中国移动通信
CHINA MOBILE

CHINA MOBILE (HONG KONG) LIMITED

INTERIM REPORT 2000

CHAIRMAN'S STATEMENT

In the first six months of the year 2000, China Mobile (Hong Kong) Limited underwent rapid development and change, including the unveiling of its new image. In June 2000, in accordance with the adjustment of its parent company's shareholding structure and after receiving approval from its shareholders, the Company changed its name from "China Telecom (Hong Kong) Limited" to its current name, which more accurately conveys the direction of development of the Company's core business. During the six months, the Group's overall performance was good and met internal expectations. The Group made significant achievements in terms of both organic and external growth. The subsidiaries in Guangdong, Zhejiang and Jiangsu provinces grew rapidly, and the newly joined subsidiaries in Fujian, Henan and Hainan provinces actively improved their management and synergies. The Company has made encouraging progress.

The Group's first half-year financial results are impressive. Consolidated turnover was RMB28.897 billion, representing an increase of 70.6 per cent over the corresponding period in 1999. EBITDA was RMB16.817 billion, representing an increase of 75.6 per cent over the corresponding period in 1999. Net profit totaled RMB8.724 billion, representing an increase of 117.9 per cent over the corresponding period in 1999, and earnings per share were RMB0.64, representing an increase of 88.2 per cent over the corresponding period in 1999. The unaudited Group results for the six months ended 30 June 2000, and the comparisons with the corresponding period last year, are set out in the accompanying table.

The Group's results of operations for the six month period were equally impressive. At the end of June 2000, the Group's aggregate subscriber base reached 21.638 million, including 2.496 million pre-paid card users. As of 30 June 2000, the Group's aggregate market share in the six provinces in which the Group operates was 83.0 per cent. The subscriber base of Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile were 9.167 million, 3.995 million, 3.268 million, 2.766 million, 2.158 million and 284,000, respectively. The Group's aggregate subscriber base increased by 6.017 million subscribers from the Group's subscriber base at the end of 1999, representing a growth rate of 38.5 per cent.

The Group's average minutes of usage per subscriber per month ("MOU") was 320 minutes during the six months through 30 June 2000, which is lower than the Group's average proforma combined MOU of 383 minutes for 1999. The decrease resulted principally from the rapid addition of new subscribers, most of whom were low usage subscribers encouraged by the introduction of pre-paid services. The lower average MOU, however, allowed for increased subscriber carrying capacity per network voice channel. The Group's average monthly revenue per user was RMB261 for the six months ended 30 June 2000.

The Group's subscribers total minutes of usage increased substantially. In the first six months of 2000, the Group's actual subscribers total minutes of usage, including pre-paid card usage, totaled 35.45 billion minutes, compared with the 17.62 billion minutes for the same period last year, representing an increase of 101 per cent. Of the total minutes of usage, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile subscribers accounted for 15.97 billion, 6.24 billion, 4.76 billion, 4.75 billion, 3.1 billion and 630 million minutes, respectively.

In the year 2000, the Group continued its efforts to develop new applications and rollout new services, allowing the Group to expand into new markets. Pre-paid card services underwent rapid development in the first six months of 2000, and as at 30 June, the Group had 2.496 million pre-paid card users, which accounted for 11.5 per cent of the Group's total subscriber base. Since May 2000, the Group also started offering IP long distance telephony services to all "Quanqiutong" subscribers, which achieved a steady growth in usage volume. The Group is keenly focused on developments in wireless data services. Currently, the Group offers services which have achieved considerable scale that are based on the SMS platform, including mobile secretary, short messaging, mobile bank and information-on-demand. The Group is also closely monitoring the development of new wireless data technologies and wireless Internet services, and a research and development center that concentrates its research and development efforts on this subject has been established. The Group has successfully completed WAP system tests and has satisfied the standards laid down by China Mobile Communications Corporation ("CMCC"). In May 2000, the Group launched WAP services in its six provinces of operation in preparation for the anticipated full commercial launch of WAP services. The Group is also actively conducting GPRS technology tests.

