



# CHINA MOBILE

The only operator in Mainland China  
exclusively specialized in mobile telecommunications



# Chairman's Statement



Dear Shareholders,

**While intensified competition in Mainland China's telecommunications market and the sudden outbreak of Severe Acute Respiratory Syndrome, or SARS, in certain regions of China appreciably affected the Company's operations during the first half of 2003, the Company maintained its position as the market leader in Mainland China's mobile telecommunications industry. By unwaveringly pursuing development strategies focused on its core mobile telecommunications business, proactively leveraging its advantages of scale, network quality, technologies and services and adopting effective competitive strategies to maintain its sound fundamentals, the Group enhanced its overall competitiveness and achieved continued growth, obtained favorable financial results, and maintained its solid capital structure.**

The Group obtained satisfactory financial results. By leveraging its advantage of scale and through resource integration and efficient management, the Group maintained favorable operational efficiency during the first six months of 2003. In response to pricing pressures from its competitors, the Group implemented effective competitive strategies that sustained steady growth in total revenue. As a result of encouraging business growth, aggressive cost controls, effective management of capital expenditures, and given that the implementation of certain capital expenditure plans was deferred in the aftermath of the SARS outbreak, the Group recorded strong free cash flow in the first half of 2003. In the first six months of 2003, the Group's operating revenue reached RMB76,657 million, representing an

increase of 39 per cent. over the same period in the 2002 financial year. EBITDA reached RMB45,201 million, representing an increase of 35 per cent. over the same period last year. EBITDA margin was maintained at a relatively high level of 59.0 per cent. Net profit reached RMB17,469 million, representing an increase of 13 per cent. from the same period in 2002, and the Group's earnings per share was RMB0.89, representing an increase of 7 per cent. compared with the same period in the prior year. In the year following completion of the acquisition of Anhui Mobile and the other seven mobile telecommunications companies, controls have been broadly invigorated, with improvement evidenced by enhanced operational efficiency and synergy contributing positively to the Group's overall performance.



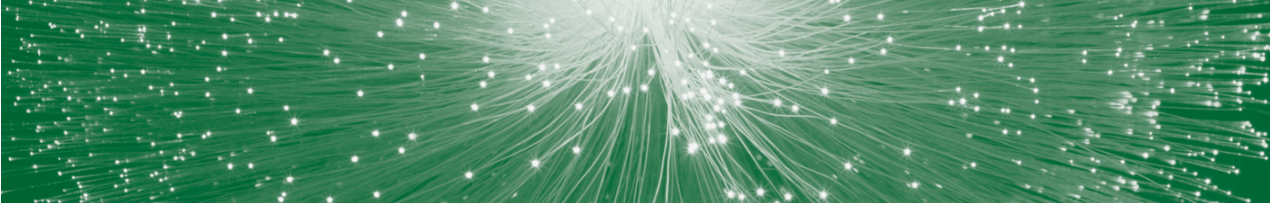
## Chairman's Statement

For ease of comparison, assuming that the existing corporate structure of the Group with 21 operating subsidiaries has been in place since 1 January 2002, the Group's operating revenue for the first half of 2003 increased by 9 per cent. compared to the pro-forma combined figure over the same period in year 2002. EBITDA increased by 9 per cent. compared to the pro-forma combined figure over the same period last year. Net profit increased by 3.5 per cent. compared to the pro-forma combined figure over the same period in 2002. The Group wishes to highlight that new businesses, principally its Short Message Service ("SMS"), maintained its remarkable growth momentum and has become a key driver of the Group's overall revenue growth. In the first six months of 2003, revenue from new businesses reached RMB6,392 million, representing an increase of 86 per cent. compared to the pro-forma combined figure over the same period in 2002. In particular, revenue from new businesses accounted for 8.3 per cent. of the Group's total operating revenue, representing an increase of 3.4 percentage points compared to the pro-forma combined figure over the same period last year, reflecting significant potential for future growth.

During the first half of 2003, the Group's business showed continued growth. Taking its cues from the market, the Group adopted rational and effective competitive strategies, actively conducted brand promotion and marketing, developed comprehensive new businesses, further improved the customer service process, integrated sales and distribution channels, and launched special promotional packages tied to usage volume to fully leverage our available network

capacity. Increasing customer satisfaction while maintaining the steady growth in subscriber base and usage volume, the Group benefited from price elasticity such that, notwithstanding the decline in revenue per minute, ARPU remained relatively stable and operating revenue recorded steady growth. As a result, the Group was able to maintain its leading position, notwithstanding intensified competition in Mainland China's telecommunications market. The Company's 21 subsidiaries in Mainland China maintained satisfactory growth in subscriber base, which reached 129.1 million as at 30 June 2003, representing a net increase of 11.41 million from the end of 2002. Usage volume for the first half of 2003 reached 161.9 billion minutes, representing an increase of 33 per cent. when compared to the pro-forma combined figure over the same period in 2002.

The Group's brand enhancement and restructuring initiatives have produced initial results. While continuing to promote the exclusive "GoTone" brand in 2003, the Group concurrently kicked-off a full-scale launch of "M-Zone" services, which combine voice with various data businesses to address the needs of the trendy youth market throughout its service areas. "M-Zone" achieved a base of 5.47 million subscribers as at the end of June 2003. It is worthy of note that as much as one-third of operating revenue attributable to the Group's "M-Zone" subscribers is derived from new businesses. The Group's new businesses, in particular its SMS, sustained continued, rapid growth. SMS usage for the first half of 2003 reached 40.7 billion messages, representing an increase of 144



per cent. when compared to the pro-forma combined figure over the same period last year. The Group's mobile data businesses users reached 83.05 million and the Group's Multimedia Messaging Services ("MMS") business is progressively winning recognition from the market. At the same time, in order to anticipate market needs and leverage our competitive advantages, the Group cooperated with various service providers to launch new and innovative businesses, such as "e-Freedom", "Color Ring", "Treasure Box (Java)", and "Voice-SMS Interaction". The Group has promoted the rapid development of its mobile data businesses, reinforced consumer differentiation, and consolidated its leading position in these areas.

