

CHINA MOBILE HONG KONG LTD /ADR/
Form 6-K
May 03, 2004

1934 Act Registration No. 1-14696

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the Month of May 2004

China Mobile (Hong Kong) Limited

(Translation of registrant's name into English)

60/F The Center

99 Queen's Road Central

Hong Kong, China

(Address of principal executive offices)

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(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.) Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.) Yes No

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____ .)

EXHIBITS

Exhibit Number

Page

1.1 Circular to Shareholders, dated May 3, 2004

FORWARD-LOOKING STATEMENTS

The Circular to Shareholders, constituting Exhibit 1.1 to this Form 6-K, contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Such forward-looking statements include, without limitation, statements relating to the Company's number of subscribers, prospects for future growth, market position, net profit and financial and other performances.

Such forward-looking statements reflect the current views of the Company with respect to future events. 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, any changes in regulatory policies of the Ministry of Information Industry and other relevant government authorities, the effects of competition on the demand and price of the Company's cellular services, any changes in wireless and related technology, which could affect the viability and competitiveness of the Company's cellular networks and its cellular and other services, and changes in political, economic, legal and social conditions in China including the Chinese government's policies with respect to economic growth, foreign exchange, foreign investment and entry by foreign companies into China's telecommunications market. In addition, the Company's future network expansion and other capital expenditure and development plans are dependent on numerous factors, including the availability of adequate financing on acceptable terms, the adequacy of currently available spectrum or the availability of additional spectrum, the availability of transmission lines and equipment when required on acceptable terms, and the availability of qualified management and technical personnel.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA MOBILE (HONG KONG) LIMITED

Date: May 3, 2004

By: /s/ Wang Xiaochu

Name: Wang Xiaochu
Title: Chairman and Chief Executive Officer

IMPORTANT

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares or notes in China Mobile (Hong Kong) Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for the sole purpose of the extraordinary general meeting of the Company and is not an offer to sell or a solicitation of an offer to purchase any securities.

CHINA MOBILE (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 941)

DISCLOSEABLE TRANSACTION

AND CONNECTED TRANSACTION

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Financial Advisers to China Mobile (Hong Kong) Limited

China International

Goldman Sachs (Asia) L.L.C.

UBS Investment Bank

Capital Corporation

(Hong Kong) Limited

A letter from the independent board committee of China Mobile (Hong Kong) Limited is set out on pages 21 to 22 of this circular. A letter from N M Rothschild & Sons (Hong Kong) Limited containing its advice to the independent board committee and the Independent Shareholders is set out on pages 23 to 40 of this circular.

A notice dated 3 May 2004 convening an extraordinary general meeting of the Company to be held in the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong, on 16 June 2004 at 3:30 p.m. (or as soon thereafter as the annual general meeting of the Company to be convened at 2:30 p.m. at the same place and date shall have been concluded or adjourned), is set out at the end of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event at least 36 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

3 May 2004

CONTENTS

	<i>Pages</i>
Definitions	1
Letter from the Chairman	8
1 Introduction	8
2 The Acquisition	9
3 The Consideration for the Acquisition	11
4 Financing of the Acquisition	14
5 Conditions of the Completion of the Acquisition	14
6 Reasons for and Benefits of the Acquisition	15
7 Prospective Financial Information	18
8 Relationship with CMCC and Connected Transactions	19
9 Extraordinary General Meeting	19
10 Recommendation of the Independent Board Committee	20
11 Additional Information	20
Letter from the Independent Board Committee	21
Letter from Rothschild	23
Appendix I Further Information on the Target Companies	I-1
Appendix II Accountants Report	II-1
Appendix III Financial Information of the Listed Group	III-1
Appendix IV Financial Information of the Combined Group	IV-1
Appendix V Profit Forecast	V-1
Appendix VI General Information	VI-1
Notice of the Extraordinary General Meeting	