The Group believes that such operational achievements are largely attributable to improvements in management mechanisms and enhanced internal controls. In April 2000, the Company conducted an operational performance evaluation for the six operating subsidiaries based on their 1999 results. The evaluation measured the performance of the subsidiaries on the basis of specified criteria, including revenue, profit margin, EBITDA, subscriber growth, minutes of usage, bad debt level and productivity. The evaluation had positive effects, such as enhanced subsidiary control, improved management control systems, exchange of management experience, encouragement of advancement, identification of discrepancies and improved quality of management. The Group implemented employee performance assessments, and adopted an employee incentive plan that links incentive awards under the plan to the results of the employee's performance assessments and the company's results of operations. In conjunction with these initiatives, the Group broadened its use of employee stock options, strengthening our employees' sense of belonging to the Company and their enthusiasm. Although the Group's businesses have expanded, employee numbers have been effectively controlled and productivity has improved significantly.

In order to further improve the management of our operating subsidiaries in mainland China, the Company established a wholly-owned subsidiary in Shenzhen to improve financial management and profit assurance in relation to the subsidiaries, to conduct wireless data communications research and development, and roaming and interconnection clearing and settlement between these subsidiaries and between such subsidiaries and other enterprises of CMCC. After the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile, the Group took measures to maximize synergies, such as the centralized leasing of transmission lines in volume, centralized employee training, internal peer-improvement, intra-group human resource exchange, and the sharing of research and development results and new business marketing experience.

In the year 2000, we have witnessed the continual adjustment and improvement of China's telecommunications regulatory and market environments. The restructuring of the industry is essentially completed. On 12 May 2000, CMCC obtained the entire 43 per cent interest in China Telecom (Hong Kong) Group Limited, our indirect controlling shareholder, that had been previously owned by China Telecommunications Corporation ("CTC"). Thereafter, China Telecom (Hong Kong) Group Limited changed its name to China Mobile (Hong Kong) Group Limited, and CMCC now holds a 100 per cent. economic interest in China Mobile (Hong Kong) Group Limited. This reflected the separation of the two major telecommunications groups, China Mobile and CTC. These two major groups will operate independently in accordance with commercial principles within their respective spheres. Following the substantial completion of the Chinese telecommunications industry restructuring, the Ministry of Information Industry ("MII") continues in its role as the industry regulator, providing macro policy guidance to telecommunications operators including our Group, but without exercising enterprise management functions. MII's role as an industry regulator will be more explicit, and we believe that this will provide for more standard and orderly competition in the Chinese mobile communications market.

Following the adjustment of the parent company's shareholding structure, with effect from 11 August 2000, Mr. Li Ping resigned as a Director, Vice Chairman, Executive Vice President and Joint Company Secretary of the Company, and will undertake a new post with CTC. I would like to take this opportunity to acknowledge the contribution of Mr. Li with highest regards and the deepest gratitude. I am also pleased to announce that Mr. Li Zhenqun was appointed as a Director, Vice Chairman, Executive Vice President and Chief Operating Officer of the Company with effect from 11 August 2000. Mr. Li Zhenqun has many years of management experience in the telecommunications industry and we believe that Mr. Li's extensive experience and valuable expertise will be of great benefit to the Company. I would like to take this opportunity to welcome Mr. Li as a new member of the board.

Looking to the future, I am confident of the Company's prospects for continued growth. We will continue to pursue a developmental strategy that emphasizes both organic and external growth. To achieve further organic growth, the Group will continue to maximize synergies, promote its brand name, control operating costs, expand network capacity, improve network quality and optimize network efficiency, thus enabling us to provide additional value-added services and new wireless data services utilizing 2G to 3G telecommunications technologies. To achieve further external growth, the Company is in discussions with the relevant parties in relation to the possible acquisitions of the mobile communications assets in seven provinces, autonomous region and directly administered municipalities of Beijing, Shanghai, Tianjin, Hebei, Liaoning, Shandong and Guangxi in China. In addition to actively seeking strategic investment opportunities in the Chinese telecommunications industry to realize our Group's external growth strategy of expanding coverage of our networks, in today's fast evolving telecommunications environment, where services converge and product upgrades evolve rapidly, external growth strategies assume new significance. The Group will endeavor to develop and expand through external growth into new businesses and into new markets, to push forward in this new competitive landscape and to further expand our business horizons.

