by the Group (other than the 2002 Acquired Subsidiaries and the 2004 Acquired 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 2004. Under the relevant agreement (as supplemented) entered into between the Company and China Mobile in relation to prepaid services, the network operator in the location which issued the value-adding cards would have to remit 95% of the face value of the value-adding card to the subscriber's home network operator and would be entitled to keep the remaining 5% of the face value as a handling charge;
- (7) handling charges received by the 2002 Acquired 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 2004, and handling charges paid by the 2002 Acquired Subsidiaries to 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 2004. The handling charges payable were determined on the same basis as set out in paragraph (6) above;
- (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 2004. The platform development charges payable were determined according to standards laid down by the relevant government departments and/or by reference to market rates;
- (9) payment in respect of telecommunications projects planning, design and construction services and telecommunications lines and pipelines construction services payable by the 2002 Acquired 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 2004. The charges payable for such services were determined with reference to and could not exceed relevant standards laid down and revised from time to time by the relevant government departments. Where there were no government standards, the charges were determined according to market rates;



- (10) telecommunications lines maintenance services payments payable by the 2002 Acquired 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 2004. The charges payable for such services were determined with reference to and could not exceed relevant standards laid down and revised from time to time by the relevant government departments. Where there were no government standards, the charges were determined according to market rates;
- (11) property leasing and property management services payments payable by the 2002 Acquired 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 2004. The charges payable by the 2002 Acquired Subsidiaries in respect of properties owned by the subsidiaries of China Mobile were determined with reference to market rates; whilst the charges payable in respect of properties which subsidiaries of China Mobile leased from third parties were determined according to the actual rent payable by the subsidiaries of China Mobile to such third parties together with the amount of any tax payable; and
- (12) payments to Hubei Communication Services Company (a subsidiary of China Mobile) by the Group (other than the 2004 Acquired Subsidiaries) 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 2004. The price of such transmission towers and spare parts and the charges payable for services rendered were determined according to standards laid down by the relevant government departments, or where there were no government standards, by reference to market rates.

In the opinion of the independent non-executive directors, the Continuing Connected Transactions subject to waivers were entered into by the Group:

- (i) in the ordinary and usual course of its business;
- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The board of directors has received a letter from the auditors of the Company stating that the Continuing Connected Transactions subject to waivers:

- (A) have received the approval of the Company's board of directors;
- (B) were in accordance with the pricing policy as stated on pages 65 to 67 of this report;
- (C) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions subject to waivers; and
- (D) have not exceeded their respective upper limits set out above for the financial year ended 31 December 2004.

Following completion of the Acquisition on 1 July 2004, the Company operates in all thirty-one provinces, autonomous regions and directly administered municipalities of China. As the provincial mobile telecommunications subsidiaries previously owned by China Mobile have become members of the Group, the transactions previously entered into between subsidiaries of the Company and prior subsidiaries of China Mobile which have been acquired by the Company no longer constitute connected transactions under the Listing Rules. Only those transactions between the Company or its subsidiaries and subsidiaries of China Mobile (which have not been acquired by the Company) remain as connected transactions under the Listing Rules. Accordingly, the Company entered into the property leasing and management services agreement and the telecommunications services agreement (collectively, the "Continuing Connected Transactions Agreements") with China Mobile on 30 December 2004 with a view to streamlining the management of the continuing connected transactions by the Company. Each of the Continuing Connected Transactions Agreements has a fixed term of three years, and is effective from 1 January 2005 to 31 December 2007. Each of the transactions under the Continuing Connected Transactions Agreements was classified as a continuing connected transaction under Rule 14A.34 of the Listing Rules and was exempt from the independent shareholders' approval requirements under the Listing Rules. Details of the transactions under the Continuing Connected Transactions Agreements will be included in the annual report and accounts of the Company for the year ending 31 December 2005 in accordance with Rules 14A.45 and 14A.46 of the Listing Rules.

In addition to the transactions contemplated under the Continuing Connected Transactions Agreements, the platform development services provided by Aspire or its subsidiaries to China Mobile will remain continuing connected transactions of the Company and the upper limit of the platform development charges set out in paragraph (8) above will continue to apply until 31 December 2006.

### **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 2004 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 150 to 152.

### **Employee retirement benefits**

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

### **Public Float**

As at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules and as agreed with the Stock Exchange, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company.

### **Compliance with the Code of Best Practice**

Throughout the year ended 31 December 2004, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules which was in force prior to 1 January 2005, 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.

### **Compliance with the Model Code**

The Company has adopted the Model Code. All directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2004.

### **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 Jianzhou**

*Chairman*

Hong Kong, 11 March 2005