

REPORT OF THE DIRECTORS

The directors take pleasure in submitting their Annual Report together with the audited accounts for the year ended 31 December 2000.

Principal activities

The principal activities of the Group are the provision of mobile communications and related services in Guangdong, Zhejiang, Jiangsu, Fujian, Henan, Hainan, Shandong, Liaoning and Hebei provinces, Beijing, Shanghai and Tianjin municipalities and Guangxi autonomous region of the People's Republic of China. The principal activity of the Company is investment holding.

The turnover of the Group during the financial year consists primarily of income generated from the provision of mobile communications services.

Major customers and suppliers

The Group's sales to its five largest customers did not exceed 30 per cent. of the Group's total turnover in 2000.

Purchases from the largest supplier for the year represented 25 per cent. of the Group's total purchases. The five largest suppliers accounted for an aggregate of 65 per cent. of the Group's purchases in 2000. Purchases for the Group included network equipment purchases, leasing of transmission lines and payments in relation to interconnection arrangements. Purchases from suppliers, other than suppliers of leased lines and network equipment and interconnection arrangements, were not a material component of the Group's total purchases.

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5 per cent. of the Company's share capital) had any interest in these major suppliers.

Subsidiaries and associates

Particulars of the Company's subsidiaries and the Group's associates at 31 December 2000 are set out in Note 16 and Note 17, respectively, to the accounts.

Accounts

The profit of the Group for the year ended 31 December 2000 and the state of the Company's and the Group's financial affairs as at that date are set out in the accounts on pages 56 to 99.

The Board of Directors considers that with the increase in the number of operating subsidiaries as well as the expansion of the Group's business after the 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"), the Group will require additional funds for network expansion and integration in order to sustain rapid business growth. At the same time, with the rapid development of wireless communication technologies, it is necessary for the Group to maintain sufficient flexibility in the employment of capital for future investment in, and the development of, new mobile technologies and business opportunities in order to achieve a better return to shareholders. Therefore, the Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2000.

Change of company name

Pursuant to a special resolution passed on 16 June 2000, the name of the Company was changed from China Telecom (Hong Kong) Limited (中國電信(香港)有限公司) to China Mobile (Hong Kong) Limited (中國移動(香港)有限公司) with effect from 28 June 2000.

Charitable donations

Donations made by the Group during the year amounted to RMB12,240,811 (1999: RMB3,546,227).

Fixed assets

Changes to the fixed assets of the Group and the Company during the year are set out in Note 14 to the accounts.

Share capital and share option scheme

Details of increases in share capital during the year and the share option scheme of the Company are set out in Note 30 and Note 31, respectively, to the accounts.

Shares were issued during the year to finance the acquisition of the entire issued share capital of Beijing Mobile (BVI) Limited, Shanghai Mobile (BVI) Limited, Tianjin Mobile (BVI) Limited, Hebei Mobile (BVI) Limited, Liaoning Mobile (BVI) Limited, Shandong Mobile (BVI) Limited and Guangxi Mobile (BVI) Limited from China Mobile Hong Kong (BVI) Limited ("CMHK(BVI)") (the "Acquisition").

The balance of proceeds of RMB3,953,000,000 at 31 December 1999, which was raised by the Company from the listing of shares in 1997, was fully applied during the year to fund the expansion of the Group's mobile telecommunications cellular networks and to finance the Acquisition.

Fixed rate notes

Details of the Company's fixed rate notes are set out in Note 26 to the accounts.

Convertible notes

Details of the Company's convertible notes are set out in Note 26 to the accounts. These notes were issued in connection with the financing of the Acquisition.

Reserves

Changes to the reserves of the Group and the Company during the year are set out in Note 32 to the accounts.

Directors

The directors during the financial year were:

Executive directors:

Wang Xiaochu (*Chairman*)

Li Zhenqun (appointed on 11 August 2000)

Ding Donghua

Li Gang

Xu Long

He Ning

Liu Ping

Yuan Jianguo

Wei Yiping

Li Ping (resigned on 11 August 2000)

Non-executive director:

Cui Xun (resigned on 21 July 2000)

Independent non-executive directors:

Professor Arthur Li Kwok Cheung

Antony Leung Kam Chung

On 27 February 2001, Mr. Chris Gent was appointed as an independent non-executive director of the Company. On 9 April 2001, Mr. Antony Leung Kam Chung tendered his resignation as an independent non-executive director with effect from 10 April 2001, and Dr. Lo Ka Shui was appointed as an independent non-executive director with effect from 10 April 2001.

In accordance with Article 97 of the Company's Articles of Association, Mr. Ding Donghua, Mr. He Ning and Professor Arthur Li Kwok Cheung will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election. In accordance with Article 101 of the Company's Articles of Association, Mr. Li Zhenqun, Mr. Chris Gent and Dr. Lo Ka Shui will also retire at the forthcoming meeting and, being eligible, offer themselves for re-election.