Wang Xiaochu
Chairman

Hong Kong, 31 August 2000

UNAUDITED GROUP RESULTS

For the six months ended 30 June 2000

	Note	**Unaudited For the six months ended 30 June 2000 consolidated *RMB million***	Audited For the six months ended 30 June 1999 consolidated *RMB million*
Operating revenue (Turnover)	2		
Usage fees		**20,143**	11,012
Monthly fees		**4,250**	2,081
Connection fees		**1,532**	2,417
Other operating revenue	3	**2,972**	1,430
		28,897	16,940
Operating expenses			
Leased lines		**2,714**	2,014
Interconnection		**3,604**	2,775
Depreciation		**4,165**	3,297
Personnel		**1,476**	852
Other operating expenses		**4,616**	1,991
		16,575	10,929

For the six months ended 30 June 2000

	Note	**Unaudited For the six months ended 30 June 2000 consolidated RMB million**	Audited For the six months ended 30 June 1999 consolidated RMB million
Profit from operations		**12,322**	6,011
Write-down and write-off of TACS network equipment	4	**—**	(500)
Other income		**330**	270
Non-operating (expenses)/income		**(12)**	11
Interest income		**437**	289
Finance costs		**(335)**	(107)
Profit from ordinary activities before taxation		**12,742**	5,974
Income tax	5	**(4,018)**	(1,970)
Profit from ordinary activities after taxation		**8,724**	4,004
Earnings per share			
Basic	6(a)	**RMB64 cents**	RMB34 cents
Diluted	6(b)	**RMB64 cents**	RMB34 cents
EBITDA (RMB million)	7	**16,817**	9,578

Notes:

1. **Basis of preparation**

The unaudited consolidated results of the Group for the six months ended 30 June 2000 include the results of the Company and its subsidiaries in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan provinces for the six months ended 30 June 2000.

The audited consolidated results of the Group for the six months ended 30 June 1999 include the results of the Company and its subsidiaries in Guangdong, Zhejiang and Jiangsu provinces for the six months ended 30 June 1999. The audited consolidated results for the six months ended 30 June 1999 were prepared in connection with the Company's debt and equity offering in October 1999, and had previously been disclosed in the Company's circular to shareholders dated 16 October 1999 and its announcement issued on 18 October 1999.

2. Turnover

Turnover primarily represents usage fees, monthly fees and connection fees for the use of the Group's cellular telecommunications networks, net of the People's Republic of China ("PRC") business tax and government surcharges. Business tax and government surcharges are charged at approximately 3.3 per cent of the corresponding revenue.

3. Other operating revenue

Other operating revenue mainly represents telephone number selection fees, charges for value-added services, interconnection revenue and roaming-in fees. Roaming-in fees are received from China Mobile Communications Corporation ("China Mobile") in respect of calls made by non-subscribers using the Group's cellular telecommunications networks.

4. Write-down and write-off of TACS network equipment

	Unaudited For the six months ended 30 June 2000 consolidated *RMB million*	Audited For the six months ended 30 June 1999 consolidated *RMB million*
Write-down of TACS network equipment (a)	—	471
Write-off of TACS network equipment (b)	—	29
	—	500

TACS represents Total Assess Communication System, a European standard for analog mobile telephone transmissions in the 800 and 900 MHz frequency bands.

(a) The Group has reviewed the carrying value of all TACS network and related equipment at 30 June 1999. Based on the estimated recoverable value of these assets, a write-down of RMB471,000,000 has been made during the six months ended 30 June 1999.

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

5. Income tax

	Unaudited For the six months ended 30 June 2000 consolidated *RMB million*	Audited For the six months ended 30 June 1999 consolidated *RMB million*
Provision for Hong Kong profits tax for the period	**—**	—
Over-provision in respect of Hong Kong profits tax for prior period	**—**	(1)
	—	(1)
Over-provision in respect of PRC income tax for prior period	**(23)**	(13)
Provision for PRC income tax on the estimated taxable profits for the period	**3,673**	2,145
	3,650	2,132
Deferred tax liabilities/(assets)	**368**	(161)
	4,018	1,970

(i) No provision has been made for Hong Kong profits tax as there was no estimated assessable profits for the six months ended 30 June 2000.

(ii) Pursuant to the income tax rules and regulations of the PRC, the Group's subsidiaries in the PRC are subject to the statutory income tax rate of 33 per cent for the six months ended 30 June 2000, except Hainan Mobile Communication Company Limited ("Hainan Mobile") and certain branches of Guangdong Mobile Communication Company Limited which are subject to a tax rate of 15 per cent. According to notices from the PRC Ministry of Finance, connection fees and certain surcharges, which were previously not subject to income tax, are subject to an income tax rate of 33 per cent with effect from 1 January 2000 for Fujian Mobile Communication Company Limited and 27 January 2000 for Henan Mobile Communication Company Limited and 15 per cent with effect from 19 January 2000 for Hainan Mobile.

6. Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share for the six months ended 30 June 2000 is based on the profit attributable to shareholders of RMB8,724,000,000 (1999: RMB4,004,000,000) and the weighted average number of 13,706,310,428 shares (1999: 11,782,884,685 shares) in issue during the six months ended 30 June 2000.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share for the six months ended 30 June 2000 is based on the profit attributable to shareholders of RMB8,724,000,000 (1999: RMB4,004,000,000) and the weighted average number of 13,716,377,376 shares (1999: 11,785,447,499 shares) after adjusting for the effects of all dilutive potential ordinary shares. All dilutive potential ordinary shares arise from the share options granted under the share option scheme which, if converted to ordinary shares, would decrease profit attributable to shareholders per share.

(c) *Reconciliations*

	30 June 2000 Number of shares	30 June 1999 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**13,706,310,428**	11,782,884,685
Deemed issue of ordinary shares for no consideration	**10,066,948**	2,562,814
Weighted average number of ordinary shares used in calculating diluted earnings per share	**13,716,377,376**	11,785,447,499

7. **EBITDA**

EBITDA represents earnings before interest income, interest expense, income taxes, depreciation and amortisation, non-operating income/expenses and write-down and write-off of fixed assets. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities.

TRANSFER TO AND FROM RESERVES

There were no transfers to or from the PRC statutory reserve and the general reserve of the Group during the six months ended 30 June 2000.

INTERIM DIVIDEND

The Board of Directors considers that because the Group is experiencing a period of rapid growth and is undergoing negotiations in relation to the proposed acquisition of the mobile telecommunications operations in the seven provinces, autonomous region and directly administered municipalities in the PRC of Beijing, Tianjin, Shanghai, Liaoning, Hebei, Shandong and Guangxi, it is desirable that more capital be retained for additional investments, network improvements, expansion and acquisitions of quality assets, in order to give a better return to shareholders. Hence, the Board of Directors has not recommended the payment of an interim dividend for the six months ended 30 June 2000.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2000, the interests of the directors and the chief executive 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	100 American depositary shares *(Note)*
Li Ping (resigned on 11 August 2000)	200 American depositary shares *(Note)*
Ding Donghua	100 American depositary shares *(Note)*

Note: As at 30 June 2000, one American depositary share represents 20 ordinary shares of HK$0.10 each of the Company.

In addition, certain directors personally hold options to purchase ordinary shares of the Company as disclosed under the paragraph "Directors' rights to acquire shares" below. These share options are granted pursuant to the terms of the share option scheme adopted by the Company.

Apart from the foregoing, as at 30 June 2000, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

On 8 October 1997, the Company adopted a share option scheme pursuant to which the directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares up to a maximum aggregate number of shares equal to 10 per cent of the total issued share capital of the Company. According to the share option scheme, the consideration payable by a participant for the grant of an option will be HK$1.00. The price of a share payable by a participant upon the exercise of an option will be determined by the directors of the Company at their discretion, except that such price may not be set below a minimum price which is the higher of:

(i) the nominal value of a share; and

(ii) 80 per cent of the average of the closing prices of shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option.

The period during which an option may be exercised will be determined by the directors at their discretion, except that no option may be exercised later than 10 years after the adoption date of the scheme.

As at 30 June 2000, the directors of the Company had the following personal interests in options to subscribe for shares of the Company.

