(expressed in Renminbi)

1 Principal accounting policies

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the principal accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost.

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.

Material intra-group balances and transactions, and any unrealised profit arising from intra-group transactions, are eliminated in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

(d) Associates

An associate is an entity 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 post-acquisition results of its associates for the year is not considered material and therefore is not included in the consolidated profit and loss account. In the consolidated balance sheet, interest in associates is stated at cost less impairment losses (see note 1(i)), 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 recognised in the profit and loss account as they arise.

1 Principal accounting policies (cont'd)

(e) 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 1(i)); and

— for acquisitions on or after 1 January 2001, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life of not exceeding 20 years. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 1(i)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(i)) 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 recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account:

— for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet 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.

1 Principal accounting policies (cont'd)

(f) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and 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 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 recognised as an expense in the profit and loss account, 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 profit and loss account as they arise.

(g) Fixed assets and depreciation

(i) Fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 1(i)).

(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 profit and loss account in the period 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 capitalised 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 estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(iv) Depreciation is calculated to write-off the cost of fixed assets on a straight-line basis over their estimated useful lives, to residual values, as follows:

	Depreciable life	Residual value
Land use rights	Over the period of grant	—
Buildings	8-35 years	3%
Telecommunications transceivers, switching centres and other network equipment	7 years	3%
Office equipment, furniture and fixtures and others	4-18 years	3%

1 Principal accounting policies (cont'd)

(h) Leased assets

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

Where the Group acquires the use of assets under finance 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 of charges, are recorded as obligations under finance 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 Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to the profit and loss account 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 period.

(i) 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 recognised no longer exists or may have decreased:

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

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

(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 recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

1 Principal accounting policies (cont'd)

(j) Construction in progress

Construction in progress is stated at cost. Cost comprises direct costs of construction as well as interest expense and exchange differences capitalised during the periods of construction and installation. Capitalisation 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.

(k) Inventories

Inventories, which consist primarily of handsets, SIM cards and accessories, are stated at the lower of cost and net realisable value. Cost represents purchase cost of goods calculated using the weighted average cost method. Net realisable 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 recognised as a deduction of other income due to its insignificance. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) 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 recognised in the profit and loss account up to the balance sheet date.

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

Income from assignment of rights is deferred and recognised 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 recognised as non-operating income in the profit and loss account when the assignment contracts are cancelled.

(m) Fixed rate notes, bonds and convertible notes

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

(n) 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 amortised 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 unamortised expenses are charged immediately to the profit and loss account.

1 Principal accounting policies (cont'd)

(o) Borrowing costs

Borrowing costs are expressed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised 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.

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) usage fees are recognised as revenue when the service is rendered;

(ii) monthly fees are recognised as revenue in the month during which the service is rendered;

(iii) connection fees are recognised as revenue when receivable;

(iv) deferred revenue from prepaid service is recognised 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 recognised on a straight-line basis over the duration of the assignment period;

(vi) interest income is recognised on a time proportion basis by reference to the principal outstanding and the rate applicable; and

(vii) sales of SIM cards and handsets are recognised 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.

(q) 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.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange differences attributable to the translation of borrowings denominated in foreign currencies and used for financing the construction of fixed assets, are included in the cost of the related construction in progress. Exchange differences capitalised to construction in progress are immaterial for the periods presented. Other exchange gains and losses are recognised in the profit and loss account.

(s) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future. Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

1 Principal accounting policies (cont'd)

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or 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.

(u) 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 rates of the employees' salary costs. The Group's contributions to the schemes are charged to the profit and loss account when incurred. The subsidiaries have no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

The Company's contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred.

(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 profit and loss account 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 recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

(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) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

1 Principal accounting policies (cont'd)

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

2 Changes in accounting policies

(i) Dividend income

In prior years, dividend income from subsidiaries was recognised as income in the Company's profit and loss account in the period in which they related. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) issued by the Hong Kong Society of Accountants, the Company recognises 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 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. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information of the Company adjusted for the amounts relating to prior periods (note 32(b)).

(ii) 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 1 January 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 1(e).

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

(expressed in Renminbi)

3 Turnover

The principal activities of the Group are the provision of cellular telephone 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 PRC. The principal activity of the Company is investment holding.

Turnover 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 per cent. of the corresponding revenue.

