



中国移动通信  
CHINA MOBILE

# CHINA MOBILE (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 941)

## ANNOUNCEMENT OF 2005 INTERIM RESULTS

- Turnover reached RMB114.5 billion, up by 32.5%
- EBITDA of RMB62.7 billion, up by 27.2%
- Sustained high EBITDA margin of 54.7%
- Profit attributable to shareholders of RMB24.0 billion, up by 27.7%
- Total subscribers reached 224 million, up by 19.49 million
- Payment of an interim dividend of HK\$0.45 per share. The Company's proposed dividend payout ratio for the full year of 2005 is 39%

### CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2005, whilst facing intense competition, the Group leveraged its premium and efficient network and economies of scale and brand advantages, implemented comprehensive refined management methods over its operating companies in Mainland China, strengthened its core competitiveness and adopted effective marketing strategies, thereby steadily enhancing customer satisfaction. The Group achieved commendable operating results. The continued growth of new subscriber base was maintained and the Group recorded robust development of new businesses. The Group's operating revenue sustained a relatively rapid growth. The Company preserved sound fundamentals, further consolidated its financial strengths and reaffirmed its market leading position.

The Group achieved remarkable financial results in the first half of 2005. In the six months ended 30 June 2005, the Group's operating revenue recorded a rapid growth and reached RMB114,547 million, representing an increase of 32.5 per cent. over the same period in the 2004 financial year. EBITDA reached RMB62,675 million, representing an increase of 27.2 per cent. over the same period last year. EBITDA margin was maintained at a relatively high 54.7 per cent. Profit attributable to shareholders reached RMB24,043 million, representing an increase of 27.7 per cent. from the same period in 2004, and the Company's earnings per share was RMB1.22, representing an increase of 27.1 per cent. compared with the same period in the prior year. The Group's capital structure is solid and the Group has sustained robust free cash flow. Following the acquisition of ten mobile telecommunications companies and other telecommunications assets in Mainland China a year ago, the Group actively promoted effective post-acquisition integration and the enhancement of management efficiency, whereby the solid business growth achieved by the newly-acquired companies made positive contributions to the Group's overall business growth. The Group's leading position in the mobile telecommunications market in Mainland China has been consolidated.

For ease of comparison, on the assumption that the Group's current structure of holding 31 operating subsidiaries had been in place since 1 January 2004, the Group's operating revenue, EBITDA and profit attributable to shareholders achieved in the first half of 2005 enjoyed an increase of 16.8 per cent., 13.8 per cent., and 19.8 per cent., respectively over the combined operating revenue, EBITDA and profit attributable to shareholders in respect of the 31 provinces, autonomous regions and municipalities during the same period of last year. It is pleasing to note that the Group's revenue attributable to its new businesses continued to grow rapidly, and it amounted to RMB22,557 million. Such revenue accounted for 19.7 per cent. of the Group's operating revenue, representing 4.2 percentage points higher from 15.5 per cent. for the full year of 2004 on a combined basis, and the revenue contribution of new businesses is increasingly notable.

During the first six months of 2005, the Group persisted in its strategic priority of "business and service leadership", focused on brand promotion, improved differentiated sales and services capability, increased its market share and raised customer satisfaction. The Group also fostered and consolidated the long-term competitive advantages in brand, service, sales channel and terminal integration, honing itself for competition. In the first half of 2005, the Group demonstrated impressive market performance and secured its leading position in the market. While the Group's mobile telecommunications subscriber base maintained a rapid growth momentum, the development of new businesses was remarkable, with the "Short Message Service" or "SMS" maintaining stable growth, "Color Ring" and WAP businesses developing rapidly, and application businesses such as music and games maturing quickly. As at 30 June 2005, the Group's subscriber net increase reached 19,489 million, and its total subscriber base reached 224 million. Minutes of usage per user per month (MOU) enjoyed a stable increase and average revenue per user per month (ARPU) recorded only a moderate trend of decrease as a result of the revenue contributions from new businesses.

