CHINA MOBILE HONG KONG LTD /ADR/
Form 20-F
June 26, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ________ TO ________

COMMISSION FILE NUMBER 1-14696

CHINA MOBILE (HONG KONG) LIMITED
(Exact Name of Registrant as Specified in Its Charter)

N/A
(Translation of Registrant's Name into English)

HONG KONG, CHINA
(Jurisdiction of Incorporation or Organization)

60TH FLOOR, THE CENTER
99 QUEEN'S ROAD CENTRAL
HONG KONG, CHINA

(Address of Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Ordinary shares, par value HK$0.10 per share	New York Stock Exchange, Inc.*

* Not for trading, but only in connection with the listing on the New York Stock Exchange, Inc. of American depositary shares representing the ordinary shares.

Securities registered or to be registered pursuant to Section 12(g) of the

Act:

NONE
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2000, 18,605,312,241 ordinary shares, par value HK$0.10 per share, were issued and outstanding.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 [ ] Item 18 [X]

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CHINA MOBILE (HONG KONG) LIMITED

FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are, by their nature, subject to significant risks and uncertainties, and include, without limitation, statements relating to:

-- our business strategy;

-- network expansion plans and related capital expenditure plans;

-- the planned development of new mobile technologies and other technologies and related applications;

-- the expected impact of tariff changes on our results of operations;

-- the expected impact of new services on our results of operations;

-- future developments in the telecommunications industry in Mainland China, including the restructuring of the industry, changes in government policies; and

-- other statements relating to our future business development and financial performance.

The words "anticipate", "believe", "estimate", "expect", "intend" and similar expressions, as they relate to us, are intended to identify certain of such forward-looking statements. We do not intend to update these forward-looking statements.

These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation:

- any further restructuring of the telecommunications industry in Mainland China;
- any changes in the regulatory policies of the Ministry of Information Industry of China and other relevant government authorities, which could affect, among other things, the granting of any requisite government approvals, licences and permits, interconnection and transmission line arrangements, tariff policies, capital investment priorities, and spectrum allocation;
- the effects of competition on the demand for and price of our mobile communications services;
- any changes in mobile telephony and related technologies, which could affect the viability and competitiveness of our mobile communications networks; and
- changes in political, economic, legal and social conditions in Mainland China, including the Chinese government's specific policies with respect to new entrants in the telecommunications industry, foreign investment and the entry of foreign companies into China's telecommunications market, economic growth, inflation, foreign exchange, and the availability of credit.

In addition, our future network expansion and other capital expenditure and development plans are dependent on numerous factors, including, among others:

- our ability to obtain adequate financing on acceptable terms;
- the adequacy of currently available spectrum or the availability of additional spectrum;
- the availability of transmission lines and equipment, the availability of the requisite number of sites for locating network equipment on reasonable commercial terms;
- our ability to develop or obtain new technology and applications; and
- the availability of qualified management and technical personnel.

SPECIAL NOTE ON OUR FINANCIAL INFORMATION AND CERTAIN STATISTICS PRESENTED IN THIS ANNUAL REPORT

As required under Hong Kong GAAP, we have adopted the acquisition method to account for our acquisitions of various regional mobile communications companies, as described in "Item 4. Information on the Company -- History and Development of the Company." Accordingly, our consolidated financial statements and, except as otherwise noted, all other Hong Kong GAAP financial information presented in this annual report, include the results of these companies, only from the respective dates of acquisition.

For U.S. GAAP purposes, as a result of our being under common control with each of these companies prior to the acquisitions, each of the acquisitions was considered a "combination of entities under common control". Under U.S. GAAP, combinations of entities under common control are accounted for under the "as if pooling-of-interests" method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination generally are restated on a combined basis. See "Item 5. Operating and Financial Review and Prospects".

The statistics set forth in this annual report relating to Mainland China are taken or derived from various government publications that we have not prepared or independently verified. These statistics may not be consistent with other statistics compiled within or outside Mainland China.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS.

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

Not applicable.

ITEM 3. KEY INFORMATION.

SELECTED FINANCIAL DATA

The following tables present selected historical financial data of our company as of and for each of the years in the five-year period ended December 31, 2000. The selected historical income statement data for the years ended December 31, 1998, 1999 and 2000 and the selected historical balance sheet data as of December 31, 1999 and 2000 set forth below are derived from, and should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements, including the related notes included elsewhere in this annual report. The selected historical Hong Kong GAAP income statement data for the years ended December 31, 1996 and 1997 and the selected historical Hong Kong GAAP balance sheet data as of December 31, 1996, 1997 and 1998 are derived from audited financial statements that are not included herein.

Our consolidated financial statements are prepared and presented in accordance with Hong Kong GAAP. As required under Hong Kong GAAP, we have adopted the acquisition method to account for our acquisitions of the various regional mobile communications companies, as described in "Item 4. Information on the Company -- History and Development of the Company." Accordingly, our consolidated financial statements and, except as otherwise noted, all other Hong Kong GAAP financial information presented in this annual report, include the results of these companies, only from the respective dates of acquisition. In contrast, under U.S. GAAP, our acquisitions of these companies are each considered a combination of entities under common control which would be accounted for under the "as if pooling-of-interests" method, whereby assets and liabilities are accounted for at historical cost and the accounts of previously separate companies for periods prior to the combination generally are restated on a combined basis. For a discussion of significant differences between Hong Kong GAAP and U.S. GAAP as they relate to us, and the effects of such differences on net profit for the years ended December 31, 1998, 1999 and 2000, and shareholders' equity as of December 31, 1999 and 2000, see Note 29 to our consolidated financial statements. In addition, our condensed consolidated financial statements prepared and presented in accordance with U.S. GAAP for the relevant periods have been included in Note 29 to the consolidated financial statements.

	AS OF OR FOR THE YEAR ENDED DECEMBER 31,					
	1996	1997	1998	1999	2000	2
	RMB	RMB	RMB	RMB	RMB	U
	(IN MILLIONS, EXCEPT SHARE NUMBERS AND PER SHARE AND PER ADS INFORMA					
INCOME STATEMENT DATA:						
HONG KONG GAAP						
Operating revenue.........	10,367	15,488	26,345	38,623	64,984	
Operating expenses........	5,405	10,074	18,410	24,983	38,158	
Operating profit..........	4,962	5,414	7,935	13,640	26,826	
Write-down and write-off of analog network equipment...............	--	--	282	8,242	1,525	
Profit before tax and minority interests......	4,941	5,953	9,387	6,444	26,393	
Income tax................	428	991	2,486	1,647	8,366	
Net profit................	4,509	4,955	6,900	4,797	18,027	

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	AS OF OR FOR THE YEAR ENDED DECEMBER 31,					
	1996	1997	1998	1999	2000	2
	RMB	RMB	RMB	RMB	RMB	U
	(IN MILLIONS, EXCEPT SHARE NUMBERS AND PER SHARE AND PER ADS INFORMA					
Basic and diluted net profit per share(1)(2).............	0.50	0.52	0.59	0.40	1.25	
Basic and diluted net profit per ADS(1)(2)....	2.50	2.60	2.93	1.99	6.26	
Shares utilized in basic calculation (in thousands).............	9,010,000	9,534,365	11,780,788	12,069,108	14,394,313	14,3
Shares utilized in diluted calculation (in thousands).............	9,010,000	9,534,365	11,782,521	12,072,383	14,409,503	14,4
U.S. GAAP(3)						
Operating revenue.........	23,145	36,830	54,375	70,603	90,980	
Operating expenses........	12,372	23,103	37,473	56,443	56,418	
Operating profit..........	10,773	13,727	16,902	14,160	34,562	
Profit before tax and minority interests......	10,908	14,222	18,496	14,610	35,378	
Income tax................	1,148	1,797	3,912	3,617	11,097	
Net profit................	9,756	12,418	14,583	10,993	24,280	
Basic and diluted net profit per						

share(1)(2)............	0.69	0.85	0.87	0.65	1.37	
Basic and diluted net profit per ADS(1)(2)....	3.47	4.26	4.33	3.24	6.87	
Shares utilized in basic calculation (in thousands).............	14,062,602	14,586,967	16,833,390	16,943,812	17,666,347	17,6
Shares utilized in diluted calculation (in thousands).............	14,062,602	14,586,967	16,835,123	16,947,086	17,681,538	17,6
BALANCE SHEET DATA:						
HONG KONG GAAP						
Current assets						
Cash and cash equivalents..........	2,976	40,071	17,481	19,349	27,702	
Deposits with banks.....	--	--	1,311	8,227	12,204	
Accounts receivable.....	1,087	1,592	2,482	4,957	7,252	
Fixed assets.............	11,536	18,634	33,986	42,699	87,465	
Total assets.............	18,136	64,950	64,541	87,435	156,438	
Total short-term debt(4)................	1,504	2,148	5,337	4,419	12,095	
Total long-term debt(5)...	1,946	2,870	991	2,332	13,708	
Fixed rate notes..........	--	--	--	4,952	4,953	
Convertible notes.........	--	--	--	--	5,708	
Total liabilities.........	5,657	10,386	18,699	30,343	72,661	
Shareholders' equity......	12,471	54,550	45,827	57,092	83,760	
U.S. GAAP(3)						
Fixed assets.............	26,794	41,692	64,084	71,791	82,223	
Total assets.............	41,637	102,103	111,588	134,603	156,538	
Total long-term debt(5)...	3,752	5,750	10,382	13,332	13,708	
Fixed rate notes..........	--	--	--	4,952	4,953	
Convertible notes.........	--	--	--	--	5,708	
Shareholders' equity......	29,815	81,798	70,127	77,073	79,660	
OTHER FINANCIAL DATA:						
HONG KONG GAAP						
Capital expenditures(6)...	5,511	5,807	11,040	11,708	21,964	

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	AS OF OR FOR THE YEAR ENDED DECEMBER 31,					
	1996	1997	1998	1999	2000	2
	RMB	RMB	RMB	RMB	RMB	U
	(IN MILLIONS, EXCEPT SHARE NUMBERS AND PER SHARE AND PER ADS INFORMA					
Net cash inflow from operating activities....	6,418	8,825	13,567	21,662	41,401	
Net cash outflow from investing activities....	(5,264)	(5,327)	(36,357)	(36,117)	(92,880)	(
Net cash inflow from financing activities....	899	34,218	325	18,337	65,653	
Adjusted cash flow(7).....	4,213	8,203	13,444	19,673	35,580	
Adjusted EBITDA(8)........	6,436	8,180	12,869	21,603	37,500	
Dividend Declared.........	--	--	--	--	--	
U.S. GAAP(3)						
Net cash flow from operating activities....	11,744	18,517	23,840	35,137	49,341	
Dividend Declared.........	--	--	--	--	--	

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(1) The basic and diluted net profit per share and per ADS amounts under Hong Kong GAAP for the years ended December 31, 1996 and 1997 have been computed by dividing net profit under Hong Kong GAAP by the weighted average number of shares and the weighted average number of ADSs, respectively, outstanding as if 9,010,000,000 ordinary shares and 1,802,000,000 ADSs (based on a ratio of five shares to one ADS), respectively, issued in the restructuring for our initial public offering were outstanding during these periods (in addition to shares actually issued, if any).

The basic and diluted net profit per share and per ADS amounts under U.S. GAAP for the years ended December 31, 1996 and 1997 have been computed by dividing net profit under U.S. GAAP by the weighted average number of shares and the weighted average number of ADSs, respectively, outstanding as if (i) 9,010,000,000 ordinary shares and 1,802,000,000 ADSs (based on a ratio of five shares to one ADS), respectively, issued in the restructuring for our initial public offering; (ii) 1,273,195,021 ordinary shares and 254,639,004 ADSs, respectively, issued to China Mobile Hong Kong (BVI) Limited as part of the consideration in the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile and (iii) 3,779,407,375 ordinary shares and 755,881,475 ADSs, respectively, issued to China Mobile Hong Kong (BVI) Limited as part of the consideration in the acquisition of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were outstanding during these periods (in addition to shares actually issued during these years).

(2) The basic net profit per share and per ADS amounts under Hong Kong GAAP for the years ended December 31, 1998, 1999 and 2000, have been computed by dividing net profit by the weighted average number of shares and the weighted average number of ADSs, respectively, outstanding during 1998, 1999 and 2000. The calculation of diluted net profit per share under Hong Kong GAAP for the years ended December 31, 1998, 1999 and 2000 have been compiled after adjusting for the effects of all dilutive potential ordinary shares, respectively.

The basic net profit per share and per ADS amounts under U.S. GAAP for the years ended December 31, 1998, 1999 and 2000 have been computed by dividing net profit by the weighted average number of shares and the weighted average number of ADSs, respectively, as if 1,273,195,021 ordinary shares and 254,639,004 ADSs issued to China Mobile Hong Kong (BVI) Limited as part of the consideration in the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile and 3,779,407,375 ordinary shares and 755,881,475 ADSs issued to China Mobile Hong Kong (BVI) Limited as part of the consideration in the acquisition of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were outstanding during these periods (in addition to shares actually issued during these years). The calculation of diluted net profit per share under U.S. GAAP for the years ended December 31, 1998, 1999 and 2000 have been compiled after adjusting for the effects of all dilutive potential ordinary shares, respectively.

All dilutive potential ordinary shares arise from the share options granted to the directors and employees under the share option scheme which, if converted to ordinary shares, would decrease profit attributable to shareholders per share.

(3) The amounts for the years ended December 31, 1996, 1997, 1998, 1999 and 2000 are presented to reflect our acquisitions of the various regional mobile communications companies under the "as if pooling-of-interest" method, as well as the effects of other differences between Hong Kong GAAP and U.S. GAAP.

(4) Includes short-term bank and other loans, current portion of long-term bank and other loans and current portion of obligations under capital leases.

(5) Includes long-term bank and other loans and obligations under capital leases, net of current portion.

(6) Represents payments made for capital expenditures during the year.

(7) Represents net cash inflows from operating activities less net cash outflows (inflows) from returns on investments and servicing of finance and taxation.

(8) Adjusted EBITDA represents earnings before interest income, interest expense, income taxes, depreciation, amortization, non-operating income (expense) and write-down and write-off of fixed assets. While EBITDA is commonly used in the telecommunications industry to analyze companies on the basis of operating performance, leverage and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flow from operating activities. The items of net profit excluded from EBITDA are significant components in understanding and assessing our financial performance, and our computation of EBITDA may not be comparable to other similarly titled measures of other companies. See "Item 5. Operating and Financial Review and Prospects" and the consolidated statements of our cash flows contained elsewhere in this annual report.

EXCHANGE RATE INFORMATION

We publish our consolidated financial statements in Renminbi. Solely for the convenience of the reader, this annual report contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars and vice versa at RMB 8.2781 = US$1.00 and HK$7.999 = US$1.00, the prevailing rates on December 31, 2000. These translations should not be construed as representations that the Renminbi or Hong Kong dollar amounts could actually be converted into U.S. dollars at such rates or at all.

The noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were US$1.00 = RMB 8.2770 and US$1.00 = HK$7.8000, respectively, on May 31, 2001. The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

NOON BUYING RATE

	RMB PER US$1			HK$ PER US$1	
	HIGH	LOW		HIGH	LOW
December 2000.............	8.2781	8.2768	December 2000.............	7.8003	7.7963
January 2001..............	8.2786	8.2764	January 2001..............	7.8001	7.7993
February 2001.............	8.2783	8.2763	February 2001.............	7.8000	7.7990
March 2001................	8.2784	8.2768	March 2001................	7.8003	7.7994
April 2001................	8.2776	8.2767	April 2001................	7.8000	7.7983

May 2001	8.2785	8.2709	May 2001	7.8003	7.7991

The following table sets forth the average noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 1996, 1997, 1998, 1999 and 2000, calculated by averaging the noon buying rates on the last day of each month during the relevant year.

	AVERAGE NOON BUYING RATE	
	RMB PER US$1	HK$ PER US$1
1996	8.3395	7.7341
1997	8.3193	7.7440
1998	8.2991	7.7465
1999	8.2785	7.7599
2000	8.2784	7.7936

RISK FACTORS

Extensive Government Regulation May Limit Our Flexibility to Respond to Market Conditions, Competition or Changes in our Cost Structure

The Ministry of Information Industry of China regulates, among others, the following areas of the telecommunications industry under the leadership of the State Council of China:

- formulating and enforcing industry policy, standards and regulations;
- granting telecommunications licenses;
- formulating interconnection and settlement standards for implementation between telecommunications networks;
- together with other relevant regulatory authorities, formulating tariff and service charge standards for certain telecommunications services;
- supervising the operations of telecommunications service providers;
- promoting fair and orderly market competition among telecommunications service providers through policy guidance; and
- allocating and administering public communications resources, such as radio frequencies, number resources, domain names and addresses of communications networks.

Other Chinese government authorities also take part in regulating tariff policies and foreign investment in the telecommunications industry. The regulatory framework within which we operate may limit our flexibility to respond to market conditions, competition or changes in our cost structure. In particular, future adverse changes in tariff policies and rates could immediately decrease our revenues. We cannot predict when or if changes in tariff policies or rates may occur, including, for example, the possible implementation of a calling-party-pays tariff scheme.

We operate our businesses with approvals granted by the State Council and under licenses granted by the Ministry of Information Industry. If these approvals or licenses are revoked or suspended, we will be adversely affected.

We May Be Affected by Future Regulatory Changes

To provide a uniform regulatory framework for the orderly development of the telecommunications industry, the Chinese government is currently preparing a draft telecommunications law. If and when the telecommunications law is adopted by the National People's Congress, it is expected to become the fundamental telecommunications statute and the legal basis for telecommunications regulations in Mainland China. The State Council has recently promulgated a set of new telecommunications regulations. These regulations are substantially consistent with the existing rules and guidelines for the telecommunications industry, and are primarily intended to streamline and clarify the existing rules and guidelines. They apply in the interim period prior to the adoption of the telecommunications law. Although we expect that the

telecommunications law will positively affect the overall development of the telecommunications industry in Mainland China, we do not fully know what the nature and scope of the telecommunications law will be. The telecommunications law may contain provisions that could materially and adversely affect our business, financial condition and results of operations.

Competition from Other Mobile Communications Service Providers May Affect Our Subscriber Growth and Profitability by Causing the Rate of Our Subscriber Growth to Decline and Bringing about Decreases in Tariff Rates and Increases in Selling and Promotional Expenses

China United Telecommunications Corporation operates (directly or through its subsidiaries) in all of the provinces, municipalities and autonomous region in which we operate. The Chinese government encourages orderly competition in the telecommunications industry in China. Towards this end, it has extended certain favorable regulatory policies to China United Telecommunications Corporation in order to help it become a more viable competitor. In particular, the Chinese government has permitted China United Telecommunications Corporation to lower its mobile phone service tariffs by up to 10% below the government guidance rates. We believe this policy has helped China United Telecommunications Corporation capture a significant number of price-sensitive and low-usage mobile phone subscribers. As a result, China United Telecommunications Corporation's market share has increased over the past few years. We could experience increased competition if the Chinese government takes other actions in the future to further enhance China United Telecommunications Corporation's competitive position.

In addition to China United Telecommunications Corporation, the State Council and the Ministry of Information Industry may approve additional mobile communications service providers in the future that may compete with us. We may also be subject to competition from providers of new telecommunications services as a result of technological development and the convergence of various telecommunications services.

In 2000, China concluded bilateral negotiations of the major terms for its entry into the World Trade Organization with a number of countries, including the United States, and the European Union. As a result, we expect the Chinese government to gradually reduce current restrictions on foreign ownership in the telecommunications industry. This could lead to the eventual opening of the Chinese telecommunications market to foreign investors and operators, and could result in or accelerate the issuance of new mobile communications service licenses.

Increased competition from China United Telecommunications Corporation and any introduction of new competitors through the issuance of additional mobile communications service licenses could adversely affect our financial results by, among other factors, causing the rate of our subscriber growth to decline and bringing about decreases in tariff rates, and increases in selling and promotional expenses. This could have a material adverse effect on our results of operations.

We Are Controlled by China Mobile Communications Corporation, Which May Not Always Act in Your Best Interest

As of May 31, 2001 China Mobile Communications Corporation indirectly owned an aggregate of approximately 75.6% of our shares. Accordingly, China Mobile Communications Corporation is, and will be, able to:

-- nominate our entire board of directors and, in turn, indirectly influence the selection of our senior management;

-- determine the timing and amount of our dividend payments; and

-- otherwise control or influence actions that require the approval of our shareholders.

The interests of China Mobile Communications Corporation as our ultimate controlling person could conflict with the interests of our minority shareholders.

In addition, China Mobile Communications Corporation also provides our operating subsidiaries with services that are necessary for our business activities, including:

-- interconnection arrangements with its other subsidiaries' mobile communications networks and roaming arrangements;

-- the coordination of the provision of inter-provincial transmission leased lines from China Telecommunications Corporation to us; and

-- settlement and bill processing for domestic inter-provincial and international roaming services.

The interests of China Mobile Communications Corporation as the provider of these services to our operating subsidiaries may conflict with our interests.

The Limited Spectrum Allocated to Us May Constrain Our Future Network Capacity Growth

A mobile communications network's capacity is to a certain extent limited by the amount of frequency spectrum available for it to use. Since the Ministry of Information Industry allocates frequency spectrum to mobile communications operators in Mainland China, the capacity of our mobile communications network is limited by the amount of spectrum that the Ministry of Information Industry allocates to us. The Ministry of Information Industry has allocated 24 MHz in the 900 MHz frequency band and 10 MHz in the 1800 MHz frequency band to each of our 13 regional operating subsidiaries. In preparation for the planned termination of all existing analog services, we have obtained approval from the Ministry of Information Industry and other relevant regulatory authorities to substitute 5 MHz of analog frequency spectrum in the 900 MHz frequency band with 5 MHz of digital frequency spectrum in the 1800 MHz frequency band upon the termination of our analog services.

We believe that our current spectrum allocation is sufficient for anticipated subscriber growth in the near term, but we may need additional spectrum to accommodate future subscriber growth or to develop mobile communications services using third generation wireless communications technologies. However, the Ministry of Information Industry may determine not to allocate additional spectrum to us as, or when, we request it. Our network expansion plans may be affected if we are unable to obtain additional spectrum. This could in turn constrain our future network capacity growth and materially and adversely affect our business, financial condition and results of operations.

Changes to Our Interconnection and Leased Line Arrangements May Increase Our Operating Expenses and Adversely Affect Our Profitability

Our mobile communications services depend, in large part, upon our interconnection arrangements. Currently, interconnection is necessary in the case of all local calls between our subscribers and subscribers of fixed line or other mobile communications networks. Interconnection and leased line arrangements are also necessary for domestic long distance calls and international calls. We have entered into interconnection and transmission line leasing agreements with the relevant fixed line operators and with China Mobile Communications Corporation and its other subsidiaries.

The terms of our interconnection arrangements and leased line arrangements have a material effect on our operating revenue and expenses. A material increase in the interconnection or leased line expenses we pay could have a material adverse effect on our results of operations. In addition, we will be materially and adversely affected if we cannot enter into future interconnection and leased line agreements on commercially acceptable terms.

We May Be Unable to Obtain Sufficient Financing to Fund Our Substantial Capital Requirements, Which Could Limit Our Growth Potential

We estimate that we will require approximately RMB 134.9 billion (US$16.3 billion) for capital expenditures from 2001 through the end of 2003 for a range of projects.

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We believe that cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. If we have underestimated our capital requirements or overestimated our future cash flows, additional financing may be required. In addition, a significant feature of our business strategy is to continue exploring opportunities for strategic investments in the telecommunications industry in Mainland China, which may require additional capital resources. The cost of implementing new technologies, upgrading our networks or expanding capacity could also be significant. In particular, in order for us to effectively respond to technological changes, including the introduction of third-generation wireless communications technologies, we may be required to make substantial capital expenditures in the near future.

Financing may not be available to us on acceptable terms. In addition, our future issuance of equity securities, if any, including securities convertible or exchangeable into or that represent the right to receive equity securities, to foreign investors will require approval from the China Securities Regulatory Commission, the State Council, and other relevant government authorities. If adequate capital is not available, our business prospects could be adversely affected.

Changes in Technology May Render Our Current Technologies Obsolete and Thus Affect Our Business and Market Position

The telecommunications industry is subject to rapid and significant changes in technology. Accordingly, although we strive to keep our technology up to international standards, the mobile communications technologies that we currently employ may become obsolete or subject to competition from new technologies in the future, such as the third-generation wireless communications technologies. In addition, the new technologies we implement, such as wireless data applications, may not generate an acceptable rate of return.

Failure to Capitalize on New Business Opportunities May Have an Adverse Effect on Our Growth Potential

We intend to pursue a number of new growth opportunities in the broader telecommunications industry, including wireless data. These opportunities involve new services for which there are no proven markets in Mainland China. In addition, the ability to deploy and deliver these services depends, in many instances, on new and unproven technology. Our newly adopted wireless communications technology may not perform as expected, we may not be able to successfully develop or obtain new technology to effectively and economically deliver these services or we may not be able to compete successfully in the delivery of telecommunications services based on new technology.

Actual or Perceived Health Risks Could Lead to Decreased Mobile Communications Usage and Difficulties in Increasing Network Coverage

According to certain published reports, the electromagnetic signals from mobile phone handsets and transmission masts, which serve as antennae for transmitting radio signals, may pose health risks and interfere with the operation of electronic equipment. Although the findings in such reports are disputed, actual or perceived risks associated with the use of mobile communications devices or transmission masts could have an impact on mobile communications operators, including us. For example, we could encounter difficulties in obtaining sites for additional base transceiver stations required to expand our network coverage and experience reductions in our growth rate, subscriber base or average usage per subscriber.

Adverse Changes in the Economic Policies of the Chinese Government Could Have a Material Adverse Effect on the Overall Economic Growth of Mainland China, Which Could Reduce the Demand for Our Services and Adversely Affect Our Competitive Position

Since the late 1970s, the Chinese government has been reforming the Chinese economic system. These reforms have resulted in significant economic growth and social progress. Although we believe that economic reform and macroeconomic policies and measures adopted by the Chinese government will continue to have a positive effect on the economic development in Mainland China and that we will continue to benefit from such policies and measures, these policies and measures may from time to time be modified or revised. Adverse

changes in economic and social conditions in Mainland China, in the policies of the Chinese government or in the laws and regulations in Mainland China, if any, could have a material adverse effect on the overall economic growth of Mainland China and investment in the telecommunications industry in Mainland China. Such developments could adversely affect our business, such as reducing the demand for our services and adversely affecting our competitive position.

We May Not Freely Convert Renminbi into Foreign Currency, Which Could Limit the Ability of Our Subsidiaries in Mainland China to Obtain Sufficient Foreign Exchange to Satisfy Their Foreign Exchange Requirements or Pay Dividends to Us

Substantially all of our revenues and operating expenses are denominated in Renminbi, while a portion of our capital expenditures and indebtedness are denominated in U.S. dollars and other foreign currencies. The Renminbi is currently freely convertible under the "current account", which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account", which includes foreign direct investment, unless the prior approval of the State Administration for Foreign Exchange is obtained.

Our operating subsidiaries are foreign investment enterprises. Currently, they may purchase foreign exchange without the approval of the State Administration for Foreign Exchange for settlement of "current account transactions", including payment of dividends, by providing commercial documents evidencing these transactions. They may also retain foreign exchange in their current accounts (subject to a cap approved by the Statement Administration for Foreign Exchange) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant Chinese government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Also, our subsidiaries incorporated in Mainland China may not be able to obtain sufficient foreign exchange to satisfy their foreign exchange requirements or pay dividends to us for our use in making any future dividend payments or to satisfy other foreign exchange payment requirements. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from the State Administration for Foreign Exchange. This could affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

Fluctuations in Exchange Rates Could Adversely Affect Our Financial Results

Substantially all of our operating revenue is denominated in Renminbi, while a portion of our capital expenditures and some of our financing expenses are denominated in U.S. dollars. Because we may not be able to hedge effectively against Renminbi devaluations, future movements in the exchange rate of Renminbi and other currencies could have an adverse effect on our financial condition and results of operations.

The Chinese Legal System Embodies Uncertainties Which Could Limit the Legal Protections Available to You

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 20 years has significantly enhanced the protections afforded to various forms of foreign investment in Mainland China. Our existing subsidiaries are "wholly foreign-owned enterprises" which are enterprises incorporated in Mainland China and wholly-owned by Hong Kong, Macau, Taiwan or foreign investors, and subject to the laws and regulations applicable to foreign investment in Mainland China. However, some of these laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties, which could limit the legal protections available to you.

ITEM 4. INFORMATION ON THE COMPANY.

We provide a full range of mobile communications services in 13 provinces, municipalities and autonomous region in China, with a geographically contiguous market covering all of the coastal region of Mainland China, the country's most prosperous and economically developed region. Based on public available

information, we are the leading provider of mobile communications services in each of these regions and the second largest provider of mobile communications services in the world as measured by total number of subscribers as of December 31, 2000. Based on information compiled by the Ministry of Information Industry, our subscribers represented approximately 77.5% of all mobile phone subscribers in our service regions and approximately 52.9% of all mobile phone subscribers in Mainland China as of that date. As of May 20, 2001, our total number of subscribers was approximately 55.8 million.

HISTORY AND DEVELOPMENT OF THE COMPANY

We were incorporated under the laws of Hong Kong on September 3, 1997 as a limited liability company under the name "China Telecom (Hong Kong) Limited." We changed our name to the current name, China Mobile (Hong Kong) Limited, on June 28, 2000, after obtaining approval by our shareholders.

We completed our initial public offering in October 1997. Since then, our ordinary shares have been listed on the Stock Exchange of Hong Kong, and our American Depositary Shares, or ADSs, each representing the right to receive five (or 20, prior to July 5, 2000) ordinary shares, have been listed on the New York Stock Exchange. Our agent for service of process in the United States is CT Corporation System, and their address is 111 Eighth Avenue, 13th Floor, New York, NY 10011.