Superior mobile services are facilitated and ensured by enhanced, premium networks. In the first half of 2003, the Group improved network optimization, consolidating its coverage advantages in key urban areas and traffic arteries. The Group has developed a centralized network management model and has effectively reduced management costs. Concurrently, the Group has actively pursued research to develop new technologies and promote new telecommunications standards and specifications. A number of network management standards developed through research led by the Group have been adopted by the Ministry of Information Industry as industry standards in Mainland China.

In the first half of 2003, the Group further upgraded its comprehensive management system, successfully linking budget management with performance and remuneration management, in a closed loop, with a view to maximizing the

effectiveness of its incentive mechanisms in the drive to improve the performance of the Group and its employees. Also, as a listed public company, the Company resolves to operate in a proper manner and uphold a high standard of corporate governance. In 2003, the Company strengthened its internal audit management and, through rigorous information disclosure procedures and internal controls, endeavoured to ensure optimal communication with investors and ensure the truthfulness, accuracy and timeliness of its corporate disclosures.

The Company has always emphasized the importance of corporate social responsibility and support for the community. In the first half of 2003, the Group aligned with various sectors of the community to combat the SARS outbreak by ensuring the availability of telecommunications services. The Group also made charitable donations to relevant healthcare providers and employed its own network resources to disseminate the latest SARS-related news to its customers, free of charge, via its short message platform, thereby enhancing the Group's corporate profile while serving the needs of the community.

The Company's outstanding performance has won popular recognition and acclaim. In 2003, the Company was selected by *BusinessWeek* as one of the "Info Tech 100", and ranked first in its "The Top 200 Emerging-Market Companies" for the fourth consecutive year. Also in 2003, the Company was named "Best Financial Management" in China in *FinanceAsia's* "Asia's Best Companies 2003" survey; was again inducted into the renown American business magazine *Forbes'* "The A-List: The World's 400 Best Big Companies", and was the only company in Mainland China to receive this



## Chairman's Statement

honor on two separate occasions; and advanced to 100th place in 2003, from 159th place in 2002, in *Forbes'* "The Global 500".

The Company holds in highest regard the interests of its shareholders and the returns achieved for them, especially the minority shareholders. Having taken into account various relevant factors, including the Company's sustained sound fundamentals, the Board has resolved to pay the Company's first ever *interim* dividend, in the amount of HK\$0.16 per share, for the year 2003, representing half of the dividend paid for the full year of 2002. The full year's dividends for the 2003 financial year will be determined by the Board following a review of the Company's full-year annual results and will take into account such factors as future business development, asset acquisitions, and the financial and cash flow position of the Company. The Board considers that the Company's strong free cash flow is capable of supporting the investments required to maintain the stable growth of the Company while also providing shareholders with a favorable cash return. The Company will endeavour to achieve a sustainable and steadily increasing dividend in the long run, with a view to generating the best possible return for shareholders.

Looking ahead, Mainland China's macro-economic development is expected to maintain a trend of steady growth, with a continued increase in consumer purchasing power, providing enormous market capacity and opportunity for the Company's future development. Following Mainland China's entry into the World Trade Organization, various domestic reforms will be implemented and the regulation of Mainland China's telecommunications market will develop along a more fair, open

and transparent path, more closely aligned with international practice. These developments will provide the Group with further development opportunities and an external competitive environment that is more rational and orderly. Nonetheless, the expansion of the "Xiaolingtong" service areas across Mainland China and the encroaching expansion of the CDMA network continue to present a serious challenge to the Group's development. The future competitive environment will be increasingly intense, with growing competitive pressures. The Group will maintain its competitive advantages by further leveraging its advantages of scale, network quality, products and services, management and technologies, to target differentiated customer segments, further integrate its brands, and proactively develop mobile data and other new businesses, through continuous business and service innovation. The Company will consistently pursue the complementary development strategies of organic and external growth; adhere to a philosophy that Company management must always be candid, receptive, innovative, resolute, and focused on its core mobile telecommunications business, to maintain sound fundamentals and a solid financial position, consolidate its leading market position and maintain sustainable development, in order to generate greater value for our shareholders.



**Wang Xiaochu**

*Chairman and Chief Executive Officer*  
Hong Kong, 12 August 2003

# Unaudited Consolidated Profit and Loss Account

for the six months ended 30 June 2003  
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2003 RMB million	2002 RMB million restated (See Note 20)
<b>Operating revenue (Turnover)</b>	4		
Usage fees		<b>54,528</b>	40,875
Monthly fees		<b>10,075</b>	6,940
Other operating revenue	5	<b>12,054</b>	7,331
		<b>76,657</b>	55,146
<b>Operating expenses</b>			
Leased lines		<b>2,655</b>	2,767
Interconnection		<b>7,510</b>	6,615
Depreciation		<b>16,907</b>	10,465
Personnel		<b>3,900</b>	3,002
Other operating expenses		<b>18,488</b>	10,184
		<b>49,460</b>	33,033
<b>Profit from operations</b>		<b>27,197</b>	22,113
<b>Amortisation of goodwill</b>		<b>(936)</b>	—
<b>Other net income</b>		<b>1,097</b>	855
<b>Non-operating net income</b>		<b>222</b>	474
<b>Interest income</b>		<b>325</b>	235
<b>Finance costs</b>		<b>(1,088)</b>	(664)
<b>Profit from ordinary activities before taxation</b>	6	<b>26,817</b>	23,013
<b>Taxation</b>	7	<b>(9,355)</b>	(7,564)
<b>Profit from ordinary activities after taxation</b>		<b>17,462</b>	15,449
<b>Minority interest</b>		<b>7</b>	2
<b>Profit attributable to shareholders</b>		<b>17,469</b>	15,451
<b>Earnings per share — basic</b>	9(a)	<b>RMB89 cents</b>	RMB83 cents
<b>Earnings per share — diluted</b>	9(b)	<b>RMB89 cents</b>	RMB83 cents
<b>Dividend per share</b>	8(a)	<b>HK\$0.16</b>	—
<b>EBITDA (RMB million)</b>		<b>45,201</b>	33,433

