
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-14696

China Mobile (Hong Kong) Limited
(Exact Name of Registrant as Specified in Its Charter)

N/A
(Translation of Registrant's Name into English)

Hong Kong, China
(Jurisdiction of Incorporation or Organization)

**60th Floor, The Center
99 Queen's Road Central
Hong Kong, China**

(Address of Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Ordinary shares, par value HK\$0.10 per share	New York Stock Exchange, Inc.*
* Not for trading, but only in connection with the listing on the New York Stock Exchange, Inc. of American depositary shares representing the ordinary shares.	

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2001, 18,605,405,241 ordinary shares, par value HK\$0.10 per share, were issued and outstanding.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

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Forward-Looking Statements

This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are, by their nature, subject to significant risks and uncertainties, and include, without limitation, statements relating to:

- our business strategy;
- network expansion plans and related capital expenditure plans;
- the planned development of new mobile technologies and other technologies and related applications;
- the expected impact of tariff changes on our business, financial condition and results of operations;
- the expected impact of new services on our business, financial condition and results of operations;
- our acquisition of eight regional mobile telecommunications companies in 2002; and
- future developments in the telecommunications industry in Mainland China, including the restructuring of the industry and changes in government policies.

The words “anticipate”, “believe”, “estimate”, “expect”, “intend” and similar expressions, as they relate to us, are intended to identify certain of such forward-looking statements. We do not intend to update these forward-looking statements.

These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation:

- the continued restructuring of the telecommunications industry in Mainland China;
- changes in the regulatory policies of the Ministry of Information Industry of China and other relevant government authorities, which could affect, among other things, the granting of requisite government approvals, licenses and permits, interconnection and transmission line arrangements, tariff policies, capital investment priorities, and spectrum allocation;
- the effect of competition on the demand for and price of our services;
- changes in mobile telephony and related technologies, which could affect the viability and competitiveness of our mobile telecommunications networks; and
- changes in political, economic, legal and social conditions in Mainland China, including, without limitation, the Chinese government’s policies with respect to new entrants in the

telecommunications industry, the entry of foreign companies into China's telecommunications market and China's economic growth.

In addition, our future network expansion and other capital expenditure and development plans are dependent on numerous factors, including, among others:

- our ability to obtain adequate financing on acceptable terms;
- the adequacy of currently available spectrum or the availability of additional spectrum;
- the availability of transmission lines and equipment, and the availability of the requisite number of sites for locating network equipment, on reasonable commercial terms;
- our ability to develop or obtain new technology and related applications; and
- the availability of qualified management and technical personnel.

**Special Note on our Financial Information and
certain Statistical Information presented in this Annual Report**

As required under generally accepted accounting principles in Hong Kong, or Hong Kong GAAP, we adopted the acquisition method to account for our acquisitions of various regional mobile communications companies, as described in "Item 4. Information on the Company — History and Development of the Company". Accordingly, our consolidated financial statements and, except as otherwise noted, all other Hong Kong GAAP financial information presented in this annual report, include the results of these companies only from the respective dates of acquisition.

Under generally accepted accounting principles in the United States, or U.S. GAAP, as a result of our being under common control with each of these companies prior to the acquisitions, each of the acquisitions was considered to be a "combination of entities under common control". Under U.S. GAAP, combinations of entities under common control are accounted for under the "as if pooling-of-interests" method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination generally are restated on a combined basis. See "Item 5. Operating and Financial Review and Prospects".

The statistical information set forth in this annual report relating to Mainland China is taken or derived from various publicly available government publications that have not been prepared or independently verified by us. This statistical information may not be consistent with other statistical information from other sources within or outside Mainland China.

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

Selected Financial Data

The following tables present selected historical financial data of our company as of and for each of the years in the five-year period ended December 31, 2001. The selected historical income statement data for the years ended December 31, 1999, 2000 and 2001 and the selected historical balance sheet data as of December 31, 2000 and 2001 set forth below are derived from, and should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements, including the related notes included elsewhere in this annual report. The selected historical Hong Kong GAAP income statement data for the years ended December 31, 1997 and 1998 and the selected historical Hong Kong GAAP balance sheet data as of December 31, 1997, 1998 and 1999 are derived from audited financial statements that are not included herein.

Our consolidated financial statements are prepared and presented in accordance with Hong Kong GAAP. As required under Hong Kong GAAP, we adopted the acquisition method to account for our acquisitions of the various regional mobile telecommunications companies, as described in “Item 4. Information on the Company — History and Development of the Company”. Accordingly, our consolidated financial statements and, except as otherwise noted, all other Hong Kong GAAP financial information presented in this annual report, include the results of these companies only from the respective dates of acquisition. In contrast, under U.S. GAAP, our acquisitions of these companies are each considered a combination of entities under common control which would be accounted for under the “as if pooling-of-interests” method, whereby assets and liabilities are accounted for at historical cost and the accounts of previously separate companies for periods prior to the combination generally are restated on a combined basis. For a discussion of significant differences between Hong Kong GAAP and U.S. GAAP as they relate to us, and the effects of such differences on net profit for the years ended December 31, 1999, 2000 and 2001 and shareholders’ equity as of December 31, 2000 and 2001, see note 29 to our consolidated financial statements. In addition, our condensed consolidated financial statements prepared and presented in accordance with U.S. GAAP for the relevant periods are set forth in note 29 to our consolidated financial statements.

As of or for the year ended December 31,

	1997	1998	1999	2000	2001	2001
	RMB	RMB	RMB	RMB	RMB	US\$

(in millions, except share numbers and per share and per ADS information)

Income Statement Data:

Hong Kong GAAP

Operating revenue	15,488	26,345	38,623	64,984	100,331	12,122
Operating expenses	10,074	18,410	24,983	38,158	59,319	7,167
Operating profit	5,414	7,935	13,640	26,826	41,012	4,955
Write-down and write-off of analog network equipment	–	282	8,242	1,525	–	–
Profit before tax and minority interests	5,953	9,387	6,444	26,393	41,717	5,041
Income tax	991	2,486	1,647	8,366	13,703	1,656
Net profit	4,955	6,900	4,797	18,027	28,015	3,385
Basic and diluted net profit per share ⁽¹⁾⁽²⁾	0.52	0.59	0.40	1.25	1.51	0.18
Basic and diluted net profit per ADS ⁽¹⁾⁽²⁾	2.60	2.93	1.99	6.26	7.53	0.91
Shares utilized in basic calculation (in thousands)	9,534,365	11,780,788	12,069,108	14,394,313	18,605,371	18,605,371
Shares utilized in diluted calculation (in thousands)	9,534,365	11,782,521	12,072,383	14,409,503	18,698,023	18,698,023

U.S. GAAP⁽³⁾

Operating revenue	36,830	54,375	70,603	90,980	101,476	12,260
Operating expenses	23,103	37,473	56,683	56,603	59,280	7,163
Operating profit	13,727	16,902	13,920	34,377	42,196	5,097
Profit before tax and minority interests	14,222	18,496	14,610	35,378	43,370	5,240
Income tax	1,797	3,912	3,617	11,097	14,296	1,727
Net profit	12,418	14,583	10,993	24,280	29,075	3,513
Basic and diluted net profit per share ⁽¹⁾⁽²⁾	0.85	0.87	0.65	1.37	1.56	0.19
Basic and diluted net profit per ADS ⁽¹⁾⁽²⁾	4.26	4.33	3.24	6.87	7.81	0.94
Shares utilized in basic calculation (in thousands)	14,586,967	16,833,390	16,943,812	17,666,347	18,605,371	18,605,371
Shares utilized in diluted calculation (in thousands)	14,586,967	16,835,123	16,947,086	17,681,538	18,698,023	18,698,023

As of or for the year ended December 31,

	1997	1998	1999	2000	2001	2001
	RMB	RMB	RMB	RMB	RMB	US\$

(in millions, except share numbers and per share and per ADS information)

Balance Sheet Data:

Hong Kong GAAP

Current assets

Cash and cash equivalents	40,071	17,481	19,349	27,702	21,821	2,636
Deposits with banks	—	1,311	8,227	12,204	14,970	1,809
Accounts receivable	1,592	2,482	4,957	7,252	5,728	692
Fixed assets	18,634	33,986	42,699	87,465	105,208	12,711
Total assets	64,950	64,541	87,435	156,438	173,749	20,992
Total short-term debt ⁽⁴⁾	2,148	5,337	4,419	12,095	5,439	658
Total long-term debt ⁽⁵⁾	2,870	991	2,332	13,708	6,739	814
Fixed rate notes	—	—	4,952	4,953	4,956	599
Convertible notes	—	—	—	5,708	5,708	690
Bonds	—	—	—	—	5,000	603
Total liabilities ⁽⁶⁾	10,386	18,699	30,343	72,661	61,938	7,483
Shareholders' equity	54,550	45,827	57,092	83,760	111,779	13,505

U.S. GAAP⁽³⁾

Fixed assets	41,692	64,084	71,791	82,223	101,063	12,211
Total assets	102,103	111,588	134,603	156,538	173,954	21,018
Total long-term debt ⁽⁵⁾	5,750	10,382	13,332	13,708	6,739	814
Fixed rate notes	—	—	4,952	4,953	4,956	599
Convertible notes	—	—	—	5,708	5,708	690
Bonds	—	—	—	—	5,000	603
Shareholders' equity	81,798	70,127	77,073	79,660	109,016	13,172

Other Financial Data:

Hong Kong GAAP

Capital expenditures ⁽⁷⁾	5,807	11,040	11,708	21,964	39,500	4,772
Net cash inflow from operating activities	8,825	13,567	21,662	41,401	63,890	7,719
Net cash outflow from investing activities	(5,327)	(36,357)	(36,117)	(92,880)	(46,198)	(5,581)
Net cash inflow / (outflow) from financing activities	34,218	325	18,337	65,653	(9,581)	(1,158)
Adjusted cash flow ⁽⁸⁾	8,203	13,444	19,673	35,580	49,898	6,029
Adjusted EBITDA ⁽⁹⁾	8,180	12,869	21,603	37,500	60,270	7,282
Dividend declared	—	—	—	—	—	—

U.S. GAAP⁽³⁾

Net cash flow from operating activities	18,517	23,840	35,137	49,341	49,898	6,029
Dividend declared	—	—	—	—	—	—

-
- (1) The basic and diluted net profit per share and per ADS amounts under Hong Kong GAAP for the years ended December 31, 1997 have been computed by dividing net profit under Hong Kong GAAP by the weighted average number of shares and the weighted average number of ADSs, respectively, outstanding as if 9,010,000,000 ordinary shares and 1,802,000,000 ADSs (based on a ratio of five shares to one ADS), respectively, issued in the restructuring for our initial public offering were outstanding during that period (in addition to shares actually issued, if any).

The basic and diluted net profit per share and per ADS amounts under U.S. GAAP for the years ended December 31, 1997 have been computed by dividing net profit under U.S. GAAP by the weighted average number of shares and the weighted average number of ADSs, respectively, outstanding as if (i) 9,010,000,000 ordinary shares and 1,802,000,000 ADSs (based on a ratio of five shares to one ADS), respectively, issued in the restructuring for our initial public offering; (ii) 1,273,195,021 ordinary shares and 254,639,004 ADSs, respectively, issued to China Mobile Hong Kong (BVI) Limited as part of the consideration in the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile and (iii) 3,779,407,375 ordinary shares and 755,881,475 ADSs, respectively, issued to China Mobile Hong Kong (BVI) Limited as part of the consideration in the acquisition of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were outstanding during that period (in addition to shares actually issued, if any).

- (2) The basic net profit per share and per ADS amounts under Hong Kong GAAP for the years ended December 31, 1998, 1999, 2000 and 2001 have been computed by dividing net profit by the weighted average number of shares and the weighted average number of ADSs, respectively, outstanding during 1998, 1999, 2000 and 2001. The calculation of diluted net profit per share under Hong Kong GAAP for the years ended December 31, 1998, 1999, 2000 and 2001 have been compiled after adjusting for the effects of all dilutive potential ordinary shares, respectively.

The basic net profit per share and per ADS amounts under U.S. GAAP for the years ended December 31, 1998, 1999, and 2000 have been computed by dividing net profit by the weighted average number of shares and the weighted average number of ADSs, respectively, as if 1,273,195,021 ordinary shares representing 254,639,004 ADSs issued to China Mobile Hong Kong (BVI) Limited as part of the consideration in the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile and 3,779,407,375 ordinary shares representing 755,881,475 ADSs issued to China Mobile Hong Kong (BVI) Limited as part of the consideration in the acquisition of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were outstanding during these periods (in addition to shares actually issued during these years). The basic net profit per share and per ADS amount under U.S. GAAP for the year ended December 2001 has been computed by dividing net profit by the weighted average number of shares and weighted average number of ADSs outstanding during 2001. The calculation of diluted net profit per share under U.S. GAAP for the years ended December 31, 1998, 1999, 2000 and 2001 have been compiled after adjusting for the effects of all dilutive potential ordinary shares, respectively. For the years ended December 31, 1998, 1999 and 2000, all dilutive potential ordinary shares resulting from the share options granted to the directors and employees under the share option scheme would decrease profit attributable to shareholders per share. In 2000, since all potential ordinary shares resulting from the convertible notes would increase profit attributable to shareholders per share as a result of savings on interest payable on the convertible notes, the anti-dilutive effects of potential ordinary shares were not taken into account in calculating diluted earnings per share. For the year ended December 31, 2001, all dilutive potential ordinary shares resulting from the share options granted to the directors and employees under the share option scheme and convertible notes would decrease profit attributable to shareholders per share.

- (3) The amounts for the years ended December 31, 1997, 1998, 1999, 2000 and 2001 are presented to reflect our acquisitions of the various regional mobile telecommunications companies under the “as if pooling-of-interest” method, as well as the effects of other differences between Hong Kong GAAP and U.S. GAAP.
- (4) Includes short-term bank and other loans, current portion of long-term bank and other loans and current portion of obligations under capital leases.
- (5) Includes long-term bank and other loans and obligations under capital leases, net of current portion.
- (6) Excludes minority interest.
- (7) Represents payments made for capital expenditures during the year.
- (8) Represents net cash inflows from operating activities less net cash outflows / (inflows) from returns on investments and servicing of finance and taxation.

- (9) Adjusted EBITDA represents earnings before interest income, interest expense, income taxes, depreciation, amortization, non-operating income (expense) and write-down and write-off of fixed assets. While EBITDA is commonly used in the telecommunications industry to analyze companies on the basis of operating performance, leverage and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flow from operating activities. The items of net profit excluded from EBITDA are significant components in understanding and assessing our financial performance, and our computation of EBITDA may not be comparable to other similarly titled measures of other companies. See “Item 5. Operating and Financial Review and Prospects” and the consolidated statements of our cash flows contained elsewhere in this annual report.

Exchange Rate Information

We publish our consolidated financial statements in Renminbi. Solely for the convenience of the reader, this annual report contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars and vice versa at RMB 8.2766 = US\$ 1.00 and HK\$ 7.7980 = US\$ 1.00, the prevailing rates on December 31, 2001. These translations should not be construed as representations that the Renminbi or Hong Kong dollar amounts could actually be converted into U.S. dollars at such rates or at all.

The noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB 8.2770 = US\$ 1.00 and HK\$ 7.8000 = US\$ 1.00, respectively, on June 10, 2002. The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

Noon Buying Rate						
	RMB per US\$ 1.00			HK\$ per US\$ 1.00		
	High	Low		High	Low	
December 2001	8.2773	8.2676	December 2001	7.7999	7.7970	
January 2002	8.2800	8.2765	January 2002	7.8000	7.7970	
February 2002	8.2770	8.2765	February 2002	7.7999	7.7991	
March 2002	8.2800	8.2766	March 2002	7.8000	7.7993	
April 2002	8.2780	8.2769	April 2002	7.8095	7.7992	
May 2002	8.2775	8.2765	May 2002	7.8001	7.7990	

The following table sets forth the average noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 1997, 1998, 1999, 2000 and 2001, calculated by averaging the noon buying rates on the last day of each month during the relevant year.

Average Noon Buying Rate

	<u>RMB per US\$ 1.00</u>	<u>HK\$ per US\$ 1.00</u>
1997	8.3193	7.7440
1998	8.2991	7.7465
1999	8.2785	7.7599
2000	8.2784	7.7936
2001	8.2772	7.7997

Risk Factors

Extensive government regulation may limit our flexibility to respond to market conditions, competition or changes in our cost structure.

The Ministry of Information Industry of China regulates, among other things, the following areas of the telecommunications industry under the leadership of the State Council of China:

- formulating and enforcing industry policy, standards and regulations;
- granting telecommunications licenses;
- formulating interconnection and settlement standards for implementation between telecommunications networks;
- together with other relevant regulatory authorities, formulating tariff and service charge standards for certain telecommunications services;
- supervising the operations of telecommunications service providers;
- promoting fair and orderly market competition among operators; and
- allocating and administering public telecommunications resources, such as radio frequencies, number resources, domain names and addresses of telecommunications networks.

Other Chinese government authorities also take part in regulating tariff policies and foreign investment in the telecommunications industry. The regulatory framework within which we operate may limit our flexibility to respond to market conditions, competition or changes in our cost structure. Moreover, we cannot predict when or if changes in tariff policies or rates may occur, including, for example, the possible implementation of a calling-party-pays tariff scheme. Future adverse changes in tariff policies and rates could decrease our revenues and reduce our profitability.

We operate our businesses with approvals granted by the State Council and under licenses granted by the Ministry of Information Industry. If these approvals or licenses are revoked or suspended, our business and operations will be materially and adversely affected.

We may be affected by future regulatory changes.

To provide a uniform regulatory framework for the orderly development of the telecommunications industry, the Ministry of Information Industry, under the direction of the State Council, is preparing a draft telecommunications law. If and when the telecommunications law is adopted by the National People's Congress, it is expected to become the fundamental telecommunications statute and the legal basis for telecommunications regulations in Mainland China. The State Council has recently promulgated a set of new telecommunications regulations. These regulations are substantially consistent with the existing rules and guidelines for the telecommunications industry, and are primarily intended to streamline and clarify the existing rules and guidelines. They apply in the interim period prior to the adoption of the telecommunications law. Although we expect that the telecommunications law will positively affect the overall development of the telecommunications industry in Mainland China, we do not fully know what the nature and scope of the telecommunications law will be. The telecommunications law and other new telecommunications regulations or rules may contain provisions that could materially and adversely affect our business, financial condition and results of operations.

Competition from other telecommunications service providers may affect our subscriber growth and profitability by causing the rate of our subscriber growth to decline and bringing about decreases in tariff rates and increases in selling and promotional expenses.

We compete with other telecommunications service providers in all of the provinces, municipalities and autonomous regions in which we operate. The Chinese government encourages orderly competition in the telecommunications industry in Mainland China. In particular, the Chinese government has extended favorable regulatory policies to some of our competitors, such as China United Telecommunications Corporation, in order to help them become more viable competitors. For example, the Chinese government has permitted China United Telecommunications Corporation to lower its mobile phone service tariffs by up to 10% below the government guidance rates. We believe this policy has helped China United Telecommunications Corporation capture a significant number of price-sensitive and low-usage mobile phone subscribers. As a result, China United Telecommunications Corporation's market share has increased over the past few years.

In addition, the former China Telecommunications Corporation Group provides Xiaolingtong services to its customers. Xiaolingtong is a local area wireless telephone service with limited mobility and limited coverage. Xiaolingtong offers lower-priced services. As a result, Xiaolingtong's services have, to a certain extent, attracted customers in the low-end markets in some geographical areas that we serve. Increased competition from Xiaolingtong or other wireless telecommunications services could materially affect our business and prospects.

Increased competition from other telecommunications service providers, including China United Telecommunications Corporation and the former China Telecommunications Corporation, and any introduction of new competitors through the issuance of additional mobile telecommunications service licenses could adversely affect our business by, among other factors, causing the rate of our subscriber growth to decline and bringing about decreases in tariff rates and increases in selling and promotional expenses. This could in turn have a material adverse effect on our financial condition and results of operations.

New entrants in the telecommunications industry in China may further intensify competition and adversely affect our results of operations.

Current Chinese government policy concerning the telecommunications sector is to encourage orderly competition. Recently, the State Council formally approved the restructuring of the former China Telecommunications Corporation, China Netcom Corporation Limited and Jitong Network Communications Company Limited. After the restructuring, China Netcom Group will consist of ten provincial telecommunications companies originally owned by the former China Telecommunications Corporation in Beijing, nine other provinces, one directly-administered municipality, China Netcom Corporation Limited and Jitong Network Communications Company Limited. China Telecommunications Corporation will retain the telecommunications companies originally owned by the former China Telecommunications Corporation in the remaining provinces, directly-administered municipalities and autonomous regions. See “Item 4. Information on the Company — History and Development of the Company — Industry Restructuring and Changes in Our Shareholding Structure”. We cannot assure you that the State Council will not approve additional telecommunications service providers in the future, including providers of mobile telecommunications services, that may compete against us. Increased competition from new entrants in China’s telecommunications industry could adversely affect our financial condition and results of operations as a result of, among others, decreases in the rate of subscriber growth or tariff rates or increases in selling and promotional expenses.

In addition, we may also be subject to competition from new providers of telecommunication services as a result of technological developments and the convergence of various telecommunications services.

China’s accession into the World Trade Organization will ease current restrictions on foreign ownership in the telecommunications industry and may increase competition in the mobile communications service sector.

On December 11, 2001, China officially joined the World Trade Organization, or WTO. On January 1, 2002, the Administration of Foreign-Funded Telecommunications Enterprises Provisions was also adopted, thereby implementing China’s commitments to the WTO. Those commitments include the gradual reduction of foreign ownership restrictions in the telecommunications industry and the opening of the telecommunications market in Mainland China to foreign investors. See “Item 4. Information on the Company — Business Overview — Competition”. This could lead to increased foreign investment in the telecommunications market in Mainland China, thereby increasing competition and foreign participation in the mobile telecommunications service sector in Mainland China. Increased competition and foreign participation may have a material adverse effect on our financial conditions and results of operation.

We are controlled by China Mobile Communications Corporation, which may not always act in your best interest.

As of May 31, 2002 China Mobile Communications Corporation indirectly owned an aggregate of approximately 75.6% of our shares. Accordingly, China Mobile Communications Corporation is, and will be, able to:

- nominate our entire board of directors and, in turn, indirectly influence the selection of our senior management;

- determine the timing and amount of our dividend payments; and
- otherwise control or influence actions that require the approval of our shareholders.

The interests of China Mobile Communications Corporation as our ultimate controlling person could conflict with the interests of our minority shareholders.

In addition, China Mobile Communications Corporation also provides our operating subsidiaries with services that are necessary for our business activities, including:

- interconnection arrangements with its other subsidiaries' mobile telecommunications networks and roaming arrangements;
- the coordination of the provision of inter-provincial transmission leased lines from the former China Telecommunications Corporation to us; and
- settlement and bill processing for domestic inter-provincial and international roaming services.

The interests of China Mobile Communications Corporation as the provider of these services to our operating subsidiaries may conflict with our interests.

The limited spectrum allocated to us may constrain our future network capacity growth.

A mobile telecommunications network's capacity is to a certain extent limited by the amount of frequency spectrum available for its use. Since the Ministry of Information Industry allocates frequency spectrum to mobile telecommunications operators in Mainland China, the capacity of our mobile telecommunications network is limited by the amount of spectrum that the Ministry of Information Industry allocates to us. The Ministry of Information Industry allocated a total of 34 MHz in the 900 MHz frequency band and the 1800 MHz frequency band to our parent company, China Mobile Communications Corporation. Under the existing agreement between China Mobile Communications Corporation and us, we have the exclusive rights to use those frequency spectrum in our service regions.

We believe that our current spectrum allocation is sufficient for anticipated subscriber growth in the near term, but we may need additional spectrum to accommodate future subscriber growth or to develop mobile telecommunications services using new wireless telecommunications technologies. However, the Ministry of Information Industry may determine not to allocate additional spectrum to us. Our network expansion plans may be affected if we are unable to obtain additional spectrum. This could in turn constrain our future network capacity growth and materially and adversely affect our business, financial condition and results of operations.

Changes to our interconnection and leased line arrangements may increase our operating expenses and adversely affect our profitability.

Our mobile telecommunications services depend, in large part, upon our interconnection arrangements and access to the fixed line network. Currently, interconnection is necessary in the case of all local calls between our subscribers and subscribers of fixed line or other mobile telecommunications

networks. Interconnection and leased line arrangements are also necessary for domestic long distance calls and international calls. We have entered into interconnection and transmission line leasing agreements with the relevant fixed line operators and with China Mobile Communications Corporation and its other subsidiaries. We cannot assure you that increasing usage of the fixed line network would not result in additional strain on its switching capacity, or that the existing quality of the fixed line network will remain adequate.

In addition, the terms of our interconnection arrangements and leased line arrangements have a material effect on our operating revenue and expenses. A material increase in the interconnection or leased line expenses we pay could have a material adverse effect on our financial condition and results of operations. In addition, our business and operations may be materially and adversely affected if we cannot enter into future interconnection and leased line agreements on commercially acceptable terms or on a timely basis.

We may be unable to obtain sufficient financing to fund our substantial capital requirements, which could limit our growth potential and future prospects.

We estimate that we will require approximately RMB 102.9 billion (US\$ 12.4 billion) for capital expenditures from 2002 through the end of 2004 for a range of projects.

We believe that cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. We may require additional funds to the extent we have underestimated our capital requirements or overestimated our future cash flows. In addition, a significant feature of our business strategy is to continue exploring opportunities for strategic investments in the telecommunications industry in Mainland China, which may require additional capital resources. The cost of implementing new technologies, upgrading our networks or expanding capacity may also be significant. In particular, in order for us to effectively respond to technological changes, we may be required to make substantial capital expenditures in the near future.

Financing may not be available to us on acceptable terms. In addition, any future issuance of equity securities, including securities convertible or exchangeable into or that represent the right to receive equity securities, to foreign investors will require approval from the China Securities Regulatory Commission, the State Council and other relevant government authorities. If adequate capital is not available, our growth potential and future prospects could be adversely affected.

Changes in technology may render our current technologies obsolete and thus affect our business and market position.

The telecommunications industry is subject to rapid and significant changes in technology. Accordingly, although we strive to keep our technology up to international standards, the mobile telecommunications technologies that we currently employ may become obsolete or subject to competition from new technologies in the future, including new wireless telecommunications technologies. In addition, the new technologies we implement, such as wireless data applications, may not generate an acceptable rate of return.

Failure to capitalize on new business opportunities may have an adverse effect on our growth potential.

We intend to pursue a number of new growth opportunities in the broader telecommunications industry, including wireless data. Our success will depend in large part on our ability to offer services that address the market demand arising from these opportunities. In addition, our ability to deploy and deliver these services depends, in many instances, on new and unproven technologies. Our wireless telecommunications technologies may not perform as expected, we may not be able to successfully develop or obtain new technologies to effectively and economically deliver these services and we may not be able to compete successfully in the delivery of telecommunications services based on new technologies. Any failure to capitalize on new business opportunities may adversely affect our competitive position and future profitability.

Actual or perceived health risks associated with the use of mobile devices could impair our ability to retain and attract customers, reduce wireless telecommunications usage or result in litigation.

Concerns have been expressed in some countries that the electromagnetic signals emitted by wireless telephone handsets and base stations may pose health risks at exposure levels below existing guideline levels, and interfere with the operation of electronic equipment. In addition, several wireless industry participants have had lawsuits filed against them alleging various health consequences as a result of wireless phone usage or seeking protective measures. While we are not aware that such health risks have been substantiated, there can be no assurance that the actual, or perceived, risks associated with radiowave transmission will not impair our ability to retain customers and attract new customers, reduce wireless telecommunications usage or result in litigation.

Adverse changes in the economic policies of the Chinese government could have a material adverse effect on the overall economic growth of Mainland China, which could reduce the demand for our services and adversely affect our business, financial condition and results of operations.

Since the late 1970s, the Chinese government has been reforming the Chinese economic system. These reforms have resulted in significant economic growth and social progress. Although we believe that economic reform and macroeconomic policies and measures adopted by the Chinese government will continue to have a positive effect on the economic development in Mainland China and that we will continue to benefit from such policies and measures, these policies and measures may from time to time be modified or revised. Adverse changes in economic and social conditions in Mainland China, in the policies of the Chinese government or in the laws and regulations in Mainland China, if any, could have a material adverse effect on the overall economic growth of Mainland China and investment in the telecommunications industry in Mainland China. These developments could adversely affect our business, such as reducing the demand for our services, as well as our financial condition and results of operations.

The Renminbi is not a freely convertible currency, which could limit the ability of our subsidiaries in Mainland China to obtain sufficient foreign currency to satisfy their foreign currency requirements or pay dividends to us.

Substantially all of our revenues and operating expenses are denominated in Renminbi, while a portion of our capital expenditures and indebtedness is denominated in U.S. dollars and other foreign currencies. The Renminbi is currently freely convertible under the “current account”, which includes dividends, trade and service-related foreign currency transactions, but not under the “capital account”, which includes foreign direct investment, unless the prior approval of the State Administration for Foreign Exchange is obtained.

Our operating subsidiaries are foreign investment enterprises. Currently, they may purchase foreign currency without the approval of the State Administration for Foreign Exchange for settlement of “current account transactions”, including payment of dividends, by providing commercial documents evidencing these transactions. They may also retain foreign exchange in their current accounts (subject to a cap approved by the State Administration for Foreign Exchange) to satisfy foreign currency liabilities or to pay dividends. However, the relevant Chinese government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Also, our subsidiaries incorporated in Mainland China may not be able to obtain sufficient foreign currency to satisfy their foreign currency requirements or pay dividends to us for our use in making any future dividend payments or to satisfy other foreign currency payment requirements. Foreign currency transactions under the capital account are still subject to limitations and require approvals from the State Administration for Foreign Exchange. This could affect our subsidiaries’ ability to obtain foreign currency through debt or equity financing, including by means of loans or capital contributions from us.

Fluctuations in exchange rates could adversely affect our financial results.

Substantially all of our operating revenue is denominated in Renminbi, while a portion of our capital expenditures and some of our financing expenses are denominated in foreign currencies, such as U.S. dollars and Hong Kong dollars. Since we may not be able to hedge effectively against Renminbi devaluations, future movements in the exchange rate of Renminbi and other currencies could have an adverse effect on our financial condition and results of operations.

The Chinese legal system embodies uncertainties which could limit the legal protections available to you.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 20 years has significantly enhanced the protection afforded to foreign investment in Mainland China. Our existing subsidiaries are “wholly foreign-owned enterprises” which are enterprises incorporated in Mainland China and wholly-owned by Hong Kong, Macau, Taiwan or foreign investors, and subject to the laws and regulations applicable to foreign investment in Mainland China. However, the interpretation and enforcement of some of these laws, regulations and other legal requirements involve uncertainties that could limit the legal protection available to you. Moreover, China’s entry into the WTO may result in the abolition or substantial amendment of the existing laws, regulations and other legal requirements. See “Item 4. Information on the Company — Business Overview — World Trade Organization”.

Item 4. Information on the Company.

We provide a full range of mobile telecommunications services in 13 service regions in Mainland China, consisting of nine provinces (Guangdong, Zhejiang, Jiangsu, Fujian, Henan, Hainan, Hebei, Liaoning and Shandong), three municipalities (Beijing, Shanghai and Tianjin) and one autonomous region (Guangxi Zhuang Nationality Autonomous Region). Our service regions cover a geographically contiguous market consisting of the entire coastal region of Mainland China, which incorporates the country's most prosperous and economically developed areas. Based on publicly available information, we are the leading provider of mobile telecommunications services in each of these regions and the second largest provider of mobile telecommunications services in the world as measured by total number of subscribers as of December 31, 2001. Based on information compiled by the Ministry of Information Industry, our subscribers represented approximately 72.4% of all mobile phone subscribers in our service regions and approximately 48% of all mobile phone subscribers in Mainland China as of that date. As of December 31, 2001, our total number of subscribers was approximately 69.64 million. As of April 20, 2002, our total number of subscribers reached 76.40 million.

History and Development of the Company

We were incorporated under the laws of Hong Kong on September 3, 1997 as a limited liability company under the name "China Telecom (Hong Kong) Limited". We changed our name to "China Mobile (Hong Kong) Limited" on June 28, 2000 after obtaining the approval of our shareholders.

We completed our initial public offering in October 1997. Our ordinary shares are listed on the Hong Kong Stock Exchange, and our American Depositary Shares, or ADSs, each currently representing the right to receive five ordinary shares, are listed on the New York Stock Exchange. Our agent for service of process in the United States is CT Corporation System, and their address is 111 Eighth Avenue, 13th Floor, New York, NY 10011.

Expansion of Business Coverage Through Acquisitions

Our initial mobile telecommunications operations included those in Guangdong province conducted by Guangdong Mobile Communication Company Limited and in Zhejiang province conducted by Zhejiang Mobile Communication Company Limited. As part of the restructuring in preparing for our initial public offering, the former Ministry of Posts and Telecommunications transferred to us a 100% equity interest in Guangdong Mobile and a 99.63% equity interest in Zhejiang Mobile. Since then, we have significantly expanded the geographical coverage of our operations through a series of acquisitions from China Mobile Communications Corporation, our indirect controlling shareholder, of mobile communications operations conducted by its regional subsidiaries. In particular:

- We acquired the entire equity interest in Jiangsu Mobile Communication Company Limited on June 4, 1998 for a cash consideration of HK\$22.5 billion.
- We acquired the entire equity interest in each of Fujian Mobile Communication Company Limited, Henan Mobile Communication Company Limited and Hainan Mobile Communication Company Limited on November 12, 1999 for a total purchase price of HK\$49.7 billion, consisting of HK\$19.0 billion in cash and the remaining HK\$30.7 billion in the form of 1,273,195,021 new shares. In addition, we acquired the remaining 0.37% equity interest in Zhejiang Mobile in June 1999.

- We acquired the entire equity interest in each of Beijing Mobile Communication Company Limited, Shanghai Mobile Communication Company Limited, Tianjin Mobile Communication Company Limited, Hebei Mobile Communication Company Limited, Liaoning Mobile Communication Company Limited, Shandong Mobile Communication Company Limited and Guangxi Mobile Communication Company Limited on November 13, 2000 for a total purchase price of HK\$256.0 billion, consisting of HK\$74.6 billion in cash and the remaining HK\$181.4 billion in the form of 3,779,407,375 new shares.

These acquisitions have significantly enlarged our subscriber base, expanded the geographical coverage of our business and enhanced the economy of scale of our operations. In addition, the integration of these acquired operations enables us to realize potential synergies. A discussion of the financial impact of these acquisitions is set forth in “Item 5. Operating and Financial Review and Prospects”.

In accordance with our long-standing strategy of actively identifying opportunities to acquire mobile telecommunications assets in Mainland China, we have agreed to acquire the entire equity interest in each of the eight regional mobile telecommunications services providers located in the provinces of Anhui, Jiangxi, Sichuan, Hubei, Hunan, Shaanxi and Shanxi and the directly-administered municipality of Chongqing from our immediate parent company, China Mobile Hong Kong (BVI) Limited, pursuant to a conditional sale and purchase agreement dated May 16, 2002, for a total purchase price of US\$ 8,573 million. The purchase price will consist of an initial consideration of US\$ 5,773 million and a deferred consideration of US\$ 2,800 million. We currently expect to complete the acquisition before September 30, 2002, subject to the fulfillment of certain conditions.

The initial consideration of US\$5,773 million consists of a cash payment of US\$ 3,150 million and the issuance of new shares for the remaining US\$ 2,623 million to China Mobile Hong Kong (BVI) Limited on the completion of acquisition. We intend to finance the cash portion of the initial consideration by using our existing internal cash resources in the amount of US\$ 2,400 million and the proceeds from issuing new shares for a total of US\$750 million to Vodafone Group Plc or its wholly-owned subsidiary, Vodafone Holdings (Jersey) Limited. After the share placement, Vodafone Group Plc’s share holding in us will increase from 2.18% to approximately 3.27%.

The deferred consideration is payable fifteen years after the date of the completion of acquisition, and we may make an early payment of all or part of the deferred consideration at any time. We have agreed to use our best efforts, subject to market conditions and the receipt of all necessary regulatory and governmental approvals, to issue RMB denominated bonds and Chinese depository receipts and to use the proceeds from such issuances to make an early payment. We are currently considering issuing RMB denominated bonds through one of our subsidiaries.

Completion of the acquisition is predicated upon the fulfillment of certain conditions, which include obtaining the requisite approvals from our shareholders, the Hong Kong Stock Exchange and relevant regulatory authorities in Mainland China, as well as receiving adequate funding to pay the cash portion of the initial consideration.

Industry Restructuring and Changes in Our Shareholding Structure

Prior to 1993, all public telecommunications networks and services in Mainland China were controlled and operated by the former Ministry of Posts and Telecommunications through the former Directorate General of Telecommunications, provincial telecommunications administrations and their city and county level bureaus.

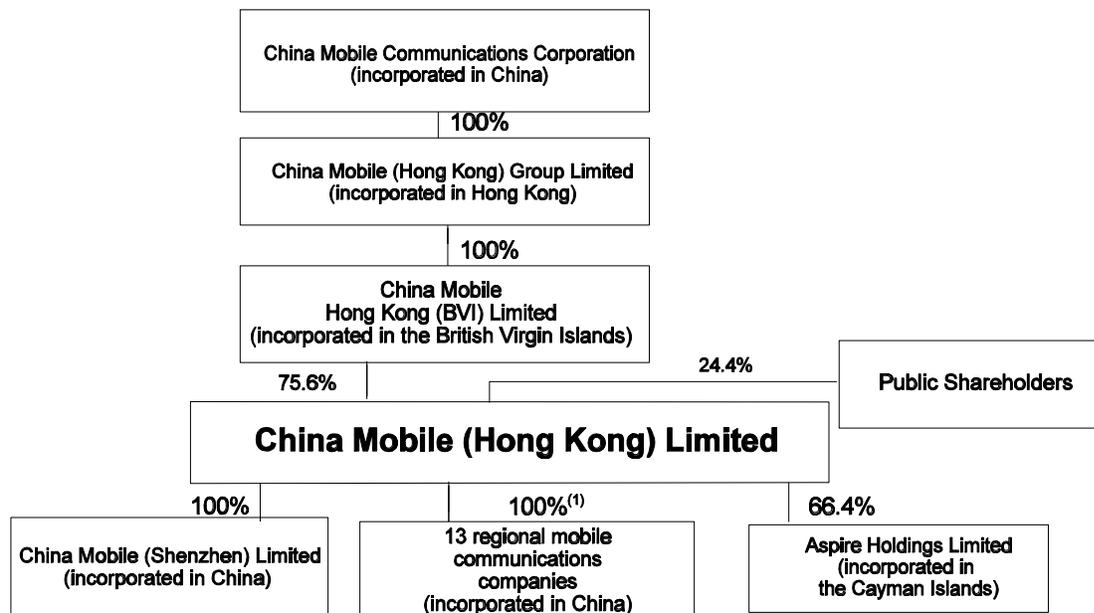
As part of the Chinese government's restructuring of the telecommunications industry, the Ministry of Information Industry was formed in March 1998 to assume, among others, the responsibilities of the former Ministry of Posts and Telecommunications. One of the principal objectives of the restructuring was to separate the government's regulatory function from its business management functions in respect of state-owned enterprises. In the first half of 2000, the Chinese government substantially completed the industry restructuring. As a result, the Ministry of Information Industry ceased to have an indirect controlling interest in us, and no longer exercises control over telecommunications operations, but continues in its capacity as industry regulator providing industry policy guidance as well as exercising regulatory authority over all telecommunications service providers in Mainland China.

In addition, as part of the restructuring, the telecommunications operations previously controlled by the former Ministry of Posts and Telecommunications were separated along four business lines: fixed line telecommunications, mobile telecommunications, paging and satellite telecommunications. China Mobile Communications Corporation was established in July 1999 as a state-owned company to hold and operate the mobile telecommunications business nationwide resulting from the separation. As part of this separation, in July 1999 China Mobile Communications Corporation obtained the approximately 57% holding of voting shares and economic interest in China Mobile (Hong Kong) Group Limited, our indirect controlling shareholder, previously held by Telpo Communications (Group) Limited, an entity 100% controlled by the former Ministry of Posts and Telecommunications. In addition, in May 2000, the remaining 43% interest in China Mobile (Hong Kong) Group Limited previously held by the Directorate General of Telecommunications was transferred to China Mobile Communications Corporation. As a result, China Mobile Communications Corporation has become the owner of all voting shares and economic interest in China Mobile (Hong Kong) Group Limited and thus all of the Chinese government's interest in us. As of May 31, 2002, China Mobile Communications Corporation indirectly owned approximately 75.6% of all our outstanding shares, including shares represented by ADSs.