Expansion of Business Coverage Through Acquisitions

Our initial mobile communications operations included those in Guangdong province conducted by Guangdong Mobile Communication Company Limited and in Zhejiang province conducted by Zhejiang Mobile Communication Company Limited. As part of the restructuring in preparing for our initial public offering, the former Ministry of Posts and Telecommunications transferred to us a 100% interest in Guangdong Mobile and a 99.63% interest in Zhejiang Mobile. Since then, we have significantly expanded the geographical coverage of our operations through a series of acquisitions from China Mobile Communications Corporation, our indirect controlling shareholder, of its mobile communications operations conducted by its regional subsidiaries:

-- On June 4, 1998, we acquired the entire interest in Jiangsu Mobile Communication Company Limited for a cash consideration of HK$22.5 billion (approximately US$2.9 billion).

-- On November 12, 1999, we acquired the entire interest in each of Fujian Mobile Communication Company Limited, Henan Mobile Communication Company Limited and Hainan Mobile Communication Company Limited for a total purchase price of HK$49.7 billion (approximately US$6.4 billion), consisting of HK$19.0 billion (approximately US$2.5 billion) in cash and the remaining HK$30.7 billion (approximately US$4.0 billion) in the form of 1,273,195,021 new shares. In addition, we acquired the remaining 0.37% interest in Zhejiang Mobile in June 1999.

-- On November 13, 2000, we acquired the entire interest in each of Beijing Mobile Communication Company Limited, Shanghai Mobile Communication Company Limited, Tianjin Mobile Communication Company Limited, Hebei Mobile Communication Company Limited, Liaoning Mobile Communication Company Limited, Shandong Mobile Communication Company

Limited and Guangxi Mobile Communication Company Limited for a total purchase price of HK$256.0 billion (approximately US$32.8 billion), consisting of HK$74.6 billion (approximately US$9.6 billion) in cash and the remaining HK$181.4 billion (approximately US$23.3 billion) in the form of 3,779,407,375 new shares.

These acquisitions have significantly enlarged our subscriber base, expanded the geographical coverage of our business and enhanced the economy of scale of our operations. See "Item 5. Operating Financial Review and Prospects" for an analysis on the financial impact of these acquisitions. We are in the process of further integrating these acquired operations with our existing businesses and are realizing potential synergies from the integration.

Industry Restructuring and Related Change in Our Shareholding Structure

Prior to 1993, all public telecommunications networks and services in Mainland China were controlled and operated by the former Ministry of Posts and Telecommunications through the former Directorate General of Telecommunications, provincial telecommunications administrations and their city and county level bureaus.

As part of the Chinese government's restructuring of the telecommunications industry, the Ministry of Information Industry was formed in March 1998 to assume, among others, the responsibilities of the former Ministry of Posts and Telecommunications. One of the principal objectives of the restructuring was to separate the government's regulatory function from its business management functions in respect of state-owned enterprises. In the first half of 2000, the Chinese government substantially completed the industry restructuring. As a result, the Ministry of Information Industry ceased to have an indirect controlling interest in us, and no longer exercises control over telecommunications operations, but continues in its capacity as industry regulator providing industry policy guidance as well as exercising regulatory authority over all telecommunications service providers in Mainland China.

Also as part of the restructuring, the telecommunications operations previously controlled by the former Ministry of Posts and Telecommunications have been separated along four business lines: fixed line communications, mobile communications, paging and satellite communications. China Mobile Communications Corporation was established in July 1999 as a state-owned company to hold and operate the mobile communications business nationwide resulting from the separation. As part of this separation, in July 1999 China Mobile Communications Corporation obtained the approximately 57% holding of voting shares and economic interest in China Mobile (Hong Kong) Group Limited, our indirect controlling shareholder, previously held by Telpo Communications (Group) Limited, an entity 100% controlled by the former Ministry of Posts and Telecommunications. In addition, in May 2000, the remaining 43% interest in China Mobile (Hong Kong) Group Limited previously held by the Directorate General of Telecommunications was transferred to China Mobile Communications Corporation. As a result, China Mobile Communications Corporation has become the owner of all voting shares and economic interest in China Mobile (Hong Kong) Group Limited and thus all of the Chinese government's interest in us. As of May 31, 2001, China Mobile Communications Corporation indirectly owned approximately 75.6% of all our outstanding shares, including shares represented by ADSs. The following chart shows our current shareholding structure and principal subsidiaries as of May 31, 2001:

Current shareholding chart, showing:

- China Mobile Communications Corporation owns 100% of the issued share capital of China Mobile (Hong Kong) Group Limited, which owns 100% of the issued share capital of China Mobile Hong Kong (BVI) Limited, which owns 75.6% of the issued share capital of China Mobile (Hong Kong) Limited.

- China Mobile (Hong Kong) Limited is 75.6% owned by China Mobile Hong Kong (BVI) Limited and 24.4% owned by public shareholders.

- China Mobile (Hong Kong) Limited owns (a) 100% of the issued share capital of China Mobile (Shenzhen) Limited; (b) 100% of the issued capital in 13 regional mobile communications companies(1); and (c) 78.6% of the issue capital in Aspire Holdings Limited(2).

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(1) Intermediate holding companies, each incorporated in the British Virgin Islands, are omitted in the chart.

(2) Shows our ownership of ordinary shares of Aspire Holdings Limited, representing our percentage of voting rights and ordinary share interest in Aspire Holdings Limited.

In addition to its shareholding interest in us, China Mobile Communications Corporation operates the leading mobile communications businesses in Mainland China outside our 13 service regions.

GENERAL INFORMATION

Our principal executive offices are located at 60th Floor, The Center, 99 Queen's Road Central, Hong Kong, China; telephone: 852-3121-8888. We also maintain a regional headquarters in each of the 13 regions in China where we operate. Our web site address is www.chinamobilehk.com. The information on our web site is not part of this annual report.

BUSINESS OVERVIEW

We offer mobile communications services principally using Global System for Mobile Communications, or GSM, which is a pan-European mobile telephone system based on digital transmission and mobile communications network architecture with roaming capabilities. Our GSM networks reach all cities and counties and most major roads and highways in our service regions.

Our Strategy

We believe that the telecommunications market in Mainland China will continue to expand rapidly. Our business strategy has the following key elements:

-- continue to actively grow our core mobile communications services by:

- maintaining focus on developing a high-quality subscriber base;

- broadening our subscriber base and increasing market penetration;

- focusing on integrating our businesses and realizing synergies to improve efficiency; and

- nurturing our human capital;

-- pursue strategic expansion in the broader telecommunications market in

Mainland China and capturing new revenue streams; and

-- continue to explore acquisition and other expansion opportunities.

In particular, we have formulated a business strategy to achieve internal growth by:

-- enhancing our network quality and functional capabilities;

-- developing customized value added service packages and expanding our distribution channels;

-- developing brand awareness and promoting customer loyalty;

-- controlling operating costs and improving operating efficiency; and

-- introducing advanced real time billing systems and measures to ensure timely collection of receivables.

Because the telecommunications industry in Mainland China is subject to a high degree of government regulation, our ability to make strategic investments in the telecommunications industry in Mainland China will be subject to relevant government approvals.

Subscribers and Usage

Our subscriber base has grown substantially from 6.5 million at the end of 1998 to 45.1 million at the end of 2000. As of December 31, 2000, we had a market share of approximately 77.5% in our 13 service regions.

Our acquisition of a total of 11 regional mobile communications companies between June 1998 and November 2000 has substantially expanded our subscriber base. In particular, the seven mobile communications companies we acquired in November 2000 accounted for 18.0 million, or 39.9%, of all our subscribers as of December 31, 2000. As of May 20, 2001, the total number of our subscribers was approximately 55.8 million. In addition, our subscriber growth has been attributable to a number of other factors, including:

-- significant economic growth in our markets;

-- our network expansion and development;

-- our increased marketing and sales efforts and improved distribution channels;

-- decreased cost of initiating services due to a decline in handset prices as well as connection fees and other tariffs for our services; and

-- our new service initiatives and enhanced roaming capabilities and value added services.

The following table sets forth selected historical information about our subscriber base and subscriber usage for the periods indicated.

AS OF OR FOR THE YEAR ENDED
DECEMBER 31,

	1998	1999	2000
Subscribers (in thousands)			
contract subscribers	6,531	15,621	32,409
prepaid subscribers	--	--	12,725
Total	6,531	15,621	45,134
Average Churn Rate (%)(1)	4.7	5.9	5.4
Minutes of Usage (in billions)(2)			
contract subscribers	58.5	89.4	118.2
prepaid subscribers	--	--	6.9
Total	58.5	89.4	125.1
Average Minutes of Usage Per Subscriber Per Month(3)			
contract subscribers	393	366	326
prepaid subscribers	--	--	125
Overall average	393	366	299
Average Revenue Per Subscriber Per Month (RMB)(4)			
contract subscribers	366	299	241
prepaid subscribers	--	--	87
Overall average	366	299	221

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(1) Measures the rate of subscriber disconnections from mobile telephone service, determined by dividing (A) the sum of voluntary and involuntary deactivations (excluding deactivations due to subscribers switching among our different services) during the relevant year by (B) the average number of subscribers during the year, calculated as the average of the numbers of subscribers (a) at the beginning and the end of the year (in the case of 1998) or (b) at the beginning of the year and the end of each month in the year (in the case of 1999 and 2000). On this basis, our calculated churn rate will be affected by the number of voluntary and involuntary deactivations and the significant growth in our subscriber base.

The average churn rate for each of the full years of 1998, 1999 and 2000 is calculated based on information pertaining to the relevant regional mobile communications companies we acquired prior to and after the respective acquisitions and is presented for ease of comparison.

(2) The total minutes of usage for each of the full years of 1998, 1999 and 2000 is calculated based on information pertaining to the relevant regional mobile communications companies we acquired prior to and after the respective acquisitions and is presented for ease of comparison.

(3) Calculated by (A) dividing the total minutes of usage during the relevant year by the average number of subscribers during the year (calculated as the average of the numbers of subscribers (a) at the beginning and the end of the year (in the case of 1998) or (b) at the beginning of the year and the end of each month in the year (in the case of 1999 and 2000)) and (B) dividing the result by 12. The average minutes of usage per subscriber per month for each of the full years of 1998, 1999 and 2000 is calculated based on information pertaining to the relevant regional mobile communications companies we acquired prior to and after the respective acquisitions and is presented for ease of comparison.

(4) Calculated by (A) dividing the operating revenue during the relevant year by the average number of subscribers during the year (calculated as the average

of the numbers of subscribers (a) at the beginning and the end of the year (in the case of 1998) or (b) at the beginning of the year and the end of each month in the year (in the case of 1999 and 2000)) and (B) dividing the result by 12.

The size and composition of our subscriber base and subscribers' usage patterns have changed over the last few years. As tariffs and the price of handsets have decreased and mobile communications technology has improved over time, mobile communications services have become increasingly popular with the broader middle income market for both business and social uses. In general, the highest usage subscribers with the greatest communications needs have tended to be the early subscribers of mobile services. As penetration increases, newer subscribers on average incur lower monthly usage, and are generally more price-sensitive. Accordingly, as is typical in many countries with developing mobile communications markets, the average usage and revenue per subscriber have declined over the last few years as our mobile phone penetration has increased. At the same time, connection fees for mobile communications services in Mainland China have declined significantly, which has reduced the cost for non-users to become mobile phone subscribers and for existing mobile phone users to switch between mobile communications networks. This, together with increased competition, has contributed to the higher churn rates in 1999 and 2000, compared to 1998. However, total minutes of usage of our subscribers continued to grow significantly in 1998, 1999 and 2000.

Prepaid Services

Beginning in the second half of 1999, we introduced prepaid services. Our prepaid subscribers can make and receive local and domestic and international long distance calls, and most of those subscribers also enjoy nationwide domestic roaming services. Unlike our contract subscribers, subscribers to our prepaid services are not charged for connection fees upon initiation of services or fixed monthly fees, and incur only base usage charges and applicable roaming charges on a per minute basis for both incoming and outgoing calls, plus applicable long distance tariffs. For non-local residents, our prepaid services allow for easier subscription as compared to traditional contract services.

Each prepaid subscriber identity module card, or SIM card, has a value of RMB 50, RMB 100, RMB 300 or RMB 500 with a valid term of 90 days, 180 days, 360 days or 360 days, respectively. Each SIM card contains the personal identification number of the subscriber as well as basic subscriber data and network information. When a call is made or received by a prepaid subscriber, our system automatically deducts usage fees from the value stored in the card. Prepaid subscribers can add value to their SIM cards by purchasing value-adding cards in the rest of Mainland China when they are outside of the service region of their home network (where such subscriber initially purchased the prepaid SIM card). Under our arrangement with China Mobile Communications Corporation, as amended on May 11, 2001 with retroactive effect from April 21, 2001, the network operator in the location that issues the value-adding card remits 95% of the face value of the value-adding card to the subscriber's home network operator and keeps the remainder as a handling charge. Prior to the amendment, the remittance amount to the home network operator was 85% of the face value of the value-adding card.

We believe our prepaid services complement our traditional contract services, and are an important means of expanding our subscriber base. We believe that continued economic growth, the benefits of mobility, and current low mobile phone penetration rates in Mainland China compared to demographically and culturally similar markets are among the fundamental factors that will further drive mobile phone subscriber growth towards eventual mass popularization. We believe prepaid services represent an effective tool for capturing additional subscribers and driving penetration in developing markets, such as Mainland China, while keeping credit quality in check. Prepaid services also help introduce the enhanced benefit of mobility to non-mobile users. In general, prepaid users typically have lower average minutes of usage per subscriber per month than contract users. With accumulated and satisfactory usage experience, there is significant long term potential for these subscribers to substantially increase usage and become regular, higher quality users of our mobile communications services and other new services we may offer.

Our prepaid services experienced rapid and significant growth in 2000. As of December 31, 2000, we had an aggregate of approximately 12.7 million subscribers for our prepaid service, including 4.0 million served by the seven regional mobile communications companies we acquired in November 2000. Our prepaid subscribers represented 28.2% of our total subscriber base as of that date.

Tariffs

The tariffs payable by our subscribers include primarily usage charges, connection fees, monthly fees and monthly service fees for value added services. Our contract subscribers pay a connection fee for service activation and a fixed monthly fee. Usage charges for both our contract and prepaid subscribers include base usage charges for both incoming and outgoing calls plus, where applicable, an additional component reflecting domestic and international long distance tariffs. When using roaming services, subscribers incur a roaming charge instead of the base usage fee, plus applicable domestic and international long distance charges. Subscribers also pay fees for selection of specific telephone numbers.

In 1998, we adopted flexible long distance tariff plans distinguishing between day and night and began offering tailored service plans based upon customer requirements as well as the functions and features of our network resources.

Our tariffs are subject to regulation by various government authorities, including the Ministry of Information Industry, the State Development and Planning Commission and the relevant price regulatory authorities in our service regions. For connection fees, the Ministry of Information Industry sets a guidance price range in consultation with the State Development and Planning Commission for all mobile communications operators in Mainland China. The actual price range in each service region is proposed by a network operator in that service region and must be approved by the relevant price regulatory authorities in that service region. In general, base usage charges, monthly fees, domestic roaming charges and applicable long distance tariffs (other than tariffs for Internet Protocol phone calls) are also determined by the Ministry of Information Industry in consultation with the State Development and Planning Commission.

Connection fees in all our service regions have been substantially reduced in the past three years following the reductions in the guidance prices for connection fees over that period. In 1999, with the relevant government approval, we also reduced monthly fee rates in Guangdong and Zhejiang. We anticipate that connection fees will be further reduced or eliminated in the next few years, which we believe may help to further expand our subscriber base and increase total subscriber usage of our mobile communications services, thereby contributing to our revenue growth in the long term. Connection fees have become an increasingly less important source of our revenue. We expect that its importance will continue to decline.

Tariff Adjustments. As part of the efforts to further rationalize the tariff structure of telecommunications services, the Chinese government announced a wide range of tariff adjustments, which took effect at various dates in the first half of 2001. The tariff adjustments that affect our mobile communications services include the shortening of a billing unit from one minute to six seconds for long distance call rates (other than rates for Internet Protocol phone calls), the general reduction in domestic and international long distance call rates, the elimination of various surcharges and a general reduction in leased line tariffs. In particular, domestic long distance call rates have been adjusted from the range of RMB 0.50 to RMB 1.00 per minute to the uniform rate of RMB 0.07 per six-second billing unit. We expect that, although the adjustments in long distance call rates and the elimination of surcharges may reduce our revenue in the short term, they are likely to stimulate increased subscriber usage and contribute to our overall revenue growth in the long run. In addition, we will be able to achieve savings in leased line expenses as a result of the reduction in leased line tariffs.

Introduction of Packaged Service Plans. In order to meet the specific mobile communications needs of different subscriber segments and to enable more efficient use of network resources during both peak and off-peak hours, beginning in March 2001 we have launched packaged mobile service plans tailored towards different subscriber usage levels. To date, we have adopted six service plans, as summarized in the following table, which have been approved by the relevant regulatory authorities in Mainland China:

MONTHLY FEES (RMB)	FREE BASIC AIR TIME (MINUTE)(1)	PEAK HOUR TARIFFS ON AIR TIME BEYOND THE FREE AIR TIME (RMB/MINUTE)(2)	OFF-PEAK HOUR TARIFFS ON AIR TIME BEYOND THE FREE AIRTIME (RMB/MINUTE)(2)
98	170	0.60	0.30
168	330	0.50	0.25
268	600	0.45	0.22
388	1000	0.40	0.20
568	1700	0.35	0.18
788	2588	0.30	0.15

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(1) The free basic airtime included in the monthly fees does not cover inter-provincial and international roaming usage.

(2) Peak hours represent the period between 7 am and 11 pm daily, while off-peak hours represent the period between 11 pm to 7 am daily.

We have been selectively implementing the appropriate packaged service plans in our service regions based on local market conditions. We believe that such tariff plans create a more flexible tariff structure for our subscribers and can promote greater usage by subscribers. In addition, by offering significantly lower off-peak rates than peak rates, the service plans encourage subscribers to make more calls during off-peak hours rather than during peak hours, which will result in more efficient use of our network resources.

Interconnection

Interconnection refers to various arrangements that permit the connection of our networks to other networks such as the fixed line telephone network.

Interconnection with China Telecommunications Corporation (for Local and Long Distance Calls). Our networks interconnect with China Telecommunications Corporation's public fixed line network, allowing our subscribers to communicate with fixed line subscribers and to make and receive local, domestic and international long distance calls. A majority of calls on our networks involve interconnection with China Telecommunications Corporation's fixed line network. Each of our operating subsidiaries has an interconnection agreement with the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its service region. The economic terms of these agreements are standardized from province to province.

Calls between our subscribers and China United Telecommunications Corporation's subscribers interconnect mainly through China Telecommunications Corporation's fixed line network, and the operator of the calling party settles directly with China Telecommunications Corporation. Beginning March 21, 2001, we pay China Telecommunications Corporation RMB 0.03 per minute of the base usage charge for such local calls when our subscriber is the calling party. Prior to March 21, 2001, the settlement rate we paid China Telecommunications Corporation was RMB 0.05 per minute. No settlement is required between the operator of the receiving party and China Telecommunications Corporation.

Interconnection with China Mobile Communications Corporation (for Long Distance Calls and Roaming Calls). We also have an inter-provincial interconnection and roaming agreement with China Mobile Communications Corporation, under which the other subsidiaries of China Mobile Communications Corporation and we provide to each other domestic inter-provincial network interconnection services and domestic and international roaming services.

Interconnection Revenue Sharing and Settlement. Where calls involve interconnection with China Telecommunications Corporation's fixed line network or China Mobile Communications Corporation's network, our interconnection arrangement with China Telecommunications Corporation or China Mobile Communications Corporation provides for the sharing and settlement of revenues from the base usage charge and, if applicable, roaming charges and domestic and international long distance charges.

A number of the settlement rates have been adjusted effective March 21, 2001. The following table summarizes the terms of our interconnection arrangement with China Telecommunications Corporation and its subsidiaries for non-roaming local calls, including the rates after the adjustment and, in parenthesis, the rates prior to the adjustment.

REVENUE SHARING AND SETTLEMENT OF
BASE USAGE CHARGES FOR NON-ROAMING LOCAL CALLS

ORIGINATING SUBSCRIBER	TERMINATING SUBSCRIBER	SETTLEMENT ARRANGEMENTS
Our subscriber	China Telecommunications	We pay RMB 0.06 (previously

	Corporation's fixed line subscriber	RMB 0.05) per minute to China Telecommunications Corporation
China Telecommunications.. Corporation's fixed line subscriber	Our subscriber	No revenue sharing or settlement

Where applicable, we collect domestic long distance charges in addition to the base usage charges. The following table summarizes the terms of our interconnection arrangement with each of China Telecommunications Corporation and China Mobile Communications Corporation for domestic long distance calls.

REVENUE SHARING AND SETTLEMENT OF DOMESTIC LONG DISTANCE CHARGES

ORIGINATING SUBSCRIBER	TERMINATING SUBSCRIBER	SETTLEMENT ARRANGEMENTS
Our subscriber	China Telecommunications corporation's fixed line subscriber	If the call is routed through China Telecommunications Corporation's transmission lines, we keep RMB 0.06 (previously RMB 0.14) per minute of the domestic long distance calling charges(1) and pay the remaining portion to China Telecommunications Corporation If the call is routed through our IP network, we pay China Telecommunications Corporation RMB 0.06 (previously RMB 0.05) per minute and keep the remaining portion
China Telecommunications Corporation's fixed line subscriber in our service regions	Our subscriber or China Mobile Communications Corporation's subscriber	If the call is routed through our transmission lines, China Telecommunications Corporation keeps RMB 0.06 (previously RMB 0.14) per minute of the domestic long distance charges(1) and pays the remaining portion to us

ORIGINATING SUBSCRIBER	TERMINATING SUBSCRIBER	SETTLEMENT ARRANGEMENTS
Our subscriber	China Mobile Communications Corporation's subscriber	We collect the domestic long distance charge of RMB 0.07 per six seconds (previously RMB 0.60-1.00 per minute), and there is no revenue sharing or settlement(2)

China Mobile Communications Corporation's subscriber	Our subscriber	China Mobile Communications Corporation collects the domestic long distance charge of RMB 0.07 per six seconds (previously RMB 0.60-1.00 per minute), and there is no revenue sharing or settlement(2)

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(1) The adjusted rates are billed at six-second units.

(2) Except for roaming calls. See table under "-- Roaming" for revenue sharing and settlement for roaming calls.

Where applicable, we collect international long distance charges in addition to base usage charges. The following table summarizes the terms of our interconnection arrangement with China Telecommunications Corporation for international long distance calls, including the rates after the adjustment and, in parenthesis, the rates before the adjustments.

REVENUE SHARING AND SETTLEMENT OF INTERNATIONAL LONG DISTANCE CHARGES

TYPE OF CALL	SETTLEMENT ARRANGEMENTS
Outgoing calls from our subscriber	We keep RMB 0.54 (previously RMB 0.20) per minute(1) (if the call is routed through our domestic long distance transmission lines) or RMB 0.06 (previously RMB 0.20) per minute(1) (if the call is not routed through our domestic long distance transmission lines) of the international long distance charge and pay the remaining portion to China Telecommunications Corporation
Incoming calls to our subscriber	We receive from international telecommunications operator of the calling party RMB 0.54 (previously RMB 0.63) per minute (if the call is routed through our domestic long distance transmission lines) or RMB 0.06 (previously RMB 0.07) per minute of the calling charge (if the call is not routed through our domestic long distance transmission lines)

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(1) The adjusted rates are billed at six-second units.

Roaming

We provide roaming services to our subscribers, which allow them to make and receive telephone calls while they are physically outside of their registered service area and are in other parts of our service regions or in the coverage areas of other mobile phone networks with which we have roaming arrangements.

Under our domestic roaming arrangement with China Mobile Communications Corporation, our subscribers can make and receive calls while they are located in the coverage areas of China Mobile Communications Corporation in the rest of Mainland China outside our service regions. Conversely, we offer roaming services to China Mobile Communications Corporation's subscribers while they are in our service regions. In addition, we offer roaming capabilities in 69 countries and regions around the world under our roaming arrangements with relevant local operators.

A mobile phone subscriber using roaming services is charged at our per-minute roaming charge (instead of the base usage charge) for both incoming and outgoing calls, plus applicable long distance charges. The following table sets forth our revenue sharing and settlement arrangement with China Mobile Communications Corporation for base roaming charges. We currently do not have a roaming arrangement with China United Telecommunications Corporation.

REVENUE SHARING AND SETTLEMENT OF THE BASE ROAMING CHARGES

TYPE OF ROAMING	SETTLEMENT ARRANGEMENTS
Our subscriber roaming into the mobile network of China Mobile Communications Corporation	We pay China Mobile Communications Corporation 80% of the base roaming charge payable by our subscribers
Subscriber of China Mobile Communications Corporation roaming into our network	China Mobile Communications Corporation pays us 80% of the base roaming charge charged to its subscribers

Revenue Sharing and Settlement of Long Distance Charge When Roaming. In addition to the base roaming charge, long distance charges may be assessed when a subscriber is roaming. Where a mobile phone subscriber makes a call while roaming, the home network operator collects all long distance charges incurred and pays all such charges to the operator of the visited network. The visited network operator then settles those long distance charges, if settlement applies, in accordance with the long distance revenue sharing and settlement arrangements described above. Where a mobile phone subscriber receives a call while roaming, the home network operator receives and keeps all long distance charges incurred by that subscriber.

Value Added Services and New Services

In addition to basic mobile communications services, we offer a number of value added services. Recently, we have also begun offering certain new services, such as wireless data and Internet Protocol telephony, that capitalize on new technology-enabled opportunities.

Voice Functions. We offer a variety of basic value added services with voice functions, including call forwarding, call waiting, conference calling, call limitation, voice mail and "Chinese Secretary", a live answering service.

Wireless Data and Mobile Internet Services. We believe that wireless data will be one of the fastest growing segments of the telecommunications market in Mainland China over the next several years. We intend to further expand the range of our value added services, with particular emphasis in wireless data applications, which we believe can be achieved with modest initial expenditures.

In 1999, we began using our short message service platform to develop new value added services in selected cities in our service areas, including stock price quotations, sports news, weather forecasts and on-line payment. We will continue to utilize our GSM network to provide data services based on the current short message service platform where consumer demands can be more economically served by short message service. These data services include, for example, the transmission of short messages to facsimile and e-mail addresses.

In 2000, we began to develop a unified mobile information service platform, which is intended to serve as the common platform for all our mobile Internet services, including mobile data roaming and mobile Internet services. Designed to be an open platform, it is expected to serve as a uniform data interface for third-party service providers. In addition, the platform is designed to be separable from the underlying mobile communications network, and this segregation is expected to help to ensure that all mobile services developed based on the platform can be easily migrated to the upgraded network if and when the underlying network is upgraded to a next generation mobile network.

In the last quarter of 2000, we introduced our mobile Internet portal "Monternet" based on the mobile information service platform, making us the first mobile service provider in Mainland China to combine an Internet portal with mobile telecommunications services. As of December 31, 2000, approximately 102 service providers had joined the Monternet network to provide mobile Internet content and services through our mobile communications channels and mobile information service platform. We believe that Monternet will help facilitate the development of our mobile data business.

In 2000, we started the construction of an Internet Protocol backbone network, known as CMNet, in our 13 service regions. We have launched our Internet Protocol long distance call services over CMNet. See "--Internet Protocol Telephony" below. We expect that CMNet will also serve as an important means of transmission for our wireless data and mobile Internet services.

We have been closely following the development of General Packet-Switched Radio Service technology, or GPRS, and have conducted advanced GPRS trials. This technology will enable operators to provide end-to-end packet-switched data transmission on the existing GSM network, which improves wireless network utilization and enhances the wireless access rate for a variety of data applications, including WAP. WAP refers to Wireless Application Protocol, which is a software protocol stack that defines a standardized means of transmitting Internet-based content and data to mobile handsets and other wireless handheld devices. We have also completed tests running WAP applications over a GPRS platform. In August 2000, we installed and conducted a stand alone test of our first full GPRS network for offering WAP services.

Internet Protocol Telephony. In May 2000, we began providing Internet Protocol telephony service, known as VoIP service, which allows users to make domestic and international long distance calls at significantly lower cost compared to calls routed through conventional circuit switched networks. Our VoIP service now covers all of our 13 service regions. Our current interconnection and settlement arrangements with China Telecommunications Corporation with respect to VoIP calls allow us to save on interconnection costs, especially with respect to calls routed through our CMNet, compared to long distance calls routed through conventional circuit switched networks. We intend to build customer awareness of the benefits of our VoIP service through marketing and promotional efforts.

"172" ISP Services. In 2000, we launched "172" ISP services, which enable users to access the Internet through both mobile handsets or fixed line telephones by dialing a prefix. Our "172" ISP services are still at an early stage and the scope of these services is, therefore, currently limited. We intend to provide integrated voice, data and video access to both mobile phone and non-mobile phone users through such services in the near future.

We intend to continue focusing on the application of GPRS and third generation mobile communications technologies in order to launch new wireless multimedia services. Third generation refers to the third generation digital wireless telecommunications technologies, including those that support packet data switching, wireless broadband, multi-media and global roaming.

Research and Development

Our research and development efforts focus on:

-- developing advanced data application solutions suitable for the particulars of the consumer markets in Mainland China; and

-- monitoring technological trends that may have an impact on the development of our current business and the implementation of our wireless data strategy.

In light of the increasingly competitive and rapidly evolving telecommunications market in Mainland China, we expect to continue to devote resources to the research and development of new products, services and technology applications.

To focus our mobile data activities and consolidate related research and development efforts, we formed Aspire Holdings Limited as a majority-owned subsidiary based in Shenzhen, China, in June 2000. The principal business focuses of Aspire include systems integration, product development, and technical support

for mobile data systems and related applications in Mainland China. It also operates our mobile research and development center in Shenzhen, China.

In January 2001, Aspire formed a business alliance with Hewlett-Packard Company to develop wireless data and Internet and related applications. Under the alliance, Hewlett-Packard will assist with the design, implementation and support of Aspire's services in China, and will be the preferred provider of hardware and related services to Aspire if these products and services are of at least the same quality and pricing terms as other competing products and services. Conversely, Hewlett-Packard will treat Aspire as its preferred customer, which will entitle Aspire to the best customer price and financing options available for Hewlett-Packard's products and services under Hewlett-Packard's preferred partner programs prevailing in Mainland China. As part of the business alliance, Hanover Asia-Pacific Investments Limited, an indirectly wholly-owned subsidiary of Hewlett-Packard, has agreed to make an equity investment of up to 7% in Aspire.