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 Communications Corporation ("China Mobile") in respect of calls made by non-subscribers using the Group's cellular telecommunications networks.

4 Other operating expenses

Other operating expenses primarily comprise selling and promotion expenses, provision for doubtful accounts, operating lease charges, maintenance charges, debt collection fees, spectrum charges and other miscellaneous expenses.

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

	2001 RMB million	2000 RMB million
Write-down of analog network equipment (Note (a))	–	1,330
Write-off of analog network equipment (Note (b))	–	195
	–	1,525

Notes:

(a) 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 31 December 2000. The amount of the write-down of RMB1,330 million was recognised as an expense in the profit and loss account. At 31 December 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.

6 Other net income

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

	2001 RMB million	2000 RMB million
Sales of SIM cards and handsets	3,338	1,928
Cost of SIM cards and handsets	(1,744)	(1,013)
	1,594	915

7 Non-operating net expenses

	2001 RMB million	2000 RMB million
Exchange loss	**(39)**	(60)
Loss on disposal of fixed assets	**(275)**	(126)
Penalty income on overdue accounts	**165**	149
Others	**143**	32
	(6)	(5)

8 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2001 RMB million	2000 RMB million
(a) Finance costs:		
Interest on bank loans and other borrowings repayable within five years	**1,064**	403
Interest on bank loans and other borrowings repayable after five years	**4**	74
Interest on fixed rate notes	**394**	393
Interest on bonds	**108**	—
Interest on convertible notes	**129**	21
Finance charges on obligations under finance leases	**129**	52
Total borrowings costs	**1,828**	943
Less: Amount capitalised as construction in progress (Note)	**(88)**	(119)
	1,740	824

Note: Borrowing costs have been capitalised at a rate of 4.57 per cent. to 8.16 per cent. (2000: 5.02 per cent. to 7.6 per cent.) per annum for construction in progress.

8 Profit from ordinary activities before taxation (cont'd)

	2001 RMB million	2000 RMB million
(b) Other items:		
Depreciation		
— owned assets	**16,494**	9,486
— assets held under finance leases	**1,170**	273
Amortisation of deferred expenses	**39**	15
Exchange loss on foreign currency borrowings less deposits	**—**	217
Operating lease charges in respect of		
— properties	**890**	602
— leased lines	**5,005**	5,501
— others	**457**	471
Contribution to retirement scheme	**287**	335
Provision for doubtful accounts	**1,737**	1,346
Provision for obsolete inventories	**—**	25
Auditors' remuneration	**26**	26
Dividend income from unlisted associate	**(43)**	(26)

9 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2001 RMB million	2000 RMB million
Fees	**2**	2
Salaries, allowances and benefits in kind	**8**	8
Retirement benefits	**1**	—
Performance related bonuses	**3**	2
	14	12

Included in the directors' remuneration were fees of RMB543,000 (2000: RMB382,000) paid to the independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Share option scheme" in the report of the directors.

9 Directors' remuneration (cont'd)

The number of directors whose remuneration from the Group falls within the following bands is set out below:

	2001	2000
HK$ equivalent		
Nil to 1,000,000	**9**	10
1,000,001 to 1,500,000	**1**	1
2,000,001 to 2,500,000	**1**	2
2,500,001 to 3,000,000	**2**	—

10 Five highest paid individuals

Of the five highest paid individuals in this year, three (2000: three) are directors of the Company and their remuneration has been included in Note 9 above. The remuneration of each of the remaining two highest paid individuals falls within the band from HK$1,500,001 to HK$2,500,000 (2000: from HK$1,500,001 up to HK$2,000,000) and their aggregate remuneration is as follows:

	2001 RMB million	2000 RMB million
Salaries, allowances and benefits in kind	3	3
Performance related bonuses	1	1
	4	4

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

11 Taxation

(a) Taxation in the consolidated profit and loss account represents:

	2001 RMB million	2000 RMB million
Provision for PRC enterprise income tax on the estimated taxable profits for the year	**12,153**	8,371
(Over)/under-provision in respect of PRC enterprise income tax for prior year	**(20)**	12
	12,133	8,383
Transfer from/(to) deferred tax assets (Note 20(a))	**1,570**	(17)
	13,703	8,366

(expressed in Renminbi)

11 Taxation (cont'd)

(i) No provision has been made for Hong Kong profits tax as there were no estimated Hong Kong assessable profits for the years ended 31 December 2001 and 2000.

