Notes to the Accounts

(Expressed in Renminbi)

1 Significant 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 significant 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.

All significant 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.

1 Significant accounting policies (cont'd)

(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.

(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 20 years. Positive goodwill is stated in the consolidated balance sheet at cost less accumulated amortisation and any impairment losses (see note 1(i)).

Negative goodwill arising on acquisitions of controlled subsidiaries 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, it is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill.

1 Significant 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, is 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 Significant 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 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).

1 Significant accounting policies (cont'd)

(i) Impairment of assets (cont'd)

(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.

(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.

1 Significant accounting policies (cont'd)

(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 distributors 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 contracts 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.

(o) Borrowing costs

Borrowing costs are expensed 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;

1 Significant accounting policies (cont'd)

(p) **Revenue recognition** (cont'd)

(iv) deferred revenue from prepaid services 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 at 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.

(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.

1 Significant accounting policies (cont'd)

(t) **Provisions and contingent liabilities** (cont'd)

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) **Employee benefits**

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The Company's contributions to the Mandatory Provident Funds, as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

(iii) The employees of the subsidiaries participate in defined contribution 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. In addition to the local governmental defined contribution retirement plans, certain subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs. The Group's contributions to these plans 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.

(iv) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(v) Termination benefits are recognised when, and only when the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1 Significant accounting policies (cont'd)

(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.

All material related parties transactions have been disclosed in the relevant notes on the accounts.

(x) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(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 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, Hebei, Anhui, Jiangxi, Sichuan, Hubei, Hunan, Shaanxi and Shanxi provinces, Beijing, Shanghai, Tianjin and Chongqing municipalities and Guangxi autonomous region of the PRC. The principal activity of the Company is investment holding.

Turnover represents usage fees, monthly fees, connection fees and other operating revenue derived from the Group's cellular telephone networks, net of PRC business tax and government surcharges. Business tax and government surcharges are charged at 3 to 3.3 per cent. of the corresponding revenue.

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

3 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.

4 Other net income

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

	2002 **RMB million**	**2001** **RMB million**
Sales of SIM cards and handsets	**3,641**	3,338
Cost of SIM cards and handsets	**(1,955)**	(1,744)
	1,686	1,594

5 Non-operating net income/(expenses)

	2002 **RMB million**	**2001** **RMB million**
Exchange gain/(loss)	**47**	(39)
Penalty income on overdue accounts	**192**	165
Others	**332**	(132)
	571	(6)

In 2002, there is RMB255,000,000 included in others being gain recognised on deemed disposal of shareholding in a non-wholly owned subsidiary of the Company.

6 Profit from ordinary activities before taxation

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

	2002 RMB million	2001 RMB million
(a) Finance costs:		
Interest on bank loans and other borrowings repayable within five years	**759**	1,064
Interest on bank loans and other borrowings repayable after five years	**454**	4
Interest on fixed rate notes	**394**	394
Interest on bonds	**251**	108
Interest on convertible notes	**128**	129
Finance charges on obligations under finance leases	**47**	129
Total borrowings costs	**2,033**	1,828
Less: Amount capitalised as construction in progress (Note)	**(181)**	(88)
	1,852	1,740

Note: Borrowing costs have been capitalised at a rate of 3.36 per cent. to 6.21 per cent. (2001: 4.57 per cent. to 8.16 per cent.) per annum for construction in progress.

	2002 RMB million	2001 RMB million
(b) Other items:		
Depreciation		
— owned assets	**25,981**	16,494
— assets held under finance leases	**846**	1,170
Loss on disposal of fixed assets	**205**	275
Amortisation of goodwill	**936**	—
Write off of fixed assets	**96**	—
Amortisation of deferred expenses	**43**	39
Operating lease charges in respect of		
— properties	**1,188**	890
— leased lines	**5,287**	5,005
— others	**513**	457
Contributions to defined contribution plans	**451**	287
Provision for doubtful accounts	**1,749**	1,737
Provision for obsolete inventories	**32**	—
Auditors' remuneration	**40**	26
Dividend income from investment securities	**(25)**	(43)

7 Directors' remuneration

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

	2002 RMB million	2001 RMB million
Fees	**3**	2
Salaries, allowances and benefits in kind	**8**	8
Retirement scheme contributions	**1**	1
Performance related bonuses	**3**	3
	15	14

Included in the directors' remuneration were fees of RMB737,000 (2001: RMB543,000) paid to the independent non-executive directors during the year, including fees for serving on the audit committee and remuneration committee of amount RMB171,000 (2001: Nil).