Also in January 2001, Aspire entered into a master agreement with each of us and China Mobile Communications Corporation for the development of our mobile information service center platform and that of China Mobile Communications Corporation. Under each of the master agreements, Aspire will provide system and gateway integration services, hardware, software and system development, technical support and major overhaul services of data centers to us and to China Mobile Communications Corporation.

Aspire is an important part of our overall strategy to capture the fast growing wireless data sector in Mainland China. In addition, we expect that Aspire's business will broaden our revenue sources into various wireless services and help us to further grow our subscriber base.

Customer Service, Billing and Credit Control

We provide a full range of services that emphasize customer care from the point of sale onward. At the point of sale, after all application procedures have been completed, we are generally able to activate new subscriber connections within a few hours for our GSM services. Our after-sales customer support services include a general customer service hotline for all our 13 service regions. In addition to an interactive voice response system, as of May 20, 2001 there were 2,339 operator seats providing subscribers with billing and service information, receiving customer reports of network problems and responding to other customer inquires and requests.

We consider high usage corporate and individual subscribers to be valuable assets. In this regard, each of our 13 operating subsidiaries has established service centers to serve major accounts, and has established service guidelines and databases for these customers. Designated account managers have also been appointed to coordinate all issues relating to sales and services for these major accounts.

We do not require contract subscribers to post any deposit before the initiation of local service, although subscribers may choose to establish direct debits from their bank accounts. Our prepaid subscribers may also choose to authorize the automatic adding of value to their stored value cards through direct debit arrangements. Despite the lack of widely available credit information services in Mainland China, we have implemented certain subscriber registration procedures, such as identity checks and background checks for corporate customers, to enhance credit control.

Generally, we have the same settlement policy for all our subscribers which requires them to settle their individual accounts on a monthly basis. Subscribers may make payment either through direct debit accounts established at certain branches of banks and certain post offices, or by paying in person at numerous retail outlets and authorized dealers in various cities and counties. Detailed statements are made available upon the subscriber's request.

We impose a late payment fee on each subscriber whose account is not paid by the monthly due date. Our current policy is to deactivate the subscriber's services (i.e., an involuntary deactivation) if the subscriber's account remains overdue after one month. Subscribers whose services have been involuntarily deactivated must pay all overdue amounts, including applicable late payment fees, to reactivate services.

We make provision for doubtful accounts based on our assessment of the recoverability of accounts receivable on maturity. In particular, we make full provision for accounts receivable older than three months. The total amount of the provision for doubtful accounts for each of 1998, 1999 and 2000 was RMB 558 million, RMB 771 million and RMB 1,346 million, respectively, or 2.1%, 2.0% and 2.1% of total operating revenue, respectively.

Information Systems

Our information technology infrastructure consists primarily of three computerized information systems: the business operations support system, the management information system and our internal business communications network. Our business operations support system provides day-to-day operational support to our various business units, including customer care, billing and collection, and sales and marketing. Our management information system collects and processes information and data, including operational and financial data, so that management and marketing personnel can monitor subscriber satisfaction, analyze trends in calling patterns, target network expansion and develop appropriate marketing strategies. Our internal business communications network allows internal communications through our Intranet, video conference system and communications platform system. During 1999 and 2000, we upgraded our information systems, allowing us to enhance operations management, implement credit controls and monitor mobile usage in real time. Our information systems operated through each critical date relating to the year 2000 issue without difficulty or interruption.

Service Distribution and Marketing

Since early 1997, we have significantly expanded our marketing and distribution efforts to attract an increasingly diverse base of new subscribers. We have focused on expanding our distribution channels while emphasizing our brand name and network and service quality and superiority.

Distribution Channels. We market our services through an extensive network of authorized dealers (including retail outlets of the fixed line operators and post offices) and through our own retail outlets. As of December 31, 2000, we had 25,001 authorized third-party dealers and owned and operated 1,389 retail outlets.

The authorized dealers market and sell our services at prices determined by us in accordance with the applicable price schedules in the relevant provinces. In connection with these sales, the dealers pay to us all related connection fees and other miscellaneous fees payable upon initial connection. In addition to marketing our services, some of our authorized dealers also perform various services for us, such as payment collection and the provision of billing information and other customer services.

In our retail outlets, customers can subscribe for our network services. In addition, most of these outlets also offer customers after-sales support services, including the repair of handsets and collection of payment.

We are seeking to develop other distribution channels, including on-line sales and customer service facilities over the Internet, in order to further strengthen our marketing efforts.

Brand Name

As the first and the leading mobile telephone services provider in our markets, we believe we are well positioned to develop our brand name. We market our services under the "CHINA MOBILE" brand name, which is a registered trademark in Mainland China owned by China Mobile Communications Corporation and the marketing name used by it throughout Mainland China. As a result of promotional and marketing initiatives by us and China Mobile Communications Corporation's other operating subsidiaries, the mark has attained wide recognition and is closely identified with us by consumers. In addition, China Mobile Communications Corporation has filed applications in Hong Kong to register the "CHINA MOBILE" name and logo as trademark for certain goods and services.

In October 1999, we entered into a non-exclusive licensing agreement with China Mobile Communications Corporation for the use of the "CHINA MOBILE" name and logo by us and our operating subsidiaries. Under this agreement, no license fee is payable by us for the first three years from the effective date of the

trademark registration in China and any fees payable after that will be no less favorable than fees paid by other affiliates of China Mobile Communications Corporation.

Mobile Communications Networks

We offer mobile communications services principally using the GSM technology. Each of our GSM networks consists of:

-- cell sites, which are physical locations equipped with a base transceiver station containing transmitters, receivers and other equipment that communicate through radio channels (which are communication paths for transmitting voice or non-voice signals) with mobile telephone handsets within the range of a cell (which is the coverage area of the whole or part of base station);

-- base stations or base transceiver stations, which are transmitters and receivers that serve as a bridge between all mobile users in a cell and connect mobile calls to the mobile switching center;

-- base station controllers, which connect to, and monitor and control, the base transceiver station within each cell, performing the functions of message exchange and frequency administration;

-- mobile switching centers, which are central switching points to which each call is connected, and which control the base station controllers and the routing of calls; and

-- transmission lines, which link the mobile switching centers, base station controllers, base transceiver stations and other telecommunications networks.

The following table sets forth certain selected information regarding our GSM networks as of December 31, 1998, 1999 and 2000:

	1998	1999	2000
Subscribers (in thousands)	4,761	14,023	43,185
Voice channels (in thousands)	369	727	1,860
Mobile switching centers	126	212	470
Base station controllers	338	576	1,162
Base transceiver stations	7,010	13,532	31,593

GSM Network Capacity Expansion Plans. As of May 20, 2001, 98.6% of our subscribers were users of our digital GSM services. We intend to continue our network expansion and improvement with an emphasis on increasing the coverage and capacity and improving the operating efficiency of our GSM networks. We intend to achieve capacity expansion by adding cell sites in areas already within our network coverage and by expanding and improving coverage, including along railways and highways and indoors. Our network expansion plans depend to a large extent upon the availability of sufficient spectrum. In addition, in order to improve the quality of our mobile communications networks in certain major urban centers, we introduced GSM-compatible 1800 MHz Digital Cellular System to add capacity and seek to achieve seamless coverage in these areas.

Migration from Analog to Digital Network. Recent advances in GSM technologies have substantially increased network capacity and service quality. The economic life cycle of our current analog network equipment is also much more limited than that of our digital networks. Accordingly, to make more efficient use of our spectrum resources and accelerate the enhancement of our network, we plan to terminate all our analog services by the end of 2001 and migrate our existing analog subscribers to our GSM services. We seek to encourage and facilitate the migration of our analog subscribers to our GSM networks by, for example, providing free airtime and highlighting in our marketing activities the attractiveness of value added services that are not available to analog subscribers. The migration is part of our overall network development plan. As of May 20, 2001, we had approximately 0.8 million analog subscribers, representing approximately 1.4% of our total subscriber base as of that date.

Spectrum. A mobile communications network's capacity is to a certain extent limited by the amount of frequency spectrum available for it to use. The Ministry of Information Industry has allocated 24 MHz in the

900 MHz frequency band to us to operate our mobile communications networks. In addition, we also have the right to use 10 MHz of spectrum in the 1800 MHz frequency band in each of the provinces in which we operate. We have used this spectrum to introduce Digital Cellular System 1800 systems to expand the capacity of our GSM networks in our service regions by adding cell sites in certain areas with a high density of mobile phone subscribers. In preparation for the planned termination of all existing analog services, we have obtained the approval from the Ministry of Information Industry and other relevant regulatory authorities to substitute 5 MHz analog frequency Spectrum in the 900 MHz frequency band with a 5 MHz frequency band in the 1800 MHz frequency band upon the termination of our analog services.

Transmission Infrastructure. The physical infrastructure linking our base transceiver stations, base station controllers and mobile switching centers and interconnecting our networks to the fixed line network consists of transmissions lines, which provide the backbone infrastructure by which mobile call traffic is carried.

Intra-Provincial Transmission Lines. We currently lease intra-provincial and local transmission lines from China Telecommunications Corporation's subsidiaries that operate the fixed line networks in our 13 service regions and pay to them fees based on tariff schedules stipulated by the relevant regulatory authorities after adjusting for the discounts that we have negotiated.

We have also built our own infrastructure in certain areas where the fixed line network operators do not currently have any transmission lines in place or where the leasing of existing lines is not economical. As part of our network operation strategy, we intend to build our own transmission lines where economically advantageous, such as where call traffic is high. In areas where the leasing of transmission lines makes more economic sense, we intend to continue to leverage our group buying capacity to negotiate preferential leasing rates.

Inter-Provincial Transmission Lines. We entered into a new inter-provincial leased line arrangement with China Mobile Communications Corporation in May 2000, with retroactive effect from April 1, 1999 for Fujian Mobile, Henan Mobile and Hainan Mobile and from October 1, 1999 for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile, and applicable to the seven regional mobile communications companies we acquired in November 2000 following the acquisition. The leased inter-provincial transmission lines link our mobile switching centers with each other and with China Mobile Communications Corporation's other mobile switching centers.

Prior to these arrangements, we leased intra-provincial transmission lines to link our network to the fixed line network, but did not lease any inter-provincial transmission lines. Instead, we paid China Mobile

Communications Corporation an inter-provincial interconnection fee. The leasing charge payable by us is determined based on the standard leasing fee stipulated by the relevant regulatory authorities after adjusting for the discounts that we have negotiated, and the mobile communications network operators at both ends of the transmission lines will share the leasing fees equally.

Network Operations and Maintenance. We believe that we have considerable network operation and maintenance experience and technical expertise. Day-to-day traffic management, troubleshooting and system maintenance are conducted by our experienced team of engineers and technicians, and technical staff are available for emergency repair work 24 hours a day. In addition, we employ specialist teams for central maintenance of the networks. We continue to seek to attract and retain qualified technical staff. Currently, most technical difficulties relating to the networks are resolved by our staff, although our equipment suppliers also provide back-up maintenance and technical support.

Base Station Sites. In urban areas, our base transceiver station sites are located mostly on existing structures, typically at the top of tall buildings. In rural areas, masts are often constructed for locating base transceiver stations. Typically, base station sites are of limited size, as base transceiver station equipment does not generally require significant space. Generally, depending on the length of time required for negotiation with respect to use of the land or buildings, construction of a base transceiver station takes approximately one to three months in an urban area and approximately three to six months in a rural area. We anticipate that we will need a significant number of new sites in connection with the expansion of our mobile communications

networks. There can be no assurance that we will be able to obtain the requisite number of sites on reasonable commercial terms.

Equipment Suppliers. We select our principal suppliers from among leading international and domestic manufacturers of mobile communications equipment and in accordance with technical standards set by the Ministry of Information Industry. Our GSM networks use equipment primarily supplied by Ericsson, Nokia, Motorola, Alcatel and Huawei Technologies. Our largest supplier accounted for approximately 27% of our network equipment purchases in 2000, and the top five suppliers accounted for an aggregate of 58% of our network equipment purchases in 2000.

Strategic Alliance with Vodafone

On October 4, 2000, we entered into a non-binding memorandum of understanding with Vodafone Group Plc., which sets forth the principal terms of alliance and cooperation between the two parties. In connection with the alliance, Vodafone purchased US$2.5 billion of our ordinary shares as part of our share offering in November 2000, representing approximately 2% of our issued and outstanding share capital following the offering.

On February 27, 2001, we entered into a binding strategic alliance agreement with Vodafone. The agreement has formalized a number of cooperation arrangements set forth in the memorandum of understanding, including:

-- the exchange and sharing of corporate management, technical and operational expertise and resources;

-- joint research and development;

-- the introduction of global products and services for the mobile community; and

-- the development and implementation of standards and protocols relevant to mobile communications.

Under the agreement, we have agreed to make Vodafone our preferred partner in the above mentioned areas, and Vodafone has agreed to make us its sole strategic partner in China for all areas of potential cooperation within the scope of the strategic alliance. The parties have also agreed to explore opportunities for joint ventures and other equity-based strategic alliances, and to cooperate in pursuing international investment opportunities outside of China and in regional and global alliances. As part of the alliance, Mr. Chris Gent, Chief Executive of Vodafone, joined our board of directors as an independent non-executive director in February 2001. See "Item 6. Directors, Senior Management and Employees."

We believe that the strategic alliance with Vodafone will enhance our strengths in the telecommunications market in Mainland China and will better position us to pursue further expansion opportunities globally.

Competition

China United Telecommunications Corporation operates, directly or through its subsidiaries, in all of the provinces, municipalities and autonomous regions in which we operate. The Chinese government encourages orderly and fair competition in the telecommunications industry in Mainland China. Towards this end, it has extended certain favorable regulatory policies to China United Telecommunications Corporation in order to help it become a more viable competitor to us and China Mobile Communications Corporation. In particular, the Chinese government has permitted China United Telecommunications Corporation to lower its mobile service tariffs by up to 10% below the governmental guidance rates. We believe this policy has helped China United Telecommunications Corporation capture a significant number of price-sensitive and low-usage mobile phone subscribers. Based on publicly available information in respect of China United Telecommunications Corporation's listed subsidiary, as of December 31, 2000, China United Telecommunications Corporation's listed subsidiary had an estimated market share of approximately 22.7% of mobile phone subscribers in its service areas, as compared to approximately 7.1% and 14.2% as of December 31, 1998 and 1999, respectively.

We compete on the basis of our network coverage and quality, the pricing of our services, the range of services we offer and our service quality. We believe that we have significant competitive advantages due to:

-- our superior mobile communications networks;

-- our widely-recognized brand name and logo that are closely identified with us by consumers;

-- our broad distribution networks and our focus on customer services

-- our extensive range of value added services;

-- our experienced management team and high quality employees; and

-- our financial resources.

We believe these advantages have contributed to our superior subscriber quality compared to that of our competitor, as measured by average usage levels, average revenues per subscriber and doubtful accounts levels.

In addition to China United Telecommunications Corporation, the State Council and the Ministry of Information Industry may approve additional mobile service providers in the future that may compete with us. We may also be subject to competition from providers of new telecommunications services based on new or existing technologies. Nonetheless, given the relatively low mobile phone penetration rates in our markets and in Mainland China in general, we believe there is substantial growth potential for our mobile communications business. We believe that the restructuring of the telecommunications industry in Mainland China has created a fair, orderly, transparent and healthy telecommunications market.

We also face indirect competition from providers of other wireless communications services, such as paging and city-wide mobile telephone services based on Personal Access System technology operated by China Telecommunications Corporation and its subsidiaries, which offer substantially lower prices for their services. However, we do not believe that they are significant competitors, as they provide a much more limited range of services compared to our mobile communications services.

In addition, China United Telecommunications Corporation has conducted trial operations in several cities in Mainland China using 800 MHz Code Division Multiple Access technology. Code Division Multiple Access technology is a continuous digital transmission technology that accommodates higher throughput by using various coding sequences to mix and separate voice and data signals for wireless communication. The State Council has granted China United Telecommunications Corporation its approval to utilize this technology for commercial mobile communications operations. We believe that the current second generation of this technology would have limited commercial value to our business due to the rapid development of wireless communications technology. We also believe that the current second generation of this technology will not significantly change the relative competitive strengths of existing telecommunications operators. In addition, we believe that our GSM networks provide, and as may be further expanded and upgraded under our network development plan will provide, sufficient capacity and coverage to support our existing and planned services. As a result, we have decided not to pursue the development of the current second generation Code Division Multiple Access technology.

China recently concluded bilateral negotiations of the major terms for its entry into the World Trade Organization with a number of countries, including the United States, and the European Union. As a result, we expect the Chinese government to gradually relax current restrictions on foreign ownership in the telecommunications industry. This could lead to the further opening of the Chinese telecommunications market to foreign investors and operators, and could result in or accelerate the issue of new telecommunications service licenses.

Regulation

The mobile communications industry in Mainland China is subject to a high degree of regulation by the Chinese government. Regulations issued or implemented by the State Council, the Ministry of Information Industry and other relevant government authorities including the Ministry of Foreign Trade and Economic

Cooperation and the State Development Planning Commission encompass all key aspects of mobile communications network operations, including entry into the telecommunications industry, scope of permissible business, interconnection and transmission line arrangements, technology and equipment standards, tariff standards, capital investment priorities, foreign investment policies and spectrum and number resources allocation.

The Ministry of Information Industry, under the leadership of the State Council, is responsible for, among other things:

-- formulating and enforcing industry policy, standards and regulations;

-- granting telecommunications licenses;

-- formulating interconnection and settlement standards for implementation between telecommunications networks;

-- together with other relevant regulatory authorities, formulating tariff and service charge standards for telecommunications services;

-- supervising the operations of telecommunications service providers;

-- promoting fair and orderly market competition among operators; and

-- allocating and administering public communications resources, such as radio frequencies, number resources, domain names and addresses of communications networks.

In order to provide a uniform regulatory framework to encourage the orderly development of the telecommunications industry, the Chinese government is currently preparing a draft telecommunications laws. We expect that, if and when the telecommunications law is adopted by the National People's Congress, it will become the basic telecommunications statute and the legal source of telecommunications regulations in Mainland China. In addition, the State Council promulgated a set of new telecommunications regulations on September 25, 2000. These regulations are substantially consistent with the existing rules and guidelines for the telecommunications industry, and are primarily intended to streamline and clarify the existing rules and guidelines. They apply in the interim period prior to the adoption of the telecommunications law. Although we expect that the telecommunications law would have a positive effect on the overall development of the telecommunications industry in Mainland China, we do not fully know what the nature and scope of the telecommunications law will be.

Entry into the Industry. The new telecommunications regulations adopt the existing regulatory distinction between basic and value added telecommunications services and provide a classification of those services. Operators of mobile communications networks, providers of other basic telecommunications services such as local and long distance fixed line telephone services, and value added service providers whose telecommunications services cover two or more provinces, municipalities or autonomous regions in China must apply for specific permits from the Ministry of Information Industry in order to provide such services. Granting of permits for providing basic telecommunications services will be through a tendering process. Currently, in addition to us and other entities controlled by China Mobile Communications Corporation which operate in Mainland China outside of our markets, China United Telecommunications Corporation is also authorized to provide mobile services in all provinces, municipalities and autonomous regions in China.

Current regulations in Mainland China prohibit foreign-invested enterprises and foreign entities (including individuals) from owning, operating or participating in the operation of telecommunications services in Mainland China without approval by the State Council. We were authorized by the State Council to effect our initial public offering in 1997 and our subsequent acquisitions and the related financing. China reached an agreement with the United States in November 1999 and an agreement with the European Union in May 2000 relating to China's entry into the World Trade Organization. As a result, we expect that the

Chinese government will gradually reduce the current restrictions on foreign ownership in the telecommunications industry.

Spectrum Usage. In coordination with the relevant provincial authorities, the Ministry of Information Industry regulates the allocation of radio frequency. The frequency assigned to an entity is not allowed to be leased or, without approval of the Ministry of Information Industry, transferred by the entity to any other third party. In accordance with a joint circular from the State Development Planning Commission and the Ministry of Finance, China Mobile Communications Corporation determines the amount of fees to be paid to the Ministry of Information Industry for spectrum usage by each mobile communications network operator under its control based on the bandwidth of the frequency used and the number of base transceiver stations within the operator's network, subject to the limitation that the total annual payment by all such operators in Mainland China shall equal RMB 1.0 million per MHz of frequency allocated by the Ministry of Information Industry.

Number Resources. The Ministry of Information Industry is responsible for the administration of the number resources within Mainland China, including the mobile communications network number and subscriber numbers. The use of number resources by any telecommunications operator is subject to the approval by the Ministry of Information Industry. In April 2000, the Ministry of Information Industry implemented new provisional measures on administration of telecommunications network number resources. In accordance with these new measures, the telecommunications network number resources are owned by the state, and the user of number resources is required to pay a usage fee to the state. However, the standard for the usage fee is yet to be stipulated. It is also not clear when the standard of the usage fee will be stipulated and when we will be required to pay such fee. The new measures also provide for procedures for application for the use, upgrade and adjustment of number resources by telecommunications operators.

Tariff Setting. The levels and categories of our current tariffs are subject to regulation by various government authorities, including the Ministry of Information Industry, the State Development Planning Commission and, at the local level, the relevant provincial price regulatory authorities. Under the new telecommunications regulations, telecommunications tariffs are categorized into market based tariffs, government guidance tariffs and government fixed tariffs. Currently, connection fee is based on a guidance tariff range set by the Ministry of Information Industry in consultation with the State Development Planning Commission, with the actual tariff determined by the relevant provincial price regulatory authorities. In general, base usage charges, monthly fees, domestic roaming usage charges and tariffs for all domestic long distance calls (other than Internet Protocol phone calls) and international calls are fixed jointly by the Ministry of Information Industry and the State Development Planning Commission. International roaming charges are set in accordance with agreements between China Mobile Communications Corporation and the relevant foreign mobile operators. Under the new telecommunications regulations, tariffs for those telecommunications businesses that are considered fully competitive may be set by the service providers as market based tariffs.

Interconnection Arrangements and Lease Line Arrangements. Under the new telecommunications regulations, parties seeking interconnection must enter into an interconnection agreement and file such interconnection agreement with the Ministry of Information Industry. Major telecommunications service providers that have control over essential telecommunications infrastructure and possess significant market share must allow interconnection to their networks by other operators. They must establish interconnection rules and procedures based on the principles of non-discrimination and transparency and submit such rules and procedures to the Ministry of Information Industry for approval. Such rules and procedures will be binding upon those major telecommunications service providers. The termination of any interconnection arrangements will require prior approval by the Ministry of Information Industry.

The applicable regulations provide that interconnection related equipment must conform with the technical standards approved by the Ministry of Information Industry. See "-- Technical Standards" below. The Ministry of Information Industry also determines the standard lease tariffs to be paid by telecommunications operators with respect to the leasing of transmission lines that facilitate interconnection between telecommunications networks. The relevant provincial operating subsidiaries of China Telecommunications Corporation and those of China Mobile Communications Corporation are responsible for the maintenance of the transmission lines and related equipment in their respective localities.

Technical Standards. The Ministry of Information Industry sets technical standards and controls the type and quality of mobile communications equipment used in public networks by requiring prior certification by the Ministry of Information Industry, together with other relevant regulatory authorities, for all telecommunications terminal equipment that are connected to the public networks, all radio communications equipment and all interconnection related equipment. In addition, the Provisions on the Management of Import of Radio Transmission Equipment, jointly issued by the former State Radio Regulatory Commission, the State Economic and Trade Commission, Ministry of Foreign Trade and Economic Cooperation and the General Administration of Customs, effective January 1, 1996, provide that before radio transmission equipment (including mobile communications equipment) may be imported into Mainland China, an importer must obtain the necessary certification from the Ministry of Information Industry and the State Mechanical and Electrical Products Import and Export Office.

The establishment of base transceiver stations requires the approval of the relevant provincial regulatory authorities. A number of these approvals with respect to the base stations of our operating subsidiaries are currently pending. We have not experienced and do not expect to experience material difficulty in obtaining permission to establish additional sites.

Capital Investment. The State Development Planning Commission and the State Economic and Trade Commission are empowered by the State Council to exercise responsibility over the approval of all major investment projects, including mobile communications network development projects, involving total capital investment between RMB 50 million and RMB 200 million. Any investment projects with total capital investment in excess of RMB 200 million must obtain approval from the State Council. Accordingly, project proposals and feasibility study reports for these projects, following review and approval by China Mobile Communications Corporation and the Ministry of Information Industry, are required to be submitted for approval to the State Development Planning Commission and the State Economic and Trade Commission or to the State Council.

Employees

The total number of our employees increased from 12,530 as of December 31, 1998 to 20,243 as of December 31, 1999 and 38,343 as of December 31, 2000, mainly as a result of our acquisitions of various regional mobile communications companies in China during 1998, 1999 and 2000. As of December 31, 2000, we had 31 employees in Shenzhen, China, 38 employees in Hong Kong and 38,274 employees in the rest of Mainland China as classified in the following table. Approximately 20% of our permanent employees have college or graduate degrees.

Management	7,806
Technical and engineering	12,695
Sales and marketing	15,908
Financial and accounting	1,865
Total	38,274

We provide benefits to certain employees, including housing, retirement benefits and hospital, maternity, disability and dependent medical care benefits. Most of our employees are members of a labor association. We have not experienced any strikes, slowdowns or labor disputes that have interfered with our operations to date, and we believe that our relations with our employees are good.

ORGANIZATIONAL STRUCTURE

See Section entitled "-- History and Development of the Company -- Industry Restructuring and Related Charges in Our Shareholding Structure."

PROPERTY, PLANTS AND EQUIPMENTS

We own, lease or have usage rights in various properties which consist of land and buildings for offices, administrative centers, staff quarters, retail outlets and technical facilities. We have obtained land use right certificates and property title certificates for most of these properties and are in the process of obtaining certificates for the remaining nine properties, all of which are located in Guangdong Province. We believe that our use of these properties are not affected by the fact that we have not yet obtained the relevant land use right certificates and property title certificates. China Mobile (Hong Kong) Group Limited, our indirect controlling shareholder, has agreed to indemnify us against any loss or damage caused by or arising from any challenge of, or interference with, our right to use any of the properties we had or used in our business as of May 31, 1997, the date of asset revaluation in preparation for our initial public offering. We believe that all of our owned and leased properties are well maintained and are suitable and adequate for their present use.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

You should read the following discussion and analysis in conjunction with our consolidated financial statements, together with the related notes, included elsewhere in this annual report. The consolidated financial statements have been prepared in accordance with Hong Kong GAAP, which differ in certain significant respects from U.S. GAAP. Note 29 to the consolidated financial statements summarizes the significant differences between Hong Kong GAAP and U.S. GAAP as they relate to us and provides a reconciliation to U.S. GAAP of net profit and shareholders' equity. In addition, Note 29 to the consolidated financial statements includes our condensed consolidated financial statements prepared and presented in accordance with U.S. GAAP for the relevant periods. The consolidated financial statements present, and the discussion and analysis in this section pertain to, our consolidated financial position and results of operations as of and for the years ended December 31, 1998, 1999 and 2000, and reflect the results of Jiangsu Mobile from June 4, 1998, the results of Fujian Mobile, Henan Mobile and Hainan Mobile from November 12, 1999, and the results of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile from November 13, 2000, the respective dates we acquired them.

OVERVIEW OF OUR OPERATIONS

During 1998, 1999 and 2000, our network capacity, subscriber base and usage and operations experienced significant growth. We believe that with the market-oriented restructuring of the telecommunications industry, as well as the development of the economy and increase in per capita income in Mainland China, the telecommunications industry will continue to grow rapidly. Given the relatively low penetration rates in our markets, we believe that there is potential for significant future subscriber growth.

Our results of operations, like those of other mobile communications network operators, are substantially dependent on a number of factors, including:

-- the number and quality of subscribers;

-- the level of subscriber usage;

-- the level and structure of tariffs; and

-- interconnection, roaming and transmission line arrangements with other telecommunications operators.

We operate in an extensively regulated environment and our operations and financial performance are significantly affected by the Chinese government's regulation of the telecommunications industry. These regulations and policies may affect, among other things, our interconnection and transmission line leasing arrangements, technology and equipment standards and capital investment, as described in more detail under "Item 3. Key Information -- Risk Factors -- Adverse Changes in Economic Policies of the Chinese Government Could Have a Material Adverse Effect on the Overall Economic Growth of Mainland China, Which Could Reduce the Demand for Our Services and Adversely Affect Our Competitive Position" and "Item 4. Information on the Company -- Regulation". Our financial performance is also subject to the economic and social conditions in Mainland China and foreign currency exchange fluctuations.

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Our Acquisitions of 11 Regional Mobile Communications Companies in the Past Three Years Have Materially Impacted Our Financial Results

We acquired Jiangsu Mobile on June 4, 1998, Fujian Mobile, Henan Mobile and Hainan Mobile on November 12, 1999 and Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile on November 13, 2000. We have adopted the acquisition method to account for these acquisitions under Hong Kong GAAP. Accordingly, the consolidated financial statements include the results of these companies from the respective dates of the acquisitions. Under U.S. GAAP, our acquisitions of these companies are considered a combination of entities under common control which would be accounted for under the "as if pooling-of-interests" method, whereby assets and liabilities are accounted for at historical cost and the accounts of previously separate companies for periods prior to the combination generally are restated on a combined basis.

These acquisitions have had a material impact on our overall results of operations. Among others, they have significantly expanded the size of the mobile communications markets we serve and increased the number of our subscribers and usage of our services. As a result, our operating revenue and operating expenses increased significantly in 1998, 1999 and 2000.