# Unaudited Consolidated Statement of Changes in Equity

for the six months ended 30 June 2003  
(Expressed in Renminbi)

	Share capital RMB million	Share premium RMB million	Capital reserve RMB million	General reserve RMB million	PRC statutory reserves RMB million	Retained profits RMB million	Total RMB million
At 1 January 2003							
— as previously reported	2,099	374,579	(296,470)	72	24,714	67,208	172,202
— prior period adjustment in respect of deferred taxation	—	—	805	—	—	258	1,063
As restated (See Note 20)	2,099	374,579	(295,665)	72	24,714	67,466	173,265
Dividend approved and paid during the period	—	—	—	—	—	(6,679)	(6,679)
Net profit for the period	—	—	—	—	—	17,469	17,469
At 30 June 2003	2,099	374,579	(295,665)	72	24,714	78,256	184,055

	Share capital RMB million	Share premium RMB million	Capital reserve RMB million	General reserve RMB million	PRC statutory reserves RMB million	Retained profits RMB million	Total RMB million
At 1 January 2002							
— as previously reported	1,986	347,011	(296,470)	72	17,676	41,504	111,779
— prior period adjustment in respect of deferred taxation	—	—	805	—	—	399	1,204
As restated (See Note 20)	1,986	347,011	(295,665)	72	17,676	41,903	112,983
Issue of new shares	25	6,180	—	—	—	—	6,205
Expenses incurred for issuance of new shares	—	(236)	—	—	—	—	(236)
Net profit for the period (restated)	—	—	—	—	—	15,451	15,451
At 30 June 2002	2,011	352,955	(295,665)	72	17,676	57,354	134,403

# Unaudited Consolidated Balance Sheet

at 30 June 2003  
(Expressed in Renminbi)

	Note	Unaudited At 30 June 2003 RMB million	Audited At 31 December 2002 RMB million restated (See Note 20)
<b>Non-current assets</b>			
Fixed assets		162,898	165,409
Construction in progress		23,769	23,013
Goodwill		35,287	36,223
Interest in associates		16	16
Investment securities		77	77
Deferred tax assets		5,443	4,991
Deferred expenses		166	190
		<b>227,656</b>	229,919
<b>Current assets</b>			
Inventories		1,960	1,586
Amount due from ultimate holding company	10	1,045	1,282
Accounts receivable	12	6,558	6,066
Other receivables	13	1,579	1,465
Prepayments and other current assets		2,161	2,059
Deposits with banks		11,678	11,069
Cash and cash equivalents	14	46,290	32,575
		<b>71,271</b>	56,102
<b>Current liabilities</b>			
Bank loans and other interest-bearing borrowings	15	(13,460)	(8,132)
Bills payable		(801)	(1,256)
Current instalments of obligations under finance leases		(68)	(68)
Current portion of deferred revenue		(7,475)	(6,760)
Amount due to ultimate holding company	10	(1,085)	(1,217)
Amount due to immediate holding company	11	(248)	(402)
Accounts payable	16	(20,659)	(19,251)
Accrued expenses and other payables		(20,907)	(16,460)
Taxation		(6,189)	(6,568)
		<b>(70,892)</b>	(60,114)
<b>Net current assets/(liabilities)</b>		<b>379</b>	(4,012)
<b>Total assets less current liabilities carried forward</b>		<b>228,035</b>	225,907



## Unaudited Consolidated Balance Sheet (Cont'd)

at 30 June 2003  
(Expressed in Renminbi)

	Note	Unaudited At 30 June 2003 RMB million	Audited At 31 December 2002 RMB million restated (See Note 20)
<b>Total assets less current liabilities brought forward</b>		<b>228,035</b>	225,907
<b>Non-current liabilities</b>			
Bank loans and other interest-bearing borrowings	15	(27,885)	(36,348)
Amount due to immediate holding company	11	(15,176)	(15,176)
Deferred revenue, excluding current portion		(660)	(869)
Deferred tax liabilities		(75)	(58)
		<b>(43,796)</b>	(52,451)
<b>Minority interests</b>		<b>(184)</b>	(191)
<b>NET ASSETS</b>		<b>184,055</b>	173,265
<b>CAPITAL AND RESERVES</b>			
Share capital	17	2,099	2,099
Reserves		181,956	171,166
		<b>184,055</b>	173,265

# Unaudited Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2003  
(Expressed in Renminbi)

	Six months ended 30 June	
	2003 RMB million	2002 RMB million
<b>Net cash from operating activities</b>	<b>41,595</b>	30,612
<b>Net cash used in investing activities</b>	<b>(16,605)</b>	(5,241)
<b>Net cash (used in)/from financing activities</b>	<b>(11,275)</b>	3,967
<b>Net increase in cash and cash equivalents</b>	<b>13,715</b>	29,338
<b>Cash and cash equivalents at 1 January</b>	<b>32,575</b>	21,821
<b>Cash and cash equivalents at 30 June</b>	<b>46,290</b>	51,159
<b>Analysis of the balances of cash and cash equivalents</b>		
Deposits with banks maturing within three months when placed	<b>7,329</b>	26,827
Cash and bank balances	<b>38,961</b>	24,332
	<b>46,290</b>	51,159

# Notes on the Unaudited Interim Accounts

(Expressed in Renminbi)

## 1 Basis of preparation

The unaudited interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The interim results are unaudited, but have been reviewed by the Audit Committee of China Mobile (Hong Kong) Limited (the "Company") and by the auditors, KPMG, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the HKSA. KPMG's unmodified independent review report to the board of directors is included on page 23.