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 and note 31.

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

	2002	2001
HK$ equivalent		
Nil to 1,000,000	**7**	9
1,000,001 to 1,500,000	**4**	1
1,500,001 to 2,000,000	**1**	—
2,000,001 to 2,500,000	**2**	1
2,500,001 to 3,000,000	**—**	2

8 Five highest paid individuals

Of the five highest paid individuals in 2002, three (2001: three) are directors of the Company and their remuneration has been included in Note 7 above. The remuneration of each of the remaining two highest paid individuals falls within the band from HK$1,500,001 to HK$2,000,000 (2001: from HK$1,500,001 up to HK$2,500,000) and their aggregate remuneration is as follows:

	2002 RMB million	2001 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.

9 Taxation

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

	2002 RMB million	2001 RMB million
Provision for PRC enterprise income tax on the estimated taxable profits for the year	**17,724**	12,153
Over-provision in respect of PRC enterprise income tax for prior year	**(14)**	(20)
	17,710	12,133
Transfer (to)/from deferred tax (note 19(a))	**(1,476)**	1,570
	16,234	13,703

(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 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 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	
	2002 RMB million	2001 RMB million
Provision for PRC enterprise income tax for the year	**17,724**	12,153
Balance of PRC enterprise income tax payable relating to prior year	**193**	455
Balance of PRC enterprise income tax payable arising on acquisition of subsidiaries	**512**	—
PRC enterprise income tax paid	**(11,861)**	(6,605)
	6,568	6,003

10 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a loss of RMB1,350,000,000 (2001: loss of RMB972,000,000) which has been dealt with in the accounts of the Company.

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

	2002 RMB million	2001 RMB million
Amount of consolidated profit attributable to shareholders dealt with in the Company accounts	**(1,350)**	(972)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**18,000**	4,863
Company's profit for the year (note 32)	**16,650**	3,891

11 Dividends

Dividends attributable to the year:

	2002 RMB million	2001 RMB million
Final dividend proposed after the balance sheet date of HK$0.32 (equivalent to RMB0.34) (2001: Nil) per share	**6,678**	—

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

12 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 RMB32,742,000,000 (2001: RMB28,015,000,000) and the weighted average of 19,151,322,221 shares (2001: 18,605,371,320 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 RMB32,870,000,000 (2001: RMB28,144,000,000), after adding back the interest expense on the convertible notes, and the weighted average number of 19,243,049,749 shares (2001: 18,698,023,159 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.

12 Earnings per share (cont'd)

(c) Reconciliations

	2002 RMB million	2001 RMB million
Profit attributable to shareholders used in calculating basic earnings per share	**32,742**	28,015
Interest expense on the convertible notes	**128**	129
Profit attributable to shareholders used in calculating diluted earnings per share	**32,870**	28,144

	2002 Number of shares	2001 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**19,151,322,221**	18,605,371,320
Deemed issue of ordinary shares for no consideration	**91,727,528**	92,651,839
Weighted average number of ordinary shares used in calculating diluted earnings per share	**19,243,049,749**	18,698,023,159

13 Fixed assets

(a) The Group

	Land use rights and buildings RMB million	Tele-communications 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 2002	10,594	127,392	6,095	144,081
Acquired on acquisition of subsidiaries	4,544	39,744	1,515	45,803
Additions	133	1,417	465	2,015
Transferred from construction in progress	3,932	36,014	2,114	42,060
Disposals	(21)	(1,593)	(582)	(2,196)
Assets written-off	—	(437)	(7)	(444)
At 31 December 2002	19,182	202,537	9,600	231,319
Accumulated depreciation:				
At 1 January 2002	639	35,964	2,270	38,873
Acquired on acquisition of subsidiaries	85	1,906	147	2,138
Charge for the year	701	24,749	1,377	26,827
Written back on disposals	(9)	(1,030)	(541)	(1,580)
Assets written-off	—	(344)	(4)	(348)
At 31 December 2002	1,416	61,245	3,249	65,910
Net book value:				
At 31 December 2002	17,766	141,292	6,351	165,409
At 31 December 2001	9,955	91,428	3,825	105,208