Analog-to-Digital Migration

Due to the rapid development of mobile telecommunications technologies and the potentially limited economic life cycle of our analog network equipment, we decided to accelerate the enhancement of our technology and to assist the migration of our analog subscribers to our GSM network. See "Item 4. Information on the Company -- Business Overview -- Analog to Digital Migration." As a result of this decision, we wrote-down RMB 282 million of analog network equipment in 1998, and we wrote down RMB 6,720 million of analog network equipment and wrote off an additional RMB 1,522 million of analog network equipment in 1999. In 2000, as part of our plan to terminate some network functions by June 2001 and discontinue all analog services by the end of 2001, we wrote down and wrote off the entire RMB 1,525 million in remaining net book value of our analog network equipment.

To encourage the migration of our analog subscribers to our GSM services, we have been offering free air time for GSM services to these subscribers. We believe that the analog-to-digital migration will increase our network utilization rate, improve our operational efficiency and allow us to provide better services to customers. As of May 20, 2001, we had approximately 0.8 million subscribers to our analog services, representing approximately 1.4% of our total subscriber base as of that date.

Operating Arrangements We Entered Into in 1998, 1999 and 2000 Have Materially Impacted Our Financial Results

Our current organizational structure was established pursuant to the restructuring completed in September 1997 in preparation for our initial public offering and our acquisitions of the 11 regional mobile communications companies in Mainland China in 1998, 1999 and 2000. In connection with these transactions, we entered into various operating arrangements to facilitate the transfer of the operations to us, to integrate these operations within our operating structure and to improve our overall operational efficiency. These arrangements included:

-- interconnection revenue sharing and settlement arrangements with China Telecommunications Corporation and its subsidiaries and with China Mobile Communications Corporation;

-- intra-provincial transmission line leasing agreements with China Telecommunications Corporation and its subsidiaries;

-- service agreements with China Mobile Communications Corporation and China Telecommunications Corporation and their respective subsidiaries with respect to various telecommunications services and support;

-- a change in the tax treatment of connection fees and certain surcharge revenue for our services;

-- the revaluation of fixed assets of the companies we acquired as of the respective dates set forth in the financial statements included in this annual report; and

-- an agreement with China Mobile Communications Corporation for inter-provincial interconnection and domestic and international roaming.

The original terms of our agreements relating to interconnection, leased lines and roaming have been revised as a result of tariff adjustments by the government and/or commercial negotiation with the relevant parties. See "Item 4. Information on the Company -- Business Overview -- Interconnection Arrangements" and "-- Roaming Arrangements" as well as the notes to our consolidated financial statements for a description of these arrangements as amended to date.

Our financial results reflect the impact of the above arrangements as of the dates they became effective. These arrangements and changes have had a material impact on our overall results of operations. In particular, the implementation of the interconnection agreements led to significant increases in both operating revenue and operating expenses. In addition, other operating expenses including selling, general and administrative expenses increased in 1998, 1999 and 2000 as a result of the implementation of agreements relating to billing and collection services and distribution and sales. In each of 1998, 1999 and 2000, depreciation expense increased as a result of the revaluation of fixed assets, while our effective income tax rates increased as a result of connection fees and certain surcharges becoming fully taxable after the acquired companies had registered as wholly foreign owned enterprises following the acquisitions.

Our New Operating Arrangements with China Mobile Communications Corporation Have Affected and May Continue to Affect Our Financial Results

In May 2000, we entered into two agreements with China Mobile Communications Corporation for:

-- inter-provincial interconnection and domestic and international roaming services; and

-- sharing of inter-provincial leased line fees.

The agreements, as supplemented in November 2000, apply to the seven regional mobile communications companies we acquired in November 2000, effective upon the acquisition and to our other six operating subsidiaries with retroactive effect from April 1, 1999, except that with regard to Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile, the leased line fee sharing arrangement has retroactive effect from October 1, 1999.

Prior to these arrangements, we leased intra-provincial transmission lines from China Telecommunications Corporation to link our network to the fixed line network, but did not lease any inter-provincial transmission lines. Instead, we paid China Mobile Communications Corporation an inter-provincial interconnection fee. Under the new inter-provincial transmission line leasing agreement with China Mobile Communications Corporation, the leasing fee payable by us is determined based on the standard leasing fee stipulated by the relevant regulatory authorities after adjusting for the volume discount that we have negotiated, and on the basis that the mobile network operators at both ends of the transmission lines will share the leasing fees equally. As a result, the new arrangements led to an increase in our transmission line leasing expenses, but a reduction in our inter-provincial interconnection and roaming settlement expenses, resulting in net savings in our operating expenses in 2000. We have reflected the financial impact of these arrangements in 1999 as a one-time gain in our accounts for 2000. We expect that, in 2001, the reduction in interconnection and roaming costs as a result of these new arrangements will continue to exceed the increase in inter-provincial transmission line leasing fees as a result of these new arrangements.

Launch of Packaged Service Plans

In order to meet the specific mobile communications needs of different subscriber segments and to enable more efficient use of network resources during both peak and off-peak hours, beginning in March 2001, we have launched packaged mobile service plans tailored toward different usage level. See "Item 4. Business Overview -- Tariffs -- Tariff Adjustments." We have begun to implement the appropriate service plans in

selected service regions based on local market condition. We believe that such service plans create a more flexible tariff structure for our subscribers and can promote greater usage by subscribers and is beneficial to increasing overall subscriber usage.

Tariff Adjustments

As part of the efforts to further rationalize the tariff structure of telecommunications services, the government introduced a wide range of tariff adjustments effective beginning from January 2001. The tariff adjustments that affect our mobile communications services include the shortening of the billing unit for long distance charges (other than for Internet Protocol phone calls), from one minute to six seconds, the general reduction in domestic and international long distance call rates, the elimination of various surcharges and a general reduction in leased line tariffs. In particular, effective from February 21, 2001, domestic long distance call rates have been adjusted from the range of RMB 0.50 to RMB 1.00 per minute to the uniform rate of RMB 0.07 per six seconds. We expect that, although the adjustments in long distance call rates and the elimination of surcharges may reduce our revenue in the short term, we expect that they will stimulate increased subscriber usage and contribute to our overall revenue growth in the long run. In addition, we will be able to achieve savings in leased line expenses as a result of the reduction in leased line tariffs.

Amendment to Revenue Sharing Arrangement for Prepaid Services

We offer prepaid services in each of our 13 service regions. Some of our prepaid services allow subscribers to add value to their SIM cards in any of our service regions or in the service regions of other subsidiaries of China Mobile Communications Corporation. In May 2001, we entered into an agreement with China Mobile Communications Corporation to amend the then-existing revenue sharing arrangements with respect to prepaid services, with retroactive effect from April 21, 2001. The new agreement amended the prior arrangement by allowing the network operator in the location that sells the value-adding prepaid card to charge 5% of the face value of the card as a handling charge, and remit the other 95% (as compared to 85% prior to the amendment) to the subscriber's home network operator. We do not expect the new agreement to have any material impact on our results of operations or financial results.

Renminbi Bond Offering

Following the approval by the relevant Chinese regulatory authorities, on June 18, 2001 our wholly-owned subsidiary, Guangdong Mobile, issued RMB5 billion of guaranteed bonds due in 2011. The bonds bear interest, payable annually, at a floating rate calculated as the sum of

-- a base rate, being the one-year fixed time deposit rate published by the People's Bank of China on (A) the date of the issuance of the bonds, which is 2.25% per annum, with respect to the 12-month period following such date of issuance, and (B) such rate as is fixed on each subsequent anniversary date of the issuance, to apply with respect to the 12-month period following such anniversary date; and

-- a base rate differential (i.e., interest spread) of 1.75% per annum, which has been agreed between Guangdong Mobile and the lead underwriter and approved by the relevant Chinese regulatory authorities, and which will remain fixed throughout the term of the bonds.

We have issued an irrevocable guarantee for the performance of the bonds, and China Mobile Communications Corporation has issued a further guarantee in relation to the performance by us of our guarantee. The bonds are rated "AAA" by China Chengxin International Credit Rating Company Limited, an affiliate of Fitch International Limited.

The bonds are being sold to the public in Mainland China. We currently expect that the offering of the bonds will be completed in July 2001. We plan to file an application to list the bonds on the Shanghai Stock Exchange upon completion of the offering. The proceeds from the offering will be applied solely to repay part of the RMB 12.5 billion syndicated loans we raised through our wholly-owned subsidiary, China Mobile (Shenzhen) Limited, in 2000 for our acquisition of the seven mobile communications companies in China in November 2000. The syndicated loans had a weighted average interest rate of approximately 5.2% per annum

in 2000, which is higher than the 4% per annum interest rate for the bonds with respect to the 12-month period following the original issuance.

RESULTS OF OPERATIONS

As a result of our acquisitions and the material changes made to our operating arrangements, our results of operations are not directly comparable with those in prior years.

The following table sets forth selected income statement data, expressed as percentages of operating revenue, for the periods indicated:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
Operating revenue:	100.0%	100.0%	100.0%
Usage fees	62.0	66.8	71.2
Monthly fees	16.5	12.9	14.8
Connection fees	12.6	11.2	3.4
Others	8.9	9.1	10.6
Operating expenses:			
Leased lines	14.9	9.6	8.5
Interconnection	18.0	16.7	12.8
Depreciation	17.5	19.2	15.0
Personnel	6.1	5.8	6.1
Other operating expenses	13.4	13.4	16.3
Total operating expenses	69.9	64.7	58.7
Operating profit	30.1	35.3	41.3
Write-down and write-off of analog network equipment	(1.1)	(21.3)	(2.3)
Other net income	1.3	1.4	1.4
Finance costs	(0.6)	(0.9)	(1.3)
Interest income	6.1	2.0	1.5

Non-operating net (expenses)/income	(0.2)	0.2	0.0
Profit before tax and minority interests	35.6	16.7	40.6
Income Tax	(9.4)	(4.3)	(12.9)
Net Profit	26.2%	12.4%	27.7%

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Operating Revenue. We derive operating revenue principally from usage fees as well as monthly fees and one-time connection fees charged to new contract subscribers. Usage fees include standard local usage fees for airtime and applicable domestic and international long distance charges receivable from subscribers for the use of our mobile communications networks and facilities, and fees in respect of roaming out calls made by our subscribers outside their registered service areas. Other operating revenue includes interconnection revenue, fees from certain value added services, telephone number selection fees and roaming-in settlement fees.

Operating revenue increased 68.3% from RMB 38,623 million in 1999 to RMB 64,984 million in 2000. This increase was due primarily to the increase in usage fees as a result of subscriber growth in Guangdong, Zhejiang and Jiangsu, the full year impact of the inclusion of usage fees from subscribers of Fujian Mobile, Henan Mobile and Hainan Mobile following their acquisition by us in November 1999, and the inclusion of usage fees from subscribers of the seven companies we acquired in November 2000 following the acquisition. Our total number of subscribers was approximately 45.1 million at December 31, 2000, compared to approximately 15.6 million at December 31, 1999. Excluding connection fees, operating revenue increased from RMB 34,304 million in 1999 to RMB 62,771 million in 2000.

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Revenue from usage fees increased 79.3% from RMB 25,812 million in 1999 to RMB 46,287 million in 2000. This increase was primarily a result of the increase in total subscriber numbers, the expanded communications opportunities for subscribers as a result of the expansion and improvement of fixed line and mobile communications networks throughout Mainland China and the expansion of the scope and variety of our services. As a percentage of operating revenue, usage fees increased from 66.8% in 1999 to 71.2% in 2000.

Revenue from monthly fees increased 93.2% from RMB 4,981 million in 1999 to RMB 9,623 million in 2000 due to the increase in total contract subscriber numbers. As a percentage of operating revenue, monthly fees increased from 12.9% in 1999 to 14.8% in 2000.

Revenue from connection fees decreased 48.8% from RMB 4,319 million in 1999 to RMB 2,213 million in 2000 primarily due to reduction in average connection fees charged to new contract subscribers. We believe that the reduction and possible eventual elimination of connection fees for new subscribers will help to expand our subscriber base and result in increased total subscriber usage of our mobile communications services. As a percentage of operating revenue, connection fees decreased from 11.2% in 1999 to 3.4% in 2000. We do not expect that any further reduction in connection fee tariffs will have a material impact on our operating revenue.

Other operating revenue increased 95.4% from RMB 3,511 million in 1999 to RMB 6,861 million in 2000. This increase resulted principally from increased revenue from value added services, incoming roaming revenue and interconnection revenue.

Operating Expenses. Operating expenses include principally leased line expenses, interconnection expenses, depreciation expense relating to our mobile communications network and other fixed assets, personnel expenses and other operating expenses. Other operating expenses primarily consist of selling and promotion expenses, network maintenance costs, provision for doubtful accounts and operating lease charges.

Operating expenses increased 52.7% from RMB 24,983 million in 1999 to RMB 38,158 million in 2000. This increase primarily reflected the full year impact of inclusion of operation expenses of Fujian Mobile, Henan Mobile and Hainan Mobile in 2000, as compared to less than two months in 1999, the inclusion of operation expenses of the seven additional mobile communications companies we acquired in November 2000 following the acquisition, our overall expanded network coverage and service scope and our larger subscriber base.

Total leased line payments increased 47.8% from RMB 3,723 million in 1999 to RMB 5,501 million in 2000, due to the inclusion of leased line payments for intra-provincial transmission lines by Fujian Mobile, Henan Mobile and Hainan Mobile for the full year of 2000, the inclusion of leased line payments for inter-provincial transmission lines pursuant to our agreement with China Mobile Communications Corporation by six of our operating subsidiaries in 2000 and by the other seven regional mobile communications companies we acquired in November 2000 following the acquisition, and our network expansion into new coverage areas, partially offset by reduction of leased line tariffs in 2000. However, as a percentage of operating expenses, total leased line payments decreased from 14.9% in 1999 to 14.4% in 2000, reflecting our increased efficiency in network management and transmission lines utilization.

Interconnection expenses increased 29.1% from RMB 6,453 million in 1999 to RMB 8,329 million in 2000, due primarily to increased traffic volume transmitted through our mobile networks, reflecting the inclusion of the interconnection expenses of Fujian Mobile, Henan Mobile and Hainan Mobile for the full year of 2000 as compared to less than two months in 1999, and increased inter-network traffic, especially the increased volume of roaming-out calls by our subscribers. This increase was partially offset by the reduction in interconnection expenses as a result of our new inter-provincial leased line arrangement and inter-provincial interconnection arrangement with China Mobile Communications Corporation entered into in May 2000. As a result, interconnection expenses as a percentage of operating expenses decreased from 25.8% in 1999 to 21.8% in 2000.

Depreciation expense increased 31.7% from RMB 7,411 million in 1999 to RMB 9,759 million in 2000, due to the increase in fixed assets following our acquisition of the three regional mobile communications companies in November 1999 and an additional seven regional mobile communications companies in

November 2000 following the acquisition, and increased capital expenditures that we made to improve and expand our networks, partially offset by the reduction in the carrying costs of our fixed assets due to the write-downs and write-offs of our analog network equipment in 1999. As a percentage of operating expenses, depreciation expense decreased from 29.7% in 1999 to 25.6% in 2000.

Personnel expenses increased 76.9% from RMB 2,256 million in 1999 to RMB 3,991 million in 2000, due primarily to the inclusion of the personnel expenses of Fujian Mobile, Henan Mobile and Hainan Mobile for the full year of 2000 as compared to less than two months in 1999, personnel expenses of the seven regional mobile communications companies we acquired in November 2000 as well as an increase in performance-based incentive compensation as a result of our further improved operating results. We believe that the implementation of this compensation system has helped us to retain and attract talented staff and enhance employee productivity. As a percentage of operating expenses, personnel expenses increased from 9.0% in 1999 to 10.5% in 2000.

Other operating expenses increased 105.8% from RMB 5,140 million in 1999 to RMB 10,578 million in 2000. This increase was due mainly to a 149.1% increase in selling and promotion expenses from RMB 1,582 million in 1999 to RMB 3,940 million in 2000. This increase reflects primarily the increased sales commission paid to third party agents for developing new subscribers, and the increased advertising and marketing activities to promote our existing services as well as new services such as VoIP and prepaid card services. As a percentage of operating expenses, other operating expenses increased from 20.6% in 1999 to 27.7% in 2000.

Operating Profit. Operating profit increased 96.7% from RMB 13,640 million in 1999 to RMB 26,826 million in 2000 and operating margin (operating profit as a percentage of operating revenue) increased from 35.3% to 41.3% during the same periods.

Write-down and Write-off of Analog Network Equipment. The total amount of write-down and write-off of our analog network equipment was RMB 8,242 million in 1999 and RMB 1,525 million in 2000, representing the entire net book value of our analog network equipment as of December 31, 2000. The write-downs and write-offs reflect our decision to terminate our analog services by the end of 2001 and migrate our analog subscribers to our GSM services. See "-- Analog-to-Digital Migration" and "Item 4. Information on the Company -- Business Overview -- Migration from Analog to Digital Network."

Adjusted EBITDA. Adjusted EBITDA represents earnings before interest income, interest expense, income taxes, depreciation and amortization, non-operating net (expenses)/income, and write-down and write-off of fixed assets. Adjusted EBITDA increased 73.6% from RMB 21,603 million in 1999 to RMB 37,500 million in 2000. This increase was primarily due to the inclusion of the results of Fujian Mobile, Henan Mobile and Hainan Mobile for the full year of 2000 as compared to less than two months in 1999 and those of the seven regions mobile communications companies we acquired in November 2000 following the acquisition, the increase in operating revenue due to subscriber growth and service expansion, and our various cost control efforts. Adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenue) increased from 55.9% to 57.7%, reflecting further improvements in our operating efficiency. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities.

Other Net Income. Other net income, which includes primarily gross profit from sales of SIM cards, handsets and accessories, increased 65.8% from RMB 552 million in 1999 to RMB 915 million in 2000. This increase reflected the inclusion of additional SIM card sale profit of Fujian Mobile, Henan Mobile and Hainan Mobile for the full year of 2000 as well as the increased sales of SIM cards due to our subscriber growth.

Finance Costs. Finance costs increased 140.2% from RMB 343 million in 1999 to RMB 824 million in 2000. The increase was primarily due to interest on the US$600 million fixed rate notes issued in 1999.

Interest Income. Interest income increased 31.2% from RMB 767 million in 1999 to RMB 1,006 million in 2000. The increase was due primarily to increased cash on hand from our expanded operations.

Non-operating Net (Expenses)/Income. Non-operating expenses totaled RMB 5 million in 2000, as compared to a non-operating income of RMB 70 million in 1999, due to loss on disposal of certain fixed assets in 2000.

Profit before Tax and Minority Interests. Profit before tax and minority interests increased 309.6% from RMB 6,444 million in 1999 to RMB 26,393 million in 2000.

Taxation. Our income tax expense increased 408.0% from RMB 1,647 million in 1999 to RMB 8,366 million in 2000, primarily due to increase in our profit. Our effective tax rate increased from 25.6% in 1999 to 31.7% in 2000, which was due primarily to the fact that connection fee revenue and certain surcharge revenues in Fujian Mobile, Henan Mobile and Hainan Mobile were subject to taxation for the full year in 2000. The connection fee revenue and certain surcharge revenues in the seven regions' mobile communications companies we acquired in 2000 were not subject to taxation prior to their completion of the registration as wholly foreign-owned enterprise. However, the continuous decrease in connection fee revenue reduced the impact on the effective tax rate.

Net profit. Net profit increased 275.8% from RMB 4,797 million in 1999 to RMB 18,027 million in 2000. Net profit margin (net profit as a percentage of operating revenue) increased from 12.4% to 27.7%.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Operating Revenue. Operating revenue increased 46.6% from RMB 26,345 million in 1998 to RMB 38,623 million in 1999. This increase was due primarily to the increase in usage fees as a result of subscriber growth in Guangdong and Zhejiang, the full year impact of the addition of subscribers of Jiangsu Mobile as a result of its acquisition by us and subscriber growth of Jiangsu Mobile in 1999, as well as the addition of subscribers of Fujian Mobile, Henan Mobile and Hainan Mobile following their acquisitions by us. Our total number of subscribers was 15.6 million at December 31, 1999, compared to 6.5 million at December 31, 1998. Excluding connection fees, operating revenue increased from RMB 23,022 million to RMB 34,304 million.

Revenue from usage fees increased 57.9% from RMB 16,346 million in 1998 to RMB 25,812 million in 1999. This increase was primarily a result of the increase in total subscriber numbers and the expanded communications opportunities for subscribers as a result of the expansion and improvement of fixed line and mobile communications networks throughout Mainland China and the expansion of the scope and variety of our services. We believe that the introduction of prepaid calling cards will generate additional usage fees which will increase the contribution of usage fees to operating revenue. As a percentage of operating revenue, usage fees increased from 62.0% in 1998 to 66.8% in 1999.

Revenue from monthly fees increased 14.6% from RMB 4,347 million in 1998 to RMB 4,981 million in 1999 due to the increase in total subscriber numbers. The increase, however, was less than the increase in number of subscribers in 1999, primarily due to the downward adjustment in monthly fee rates charged by Guangdong Mobile, from RMB 100 in 1998 to RMB 50 in 1999 and Zhejiang Mobile, from RMB 62.5 to RMB 50 beginning April 1999. We believe that maintaining monthly fees at their current levels will help retain existing subscribers and attract new subscribers, thereby ensuring a steady contribution to operating revenue. As a percentage of operating revenue, monthly fees decreased from 16.5% in 1998 to 12.9% in 1999.

Revenue from connection fees increased 30.0% from RMB 3,323 million in 1998 to RMB 4,319 million in 1999 due to the increase in total subscribers, partially offset by decreases in average connection fees charged to new subscribers. We believe that the reduction and possible eventual elimination of connection fees for new subscribers may help to expand our subscriber base and result in increased total subscriber usage of our mobile communications services, and may reduce our reliance on connection fees to drive revenue growth. As a percentage of operating revenue, connection fees decreased from 12.6% in 1998 to 11.2% in 1999.

Other operating revenue increased 50.8% from RMB 2,329 million in 1998 to RMB 3,511 million in 1999. This increase resulted principally from an increase in interconnection services furnished to other telecommunication operators. Other operating revenue includes revenue from value added services which,

although currently insignificant, we believe will increase and will become a significant source of revenue in the future.

Operating Expenses. Operating expenses include principally leased line expenses, interconnection expenses, depreciation expense relating to our mobile communications network and other fixed assets, personnel expenses and other operating expenses, which primarily consist of selling and promotion expenses, network maintenance costs, provision for doubtful accounts and operating lease charges.

Operating expenses increased 35.7% from RMB 18,410 million in 1998 to RMB 24,983 million in 1999, due primarily to increases in interconnection expenses, depreciation expense, personnel expenses and other operating expenses. Of the total increase in operating expenses, 25.9%, 42.8%, 10.1% and 24.2% was accounted for by increases in interconnection expenses, depreciation expense, personnel expenses and other operating expenses, respectively.

Total leased line payments decreased 5.0% from RMB 3,917 million in 1998 to RMB 3,723 million in 1999, due to decreases in leased line tariffs. As a percentage of operating expenses, total leased line payments decreased from 21.3% in 1998 to 14.9% in 1999, reflecting decreases in leased line tariffs as well as greater efficiency in our utilization of leased lines.

Interconnection expenses increased 35.8% from RMB 4,752 million in 1998 to RMB 6,453 million in 1999, due primarily to the increase of interconnection traffic and the inclusion of interconnection charges incurred by Fujian Mobile, Henan Mobile and Hainan Mobile which were not required to be settled in full when incurred in prior years. As a percentage of operating expenses, interconnection expenses remained flat at 25.8% in 1999.

Depreciation expense increased 61.2% from RMB 4,598 million in 1998 to RMB 7,411 million in 1999, due to the increase in fixed assets following our acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile as well as increased capital expenditures that we made to improve and expand our networks. As a percentage of operating expenses, depreciation expense increased from 25.0% in 1998 to 29.7% in 1999.

Personnel expenses increased 41.4% from RMB 1,595 million in 1998 to RMB 2,256 million in 1999, due primarily to the implementation of a performance-based compensation program to attract and retain talented employees. As a percentage of operating expenses, personnel expenses increased slightly from 8.7% in 1998 to 9.0% in 1999.

Other operating expenses increased 44.9% from RMB 3,548 million in 1998 to RMB 5,140 million in 1999. This increase was due mainly to the introduction of additional promotional activities to attract new subscribers. Since 1998, we have implemented a number of measures in Guangdong, Zhejiang and Jiangsu provinces to control bad debt risks and fraud, such as enhanced subscriber registration procedures, the imposition of credit limits for high usage subscribers and tightened controls to improve timely payment by subscribers. As a result, provisions for doubtful accounts for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile as a percentage of operating revenue decreased from 2.12% in 1998 to 1.92% in 1999. In addition, as a percentage of recurring revenue (i.e., total operating revenue less connection fees), provisions for doubtful accounts decreased from 2.42% to 2.17%. We have applied these credit control measures in Fujian, Henan and Hainan as well, and are currently making improvements to their recovery systems and hardware used to implement such controls. As a percentage of operating expenses, other operating expenses increased from 19.3% in 1998 to 20.6% in 1999.

Operating Profit. Operating profit increased 71.9% from RMB 7,935 million in 1998 to RMB 13,640 million in 1999 and operating margin (operating profit as a percentage of operating revenue) increased from 30.1% to 35.3%. The increase in operating margin reflects fast subscriber growth and total usage increase as well as a more efficient network and cost structure.

Write-down and Write-off of Analog Network Equipment. The write-down and write-off of our analog network equipment was RMB 282 million in 1998 and RMB 8,242 million in 1999, due to the acceleration of the development of our technology. See "-- Analog-to-Digital Migration" and "Item 4. Information on the Company -- Business Overview -- Migration from Analog to Digital Network."

Adjusted EBITDA. Adjusted EBITDA represents earnings before interest income, interest expense, non-operating income (expenses), income taxes, depreciation and amortization, and write-down and write-off of fixed assets. Adjusted EBITDA increased 67.9% from RMB 12,869 million in 1998 to RMB 21,603 million in 1999. This increase was primarily due to the decline in leased line expenses as well as the success of our other cost control efforts. Adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenue) increased from 48.9% to 55.9%. While EBITDA is commonly used in the telecommunications industry worldwide as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of performance in accordance with generally accepted accounting principles and should not be considered as representing net cash flows from operating activities.

Other Net Income. Other net income, which includes primarily gross profit from sales of SIM cards, handsets and accessories, increased 64.3% from RMB 336 million in 1998 to RMB 552 million in 1999. This increase reflected primarily increased sales of SIM cards and handsets resulting from the increase in subscribers to our GSM networks and a decrease in SIM card costs.

Finance Costs. Finance costs increased 114.4% from RMB 160 million in 1998 to RMB 343 million in 1999. The increase was primarily due to the increased borrowings by Zhejiang Mobile and Jiangsu Mobile and interest on the US$600 million five-year fixed rate notes issued in 1999.

Interest Income. Interest income decreased 52.3% from RMB 1,609 million in 1998 to RMB 767 million in 1999. The decrease was due primarily to a reduction in funds from our 1997 initial public offering earning interest because such funds have been utilized for our acquisition of Jiangsu Mobile in 1998 and our network construction.

Non-operating Net (Expenses)/Income. Non-operating net expenses totaled RMB 70 million in 1999, as compared to an expense of RMB 51 million in 1998. The increase was mainly due to a reduction in losses from the sale of fixed assets in 1999 as compared to 1998.

Profit before Tax and Minority Interests. Profit before tax and minority interests decreased 31.4% from RMB 9,387 million in 1998 to RMB 6,444 million in 1999.

Taxation. Our income tax expense decreased 33.7% from RMB 2,486 million in 1998 to RMB 1,647 million in 1999, primarily due to the decline in profits following the write-down and write-off of our analog network equipment. In addition, Hainan Mobile is accorded privileged tax treatment and its income is assessed at a 15% preferential tax rate, instead of the 33% statutory rate, because it is situated in the Hainan Special Economic Administrative Zone.

Net profit. Net profit decreased 30.5% from RMB 6,900 million in 1998 to RMB 4,797 million in 1999, primarily as a result of the write-down and write-off of the analog network equipment. Net profit margin (net profit as a percentage of operating revenue) decreased from 26.2% to 12.4%. Net profit before the write-down and write-off of the analog network equipment was RMB 10,320 million, representing an increase of 49.6% from 1998.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital, Cash Flows and Financing

As of December 31, 2000, we had a working capital surplus (current assets minus current liabilities) of RMB 7,491 million compared to RMB 14,031 million as of December 31, 1999. As of December 31, 1999 and December 31, 2000, accounts receivable totaled RMB 4,957 million and RMB 7,252 million, respectively, primarily reflecting increased sales of our services and the acquisition of the seven regional mobile communications companies in November 2000. Short-term bank and other loans and current portion of obligation under capital leases totaled RMB 4,419 million and RMB 12,095 million as at December 31, 1999 and December 31, 2000, respectively.

The following table summarizes certain cash flow information for the periods indicated.

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
Net cash inflows from operating activities	13,567	21,662	41,401
Net cash outflow from returns on investments and servicing of finance and taxation	(123)	(1,989)	(5,821)
Net cash outflow from investing activities	(36,357)	(36,117)	(92,880)
Net cash outflow before financing activities	(22,913)	(16,444)	(57,300)
Net cash inflow from financing activities	325	18,337	65,653
(Decrease)/increase in cash and cash equivalents	(22,588)	1,893	8,353

Net cash inflows from operating activities increased from 1998 to 2000, generally reflecting the growth in operating revenue due to the increase in our subscriber base through internal growth and acquisitions.

Net cash outflow from returns on investments and servicing of finance and taxation increased from 1998 to 1999 primarily due to a significant increase in Chinese income tax paid and a substantial decrease in interest received as a result of the application of the proceeds from our initial public offering towards the acquisitions in 1998 and 1999 and construction of network. Net cash outflow from returns on investments and servicing of finance and taxation increased from 1999 to 2000, primarily due to a significant increase in Chinese income tax paid and a substantial increase in interest paid on the US$600 million fixed rate notes issued in November 1999.

Net cash outflow from investing activities remained at a high level for 1999, primarily due to the payment of the consideration for our acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile. Net cash outflow from investing activities increased significantly from 1999 to 2000, primarily due to the payment of the consideration for our acquisition of seven additional regional mobile communications companies in 2000.

