

# 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 ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The interim results 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 unmodified independent review report to the board of directors is included on page 23.

The unaudited consolidated financial information for the six months ended 30 June 2003 includes the financial information of the Company and its major subsidiaries, Guangdong Mobile Communication Company Limited ("Guangdong Mobile"), Zhejiang Mobile Communication Company Limited ("Zhejiang Mobile"), Jiangsu Mobile Communication Company Limited ("Jiangsu Mobile"), Fujian Mobile Communication Company Limited ("Fujian Mobile"), Henan Mobile Communication Company Limited ("Henan Mobile"), Hainan Mobile Communication Company Limited ("Hainan Mobile"), Beijing Mobile Communication Company Limited ("Beijing Mobile"), Shanghai Mobile Communication Company Limited ("Shanghai Mobile"), Tianjin Mobile Communication Company Limited ("Tianjin Mobile"), Hebei Mobile Communication Company Limited ("Hebei Mobile"), Liaoning Mobile Communication Company Limited ("Liaoning Mobile"), Shandong Mobile Communication Company Limited ("Shandong Mobile"), Guangxi Mobile Communication Company Limited ("Guangxi Mobile"), 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"), Shanxi Mobile Communication Company Limited ("Shanxi Mobile"), China Mobile Holding Company Limited (formerly China Mobile (Shenzhen) Limited), Aspire Holdings Limited ("Aspire"), Aspire Information Network (Shenzhen) Limited and Aspire Technologies (Shenzhen) Limited, (the "Group"), for the six months ended 30 June 2003.

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

The financial information relating to the financial year ended 31 December 2002 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 2002 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 18 March 2003.

The same accounting policies adopted in the 2002 annual accounts have been applied to the interim consolidated accounts except for the accounting policy for deferred taxation (see Note 2).

# Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

## 2 Change of accounting policy

In prior years, deferred tax liabilities were 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 were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group adopted a new policy for deferred tax as set out below:

- Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current and deferred tax assets and liabilities are offset if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amount of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

# Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

## **2 Change of accounting policy (cont'd)**

As a result of the adoption of this accounting policy, the Group's profits for the period ended 30 June 2003 has been increased by RMB138 million (2002 : RMB236 million) and the net assets as at period ended 30 June 2003 has been increased by RMB1,201 million (at 31 December 2002: RMB1,063 million). The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and reserves and the comparative information of the Group adjusted for the amounts relating to prior periods as disclosed in the unaudited consolidated statement of changes in equity.

## **3 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.

## **4 Turnover**

Turnover primarily represents usage fees, monthly 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 approximately 3 to 3.30 per cent. of the corresponding revenue.

## **5 Other operating 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.

# Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

## 6 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2003 RMB million	2002 RMB million
Interest on borrowings	1,088	664
Depreciation	16,907	10,465
Amortisation of goodwill	936	—
Amortisation of deferred expenses	24	21
Operating lease charges in respect of		
— properties	779	512
— leased lines	2,655	2,767
— others	259	263
Contributions to defined contribution plans	232	133
Provision for doubtful accounts	1,104	834

## 7 Taxation

	Six months ended 30 June	
	2003 RMB million	2002 RMB million restated
Provision for PRC enterprise income tax on the estimated taxable profits for the period	10,001	7,653
(Over)/under-provision in respect of PRC enterprise income tax for prior period	(211)	10
	9,790	7,663
Origination and reversal of temporary differences transfer to deferred tax	(435)	(99)
	9,355	7,564

- (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 2003 and 2002.
- (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 2003, 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.

# Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

## 8 Dividends

### (a) Dividends attributable to the period

	Six months ended 30 June	
	2003 RMB million	2002 RMB million
Interim dividend proposed after the balance sheet date of HK\$0.16 (equivalent to approximately RMB0.17) (2002: Nil) per share	3,339	—

The interim dividend proposed after the interim period has not been recognised as a liability at the interim period end.

### (b) Dividends attributable to the previous financial year, approved and paid during the period

	Six months ended 30 June	
	2003 RMB million	2002 RMB million
Final dividend in respect of the previous financial year, approved and paid during the period, of HK\$0.32 (equivalent to approximately RMB0.34) (2002: Nil) per share	6,679	—

## 9 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2003 is based on the profit attributable to shareholders of RMB17,469,000,000 (2002: RMB15,451,000,000 (restated)) and the weighted average number of 19,671,653,899 shares (2002: 18,622,401,068 shares) in issue during the six months ended 30 June 2003.