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

Acquisition	the proposed acquisition by the Company of the entire issued share capital of each of the Target BVI Companies pursuant to the Acquisition Agreement, as further described in this circular
Acquisition Agreement	the conditional sale and purchase agreement dated 28 April 2004 made between the Company, CMBVI and CMCC relating to the Acquisition
adjusted EBITDA	earnings before interest income, interest expense, non-operating income (expenses), taxation, depreciation and amortisation, and deficit on revaluation of fixed assets
Anhui Mobile	Anhui Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Associates	as defined in the Listing Rules
Beijing Mobile	Beijing Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Board or Board of Directors	the board of directors of the Company
Business Day	a day (excluding Saturdays) on which banks are generally open in Hong Kong and the PRC for the transaction of normal banking business
CDMA	Code Division Multiple Address technology, a digital transmission technology using various coding sequences to mix and separate voice and data signals for wireless transmission
China Netcom Group	China Network Communications Group Corporation, a company established under the laws of the PRC
China Railcom	China Railway Communication Co., Ltd., a company established under the laws of the PRC
China Telecommunications Corporation	China Telecommunications Corporation, a company established under the laws of the PRC
China Unicom	China United Telecommunications Corporation, a company established under the laws of the PRC
Chongqing Mobile	Chongqing Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
CICC	China International Capital Corporation (Hong Kong) Limited, which is licensed for Type 1 regulated activity (dealing with securities) and Type 6 regulated activity (advising on corporate finance) under the Securities and Futures Ordinance and financial adviser to the Company in respect of the Acquisition

DEFINITIONS

CMBVI	China Mobile Hong Kong (BVI) Limited, a company incorporated in the British Virgin Islands and the immediate controlling shareholder of the Company
CMC	China Mobile Communication Company Limited, a company established in Beijing on 27 February 2004 under the laws of the PRC and wholly-owned by CMC BVI
CMC BVI	China Mobile Communication (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands
CMCC	China Mobile Communications Corporation, a state-owned enterprise established under the laws of the PRC and the ultimate controlling shareholder of the Company
CMHKG	China Mobile (Hong Kong) Group Limited, a company incorporated in Hong Kong and an indirect controlling shareholder of the Company
Combined Group	the Company, its existing subsidiaries, the Target BVI Companies and the Target Companies
Companies Ordinance	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
Company or CMHK	China Mobile (Hong Kong) Limited, a company incorporated in Hong Kong whose shares are listed on the Stock Exchange and American Depositary Shares are listed on the New York Stock Exchange
Convertible Noteholders	holders of the Convertible Notes
Convertible Notes	2.25% convertible notes due 2005 of the Company
Directors	the directors of the Company
Extraordinary General Meeting	the extraordinary general meeting of the Company to be convened on 16 June 2004, notice of which is set out at the end of this circular, or any adjournment thereof
Fujian Mobile	Fujian Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Gansu Mobile	Gansu Mobile Communication Company Limited, a company established in Gansu on 29 January 2004 under the laws of the PRC and wholly-owned by Gansu Mobile BVI
Gansu Mobile BVI	Gansu Mobile (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands
Goldman Sachs	Goldman Sachs (Asia) L.L.C., which is licensed for Type 1 regulated activity (dealing with securities) and Type 6 regulated activity (advising on corporate finance) under the Securities and Futures Ordinance and financial adviser to the Company in respect of the Acquisition

DEFINITIONS

GSM	Global System for Mobile Communications, a pan-European mobile telephone system based on digital transmission and cellular network architecture with roaming capability
Guangdong Mobile	Guangdong Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and a wholly-owned subsidiary of the Company
Guangxi Mobile	Guangxi Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Guizhou Mobile	Guizhou Mobile Communication Company Limited, a company established in Guizhou on 19 January 2004 under the laws of the PRC and wholly-owned by Guizhou Mobile BVI
Guizhou Mobile BVI	Guizhou Mobile (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands
Hainan Mobile	Hainan Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Hebei Mobile	Hebei Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Heilongjiang Mobile	Heilongjiang Mobile Communication Company Limited, a company established in Heilongjiang on 2 February 2004 under the laws of the PRC and wholly-owned by Heilongjiang Mobile BVI
Heilongjiang Mobile BVI	Heilongjiang Mobile (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands
Henan Mobile	Henan Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	Hong Kong Special Administrative Region of the People's Republic of China
Hubei Mobile	Hubei Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Hunan Mobile	Hunan Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Independent Board Committee	the committee of Directors, consisting of Lo Ka Shui, Frank Wong Kwong Shing and Moses Cheng Mo Chi, Independent Non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the Acquisition
Independent Shareholders	Shareholders other than CMBVI and its Associates