In the first half of 2005, the Group maintained its focus on brand development, and formulated individual promotion strategies for each of the GoTone, M-Zone and Shenzhouxing brands. The marketing focus for GoTone, M-Zone and Shenzhouxing is A+ business and service, business upgrade and brand image integration, respectively. The Group further consolidated and enhanced its brand advantages so that the three major brands were developed in a balanced and coordinated manner. At the same time, the consolidation and development of the Group's sales channels was satisfactorily enhanced and the management of sales channels was further improved. In respect of customer services, the Group has launched the "Across Business Process" programme, whereby the Company reorganised and standardised its service process, on the basis of the customer habitual behaviour. The consolidation of its customer services and sales channels and leverage of brand power resulted in the Group maintaining its high-value and corporate customers' loyalty level and raising customer satisfaction.

The Group boasted remarkable advantages in terms of network coverage and quality. In the first half of 2005, the Group's various network performance indicators continued to show excellent results, with the wireless connection rate of 99.1%. To better accommodate rapid business growth and increased voice usage volume, the Group actively rationalised its existing network resources, emphasised network optimisation with particular focus on areas of high usage volume, and effectively channel usage volume to improve peak hour network quality and network efficiency, so as to enhance the overall network capacity. The coverage of the Group's global roaming services was further extended. As of the end of June 2005, the Group's GSM global roaming services covered 191 countries and regions and GPRS roaming services covered 79 countries and regions, thereby maintaining the Group's leading business offering position.

In the first half of 2005, the Company emphasised its consolidated management over its operating subsidiaries. The Company implemented comprehensive refined management methods in the aspects of, among others, resource allocation, costs control, human resources and network management. The Company further strengthened and refined its performance appraisal systems. At the same time, the Company established and refined its supervisory mechanism, which facilitated its risk control. By comprehensively implementing a series of management reforms, the Group further enhanced its management efficiency and the overall execution capabilities. In the first half of 2005, the Company's management participated in various large global investors conferences and summit to introduce the Company's latest developments and strengthen its communications with investors. The Company also carried out a road show in Japan to the capital market and arranged for a reverse road show for analysts and fund managers at the operating subsidiaries in Mainland China, which allowed investors to gain a better and deeper understanding of the Company's management and operations. Furthermore, the Company organised a seminar on Wireless Data Business, which was attended by equipment platform vendors, service providers (SP), content providers (CP) and handset suppliers. At the seminar, there was a detailed and thorough introduction to the operation process of the value chain of wireless data business and its business development. The series of actions taken by the Company reflected the Company's consistent practice of candid communications, truthful, accurate and timely disclosure of information.

The Company's outstanding performance has won popular recognition and acclaim. In the first half of 2005, the Company was again selected by the internationally-renowned Financial Times as one of the "FT Global 500", ranking number 64 therein as compared to number 67 last year. The Company was selected and ranked number 128 in the "The World's 2000 Biggest Public Companies" by Forbes magazine. Taking into account the Company's sustained robust financial strength and stable capital structure, in July 2005, whilst revising upward China's sovereignty rating, Standard & Poor's also revised the Company's credit rating upward from BBB+/Positive Outlook to A-/Positive outlook, as a result of which, the Company has become the only Chinese company with a credit rating equivalent to the sovereignty rating, enjoying the highest corporate credit rating ever granted by Standard & Poor's to Chinese enterprises to date.

The Company holds in the 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 corporate fundamentals and robust free cash flow position, the Board has resolved to pay an interim dividend in the amount of HK\$0.45 per share for the year 2005. At the same time, the Company proposes to set the dividend payout ratio at 39 per cent. for the full year of 2005. The Company considers that its 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 favourable cash return. The Company will continue its efforts to achieve a sustainable and steadily increasing dividend over the longer term, with a view to generating the best possible returns for shareholders.

The continued rapid growth of Mainland China's domestic economy, the rise of urban and rural residents' disposable income and purchasing power as well as the increasing popularity and penetration of mobile telecommunications, provide the Group with tremendous development opportunities. The coverage of the Group's mobile telecommunications network extends to all the provinces, autonomous regions and municipalities in Mainland China. This brings about enormous market potential to the Group. The deepening of China's domestic reforms in various aspects will result in a more fair, open and transparent regulatory environment and more orderly and rational competition. This will foster a more healthy market environment for the Group. Meanwhile, the competition of telecommunications market in Mainland China is still intense, and the issuance of 3G licences may bring about changes in the industry.