The unaudited consolidated financial information for the six months ended 30 June 2003 includes the financial information of the Company and its major subsidiaries, Guangdong Mobile Communication Company Limited ("Guangdong Mobile"), Zhejiang Mobile Communication Company Limited ("Zhejiang Mobile"), Jiangsu Mobile Communication Company Limited ("Jiangsu Mobile"), Fujian Mobile Communication Company Limited ("Fujian Mobile"), Henan Mobile Communication Company Limited ("Henan Mobile"), Hainan Mobile Communication Company Limited ("Hainan Mobile"), Beijing Mobile Communication Company Limited ("Beijing Mobile"), Shanghai Mobile Communication Company Limited ("Shanghai Mobile"), Tianjin Mobile Communication Company Limited ("Tianjin Mobile"), Hebei Mobile Communication Company Limited ("Hebei Mobile"), Liaoning Mobile Communication Company Limited ("Liaoning Mobile"), Shandong Mobile Communication Company Limited ("Shandong Mobile"), Guangxi Mobile Communication Company Limited ("Guangxi Mobile"), Anhui Mobile Communication Company Limited ("Anhui Mobile"), Jiangxi Mobile Communication Company Limited ("Jiangxi Mobile"), Chongqing Mobile Communication Company Limited ("Chongqing Mobile"), Sichuan Mobile Communication Company Limited ("Sichuan Mobile"), Hubei Mobile Communication Company Limited ("Hubei Mobile"), Hunan Mobile Communication Company Limited ("Hunan Mobile"), Shaanxi Mobile Communication Company Limited ("Shaanxi Mobile"), Shanxi Mobile Communication Company Limited ("Shanxi Mobile"), China Mobile Holding Company Limited (formerly China Mobile (Shenzhen) Limited), Aspire Holdings Limited ("Aspire"), Aspire Information Network (Shenzhen) Limited and Aspire Technologies (Shenzhen) Limited, (the "Group"), for the six months ended 30 June 2003.

The unaudited consolidated financial information for the six months ended 30 June 2002 includes the financial information of the Company and its major subsidiaries, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile, Guangxi Mobile, China Mobile (Shenzhen) Limited, Aspire, and Aspire Technologies (Shenzhen) Limited, for the six months ended 30 June 2002.

The financial information relating to the financial year ended 31 December 2002 included in the interim accounts does not constitute the Group's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2002 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 18 March 2003.

The same accounting policies adopted in the 2002 annual accounts have been applied to the interim consolidated accounts except for the accounting policy for deferred taxation (see Note 2).

# Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

## 2 Change of accounting policy

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group adopted a new policy for deferred tax as set out below:

- Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current and deferred tax assets and liabilities are offset if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amount of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

# Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

## **2** Change of accounting policy (cont'd)

As a result of the adoption of this accounting policy, the Group's profits for the period ended 30 June 2003 has been increased by RMB138 million (2002 : RMB236 million) and the net assets as at period ended 30 June 2003 has been increased by RMB1,201 million (at 31 December 2002: RMB1,063 million). The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and reserves and the comparative information of the Group adjusted for the amounts relating to prior periods as disclosed in the unaudited consolidated statement of changes in equity.

## **3** Segment reporting

No analysis of the Group's turnover and contribution to profit from operations by geographical segment or business segment has been presented as all the Group's operating activities are carried out in the People's Republic of China (the "PRC") and less than 10 per cent. of the Group's turnover and contribution to profit from operations were derived from activities outside the Group's cellular telephone and related services activities. There is no other geographical or business segment with segment assets equal to or greater than 10 per cent. of the Group's total assets.

## **4** Turnover

Turnover primarily represents usage fees, monthly fees and other operating revenue derived from the Group's cellular telephone networks, net of PRC business tax and government surcharges. Business tax and government surcharges are charged at approximately 3 to 3.30 per cent. of the corresponding revenue.

## **5** Other operating revenue

Other operating revenue mainly represents charges for wireless data and value-added services, roaming in fees and interconnection revenue. 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.

## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

### 6 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 June	
	2003 RMB million	2002 RMB million
Interest on borrowings	1,088	664
Depreciation	16,907	10,465
Amortisation of goodwill	936	—
Amortisation of deferred expenses	24	21
Operating lease charges in respect of		
— properties	779	512
— leased lines	2,655	2,767
— others	259	263
Contributions to defined contribution plans	232	133
Provision for doubtful accounts	1,104	834

### 7 Taxation

	Six months ended 30 June	
	2003 RMB million	2002 RMB million restated
Provision for PRC enterprise income tax on the estimated taxable profits for the period	10,001	7,653
(Over)/under-provision in respect of PRC enterprise income tax for prior period	(211)	10
	9,790	7,663
Origination and reversal of temporary differences transfer to deferred tax	(435)	(99)
	9,355	7,564

- (i) No provision has been made for Hong Kong profits tax as there were no estimated Hong Kong assessable profits for the six months ended 30 June 2003 and 2002.
- (ii) The provision for the PRC enterprise income tax is based on a statutory rate of 33 per cent. of the assessable profit of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC for the six months ended 30 June 2003, except for certain subsidiaries of the Company and certain operations of the subsidiaries located within special economic zones in the PRC, which enjoy a preferential rate of 30 per cent. and 15 per cent., respectively.

## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

### 8 Dividends

#### (a) Dividends attributable to the period

	Six months ended 30 June	
	2003 RMB million	2002 RMB million
Interim dividend proposed after the balance sheet date of HK\$0.16 (equivalent to approximately RMB0.17) (2002: Nil) per share	3,339	—

The interim dividend proposed after the interim period has not been recognised as a liability at the interim period end.

#### (b) Dividends attributable to the previous financial year, approved and paid during the period

	Six months ended 30 June	
	2003 RMB million	2002 RMB million
Final dividend in respect of the previous financial year, approved and paid during the period, of HK\$0.32 (equivalent to approximately RMB0.34) (2002: Nil) per share	6,679	—

### 9 Earnings per share

#### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2003 is based on the profit attributable to shareholders of RMB17,469,000,000 (2002: RMB15,451,000,000 (restated)) and the weighted average number of 19,671,653,899 shares (2002: 18,622,401,068 shares) in issue during the six months ended 30 June 2003.

#### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2003 is based on the adjusted profit attributable to shareholders of RMB17,532,000,000 (2002: RMB15,515,000,000 (restated)), after adding back the interest expense on the convertible notes and the weighted average number of 19,762,808,929 shares (2002: 18,714,692,676 shares) issued and issuable after adjusting for the effects of all dilutive potential ordinary shares, as if all the outstanding share options and convertible notes issued by the Company had been exercised or converted into ordinary shares at the date of issue.

## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

### 9 Earnings per share (cont'd)

#### (c) Reconciliations

	Six months ended 30 June	
	2003 RMB million	2002 RMB million restated
Profit attributable to shareholders used in calculating basic earnings per share	17,469	15,451
Interest expense on the convertible notes	63	64
Profit attributable to shareholders used in calculating diluted earnings per share	17,532	15,515

	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	19,671,653,899	18,622,401,068
Deemed issue of ordinary shares for no consideration	91,155,030	92,291,608
Weighted average number of ordinary shares used in calculating diluted earnings per share	19,762,808,929	18,714,692,676

### 10 Amount due from/to ultimate holding company

Amount due from/to ultimate holding company are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business (see Note 18).

### 11 Amount due to immediate holding company

Amount due to immediate holding company included in non-current liabilities primarily represented the balance of the purchase consideration for acquisition of subsidiaries on 1 July 2002, which is unsecured, bears interest at the rate of two year US dollar LIBOR swap rate per annum (at 30 June 2003 and 31 December 2002: 3.801 per cent.) and is not required to be settled within one year. The balance is due on 1 July 2017 and is subordinated to other senior debts owed by the Company from time to time including the fixed rate notes and convertible notes. The Company may make early payment of all or part of the balance at any time before the date without penalty.

The current portion of amount due to immediate holding company represented interest payable on the unpaid balance of the purchase consideration, which is expected to be settled within one year.



## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

### 12 Accounts receivable

Accounts receivable, net of provision for doubtful accounts, are all outstanding for less than three months with the following ageing analysis:

	Unaudited At 30 June 2003 RMB million	Audited At 31 December 2002 RMB million
Within 30 days	5,454	5,150
31–60 days	627	580
61–90 days	477	336
	<b>6,558</b>	6,066

Balances are due for payment within one month from date of billing. Customers with balances that are overdue or exceed credit limits are required to settle all outstanding balances before any further phone calls can be made.

### 13 Other receivables

Included in other receivables as at 30 June 2003 are amounts due from the PRC fixed line telephone services providers, including China Telecommunications Corporation ("China Telecom") and its subsidiaries (collectively the "China Telecom Group") and China Netcom Communications Group Corporation ("China Netcom") and its subsidiaries (collectively the "China Netcom Group") totalling RMB148,000,000 (At 31 December 2002: RMB227,000,000), representing primarily revenue collected on behalf of the Group. These balances are unsecured, non-interest bearing and repayable within one year.

### 14 Cash and cash equivalents

	Unaudited At 30 June 2003 RMB million	Audited At 31 December 2002 RMB million
Deposits with banks	7,329	5,004
Cash at banks and in hand	38,961	27,571
	<b>46,290</b>	32,575

## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

### 15 Bank loans and other interest-bearing borrowings

	Unaudited 30 June 2003			Audited 31 December 2002		
	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million
Bank loans	3,123	2,417	5,540	6,243	2,613	8,856
Other loans	10,337	1,794	12,131	1,889	10,063	11,952
Fixed rate notes	—	4,963	4,963	—	4,961	4,961
Convertible notes	—	5,711	5,711	—	5,711	5,711
Bonds	—	13,000	13,000	—	13,000	13,000
	<b>13,460</b>	<b>27,885</b>	<b>41,345</b>	8,132	36,348	44,480

Other loans included designated loans borrowed from China Mobile, the ultimate holding company, totalling RMB11,940,000,000 (31 December 2002: RMB11,680,000,000), which bear at the rate of 3.28 per cent. to 3.57 per cent. (At 31 December 2002: 3.45 per cent. to 3.57 per cent.) per annum with maturities in 2003 to 2004.

### 16 Accounts payable

Accounts payable primarily includes payables for network expansion projects expenditure, leased lines and interconnection expenses. Included in accounts payable as at 30 June 2003 are amounts due to China Telecom Group and China Netcom Group totalling RMB2,248,000,000 (At 31 December 2002: RMB2,119,000,000), representing primarily payables for leased lines and interconnection expenses.

The ageing analysis of accounts payable is as follows:

	Unaudited At 30 June 2003 RMB million	Audited At 31 December 2002 RMB million
Amounts payable in the next:		
1 month or on demand	13,084	10,904
2-3 months	2,850	2,160
4-6 months	2,178	2,599
7-9 months	1,168	1,594
10-12 months	1,379	1,994
	<b>20,659</b>	19,251

## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

### 17 Share capital

Issued and fully paid:

	At 30 June 2003		
	No. of shares	HK\$ million	RMB equivalent RMB million
At 1 January 2003 and 30 June 2003	<b>19,671,653,899</b>	<b>1,967</b>	<b>2,099</b>

At 30 June 2003, the outstanding options were as follows:

Date of options granted	Normal period during which options are exercisable	Price per share to be paid on exercise of options	No. of shares involved in the options outstanding at the period end
26 November 1999	26 November 1999 to 7 October 2007	HK\$33.91	3,500,000
26 November 1999	26 November 2002 to 7 October 2007	HK\$33.91	3,500,000
25 April 2000	25 April 2002 to 7 October 2007	HK\$45.04	14,833,000
25 April 2000	25 April 2005 to 7 October 2007	HK\$45.04	14,833,000
22 June 2001	22 June 2003 to 7 October 2007	HK\$32.10	37,201,250
22 June 2001	22 June 2006 to 7 October 2007	HK\$32.10	37,201,250
3 July 2002	3 July 2004 to 2 July 2012	HK\$22.85	74,448,750
3 July 2002	3 July 2007 to 2 July 2012	HK\$22.85	74,448,750
			<b>259,966,000</b>

No option had been granted to the directors and employees of the Company during the six months ended 30 June 2003. Share options involving a total number of 3,004,500 ordinary shares previously granted to certain employees of the Company were cancelled during the period.