DEFINITIONS

Interest Determination Date	each of the following dates (or if that date falls on a non-Business Day, then on the next Business Day), the first being the second Business Day preceding the date of the Acquisition Agreement, or 26 April 2004, and thereafter 26 April 2006, 26 April 2008, 26 April 2010, 26 April 2012, 26 April 2014, 26 April 2016 and 26 April 2018
Jiangsu Mobile	Jiangsu Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Jiangxi Mobile	Jiangxi Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Jilin Mobile	Jilin Mobile Communication Company Limited, a company established in Jilin on 18 January 2004 under the laws of the PRC and wholly-owned by Jilin Mobile BVI
Jilin Mobile BVI	Jilin Mobile (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands
Jingyi Design Institute	Beijing P&T Consulting & Design Institute Company Limited, a company established in Beijing on 15 March 2004 under the laws of the PRC and wholly-owned by Zhongjing Design Institute BVI
Latest Practicable Date	26 April 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
Liaoning Mobile	Liaoning Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Listed Group	the Company and its existing subsidiaries
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Mainland China	China, other than Hong Kong, Macau and Taiwan
MII	Ministry of Information Industry of the PRC, or where the context so requires, its predecessor, the former Ministry of Posts and Telecommunications
Neimenggu Mobile	Neimenggu Mobile Communication Company Limited, a company established in Neimenggu (Inner Mongolia) on 16 January 2004 under the laws of the PRC and wholly-owned by Neimenggu Mobile BVI
Neimenggu Mobile BVI	Neimenggu Mobile (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands
Ningxia Mobile	Ningxia Mobile Communication Company Limited, a company established in Ningxia on 30 January 2004 under the laws of the PRC and wholly-owned by Ningxia Mobile BVI

DEFINITIONS

Ningxia Mobile BVI	Ningxia Mobile (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands
Noteholders	holders of the Notes
Notes	7 ⁷ /8% notes due 2004 of the Company
PRC or China	The People's Republic of China
Qinghai Mobile	Qinghai Mobile Communication Company Limited, a company established in Qinghai on 2 February 2004 under the laws of the PRC and wholly-owned by Qinghai Mobile BVI
Qinghai Mobile BVI	Qinghai Mobile (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands
RMB	Renminbi, the lawful currency of the PRC
Rothschild	N M Rothschild & Sons (Hong Kong) Limited, an authorised financial institution deemed to have been registered under section 119(1) of the Securities and Futures Ordinance for Types 1, 4, 6 and 9 regulated activities from 1 April 2003 (previously an investment adviser registered with the Securities and Futures Commission) and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition
Securities and Futures Ordinance	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
Shaanxi Mobile	Shaanxi Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Shandong Mobile	Shandong Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Shanghai Mobile	Shanghai Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Shanxi Mobile	Shanxi Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Share(s)	ordinary share(s) of HK\$0.10 each in the capital of the Company
Shareholders	holders of Shares
Sichuan Mobile	Sichuan Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
Stock Exchange	The Stock Exchange of Hong Kong Limited

DEFINITIONS

Target BVI Companies	Neimenggu Mobile BVI, Jilin Mobile BVI, Heilongjiang Mobile BVI, Guizhou Mobile BVI, Yunnan Mobile BVI, Xizang Mobile BVI, Gansu Mobile BVI, Qinghai Mobile BVI, Ningxia Mobile BVI, Xinjiang Mobile BVI, Zhongjing Design Institute BVI and CMC BVI
Target Companies	Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and CMC
Target Group	the group of companies comprising the Target Companies
Target Provincial Companies	Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile and Xinjiang Mobile
Tianjin Mobile	Tianjin Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC
UBS	UBS Investment Bank, which is licensed for Type 1 regulated activity (dealing with securities) and Type 6 regulated activity (advising on corporate finance) under the Securities and Futures Ordinance and financial adviser to the Company in respect of the Acquisition
US dollars or US\$	United States dollars, the lawful currency of the United States of America
Xinjiang Mobile	Xinjiang Mobile Communication Company Limited, a company established in Xinjiang on 3 February 2004 under the laws of the PRC and wholly-owned by Xinjiang Mobile BVI
Xinjiang Mobile BVI	Xinjiang Mobile (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands
Xizang Mobile	Xizang Mobile Communication Company Limited, a company established in Xizang (Tibet) on 9 February 2004 under the laws of the PRC and wholly-owned by Xizang Mobile BVI
Xizang Mobile BVI	Xizang Mobile (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands
Yunnan Mobile	Yunnan Mobile Communication Company Limited, a company established in Yunnan on 19 January 2004 under the laws of the PRC and wholly-owned by Yunnan Mobile BVI
Yunnan Mobile BVI	Yunnan Mobile (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands
Zhejiang Mobile	Zhejiang Mobile Communication Company Limited, a wholly foreign-owned enterprise established under the laws of the PRC and a wholly-owned subsidiary of the Company
Zhongjing Design Institute BVI	Beijing P&T Consulting & Design Institute (BVI) Limited, a company incorporated on 4 March 2004 in the British Virgin Islands