As a state-owned company, the former China Telecommunications Corporation owns and operates fixed line telephone and data telecommunications networks. In December 2001, the State Council formally approved the restructuring of the former China Telecommunications Corporation, China Netcom Corporation Limited and Jitong Network Communications Company Limited. After the restructuring, China Netcom Group will consist of ten provincial telecommunications companies originally owned by the former China Telecommunications Corporation in Beijing, nine other provinces, one directly-administered municipality, China Netcom Corporation Limited and Jitong Network Communications Company Limited. China Telecommunications Corporation will retain the telecommunications companies originally owned by the former China Telecommunications Corporation in the remaining provinces, directly-administered municipalities and autonomous regions. As a result, apart from China Mobile Communications Corporation, principal participants in the telecommunications industry in Mainland China also include China Telecommunications Corporation, China Netcom Group, China United Telecommunications Corporation, China Satellite Communications Corporation and China Railcom. Among those six participants, China Mobile Communications Corporation (including us) and

China United Telecommunications Corporation are the two operators that provide mobile telecommunications services in Mainland China.

The following chart shows our current shareholding structure and principal subsidiaries as of May 31, 2002:



(1) Intermediate holding companies, all of which are incorporated in the British Virgin Islands, are omitted from this chart.

In addition to its shareholding interest in us, China Mobile Communications Corporation operates the leading mobile communications businesses in Mainland China outside our 13 service regions.

General Information

Our principal executive offices are located at 60th Floor, The Center, 99 Queen's Road Central, Hong Kong, China; telephone: 852-3121-8888. We also maintain a regional headquarters in each of the 13 regions in China where we operate. Our web site address is www.chinamobilehk.com. The information on our web site is not a part of this annual report.

Business Overview

We offer mobile telecommunications services principally using the Global System for Mobile Communications standard, or GSM. GSM is a pan-European mobile telephone system based on digital transmission and mobile telecommunications network architecture with roaming capabilities. Our GSM networks reach all cities and counties and major roads and highways in our service regions.

Our Strategy

We believe the telecommunications market in Mainland China will continue to expand rapidly, and we have designed our business strategy accordingly to include the following key elements:

- continue to actively grow our core mobile telecommunications services by:
 - maintaining focus on developing a high-quality subscriber base;
 - broadening our subscriber base and increasing market penetration;
 - focusing on integrating our regional mobile telecommunications companies into our operation; and
 - nurturing our human capital;
- pursue strategic expansion in the broader telecommunications market in Mainland China and capture new revenue streams by:
 - expanding our GSM wireless telecommunications capacities, mainly by using various technologies to improve the coverage and quality of our network and building transmission lines in high capacity areas;
 - providing corporate subscribers with an integrated wireless voice-data solution;
 - developing mobile Internet services by using new technologies, including Wireless Application Protocol and General Packet Radio Service, and transitioning to third generation mobile telecommunications technologies; and
 - developing new value added services, such as wireless data services; and
- take advantage of our current leadership position and increase our operational efficiency by:
 - realizing economies of scale in procuring equipment or services, such as line leasing and interconnection;
 - centralizing our research and development efforts; and
 - maintaining and utilizing the “CHINA MOBILE” brand name to promote our products and services.

Subscribers and Usage

Our subscriber base has grown substantially from 6.5 million at the end of 1998 to 69.6 million at the end of 2001. As of December 31, 2001, we had a market share of approximately 72.4% in our 13 service regions. Our acquisition of a total of 11 regional mobile telecommunications companies between June 1998 and November 2000 has substantially expanded our subscriber base. As of December 31, 2001, our total number of subscribers was approximately 69.64 million. As of April 20, 2002, the total number of our subscribers was approximately 76.40 million. In addition to our acquisitions, our subscriber growth is also attributable to a number of other factors, including:

- significant economic growth in our markets;
- our network expansion and development;
- our increased marketing and sales efforts and improved distribution channels;
- decreased cost of initiating services due to a decline in handset prices as well as the

- gradual decrease and final elimination of the connection fees and the adjustments in other tariffs for our services; and
- our new service initiatives, enhanced roaming capabilities and value added services.

The following table sets forth selected historical information about our subscriber base and subscriber usage for the periods indicated.

	As of or for the year ended December 31,		
	1999	2000	2001
Subscribers (in thousands)			
Contract subscribers	15,621	32,409	34,010
Prepaid subscribers	—	12,725	35,633
Total	15,621	45,134	69,643
Average Churn Rate (%) ⁽¹⁾	5.9	5.4	6.6
Minutes of Usage (in billions) ⁽²⁾			
Contract subscribers	89.4	118.2	130.8
Prepaid subscribers	—	6.9	30.5
Total	89.4	125.1	161.3
Average Minutes of Usage Per Subscriber Per Month ⁽³⁾			
Contract subscribers	366	326	329
Prepaid subscribers	—	125	103
Overall average	366	299	233
Average Revenue Per Subscriber Per Month (RMB) ⁽⁴⁾			
Contract subscribers	299	241	199
Prepaid subscribers	—	87	72
Overall average	299	221	145

- (1) Measures the rate of subscriber disconnections from mobile telephone service, determined by dividing (A) the sum of voluntary and involuntary deactivations (excluding deactivations due to subscribers switching among our different services) during the relevant year by (B) the average number of subscribers during the year, calculated as the average of the numbers of subscribers at the end of each of the thirteen calendar months from the end of the previous year to the end of the current year. On this basis, our calculated churn rate will be affected by the number of voluntary and involuntary deactivations and the significant growth in our subscriber base.

The average churn rate for each of the full years of 1999, 2000 and 2001 is calculated based on information pertaining to the relevant regional mobile telecommunications companies we acquired prior to and after the respective acquisitions and is presented for ease of comparison.

- (2) The total minutes of usage for each of the full years of 1999, 2000 and 2001 are calculated based on information pertaining to the relevant regional mobile telecommunications companies we acquired prior to and after the respective acquisitions and are presented for ease of comparison.
- (3) Calculated by (A) dividing the total minutes of usage during the relevant year by the average number of subscribers during the year (calculated as the average of the numbers of subscribers at the end of each of the thirteen calendar months from the end of the previous year to the end of the current year and (B) dividing the result by 12. The average minutes of usage per subscriber per month for each of the full years of 1999, 2000 and 2001 are calculated based on

information pertaining to the relevant regional mobile telecommunications companies we acquired prior to and after the respective acquisitions and are presented for ease of comparison.

- (4) Calculated by (A) dividing the operating revenue during the relevant year by the average number of subscribers during the year (calculated in the same manner as in note (3) above) and (B) dividing the result by 12.

The size and composition of our subscriber base and subscribers' usage patterns have changed over the last few years. As tariffs and the price of handsets have decreased, and as connection fees have been radically reduced and ultimately eliminated, and mobile telecommunications technology has improved over time, mobile telecommunications services have become increasingly popular with the broader middle income market for both business and social uses. In general, the highest usage subscribers with the greatest telecommunications needs have tended to be the early subscribers of mobile services. As penetration increases, newer subscribers on average incur lower monthly usage, and are generally more price-sensitive. Accordingly, as is typical in many countries with developing mobile telecommunications markets, the average usage and revenue per subscriber have declined over the last few years as our mobile phone penetration has increased. However, total minutes of usage of our subscribers continued to grow significantly in 1999, 2000 and 2001.

Prepaid Services

Beginning in the second half of 1999, we introduced prepaid services. Our prepaid subscribers can make and receive local and domestic and international long distance calls, and most of those subscribers also enjoy nationwide domestic roaming services. Unlike our contract subscribers, subscribers to our prepaid services do not pay monthly fees, and incur only base usage charges and applicable roaming charges on a per minute basis for both incoming and outgoing calls, plus applicable long distance tariffs.

Each prepaid subscriber identity module, or SIM card, has a value of RMB 50, RMB 100, RMB 300 or RMB 500 with a valid term of 90 days, 180 days, 360 days or 360 days, respectively. Each SIM card contains the personal identification number of the subscriber as well as basic subscriber data and network information. When a call is made or received by a prepaid subscriber, our system automatically deducts usage fees from the value associated with the card. Prepaid subscribers can add value to their accounts associated with the SIM cards by purchasing value adding cards, which are available at our outlets located throughout Mainland China. Under our current arrangement with China Mobile Communications Corporation, when a prepaid subscriber purchases value adding cards outside of the service region of the subscriber's home network (where the subscriber initially purchased the prepaid SIM card), the network operator in the location that issues the value adding card remits 95% of the face value of the value adding card to the subscriber's home network operator and keeps the remainder as a handling charge.

Our prepaid services complement our traditional contract services and are an important means of expanding our subscriber base. In addition, continued economic growth, the benefits of mobility and current low mobile phone penetration rates in Mainland China compared to demographically and culturally similar markets are among the important factors that will further drive mobile phone subscriber growth towards eventual mass popularization. Furthermore, prepaid services represent an effective tool for capturing additional subscribers and driving penetration in developing markets, such as Mainland China, while keeping credit quality in check. Prepaid services also help introduce the enhanced benefit of mobility to non-mobile users.

Our prepaid services experienced rapid and significant growth in 2001. As of December 31, 2001, we had an aggregate of approximately 35.6 million subscribers for our prepaid service, representing an increase of 180% from December 31, 2000. Our prepaid subscribers represented 51.2% of our total subscriber base as of December 31, 2001 and 93.5% of our new subscribers in 2001.

Tariffs

The tariffs payable by our subscribers include primarily usage charges, monthly fees and service fees for value added services. Our prepaid subscribers do not have to pay monthly fees. Usage charges for both our contract and prepaid subscribers include base usage charges for both incoming and outgoing calls plus, where applicable, an additional component reflecting domestic and international long distance tariffs. When using roaming services, subscribers incur a roaming charge instead of the base usage fee, plus applicable domestic and international long distance charges. Subscribers also pay fees for selection of specific telephone numbers.

We have flexible long distance tariff plans distinguishing between day time and night time, and offer tailored service plans based upon customer requirements as well as our network resources.

Our tariffs are subject to regulation by various government authorities, including the Ministry of Information Industry, the State Development and Planning Commission and the relevant price regulatory authorities in our service regions. The actual price range in each service region is proposed by a network operator in that service region and must be approved by the relevant price regulatory authorities in that service region. In general, base usage charges, monthly fees, domestic roaming charges and applicable long distance tariffs (other than tariffs for Internet Protocol phone calls) are also determined by the Ministry of Information Industry in consultation with the State Development and Planning Commission.

Connection fees in all our service regions have been substantially reduced over the past four years and were eliminated on July 1, 2001. While elimination of connection fees may adversely affect our revenue growth in the short term, we believe that the elimination will help to further expand our subscriber base and increase total subscriber usage of our mobile telecommunications services, thereby contributing to our revenue growth in the long term.

Tariff Adjustments. As part of the efforts to further rationalize the tariff structure of telecommunications services, the Chinese government announced a wide range of tariff adjustments, which took effect at various dates in the first half of 2001. The tariff adjustments that affect our mobile telecommunications services include the shortening of a billing unit from one minute to six seconds for long distance call rates (other than rates for Internet Protocol phone calls), the general reduction in domestic and international long distance call rates, the elimination of various surcharges and a general reduction in leased line tariffs. In particular, domestic long distance call rates have been adjusted from the range of RMB 0.50 to RMB 1.00 per minute to the uniform rate of RMB 0.07 per six-second billing unit. Although the adjustments in long distance call rates and the elimination of surcharges may reduce our revenue in the short term, we expect that they are likely to stimulate increased subscriber usage and contribute to our overall revenue growth in the long run. In addition, we will be able to achieve savings in leased line expenses as a result of the reduction in leased line tariffs.

Packaged Service Plans. In order to meet the specific mobile telecommunications needs of different subscriber segments and to enable more efficient use of network resources during both peak and off-peak hours, we launched in March 2001 packaged mobile service plans tailored towards different

subscriber usage levels. To date, we have adopted six service plans, each of which has been approved by the relevant regulatory authorities in Mainland China.

We have been selectively implementing the appropriate packaged service plans in our service regions based on local market conditions. We believe that such tariff plans create a more flexible tariff structure for our subscribers and can promote greater usage by subscribers. In addition, by offering significantly lower off-peak rates than peak rates, the service plans encourage subscribers to make more calls during off-peak hours than during peak hours, which may result in more efficient use of our network resources.

Interconnection

Interconnection refers to various arrangements that permit the connection of our networks to other networks such as the fixed line telephone network.

Interconnection with the former China Telecommunications Corporation (for Local and Long Distance Calls). Our networks interconnect with the former China Telecommunications Corporation's public fixed line network, allowing our subscribers to communicate with fixed line subscribers and to make and receive local, domestic and international long distance calls. A majority of calls on our networks involve interconnection with the former China Telecommunications Corporation's fixed line network. Each of our operating subsidiaries has an interconnection agreement with the relevant subsidiary of the former China Telecommunications Corporation that operates the fixed line network in its service region. The economic terms of these agreements are standardized from province to province.

A significant portion of the traffic between our subscribers and China United Telecommunications Corporation's subscribers interconnects through the former China Telecommunications Corporation's fixed line network. On March 21, 2001, we began paying the former China Telecommunications Corporation RMB 0.03 per minute of the base usage charge for all calls connected through their network. Prior to March 21, 2001, we paid the former China Telecommunications Corporation RMB 0.05 per minute of the base usage charge for calls connected through their network when our subscriber was the calling party.

Interconnection with China Mobile Communications Corporation (for Long Distance Calls and Roaming Calls). We also have an inter-provincial interconnection and roaming agreement with China Mobile Communications Corporation, under which the other subsidiaries of China Mobile Communications Corporation and us provide each other with domestic inter-provincial network interconnection services and domestic and international roaming services.

Interconnection Revenue Sharing and Settlement. Where calls involve interconnection with the former China Telecommunications Corporation's fixed line network or China Mobile Communications Corporation's network, our interconnection arrangement with the former China Telecommunications Corporation or China Mobile Communications Corporation provides for the sharing and settlement of revenues from the base usage charge and, if applicable, roaming charges and domestic and international long distance charges.

A number of the settlement rates have been adjusted effective March 21, 2001. The following table summarizes the terms of our interconnection arrangement with the former China

Telecommunications Corporation and its subsidiaries for non-roaming local calls, including the rates after the adjustment and, in parenthesis, the rates prior to the adjustment.

**Revenue Sharing and Settlement of
Base Usage Charges for Non-Roaming Local Calls**

<u>Originating Subscriber</u>	<u>Terminating Subscriber</u>	<u>Settlement Arrangements</u>
Our subscriber	The former China Telecommunications Corporation's fixed line subscriber	We pay RMB 0.06 (previously RMB 0.05) per minute to the former China Telecommunications Corporation
The former China Telecommunications Corporation's fixed line subscriber	Our subscriber	No revenue sharing or settlement

Where applicable, we collect domestic long distance charges in addition to the base usage charges. The following table summarizes the terms of our interconnection arrangement with each of the former China Telecommunications Corporation and China Mobile Communications Corporation for domestic long distance calls.

Revenue Sharing and Settlement of Domestic Long Distance Charges

<u>Originating Subscriber</u>	<u>Terminating Subscriber</u>	<u>Settlement Arrangements</u>
Our subscriber	The former China Telecommunications Corporation's fixed line subscriber	<p>If the call is routed through the former China Telecommunications Corporation's transmission lines, we keep RMB 0.06 (previously RMB 0.14) per minute of the domestic long distance calling charges⁽¹⁾ and pay the remaining portion to the former China Telecommunications Corporation</p> <p>If the call is routed through our IP network, we pay the former China Telecommunications Corporation RMB 0.06 (previously RMB 0.05) per minute and keep the remaining portion</p>
The former China Telecommunications Corporation's fixed line subscriber in our service regions	Our subscriber or China Mobile Communications Corporation's subscriber	If the call is routed through our transmission lines, the former China Telecommunications Corporation keeps RMB 0.06 (previously RMB 0.14) per minute of the domestic long distance charges ⁽¹⁾ and pays the remaining portion to us

Our subscriber	China Mobile Communications Corporation's subscriber	We collect the domestic long distance charge of RMB 0.07 per six seconds (previously RMB 0.60-1.00 per minute), and there is no revenue sharing or settlement ⁽²⁾
China Mobile Communications Corporation's subscriber	Our subscriber	China Mobile Communications Corporation collects the domestic long distance charge of RMB 0.07 per six seconds (previously RMB 0.60-1.00 per minute), and there is no revenue sharing or settlement ⁽²⁾

(1) The adjusted rates are billed at six-second units.

(2) Except for roaming calls. See table under “— Roaming” for revenue sharing and settlement for roaming calls.

Where applicable, we collect international long distance charges in addition to base usage charges. The following table summarizes the terms of our interconnection arrangement with the former China Telecommunications Corporation for international long distance calls, including the rates after the adjustment and, in parenthesis, the rates before the adjustments.

Revenue Sharing and Settlement of International Long Distance

<u>Type of Call</u>	<u>Settlement Arrangements</u>
Outgoing calls from our subscriber	We keep RMB 0.54 (previously RMB 0.20) per minute ⁽¹⁾ (if the call is routed through our domestic long distance transmission lines) or RMB 0.06 (previously RMB 0.20) per minute ⁽¹⁾ (if the call is not routed through our domestic long distance transmission lines) of the international long distance charge and pay the remaining portion to the former China Telecommunications Corporation
Incoming calls to our subscriber	We receive from the international telecommunications operator of the calling party RMB 0.54 (previously RMB 0.63) per minute (if the call is routed through our domestic long distance transmission lines) or RMB 0.06 (previously RMB 0.07) per minute of the calling charge (if the call is not routed through our domestic long distance transmission lines)

(1) The adjusted rates are billed at six-second units.

Roaming

We provide roaming services to our subscribers, which allow them to make and receive telephone calls while they are physically outside of their registered service area and are in other parts of our service regions or in the coverage areas of other mobile phone networks with which we have roaming arrangements.

Under our domestic roaming arrangement with China Mobile Communications Corporation, our subscribers can make and receive calls while they are located in the coverage areas of China Mobile Communications Corporation in the rest of Mainland China outside our service regions. Conversely, we offer roaming services to China Mobile Communications Corporation's subscribers while they are in our service regions. In addition, we offer roaming capabilities in 90 countries and regions around the world under our roaming arrangements with relevant local operators.

A mobile phone subscriber using roaming services is charged at our per-minute roaming charge (instead of the base usage charge) for both incoming and outgoing calls, plus applicable long distance charges. The following table sets forth our revenue sharing and settlement arrangement with China Mobile Communications Corporation for base roaming charges. We currently do not have a roaming arrangement with China United Telecommunications Corporation.

Revenue Sharing and Settlement of the Base Roaming Charges

<u>Type of Roaming</u>	<u>Settlement Arrangements</u>
Our subscriber roaming into the mobile network of China Mobile Communications Corporation	We pay China Mobile Communications Corporation 80% of the base roaming charge payable by our subscribers
Subscriber of China Mobile Communications Corporation roaming into our network	China Mobile Communications Corporation pays us 80% of the base roaming charge charged to its subscribers

Revenue Sharing and Settlement of Long Distance Charge When Roaming. In addition to the base roaming charge, long distance charges may be assessed when a subscriber is roaming. Where a mobile phone subscriber makes a call while roaming, the home network operator collects all long distance charges incurred and pays all such charges to the operator of the visited network. The visited network operator then settles those long distance charges, if settlement applies, in accordance with the long distance revenue sharing and settlement arrangements described above. Where a mobile phone subscriber receives a call while roaming, the home network operator receives and keeps all long distance charges incurred by that subscriber.

Value Added Services

In addition to basic mobile telecommunications services, we offer a number of value added services such as wireless data and voice functions.

Voice Functions. We offer a variety of basic value added services with voice functions, including call forwarding, call waiting, conference calling, call limitation, voice mail and “Chinese Secretary”, a live answering service.

Wireless Data and Mobile Internet Services. We believe that wireless data will be one of the fastest growing segments of the telecommunications market in Mainland China over the next several years. We intend to further expand our wireless data services. As of December 31, 2001, our wireless

data services subscribers reached 21.3 million, which represented a 74.9% increase compared to 12.2 million subscribers as of December 31, 2000, and accounted for 30.6% of our total subscribers.

In 1999, we began using our short message service platform to develop new value added services in selected cities in our service areas, including stock price quotations, sports news, weather forecasts and online payments. The short message usage volume has grown rapidly since then and has reached 6.08 billion in 2001 from 440 million in 2000. We plan to continue utilizing our GSM network to provide data services based on the current short message service platform where consumer demands can be more economically served by short message service. These data services include, for example, the transmission of short messages to facsimile and e-mail addresses.

In the last quarter of 2000, we introduced our mobile Internet portal “Monternet” based on the mobile information service platform, making us the first mobile service provider in Mainland China to combine an Internet portal with mobile telecommunications services. As of December 31, 2001, over 300 service providers had joined the Monternet network to provide mobile Internet content and services through our mobile telecommunications channels and mobile information service platform. During 2001, we launched extensive “Monternet” applications and services, including “M-Zone” targeting the youth market and “M-Office” targeting the corporate subscriber and individual business subscriber markets. In addition, by providing the corporate subscribers with an integrated, unified mobile voice-data solution, utilizing a combination of such technologies as virtual private mobile network and group short messaging services, we believe “Monternet” will foster the development of our wireless data businesses, make our services more appealing to customers and help us attract and keep corporate subscribers.

In 2001, we completed the construction of an Internet Protocol backbone network, known as CMNet, in our 13 service regions and launched our Internet Protocol-based, or IP-based, long distance call services over CMNet. See “— IP-Based Long Distance Call Services” below. We expect that CMNet will also serve as an important component of our wireless data and mobile Internet services.

During 2001, we commenced commercial trials of our General Packet Radio Services, or GPRS. GPRS technology enables operators to provide end-to-end packet-switched data transmission on the existing GSM network, which improves wireless network utilization and enhances the wireless access rate for a variety of data applications, including Wireless Application Protocol, or WAP. WAP is a software protocol stack that defines a standardized means of transmitting Internet-based content and data to mobile handsets and other wireless handheld devices.

IP-Based Long Distance Call Services. In May 2000, we began providing IP-based long distance call services which allow users to make domestic and international long distance calls at relatively lower cost. IP-based long distance call services cover all of our 13 service regions. Our current interconnection and settlement arrangements with the former China Telecommunications Corporation with respect to IP-based long distance calls allow us to reduce our interconnection costs, especially with respect to calls routed through our CMNet, compared to long distance calls routed through conventional circuit switched networks. We intend to continue building customer awareness of the benefits of our IP-based long distance call services through marketing and promotional efforts.

ISP Services. We began providing Internet service provider, or ISP, services in 2000. ISP services enable both mobile and fixed line subscribers to access the Internet via our networks by dialing the prefix “172XX”. We are planning to provide integrated voice, data and video access to both mobile phone and non-mobile phone users through such services in the near future.

We intend to continue focusing on the application of GPRS and new mobile telecommunications technologies in order to provide more wireless data services and products.

Research and Development

Our research and development efforts focus on:

- developing advanced data application solutions suitable for the particulars of the consumer markets in Mainland China; and
- monitoring technological trends that may have an impact on the development of our current business and the implementation of our wireless data strategy.

In light of the increasingly competitive and rapidly evolving telecommunications market in Mainland China, we expect to continue to devote resources to the research and development of new products, services and technology applications.

To focus our mobile data activities and consolidate related research and development efforts, we formed Aspire Holdings Limited as a majority-owned subsidiary based in Shenzhen, China, in June 2000. The principal business focuses of Aspire include systems integration, product development, and technical support for mobile data systems and related applications in Mainland China. Aspire also operates our mobile research and development center in Shenzhen, China.

In January 2001, Aspire formed a business alliance with Hewlett-Packard Company to develop wireless data and Internet and related applications. Hewlett-Packard assists with the design, implementation and support of Aspire's services in China, and will be the preferred provider of hardware and related services to Aspire if these products and services are of at least the same quality and pricing terms as other competing products and services. Conversely, Hewlett-Packard will treat Aspire as its preferred customer, which will entitle Aspire to the best customer price and financing options available for Hewlett-Packard's products and services under Hewlett-Packard's preferred partner programs prevailing in Mainland China. As part of the business alliance, Hanover Asia-Pacific Investments Limited, an indirectly wholly-owned subsidiary of Hewlett-Packard, agreed to make an equity investment of up to 7% in Aspire. In January 2002, Vodafone Jersey, a wholly-owned subsidiary of Vodafone Group Plc, invested US\$ 34.965 million in Aspire, and as a result, Hanover invested an additional US\$ 16 million in Aspire to maintain its equity holding in Aspire at 7%.

Also in January 2001, Aspire entered into a master agreement with each of us and China Mobile Communications Corporation for the development of our mobile information service center platform and that of China Mobile Communications Corporation. Under each of the master agreements, Aspire will provide system and gateway integration services, hardware, software and system development, technical support and major overhaul services of data centers to us and China Mobile Communications Corporation.

As part of the strategic alliance with Vodafone Group Plc, Vodafone Holdings (Jersey) Limited, a wholly-owned subsidiary of Vodafone invested in January 2002, approximately US\$ 35 million in Aspire, and Vodafone Americas, a subsidiary of Vodafone, entered into a business alliance agreement with Aspire. Under the business alliance agreement between Aspire and Vodafone Americas, Aspire will engage Vodafone Global Platform and Internet Services, a unit of Vodafone Americas, as a preferred

provider of wireless data application software in relation to the Aspire Mobile Information Service Center Platform, provided that the software supplied to Aspire has at least equivalent technical specifications on the same or better commercial terms. Aspire and Vodafone Global Platform and Internet Services also agreed to use their reasonable efforts to coordinate the development of their respective wireless data platforms with the intention of providing seamless delivery of services to their respective roaming customers on their wireless data platforms and enabling content and application providers to use a single application programming interface.

Aspire is an important part of our overall strategy to capture the fast growing wireless data sector in Mainland China. In addition, we expect that Aspire's business will broaden our revenue sources into various wireless services and help us to further grow our subscriber base.

Customer Service, Billing and Credit Control

We provide a full range of services that emphasize customer care from the point of sale onward. At the point of sale, after all application procedures have been completed, we are generally able to activate new subscriber connections within a few hours for our GSM services. Our after-sales customer support services include a general customer service hotline for all of our 13 service regions, which offers an interactive voice response system as well as live operator assistance.

We consider high-usage corporate and individual subscribers to be valuable customers. In this regard, each of our 13 operating subsidiaries has established service centers to serve major accounts, and has established service guidelines and databases for these customers. Designated account managers have also been appointed to coordinate all issues relating to sales and services for these major accounts.

Through dedicated account executives, the Group provides comprehensive VIP services to high-value customers and corporate customers, often including such personalized accommodations as on-site visits and analyses. We also issue VIP cards to our high-value subscribers so that they may enjoy privileges in other industries. In addition, we provide training on the use of new services to our high-value subscribers, as well as preferential trial use of new services. Furthermore, for certain corporate customers, we provide virtual private mobile network services.

While contract subscribers are not required to deposit funds before the initiation of local service, these subscribers may choose to make such deposits. In addition, those subscribers may establish direct debits from their bank accounts. Our prepaid subscribers may also choose to authorize the automatic adding of value to their stored value cards through direct debit arrangements. Despite the lack of widely available credit information services in Mainland China, we have implemented certain subscriber registration procedures, such as identity checks and background checks for corporate customers, to enhance credit control.

Generally, we have the same settlement policy for all of our subscribers. This policy requires our subscribers to settle their individual accounts on a monthly basis. Subscribers may make payment either through direct debit accounts established at certain branches of banks and certain post offices, or by paying in person at numerous retail outlets and authorized dealers in various cities and counties. Detailed statements are made available upon the subscriber's request.

We impose a late payment fee on each subscriber whose account is not paid by the monthly due date. Our current policy is to deactivate the subscriber's services if the subscriber's account remains

overdue after one month. Subscribers whose services have been involuntarily deactivated must pay all overdue amounts, including applicable late payment fees, to reactivate services.

We make provision for doubtful accounts based on our assessment of the recoverability of accounts receivable on maturity. In particular, we make full provision for accounts receivable older than three months. The total amount of the provision for doubtful accounts for each of 1999, 2000 and 2001 was RMB 771 million, RMB 1,346 million and RMB 1,737 million, respectively, or 2.0%, 2.1% and 1.7% of total operating revenue, respectively.

Information System

Our information systems primarily consist of a business operation support system, a management information system and our internal communication network. The business operation support system provides day-to-day operational support to each business unit, and is a unified and comprehensive system that enables the sharing of information resources. This system standardizes and integrates each of our sales, billing, settlement, customer service and network failure handling databases in a centralized and orderly manner. The management information system collects and processes our management information and provides support to our management personnel. In addition, this system has computerized and automated our management in finance, inventory, procurement and projects. Our internal communication network consists of our internal computer network, video conference system, telephone system and others, the combination of which supports our internal communications.

We have upgraded and integrated our information systems several times to keep up with our operational and management needs. We have been successfully operating our management information system since 2000 in our regional companies in Guangdong, Jiangsu and Zhejiang. During 2001, we began to set up the management information system in our remaining regional companies and have achieved good results.

Sales Network and Marketing

Since early 1997, we have significantly expanded our marketing and distribution efforts to attract an increasingly diverse base of new subscribers. We have focused on expanding our distribution channels while emphasizing our brand name, superior network and service quality.

Our sales network is organized along the following sales and service channels:

- proprietary sales outlet and customer service hotline, which form the core of our network;
- franchised stores, which serve as the primary sales and service locations;
- retail outlets, which provide the principal sales force; and
- online and mobile sales outlets.

Our proprietary sales outlets, while relatively few in number, have become our flagship sales and service channels. Franchised stores provide sales and a variety of other quality services to customers, whereas retail outlets focus mainly on providing sales services through their extensive networks.

At December 31, 2001, we had a sales network consisting of approximately 35,000 outlets, representing an increase of 31.7% over 2000. Among these outlets, approximately 1,500 were our proprietary sales outlets.

Brand Name

As the first and leading mobile telephone services provider in our markets, we believe we are well positioned to further develop our brand name. We market our services under the “CHINA MOBILE” brand name, which is a registered trademark in Mainland China owned by China Mobile Communications Corporation and the marketing name used by it throughout Mainland China. As a result of promotional and marketing initiatives by us and China Mobile Communications Corporation’s other operating subsidiaries, the brand has attained wide recognition and is closely identified with us by consumers. In addition, China Mobile Communications Corporation has filed applications in Hong Kong to register the “CHINA MOBILE” name and logo as trademark for certain goods and services.

In April 2002, we entered into a new non-exclusive licensing agreement with China Mobile Communications Corporation for the use of the “CHINA MOBILE” name and logo by us and our existing operating subsidiaries, as well as the eight regional mobile telecommunications companies we have recently agreed to acquire. Under this agreement, no license fee is payable by us for the first five years from the effective date of the trademark registration in China and any fees payable after that will be no less favorable than fees paid by other affiliates of China Mobile Communications Corporation.

Mobile Communications Networks

We offer mobile telecommunications services using the GSM standard. Each of our GSM networks consists of:

- base stations or base transceiver stations, which are transmitters and receivers that serve as a bridge between all mobile users in a cell and connect mobile calls to the mobile switching center;
- base station controllers, which connect to, and monitor and control, the base transceiver station within each cell, performing the functions of message exchange and frequency administration;
- mobile switching centers, which are central switching points to which each call is connected, and which control the base station controllers and the routing of calls;
- transmission lines, which link the mobile switching centers, base station controllers, base transceiver stations and other telecommunications networks; and
- software applications that drive the mobile telecommunications infrastructure.

The following table sets forth certain selected information regarding our GSM networks as of December 31, 1999, 2000 and 2001:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Subscribers (in thousands)	14,023	43,185	69,643
Voice channels (in thousands)	727	1,860	2,787
Mobile switching centers	212	470	599
Base station controllers	576	1,162	1,480
Base transceiver stations	13,532	31,593	43,223

GSM Network Capacity Expansion Plans. As of January 1, 2002, all of our subscribers use digital GSM services. We intend to continue our network expansion and improvement with an emphasis on increasing the coverage and capacity and improving the operating efficiency of our GSM networks. We intend to achieve capacity expansion by adding base stations in areas already within our network coverage and by expanding and improving coverage, including along railways and highways and indoors. Our network expansion plans depend to a large extent upon the availability of sufficient spectrum. In addition, in order to improve the capacity of our mobile telecommunications networks in certain major urban centers, we introduced the GSM-compatible 1800 MHz Digital Cellular System.

Migration from Analog to Digital Network. Recent advances in GSM technologies have substantially increased network capacity and service quality. The economic life cycle of our analog network equipment was also much more limited than that of our digital networks. We terminated our analog services on December 31, 2001 in order to utilize our spectrum resources more efficiently and accelerate the enhancement of our network. As of January 1, 2002, substantially all of our analog service subscribers have migrated to our GSM network.

Spectrum. A mobile telecommunications network's capacity is to a certain extent limited by the amount of frequency spectrum available. The Ministry of Information Industry allocated a total of 34 MHz in the 900 MHz frequency band and the 1800 MHz frequency band to our parent company, China Mobile Communications Corporation. Under the existing agreement between China Mobile Communications Corporation and us, we have the exclusive right to use such frequency spectrum in our service regions.

Transmission Infrastructure. The physical infrastructure linking our base transceiver stations, base station controllers and mobile switching centers and interconnecting our networks to the fixed line network consists of transmissions lines, which provide the backbone infrastructure by which mobile call traffic is carried.

Intra-Provincial Transmission Lines. We currently lease intra-provincial and local transmission lines from the former China Telecommunications Corporation's subsidiaries that operate the fixed line networks in our 13 service regions and pay them fees based on tariff schedules stipulated by the relevant regulatory authorities after adjusting for the discounts that we have negotiated.

We have also built our own infrastructure in certain areas where the fixed line network operators do not currently have any transmission lines in place or where the leasing of existing lines is not

economical. As part of our network operation strategy, we have allocated funds, and have planned certain capital expenditures, for the construction of our own transmission lines where economically advantageous, such as in high call traffic areas. In areas where the leasing of transmission lines makes more economic sense, we intend to continue to leverage our group buying capacity to negotiate preferential leasing rates.

Inter-Provincial Transmission Lines. We entered into an inter-provincial leased line arrangement with China Mobile Communications Corporation in May 2000, with retroactive effect from April 1, 1999 for Fujian Mobile, Henan Mobile and Hainan Mobile and from October 1, 1999 for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile. The leased inter-provincial transmission lines link our mobile switching centers with each other and with China Mobile Communications Corporation's other mobile switching centers.

Prior to these arrangements, we leased intra-provincial transmission lines to link our network to the fixed line network, but did not lease any inter-provincial transmission lines. Instead, we paid China Mobile Communications Corporation an inter-provincial interconnection fee. The leasing charge payable by us is determined based on the standard leasing fee stipulated by the relevant regulatory authorities after adjusting for the discounts that we have negotiated, and the mobile telecommunications network operators at both ends of the transmission lines will share the leasing fees equally.

Network Operations and Maintenance. We believe that we have considerable network operation and maintenance experience and technical expertise. Day-to-day traffic management, troubleshooting and system maintenance are conducted by our experienced team of engineers and technicians. Technical staff are available for emergency repair work 24 hours a day and we employ specialist teams for central maintenance of the networks. We continue to seek to attract and retain qualified technical staff. Currently, most technical difficulties relating to the networks are resolved by our staff, although our equipment suppliers also provide back-up maintenance and technical support.

Base Station Sites. In urban areas, our base transceiver station sites are located mostly on existing structures, typically at the top of tall buildings. In rural areas, masts are often constructed for locating base transceiver stations. Typically, base station sites are of limited size, as base transceiver station equipment does not generally require significant space. Generally, depending on the length of time required for negotiation with respect to use of the land or buildings, construction of a base transceiver station takes approximately one to three months in an urban area and approximately three to six months in a rural area. We anticipate that we will need a significant number of new sites in connection with the expansion of our mobile telecommunications networks. There can be no assurance that we will be able to obtain the requisite number of sites on reasonable commercial terms.

Equipment Suppliers. We select our principal suppliers from among leading international and domestic manufacturers of mobile telecommunications equipment and in accordance with technical standards set by the Ministry of Information Industry. Our GSM networks use equipment primarily supplied by Ericsson, Nokia, Alcatel, Siemens and Huawei Technologies.

Strategic Alliance with Vodafone

On October 4, 2000, we entered into a non-binding memorandum of understanding with Vodafone Group Plc., which sets forth the principal terms of alliance and cooperation between the two parties. In connection with the alliance, Vodafone purchased US\$ 2.5 billion of our ordinary shares as

part of our share offering in November 2000, representing approximately 2% of our issued and outstanding share capital following the offering.

On February 27, 2001, we entered into a binding strategic alliance agreement with Vodafone. The agreement has formalized a number of cooperation arrangements set forth in the memorandum of understanding, including:

- the exchange and sharing of corporate management, technical and operational expertise and resources;
- joint research and development;
- the introduction of global products and services for the mobile community; and
- the development and implementation of standards and protocols relevant to mobile telecommunications.

Under the agreement, we have agreed to make Vodafone our preferred partner in the above mentioned areas, and Vodafone has agreed to make us its sole strategic partner in China for all areas of potential cooperation within the scope of the strategic alliance. As part of the alliance, Sir Christopher Gent, Chief Executive of Vodafone, joined our board of directors as an independent non-executive director in February 2001. See “Item 6. Directors, Senior Management and Employees”. In addition, Vodafone has agreed in May 2002 to pay us US\$ 750 million for the purchase of our ordinary shares either directly or through its wholly-owned subsidiary, Vodafone Holdings (Jersey) Limited, in connection with our acquisition of the eight regional mobile telecommunications companies from our immediate parent company, China Mobile Hong Kong (BVI) Limited. As a result, Vodafone’s share holding in us will increase from 2.18% to approximately 3.27%. See “— History and Development of Company — Expansion of Business Coverage Through Acquisitions”.

We believe that the strategic alliance with Vodafone will enhance our strengths in the telecommunications market in Mainland China and will better position us to pursue further expansion opportunities globally. In particular, this alliance has enabled us to have frequent and broad exchanges of expertise and market information. Moreover, this strategic alliance will enable Vodafone and us to share information and establish benchmarks to better assess and enhance each other’s performance, thereby better positioning both parties in the global telecommunications market. See “— Research and Development”.

Competition

We compete with other telecommunications service providers. In all of the provinces, municipalities and autonomous regions in which we operate, we are one of the two licensed mobile services providers. The Chinese government encourages orderly and fair competition in the telecommunications industry in Mainland China. In particular, the Chinese government has extended favorable regulatory policies to some of our competitors, such as China United Telecommunications Corporation, in order to help them become more viable competitors to us and China Mobile Communications Corporation. For example, the Chinese government has permitted China United Telecommunications Corporation to apply mobile service tariffs as much as 10% below the governmental guidance rates. We believe this policy has helped China United Telecommunications Corporation’s

market share by capturing a significant number of price-sensitive and low-usage mobile phone subscribers.

In accordance with the Chinese government policy of encouraging competition in the telecommunications industry, the government has previously authorized new entrants to offer IP-based long distance call services, data and Internet services. More recently, the State Council formally approved the restructuring of the former China Telecommunications Corporation, China Netcom Corporation Limited and Jitong Network Communications Company Limited, which will create two large telecommunications companies, China Telecommunications Corporation and China Netcom Group. Increased competition from new entrants in China's telecommunications industry could adversely affect our financial condition and results of operations. See "Item 3. Key Information — Risk Factors — New entrants in the telecommunications industry in China may further intensify competition and adversely affect our results of operations".

We compete on the basis of our network coverage and quality, the pricing of our services, the range of services we offer and our service quality. We believe that we have significant competitive advantages due to:

- our superior mobile telecommunications networks;
- our widely-recognized brand name and logo that are closely identified with us by consumers;
- our broad distribution networks and our focus on customer services;
- our extensive range of value added services;
- our experienced management team and high quality employees; and
- our financial resources.

We believe these advantages have contributed to our superior subscriber quality compared to that of our competitors, as measured by average usage levels, average revenues per subscriber and doubtful accounts levels.

The State Council and the Ministry of Information Industry may approve additional mobile service providers in the future that may compete with us. We may also be subject to competition from providers of new telecommunications services based on new or existing technologies. Nonetheless, given the relatively low mobile phone penetration rates in our markets and in Mainland China in general, we believe there is substantial growth potential for our mobile telecommunications business. We believe that the restructuring of the telecommunications industry in Mainland China has helped to create a fair, orderly, transparent and healthy telecommunications market.

We also face indirect competition from other telecommunications services, such as Xiaolingtong, a local area wireless telephone service with limited mobility and limited coverage operated by the former China Telecommunications Corporation and its subsidiaries. Xiaolingtong offers lower priced services. As a result Xiaolingtong's services are targeted at lower usage customers who tend to spend smaller amounts on mobile telecommunications. We do not believe that Xiaolingtong is a significant competitor,

as it provides a much more limited range of services compared to our mobile telecommunications services.

