

## Notes on the Unaudited Interim Accounts

(Expressed in Renminbi)

### 1 Basis of preparation

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

The interim consolidated accounts set out on pages 5 to 21 are unaudited, but have been reviewed by the Audit Committee of China Mobile (Hong Kong) Limited (the “Company”) and by the auditors, KPMG, in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the HKSA. KPMG’s independent review report to the board of directors is included on page 22.

The unaudited consolidated financial information for the six months ended 30 June 2002 and 2001 includes the financial information of the Company and its subsidiaries, Guangdong Mobile Communication Company Limited, Zhejiang Mobile Communication Company Limited, Jiangsu Mobile Communication Company Limited, Fujian Mobile Communication Company Limited, Henan Mobile Communication Company Limited, Hainan Mobile Communication Company Limited, Beijing Mobile Communication Company Limited, Shanghai Mobile Communication Company Limited, Tianjin Mobile Communication Company Limited, Hebei Mobile Communication Company Limited (“Hebei Mobile”), Liaoning Mobile Communication Company Limited, Shandong Mobile Communication Company Limited, Guangxi Mobile Communication Company Limited, China Mobile (Shenzhen) Limited, Aspire Holdings Limited and Aspire Technologies (Shenzhen) Limited, (the “Group”), for the six months ended 30 June 2002 and 2001.

The financial information relating to the financial year ended 31 December 2001 included in the interim accounts does not constitute the Group’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2001 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 18 March 2002.

The same accounting policies adopted in the 2001 annual accounts have been applied to the interim consolidated accounts.

### 2 Segment reporting

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



## Notes on the Unaudited Interim Accounts (Continued)

(Expressed in Renminbi)

### 3 Turnover

Turnover primarily represents usage fees and monthly fees for the use of the Group's cellular telephone networks, net of the 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.

### 4 Other operating revenue

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

### 5 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2002 RMB million	2001 RMB million
Interest on borrowings	664	956
Depreciation	10,465	8,083
Amortisation of deferred expenses	21	19
Operating lease charges in respect of		
— properties	512	442
— leased lines	2,767	2,196
— others	263	206
Contribution to retirement scheme	133	233
Selling and promotion expenses	4,013	2,984
Provision for doubtful accounts	834	936



## Notes on the Unaudited Interim Accounts (Continued)

(Expressed in Renminbi)

### 6 Taxation

	Six months ended 30 June	
	2002 RMB million	2001 RMB million
Provision for PRC enterprise income tax on the estimated taxable profits for the period	7,653	6,793
Under/(over)-provision in respect of PRC enterprise income tax for prior period	10	(200)
	7,663	6,593
Transfer from deferred tax assets	137	316
	7,800	6,909

- (i) No provision has been made for Hong Kong profits tax as there were no estimated Hong Kong assessable profits for the six months ended 30 June 2002 and 2001.
- (ii) The provision for the PRC enterprise income tax is based on a statutory rate of 33 per cent. of the assessable profit of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC for the six months ended 30 June 2002, 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.

### 7 Earnings per share

#### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2002 is based on the profit attributable to shareholders of RMB15,215,000,000 (2001: RMB13,809,000,000) and the weighted average number of 18,622,401,068 shares (2001: 18,605,341,876 shares) in issue during the six months ended 30 June 2002.

#### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2002 is based on the adjusted profit attributable to shareholders of RMB15,279,000,000 (2001: RMB13,874,000,000), after adding back the interest expense on the convertible notes and the weighted average number of 18,714,692,676 shares (2001: 18,700,015,844 shares) issued and issuable after adjusting for the effects of all dilutive potential ordinary shares as if all the outstanding share options and convertible notes issued by the Company had been exercised or converted into ordinary shares at the date of issue.



## Notes on the Unaudited Interim Accounts (Continued)

(Expressed in Renminbi)

### 7 Earnings per share (Continued)

#### (c) Reconciliations

	Six months ended 30 June	
	2002 RMB million	2001 RMB million
Profit attributable to shareholders used in calculating basic earnings per share	15,215	13,809
Interest expense on the convertible notes	64	65
Profit attributable to shareholders used in calculating diluted earnings per share	15,279	13,874
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	18,622,401,068	18,605,341,876
Deemed issue of ordinary shares for no consideration	92,291,608	94,673,968
Weighted average number of ordinary shares used in calculating diluted earnings per share	18,714,692,676	18,700,015,844

### 8 EBITDA

EBITDA represents earnings before interest income, interest expense, non-operating net income/expenses, taxation, depreciation, amortisation and write-down and write-off of fixed assets. 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 operating performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to other similarly titled measures of other companies.

### 9 Amounts due from/to ultimate 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 16).



## Notes on the Unaudited Interim Accounts (Continued)

(Expressed in Renminbi)

### 10 Accounts receivable

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

	<b>Unaudited At 30 June 2002 RMB million</b>	<b>Audited At 31 December 2001 RMB million</b>
Within 30 days	<b>4,641</b>	5,100
31-60 days	<b>471</b>	443
61-90 days	<b>212</b>	185
	<b>5,324</b>	5,728

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.