(ii) The provision for the PRC enterprise income tax is based on a statutory rate of 33 per cent. of the assessable profit of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC 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 per cent. and 15 per cent., respectively.

(b) Taxation in the balance sheets represents:

	The Group	
	2001 RMB million	2000 RMB million
Provision for PRC enterprise income tax for the year	**12,153**	8,371
Balance of PRC enterprise income tax payable relating to prior year	**455**	478
Balance of PRC enterprise income tax payable arising on acquisition of subsidiaries	**—**	1,405
PRC enterprise income tax paid	**(6,605)**	(3,519)
	6,003	6,735

12 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a loss of RMB972,000,000 (2000: RMB193,000,000 (restated)) which has been dealt with in the accounts of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2001 RMB million	2000 RMB million
Amount of consolidated profit attributable to shareholders dealt with in the Company accounts	**(972)**	(193)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**4,863**	985
Company's profit for the year (note 32)	**3,891**	792

13 Dividends

The board of directors of the Company does not recommend the payment of any dividends for the year ended 31 December 2001 (2000: RMB Nil).

14 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the year is based on the profit attributable to shareholders of RMB28,015,000,000 (2000: RMB18,027,000,000) and the weighted average of 18,605,371,320 shares (2000: 14,394,312,587 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the adjusted profit attributable to shareholders of RMB28,144,000,000 (2000: RMB18,027,000,000), after adding back the interest expense on the convertible notes, and the weighted average number of 18,698,023,159 shares (2000: 14,409,503,167 shares) issued and issuable after adjusting for the effects of all dilutive potential ordinary shares, as if all the outstanding share options and convertible notes issued by the Company had been exercised or converted into ordinary shares at the date of issue. 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 earnings per share.

(c) Reconciliations

	2001 RMB million	2000 RMB million
Profit attributable to shareholders used in calculating basic earnings per share	**28,015**	18,027
Interest expense on the convertible notes	**129**	—
Profit attributable to shareholders used in calculating diluted earnings per share	**28,144**	18,027

	2001 Number of shares	2000 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**18,605,371,320**	14,394,312,587
Deemed issue of ordinary shares for no consideration	**92,651,839**	15,190,580
Weighted average number of ordinary shares used in calculating diluted earnings per share	**18,698,023,159**	14,409,503,167

(expressed in Renminbi)

15 Fixed assets

(a) The Group

	Land use rights and buildings RMB million	Telecommunications transceivers, switching centres and other network equipment RMB million	Office equipment, furniture and fixtures and others RMB million	Total RMB million
Cost:				
At 1 January 2001	7,996	107,911	3,702	119,609
Additions	517	851	520	1,888
Transferred from construction in progress	2,297	29,697	2,004	33,998
Disposals	(216)	(690)	(131)	(1,037)
Assets written-off	–	(10,377)	–	(10,377)
At 31 December 2001	10,594	127,392	6,095	144,081
Accumulated depreciation:				
At 1 January 2001	315	30,885	944	32,144
Charge for the year	379	15,883	1,402	17,664
Written back on disposals	(55)	(427)	(76)	(558)
Assets written-off	–	(10,377)	–	(10,377)
At 31 December 2001	639	35,964	2,270	38,873
Net book value:				
At 31 December 2001	9,955	91,428	3,825	105,208
At 31 December 2000	7,681	77,026	2,758	87,465

15 Fixed assets (cont'd)

(b) The Company

	Office equipment, furniture and fixtures and others RMB million
Cost:	
At 1 January 2001	5
Additions	2
At 31 December 2001	7
Accumulated depreciation:	
At 1 January 2001	1
Charge for the year	2
At 31 December 2001	3
Net book value:	
At 31 December 2001	4
At 31 December 2000	4

(c) The analysis of net book value of land use rights and buildings is as follows:

	The Group	
	2001 RMB million	2000 RMB million
Long leases	**1,638**	2,482
Medium-term leases	**8,247**	5,103
Short-term leases	**70**	96
	9,955	7,681

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

(d) The net book value of fixed assets of the Group includes an amount of RMB6,836,000,000 (2000: RMB7,046,000,000) in respect of assets held under finance leases.