In addition, China United Telecommunications Corporation has launched its 800 MHz Code Division Multiple Access, or CDMA, technology. As there are significantly more mobile telecommunications services providers using GSM networks than are using CDMA networks, operators employing GSM networks provide far more extensive international roaming coverage to subscribers. Currently in Mainland China, services provided over GSM networks are more widely-accepted by subscribers than those provided over CDMA networks. As a result, we decided not to pursue the development of the current second generation CDMA technology.

World Trade Organization

On December 11, 2001, China officially joined the WTO. Under the Protocol on the Accession of the People's Republic of China, dated as of November 11, 2001, China agreed to gradually open the various segments and regions of its telecommunications market to foreign investment. Pursuant to this accession protocol, both the percentage of ownership of Sino-foreign joint ventures offering telecommunication services in China and the regions where those joint ventures are permitted to offer telecommunications services will be gradually expanded over a period of six years. Under the accession protocol, the telecommunication market is divided into fixed line services, mobile voice and data services, paging services and value added services. Value added services include electronic mail, voice mail and online information and database retrieval. By December 11, 2004, foreign investors will be permitted to own up to 49% of joint ventures that offer mobile voice and data services in 17 cities in China. By December 11, 2006, such joint ventures will be permitted to offer mobile voice and data services in China without any geographic restrictions.

The table below summarizes the foreign ownership restrictions for telecommunications joint ventures in China as well as applicable geographic restrictions:

**Foreign Ownership Percentage and Geographic Restrictions
for Foreign-Funded Telecommunications Enterprises**

As of December 31,							
Sector	2001	2002	2003	2004	2005	2006	2007
Mobile	25% (3 cities) ⁽¹⁾	35% (17 cities) ⁽²⁾		49% (17 cities) ⁽²⁾		49% (nationwide)	
Fixed-line				25% (3 cities) ⁽¹⁾		35% (17 cities) ⁽²⁾	49% (nationwide)
Value-added	30% (3 cities) ⁽¹⁾	49% (17 cities) ⁽²⁾	50% (nationwide)				
Paging	30% (3 cities) ⁽¹⁾	49% (17 cities) ⁽²⁾	50% (nationwide)				

(1) The initial three cities are Beijing, Shanghai and Guangzhou.

(2) The 17 cities include Beijing, Chengdu, Chongqing, Dalian, Fuzhou, Guangzhou, Hangzhou, Nanjing, Ningbo, Qingdao, Shenyang, Shanghai, Shenzhen, Xiamen, Xi'an, Taiyuan and Wuhan.

Regulation

The mobile telecommunications industry in Mainland China is subject to a high degree of regulation by the Chinese government. Regulations issued or implemented by the State Council, the Ministry of Information Industry and other relevant government authorities including the Ministry of Foreign Trade and Economic Cooperation and the State Development Planning Commission encompass all key aspects of mobile telecommunications network operations, including entry into the telecommunications industry, scope of permissible business, interconnection and transmission line arrangements, technology and equipment standards, tariff standards, capital investment priorities, foreign investment policies and spectrum and number resources allocation.

The Ministry of Information Industry, under the leadership of the State Council, is responsible for, among other things:

- formulating and enforcing industry policy, standards and regulations;
- granting telecommunications licenses;
- formulating interconnection and settlement standards for implementation between telecommunications networks;
- together with other relevant regulatory authorities, formulating tariff and service charge standards for telecommunications services;
- supervising the operations of telecommunications service providers;
- promoting fair and orderly market competition among operators; and
- allocating and administering public telecommunications resources, such as radio frequencies, number resources, domain names and addresses of telecommunications networks.

In order to provide a uniform regulatory framework to encourage the orderly development of the telecommunications industry, the Ministry of Information Industry, under the direction of the State Council, is currently preparing a draft telecommunications law. We expect that, if and when the telecommunications law is adopted by the National People's Congress, it will become the basic telecommunications statute and the legal source of telecommunications regulations in Mainland China. In addition, the State Council promulgated a set of new telecommunications regulations on September 25, 2000. These regulations are substantially consistent with the existing rules and guidelines for the telecommunications industry, and are primarily intended to streamline and clarify the existing rules and guidelines. They apply in the interim period prior to the adoption of the telecommunications law. Although we expect that the telecommunications law will have a positive effect on the overall development of the telecommunications industry in Mainland China, we do not know what the nature and scope of the telecommunications law will be.

Entry into the Industry. The new telecommunications regulations adopt the existing regulatory distinction between basic and value added telecommunications services and provide a classification of those services. Operators of mobile telecommunications networks, providers of other basic telecommunications services such as local and long distance fixed line telephone services, and value added service providers whose telecommunications services cover two or more provinces, municipalities or autonomous regions in China must apply for specific permits from the Ministry of Information Industry in order to provide such services. Granting of permits for providing basic telecommunications services will be through a tendering process. Currently, in addition to us and other entities controlled by China Mobile Communications Corporation which operate in Mainland China outside of our markets, China United Telecommunications Corporation is also authorized to provide mobile services in all provinces, municipalities and autonomous regions in China.

On December 11, 2001, China officially joined the WTO. To implement China's commitments under the WTO, the Administration of Foreign-Funded Telecommunications Enterprises Provisions became effective on January 1, 2002, permitting foreign investment in joint ventures that provide telecommunications services in China. However, such investments will presumably bear no direct relation to the issuance of licenses to providers of telecommunications services in Mainland China, as the issuance of new licenses by the relevant authority is governed by a separate set of rules and regulations. Pursuant to the Administration of Foreign-Funded Telecommunications Enterprises Provisions, foreign ownership in a telecommunications enterprise may be gradually increased to 49% if such enterprise provides basic telecommunication services and 50% if such enterprise provides value added telecommunications services (including radio paging services).

Spectrum Usage. In coordination with the relevant provincial authorities, the Ministry of Information Industry regulates the allocation of radio frequency. The frequency assigned to an entity is not allowed to be leased or, without approval of the Ministry of Information Industry, transferred by the entity to any other third party. In accordance with a joint circular from the State Development Planning Commission and the Ministry of Finance, China Mobile Communications Corporation determines the amount of fees to be paid to the Ministry of Information Industry for spectrum usage by each mobile telecommunications network operator under its control based on the bandwidth of the frequency used and the number of base transceiver stations within the operator's network.

On May 2, 2002, the relevant regulatory authorities in China informed us that the standard spectrum usage fees for GSM networks will be adjusted progressively over a period of three years, and that the adjustments will be effective for a period of five years from July 1, 2002. For the first year, spectrum usage fees for GSM networks will be charged at the annual rate of RMB 7.5 million per MHz frequency. For the second year, the annual fee will be RMB 11.25 million per MHz frequency and beginning in the third year and thereafter, the annual fee will be RMB 15 million per MHz frequency. All adjusted annual fees are charged on the basis that upward and downward frequencies are separately charged. The allocation of spectrum usage fees between China Mobile Communications Group and us remains the same under our existing agreement. The adjustments will increase our expenses on an after-tax basis by approximately RMB 224 million, RMB 343 million and RMB 462 million, respectively, for the first, second, and third years after the effectiveness of these new rates.

Number Resources. The Ministry of Information Industry is responsible for the administration of the number resources within Mainland China, including the mobile telecommunications network number and subscriber numbers. The use of number resources by any telecommunications operator is subject to the approval by the Ministry of Information Industry. In April 2000, the Ministry of Information Industry implemented new provisional measures on administration of telecommunications network number resources. In accordance with these new measures, the telecommunications network number resources are owned by the state, and the user of number resources is required to pay a usage fee to the state. However, the standard for the usage fee has not yet been determined. It is also not clear when the standard for the usage fee will be determined and when we will be required to pay such fee. The new measures also provide for procedures for application for the use, upgrade and adjustment of number resources by telecommunications operators.

Tariff Setting. The levels and categories of our current tariffs are subject to regulation by various government authorities, including the Ministry of Information Industry, the State Development Planning Commission and, at the local level, the relevant provincial price regulatory authorities. Under the new telecommunications regulations, telecommunications tariffs are categorized into market based tariffs, government guidance tariffs and government fixed tariffs. In general, base usage charges, monthly fees, domestic roaming usage charges and tariffs for all domestic long distance calls (other than Internet Protocol phone calls) and international calls are fixed jointly by the Ministry of Information Industry and the State Development Planning Commission. International roaming charges are set in accordance with agreements between China Mobile Communications Corporation and the relevant foreign mobile operators. Under the new telecommunications regulations, tariffs for those telecommunications businesses that are considered fully competitive may be set by the service providers as market based tariffs.

Interconnection Arrangements and Lease Line Arrangements. Under the new telecommunications regulations, parties seeking interconnection must enter into an interconnection agreement and file such interconnection agreement with the Ministry of Information Industry. Major telecommunications service providers that have control over essential telecommunications infrastructure and possess significant market share must allow interconnection to their networks by other operators. They must establish interconnection rules and procedures based on the principles of non-discrimination and transparency and submit such rules and procedures to the Ministry of Information Industry for approval. Such rules and procedures will be binding upon those major telecommunications service providers. The termination of any interconnection arrangements will require prior approval by the Ministry of Information Industry.

The applicable regulations provide that interconnection related equipment must conform with the technical standards approved by the Ministry of Information Industry. See “—Technical Standards” below. The Ministry of Information Industry also determines the standard lease tariffs to be paid by telecommunications operators with respect to the leasing of transmission lines that facilitate interconnection between telecommunications networks. The relevant provincial operating subsidiaries of the former China Telecommunications Corporation and those of China Mobile Communications Corporation are responsible for the maintenance of the transmission lines and related equipment in their respective localities.

Technical Standards. Certain regulatory authorities in Mainland China, including the Ministry of Information Industry, set technical standards and control the type and quality of mobile telecommunications equipment used in or connected to public networks, all radio telecommunications equipment and all interconnection related equipment.

The establishment of base transceiver stations requires the approval of the relevant provincial regulatory authorities. A number of these approvals with respect to the base stations of our operating subsidiaries are currently pending. We have not experienced and do not expect to experience material difficulty in obtaining permission to establish additional sites.

Capital Investment. Some of our major investment projects, including mobile telecommunications network development projects, may be required to obtain approvals from relevant regulatory authorities in Mainland China.

Employees

The total number of our employees increased from 12,530 as of December 31, 1998 to 38,343 as of December 31, 2000, mainly as a result of our acquisitions of various regional mobile telecommunications companies in China between 1998 and 2000. In 2001, our total number of employees increased to 38,748. As of December 31, 2001, we had 47 employees in Hong Kong and 38,701 employees in the rest of Mainland China as classified in the following table. Approximately 48% of our permanent employees have college or graduate degrees.

Management	8,288
Technical and engineering	12,981
Sales and marketing.....	15,616
Financial and accounting.....	<u>1,816</u>
Total.....	38,701

We provide benefits to certain employees, including housing, retirement benefits and hospital, maternity, disability and dependent medical care benefits. Most of our employees are members of a labor association. We have not experienced any strikes, slowdowns or labor disputes that have interfered with our operations to date, and we believe that our relations with our employees are good.

Organizational Structure

See “— History and Development of the Company — Industry Restructuring and Changes in Our Shareholding Structure”.

Property, Plants and Equipments

We own, lease or have usage rights in various properties which consist of land and buildings for offices, administrative centers, staff quarters, retail outlets and technical facilities. We have obtained land use right certificates and property title certificates for all but five of these properties. In 2001, we obtained real estate ownership certificates for four properties located in Guangdong Province and we are currently in the process of obtaining certificates for the remaining five properties, all of which are also located in Guangdong Province. We believe that our use of these properties is not affected by the fact

that we have not yet obtained the relevant land use right certificates and property title certificates. China Mobile (Hong Kong) Group Limited, our indirect controlling shareholder, has agreed to indemnify us against any loss or damage caused by or arising from any challenge of, or interference with, our right to use any of the properties we had or used in our business as of May 31, 1997, the date of asset revaluation in preparation for our initial public offering. We believe that all of our owned and leased properties are well maintained and are suitable and adequate for their present use.

Item 5. Operating and Financial Review and Prospects.

You should read the following discussion and analysis in conjunction with our consolidated financial statements, together with the related notes, included elsewhere in this annual report. The consolidated financial statements have been prepared in accordance with Hong Kong GAAP, which differ in certain significant respects from U.S. GAAP. Note 29 to our consolidated financial statements summarizes the significant differences between Hong Kong GAAP and U.S. GAAP as they relate to us and provides a reconciliation to U.S. GAAP of net profit and shareholders' equity. In addition, note 29 to our consolidated financial statements includes our condensed consolidated financial statements prepared and presented in accordance with U.S. GAAP for the relevant periods. The consolidated financial statements present, and the discussion and analysis in this section pertain to, our consolidated financial position and results of operations as of and for the years ended December 31, 1999, 2000 and 2001. Our consolidated financial statements reflect the results of Fujian Mobile, Henan Mobile and Hainan Mobile from November 12, 1999, and the results of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile from November 13, 2000, the respective dates of the acquisitions.

Overview of Our Operations

During 1999, 2000 and 2001, our network capacity, subscriber base and usage and operations experienced significant growth. We believe that with the market-oriented restructuring of the telecommunications industry, as well as the development of the economy and increase in per capita income in Mainland China, the telecommunications industry will continue to grow rapidly. Given the relatively low penetration rates in our markets, we believe that there is potential for significant future subscriber growth.

Our results of operations, like those of other mobile telecommunications network operators, are substantially dependent on a number of factors, including:

- the number and quality of subscribers;
- the level of subscriber usage;
- the level and structure of tariffs; and
- interconnection, roaming and transmission line arrangements with other telecommunications operators.

We operate in an extensively regulated environment and our operations and financial performance are significantly affected by the Chinese government's regulation of the telecommunications industry. These regulations and policies may affect, among other things, our interconnection and

transmission line leasing arrangements, technology and equipment standards and capital investment, as described in more detail under “Item 3. Key Information — Risk Factors — Adverse changes in the economic policies of the Chinese government could have a material adverse effect on the overall economic growth of Mainland China, which could reduce the demand for our services and adversely affect our business, financial condition and results of operations” and “Item 4. Information on the Company — Business Overview — Regulation”. Our financial performance is also subject to the economic and social conditions in Mainland China and foreign currency exchange rate fluctuations.

Our Acquisitions of 11 Regional Mobile Telecommunications Companies in the Past Four Years Have Materially Impacted Our Financial Results

We acquired Jiangsu Mobile on June 4, 1998, Fujian Mobile, Henan Mobile and Hainan Mobile on November 12, 1999 and Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile on November 13, 2000. We have adopted the acquisition method to account for these acquisitions under Hong Kong GAAP. Accordingly, the consolidated financial statements include the results of these companies from the respective dates of the acquisitions. Under U.S. GAAP, our acquisitions of these companies are considered a combination of entities under common control which would be accounted for under the “as if pooling-of-interests” method, whereby assets and liabilities are accounted for at historical cost and the accounts of previously separate companies for periods prior to the combination generally are restated on a combined basis.

These acquisitions have had a material impact on our overall results of operations. In particular, our financial results in 2001 were significantly affected by the inclusion of the full year results of operations for the seven regional mobile telecommunications companies we acquired in November 2000. By comparison, our financial results in 2000 only included the results of operations of these companies for two months. See “— Results of Operations — Year Ended December 31, 2001 Compared to Year Ended December 31, 2000”. These acquisitions have, among other things, significantly expanded the size of the mobile telecommunications markets we serve and increased the number of our subscribers and usage of our services. As a result, our operating revenue and operating expenses have also increased significantly.

Analog-to-Digital Migration

Due to the rapid development of mobile telecommunications technologies and the potentially limited economic life cycle of our analog network equipment, we accelerated the enhancement of our technology and assisted the migration of our analog subscribers to our GSM network. See “Item 4. Information on the Company — Business Overview — Migration from Analog to Digital Network”. As a result, we wrote down RMB 282 million of analog network equipment in 1998, and we wrote down RMB 6,720 million of analog network equipment and wrote off an additional RMB 1,522 million of analog network equipment in 1999. In 2000, we wrote down and wrote off the entire RMB 1,525 million in remaining net book value of our analog network equipment. We discontinued our analog service on December 31, 2001.

To encourage the migration of our analog subscribers to our GSM services, we offered temporary free air time for GSM services to these subscribers. We believe the analog-to-digital migration has increased our network utilization rate, improved our operational efficiency and allowed us to provide better services to our customers.

Operating Arrangements We Entered Into Over the Last Several Years Have Materially Impacted Our Financial Results

Our current organizational structure was established pursuant to the restructuring completed in September 1997 in preparation for our initial public offering and our acquisitions of the 11 regional mobile telecommunications companies in Mainland China in 1998, 1999 and 2000. In connection with these transactions, we entered into various operating arrangements to facilitate the transfer of the operations to us, to integrate these operations within our operating structure and to improve our overall operational efficiency. These arrangements included:

- interconnection revenue sharing and settlement arrangements with the former China Telecommunications Group and with China Mobile Communications Corporation;
- intra-provincial transmission line leasing agreements with the former China Telecommunications Group;
- service agreements with China Mobile Communications Corporation and the former China Telecommunications Group with respect to various telecommunications services and support;
- a change in the tax treatment of connection fees and certain surcharge revenue for our services;
- the revaluation of fixed assets of the companies we acquired as of the respective dates set forth in the financial statements included in this annual report; and
- an agreement with China Mobile Communications Corporation for inter-provincial interconnection and domestic and international roaming.

The original terms of our agreements relating to interconnection, leased lines and roaming have been revised as a result of tariff adjustments by the government and/or commercial negotiation with the relevant parties. See “Item 4. Information on the Company — Business Overview — Interconnection” and “— Roaming” as well as the notes to our consolidated financial statements for a description of these arrangements as amended to date.

Our financial results reflect the impact of the above arrangements as of the dates they became effective. These arrangements and changes have had a material impact on our overall results of operations. In particular, the implementation of the interconnection agreements led to significant increases in both operating revenue and operating expenses. In addition, other operating expenses including selling, general and administrative expenses increased in 1999 and 2000 as a result of the implementation of agreements relating to billing and collection services and distribution and sales. In each of 1999 and 2000, depreciation expense increased as a result of the revaluation of fixed assets, while our effective income tax rates increased as a result of connection fees and certain surcharges becoming fully taxable after the acquired companies had registered as wholly foreign owned enterprises following the acquisitions.

Our Operating Arrangements with China Mobile Communications Corporation Have Affected and May Continue to Affect Our Financial Results

In May 2000, we entered into two agreements with China Mobile Communications Corporation for:

- inter-provincial interconnection and domestic and international roaming services; and
- sharing of inter-provincial leased line fees.

The agreements, as supplemented in November 2000, apply to the seven regional mobile telecommunications companies we acquired in November 2000, effective upon the acquisition and to our other six operating subsidiaries with retroactive effect from April 1, 1999, except that with regard to Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile, the leased line fee sharing arrangement had retroactive effect from October 1, 1999.

Prior to these arrangements, we leased intra-provincial transmission lines from the former China Telecommunications Corporation to link our network to the fixed line network, but did not lease any inter-provincial transmission lines. Instead, we paid China Mobile Communications Corporation an inter-provincial interconnection fee. Under the inter-provincial transmission line leasing agreement with China Mobile Communications Corporation, the leasing fee payable by us is determined based on the standard leasing fee stipulated by the relevant regulatory authorities after adjusting for the volume discount to which we are entitled, and on the basis that the mobile network operators at both ends of the transmission lines will share the leasing fees equally. As a result, these arrangements led to an increase in our transmission line leasing expenses, but a reduction in our inter-provincial interconnection and roaming settlement expenses, resulting in net savings in our operating expenses in 2000. We have reflected the financial impact of these arrangements in 1999 as a one-time gain in our accounts for 2000.

Tariff Adjustments

As part of the efforts to further rationalize the tariff structure of telecommunications services, the government introduced a wide range of tariff adjustments effective from early 2001. The tariff adjustments that affect our mobile telecommunications services include the shortening of the billing unit for long distance charges (other than for IP-based long distance call services), from one minute to six seconds, the general reduction in domestic and international long distance call rates, the elimination of various surcharges and a general reduction in leased line tariffs. In particular, effective from early 2001, domestic long distance call rates have been adjusted from the range of RMB 0.50 to RMB 1.00 per minute to the uniform rate of RMB 0.07 per six seconds. In addition, connection fees charged to new contract subscribers were eliminated as of July 1, 2001. Although the adjustments in long distance call rates and the elimination of surcharges and fees may reduce our revenue in the short term, we expect that they will stimulate increased subscriber usage and contribute to our overall revenue growth in the long term. In addition, we will be able to achieve savings in leased line expenses as a result of the reduction in leased line tariffs.

Amendment to Revenue Sharing Arrangement for Prepaid Services

We offer prepaid services in each of our 13 service regions. Some of our prepaid services allow subscribers to add value to their SIM cards in any of our service regions or in the service regions of other

subsidiaries of China Mobile Communications Corporation. In May 2001, we entered into an agreement with China Mobile Communications Corporation to amend the then-existing revenue sharing arrangements with respect to prepaid services, with retroactive effect from April 21, 2001. The new agreement amended the prior arrangement by allowing the network operator in the location that sells the value-adding prepaid card to charge 5% of the face value of the card as a handling charge, and remit the other 95% (as compared to 85% prior to the amendment) to the subscriber's home network operator. We do not expect the new agreement to have a material impact on our financial condition or results of operations.

Renminbi Bond Offering

Following the approval by the relevant Chinese regulatory authorities, on June 18, 2001 our wholly-owned subsidiary, Guangdong Mobile, issued RMB 5 billion of guaranteed bonds due in 2011. These bonds are listed on the Shanghai Stock Exchange. The bonds bear interest, payable annually, at a floating rate calculated as the sum of:

- a base rate, being the one-year fixed time deposit rate published by the People's Bank of China on (1) the date of the issuance of the bonds, which is 2.25% per annum, with respect to the 12-month period following such date of issuance, and (2) such rate as is fixed on each subsequent anniversary date of the issuance, to apply with respect to the 12-month period following such anniversary date; and
- an interest rate spread of 1.75% per annum, which will remain fixed throughout the term of the bonds.

We have issued an irrevocable guarantee for the performance of the bonds, and China Mobile Communications Corporation has issued a further guarantee in relation to the performance by us of our guarantee. The bonds are rated "AAA" by China Chengxin International Credit Rating Company Limited, an affiliate of Fitch International Limited.

The proceeds from the offering were applied solely to repay part of the RMB 12.5 billion syndicated loans we raised through our wholly-owned subsidiary, China Mobile (Shenzhen) Limited, in 2000 for our acquisition of the seven mobile telecommunications companies. The syndicated loans had a weighted average interest rate of approximately 5.2% per annum in 2000, which is higher than the 4% per annum interest rate borne by bonds during the 12-month period following the original issuance.

Critical Accounting Policies and Estimates

The following discussion and analysis is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in Hong Kong. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the years reported. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as unbilled usage fees, allowance for doubtful accounts, depreciation and amortization period, and impairment of long lived assets including fixed assets and goodwill arising from acquisitions (including that taken initially to reserves). Actual results may differ from those estimates under different assumptions or conditions.

We believe that the following critical accounting policies have a more significant impact on our consolidated financial statements, either because of the significance of the financial statement elements to which they relate, or because they require judgment and estimation.

We maintain allowances for doubtful accounts based upon evaluation of the recoverability of the accounts receivables at each balance sheet date. We base our estimates on the aging of our accounts receivable balances and our historical write-off experience, net of recoveries. If the financial condition of our customers were to deteriorate, additional allowances may be required.

Our fixed assets, consisting primarily of telecommunication transceivers, switching centers and other network equipment, comprise a significant portion of our total assets. Changes in technology or industry conditions may cause the estimated period of use or the value of these assets to change. We perform annual reviews to confirm the appropriateness of estimated economic useful lives for each class of fixed assets. For the three years ended December 31, 2001, no changes of assets useful lives have occurred. In addition, long-lived assets including fixed assets and goodwill arising on acquisition (including that initially taken to reserve) are reviewed for impairment whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit). Estimates and assumptions used in setting depreciable lives and testing for recoverability require both judgment and estimation. Our policies regarding accounting for these assets and assessing their recoverability are included in note 2(f) and note 2(h) to our consolidated financial statements.

Results of Operations

As a result of our acquisitions and the material changes made to our operating arrangements, our results of operations are not directly comparable with those in prior years.

The following table sets forth selected income statement data, expressed as percentages of operating revenue, for the periods indicated:

	Year ended December 31,		
	1999	2000	2001
Operating revenue:	100.0%	100.0%	100.0%
Usage fees	66.8	71.2	73.2
Monthly fees	12.9	14.8	14.1
Connection fees	11.2	3.4	0.7
Others	9.1	10.6	12.0
Operating expenses:			
Leased lines	9.6	8.5	5.0

	Year ended December 31,		
	1999	2000	2001
Interconnection	16.7	12.8	13.0
Depreciation	19.2	15.0	17.6
Personnel	5.8	6.1	5.3
Other operating expenses	<u>13.4</u>	<u>16.3</u>	<u>18.2</u>
Total operating expenses	64.7	58.7	59.1
Operating profit	35.3	41.3	40.9
Write-down and write-off of analog network equipment	(21.3)	(2.3)	—
Other net income	1.4	1.4	1.6
Finance costs	(0.9)	(1.3)	(1.7)
Interest income	2.0	1.5	0.8
Non-operating net income/(expenses)	0.2	0.0	0.0
Profit before tax and minority interests	<u>16.7</u>	<u>40.6</u>	<u>41.6</u>
Income tax	(4.3)	(12.9)	(13.7)
Profit before minority interest	12.4	27.7	27.9
Minority interest	—	—	0.0
Net Profit	<u><u>12.4%</u></u>	<u><u>27.7%</u></u>	<u><u>27.9%</u></u>

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Our results of operations in 2001 were materially affected by our acquisition of seven regional mobile telecommunications companies in November 2000. In particular, our operating revenue and operating expenses increased significantly in 2001. This was primarily due to the inclusion of the full year results of operations of these companies. By comparison, our results in 2000 only include the results of operations of these companies since November 13, 2000. See “— Overview of Our Operations — Our Acquisitions of 11 Regional Mobile Telecommunications Companies in the Past Four Years Have Materially Impacted Our Financial Results”. Our acquisitions of eight regional mobile telecommunications companies in 2002 will further expand the size of the mobile telecommunications markets we serve and increase the number of our subscribers and usage of our services. As a result, our operating revenue and operating expenses in 2002 are expected to further increase. See “Item 4. Information on the Company — History and Development of the Company — Expansion of Business Coverage Through Acquisitions”.

Operating Revenue. We derive operating revenue principally from usage fees and monthly fees and, until July 1, 2001, one-time connection fees charged to new contract subscribers. Usage fees include standard local usage fees for airtime and applicable domestic and international long distance charges receivable from subscribers for the use of our mobile telecommunications networks and facilities, and fees in respect of roaming out calls made by our subscribers outside their registered service areas. Other operating revenue includes charges for wireless data and value added services, telephone number selection fees, interconnection revenue and roaming in fees. As a result of the introduction and development of

new businesses, including wireless data services, we expect that revenue from new businesses will contribute to an increasing portion of our operating revenue in 2002.

Operating revenue increased 54.4% from RMB 64,984 million in 2000 to RMB 100,331 million (US\$ 12,122 million) in 2001. This increase was primarily due to an increase in usage fees as a result of subscriber growth as well as the full year effect of including usage fees from subscribers of the seven companies we acquired in November 2000. This increase was partially offset by certain tariff adjustments implemented in early 2001. The tariff adjustments included the cancellation of various surcharges and the adjustment of long distance call tariffs during the first quarter of 2001. In addition, connection fees were eliminated as of July 1, 2001. Our total number of subscribers was approximately 69.6 million at December 31, 2001, compared to approximately 45.1 million at December 31, 2000. Excluding connection fees, operating revenue increased from RMB 62,771 million in 2000 to RMB 99,620 million (US\$ 12,036 million) in 2001.

Revenue from usage fees increased 58.7% from RMB 46,287 million in 2000 to RMB 73,458 million (US\$ 8,875 million) in 2001. This increase was primarily a result of the increase in total subscriber numbers and the growth in usage volume. As a percentage of operating revenue, usage fees increased from 71.2% in 2000 to 73.2% in 2001.

Revenue from monthly fees increased 46.4% from RMB 9,623 million in 2000 to RMB 14,085 million (US\$ 1,702 million) in 2001. This increase was mainly due to the increase in total contract subscriber numbers, as well as the full year effect of including monthly fees from subscribers of the seven companies we acquired in November 2000. As a percentage of operating revenue, monthly fees decreased from 14.8% in 2000 to 14.1% in 2001. This decrease was primarily due to the continued growth in our prepaid subscriber base, which led to an increase in the proportion of prepaid subscribers in our total subscriber base.

Revenue from connection fees decreased 67.9% from RMB 2,213 million in 2000 to RMB 711 million (US\$ 86 million) in 2001. This decrease was primarily due to the gradual decrease and eventual elimination of connection fees charged to new contract subscribers. As a percentage of operating revenue, connection fees decreased from 3.4% in 2000 to 0.7% in 2001. Although the elimination of connection fees may reduce our revenue in the short term, we believe that the elimination of connection fees for new subscribers will help expand our subscriber base and result in increased total subscriber usage of our mobile telecommunications services.

Other operating revenue increased 76.0% from RMB 6,861 million in 2000 to RMB 12,077 million (US\$ 1,459 million) in 2001. This increase resulted principally from increased revenue from wireless data and value added services, incoming roaming revenue and interconnection revenue, as well as the full year effect of our acquisition of the seven companies in November 2000.

Operating Expenses. Operating expenses include leased line expenses, interconnection expenses, depreciation expenses relating to our mobile telecommunications network and other fixed assets, personnel expenses and other operating expenses. Other operating expenses primarily consist of selling and promotion expenses, administrative expenses and one-off analog subscriber migration costs.

Operating expenses increased 55.5% from RMB 38,158 million in 2000 to RMB 59,319 million (US\$ 7,167 million) in 2001. This increase primarily reflected the full year effect of including expenses

attributable to the seven companies we acquired in 2000, our overall expanded network coverage and service scope and our larger subscriber base.

Total leased line payments decreased 9.0% from RMB 5,501 million in 2000 to RMB 5,005 million (US\$ 605 million) in 2001. This decrease was primarily due to a reduction of leased line tariffs in 2001 and the construction of our own transmission lines in high traffic areas as well as our termination of the Total Access Communications System, or TACS, network. This decrease was partially offset by the full year effect of including leased line payments for transmission lines made by the seven companies we acquired in November 2000 and our network expansion into new coverage areas. As a percentage of operating expenses, total leased line payments decreased from 14.4% in 2000 to 8.4% in 2001.

Interconnection expenses increased 56.7% from RMB 8,329 million in 2000 to RMB 13,055 million (US\$ 1,577 million) in 2001. This increase was mainly due to the full year effect of including interconnection expenses attributable to the seven companies we acquired in November 2000, as well as the increased traffic volume. This increase was partially offset by the cost savings achieved by realizing the economies of scale of increased traffic volume transmitted over our expanded network and the increased use of IP-based long distance call services. Interconnection expenses as a percentage of operating expenses increased from 21.8% in 2000 to 22.0% in 2001.

Depreciation expense increased 81.0% from RMB 9,759 million in 2000 to RMB 17,664 million (US\$ 2,134 million) in 2001. This increase was mainly due to the full year impact of the inclusion of the depreciation expenses of the seven companies we acquired in November 2000, as well as the increase in our network capacity, the additional investment we made in our GSM networks and the additional strategic investments we made in certain transmission networks and stations. As a percentage of operating expenses, depreciation expense increased from 25.6% in 2000 to 29.8% in 2001.

Personnel expenses increased 33.4% from RMB 3,991 million in 2000 to RMB 5,325 million (US\$ 643 million) in 2001. This increase was primarily due to the full year effect of including personnel expenses of the seven companies we acquired in November 2000, as well as an increase in performance-based incentive compensation as a result of our further improved operating results. We believe that implementation of our performance-based compensation system has helped us to retain and attract talented staff and enhance employee productivity. As a percentage of operating expenses, personnel expenses decreased from 10.5% in 2000 to 9.0% in 2001.

Other operating expenses increased 72.7% from RMB 10,578 million in 2000 to RMB 18,270 million (US\$ 2,208 million) in 2001. This increase was primarily due to the increase in selling and promotion expenses and the one-off costs associated with the migration of subscribers to our GSM networks from our analog service. The increase in selling and promotion expenses primarily reflects our larger subscriber base and the full year effect of our acquisition of the seven companies in November 2000. As a percentage of operating expenses, other operating expenses increased from 27.7% in 2000 to 30.8% in 2001.

Operating Profit. As a result of the foregoing, operating profit increased 52.9% from RMB 26,826 million in 2000 to RMB 41,012 million (US\$ 4,955 million) in 2001, and operating margin (operating profit as a percentage of operating revenue) decreased slightly from 41.3% in 2000 to 40.9% in 2001.

Adjusted EBITDA. Adjusted EBITDA represents earnings before interest income, interest expense, income taxes, depreciation and amortization, non-operating net (expenses)/income, and write-down and write-off of fixed assets. Adjusted EBITDA increased 60.7% from RMB 37,500 million in 2000 to RMB 60,270 million (US\$ 7,282 million) in 2001. This increase was primarily due to the full year effect of including the results of operations of the seven companies we acquired in November 2000, the increase in operating revenue due to subscriber growth and service expansion and our various cost control efforts. Adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenue) increased from 57.7% in 2000 to 60.1% in 2001, reflecting further improvements in our operating efficiency. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities.

Other Net Income. Other net income represents primarily gross profit from sales of SIM cards, handsets and accessories. Given that the gross margin from sales of SIM cards will decrease as a result of the increasing market competition, we expect that the amount of other net income will gradually decrease. Other net income increased 74.2% from RMB 915 million in 2000 to RMB 1,594 million (US\$ 193 million) in 2001. This increase was principally due to the full year effect of our acquisition of the seven companies in November 2000, as well as increased sales of SIM cards due to our subscriber growth.

Finance Costs. Finance costs increased from RMB 824 million in 2000 to RMB 1,740 million (US\$ 210 million) in 2001. This increase was primarily due to the full year effect of including finance costs attributable to the seven companies we acquired in November 2001. This increase was also partly due to the full year impact of the interest on the US\$ 690 million fixed rate convertible notes issued in November 2000. In 2001, the average interest rate that we paid on our outstanding borrowings was approximately 5%.

Interest Income. Interest income decreased 14.8% from RMB 1,006 million in 2000 to RMB 857 million (US\$ 104 million) in 2001. The higher interest income in 2000 was primarily due to our larger cash balances resulting from our capital raising and financing activities in 2000.

Non-operating Net Income/(Expenses). Non-operating net expenses increased 20.0% from RMB 5 million in 2000 to RMB 6 million (US\$ 1 million) in 2001. This increase was primarily due to the full year effect of our acquisition of the seven companies in November 2000.

Profit before Tax and Minority Interests. As a result of the foregoing, profit before tax and minority interests increased 58.1% from RMB 26,393 million in 2000 to RMB 41,717 million (US\$ 5,041 million) in 2001.

Taxation. Our income tax expense increased 63.8% from RMB 8,366 million in 2000 to RMB 13,703 million (US\$ 1,656 million) in 2001. This increase was primarily due to an increase in our profit. Our effective tax rate increased from 31.7% in 2000 to 32.8% in 2001. The increase was largely a result of our acquisition of the seven companies in November 2000. The connection fee revenue and certain surcharge revenue from those seven companies were not subject to taxation in 2000 prior to their completion of the registration as wholly foreign-owned enterprises. The full year effect of interest expenses on the US\$ 690 million convertible notes and the additional interest expenses on the RMB 5

billion bonds we issued in 2001, both of which are not tax deductible, also contributed to the higher effective tax rate.

Net Profit. As a result of the foregoing, net profit increased 55.4% from RMB 18,027 million in 2000 to RMB 28,015 million (US\$ 3,385 million) in 2001. Net profit margin (net profit as a percentage of operating revenue) increased from 27.7% in 2000 to 27.9% in 2001.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Operating Revenue. Operating revenue increased 68.3% from RMB 38,623 million in 1999 to RMB 64,984 million in 2000. This increase was due primarily to the increase in usage fees as a result of subscriber growth in Guangdong, Zhejiang and Jiangsu, the full year impact of the inclusion of usage fees from subscribers of Fujian Mobile, Henan Mobile and Hainan Mobile following their acquisition by us in November 1999, and the inclusion of usage fees from subscribers of the seven regional mobile communications companies we acquired in November 2000. Our total number of subscribers was approximately 45.1 million at December 31, 2000, compared to approximately 15.6 million at December 31, 1999. Excluding connection fees, operating revenue increased from RMB 34,304 million in 1999 to RMB 62,771 million in 2000.

Revenue from usage fees increased 79.3% from RMB 25,812 million in 1999 to RMB 46,287 million in 2000. This increase was primarily a result of the increase in total subscriber numbers, the expanded telecommunications opportunities for subscribers as a result of the expansion and improvement of fixed line and mobile telecommunications networks throughout Mainland China and the expansion of the scope and variety of our services. As a percentage of operating revenue, usage fees increased from 66.8% in 1999 to 71.2% in 2000.

Revenue from monthly fees increased 93.2% from RMB 4,981 million in 1999 to RMB 9,623 million in 2000 due to the increase in total contract subscriber numbers. As a percentage of operating revenue, monthly fees increased from 12.9% in 1999 to 14.8% in 2000.

Revenue from connection fees decreased 48.8% from RMB 4,319 million in 1999 to RMB 2,213 million in 2000 primarily due to reduction in average connection fees charged to new contract subscribers. As a percentage of operating revenue, connection fees decreased from 11.2% in 1999 to 3.4% in 2000.

Other operating revenue increased 95.4% from RMB 3,511 million in 1999 to RMB 6,861 million in 2000. This increase resulted principally from increased revenue from value added services, incoming roaming revenue and interconnection revenue.

Operating Expenses. Operating expenses increased 52.7% from RMB 24,983 million in 1999 to RMB 38,158 million in 2000. This increase primarily reflected the full year impact of inclusion of operation expenses of Fujian Mobile, Henan Mobile and Hainan Mobile in 2000, the inclusion of operation expenses of the seven regional mobile telecommunications companies we acquired in November 2000 following the acquisition, our overall expanded network coverage and service scope, and our larger subscriber base.

Total leased line payments increased 47.8% from RMB 3,723 million in 1999 to RMB 5,501 million in 2000. This increase was primarily due to the inclusion of leased line payments for intra-provincial

transmission lines by Fujian Mobile, Henan Mobile and Hainan Mobile for the full year of 2000, the inclusion of leased line payments for inter-provincial transmission lines pursuant to our agreement with China Mobile Communications Corporation by six of our operating subsidiaries in 2000 and by the other seven regional mobile telecommunications companies we acquired in November 2000, and our network expansion into new coverage areas. This increase was partially offset by a reduction of leased line tariffs in 2000. However, as a percentage of operating expenses, total leased line payments decreased from 14.9% in 1999 to 14.4% in 2000, reflecting our increased efficiency in network management and transmission lines utilization.

Interconnection expenses increased 29.1% from RMB 6,453 million in 1999 to RMB 8,329 million in 2000. This increase was principally a result of increased traffic volume reflecting the inclusion of the interconnection expenses of Fujian Mobile, Henan Mobile and Hainan Mobile for the full year of 2000, and increased inter-network traffic, especially the increased volume of roaming-out calls by our subscribers. This increase was partially offset by the reduction in interconnection expenses as a result of inter-provincial leased line arrangement and inter-provincial interconnection arrangement with China Mobile Communications Corporation entered into in May 2000. As a result, interconnection expenses as a percentage of operating expenses decreased from 25.8% in 1999 to 21.8% in 2000.

Depreciation expense increased 31.7% from RMB 7,411 million in 1999 to RMB 9,759 million in 2000. This increase was primarily due to the increase in fixed assets following our acquisition of the three regional mobile telecommunications companies in November 1999 and an additional seven regional mobile telecommunications companies in November 2000, and increased capital expenditures that we made to improve and expand our networks. This increase was partially offset by the reduction in the carrying costs of our fixed assets due to the write-downs and write-offs of our analog network equipment in 1999. As a percentage of operating expenses, depreciation expense decreased from 29.7% in 1999 to 25.6% in 2000.

Personnel expenses increased 76.9% from RMB 2,256 million in 1999 to RMB 3,991 million in 2000. This increase was largely a result of the inclusion of the full year personnel expenses of Fujian Mobile, Henan Mobile and Hainan Mobile we acquired in November 1999, personnel expenses of the seven regional mobile telecommunications companies we acquired in November 2000 as well as an increase in performance-based incentive compensation as a result of our further improved operating results. As a percentage of operating expenses, personnel expenses increased from 9.0% in 1999 to 10.5% in 2000.