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2003 is based on the adjusted profit attributable to shareholders of RMB17,532,000,000 (2002: RMB15,515,000,000 (restated)), after adding back the interest expense on the convertible notes and the weighted average number of 19,762,808,929 shares (2002: 18,714,692,676 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 (Cont'd)

(Expressed in Renminbi)

## 9 Earnings per share (cont'd)

### (c) Reconciliations

	Six months ended 30 June	
	2003 RMB million	2002 RMB million restated
Profit attributable to shareholders used in calculating basic earnings per share	17,469	15,451
Interest expense on the convertible notes	63	64
Profit attributable to shareholders used in calculating diluted earnings per share	17,532	15,515

  

	Number of shares	
	2003	2002
Weighted average number of ordinary shares used in calculating basic earnings per share	19,671,653,899	18,622,401,068
Deemed issue of ordinary shares for no consideration	91,155,030	92,291,608
Weighted average number of ordinary shares used in calculating diluted earnings per share	19,762,808,929	18,714,692,676

## 10 Amount due from/to ultimate holding company

Amount due from/to ultimate holding company are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business (see Note 18).

## 11 Amount due to immediate holding company

Amount due to immediate holding company included in non-current liabilities primarily represented the balance of the purchase consideration for acquisition of subsidiaries on 1 July 2002, which is unsecured, bears interest at the rate of two year US dollar LIBOR swap rate per annum (at 30 June 2003 and 31 December 2002: 3.801 per cent.) and is not required 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.

## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

### 12 Accounts receivable

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

	Unaudited At 30 June 2003 RMB million	Audited At 31 December 2002 RMB million
Within 30 days	5,454	5,150
31–60 days	627	580
61–90 days	477	336
	6,558	6,066

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.

### 13 Other receivables

Included in other receivables as at 30 June 2003 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 Netcom Communications Group Corporation ("China Netcom") and its subsidiaries (collectively the "China Netcom Group") totalling RMB148,000,000 (At 31 December 2002: RMB227,000,000), representing primarily revenue collected on behalf of the Group. These balances are unsecured, non-interest bearing and repayable within one year.

### 14 Cash and cash equivalents

	Unaudited At 30 June 2003 RMB million	Audited At 31 December 2002 RMB million
Deposits with banks	7,329	5,004
Cash at banks and in hand	38,961	27,571
	46,290	32,575

## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

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

	Unaudited 30 June 2003			Audited 31 December 2002		
	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	3,123	2,417	5,540	6,243	2,613	8,856
Other loans	10,337	1,794	12,131	1,889	10,063	11,952
Fixed rate notes	—	4,963	4,963	—	4,961	4,961
Convertible notes	—	5,711	5,711	—	5,711	5,711
Bonds	—	13,000	13,000	—	13,000	13,000
	13,460	27,885	41,345	8,132	36,348	44,480

Other loans included designated loans borrowed from China Mobile, the ultimate holding company, totalling RMB11,940,000,000 (31 December 2002: RMB11,680,000,000), which bear at the rate of 3.28 per cent. to 3.57 per cent. (At 31 December 2002: 3.45 per cent. to 3.57 per cent.) per annum with maturities in 2003 to 2004.

### 16 Accounts payable

Accounts payable primarily includes payables for network expansion projects expenditure, leased lines and interconnection expenses. Included in accounts payable as at 30 June 2003 are amounts due to China Telecom Group and China Netcom Group totalling RMB2,248,000,000 (At 31 December 2002: RMB2,119,000,000), representing primarily payables for leased lines and interconnection expenses.