Directors' service contracts

None of those directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' interests in contracts

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in shares

As at 31 December 2000, the interests of the directors and the chief executives of the Company in the equity securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "Ordinance") as recorded in the register required to be kept under section 29 of the Ordinance were as follows:

<i>Name of Directors</i>	<i>Personal Interest</i>
Wang Xiaochu	500 American depositary shares (note 1)
Li Zhenqun	100 American depositary shares (note 1)
Ding Donghua	500 American depositary shares (note 1)

Note 1: 1 American depositary share represents 5 ordinary shares of HK\$0.10 each of the Company.

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

Apart from the foregoing, as at 31 December 2000, none of the directors had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Ordinance.

Directors' rights to acquire shares

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

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

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

During the year ended 31 December 2000, the directors of the Company had the following personal interests in options to subscribe for shares of the Company.

Name of directors	Date on which options were granted	Normal period during which options are exercisable	Price per share to be paid on exercise of options HK\$	No. of shares involved in the options granted	No. of shares involved in the options exercised during the year	Market value per share on exercise of options HK\$	No. of shares involved in the options outstanding at year end
Wang Xiaochu	26/11/99	26/11/99-7/10/07	33.91	1,950,000	-	-	1,950,000
	26/11/99	26/11/02-7/10/07	33.91	1,950,000	-	-	1,950,000
	25/4/00	25/4/02-7/10/07	45.04	100,000	-	-	100,000
	25/4/00	25/4/05-7/10/07	45.04	100,000	-	-	100,000
Ding Donghua	9/3/98	9/3/98-8/3/06	11.10	2,100,000	-	-	2,100,000
	26/11/99	26/11/99-7/10/07	33.91	550,000	-	-	550,000
	26/11/99	26/11/02-7/10/07	33.91	550,000	-	-	550,000
	25/4/00	25/4/02-7/10/07	45.04	100,000	-	-	100,000
	25/4/00	25/4/05-7/10/07	45.04	100,000	-	-	100,000
Li Gang	26/11/99	26/11/99-7/10/07	33.91	500,000	-	-	500,000
	26/11/99	26/11/02-7/10/07	33.91	500,000	-	-	500,000
	25/4/00	25/4/02-7/10/07	45.04	90,000	-	-	90,000
	25/4/00	25/4/05-7/10/07	45.04	90,000	-	-	90,000
Xu Long	25/4/00	25/4/02-7/10/07	45.04	585,000	-	-	585,000
	25/4/00	25/4/05-7/10/07	45.04	585,000	-	-	585,000
He Ning	26/11/99	26/11/99-7/10/07	33.91	500,000	-	-	500,000
	26/11/99	26/11/02-7/10/07	33.91	500,000	-	-	500,000
	25/4/00	25/4/02-7/10/07	45.04	83,000	-	-	83,000
	25/4/00	25/4/05-7/10/07	45.04	83,000	-	-	83,000
Liu Ping	25/4/00	25/4/02-7/10/07	45.04	581,000	-	-	581,000
	25/4/00	25/4/05-7/10/07	45.04	581,000	-	-	581,000
Yuan Jianguo	25/4/00	25/4/02-7/10/07	45.04	580,000	-	-	580,000
	25/4/00	25/4/05-7/10/07	45.04	580,000	-	-	580,000
Wei Yiping	25/4/00	25/4/02-7/10/07	45.04	578,000	-	-	578,000
	25/4/00	25/4/05-7/10/07	45.04	578,000	-	-	578,000
Li Ping (resigned on 11 August 2000)	9/3/98	9/3/98-8/3/06	11.10	2,400,000	2,400,000	58.75	-
	26/11/99	26/11/99-7/10/07	33.91	600,000	600,000	58.75	-
	26/11/99	26/11/02-7/10/07	33.91	600,000	600,000	58.75	-
	25/4/00	25/4/02-7/10/07	45.04	100,000	100,000	59.50	-
	25/4/00	25/4/05-7/10/07	45.04	100,000	100,000	59.50	-

Apart from the foregoing, at no time during the year was the Company, or any of its holding companies or subsidiaries, a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Apart from the foregoing, no person or corporation had any interest in the share capital of the Company as recorded in the registers required to be kept under section 16(1) of the Securities (Disclosure of Interests) Ordinance as having an interest in 10 per cent. or more of the issued share capital of the Company.

Substantial interests in the share capital of the Company

The Company has been notified of the following interests in the Company's issued shares at 31 December 2000 amounting to 10 per cent or more of the ordinary shares then in issue:

	Ordinary shares held		Percentage of total issued shares
	Held directly	Held indirectly	
(i) China Mobile Communications Corporation ("China Mobile")	-	14,062,602,396	75.58%
(ii) China Mobile (Hong Kong) Group Limited ("CMHK (Group)")	-	14,062,602,396	75.58%
(iii) CMHK (BVI)	14,062,602,396	-	75.58%

Note : In light of the fact that China Mobile and CMHK (Group) directly or indirectly control one-third or more of the voting rights in the shareholders' meetings of CMHK (BVI), in accordance with the Securities (Disclosure of Interests) Ordinance, the interests of CMHK (BVI) are deemed to be, and have therefore been included in, the interests of China Mobile and CMHK (Group).