13 Fixed assets (cont'd)

(b) The Company

	Office equipment, furniture and fixtures and others RMB million
Cost:	
At 1 January 2002 and at 31 December 2002	7
Accumulated depreciation:	
At 1 January 2002	3
Charge for the year	1
At 31 December 2002	4
Net book value:	
At 31 December 2002	3
At 31 December 2001	4

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

	The Group	
	2002 RMB million	**2001 RMB million**
Long leases	**717**	1,638
Medium-term leases	**16,967**	8,247
Short-term leases	**82**	70
	17,766	9,955

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 RMB111,000,000 (2001: RMB6,836,000,000) 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.

14 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 2002.

15 Goodwill

	The Group	
	Goodwill RMB million	**Positive goodwill carried in reserves RMB million**
Cost:		
At 1 January 2002	—	297,605
Addition arising on acquisition of subsidiaries	37,458	—
At 31 December 2002	37,458	297,605
Accumulated amortisation:		
At 1 January 2002	—	—
Amortisation for the year	936	—
At 31 December 2002	936	—
Carrying amount:		
At 31 December 2002	36,522	297,605
At 31 December 2001	—	297,605

16 Investments in subsidiaries

	The Company	
	2002 RMB million	**2001 RMB million**
Unlisted equity investments, at cost	**438,012**	367,219

Pursuant to a resolution passed at the extraordinary general meeting held on 24 June 2002, the Company acquired 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 acquisition was completed on 1 July 2002. The only assets of each 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 are their interests in the entire equity of Anhui Mobile Communication Company Limited ("Anhui Mobile"), Jiangxi Mobile Communication Company Limited ("Jiangxi Mobile"), Chongqing Mobile Communication Company Limited ("Chongqing Mobile"), Sichuan Mobile Communication Company Limited ("Sichuan Mobile"), Hubei Mobile Communication Company Limited ("Hubei Mobile"), Hunan Mobile Communication Company Limited ("Hunan Mobile"), Shaanxi Mobile Communication Company Limited ("Shaanxi Mobile") and Shanxi Mobile Communication Company Limited ("Shanxi Mobile"), respectively, at a consideration of US$8,573,000,000 (equivalent to RMB70,959,000,000).

16 Investments in subsidiaries (cont'd)

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 25(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	RMB5,247,480,000	—	100%	Cellular telephone operator
Henan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
Henan Mobile Communication Company Limited*	PRC	RMB4,367,733,641	—	100%	Cellular telephone operator
Hainan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company

(Expressed in Renminbi)

16 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	Held by subsidiary	Principal activity
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*	PRC	RMB6,124,696,053	—	100%	Cellular telephone operator
Shanghai Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
Shanghai Mobile Communication Company Limited*	PRC	RMB6,038,667,706	—	100%	Cellular telephone operator
Tianjin Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
Tianjin Mobile Communication Company Limited*	PRC	RMB2,151,035,483	—	100%	Cellular telephone operator
Hebei Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
Hebei Mobile Communication Company Limited* ("Hebei Mobile")	PRC	RMB4,314,668,600	—	100%	Cellular telephone operator
Liaoning Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
Liaoning Mobile Communication Company Limited*	PRC	RMB5,140,126,680	—	100%	Cellular telephone operator
Shandong Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company

16 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	Held by subsidiary	Principal activity
Shandong Mobile Communication Company Limited*	PRC	RMB6,341,851,146	—	100%	Cellular telephone operator
Guangxi Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
Guangxi Mobile Communication Company Limited*	PRC	RMB2,340,750,100	—	100%	Cellular telephone operator
Anhui Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Anhui Mobile*	PRC	RMB4,099,495,494	—	100%	Cellular telephone operator
Jiangxi Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Jiangxi Mobile*	PRC	RMB2,932,824,234	—	100%	Cellular telephone operator
Chongqing Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Chongqing Mobile*	PRC	RMB3,029,645,401	—	100%	Cellular telephone operator
Sichuan Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Sichuan Mobile*	PRC	RMB7,483,625,572	—	100%	Cellular telephone operator
Hubei Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Hubei Mobile*	PRC	RMB3,961,279,556	—	100%	Cellular telephone operator