(e) The Group leases certain telecommunications equipment under finance leases. None of the leases includes contingent rentals.

16 Construction in progress

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed at 31 December 2001.

17 Investments in subsidiaries

	The Company	
	2001 **RMB million**	2000 RMB million
Unlisted equity investments, at cost	**367,219**	367,053

Amounts due from/to subsidiaries under current assets and liabilities are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business. Amount due to subsidiary included under non-current liabilities represents amount due to Guangdong Mobile Communication Company Limited ("Guangdong Mobile") in relation to the guaranteed bonds, which is unsecured, interest bearing and repayable over one year (note 26(f)).

Details of the subsidiaries are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by subsidiary	Principal activity
Guangdong Mobile*	PRC	RMB5,594,840,700	100%	–	Cellular telephone operator
Zhejiang Mobile Communication Company Limited*	PRC	RMB2,117,790,000	100%	–	Cellular telephone operator
Jiangsu Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Jiangsu Mobile Communication Company Limited*	PRC	RMB2,800,000,000	–	100%	Cellular telephone operator
Fujian Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Fujian Mobile Communication Company Limited*	PRC	RMB5,247,488,000	–	100%	Cellular telephone operator
Henan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company

17 Investments in subsidiaries (cont'd)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by subsidiary	Principal activity
Henan Mobile Communication Company Limited*	PRC	RMB4,367,733,000	–	100%	Cellular telephone operator
Hainan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Hainan Mobile Communication Company Limited*	PRC	RMB643,000,000	–	100%	Cellular telephone operator
Beijing Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Beijing Mobile Communication Company Limited* ("Beijing Mobile")	PRC	RMB5,357,539,000	–	100%	Cellular telephone operator
Shanghai Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Shanghai Mobile Communication Company Limited* ("Shanghai Mobile")	PRC	RMB5,404,715,000	–	100%	Cellular telephone operator
Tianjin Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Tianjin Mobile Communication Company Limited*	PRC	RMB1,856,720,000	–	100%	Cellular telephone operator
Hebei Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company

(expressed in Renminbi)

17 Investments in subsidiaries (cont'd)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Principal activity
Hebei Mobile Communication Company Limited* ("Hebei Mobile")	PRC	RMB4,015,276,000	–	100%	Cellular telephone operator
Liaoning Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Liaoning Mobile Communication Company Limited* ("Liaoning Mobile")	PRC	RMB4,758,431,000	–	100%	Cellular telephone operator
Shandong Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Shandong Mobile Communication Company Limited* ("Shandong Mobile")	PRC	RMB5,772,040,000	–	100%	Cellular telephone operator
Guangxi Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
Guangxi Mobile Communication Company Limited*	PRC	RMB2,094,590,000	–	100%	Cellular telephone operator
China Mobile (Shenzhen) Limited*	PRC	US$30,000,000	100%	–	Corporate operation controller
Aspire Holdings Limited	Cayman Islands	HK$79,348,932	78.64%	–	Investment holding company
Aspire (BVI) Limited	BVI	US$1,000	–	100%	Investment holding company
Aspire Technologies (Shenzhen) Limited*	PRC	US$1,500,000	–	100%	Technology platform development and maintenance

* Companies registered as wholly-foreign owned enterprises in the PRC.

18 Interest in associates

	The Group	
	2001 **RMB million**	2000 RMB million
Unlisted shares, at cost	**37**	37
Capital contributions, at cost	**9**	9
	46	46
Less: Provision for impairment	**(30)**	—
	16	46

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

Name of associate	Place of incorporation and operation	Proportion of ownership interest held by subsidiary	Principal activity
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 optimising construction-testing and supervising, technology support, development and training of Nokia GSM 900/1800 Mobile Communication System

19 Investment securities

	The Group 2001 RMB million	The Group 2000 RMB million
Unlisted equity securities in the PRC, at cost	**77**	61

20 Deferred tax assets

(a) Movements on deferred taxation comprise:

	The Group 2001 RMB million	The Group 2000 RMB million
Balance at 1 January	**3,046**	2,306
Acquired on acquisition of subsidiaries	**—**	723
Transfer (to)/from the profit and loss account (Note 11(a))	**(1,570)**	17
Balance at 31 December	**1,476**	3,046