Looking to the future, the Group sees both opportunities as well as challenges. The Group will persist in its defined development strategies, enhance its core competitiveness and expand its corporate influence, proactively leverage its economies of scale, implement refined management methods, optimise resource allocation and realise synergies through the integration of its 31 operating subsidiaries. The Group will consistently focus on its core mobile telecommunications business, consolidate its brand advantages, pioneer new businesses, and actively prepare for the commercial application of 3G mobile telecommunications technologies. As the only mobile telecommunications services partner for the 2008 Beijing Olympics, the Group will give its solid overall strength into full play, and provide premium mobile telecommunications businesses and services to help make this grand event a greater success. At the same time, the Group will promote rational and orderly competition to foster a healthy and favourable environment for the industry and will strive to develop in a comprehensive, balanced and sustainable manner, so as to provide an even better return for its shareholders and investors.

Wang Jianzhou  
Chairman and Chief Executive Officer

Hong Kong, 10 August 2005

### UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

(Expressed in Renminbi)

		Six months ended 30 June	
	Note	2005	2004
		RMB million	RMB million (restated) (see Note 22)
<b>Operating revenue (Turnover)</b>	4		
Usage fees		73,813	59,284
Monthly fees		13,826	11,253
Other operating revenue	5	26,908	15,883
		<b>114,547</b>	<b>86,420</b>
<b>Operating expenses</b>			
Leased lines		2,278	2,030
Interconnection		6,634	6,430
Depreciation	2(c)	27,730	20,100
Personnel		6,723	4,307
Other operating expenses	2(c)	37,845	25,876
		<b>81,210</b>	<b>58,743</b>
<b>Profit from operations</b>		<b>33,337</b>	<b>27,677</b>
Amortisation of goodwill	2(a)	—	(929)
<b>Other net income</b>		<b>1,608</b>	<b>1,502</b>
<b>Non-operating net income</b>		<b>464</b>	<b>261</b>
<b>Interest income</b>		<b>607</b>	<b>480</b>
<b>Finance costs</b>		<b>(680)</b>	<b>(803)</b>
<b>Profit from ordinary activities before taxation</b>	6	<b>35,336</b>	<b>28,188</b>
<b>Taxation</b>	7	<b>(11,275)</b>	<b>(9,359)</b>
<b>Profit from ordinary activities after taxation</b>		<b>24,061</b>	<b>18,829</b>
<b>Attributable to:</b>			
Equity shareholders of the Company		24,043	18,828
Minority interests	2(b)	18	1
		<b>24,061</b>	<b>18,829</b>

Earnings per share — Basic	9(a)	RMB122 cents	RMB96 cents
Earnings per share — Diluted	9(b)	RMB122 cents	RMB96 cents
Dividend per share	8(a)	HK\$0.45	HK\$0.20
EBITDA (RMB million)		62,675	49,279

### UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2005

(Expressed in Renminbi)

