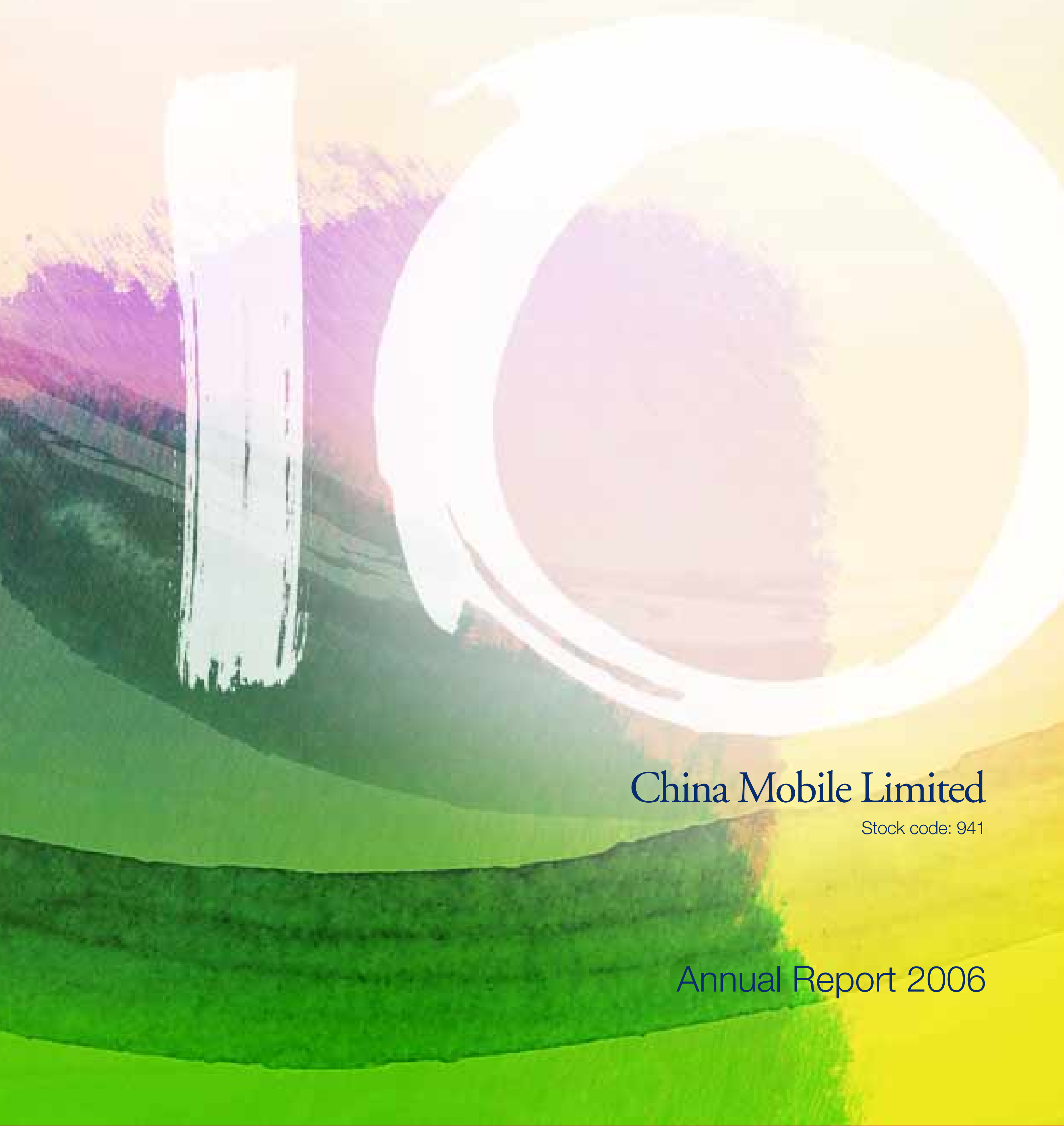
北京2008年奥运会合作伙伴
Partner of the Beijing 2008 Olympic Games



# China Mobile Limited

Stock code: 941

## Annual Report 2006

# Milestones




## 1997

**3 September**
China Telecom (Hong Kong) Limited was incorporated in Hong Kong and later changed its name to China Mobile (Hong Kong) Limited and its name was subsequently changed to China Mobile Limited.

**22 & 23 October**
China Telecom (Hong Kong) Limited raised US$4.2 billion in its Initial Public Offering, with its shares listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited, respectively.