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

	The Group 2001 RMB million	The Group 2000 RMB million
Provision for obsolete inventories	**4**	12
Write-down of fixed assets relating to analog network equipment	**171**	2,102
Amortisation of deferred revenue	**140**	60
Income recognition on prepaid service fees	**1,161**	872
	1,476	3,046

(c) Deferred tax asset of the Group not provided for is as follows:

	The Group 2001 RMB million	The Group 2000 RMB million
Provision for doubtful accounts	**1,204**	989

21 Deferred expenses

	The Group and the Company	
	2001	2000
	RMB million	RMB million
Balance at 1 January	**164**	51
Additions during the year	**55**	128
Less: Amortisation for the year	**(39)**	(15)
Balance at 31 December	**180**	164

22 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 (see note 33).

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.

23 Accounts receivable

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

	The Group	
	2001	2000
	RMB million	RMB million
Within 30 days	**5,100**	6,451
31–60 days	**443**	524
61–90 days	**185**	277
	5,728	7,252

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

24 Other receivables

Included in other receivables as at 31 December 2001 are amounts due from the China Telecommunications Corporation ("China Telecom") and its subsidiaries (collectively the "China Telecom Group") amounting to RMB108,000,000 (2000: RMB998,000,000), representing primarily revenue collected on behalf of the Group. The balances with China Telecom Group were unsecured, non-interest bearing and repayable within one year.

25 Cash and cash equivalents

	The Group		The Company	
	2001 RMB million	2000 RMB million	**2001 RMB million**	2000 RMB million
Deposits with banks	**3,818**	6,457	**3,223**	4,720
Cash at banks and in hand	**18,003**	21,245	**12**	28
	21,821	27,702	**3,235**	4,748

26 Bank loans and other interest-bearing borrowings

(a) The Group

		2001			2000		
	Note	**Current liabilities RMB million**	**Non-current liabilities RMB million**	**Total RMB million**	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million
Bank loans	(c)	**4,319**	**5,680**	**9,999**	10,267	12,014	22,281
Other loans	(c)	**212**	**247**	**459**	204	459	663
Fixed rate notes	(d)	**–**	**4,956**	**4,956**	–	4,953	4,953
Convertible notes	(e)	**–**	**5,708**	**5,708**	–	5,708	5,708
Bonds	(f)	**–**	**5,000**	**5,000**	–	–	–
		4,531	**21,591**	**26,122**	10,471	23,134	33,605

The short-term bank and other loans as at 31 December 2001 are unsecured. Included in the current liabilities as at 31 December 2000 are short-term bank and other loans amounting to RMB100,000,000 which are secured by cash at banks amounting to RMB113,000,000. All other short-term bank and other loans are unsecured.

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

Other loans bear interest at various rates between 4.36 per cent. to 8.24 per cent. (2000: 6.03 per cent. to 8.24 per cent.) with maturities in 2002 to 2004.

(b) The Company

		2001			2000		
	Note	**Current liabilities RMB million**	**Non-current liabilities RMB million**	**Total RMB million**	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million
Fixed rate notes	(d)	–	4,956	4,956	–	4,953	4,953
Convertible notes	(e)	–	5,708	5,708	–	5,708	5,708
		–	10,664	10,664	–	10,661	10,661

26 Bank loans and other interest-bearing borrowings (cont'd)

(c) The Group's long-term bank and other loans were repayable as follows:

	The Group		
	Bank loans RMB million	**Other loans** RMB million	**Total** RMB million
At 31 December 2001:			
On demand or within one year (Note 26(a))	2,617	212	2,829
After one year but within two years	3,377	165	3,542
After two years but within five years	2,233	82	2,315
After five years	70	–	70
	5,680	247	5,927
	8,297	459	8,756
At 31 December 2000:			
On demand or within one year (Note 26(a))	3,560	204	3,764
After one year but within two years	5,071	211	5,282
After two years but within five years	6,873	248	7,121
After five years	70	–	70
	12,014	459	12,473
	15,574	663	16,237

The current portion of long-term bank and other loans are included in the current liabilities of bank and other loans as set out in note 26(a) above.