DEFINITIONS

For your convenience and unless otherwise specified, this circular contains translations between RMB and US dollars at RMB8.2767 = US\$1.00, between RMB and Hong Kong dollars at RMB1.0661 = HK\$1.00, and between Hong Kong dollars and US dollars at HK\$7.7636 = US\$1.00, the prevailing rates on 31 December 2003. The translations are not representations that the RMB, Hong Kong dollar and US dollar amounts could actually be converted at those rates, if at all.

Unless otherwise noted, the financial information of the Listed Group presented in this circular includes the results of the Listed Group's subsidiaries, Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile, from 1 July 2002, the date of the Listed Group's acquisition of Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile and, unless otherwise noted, the operating information of the Listed Group presented in this circular includes information of Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile from 1 January 2001.

LETTER FROM THE CHAIRMAN

CHINA MOBILE (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

Executive Directors:

WANG Xiaochu (*Chairman*)

LI Yue

LU Xiangdong

XUE Taohai

HE Ning

LI Gang

XU Long

Independent Non-Executive Directors:

LO Ka Shui

Frank WONG Kwong Shing

Moses CHENG Mo Chi

Non-Executive Directors:

ZHANG Ligui

J. Brian CLARK

Registered Office:

60th Floor

The Center

99 Queen's Road Central

Hong Kong

3 May 2004

*To the Shareholders and, for information only,
the Noteholders and the Convertible Noteholders*

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION
AND CONNECTED TRANSACTION**

Acquisition of Neimenggu Mobile BVI, Jilin Mobile BVI, Heilongjiang

Mobile BVI, Guizhou Mobile BVI, Yunnan Mobile BVI, Xizang Mobile BVI,

Gansu Mobile BVI, Qinghai Mobile BVI, Ningxia Mobile BVI, Xinjiang Mobile BVI,

Zhongjing Design Institute BVI and CMC BVI

1. INTRODUCTION

On 28 April 2004, the Board of Directors announced that the Company had entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire, and CMBVI, the Company's immediate controlling shareholder, agreed to sell, the entire issued share capital of each of the Target BVI Companies, subject to certain conditions.

The Acquisition was negotiated and entered into on an arm's length basis and on normal commercial terms. The total consideration for the Acquisition is US\$3,650 million (equivalent to approximately HK\$28,468.2 million or RMB30,210 million), and will consist of payment of an initial consideration of

LETTER FROM THE CHAIRMAN

US\$2,000 million (equivalent to approximately HK\$15,599.0 million) on completion of the Acquisition and the payment of a deferred consideration of US\$1,650 million (equivalent to approximately HK\$12,869.2 million). The Company intends to finance the initial consideration by using existing internal cash resources and to finance the deferred consideration using internal cash resources and/or proceeds from future external financing, which may include bank financing, the possible issuance of bonds or other sources. The translations above relating to the consideration of the Acquisition between Hong Kong dollars and US dollars and between Renminbi and US dollars are based on the prevailing rates at 12:00 noon (New York City time) on the second Business Day preceding the date of the Acquisition Agreement, being HK\$7.7995 = US\$1.00 and RMB8.2768 = US\$1.00.