(Expressed in Renminbi)

16 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	Held by subsidiary	Principal activity
Hunan Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Hunan Mobile*	PRC	RMB4,015,668,593	—	100%	Cellular telephone operator
Shaanxi Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Shaanxi Mobile*	PRC	RMB3,171,267,431	—	100%	Cellular telephone operator
Shanxi Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Shanxi Mobile*	PRC	RMB2,773,448,313	—	100%	Cellular telephone operator
China Mobile (Shenzhen) Limited*	PRC	US$30,000,000	100%	—	Corporate operation controller
Aspire Holdings Limited	Cayman Islands	HK$93,964,583	66.41%	—	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
Aspire Information Network (Shenzhen) Limited*	PRC	US$1,500,000	—	100%	Provision of mobile data solutions, system integration and development

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

17 Interest in associates

	The Group	
	2002 RMB million	**2001 RMB million**
Unlisted shares, at cost	**37**	37
Capital contributions, at cost	**9**	9
	46	46
Less: Provision for impairment	**(30)**	(30)
	16	16

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

18 Investment securities

	The Group	
	2002 RMB million	**2001 RMB million**
Unlisted equity securities in the PRC, at cost	**77**	77

19 Deferred tax

(a) Movements on deferred taxation comprise:

	The Group	
	2002 RMB million	**2001 RMB million**
Balance at 1 January	**1,476**	3,046
Acquired on acquisition of subsidiaries	**619**	—
Transfer from/(to) the profit and loss account (Note 9(a))	**1,476**	(1,570)
Balance at 31 December	**3,571**	1,476

19 Deferred tax (cont'd)

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

	The Group	
	2002 RMB million	**2001 RMB million**
Deferred tax assets:		
Provision for obsolete inventories	**16**	4
Write-down and write-off of fixed assets relating to network equipment	**200**	171
Amortisation of deferred revenue	**154**	140
Income recognition on prepaid service fee	**3,259**	1,161
	3,629	1,476
Deferred tax liabilities:		
Capitalised interest	**(58)**	—
Net deferred tax assets	**3,571**	1,476
Less: Current portion of net deferred tax assets	**(3,116)**	(1,362)
	455	114

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

	The Group	
	2002 RMB million	**2001 RMB million**
Provision for doubtful accounts	**1,362**	1,204

20 Deferred expenses

	The Group and the Company	
	2002 RMB million	**2001 RMB million**
Balance at 1 January	**180**	164
Additions during the year	**53**	55
Less: Amortisation for the year	**(43)**	(39)
Balance at 31 December	**190**	180

21 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).

21 Amounts due from/to ultimate holding company and amount due to immediate holding company (cont'd)

At 31 December 2002, amount due to immediate holding company included in non-current liabilities primarily represented the balance of the purchase consideration for acquisition of subsidiaries as described in note 16, which is unsecured, bears interest at the rate of two year US dollar LIBOR swap rate per annum (at 31 December 2002: 3.801 per cent.) and is not expected to be settled within one year. The balance is due on 1 July 2017 and is subordinated to other senior debts owed by the Company from time to time including the fixed rate notes and convertible notes. The Company may make early payment of all or part of the balance at any time before the date without penalty.

The current portion of amount due to immediate holding company represented interest payable on the unpaid balance of the purchase consideration, which is expected to be settled within one year.

22 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	
	2002 RMB million	**2001 RMB million**
Within 30 days	**5,150**	5,100
31 – 60 days	**580**	443
61 – 90 days	**336**	185
	6,066	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.

23 Other receivables

Included in other receivables as at 31 December 2002 are amounts due from the PRC fixed line telephone services providers, including 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 RMB227,000,000 (2001: RMB108,000,000), representing primarily revenue collected on behalf of the Group. These balances are unsecured, non-interest bearing and repayable within one year.