(d) Fixed rate notes

On 2 November 1999, the Company issued unsecured fixed rate notes (the "notes") with a principal amount of US$600,000,000 at an issue price equal to 99.724 per cent. of the principal amount of the notes, due on 2 November 2004. The notes bear interest at the rate of 7.875 per cent. per annum and such interest is payable semi-annually on 2 May and 2 November of each year, commencing 2 May 2000.

(e) Convertible notes

(i) On 3 November 2000, the Company issued convertible notes (the "Notes") in an aggregate principal amount of US$690,000,000 at an issue price equal to 100 per cent. of the principal amount of the Notes. The Notes bear interest at the rate of 2.25 per cent. per annum, payable semi-annually on 3 May and 3 November of each year commencing 3 May 2001. Unless previously redeemed, converted or purchased and cancelled, the Notes will be redeemed at 100 per cent. of the principal amount, plus any accrued and unpaid interest on 3 November 2005. The Notes are unsecured, senior and unsubordinated obligations of the Company.

(ii) The Notes are convertible at any time on or after 3 December 2000 and before the close of business on the third business day prior to the earlier of (1) the maturity date of 3 November 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.

26 Bank loans and other interest-bearing borrowings (cont'd)

(f) Bonds

On 18 June 2001, Guangdong Mobile issued guaranteed bonds (the "Bonds") with a principal amount of RMB5,000,000,000 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 per cent. The Bonds, redeemable at 100 per cent. of the principal amount, will mature on 18 June 2011 and the interest will be accrued up to 17 June 2011. Incidental costs incurred in relation to the issue of the Bonds are amortised 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.

27 Obligations under finance leases

As at 31 December 2001, the Group had obligations under finance leases repayable as follows:

	The Group					
	2001			2000		
	Present value of the minimum lease payments RMB million	**Interest expense relating to future periods RMB million**	**Total minimum lease payments RMB million**	Present value of the minimum lease payments RMB million	Interest expense relating to future periods RMB million	Total minimum lease payments RMB million
Within 1 year	**908**	**61**	**969**	1,624	154	1,778
After 1 year but within 2 years	**506**	**24**	**530**	1,023	54	1,077
After 2 years but within 5 years	**306**	**5**	**311**	212	4	216
	812	**29**	**841**	1,235	58	1,293
	1,720	**90**	**1,810**	2,859	212	3,071

28 Accounts payable

Included in accounts payable as at 31 December 2001 are amounts due to China Telecom Group amounting to RMB1,725,000,000 (2000: RMB3,449,000,000), representing primarily payables for leased lines and interconnection expenses.

28 Accounts payable (cont'd)

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

	The Group	
	2001 RMB million	2000 RMB million
Amounts payable in the next:		
1 month or on demand	**5,964**	6,614
2-3 months	**1,634**	560
4-6 months	**1,022**	1,672
7-9 months	**1,049**	827
10-12 months	**1,648**	1,908
	11,317	11,581

29 Deferred revenue

Deferred revenue includes primarily prepaid service fees received from subscribers which is recognised 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 unamortised 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 RMB9,167 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 per cent. of 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 amortised 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.

	The Group	
	2001 RMB million	2000 RMB million
Balance at 1 January	**3,654**	1,492
Additions on acquisition of subsidiaries	**—**	1,039
Additions during the year	**23,191**	5,689
Recognised in profit and loss account	**(22,608)**	(4,566)
Balance at 31 December	**4,237**	3,654

30 Share capital

	The Group	
	2001 **HK$ million**	2000 HK$ million
Authorised:		
30,000,000,000 ordinary shares of HK$0.10 each	**3,000**	3,000

Issued and fully paid:

	2001			2000		
	No. of shares	**HK$ million**	**RMB equivalent RMB million**	No. of shares	HK$ million	RMB equivalent RMB million
At 1 January	**18,605,312,241**	**1,861**	**1,986**	13,706,287,021	1,371	1,467
Issue of new shares to the professional and institutional investors	**–**	**–**	**–**	1,115,643,845	112	119
Issue of consideration shares for acquisition of subsidiaries	**–**	**–**	**–**	3,779,407,375	378	400
Shares issued under share option scheme (Note 31)	**93,000**	**–**	**–**	3,974,000	–	–
At 31 December	**18,605,405,241**	**1,861**	**1,986**	18,605,312,241	1,861	1,986

31 Share option scheme

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 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 is 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 the 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.