Other operating expenses increased from RMB 5,140 million in 1999 to RMB 10,578 million in 2000. This increase was mainly due to an increase in selling and promotion expenses from RMB 1,582 million in 1999 to RMB 3,940 million in 2000. This increase reflects primarily the increased sales commission paid to third party agents for developing new subscribers, and the increased advertising and marketing activities to promote our existing services as well as new services such as IP-based long distance call services and prepaid card services. As a percentage of operating expenses, other operating expenses increased from 20.6% in 1999 to 27.7% in 2000.

Operating Profit. As a result of the foregoing, operating profit increased 96.7% from RMB 13,640 million in 1999 to RMB 26,826 million in 2000, and operating margin increased from 35.3% in 1999 to 41.3% in 2000.

Write-down and Write-off of Analog Network Equipment. The total amount of write-down and write-off of our analog network equipment was RMB 8,242 million in 1999 and RMB 1,525 million in 2000, representing the entire net book value of our analog network equipment as of December 31, 2000. The write-downs and write-offs reflect our decision to terminate our analog services by the end of 2001 and migrate our analog subscribers to our GSM services. See “— Overview of Our Operations — Analog-to-Digital Migration” and “Item 4. Information on the Company — Business Overview — Migration from Analog to Digital Network”.

Adjusted EBITDA. Adjusted EBITDA increased 73.6% from RMB 21,603 million in 1999 to RMB 37,500 million in 2000. This increase was primarily due to the inclusion of the results of Fujian Mobile, Henan Mobile and Hainan Mobile for the full year of 2000 and those of the seven regional mobile telecommunications companies we acquired in November 2000 following the acquisition, the increase in operating revenue due to subscriber growth and service expansion, and our various cost control efforts. Adjusted EBITDA margin increased from 55.9% in 1999 to 57.7% in 2000, reflecting further improvements in our operating efficiency. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities.

Other Net Income. Other net income, which includes primarily gross profit from sales of SIM cards, handsets and accessories, increased 65.8% from RMB 552 million in 1999 to RMB 915 million in 2000. This increase reflected the inclusion of the full year results of Fujian Mobile, Henan Mobile and Hainan Mobile for the full year of 2000 as well as the increased sales of SIM cards due to our subscriber growth.

Finance Costs. Finance costs increased from RMB 343 million in 1999 to RMB 824 million in 2000. This increase was primarily due to the interest on the US\$ 600 million fixed rate notes issued in November 1999.

Interest Income. Interest income increased 31.2% from RMB 767 million in 1999 to RMB 1,006 million in 2000. This increase was principally a result of increased cash on hand from our expanded operations.

Non-operating Net (Expenses)/Income. Non-operating expenses totaled RMB 5 million in 2000, compared to a non-operating income of RMB 70 million in 1999, were due to the loss on disposal of certain fixed assets in 2000.

Profit Before Tax and Minority Interests. As a result of the foregoing, profit before tax and minority interests increased 309.6% from RMB 6,444 million in 1999 to RMB 26,393 million in 2000.

Taxation. Our income tax expense increased from RMB 1,647 million in 1999 to RMB 8,366 million in 2000, primarily due to a significant increase in our profit. Our effective tax rate increased from 25.6% in 1999 to 31.7% in 2000, which was due primarily to the fact that connection fee revenue and certain surcharge revenues in Fujian Mobile, Henan Mobile and Hainan Mobile were subject to taxation for the full year in 2000. The connection fee revenue and certain surcharge revenues in the seven regional mobile telecommunications companies we acquired in 2000 were not subject to taxation prior to their completion of the registration as wholly foreign-owned enterprises. However, the continuous decrease in connection fee revenue reduced the impact on the effective tax rate.

Net Profit. As a result of the foregoing, net profit increased from RMB 4,797 million in 1999 to RMB 18,027 million in 2000. Net profit margin increased from 12.4% in 1999 to 27.7% in 2000.

Liquidity and Capital Resources

Liquidity

Our principal source of liquidity is cash generated from our operations. As a result, our liquidity would be adversely affected to the extent there is a significant decrease in demand for our services and products. As of December 31, 2001, we had a working capital surplus (current assets minus current liabilities) of RMB 11,513 million (US\$ 1,391 million) compared to RMB 7,491 million as of December 31, 2000. As of December 31, 2000 and December 31, 2001, accounts receivable totaled RMB 7,252 million and RMB 5,728 million (US\$ 692 million), respectively. The substantial decrease in accounts receivable was principally due to the fact that approximately 93.5% of the new subscribers we acquired in 2001 were customers for prepaid services. Ongoing improvements in our internal credit control and billing systems also contributed to the decrease in our accounts receivable. Short-term bank and other loans and the current portion of obligations under capital leases totaled RMB 12,095 million and RMB 5,439 million (US\$ 658 million) as at December 31, 2000 and December 31, 2001, respectively.

The following table summarizes certain cash flow information for the periods indicated.

	Year ended December 31,		
	1999	2000	2001
	(in millions of Renminbi)		
Net cash inflows from operating activities	21,662	41,401	63,890
Net cash outflow from returns on investments and servicing of finance and taxation	(1,989)	(5,821)	(13,992)
Net cash outflow from investing activities	<u>(36,117)</u>	<u>(92,880)</u>	<u>(46,198)</u>
Net cash (outflow)/inflow before financing activities	(16,444)	(57,300)	3,700
Net cash inflow/(outflow) from financing activities	<u>18,337</u>	<u>65,653</u>	<u>(9,581)</u>
Increase/(decrease) in cash and cash equivalents	<u>1,893</u>	<u>8,353</u>	<u>(5,881)</u>

Net cash inflows from operating activities increased from 1999 to 2001, generally reflecting the growth in operating revenue due to the increase in our subscriber base through internal growth and acquisitions.

Net cash outflow from returns on investments and servicing of finance and taxation increased from 1999 to 2000. This increase was principally a result of a significant increase in Chinese income tax paid and the full year effect of interest payments on the US\$ 600 million fixed rate notes issued in November 1999. Net cash outflow from returns on investments and servicing of finance and taxation increased from 2000 to 2001. This increase was primarily due to an increase in Chinese income tax paid after the acquisition of the seven regional mobile telecommunications companies in November 2000.

Net cash outflow from investing activities increased significantly from 1999 to 2000. This increase was principally a result of the payment of the consideration for our acquisition of seven companies in November 2000. Net cash outflow from investing activities decreased in 2001. This decrease was primarily due to the fact that we did not conduct any significant acquisitions during 2001.

Net cash inflow from financing activities reflects net borrowings or repayments of debt, but excludes credit extended to us by equipment suppliers for additions to construction in progress. Net cash inflow from financing activities increased significantly from 1999 to 2000. This increase was primarily due to the net proceeds received from the concurrent US\$ 690 million convertible notes offering and US\$ 6.9 billion share offering in November 2000, and the RMB 12.5 billion syndicated bank loans we obtained in October 2000. These net proceeds were primarily used to finance our acquisitions of seven regional mobile telecommunications companies in Mainland China in 2000. Net cash from financing activities decreased significantly from 2000 to 2001. This decrease was principally due to the fact that we significantly reduced our capital raising and financing activities during 2001, except for the RMB 5 billion floating rate bonds issued by Guangdong Mobile in June 2001. The proceeds from these bonds were applied solely to repay part of the RMB 12.5 billion syndicated loans. See “— Contractual Obligations and Commitments — Indebtedness” below for more information regarding the offerings and the syndicated bank loans.

Capital Expenditures

Capital expenditures during 1999, 2000 and 2001 were RMB 12,226 million, RMB 20,729 million and RMB 42,417 million (US\$ 5,125 million), respectively. We incurred capital expenditures principally for the construction of our GSM networks, support systems, transmission facilities, infrastructure buildings and the development of new technologies and new businesses.

We estimate that we will spend approximately RMB 37,350 million in 2002, RMB 34,030 million in 2003 and RMB 31,540 million in 2004. We expect to incur these expenditures primarily for the purpose of:

- further expanding our GSM network capacity and coverage;
- increasing our efforts in improving our business and network support system;
- building our own transmission line where economically advantageous;
- constructing infrastructure buildings where economically advantageous; and
- developing and providing new technologies and new businesses.

Following our initial public offering, we have funded our capital requirements primarily with cash generated from operations, proceeds from equity and debt offerings and, to the extent necessary, short-term and long-term borrowings. We believe our available cash and cash generated from future operations will be sufficient to fund most of the capital expenditures and working capital necessary for the planned network expansion and continued growth of our mobile telecommunications operations through the end of 2004.

In addition, our long-standing strategy is to acquire mobile telecommunications assets in Mainland China in order to expand our businesses. We have agreed to acquire from our immediate parent company, China Mobile Hong Kong (BVI) Limited, eight regional mobile telecommunications services providers located in the provinces of Anhui, Jiangxi, Sichuan, Hubei, Hunan, Shaanxi and Shanxi and the directly-administered municipality of Chongqing pursuant to a conditional sale and purchase agreement dated May 16, 2002. See “Item 4. Information on the Company — History and Development of the Company — Expansion of Business Coverage Through Acquisitions”.

We may seek to obtain additional sources of financing to fund our network expansion and possible future acquisitions, to the extent necessary.

Contractual Obligations and Commitments

Indebtedness

As of December 31, 2000 and 2001, our aggregate long-term bank and other loans and obligation under capital leases (excluding current portions) totaled RMB 13,708 million and RMB 6,739 million (US\$ 814 million), respectively, and our short-term bank and other loans (including the current portion of long-term loans) and current portion of obligation under capital leases totaled RMB 12,095 million and RMB 5,439 million (US\$ 658 million), respectively. Our short-term loans and long-term loans decreased in 2001 due to the repayment of a portion of the RMB 12.5 billion syndicated loans we entered into in October 2000. Capital lease obligations totaled RMB 1,720 million (US\$ 208 million) at December 31, 2001. Total scheduled long-term loans and obligations under capital leases payable in 2002, 2003 and 2004 will be approximately RMB 3,737 million, RMB 4,048 million and RMB 1,680 million, respectively. We currently plan to repay loan amounts due using cash in hand and cash from our operating activities.

On November 2, 1999, we issued unsecured fixed rate notes with a principal amount of US\$ 600,000,000 due on November 2, 2004. The notes bear interest at the rate of 7.875% per annum and such interest is payable semi-annually on May 2 and November 2 of each year, commencing May 2, 2000.

On November 3, 2000, we issued unsecured convertible notes with a principal amount of US\$ 690,000,000 due on November 3, 2005. The notes bear interest at the rate of 2.25% per annum and such interest is payable semi-annually on May 3 and November 3 of each year, commencing May 3, 2001.

Pursuant to agreements entered into on October 7, 2000 between our wholly-owned subsidiary, China Mobile (Shenzhen) Limited, and a syndicate of international and domestic Chinese commercial banks, we borrowed an aggregate of RMB 12.5 billion in bank loans, including (1) an RMB 5.0 billion loan for a six-month term with a fixed interest rate of 5.022% per annum and (2) an RMB 7.5 billion loan for a three-year term with an interest rate of 5.346% per annum for the first year, to be adjusted annually on each anniversary of the first drawdown date of the loan to equal the rate that is 10% below the three-year base lending rate for financial institutions prevailing on such anniversary date as announced by the People’s Bank of China. The loans are guaranteed jointly and severally by six of our operating subsidiaries. We repaid in full the RMB 5.0 billion loan and RMB 5.0 billion of the RMB 7.5 billion loan with proceeds from the Renminbi bond offering described above under “ — Overview of Our Operations — Renminbi Bond Offering”. As of December 31, 2001, RMB 2.5 billion of the loans had been drawn down and remained outstanding. During 2001, the average interest rate of these loans was approximately 5%.

On June 18, 2001, Guangdong Mobile, one of our wholly-owned subsidiaries, issued bonds with a principal amount RMB 5 billion at a floating rate due June 18, 2011. Guangdong Mobile's payment obligations under the bonds are guaranteed in full by us, and our guarantee is further guaranteed by China Mobile Communications Corporation.

We currently enjoy a rating of Baa2 from Moody's and BBB from Standard & Poor's, which is equivalent to China's sovereign rating. Any downgrade in our credit rating will not trigger any events on our outstanding bonds or loans or our existing credit facilities. In addition, our management frequently communicates with the rating agencies and currently believes that a downgrade below Baa2 or BBB is not likely. However, under the terms of our US\$ 690 million floating rate notes and our US\$ 600 million fixed rate notes, we are obligated to ensure that the aggregate debt of our subsidiaries does not exceed 120% of our consolidated adjusted earnings before interest, tax, depreciation and amortization, or EBITDA, for the most recently completed twelve-month period. In addition, six of our operating subsidiaries acting as guarantors under the syndicated loan agreement among China Mobile (Shenzhen) Limited and some Chinese commercial banks are obligated to ensure that their aggregate debt does not exceed 120% of their respective shareholder equities. Currently we do not foresee any event that would cause us to violate any of these covenants.

For a discussion of our interest rate risk, please see "Item 11. Quantitative and Qualitative Disclosures about Market Risk".

Other Contractual Obligations and Commitments

As of December 31, 2001, we had various contractual obligations and commitments which are more fully disclosed in the notes to our consolidated financial statements. The principal components of these obligations and commitments include:

- our long-term debt (in addition to the bonds and notes described under " — Indebtedness" above), which includes finance leases;
- operating leases; and
- capital commitments.

In the ordinary course of our business, we routinely enter into commercial commitments for various aspects of our operations, such as repair and maintenance. However, we believe that those commitments will not have a material effect on our financial condition, results of operations or cash flows.

For further disclosure regarding leases and other commitments, please see note 20 to our consolidated financial statements included elsewhere in this annual report.

The following table sets forth certain information regarding our contractual obligations to make future payments as of December 31, 2001:

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>Over 1 year but less than 3 years</u>	<u>Over 3 years but less than 5 years</u>	<u>After 5 years</u>
Short-Term Debt	1,702	1,702	—	—	—
Bills Payable	1,458	1,458	—	—	—
Long-Term Debt	24,420	2,829	9,872	6,649	5,070
Capital Lease Obligations	1,720	908	812	—	—
Trade Payable	11,317	11,317	—	—	—
Total Contractual Cash Obligations	40,617	18,214	10,684	6,649	5,070

The following table sets forth certain information regarding our other commercial commitments as of December 31, 2001:

<u>Other Commercial Commitments</u>	<u>Total Amounts Committed</u>	<u>Amount of Commitment Expiration Per Period</u>			
		<u>Less than 1 year</u>	<u>Over 1 year but less than 3 years</u>	<u>Over 3 years but less than 5 years</u>	<u>Over 5 years</u>
Operating Leases Commitments	14,706	5,057	3,955	3,167	2,527
Capital Commitments	10,366	10,366	—	—	—
Total Commercial Commitments	25,072	15,423	3,955	3,167	2,527

As of December 31, 2001, we did not have any off-balance sheet arrangements or any written options on non-financial assets.

Foreign Exchange

We maintain our accounts in Renminbi and substantially all of our revenue and expenses are denominated in Renminbi. Our capital expenditures totaled the equivalent of RMB 12,226 million, RMB 20,729 million and RMB 42,417 million (US\$ 5,125 million) for 1999, 2000 and 2001, respectively. For 1999 and 2000, a substantial portion of our capital expenditures was denominated in U.S. dollars and incurred in connection with our purchase of imported equipment. In addition, we also incur interest expense on foreign currency (mainly U.S. dollar) denominated borrowings. U.S. dollar denominated debt totaled the equivalent of RMB 13,254 million and RMB 11,855 million (US\$ 1,432 million) at December 31, 2000 and 2001, respectively, constituting 35.4% and 40.5% of our total debt as of those dates, respectively.

All of our current operating subsidiaries are incorporated in Mainland China. Under the current foreign exchange system in Mainland China, our subsidiaries may not be able to hedge effectively against

currency risk, including any possible future Renminbi devaluation. See “Item 3. Key Information — Risk Factors — Fluctuations in exchange rates could adversely affect our financial results” and “Item 10. Additional Information — Exchange Controls”.

Each of our operating subsidiaries is able to purchase foreign exchange for settlement of current account transactions, as defined in applicable regulations, in order to satisfy its foreign exchange requirements.

U.S. GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with Hong Kong GAAP, which differ in certain significant respects from U.S. GAAP. The following table sets forth a comparison of our net profit and shareholders’ equity in accordance with Hong Kong GAAP and U.S. GAAP.

	<u>As of or for the year ended December 31,</u>			
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2001</u>
	(in millions)			
Net profit in accordance with:				
Hong Kong GAAP	RMB 4,797	RMB 18,027	RMB 28,015	US\$ 3,385
U.S. GAAP	RMB 10,993	RMB 24,280	RMB 29,075	US\$ 3,513
Shareholders’ equity in accordance with:				
Hong Kong GAAP	RMB 57,092	RMB 83,760	RMB 111,779	US\$13,505
U.S. GAAP	RMB 77,073	RMB 79,660	RMB 109,016	US\$13,172

Under Hong Kong GAAP, we adopted the acquisition method to account for our acquisitions of the ten regional mobile telecommunications companies in 1999 and 2000. Under the acquisition method, the acquired results of these companies were included in the results of operations from the respective dates of acquisition. Goodwill arising on the acquisition date, being the excess of the cost over the fair value of our share of the separable net assets acquired, was eliminated against reserves immediately on acquisition.

For U.S. GAAP, because we and the acquired companies were deemed to be under common control prior to the acquisitions, the acquisitions were considered a “combination of entities under common control”. Under U.S. GAAP, combinations of entities under common control are accounted for under the “as if pooling-of-interests” method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination generally are restated on a combined basis. The cash consideration we paid in each acquisition was treated as an equity transaction in the respective years of each acquisition for U.S. GAAP purposes.

In addition, there are other differences between Hong Kong GAAP and U.S. GAAP for the periods presented, which relate primarily to:

- the computation of capitalized interest;
- the revaluation of fixed assets of the acquired companies under Hong Kong GAAP;
- the recognition of deferred income taxes;

- the non-recognition under Hong Kong GAAP of certain of our employee housing scheme costs;
- the treatment of share options we grant to directors and employees;
- the recognition as revenue of connection fees and telephone number selection fees; and
- the net savings arising from interconnection, roaming and leased line agreements.

Historically, connection fee revenue was recognized as received for both Hong Kong GAAP and U.S. GAAP for all periods presented to June 30, 1999. Beginning July 1, 1999, we adopted a new accounting policy under U.S. GAAP to defer connection fees received in excess of direct costs and recognize such deferred amount over the estimated customer usage period for the related service. Effective January 1, 2000, under U.S. GAAP, we have adopted the provisions of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". Under this Staff Accounting Bulletin, connection fees and telephone number selection fees received and incremental direct costs up to but not exceeding such fees are deferred and amortized over the estimated customer usage period for the related service. These changes in accounting policy for U.S. GAAP have significantly impacted the timing of connection fee revenue recognized. Connection fees were, however, eliminated as of July 1, 2001.

Disclosure relating to these differences can be found in note 29 to our consolidated financial statements. In addition, our condensed consolidated balance sheets as of December 31, 1999 and 2000 and our condensed consolidated statements of income, total shareholders' equity and cash flows for the years ended December 31, 1998, 1999 and 2000 prepared and presented under U.S. GAAP have been included in notes 29 and 30 to our consolidated financial statements to reflect the impact of the significant differences between Hong Kong GAAP and U.S. GAAP.

Item 6. Directors, Senior Management and Employees.

Directors and Senior Management

The following table sets forth certain information concerning our directors and senior management as of December 31, 2001.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mr. WANG Xiaochu	44	Chairman; Chief Executive Officer
Mr. LI Zhenqun	56	Vice Chairman; Chief Operating Officer
Mr. DING Donghua	65	Director; Chief Financial Officer
Mr. LI Gang	45	Director
Mr. XU Long	45	Director
Mr. HE Ning	40	Director
Mr. LIU Ping	56	Director
Mr. YUAN Jianguo	51	Director
Mr. WEI Yiping	50	Director

<u>Name</u>	<u>Age</u>	<u>Position</u>
Professor Arthur K.C. LI	56	Independent Non-Executive Director
Sir Christopher GENT	53	Independent Non-Executive Director
Dr. LO Ka Shui	55	Independent Non-Executive Director

Mr. Wang Xiaochu has served as our Chairman and Chief Executive Officer since 1999. Mr. Wang is in charge of our overall management. He is also Vice President of China Mobile Communications Corporation and the Chairman of China Mobile (Hong Kong) Group Limited and China Mobile Hong Kong (BVI) Limited. Prior to joining us, Mr. Wang served as the Director General of the Tianjin Posts and Telecommunications Administration. He also served as Director and Deputy Director of the Hangzhou Telecommunications Bureau in Zhejiang province. He was responsible for the development of China Telecom's telephone network management systems and various other information technology projects, and received the Class Three National Science and Technology Advancement Award and the former Posts and Telecommunications Bureau's Class One Science and Technology Advancement Award. Mr. Wang graduated from the Beijing University of Posts and Telecommunications in 1980 and has over 21 years of management experience in the telecommunications industry.

Mr. Li Zhenqun has served as our Vice Chairman and Chief Operating Officer since 2000. Mr. Li is in charge of our business operations and investor relations. He is also the Vice Chairman of China Mobile (Hong Kong) Group Limited and China Mobile Hong Kong (BVI) Limited. He joined us in August, 2000. Since 1998 and prior to joining us, Mr. Li was the Director of the Xiamen Telecommunications Bureau in Fujian province. He also served as the Director of the Xiamen Posts and Telecommunications Bureau in Fujian Province from 1984 to 1998. He graduated from Peking University in 1970. Mr. Li has 30 years of management experience in the telecommunications industry.

Mr. Ding Donghua has served as our Director and Chief Financial Officer since 1997. Mr. Ding is in charge of our financial management. Mr. Ding is also a director of China Mobile Hong Kong (BVI) Limited. Prior to joining us, Mr. Ding was previously the Chief Economist, Chief Accountant, Deputy Chief Economist and Department Director of the Guangdong Posts and Telecommunications Administration. He graduated from the Beijing University of Posts and Telecommunications in 1961 and has 40 years of management experience in the telecommunications industry, as well as in economics and finance.

Mr. Li Gang has served as our Director since 1999. Mr. Li is responsible for the mobile telecommunications operations in Guangdong Province. He is also the Chairman and President of Guangdong Mobile. He was formerly the Vice Chairman and President of Guangdong Mobile. He previously served as Director of the Network Maintenance Division and as Deputy Director of the Telecommunications Division of the Guangdong Posts and Telecommunications Administration. He graduated from the Beijing University of Posts and Telecommunications in 1985, and has 28 years of experience in the telecommunications industry.

Mr. Xu Long has served as our Director since 1999. Mr. Xu is responsible for the mobile telecommunications operations in Zhejiang Province. He is also the Chairman and President of Zhejiang Mobile. He previously served as the Deputy Director General and the Director of the General Office of Zhejiang Posts and Telecommunications Administration, the President of Zhejiang Nantian Posts and Telecommunications Group Company and Deputy Director of Shaoxing Posts and Telecommunications

Bureau in Zhejiang Province. He graduated from the Zhejiang Radio and Television University in 1985, and has 24 years of experience in the telecommunications industry.

Mr. He Ning has served as our Director since 1998. Mr. He is responsible for the mobile telecommunications operations in Jiangsu Province. He is also the Chairman and President of Jiangsu Mobile. Mr. He previously served as the Deputy Director General of the Jiangsu Posts and Telecommunications Administration, the Director and Deputy Director of the Jiangsu Mobile Communications Bureau, and Deputy Director of the Zhenjiang Posts and Telecommunications Bureau in Jiangsu Province. He graduated from the Nanjing Institute of Posts and Telecommunications in 1983, and has 18 years of experience in the telecommunications industry.

Mr. Liu Ping has served as our Director since 1999. Mr. Liu is responsible for the mobile telecommunications operations in Fujian Province. He is also the Chairman and President of Fujian Mobile. Mr. Liu previously served as the Deputy Director General of the Fujian Posts and Telecommunications Administration and Director of the Fuzhou Posts and Telecommunications Bureau. He graduated from the Nanjing Institute of Posts and Telecommunications in 1985, and has 24 years of experience in the telecommunications industry.

Mr. Yuan Jianguo has served as our Director since 1999. Mr. Yuan is responsible for the mobile telecommunications operations in Henan Province. He is also the Chairman and President of Henan Mobile. Mr. Yuan previously served as the Deputy Director General of the Henan Posts and Telecommunications Administration, and as Director and Deputy Director of the Henan Mobile Communications Bureau. He holds a Masters Degree in Economics Law from the Chinese Academy of Social Sciences, and has 31 years of experience in the telecommunications industry.

Mr. Wei Yiping has served as our Director since 1999. Mr. Wei is responsible for the mobile telecommunications operations in Hainan Province. He is also the Chairman and President of Hainan Mobile. Mr. Wei previously served as the Deputy Director General of the Hainan Posts and Telecommunications Administration, and as Director of the Sanya Posts and Telecommunications Bureau. He graduated from Xi'an Foreign Languages Institute and received a Masters Degree in Political Economics from the Beijing Normal University, and has 31 years of experience in the telecommunications industry.

Professor Arthur K.C. Li has served as our Director since 1997. Professor Li is the Vice Chancellor of the Chinese University of Hong Kong, a Director of the Bank of East Asia Limited, a Non-Executive Director and Chairman of the Board of Regal Hotel Group Plc., a Non-Executive Director of Henderson Cyber Limited and a Non-Executive Director of The Wharf (Holdings) Limited. He holds a doctorate degree in medicine from Cambridge University and an honorary doctorate degree in science from the University of Hull, an honorary doctorate degree in letters from Hong Kong University of Science and Technology and an honorary doctorate degree from Soka University, Japan. He previously served as Board Member of the Hong Kong Hospital Authority and President of the College of Surgeons of Hong Kong. Professor Li was an Advisor on Hong Kong Affairs to the People's Republic of China, a Member of the Basic Law Consultative Committee, a Member of the Preparatory Committee of the Hong Kong Special Administrative Region of the National People's Congress, and a Member of the Selection Committee of the First Government of the Hong Kong Special Administrative Region. Professor Li is a National Committee Member of the Ninth Annual Chinese People's Political Consultative Conference.

Sir Christopher Gent has served as our Director since February 2001. Sir Christopher is the Chief Executive of Vodafone Group Plc., the world's largest mobile telecommunications company in terms of subscriber numbers as of December 31, 2001. Sir Christopher joined the Vodafone Group as Managing Director of Vodafone Limited in 1985 when Vodafone launched its first mobile phone service in the UK, and held that position until December 1996, when he became Group Chief Executive. He is also the Chairman of the supervisory board of Mannesmann AG. Sir Christopher has many years of management experience in the telecommunications industry worldwide.

Dr. Lo Ka Shui has served as our Director since April 2001. Dr. Lo is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited, as well as an independent Non-Executive Director of The Hong Kong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited and Phoenix Satellite Television Holdings Limited. Dr. Lo is also a director of Hong Kong Exchanges and Clearing Limited, Chairman of the Listing Committee of the Growth Enterprise Market, a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research, a member of Long-term Housing Strategy Advisory Committee, a member of the Council of Advisors on Innovation and Technology and Chairman of the Hospital Authority. Dr. Lo has many years of commercial management experience.

Compensation

The aggregate amount of compensation that we paid to our directors and executive officers during 2001 for services performed as directors, officers or employees was approximately RMB 14 million (US\$ 1.69 million).

We have adopted a share option scheme pursuant to which our directors may, at their discretion, invite our employees, including executive directors, or employees of our subsidiaries, to take up options to subscribe for ordinary shares up to a maximum aggregate number of ordinary shares equal to 10% of our total issued share capital. The consideration payable by a participant for the grant of an option under the share option scheme will be HK\$1.00. The price for a share payable by a participant upon the exercise of an option will be determined by our directors in their discretion, except that such price may not be set below a minimum price which is the higher of (i) the nominal value of a share and (ii) 80% of the average of the closing prices of ordinary shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant of the option. With effect from September 1, 2001, the Hong Kong Stock Exchange requires the exercise price of options to be at least the higher of the closing price of the shares on the date of grant and the average closing prices of the shares for the five trading days immediately preceding the date of grant. As of May 31, 2002 we have not granted any options on or after September 1, 2001.

The period during which an option may be exercised will be determined by the directors in their discretion, except that no option may be exercised later than 10 years after the adoption date of the scheme. During 2001, options for a total of 76,773,000 ordinary shares were granted under the share option scheme to certain of our directors and employees. See "— Share Ownership" below for details on options granted to our directors.

Board Practices

To enhance our corporate governance, we established two board committees, the audit committee and the remuneration committee, in 1998 and 2000, respectively. These committees are comprised solely

of independent non-executive directors. In 2001, having considered the relevant rules on corporate governance and the Code of Best Practice of the Listing Rules of the London Stock Exchange, we established the nomination committee. The nomination committee is comprised primarily of independent non-executive directors.

Audit Committee

The members of our audit committee are Professor Arthur K.C. Li, as chairman of the committee, and Dr. Lo Ka Shui. The audit committee's major responsibilities include:

- to review the financial reports, the related auditors' review report and management's responses to the review reports;
- to discuss audit procedures with the auditors as well as any issues arising out of such procedures;
- to review the auditors' appointment, the auditors' fees and any matters relating to the termination or resignation of the auditor; and
- to examine the effectiveness of our internal controls, to review our internal audit plan and to submit relevant reports and recommendations to our Board on a regular basis.

The audit committee usually meets four times each year.

Remuneration Committee

The members of our remuneration committee are Professor Arthur K.C. Li, as chairman of the committee, and Dr. Lo Ka Shui. The remuneration committee's major responsibilities include:

- to advise the Board in relation to the remuneration structure and payments of our executive directors and executives; and
- to represent the Board in confirming the individual remuneration packages and employment terms of executive directors and approving their related employment contracts.

Meetings of the remuneration committee are held when necessary.

Nomination Committee

The members of our nomination committee are Mr. Wang Xiaochu, as chairman of the committee, Professor Arthur K.C. Li and Dr. Lo Ka Shui. The primary responsibilities of the nomination committee include reviewing, advising and making recommendations to the board on the matters in relation to the appointment and re-appointment of board members, and ensuring the proper and transparent procedures for the appointment and re-appointment of directors. Meetings of the nomination committee are held when necessary.

Employees

See “Item 4. Information on the Company — Business Overview — Employees”.

Share Ownership

As of December 31, 2001, the following directors and those members of our senior management named in the section entitled “Directors and Senior Management” had interests in our share capital:

<u>Director</u>	<u>Number of ADSs</u>	<u>Percentage of class</u>
Wang Xiaochu	500	*
Li Zhenqun	100	*
Ding Donghua	500	*

* Less than 1%.

Under our Memorandum and Articles of Association, our directors and senior management do not have different voting rights when compared to other holders of shares in the same class.

As of December 31, 2001, options exercisable for an aggregate of 16,389,000 shares had been granted to the following directors and those members of our senior management named in the section “Directors and Senior Management” under our share option scheme and were outstanding:

The following options are exercisable at a price of HK\$11.10 per share through March 8, 2006.

Director	Number of shares covered by options
Ding Donghua	2,100,000

The following options are exercisable at a price of HK\$33.91 per share through October 7, 2007.

Director	Number of shares covered by options
Wang Xiaochu	3,900,000
Ding Donghua	1,100,000
Li Gang	1,000,000
He Ning	1,000,000

The following options are exercisable at a price of HK\$45.04 per share through October 7, 2007.

Director	Number of shares covered by options
Wang Xiaochu	200,000

Director	Number of shares covered by options
Ding Donghua	200,000
Li Gang	180,000
Xu Long	1,170,000
He Ning	166,000
Liu Ping	1,162,000
Yuan Jianguo	1,160,000
Wei Yiping	1,156,000

The following options are exercisable at a price of HK\$32.10 per share through October 7, 2007.

Director	Number of shares covered by options
Wang Xiaochu	120,000
Li Zhenqun	1,120,000
Ding Donghua	120,000
Li Gang	100,000
Xu Long	95,000
He Ning	90,000
Liu Ping	80,000
Yuan Jianguo	90,000
Wei Yiping	80,000

Item 7. Major Shareholders and Related Party Transactions.

Major Shareholders

As of May 31, 2002, approximately 75.6% of our outstanding shares were held by China Mobile Hong Kong (BVI) Limited, a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited. China Mobile Communications Corporation, a state-owned company, holds all of the voting shares and economic interest in China Mobile (Hong Kong) Group Limited. No other persons own 5% or more of our ordinary shares. Between our initial public offering and April 30, 2002, our majority shareholders held, directly or indirectly, between approximately 75% and 76.5% of equity interest in us, except for brief periods following our equity offerings in 1999 and 2000 but before the issuance of consideration shares to our direct shareholder, China Mobile Hong Kong (BVI) Limited, for the related acquisitions, during which periods the shareholding was temporarily lower. See “Item 4. Information on the Company — Industry Restructuring and Changes in Our Shareholding Structure” for changes during the past three years with respect to our majority shareholders. Under our Memorandum and Articles of Association, our major shareholders do not have different voting rights when compared to other holders of shares in the same class.

We are not aware of any arrangement which may at a subsequent date result in a change of control over us.

Related Party Transactions

As of May 31, 2002, China Mobile Communications Corporation indirectly owns an aggregate of approximately 75.6% of our issued and outstanding share capital.

We and each of our subsidiaries have entered into various related party transactions. The principal terms of the agreements for these related party transactions are described below.

Certain charges for the services under these agreements are based on tariffs set by the Chinese regulatory authorities. Those transactions where the charges are not set by Chinese regulatory authorities are based on commercial negotiation between the parties, in each case on an arm's length basis. In this regard, we have the benefit of the undertaking from China Mobile Communications Corporation that to the extent within its control, we will be treated equally with any other mobile telecommunications entities in respect of all approvals, transactions and arrangements between us on the one hand and China Mobile Communications Corporation and other mobile telecommunications operators controlled by China Mobile Communications Corporation on the other hand, as described below under "Undertaking from China Mobile Communications Corporation".

Roaming Arrangements

We offer domestic and international roaming services to our subscribers. In September 1997, in connection with our initial public offering, we entered into domestic roaming arrangements with the mobile communications networks previously controlled by the former Ministry of Posts and Telecommunications. Those arrangements were replaced by our interconnection and roaming agreement with China Mobile Communications Corporation entered in May 2000, which sets forth the current terms of our domestic and international roaming arrangements. Under this agreement, with regard to inter-provincial roaming, 80% of the base roaming calling charges payable by a roaming subscriber is credited to the visited network and the remaining 20% is retained by the roaming subscriber's home network. This agreement is valid for two years from April 1, 1999, and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

With regard to international roaming, roaming calling charges incurred by an international mobile phone subscriber making or receiving a call while roaming in our service regions in Mainland China are collected for us and credited to us by China Mobile Communications Corporation, and we will make the necessary settlement with the relevant telecommunications operators in Mainland China. China Mobile Communications Corporation also collects a 15% handling charge on the roaming calling charges from the international mobile telecommunications operators and shares such handling charge equally with us with respect to roaming in calls to our service regions. When our subscribers roam internationally, we will collect the roaming calling charges together with a 15% handling charge from our subscribers and will pay the roaming calling charges together with half of the handling charge collected to China Mobile Communications Corporation, which will make the necessary settlement with the international mobile telecommunications operators concerned.

In addition, China Mobile Communications Corporation provides inter-provincial and international roaming clearing and settlement services. We pay to China Mobile Communications Corporation a roaming call record processing fee of RMB 0.02 for each inter-provincial roaming call record processed and RMB 0.30 for each international roaming call record processed.

Licensing of Trademark

China Mobile Communications Corporation is the owner of the “CHINA MOBILE” name and logo, a registered trademark in Mainland China. In addition, it has filed applications in Hong Kong to register the “CHINA MOBILE” name and logo as a trademark for certain goods and services. In April 2002, we entered into a new licensing agreement with China Mobile Communications Corporation for, among other things, the use of the “CHINA MOBILE” name and logo by us and our operating subsidiaries. The new licensing agreement replaces the previous licensing agreements entered into with China Mobile Communications Corporation in October 1999 and the supplemental licensing agreement entered into in September 2000. Under this agreement, no license fee is payable by us for the first five years from the effective date of the trademark registration in China and any fees payable after that will be no less favorable than fees paid by other affiliates of China Mobile Communications Corporation. China Mobile Communications Corporation may terminate the license agreement if it no longer has any interests in us.

Spectrum Fees

The Ministry of Information Industry and the Ministry of Finance jointly determine the standardized spectrum fees payable to the Ministry of Information Industry by all mobile communications operators in Mainland China, including us. Based on this standardized fee scale, China Mobile Communications Corporation determines the allocation of spectrum usage fees to be paid by each mobile communications operator under its control and the aggregate sum payable to the Ministry of Information Industry. In October 1999, we entered into an agreement with China Mobile Communications Corporation, under which we have been granted the exclusive right to use the frequency spectrum and telephone numbers allocated to us in our service regions. For the usage of the 800/900 MHz and the 1800 MHz frequency bands, the charges will be shared between our operating subsidiaries and China Mobile Communications Corporation’s operating subsidiaries. Sixty percent of the charges will be shared on the basis of the number of base stations at the end of the previous year and 40% of the charges will be shared on the basis of the bandwidth of the spectrum used. The agreement is valid for one year and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

On May 2, 2002, the relevant regulatory authorities in China informed us that the standard spectrum usage fees for GSM networks will be adjusted progressively over a period of three years, and the adjustments will be effective from July 1, 2002 for a period of five years. For the first year, spectrum usage fees for GSM networks will be charged at the annual rate of RMB 7.5 million per MHz frequency. For the second year, the annual fee will be RMB 11.25 million per MHz frequency and from the third year onward, the annual fee will be RMB 15 million per MHz frequency. All adjusted annual fees are charged on the basis that upward and downward frequencies are separately charged. The allocation of spectrum usage fees between China Mobile Communications Group and us remains the same under our existing agreement. The adjustments will increase our expenses on an after-tax basis by approximately RMB 224 million, RMB 343 million and RMB 462 million, respectively for the first, second, and third year after the effectiveness of these new rates.

Sharing of Inter-Provincial Transmission Line Leasing Fees

In May 2000, we entered into an agreement with China Mobile Communications Corporation in relation to the leasing of inter-provincial transmission lines. This agreement is valid for two years from April 1, 1999 and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term. More details about the arrangements are described under “Item 5. Operating and Financial Review and Prospects — Overview of Our Operations — Our Operating Arrangements with China Mobile Communications Corporation Have Affected and May Continue to Affect Our Financial Results”.

Interconnection Arrangements

Our networks interconnect with the mobile telecommunications networks of China Mobile Communications Corporation in other regions. In May 2000, we entered into an interconnection and roaming agreement with China Mobile Communications Corporation. Under this agreement, with regard to inter-provincial roaming, when the roaming subscriber places a call from a roaming location, the operator of the visited network receives all long distance calling charges, if any, and when the roaming subscriber receives a call at a roaming location, the network operator with whom the subscriber is registered retains all long distance calling charges, if any.

International long distance calling charges incurred by an international mobile phone subscriber making an international long distance call while roaming in the areas in Mainland China where we operate are collected by China Mobile Communications Corporation and are credited to us. We will make the necessary settlement with the relevant telecommunications operators in Mainland China. China Mobile Communications Corporation also collects a 15% handling charge on such international long distance calling charges from the international mobile telecommunications operators and shares such handling charges equally with us. When our subscribers roam internationally, we will collect the international long distance calling charges, if any, together with a 15% handling charge from our subscribers and will pay the international long distance calling charges together with half of the handling charges to China Mobile Communications Corporation, which will make the necessary settlement with the international mobile telecommunications operators concerned. Where long distance charges cannot be distinguished from base roaming charges, such long distance charges are grouped under roaming charges.

Prepaid Services

Prepaid services allow subscribers to add value to their SIM cards by purchasing value-adding cards from any of our network operators or China Mobile Communications Corporation’s other network operators. We have entered into an agreement with China Mobile Communications Corporation regarding the sharing and settlement of revenue when prepaid subscribers purchase value adding cards from network operators other than their home network operators. This agreement is for a term of one year from July 1, 2000 (the sharing of revenue from prepaid subscribers purchasing value adding cards from network operators other than their home network operators commenced from February 1, 2000) and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term. The agreement was amended on May 11, 2001 with retroactive effect from April 21, 2001. Under the amended agreement, the mobile network operator in the location that issues the value adding card remits 95% of the face value of the value-adding card to the subscriber’s home network operator, and keeps the remainder as a handling charge. Prior to the

amendment, the remittance amount to home network operator was 85% of the face value of the value adding card.

Platform Development

Aspire Holdings Limited is 66.4% owned by us, and it is a joint venture with Vodafone Group Plc and Hewlett-Packard Company. It entered into a platform development master agreement with each of us and China Mobile Communications Corporation on January 10, 2001. Under the two platform development master agreements, Aspire (or its subsidiaries) will provide the same scope of technology platform development and maintenance services to us and our subsidiaries and to China Mobile Communications Corporation and their respective mobile telecommunications subsidiaries in various regions in Mainland China. These services include system and gateway integration services, hardware, software and system development (including development of applications), technical support and major overhaul services for a standardized, nation-wide platform for wireless data.