## 1998

**4 June**
China Telecom (Hong Kong) Limited completed the acquisition of Jiangsu Mobile.

## 1999

**2 November**
China Telecom (Hong Kong) Limited completed an equity offering of approximately US$2 billion and an offering of global notes of US$600 million due 2004.

**12 November**
China Telecom (Hong Kong) Limited completed the acquisition of Fujian Mobile, Henan Mobile and Hainan Mobile.

## 2000

**28 June**
China Telecom (Hong Kong) Limited changed its name to China Mobile (Hong Kong) Limited.

**4 October**
China Mobile (Hong Kong) Limited and Vodafone Group Plc. entered into a strategic investor subscription agreement, whereby Vodafone Group Plc. agreed to acquire new shares of China Mobile (Hong Kong) Limited for US$2.5 billion.

**3 November**
China Mobile (Hong Kong) Limited completed an equity offering of approximately US$6.865 billion and an offering of convertible notes of US$690 million due 2005. China Mobile (Hong Kong) Limited also raised RMB12.5 billion by way of syndicated loans.

**13 November**
China Mobile (Hong Kong) Limited completed the acquisition of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile.

## 2001

**18 June**
China Mobile (Hong Kong) Limited, through its wholly-owned subsidiary Guangdong Mobile, issued an aggregate of RMB5 billion of corporate bonds in China, which were successfully listed on the Shanghai Stock Exchange on 23 October 2001.

## 2002

**1 July**
China Mobile (Hong Kong) Limited completed the acquisition of Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile.

**28 October**
China Mobile (Hong Kong) Limited, through its wholly-owned subsidiary, Guangdong Mobile, issued a further RMB8 billion in aggregate of corporate bonds in China.

## 2003

**22 January**
The RMB8 billion corporate bonds, issued in China through China Mobile (Hong Kong) Limited's wholly-owned subsidiary, were listed and commenced trading on the Shanghai Stock Exchange and received an enthusiastic response from the market.

## 2004

**1 July**
China Mobile (Hong Kong) Limited completed the acquisition of Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, China Mobile Communication Company Limited and Beijing P&T Consulting & Design Institute Company Limited. The Company became the first overseas-listed PRC telecommunications company operating in all 31 provinces (autonomous regions and directly-administered municipalities) in Mainland China.

**5 November**
Mr. Wang Xiaochu resigned from his position as an Executive Director, Chairman and Chief Executive Officer of the Company. After the review and approval by the Board and the Nomination Committee of the Company, Mr. Wang Jianzhou has been appointed as an Executive Director, Chairman and Chief Executive Officer of the Company and is in charge of the overall management of the Company.

## 2005

**10 November**
China Mobile (Hong Kong) Limited made a voluntary conditional cash offer for all the issued shares of China Resources Peoples Telephone Company Limited through its wholly-owned subsidiary, Fit Best Limited.

## 2006

**28 March**
China Mobile (Hong Kong) Limited completed the acquisition and privatization of former China Resources Peoples Telephone Company Limited and later changed its name to China Mobile Peoples Telephone Company Limited. China Mobile Peoples Telephone Company Limited became a wholly-owned subsidiary of China Mobile (Hong Kong) Limited.

**29 May**
China Mobile (Hong Kong) Limited changed its name to China Mobile Limited.

**8 June**
China Mobile Limited entered into a memorandum of understanding with News Corporation and STAR Group Limited to build a long-term wireless media strategic alliance.