31 Share option scheme (cont'd)

During the year, share options involving a total number of 76,773,000 (2000: 31,590,000) ordinary shares were granted under the share option scheme to certain directors and employees of the Company. During the year, options were exercised to subscribe for 93,000 (2000: 3,974,000) ordinary shares of HK$0.10 each at a total consideration of HK$3,451,140 (equivalent to RMB3,661,000) (2000: HK$84,000,000 (equivalent to RMB89,000,000)).

Date of options granted	Normal period during which options exercisable	Price per share to be paid on exercise of options	No. of shares involved in the options outstanding at the year end	
			2001	2000
9 March 1998	9 March 1998 to 8 March 2006	HK$11.10	2,100,000	2,100,000
26 November 1999	26 November 1999 to 7 October 2007	HK$33.91	3,500,000	3,500,000
26 November 1999	26 November 2002 to 7 October 2007	HK$33.91	3,500,000	3,500,000
25 April 2000	25 April 2002 to 7 October 2007	HK$45.04	15,264,000	15,608,000
25 April 2000	25 April 2005 to 7 October 2007	HK$45.04	15,264,000	15,608,000
22 June 2001	22 June 2003 to 7 October 2007	HK$32.10	38,111,500	–
22 June 2001	22 June 2006 to 7 October 2007	HK$32.10	38,111,500	–
			115,851,000	40,316,000

(expressed in Renminbi)

32 Reserves

(a) The Group

	Share premium RMB million	Capital reserve RMB million	General reserve RMB million	PRC statutory reserves RMB million	Retained profits RMB million	Total RMB million
At 1 January 2000	99,345	(56,930)	72	5,727	7,411	55,625
Issue of new shares to professional and institutional investors	56,694	–	–	–	–	56,694
Issue of consideration shares for acquisition of subsidiaries	191,969	–	–	–	–	191,969
Expenses incurred in connection with the issue of new shares to professional and institutional investors	(1,090)	–	–	–	–	(1,090)
Goodwill arising on acquisition of subsidiaries	–	(239,540)	–	–	–	(239,540)
Shares issued under share option scheme	89	–	–	–	–	89
Net profit for the year	–	–	–	–	18,027	18,027
Transfer to PRC statutory reserves	–	–	–	6,916	(6,916)	–
At 31 December 2000	347,007	(296,470)	72	12,643	18,522	81,774
At 1 January 2001	347,007	(296,470)	72	12,643	18,522	81,774
Shares issued under share option scheme (Note 31)	4	–	–	–	–	4
Net profit for the year	–	–	–	–	28,015	28,015
Transfer to PRC statutory reserves	–	–	–	5,033	(5,033)	–
At 31 December 2001	347,011	(296,470)	72	17,676	41,504	109,793

32 Reserves (cont'd)

(b) The Company

	Share premium RMB million	General reserve RMB million	Retained profits RMB million	Total RMB million
At 1 January 2000				
— as previously reported	99,345	72	3,010	102,427
— prior year adjustment in respect of dividend income (Note 2)	—	—	(985)	(985)
— as restated	99,345	72	2,025	101,442
Issue of new shares to professional and institutional investors	56,694	—	—	56,694
Issue of consideration shares for acquisition of subsidiaries	191,969	—	—	191,969
Expenses incurred in connection with the issue of new shares to professional and institutional investors	(1,090)	—	—	(1,090)
Shares issued under share option scheme	89	—	—	89
Net profit for the year (Note 12)	—	—	792	792
At 31 December 2000	347,007	72	2,817	349,896
At 1 January 2001				
— as previously reported	347,007	72	7,680	354,759
— prior year adjustment in respect of dividend income (Note 2)	—	—	(4,863)	(4,863)
— as restated	347,007	72	2,817	349,896
Shares issued under share option scheme	4	—	—	4
Net profit for the year (Note 12)	—	—	3,891	3,891
At 31 December 2001	347,011	72	6,708	353,791

At 31 December 2001, the amount of distributable reserves of the Company amounted to RMB6,780,000,000 (2000: RMB2,889,000,000 (restated)).

Share premium

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

Capital reserve

At 31 December 2001, debit balance of capital reserve is primarily due to the elimination of goodwill arising on the acquisition of subsidiaries in previous years.