Connected transactions which are the subject of exemption under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")

Details of the transactions as set out in rule 14.23 (2) of the Listing Rules are set out in Note 33 to the accounts. In the opinion of the independent non-executive directors, these transactions were entered into by the Group:

- (i) in the ordinary and usual course of its business on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (ii) on normal commercial terms and in accordance with the terms of the agreements governing such transactions; and

- (iii) connected transactions of the following types do not exceed the upper limits set out below for the financial year ended 31 December 2000:
- (1) properties lease payments payable by Fujian Mobile Communication Company Limited (“Fujian Mobile”), Henan Mobile Communication Company Limited (“Henan Mobile”) and Hainan Mobile Communication Company Limited (“Hainan Mobile”) to respective provincial telecommunications companies (PTCs) have not exceeded 0.34 per cent. of the Group’s turnover for the year ended 31 December 2000;
 - (2) synchronised clock ports rentals payable by Fujian Mobile, Henan Mobile and Hainan Mobile to respective PTCs have not exceeded 0.008 per cent. of the Group’s turnover for the year ended 31 December 2000;
 - (3) equipment maintenance charges payable by Fujian Mobile to Fujian Telecommunications Company Limited have not exceeded 0.019 per cent. of the Group’s turnover for the year ended 31 December 2000;
 - (4) rental and property management fees payments payable by Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile to subsidiaries of China Mobile have not exceeded RMB85,000,000 for the year ended 31 December 2000;
 - (5) construction and related services payments payable by Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile to subsidiaries of China Mobile have not exceeded 0.25 per cent. of the Group’s turnover for the year ended 31 December 2000;
 - (6) equipment maintenance and related services payments payable by Beijing Mobile, Shanghai Mobile and Liaoning Mobile to subsidiaries of China Mobile have not exceeded 0.05 per cent. of the Group’s turnover for the year ended 31 December 2000;
 - (7) purchase of transmission towers and transmission tower-related services and antenna maintenance services payments payable by Hebei Mobile to the relevant subsidiaries of China Mobile have not exceeded 0.06 per cent. of the Group’s turnover for the year ended 31 December 2000; and
 - (8) handling charges received by the Group from subsidiaries of China Mobile in respect of pre-paid services have not exceeded 2 per cent. of the Group’s turnover for the year ended 31 December 2000 and handling charges paid by the Group to subsidiaries of China Mobile in respect of pre-paid services have not exceeded 2 per cent. of the Group’s turnover for the year ended 31 December 2000.

The Company has received from the auditors a letter stating that the above connected transactions:

- (a) have received the approval of the Directors;
- (b) were in accordance with the pricing policy as stated in the notes to the accounts; and
- (c) have been conducted in the manner as stated in (ii) above.

Purchase, sale or redemption of the Company's listed securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Bank and other loans

Particulars of bank and other loans of the Group as at 31 December 2000 are set out in Note 26 to the accounts.

Financial summary

A summary of the pro-forma combined results of the Group for each of the two years ended 31 December 1996 and 1997, the audited results of the Group for the year ended 31 December 1998, 1999 and 2000, the audited statements of the Group's assets and liabilities as at 31 December 1997, 1998, 1999 and 2000, together with the pro-forma combined statement of the Group's assets and liabilities as at 31 December 1996, are set out on pages 106 to 107.

The Group's pro-forma combined results for each of the two years ended 31 December 1996 and 1997 have been prepared on a combined basis as if Guangdong Mobile Communication Company Limited ("Guangdong Mobile") and Zhejiang Mobile Communication Company Limited ("Zhejiang Mobile") were subsidiaries of the Company since 1 January 1996 or since the respective dates of incorporation where these are shorter periods. The Group's results for the year ended 31 December 1998 include the results of the Company, Guangdong Mobile and Zhejiang Mobile for the year ended 31 December 1998 and the post-acquisition results of Jiangsu Mobile Communication Company Limited ("Jiangsu Mobile") for the period from 4 June 1998 to 31 December 1998. The Group's results for the year ended 31 December 1999 include the results of the Company, Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile for the year ended 31 December 1999 and the post-acquisition results of Fujian Mobile, Henan Mobile and Hainan Mobile for the period from 12 November 1999 to 31 December 1999. The Group's results for the year ended 31 December 2000 include the results of the Company, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile for the year ended 31 December 2000, the results of China Mobile (Shenzhen) Limited and Aspire Holdings Limited for the period from their respective dates of incorporation to 31 December 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 13 November 2000 to 31 December 2000.

The Group's pro-forma combined statement of assets and liabilities as at 31 December 1996 is a combination of the statement of assets and liabilities of Guangdong Mobile and Zhejiang Mobile as at 31 December 1996.

Compliance with the Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules except that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

Auditors

A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

Wang Xiaochu

Chairman

Hong Kong, 9 April 2001