Net cash inflow from financing activities reflects net borrowings or repayments of debt, but excludes credit extended to us by equipment suppliers for additions to construction in progress. Net cash inflow from financing activities increased significantly from 1998 to 2000, primarily due to the net proceeds received from the US$600 million fixed rate note offering and the concurrent US$2.0 billion share offering in November 1999, the US$690 million convertible note offering and the concurrent US$6.9 billion share offering in November 2000, and the RMB 12.5 billion syndicated bank loans we entered into in October 2000. See "-- Indebtedness" below for more information regarding the offerings and the syndicated bank loans. These net proceeds were primarily used to finance our acquisitions of a total of ten regional mobile communications companies in Mainland China in 1999 and 2000.

Indebtedness

As of December 31, 1999 and 2000, our aggregate long-term bank and other loans and obligation under capital leases (excluding current portions) totaled RMB 2,332 million and RMB 13,708 million, respectively, and our short-term bank and other loans (including the short-term portion of long-term loans) and current portion of obligation under capital leases totaled RMB 4,419 million and RMB 12,095 million, respectively. Our short-term loans and long-term loans increased in 2000 due to the inclusion of the long- term loans of the seven regional mobile communications companies upon their acquisition by us. Capital lease obligations totaled RMB 2,859 million at December 31, 2000. Total scheduled long-term loans and obligations under capital lease payable in 2001, 2002 and 2003 will be approximately RMB 5,542 million, RMB 6,359 million and RMB 5,871 million, respectively. We currently plan to repay loan amounts due using cash in hand and cash from our operating activities.

On November 2, 1999, we issued unsecured fixed rate notes with a principal amount of US$600,000,000 due on November 2, 2004. The notes bear interest at the rate of 7.875% per annum and such interest is payable semi-annually on May 2 and November 2 of each year, commencing May 2, 2000.

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On November 3, 2000, we issued unsecured convertible notes with a principal amount of US$690,000,000 due on November 3, 2005. The notes bear interest at the rate of 2.25% per annum and such interest is payable semi-annually on May 3 and November 3 of each year, commencing May 3, 2001.

Pursuant to agreements entered into on October 7, 2000 between our wholly-owned subsidiary, China Mobile (Shenzhen) Limited, and a syndicate of international and domestic Chinese banks, we borrowed an aggregate of RMB 12.5 billion in bank loans, including (A) an RMB 5.0 billion loan for a six-month term with a fixed interest rate of 5.022% per annum and (B) an RMB 7.5 billion loan for a three-year term with an interest rate of 5.346% per annum for the first year, to be adjusted annually on each anniversary of the first drawdown date of the loan to equal the rate that is 10% below the three-year base lending rate for financial institutions prevailing on such anniversary date as announced by the People's Bank of China. The loans are guaranteed jointly and severally by six of our operating subsidiaries. As of December 31, 2000, RMB 9.0 billion of the loans had been drawn down and remained outstanding. We intend to repay part of the loans with proceeds from the Renminbi bond offerings described above under "-- Renminbi Bond Offering".

For an analysis of interest rate risk, please see "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

Capital Expenditures

Capital expenditures during 1998, 1999 and 2000 were RMB 15,030 million, RMB 12,226 million and RMB 20,729 million, respectively. Capital expenditures we made were principally for the development, optimization and expansion of our GSM networks and for the development and trial of new technology based services.

We estimate that we will expend approximately RMB 45,241 million in 2001, RMB 44,703 million in 2002 and RMB 44,910 million in 2003 mainly to:

- further expand our network capacity and coverage to improve the quality of our services;

- further optimize the structure, and enhance the management, of our networks;

- increase our efforts in improving our business operation support system and network support system;

- build our own transmission line where economically advantageous; and

- develop and provide wireless data services and other new services using existing and new technologies.

Following our initial public offering, we have funded our capital requirements primarily with cash generated from operations, the proceeds from that offering and, to the extent necessary, short-term and long-term borrowings. We believe that cash in hand and cash generated from future operations will be sufficient to fund most of the capital expenditures and working capital necessary for the planned network expansion and continued growth of our mobile communications operations through the end of 2003. If necessary, we may seek to obtain additional sources of financing to fund our network expansion and possible future acquisitions.

Foreign Exchange

We maintain our accounts in Renminbi and substantially all of our revenue and expenses are denominated in Renminbi. Our capital expenditures, a substantial portion of which were denominated in U.S. dollars and incurred in connection with our purchase of imported equipment, totaled the equivalent of RMB 15,030 million, RMB 12,226 million and RMB 20,729 million for 1998, 1999 and 2000, respectively. In addition, we also incur interest expense on foreign currency (mainly U.S. dollar) denominated borrowings. U.S. dollar-denominated debt totaled the equivalent of RMB 6,119 million and RMB 13,254 million at December 31, 1999 and 2000, respectively, constituting 45.4% and 35.4% of our total debt as of those dates, respectively.

All of our current operating subsidiaries are incorporated in Mainland China. Under the current foreign exchange system in Mainland China, our subsidiaries may not be able to hedge effectively against currency risk, including any possible future Renminbi devaluation.

Each of our operating subsidiaries is able to purchase foreign exchange for settlement of current account transactions, as defined in applicable regulations, in order to satisfy its foreign exchange requirements.

U.S. GAAP RECONCILIATION

Our consolidated financial statements are prepared in accordance with Hong Kong GAAP, which differ in certain significant respects from U.S. GAAP. Under Hong Kong GAAP, we adopted the acquisition method to account for our acquisitions of the eleven mobile communications companies in 1998, 1999 and 2000. Under the acquisition method, the acquired results of these companies were included in the results of operations from the respective dates of acquisition. Goodwill arising on the acquisition date, being the excess of the cost over the fair value of our share of the separable net assets acquired, was eliminated against reserves immediately on acquisition.

For U.S. GAAP, because we and these companies are deemed as being under common control prior to the acquisitions, the acquisitions were considered a "combination of entities under common control." Under U.S. GAAP, combinations of entities under common control are accounted for under the "as if pooling-of-interests" method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination generally are restated on a combined basis. The cash consideration we paid has been treated as an equity transaction in the respective years of acquisition for U.S. GAAP purposes.

In addition, there are other differences between Hong Kong GAAP and U.S. GAAP for the periods presented, which relate primarily to:

-- the computation of capitalized interest;

-- the revaluation of fixed assets of the acquired companies under Hong Kong GAAP;

-- the recognition of deferred income taxes;

-- the non-recognition under Hong Kong GAAP of certain employee housing scheme costs that we bore;

-- the treatment of share options we grant to directors and employees;

-- the recognition as revenue of connection fees and telephone number selection fees; and

-- the net savings arising from interconnection, roaming and leased line agreements.

Historically, connection fee revenue was recognized as received for both Hong Kong GAAP and U.S. GAAP for all periods presented to June 30, 1999. Beginning July 1, 1999, we adopted a new accounting policy under U.S. GAAP to defer connection fees received in excess of direct costs and recognize such deferred amount over the estimated customer usage period for the related service. Effective January 1, 2000, under U.S. GAAP, we have adopted the provisions of Staff Accounting Bulletin No. 101, "Revenue Recognition in

Financial Statements". Under this Staff Accounting Bulletin, connection fees and telephone number selection fees received and incremental direct costs up to but not exceeding such fees are deferred and amortized over the estimated customer usage period for the related service. These changes in accounting policy for U.S. GAAP have significantly impacted the timing of connection fee revenue recognized.

Disclosure relating to these differences can be found in Note 29 of the consolidated financial statements. In addition, the condensed consolidated balance sheets as of December 31, 1999 and 2000 and the condensed consolidated statements of income, total shareholders' equity and cash flows for the years ended December 31, 1998, 1999 and 2000 prepared and presented under U.S. GAAP have been included in Notes 29 and 30 of the consolidated financial statements to reflect the impact of the significant differences between Hong Kong GAAP and U.S. GAAP.

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information concerning our directors and senior management as of May 31, 2001.

NAME	AGE	POSITION
Wang Xiaochu	43	Chairman; Chief Executive Officer
Li Zhenqun	55	Vice Chairman; Chief Operating Officer
Ding Donghua	64	Director; Chief Financial Officer
Li Gang	44	Director
Xu Long	44	Director
He Ning	39	Director
Liu Ping	55	Director
Yuan Jianguo	50	Director
Wei Yiping	49	Director
Arthur Li Kwok Cheung	55	Independent Non-Executive Director
Chris Gent	52	Independent Non-Executive Director
Lo Ka Shui	54	Independent Non-Executive Director

Mr. Wang Xiaochu, our Chairman and Chief Executive Officer since 1999. Mr. Wang is in charge of our overall management. He is also Vice President of China Mobile Communications Corporation and the Chairman of China Mobile (Hong Kong) Group Limited and China Mobile Hong Kong (BVI) Limited. Prior to joining us, Mr. Wang served as the Director General of the Tianjin Posts and Telecommunications Administration. He also served as Director and Deputy Director of the Hangzhou Telecommunications Bureau in Zhejiang province. He was responsible for the development of China Telecom system's telephone network management systems and various other information technology projects. Mr. Wang graduated from the Beijing University of Posts and Telecommunications in 1980 and has over 20 years of management experience in the telecommunications industry.

Mr. Li Zhenqun, our Vice Chairman and Chief Operating Officer since 2000. Mr. Li is in charge of our business operations and investor relations. He is also the Vice Chairman of China Mobile (Hong Kong) Group Limited and China Mobile Hong Kong (BVI) Limited. He joined us on 11 August, 2000. Since 1998 and prior to joining us, Mr. Li was the Director of the Xiamen Telecommunications

Bureau in Fujian province. He also served as the Director of the Xiamen Posts and Telecommunications Bureau in Fujian Province from 1984 to 1998. He graduated from Peking University in 1970. Mr. Li has 29 years of management experience in the telecommunications industry.

Mr. Ding Donghua, our Director and Chief Financial Officer since 1997. Mr. Ding is in charge of our financial management. Mr. Ding is also a director of China Mobile Hong Kong (BVI) Limited. Prior to joining us, Mr. Ding was previously the Chief Economist, Chief Accountant, Deputy Chief Economist and Department Director of the Guangdong Posts and Telecommunications Administration. He graduated from the Beijing University of Posts and Telecommunications in 1961 and has 39 years of management experience in the telecommunications industry, as well as in economics and finance.

Mr. Li Gang, our Director since 1999. Mr. Li is responsible for the mobile telecommunications operations in Guangdong Province. He is also the Chairman and President of Guangdong Mobile. He was formerly the Vice Chairman and President of Guangdong Mobile. He previously served as Director of the Network Maintenance Division and a Deputy Director of the Telecommunications Division of the Guangdong Posts and Telecommunications Administration. He graduated from the Beijing University of Posts and Telecommunications in 1985, and has 27 years of experience in the telecommunications industry.

Mr. Xu Long, our Director since 1999. Mr. Xu is responsible for the mobile telecommunications operations in Zhejiang Province. He is also the Chairman and President of Zhejiang Mobile. He previously served as the Deputy Director General and the Director of the General Office of Zhejiang Posts and Telecommunications Administration, the President of Zhejiang Nantian Posts and Telecommunications

Group Company and Deputy Director of Shaoxing Posts and Telecommunications Bureau in Zhejiang Province. He graduated from the Zhejiang Radio and Television University in 1985, and has 23 years of experience in the telecommunications industry.

Mr. He Ning, our Director since 1998. Mr. He is responsible for the mobile telecommunications operations in Jiangsu Province. He is also the Chairman and President of Jiangsu Mobile. Mr. He previously served as the Deputy Director General of the Jiangsu Posts and Telecommunications Administration, the Director and Deputy Director of the Jiangsu Mobile Communications Bureau, and Deputy Director of the Zhenjiang Posts and Telecommunications Bureau in Jiangsu Province. He graduated from the Nanjing Institute of Posts and Telecommunications in 1983, and has 17 years of experience in the telecommunications industry.

Mr. Liu Ping, our Director since 1999. Mr. Liu is responsible for the mobile telecommunications operations in Fujian Province. He is also the Chairman and President of Fujian Mobile. Mr. Liu previously served as the Deputy Director General of the Fujian Posts and Telecommunications Administration and Director of the Fuzhou Posts and Telecommunications Bureau. He graduated from the Nanjing Institute of Posts and Telecommunications in 1985, and has 23 years of experience in the telecommunications industry.

Mr. Yuan Jianguo, our Director since 1999. Mr. Yuan is responsible for the mobile telecommunications operations in Henan Province. He is also the Chairman and President of Henan Mobile. Mr. Yuan previously served as the Deputy Director General of the Henan Posts and Telecommunications Administration, and as Director and Deputy Director of the Henan Mobile Communications Bureau. He holds a Masters Degree in Economics Law from the Chinese Academy of Social Sciences, and has 30 years of experience in the telecommunications industry.

Mr. Wei Yiping, our Director since 1999. Mr. Wei is responsible for the mobile telecommunications operations in Hainan Province. He is also the Chairman and President of Hainan Mobile. Mr. Wei previously served as the Deputy Director General of the Hainan Posts and Telecommunications Administration, and as Director of the Sanya Posts and Telecommunications Bureau. He graduated from Xi'an Foreign Languages Institute and received a Masters Degree in Political Economics from the Beijing Normal University, and has 30 years of experience in the telecommunications industry.

Professor Arthur Li Kwok Cheung, our Director since 1997. Professor Li is the Vice Chancellor of the Chinese University of Hong Kong, a Director of the Bank of East Asia Limited, a Non-Executive Director and Chairman of the Board of Regal Hotel Group Plc. and a Non-Executive Director of Henderson Cyber Limited. He holds a doctorate degree in medicine from Cambridge University and an honorary doctorate degree in science. He previously served as Board Member of the Hong Kong Hospital Authority and President of the College of Surgeons of Hong Kong. Professor Li was an Advisor on Hong Kong Affairs to the People's Republic of China, a Member of the Basic Law Consultative Committee, a Member of the Preparatory Committee of the Hong Kong Special Administrative Region of the National People's Congress, a Member of the Selection Committee of the First Government of the Hong Kong Special Administrative Region. Professor Li is a Committee Member of the Ninth Annual Chinese People's Political Consultative Conference.

Mr. Chris Gent, our Director since February 2001. Mr. Gent is the Chief Executive of Vodafone Group Plc., the world's largest mobile telecommunications company in terms of subscriber number as of December 31, 2000. Mr. Gent joined the Vodafone Group as Managing Director of Vodafone Limited in 1985 when Vodafone launched its first mobile phone service in the UK, and held the position until December 1996, when he became Group Chief Executive. He is also the Chairman of the supervisory board of Mannesmann AG. Mr. Gent has many years of management experience in the telecommunications industry worldwide.

Dr. Lo Ka Shui, our Director since April 2001. Dr. Lo is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited, as well as an independent non-executive director of The Hongkong and Shanghai Banking Corporation Limited and Shanghai Industrial Holdings Limited. Dr. Lo is also a director of Hong Kong Exchanges and Clearing Limited, the chairman of the Listing Committee of the Growth Enterprise Market, a Vice President of the Real Estate Developers Association of Hong Kong, a member of

the Council of Advisors on Innovation and Technology and the chairman of the Hospital Authority. Dr. Lo has many years of commercial management experience.

COMPENSATION

The aggregate amount of compensation that we paid to our directors and executive officers during 2000 for services performed as directors, officers or employees was approximately RMB 12 million (US$1,449,608).

We have adopted a share option scheme pursuant to which our directors may, at their discretion, invite our employees, including executive directors, or employees of our subsidiaries, to take up options to subscribe for ordinary shares up to a maximum aggregate number of ordinary shares equal to 10% of our total issued share capital. The consideration payable by a participant for the grant of an option under the share option scheme will be HK$1.00. The price for a share payable by a participant upon the exercise of an option will be determined by our directors in their discretion, except that such price may not be set below a minimum price which is the higher of (i) the nominal value of a share and (ii) 80% of the average of the closing prices of ordinary shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant of the option. The period during which an option may be exercised will be determined by the directors in their discretion, except that no option may be exercised later than 10 years after the adoption date of the scheme. During 2000, options for a total of 31,590,000 ordinary shares were granted under the share option scheme to certain of our directors and employees. See "-- Share Ownership" below for details on options granted to our directors.

BOARD PRACTICES

There are three principal committees of the Board: an audit committee, a remuneration committee and a nomination committee.

Audit Committee

The members of our audit committee are Professor Arthur Li Kwok Cheung, as chairman of the committee, and Dr. Lo Ka Shui. The audit committee's major responsibilities include:

- to consider the appointment of external auditor and matters related to the appointment or dismissal;
- to determine the scope of work and terms of engagement of external auditors;
- to review semi-annual and annual financial statements before presenting them to the board;
- to discuss issues raised by our auditor in relation to semi-annual and annual financials;
- to review management letters issued by auditors as well as our response to them;
- to review our policy on internal controls prior to presenting them to the board for signatures; and
- to undertake such other matters as may be determined by the board.

Remuneration Committee

The members of our remuneration committee are Professor Arthur Li Kwok Cheung, as chairman of the committee, and Dr. Lo Ka Shui. The remuneration committee's major responsibilities include:

- to provide recommendation to the board in relation to our compensation system and cost;
- to determine the compensation for executive directors on behalf of our board;
- to determine the terms of termination with respect to the termination of the terms of appointment of any executive director;
- to make recommendation to the board regarding statements on director compensation, if any, in our annual reports; and

-- to make recommendations to the board on whether to invite shareholders in our annual meeting to examine and approve our report on director compensation, if any.

Nomination Committee

The members of our Nomination Committee are Mr. Wang Xiaochu, as chairman of the committee, Professor Arthur Li Kwok Cheung, and Dr. Lo Ka Shui. The nomination committee is responsible, upon requests of the board or the chairman, for considering the appointment and re-appointment of our directors and for providing to the board and the chairman its advice and suggestions.

EMPLOYEES

See "Item 4. Information on the Company -- Business Overview -- Employees."

SHARE OWNERSHIP

As of May 31, 2001, the following directors and those members of our senior management named in the section entitled "Directors and Senior Management" had interests in our share capital:

DIRECTOR	NUMBER OF ADSS	PERCENTAGE OF CLASS
Wang Xiaochu	500	*
Li Zhenqun	100	*
Ding Donghua	500	*

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* Less than 1%.

Under our Memorandum and Articles of Association, our directors and senior management do not have different voting rights when compared to other holders of shares in the same class.

As of May 31, 2001, options exercisable for an aggregate of 14,494,000 shares had been granted to the following directors and those members of our senior management named in the section "Directors and Senior Management" under our share option scheme and were outstanding:

The following options are exercisable at a price of HK$11.10 per share through March 8, 2006.

DIRECTOR	NUMBER OF SHARES COVERED BY OPTIONS
Ding Donghua	2,100,000

The following options are exercisable at a price of HK$33.91 per share through October 7, 2007.

DIRECTOR	NUMBER OF SHARES COVERED BY OPTIONS
Wang Xiaochu	3,900,000
Ding Donghua	1,100,000
Li Gang	1,000,000
He Ning	1,000,000

The following options are exercisable at a price of HK$45.04 per share through October 7, 2007.

DIRECTOR	NUMBER OF SHARES COVERED BY OPTIONS
Wang Xiaochu	200,000
Ding Donghua	200,000
Li Gang	180,000
Xu Long	1,170,000
He Ning	166,000
Liu Ping	1,162,000
Yuan Jianguo	1,160,000
Wei Yiping	1,156,000

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.

MAJOR SHAREHOLDERS

As of May 31, 2001, approximately 75.6% of our outstanding shares were held by China Mobile Hong Kong (BVI) Limited, a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited. China Mobile Communications Corporation, a state-owned company, holds all of the voting shares and economic interest in China Mobile (Hong Kong) Group Limited. No other persons own five percent (5%) or more of our ordinary shares. Between our initial public offering and May 31, 2001, our majority shareholders held, directly or indirectly, between approximately 75% and 76.5% of equity interest in us, except for brief periods following our equity offerings in 1999 and 2000 but before the issuance of consideration shares to our direct shareholder, China Mobile Hong Kong (BVI) Limited, for the related acquisitions, during which periods the shareholding was temporarily lower. See "Item 4. Information on the Company -- Industry Restructuring and Related Change in Our Shareholding Structure" for changes during the past three years with respect to our majority shareholders. Under our Memorandum and Articles of Association, our major shareholders do not have different voting rights when compared to other holders of shares in the same class.

We are not aware of any arrangement which may at a subsequent date result in a change of control over us.

RELATED PARTY TRANSACTIONS

As of May 31, 2001, China Mobile Communications Corporation indirectly owns an aggregate of approximately 75.6% of our issued and outstanding share capital.

We and each of our subsidiaries have entered into various agreements with China Mobile Communications Corporation and other entities under the control of

China Mobile Communications Corporation. The principal terms of the agreements are described below.

Certain charges for the services under these agreements are based on tariffs set by the Chinese regulatory authorities. Those transactions where the charges are not set by Chinese regulatory authorities are based on commercial negotiation between the parties, in each case on an arm's length basis. In this regard, we have the benefit of the undertaking from China Mobile Communications Corporation that to the extent within its control, we will be treated equally with any other mobile communications entities in respect of all approvals, transactions and arrangements between us on the one hand and China Mobile Communications Corporation and other mobile communications operators controlled by China Mobile Communications Corporation on the other hand, as described below under "Undertaking from China Mobile Communications Corporation."

Roaming Arrangements

We offer domestic and international roaming services to our subscribers. In September 1997, in connection with our initial public offering, we entered into domestic roaming arrangements with the mobile communications networks previously controlled by the former Ministry of Posts and Telecommunications.

Those arrangements were replaced by our interconnection and roaming agreement with China Mobile Communications Corporation entered in May 2000, which sets forth the current terms of our domestic roaming arrangements. Under this agreement, with regard to inter-provincial roaming, 80% of the base roaming calling charges payable by a roaming subscriber is credited to the visited network and the remaining 20% is retained by the roaming subscriber's home network. This agreement is valid for two years from April 1, 1999, and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

With regard to international roaming, roaming calling charges incurred by an international mobile phone subscriber making or receiving a call while roaming in our service regions in Mainland China are collected for us and credited to us by China Mobile Communications Corporation, and we will make the necessary settlement with the relevant telecommunications operators in Mainland China. China Mobile Communications Corporation also collects a 15% handling charge on the roaming calling charges from the international mobile communications operators and shares such handling charge equally with us with respect to roaming in calls to our service regions. When our subscribers roam internationally, we will collect the roaming calling charges together with a 15% handling charge from our subscribers and will pay the roaming calling charges together with half of the handling charge collected to China Mobile Communications Corporation, which will make the necessary settlement with the international mobile communications operators concerned.

In addition, China Mobile Communications Corporation provides inter-provincial and international roaming clearing and settlement services. We pay to China Mobile Communications Corporation a roaming call record processing fee of RMB 0.02 for each inter-provincial roaming call record processed and RMB 0.30 for each international roaming call record processed.

Licensing of Trademark

China Mobile Communications Corporation is the owner of the "CHINA MOBILE" name and logo, a registered trademark in Mainland China. In addition, it has filed applications in Hong Kong to register the "CHINA MOBILE" name and logo as a trademark for certain goods and services. In October 1999, we entered into a licensing agreement with China Mobile Communications Corporation for the use of the "CHINA MOBILE" name and logo by us and our operating subsidiaries. Under this agreement, no license fee is payable by us for the first three years from the effective date of the trademark registration in China and any fees payable after that will be no less favorable than fees paid by other affiliates of China Mobile Communications Corporation. China Mobile Communications Corporation may terminate the license agreement if it no longer has any interests in us.

Spectrum Fees

The Ministry of Information Industry and the Ministry of Finance jointly determine the standardized spectrum fees payable to the Ministry of Information Industry by all mobile communications operators in Mainland China, including us. Based on this standardized fee scale, China Mobile Communications Corporation determines the allocation of spectrum usage fees to be paid by each mobile communications operator under its control and the aggregate sum payable to the Ministry of Information Industry. In October 1999, we entered into an agreement with China Mobile Communications Corporation, under which we have been granted the exclusive right to use the frequency spectrum and telephone numbers allocated to us in our service regions. For the usage of the 800/900 MHz and the 1800 MHz frequency bands, the charges will be shared between our operating subsidiaries and China Mobile Communications Corporation's operating subsidiaries. 60% of the charges will be shared on the basis of the number of base stations at the end of the previous year and 40% of such charges will be shared on the basis of the bandwidth of the spectrum used. The agreement is valid for one year and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Sharing of Inter-Provincial Transmission Line Leasing Fees

In May 2000, we entered into an agreement with China Mobile Communications Corporation in relation to the leasing of inter-provincial transmission lines. This agreement is valid for two years from April 1, 1999 and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of its term. More details about the arrangements are described under "Item 5. Operating and Financial Review and Prospects -- Overview of Our Operations -- Our New Operating Arrangements with China Mobile Communications Corporation Have Affected and May Continue to Affect Our Financial Results".

Interconnection Arrangements

Our networks interconnect with the mobile communications networks of China Mobile Communications Corporation in other regions. In May 2000, we entered into an interconnection and roaming agreement with China Mobile Communications Corporation. Under this agreement, with regard to inter-provincial roaming, when the roaming subscriber places a call from a roaming location, the operator of the visited network receives all long distance calling charges, if any, and when the roaming subscriber receives a call at a roaming location, the network operator with whom the subscriber is registered retains all long distance calling charges, if any.

International long distance calling charges incurred by an international mobile phone subscriber making an international long distance call while roaming in the areas in Mainland China where we operate are collected by China Mobile Communications Corporation and are credited to us. We will make the necessary settlement with the relevant telecommunications operators in Mainland China.

China Mobile Communications Corporation also collects a 15% handling charge on such international long distance calling charges from the international mobile communications operators and shares such handling charges equally with us. When our subscribers roam internationally, we will collect the international long distance calling charges, if any, together with a 15% handling charge from our subscribers and will pay the international long distance calling charges together with half of the handling charges to China Mobile Communications Corporation, which will make the necessary settlement with the international mobile communications operators concerned. Where long distance charges cannot be distinguished from base roaming charges, such long distance charges are grouped under roaming charges.

Prepaid Services

Prepaid services allow subscribers to add value to their SIM cards by purchasing value-adding cards from any of our network operators or China Mobile Communications Corporation's other network operators. We have entered into an agreement with China Mobile Communications Corporation regarding the sharing and settlement of revenue when prepaid subscribers purchase value-adding cards from network operators other than their home network operators. This agreement is for a term of one year from July 1, 2000 (the sharing of revenue from prepaid subscribers purchasing value-adding cards from network operators other than their home network operators commenced from February 1, 2000) and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term. The agreement was amended on May 11, 2001 with retroactive effect from April 21, 2001. Under the amended agreement, the mobile network operator in the location that issues the value-adding card remits 95% of the face value of the value-adding card to the subscriber's home network operator, and keeps the remainder as a handling charge. Prior to the amendment, the remittance amount to home network operator was 85% of the face value of the value-adding card.

Platform Development

Aspire Holdings Limited, our 78.6% owned joint venture with Hewlett-Packard Company, entered into a platform development master agreement with each of us and China Mobile Communications Corporation on January 10, 2001. Under the two platform development master agreements, Aspire (or its subsidiaries) will provide the same scope of technology platform development and maintenance services to us and our subsidiaries and to China Mobile Communications Corporation and their respective mobile telecommunica-

tions subsidiaries in various regions in Mainland China. These services include system and gateway integration services, hardware, software and system development (including development of applications), technical support and major overhaul services for a standardized, nation-wide platform for wireless data.

Under the platform development master agreements, we and China Mobile Communications Corporation will each pay Aspire equipment charges, systems integration fees, software licensing fees, technical support fees and/or major overhaul charges, which will be determined according to standards laid down by the relevant governmental departments and/or by reference to market rates.

Property Leasing and Management Services

We lease from other subsidiaries of China Mobile Communications Corporation various properties that are used as office space and for locating our cell sites and switching equipment. In relation to leased properties, the rental payments are determined with reference to market rates. In relation to properties sub-leased by such subsidiaries to the companies that we acquired in November 2000 (which were in turn leased to such subsidiaries by third parties), the rental is equal to the rental payable to such third parties and such subsidiaries do not make any gains as the intermediate lessors. Some of such subsidiaries of China Mobile Communications Corporation also provide property management services in relation to the properties leased or subleased (other than for Tianjin Mobile and Guangxi Mobile). Property management fees are determined with reference to market rates.

The initial terms of such leases and sub-leases range from six months to ten years. The initial terms of such leases and sub-leases to Guangxi Mobile are renewable on an annual basis if Guangxi Mobile gives six months' notice of its intention to renew. Guangxi Mobile is entitled to terminate such leases and sub-leases by giving three months' notice at any time. The initial terms of such leases and sub-leases to Tianjin Mobile are automatically renewable on an annual basis unless terminated by Tianjin Mobile by three months' notice given at any time or by the relevant lessor by giving notice of its intention to terminate three months prior to expiration of the relevant term. The initial terms of such leases and sub-leases to Shanghai Mobile are automatically renewed on an annual basis unless terminated by Shanghai Mobile by three months' notice given at any time or in relation to sub-leases terminated by the relevant lessor by giving three months' notice prior to the expiration of the relevant term. In relation to the our other subsidiaries, the relevant lease terms and (subject to the relevant head lease being valid or renewable for the extended term) sub-lease terms will be automatically renewed on an annual basis unless terminated by the relevant companies with three months' notice given at any time and, in relation to sub-leased properties, the relevant lessor may also terminate by giving three months' notice prior to the expiration of the relevant term. Beijing Mobile also leases certain properties and provides property management services to a subsidiary of China Mobile Communications Corporation for an initial term of one year and on terms substantially similar to those set out above in this paragraph.