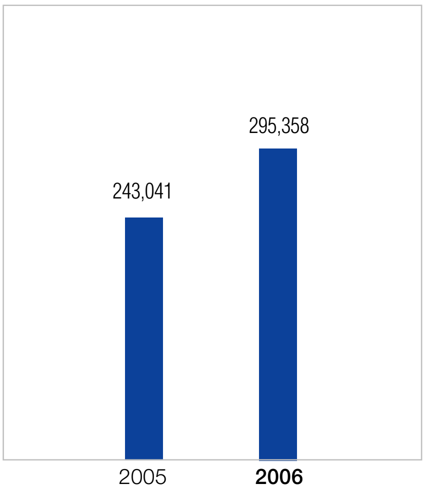
# CONTENTS

# FINANCIAL HIGHLIGHTS

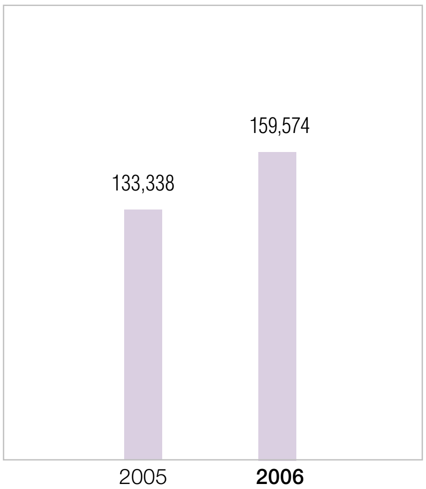
| | 2006 | 2005 | Growth |
|---|---|---|---|
| Operating revenue (Turnover) (RMB Million) | **295,358** | 243,041 | 21.5% |
| EBITDA (RMB Million) | **159,574** | 133,338 | 19.7% |
| EBITDA margin | **54.0%** | 54.9% | |
| Profit attributable to shareholders (RMB Million) | **66,026** | 53,549 | 23.3% |
| Basic earnings per share (RMB) | **3.32** | 2.71 | 22.5% |
| Dividend per share – Interim (HK$) | | | |
| – Ordinary | **0.62** | 0.45 | |
| – Special | **0.09** | – | |
| – Final (HK$) | | | |
| – Ordinary | **0.763** | 0.57 | |
| – Special | **0.069** | – | |
| – Full year (HK$) | **1.542** | 1.02 | |

*Note:*
*Financial information for the year 2006 set out in this Financial Highlights includes the operating results of the Company, its thirty-one subsidiaries in Mainland China and the newly acquired China Mobile Peoples Telephone Company Limited whereas that of the year 2005 includes the operating results of the Company and its thirty-one operating subsidiaries.*

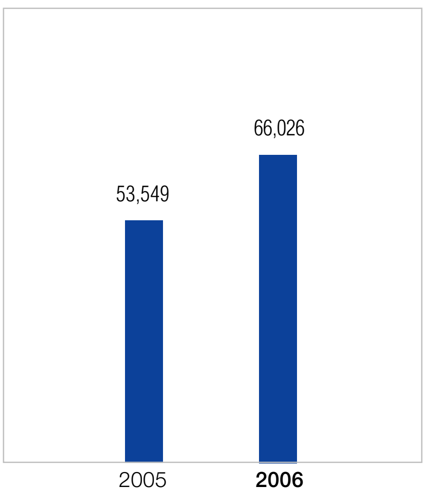
**OPERATING REVENUE (TURNOVER)**
*(RMB Million)*



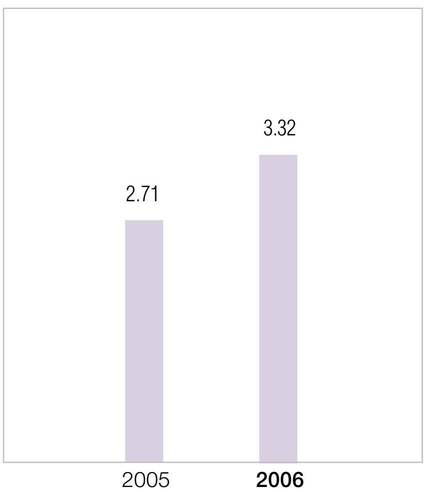

**EBITDA**
*(RMB Million)*




**PROFIT ATTRIBUTABLE TO SHAREHOLDERS**
*(RMB Million)*




**BASIC EARNINGS PER SHARE**
*(RMB)*



**China Mobile Limited (the "Company", and together with its subsidiaries, the "Group") was incorporated in Hong Kong on 3 September 1997. The Company was listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited on 22 October 1997 and 23 October 1997, respectively. The Company was admitted as a constituent stock of the Hang Seng Index in Hong Kong on 27 January 1998. As the leading mobile services provider in China, the Group boasts the world's largest unified, contiguous all-digital mobile network and the world's largest mobile subscriber base. In 2006, the Company was once again selected as one of the "FT Global 500" by Financial Times, and the "The World's 2000 Biggest Public Companies" by Forbes magazine. Currently, the Company's corporate credit rating is A/Outlook Stable by Standard and Poor's and A2/Positive Outlook by Moody's (respectively equivalent to China's sovereign credit rating).**