### 11 Other receivables

Included in other receivables as at 30 June 2002 are amounts due from China Telecommunications Corporation ("China Telecom") and its subsidiaries (collectively the "China Telecom Group") and China Network Communications Group Corporation ("China Netcom") and its subsidiaries (collectively the "China Netcom Group") totalling RMB147,000,000 (at 31 December 2001: RMB108,000,000), representing primarily interconnection income receivables. These balances are unsecured, non-interest bearing and repayable within one year.

### 12 Cash and cash equivalents

	<b>Unaudited At 30 June 2002 RMB million</b>	<b>Audited At 31 December 2001 RMB million</b>
Deposits with banks	<b>26,827</b>	3,818
Cash at banks and in hand	<b>24,332</b>	18,003
	<b>51,159</b>	21,821



## Notes on the Unaudited Interim Accounts (Continued)

(Expressed in Renminbi)

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

	Unaudited 30 June 2002			Audited 31 December 2001		
	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million
Bank loans	3,663	5,585	9,248	4,319	5,680	9,999
Other loans	165	165	330	212	247	459
Fixed rate notes	—	4,957	4,957	—	4,956	4,956
Convertible notes	—	5,708	5,708	—	5,708	5,708
Bonds	—	5,000	5,000	—	5,000	5,000
	3,828	21,415	25,243	4,531	21,591	26,122

### 14 Accounts payable

Included in accounts payable as at 30 June 2002 are amounts due to China Telecom Group and China Netcom Group totalling RMB1,766,000,000 (at 31 December 2001: RMB1,725,000,000), representing primarily payables for leased lines and interconnection expenses.

The ageing analysis of accounts payable is as follows:

	Unaudited At 30 June 2002 RMB million	Audited At 31 December 2001 RMB million
Amounts payable in the next:		
1 month or on demand	6,251	5,964
2–3 months	1,258	1,634
4–6 months	1,286	1,022
7–9 months	621	1,049
10–12 months	821	1,648
	10,237	11,317



## Notes on the Unaudited Interim Accounts (Continued)

(Expressed in Renminbi)

### 15 Share capital

Issued and fully paid:

	At 30 June 2002		
	No. of shares	HK\$ million	RMB equivalent RMB million
At 1 January 2002	18,605,405,241	1,861	1,986
Issue of new shares	236,634,212	24	25
30 June 2002	18,842,039,453	1,885	2,011

Pursuant to a resolution passed at the extraordinary general meeting held on 24 June 2002, the Company issued 236,634,212 ordinary shares of HK\$0.10 each to Vodafone Holdings (Jersey) Limited, at a consideration of HK\$24.7217 per share, for financing the acquisition of Anhui Mobile (BVI) Limited ("Anhui Mobile BVI"), Jiangxi Mobile (BVI) Limited ("Jiangxi Mobile BVI"), Chongqing Mobile (BVI) Limited ("Chongqing Mobile BVI"), Sichuan Mobile (BVI) Limited ("Sichuan Mobile BVI"), Hubei Mobile (BVI) Limited ("Hubei Mobile BVI"), Hunan Mobile (BVI) Limited ("Hunan Mobile BVI"), Shaanxi Mobile (BVI) Limited ("Shaanxi Mobile BVI") and Shanxi Mobile Communication (BVI) Limited ("Shanxi Mobile BVI") from China Mobile Hong Kong (BVI) Limited ("CMHK(BVI)") (see note 18).

At 30 June 2002, the outstanding options were as follows:

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 period end
9 March 1998	9 March 1998 to 8 March 2006	HK\$11.10	2,100,000
26 November 1999	26 November 1999 to 7 October 2007	HK\$33.91	3,500,000
26 November 1999	26 November 2002 to 7 October 2007	HK\$33.91	3,500,000
25 April 2000	25 April 2002 to 7 October 2007	HK\$45.04	15,161,000



## Notes on the Unaudited Interim Accounts (Continued)

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### 15 Share capital (Continued)

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 period end
25 April 2000	25 April 2005 to 7 October 2007	HK\$45.04	15,161,000
22 June 2001	22 June 2003 to 7 October 2007	HK\$32.10	37,823,750
22 June 2001	22 June 2006 to 7 October 2007	HK\$32.10	37,823,750
			115,069,500

Pursuant to a resolution passed at an annual general meeting held on 24 June 2002, the share option scheme established on 8 October 1997 was terminated and a new share option scheme was adopted. No option had been granted to the Directors and employees during the six months ended 30 June 2002. Share options involving a total number of 781,500 ordinary shares previously granted to certain employees were cancelled during the period.

None of the Directors and employees exercised their options to subscribe for shares of the Company during the six months ended 30 June 2002.