Under the platform development master agreements, we and China Mobile Communications Corporation will each pay Aspire equipment charges, systems integration fees, software licensing fees, technical support fees and/or major overhaul charges, which will be determined according to standards laid down by the relevant governmental departments and/or by reference to market rates.

Property Leasing and Management Services

We lease from other subsidiaries of China Mobile Communications Corporation various properties that are used as office space and for locating our cell sites and switching equipment. In relation to leased properties, the rental payments are determined with reference to market rates. In relation to properties sub-leased by such subsidiaries to the companies that we acquired in November 2000 (which were in turn leased to such subsidiaries by third parties), the rental is equal to the rental payable to such third parties, and such subsidiaries do not make any gains as the intermediate lessors. Some of such subsidiaries of China Mobile Communications Corporation also provide property management services in relation to the properties leased or subleased (other than for Tianjin Mobile and Guangxi Mobile). Property management fees are determined with reference to market rates.

The initial terms of such leases and sub-leases range from six months to ten years. The initial terms of such leases and sub-leases to Guangxi Mobile are renewable on an annual basis if Guangxi Mobile gives six months' notice of its intention to renew. Guangxi Mobile is entitled to terminate such leases and sub-leases by giving three months' notice at any time. The initial terms of such leases and sub-leases to Tianjin Mobile are automatically renewable on an annual basis unless terminated by Tianjin Mobile by three months' notice given at any time or by the relevant lessor by giving notice of its intention to terminate three months prior to expiration of the relevant term. The initial terms of such leases and sub-leases to Shanghai Mobile are automatically renewed on an annual basis unless terminated by Shanghai Mobile by three months' notice given at any time or in relation to sub-leases terminated by the relevant lessor by giving three months' notice prior to the expiration of the relevant term. In relation to our other subsidiaries, the relevant lease terms and (subject to the relevant head lease being valid or renewable for the extended term) sub-lease terms will be automatically renewed on an annual basis unless terminated by the relevant companies with three months' notice given at any time and, in relation to sub-leased properties, the relevant lessor may also terminate by giving three months' notice prior to the expiration of the relevant term. Beijing Mobile also leases certain properties and provides property

management services to a subsidiary of China Mobile Communications Corporation for an initial term of one year and on terms substantially similar to those set out above in this paragraph.

Construction and Related Services

Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile entered into agreements with certain subsidiaries of China Mobile Communications Corporation under which such subsidiaries provide services such as construction, design, equipment installation, testing and/or maintenance services and/or act as general contractors in relation to construction and other projects of our subsidiaries. Such agreements are for terms of between 6 months and 16 months, which will be automatically renewed on an annual basis unless either party (in the case of Shandong Mobile, Shanghai Mobile and Beijing Mobile) or Liaoning Mobile (in the case of Liaoning Mobile) notifies the other in writing at least three months prior to the expiration of the term of its intention to terminate the arrangement. Beijing Mobile had also previously entered into other agreements for the provision of certain construction and related services which have continued to be performed according to their terms after Beijing Mobile was acquired by us in November 2000. The charges payable for services rendered under such agreements are determined according to standards laid down by relevant governmental departments and/or by reference to market rates.

Equipment Maintenance and Related Services

Beijing Mobile, Shanghai Mobile and Liaoning Mobile entered into agreements with certain subsidiaries of China Mobile Communications Corporation under which such subsidiaries provide equipment maintenance and related services to such companies. Such agreements are for terms of between 6 months and 15 months, which will be automatically renewed on an annual basis unless either party (in the case of Beijing Mobile) or Shanghai Mobile or Liaoning Mobile (in the case of Shanghai Mobile and Liaoning Mobile, respectively) notifies the other of its intention to terminate in writing at least three months prior to the expiration of the term. Beijing Mobile had also previously entered into another agreement for the provision of certain equipment maintenance services which continued to be performed according to its terms after Beijing Mobile was acquired by us in November 2000. The charges payable for services rendered under such agreements are determined according to standards laid down by relevant governmental departments and/or by reference to market rates.

Transmission Tower Production, Sales and Other Services and Antenna Maintenance Services

Hebei Mobile entered into an agreement with a subsidiary of China Mobile Communications Corporation under which such subsidiary provides transmission tower design, production, installation and maintenance services and antenna maintenance services to Hebei Mobile, and sells transmission towers and spare parts to Hebei Mobile. The initial term of this agreement is for one year from August 1, 2000 to July 30, 2001. This agreement will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate in writing at least three months prior to the expiration of the term. The price of such transmission towers and spare parts and the charges payable for services rendered under this agreement are determined according to standards laid down by relevant governmental departments and/or by reference to market rates.

Collection Services and Sales Arrangements

Henan Mobile entered into an agreement with a subsidiary of China Mobile Communications Corporation in August 1999 in respect of the provision by the China Mobile Communications Corporation subsidiary of certain payment collection services to Henan Mobile. The collection service charges payable by Henan Mobile amount to 1% of the collections.

In addition, Henan Mobile also entered into a sales service agreement with a subsidiary of China Mobile Communications Corporation in August 1999 pursuant to which such subsidiary has agreed to market through its outlets Henan Mobile's mobile phone services. The maximum sales service charges of RMB 250 per subscriber are based on commercial negotiation on an arm's length basis by reference to the prevailing market rates.

Miscellaneous

These transactions entered into by us (including our subsidiaries) have been entered into in the ordinary course of business and on normal commercial terms. Under the Listing Rules of the Hong Kong Stock Exchange, these transactions are considered to be "connected transactions" and (other than the licensing of trademarks) would normally require full disclosure and prior independent shareholders' approval on each occasion they arise. As the transactions are expected to be continued in the normal course of business, our directors consider that such disclosure and approval would be impractical. Accordingly, our directors have requested the Hong Kong Stock Exchange to grant, and the Hong Kong Stock Exchange has granted, a waiver from compliance with the normal approval and disclosure requirements related to connected transactions under the Listing Rules (except for the licensing of trademarks), which will be effective until December 31, 2004, except that the waivers for transactions relating to prepaid services and platform development will expire on December 31, 2003, upon the following conditions as applicable:

- (1) the transactions as well as the respective agreements governing such transactions will be (a) entered into in the ordinary and usual course of business on terms that are fair and reasonable so far as our independent shareholders are concerned, and (b) on normal commercial terms and in accordance with the terms of the agreements governing such transactions;
- (2) details of the transactions, as required by rule 14.25(1)(A) to (D) of the Listing Rules, shall be disclosed in our Hong Kong annual report;
- (3) our independent non-executive directors shall review annually the transactions and confirm in our Hong Kong annual report and accounts for the relevant year that the transactions have been conducted in the manner stated in paragraph (1) above and within the upper limits stated below;
- (4) our auditors shall review annually the transactions and provide our directors with a letter, details of which will be set out in our Hong Kong annual accounts, stating that the transactions:
 - received the approval of our board of directors;

- are in accordance with the pricing policies as stated in our annual report;
 - have been conducted in the manner as stated in (1)(b) above; and
 - have not exceeded the upper limits as set forth in paragraph (7) below;
- (5) details of the transactions are disclosed to our independent shareholders who shall have voted in favor of an ordinary resolution to approve the connected transactions and the upper limits set out below at our extraordinary general meeting;
- (6) China Mobile Communications Corporation has undertaken to us that our auditors will be granted access to such of its and its associates' accounting records for the purposes of reviewing the transactions mentioned above; and
- (7) with respect to the following types of transactions entered into and to be entered into by us, the waiver was applied for and granted under the additional condition that they shall not exceed the relevant upper limits set out below in each of our fiscal years:
- payments by us to subsidiaries of China Mobile Communications Corporation for collection service charges in any fiscal year shall not exceed 0.1% of our consolidated operating revenue in such year, and payment by us to subsidiaries of China Mobile Communications Corporation for sales service charges in any fiscal year shall not exceed 0.3% of our consolidated operating revenue in such year;
 - payments by us to subsidiaries of China Mobile Communications Corporation for rental and property management fees in any fiscal year shall not exceed 0.56% of our consolidated turnover for such fiscal year;
 - payments by us to subsidiaries of China Mobile Communications Corporation for construction and related services in any fiscal year shall not exceed 0.25% of our consolidated total operating revenue in such year;
 - payments by us to subsidiaries of China Mobile Communications Corporation for equipment maintenance and related services in any fiscal year shall not exceed 0.05% of our consolidated total operating revenue in such year;
 - payments by Hebei Mobile to the relevant subsidiary of China Mobile Communications Corporation for purchase of transmission towers and transmission tower-related services and antenna maintenance services in any fiscal year shall not exceed 0.06% of our consolidated total operating revenue in such year;
 - handling charges received by us from subsidiaries of China Mobile Communications Corporation in respect of prepaid services in any fiscal year shall not exceed 2% of our consolidated total operating revenue in such year, and handling charges paid by us to subsidiaries of China Mobile Communications Corporation in respect of prepaid services in any fiscal year shall not exceed 2% of our total operating revenue in such year; and

- payments by each of us and China Mobile Communications corporation to Aspire in respect of equipment charges, system integration fees, software licensing fees, technical support fees and/or major overhaul charges for mobile Internet service platform in any fiscal year shall not exceed 3% of our consolidated net tangible assets as of the end of such year.

Our independent shareholders approved the connected transactions and the related upper limits at our extraordinary general meeting held on June 12, 2001.

Undertaking from China Mobile Communications Corporation

China Mobile Communications Corporation has undertaken that:

- it will extend its full support to our present operations and future development;
- we will be the only mobile telecommunications services company operating in Mainland China under China Mobile Communications Corporation's control that will be listed on any securities exchange in Hong Kong or outside China;
- to the extent within China Mobile Communications Corporation's control, we will be treated equally with any other mobile telecommunications operators in respect of all approvals, transactions and arrangements between us and China Mobile Communications Corporation and other mobile telecommunications entities controlled by China Mobile Communications Corporation;
- China Mobile Communications Corporation and the provincial entities under its control will not, directly or indirectly, participate in the operation of any mobile telecommunications services in any province in which we currently operate or may operate in the future; and
- in the provinces in which we operate, we will have the option to operate additional telecommunications services that fall within China Mobile Communications Corporation's scope of business (including the testing and commercial operation of services using new technologies), and we will have the right to acquire China Mobile Communications Corporation's interest in such services.

Item 8. Financial Information.

Consolidated Financial Statements

Our audited consolidated financial statements are set forth beginning on page F-1.

Legal Proceeding

We are not involved in any material litigation, arbitration or administrative proceedings, and, so far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

Policy on Dividend Distributions

Our board of directors did not recommend the payment of a dividend for the year ended December 31, 2001, and we have not declared or paid any dividends since our incorporation in September 1997. Having considered our existing business operations, financial and cash flow position, capital expenditures and other related considerations, we believe that our financial resources are sufficient to support the realization of our long-term development objectives as well as the distribution of appropriate dividends to our shareholders. Therefore, barring unforeseen circumstances, we will commence the payment of appropriate dividends, with the first dividend to be paid for the fiscal year ended December 31, 2002. Depending on our overall operational and cash flow positions at that time, the specific amounts of the dividends will be recommended by our board of directors.

Item 9. The Offer and Listing.

In connection with our initial public offering, our American depositary shares, or ADSs, each representing twenty ordinary shares, were listed and commenced trading on the New York Stock Exchange on October 22, 1997 under the symbol "CHL". Effective from July 5, 2000, our ADS-to-share ratio has been changed to one-to-five. Our shares were listed and commenced trading on the Hong Kong Stock Exchange on October 23, 1997. Prior to these listings, there was no public market for our equity securities. The New York Stock Exchange and the Hong Kong Stock Exchange are the principal trading markets for our ADSs and ordinary shares, which are not listed on any other exchanges in or outside the United States.

As of December 31, 2001 and May 31, 2002, there were 18,605,405,241 ordinary shares issued and outstanding. As of December 31, 2001 and May 31, 2002, there were, respectively, 108 and 113 registered holders of American depositary receipts evidencing 49,510,837 and 41,628,139 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depositary for the ADSs is The Bank of New York.

The high and low closing sale prices of the shares on the Hong Kong Stock Exchange and of the ADSs on the NYSE for the periods indicated are as follows. The information for periods prior to July 2000 has been restated to reflect the change in our ADS-to-share ratio from one-to-twenty to one-to-five, which became effective on July 5, 2000.

	Price per Share (HK\$)		Price per ADS (US\$)	
	High	Low	High	Low
1997 (from listing date)				
Fourth Quarter	14.40	10.55	9.50	6.91
1998	16.25	8.90	10.66	5.73
1999	48.60	12.60	32.16	8.09
2000				
First Quarter	79.00	41.70	50.73	27.41
Second Quarter	72.25	47.90	46.91	30.80
Third Quarter	75.75	47.20	48.94	31.63
Fourth Quarter	59.00	40.30	37.38	25.94
2001				
First Quarter	50.50	33.30	33.00	21.45
Second Quarter	42.70	29.70	27.45	19.50
Third Quarter	42.30	19.40	26.99	13.19
Fourth Quarter	29.95	21.30	19.03	13.76
December 2001	29.95	26.85	19.03	17.25
January 2002	28.40	21.50	17.87	13.60
February 2002	23.70	21.50	15.28	13.80
March 2002	25.35	22.45	16.35	14.60
April 2002	25.55	22.95	16.61	14.54
May 2002	27.30	24.65	17.61	15.75

Item 10. Additional Information.

Memorandum and Articles of Association

Under Section 3 of our Memorandum of Association, we have the capacity and the rights, powers and privileges of a natural person and, in addition and without limit, we may do anything which it is permitted or required to do by any enactment or rule of law.

Directors

Material Interests. A director who is in any way directly or indirectly interested in a contract or proposed contract with us shall declare the nature of his interest in accordance with the provisions of the Companies Ordinance (Chapter 32) of Hong Kong and the Articles of Association. A director shall not vote, or be counted in the quorum, on any resolution of the board in respect of any contract or arrangement or proposal in which he is, to his knowledge, materially interested, and if he shall do so his vote shall not be counted or counted in the quorum for that resolution. The above prohibition shall not apply to any contract, arrangement or proposal:

- for the giving by us of any security or indemnity to the director in respect of money lent or obligations incurred or undertaken by him at the request of, or for, our or any of our subsidiaries' benefit;

- for the giving by us of any security to a third party in respect of our or any of our subsidiaries' debt or obligation for which the director has himself assumed responsibility or guaranteed or secured in whole or in part whether alone or jointly;
- concerning an offer of the shares or debentures or other securities of or by us or any other company which we may promote or be interested in for subscription or purchase where the director is, or is to be, interested as a participant in the underwriting or sub-underwriting of the offer;
- in which the director is interested in the same manner as other holders of our shares or debentures or other securities by virtue only of his interest in our shares or debentures or other securities;
- concerning any other company in which the director is interested, directly or indirectly, as an officer or a shareholder or in which the director is beneficially interested in shares of that company other than a company in which the director, together with any of his associates, is beneficially interested in five percent or more of the issued share of any class of the equity share capital of such company (or of any third company through which his interest is derived) or of the voting rights;
- for the benefit of our or any of our subsidiaries' employees, including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme which relates to both our, or any of our subsidiaries', directors and employees and does not give the director any privilege not generally accorded to the class of persons to whom such scheme or fund relates; and
- concerning the adoption, modification or operation of any employees' share scheme involving the issue or grant of options over shares or other securities by us to, or for the benefit of, our or any of our subsidiaries' employees under which the director may benefit.

Compensation and Pension. The directors are entitled to receive by way of remuneration for their services such sum as we may determine from time to time in general meeting. The directors are also entitled to be repaid their reasonable traveling, hotel and other expenses incurred by them in or about the performance of their duties as directors. The directors may award special remuneration out of our funds, by way of salary, commission or otherwise as the directors may determine, to any director who performs services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director.

The board may establish and maintain any contributory or non-contributory pension or superannuation funds for the benefit of, or give donations, gratuities, pensions, allowances or emoluments to any persons (1) who are or were at any time in employment or service of our company (or any of our subsidiaries) or are allied or associated with us or any of our subsidiaries, or (2) who are or were at any time our (or any of our subsidiaries') directors or officers, and who are holding or have held any salaried employment or office in our company or any of our subsidiaries, and the wives, widows, families and dependants of any of these persons. Any director holding any such employment or office is entitled to participate in, and retain for his own benefit, any such donation, gratuity, pension, allowance or emolument.

Borrowing Powers. The directors may exercise all the powers of our company to borrow money and to mortgage or charge all or any part of our undertaking, property and assets (present and future) and uncalled capital and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for the debt, liability or obligation of our company or any third party.

Qualification; Retirement. A director need not hold any of our shares to qualify as a director. There is no age limit requirement for a director's retirement or non-retirement.

At each annual general meeting, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation except for any director holding office as chairman or chief executive officer. The directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became directors on the same day shall be determined by lot unless they otherwise agree between themselves. The retiring directors shall be eligible for re-election.

Rights Attaching to Ordinary Shares

The section entitled "Description of Share Capital" in our Registration Statement on Form F-3 (File No. 333-47256), as filed with the Securities and Exchange Commission on October 30, 2000, is incorporated by reference into this annual report.

Pursuant to ordinary resolutions passed at our extraordinary general meeting held on November 10, 2000, our authorized share capital was increased, by the creation of an additional 14,000,000,000 ordinary shares of HK\$0.10 each, which rank pari passu with the existing ordinary shares, to a total of HK\$3,000,000,000 divided into 30,000,000,000 ordinary shares.

Annual General Meetings and Extraordinary General Meetings

We must hold, in each year, a general meeting as our annual general meeting in addition to any other meetings in that year. The annual general meeting must be held at such time (which shall be within a period of not more than 15 months, or such longer period as the Registrar of Companies may authorize in writing, after the holding of the last preceding annual general meeting) and place as may be determined by the directors. All other general meetings are extraordinary meetings. The directors may proceed to convene an extraordinary general meeting whenever they think fit, in accordance with the Companies Ordinance.

In general, an annual general meeting and a meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing, and any other general meeting shall be called by not less than 14 days' notice in writing. The notice must specify the place, date and time of the meeting and, in the case of special business, the general nature of that business.

Miscellaneous

We keep our share register with our share registrar, which is Hong Kong Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, China. In addition, we also file certain documents with the Registrar of Companies, Hong Kong, China, in accordance with the requirements of the Companies Ordinance. Our company number is 622909.

Material Contracts

See “Item 7. Major Shareholders and Related Party Transactions — Related Party Transactions” for certain arrangements we have entered into with China Mobile Communications Corporation.

In addition, in the ordinary course of our business, we have entered into the following agreements with the former China Telecommunications Corporation or its subsidiaries.

Interconnection Arrangements

Each of our operating subsidiaries has entered into an interconnection agreement with the subsidiary of the former China Telecommunications Corporation that operates the fixed line network in its network area. A majority of calls on our networks involve interconnection with the former China Telecommunications Corporation’s fixed line network. The economic terms of the interconnection arrangements are described under “Item 4. Information on the Company — Business Overview — Interconnection”. Each of these agreements is valid for one year from various dates between October 1, 1999 and August 10, 2000, and will be renewed automatically on an annual basis.

Leasing of Intra-Provincial or Local Transmission Lines

Each of our operating subsidiaries leases certain transmission lines from the relevant subsidiary of the former China Telecommunications Corporation in its network area in order to link our base transceiver stations, base station controllers and mobile switching centers and to interconnect our network to the fixed line networks of the former China Telecommunications Corporation and the mobile telecommunications networks of other operators. The agreement is valid for ten years and two months from October 20, 1997 in the case of Guangdong Mobile, three years from January 1, 2000 in the case of Zhejiang Mobile and eight years from July 1, 1999 in the case of Jiangsu Mobile. Each of the remaining agreements is valid for one year from various dates between January 1 and August 10, 2000. On the expiration of the initial term, the agreement in respect of Guangdong Mobile will be renewed automatically for another ten years (unless either party notifies the other of its intention to terminate at least six months prior to the expiration of the term), the agreement in respect of Zhejiang Mobile will be renewable subject to agreement by the parties and the agreement in respect of Jiangsu Mobile will be renewed automatically for another year (unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term), and each of the other agreements will be renewed automatically on an annual basis (unless either party notified the other of its intention to terminate at least three months prior to the expiration of the term).

Account Processing Services

Shanghai Mobile has entered into an account processing service agreement with the subsidiary of the former China Telecommunications Corporation in Shanghai, under which the former China Telecommunications Corporation subsidiary in Shanghai provides bill processing and mailing services to Shanghai Mobile. The agreement is valid for one year from August 10, 2000 and will be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term. The monthly service fee payable by Shanghai Mobile is RMB 0.86 per mobile phone number.

Collection Services

We entered into various services agreements with certain subsidiaries of the former China Telecommunications Corporation in connection with our payment collection services. The maximum service fee payable under each of these agreements does not exceed RMB 0.01 for each RMB1.00 collected.

Distribution and Marketing Arrangements

We market and sell our mobile telecommunications services in part through authorized dealers under the control of certain subsidiaries of the former China Telecommunications Corporation pursuant to various services agreements. Under those agreements, we agree to pay a commission not exceeding RMB 250 per new contract subscriber acquired.

Equipment Maintenance Services

Each of Fujian Mobile, Beijing Mobile, Tianjin Mobile and Guangxi Mobile has entered into an equipment maintenance service agreement with the relevant subsidiary of the former China Telecommunications Corporation that operates the fixed line network in its network area, under which the fixed line operator provides maintenance services for the operating equipment of the mobile telecommunications operator. In the case of Fujian Mobile, the annual service fee is 1% of the total book value of equipment maintained, and the term of the agreement is one year from January 1, 2000, and will be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term. In the case of Beijing Mobile, the annual service fee is 0.3% of the total book value of equipment maintained, and the initial term of the agreement is one year from August 8, 2000, and will be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term. In the case of Tianjin Mobile and Guangxi Mobile, the annual service fee is the rate set by the Chinese government, or if there is no such rate, the rate agreed by the parties, and the term of the agreement is one year from August 10, 2000, and will be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Leasing of Offices and Sites for Network Equipment

Each of our operating subsidiaries has leased certain premises from the relevant subsidiary of the former China Telecommunications Corporation that operates the fixed line network in its network area for use as offices, retail outlets, warehouses and sites for locating equipment. Each of Fujian Mobile, Beijing Mobile, Shanghai Mobile and Tianjin Mobile also leases to the fixed line operator in Fujian, Beijing, Shanghai and Tianjin, respectively, certain properties under similar terms.

Aspire Business Alliance with Vodafone

In addition, on January 9, 2002, Vodafone Americas, a subsidiary of Vodafone, and Aspire entered into a business alliance agreement under which Aspire will engage Vodafone Global Platform and Internet Services, a unit of Vodafone Americas, as a preferred provider of wireless data applications software in relation to the Aspire Mobile Information Service Center Platform, provided that software supplied to Aspire has at least equivalent technical specifications on the same or better commercial terms.

Aspire and Vodafone Global Platform and Internet Services also agreed to use their reasonable efforts to coordinate the development of their respective wireless data platforms with the intention of providing a seamless delivery of wireless data services for their respective customers and enabling content and application providers to use a single application programming interface.

Exchange Controls

The Renminbi currently is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of Renminbi into foreign currency. Prior to January 1, 1994, Renminbi could be converted to foreign currency through the Bank of China or other authorized institutions at official rates fixed daily by the State Administration of Foreign Exchange. Renminbi could also be converted at swap centers open to Chinese enterprises and foreign invested enterprises, subject to State Administration of Foreign Exchange approval of each foreign currency trade, at exchange rates negotiated by the parties for each transaction. In the year ended December 31, 1993, as much as 80% by value of all foreign exchange transactions in China took place through the swap centers. The exchange rate quoted by the Bank of China differed substantially from that available in the swap centers. Effective January 1, 1994, a unitary exchange rate system was introduced in China, replacing the dual-rate system previously in effect. In connection with the creation of a unitary exchange system, the China Foreign Exchange Trading System inter-bank foreign exchange market was established. Under the unitary foreign exchange system, People's Bank of China sets daily exchange rates for conversion of Renminbi into U.S. dollars and other currencies based on the China Foreign Exchange Trading System interbank market rates, and the Bank of China and other authorized banks may engage in foreign exchange transactions at rates that vary within a prescribed range above or below rates set by the People's Bank of China.

In the event of shortages of foreign currencies, China Mobile may be unable to convert sufficient Renminbi into foreign currency to meet its foreign currency obligations or to pay dividends in foreign currency.

The value of the Renminbi is subject to changes in Chinese government policies and to international economic and political developments. During the few years prior to 1994, the Renminbi experienced a devaluation against most major currencies, and a devaluation of approximately 50% of the Renminbi against the U.S. dollar occurred on January 3, 1994 in connection with the adoption of the new unitary exchange rate system. Since 1994, the official exchange rate for the conversion of Renminbi to U.S. dollars has been stable, and the Renminbi has appreciated slightly against U.S. dollars. Any future devaluation of the Renminbi would increase our effective cost of foreign manufactured equipment or components, and of satisfying any other foreign currency denominated liabilities. In addition, any such devaluation would reduce the U.S. dollar value of any dividends declared in Renminbi. During 1999 and 2000, the Renminbi has remained stable against the U.S. dollar.

There are no limitations on the right of non-resident or foreign owners to remit dividends or to hold or vote the ordinary shares or the ADSs imposed by Hong Kong law or by our memorandum and articles of association or other constituent documents.

Taxation — Hong Kong

The taxation of income and capital gains of holders of ordinary shares or ADSs is subject to the laws and practices of Hong Kong and of jurisdictions in which holders of ordinary shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions under Hong Kong law is based on current law and practice, is subject to changes therein and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the ordinary shares or ADSs. Accordingly, each prospective investor (particularly those subject to special tax rules, such as banks, dealers, insurance companies, tax-exempt entities and holders of 10% or more of our voting capital stock) should consult its own tax advisor regarding the tax consequences of an investment in the ordinary shares and ADSs. The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

Tax on Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us unless such dividends are attributable to a trade, profession or business carried on in Hong Kong.

Profits Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the ordinary shares and ADSs). Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16% on corporations and at a maximum rate of 15% on individuals. Gains from sales of the ordinary shares effected on the Hong Kong Stock Exchange may be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax may thus arise in respect of trading gains from sales of ordinary shares or ADSs realized by persons carrying on a business or trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the rate of HK\$1 per HK\$1,000 or part thereof on the higher of the consideration for or the value of the ordinary shares, will be payable by the purchaser on every purchase and by the seller on every sale of ordinary shares (i.e., a total of HK\$2 per HK\$1,000 or part thereof is currently payable on a typical sale and purchase transaction involving ordinary shares). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of ordinary shares. The withdrawal of ordinary shares upon the surrender of ADSs, and the issuance of ADSs upon the deposit of ordinary shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless the withdrawal or deposit does not result in a change in the beneficial ownership of the ordinary shares under Hong Kong law, in which case only a fixed duty of HK\$5 is payable on the transfer. The issuance of the ADSs upon the deposit of ordinary shares issued directly to the depository or for the account of the depository does not attract stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

The ordinary shares are Hong Kong property under Hong Kong law, and accordingly such ordinary shares may be subject to estate duty on the death of the beneficial owner of the ordinary shares (regardless of the place of the owner's residence, citizenship or domicile). Hong Kong estate duty is imposed on a progressive scale from 5% to 15%. The rate of and the threshold for estate duty has, in the past, been adjusted on a fairly regular basis. No estate duty is payable when the aggregate value of the dutiable estate does not exceed HK\$7.5 million, and the maximum rate of duty of 15% applies when the aggregate value of the dutiable estate exceeds HK\$10.5 million.

Taxation — United States Federal Income Taxation

This section describes the material United States Federal income tax consequences of the purchase, ownership and disposition of our shares or ADSs. This section applies to you only if you hold your shares or ADSs as capital assets for United States Federal income tax purposes. This section does not discuss special rules that may apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a tax-exempt organization;
- a life insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of our voting stock;
- a person that holds shares as part of a straddle or a hedging or conversion transaction; or
- a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of shares or ADSs and you are:

- a citizen or resident of the United States;
- a domestic corporation;

- an estate whose income is subject to United States Federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

A "non-U.S. holder" is a beneficial owner of shares that is not a U.S. holder.

You should consult your own tax advisor regarding the United States Federal, state and local and other tax consequences of owning and disposing of shares or ADSs in your particular circumstances.

In general, and taking into account the earlier assumptions, for United States Federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADSs. Exchanges of shares for ADSs, and ADSs for shares, generally will not be subject to the United States Federal income tax.

Taxation of Dividends

Under the United States Federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, you must include in your gross income the gross amount of any dividend paid by us out of our current or accumulated earnings and profits (as determined for United States Federal income tax purposes). The dividend is ordinary income that you must include in income when you receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income will be the U.S. dollar value of the Hong Kong dollar payments made, determined at the spot Hong Kong dollar/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss. This gain or loss generally will be from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits (as determined for United States Federal income tax purposes) will be treated as a non-taxable return of capital to the extent of your basis in the shares and thereafter as capital gain.

Subject to generally applicable limitations, the Hong Kong tax withheld and paid over to Hong Kong will be creditable against your United States Federal income tax liability. Dividends will be income from sources outside the United States, but generally will be "passive income" or "financial services income", which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your shares, you will recognize capital gain or loss for United States Federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your shares. Capital gain of a noncorporate U.S. holder is generally

taxed at a maximum rate of 20% where the property is held more than one year, and 18% where the property is held for more than five years. The deductibility of capital losses is subject to limitations. The gain or loss will generally be from sources within the United States for foreign tax credit limitation purposes.

PFIC Rules

We believe that shares should not be treated as stock of a PFIC for United States Federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our shares:

- at least 75% of our gross income for the taxable year is passive income or
- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC, and you are a U.S. holder that did not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your shares or ADSs and
- any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the shares during the three preceding taxable years or, if shorter, your holding period for the shares).

Under these rules:

- the gain or excess distribution will be allocated ratably over your holding period for the shares,
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income,
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

If you own shares in a PFIC that are treated as marketable stock, you may also make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your shares at the end of the taxable year over your adjusted basis in your shares. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the shares will be adjusted to reflect any such income or loss amounts.

If you own shares during any year that we are a PFIC, you must file Internal Revenue Service Form 8621.

Documents on Display

You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the U.S. Securities and Exchange Commission at the SEC's public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a web site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

The SEC allows us to "incorporate by reference" the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

Item 11. Quantitative and Qualitative Disclosures about Market Risk.

We are subject to market rate risks due to fluctuations in interest rates. The majority of our debt is in the form of long-term, fixed- and variable-rate bank and other loans with original maturities ranging from one to five years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of these debt instruments. From time to time, we may enter into interest rate swap agreements designed to mitigate our exposure to interest rate risks, although we did not consider it necessary to do so in 2001.

We are also exposed to foreign currency risk as a result of our telecommunications equipment being sourced substantially from overseas suppliers. Specifically, our foreign currency exposure relates primarily to our foreign currency-denominated short-term and long-term debt, our firm purchase commitments and, to a limited extent, cash and cash equivalents denominated in foreign currencies. We may, from time to time, enter into currency swap agreements and foreign exchange forward contracts designed to mitigate our exposure to foreign currency risks, although we did not consider this to be necessary in 2001. Our foreign currency hedging activity generally is expected to be limited to hedging of specific future commitments and long-term debt denominated in foreign currencies.

The following table provides information regarding our interest rate-sensitive financial instruments, which consist of fixed and variable rate short-term and long-term debt obligations, as of December 31, 2001 and 2000.

	Expected Maturity Date					There- after	As of December 31, 2001		As of December 31, 2000	
	2002	2003	2004	2005	2006		Total Recorded Amount	Fair Value	Total Recorded Amount	Fair Value
(RMB equivalent in millions, except interest rates)										
Debt:										
Fixed rate bank and other loans	2,750	337	1,374	501	440	70	5,472	5,553	14,630	14,700
Average interest rate	5.89%	6.57%	6.08%	5.97%	6.05%	6.21%	6.01%	—	5.59%	—
Variable rate bank and other loans	1,781	3,205	—	—	—	—	4,986	4,986	8,314	8,314
Average interest rate	5.99%	5.49%	—	—	—	—	5.67%	—	5.79%	—

* The interest rates for variable rate bank and other loans are calculated based on the year-end indices.

The following table provides information regarding our foreign currency-sensitive financial instruments and transactions, which consist of cash and cash equivalents, short and long-term debt obligations and capital commitments as of December 31, 2001 and 2000.

	2002	2003	2004	2005	2006	There- after	As of December 31, 2001		As of December 31, 2000	
							Total Recorded Amount	Fair Value	Total Recorded Amount	Fair Value
(RMB equivalent in millions, except interest rates)										
On-balance sheet financial instruments:										
Cash and cash equivalents:										
in U.S. dollars	2,505	—	—	—	—	—	2,505	2,505	3,788	3,788
in Hong Kong dollars	1,068	—	—	—	—	—	1,068	1,068	1,288	1,288
Debt:										
Fixed rate bank and other loans										
(U.S. dollar)	166	165	82	—	—	—	413	436	526	536
Average interest rate	7.50%	7.50%	7.50%	—	—	—	7.50%	—	7.50%	—
Variable rate bank and other loans										
(U.S. dollar)	79	—	—	—	—	—	79	79	274	274
Average interest rate	7.58%	—	—	—	—	—	7.58%	7.58%	7.68%	—
Off-balance sheet commitments										
Capital commitments										
authorized and contracted										
for in U.S. dollars	469	—	—	—	—	—	469	469	3,526	3,526

* The interest rates for variable rate bank and other loans are calculated based on the year-end indices.

Item 12. Description of Securities Other than Equity Securities.

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

Not applicable.

Item 14. Material Modifications to the Right of Security Holders and Use of Proceeds.

The following use of proceeds information relates to our registration statement on Form F-1 (File No. 333-7634), filed by us in connection with our initial public offering. The registration statement was declared effective by the SEC on October 15, 1997.

As of December 31, 1999, the balance of net proceeds from the above referenced offering was RMB 3,953 million. In 2000, approximately RMB 2,365 million of this amount was paid to China Mobile Hong Kong (BVI) Limited, our direct parent company, as part of the purchase price for our acquisition of seven regional mobile telecommunications companies in Mainland China in November 2000. The rest of the amount was applied to fund the development and expansion of our mobile telecommunications networks in our service regions in Mainland China. None of the network related payments were direct or indirect payments to our directors, officers and general partners or their associates, persons owning 10% or more of our ordinary shares, or our affiliates. As of December 31, 2000, all of the net proceeds had been applied.

Item 15. [Reserved]

Item 16. [Reserved]

PART III

Item 17. Financial Statements.

The Company has elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

Item 18. Financial Statements.

The following financial statements are filed as part of this annual report.

China Mobile (Hong Kong) Limited:

Index to consolidated financial statements	F-1
Independent auditors' report	F-2
Consolidated statements of income for each of the three years ended December 31, 1999, 2000 and 2001	F-3
Consolidated statements of recognized gains and losses for each of the three years ended December 31, 1999, 2000 and 2001	F-5
Consolidated balance sheets as of December 31, 2000 and 2001	F-6

Consolidated statements of cash flows for each of the three years ended December 31, 1999, 2000 and 2001	F-8
Consolidated statements of shareholders' equity for each of the three years ended December 31, 1999, 2000 and 2001	F-13
Notes to consolidated financial statements	F-14

Item 19. Exhibits.