Construction and Related Services

Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile entered into agreements with certain subsidiaries of China Mobile Communications Corporation under which such subsidiaries provide services such as construction, design, equipment installation, testing and/or maintenance services and or act as general contractors in relation to construction and other projects of our subsidiaries. Such agreements are for terms of between six months and 16 months, which will be automatically renewed on an annual basis unless either party (in the case of Shandong Mobile, Shanghai Mobile and Beijing Mobile) or Liaoning Mobile (in the case of Liaoning Mobile) notifies the other in writing at least three months prior to the expiration of the term of its intention to terminate the arrangement. Beijing Mobile had also previously entered into other agreements for the provision of certain construction and related services which will continue to be performed according to their terms after Beijing Mobile was acquired by us in November 2000. The charges payable for services rendered under such agreements are determined according to standards laid down by relevant governmental departments and/or by reference to market rates.

Equipment Maintenance and Related Services

Beijing Mobile, Shanghai Mobile and Liaoning Mobile entered into agreements with certain subsidiaries of China Mobile Communications Corporation under which such subsidiaries provide equipment maintenance and related services to such companies. Such agreements are for terms of between six months and 15 months, which will be automatically renewed on an annual basis unless either party (in case of Beijing Mobile) or Shanghai Mobile or Liaoning Mobile (in the case of Shanghai Mobile and Liaoning Mobile, respectively) notifies the other of its intention to terminate in writing at least three months prior to the expiration of the term. Beijing Mobile had also previously entered into another agreement for the provision of certain equipment maintenance services which will continue to be performed according to its terms after the acquisition. The charges payable for services rendered under such agreements are determined according to standards laid down by relevant governmental departments and/or by reference to market rates.

Transmission Tower Production, Sales and Other Services and Antenna Maintenance Services

Hebei Mobile entered into an agreement with a subsidiary of China Mobile Communications Corporation under which such subsidiary provides transmission tower design, production, installation and maintenance services and antenna maintenance services to Hebei Mobile, and sells transmission towers and spare parts to Hebei Mobile. The initial term of this agreement is for one year from August 1, 2000 to July 30, 2001. This agreement will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate in writing at least three months prior to the expiration of the term. The price of such transmission towers and spare parts and the charges payable for services rendered under this agreement are determined according to standards laid down by relevant governmental departments and/or by reference to market rates.

Collection Services and Sales Arrangements

Henan Mobile entered into an agreement with a subsidiary of China Mobile Communications Corporation in August 1999 in respect of the provision by the China Mobile Communications Corporation subsidiary of certain payment collection services to Henan Mobile. The collection service charges payable by Henan Mobile amount to 1% of collections.

In addition, Henan Mobile also entered into a sales service agreement with a subsidiary of China Mobile Communications Corporation in August 1999 pursuant to which the China Mobile Communications Corporation subsidiary has agreed to market through its outlets Henan Mobile's mobile phone services. The maximum sales service charges of RMB 250 per subscriber are based on commercial negotiation on an arm's-length basis by reference to the prevailing market rates.

Miscellaneous

The transactions entered into by us (including our subsidiaries) have been entered into in the ordinary course of business and on normal commercial terms. Under the Listing Rules of the Hong Kong Stock Exchange, these transactions are considered to be "connected transactions" and would normally require full disclosure and prior independent shareholders' approval on each occasion they arise. As the transactions are expected to be continued in the normal course of business, our directors consider that such disclosure and approval would be impractical. Accordingly, our directors have requested the Hong Kong Stock Exchange to grant, and the Hong Kong Stock Exchange has granted, a waiver from compliance with the normal approval and disclosure requirements related to connected transactions under the Listing Rules, which will be effective until December 31, 2004, except that the waivers for transactions relating to prepaid services and platform development will expire on December 31, 2003, upon the following conditions as applicable:

(a) the transactions as well as the respective agreements governing such transactions will be (A) entered into in the ordinary and usual course of business on terms that are fair and reasonable so far as our independent shareholders are concerned, and (B) on normal commercial terms and in accordance with the terms of the agreements governing such transactions;

(b) details of the transactions, as required by rule 14.25(1)(A) to (D) of the Listing Rules, shall be disclosed in our annual report;

(c) our independent non-executive directors shall review annually the transactions and confirm in our annual report and accounts for the relevant year that the transactions have been conducted in the manner stated in paragraph (a) above and within the upper limits stated below;

(d) our auditors shall review annually the transactions and provide our directors with a letter, details of which will be set out in our annual accounts, stating that the transactions:

- -- received the approval of our board of directors;
- -- are in accordance with the pricing policies as stated in our annual report;
- -- have been conducted in the manner as stated in (a)(B) above; and
- -- the upper limits as set forth in paragraph (g) below have not been exceeded.

(e) details of the transactions are disclosed to our independent shareholders who shall have voted in favor of an ordinary resolution to approve the connected transactions and the upper limits set out below at our extraordinary general meeting; and

(f) China Mobile Communications Corporation has undertaken to us that our auditors will be granted access to such of its and its associates' accounting records for the purposes of reviewing the transactions mentioned above.

(g) with respect to the following types of transactions entered into and to be entered into by us, the waiver was applied for and granted under the additional condition that they shall not exceed the relevant upper limits set out below in each of our fiscal years:

- -- payments by us to subsidiaries of China Mobile Communications Corporation for collection service charges in any fiscal year shall not exceed 0.1% of our consolidated operating revenue in such year, and payment by us to subsidiaries of China Mobile Communications Corporation for sales service charges in any fiscal year shall not exceed 0.3% of our consolidated operating revenue in such year;
- -- payments by us to subsidiaries of China Mobile Communications Corporation for rental and property management fees in any fiscal year shall not exceed 0.56% of our consolidated turnover of such fiscal year;
- -- payments by us to subsidiaries of China Mobile Communications Corporation for construction and related services in any fiscal year shall not exceed 0.25% of our consolidated total operating revenue in such year;
- -- payments by us to subsidiaries of China Mobile Communications Corporation for equipment maintenance and related services in any

fiscal year shall not exceed 0.05% of our consolidated total operating revenue in such year;

-- payments by Hebei Mobile to the relevant subsidiary of China Mobile Communications Corporation for purchase of transmission towers and transmission tower-related services and antenna maintenance services in any fiscal year shall not exceed 0.06% of our consolidated total operating revenue in such year;

-- handling charges received by us from subsidiaries of China Mobile Communications Corporation in respect of prepaid services in any fiscal year shall not exceed 2% of our consolidated total operating revenue in such year, and handling charges paid by us to subsidiaries of China Mobile Communications Corporation in respect of prepaid services in any fiscal year shall not exceed 2% of our total operating revenue in such year; and

-- payments by each of us and China Mobile Communications corporation to Aspire in respect of equipment charges, system integration fees, software licensing fees, technical support fees and/or

major overhaul charges for mobile Internet service platform in any fiscal year shall not exceed 3% of our consolidated net tangible assets as of the end of such year.

Our independent shareholders approved the connected transactions and the related upper limits at our extraordinary general meeting held on June 12, 2001.

Undertaking from China Mobile Communications Corporation

China Mobile Communications Corporation has undertaken that:

-- it will extend its full support to our present operations and future development;

-- we will be the only mobile communications services company operating in Mainland China under China Mobile Communications Corporation's control that will be listed on any securities exchange in Hong Kong or outside China;

-- to the extent within China Mobile Communications Corporation's control, we will be treated equally with any other mobile communications operators in respect of all approvals, transactions and arrangements between us and China Mobile Communications Corporation and other mobile communications entities controlled by China Mobile Communications Corporation;

-- China Mobile Communications Corporation and the provincial entities under its control will not, directly or indirectly, participate in the operation of any mobile communications services in any province in which we currently operate or may operate in the future; and

-- in the provinces in which we operate, we will have the option to operate additional communications services that fall within China Mobile Communications Corporation's scope of business (including the testing and commercial operation of services using new technologies such as third generation mobile communications technologies), and we will have the right to acquire China Mobile Communications Corporation's interest in such services.

ITEM 8. FINANCIAL INFORMATION.

CONSOLIDATED FINANCIAL STATEMENTS

Our audited consolidated financial statements are set forth beginning on Page F-1.

LEGAL PROCEEDING

We are not involved in any material litigation, arbitration or administrative proceedings, and, so far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

POLICY ON DIVIDEND DISTRIBUTIONS

Our board of directors did not recommend the payment of a dividend for the year ended December 31, 2000. As we are experiencing a period of rapid growth, the board deems it desirable that capital be retained for additional investment, network expansion and optimization, as well as potential acquisition of quality assets. We have not declared or paid any dividends since our incorporation in September 1997.

ITEM 9. THE OFFER AND LISTING.

In connection with our initial public offering, our American depositary shares, or ADSs, each representing twenty ordinary shares, were listed and commenced trading on the New York Stock Exchange on October 22, 1997 under the symbol "CHL". Effective from July 5, 2000, our ADS-to-share ratio has been changed to one-to-five. Our shares were listed and commenced trading on the Hong Kong Stock Exchange on October 23, 1997. Prior to these listings, there was no public market for our equity securities. The New York Stock Exchange and the Hong Kong Stock Exchange are the principal trading markets for our ADSs and ordinary shares, which are not listed on any other exchanges in or outside the United States.

As of December 31, 2000 and May 31, 2001, there were, respectively, 18,605,312,241 and 18,605,348,241 ordinary shares issued and outstanding. As of December 31, 2000 and May 31, 2001, there were, respectively, 103 and 100 registered holders of American depositary receipts evidencing 121,711,883 and 103,801,911 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depositary of the ADSs is The Bank of New York.

The high and low closing sale prices of the shares on the Hong Kong Stock Exchange and of the ADSs on the NYSE for the periods indicated are as follows. The information for periods prior to July 2000 have been restated to reflect the change in our ADS-to-share ratio from one-to-twenty to one-to-five, which became effective on July 5, 2000:

	PRICE PER SHARE (HK$)		PRICE PER ADS (US$)	
	HIGH	LOW	HIGH	LOW

1997				
Fourth Quarter	14.40	10.55	9.50	6.91
1998				
First Quarter	16.25	10.30	10.66	6.91
Second Quarter	16.15	11.40	10.42	7.53
Third Quarter	13.70	8.90	9.00	5.73
Fourth Quarter	15.90	11.65	10.23	7.19
1999				
First Quarter	15.50	12.60	10.00	8.09
Second Quarter	22.45	13.05	14.39	8.55
Third Quarter	26.70	21.00	17.16	13.56
Fourth Quarter	48.60	24.00	32.16	15.38
2000				
First Quarter	79.00	41.70	50.73	27.41
Second Quarter	72.25	47.90	46.91	30.80
Third Quarter	75.75	47.20	48.94	31.63
Fourth Quarter	59.00	40.30	37.38	25.94
2001				
First Quarter	50.50	33.30	33.00	21.45
Second Quarter (through May 31)	41.80	29.70	26.51	19.50
December 2000	48.20	41.40	31.25	26.25
January 2001	49.90	40.70	33.00	26.25
February 2001	50.50	42.20	32.60	26.58
March 2001	40.10	33.30	24.68	21.45
April 2001	38.90	29.70	25.35	19.50
May 2001 (through May 31)	41.80	37.20	26.51	23.50

ITEM 10. ADDITIONAL INFORMATION.

MEMORANDUM AND ARTICLES OF ASSOCIATION

Under Section 3 of our Memorandum of Association, we have the capacity and the rights, powers and privileges of a natural person and, in addition and without limit, we may do anything which it is permitted or required to do by any enactment or rule of law.

Directors

Material Interests. A director who is in any way directly or indirectly interested in a contract or proposed contract with us shall declare the nature of his interest in accordance with the provisions of the Companies Ordinance (Chapter 32) of Hong Kong. A director shall not vote, or be counted in the quorum, on

any resolution of the board in respect of any contract or arrangement or proposal in which he is, to his knowledge, materially interested, and if he shall do so his vote shall not be counted or counted in the quorum for that resolution. The above prohibition shall not apply to any contract, arrangement or proposal:

-- for the giving by us of any security or indemnity to the director in respect of money lent or obligations incurred or undertaken by him at the request of, or for, our or any of our subsidiaries' benefit;

-- for the giving by us of any security to a third party in respect of our or any of our subsidiaries' debt or obligation for which the director has himself assumed responsibility or guaranteed or secured in whole or in part whether alone or jointly;

-- concerning an offer of the shares or debentures or other securities of or by us or any other company which we may promote or be interested in for subscription or purchase where the director is, or is to be, interested as a participant in the underwriting or sub-underwriting of the offer;

-- in which the director is interested in the same manner as other holders of our shares or debentures or other securities by virtue only of his interest in our shares or debentures or other securities;

-- concerning any other company in which the director is interested, directly or indirectly, as an officer or a shareholder or in which the director is beneficially interested in shares of that company other than a company in which the director, together with any of his associates, is beneficially interested in five percent or more of the issued share of any class of the equity share capital of such company (or of any third company through which his interest is derived) or of the voting rights;

-- for the benefit of our or any of our subsidiaries' employees, including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme which relates to both our, or any of our subsidiaries', directors and employees and does not give the director any privilege not generally accorded to the class of persons to whom such scheme or fund relates; and

-- concerning the adoption, modification or operation of any employees' share scheme involving the issue or grant of options over shares or other securities by us to, or for the benefit of, our or any of our subsidiaries' employees under which the director may benefit.

Compensation and Pension. The directors are entitled to receive by way of remuneration for their services such sum as we may determine from time to time in general meeting. The directors are also entitled to be repaid their reasonable traveling, hotel and other expenses incurred by them in or about the performance of their duties as directors. The directors may award special remuneration out of our funds, by way of salary, commission or otherwise as the directors may determine, to any director who performs services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director.

The board may establish and maintain any contributory or non-contributory pension or superannuation funds for the benefit of, or give donations, gratuities, pensions, allowances or emoluments to any persons (A) who are or were at any time in employment or service of our company (or any of our subsidiaries) or is allied or associated with us or any of our subsidiaries, or (B) who are or were at any time our (or any of our subsidiaries') directors or officers, and holding or who have held any salaried employment or office in our company or any of our subsidiaries, and the wives, widows, families and dependants of any of these persons. Any director holding any such employment or office is entitled to participate in, and retain for his own benefit, any such donation, gratuity, pension, allowance or emolument.

Borrowing Powers. The directors may exercise all the powers of our company to borrow money and to mortgage or charge all or any part of our undertaking, property and assets (present and future) and uncalled capital and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for the debt, liability or obligation of our company or any third party.

Qualification; Retirement. A director need not hold any of our shares to qualify as a director. There is no age limit requirement for a director's retirement or non-retirement.

At each annual general meeting, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation except for

any director holding office as chairman or chief executive officer. The directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became directors on the same day shall be determined by lot unless they otherwise agree between themselves. The retiring directors shall be eligible for re-election.

Rights Attaching to Ordinary Shares

The section entitled "Description of Share Capital" in our Registration Statement on Form F-3 (File No. 333-47256), filed with the Securities and Exchange Commission on October 30, 2000, is incorporated in this annual report by reference.

Pursuant to ordinary resolutions passed at our extraordinary general meeting held on November 10, 2000, our authorized share capital was increased, by the creation of an additional 14,000,000,000 ordinary shares of HK$0.10 each, which rank pari passu with the existing ordinary shares, to a total of HK$3,000,000,000 divided into 30,000,000,000 ordinary shares.

Annual General Meetings and Extraordinary General Meetings

We must hold, in each year, a general meeting as our annual general meeting in addition to any other meetings in that year. The annual general meeting must be held at such time (which shall be within a period of not more than fifteen months, or such longer period as the Registrar of Companies may authorize in writing, after the holding of the last preceding annual general meeting) and place as may be determined by the directors. All other general meetings are extraordinary meetings. The directors may proceed to convene an extraordinary general meeting whenever they think fit, in accordance with the Companies Ordinance.

In general, an annual general meeting and a meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing, and any other general meeting shall be called by not less than 14 days' notice in writing. The notice must specify the place, date and time of the meeting and, in the case of special business, the general nature of that business.

Miscellaneous

We keep our share register with our share registrar, which is Hong Kong Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, China. In addition, we also file certain documents with the Registrar of Companies, Hong Kong, China, in accordance with the requirements of the Companies Ordinance (Chapter 32) of Hong Kong, and our company number is 622909.

MATERIAL CONTRACTS

See "Item 7. Major Shareholders and Related Party Transactions -- Related Party Transactions" for certain arrangements we have entered into with China Mobile Communications Corporation.

In addition, in the ordinary course of our business, we have entered into the following agreements with China Telecommunications Corporation or its subsidiaries.

Interconnection Arrangements

Each of our operating subsidiaries has entered into an interconnection agreement with the subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area. A majority of calls on our networks involve interconnection with China Telecommunications Corporation's fixed line network. The economic terms of the interconnection arrangements are described under "Item 4. Information on the Company -- Interconnection." Each of these agreements is valid for one year from various dates between October 1, 1999 and August 10, 2000, and will be renewed automatically on an annual basis (in the case of Jiangsu Mobile, to be renewed automatically for another year) unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Leasing of Intra-Provincial or Local Transmission Lines

Each of our operating subsidiaries leases certain transmission lines from the relevant subsidiary of China Telecommunications Corporation in its network area in order to link our base transceiver stations, base station controllers and mobile switching centers and to interconnect our network to the fixed line networks of China Telecommunications Corporation and the mobile communications networks of other operators. The agreement is valid for ten years and two months from October 20, 1997 in the case of Guangdong Mobile, three years from January 1, 2000 in the case of Zhejiang Mobile and eight years from July 1, 1999 in the case of Jiangsu Mobile. Each of the remaining agreements is valid for one year from various dates between January 1 and August 10, 2000. On the expiration of the initial term, the agreement in respect of Guangdong Mobile will be renewed automatically for another ten years (unless either party notifies the other of its intention to terminate at least six months prior to the expiration of the term), the agreement in respect of Zhejiang Mobile will be renewable subject to agreement by the parties and the agreement in respect of Jiangsu Mobile will be renewed automatically for another year (unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term), and each of the other agreements will be renewed automatically on an annual basis (unless either party notified the other of its intention to terminate at least three months prior to the expiration of the term).

Leasing of Synchronized Clock Ports

Each of Zhejiang Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile leases synchronized clock ports from the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area. The synchronized clocks ensure both the mobile and the fixed line networks run simultaneously. Each of these agreements, with the exception of Zhejiang Mobile, provides for an annual lease payment of RMB 25,000 per clock port and is valid for one year from various dates between January 1 and August 10, 2000, and will be renewed automatically on an annual basis unless either party notified the other of its intention to terminate at least three months prior to the expiration of the term. The Zhejiang Mobile agreement provides for an annual lease payment of RMB 24,000 per clock port and is valid from October 1, 1999 to December 31, 2002 and will be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Account Processing Services

Shanghai Mobile has entered into an account processing service agreement with the subsidiary of China Telecommunications Corporation in Shanghai, under which the China Telecommunications Corporation subsidiary in Shanghai provides bill processing and mailing services to Shanghai Mobile. The agreement is valid for one year from August 10, 2000 and will be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term. The monthly service fee payable by Shanghai Mobile is RMB 0.86 per mobile phone number.

Collection Services

Zhejiang Mobile, Jiangsu Mobile, Henan Mobile, Beijing Mobile, Shanghai Mobile, Hebei Mobile, Liaoning Mobile and Shandong Mobile handle their own payment collection. Each of Guangdong Mobile, Fujian Mobile, Hainan Mobile, Tianjin Mobile and Guangxi Mobile has entered into a service agreement with the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area, under which the fixed line operator provides certain payment collection services to the mobile communications operator. In the case of Guangdong Mobile, it is required to pay market price for the service, and the term of the agreement is three years from October 20, 1997. In the case of Fujian Mobile and Hainan Mobile, the service fee payable is RMB 0.01 for each RMB 1.00 collected, and the term of the agreement is one year from January 1, 2000 and April 2, 2000, respectively. In the case of Tianjin Mobile and Guangxi Mobile, the service fee payable is RMB 0.0075 and RMB 0.01, respectively, for each RMB 1.00 collected, and the term of the agreement is one year from August 10, 2000. Each of the agreements will be renewed

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automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term, except in the case of Guangdong Mobile, the lease is terminable at any time by Guangdong Mobile upon six months' prior notice.

Distribution and Marketing Arrangements

Each of our operating subsidiaries (except Guangdong Mobile) markets and sells its mobile communications services in part through authorized dealers under the control of the relevant subsidiary of China Telecommunications Corporation in its network area. In the case of Zhejiang Mobile and Jiangsu Mobile, the commission payable is RMB 300 per new contract subscriber acquired. In the case of Fujian Mobile, the commission payable is an amount not lower than the commission paid to authorized dealers not affiliated with China Telecommunications Corporation. In the case of Henan Mobile, the commission payable is RMB 250 per new contract subscriber acquired; and an agency fee equal to 5% of the total sales value of all prepaid card sales. In the case of Hainan Mobile, the commission payable is RMB 250 (for bulk sales) or RMB 150 (for retail sales) per new contract subscriber acquired, and an agency fee equal to 5% (for bulk sales) or 4% (for retail sales) of the total sales values of all prepaid card sales. The agreement for Zhejiang Mobile has a term of one year and three months from October 1, 1999, the agreement for Jiangsu Mobile has a term of five years from January 1, 1998, and each of the other agreements have a term of one year from January 1, 2000 (for Fujian Mobile and Henan Mobile) or April 2, 2000 (for Hainan Mobile). The agreements with Zhejiang Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile are renewable upon mutual agreement. The agreement with Jiangsu Mobile is to be renewed automatically for an additional year unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Guangxi Mobile markets its mobile communications services in part through authorized dealers under the control of China Telecommunications Corporation under an agency agreement with the fixed line operator in Guangxi. The commission payable is RMB 200 (for bulk sales) or RMB 100 (for retail sales) per new contract subscriber acquired, RMB 40 (for bulk sales) or RMB 20 (for retail sales) per prepaid card subscriber acquired, plus a service fee equal to 12% (for bulk sales) or 10% (for retail sales) of the total sales values of all prepaid card sales. The initial term of the agreement is from August 8, 2000 to December 31, 2000, to be renewed automatically for an additional year unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Equipment Maintenance Services

Each of Fujian Mobile, Beijing Mobile, Tianjin Mobile and Guangxi Mobile has entered into an equipment maintenance service agreement with the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area, under which the fixed line operator provides maintenance services for the operating equipment of the mobile communications operator. In the case of Fujian Mobile, the annual service fee is 1% of the total book value of equipment maintained, and the term of the agreement is one year from January 1, 2000, and will be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term. In the case of Beijing Mobile, the annual service fee is 0.3% of the total book value of equipment maintained, and the initial term of the agreement is one year from August 8, 2000, and will be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term. In the case of Tianjin Mobile and Guangxi Mobile, the annual service fee is the rate set by the Chinese government, or if there is no such rate, the rate agreed by the parties, and the term of the agreement is one year from August 10, 2000, and will be renewed automatically on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

Leasing of Offices and Sites for Network Equipment

Each of our operating subsidiaries has leased certain premises from the relevant subsidiary of China Telecommunications Corporation that operates the fixed line network in its network area for use as offices, retail outlets, warehouses and sites for locating equipment. Each of Fujian Mobile, Beijing Mobile, Shanghai

Mobile and Tianjin Mobile also leases to the fixed line operator in Fujian, Beijing, Shanghai and Tianjin, respectively, certain properties under similar terms.

EXCHANGE CONTROLS

The Renminbi currently is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of Renminbi into foreign currency. Prior to January 1, 1994, Renminbi could be converted to foreign currency through the Bank of China or other authorized institutions at official rates fixed daily by the State Administration of Foreign Exchange. Renminbi could also be converted at swap centers open to Chinese enterprises and foreign invested enterprises, subject to State Administration of Foreign Exchange approval of each foreign currency trade, at exchange rates negotiated by the parties for each transaction. In the year ended December 31, 1993, as much as 80% by value of all foreign exchange transactions in China took place through the swap centers. The exchange rate quoted by the Bank of China differed substantially from that available in the swap centers. Effective January 1, 1994, a unitary exchange rate system was introduced in China, replacing the dual-rate system previously in effect. In connection with the creation of a unitary exchange system, the China Foreign Exchange Trading System inter-bank foreign exchange market was established. Under the unitary foreign exchange system, People's Bank of China sets daily exchange rates for conversion of Renminbi into U.S. dollars and other currencies based on the China Foreign Exchange Trading System interbank market rates, and the Bank of China and other authorized banks may engage in foreign exchange transactions at rates that vary within a prescribed range above or below rates set by the People's Bank of China.

In the event of shortages of foreign currencies, China Mobile may be unable to convert sufficient Renminbi into foreign currency to meet its foreign currency obligations or to pay dividends in foreign currency.

The value of the Renminbi is subject to changes in Chinese government policies and to international economic and political developments. During the few years prior to 1994, the Renminbi experienced a devaluation against most major currencies, and a devaluation of approximately 50% of the Renminbi against the U.S. dollar occurred on January 3, 1994 in connection with the adoption of the new unitary exchange rate system. Since 1994, the official exchange rate for the conversion of Renminbi to U.S. dollars has been stable, and the Renminbi has appreciated slightly against the U.S. dollars. Any future devaluation of the Renminbi would increase our effective cost of foreign manufactured equipment or components, and of satisfying any other foreign currency denominated liabilities. In addition, any such devaluation would reduce the U.S. dollar value of any dividends declared in Renminbi. During 1999 and 2000, the Renminbi has remained stable against the U.S. dollar. The Chinese government has indicated on several occasions that it would not allow the Renminbi to devalue in 2001.

There are no limitations on the right of non-resident or foreign owners to remit dividends or to hold or vote the ordinary shares or the ADSs imposed by Hong Kong law or by our memorandum and articles of association or other constituent documents.

TAXATION -- HONG KONG

The taxation of income and capital gains of holders of ordinary shares or ADSs is subject to the laws and practices of Hong Kong and of jurisdictions in which holders of ordinary shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions under Hong Kong law is based on current law and practice, is subject to changes therein and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the ordinary shares or ADSs. Accordingly, each prospective investor (particularly those subject to special tax rules, such as banks, dealers, insurance companies, tax-exempt entities and holders of 10% or more of our voting capital stock) should consult its own tax adviser regarding the tax consequences of an investment in the ordinary shares and ADSs. The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

Tax on Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us unless such dividends are attributable to a trade, profession or business carried on in Hong Kong.

Profits Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the ordinary shares and ADSs). Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax which is currently imposed at the rate of 16% on corporations and at a maximum rate of 15% on individuals. Gains from sales of the ordinary shares effected on the Hong Kong Stock Exchange may be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax may thus arise in respect of trading gains from sales of ordinary shares or ADSs realized by persons carrying on a business or trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the rate of HK$1.125 per HK$1,000 or part thereof on the higher of the consideration for or the value of the ordinary shares, will be payable by the purchaser on every purchase and by the seller on every sale of ordinary shares (i.e., a total of HK$2.25 per HK$1,000 or part thereof is currently payable on a typical sale and purchase transaction involving ordinary shares). In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of ordinary shares. The withdrawal of ordinary shares upon the surrender of ADSs, and the issuance of ADSs upon the deposit of ordinary shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless the withdrawal or deposit does not result in a change in the beneficial ownership of the ordinary shares under Hong Kong law, in which case only a fixed duty of HK$5 is payable on the transfer. The issuance of the ADSs upon the deposit of ordinary shares issued directly to the depositary or for the account of the depositary does not attract stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

The ordinary shares are Hong Kong property under Hong Kong law, and accordingly such ordinary shares may be subject to estate duty on the death of the beneficial owner of the ordinary shares (regardless of the place of the owner's residence, citizenship or domicile). Hong Kong estate duty is imposed on a progressive scale from 5% to 15%. The rate of and the threshold for estate duty has, in the past, been adjusted on a fairly regular basis. No estate duty is payable when the aggregate value of the dutiable estate does not exceed HK$7.5 million, and the maximum rate of duty of 15% applies when the aggregate value of the dutiable estate exceeds HK$10.5 million.

TAXATION -- U.S.

United States Federal Income Taxation

This section describes the material United States federal income tax consequences of the purchase, ownership and disposition of our shares. This section applies to you only if you hold your shares as capital assets for United States federal income tax purposes. This section does not discuss special rules that may apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;

-- a tax-exempt organization;

-- a life insurance company;

-- a person liable for alternative minimum tax;

-- a person that actually or constructively owns 10% or more of our voting stock;

-- a person that holds shares as part of a straddle or a hedging or conversion transaction; or

-- a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of shares and you are:

-- a citizen or resident of the United States;

-- a corporation, partnership or other entity organized under the laws of the United States or any state thereof;

-- an estate whose income is subject to United States federal income tax regardless of its source; or

-- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

A "non-U.S. holder" is a beneficial owner of shares that is not a U.S. holder.

You should consult your own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of shares and in your particular circumstances.

This discussion addresses only United States federal income taxation.

Taxation of Dividends

Subject to the passive foreign investment company rules discussed below, if you are a U.S. holder, you must include in your gross income the gross amount of any dividend paid by us out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes). The dividend is ordinary income that you must include in income when you receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income will be the U.S. dollar value of the Hong Kong dollar payments made, determined at the "spot rate" on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars.

Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss. This gain or loss generally will be from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits (as determined for United States federal income tax purposes) will be treated as a non-taxable return of capital to the extent of your basis in the shares and thereafter as capital gain.

Subject to certain limitations, the Hong Kong tax withheld and paid over to Hong Kong will be creditable against your United States federal income tax liability. Dividends will be income from sources outside the United States, but generally will be "passive income" or "financial services income" which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

Subject to the passive foreign investment company rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your shares, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax

basis, determined in U.S. dollars, in your shares. Capital gain of a noncorporate U.S. holder is generally taxed at a maximum rate of 20% where the property is held more than one year, and 18% where the property is held for more than five years. The deductibility of capital losses is subject to limitations. The gain or loss will generally be from sources within the United States for foreign tax credit limitation purposes.

PFIC Rules

We believe that shares should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our shares:

-- at least 75% of our gross income for the taxable year is passive income or

-- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC, and you are a U.S. holder that did not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

-- any gain you realize on the sale or other disposition of your shares or ADSs and

-- any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the shares during the three preceding taxable years or, if shorter, your holding period for the shares).

Under these rules:

-- the gain or excess distribution will be allocated ratably over your holding period for the shares,

-- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income,

-- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and

-- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

If you own shares in a PFIC that are treated as marketable stock, you may also make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your shares at the end of the taxable year over your adjusted basis in your shares. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the shares will be adjusted to reflect any such income or loss amounts.