24 Cash and cash equivalents

	The Group		The Company	
	2002 RMB million	2001 RMB million	2002 RMB million	2001 RMB million
Deposits with banks	**5,004**	3,818	**2,417**	3,223
Cash at banks and in hand	**27,571**	18,003	**9**	12
	32,575	21,821	**2,426**	3,235

25 Bank loans and other interest-bearing borrowings

(a) The Group

		2002			2001		
	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)	**6,243**	**2,613**	**8,856**	4,319	5,680	9,999
Other loans	(c)	**1,889**	**10,063**	**11,952**	212	247	459
Fixed rate notes	(d)	**—**	**4,961**	**4,961**	—	4,956	4,956
Convertible notes	(e)	**—**	**5,711**	**5,711**	—	5,708	5,708
Bonds	(f)	**—**	**13,000**	**13,000**	—	5,000	5,000
		8,132	**36,348**	**44,480**	4,531	21,591	26,122

All of the above bank and other loans are unsecured.

Other loans include designated loans borrowed from China Mobile, the ultimate holding company, totalling RMB11,680,000,000 (2001: Nil), which bear interest at various rates between 3.45 per cent. to 3.57 per cent. per annum with maturities in 2003 to 2004.

Other loans, excluding designated loans borrowed from China Mobile, bear interest at various rates between 3.36 per cent. to 7.50 per cent. (2001: 4.36 per cent. to 8.24 per cent.) per annum with maturities in 2003 to 2004.

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

(b) The Company

	Note	2002 Current liabilities RMB million	2002 Non-current liabilities RMB million	2002 Total RMB million	2001 Current liabilities RMB million	2001 Non-current liabilities RMB million	2001 Total RMB million
Fixed rate notes	(d)	—	**4,961**	**4,961**	—	4,956	4,956
Convertible notes	(e)	—	**5,711**	**5,711**	—	5,708	5,708
		—	**10,672**	**10,672**	—	10,664	10,664

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

	The Group Bank loans RMB million	The Group Other loans RMB million	The Group Total RMB million
At 31 December 2002:			
On demand or within one year (Note 25(a))	4,278	165	4,443
After one year but within two years	1,561	10,063	11,624
After two years but within five years	1,022	—	1,022
After five years	30	—	30
	2,613	10,063	12,676
	6,891	10,228	17,119
At 31 December 2001:			
On demand or within one year (Note 25(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

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 25(a) above.

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

(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.

(f) Bonds

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

The Ten-year Bonds bear interest at a floating rate, adjusted annually from the first day of each interest payable year and payable annually. 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.

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

(f) **Bonds** (cont'd)

(ii) On 28 October 2002, Guangdong Mobile issued five-year guaranteed bonds (the "Five-year Bonds") and fifteen-year guaranteed bonds (the "Fifteen-year Bonds"), with a principal amount of RMB3,000,000,000 and RMB5,000,000,000 respectively, at an issue price equal to the face value of the bonds.

The Five-year Bonds and the Fifteen-year Bonds bear interest at the rate of 3.5 per cent. per annum and 4.5 per cent. per annum respectively and payable annually. They are redeemable at 100 per cent. of the principal amount and will mature on 28 October 2007 and 28 October 2017 and the interest will be accrued up to 27 October 2007 and 27 October 2017 respectively.

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

26 Obligations under finance leases

As at 31 December 2002, the Group had obligations under finance leases repayable as follows:

	The Group					
	2002			2001		
	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	**68**	**3**	**71**	908	61	969
After 1 year but within 2 years	**—**	**—**	**—**	506	24	530
After 2 years but within 5 years	**—**	**—**	**—**	306	5	311
	—	**—**	**—**	812	29	841
	68	**3**	**71**	1,720	90	1,810

27 Accounts payable

Accounts payable primarily includes payables for network expansion projects expenditure, leased lines and interconnection expenses. Included in accounts payable as at 31 December 2002 are amounts due to China Telecom Group and China Netcom Group totalling RMB2,119,000,000 (2001: RMB1,725,000,000), representing primarily payables for leased lines and interconnection expenses.