As at the Latest Practicable Date, CMBVI owned approximately 75.7% of the issued share capital of the Company. The total assets of the Listed Group as at 31 December 2003 was approximately RMB307,303 million (equivalent to approximately HK\$288,250 million). The total assets of the Target BVI Companies and their subsidiaries, which are the subject of the Acquisition, were approximately 13.9% of the total assets of the Listed Group as of 31 December 2003. For the financial year ended 31 December 2003, the revenue attributable to the Target BVI Companies and their subsidiaries, was approximately 13.0% of the revenue of the Listed Group. The consideration for the Acquisition represented approximately 6.9% of the total market capitalisation of the Company as of 26 April 2004. Accordingly, under the Listing Rules, the Acquisition constitutes both a discloseable transaction and a connected transaction for the Company. The Acquisition requires the approval of the Independent Shareholders at the Extraordinary General Meeting at which CMBVI and its Associates will abstain from voting. The vote of the Independent Shareholders at the Extraordinary General Meeting shall be taken by poll.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Acquisition. In this respect, Rothschild has been retained as the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a copy of its letter of advice is set out on pages 23 to 40 of this circular.

CICC, Goldman Sachs and UBS are the financial advisers to the Company in respect of the Acquisition.

The purpose of this circular is to provide you with further information relating to the Acquisition and to seek your approval of the ordinary resolution set out in the notice of the Extraordinary General Meeting at the end of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on pages 21 to 22 of this circular.

2. THE ACQUISITION

The Company has agreed, subject to certain conditions, to acquire from CMBVI the entire issued share capital of each of the Target BVI Companies for a total consideration of US\$3,650 million (equivalent to approximately HK\$28,468.2 million or RMB30,210 million). The only assets of each of the Target BVI Companies are its entire interest in the respective Target Companies, which include the Target Provincial Companies, Jingyi Design Institute and CMC. As a result of the Acquisition, the Company will assume the net indebtedness of the Target Companies. The aggregate amount of the net indebtedness of all twelve Target Companies amounted to approximately RMB3,878 million (equivalent to approximately US\$469 million or HK\$3,638 million) as of 31 December 2003. The Acquisition is in respect of the entire issued share capital of all twelve Target BVI Companies. Unless the entire issued share capital of all twelve Target BVI Companies can be acquired, the Acquisition will not proceed. Upon completion of the Acquisition, each of the Target BVI Companies will become a wholly-owned subsidiary of the Company.

LETTER FROM THE CHAIRMAN

The Target Provincial Companies are the leading providers of mobile telecommunications services in the provinces or autonomous regions in which they operate. As of 31 December 2003, the Target Provincial Companies had a total of approximately 24.50 million subscribers. Their estimated weighted average market share of mobile telecommunications subscribers was approximately 64.3% in the ten provinces and autonomous regions in which they operate as of 31 December 2003. The number of subscribers and the respective estimated market share of mobile telecommunications subscribers in each of the provinces and autonomous regions as of 31 December 2003 are set out below:

Target Provincial Companies	Number of subscribers	Estimated market share of mobile telecommunications subscribers in the province or autonomous region in which the Target Provincial Company is located⁽¹⁾
	<i>(in thousands)</i>	<i>(%)</i>
Neimenggu Mobile	3,079	64.3
Jilin Mobile	3,830	66.6
Heilongjiang Mobile	4,923	58.5
Guizhou Mobile	2,634	79.9
Yunnan Mobile	4,249	67.6
Xizang Mobile	309	93.3
Gansu Mobile	1,714	61.9
Qinghai Mobile	625	62.3
Ningxia Mobile	805	65.7
Xinjiang Mobile	2,329	55.3

⁽¹⁾ Calculated based on the total number of mobile telecommunications subscribers in the relevant geographical regions as estimated by the Target Provincial Companies.

CMC carries out certain network and business coordination functions for the Target Provincial Companies and the Listed Group. Such functions include, among other things, the coordination of network operations, network construction projects and nation-wide advertising and marketing campaigns, the coordination of spectrum, the operation of national roaming settlement and billing backup facilities, research and development (including the setting and the coordination of technical specifications and standards) and certain administrative functions.

Jingyi Design Institute is a leading large-scale telecommunications network planning and design institute operating in the PRC. It primarily provides design and consulting services for telecommunications operators. Jingyi Design Institute has the capability and the necessary qualifications to carry out large-scale and sophisticated work in the design of wireless and wireline telecommunications networks, which may include switching, radio, transmission and satellite networks for both voice and data telecommunications. Through its subsidiary, Jingyi Design Institute also provides construction project supervisory services.