None of the directors and employees of the Company exercised their options to subscribe for shares of the Company during the six months ended 30 June 2003.

## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

### 18 Related party transactions

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

The Group has also significant transactions with China Mobile (the Company's ultimate holding company) and its subsidiaries, other than the Group, (the "China Mobile Group"). The following is a summary of principal related party transactions carried out by the Group with China Mobile Group for the six months ended 30 June 2003 and 2002.

	Note	Six months ended 30 June	
		2003 RMB million	2002 RMB million
Interconnection revenue	(i)	1,212	1,020
Interconnection charges	(ii)	1,225	976
Leased line charges	(iii)	288	163
Roaming revenue	(iv)	3,138	2,487
Roaming expenses	(v)	3,290	2,620
Spectrum fees	(vi)	277	12
Operating lease charges	(vii)	109	58
Roaming billing processing fees	(viii)	89	115
Equipment maintenance service fees	(ix)	20	13
Construction and related service fees	(x)	104	47
Purchase of transmission tower and transmission tower-related service and antenna maintenance service fees	(xi)	26	—
Prepaid card sales commission income	(xii)	86	80
Prepaid card sales commission expenses	(xii)	79	87
Technology platform development and maintenance service income	(xiii)	9	13
Telecommunications lines maintenance services fee	(xiv)	19	—
Interest paid/payable	(xv)	462	—

Notes:

- (i) Interconnection revenue represents the amounts received or receivable from the China Mobile Group in respect of long distance calls made by non-Group's subscribers.
- (ii) Interconnection charges represent the amounts paid or payable to the China Mobile Group in respect of long distance calls made by the Group's subscribers roaming outside their registered provinces.
- (iii) Leased line charges represent expenses paid or payable to the China Mobile Group for the use of inter-provincial leased lines which link the Group's mobile switching centres together and with other mobile switching centres of the China Mobile Group.
- (iv) A cellular telephone user using roaming services is charged at the respective roaming usage rate for roaming in calls, in addition to applicable long distance charges. Roaming revenue represents domestic and international roaming in usage charges from non-subscribers received or receivable from the relevant domestic and international cellular telephone operators through the China Mobile Group.

## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

### 18 Related party transactions (cont'd)

- (v) A cellular telephone user using roaming services is charged at the respective roaming usage rate for roaming out calls, in addition to applicable long distance charges. Roaming expenses represent the amount of domestic and international roaming out charges received or receivable from subscribers which is to be remitted to the relevant domestic and international cellular telephone operators for their share of the roaming revenue through the China Mobile Group.
- (vi) Spectrum fees represent the spectrum usage fees paid or payable to the China Mobile Group for the usage of the frequency bands allocated to the Company's subsidiaries in the PRC.
- (vii) Operating lease charges represent the rental and property management fees paid or payable to the subsidiaries of China Mobile for operating leases in respect of land and buildings and others.
- (viii) Roaming billing processing fees represent the amounts paid or payable to the China Mobile Group for the provision of the roaming billing processing services to the Company's subsidiaries.
- (ix) Equipment maintenance service fees represent the amount paid or payable to subsidiaries of China Mobile for the provision of the maintenance services to the Company's subsidiaries.
- (x) Construction and related service fees represent the amount paid or payable to subsidiaries of China Mobile for the provision of telecommunications projects planning, design and construction services and telecommunications lines and pipelines construction services to the Company's subsidiaries.
- (xi) This represents payment made by Hebei Mobile to acquire transmission towers from relevant subsidiaries of China Mobile and expenses paid or payable to relevant subsidiaries of China Mobile for the provision of transmission tower related services and antenna maintenance services provided to Hebei Mobile; and payment made by the Group to Hubei Communication Services Company, a subsidiary of China Mobile in respect of the purchase of transmission towers and for the provision of transmission tower related services.
- (xii) Prepaid card sales commission income and commission expenses represent handling charges received/receivable from subsidiaries of China Mobile to the Company's subsidiaries or paid/payable by the Company's subsidiaries to subsidiaries of China Mobile in respect of prepaid card services.
- (xiii) Technology platform development and maintenance service income represents the amounts received or receivable from China Mobile in respect of equipment charges, systems integration fees, software licensing fees, technical support fees and/or major overhaul charges for the mobile information service centre platform.
- (xiv) Telecommunications lines maintenance services fees represent the amount paid or payable by Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile to the relevant subsidiaries of China Mobile for the provision of telecommunications lines maintenance services.
- (xv) Interest paid/payable represents the interest paid or payable to China Mobile and China Mobile Hong Kong (BVI) Limited in respect of the designated loans borrowed and the balance of purchase consideration for acquisition of subsidiaries.

# Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

## 19 Commitments

### (a) Capital commitments

Capital commitments outstanding not provided for in the accounts were as follows:

	Unaudited At 30 June 2003 RMB million	Audited At 31 December 2002 RMB million
Commitments in respect of land and buildings		
— authorised and contracted for	910	1,167
— authorised but not contracted for	6,547	3,423
	<b>7,457</b>	4,590
Commitments in respect of telecommunications equipment		
— authorised and contracted for	5,496	5,270
— authorised but not contracted for	21,886	23,267
	<b>27,382</b>	28,537
Total commitments		
— authorised and contracted for	6,406	6,437
— authorised but not contracted for	28,433	26,690
	<b>34,839</b>	33,127

### (b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings RMB million	Leased lines RMB million	Others RMB million	Total RMB million
At 30 June 2003				
Within one year	849	4,037	398	5,284
After one year but within five years	2,170	3,793	287	6,250
After five years	1,136	96	132	1,364
	<b>4,155</b>	<b>7,926</b>	<b>817</b>	<b>12,898</b>
At 31 December 2002				
Within one year	833	4,672	583	6,088
After one year but within five years	2,023	4,117	488	6,628
After five years	1,512	183	307	2,002
	4,368	8,972	1,378	14,718

## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

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### **20 Comparative figures**

The presentation and classification of items in the audited consolidated balance sheet at 31 December 2002 and unaudited consolidated profit and loss accounts for the six months ended 30 June 2002 have been changed due to the adoption of the requirements of SSAP12 (revised) "Income Taxes". As a result, goodwill, deferred tax assets, deferred tax liabilities and reserves in the audited consolidated balance sheet at 31 December 2002 have been restated, and deferred tax assets and deferred tax liabilities have been classified into non-current assets and liabilities respectively. Taxation in the unaudited consolidated profit and loss accounts for the six months ended 30 June 2002 has also been restated.