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

	The Group	
	2002 RMB million	**2001 RMB million**
Amounts payable in the next:		
1 month or on demand	**10,904**	5,964
2 – 3 months	**2,160**	1,634
4 – 6 months	**2,599**	1,022
7 – 9 months	**1,594**	1,049
10 – 12 months	**1,994**	1,648
	19,251	11,317

28 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	
	2002 **RMB million**	**2001** **RMB million**
Balance at 1 January	**4,237**	3,654
Additions on acquisition of subsidiaries	**1,022**	—
Additions during the year	**35,907**	23,191
Recognised in profit and loss account	**(33,537)**	(22,608)
Balance at 31 December	**7,629**	4,237
Less: Current portion	**(6,760)**	(3,417)
Non-current portion	**869**	820

29 Employee retirement benefits

(a) As stipulated by the regulations of the PRC, the subsidiaries in the PRC participate in basic defined contribution pension plans organised by their respective Municipal Governments under which they are governed.

Employees in the PRC are entitled to retirement benefits equal to a fixed proportion of their salary at their normal retirement age. The Group has no other material obligation for payment of basic retirement benefits beyond the annual contributions which are calculated at a rate based on the salaries, bonuses and certain allowances of its employees.

Other than the above, certain subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs.

(b) The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 per cent. of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

30 Share capital

	The Group	
	2002 **HK$ million**	**2001** **HK$ million**
Authorised:		
30,000,000,000 ordinary shares of HK$0.10 each	**3,000**	3,000

Issued and fully paid:

	2002			**2001**		
	No. of shares	**HK$ million**	**RMB equivalent RMB million**	**No. of shares**	**HK$ million**	**RMB equivalent RMB million**
At 1 January	**18,605,405,241**	**1,861**	**1,986**	18,605,312,241	1,861	1,986
Issue of new shares	**236,634,212**	**24**	**25**	—	—	—
Issue of consideration shares for acquisition of subsidiaries	**827,514,446**	**82**	**88**	—	—	—
Shares issued under share option scheme (Note 31)	**2,100,000**	**—**	**—**	93,000	—	—
At 31 December	**19,671,653,899**	**1,967**	**2,099**	18,605,405,241	1,861	1,986

Pursuant to a resolution passed at a directors' meeting held on 16 May 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, Jiangxi Mobile BVI, Chongqing Mobile BVI, Sichuan Mobile BVI, Hubei Mobile BVI, Hunan Mobile BVI, Shaanxi Mobile BVI and Shanxi Mobile BVI.

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 24 June 2002, 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 of the acquisition.

31 Equity compensation benefits

Pursuant to a resolution passed at an annual general meeting held on 24 June 2002, the share option scheme established on 8 October 1997 (the "Old Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted.

Under the Old Scheme, 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 of the Company. Under the New Scheme, the directors of the Company may, at their discretion, invite employees, including executive directors and non-executive directors, of the Company, any of its holding companies and any of their respective subsidiaries and any entity in which the Company or any of its subsidiaries holds any equity interest, to take up options to subscribe for shares of the Company.

The maximum aggregate number of shares which can be subscribed pursuant to options that are or may be granted under the above schemes equals to 10 per cent. of the total issued share capital of the Company as at the date of adoption of the New Scheme. The consideration payable for the grant of each option is HK$1.00.

For options granted before 1 September 2001 under the Old Scheme, the exercise price of options was determined by the directors of the Company at their discretion provided 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 share on The Stock Exchange of Hong Kong Limited (the "SEHK") on the five trading days immediately preceding the date on which the option was granted.

With effect from 1 September 2001, the SEHK requires that the exercise price of options to be at least the higher of the nominal value of a share, the closing price of the shares on the SEHK on the date on which the option was granted and the average closing prices of the shares on the SEHK for the five trading days immediately preceding the date on which the option was granted.

During the year ended 31 December 2002, no options were granted under the Old Scheme.

For options granted under the New Scheme, the exercise price of options shall be determined by the directors of the Company at their discretion provided that such price may not be set below a minimum price which is the highest of:

(i) the nominal value of a share;

(ii) the closing price of the shares on the SEHK on the date on which the option was granted; and

(iii) the average closing prices of the shares on the SEHK for five trading days immediately preceding the date on which the option was granted.

31 Equity compensation benefits (cont'd)

Under both the Old Scheme and the New Scheme, the term of the option is determined by the directors at their discretion, provided that all options shall be exercised within 10 years after the adoption of the scheme (in the case of the Old Scheme) and within 10 years after the date on which the option is granted (in the case of the New Scheme).