- (a) See Item 18 for a list of the financial statements filed as part of this annual report.
- (b) Exhibits to this annual report:

Exhibit Number	Description of Exhibit
1.1	Memorandum and Articles of Association (as amended). (6)
2.1	Agreement concerning the provision of the documents relating to Renminbi denominated bonds issued by Guangdong Mobile. (6)
2.2	Guarantee from China Mobile Communications Corporation for the RMB 5 billion guaranteed bonds due in 2011 issued by Guangdong Mobile. (6)
4.1	Trademark License Agreement, dated April 24, 2002, between China Mobile Communications Corporation and China Mobile (Hong Kong) Limited.
4.2	Conditional Sale and Purchase Agreement, dated May 16, 2002, among China Mobile Hong Kong (BVI) Limited, China Mobile (Hong Kong) Limited and China Mobile Communications Corporation.
4.3	Subscription Agreement, dated May 16, 2002, among Vodafone Group PLC, Vodafone Holdings (Jersey) Limited and China Mobile (Hong Kong) Limited.
4.4	Prepaid services agreement dated May 11, 2001, between China Mobile (Hong Kong) Limited and China Mobile Communications Corporation. (6)
4.5	Inter-Provincial Long-Distance Transmission Leased Line Fee Sharing Agreement, dated May 5, 2000, between China Mobile Communications Corporation and China Telecom (Hong Kong) Limited. (4)
4.6	Inter-Provincial Network Interconnection, Domestic and International Roaming and Settlement Agreement, dated May 5, 2000, between China Mobile Communications Corporation and China Telecom (Hong Kong) Limited. (4)
4.7	Tenancy Agreement, dated June 7, 2000, between Fu Hao Properties Limited and China Telecom (Hong Kong) Limited. (4)
4.8	Agreement Regarding the Roaming Settlement of "Shenzhouxing" Prepaid Services "Shenzhouxing" and Revenues Sharing for Sales of Stored Value for Stored Value Cards, dated October 4, 2000, between China Mobile Communications Corporation and China Mobile (Hong Kong) Limited. (1)
4.9	Contract on Termination of the Trademark Licensing, dated September 15, 2000, between China Telecommunications Corporation and China Mobile (Hong Kong) Limited. (1)

Exhibit Number	Description of Exhibit
4.10	Building Leasing and Property Management Agreement, dated September 18, 2000, between Beijing Mobile and Beijing Communications Service Company (“Beijing Service”). (1)
4.11	Building Leasing and Property Management Agreement, dated September 18, 2000, between Beijing Mobile and Beijing Service. (1)
4.12	Agreement on Mobile Communications Equipment Maintenance and Modulation, dated September 18, 2000, between Beijing Mobile and Beijing Huarui Wireless Communications Equipment Installation Company (“Beijing Huarui”). (1)
4.13	Agreement on Communications Projects Design and Construction, dated September 18, 2000, between Beijing Mobile and Beijing Huarui. (1)
4.14	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Beijing Mobile and Beijing Service. (1)
4.15	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Beijing Mobile and Beijing Service. (1)
4.16	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Beijing Mobile and Beijing Service. (1)
4.17	Agreement on Mobile Communications Equipment Maintenance, dated September 20, 2000, between Shanghai Mobile and Shanghai Long-distance Telecommunications Engineering Company (“Shanghai Engineering”). (1)
4.18	Agreement on Contracting Mobile Communications Projects, dated September 20, 2000, between Shanghai Mobile and Shanghai Engineering. (1)
4.19	Building Leasing and Property Management Agreement, dated September 20, 2000, between Shanghai Mobile and Shanghai Communications Service Company (“Shanghai Service”). (1)
4.20	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Shanghai Mobile and Shanghai Service. (1)
4.21	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Shanghai Mobile and Shanghai Service. (1)
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4.23	Building Leasing Agreement, dated August 1, 2000, between Tianjin Mobile and Tianjin Communications Service Company (“Tianjin Service”). (1)
4.24	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Tianjin Mobile and Tianjin Service. (1)
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4.26	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Tianjin Mobile and Tianjin Service. (1)
4.27	Building Leasing and Property Management Agreement, dated August 1, 2000, between Hebei Mobile and Hebei Communications Service Company (“Hebei Service”). (1)
4.28	Agreement on the Sales and Maintenance of Masts and Maintenance of Antennas and Feeder Lines, dated August 1, 2000, between Hebei Mobile and Hebei Provincial Posts and Telecommunications Equipment and Machinery Plant. (1)
4.29	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Hebei Mobile and Hebei Service. (1)
4.30	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Hebei Mobile and Hebei Service. (1)
4.31	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Hebei Mobile and Hebei Service. (1)
4.32	Building Leasing and Property Management Agreement, dated August 10, 2000, between Liaoning Mobile and Liaoning Communications Service Company (“Liaoning Service”). (1)
4.33	Agreement on Communications Equipment Maintenance, dated September 8, 2000, between Liaoning Mobile and Liaoning Provincial Posts and Telecommunications Engineering Bureau (“Liaoning Engineering”). (1)
4.34	Agreement on Mobile Communications Projects Construction, dated September 8, 2000, between Liaoning Mobile and Liaoning Engineering. (1)
4.35	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Liaoning Mobile and Liaoning Service. (1)
4.36	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Liaoning Mobile and Liaoning Service. (1)
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4.38	Building Leasing and Property Management Agreement, dated September 1, 2000, between Shandong Mobile and Shandong Communications Service Company (“Shandong Service”). (1)
4.39	Agreement on Contracting Mobile Communications Projects, dated September 1, 2000, between Shandong Mobile and Shandong Mobile Communications Engineering Bureau. (1)
4.40	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Shandong Mobile and Shandong Service. (1)

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4.41	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Shandong Mobile and Shandong Service. (1)
4.42	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Shandong Mobile and Shandong Service. (1)
4.43	Building Lease Agreement, dated August 26, 2000, between Guangxi Mobile and Guangxi Communications Service Company (“Guangxi Service”). (1)
4.44	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Guangxi Mobile and Guangxi Service. (1)
4.45	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Guangxi Mobile and Guangxi Service. (1)
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4.48	Syndicated loan agreement for RMB 7,500,000,000 among China Mobile (Shenzhen) Limited, Construction Bank of China, Bank of China, State Development Bank, Agriculture Bank of China, Industrial and Commercial Bank of China, Bank of Communications, Hong Kong and Shanghai Banking Corporation Ltd., China Merchants Bank and Construction Bank of China, Shenzhen Branch, dated October 7, 2000. (1)
4.49	Syndicated loan agreement for RMB 5,000,000,000 among China Mobile (Shenzhen) Limited, Construction Bank of China, Bank of China, State Development Bank, Agriculture Bank of China, Industrial and Commercial Bank of China, Bank of Communications, Hong Kong & Shanghai Banking Corporation Ltd., China Merchants Bank and Construction Bank of China, Shenzhen Branch, dated October 7, 2000. (1)
4.50	Conditional Sale and Purchase Agreement, dated October 4, 2000, among China Mobile Communications Corporation, China Mobile Hong Kong (BVI) Limited and China Mobile (Hong Kong) Limited. (1)
4.51	Conditional Sale and Purchase Agreement, dated October 4, 1999, among China Telecom Hong Kong (BVI) Limited, China Telecom (Hong Kong) Group Limited and China Telecom (Hong Kong) Limited. (2)
4.52	Agreement Regarding Provincial Network Interconnection, Roaming and Settlement of Account, dated October 8, 1999, between China Telecom (Hong Kong) Limited and China Mobile (Hong Kong) Limited. (2)
4.53	Agreement Regarding the Use of Frequency/Number Resources, dated October 8, 1999, between China Telecom (Hong Kong) Limited and China Mobile (Hong Kong) Limited. (2)

Exhibit Number	Description of Exhibit
4.54	Supplemental Agreement to Trademark Licensing Agreement, dated September 15, 1999, between China Telecom (Hong Kong) Limited and Directorate General Telecommunications. (2)
4.55	Agreement Regarding Network Interconnection and Settlement of Account, dated October 8, 1999, between Guangdong Mobile and Guangdong Posts and Telecommunications Administration (“PTA”). (2)
4.56	Agreement Regarding Network Interconnection and Settlement of Account, dated October 5, 1999, between Zhejiang Mobile and Zhejiang PTA. (2)
4.57	Agreement Regarding Network Interconnection and Settlement of Account, dated October 8, 1999, between Jiangsu Mobile and Jiangsu PTA. (2)
4.58	Agreement Regarding Network Interconnection and Settlement of Account, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
4.59	Synchronous Clock Port Leasing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
4.60	Local Transmission Line Leasing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
4.61	Long Distance Line Leasing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
4.62	Business Agency Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
4.63	Account Processing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
4.64	Collection Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
4.65	Building and Facilities Leasing Agreement, dated August 30, 1999, between Fujian Mobile and Fujian PTA. (2)
4.66	Building and Facilities Leasing Agreement (leasing to PTA), dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
4.67	Agreement on Equipment Maintenance, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
4.68	Building and Facility Leasing Agreement, dated September 25, 1999, between Fujian Mobile and Fujian Xunjie Communications Technical Services Company (“Xunjie”). (2)
4.69	Agreement Regarding Network Interconnection and Settlement of Account, dated August 20, 1999, between Henan Mobile and Henan PTA. (2)
4.70	Synchronous Clock Port Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA. (2)
4.71	Local Transmission Line Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA. (2)
4.72	Long Distance Line Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA. (2)

Exhibit Number	Description of Exhibit
4.73	Business Agency Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA. (2)
4.74	Business Agency Agreement, dated August 19, 1999, between Henan Mobile and Henan Feida Communication Development Company Limited (“Feida”). (2)
4.75	Account Processing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA. (2)
4.76	Collection Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA. (2)
4.77	Collection Agreement, dated August 19, 1999, between Henan Mobile and Feida. (2)
4.78	Building and Facilities Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA. (2)
4.79	Real Estates Leasing Agreement, dated September 23, 1999, between Henan Mobile and Feida. (2)
4.80	Agreement Regarding Network Interconnection and Settlement of Account, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.81	Synchronous Clock Port Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.82	Local Transmission Line Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.83	Long Distance Line Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.84	Business Agency Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.85	Account Processing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.86	Collection Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.87	Building and Facilities Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.88	Real Estates Leasing Agreement, dated September 24, 1999, between Hainan Mobile and Hainan Communication Service Company (“Hainan Service”). (2)
4.89	Transmission Line Leasing Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA. (5)
4.90	Collection Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA. (5)
4.91	Master Building Contract, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA. (5)
4.92	Marketing Agreement, dated October 15, 1998, between Guangdong Mobile and Guangdong PTA. (5)

Exhibit Number	Description of Exhibit
4.93	Distribution and Marketing Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA. (5)
4.94	Deed of Indemnity, dated October 8, 1997, among China Telecom (Hong Kong) Group Limited, China Telecom (Hong Kong) Limited, Guangdong Mobile and Zhejiang Mobile. (3)
4.95	Investment Agreement, dated September 27, 1997, between Zhejiang Provincial PTA and Zhejiang Mobile. (3)
4.96	Joint Venture Agreement, dated July 27, 1997, among China Mobile (Hong Kong) Limited, Zhejiang Financial Development Company, Zhejiang Jianda Industrial Development Company, Zhejiang Wireless Electric Communications Technology Company and MPT Hangzhou Communications Equipment Factory. (3)
4.97	Master Building Contract, dated May 30, 1997, between Guangdong Mobile and Guangdong PTA. (3)
8.1	List of major subsidiaries. (6)

-
- (1) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-47256), filed with the Securities and Exchange Commission on October 30, 2000.
 - (2) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-10956), filed with the Securities and Exchange Commission on October 30, 1999.
 - (3) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-7634), filed with the Securities and Exchange Commission on September 29, 1997.
 - (4) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 1999 (File No. 1-14696), filed with the Securities and Exchange Commission on June 20, 2000.
 - (5) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 1998 (File No. 1-14696), filed with the U.S. Securities and Exchange Commission on June 25, 1999.
 - (6) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000 (File No. 1-14696), filed with the U.S. Securities and Exchange Commission on June 26, 2001.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHINA MOBILE (HONG KONG) LIMITED

By: /s/ Wang Xiaochu
Name: Wang Xiaochu
Title: Chairman and Chief Executive Officer

Date: June 13, 2002

Exhibit Index

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4.44	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Guangxi Mobile and Guangxi Service. (1)

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4.45	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Guangxi Mobile and Guangxi Service. (1)
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4.56	Agreement Regarding Network Interconnection and Settlement of Account, dated October 5, 1999, between Zhejiang Mobile and Zhejiang PTA. (2)
4.57	Agreement Regarding Network Interconnection and Settlement of Account, dated October 8, 1999, between Jiangsu Mobile and Jiangsu PTA. (2)

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4.58	Agreement Regarding Network Interconnection and Settlement of Account, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
4.59	Synchronous Clock Port Leasing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
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4.66	Building and Facilities Leasing Agreement (leasing to PTA), dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA. (2)
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4.75	Account Processing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA. (2)
4.76	Collection Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA. (2)
4.77	Collection Agreement, dated August 19, 1999, between Henan Mobile and Feida. (2)

Exhibit Number	Description of Exhibit
4.78	Building and Facilities Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA. (2)
4.79	Real Estates Leasing Agreement, dated September 23, 1999, between Henan Mobile and Feida. (2)
4.80	Agreement Regarding Network Interconnection and Settlement of Account, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.81	Synchronous Clock Port Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.82	Local Transmission Line Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.83	Long Distance Line Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.84	Business Agency Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.85	Account Processing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.86	Collection Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.87	Building and Facilities Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA. (2)
4.88	Real Estates Leasing Agreement, dated September 24, 1999, between Hainan Mobile and Hainan Communication Service Company (“Hainan Service”). (2)
4.89	Transmission Line Leasing Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA. (5)
4.90	Collection Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA. (5)
4.91	Master Building Contract, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA. (5)
4.92	Marketing Agreement, dated October 15, 1998, between Guangdong Mobile and Guangdong PTA. (5)
4.93	Distribution and Marketing Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA. (5)
4.94	Deed of Indemnity, dated October 8, 1997, among China Telecom (Hong Kong) Group Limited, China Telecom (Hong Kong) Limited, Guangdong Mobile and Zhejiang Mobile. (3)
4.95	Investment Agreement, dated September 27, 1997, between Zhejiang Provincial PTA and Zhejiang Mobile. (3)
4.96	Joint Venture Agreement, dated July 27, 1997, among China Mobile (Hong Kong) Limited, Zhejiang Financial Development Company, Zhejiang Jianda Industrial Development Company, Zhejiang Wireless Electric Communications Technology Company and MPT Hangzhou Communications Equipment Factory. (3)

Exhibit Number	Description of Exhibit
4.97	Master Building Contract, dated May 30, 1997, between Guangdong Mobile and Guangdong PTA. (3)
8.1	List of major subsidiaries. (6)

-
- (1) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-47256), filed with the Securities and Exchange Commission on October 30, 2000.
 - (2) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-10956), filed with the Securities and Exchange Commission on October 30, 1999.
 - (3) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-7634), filed with the Securities and Exchange Commission on September 29, 1997.
 - (4) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 1999 (File No. 1-14696), filed with the Securities and Exchange Commission on June 20, 2000.
 - (5) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 1998 (File No. 1-14696), filed with the U.S. Securities and Exchange Commission on June 25, 1999.
 - (6) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000 (File No. 1-14696), filed with the U.S. Securities and Exchange Commission on June 26, 2001.



China Mobile (Hong Kong) Limited

For the year ended December 31, 2001

Consolidated Financial Statements

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Independent Auditors' Report

The Board of Directors and Shareholders of
China Mobile (Hong Kong) Limited:

We have audited the accompanying consolidated balance sheets of China Mobile (Hong Kong) Limited and subsidiaries (the "Group") as of December 31, 2000 and 2001 and the related consolidated statements of income, recognized gains and losses, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001, all expressed in Renminbi. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America and Hong Kong. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Mobile (Hong Kong) Limited and subsidiaries as of December 31, 2000 and 2001 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in Hong Kong.

Accounting principles generally accepted in Hong Kong vary in certain material respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected results of operations for each of the years in the three-year period ended December 31, 2001 and shareholders' equity as of December 31, 2000 and 2001 to the extent summarized in Note 29 to the consolidated financial statements.

The accompanying consolidated financial statements as of and for the year ended December 31, 2001 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation, and in our opinion, the consolidated financial statements expressed in Renminbi have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

KPMG
Hong Kong

18 March, 2002

Consolidated Statements of Income

(Amounts in millions, except share data)

		<i>Year ended December 31,</i>			
	<i>Note</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2001</i>
		RMB	RMB	RMB	US\$
Operating revenue					
Usage fees		25,812	46,287	73,458	8,875
Monthly fees		4,981	9,623	14,085	1,702
Connection fees		4,319	2,213	711	86
Other operating revenue		<u>3,511</u>	<u>6,861</u>	<u>12,077</u>	<u>1,459</u>
Total operating revenue	4	<u>38,623</u>	<u>64,984</u>	<u>100,331</u>	<u>12,122</u>
Operating expenses					
Leased lines		3,723	5,501	5,005	605
Interconnection		6,453	8,329	13,055	1,577
Depreciation		7,411	9,759	17,664	2,134
Personnel		2,256	3,991	5,325	643
Other operating expenses		<u>5,140</u>	<u>10,578</u>	<u>18,270</u>	<u>2,208</u>
Total operating expenses	5	<u>24,983</u>	<u>38,158</u>	<u>59,319</u>	<u>7,167</u>
Operating profit		13,640	26,826	41,012	4,955
Write-down and write-off of analog network equipment	6	(8,242)	(1,525)	-	-
Other net income	7	552	915	1,594	193
Non-operating net income / (expenses)	8	70	(5)	(6)	(1)
Interest income		767	1,006	857	104
Finance costs	19	<u>(343)</u>	<u>(824)</u>	<u>(1,740)</u>	<u>(210)</u>
Profit before tax		6,444	26,393	41,717	5,041
Income tax	9	<u>(1,647)</u>	<u>(8,366)</u>	<u>(13,703)</u>	<u>(1,656)</u>
Profit after tax		4,797	18,027	28,014	3,385
Minority interests		<u>-</u>	<u>-</u>	<u>1</u>	<u>-</u>
Profit attributable to shareholders		<u>4,797</u>	<u>18,027</u>	<u>28,015</u>	<u>3,385</u>

Consolidated Statements of Income (Continued)

(Amounts in millions, except share data)

		<i>Year ended December 31,</i>			
	<i>Note</i>	<i>1999</i> RMB	<i>2000</i> RMB	<i>2001</i> RMB	<i>2001</i> US\$
Basic net profit per share	2(u)	RMB 40 cents	RMB 125 cents	RMB 151 cents	US\$18 cents
Weighted average number of shares used in calculating basic net profit per share (thousands)		12,069,108	14,394,313	18,605,371	
Diluted net profit per share	2(u)	RMB 40 cents	RMB 125 cents	RMB 151 cents	US\$18 cents
Weighted average number of shares used in calculating diluted net profit per share (thousands)		12,072,383	14,409,503	18,698,023	

See accompanying notes to consolidated financial statements.

Consolidated Statements of Recognized Gains and Losses

(Amounts in millions)

	<i>Year ended December 31,</i>			
	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2001</i>
	RMB	RMB	RMB	US\$
Net profit for the year	4,797	18,027	28,015	3,385
Elimination of goodwill arising on the acquisition of subsidiaries against reserves	(42,440)	(239,540)	-	-
	<u>(37,643)</u>	<u>(221,513)</u>	<u>28,015</u>	<u>3,385</u>
	<u>(37,643)</u>	<u>(221,513)</u>	<u>28,015</u>	<u>3,385</u>

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(Amounts in millions)

		<i>December 31,</i>		
	<i>Note</i>	<i>2000</i> RMB	<i>2001</i> RMB	<i>2001</i> US\$
Assets				
Current assets				
Cash and cash equivalents		27,702	21,821	2,636
Deposits with banks		12,204	14,970	1,809
Accounts receivable	10	7,252	5,728	692
Other receivables	11	2,297	1,189	144
Inventories		828	1,029	124
Prepayments and other current assets		1,289	1,571	190
Amount due from ultimate holding company	12	557	503	61
Total current assets		52,129	46,811	5,656
Fixed assets				
Construction in progress	13	87,465	105,208	12,711
Interest in associates	14	46	16	2
Investment securities	15	61	77	9
Deferred tax assets	16	3,046	1,476	178
Deferred expenses	17	164	180	22
Total assets		156,438	173,749	20,992

Consolidated Balance Sheets (Continued)

(Amounts in millions)

		<i>December 31,</i>		
	<i>Note</i>	<i>2000</i> RMB	<i>2001</i> RMB	<i>2001</i> US\$
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable	18	11,581	11,317	1,367
Bills payable		1,005	1,458	176
Bank loans and other interest-bearing borrowings	19	10,471	4,531	548
Taxes payable		6,735	6,003	725
Obligations under capital lease -current portion	20	1,624	908	110
Amount due to immediate holding company	12	4,136	-	-
Amount due to ultimate holding company	12	678	241	29
Accrued expenses and other payables	21	8,408	10,840	1,310
Total current liabilities		44,638	35,298	4,265
Bank loans and other interest-bearing borrowings				
Obligations under capital lease-long term portion	19	23,134	21,591	2,608
Deferred revenue	20	1,235	812	98
	22	3,654	4,237	512
Total liabilities		72,661	61,938	7,483
Minority interests		17	32	4
Shareholders' equity		83,760	111,779	13,505
Total liabilities and shareholders' equity		156,438	173,749	20,992

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Amounts in millions)

	<i>Year ended December 31,</i>			
<i>Note</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2001</i>
	RMB	RMB	RMB	US\$
Net cash inflows from operating activities	(a) 21,662	41,401	63,890	7,719
	-----	-----	-----	-----
Returns on investments and servicing of finance				
Interest received	934	994	867	105
Interest paid	(445)	(863)	(2,008)	(243)
Dividend received from associate	-	-	14	2
	-----	-----	-----	-----
Net cash inflow/(outflow) from returns on investments and servicing of finance	489	131	(1,127)	(136)
	-----	-----	-----	-----
Taxation				
Hong Kong profits tax refunded	1	-	-	-
PRC income tax paid	(2,479)	(5,952)	(12,865)	(1,554)
	-----	-----	-----	-----
Tax paid	(2,478)	(5,952)	(12,865)	(1,554)
	-----	-----	-----	-----
Investing activities				
Payment for acquisition of minority interests	(15)	-	-	-
Payment of amount due to immediate holding company in respect of acquisition of subsidiaries	-	-	(4,136)	(500)
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)	(18,187)	(67,299)	-	-
Capital expenditures	(11,708)	(21,964)	(39,500)	(4,772)
Proceeds from sale of fixed assets	709	264	204	25
Increase in deposits with banks	(6,916)	(3,881)	(2,766)	(334)
	-----	-----	-----	-----
Net cash (outflow) / inflow from investing activities	(36,117)	(92,880)	(46,198)	(5,581)
	-----	-----	-----	-----
Net cash outflow before financing activities	(16,444)	(57,300)	3,700	448
	-----	-----	-----	-----

Consolidated Statements of Cash Flows (Continued)

(Amounts in millions)

	<i>Year ended December 31,</i>			
<i>Note</i>	<i>1999</i> RMB	<i>2000</i> RMB	<i>2001</i> RMB	<i>2001</i> US\$
Financing activities				
Proceeds from issue of shares, net of expenses	16,223	55,812	4	-
Proceeds from issue of fixed rates notes, net of discount	(b) 4,952	-	-	-
Expenses on issue of fixed rate notes	(53)	-	-	-
Proceeds from issue of convertible notes	(b) -	5,708	-	-
Expenses on issue of convertible notes	-	(128)	-	-
Proceeds from issue of bonds	(b) -	-	5,000	604
Expenses on issue of bonds	-	-	(55)	(7)
Proceeds from bank and other loans	(b) 6,868	12,736	5,407	653
Repayments of bank and other loans	(b) (9,653)	(8,130)	(17,897)	(2,162)
Repayments of obligation under capital lease	(b) -	(362)	(2,055)	(248)
Increase in amounts due to minority interests	(b) -	17	15	2
Net cash inflow/(outflow) from financing activities	18,337	65,653	(9,581)	(1,158)
Increase/(decrease) in cash and cash equivalents	1,893	8,353	(5,881)	(710)
Effect of changes in foreign exchange rates	(25)	-	-	-
Cash and cash equivalents at beginning of year	17,481	19,349	27,702	3,346
Cash and cash equivalents at end of year	19,349	27,702	21,821	2,636
Analysis of the balances of cash and cash equivalents				
Deposits with banks maturing within three months when placed	6,986	6,457	3,818	461
Cash and bank balances	12,363	21,245	18,003	2,175
	19,349	27,702	21,821	2,636

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Continued)

(Amounts in millions)

(a) **The reconciliation of profit before tax to net cash inflows from operating activities is as follows:**

	Year ended December 31,			
	1999 RMB	2000 RMB	2001 RMB	2001 US\$
Profit before taxation	6,444	26,393	41,717	5,041
Depreciation of fixed assets	7,411	9,759	17,664	2,134
Write-down and write-off of analog network equipment	8,242	1,525	-	-
Provision for interest in associates	-	-	30	4
Provision for doubtful accounts	771	1,346	1,737	210
Amortization of deferred expenses	2	15	39	5
Loss on sale of fixed assets	1	126	275	33
Interest income	(767)	(1,006)	(857)	(104)
Interest expenses and capital lease charges	343	824	1,740	210
Dividend income	-	(26)	(43)	(5)
Unrealized exchange loss/(gain), net	25	(2)	4	-
Increase in accounts receivable	(2,167)	(985)	(213)	(26)
(Increase)/decrease in other receivables	(245)	54	1,111	134
Increase in inventories	(43)	(408)	(124)	(15)
Decrease in amount due from ultimate holding company	14	409	54	6
Decrease/(increase) in prepayments and other current assets	781	(262)	(282)	(34)
(Increase)/decrease in amounts due from related parties	(127)	1,700	-	-
(Decrease)/increase in accounts payable	(36)	1,179	(1,724)	(208)
Increase/(decrease) in amount due to ultimate holding company	329	14	(437)	(53)
Increase/(decrease) in amounts due to related parties	426	(1,696)	-	-
Increase in accrued expenses and other payables	523	1,319	2,616	316
(Decrease)/increase in deferred revenue, net	(265)	1,123	583	71
Net cash inflows from operating activities	21,662	41,401	63,890	7,719

Consolidated Statements of Cash Flows (Continued)

(Amounts in millions)

(b) Analysis of changes in financing during the years:

	<i>Bank and other loans</i> RMB	<i>Fixed rates notes</i> RMB	<i>Convertible notes</i> RMB	<i>Obligation under capital lease</i> RMB	<i>Bonds</i> RMB	<i>Minority interests</i> RMB
Balance at January 1, 1999	6,328	-	-	-	-	-
Acquired on acquisition of subsidiaries	3,033	-	-	175	-	-
Proceeds from bank and other loans	6,868	-	-	-	-	-
Repayments of bank and other loans	(9,653)	-	-	-	-	-
Issue of fixed rates notes	-	4,952	-	-	-	-
Balance at December 31, 1999	<u>6,576</u>	<u>4,952</u>	<u>-</u>	<u>175</u>	<u>-</u>	<u>-</u>
Balance at January 1, 2000	6,576	4,952	-	175	-	-
Acquired on acquisition of subsidiaries	11,762	-	-	3,011	-	-
Proceeds from bank and other loans	12,736	-	-	-	-	-
Repayments of bank and other loans	(8,130)	-	-	-	-	-
Effect of foreign exchange rates	-	(2)	-	-	-	-
Amortization of discount arising on issuance of notes	-	3	-	-	-	-
Issue of convertible notes	-	-	5,708	-	-	-
Inception of capital lease contracts	-	-	-	35	-	-
Repayment of obligation under capital leases	-	-	-	(362)	-	-
Proceeds from minority interests	-	-	-	-	-	17
Balance at December 31, 2000	<u>22,944</u>	<u>4,953</u>	<u>5,708</u>	<u>2,859</u>	<u>-</u>	<u>17</u>
Balance at January 1, 2001	22,944	4,953	5,708	2,859	-	17
Proceeds from bank and other loans	5,407	-	-	-	-	-
Repayments of bank and other loans	(17,897)	-	-	-	-	-
Effect of foreign exchange rates	4	-	-	-	-	-
Amortization of discount arising on issuance of notes	-	3	-	-	-	-
Issue of bonds	-	-	-	-	5,000	-
Inception of capital lease contracts	-	-	-	916	-	-
Repayments of obligation under capital leases	-	-	-	(2,055)	-	-
Proceeds from minority interests	-	-	-	-	-	15
Balance at December 31, 2001	<u>10,458</u>	<u>4,956</u>	<u>5,708</u>	<u>1,720</u>	<u>5,000</u>	<u>32</u>

Consolidated Statements of Cash Flows (Continued)

(Amounts in millions)

(c) Significant non-cash transactions:

The Group incurred payables of RMB8,679 and RMB1,337 to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 2001.

The Group incurred payables of RMB5,555 and RMB1,005 to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 2000. In November 2000, the Group issued new shares to China Mobile Hong Kong (BVI) Limited (“CMHK (BVI)”) at HK\$181,412 (RMB equivalent 192,369) as part of the consideration for the acquisition of Beijing Mobile (BVI) Limited (“Beijing Mobile BVI”), Shanghai Mobile (BVI) Limited (“Shanghai Mobile BVI”), Tianjin Mobile (BVI) Limited (“Tianjin Mobile BVI”), Hebei Mobile (BVI) Limited (“Hebei Mobile BVI”), Liaoning Mobile (BVI) Limited (“Liaoning Mobile BVI”), Shandong Mobile (BVI) Limited (“Shandong Mobile BVI”) and Guangxi Mobile (BVI) Limited (“Guangxi Mobile BVI”).

The Group incurred payables of RMB3,374 and RMB1,486 to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 1999. In November 1999, the Group issued new shares to CMHK (BVI) at HK\$30,684 (RMB equivalent 32,685) as part of the consideration for the acquisition of Fujian Mobile (BVI) Limited (“Fujian Mobile BVI”), Henan Mobile (BVI) Limited (“Henan Mobile BVI”) and Hainan Mobile (BVI) Limited (“Hainan Mobile BVI”).

Consolidated Statements of Shareholders' Equity (Amounts in millions, except share data)

Statements of shareholders' equity for the years:

	Number of ordinary shares	Share capital RMB	Share premium RMB	Capital Reserve RMB	General reserve RMB	PRC statutory reserves RMB	Retained earnings RMB	Total RMB
Shareholders' equity at January 1, 1999	11,780,788,000	1,261	50,643	(14,490)	72	2,203	6,138	45,827
Goodwill arising on acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile	-	-	-	(42,440)	-	-	-	(42,440)
Transfer from statement of income	-	-	-	-	-	-	4,797	4,797
Shares issued under share option scheme	7,500,000	1	88	-	-	-	-	89
Issue of new shares to the professional and institutional investors	644,804,000	69	16,484	-	-	-	-	16,553
Issue of consideration shares for acquisition of subsidiaries	1,273,195,021	136	32,549	-	-	-	-	32,685
Expenses incurred in connection with the issue of new shares to professional and institutional investors	-	-	(419)	-	-	-	-	(419)
Appropriation	-	-	-	-	-	3,524	(3,524)	-
Shareholders' equity at December 31, 1999	13,706,287,021	1,467	99,345	(56,930)	72	5,727	7,411	57,092
Shareholders' equity at January 1, 2000	13,706,287,021	1,467	99,345	(56,930)	72	5,727	7,411	57,092
Goodwill arising on acquisition of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile	-	-	-	(239,540)	-	-	-	(239,540)
Transfer from statement of income	-	-	-	-	-	-	18,027	18,027
Shares issued under share option scheme	3,974,000	-	89	-	-	-	-	89
Issue of new shares to the professional and institutional investors	1,115,643,845	119	56,694	-	-	-	-	56,813
Issue of consideration shares for acquisition of subsidiaries	3,779,407,375	400	191,969	-	-	-	-	192,369
Expenses incurred in connection with the issue of new shares to professional and institutional investors	-	-	(1,090)	-	-	-	-	(1,090)
Appropriation	-	-	-	-	-	6,916	(6,916)	-
Shareholders' equity at December 31, 2000	18,605,312,241	1,986	347,007	(296,470)	72	12,643	18,522	83,760
Shareholders' equity at January 1, 2001	18,605,312,241	1,986	347,007	(296,470)	72	12,643	18,522	83,760
Transfer from statement of income	-	-	-	-	-	-	28,015	28,015
Shares issued under share option scheme	93,000	-	4	-	-	-	-	4
Appropriation	-	-	-	-	-	5,033	(5,033)	-
Shareholders' equity at December 31, 2001	18,605,405,241	1,986	347,011	(296,470)	72	17,676	41,504	111,779

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation

China Mobile (Hong Kong) Limited (“the Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the provision of cellular telephone and related services in Guangdong, Zhejiang, Jiangsu, Fujian, Henan, Hainan, Hebei, Liaoning and Shandong provinces, Beijing, Shanghai and Tianjin municipalities, and Guangxi autonomous region of the People’s Republic of China (“PRC”) and market their services under the “China Mobile” logo, which is a registered trademark owned by China Mobile Communications Corporation (“China Mobile”), a company incorporated in the PRC in July 1999 to hold and operate the cellular telecommunications networks nationwide as a result of restructuring of the telecommunications industry in the PRC. The telecommunications operations in the PRC previously controlled by the Ministry of Information Industry (“MII”) have been separated into four business lines: fixed line communications, mobile communications, paging services and satellite communications. Since then, the MII act exclusively as the industry regulator and are not involved in managing the day-to-day operations of telecommunications service providers in the PRC.

Prior to the restructuring (as described below, the “Restructuring”), the Group’s Total Access Communications Systems (“TACS”) and Global System for Mobile Communications (“GSM”) cellular networks in Guangdong were owned by Guangdong Mobile Communication Corporation (together with the successor wholly-owned foreign enterprise formed in connection with the Restructuring, “Guangdong Mobile”), an enterprise formed in September 1988 and wholly owned by the MII on behalf of the State. Prior to the Restructuring, the Group’s GSM cellular network in Zhejiang was owned by Zhejiang GSM Mobile Communication Company Limited (together with the successor sino-foreign joint venture company formed in connection with the Restructuring, “Zhejiang Mobile”), a company formed in February 1996 and 98.55% owned by the Zhejiang Provincial Posts and Telecommunications Administrations (“PTA”) (“Zhejiang PTA”), while the Group’s TACS cellular networks in Zhejiang were owned and operated directly by the Zhejiang PTA.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

Restructuring

Pursuant to the Restructuring, the Company was established as a wholly-owned subsidiary of China Mobile Hong Kong (BVI) Limited (“CMHK (BVI)”), a company incorporated with limited liability in the British Virgin Islands. CMHK (BVI) is controlled by China Mobile (Hong Kong) Group Limited (“CMHKG”), which in turn is 51% owned by Telpo Communications (Group) Limited (“Telpo”), a Hong Kong company wholly owned by the MII, and as to 49% by the China Telecommunications Corporation (previously known as the Directorate General of Telecommunications, or the DGT). At December 31, 1999, the percentages of equity interests of CMHK (BVI), which in turn were owned by Telpo and DGT were changed to 57% and 43%, respectively. On May 12, 2000, China Mobile acquired a 100% controlling interest in CMHKG. As a result of this, China Mobile now indirectly holds approximately 75% equity interest in the Company. Guangdong Mobile was formed as a wholly foreign-owned enterprise whereas Zhejiang Mobile was formed as a sino-foreign joint venture company. The Company is the sole equity owner in Guangdong Mobile and was initially the 99.63% joint venture partner in Zhejiang Mobile, with the remaining interests held by various local investors. The Company acquired the remaining 0.37% interest in Zhejiang Mobile in April 1999. Subsequent to the acquisition, Zhejiang Mobile became a wholly foreign-owned enterprise.

In connection with the Restructuring and in anticipation of the initial offering of the Company’s ordinary shares, the fixed assets of Guangdong Mobile and Zhejiang Mobile were revalued as of May 31, 1997, by a firm of independent valuers and approved by the China State-owned Assets Administration Bureau. The value of fixed assets of Guangdong Mobile and Zhejiang Mobile pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB15,630. Upon the transfer of interests in Guangdong Mobile and Zhejiang Mobile by the MII and the DGT to the Company, 9,010,000,000 ordinary shares of HK\$0.10 each were issued by the Company to CMHK (BVI) for consideration valued at RMB19,466. Such amount was based on the net asset value of Guangdong Mobile and Zhejiang Mobile at May 31, 1997, the effective date of the Restructuring, adjusted for additional earnings to September 26, 1997, the completion date of the Restructuring, of RMB1,132, which is reflected as capital reserve.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

Equity offering

Subsequent to the Restructuring, in October 1997, the Company completed an initial public offering (the "Offering") of an aggregate of 2,770,788,000 ordinary shares. Net proceeds to the Company for the Offering, after deduction of offering expenses, were approximately RMB33,570.

Acquisition of Jiangsu Mobile Communication Company Limited ("Jiangsu Mobile")

Pursuant to the ordinary resolution passed by the Company's shareholders on June 3, 1998, the Company acquired the entire issued share capital of China Telecom Jiangsu Mobile (BVI) Limited ("Jiangsu Mobile BVI") from CMHK (BVI) by a total cash consideration of HK\$22,475 (RMB equivalent 24,120) (hereinafter referred to as the "First Acquisition").

The only asset of Jiangsu Mobile BVI is its interest in the entire equity of Jiangsu Mobile. Subsequent to the First Acquisition, Jiangsu Mobile became a wholly foreign-owned enterprise.

In connection with the First Acquisition, the fixed assets of Jiangsu Mobile were revalued as of December 31, 1997, by a firm of independent valuers and approved by the China State-owned Assets Administration Bureau. The value of fixed assets of Jiangsu Mobile pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB7,879.

Goodwill arising on the acquisition of Jiangsu Mobile BVI and Jiangsu Mobile (RMB15,622), being the excess of the cost of investments (RMB24,120) over the fair value of the Group's share of the separable net assets acquired (RMB8,498), was eliminated against reserves immediately on acquisition. The fair value of the Group's share of the separable net assets acquired was based on the net asset value of Jiangsu Mobile at December 31, 1997 (RMB8,009), adjusted for additional earnings to June 3, 1998, the completion date of the First Acquisition, of RMB489.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

Acquisition of Fujian Mobile Communication Company Limited (“Fujian Mobile”), Henan Mobile Communication Company Limited (“Henan Mobile”) and Hainan Mobile Communication Company Limited (“Hainan Mobile”)

Pursuant to an ordinary resolution passed by the Company’s shareholders on November 11, 1999, the Company acquired the entire issued share capital of Fujian Mobile (BVI) Limited (“Fujian Mobile BVI”), Henan Mobile (BVI) Limited (“Henan Mobile BVI”) and Hainan Mobile (BVI) Limited (“Hainan Mobile BVI”) from CMHK (BVI) for a total consideration of HK\$49,715 (RMB equivalent 52,953) (hereinafter referred to as the “Second Acquisition”). The consideration was satisfied by cash of HK\$19,031 (RMB equivalent 20,268) and an allotment of 1,273,195,021 ordinary shares of HK\$0.10 each to CMHK (BVI) amounting to HK\$30,684 (RMB equivalent 32,685). The only assets of each of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI are their interests in the entire equity of Fujian Mobile, Henan Mobile and Hainan Mobile, respectively.

In connection with the Second Acquisition, the fixed assets of Fujian Mobile, Henan Mobile and Hainan Mobile were revalued as of June 30, 1999, by a firm of independent valuers and approved by the Ministry of Finance. The value of fixed assets of Fujian Mobile, Henan Mobile and Hainan Mobile pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB10,684.

Goodwill arising on the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile (RMB42,440), being the excess of the cost of investments (RMB52,953) over the fair value of the Group’s share of the separable net assets acquired (RMB10,513), was eliminated against reserves immediately on acquisition. The fair value of the Group’s share of the separable net assets acquired was based on the net assets of Fujian Mobile, Henan Mobile and Hainan Mobile at June 30, 1999 (RMB9,524), adjusted for additional earnings to November 11, 1999, the completion date of the Second Acquisition, of RMB989.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

Equity offering and debt offering

In order to finance the acquisition consideration, the Company completed an international offering of an aggregate of 644,804,000 ordinary shares and debt offering with a principal amount of US\$600 with maturity due on November 2, 2004. Further the Company issued totalling 1,273,195,021 consideration shares to CMHK (BVI), credited as fully paid as part of the acquisition consideration. Net proceeds to the Company for such equity offering and debt offering, after deduction of offering expenses and discount, were approximately RMB16,134 and RMB4,899, respectively.

Acquisition of 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”) and Guangxi Mobile Communication Company Limited (“Guangxi Mobile”)

Pursuant to an ordinary resolution passed by the Company’s shareholders on November 10, 2000, the Company acquired the entire issued share capital of Beijing Mobile (BVI) Limited (“Beijing Mobile BVI”), Shanghai Mobile (BVI) Limited (“Shanghai Mobile BVI”), Tianjin Mobile (BVI) Limited (“Tianjin Mobile BVI”), Hebei Mobile (BVI) Limited (“Hebei Mobile BVI”), Liaoning Mobile (BVI) Limited (“Liaoning Mobile BVI”), Shandong Mobile (BVI) Limited (“Shandong Mobile BVI”) and Guangxi Mobile (BVI) Limited (“Guangxi Mobile BVI”) from CMHK (BVI) for a total consideration of HK\$256,021 (RMB equivalent 271,485) (hereinafter referred to as the “Third Acquisition”). The consideration was satisfied by cash of HK\$74,609 (RMB equivalent 79,116) and an allotment of 3,779,407,375 ordinary shares of HK\$0.10 each to CMHK (BVI) amounting to HK\$181,412 (RMB equivalent 192,369). The only assets of each of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI are their interests in the entire equity of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, respectively.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

In connection with the Third Acquisition, the fixed assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were revalued as of June 30, 2000, by a firm of independent valuers and approved by the Ministry of Finance. The value of fixed assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB37,252.

Goodwill arising on the acquisition of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile (RMB239,540), being the excess of the cost of investments (RMB271,485) over the fair value of the Group's share of the separable net assets acquired (RMB31,945), was eliminated against reserves immediately on acquisition. The fair value of the Group's share of the separable net assets acquired was based on the net assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile at June 30, 2000 (RMB29,317), adjusted for additional earnings to November 12, 2000, the completion date of the Third Acquisition, of RMB2,628.

Equity offering and debt offering

In order to finance the acquisition consideration, the Company completed an international offering of an aggregate of 1,115,643,845 ordinary shares and debt offering with a principal amount of US\$690 with maturity due on November 3, 2005. Further the Company issued totalling 3,779,407,375 consideration shares to CMHK (BVI), credited as fully paid as part of the acquisition consideration. Net proceeds to the Company for such equity offering and debt offering, after deduction of offering expenses and discount, were approximately RMB55,723 and RMB5,580, respectively.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

Basis of preparation

The consolidated financial statements have been prepared on a consolidated basis to reflect the financial position and results of operations of the Company, Guangdong Mobile and Zhejiang Mobile from the date of the Restructuring and of Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile from their respective dates of acquisition. The consolidated statements of income for the year ended December 31, 2001 includes the results of the Company, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile for the year ended December 31, 2001. The consolidated statements of income for the year ended December 31, 2000 includes the results of the Company, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile for the year ended December 31, 2000 and the post-acquisition results of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile for the period from November 13, 2000 to December 31, 2000. The consolidated statements of income for the year ended December 31, 1999 includes the results of the Company, Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile for the year ended December 31, 1999 and the post-acquisition results of Fujian Mobile, Henan Mobile and Hainan Mobile for the period from November 12, 1999 to December 31, 1999.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP"). Significant differences between HK GAAP and accounting principles generally accepted in the United States ("US GAAP") are set forth in Note 29.

The consolidated financial statements are expressed in Renminbi. Solely for the convenience of the reader, for the December 31, 2001 financial statements have been translated into United States dollars at the rate of US\$1.00 = RMB8.2766 quoted by the People's Bank of China on December 31, 2001. 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 certain rate on December 31, 2001, or any other certain date.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries (see Note 28 for details of the Company's principal subsidiaries). The results of subsidiary companies are included in the consolidated statements of income, and the share attributable to minority interest is deducted from or added to the consolidated income after taxation. All significant inter-company balances and transactions have been eliminated.

(b) Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are within three months of maturity when acquired. For the purposes of the statement of cash flows, cash equivalents would also include advances from banks repayable within three months from the date of the advance. None of the Group's cash and cash equivalents is restricted as to withdrawal.

(c) Associates

An associate is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The Group's share of the results of its associates is included in the consolidated statements of income. Such amounts were immaterial for the periods presented. In the consolidated balance sheets, interest in associates is stated at cost adjusted for post-acquisition retained result of operations, less impairment losses (see note 2(h)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognized in the consolidated statements of income as they arise.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(d) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses (see note 2(h)); and
- for acquisitions on or after 1 January 2001, positive goodwill is amortized to the consolidated statements of income on a straight-line basis over its estimated useful life of not exceeding 20 years. Positive goodwill is stated in the consolidated balance sheets at cost less any accumulated amortization and any impairment losses (see note 2(h)).

In respect of acquisitions of associates, positive goodwill is amortized to the consolidated statements of income on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortization and any impairment losses (see note 2(h)) is included in the carrying amount of the interest in associates.

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and
- for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognized, it is recognized in the consolidated statements of income when the future losses and expenses are recognized. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognized in the consolidated statements of income over the weighted average useful life of those non-monetary assets that are depreciable/amortizable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognized immediately in the consolidated statements of income.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(d) Goodwill (Continued)

In respect of any negative goodwill not yet recognized in the consolidated statements of income:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheets as a deduction from assets in the same balance sheet classification as positive goodwill; and
- for associates, such negative goodwill is included in the carrying amount of the interests in associates.

(e) Other investments in securities

The Group's policies for investments in securities other than investments in associates are as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the consolidated balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognized as an expense in the consolidated statements of income, such provisions being determined for each investment individually.
- (ii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the consolidated statements of income as they arise.