	Share capital RMB million	Share premium RMB million	Capital reserve RMB million	General Reserve RMB million	PRC statutory reserve RMB million	Retained profits RMB million	Minority interests RMB million	Total RMB million
At 1 January 2005								
— as previously reported	2,102	375,279	(295,665)	72	42,277	109,096	—	233,161
— as previously presented separately from liabilities and equity (see Note 2(b))	—	—	—	—	—	—	243	243
— prior period adjustments arising from changes in accounting policies under HKFRS 2 (see Note 2(d))	—	—	255	—	—	(255)	—	—
— as restated, before opening balance adjustment in respect of financial instruments (see Note 22)	2,102	375,279	(295,410)	72	42,277	108,841	243	233,404
— opening balance adjustment in respect of financial instruments (see Note 2(e))	—	—	—	—	—	33	—	33
— as restated, after opening balance adjustment, carried forward	2,102	375,279	(295,410)	72	42,277	108,874	243	233,437
Shares issued under share option scheme (Note 18)	4	784	—	—	—	—	—	788
Dividend approved and paid during the period (Note 8(b))	—	—	—	—	—	(9,635)	—	(9,635)
Equity settled share-based transactions (see Note 2(d))	—	—	697	—	—	—	—	697
Net profit for the period	—	—	—	—	—	24,043	—	24,043
— attributable to equity shareholders of the Company	—	—	—	—	—	—	18	18
— minority interests	—	—	—	—	—	—	—	—
At 30 June 2005	<b>2,106</b>	<b>376,063</b>	<b>(294,713)</b>	<b>72</b>	<b>42,277</b>	<b>123,282</b>	<b>261</b>	<b>249,348</b>
At 1 January 2004								
— as previously reported	2,099	374,579	(295,665)	72	32,686	85,032	—	198,803
— as previously presented separately from liabilities and equity (see Note 2(b))	—	—	—	—	—	—	182	182
As restated (see Note 22)	2,099	374,579	(295,665)	72	32,686	85,032	182	198,985
Shares issued under share option scheme	—	8	—	—	—	—	—	8
Dividend approved and paid during the period (Note 8(b))	—	—	—	—	—	(4,174)	—	(4,174)
Net profit for the period	—	—	—	—	—	18,828	—	18,828
— attributable to equity shareholders of the Company	—	—	—	—	—	—	1	1
— minority interests	—	—	—	—	—	—	—	—
At 30 June 2004	<b>2,099</b>	<b>374,587</b>	<b>(295,665)</b>	<b>72</b>	<b>32,686</b>	<b>99,686</b>	<b>183</b>	<b>213,648</b>

### UNAUDITED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2005

(Expressed in Renminbi)

	Note	Unaudited At 30 June 2005 RMB million	Audited At 31 December 2004 RMB million (restated) (see Note 22)
<b>Non-current assets</b>			
Property, plant and equipment, net	2(c)&10	204,459	212,459
Construction in progress	2(c)&10	30,975	30,510
Lease prepayments	2(c)	7,148	6,333
Goodwill	2(a)	35,300	35,300
Investment securities		77	77
Deferred tax assets		7,859	4,068
Deferred expenses		—	96
		<b>285,818</b>	<b>288,843</b>
<b>Current assets</b>			
Inventories		1,801	2,499
Amount due from ultimate holding company	11	342	356
Accounts receivable, net	13	6,859	6,553
Other receivables	14	2,179	1,879
Prepayments and other current assets		3,452	2,974
Tax recoverable		5	235
Deposits with banks		24,358	20,264
Cash and cash equivalents	15	70,840	45,149
		<b>109,836</b>	<b>79,909</b>
<b>Current liabilities</b>			
Bank loans and other interest-bearing borrowings	16	5,952	8,180
Bills payable		920	1,676
Current instalments of obligations under finance leases		68	68
Current portion of deferred revenue		14,044	12,936
Amount due to ultimate holding company	11	919	459
Amount due to immediate holding company		98	98
Accounts payable	17	37,807	35,036
Accrued expenses and other payables		40,061	32,549
Tax payable		8,867	6,664
		<b>108,736</b>	<b>97,666</b>
<b>Net current assets/(liabilities)</b>		<b>1,100</b>	<b>(17,757)</b>
<b>Total assets less current liabilities</b>		<b>286,918</b>	<b>271,086</b>
<b>Non-current liabilities</b>			
Bank loans and other interest-bearing borrowings	16	(12,906)	(13,000)
Amount due to immediate holding company	12	(23,633)	(23,633)
Deferred revenue, excluding current portion		(926)	(944)
Deferred tax liabilities		(105)	(105)
		<b>(37,570)</b>	<b>(37,682)</b>
<b>NET ASSETS</b>		<b>249,348</b>	<b>233,404</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	18	2,106	2,102
Reserves		246,981	231,059
<b>Total equity attributable to equity shareholders of the Company</b>		<b>249,087</b>	<b>233,161</b>
<b>Minority interests</b>	2(b)	<b>261</b>	<b>243</b>
<b>TOTAL EQUITY</b>		<b>249,348</b>	<b>233,404</b>

### UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

(Expressed in Renminbi)