During the year ended 31 December 2002, share options involving a total number 150,476,500 ordinary shares were granted under the New Scheme to certain directors and employees of the Company.

(a) Movements in share options

	The Group	
	2002 Number of shares involved in the options	**2001 Number of shares involved in the options**
At 1 January	**115,851,000**	40,316,000
Issued	**150,476,500**	76,773,000
Exercised	**(2,100,000)**	(93,000)
Cancelled	**(1,257,000)**	(1,145,000)
At 31 December	**262,970,500**	115,851,000
Options vested at 31 December	**22,161,000**	5,600,000

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	**Exercise period**	**Exercise price**	**2002 Number of shares involved in the options**	**2001 Number of shares involved in the options**
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**	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	**15,161,000**	15,264,000
25 April 2000	25 April 2005 to 7 October 2007	HK$45.04	**15,161,000**	15,264,000
22 June 2001	22 June 2003 to 7 October 2007	HK$32.10	**37,719,750**	38,111,500
22 June 2001	22 June 2006 to 7 October 2007	HK$32.10	**37,719,750**	38,111,500
3 July 2002	3 July 2004 to 2 July 2012	HK$22.85	**75,104,500**	—
3 July 2002	3 July 2007 to 2 July 2012	HK$22.85	**75,104,500**	—
			262,970,500	115,851,000

31 Equity compensation benefits (cont'd)

(c) Details of share options granted during the year

Exercise period	Exercise price	2002 Number of shares involved in the options	2001 Number of shares involved in the options
22 June 2003 to 7 October 2007	HK$32.10	—	38,386,500
22 June 2006 to 7 October 2007	HK$32.10	—	38,386,500
3 July 2004 to 2 July 2012	HK$22.85	**75,238,250**	—
3 July 2007 to 2 July 2012	HK$22.85	**75,238,250**	—

(d) Details of share options exercised during the year

Exercise date	Exercise price	Market value per share at exercise date	Proceeds received	Number of shares involved in the options
3 July 2002	HK$11.10	HK$22.85	HK$23,310,000	2,100,000

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 2001	347,007	(296,470)	72	12,643	18,522	81,774
Shares issued under share option scheme	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
At 1 January 2002	347,011	(296,470)	72	17,676	41,504	109,793
Issue of new shares	6,180	—	—	—	—	6,180
Issue of consideration shares for acquisition of subsidiaries	21,623	—	—	—	—	21,623
Expenses incurred in connection with the issue of consideration shares	(259)	—	—	—	—	(259)
Shares issued under share option scheme (Note 31)	24	—	—	—	—	24
Net profit for the year	—	—	—	—	32,742	32,742
Transfer to PRC statutory reserves	—	—	—	7,038	(7,038)	—
At 31 December 2002	374,579	(296,470)	72	24,714	67,208	170,103

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 2001				
— as previously reported	347,007	72	7,680	354,759
— prior year adjustment in respect of dividend income	—	—	(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	—	—	3,891	3,891
At 31 December 2001	347,011	72	6,708	353,791
At 1 January 2002	347,011	72	6,708	353,791
Issue of new shares	6,180	—	—	6,180
Issue of consideration shares for acquisition of subsidiaries	21,623	—	—	21,623
Expenses incurred in connection with the issue of new shares	(259)	—	—	(259)
Shares issued under share option scheme	24	—	—	24
Net profit for the year (Note 10)	—	—	16,650	16,650
At 31 December 2002	374,579	72	23,358	398,009

At 31 December 2002, the amount of distributable reserves of the Company amounted to RMB23,430,000,000 (2001: RMB6,780,000,000).

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 2002, debit balance of capital reserve is primarily the result of the elimination of goodwill arising on the acquisition of subsidiaries against the capital reserve in previous years.

PRC statutory reserves

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

32 Reserves (cont'd)

(b) The Company (cont'd)

PRC statutory reserves

In accordance with Accounting Regulations for Business Enterprises, 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.

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 2002, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund were RMB9,577,000,000 (2001: RMB5,766,000,000), RMB14,905,000,000 (2001: RMB11,590,000,000), RMB99,000,000 (2001: RMB181,000,000) and RMB133,000,000 (2001: RMB139,000,000), respectively.