Name of director	Date on which options were granted	Period during which options are exercisable	Price per share to be paid on exercise of options	No. of shares involved in the options granted	No. of shares involved in the options exercised during the six-month period ended 30 June 2000	Market value per share on exercise of options	No. of shares involved in the options outstanding at period end
			HK$			*HK$*	
Wang Xiaochu	26/11/1999	26/11/1999–7/10/2007	33.91	1,950,000	—	—	1,950,000
	26/11/1999	26/11/2002–7/10/2007	33.91	1,950,000	—	—	1,950,000
	25/4/2000	25/4/2002–7/10/2007	45.04	100,000	—	—	100,000
	25/4/2000	25/4/2005–7/10/2007	45.04	100,000	—	—	100,000
Li Ping	9/3/1998	9/3/1998–8/3/2006	11.10	2,400,000	—	—	2,400,000
(resigned on	26/11/1999	26/11/1999–7/10/2007	33.91	600,000	—	—	600,000
11 August 2000)	26/11/1999	26/11/2002–7/10/2007	33.91	600,000	—	—	600,000
	25/4/2000	25/4/2002–7/10/2007	45.04	100,000	—	—	100,000
	25/4/2000	25/4/2005–7/10/2007	45.04	100,000	—	—	100,000
Ding Donghua	9/3/1998	9/3/1998–8/3/2006	11.10	2,100,000	—	—	2,100,000
	26/11/1999	26/11/1999–7/10/2007	33.91	550,000	—	—	550,000
	26/11/1999	26/11/2002–7/10/2007	33.91	550,000	—	—	550,000
	25/4/2000	25/4/2002–7/10/2007	45.04	100,000	—	—	100,000
	25/4/2000	25/4/2005–7/10/2007	45.04	100,000	—	—	100,000
Li Gang	26/11/1999	26/11/1999–7/10/2007	33.91	500,000	—	—	500,000
	26/11/1999	26/11/2002–7/10/2007	33.91	500,000	—	—	500,000
	25/4/2000	25/4/2002–7/10/2007	45.04	90,000	—	—	90,000
	25/4/2000	25/4/2005–7/10/2007	45.04	90,000	—	—	90,000
Xu Long	25/4/2000	25/4/2002–7/10/2007	45.04	585,000	—	—	585,000
	25/4/2000	25/4/2005–7/10/2007	45.04	585,000	—	—	585,000
He Ning	26/11/1999	26/11/1999–7/10/2007	33.91	500,000	—	—	500,000
	26/11/1999	26/11/2002–7/10/2007	33.91	500,000	—	—	500,000
	25/4/2000	25/4/2002–7/10/2007	45.04	83,000	—	—	83,000
	25/4/2000	25/4/2005–7/10/2007	45.04	83,000	—	—	83,000
Liu Ping	25/4/2000	25/4/2002–7/10/2007	45.04	581,000	—	—	581,000
	25/4/2000	25/4/2005–7/10/2007	45.04	581,000	—	—	581,000
Yuan Jianguo	25/4/2000	25/4/2002–7/10/2007	45.04	580,000	—	—	580,000
	25/4/2000	25/4/2005–7/10/2007	45.04	580,000	—	—	580,000
Wei Yiping	25/4/2000	25/4/2002–7/10/2007	45.04	578,000	—	—	578,000
	25/4/2000	25/4/2005–7/10/2007	45.04	578,000	—	—	578,000

During the six months ended 30 June 2000, none of the directors exercised their options to subscribe for shares of the Company. Apart from the foregoing, at no time during the six months ended 30 June 2000 was the Company, or any of its holding companies or subsidiaries, a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares as at 30 June 2000 amounting to 10 per cent or more of the ordinary shares in issue:

	Ordinary shares held		Percentage of total issued shares
	Held directly	**Held indirectly**	
(i) China Mobile Communications Corporation ("China Mobile")	—	10,283,195,021	75.02%
(ii) China Mobile (Hong Kong) Group Limited ("CMHK (Group)")	—	10,283,195,021	75.02%
(iii) China Mobile Hong Kong (BVI) Limited ("CMHK (BVI)")	10,283,195,021	—	75.02%

Note: Because 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, 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2000, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied throughout the six months ended 30 June 2000 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.

SUPPLEMENTARY INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

The above unaudited financial information have been prepared in accordance with the generally accepted accounting principles applicable in Hong Kong ("HK GAAP"), which differ in certain significant respects from those applicable in the United States ("US GAAP"). The significant differences between HK GAAP and US GAAP that affect the Group's results for the six months ended 30 June 2000 are substantially the same as those disclosed in the Company's 1999 annual report. The effect on the Group's unaudited consolidated net profit of the significant differences between HK GAAP and US GAAP for the six months ended 30 June 2000 is set out below. The US GAAP adjustments shown below have been prepared by management and have not been subject to independent audit:

	Unaudited For the six months ended 30 June 2000 consolidated		Audited For the six months ended 30 June 1999 consolidated	
	US$ million	***RMB million***	*US$ million*	*RMB million*
Net profit under HK GAAP	**1,054**	**8,724**	484	4,004
US GAAP adjustments	**(69)**	**(566)**	191	1,580
Approximate net profit under US GAAP	**985**	**8,158**	675	5,584
Approximate basic and diluted net profit per share in accordance with US GAAP	**0.07**	**0.60**	0.05	0.43
Approximate basic and diluted net profit per ADS in accordance with US GAAP*	**0.36**	**2.98**	0.26	2.14

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

Solely for the convenience of the reader, amounts in Renminbi have been translated into United States dollars at the rate of US$1.00 = RMB8.2782 quoted by the People's Bank of China on 30 June 2000. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate or at any other rate on 30 June 2000 or on any other date.