32 Reserves (cont'd)

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 per cent. 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 per cent. 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 per cent. 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 31 December 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 per cent. of its profit after taxation determined under PRC GAAP during the year ended 31 December 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 per cent. of the registered capital of the subsidiaries. Statutory public welfare fund can only be utilised 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 31 December 2001, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund were RMB5,766,000,000 (2000: RMB3,263,000,000), RMB11,590,000,000 (2000: RMB9,067,000,000), RMB181,000,000 (2000: RMB175,000,000) and RMB139,000,000 (2000: RMB138,000,000) respectively.

33 Related party transactions

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.

33 Related party transactions (cont'd)

As a result of the restructuring in May 2000, the Ministry of Information Industry (the "MII") ceased to have controlling interests in China Mobile, the Directorate General of Telecommunications (the "DGT") and the Provincial Telecommunications Companies (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 control of 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 related party transactions of the Group for the years ended 31 December 2001 and 2000. These transactions also constitute connected transactions under the Listing Rules. Further details of these transactions are disclosed under the paragraph "Connected transactions which are the subject of exemption under the Listing Rules" in the directors' report.

	Note	2001 RMB million	2000 RMB million
Interconnection revenue	(i)	**1,793**	1,744
Interconnection charges	(ii)	**1,772**	2,864
Leased line charges	(iii)	**278**	2,464
Roaming revenue	(iv)	**4,688**	2,674
Roaming expenses	(v)	**4,559**	2,076
Spectrum fees	(vi)	**18**	15
Operating lease charges	(vii)	**138**	226
Sales commission	(viii)	**—**	248
Debt collection service fees	(viii)	**—**	91
Roaming billing processing fees	(viii)	**201**	148
Equipment maintenance service fees	(ix)	**46**	1
Rental charges of synchronised clock ports	(x)	**—**	3
Construction and related service fees	(xi)	**161**	20
Purchase of transmission tower and transmission tower-related service and antenna maintenance service fees	(xii)	**55**	16
Prepaid card sales commission income	(xiii)	**241**	114
Prepaid card sales commission expenses	(xiii)	**315**	99

33 Related party transactions (cont'd)

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 year ended 31 December 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 year ended 31 December 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 centres together and with other mobile switching centres of the China Mobile Group.

For the year ended 31 December 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.

(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 year ended 31 December 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 authorised 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 year ended 31 December 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.

33 Related party transactions (cont'd)

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

(x) Rental charges of synchronised clock ports represent expenses paid or payable to the relevant PTCs for leasing of synchronised 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.

34 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2001 not provided for in the accounts were as follows:

	The Group		The Company	
	2001 RMB million	2000 RMB million	**2001 RMB million**	2000 RMB million
Commitments in respect of land and buildings				
— authorised and contracted for	**1,447**	1,632	**—**	—
— authorised but not contracted for	**3,915**	3,275	**—**	—
	5,362	4,907	**—**	—
Commitments in respect of telecommunications equipment				
— authorised and contracted for	**8,919**	9,080	**1,587**	1,737
— authorised but not contracted for	**31,419**	30,781	**—**	—
	40,338	39,861	**1,587**	1,737
Total commitments				
— authorised and contracted for	**10,366**	10,712	**1,587**	1,737
— authorised but not contracted for	**35,334**	34,056	**—**	—
	45,700	44,768	**1,587**	1,737

34 Commitments (cont'd)

(b) Operating lease commitments

At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group				The Company
	Land and buildings RMB million	**Leased lines** RMB million	**Others** RMB million	**Total** RMB million	**Land and buildings** RMB million
At 31 December 2001:					
Within one year	647	4,013	397	5,057	2
After one year but within five years	1,588	4,746	788	7,122	1
After five years	1,170	919	438	2,527	–
	3,405	9,678	1,623	14,706	3
At 31 December 2000:					
Within one year	611	4,119	289	5,019	3
After one year but within five years	1,654	8,891	757	11,302	1
After five years	1,495	2,051	305	3,851	–
	3,760	15,061	1,351	20,172	4

The Group leases certain land and buildings, leased lines and other equipment under operating leases. None of the leases includes contingent rentals.

35 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2001 to be China Mobile, a company incorporated in the PRC.