33 Related party transactions

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

33 Related party transactions (cont'd)

The Group has also significant transactions with China Mobile (the Company's ultimate holding company) and its subsidiaries, other than the Group, (the "China Mobile Group"). The following is a summary of principal related party transactions carried out by the Group with China Mobile Group for the years ended 31 December 2002 and 2001. The majority of 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	2002 RMB million	2001 RMB million
Interconnection revenue	(i)	**2,329**	1,793
Interconnection charges	(ii)	**2,290**	1,772
Leased line charges	(iii)	**484**	278
Roaming revenue	(iv)	**5,838**	4,688
Roaming expenses	(v)	**6,043**	4,559
Spectrum fees	(vi)	**224**	18
Operating lease charges	(vii)	**189**	138
Roaming billing processing fees	(viii)	**225**	201
Equipment maintenance service fees	(ix)	**54**	46
Construction and related service fees	(x)	**223**	161
Purchase of transmission tower and transmission tower-related service and antenna maintenance service fees	(xi)	**87**	55
Prepaid card sales commission income	(xii)	**197**	241
Prepaid card sales commission expenses	(xii)	**195**	315
Technology platform development and maintenance service income	(xiii)	**39**	—
Telecommunications lines maintenance services fee	(xiv)	**22**	—
Interest paid/payable	(xv)	**645**	—

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.

(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.

33 Related party transactions (cont'd)

Notes: (cont'd)

(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) 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 telecommunications projects plannings, design and construction services and telecommunications lines and pipelines construction services to the Company's subsidiaries.

(xi) This represents payment made by Hebei Mobile to acquire transmission towers from relevant subsidiary of China Mobile and expenses paid or payable to relevant subsidiary of China Mobile for the provision of transmission tower related services and antenna maintenance services provided to Hebei Mobile; and payment made by the Group to Hubei Communications Services Company, a subsidiary of China Mobile in respect of the purchase of transmission towers and for the provision of transmission tower related services.

(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.

(xiv) Telecommunications lines maintenance services fees represent the amount paid or payable by Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile to the relevant subsidiaries of China Mobile for the provision of telecommunications lines maintenance services.

(xv) Interest paid/payable represents the interest paid or payable to China Mobile and CMHK (BVI) in respect of the designated loans borrowed and the balance of purchase consideration for acquisition of subsidiaries.

33 Related party transactions (cont'd)

(b) Pursuant to a resolution passed at the extraordinary general meeting held on 24 June 2002, the Company acquired the entired 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 RMB 70,959,000,000). The consideration was satisfied by a cash of RMB 49,248,000,000 and allotment of shares to CMHK (BVI) amounted to HK$20,457,000,000 (equivalent to RMB 21,711,000,000). The only assets of each 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 are their interests in the entire equity of Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile respectively.

34 Commitments

(a) Capital commitments

Capital commitments outstanding at 31 December 2002 not provided for in the accounts were as follows:

	The Group		The Company	
	2002 RMB million	**2001 RMB million**	**2002 RMB million**	**2001 RMB million**
Commitments in respect of land and buildings				
— authorised and contracted for	**1,167**	1,447	**—**	—
— authorised but not contracted for	**3,423**	3,915	**—**	—
	4,590	5,362	**—**	—
Commitments in respect of telecommunications equipment				
— authorised and contracted for	**5,270**	8,919	**—**	1,587
— authorised but not contracted for	**23,267**	31,419	**—**	—
	28,537	40,338	**—**	1,587
Total commitments				
— authorised and contracted for	**6,437**	10,366	**—**	1,587
— authorised but not contracted for	**26,690**	35,334	**—**	—
	33,127	45,700	**—**	1,587

34 Commitments (cont'd)

(b) Operating lease commitments

At 31 December 2002, 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 2002:					
Within one year	833	4,672	583	6,088	2
After one year but within five years	2,023	4,117	488	6,628	—
After five years	1,512	183	307	2,002	—
	4,368	8,972	1,378	14,718	2
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

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

35 Post balance sheet events

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 11.

36 Comparative figures

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. Comparative figures have been reclassified to conform with the current year's presentation.

37 Ultimate holding company

The directors consider the ultimate holding company at 31 December 2002 to be China Mobile, a company incorporated in the PRC.