LETTER FROM THE CHAIRMAN

3. THE CONSIDERATION FOR THE ACQUISITION

The consideration for the Acquisition was determined based on various factors, including the quality of the assets being acquired and their long-term growth prospects, their current and future earnings potential, current financial positions and future investment needs, as well as by reference to other financial and operational factors.

The consideration for the Acquisition will represent 9.69 times the combined 2004 forecast net profit of approximately RMB3,117 million (equivalent to approximately HK\$2,924 million) of the Target Group. In addition, the enterprise value of the Target Group of RMB34,088 million (equivalent to approximately HK\$32,122 million, calculated using the prevailing exchange rate on the second Business Day preceding the day on which the Acquisition was announced) will represent a multiple of 2.85 times the combined 2004 forecast adjusted EBITDA of approximately RMB11,971 million (equivalent to approximately HK\$11,229 million) of the Target Group. The number of subscribers of the Target Provincial Companies is estimated to reach 28.93 million as of 31 December 2004 and the operating revenue of the Target Group for the year 2004 is expected to maintain double-digit growth. The forecast combined net profit and combined adjusted EBITDA of the Target Group are based on certain prospective financial information prepared by the Company and the Target Companies.

The Acquisition was negotiated and entered into on an arm's length basis and on normal commercial terms. The total consideration for the Acquisition is US\$3,650 million (equivalent to approximately HK\$28,468.2 million or RMB30,210 million), and will consist of payment of an initial consideration and a deferred consideration.

The initial consideration of US\$2,000 million (equivalent to approximately HK\$15,599.0 million) will be satisfied on completion of the Acquisition by payment in cash to CMBVI, in HK dollars, RMB, US dollars or a combination of the above currencies.

The deferred consideration, in the amount of US\$1,650 million (equivalent to approximately HK\$12,869.2 million), represents the difference between the total consideration and the initial consideration. The Company will pay interest to CMBVI at half-yearly intervals on the actual amount of deferred consideration remaining unpaid from the date of completion of the Acquisition. Interest is accrued daily and is calculated at 2.595% per annum for the first two years after completion of the Acquisition, which was the two-year US dollar LIBOR swap rate at 11:00 a.m. (New York City time) on 26 April 2004, being the second Business Day preceding the date of the Acquisition Agreement. Thereafter, the interest rate will be adjusted every two years to equal the two-year US dollar LIBOR swap rate prevailing at 11:00 a.m. (New York City time) on the relevant Interest Determination Date. The translations above relating to the consideration of the Acquisition between Hong Kong dollars and US dollars and between Renminbi and US dollars are based on the prevailing rates at 12:00 noon (New York City time) on the second Business Day preceding the date of the Acquisition Agreement, being HK\$7.7995 = US\$1.00 and RMB8.2768 = US\$1.00.

The deferred consideration is subordinated to other senior debts of the Company incurred from time to time including, but not necessarily limited to, the US\$600 million Notes and the US\$690 million Convertible Notes issued by the Company in 1999 and 2000, respectively. The deferred consideration is payable fifteen years after the date of completion of the Acquisition. The Company may make early payment of all or part of the deferred consideration, from time to time, at any time after completion of the Acquisition, without penalty. Any early payment can be made only if it does not have a significant impact on the Company's ability to repay any senior debt to which the deferred consideration is subordinated.

LETTER FROM THE CHAIRMAN

The payment of the deferred consideration and the interest payments can be made in Hong Kong dollars, RMB or US dollars (or other currencies as may be agreed by the Company and CMBVI). Any payment made in currencies other than US dollars will be accounted for based on the exchange rates between US dollars and such currencies prevailing at 12:00 noon (New York City time) on 26 April 2004, which was the second Business Day preceding the date of the Acquisition Agreement.

The Board takes the view that the consideration payable by the Company for the Target Companies and the other terms of the Acquisition are fair and reasonable. In particular, the Board is of the view that the terms of the deferred consideration are more favourable than the usual terms of a commercial bank loan of a similar size and term. The Board is of the view that the Acquisition is in the interests of the Company and its investors and recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve the Acquisition at the Extraordinary General Meeting.