		Six months ended 30 June	
		2005	2004
		RMB million	RMB million
<b>Net cash from operating activities</b>		<b>66,727</b>	<b>51,560</b>
<b>Net cash used in investing activities</b>		<b>(29,533)</b>	<b>(32,617)</b>
<b>Net cash used in financing activities</b>		<b>(11,503)</b>	<b>(11,111)</b>
<b>Net increase in cash and cash equivalents</b>		<b>25,691</b>	<b>7,832</b>
<b>Cash and cash equivalents at 1 January</b>		<b>45,149</b>	<b>39,129</b>
<b>Cash and cash equivalents at 30 June</b>		<b>70,840</b>	<b>46,961</b>
<b>Analysis of the balances of cash and cash equivalents</b>			
Deposits with banks maturing within three months when placed		14,369	10,965
Cash and bank balances		56,471	35,996
		<b>70,840</b>	<b>46,961</b>





	Unaudited At 30 June 2005 RMB million	Audited At 31 December 2004 RMB million
<b>Amounts payable in the next:</b>		
1 month or on demand	23,588	22,815
2-3 months	4,117	3,119
4-6 months	2,636	2,773
7-9 months	1,729	2,465
10-12 months	5,737	3,864
	<b>37,807</b>	<b>35,036</b>

## 18. Share capital

### Issued and fully paid:

	No. of shares	HK\$ million	Equivalent RMB million
At 1 January 2005	19,700,639,399	1,970	2,102
Shares issued under share option scheme	32,438,500	3	4
At 30 June 2005	19,733,077,899	1,973	2,106

At 30 June 2005, 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	1,000,000
26 November 1999	26 November 2002 to 7 October 2007	HK\$33.91	1,000,000
25 April 2000	25 April 2002 to 7 October 2007	HK\$45.04	13,839,000
25 April 2000	25 April 2005 to 7 October 2007	HK\$45.04	13,839,000
22 June 2001	22 June 2003 to 7 October 2007	HK\$32.10	35,945,000
22 June 2001	22 June 2006 to 7 October 2007	HK\$32.10	35,945,000
3 July 2002	3 July 2004 to 2 July 2012	HK\$22.85	14,778,500
3 July 2002	3 July 2007 to 2 July 2012	HK\$22.85	72,352,000
28 October 2004	28 October 2005 to 27 October 2014	HK\$22.75	114,611,200
28 October 2004	28 October 2006 to 27 October 2014	HK\$22.75	85,958,400
28 October 2004	28 October 2007 to 27 October 2014	HK\$22.75	85,958,400
21 December 2004	21 December 2005 to 20 December 2014	HK\$26.75	240,000
21 December 2004	21 December 2006 to 20 December 2014	HK\$26.75	180,000
21 December 2004	21 December 2007 to 20 December 2014	HK\$26.75	180,000
			<b>475,826,500</b>

No option had been granted to the directors of the Company and employees of the Group during the six months ended 30 June 2005 (for the six months ended 30 June 2004: nil). Share options involving a total number of 2,546,000 ordinary shares previously granted to certain employees of the Company were cancelled during the period.

During the six months ended 30 June 2005, the employees of the Group and the directors of the Company exercised options to subscribe for 32,063,500 and 375,000 ordinary shares of the Company, respectively.

### Details of share options exercised during the period

Grant date	Exercise price	Weighted average closing price per share of the share options exercised	Proceeds received	Number of shares involved in the options
3 July 2002	HK\$22.85	HK\$27.35	HK\$721,477,325	31,574,500
28 October 2004	HK\$22.75	HK\$26.50	HK\$19,656,000	864,000
				<b>32,438,500</b>

## 19. Related party transactions

Following the completion of acquisition of the ten mobile telecommunications companies and other mobile telecommunications assets on 1 July 2004, the Group operates the mobile telecommunications services in all thirty-one provinces, autonomous regions and directly administered municipalities in the PRC. Prior to the acquisition, transactions entered into by the Group with the subsidiaries previously directly owned by the Company's ultimate holding company, CMCC, are considered as related party transactions. Following the acquisition, as these subsidiaries now become the members of the Group, these transactions are eliminated on a consolidated basis and therefore are not considered as related party transactions.

The following is a summary of principal related party transactions entered into by the Group with CMCC and its subsidiaries, excluding the Group, ("CMCC Group"), for the six months ended 30 June 2005.