The ageing analysis of accounts payable is as follows:

	Unaudited At 30 June 2003 RMB million	Audited At 31 December 2002 RMB million
Amounts payable in the next:		
1 month or on demand	13,084	10,904
2–3 months	2,850	2,160
4–6 months	2,178	2,599
7–9 months	1,168	1,594
10–12 months	1,379	1,994
	20,659	19,251



# Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

## 17 Share capital

Issued and fully paid:

	At 30 June 2003		
	No. of shares	HK\$ million	RMB equivalent RMB million
At 1 January 2003 and 30 June 2003	<b>19,671,653,899</b>	<b>1,967</b>	<b>2,099</b>

At 30 June 2003, the outstanding options were as follows:

Date of options granted	Normal period during which options are exercisable	Price per share to be paid on exercise of options	No. of shares involved in the options outstanding at the period end
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	14,833,000
25 April 2000	25 April 2005 to 7 October 2007	HK\$45.04	14,833,000
22 June 2001	22 June 2003 to 7 October 2007	HK\$32.10	37,201,250
22 June 2001	22 June 2006 to 7 October 2007	HK\$32.10	37,201,250
3 July 2002	3 July 2004 to 2 July 2012	HK\$22.85	74,448,750
3 July 2002	3 July 2007 to 2 July 2012	HK\$22.85	74,448,750
			<b>259,966,000</b>

No option had been granted to the directors and employees of the Company during the six months ended 30 June 2003. Share options involving a total number of 3,004,500 ordinary shares previously granted to certain employees of the Company were cancelled during the period.

None of the directors and employees of the Company exercised their options to subscribe for shares of the Company during the six months ended 30 June 2003.

# Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

## 18 Related party transactions

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.

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 six months ended 30 June 2003 and 2002.

	Note	Six months ended 30 June	
		2003 RMB million	2002 RMB million
Interconnection revenue	(i)	1,212	1,020
Interconnection charges	(ii)	1,225	976
Leased line charges	(iii)	288	163
Roaming revenue	(iv)	3,138	2,487
Roaming expenses	(v)	3,290	2,620
Spectrum fees	(vi)	277	12
Operating lease charges	(vii)	109	58
Roaming billing processing fees	(viii)	89	115
Equipment maintenance service fees	(ix)	20	13
Construction and related service fees	(x)	104	47
Purchase of transmission tower and transmission tower-related service and antenna maintenance service fees	(xi)	26	—
Prepaid card sales commission income	(xii)	86	80
Prepaid card sales commission expenses	(xii)	79	87
Technology platform development and maintenance service income	(xiii)	9	13
Telecommunications lines maintenance services fee	(xiv)	19	—
Interest paid/payable	(xv)	462	—

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.

# Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

## 18 Related party transactions (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 planning, 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 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; and payment made by the Group to Hubei Communication 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 China Mobile Hong Kong (BVI) Limited in respect of the designated loans borrowed and the balance of purchase consideration for acquisition of subsidiaries.

# Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

## 19 Commitments

### (a) Capital commitments

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

	Unaudited At 30 June 2003 RMB million	Audited At 31 December 2002 RMB million
Commitments in respect of land and buildings		
— authorised and contracted for	910	1,167
— authorised but not contracted for	6,547	3,423
	7,457	4,590
Commitments in respect of telecommunications equipment		
— authorised and contracted for	5,496	5,270
— authorised but not contracted for	21,886	23,267
	27,382	28,537
Total commitments		
— authorised and contracted for	6,406	6,437
— authorised but not contracted for	28,433	26,690
	34,839	33,127

### (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 2003				
Within one year	849	4,037	398	5,284
After one year but within five years	2,170	3,793	287	6,250
After five years	1,136	96	132	1,364
	4,155	7,926	817	12,898
At 31 December 2002				
Within one year	833	4,672	583	6,088
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

## Notes on the Unaudited Interim Accounts (Cont'd)

(Expressed in Renminbi)

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### 20 Comparative figures

The presentation and classification of items in the audited consolidated balance sheet at 31 December 2002 and unaudited consolidated profit and loss accounts for the six months ended 30 June 2002 have been changed due to the adoption of the requirements of SSAP12 (revised) "Income Taxes". As a result, goodwill, deferred tax assets, deferred tax liabilities and reserves in the audited consolidated balance sheet at 31 December 2002 have been restated, and deferred tax assets and deferred tax liabilities have been classified into non-current assets and liabilities respectively. Taxation in the unaudited consolidated profit and loss accounts for the six months ended 30 June 2002 has also been restated.