(f) Fixed assets and depreciation

- (i) Fixed assets are stated at cost/revalued amount less accumulated depreciation and impairment losses (see note 2(h)). The circumstances and basis under which the revalued amount is arrived at are set out in details in Note 13.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(f) Fixed assets and depreciation (Continued)

- (ii) The cost of fixed assets comprises the purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed asset has been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated statements of income in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalized as an additional cost of the fixed asset.
- (iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized as income or expense in the consolidated statements of income on the date of retirement or disposal.
- (iv) Depreciation is calculated to write-off the cost, or revalued amount where appropriate, of fixed assets on a straight-line basis over their estimated useful lives, to residual values, as follows:

	<i>Depreciable life</i>	<i>Residual value</i>
Land use rights	Over the period of grant	-
Buildings	8 -35 years	3%
Telecommunication transceivers, switching centers and other network equipment	7 years	3%
Office equipment, furniture and fixtures and others	4 - 18 years	3%

(g) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as capital leases.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(g) *Leased assets (Continued)*

Where the Group acquires the use of assets under capital leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in the fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under capital leases. Depreciation is provided at rates which write-off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(h). Finance charges implicit in the lease payments are charged to the consolidated statements of income over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting year.

(h) *Impairment of assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

- fixed assets;
- construction in progress;
- investments in associates; and
- positive goodwill (whether taken initially to reserves or recognized as an asset).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(h) Impairment of assets (Continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the consolidated statements of income in the year in which the reversals are recognized.

(i) Construction in progress

Construction in progress is stated at cost. Cost comprises direct costs of construction as well as interest expense and exchange differences capitalized during the years of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to fixed assets when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(j) Inventories

Inventories, which consist primarily of handsets, SIM cards and accessories, are stated at the lower of cost and net realizable value. Cost represents purchase cost of goods calculated using the weighted average cost method. Net realizable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management's estimates based on prevailing market conditions.

When inventories are sold, the carrying amount of those inventories is recognized as a deduction of other income due to its insignificance. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the year the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the year in which the reversal occurs.

(k) Deferred revenue

Deferred revenue, which consists primarily of deferred revenue from prepaid service fees received from subscribers and deferred revenue from assignment of rights to income from subscribers with distributions of telecommunications services are stated in the balance sheet at the amount of consideration received according to the relevant assignment contracts if applicable, less income recognized in the consolidated statements of income up to the balance sheet date.

Revenue from prepaid service fees is recognized when the cellular services are rendered.

Income from assignment of rights is deferred and recognized on a straight-line basis over the relevant assignment period. For assignment contract which the distributors surrender for early cancellation, the balance of the Group's deferred revenue in respect of those contracts is recognized as non-operating income in the consolidated statements of income when the assignment contracts are cancelled.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(l) *Fixed rate notes, bonds and convertible notes*

Fixed rate notes, bonds and convertible notes are stated in the balance sheet at face value, less unamortized discount arising thereon, if any. The discount is amortized on a straight-line basis over the period from the date of issue to the date of maturity.

(m) *Deferred expenses*

Deferred expenses comprise incidental costs incurred in relation to the issue of the fixed rate notes, bonds and convertible notes of the Group and are amortized on a straight-line basis over the periods from the date of issue to the date of maturity. In the event that the notes are redeemed prior to the maturity date, the unamortized expenses are charged immediately to the consolidated statements of income.

(n) *Borrowing costs*

Borrowing costs are expensed in the consolidated statements of income in the year in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(o) *Revenue recognition*

Revenue is recognized when it is probable that the economic benefits will accrue to the Group and when the revenue can be measured reliably on the following basis:

- (i) usage fees are recognized as revenue when the service is rendered;
- (ii) monthly fees are recognized as revenue in the month during which the service is rendered;
- (iii) connection fees are recognized as revenue when receivable;

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(o) Revenue recognition (Continued)

- (iv) deferred revenue from prepaid service is recognized as income when the cellular telephone services are rendered upon actual usage by subscribers;
- (v) deferred revenue from assignment of rights to income from subscribers is recognized on a straight-line basis over the duration of the assignment period;
- (vi) interest income is recognized on a time proportion basis by reference to the principal outstanding and the rate applicable; and
- (vii) sales of SIM cards and handsets are recognized on delivery of goods to the buyer. Such revenue, net of cost of goods sold, is included in other net income due to its insignificance.

(p) Allowance for doubtful accounts

An allowance for doubtful accounts is provided based upon evaluation of the recoverability of the receivables at the balance sheet date.

(q) Translation of foreign currencies

The functional currency of the Group's operations is Renminbi. See Note 27. Foreign currency transactions are recorded at the applicable rates of exchange prevailing on the transaction dates. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the exchange rates ruling at the balance sheet date. Exchange differences attributable to the translation of borrowings denominated in currencies other than the functional currency, and used for financing the construction of fixed assets, are included in the cost of the related construction in progress. Exchange differences capitalized to construction in progress are immaterial for the years presented. Other exchange gains and losses are recognized in the consolidated statements of income.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(r) *Deferred taxation*

Deferred taxation is provided under 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 are expected with reasonable probability to crystallize in the foreseeable future. Future deferred tax benefits are not recognized unless their realization is assured beyond reasonable doubt.

(s) *Provisions and contingent liabilities*

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) *Retirement benefits*

Contributions to retirement schemes are charged to the consolidated statements of income as and when incurred. See Note 24.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(u) *Net profit per share*

The calculation of basic net profit per share for the years ended December 31, 1999, 2000 and 2001 are based on the net profit and the weighted average number of shares in issue during the years.

The calculation of diluted net profit per share for the years ended December 31, 1999 and 2001 have been computed after adding back the interest expense on the convertible notes and adjusting for the effects of all dilutive potential ordinary shares. All dilutive potential ordinary shares arise from the share options granted to the directors under the share option scheme and convertible notes issued by the Group which, if converted to ordinary shares, would decrease net profit per share. In 2000, since all potential ordinary shares arising from the convertible notes, if converted to ordinary shares, would increase profit attributable to shareholders per share as a result of the savings on the interest payable on the convertible notes, the effects of anti-dilutive potential ordinary shares were ignored in calculating diluted net profit per share.

(v) *Operating leases*

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating lease, payments made under the leases are charged to the consolidated statements of income in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in the consolidated statements of income as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated statements of income in the accounting period in which they are incurred.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(w) *Related parties*

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(x) *Segment reporting*

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

No analysis of the Group's operating revenue 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 PRC and less than 10% of the Group's operating revenue 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% of the Group's total assets.

(y) *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the years reported. Actual results could differ from those estimates. Estimates are used when accounting for allowance for doubtful accounts, the fixed assets' depreciation and amortization periods and impairment of long-lived assets including goodwill. Actual results may differ from these estimates.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

3 Changes in accounting policies

(i) Goodwill

In prior years, positive or negative goodwill arising on acquisition of subsidiaries was eliminated against reserves or was credited to a capital reserve respectively. With effect from January 1, 2001, in order to comply with Statement of Standard Accounting Practice 30 (“SSAP 30”) issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for goodwill as set out in Note 2(d).

The Group has adopted the transitional provisions set out in paragraph 88 of SSAP 30 with effect that the new accounting policy has been adopted prospectively and no adjustments have been made to the opening balances of retained earnings and reserves and comparative information.

The new accounting policy has no impact on the Group’s net assets as at the year ends and on the Group’s profit attributable to shareholders for the years presented.

4 Operating revenue

The principal activities of the Group are the provision of cellular telephone and related services in Guangdong, Zhejiang, Jiangsu, Fujian, Henan, Hainan, Hebei, Liaoning and Shandong provinces, Beijing, Shanghai and Tianjin municipalities and Guangxi autonomous region of the PRC. The principal activity of the Company is investment holding.

Operating revenue primarily represents usage fees, monthly fees and connection fees for the use of 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 3.33% of the corresponding revenue.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

4 Operating revenue (Continued)

Operating revenue consist of:

- (i) Usage fees which represent standard local usage fee for airtime and, where applicable, Domestic Direct Dial (“DDD”) charges and International Direct Dial (“IDD”) charges receivable from subscribers for the use of the Group’s cellular telecommunication networks and facilities; revenue from assignment of rights to income from subscribers, and fees in respect of roaming out calls. Roaming out calls are those made by the Group’s subscribers outside the local service areas. See Note 5(ii).
- (ii) Monthly fees which represent fixed amounts charged to subscribers each month for their entitlement to use the Group’s cellular telephone and related services.
- (iii) Connection fees which represent amounts charged to subscribers for the initial connection to the Group’s cellular telecommunications network.
- (iv) Other operating revenue mainly represents charges for wireless data and value added services, telephone number selection fees, interconnection revenue and roaming in fees. Roaming in fees are received from China Mobile (previously the MII) in respect of calls made by non-subscribers using the Group’s cellular telecommunications networks. With effect from April 1, 2000, all settlements of inter-provincial roaming and corresponding interconnection revenues are made through China Mobile (previously the MII).

5 Operating expenses

Operating expenses consist of:

- (i) Leased line charges which represent expenses paid or payable for the use of leased lines between the main switches, base transceiver stations, base station controllers, base stations, fixed line network connectors and long distance network connectors.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

5 Operating expenses (Continued)

- (ii) Interconnection charges which represent amounts paid or payable in respect of call made between the Group's cellular networks, the fixed line networks and other GSM network operators in the relevant provinces and other provinces in the PRC. Included in the amounts are also charges in respect of the Group's subscribers roaming outside the service areas of Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile or Guangxi Mobile (see Note 4(i)).
- (iii) Personnel expenses which represent staff salaries, bonuses and medical benefits, provision for staff welfare expenses and contributions to staff retirement scheme.
- (iv) Other operating expenses which consist of:

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Selling and promotion	1,582	3,940	7,897
Maintenance	499	745	1,289
Provision for doubtful accounts (Note 10)	771	1,346	1,737
Operating lease charges	539	936	1,347
Other expenses (Note (a))	<u>1,749</u>	<u>3,611</u>	<u>6,000</u>
	<u>5,140</u>	<u>10,578</u>	<u>18,270</u>

- (a) Other expenses consist of offices expenses, utilities charges, travelling expenses, entertainment expenses, spectrum charges, insurance expenses, consumables and supplies, debt collection fees and other miscellaneous expenses.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

6 Write-down and write-off of analog network equipment

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Write-down of analog network equipment (a)	6,720	1,330	-
Write-off of analog network equipment (b)	<u>1,522</u>	<u>195</u>	<u>-</u>
	<u>8,242</u>	<u>1,525</u>	<u>-</u>

- (a) The Group reviewed the carrying value of all analog network and related equipment at December 31, 1999. Based on the estimated recoverable value of these assets, a write-down of RMB6,720 was made in 1999. In 2000, based on the operations and net cash flow position of the analog network, the Group considered that the recoverable amount of the analog network equipment had declined below its carrying amount. Based on the expected future cash flows to be generated by the analog network, a full provision was made against the carrying amount of the analog network equipment at December 31, 2000. The amount of the write-down of RMB1,330 was recognized as an expense in the consolidated statements of income. At December 31, 2001, all analog network equipment which had been written down in previous years had been removed from service.
- (b) This represents the write-off of certain analog network equipment which had been removed from service.

7 Other net income

Other net income primarily consists of the gross margin from sales of cellular telephone SIM cards and handsets.

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Sales of SIM cards and handsets	1,242	1,928	3,338
Cost of SIM cards and handsets	<u>(690)</u>	<u>(1,013)</u>	<u>(1,744)</u>
	<u>552</u>	<u>915</u>	<u>1,594</u>

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

8 Non-operating net income/(expenses)

Non-operating net income/(expenses) consists of:

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Exchange loss	(9)	(60)	(39)
Loss on sale of other fixed assets	(1)	(126)	(275)
Penalty income on overdue accounts	72	149	165
Others	8	32	143
Total non-operating net income/(expenses)	70	(5)	(6)

In 2001, there is RMB54 included in others being gain recognized on deemed disposal of shareholding in Aspire Holdings Limited, a non-wholly owned subsidiary of the Company. The Company has no intention to re-acquire the shares of this subsidiary.

9 Income tax

- (i) No provision has been made for Hong Kong profits tax as there were no estimated Hong Kong assessable profits for the years ended December 31, 1999, 2000 and 2001.
- (ii) The provision for the PRC enterprise income tax is based on a statutory rate of 33% of the assessable profit of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC during the year, 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% and 15% respectively.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

9 Income tax (Continued)

Income tax in the consolidated statements of income represents:

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Over-provision in respect of Hong Kong profits tax for prior year	(2)	-	-
Provision for PRC enterprise income tax on the estimated taxable profits for the year	3,776	8,371	12,153
Under/(over)-provision in respect of PRC enterprise income tax for prior year	<u>24</u>	<u>12</u>	<u>(20)</u>
	3,798	8,383	12,133
Transfer (to)/from deferred tax assets (Note 16)	<u>(2,151)</u>	<u>(17)</u>	<u>1,570</u>
	<u>1,647</u>	<u>8,366</u>	<u>13,703</u>

The provision for income tax differs from the amount computed by applying the PRC statutory income tax rate of 33% to profit before tax and minority interests for the following reasons:

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Expected PRC taxation at statutory tax rates	2,127	8,710	13,767
Non-taxable items			
- Connection fee	(29)	(36)	-
- Surcharge	(37)	(28)	-
- Interest income	(66)	(74)	(32)
Non-deductible expenses	150	422	142
Rate differential on PRC operations	(371)	(718)	(558)
Rate differential on Hong Kong operations	(45)	32	165
Reversal of deferred taxation due to change of tax rate	-	-	29
Tax losses not recognized for deferred tax	-	-	203
Non-recognition of deferred taxes			
- Generation of timing difference	254	423	519
- Reversal of timing difference	(265)	(388)	(565)
Others	<u>(71)</u>	<u>23</u>	<u>33</u>
Income tax	<u>1,647</u>	<u>8,366</u>	<u>13,703</u>

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

10 Accounts receivable

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Accounts receivable	11,312	9,701
Less: Allowance for doubtful accounts	<u>(4,060)</u>	<u>(3,973)</u>
	<u>7,252</u>	<u>5,728</u>

The ageing of accounts receivable, net of allowance for doubtful accounts, is analyzed as follows:

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Within 30 days	6,451	5,100
31-60 days	524	443
61-90 days	<u>277</u>	<u>185</u>
	<u>7,252</u>	<u>5,728</u>

Balances are due for payment within one month from the 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.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

10 Accounts receivable (Continued)

Allowance for doubtful accounts for the years is analyzed as follows:

	RMB
At January 1, 1999	901
Acquired on acquisition of subsidiaries	517
Provision for the year	771
Written-off	<u>(833)</u>
At December 31, 1999	1,356
Acquired on acquisition of subsidiaries	2,533
Provision for the year	1,346
Written-off	<u>(1,175)</u>
At December 31, 2000	4,060
Provision for the year	1,737
Written-off	<u>(1,824)</u>
At December 31, 2001	<u><u>3,973</u></u>

11 Other receivables

Included in other receivables as at December 31, 2000 and 2001 are amounts due from the China Telecommunications Corporation (“China Telecom”) and its subsidiaries (collectively the China Telecom Group) amounting to RMB998 and RMB108, representing primarily revenue collected on behalf of the Group. The balances with the China Telecom Group were unsecured, non-interest bearing and repayable within one year.

12 Amounts due from/to ultimate holding company and amount due to immediate holding company

Amounts due from/to ultimate holding company are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business.

At 31 December 2000, amount due to immediate holding company primarily represented the balance of the purchase consideration for acquisition of subsidiaries, which was unsecured, non-interest bearing and was repaid during the year.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

13 Fixed assets

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Land use rights and buildings	7,996	10,594
Telecommunication transceivers, switching centers and other network equipment	107,911	127,392
Office equipment, furniture and fixtures and others	<u>3,702</u>	<u>6,095</u>
	119,609	144,081
Less: accumulated depreciation	<u>32,144</u>	<u>38,873</u>
	<u>87,465</u>	<u>105,208</u>

All of the Group's buildings are located outside Hong Kong.

The carrying value of fixed assets of the Group includes an amount of RMB7,046 and RMB6,836 in respect of assets held under capital lease as at December 31, 2000 and 2001, respectively. None of the leases include contingent rentals.

In connection with the Restructuring, pursuant to an approval document dated September 5, 1997 issued by China State-owned Assets Administration Bureau, the fixed assets of Guangdong Mobile and Zhejiang Mobile as of May 31, 1997 were valued by Zhongqihua Assets Appraisal Company ("ZAAC"), a firm of independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of fixed assets of Guangdong Mobile and Zhejiang Mobile has been determined at RMB15,630 reflecting a surplus on revaluation of approximately RMB3,529.

In connection with the acquisition of Jiangsu Mobile, and pursuant to an approval document dated April 7, 1998 issued by China State-owned Assets Administration Bureau, the fixed assets of Jiangsu Mobile as of December 31, 1997 were valued by ZAAC on a depreciated replacement cost basis. The value of fixed assets of Jiangsu Mobile has been determined at RMB7,879 reflecting a surplus on revaluation of approximately RMB2,443.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

13 Fixed assets (Continued)

In connection with the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile, and pursuant to an approval document dated September 27, 1999 issued by the Ministry of Finance, the fixed assets of Fujian Mobile, Henan Mobile and Hainan Mobile as of June 30, 1999 were valued by China International Engineering Consulting Corporation (“CIECC”) on a depreciated replacement cost basis. The aggregate value of fixed assets of Fujian Mobile, Henan Mobile and Hainan Mobile has been determined at RMB10,684 reflecting a surplus on revaluation of approximately RMB391.

In connection with the acquisition of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile and pursuant to an approval document dated August 28, 2000 issued by the Ministry of Finance, the fixed assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile as of June 30, 2000 were valued by China Assets Appraisal Corporation Ltd. (“CAAC”) on a depreciated replacement cost basis. The aggregate value of fixed assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile has been determined at RMB37,252 reflecting a surplus on revaluation of approximately RMB4,823.

The Group’s land and buildings in Guangdong Mobile and Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile, and Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were also valued separately by Chesterton Petty Limited, independent qualified valuers in Hong Kong as of May 31, 1997, December 31, 1997, June 30, 1999 and June 30, 2000 respectively. The values of such reports have been determined at approximately the same amounts as the ZAAC, CIECC and CAAC reports.

Other than revaluations carried out in compliance with relevant PRC rules and regulations, the Group has no plan to revalue its fixed assets on a regular basis.

The effect of the above four revaluations is to increase annual depreciation charges by approximately RMB1,098(2000: approximately RMB1,927).

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

13 Fixed assets (Continued)

The historical cost net book value of the fixed assets of these subsidiaries in the Group's financial statements as of the respective revaluation dates and the revalued basis of these fixed assets are as follows:

	<i>Net Book Value</i>	<i>Revalued Amount</i>
	RMB	RMB
Land use rights and buildings	2,808	4,251
Telecommunication transceivers, switching centers and other network equipment	55,994	65,706
Office equipment, furniture and fixtures and others	1,457	1,488
	60,259	71,445

14 Interest in associates

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Unlisted shares, at cost	37	37
Capital contributions, at cost	9	9
	46	46
Less: Provision for impairment	-	(30)
	46	16

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

14 Interest in associates (Continued)

Details of the associates, all of which are unlisted corporate entities, are as follows:

<i>Name of associate</i>	<i>Place of incorporation and operation</i>	<i>Proportion of ownership interest held by the subsidiary</i>	<i>Principal activity</i>
China Motion United Telecom Limited	Hong Kong	30%	Provision of telecommunication services
Shenzhen China Motion Telecom United Limited	PRC	30%	Provision of telecommunication services
Fujian Nokia Mobile Communication Technology Company Limited	PRC	50%	Network planning and optimizing construction- testing and supervising, technology support, development and training of Nokia GSM 900/1800 Mobile Communication System

15 Investment securities

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Unlisted equity securities in the PRC, at cost	61	77
	=====	=====

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

16 Deferred tax assets

Movements on deferred tax assets comprise:

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Balance at beginning of year	2,306	3,046
Acquired on acquisition of subsidiaries	723	-
Transferred from/(to) consolidated statements of income (Note 9)	17	(1,570)
Balance at end of year	3,046	1,476

Deferred tax assets of the Group provided for are as follows:

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Provision for obsolete inventories	12	4
Write-down of fixed assets relating to analog network equipment	2,102	171
Amortization of deferred revenue	60	140
Income recognition on prepaid service fees	872	1,161
	3,046	1,476

Deferred tax assets of the Group not provided for are as follows:

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Provision for doubtful accounts	1,264	1,204

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

16 Deferred tax assets (Continued)

As described in Note 13, in connection with the Restructuring and the subsequent acquisitions, the fixed assets of Guangdong Mobile and Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile, and Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were revalued on May 31, 1997, December 31, 1997, June 30, 1999 and June 30, 2000, respectively. As a result of such valuation, the fixed assets basis differences that gave rise to the potential deferred tax liabilities of these subsidiaries as of May 31, 1997, December 31, 1997, June 30, 1999 and June 30, 2000 amounting to RMB547, RMB149, RMB825 and RMB1,809, respectively, were eliminated.

Additionally, the tax losses carried forward relating to Liaoning Mobile and Guangxi Mobile of RMB72 were eliminated as of June 30, 2000.

17 Deferred expenses

	<i>Year ended December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Balance at beginning of year	51	164
Additions during the year	128	55
Less: Amortization for the year	(15)	(39)
	164	180
Balance at the end of year	164	180

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

18 Accounts payable

Included in accounts payable as at December 31, 2000 and 2001 are amounts due to the China Telecom Group amounting to RMB3,449 and RMB1,725 respectively, representing primarily payables for leased lines and interconnection expenses.

The ageing analysis of accounts payable as at 31 December is analyzed as follows:

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Amounts payables in the next:		
1 month or on demand	6,614	5,964
2-3 months	560	1,634
4-6 months	1,672	1,022
7-9 months	827	1,049
10-12 months	<u>1,908</u>	<u>1,648</u>
	<u>11,581</u>	<u>11,317</u>

19 Bank loans and other interest – bearing borrowings

		<i>December 31,</i>					
		<i>2000</i>			<i>2001</i>		
	Note	Current <u>liabilities</u> RMB	Non- current <u>liabilities</u> RMB	<u>Total</u> RMB	Current <u>liabilities</u> RMB	Non- current <u>liabilities</u> RMB	<u>Total</u> RMB
Bank loans	(a)	10,267	12,014	22,281	4,319	5,680	9,999
Other loans	(a)	204	459	663	212	247	459
Fixed rate notes	(b)	-	4,953	4,953	-	4,956	4,956
Convertible notes	(c)	-	5,708	5,708	-	5,708	5,708
Bonds	(d)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>
		<u>10,471</u>	<u>23,134</u>	<u>33,605</u>	<u>4,531</u>	<u>21,591</u>	<u>26,122</u>

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

19 Bank loans and other interest – bearing borrowings (Continued)

The short-term bank and other loans as at December 31, 2001 are unsecured. Included in the current liabilities as at December 31, 2000 are short-term bank and other loans amounting to RMB100 which are secured by cash at banks amounting to RMB113. All other short-term bank and other loans are unsecured.

All of the above bank and other loans under non-current liabilities are unsecured.

The Group's borrowings under short-term bank and other loans are used primarily to finance construction projects and generally consist of unsecured loans and are repayable in full on respective due dates with interest rates ranging from 5.02% to 6.44% at December 31, 2000 and from 5.02% to 7.29% at December 31, 2001. The Group's weighted average interest rate on short-term loans was 5.17% and 5.67% at December 31, 2000 and 2001, respectively.

(a) Long-term bank and other loans

		December 31,	
<i>Interest rate and final maturity</i>		<i>2000</i>	<i>2001</i>
		<i>RMB</i>	<i>RMB</i>
<i>Renminbi denominated bank loans:</i>			
For construction of telecommunications network	Floating interest rates ranging from 5.94% to 6.03% per annum as of December 31, 2001 with maturities 2002 to 2003 (i)	3,930	2,245
	Fixed interest rates ranging from 5.25% to 6.21% per annum with maturities 2002 to 2008 (ii)	6,547	3,449
For working capital	Floating interest rate at 5.35% per annum as of December 31, 2001 with maturities through 2003	4,110	2,500
	Fixed interest rates ranging from 5.35% to 5.94% per annum with maturities 2003 to 2004	850	70

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

19 Bank loans and other interest – bearing borrowings (Continued)

(a) Long-term bank and other loans (continued)

		December 31,	
	<i>Interest rate and final maturity</i>	2000 RMB	2001 RMB
<i>US dollar denominated bank loans:</i>			
For construction of telecommunications network	Floating interest rate at 7.29% per annum as of December 31, 2001 with maturities through 2002 (iii)	136	33
<i>US dollar denominated other loans:</i>			
For construction of telecommunications network	Floating interest rates ranging from 4.36% to 8.24% per annum as of December 31, 2001 with maturities through 2002 (iv)	138	46
	Fixed interest rate at 7.5% per annum with maturities through 2004	526	413
Total long-term loans		16,237	8,756
Less: current portion		(3,764)	(2,829)
		12,473	5,927

- (i) At December 31, 2001, bank loan amounting to RMB800 was guaranteed by Liaoning PTC.
- (ii) At December 31, 2001, bank loans amounting to RMB950, RMB571, RMB250 and RMB250 were guaranteed by Hebei PTC, Liaoning PTC, Henan PTC and Beijing PTC respectively.
- (iii) At December 31, 2001, bank loan amounting to RMB33 was guaranteed by Shandong PTC.
- (iv) At December 31, 2001, other loan amounting to RMB8 was guaranteed by Guangdong PTC.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

19 Bank loans and other interest – bearing borrowings (Continued)

(a) Long-term bank and other loans (Continued)

The aggregate maturities of long-term bank and other loans subsequent to December 31, 2001 are as follows:

	RMB
2002	2,829
2003	3,542
2004	1,374
2005	501
2006	440
Thereafter	<u>70</u>
	<u><u>8,756</u></u>

Interest expense, net of the amounts capitalized, is as follows:

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Interest incurred	421	477	1,068
Interest element of capital lease	1	52	129
Interest capitalized	<u>(143)</u>	<u>(119)</u>	<u>(88)</u>
	279	410	1,109
Interest expenses of fixed rate notes	64	393	394
Interest expenses of convertible notes	-	21	129
Interest expenses of bonds	<u>-</u>	<u>-</u>	<u>108</u>
Interest expense	<u><u>343</u></u>	<u><u>824</u></u>	<u><u>1,740</u></u>

(b) Fixed rate notes

On November 2, 1999, the Company issued unsecured fixed rate notes (the “notes”) with a principal amount of US\$600 at an issue price equal to 99.724% of the principal amount of the notes, due on November 2, 2004. The notes bear interest at the rate of 7.875% per annum and such interest is payable semi-annually on May 2 and November 2 of each year, commencing May 2, 2000.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

19 Bank loans and other interest – bearing borrowings (Continued)

(c) Convertible notes

- (i) On November 3, 2000, the Company issued convertible notes (the “Notes”) in an aggregate principal amount of US\$690 at an issue price equal to 100% of the principal amount of the Notes. The Notes bear interest at the rate of 2.25% per annum, payable semi-annually on May 3 and November 3 of each year commencing May 3, 2001. Unless previously redeemed, converted or purchased and cancelled, the Notes will be redeemed at 100% of the principal amount, plus any accrued and unpaid interest on November 3, 2005. The Notes are unsecured, senior and unsubordinated obligations of the Company.
- (ii) The Notes are convertible at any time on or after December 3, 2000 and before the close of business on the third business day prior to the earlier of (1) the maturity date of November 3, 2005 or (2) the redemption date fixed for early redemption, at an initial conversion price, subject to adjustment in certain events, of HK\$59.04 per share.
- (iii) During the year, no Notes were converted into ordinary shares of the Company.

(d) Bonds

On June 18, 2001, Guangdong Mobile issued guaranteed bonds (the “Bonds”) with a principal amount of RMB5,000 at an issue price equal to the face value of the Bonds.

The Bonds bear interest at a floating rate, adjusted annually from the first day of each interest payable year and payable annually. The first annual interest rate of the Bonds is 4%. The Bonds, redeemable at 100% of the principal amount, will mature on June 18, 2011 and the interest will be accrued up to June 17, 2011. Incidental costs incurred in relation to the issue of the Bonds are amortized on a straight-line basis over the period from the date of issue to the date of maturity.

The Company has issued a joint and irrevocable guarantee (the “Guarantee”) for the performance of the Bonds. China Mobile has also issued a further guarantee in relation to the performance by the Company of its obligations under the Guarantee.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

20 Obligations under capital lease

- (i) Hainan Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Shandong Mobile and Guangxi Mobile entered into certain capital lease agreements to finance the purchase of telecommunications equipment. The leases are denominated in United States dollars and Renminbi and the lease term is expiring through 2004. The legal title of the equipment will be transferred to Hainan Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Shandong Mobile and Guangxi Mobile when all outstanding lease payments are paid.
- (ii) The following is a schedule by years of future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of December 31, 2001:

	RMB
2002	969
2003	530
2004	<u>311</u>
Total minimum lease payments	1,810
Less: Amount representing interest	<u>(90)</u>
Present value of net minimum lease payments	1,720
Less: Obligations under capital lease - current portion	<u>(908)</u>
	<u>812</u>
	<u>=====</u>

- (iii) As of December 31, 2001, capital lease payments of RMB68 is guaranteed by Hainan PTC.

21 Accrued expenses and other payables

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Other payables	5,409	8,418
Accrued salaries, wages and benefits	2,198	1,792
Accrued expenses	<u>801</u>	<u>630</u>
	<u>8,408</u>	<u>10,840</u>
	<u>=====</u>	<u>=====</u>

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

22 Deferred revenue

Deferred revenue includes primarily prepaid services fees received from subscribers which is recognized as income when the cellular telephone services are rendered upon actual usage by subscribers.

Deferred revenue also includes income from assignment of rights. The balance at year end represents the unamortized portion of proceeds received by Guangdong Mobile from certain distributors of telecommunications services pursuant to agreements under which Guangdong Mobile sold certain mobile phone numbers to these distributors at RMB0.0092 each, in return for assigning to such distributors the rights to certain revenue such as usage fees, monthly fees, connection fees, telephone number selection fees and 50% value-added services fees from those subscribers over a period of seven years. The distributors have no recourse to the Group under the relevant agreements and the Group retains no credit risk from such subscribers during the seven-year period. The proceeds received by Guangdong Mobile have been accounted for as deferred revenue and are amortized over a period of seven years. After the expiration of the relevant agreements, the rights to income from these subscribers will revert to the Group.

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Balance at beginning of year	1,492	3,654
Additions on acquisition of subsidiaries	1,039	-
Additions during the year	5,689	23,191
Recognized in the consolidated statements of income	<u>(4,566)</u>	<u>(22,608)</u>
Balance at end of year	<u>3,654</u>	<u>4,237</u>

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

23 Commitments and contingencies

(a) Operating leases

Future minimum lease payments as of December 31, 2001 under non-cancellable operating leases having initial or remaining lease terms of more than one year are as follows:

	RMB
2002	5,057
2003	2,150
2004	1,805
2005	1,616
2006	1,551
Thereafter	2,527
	14,706
	14,706

(b) Capital commitments

As of December 31, 2001, the Group had capital commitments as follows:

	RMB
Authorized and contracted for	10,366
Authorized but not contracted for	35,334
	45,700
	45,700

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

24 Employee and retirement benefits

The employees of the subsidiaries participate in defined benefit retirement plans managed by the local government authorities whereby the subsidiaries are required to contribute to the schemes at fixed rate of the employees' salary costs. The subsidiaries have no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above. Expenses incurred by the subsidiaries in connection with the retirement scheme were RMB251, RMB335 and RMB287, respectively, for three years ended December 31, 1999, 2000 and 2001, respectively.

Pursuant to PRC regulation and prior to the Restructuring and the subsequent acquisitions, the subsidiaries were required to provide staff quarters to eligible employees and their immediate families. The Group has established separate employee housing reform schemes in order to comply with the regulation at the provincial level. Under such schemes, the Group is required to either purchase or build housing which is to be sold or rented to eligible employees. Through May 31, 1997, housing provided under the schemes was shared between Guangdong Mobile and the Guangdong PTA, in Guangdong Mobile's case, and purchased or built entirely by the Zhejiang PTA, in Zhejiang Mobile's case. Prior to the acquisitions of Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Shandong Mobile and Guangxi Mobile, housing provided under the schemes were purchased or built entirely by the relevant PTAs or PTCs, except Liaoning Mobile where prior to the acquisition housing provided under the schemes were provided by Liaoning Mobile.

Following the Restructuring and the subsequent acquisitions, the Group had accrued RMB230 for such housing schemes in respect of employees through December 31, 2000. Since the housing schemes had been terminated effective from January 1, 2001, no further cost was incurred in 2001. All previous costs incurred by the relevant PTAs or PTCs have not been charged to the Group.

25 Related party transactions

- (a) Parties are considered to be related if the one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The majority of the Group's business activities are conducted with China Mobile (the Company's ultimate holding company) and its subsidiaries, other than the Group, (the "China Mobile Group") and the China Telecom Group.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

25 Related party transactions (Continued)

As a result of the restructuring in May 2000, the MII ceased to have controlling interests in China Mobile, the DGT and the PTCs. However, the MII continues in its capacity as the industry regulator providing policy guidance and exercising regulatory authority over all telecommunications services providers in the PRC. China Telecom was set up as a result of the restructuring to operate the fixed line telephone networks in the PRC previously operated by the DGT and the PTCs, and is owned by the PRC government. As such, the MII or entities under the control of the MII including the DGT and the PTCs, and the China Telecom Group since its formation, are no longer considered to be related parties of the Group since May 2000.

The following is a summary of principal transactions which were entered into by the Group with the China Mobile Group since its formation, and transactions which were carried out by the Group with the MII and the entities under the control of the MII including the DGT and the PTCs prior to May 2000.

		<i>Year ended December 31,</i>		
	<i>Note</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
		RMB	RMB	RMB
Interconnection revenue	(i)	1,242	1,744	1,793
Interconnection charges	(ii)	5,275	2,864	1,772
Leased line charges	(iii)	3,723	2,464	278
Roaming revenue	(iv)	1,497	2,674	4,688
Roaming expenses	(v)	1,178	2,076	4,559
Spectrum fees	(vi)	12	15	18
Operating lease charges	(vii)	280	226	138
Sales commission	(viii)	378	248	-
Debt collection service fees	(viii)	143	91	-
Billing service fees	(viii)	2	-	-
Roaming billing processing fees	(viii)	-	148	201
Equipment maintenance service fees	(ix)	-	1	46
Rental charges of synchronized clock ports	(x)	2	3	-
Construction and related service fees	(xi)	-	20	161
Purchase of transmission tower and transmission tower-related service and antenna maintenance service fees	(xii)	-	16	55
Prepaid card sales commission income	(xiii)	-	114	241
Prepaid card sales commission expenses	(xiii)	-	99	315
Interest paid / payable	(xiv)	18	-	-

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

25 Related party transactions (Continued)

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.

For the years ended December 31, 1999 and 2000, interconnection revenue also included amounts received or receivable from the DGT in respect of long distance calls made by non-subscribers in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan provinces ("the relevant provinces") and amounts received or receivable from the Guangdong PTC, the Zhejiang PTC, the Jiangsu PTC, the Fujian PTC, the Henan PTC and the Hainan PTC ("the relevant PTCs") in respect of long distance calls made between the Group's cellular networks and the fixed line networks in the relevant provinces and outbound calls originating from the fixed line networks in the relevant provinces which terminate on GSM network operators in other provinces in the PRC.

- (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.

For the years ended December 31, 1999 and 2000, interconnection expenses also included amounts paid or payable to the DGT in respect of long distance calls made by the Group's subscribers in the relevant provinces roaming outside their registered provinces and amounts paid or payable to the relevant PTCs in respect of calls made between the Group's cellular network, the fixed line networks in the relevant provinces and other GSM network operators in other provinces in the PRC.

- (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 centers together and with other mobile switching centers of the China Mobile Group.

For the years ended December 31, 1999 and 2000, leased line charges also included expenses paid or payable to the relevant PTCs for the use of leased line.

- (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 to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

25 Related party transactions (Continued)

Notes: (Continued)

- (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.

For the years ended December 31, 1999 and 2000, operating lease charges also included rental and property management fee paid or payable to the relevant PTCs prior to May 2000.

- (viii) The Group entered into certain services agreements in respect of marketing services with authorized dealers, debt collection services and roaming billing processing with subsidiaries of China Mobile or the relevant PTCs prior to May 2000.

Debt collection service fees represent the amounts paid or payable to subsidiaries of China Mobile for their provision of debt collection services to the Company's subsidiaries.

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.

For the years ended December 31, 1999 and 2000, sales commission, debt collection service fees and roaming billing processing fees also included amounts paid or payable to the relevant PTCs for services rendered in the relevant provinces.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

25 Related party transactions (Continued)

Notes: (Continued)

- (ix) Equipment maintenance service fees represent the amount paid or payable to subsidiaries of China Mobile for the provision of the maintenance services to Beijing Mobile, Shanghai Mobile and Liaoning Mobile.

For the years ended December 31, 1999 and 2000, equipment maintenance service fees included amounts paid or payable to Fujian PTC for services rendered in the relevant province.

- (x) Rental charges of synchronized clock ports represent expenses paid or payable to the relevant PTCs for leasing of synchronized clock ports by the Company's subsidiaries.
- (xi) Construction and related service fees represent the amount paid or payable to subsidiaries of China Mobile for the provision of construction services to Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile.
- (xii) 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.
- (xiii) 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.
- (xiv) Interest paid/payable represents the interest incurred on loans borrowed from Zhejiang PTA and Telpo.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

25 Related party transactions (Continued)

Notes: (Continued)

- (b) Pursuant to the ordinary resolution passed by the Company's shareholders on November 10, 2000, the Company acquired the entire issued share capital of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI from CMHK (BVI), the immediate holding company of the Company, for a total consideration of HK\$256,021 (RMB equivalent 271,485). The consideration was satisfied by a cash payment of HK\$74,609 (RMB equivalent 79,116) and allotment of shares to CMHK (BVI) amounted to HK\$181,412 (RMB equivalent 192,369). The only assets of each of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI are their interests in the entire equity of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, respectively.

Pursuant to the ordinary resolution passed by the Company's shareholders on November 11, 1999, the Company acquired the entire issued share capital of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI from CMHK (BVI), for a total consideration of HK\$49,715 (RMB equivalent 52,953). The consideration was satisfied by a cash payment of HK\$19,031 (RMB equivalent 20,268) and allotment of shares to CMHK (BVI) amounted to HK\$30,684 (RMB equivalent 32,685). The only assets of each of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI are their interests in the entire equity of Fujian Mobile, Henan Mobile and Hainan Mobile, respectively.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

26 Shareholders' equity

Share capital

	<i>Number of ordinary shares</i>	<i>Nominal amount of each ordinary share</i>	<i>Amount HK\$</i>
<i>Authorized:</i>			
Balance at December 31, 2000 and 2001	30,000,000,000	HK\$0.10	3,000
<i>Issued and fully paid:</i>			
Balance at January 1, 2000	13,706,287,021	HK\$0.10	1,371
Issue of new shares to the professional and institutional investors	1,115,643,845	HK\$0.10	112
Issue of consideration shares for acquisition of subsidiaries	3,779,407,375	HK\$0.10	378
Shares issued under share option scheme	<u>3,974,000</u>	HK\$0.10	<u>-</u>
Balance at December 31, 2000	<u>18,605,312,241</u>		<u>1,861</u>
		RMB equivalent	<u>1,986</u>
Balance at January 1, 2001	18,605,312,241	HK\$0.10	1,861
Shares issued under share option scheme	<u>93,000</u>	HK\$0.10	<u>-</u>
Balance at December 31, 2001	<u>18,605,405,241</u>		<u>1,861</u>
		RMB equivalent	<u>1,986</u>

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

26 Shareholders' equity (Continued)

Share capital (Continued)

The Company was established in Hong Kong on September 3, 1997 as a limited company, with a registered share capital of HK\$10,000 divided into 100,000 shares of HK\$0.10 each, two of which were issued and credited as fully paid.

At an extraordinary general meeting of the Company held on September 27, 1997,

- (i) the authorized share capital of the Company was increased from HK\$10,000 to HK\$1,600,000,000 by the creation of an additional 15,999,900,000 shares of HK\$0.10 each; and
- (ii) 9,009,999,998 shares were credited as fully paid and issued to CMHK (BVI) for the transfer of interests in Guangdong Mobile and Zhejiang Mobile to the Company.

Pursuant to the resolutions passed on October 21, 1997, the Company issued 2,600,000,000 shares of HK\$0.10 each at HK\$11.68 per share and the shares were listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited on October 22, 1997 and October 23, 1997, respectively. On November 7, 1997, the Company issued 170,788,000 shares of HK\$0.10 each at HK\$11.68 per share by way of a placing among professional and institutional investors.

Pursuant to ordinary resolutions passed at directors' meetings held on November 1, 1999 and November 3, 1999 respectively, the Company issued 560,700,000 and 84,104,000 ordinary shares of HK\$0.10 each to professional and institutional investors, at a consideration of HK\$24.10 per share, for financing the acquisition of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI.