	Six months ended 30 June 2005 RMB million
Property leasing and management services charges	(i) 192
Telecommunications services charges	(ii) 407
Interest paid/payable	(iii) 350

### Notes:

- Property leasing and management services charges represent the rental and property management fees paid or payable to CMCC Group in respect of business premises and offices, retail outlets and warehouses.
- Telecommunications services charges represent the amount paid or payable to CMCC Group for the telecommunications project planning, design and construction services; telecommunications line and pipeline construction services; and telecommunications line maintenance services.
- Interest paid/payable represents the interest paid or payable to CMCC and China Mobile Hong Kong (BVI) Limited, the company's immediate holding company, in respect of the designated loans borrowed and the balance of purchase consideration for acquisition of subsidiaries.

The following is a summary of principal related party transactions carried out by the Group with CMCC and its subsidiaries (excluding the Group) for the six months ended 30 June 2004.

	Six months ended 30 June 2004 RMB million
Interconnection revenue	(i) 2,438
Interconnection charges	(ii) 2,117
Leased line charges	(iii) 132
Spectrum fees	(iv) 303
Operating lease charges	(v) 121
Roaming billing processing fees	(vi) 22
Equipment maintenance service fees	(vii) 29
Construction and related service fees	(viii) 132
Purchase of transmission tower and transmission tower-related service and antenna maintenance service fees	(ix) 60
Prepaid card sales commission income	(x) 142
Prepaid card sales commission expenses	(xi) 155
Technology platform development and maintenance service income	(xii) 25
Telecommunications lines maintenance services fee	(xiii) 22
Interest paid/payable	(xiv) 253

### Notes:

- A mobile telephone user using roaming services is charged at the respective roaming usage rate and applicable long distance charges for roaming in calls. Interconnection revenue represents domestic and international roaming in mobile telecommunication operators through the CMCC Group.
- A mobile telephone user using roaming services is charged at the respective roaming usage rate and applicable long distance charges for roaming out calls. Interconnection charges represent the amount of domestic and international roaming out charges and applicable long distance charges received or receivable from subscribers which is to be remitted to the relevant domestic and international mobile telecommunication operators for their share of revenue through the CMCC Group.
- Leased line charges represent expenses paid or payable to the CMCC 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 CMCC Group.
- Spectrum fees represent the spectrum usage fees paid or payable to the CMCC Group for the usage of the frequency bands allocated to the Company's subsidiaries in the PRC.
- Operating lease charges represent the rental and property management fees paid or payable to the subsidiaries of CMCC for operating leases in respect of land and buildings and others.
- Roaming billing processing fees represent the amounts paid or payable to the CMCC Group for the provision of the roaming billing processing services to the Company's subsidiaries.
- Equipment maintenance service fees represent the amounts paid or payable to subsidiaries of CMCC for the provision of the maintenance services to the Company's subsidiaries.
- Construction and related service fees represent the amounts paid or payable to subsidiaries of CMCC for the provision of telecommunications projects planning, design and construction services and telecommunications lines and pipeline construction services to the Company's subsidiaries.
- This represents payment by Hebei Mobile Communication Company Limited ("Hebei Mobile") to acquire transmission towers from a subsidiary of CMCC and expenses paid or payable to the relevant subsidiary of CMCC 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 CMCC, in respect of the purchase of transmission towers and for the provision of transmission tower related services.
- Prepaid card sales commission income and commission expenses represent handling charges received/receivable from subsidiaries of CMCC to the Company's subsidiaries or paid/payable by the Company's subsidiaries to subsidiaries of CMCC in respect of prepaid card services.
- Technology platform development and maintenance service income represents the amounts received or receivable from the CMCC Group 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.
- Telecommunications lines maintenance services fees represent the amounts paid or payable by Anhui Mobile Communication Company Limited, Jiangxi Mobile Communication Company Limited, Chongqing Mobile Communication Company Limited, Sichuan Mobile Communication Company Limited, Hubei Mobile Communication Company Limited, Hunan Mobile Communication Company Limited, Shaanxi Mobile Communication Company Limited and Shanxi Mobile Communication Company Limited to the relevant subsidiaries of CMCC for the provision of telecommunications lines maintenance services.
- Interest paid/payable represents the interest paid or payable to CMCC and China Mobile Hong Kong (BVI) Limited in respect of the designated loans borrowed and the balance of purchase consideration for acquisition of subsidiaries.