If you own shares during any year that we are a PFIC, you must file Internal Revenue Service Form 8621.

DOCUMENTS ON DISPLAY

You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the U.S. Securities and Exchange Commission at the SEC's public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges.

The SEC allows us to "incorporate by reference" the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are subject to market rate risks due to fluctuations in interest rates. The majority of our debt is in the form of long-term, fixed- and variable-rate bank and other loans with original maturities ranging from one to five years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of these debt instruments. From time to time, we may enter into interest rate swap agreements designed to mitigate our exposure to interest rate risks, although we did not consider it necessary to do so in 2000.

We are also exposed to foreign currency risk as a result of our telecommunications equipment being sourced substantially from overseas suppliers. Specifically, our foreign currency exposure relates primarily to our foreign currency-denominated short- and long-term debt, our firm purchase commitments and, to a limited extent, cash and cash equivalents denominated in foreign currencies. We may, from time to time, enter into currency swap agreements and foreign exchange forward contracts designed to mitigate our exposure to foreign currency risks, although we did not consider this to be necessary in 2000. Our foreign currency hedging activity generally is expected to be limited to hedging of specific future commitments and long-term debt denominated in foreign currencies.

The following table provides information regarding our interest rate-sensitive financial instruments, which consist of fixed and variable rate short-term and long-term debt obligations, as of December 31, 2000 and 1999.

	EXPECTED MATURITY DATE						A DECEM 2
	2001	2002	2003	2004	2005	THERE-AFTER	TOTAL RECORDE AMOUNT
	(RMB EQUIVALENT IN MILLIONS, EXCEPT INT						
Debt:							
Fixed rate bank and other loans.......	8,321	3,646	1,127	1,364	102	70	14,630
Average interest rate................	5.34%	5.84%	6.11%	6.04%	5.33%	5.18%	5.59
Variable rate bank and other loans....	2,150	1,637	4,527	--	--	--	8,314
Average interest rate................	6.33%	6.05%	5.43%	--	--	--	5.79

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* The interest rates for variable rate bank and other loans are calculated based on the year-end indices.

The following table provides information regarding our foreign currency-sensitive financial instruments and transactions, which consist of cash and cash equivalents, short- and long-term debt obligations and capital commitments as of December 31, 2000 and 1999.

	2001	2002	2003	2004	2005	THERE-AFTER	AS DECEMB 20 TOTAL RECORDED AMOUNT
	(RMB EQUIVALENT IN MILLIONS, EXCEPT INT						
ON-BALANCE SHEET FINANCIAL INSTRUMENTS:							
Cash and cash equivalents:							

in U.S. dollars........................	3,788	--	--	--	--	--	3,788
in Hong Kong dollars...................	1,288	--	--	--	--	--	1,288
Debt:							
Fixed rate bank and other loans (U.S. dollar)..............................	113	165	166	82	--	--	526
Average interest rate...................	7.50%	7.50%	7.50%	7.50%	--	--	7.50%
Variable rate bank and other loans (U.S. dollar)..............................	195	79	--	--	--	--	274
Average interest rate...................	7.65%	7.75%	--	--	--	--	7.68%
Off-balance sheet commitments							
Capital commitments authorized and contracted for in U.S. dollars........	3,526	--	--	--	--	--	3,526

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* The interest rates for variable rate bank and other loans are calculated based on the year-end indices.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.

Not Applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHT OF SECURITY HOLDERS AND USE OF PROCEEDS.

The following use of proceeds information relates to our registration statement on Form F-1 (File No. 333-7634), filed by us in connection with our initial public offering. The registration statement became effective on October 15, 1997.

As of December 31, 1999, the balance of net proceeds from the above referenced offering was RMB 3,953 million (approximately US$477 million). In 2000, approximately RMB 2,365 million (approximately US$285 million) of this amount was paid to China Mobile Hong Kong (BVI) Limited, our direct parent company, as part of the purchase price for our acquisition of seven regional mobile communications companies in Mainland China in November 2000. The rest of the amount was applied to fund the development and expansion of our mobile communications networks in our service regions in Mainland China. None of the network related payments were direct or indirect payments to our directors, officers and general partners or their associates, persons owning 10% or more of our ordinary shares, or our affiliates. As of December 31, 2000, all of the net proceeds had been applied.

ITEM 15. [RESERVED].

ITEM 16. [RESERVED].

PART III

ITEM 17. FINANCIAL STATEMENTS.

The Company has elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

ITEM 18. FINANCIAL STATEMENTS.

The following financial statements are filed as part of this annual report.

CHINA MOBILE (HONG KONG) LIMITED:

ITEM 19. EXHIBITS.

(a) See Item 18 for a list of the financial statements filed as part of this annual report.

(b) Exhibits to this annual report:

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
1.1	--	Memorandum and Articles of Association (as amended).
2.1	--	Agreement concerning the provision of the documents relating to Renminbi denominated bonds issued by Guangdong Mobile.
2.2	--	Guarantee from China Mobile Communications Corporation for the RMB 5 billion guaranteed bonds due in 2011 issued by Guangdong Mobile.
4.1	--	Agreement Regarding Provincial Network Interconnection, Roaming and Settlement of Account, dated October 8, 1999, between China Telecom (Hong Kong) Limited and China Mobile (Hong Kong) Limited.(2)
4.2	--	Agreement Regarding the Use of Frequency/Number Resources, dated October 8, 1999, between China Telecom (Hong Kong) Limited and China Mobile (Hong Kong) Limited.(2)
4.3	--	Agreement on Trademark Use, dated October 8, 1999, between China Telecom (Hong Kong) Limited and China Mobile (Hong Kong) Limited.(2)
4.4	--	Supplemental Agreement to Trademark Licensing Agreement,

dated September 15, 1999, between China Telecom (Hong Kong) Limited and Directorate General Telecommunications.(2)

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
4.5	--	Agreement Regarding Network Interconnection and Settlement of Account, dated October 8, 1999, between Guangdong Mobile and Guangdong Posts and Telecommunications Administration ("PTA").(2)
4.6	--	Agreement Regarding Network Interconnection and Settlement of Account, dated October 5, 1999, between Zhejiang Mobile and Zhejiang PTA.(2)
4.7	--	Agreement Regarding Network Interconnection and Settlement of Account, dated October 8, 1999, between Jiangsu Mobile and Jiangsu PTA.(2)
4.8	--	Agreement Regarding Network Interconnection and Settlement of Account, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)
4.9	--	Synchronous Clock Port Leasing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)
4.10	--	Local Transmission Line Leasing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)
4.11	--	Long Distance Line Leasing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)
4.12	--	Business Agency Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)
4.13	--	Account Processing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)
4.14	--	Collection Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)
4.15	--	Building and Facilities Leasing Agreement, dated August 30, 1999, between Fujian Mobile and Fujian PTA.(2)
4.16	--	Building and Facilities Leasing Agreement (leasing to PTA), dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)
4.17	--	Agreement on Equipment Maintenance, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)

4.18	--	Building and Facility Leasing Agreement, dated September 25, 1999, between Fujian Mobile and Fujian Xunjie Communications Technical Services Company ("Xunjie").(2)
4.19	--	Agreement Regarding Network Interconnection and Settlement of Account, dated August 20, 1999, between Henan Mobile and Henan PTA.(2)
4.20	--	Synchronous Clock Port Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)
4.21	--	Local Transmission Line Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)
4.22	--	Long Distance Line Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)
4.23	--	Business Agency Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)
4.24	--	Business Agency Agreement, dated August 19, 1999, between Henan Mobile and Henan Feida Communication Development Company Limited ("Feida").(2)
4.25	--	Account Processing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)
4.26	--	Collection Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)
4.27	--	Collection Agreement, dated August 19, 1999, between Henan Mobile and Feida.(2)

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
4.28	--	Building and Facilities Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)
4.29	--	Real Estates Leasing Agreement, dated September 23, 1999, between Henan Mobile and Feida.(2)
4.30	--	Agreement Regarding Network Interconnection and Settlement of Account, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)
4.31	--	Synchronous Clock Port Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)
4.32	--	Local Transmission Line Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)
4.33	--	Long Distance Line Leasing Agreement, dated August 20, 1999,

		between Hainan Mobile and Hainan PTA.(2)
4.34	--	Business Agency Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)
4.35	--	Account Processing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)
4.36	--	Collection Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)
4.37	--	Building and Facilities Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)
4.38	--	Real Estates Leasing Agreement dated September 24, 1999, between Hainan Mobile and Hainan Communication Service Company ("Hainan Service").(2)
4.39	--	Inter-Provincial Long-Distance Transmission Leased Line Fee Sharing Agreement, dated May 5, 2000, between China Mobile Communications Corporation and China Telecom (Hong Kong) Limited.(4)
4.40	--	Inter-Provincial Network Interconnection, Domestic and International Roaming and Settlement Agreement, dated May 5, 2000, between China Mobile Communications Corporation and China Telecom (Hong Kong) Limited.(4)
4.41	--	Tenancy Agreement, dated June 7, 2000, between Fu Hao Properties Limited and China Telecom (Hong Kong) Limited.(4)
4.42	--	Supplemental Agreement to Spectrum/Number Resources Use Agreement, Trademark License Contract, Inter-provincial Long Distance Transmission Lines Fee Sharing Agreement and Inter-provincial Interconnection and Domestic and International Roaming Settlement Agreement, dated September 19, 2000, among China Mobile Communications Corporation, China Mobile (Hong Kong) Limited, Beijing Mobile, Tianjin Mobile, Shanghai Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile.(1)
4.43	--	Agreement Regarding the Roaming Settlement of "Shenzhouxing" Prepaid Services "Shenzhouxing" and Revenues Sharing for Sales of Stored Value for Stored Value Cards, dated October 4, 2000, between China Mobile Communications Corporation and China Mobile (Hong Kong) Limited.(1)
4.44	--	Contract on Termination of the Trademark Licensing, dated September 15, 2000, between China Telecommunications Corporation and China Mobile (Hong Kong) Limited.(1)
4.45	--	Building Leasing and Property Management Agreement, dated September 18, 2000, between Beijing Mobile and Beijing Communications Service Company ("Beijing Service").(1)
4.46	--	Building Leasing and Property Management Agreement, dated September 18, 2000, between Beijing Mobile and Beijing Service.(1)

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
4.47	--	Agreement on Mobile Communications Equipment Maintenance and Modulation, dated September 18, 2000, between Beijing Mobile and Beijing Huarui Wireless Communications Equipment Installation Company ("Beijing Huarui").(1)
4.48	--	Agreement on Communications Projects Design and Construction, dated September 18, 2000, between Beijing Mobile and Beijing Huarui.(1)
4.49	--	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Beijing Mobile and Beijing Service.(1)
4.50	--	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Beijing Mobile and Beijing Service.(1)
4.51	--	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Beijing Mobile and Beijing Service.(1)
4.52	--	Agreement on Mobile Communications Equipment Maintenance, dated September 20, 2000, between Shanghai Mobile and Shanghai Long-distance Telecommunications Engineering Company ("Shanghai Engineering").(1)
4.53	--	Agreement on Contracting Mobile Communications Projects, dated September 20, 2000, between Shanghai Mobile and Shanghai Engineering.(1)
4.54	--	Building Leasing and Property Management Agreement, dated September 20, 2000, between Shanghai Mobile and Shanghai Communications Service Company ("Shanghai Service").(1)
4.55	--	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Shanghai Mobile and Shanghai Service.(1)
4.56	--	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Shanghai Mobile and Shanghai Service.(1)
4.57	--	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Shanghai Mobile and Shanghai Service.(1)
4.58	--	Building Leasing Agreement, dated August 1, 2000, between Tianjin Mobile and Tianjin Communications Service Company

("Tianjin Service").(1)

4.59	--	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Tianjin Mobile and Tianjin Service.(1)
4.60	--	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Tianjin Mobile and Tianjin Service.)(1)
4.61	--	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Tianjin Mobile and Tianjin Service.(1)
4.62	--	Building Leasing and Property Management Agreement, dated August 1, 2000, between Hebei Mobile and Hebei Communications Service Company ("Hebei Service").(1)
4.63	--	Agreement on the Sales and Maintenance of Masts and Maintenance of Antennas and Feeder Lines, dated August 1, 2000, between Hebei Mobile and Hebei Provincial Posts and Telecommunications Equipment and Machinery Plant.(1)
4.64	--	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Hebei Mobile and Hebei Service.(1)

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
4.65	--	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Hebei Mobile and Hebei Service.(1)
4.66	--	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Hebei Mobile and Hebei Service.(1)
4.67	--	Building Leasing and Property Management Agreement, dated August 10, 2000, between Liaoning Mobile and Liaoning Communications Service Company ("Liaoning Service").(1)
4.68	--	Agreement on Communications Equipment Maintenance, dated September 8, 2000, between Liaoning Mobile and Liaoning Provincial Posts and Telecommunications Engineering Bureau ("Liaoning Engineering").(1)
4.69	--	Agreement on Mobile Communications Projects Construction,

dated September 8, 2000, between Liaoning Mobile and Liaoning Engineering.(1)

4.70 -- Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Liaoning Mobile and Liaoning Service.(1)

4.71 -- Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Liaoning Mobile and Liaoning Service.(1)

4.72 -- Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Liaoning Mobile and Liaoning Service.(1)

4.73 -- Building Leasing and Property Management Agreement, dated September 1, 2000, between Shandong Mobile and Shandong Communications Service Company ("Shandong Service").(1)

4.74 -- Agreement on Contracting Mobile Communications Projects, dated September 1, 2000, between Shandong Mobile and Shandong Mobile Communications Engineering Bureau.(1)

4.75 -- Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Shandong Mobile and Shandong Service.(1)

4.76 -- Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Shandong Mobile and Shandong Service.(1)

4.77 -- Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Shandong Mobile and Shandong Service.(1)

4.78 -- Building Lease Agreement, dated August 26, 2000, between Guangxi Mobile and Guangxi Communications Service Company ("Guangxi Service").(1)

4.79 -- Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Guangxi Mobile and Guangxi Service.(1)

4.80 -- Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Guangxi Mobile and Guangxi Service.(1)

4.81 -- Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Guangxi Mobile and Guangxi Service.(1)

4.82 -- Strategic Investor Placing Agreement among China Mobile (Hong Kong) Limited, Vodafone Group Plc, China International

Capital Corporation, Goldman Sachs (Asia) L.L.C. and Merrill Lynch Far East Limited.(1)

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
4.83	--	Syndicated loan agreement for RMB 7,500,000,000 among China Mobile (Shenzhen) Limited, Construction Bank of China, Bank of China, State Development Bank, Agriculture Bank of China, Industrial and Commercial Bank of China, Bank of Communications, Hong Kong and Shanghai Banking Corporation Ltd., China Merchants Bank & Construction Bank of China, Shenzhen Branch, dated October 7, 2000.(1)
4.84	--	Syndicated loan agreement for RMB 5,000,000,000 among China Mobile (Shenzhen) Limited, Construction Bank of China, Bank of China, State Development Bank, Agriculture Bank of China, Industrial and Commercial Bank of China, Bank of Communications, Hong Kong & Shanghai Banking Corporation Ltd., China Merchants Bank and Construction Bank of China, Shenzhen Branch, dated October 7, 2000.(1)
4.85	--	Prepaid services agreement dated May 11, 2001, between China Mobile (Hong Kong) Limited and China Mobile Communications Corporation.
4.86	--	Conditional Acquisition Agreement, dated April 28, 1998, between China Telecom (Hong Kong) Limited and China Telecom Hong Kong (BVI) Limited.(5)
4.87	--	Conditional Sale and Purchase Agreement, dated October 4, 1999, among China Telecom Hong Kong (BVI) Limited, China Telecom (Hong Kong) Group Limited and China Telecom (Hong Kong) Limited.(2)
4.88	--	Conditional Sale and Purchase Agreement, dated October 4, 2000, among China Mobile Communications Corporation, China Mobile Hong Kong (BVI) Limited and China Mobile (Hong Kong) Limited.(1)
4.89	--	Deed of Indemnity, dated October 8, 1997, among China Telecom (Hong Kong) Group Limited, China Telecom (Hong Kong) Limited, Guangdong Mobile and Zhejiang Mobile.(3)
4.90	--	Investment Agreement, dated September 27, 1997, between Zhejiang PTA and Zhejiang Mobile.(3)
4.91	--	Joint Venture Agreement, dated July 27, 1997, among China Mobile (Hong Kong) Limited, Zhejiang Financial Development Company, Zhejiang Jianda Industrial Development Company, Zhejiang Wireless Electric Communications Technology Company and MPT Hangzhou Communications Equipment Factory.(3)
4.92	--	Transmission Line Leasing Agreement, dated April 27, 1998,

		between Jiangsu Mobile and Jiangsu PTA.(5)
4.93	--	Collection Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA.(5)
4.94	--	Distribution and Marketing Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA.(5)
4.95	--	Master Building Contract, dated May 30, 1997, between Guangdong Mobile and Guangdong PTA.(3)
4.96	--	Master Building Contract, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA.(5)
4.97	--	Marketing Agreement, dated October 15, 1998, between Guangdong Mobile and Guangdong PTA.(5)
8.1	--	List of major subsidiaries.

----

(1) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-47256), filed with the Securities and Exchange Commission on October 30, 2000.

(2) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-10956), filed with the Securities and Exchange Commission on October 30, 1999.

(3) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-7634), filed with the Securities and Exchange Commission on September 29, 1997.

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(4) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 1999 (File No. 1-14696), filed with the Securities and Exchange Commission on June 20, 2000.

(5) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 1998 (File No. 1-14696), filed with the U.S. Securities and Exchange Commission on June 25, 1999.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHINA MOBILE (HONG KONG) LIMITED

By: /s/ WANG XIAOCHU

Name: Wang Xiaochu

Title: Chairman and Chief Executive Officer

Date: June 26, 2001

EXHIBIT INDEX

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
1.1	--	Memorandum and Articles of Association (as amended).
2.1	--	Agreement concerning the provision of the documents relating to Renminbi denominated bonds issued by Guangdong Mobile.
2.2	--	Guarantee from China Mobile Communications Corporation for the RMB5 billion guaranteed bonds due in 2011 issued by Guangdong Mobile.
4.1	--	Agreement Regarding Provincial Network Interconnection, Roaming and Settlement of Account, dated October 8, 1999, between China Telecom (Hong Kong) Limited and China Mobile (Hong Kong) Limited.(2)
4.2	--	Agreement Regarding the Use of Frequency/Number Resources, dated October 8, 1999, between China Telecom (Hong Kong) Limited and China Mobile (Hong Kong) Limited.(2)
4.3	--	Agreement on Trademark Use, dated October 8, 1999, between China Telecom (Hong Kong) Limited and China Mobile (Hong Kong) Limited.(2)
4.4	--	Supplemental Agreement to Trademark Licensing Agreement, dated September 15, 1999, between China Telecom (Hong Kong) Limited and Directorate General Telecommunications.(2)
4.5	--	Agreement Regarding Network Interconnection and Settlement of Account, dated October 8, 1999, between Guangdong Mobile and Guangdong Posts and Telecommunications Administration ("PTA").(2)
4.6	--	Agreement Regarding Network Interconnection and Settlement of Account, dated October 5, 1999, between Zhejiang Mobile and Zhejiang PTA.(2)
4.7	--	Agreement Regarding Network Interconnection and Settlement of Account, dated October 8, 1999, between Jiangsu Mobile and Jiangsu PTA.(2)
4.8	--	Agreement Regarding Network Interconnection and Settlement of Account, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)
4.9	--	Synchronous Clock Port Leasing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)
4.10	--	Local Transmission Line Leasing Agreement, dated August 30,

1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)

4.11 -- Long Distance Line Leasing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)

4.12 -- Business Agency Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)

4.13 -- Account Processing Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)

4.14 -- Collection Agreement, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)

4.15 -- Building and Facilities Leasing Agreement, dated August 30, 1999, between Fujian Mobile and Fujian PTA.(2)

4.16 -- Building and Facilities Leasing Agreement (leasing to PTA), dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)

4.17 -- Agreement on Equipment Maintenance, dated August 30, 1999, between Fujian Mobile Communication Bureau and Fujian PTA.(2)

4.18 -- Building and Facility Leasing Agreement, dated September 25, 1999, between Fujian Mobile and Fujian Xunjie Communications Technical Services Company ("Xunjie").(2)

EXHIBIT
NUMBER DESCRIPTION OF EXHIBIT

4.19 -- Agreement Regarding Network Interconnection and Settlement of Account, dated August 20, 1999, between Henan Mobile and Henan PTA.(2)

4.20 -- Synchronous Clock Port Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)

4.21 -- Local Transmission Line Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)

4.22 -- Long Distance Line Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)

4.23 -- Business Agency Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)

4.24 -- Business Agency Agreement, dated August 19, 1999, between Henan Mobile and Henan Feida Communication Development Company Limited ("Feida").(2)

4.25 -- Account Processing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)

4.26 -- Collection Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)

4.27 -- Collection Agreement, dated August 19, 1999, between Henan Mobile and Feida.(2)

4.28 -- Building and Facilities Leasing Agreement, dated August 19, 1999, between Henan Mobile and Henan PTA.(2)

4.29 -- Real Estates Leasing Agreement, dated September 23, 1999, between Henan Mobile and Feida.(2)

4.30 -- Agreement Regarding Network Interconnection and Settlement of Account, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)

4.31 -- Synchronous Clock Port Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)

4.32 -- Local Transmission Line Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)

4.33 -- Long Distance Line Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)

4.34 -- Business Agency Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)

4.35 -- Account Processing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)

4.36 -- Collection Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)

4.37 -- Building and Facilities Leasing Agreement, dated August 20, 1999, between Hainan Mobile and Hainan PTA.(2)

4.38 -- Real Estates Leasing Agreement dated September 24, 1999, between Hainan Mobile and Hainan Communication Service Company ("Hainan Service").(2)

4.39 -- Inter-Provincial Long-Distance Transmission Leased Line Fee Sharing Agreement, dated May 5, 2000, between China Mobile Communications Corporation and China Telecom (Hong Kong) Limited.(4)

4.40 -- Inter-Provincial Network Interconnection, Domestic and International Roaming and Settlement Agreement, dated May 5, 2000, between China Mobile Communications Corporation and China Telecom (Hong Kong) Limited.(4)

4.41 -- Tenancy Agreement, dated June 7, 2000, between Fu Hao Properties Limited and China Telecom (Hong Kong) Limited.(4)

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
4.42	--	Supplemental Agreement to Spectrum/Number Resources Use Agreement, Trademark License Contract, Inter-provincial Long Distance Transmission Lines Fee Sharing Agreement and Inter-provincial Interconnection and Domestic and International Roaming Settlement Agreement, dated September 19, 2000, among China Mobile Communications Corporation, China Mobile (Hong Kong) Limited, Beijing Mobile, Tianjin Mobile, Shanghai Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile.(1)
4.43	--	Agreement Regarding the Roaming Settlement of "Shenzhouxing' Prepaid Services "Shenzhouxing" and Revenues Sharing for Sales of Stored Value for Stored Value Cards, dated October 4, 2000, between China Mobile Communications Corporation and China Mobile (Hong Kong) Limited.(1)
4.44	--	Contract on Termination of the Trademark Licensing, dated September 15, 2000, between China Telecommunications Corporation and China Mobile (Hong Kong) Limited.(1)
4.45	--	Building Leasing and Property Management Agreement, dated September 18, 2000, between Beijing Mobile and Beijing Communications Service Company ("Beijing Service").(1)
4.46	--	Building Leasing and Property Management Agreement, dated September 18, 2000, between Beijing Mobile and Beijing Service.(1)
4.47	--	Agreement on Mobile Communications Equipment Maintenance and Modulation, dated September 18, 2000, between Beijing Mobile and Beijing Huarui Wireless Communications Equipment Installation Company ("Beijing Huarui").(1)
4.48	--	Agreement on Communications Projects Design and Construction, dated September 18, 2000, between Beijing Mobile and Beijing Huarui.(1)
4.49	--	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Beijing Mobile and Beijing Service.(1)
4.50	--	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Beijing Mobile and Beijing Service.(1)
4.51	--	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Beijing Mobile and Beijing Service.(1)
4.52	--	Agreement on Mobile Communications Equipment Maintenance, dated September 20, 2000, between Shanghai Mobile and Shanghai Long-distance Telecommunications Engineering Company ("Shanghai Engineering").(1)

4.53 -- Agreement on Contracting Mobile Communications Projects, dated September 20, 2000, between Shanghai Mobile and Shanghai Engineering.(1)

4.54 -- Building Leasing and Property Management Agreement, dated September 20, 2000, between Shanghai Mobile and Shanghai Communications Service Company ("Shanghai Service").(1)

4.55 -- Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Shanghai Mobile and Shanghai Service.(1)

4.56 -- Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Shanghai Mobile and Shanghai Service.(1)

4.57 -- Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Shanghai Mobile and Shanghai Service.(1)

4.58 -- Building Leasing Agreement, dated August 1, 2000, between Tianjin Mobile and Tianjin Communications Service Company ("Tianjin Service").(1)

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
4.59	--	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Tianjin Mobile and Tianjin Service.(1)
4.60	--	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Tianjin Mobile and Tianjin Service.(1)
4.61	--	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Tianjin Mobile and Tianjin Service.(1)
4.62	--	Building Leasing and Property Management Agreement, dated August 1, 2000, between Hebei Mobile and Hebei Communications Service Company ("Hebei Service").(1)
4.63	--	Agreement on the Sales and Maintenance of Masts and Maintenance of Antennas and Feeder Lines, dated August 1, 2000, between Hebei Mobile and Hebei Provincial Posts and Telecommunications Equipment and Machinery Plant.(1)

4.64 -- Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Hebei Mobile and Hebei Service.(1)

4.65 -- Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Hebei Mobile and Hebei Service.(1)

4.66 -- Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Hebei Mobile and Hebei Service.(1)

4.67 -- Building Leasing and Property Management Agreement, dated August 10, 2000, between Liaoning Mobile and Liaoning Communications Service Company ("Liaoning Service").(1)

4.68 -- Agreement on Communications Equipment Maintenance, dated September 8, 2000, between Liaoning Mobile and Liaoning Provincial Posts and Telecommunications Engineering Bureau ("Liaoning Engineering").(1)

4.69 -- Agreement on Mobile Communications Projects Construction, dated September 8, 2000, between Liaoning Mobile and Liaoning Engineering.(1)

4.70 -- Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Liaoning Mobile and Liaoning Service.(1)

4.71 -- Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Liaoning Mobile and Liaoning Service.(1)

4.72 -- Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Liaoning Mobile and Liaoning Service.(1)

4.73 -- Building Leasing and Property Management Agreement, dated September 1, 2000, between Shandong Mobile and Shandong Communications Service Company ("Shandong Service").(1)

4.74 -- Agreement on Contracting Mobile Communications Projects, dated September 1, 2000, between Shandong Mobile and Shandong Mobile Communications Engineering Bureau.(1)

4.75 -- Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Shandong Mobile and Shandong Service.(1)

4.76 -- Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Shandong Mobile and Shandong Service.(1)

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
4.77	--	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Shandong Mobile and Shandong Service.(1)
4.78	--	Building Lease Agreement, dated August 26, 2000, between Guangxi Mobile and Guangxi Communications Service Company ("Guangxi Service").(1)
4.79	--	Capital Contribution Agreement, dated August 30, 2000, among China Mobile Communications Corporation, Guangxi Mobile and Guangxi Service.(1)
4.80	--	Agreement Regarding the Transfer of Personnel, Finances and Assets Not Directly Related to Mobile Communication Services, dated August 30, 2000, among China Mobile Communications Corporation, Guangxi Mobile and Guangxi Service.(1)
4.81	--	Agreement on the Confirmation of the Transfer of Personnel, Finances and Assets and the Related Rights and Obligations, dated August 30, 2000, between Guangxi Mobile and Guangxi Service.(1)
4.82	--	Strategic Investor Placing Agreement among China Mobile (Hong Kong) Limited, Vodafone Group Plc, China International Capital Corporation, Goldman Sachs (Asia) L.L.C. and Merrill Lynch Far East Limited.(1)
4.83	--	Syndicated loan agreement for RMB 7,500,000,000 among China Mobile (Shenzhen) Limited, Construction Bank of China, Bank of China, State Development Bank, Agriculture Bank of China, Industrial and Commercial Bank of China, Bank of Communications, Hong Kong and Shanghai Banking Corporation Ltd., China Merchants Bank & Construction Bank of China, Shenzhen Branch, dated October 7, 2000.(1)
4.84	--	Syndicated loan agreement for RMB 5,000,000,000 among China Mobile (Shenzhen) Limited, Construction Bank of China, Bank of China, State Development Bank, Agriculture Bank of China, Industrial and Commercial Bank of China, Bank of Communications, Hong Kong & Shanghai Banking Corporation Ltd., China Merchants Bank and Construction Bank of China, Shenzhen Branch, dated October 7, 2000.(1)
4.85	--	Prepaid services agreement dated May 11, 2001, between China Mobile (Hong Kong) Limited and China Mobile Communications Corporation.
4.86	--	Conditional Acquisition Agreement, dated April 28, 1998, between China Telecom (Hong Kong) Limited and China Telecom

Hong Kong (BVI) Limited.(5)

4.87	--	Conditional Sale and Purchase Agreement, dated October 4, 1999, among China Telecom Hong Kong (BVI) Limited, China Telecom (Hong Kong) Group Limited and China Telecom (Hong Kong) Limited.(2)
4.88	--	Conditional Sale and Purchase Agreement, dated October 4, 2000, among China Mobile Communications Corporation, China Mobile Hong Kong (BVI) Limited and China Mobile (Hong Kong) Limited.(1)
4.89	--	Deed of Indemnity, dated October 8, 1997, among China Telecom (Hong Kong) Group Limited, China Telecom (Hong Kong) Limited, Guangdong Mobile and Zhejiang Mobile.(3)
4.90	--	Investment Agreement, dated September 27, 1997, between Zhejiang Provincial PTA and Zhejiang Mobile.(3)
4.91	--	Joint Venture Agreement, dated July 27, 1997, among China Mobile (Hong Kong) Limited, Zhejiang Financial Development Company, Zhejiang Jianda Industrial Development Company, Zhejiang Wireless Electric Communications Technology Company and MPT Hangzhou Communications Equipment Factory.(3)
4.92	--	Transmission Line Leasing Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA.(5)
4.93	--	Collection Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA.(5)

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
4.94	--	Distribution and Marketing Agreement, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA.(5)
4.95	--	Master Building Contract, dated May 30, 1997, between Guangdong Mobile and Guangdong PTA.(3)
4.96	--	Master Building Contract, dated April 27, 1998, between Jiangsu Mobile and Jiangsu PTA.(5)
4.97	--	Marketing Agreement, dated October 15, 1998, between Guangdong Mobile and Guangdong PTA.(5)
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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
China Mobile (Hong Kong) Limited:

We have audited the accompanying consolidated balance sheets of China Mobile (Hong Kong) Limited (previously known as "China Telecom (Hong Kong) Limited") and subsidiaries (the "Group") as of December 31, 1999 and 2000 and the related consolidated statements of income, recognized gains and losses, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000, all expressed in Renminbi. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America and Hong Kong. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Mobile (Hong Kong) Limited and subsidiaries as of December 31, 1999 and 2000 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000 in conformity with accounting principles generally accepted in Hong Kong.