# Independent Review Report to the Board of Directors of China Mobile (Hong Kong) Limited

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## Introduction

We have been instructed by the Company to review the interim financial report set out on pages 5 to 22.

## Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

## Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

### **KPMG**

*Certified Public Accountants*

Hong Kong, 12 August 2003



## 1 Robust Cash Flow and Solid Capital Structure

As a result of encouraging business growth, aggressive cost controls, effective management of capital expenditures, and given that the implementation of certain capital expenditure plans was deferred in the aftermath of the SARS outbreak, the Group recorded strong free cash flow in the first half of 2003. The Group's free cash flow (cash flow from operating activities after deducting tax and capital expenditure paid) for the first six-month period of 2003 was RMB25,148 million. As at 30 June 2003, the total cash and bank balances of the Group were RMB57,968 million, of which 92.0 per cent., 5.1 per cent. and 2.9 per cent. were denominated in RMB, US dollars and Hong Kong dollars, respectively. As at 30 June 2003, the Group's debt to capitalization ratio (capitalization represents the sum of total debt and shareholders' equity) was approximately 23.8 per cent., which represented a decrease of 2.2 percentage points from the end of 2002.

At the end of June 2003, short-term and long-term borrowings of the Group totaled RMB57,390 million, representing a decrease of RMB3,590 million over year-end 2002. Of such borrowings, 25.0 per cent. will mature within one year, 14.9 per cent. will mature after one year but within two years, 16.2 per cent. will mature after two years but within five years, and 43.9 per cent. will mature after five years. 54.3 per cent. and 45.7 per cent. of the borrowings were denominated in RMB (mainly represented by RMB denominated bonds, bank loans and finance leases) and US dollars (mainly represented by US dollar fixed rate notes, convertible notes and the balance of the deferred consideration for the acquisition of the eight provincial mobile telecommunications companies in 2002), respectively. 60.8 per cent. of the total borrowings of the Group were made at floating interest rates. The average interest rate of borrowings (ratio of interest expenses to the average balance of borrowings) of the Group was approximately 4 per cent. in the first half of 2003, whereas the interest coverage multiple (ratio of profit before interest and tax to interest expenses) amounted to 25 times.

The Group will continue to pursue prudent financial policies, strictly control financial risks, improve financial management procedures, maintain debts at a prudent level and enhance its capital structure.

### **2 Capital Expenditure**

The Group's budgeted capital expenditure for 2003 (as part of a three-year rolling capital expenditure plan) is approximately US\$5.6 billion. Due to the SARS outbreak, certain projects scheduled to be implemented in the first half of 2003 were delayed. Actual investments made in the first half of 2003 totaled approximately US\$1.6 billion. Capital expenditure will be financed primarily by cash flow generated from operations.

In order to facilitate further business development and explore new business opportunities, the Group has budgeted total capital expenditure of approximately US\$15 billion for the period from 2003 through 2005. The capital expenditure is expected to be financed largely out of the Group's internal cash flow generated from operations. The Group will invest the planned capital expenditure primarily in the construction of GSM networks, support systems, transmission facilities and infrastructure buildings and the development of new technologies and new businesses.

### **3 Personnel Expenses**

The Group employed a total of 61,859 employees as of 30 June 2003. Personnel expenses for the period were RMB3,900 million, representing 5.1 per cent. of operating revenue, which was comparable with the pro-forma combined figure over the same period last year. Increased incentive compensation to outstanding employees enables the Group to retain and attract talented staff. Concurrently, the Group endeavored to effectively control total personnel expenses and maintain salaries at a level representing a reasonable percentage of operating revenue. In order to align the interests of staff with those of shareholders, the Company adopted a share option scheme to grant share options to employees. Further details of the share option scheme and the share options granted are set forth in Note 17 of the "Notes on the Unaudited Interim Accounts" and in the section "Other Information — Directors', Chief Executive's and Employees' Rights to Acquire Shares" below.

### Directors' and Chief Executive's Interests in Shares and Short Positions

As at 30 June 2003, 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 and Futures Ordinance (the "Ordinance")) as recorded in the register required to be kept under section 352 of the Ordinance were as follows:

Name of Director	Personal interest
Wang Xiaochu	500 American depositary shares (Note)

Note: As at 30 June 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 "Directors', Chief Executive's and Employees' Rights to Acquire Shares" 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 30 June 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 and 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.

## Other Information (Cont'd)

### Directors', Chief Executive's and Employees' Rights to Acquire Shares

#### 1 Share Option Schemes of the Company

During the six months ended 30 June 2003, no share options have been granted under the current share option scheme of the Company.

As at 30 June 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 share option scheme of the Company (adopted on 8 October 1997 and terminated on 24 June 2002) and the current share option scheme of the Company (effective on 24 June 2002).