The Company owns 100 per cent. interest in China Mobile Group Guangdong Company Limited ("Guangdong Mobile"), China Mobile Group Zhejiang Company Limited ("Zhejiang Mobile"), China Mobile Group Jiangsu Company Limited ("Jiangsu Mobile"), China Mobile Group Fujian Company Limited ("Fujian Mobile"), China Mobile Group Henan Company Limited ("Henan Mobile"), China Mobile Group Hainan Company Limited ("Hainan Mobile"), China Mobile Group Beijing Company Limited ("Beijing Mobile"), China Mobile Group Shanghai Company Limited ("Shanghai Mobile"), China Mobile Group Tianjin Company Limited ("Tianjin Mobile"), China Mobile Group Hebei Company Limited ("Hebei Mobile"), China Mobile Group Liaoning Company Limited ("Liaoning Mobile"), China Mobile Group Shandong Company Limited ("Shandong Mobile"), China Mobile Group Guangxi Company Limited ("Guangxi Mobile"), China Mobile Group Anhui Company Limited ("Anhui Mobile"), China Mobile Group Jiangxi Company Limited ("Jiangxi Mobile"), China Mobile Group Chongqing Company Limited ("Chongqing Mobile"), China Mobile Group Sichuan Company Limited ("Sichuan Mobile"), China Mobile Group Hubei Company Limited ("Hubei Mobile"), China Mobile Group Hunan Company Limited ("Hunan Mobile"), China Mobile Group Shaanxi Company Limited ("Shaanxi Mobile"), China Mobile Group Shanxi Company Limited ("Shanxi Mobile"), China Mobile Group Neimenggu Company Limited ("Neimenggu Mobile"), China Mobile Group Jilin Company Limited ("Jilin Mobile"), China Mobile Group Heilongjiang Company Limited ("Heilongjiang Mobile"), China Mobile Group Guizhou Company Limited ("Guizhou Mobile"), China Mobile Group Yunnan Company Limited ("Yunnan Mobile"), China Mobile Group Xizang Company Limited ("Xizang

Mobile"), China Mobile Group Gansu Company Limited ("Gansu Mobile"), China Mobile Group Qinghai Company Limited ("Qinghai Mobile"), China Mobile Group Ningxia Company Limited ("Ningxia Mobile"), China Mobile Group Xinjiang Company Limited ("Xinjiang Mobile") and China Mobile Peoples Telephone Company Limited ("Peoples") and operates nationwide mobile telecommunications networks in all 31 provinces, autonomous regions and directly-administered municipalities in Mainland China and in Hong Kong SAR through these thirty-two subsidiaries.

As of 31 December 2006, the Group had an aggregate staff of 111,998 and an aggregate mobile telecommunications subscriber base of over 301.2 million, and enjoyed a market share of approximately 67.5 per cent. in Mainland China. The Group's GSM global roaming services covered 219 countries and regions and its GPRS roaming services covered 138 countries and regions.

The Company's majority shareholder is China Mobile (Hong Kong) Group Limited, which, as of 31 December 2006, indirectly held an equity interest of approximately 74.57 per cent. of the Company through a wholly-owned subsidiary, China Mobile Hong Kong (BVI) Limited. The remaining equity interest of approximately 25.43 per cent. of the Company was held by public investors.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. WANG Jianzhou
*(Executive Director, Chairman & Chief Executive Officer)*
Mr. LI Yue
*(Executive Director & Vice President)*
Mr. LU Xiangdong
*(Executive Director & Vice President)*
Mr. XUE Taohai
*(Executive Director, Vice President & Chief Financial Officer)*
Mr. ZHANG Chenshuang
*(Executive Director & Vice President)*
Mr. SHA Yuejia
*(Executive Director & Vice President)*
Mr. LIU Aili
*(Executive Director & Vice President)*
Madam XIN Fanfei
*(Executive Director & Vice President)*
Mr. XU Long
*(Executive Director of the Company & President of Guangdong Mobile)*

### Independent Non-Executive Directors

Dr. LO Ka Shui
Mr. Frank WONG Kwong Shing
Mr. Moses CHENG Mo Chi

### Non-Executive Director

Mr. Paul Michael DONOVAN

## PRINCIPAL BOARD COMMITTEES

### Audit Committee

Dr. LO Ka Shui *(Chairman)*
Mr. Frank WONG Kwong Shing
Mr. Moses CHENG Mo Chi

### Remuneration Committee

Dr. LO Ka Shui *(Chairman)*
Mr. Frank WONG Kwong Shing
Mr. Moses CHENG Mo Chi

### Nomination Committee

Dr. LO Ka Shui *(Chairman)*
Mr. Frank WONG Kwong Shing
Mr. Moses CHENG Mo Chi

## COMPANY SECRETARY

Ms. WONG Wai Lan, Grace (ACS, ACIS)