Accounting principles generally accepted in Hong Kong vary in certain material respects from accounting principles generally accepted in the United States of America. Application of accounting principles generally accepted in the United States of America would have affected results of operations for each of the years in the three-year period ended December 31, 2000 and shareholders' equity as of December 31, 1999 and 2000 to the extent summarized in Note 29 to the consolidated financial statements.

The accompanying consolidated financial statements as of and for the year ended December 31, 2000 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation, and in our opinion, the consolidated financial statements expressed in Renminbi have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Hong Kong
April 9, 2001

CONSOLIDATED STATEMENTS OF INCOME
(AMOUNTS IN MILLIONS, EXCEPT PER SHARE DATA)

		YEAR ENDED DECEMBER 31,			
	NOTE	1998	1999	2000	2000
		RMB	RMB	RMB	US$
Operating revenue:					
Usage fees		16,346	25,812	46,287	5,592
Monthly fees		4,347	4,981	9,623	1,162
Connection fees		3,323	4,319	2,213	267
Other operating revenue		2,329	3,511	6,861	829
Total operating revenue	3	26,345	38,623	64,984	7,850
Operating expenses:					
Leased lines		3,917	3,723	5,501	665
Interconnection		4,752	6,453	8,329	1,006
Depreciation		4,598	7,411	9,759	1,179
Personnel		1,595	2,256	3,991	482
Other operating expenses		3,548	5,140	10,578	1,278

Total operating expenses.........	4	18,410	24,983	38,158	4,610
Operating profit.............		7,935	13,640	26,826	3,240
Write-down and write-off of analog network equipment...	5	(282)	(8,242)	(1,525)	(184)
Other net income.............	6	336	552	915	111
Non-operating net (expenses)/income..........	7	(51)	70	(5)	(1)
Interest income..............		1,609	767	1,006	122
Finance costs................	19	(160)	(343)	(824)	(100)
Profit before tax............		9,387	6,444	26,393	3,188
Income tax...................	8	(2,486)	(1,647)	(8,366)	(1,010)
Profit after tax.............		6,901	4,797	18,027	2,178
Minority interests...........		(1)	--	--	--
Profit attributable to shareholders...............		6,900	4,797	18,027	2,178
Basic net profit per share...	2(s)	RMB 59 cents	RMB 40 cents	RMB 125 cents	US$15 cents
Weighted average number of shares used in calculating basic net profit per share (thousands)................		11,780,788	12,069,108	14,394,313	
Diluted net profit per share......................	2(s)	RMB 59 cents	RMB 40 cents	RMB 125 cents	US$15 cents
Weighted average number of shares used in calculating diluted net profit per share (thousands)..........		11,782,521	12,072,383	14,409,503	

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF RECOGNIZED GAINS AND LOSSES
(AMOUNTS IN MILLIONS)

	YEAR ENDED DECEMBER 31,			
	1998	1999	2000	2000
	RMB	RMB	RMB	US$
Net profit for the year................................	6,900	4,797	18,027	2,178
Elimination of goodwill arising on the acquisition of subsidiaries against reserves.........................	(15,622)	(42,440)	(239,540)	(28,936
	(8,722)	(37,643)	(221,513)	(26,758

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN MILLIONS)

	NOTE	DECEMBER 31, 1999	2000	2000
		RMB	RMB	US$
ASSETS				
Current assets:				
Cash and cash equivalents		19,349	27,702	3,346
Deposits with banks		8,227	12,204	1,474
Accounts receivable	9	4,957	7,252	876
Other receivables	10	549	2,297	278
Inventories		207	828	100
Prepayments and other current assets		517	1,289	156
Amounts due from related parties	11	1,700	--	--
Amount due from ultimate holding company	12	92	557	67
Total current assets		35,598	52,129	6,297
Fixed assets	13	42,699	87,465	10,566
Construction in progress		6,735	13,527	1,634
Interest in associates	14	46	46	6
Investment securities	15	--	61	7
Deferred tax assets	16	2,306	3,046	368
Deferred expenses	17	51	164	20
Total assets		87,435	156,438	18,898
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	18	6,026	11,581	1,399
Bills payable		1,779	1,005	121
Bank loans and other interest-bearing borrowings	19	4,351	10,471	1,265
Taxes payable		2,868	6,735	814
Obligations under capital lease -- current portion	20	68	1,624	196
Amount due to immediate holding company	12	--	4,136	500
Amount due to ultimate holding company	12	664	678	82
Amounts due to related parties	11	1,696	--	--
Accrued expenses and other payables	21	4,115	8,408	1,016
Total current liabilities		21,567	44,638	5,393
Bank loans and other interest-bearing borrowings	19	7,177	23,134	2,795
Obligations under capital lease -- long term portion	20	107	1,235	149
Deferred revenue	22	1,492	3,654	441
Total liabilities		30,343	72,661	8,778
Minority interests		--	17	2
Shareholders' equity		57,092	83,760	10,118
Total liabilities and shareholders' equity		87,435	156,438	18,898

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS IN MILLIONS)

	NOTE	1998	1999	2000	2000
		YEAR ENDED DECEMBER 31,			
		RMB	RMB	RMB	US$
Net cash inflows from operating activities...	(a)	13,567	21,662	41,401	5,00
Returns on investments and servicing of finance:					
Interest received..........................		1,815	934	994	12
Interest paid..............................		(352)	(445)	(863)	(10
Net cash inflow from returns on investments and servicing of finance..................		1,463	489	131	1
Taxation:					
Hong Kong profits tax (paid)/refunded......		(11)	1	--	-
PRC income tax paid........................		(1,575)	(2,479)	(5,952)	(71
Tax paid...................................		(1,586)	(2,478)	(5,952)	(71
Investing activities:					
Payment for acquisition of minority interests.............................		--	(15)	--	-
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)..............................	(b) and (c)	(24,114)	(18,187)	(67,299)	(8,13
Capital expenditures.......................		(11,040)	(11,708)	(21,964)	(2,65
Proceeds from sale of fixed assets.........		36	709	264	3
Decrease in amounts due from related parties................................		72	--	--	-
Increase in deposits with banks............		(1,311)	(6,916)	(3,881)	(46
Net cash outflow from investing activities.......................		(36,357)	(36,117)	(92,880)	(11,22
Net cash outflow before financing activities................................		(22,913)	(16,444)	(57,300)	(6,92
Financing activities:					
Proceeds from issue of shares, net of expenses...............................		--	16,223	55,812	6,74
Proceeds from issue of fixed rates notes, net of discount........................	(d)	--	4,952	--	-
Expenses on issue of fixed rate notes......		--	(53)	--	-
Proceeds from issue of convertible notes...	(d)	--	--	5,708	69
Expenses on issue of convertible notes.....		--	--	(128)	(1
Proceeds from bank and other loans.........	(d)	3,754	6,868	12,736	1,53
Repayments of bank and other loans.........	(d)	(3,207)	(9,653)	(8,130)	(98
Decrease in amounts due to related					

parties		(222)	--	--	-
Repayments of obligation under capital lease	(d)	--	--	(362)	(4
Increase in amounts due to minority interests	(d)	--	--	17	
Net cash inflow from financing activities		325	18,337	65,653	7,93
(Decrease)/increase in cash and cash equivalents		(22,588)	1,893	8,353	1,00
Effect of changes in foreign exchange rates		(1)	(25)	--	-
Cash and cash equivalents at beginning of year		40,070	17,481	19,349	2,33
Cash and cash equivalents at end of year		17,481	19,349	27,702	3,34
Analysis of the balances of cash and cash equivalents:					
Deposits with banks maturing within three months when placed		7,538	6,986	6,457	78
Cash and bank balances		9,943	12,363	21,245	2,56
		17,481	19,349	27,702	3,34

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED)
(AMOUNTS IN MILLIONS)

(A) THE RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH INFLOWS FROM OPERATING ACTIVITIES IS AS FOLLOWS:

	YEAR ENDED DECEMBER 31,			
	1998	1999	2000	2000
	RMB	RMB	RMB	US$
Profit before taxation	9,387	6,444	26,393	3,188
Depreciation of fixed assets	4,598	7,411	9,759	1,179
Write-down and write-off of analog network equipment	282	8,242	1,525	184
Provision for doubtful accounts	558	771	1,346	163
Amortization of deferred expenses	--	2	15	2
Loss on sale of fixed assets	59	1	126	15
Interest income	(1,609)	(767)	(1,006)	(122)
Interest expenses and capital lease charges	160	343	824	100
Dividend income	--	--	(26)	(3)
Unrealized exchange loss/(gain), net	1	25	(2)	--
Increase in accounts receivable	(1,080)	(2,167)	(985)	(119)
Decrease/(increase) in other receivables	392	(245)	54	7
Decrease/(increase) in inventories	49	(43)	(408)	(49)
Decrease in amount due from ultimate holding company	--	14	409	49
(Increase)/decrease in prepayments and other current assets	(932)	781	(262)	(32)

(Increase)/decrease in amounts due from related parties.....	(55)	(127)	1,700	205
(Decrease)/increase in accounts payable....................	(117)	(36)	1,179	142
Increase in amount due to ultimate holding company..........	--	329	14	2
Increase/(decrease) in amounts due to related parties.......	548	426	(1,696)	(205)
Increase in accrued expenses and other payables.............	922	523	1,319	159
Increase/(decrease) in deferred revenue, net................	404	(265)	1,123	136
Net cash inflows from operating activities........	13,567	21,662	41,401	5,001

CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED)
(AMOUNTS IN MILLIONS)

(B) ACQUISITION OF SUBSIDIARIES

	1998	1999	2000
	RMB	RMB	RMB
Net assets acquired:			
Fixed assets..	7,443	11,186	37,391
Construction in progress................................	1,488	1,060	5,104
Interest in an associate................................	--	16	--
Investment securities...................................	--	--	35
Deferred tax assets.....................................	1	3	723
Inventories...	73	63	213
Amount due from ultimate holding company................	--	106	874
Amounts due from related parties........................	233	1,286	--
Accounts receivable.....................................	367	1,079	2,656
Other receivables.......................................	137	145	1,790
Prepayments and other current assets....................	9	181	510
Cash and bank balances..................................	6	2,081	7,681
Deposits with banks.....................................	--	--	96
Bank and other loans....................................	(683)	(1,267)	(4,241)
Bills payable...	--	(310)	(57)
Obligations under capital lease -- current portion........	--	--	(1,706)
Deferred revenue..	--	--	(1,039)
Amount due to ultimate holding company..................	--	(335)	--
Amounts due to related parties..........................	(4)	(674)	--
Accounts payable..	(333)	(1,121)	(4,926)
Accrued expenses and other payables.....................	(158)	(796)	(2,897)
Taxation..	--	(249)	(1,436)
Long-term bank and other loans..........................	(81)	(1,766)	(7,521)
Obligations under capital lease -- long term portion......	--	(175)	(1,305)
	8,498	10,513	31,945
Goodwill arising on acquisition.........................	15,622	42,440	239,540
	24,120	52,953	271,485
Satisfied by:			
Cash consideration......................................	24,120	20,268	79,116
Issue of ordinary shares................................	--	32,685	192,369
	24,120	52,953	271,485

The subsidiaries acquired during the year ended December 31, 2000 contributed RMB4,257 to the Group's net operating cash flows, paid RMB183 in respect of the net returns on investments and serving of finance, and utilized RMB2,899 for investing activities and RMB454 for financing activities.

The subsidiaries acquired during the year ended December 31, 1999 contributed RMB1,439 to the Group's net operating cash flows, paid RMB44 in respect of the net returns on investments and servicing of finance, and utilized RMB657 for investing activities and RMB717 for financing activities.

The subsidiaries acquired during the year ended December 31, 1998 contributed RMB1,340 to the Group's net operating cash flows, paid RMB44 in respect of the net returns on investments and servicing of finance, and utilized RMB2,533 for investing activities and RMB2,208 for financing activities.

CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED)
(AMOUNTS IN MILLIONS)

(C) ANALYSIS OF NET OUTFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE ACQUISITION OF SUBSIDIARIES

	1998	1999	2000
	RMB	RMB	RMB
Cash consideration	24,120	20,268	79,116
Cash and bank balances acquired	(6)	(2,081)	(7,681)
Amount due to immediate holding company	--	--	(4,136)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	24,114	18,187	67,299

(D) ANALYSIS OF CHANGES IN FINANCING DURING THE YEARS:

	BANK AND OTHER LOANS	FIXED RATES NOTES	CONVERTIBLE NOTES	OBLIGATION UNDER CAPITA LEASE
	RMB	RMB	RMB	RMB
Balance at January 1, 1998	5,017	--	--	--
Acquired on acquisition of subsidiaries (Note (b))	764	--	--	--
Proceeds from bank and other loans	3,754	--	--	--
Repayments of bank and other loans	(3,207)	--	--	--
Balance at December 31, 1998	6,328	--	--	--
Balance at January 1, 1999	6,328	--	--	--
Acquired on acquisition of subsidiaries (Note (b))	3,033	--	--	175
Proceeds from bank and other loans	6,868	--	--	--
Repayment of bank and other loans	(9,653)	--	--	--

Issue of fixed rates notes..............	--	4,952	--	--
	------	-----	-----	-----
Balance at December 31, 1999............	6,576	4,952	--	175
	======	=====	=====	=====
Balance at January 1, 2000..............	6,576	4,952	--	175
Acquired on acquisition of subsidiaries (Note (b))...........................	11,762	--	--	3,011
Proceeds from bank and other loans.......	12,736	--	--	--
Repayments of bank and other loans.......	(8,130)	--	--	--
Effect of foreign exchange rates.........	--	(2)	--	--
Amortization of discount arising on issuance of notes.....................	--	3	--	--
Issue of convertible notes...............	--	--	5,708	--
Inception of capital lease contracts.....	--	--	--	35
Repayment of obligation under capital leases...............................	--	--	--	(362)
Proceeds from minority interests.........	--	--	--	--
	------	-----	-----	-----
Balance at December 31, 2000............	22,944	4,953	5,708	2,859
	======	=====	=====	=====

(E) SIGNIFICANT NON-CASH TRANSACTIONS:

The Group incurred payables of RMB5,555 and RMB1,005 to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 2000.

The Group incurred payables of RMB3,374 and RMB1,486 to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 1999.

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CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED)
(AMOUNTS IN MILLIONS)

The Group incurred payables of RMB3,977 and RMB13 to equipment suppliers and related parties respectively for additions of construction in progress during the year ended December 31, 1998.

In November 2000, the Group issued new shares to China Mobile Hong Kong (BVI) Limited ("CMHK BVI") (formerly China Telecom Hong Kong (BVI) Limited) at HK$181,412 (RMB equivalent 192,369) as part of the consideration for the acquisition of Beijing Mobile (BVI) Limited ("Beijing Mobile BVI"), Shanghai Mobile (BVI) Limited ("Shanghai Mobile BVI"), Tianjin Mobile (BVI) Limited ("Tianjin Mobile BVI"), Hebei Mobile (BVI) Limited ("Hebei Mobile BVI"), Liaoning Mobile (BVI) Limited ("Liaoning Mobile BVI"), Shandong Mobile (BVI) Limited ("Shandong Mobile BVI") and Guangxi Mobile (BVI) Limited ("Guangxi Mobile BVI").

In November 1999, the Group issued new shares to CMHK (BVI) at HK$30,684 (RMB equivalent 32,685) as part of the consideration for the acquisition of Fujian Mobile (BVI) Limited ("Fujian Mobile BVI"), Henan Mobile (BVI) Limited ("Henan Mobile BVI") and Hainan Mobile (BVI) Limited ("Hainan Mobile BVI").

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(AMOUNTS IN MILLIONS, EXCEPT SHARE DATA)

STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS:

	NUMBER OF ORDINARY SHARES	SHARE CAPITAL	SHARE PREMIUM	CAPITAL RESERVE/ (GOODWILL)	GENERAL RESERVE
		RMB	RMB	RMB	RMB
Shareholders' equity at January 1, 1998	11,780,788,000	1,261	50,643	1,132	72
Goodwill arising on acquisition of Jiangsu Mobile	--	--	--	(15,622)	--
Transfer from statement of income	--	--	--	--	--
Appropriation	--	--	--	--	--
Shareholders' equity at December 31, 1998	11,780,788,000	1,261	50,643	(14,490)	72
Shareholders' equity at January 1, 1999	11,780,788,000	1,261	50,643	(14,490)	72
Goodwill arising on acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile	--	--	--	(42,440)	--
Transfer from statement of income	--	--	--	--	--
Shares issued under share option scheme	7,500,000	1	88	--	--
Issue of new shares to the professional and institutional investors	644,804,000	69	16,484	--	--
Issue of consideration shares for acquisition of subsidiaries	1,273,195,021	136	32,549	--	--
Expenses incurred in connection with the issue of new shares to professional and institutional investors	--	--	(419)	--	--
Appropriation	--	--	--	--	--
Shareholders' equity at December 31, 1999	13,706,287,021	1,467	99,345	(56,930)	72
Shareholders' equity at January 1, 2000	13,706,287,021	1,467	99,345	(56,930)	72
Goodwill arising on acquisition of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile	--	--	--	(239,540)	--
Transfer from statement of income	--	--	--	--	--
Shares issued under share option scheme	3,974,000	--	89	--	--
Issue of new shares to the professional and institutional investors	1,115,643,845	119	56,694	--	--
Issue of consideration shares for acquisition of subsidiaries	3,779,407,375	400	191,969	--	--
Expenses incurred in connection with the issue of new shares to professional and institutional investors	--	--	(1,090)	--	--
Appropriation	--	--	--	--	--

Shareholders' equity at December 31, 2000..............................	18,605,312,241	1,986	347,007	(296,470)	72

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(AMOUNTS IN MILLIONS, EXCEPT SHARE DATA)

1. ORGANIZATION, PRINCIPAL ACTIVITIES AND BASIS OF PRESENTATION

China Mobile (Hong Kong) Limited ("the Company") (previously known as China Telecom (Hong Kong) Limited) and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the provision of cellular telephone and related services in Guangdong, Zhejiang, Jiangsu, Fujian, Henan, Hainan, Hebei, Liaoning, Shandong provinces, Beijing, Shanghai and Tianjin municipalities and Guangxi autonomous region of the People's Republic of China ("PRC") and market their services under the "China Mobile" logo, which is a registered trademark owned by China Mobile Communications Corporation ("China Mobile"), a company incorporated in the PRC in July 1999 to hold and operate the cellular telecommunications networks nationwide as a result of restructuring of the telecommunications industry in the PRC. The telecommunications operations in the PRC previously controlled by the Ministry of Information Industry ("MII") have been separated into four business lines: fixed line communications, mobile communications, paging services and satellite communications. Since then, the MII act exclusively as the industry regulator and are not involved in managing the day-to-day operations of telecommunications service providers in the PRC.

Prior to the restructuring (as described below, the "Restructuring"), the Group's Total Access Communications Systems ("TACS") and Global System for Mobile Communications ("GSM") cellular networks in Guangdong were owned by Guangdong Mobile Communication Corporation (together with the successor wholly-owned foreign enterprise formed in connection with the Restructuring, "Guangdong Mobile"), an enterprise formed in September 1988 and wholly owned by the MII on behalf of the State. Prior to the Restructuring, the Group's GSM cellular network in Zhejiang was owned by Zhejiang GSM Mobile Communication Company Limited (together with the successor sino-foreign joint venture company formed in connection with the Restructuring, "Zhejiang Mobile"), a company formed in February 1996 and 98.55% owned by the Zhejiang Provincial Posts and Telecommunications Administrations ("PTA") ("Zhejiang PTA"), while the Group's TACS cellular networks in Zhejiang were owned and operated directly by the Zhejiang PTA.

Restructuring

Pursuant to the Restructuring, the Company was established as a wholly-owned subsidiary of China Mobile Hong Kong (BVI) Limited ("CMHK (BVI)"), a company incorporated with limited liability in the British Virgin Islands. CMHK (BVI) is controlled by China Mobile (Hong Kong) Group Limited ("CMHKG"), which in turn is 51% owned by Telpo Communications (Group) Limited ("Telpo"), a Hong Kong company wholly owned by the MII, and as to 49% by the China Telecommunications Corporation (previously known as the Directorate General of Telecommunications, or the DGT). At December 31, 1999, the percentages of equity interests of CMHK (BVI), which in turn were owned by Telpo and DGT were changed to 57% and 43%, respectively. On May 12, 2000, China Mobile acquired a 100% controlling interest in CMHKG. As a result of this, China Mobile now indirectly holds approximately 75% equity interest in the Company. Guangdong Mobile was formed as a wholly foreign-owned enterprise whereas Zhejiang Mobile was formed as a sino-foreign joint venture company. The Company is the sole equity owner in Guangdong Mobile and was initially the 99.63% joint venture partner in Zhejiang Mobile, with the remaining interests held by various local investors. The Company acquired the remaining 0.37% interest in Zhejiang Mobile in April 1999. Subsequent to the acquisition, Zhejiang Mobile became a wholly foreign-owned enterprise.

In connection with the Restructuring and in anticipation of the initial offering of the Company's ordinary shares, the fixed assets of Guangdong Mobile and Zhejiang Mobile were revalued as of May 31, 1997, by a firm of independent valuers and approved by the China State-owned Assets Administration Bureau. The value of fixed assets of Guangdong Mobile and Zhejiang Mobile pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB15,630. Upon the transfer of interests in Guangdong Mobile and Zhejiang Mobile by the MII and the DGT to the Company, 9,010,000,000 ordinary shares of HK$0.10 each were issued by the Company to CMHK (BVI) for consideration valued at RMB19,466. Such amount

was based on the net asset value of Guangdong Mobile and Zhejiang Mobile as at May 31, 1997, the effective date of the Restructuring, adjusted for additional earnings to September 26, 1997, the completion date of the Restructuring, of RMB1,132, which is reflected as capital reserve.

Equity Offering

Subsequent to the Restructuring, in October 1997, the Company completed an initial public offering (the "Offering") of an aggregate of 2,770,788,000 ordinary shares. Net proceeds to the Company for the Offering, after deduction of offering expenses, were approximately RMB33,570.

Acquisition of Jiangsu Mobile Communication Company Limited ("Jiangsu Mobile")

Pursuant to the ordinary resolution passed by the Company's shareholders on June 3, 1998, the Company acquired the entire issued share capital of China Telecom Jiangsu Mobile (BVI) Limited ("Jiangsu Mobile BVI") from CMHK (BVI) by a total cash consideration of HK$22,475 (RMB equivalent 24,120) (hereinafter referred to as the "First Acquisition").

The only asset of Jiangsu Mobile BVI is its interest in the entire equity of Jiangsu Mobile. Subsequent to the First Acquisition, Jiangsu Mobile became a wholly foreign-owned enterprise.

In connection with the First Acquisition, the fixed assets of Jiangsu Mobile were revalued as of December 31, 1997, by a firm of independent valuers and approved by the China State-owned Assets Administration Bureau. The value of fixed assets of Jiangsu Mobile pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB7,879.

Goodwill arising on the acquisition of Jiangsu Mobile BVI and Jiangsu Mobile (RMB15,622), being the excess of the cost of investments (RMB24,120) over the fair value of the Group's share of the separable net assets acquired (RMB8,498), was eliminated against reserves immediately on acquisition. The fair value of the Group's share of the separable net assets acquired was based on the net asset value of Jiangsu Mobile at December 31, 1997 (RMB8,009), adjusted for additional earnings to June 3, 1998, the completion date of the First Acquisition, of RMB489.

Acquisition of Fujian Mobile Communication Company Limited ("Fujian Mobile"), Henan Mobile Communication Company Limited ("Henan Mobile") and Hainan Mobile Communication Company Limited ("Hainan Mobile")

Pursuant to an ordinary resolution passed by the Company's shareholders on November 11, 1999, the Company acquired the entire issued share capital of Fujian Mobile (BVI) Limited ("Fujian Mobile BVI"), Henan Mobile (BVI) Limited ("Henan Mobile BVI") and Hainan Mobile (BVI) Limited ("Hainan Mobile BVI") from CMHK (BVI) for a total consideration of HK$49,715 (RMB equivalent 52,953) (hereinafter referred to as the "Second Acquisition"). The consideration was satisfied by cash of HK$19,031 (RMB equivalent 20,268) and an allotment of 1,273,195,021 ordinary shares of HK$0.10 each to CMHK (BVI) amounting to HK$30,684 (RMB equivalent 32,685). The only assets of each of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI are their interests in the entire equity of Fujian Mobile, Henan Mobile and Hainan Mobile, respectively.

In connection with the Second Acquisition, the fixed assets of Fujian Mobile, Henan Mobile and Hainan Mobile were revalued as of June 30, 1999, by a firm of independent valuers and approved by the Ministry of Finance. The value of fixed assets of Fujian Mobile, Henan Mobile and Hainan Mobile pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB10,684.

Goodwill arising on the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile (RMB42,440), being the excess of the cost of investments (RMB52,953) over the fair value of the Group's share of the separable net assets acquired (RMB10,513), was eliminated against reserves immediately on acquisition. The

fair value of the Group's share of the separable net assets acquired was based on the net assets of Fujian Mobile, Henan Mobile and Hainan Mobile at June 30, 1999 (RMB9,524), adjusted for additional earnings to November 11, 1999, the completion date of the Second Acquisition, of RMB989.

Equity Offering and Debt Offering

In order to finance the acquisition consideration, the Company completed an international offering of an aggregate of 644,804,000 ordinary shares and debt offering with a principal amount of US$600 million with maturity due on November 2, 2004. Further the Company issued totalling 1,273,195,021 consideration shares to CMHK (BVI), credited as fully paid as part of the acquisition consideration. Net proceeds to the Company for such equity offering and debt offering, after deduction of offering expenses and discount, were approximately RMB16,134 and RMB4,899, respectively.

Acquisition of Beijing Mobile Communication Company Limited ("Beijing Mobile"), Shanghai Mobile Communication Company Limited ("Shanghai Mobile"), Tianjin Mobile Communication Company Limited ("Tianjin Mobile"), Hebei Mobile Communication Company Limited ("Hebei Mobile"), Liaoning Mobile Communication Company Limited ("Liaoning Mobile"), Shandong Mobile Communication Company Limited ("Shandong Mobile") and Guangxi Mobile Communication Company Limited ("Guangxi Mobile").

Pursuant to an ordinary resolution passed by the Company's shareholders on November 10, 2000, the Company acquired the entire issued share capital of Beijing Mobile (BVI) Limited ("Beijing Mobile BVI"), Shanghai Mobile (BVI) Limited ("Shanghai Mobile BVI"), Tianjin Mobile (BVI) Limited ("Tianjin Mobile BVI"), Hebei Mobile (BVI) Limited ("Hebei Mobile BVI"), Liaoning Mobile (BVI)

Limited ("Liaoning Mobile BVI"), Shandong Mobile (BVI) Limited ("Shandong Mobile BVI") and Guangxi Mobile (BVI) Limited ("Guangxi Mobile BVI") from CMHK (BVI) for a total consideration of HK$256,021 (RMB equivalent 271,485) (hereinafter referred to as the "Third Acquisition"). The consideration was satisfied by cash of HK$74,609 (RMB equivalent 79,116) and an allotment of 3,779,407,375 ordinary shares of HK$0.10 each to CMHK (BVI) amounting to HK$181,412 (RMB equivalent 192,369). The only assets of each of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI are their interests in the entire equity of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, respectively.

In connection with the Third Acquisition, the fixed assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were revalued as of June 30, 2000, by a firm of independent valuers and approved by the Ministry of Finance. The value of fixed assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB37,252.

Goodwill arising on the acquisition of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile (RMB239,540), being the excess of the cost of investments (RMB271,485) over the fair value of the Group's share of the separable net assets acquired (RMB31,945), was eliminated against reserves immediately on acquisition. The fair value of the Group's share of the separable net assets acquired was based on the net assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile at June 30, 2000 (RMB29,317), adjusted for additional earnings to November 12, 2000, the completion date of the Third Acquisition, of RMB2,628.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)
(AMOUNTS IN MILLIONS, EXCEPT SHARE DATA)

Equity Offering and Debt Offering

In order to finance the acquisition consideration, the Company completed an international offering of an aggregate of 1,115,643,845 ordinary shares and convertible note offering with a principal amount of US$690 with maturity due on November 3, 2005. Further the Company issued totalling 3,779,407,375 consideration shares to CMHK (BVI), credited as fully paid as part of the acquisition consideration. Net proceeds to the Company for such equity offering and convertible note offering, after deduction of offering expenses and discount, were approximately RMB55,723 and RMB5,580, respectively.

Basis of Preparation

The consolidated financial statements have been prepared on a consolidated basis to reflect the financial position and results of operations of the Company, Guangdong Mobile and Zhejiang Mobile from the date of the Restructuring and of Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile from their respective dates of acquisition. The consolidated statements of income for the year ended December 31, 2000 includes the results of the Company, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan Mobile for the year ended December 31, 2000 and the post-acquisition results of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile for the period from November 13, 2000 to December 31, 2000. The consolidated statements of income for the year ended December 31, 1999 includes the results