## 20. Commitments

### (a) Capital commitments

Capital commitments outstanding not provided for in the interim financial report were as follows:

	Unaudited At 30 June 2005 RMB million	Audited At 31 December 2004 RMB million
Commitments in respect of land and buildings		
— authorised and contracted for	981	1,249
— authorised but not contracted for	1,691	2,354
	<b>2,671</b>	<b>3,603</b>
Commitments in respect of telecommunications equipment		
— authorised and contracted for	9,338	10,370
— authorised but not contracted for	23,798	30,640
	<b>33,136</b>	<b>41,010</b>
Total commitments		
— authorised and contracted for	10,319	11,619
— authorised but not contracted for	25,488	32,994
	<b>35,807</b>	<b>44,613</b>

### (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 2005				
Within one year	1,359	1,108	427	2,894
After one year but within five years	3,072	819	1,161	5,052
After five years	1,433	323	102	1,858
	<b>5,864</b>	<b>2,250</b>	<b>1,690</b>	<b>9,804</b>
At 31 December 2004				
Within one year	1,220	1,945	454	3,619
After one year but within five years	2,693	920	1,387	5,000
After five years	1,122	225	117	1,464
	<b>5,035</b>	<b>3,090</b>	<b>1,958</b>	<b>10,083</b>

## 21. Post balance sheet events

After the balance sheet date the directors declared an interim dividend. Further details are disclosed in note 8(a).

## 22. Comparative figures

Certain comparative figures have been adjusted as a result of the change in accounting policies, details of which are set out in note 2.

## DISCUSSION OF SELECTED ITEMS IN THE INTERIM RESULTS

### 1. Robust cash flow and solid capital structure

As a result of encouraging business growth, active cost controls, the realisation of the benefits of economies of scale, effective controls over capital expenditure and the cash flow contribution from the ten mobile telecommunications companies and other telecommunications assets that were acquired in 2004, the Group continued to record strong free cash flow in the first half of 2005. The Group's free cash flow (net cash flow from operating activities after deducting capital expenditure incurred) for the first six-month period of 2005 was RMB40,770 million. As at 30 June 2005, the total cash and bank balances of the Group were RMB95,198 million, of which 88.7 per cent., 6.6 per cent. and 4.7 per cent. were denominated in RMB, US dollars and Hong Kong dollars, respectively. As at 30 June 2005, the Group's debt to capitalisation ratio (capitalisation represents the sum of total debt and total equity) was approximately 14.8 per cent.

At the end of June 2005, short-term and long-term borrowings of the Group totaled RMB43,479 million, representing a decrease of RMB3,078 million from year-end 2004. Of the Group's borrowings, 15.9 per cent. will mature within one year, 6.9 per cent. will mature after two years but within five years, and 77.2 per cent. will mature after five years. 32.4 per cent. and 67.6 per cent. of the borrowings were denominated in RMB (mainly included RMB denominated bonds, bank loans, etc) and US dollars (mainly represented by convertible notes and the balance of deferred consideration for the acquisitions of assets in 2002 and 2004), respectively. 66.4 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, including capitalised interest) of the Group was approximately 3.01 per cent. in the first half of 2005, whereas the interest coverage multiple (ratio of profit before interest and tax to interest expenses) amounted to 32 times.

The Group will continue to pursue prudent financial policies, strictly control financial risks, maintain its strong cash-flow generating capability, realise its competitive advantages, allocate its resources in a scientific manner, maintain a prudent debt policy, lower its overall cost of capital and reinforce and develop favourable economic efficiency, with a view to generating greater returns for our shareholders.

### 2. Capital expenditure

The Group's capital expenditure for the first half of 2005 totaled approximately US\$3.1 billion, which was mainly used for the construction of GSM networks, support systems, transmission facilities, infrastructure buildings and for the development of new technologies and new businesses. Capital expenditure was financed primarily by cash flow generated from operations. The Group will continue to pursue rational investments and cautiously consider the cost efficiency of any capital investment, with a view to ensuring favourable investment returns.