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on November 11, 1999, 1,273,195,021 ordinary shares of HK\$0.10 each were issued and credited as fully paid to CMHK (BVI), at a consideration of HK\$24.10 per share as part of the consideration for the acquisition of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI.

Pursuant to resolutions passed at directors' meetings held on November 2, 2000 and November 8, 2000 respectively, the Company issued 1,068,396,405 and 47,247,440 ordinary shares of HK\$0.10 each to professional and institutional investors, at a consideration of HK\$48 per share, for financing the acquisition of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

26 Shareholders' equity (Continued)

Share capital (Continued)

Pursuant to ordinary resolutions passed at an extraordinary general meeting held on November 10, 2000, the Company's authorized share capital was increased to HK\$3,000,000,000 by the creation of an additional 14,000,000,000 ordinary shares of HK\$0.10 each, ranking pari passu with the existing shares of the Company, and 3,779,407,375 ordinary shares of HK\$0.10 each were issued and credited as fully paid to CMHK (BVI), at a consideration of HK\$48 per share as part of the consideration for the acquisition of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI.

Reserves

Capital reserve

As mentioned in Note 1, this amount represents the total of the following:

- the additional earnings of Guangdong Mobile and Zhejiang Mobile from June 1, 1997 to September 26, 1997, the completion date of the Restructuring (RMB1,132);
- goodwill arising on the acquisition of Jiangsu Mobile BVI and Jiangsu Mobile on June 3, 1998 (RMB15,622), which has been eliminated against capital reserve immediately upon acquisition;
- goodwill arising on the acquisition of Fujian Mobile BVI, Henan Mobile BVI, Hainan Mobile BVI, Fujian Mobile, Henan Mobile and Hainan Mobile on November 11, 1999 (RMB42,440), which has been eliminated against capital reserve immediately upon acquisition; and
- goodwill arising on the acquisition of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI, Guangxi Mobile BVI, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile on November 12, 2000 (RMB239,540), which has been eliminated against capital reserve immediately upon acquisition.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

26 Shareholders' equity (Continued)

Reserves (Continued)

PRC statutory reserves

PRC statutory reserves include general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund.

In accordance with Accounting Regulations for PRC Enterprises with Foreign Investment, foreign investment enterprises in the PRC are required to transfer at least 10% of their profit after taxation, as determined under accounting principles generally accepted in the PRC ("PRC GAAP") to the general reserve until the balance of the general reserve is equal to 50% of their registered capital. Moreover, they are required to transfer a certain percentage of their profit after taxation, as determined under PRC GAAP, to the enterprise expansion fund. During the year, appropriations were made by each of the above subsidiaries to the general reserve and the enterprise expansion fund each at 10% of their profit after taxation determined under PRC GAAP.

The general reserve can be used to make good losses and to increase the capital of the subsidiaries while the enterprise expansion fund can be used to increase the capital of the subsidiaries, to acquire fixed assets and to increase current assets.

At December 31, 2000, Shanghai Mobile has not yet registered as a wholly-foreign owned enterprise. As a result, appropriations were made by Shanghai Mobile, according to its Articles of Association to the statutory surplus reserve and the statutory public welfare fund both at 10% of its profit after taxation determined under PRC GAAP during the year ended December 31, 2000.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-up capital, provided that the balance after such conversion is not less than 25% of the registered capital of the subsidiaries. Statutory public welfare fund can only be utilized on capital items for the collective benefits of the employees such as the construction of staff quarters and other staff welfare facilities. This reserve is non-distributable other than in liquidation.

At December 31, 2000 and 2001, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund were RMB3,263 and RMB5,766, RMB9,067 and RMB11,590, RMB175 and RMB181 and RMB138 and RMB139, respectively.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

26 Shareholders' equity (Continued)

Reserves (Continued)

Distributable reserves

At December 31, 2000 and 2001, the amount of distributable reserves of the Company amounted to RMB2,889 (restated) and RMB6,780.

Share option scheme

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

- (i) the nominal value of a share; and
- (ii) 80% of the average of the closing prices of shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option.

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

During the year ended December 2000 and 2001, a total number of share options of 31,590,000 and 76,773,000 were granted under the share option scheme to certain directors and employees of the Company. During the year ended December 31, 2000 and 2001, options were exercised to subscribe for 3,974,000 and 93,000 ordinary shares of HK\$0.10 each at a total consideration of HK\$84.0 (RMB equivalent 89.0) and HK\$3.5 (RMB equivalent 3.7).

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

26 Shareholders' equity (Continued)

Share option scheme(Continued)

At December 31, 2000 and 2001, the outstanding options were as follows:

<i>Date of options granted</i>	<i>Normal period during which options exercisable</i>	<i>Price per share to be paid on exercise of options</i>	<i>Number of shares involved in the options outstanding at the year end</i>
<i>At December 31, 2001</i>			
March 9, 1998	March 9, 1998 to March 8, 2006	HK\$11.10	2,100,000
November 26, 1999	November 26, 1999 to October 7, 2007	HK\$33.91	3,500,000
November 26, 1999	November 26, 2002 to October 7, 2007	HK\$33.91	3,500,000
April 25, 2000	April 25, 2002 to October 7, 2007	HK\$45.04	15,264,000
April 25, 2000	April 25, 2005 to October 7, 2007	HK\$45.04	15,264,000
June 22, 2001	June 22, 2003 to October 7, 2007	HK\$32.10	38,115,000
June 22, 2001	June 22, 2006 to October 7, 2007	HK\$32.10	38,115,000

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

26 Shareholders' equity (Continued)

Share option scheme (Continued)

<i>Date of options granted</i>	<i>Normal period during which options exercisable</i>	<i>Price per share to be paid on exercise of options</i>	<i>Number of shares involved in the options outstanding at the year end</i>
<i>At December 31, 2000</i>			
March 9, 1998	March 9, 1998 to March 8, 2006	HK\$11.10	2,100,000
November 26, 1999	November 26, 1999 to October 7, 2007	HK\$33.91	3,500,000
November 26, 1999	November 26, 2002 to October 7, 2007	HK\$33.91	3,500,000
April 25, 2000	April 25, 2002 to October 7, 2007	HK\$45.04	15,608,000
April 25, 2000	April 25, 2005 to October 7, 2007	HK\$45.04	15,608,000

27 Foreign currency exchange

The Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorized to buy and sell foreign exchange or at a swap center.

Currently the Company's subsidiaries established in the PRC are able to purchase foreign exchange for settlement of "current account transactions" (as defined in the applicable regulations), including payment of dividends without the approval of the State Administration of Foreign Exchange ("SAFE"). However, there can be no assurance that the current authorization for Foreign Investment Enterprises to retain their foreign exchange to satisfy foreign exchange liabilities or to pay dividends in the future will not be limited or eliminated or that the subsidiaries of the Company will be able to obtain sufficient foreign exchange to pay dividends or satisfy their foreign exchange requirements. Foreign exchange transactions under the capital account continue to be subject to limitations and require approvals of the SAFE, which could affect the ability of the Company's subsidiaries established in the PRC to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from the Company.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

28 Principal subsidiaries

Details of the Company's principal subsidiaries are as follows:

<i>Name of company</i>	<i>Place and date of incorporation/establishment</i>	<i>Authorized, issued and paid up capital</i>		<i>Attributable equity interest %</i>	<i>Principal activities</i>
		<i>Authorized</i>	<i>Issued and paid up</i>		
Guangdong Mobile	PRC September 28, 1988	-	RMB 5,595	100%	Cellular telephone operator
Zhejiang Mobile	PRC February 2, 1996	-	RMB 2,118	100%	Cellular telephone operator
Jiangsu Mobile BVI	BVI March 6, 1998	10,000 shares at HK\$1	1 share at HK\$1	100%	Investment holding company
Jiangsu Mobile	PRC December 10, 1992	-	RMB 2,800	100%	Cellular telephone operator
Fujian Mobile BVI	BVI September 1, 1999	10,000 shares at HK\$1	1 share at HK\$1	100%	Investment holding company
Fujian Mobile	PRC September 7, 1999	-	RMB 5,247	100%	Cellular telephone operator
Henan Mobile BVI	BVI September 1, 1999	10,000 shares at HK\$1	1 share at HK\$1	100%	Investment holding company
Henan Mobile	PRC August 6, 1999	-	RMB 4,368	100%	Cellular telephone operator
Hainan Mobile BVI	BVI September 1, 1999	10,000 shares at HK\$1	1 share at HK\$1	100%	Investment holding company
Hainan Mobile	PRC August 19, 1999	-	RMB 643	100%	Cellular telephone operator
Beijing Mobile BVI	BVI September 1, 2000	10,000 shares at HK\$1	1 share at HK\$1	100%	Investment holding company
Beijing Mobile	PRC July 26, 2000	-	RMB5,358	100%	Cellular telephone operator

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

28 Principal subsidiaries (Continued)

Details of the Company's principal subsidiaries are as follows (Continued):

<i>Name of company</i>	<i>Place and date of incorporation/establishment</i>	<i>Authorized, issued and paid up capital</i>		<i>Attributable equity interest %</i>	<i>Principal activities</i>
		<i>Authorized</i>	<i>Issued and paid up</i>		
Shanghai Mobile BVI	BVI September 1, 2000	10,000 shares at HK\$1	1 share at HK\$1	100%	Investment holding company
Shanghai Mobile	PRC August 4, 2000	-	RMB5,405	100%	Cellular telephone operator
Tianjin Mobile BVI	BVI September 1, 2000	10,000 shares at HK\$1	1 share at HK\$1	100%	Investment holding company
Tianjin Mobile	PRC July 24, 2000	-	RMB1,857	100%	Cellular telephone operator
Hebei Mobile BVI	BVI September 1, 2000	10,000 shares at HK\$1	1 share at HK\$1	100%	Investment holding company
Hebei Mobile	PRC July 31, 2000	-	RMB4,015	100%	Cellular telephone operator
Liaoning Mobile BVI	BVI September 1, 2000	10,000 shares at HK\$1	1 share at HK\$1	100%	Investment holding company
Liaoning Mobile	PRC August 7, 2000	-	RMB4,758	100%	Cellular telephone operator
Shandong Mobile BVI	BVI September 1, 2000	10,000 shares at HK\$1	1 share at HK\$1	100%	Investment holding company
Shandong Mobile	PRC August 7, 2000	-	RMB5,772	100%	Cellular telephone operator
Guangxi Mobile BVI	BVI September 1, 2000	10,000 shares at HK\$1	1 share at HK\$1	100%	Investment holding company
Guangxi Mobile	PRC August 3, 2000	-	RMB2,095	100%	Cellular telephone operator

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

28 Principal subsidiaries (Continued)

Details of the Company's principal subsidiaries are as follows (Continued):

<i>Name of company</i>	<i>Place and date of incorporation/establishment</i>	<i>Authorized, issued and paid up capital</i>		<i>Attributable equity interest %</i>	<i>Principal activities</i>
		<i>Authorized</i>	<i>Issued and paid up</i>		
China Mobile (Shenzhen) Limited	PRC June 9, 2000	-	US\$30	100%	Corporate operation controller
Aspire Holdings Limited	Cayman Islands June 5, 2000	1,500,000,000 shares at HK\$0.1	HK\$79	78.64%	Investment holding company
Aspire (BVI) Limited	BVI June 7, 2000	50,000 shares at US\$1	US\$0.001	78.64%	Investment holding company
Aspire Technologies (Shenzhen) Limited	PRC December 1, 2000	US\$10	US\$1.5	78.64%	Technology platform development and maintenance

Dividend declared in respect of previous financial year, approved and paid by the Company's subsidiaries for the financial years ended December 31, 2000 and 2001 amounting to RMB985 and RMB4,863 respectively. No dividend was declared for the financial year ended December 31, 1999.

In prior years, dividend income from subsidiaries was recognized as income in the Company's statements of income in the period in which they related. With effect from January 1, 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) issued by the Hong Kong Society of Accountants, the Company recognizes dividend income as income in the accounting period in which the dividends are declared or proposed and approved by the shareholders of the relevant subsidiaries.

The new accounting policy has been adopted retrospectively, with the opening balance of retained earnings and the comparative information of the Company adjusted for the amounts relating to prior periods.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP

The Group's accounting policies conform with generally accepted accounting principles in Hong Kong ("HK GAAP") which differ in certain material respects from those applicable generally accepted accounting principles in the United States of America ("US GAAP").

The significant differences relate principally to the following items and the adjustments considered necessary to present the net profit and shareholders' equity in accordance with US GAAP are shown in the tables set out below:

(a) *Effect of combination of entities under common control*

Under HK GAAP, the Group adopted the acquisition method to account for the purchase of Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile. Under the acquisition method, the acquired results are included in the results of operations from the date of their acquisition. Goodwill arising on the acquisition, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves immediately on acquisition.

As a result of the Group, Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile being under common control prior to the acquisition, such acquisitions under US GAAP are considered "combinations of entities under common control". Under US GAAP, combinations of entities under common control are accounted for under the "as if pooling-of-interests" method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination generally are restated on a combined basis. The cash consideration paid by the Group has been treated as an equity transaction in the year of acquisition for US GAAP purposes.

(b) *Capitalization of interest*

Under HK GAAP, the Group capitalizes interest costs to the extent that the related borrowings are directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

Under US GAAP, interest costs capitalized are determined based on specific borrowings related to the acquisition or construction of an asset, if an entity's financing plans associate a specific new borrowing with a qualifying asset. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with an asset, additional interest costs capitalized are based on the weighted average interest rate applicable to other borrowings of the entity.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

(c) *Revaluation and impairment of fixed assets*

For certain periods prior to May 31, 1997, the fixed assets of the subsidiaries were revalued in compliance with PRC rules and regulations, resulting in an increase in shareholders' equity.

Additionally, the fixed assets of Guangdong Mobile and Zhejiang Mobile were revalued as of May 31, 1997 as a result of the Restructuring occurred in 1997. The fixed assets of Jiangsu Mobile were revalued as of December 31, 1997 upon its acquisition by the Group on June 3, 1998. The fixed assets of Fujian Mobile, Henan Mobile and Hainan Mobile were revalued as of June 30, 1999 upon their acquisitions by the Group on November 11, 1999. The fixed assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were revalued as of June 30, 2000 upon their acquisition by the Group on November 10, 2000. These fixed asset revaluations result in an increase in shareholders' equity with respect to the increase in carrying amount of certain fixed assets above their historical cost bases.

The carrying amount of fixed assets under HK GAAP is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline occurs, the carrying amount is reduced to the recoverable amount based on the expected future cash flows generated by the fixed assets, discounted to their present values. A subsequent increase in the recoverable amount is written back to results of operations when circumstances and events that led to the write-down or write-off cease to exist.

Under US GAAP, fixed assets are stated at their historical cost, less accumulated depreciation. However, as a result of the tax deductibility of the revaluation reserve, a deferred tax asset related to the reversal of the revaluation reserve is created under US GAAP with a corresponding increase in shareholders' equity.

Under US GAAP, fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

(d) *Employee housing scheme*

The Group provides staff quarters under its employee housing schemes at below market prices. Under HK GAAP, employee housing scheme costs borne by the corresponding PTAs and not charged to the subsidiaries are not recognized by the subsidiaries.

Under US GAAP, employee housing scheme costs borne by the corresponding PTAs and not charged to the subsidiaries are reflected as an expense in the statement of income and a corresponding capital contribution. Additionally, under US GAAP, the costs to be borne by the subsidiaries are accrued over the term of the program.

(e) *Deferred taxation*

Under HK GAAP, the Group provides for deferred tax liabilities only to the extent that there is a reasonable probability that such deferred tax liabilities will become payable in the foreseeable future. Deferred tax assets are not recognized unless their realization is assured beyond reasonable doubt.

Under US GAAP, provisions are made for all deferred taxes as they arise, except a valuation allowance is provided against deferred tax assets when realization of such amounts does not meet the criterion of "more likely than not".

(f) *Share option scheme*

The Group grants share options to directors and employees. Under HK GAAP, the proceeds received are recognized as an increase to capital upon the exercise of the share options.

Under US GAAP, the Group determines compensation expenses based upon the excess, if any, of the quoted market price of the shares on the date of grant over the exercise price of the options and amortizes this amount over the vesting period of the option concerned.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

(g) Revenue recognition

Until June 30, 1999, under both HK GAAP and US GAAP, connection fee revenue and telephone number selection fees were recognized as received. Under US GAAP, effective July 1, 1999, net connection fees and telephone number selection fees received in excess of direct costs were deferred and recognized over the estimated customer usage period for the related service.

Under US GAAP, effective January 1, 2000, the Group adopted the provisions of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB101"). Under SAB 101, connection fees and telephone number selection fees received and incremental direct costs up to, but not exceeding such fees, are deferred and amortized over the estimated customer usage period for the related service. The cumulative effect from the adoption of SAB 101 was not material.

(h) Interconnection, roaming and leased line agreements

In May 2000, the Group entered into new agreements with China Mobile for inter-provincial interconnection and domestic and international roaming services, and inter-provincial long distance transmission leased line arrangement with retrospective effect from October 1, 1999 for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile and from April 1, 1999 for Fujian Mobile, Henan Mobile and Hainan Mobile. Under HK GAAP, the net savings refunded to the Group as a result of the two agreements taking retrospective effect were recorded in operations for the year ended December 31, 2000. Under US GAAP, such net savings are deferred and amortized on a straight-line basis over seven years.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

(i) Recently Issued Accounting Standards

SFAS Nos. 141 and 142

In June 2001, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141, “Business Combinations”, and SFAS No. 142, “Goodwill and Intangible Assets”. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS No. 142 will require that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS No. 142 will also require recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead tested for impairment in accordance with the Standard until its life is determined to no longer be indefinite.

The provisions of SFAS Nos. 141 and 142 shall be applied for fiscal years beginning after December 15, 2001, to all goodwill and other intangible assets recognized in an entity’s statement of financial position at the beginning of that fiscal year, regardless of when those previously recognized assets were initially recognized, with the exception of the immediate requirement to use the purchase method of accounting for all business combinations completed after June 30, 2001. However, any goodwill and any intangible asset determined to have an indefinite useful life that is acquired in a business combination completed after June 30, 2001 will not be amortized and instead reviewed for impairment in accordance with APB No. 17 or SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of”, until the date SFAS No. 142 is applied in its entirety.

SFAS No. 141 will require an entity to evaluate its existing intangible assets and goodwill and to make any necessary reclassifications in order to conform to the new separation requirements at the date of adoption. Upon adoption of SFAS No. 142, an entity will be required to reassess the useful lives and residual values of all intangible assets and make any necessary amortization period adjustments.

Because the Group currently has no goodwill arising from business combinations or other intangible assets, the adoption of SFAS No. 141 and 142 will not have a material impact on its financial position or results of operation under US GAAP.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

(i) Recently Issued Accounting Standards (Continued)

SFAS No. 143

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires the Group to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Group also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of the period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Group is required to adopt SFAS No. 143 on January 1, 2003. The Group has not determined the potential effects on the Group's consolidated financial statements of adopting this Statement.

SFAS No. 144

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which supersedes both SFAS No. 121, and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 141 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142, "Goodwill and Other Intangible Assets".

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

(i) Recently Issued Accounting Standards (Continued)

SFAS No. 144 (Continued)

The Group is required to adopt SFAS No. 144 no later than the fiscal year beginning after December 15, 2001. Management does not expect the adoption of SFAS No. 144 for long-lived assets held for use to have a material impact on the Group's consolidated financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121. The provisions of the Statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS No. 144 will have on the Group's consolidated financial statements.

SFAS No. 133

In June 1998, FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires companies to adopt its provisions for all fiscal quarters of all fiscal years beginning after June 15, 2000, as deferred by SFAS No. 137. Earlier application of all of the provisions of SFAS No. 133 is permitted, but the provisions cannot be applied retroactively to financial statements of prior periods. SFAS No. 133, as amended by SFAS No. 138, standardizes the accounting for derivative instruments by requiring that an entity recognize those items as assets or liabilities in the balance sheet and measure them at fair value. The adoption of SFAS No. 133 did not have a material impact on the Group's consolidated financial statements. The Group does not hold nor has it entered into any derivative contracts for the periods presented.

(j) Related party transactions

Under HK GAAP, transactions of the Group entered into with entities under the control by the MII prior to May 2000, and China Telecom Group are not disclosed as related party transactions.

Under US GAAP, transactions between the Group and the entities under the control by MII prior to May 2000, and China Telecom Group are also disclosed as related party transactions.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

The effect on net profit of significant differences between HK GAAP and US GAAP is as follows:

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Net profit under HK GAAP	4,797	18,027	28,015
<i>Adjustments:</i>			
Effect of combination of entities under common control	4,886	7,139	-
Capitalized interest	96	17	85
Revaluation of fixed assets	3,781	603	1,098
Employee housing scheme	(227)	2	-
Deferred taxation	352	(395)	(46)
Share option scheme	(22)	(99)	(277)
Amortization of net connection fees and telephone number selection fees	(1,511)	(542)	661
Amortization of net savings from interconnection, roaming and leased line agreements	-	(543)	86
Deferred tax effects of US GAAP adjustments	<u>(1,159)</u>	<u>71</u>	<u>(547)</u>
Net profit under US GAAP	<u>10,993</u>	<u>24,280</u>	<u>29,075</u>
Basic and diluted net profit per share in accordance with US GAAP	<u>0.65</u>	<u>1.37</u>	<u>1.56</u>

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

The effect on shareholders' equity of significant differences between HK GAAP and US GAAP is as follows:

	<i>As of December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Shareholders' equity under HK GAAP	83,760	111,779
<i>Adjustments:</i>		
Capitalized interest	491	576
Revaluation of fixed assets		
- Cost	(11,410)	(11,410)
- Accumulated depreciation and other	6,167	7,265
Deferred tax adjustments on revaluations	1,697	1,295
Employee housing scheme	(1,193)	(1,193)
Deemed capital contribution for employee housing scheme	1,193	1,193
Deferral of net connection fees and telephone number selection fees	(2,054)	(1,393)
Deferral of net savings from interconnection, roaming and leased line agreements	(543)	(457)
Recognition of deferred taxes	1,264	1,204
Deferred tax effects of US GAAP adjustments	288	157
Shareholders' equity under US GAAP	79,660	109,016

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

The following are condensed consolidated balance sheets of the Group as of December 31, 2000 and 2001, and the related condensed consolidated statements of income, total shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001, restated to reflect the impact of the differences between HK GAAP and US GAAP. Certain comparative figures have been reclassified to conform with current year's presentation.

Condensed consolidated statements of income

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Operating revenue			
Usage fees	47,726	64,220	73,458
Monthly fees	10,935	14,364	14,085
Connection fees	4,479	1,811	1,848
Other operating revenue	7,463	10,585	12,085
Total operating revenue	70,603	90,980	101,476
Operating expenses			
Leased lines	7,999	7,937	5,029
Interconnection	12,550	13,773	12,948
Depreciation	12,952	14,169	16,675
Personnel	3,271	4,871	5,602
Other operating expenses	10,136	14,306	19,026
Write-down and write-off of analog network equipment	9,775	1,547	-
Total operating expenses	56,683	56,603	59,280
Operating profits	13,920	34,377	42,196
Other net income	628	1,107	1,594
Non-operating net income	191	223	269
Interest income	809	1,070	857
Finance costs	(938)	(1,399)	(1,546)
Profit before tax	14,610	35,378	43,370
Income tax	(3,617)	(11,097)	(14,296)
Profit after tax	10,993	24,281	29,074
Minority interests	-	(1)	1
Net profit	10,993	24,280	29,075

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

Condensed consolidated balance sheets

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Assets		
Current assets		
Cash and cash equivalents	27,702	21,821
Deposits with banks	12,204	14,970
Accounts receivable	7,252	5,728
Other receivables	1,299	1,081
Inventories	828	1,029
Prepayments and other current assets	1,289	1,571
Amount due from ultimate holding company	557	503
Amounts due from related parties	998	108
Total current assets	52,129	46,811
Fixed assets	82,223	101,063
Construction in progress	14,019	20,557
Investment securities	61	77
Interest in associates	46	16
Deferred tax assets	6,295	4,132
Deferred expenses	1,765	1,298
Total assets	156,538	173,954

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

Condensed consolidated balance sheets

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	8,132	9,592
Bills payable	1,005	1,458
Bank loans and other interest-bearing borrowings	10,471	4,531
Taxes payable	6,735	6,003
Obligation under capital lease – current portion	1,624	908
Amounts due to related parties	3,449	1,725
Accrued expenses and other payables	8,408	10,840
Amount due to immediate holding company	4,136	-
Amount due to ultimate holding company	678	241
Total current liabilities	44,638	35,298
Bank loans and other interest-bearing borrowings	23,134	21,591
Deferred revenue	7,854	7,205
Obligation under capital leases – long-term portion	1,235	812
Total liabilities	76,861	64,906
Minority interests	17	32
Shareholders' equity	79,660	109,016
Total liabilities and shareholders' equity	156,538	173,954

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

Condensed consolidated statements of total shareholders' equity for the following years:

	RMB
Shareholders' equity at January 1, 1999	70,127
Net profit for the year ended December 31, 1999	10,993
Issue of ordinary shares	48,908
Deemed capital distribution	(52,953)
Distribution to owner	(2,185)
Contribution by owner	955
Deemed capital contribution for employee housing scheme	252
Tax effect of revaluation	954
Stock-based compensation	<u>22</u>
Shareholders' equity at December 31, 1999	77,073
Net profit for the year ended December 31, 2000	24,280
Issue of ordinary shares	248,181
Deemed capital distribution	(271,485)
Distribution to owner	(1,297)
Contribution by owner	278
Deemed capital contribution for employee housing scheme	84
Tax effect of revaluation	2,469
Stock-based compensation	99
Others	<u>(22)</u>
Shareholders' equity at December 31, 2000	79,660
Net profit for the year ended December 31, 2001	29,075
Issue of ordinary shares	4
Stock-based compensation	<u>277</u>
Shareholders' equity at December 31, 2001	<u><u>109,016</u></u>

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

Condensed consolidated statements of cash flows

The Group applies Hong Kong Statement of Standard Accounting Practice No. 15 “Cash Flow Statements” (“HK SSAP 15”). Its objectives and principles are similar to those set out in Statement of Financial Accounting Standards No. 95, “Statement of Cash Flows” (“SFAS 95”). The principal differences between the standards relate to classification. Under HK SSAP 15, the Group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) investing activities; and (e) financing activities. Cash flows from taxation and returns on investments and servicing of finance shown herein would be included as operating activities under SFAS 95, with the exception of distributions, which under SFAS 95 would be classified as financing activities. Summarized cash flow data by operating, investing and financing activities in accordance with SFAS 95 are as follows:

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Net cash inflow from			
Operating activities	35,137	49,341	49,898
Investing activities	(30,646)	(33,722)	(46,198)
Financing activities	<u>1,259</u>	<u>(11,907)</u>	<u>(9,581)</u>
Increase/(decrease) in cash and cash equivalents	5,750	3,712	(5,881)
Cash and cash equivalents at beginning of year	18,240	23,990	27,702
	<u>23,990</u>	<u>27,702</u>	<u>21,821</u>
Interest paid (net of amounts capitalized)	<u>844</u>	<u>1,304</u>	<u>2,008</u>
Income taxes paid	<u>4,093</u>	<u>6,956</u>	<u>12,865</u>

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

29 Significant differences between HK GAAP and US GAAP (Continued)

Significant non-cash transactions

The Group incurred payables of RMB8,679 and RMB1,337 to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 2001.

The Group incurred payables of RMB6,185 and RMB1,068 to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 2000.

The Group incurred payables of RMB7,637 and RMB1,779 to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 1999.

30 Additional information required by US GAAP

The following additional financial statement disclosures are required under US GAAP and are presented on a US GAAP basis.

Write-down and write-off of analog network equipment

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Write-down of analog network equipment	8,841	1,352	-
Write-off of analog network equipment	934	195	-
	9,775	1,547	-
	9,775	1,547	-

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

30 Additional information required by US GAAP (Continued)

Write-down and write-off of analog network equipment (Continued)

Due to the rapid change of technology, the Company has re-assessed the recoverability of the carrying amount of the analog network equipment which are held for use at December 31, 1999 and 2000. The Company determined the existence of impairment by comparing the carrying amount of these equipment to their future undiscounted net cash flows expected to be generated over the economic life of each analog network in service at December 31, 1999 and 2000. The Company has recognized impairment write downs of RMB8,841 and RMB1,352 on these equipment in 1999 and 2000, respectively. Such amount of loss is measured by the amount by which the carrying amounts of the individual analog network assets exceed their fair value determined based on the discounted net cash flow expected to be generated by each analog network. Additionally, the Company has written-off RMB934 and RMB195 of certain analog network equipment which have been removed from service at December 31, 1999 and 2000, respectively. At December 31, 2001, all analog network equipment which had been written down in previous years had been removed from service.

Income tax

The Company is subject to Hong Kong profits tax at 16% for the years ended December 31, 1999, 2000 and 2001.

The Group's PRC subsidiaries are subject to the statutory income tax rate of 33%, except for certain subsidiaries of the Company and certain operations of the subsidiaries located within special economic zones in the PRC, which enjoys a preferential rate of 30% and 15%, respectively.

The components of income tax expense are as follows:

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Current	5,386	8,714	12,133
Deferred	<u>(1,769)</u>	<u>2,383</u>	<u>2,163</u>
	<u>3,617</u>	<u>11,097</u>	<u>14,296</u>

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

30 Additional information required by US GAAP (Continued)

Income tax (Continued)

The provision for income tax differs from the amount computed by applying the PRC statutory income tax rate of 33% to profit before tax and minority interests for the following reasons:

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Expected PRC taxation at statutory tax rates	4,822	11,675	14,312
Non-taxable items			
- Connection fee	(571)	(287)	(111)
- Surcharge	(430)	(207)	-
- Interest income	(66)	(74)	(32)
Non-deductible expenses	263	586	233
Rate differential on PRC operations	(385)	(688)	(591)
Rate differential on Hong Kong operations	(46)	32	165
Reversal of deferred taxation due to change of income tax rate	84	-	84
Tax losses not recognized for deferred tax	-	-	203
Others	(54)	60	33
Income tax	3,617	11,097	14,296

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

30 Additional information required by US GAAP (Continued)

Income tax (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below.

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Deferred tax assets:		
Provision for obsolete inventories	12	4
Provision for doubtful accounts	1,264	1,204
Revaluation of fixed assets	3,799	1,466
Amortization of deferred items	501	475
Income recognition on prepaid service fees	872	1,161
Gross deferred tax assets	6,448	4,310
Deferred tax liabilities:		
Capitalized interest	(153)	(178)
Net deferred tax assets	6,295	4,132

Accounts receivable

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Accounts receivable	11,312	9,701
Less: Allowance for doubtful accounts	(4,060)	(3,973)
	7,252	5,728

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

30 Additional information required by US GAAP (Continued)

Accounts receivable (Continued)

Allowance for doubtful accounts is analyzed as follows:

	RMB
At January 1, 1999	3,333
Provision for the year	2,073
Written-off	<u>(2,022)</u>
At December 31, 1999	3,384
Provision for the year	1,985
Written-off	<u>(1,309)</u>
At December 31, 2000	4,060
Provision for the year	1,737
Written-off	<u>(1,824)</u>
At December 31, 2001	<u><u>3,973</u></u>

Fixed assets

	<i>December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Land use rights and buildings	6,612	9,233
Telecommunication transceivers, switching centers and other network equipment	113,511	131,644
Office equipment, furniture and fixtures and others	<u>3,835</u>	<u>6,256</u>
	123,958	147,133
Less: accumulated depreciation	<u>(41,735)</u>	<u>(46,070)</u>
	<u><u>82,223</u></u>	<u><u>101,063</u></u>

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

30 Additional information required by US GAAP (Continued)

Deferred revenue and other items

	<i>Year ended December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Balance at beginning of year	3,912	7,854
Addition during the year	13,692	23,842
Recognized in the condensed consolidated statements of income	<u>(9,750)</u>	<u>(24,491)</u>
Balance at end of year	<u>7,854</u>	<u>7,205</u>

Deferred revenue comprises:

- (i) the unamortized portion of proceeds received by Guangdong Mobile from certain distributors of telecommunications services which are amortized over a period of seven years;
- (ii) the unamortized portion of connection fees and telephone number selection fees received which are recognized over the estimated subscriber usage period for the related services;
- (iii) the prepaid services fee received from subscribers which is recognized as income when the cellular telephone services are rendered upon actual usage by subscribers; and
- (iv) the unamortized portion of net savings attributable to the Group as a result of the provincial interconnection, roaming and leased line agreements.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

30 Additional information required by US GAAP (Continued)

Deferred expenses

	<i>Year ended December 31,</i>	
	<i>2000</i>	<i>2001</i>
	RMB	RMB
Balance at beginning of year	960	1,765
Addition during the year	1,695	738
Recognized in the condensed consolidated statements of income	(890)	(1,205)
Balance at end of year	1,765	1,298

Deferred expenses comprises:

- (i) the unamortized portion of issuance costs in respect of the fixed rate notes, convertible notes and bonds; and
- (ii) the unamortized portion of direct costs related to connection fees and telephone number selection fees received.

Stock option plan

Details of the Company's stock option plan and options granted under the plan are contained in Note 26. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants: no dividend yield for all years; expected volatility of 75.0%, 89.97% and 65.92% for the share option granted during 1999, 2000 and 2001 respectively; risk-free interest rate of 9.5%, 9.5% and 5.5% during 1999, 2000 and 2001 respectively; and expected life of 8 years, 8 years and 6 years during 1999, 2000 and 2001 respectively. The per share fair value of stock options granted during 1999, 2000 and 2001 were HK\$31.48, HK\$48.92 and HK\$29.46 on the date of grant, respectively.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

30 Additional information required by US GAAP (Continued)

Stock option plan (continued)

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, in accounting for its plan. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. The compensation cost that has been charged against income for US GAAP for the Company's stock option plan was RMB22 for 1999, RMB99 for 2000 and RMB277 for 2001. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date for its stock options under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", the Company's net profit and net profit per share would have been reduced to the pro forma amounts indicated below:

		<i>Year ended December 31,</i>	
		<i>2000</i>	<i>2001</i>
		RMB	RMB
Net profit	As reported	24,280	29,075
	Pro forma	23,941	28,274
Basic net profit per share	As reported	1.37	1.56
	Pro forma	1.36	1.52
Diluted net profit per share	As reported	1.37	1.56
	Pro forma	1.35	1.51

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

30 Additional information required by US GAAP (Continued)

Net profit per share

The following is a reconciliation of the numerators and denominators of the basic and diluted net profit per share computations prepared under US GAAP.

	<i>For the year ended December 31, 1999</i>			<i>For the year ended December 31, 2000</i>			<i>For the year ended December 31, 2001</i>		
	<i>Income</i> <i>(Numerator)</i>	<i>Shares</i> <i>(Denominator)</i>	<i>Per share</i> <i>amount</i>	<i>Income</i> <i>(Numerator)</i>	<i>Shares</i> <i>(Denominator)</i>	<i>Per share</i> <i>amount</i>	<i>Income</i> <i>(Numerator)</i>	<i>Shares</i> <i>(Denominator)</i>	<i>Per share</i> <i>amount</i>
Basic net profit per share	10,993	16,944	0.65	24,280	17,666	1.37	29,075	18,605	1.56
Effect of dilutive securities									
Convertible notes	-	-		-	-		129	91	
Stock options	-	3		-	16		-	2	
Diluted net profit per share	10,993	16,947	0.65	24,280	17,682	1.37	29,204	18,698	1.56

Fair value

Financial assets of the Group include cash and cash equivalents, deposits with banks, accounts receivable, other receivables and amounts due from related parties. Financial liabilities of the Group include accounts payable, bank and other loans, other payables and due to related parties. It is not practicable to estimate the fair value of the amounts due from and due to related parties without incurring excessive cost.

The following table presents the carrying amounts and fair values of the Group's bank and other loans as of December 31, 2000 and 2001:

	<i>December 31, 2000</i>		<i>December 31, 2001</i>	
	<i>Carrying amount</i> RMB	<i>Fair Value</i> RMB	<i>Carrying amount</i> RMB	<i>Fair value</i> RMB
Fixed rate bank and other loans	14,630	14,700	5,472	5,553
Variable rate bank and other loans	8,314	8,314	4,986	4,986
Fixed rate notes	4,953	5,134	4,956	5,375
Convertible notes	5,708	5,709	5,708	5,400
Bonds	-	-	5,000	5,045
Total	33,605	33,857	26,122	26,359

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short maturity of these instruments.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

30 Additional information required by US GAAP (Continued)

Related party transactions

	<i>Year ended December 31,</i>		
	<i>1999</i>	<i>2000</i>	<i>2001</i>
	RMB	RMB	RMB
Interconnection revenue	2,477	4,681	4,109
Interconnection charges	9,516	9,586	7,717
Leased line charges	7,999	8,090	4,449
Roaming revenue	3,396	4,038	4,688
Roaming expenses	3,033	3,503	4,559
Spectrum fees	28	27	18
Operating lease charges	540	617	508
Sales commission	426	398	84
Debt collection service fees	181	216	120
Billing service fees	23	17	18
Roaming billing processing fees	-	150	201
Equipment maintenance service fees	2	8	48
Rental charges of synchronized clock ports	5	12	15
Construction and related services	-	38	161
Purchases of transmission tower and transmission tower-related service and antenna maintenance service fees	-	27	55
Prepaid card sales commission income	-	129	241
Prepaid card sales commission expenses	-	131	315
Interest paid/payable	23	-	-
Capital contributions	604	-	-
Distributions	849	-	-

Descriptions of the nature of the related party transactions are set forth in Note 25.

Segment reporting

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information", established standards for reporting information about operating segments in financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

30 Additional information required by US GAAP (Continued)

Segment reporting (Continued)

The Company's operating segments are comprised of its cellular businesses operated within the Guangdong, Zhejiang, Jiangsu, Fujian, Henan, Hainan, Hebei, Liaoning and Shandong provinces, Beijing, Shanghai and Tianjin municipalities, and Guangxi autonomous region of the PRC. The operating segments are managed separately because each operating segment represents a strategic business unit that serves different markets. All operating segments provide cellular services to individual customers within their geographic market. The Company's operating segments have been aggregated into a single operating segment as they are expected to exhibit similar future economic characteristics.

Business risks

The Group conducts its principal operations in the PRC and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of United States and Western European companies. These include risks associated with, among others, the political, economic and legal environment, extensive government regulations and competition in the cellular telephone industry.

New telecommunications law

In order to provide a uniform regulatory framework for the telecommunications industry in the PRC, the MII, pursuant to the direction of the PRC State Council, is currently preparing a draft of the Telecommunications Law of the PRC (the "Telecommunications Law"). The draft law, when formulated, will be submitted to the National People's Congress for review and adoption. It is unclear if and when the Telecommunications Law will be adopted, and the nature and scope of regulation envisaged by the Telecommunications Law are not fully known. There can be no assurance that the Telecommunications Law, if adopted, would not have a material adverse effect on the Group's business, financial condition and results of operations.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

30 Additional information required by US GAAP (Continued)

Amount of spectrum availability

The Group's cellular system's subscriber capacity is limited by the amount of spectrum available for use by the system. The former State Radio Regulatory Commission, now a department within the MII, is responsible for the overall allocation of radio frequency spectrum in the PRC. There can be no assurance that the Group would be granted additional spectrum when and if required, and any resulting levels of system congestion could result in subscriber dissatisfaction, decreased system usage by subscribers and increased churn rate.

Dependence on the PSTN and interconnection arrangement

The Group's cellular services depend in large part upon access to the fixed line network. Limitations on the fixed line network would lower local, long-distance and international call completion rates for the Group's subscribers. There can be no assurance that increasing usage of the network would not result in additional strain on the fixed line network switching capacity, or that the existing quality of the fixed line network will remain adequate.

In addition, the Group's operating revenues and expenses are affected by the terms of its interconnection arrangements. A material increase in interconnection charges payable by the Group could have a material adverse effect on the Group's results of operations. There can be no assurance that the commercial terms of future interconnection arrangements will be acceptable to the Group.

Self insurance risk

The Group does not maintain any insurance policies to cover its assets.

Interest rate risk

The interest rates and terms of repayment of the bank and other loans payable of the Group are disclosed in Note 19.

Notes to Consolidated Financial Statements (Continued) *(Amounts in millions, except share data)*

30 Additional information required by US GAAP (Continued)

Foreign currency risk

The Group has foreign currency risk as certain loans and cash and cash equivalents are denominated in foreign currencies, principally US dollars and Hong Kong dollars. Depreciation or appreciation of the Renminbi against foreign currencies affects the Group's results of operations.

Credit risk

Substantially all of the Group's cash and cash equivalents are deposited with Hong Kong and PRC financial institutions. The accounts receivable of the Group are spread among a number of customers.