LETTER FROM THE CHAIRMAN

The following depicts the corporate structure of the Company, with its principal operating subsidiaries, following completion of the Acquisition:

LETTER FROM THE CHAIRMAN

-
- (1) CMCC owns 100% of the economic interest in CMHKG.
- (2) Aspire Holdings Limited is a 66.41% owned subsidiary of the Company incorporated in the Cayman Islands in June 2000 and is engaged in the provision of wireless data and Internet enabling technologies, applications and service platforms.
- (3) Nineteen of the existing twenty-one provincial operating subsidiaries and the twelve Target Companies are, and will be, held by the Company through thirty-one companies incorporated in the British Virgin Islands.

Further information on the Target Companies is set out in Appendix I to this circular.

4. FINANCING OF THE ACQUISITION

The Company intends to finance the initial consideration by using existing internal cash resources.

The Company intends to finance the deferred consideration using internal cash resources and/or proceeds from future external financing, which may include bank financing, the possible issuance of bonds or other sources.

5. CONDITIONS OF THE COMPLETION OF THE ACQUISITION

Completion of the Acquisition is conditional upon the fulfilment of certain conditions on or before 30 September 2004, or such later date as CMBVI and the Company may agree. These conditions include:

- (a) the passing of resolutions by the Independent Shareholders approving the Acquisition;
- (b) there having been no material adverse change to the financial condition, business operations, or prospects of any of the Target BVI Companies or the Target Companies; and
- (c) the receipt of various approvals and registrations from the relevant PRC regulatory authorities.

Certain PRC regulatory approvals have been obtained. In addition, application has been made for approval by the relevant Chinese regulatory authorities in relation to the change of legal status of the Target Companies to wholly foreign-owned enterprises, and is being reviewed by the relevant Chinese regulatory authorities.

Each of the Target Companies currently has a legal person business licence as a limited liability company. Upon approval by the relevant Chinese regulatory authorities, the legal person business licence of each of the Target Companies will be replaced by a new one issued by the local Administration for Industry and Commerce to reflect its status as a wholly foreign-owned enterprise. The Company expects that the new legal person business licences will be obtained within six months after receiving such approval from the relevant Chinese regulatory authorities. The businesses of the Target Companies will not be affected by the process of issuance of such new business licences.

The Acquisition shall be completed following the fulfilment (or waiver) of the above conditions, and is expected to take place on 1 July 2004, or such other date as may be agreed between CMBVI and the Company, following notification by the Company to CMBVI of the fulfilment or waiver of all the conditions. If any of the above-mentioned conditions is not fulfilled or waived by 30 September 2004, or such other date as CMBVI and the Company may agree, the Acquisition Agreement shall lapse.

LETTER FROM THE CHAIRMAN

6. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition is an important milestone for the Company. Upon completion of the Acquisition, the Listed Group will be able to extend its network coverage and provide mobile services to all provinces, autonomous regions and directly administered municipalities throughout Mainland China. The Acquisition represents an attractive opportunity for the Listed Group to consolidate its position as the market leader and to further capitalise on the growth potential of the Chinese telecommunications industry and create value for its investors.

The Directors believe that contiguous coverage throughout the country will enhance the economies of scale of the Listed Group's operations and will enable the Listed Group to provide better services to its existing and future customers. The integration of telecommunications operations throughout the country under the Listed Group will permit the effective implementation of a unified development strategy throughout the country.

Each of the Target Provincial Companies is the leading provider of mobile telecommunications services in its respective region. The Target Provincial Companies have experienced significant growth in the total number of subscribers from approximately 13.85 million as of 31 December 2001 to approximately 24.50 million as of 31 December 2003. The Directors believe that the Acquisition will enhance the Listed Group's leading position in the mobile telecommunications market in China.

On a pro forma basis, based on information as of 31 December 2003, the number of subscribers of the Listed Group will increase from approximately 141.62 million before the Acquisition, or approximately 52.7% of all mobile subscribers in Mainland China as of such date, to approximately 166.12 million after the Acquisition, or approximately 61.8% of all mobile subscribers in Mainland China as of such date. The Acquisition will expand the areas where the Listed Group operates. The population in these areas will increase from approximately 1.05 billion to approximately 1.29 billion. The Directors believe that the Acquisition will provide a solid foundation for the Listed Group's future growth.

Upon completion of the Acquisition, the Listed Group will consolidate the network and business coordination functions of the thirty-one provinces, autonomous re