### 16 Related party transactions

Parties are considered to be related if 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 Communications Corporation ("China Mobile") (the Company's ultimate holding company) and its subsidiaries, other than the Group, (the "China Mobile Group").





## Notes on the Unaudited Interim Accounts (Continued)

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### 16 Related party transactions (Continued)

The following is a summary of principal related party transactions which were entered into by the Group with the China Mobile Group for the six months ended 30 June 2002 and 2001:

		Six months ended 30 June	
	Note	2002 RMB million	2001 RMB million
Interconnection revenue	(i)	<b>1,020</b>	904
Interconnection charges	(ii)	<b>976</b>	876
Leased line charges	(iii)	<b>163</b>	139
Roaming revenue	(iv)	<b>2,487</b>	2,315
Roaming expenses	(v)	<b>2,620</b>	2,195
Spectrum fees	(vi)	<b>12</b>	14
Operating lease charges	(vii)	<b>58</b>	66
Debt collection service fees	(viii)	—	393
Roaming billing processing fees	(viii)	<b>115</b>	92
Equipment maintenance service fees	(ix)	<b>13</b>	4
Construction and related service fees	(x)	<b>47</b>	44
Purchase of transmission tower and transmission tower-related service and antenna maintenance service fees	(xi)	—	45
Prepaid card sales commission income	(xii)	<b>80</b>	184
Prepaid card sales commission expenses	(xii)	<b>87</b>	241
Technology platform development and maintenance service income	(xiii)	<b>13</b>	—

Note:

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



## Notes on the Unaudited Interim Accounts (Continued)

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### 16 Related party transactions (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.
- (viii) The Group entered into certain services agreements in respect of marketing services, debt collection services and roaming billing processing with subsidiaries of China Mobile.

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.

- (ix) Equipment maintenance service fees represent the amount paid or payable to subsidiaries of China Mobile for the provision of the maintenance services to the Company's subsidiaries.
- (x) Construction and related service fees represent the amount paid or payable to subsidiaries of China Mobile for the provision of construction services to the Company's subsidiaries.
- (xi) This represents payment made by Hebei Mobile to acquire transmission towers from relevant subsidiaries of China Mobile and expenses paid or payable to relevant subsidiaries of China Mobile for the provision of transmission tower related services and antenna maintenance services provided to Hebei Mobile.
- (xii) Prepaid card sales commission income and commission expenses represent handling charges received/receivable from subsidiaries of China Mobile to the Company's subsidiaries or paid/payable by the Company's subsidiaries to subsidiaries of China Mobile in respect of prepaid card services.
- (xiii) Technology platform development and maintenance service income represents the amounts received or receivable from China Mobile in respect of equipment charges, systems integration fees, software licensing fees, technical support fees and/or major overhaul charges for the Mobile Information Service Centre platform.



## Notes on the Unaudited Interim Accounts (Continued)

(Expressed in Renminbi)

### 17 Commitments

#### (a) Capital commitments

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

	Unaudited At 30 June 2002 RMB million	Audited At 31 December 2001 RMB million
Commitments in respect of land and buildings		
— authorised and contracted for	1,323	1,447
— authorised but not contracted for	4,981	3,915
	6,304	5,362
Commitments in respect of telecommunications equipment		
— authorised and contracted for	10,379	8,919
— authorised but not contracted for	30,990	31,419
	41,369	40,338
Total commitments		
— authorised and contracted for	11,702	10,366
— authorised but not contracted for	35,971	35,334
	47,673	45,700



## Notes on the Unaudited Interim Accounts (Continued)

(Expressed in Renminbi)

### 17 Commitments (Continued)

#### (b) Operating lease commitments

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

	Land and buildings RMB million	Leased lines RMB million	Others RMB million	Total RMB million
At 30 June 2002				
Within one year	649	3,477	401	4,527
After one year but within five years	1,482	4,527	575	6,584
After five years	1,131	340	348	1,819
	3,262	8,344	1,324	12,930
At 31 December 2001				
Within one year	647	4,013	397	5,057
After one year but within five years	1,588	4,746	788	7,122
After five years	1,170	919	438	2,527
	3,405	9,678	1,623	14,706

### 18 Post balance sheet events

On 1 July 2002, the acquisition of the entire issued share capital of Anhui Mobile BVI, Jiangxi Mobile BVI, Chongqing Mobile BVI, Sichuan Mobile BVI, Hubei Mobile BVI, Hunan Mobile BVI, Shaanxi Mobile BVI and Shanxi Mobile BVI from CMHK(BVI), the immediate holding company of the Company, for a total consideration of US\$8,573,000,000 (equivalent to RMB70,959,000,000) was completed. At the same date, 827,514,446 ordinary shares of HK\$0.10 each were issued and credited as fully paid to CMHK(BVI) at HK\$24.7217 per share as part of the consideration for the acquisition.

### 19 Comparative figures

Certain comparative figures have been adjusted as a result of changes in accounting disclosures for condensed cash flow statement in order to comply with SSAP 15.