### 3. Personnel expenses

The Group augmented its efforts in human resources reform and enhanced closed-loop management of budget, performance evaluation and remuneration. While retaining and attracting talented staff, personnel expenses were satisfactorily controlled. The Group employed a total of 93,415 employees as of 30 June 2005. Personnel expenses for the first half of 2005 were RMB6,723 million, represented 5.9 per cent. of the Group's total operating revenue. In order to align the interests of staff with those of shareholders, the Group adopted a share option scheme to grant share options to employees, the Group retrospectively recognised such share options as personnel expenses at fair value as required under Hong Kong Financial Reporting Standard 2 — "Share-based Payment". After deducting the expenses recognised in the first half of 2005 for share options amounted to RMB697 million, personnel expenses of the Group for the period were RMB6,026 million, represented 5.3 per cent. of the Group's total operating revenue. Further details of the share option scheme and the share options granted are set forth in Note 18 of the "Notes on the Unaudited Interim Financial Report" and in the section "Other Information — Directors', Chief Executive's and Employees' Rights to Acquire Shares" in the interim report to be sent to shareholders.

## NEW DEVELOPMENTS AND PROSPECTS

On 21 July 2005, the "Public Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime" was published. The Company considers that from the current perspective, the effect of the RMB exchange rate adjustment on the Company is positive.

The growth in subscriber base, voice usage volume, turnover and profit all exceeded the Group's expectation, indicating that a very large market potential still exists. In order to capture this opportunity, the Group has appropriately increased the full year capital expenditure budget for 2005 and the increase is expected to be controlled within 15% of the original budgeted amount of US\$7.8 billion.

In the second half of 2005, the Group will continue to undertake further market segmentation, refine its branding strategies, emphasise differentiated services, consolidate and develop mid to high-value customers, provide quality services and implement refined management methods. The Group will also endeavour to reduce operating costs, enhance overall operating efficiency and improve management and control over terminals and marketing and sales channels. In addition, the Group will fully realise the potential of Mainland China's mobile telecommunications market, emphasise on the development of new businesses, actively prepare for the launching of 3G and strive to maintain its long term growth.

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

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## 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 report for the six months ended 30 June 2005.

## COMPLIANCE WITH THE CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2005, other than the requirements relating to the preparation and content of a Corporate Governance Report (which will come into effect in respect of the Company's annual report for the financial year ending 31 December 2005) and that the roles of the Chairman and the Chief Executive Officer are performed by Mr. Wang Jianzhou, the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Mr. Wang Jianzhou joined the Board of Directors of the Company in November 2004 and has been the Chairman and the Chief Executive Officer of the Company since his appointment to the Board. Mr. Wang is in charge of the overall management of the Company.

The Company considers that the combination of the roles of Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its Independent Non-executive Directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

## COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. All directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the period from 1 January 2005 to 30 June 2005.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 31 August 2005 to 2 September 2005 (both days inclusive). During this period, no transfer of shares will be registered. In order to qualify for the 2005 interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:00 p.m. on 30 August 2005. The interim dividends will be paid on 9 September 2005 to those shareholders on the register of members on 2 September 2005.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this announcement 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.

## PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANY

The 2005 Interim Report will be despatched to shareholders as well as made available on The Stock Exchange of Hong Kong Limited's website at <http://www.hkex.com.hk> and the Company's website at <http://www.chinamobilehk.com>.

The 2005 interim financial information set out above does not constitute the Group's statutory financial statements for the six months ended 30 June 2005 but is extracted from the financial statements for the six months ended 30 June 2005 to be included in the 2005 Interim Report.

As at the date of this announcement, the board of directors of the Company comprises Mr. Wang Jianzhou, Mr. Li Yue, Mr. Lu Xiangdong, Mr. Xue Taohai, Mr. Zhang Chenshuang, Madam Li Mofang, Mr. He Ning, Mr. Li Gang and Mr. Xu Long as executive directors, Dr. Lo Ka Shui, Mr. Frank Wong Kwong Shing and Mr. Moses Cheng Mo Chi as independent non-executive directors and Sir Julian Michael Horn-Smith as a non-executive director.