	No. of shares involved in the options outstanding at the beginning of the period	No. of shares involved in the options outstanding at period end	Date on which options were granted	Normal period during which options are exercisable	No. of shares involved in the options cancelled during the period	No. of shares acquired on exercise of options during the period	Price per share to be paid on exercise of options HK\$	Closing price per share immediately before the date of exercise of options HK\$
<b>Directors</b>								
Wang Xiaochu	1,950,000	1,950,000	26 November 1999	26 November 1999 to 7 October 2007	—	—	33.91	—
	1,950,000	1,950,000	26 November 1999	26 November 2002 to 7 October 2007	—	—	33.91	—
	100,000	100,000	25 April 2000	25 April 2002 to 7 October 2007	—	—	45.04	—
	100,000	100,000	25 April 2000	25 April 2005 to 7 October 2007	—	—	45.04	—
	60,000	60,000	22 June 2001	22 June 2003 to 7 October 2007	—	—	32.10	—
	60,000	60,000	22 June 2001	22 June 2006 to 7 October 2007	—	—	32.10	—
	150,000	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	—

## Other Information (Cont'd)

### 1 Share Option Schemes of the Company (cont'd)

	No. of shares involved in the options outstanding at the beginning of the period	No. of shares involved in the options outstanding at period end	Date on which options were granted	Normal period during which options are exercisable	No. of shares involved in the options cancelled during the period	No. of shares acquired on exercise of options during the period	Price per share to be paid on exercise of options HK\$	Closing price per share immediately before the date of exercise of options HK\$
<b>Directors</b>								
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	—
<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	13,975,000	25 April 2000	25 April 2002 to 7 October 2007	328,000	—	45.04	—	
14,303,000	13,975,000	25 April 2000	25 April 2005 to 7 October 2007	328,000	—	45.04	—	
37,517,250	36,998,750	22 June 2001	22 June 2003 to 7 October 2007	518,500	—	32.10	—	
37,517,250	36,998,750	22 June 2001	22 June 2006 to 7 October 2007	518,500	—	32.10	—	
74,579,500	73,923,750	3 July 2002	3 July 2004 to 2 July 2012	655,750	—	22.85	—	
74,579,500	73,923,750	3 July 2002	3 July 2007 to 2 July 2012	655,750	—	22.85	—	
	259,966,000 (Note)							

\* The number of shares involved in the options outstanding at the beginning of the period included Mr Li Zhenqun, Mr Liu Ping, Mr Yuan Jianguo and Mr Wei Yiping's share options 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 period end represents 1.3 per cent. of the issued share capital of the Company as at the date of this report.

The options granted are not recognized in the accounts until they are exercised.

## Other Information (Cont'd)

### 2 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 at 30 June 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 period	No. of shares involved in the options outstanding at period end	Date on which options were granted	Normal period during which options are exercisable	No. of shares involved in the options cancelled during the period	No. of shares acquired on exercise of options during the period	Price per share to be paid on exercise of options US\$
<b>Director of Aspire*</b>	—	2,800,000	18 February 2003	(Note 2)	—	—	0.182
<b>Employees of Aspire*</b>	—	14,180,000	18 February 2003	(Note 3)	—	—	0.298
	—	850,000	18 April 2003	(Note 3)	—	—	0.298
		17,830,000 (Note 1)					

\* During the six months ended 30 June 2003, no share options have been granted under the Aspire Scheme for the directors or chief executive of the Company.

Note 1: The total number of shares involved in the options outstanding at the end of the period represents 1.9 per cent. of the issued share capital of Aspire as at the date of this 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.

## Other Information (Cont'd)

### 2 Share Option Scheme of Aspire Holdings Limited ("Aspire") (cont'd)

The options granted are not recognized in the accounts 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 favor 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 six months ended 30 June 2003 was the Company, any of its holding companies or subsidiaries, a party to 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 Interests in the Share Capital of the Company

The Company has been notified of the following interests in the Company's issued shares at 30 June 2003 amounting to 5 per cent. or more of the ordinary shares in issue:

	Ordinary shares held directly	Ordinary shares held indirectly	Percentage of total issued shares
(i) China Mobile Communications Corporation ("China Mobile")	—	14,890,116,842	75.69%
(ii) China Mobile (Hong Kong) Group Limited ("CMHK (Group)")	—	14,890,116,842	75.69%
(iii) 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 30 June 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.

### Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## Other Information (Cont'd)

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### Audit Committee

The Audit Committee reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters including the review of the unaudited interim accounts for the six months ended 30 June 2003.

### Compliance with the Code of Best Practice

None of the directors of the Company is aware of any information that would reasonably indicate that the Company was not at any time during the six month ended 30 June 2003 in compliance 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.

### Closure of Register of Members

The register of members of the Company will be closed from 2 September 2003 to 4 September 2003. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Hong Kong Registrars Limited, at Rooms 1901-5, 19th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 1 September 2003. The interim dividends will be paid on 15 September 2003 to those shareholders on the register of members on 4 September 2003.



## Other Information (Cont'd)

### Supplementary Information for ADR Holders

The above unaudited financial information has 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 2003 are substantially the same as those disclosed in the Company's 2002 annual report. The effect of the significant differences between HK GAAP and US GAAP on the Group's unaudited consolidated net profit for the six months ended 30 June 2003 is set out below. The US GAAP adjustments shown below have been prepared by management and have not been subject to independent audit.

	For the six months ended 30 June 2003		For the six months ended 30 June 2002	
	US\$ million	RMB million	US\$ million	RMB million
Net profit under HK GAAP	<b>2,110</b>	<b>17,469</b>	1,867	15,451
US GAAP adjustments	<b>162</b>	<b>1,337</b>	389	3,224
Approximate net profit under US GAAP	<b>2,272</b>	<b>18,806</b>	2,256	18,675
Approximate basic net profit per share in accordance with US GAAP	<b>US\$0.12</b>	<b>RMB0.96</b>	US\$0.12	RMB0.96
Approximate diluted net profit per share in accordance with US GAAP	<b>US\$0.12</b>	<b>RMB0.95</b>	US\$0.12	RMB0.96
Approximate basic net profit per ADS in accordance with US GAAP*	<b>US\$0.58</b>	<b>RMB4.78</b>	US\$0.58	RMB4.80
Approximate diluted net profit per ADS in accordance with US GAAP*	<b>US\$0.58</b>	<b>RMB4.77</b>	US\$0.58	RMB4.79

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

Solely for the convenience of the reader, amounts in Renminbi included in this Interim Report have been translated into United States dollars at the rate of 8.2774 quoted by the People's Bank of China on 30 June 2003. 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 2003 or on any other date.

### Forward-Looking Statements

Certain statements contained in this Interim Report may be viewed as "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the "SEC") and in the Company's other filings with the SEC.

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