## QUALIFIED ACCOUNTANT

Ms. NG Phek Yen (CPA, ACCA)

## AUDITORS

KPMG

## LEGAL ADVISERS

Linklaters
Sullivan & Cromwell LLP

## REGISTERED OFFICE

60/F., The Center
99 Queen's Road Central
Hong Kong

### Public and Investor Relations:

Tel: 852 3121 8888
Fax: 852 2511 9092
Website: www.chinamobileltd.com
Stock code: (Hong Kong) 941
(New York) CHL
CUSIP Reference Number: 16941M109

## SHARE REGISTRAR

Hong Kong Registrars Limited
Shops 1712–1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## AMERICAN DEPOSITARY RECEIPTS DEPOSITARY

The Bank of New York
101 Barclay Street, 22/F
New York NY 10286
USA
Tel: 1 888 269 2377 (toll free in USA)

## PUBLICATIONS

As required by the United States securities laws and regulations, the Company will file an annual report on Form 20-F with the United States Securities and Exchange Commission before 30 June 2007. Copies of the annual report of the Company as well as the annual report on Form 20-F, once filed, will be available at:

**Hong Kong:**
China Mobile Limited
60/F., The Center
99 Queen's Road Central
Hong Kong

**The United States:**
The Bank of New York
101 Barclay Street, 22/F
New York NY 10286
USA

# BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

**FRONT ROW**

**Mr. WANG Jianzhou** *(Center)*
*Executive Director, Chairman and Chief Executive Officer*

**Mr. LI Yue** *(Right)*
*Executive Director and Vice President*

**Mr. LU Xiangdong** *(Left)*
*Executive Director and Vice President*

**BACK ROW**

**Mr. XUE Taohai** *(Center)*
*Executive Director, Vice President and Chief Financial Officer*

**Mr. ZHANG Chenshuang** *(Second left)*
*Executive Director and Vice President*

**Mr. SHA Yuejia** *(Second right)*
*Executive Director and Vice President*

**Mr. LIU Aili** *(Left)*
*Executive Director and Vice President*

**Madam XIN Fanfei** *(Right)*
*Executive Director and Vice President*




## EXECUTIVE DIRECTORS

1. **Mr. WANG Jianzhou**
Age 58, Executive Director, Chairman and Chief Executive Officer of the Company, joined the Board of Directors of the Company in November 2004. Mr. Wang is in charge of the overall management of the Company. He is also the President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company), and Chairman of China Mobile Communication Co., Ltd.. He formerly served as Deputy Director General and Director General of the Posts and Telecommunications Bureau of Hangzhou City, Deputy Director General of the Posts and Telecommunications Administration of Zhejiang Province, Director General of the Department of Planning and Construction of the Ministry of Posts and Telecommunications, Director General of the Department of General Planning of the Ministry of Information Industry, Director, Executive Vice President, President and Chairman of China United Telecommunications Corporation, Executive Director, President, Chairman and Chief Executive Officer of China Unicom Limited, and Chairman and President of China United Telecommunications Corporation Limited. Mr. Wang graduated in 1985 from Department of Management Engineering of Zhejiang University with a Master's Degree in Engineering, and holds a doctoral degree in business administration from Hong Kong Polytechnic University. Mr. Wang is a professor-level senior engineer with extensive knowledge and 29 years of experience in the telecommunications industry.

2. **Mr. LI Yue**
Age 48, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in March 2003. Mr. Li assists the Chief Executive Officer in relation to the matters of network, planning, development strategy and management information systems of the Company. He has also held the post of Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company) since April 2000. Mr. Li is also a director of China Mobile Communication Co., Ltd.. He previously served as the Deputy Director General of the Tianjin Posts and Telecommunications Administration and the President of Tianjin Mobile Communications Company. Mr. Li graduated from Tianjin University with a Master's Degree, and holds a doctoral degree in business administration from Hong Kong Polytechnic University. Mr. Li is a professor-level senior engineer with over 31 years of experience in the telecommunications industry.

3. **Mr. LU Xiangdong**
Age 47, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in March 2003. Mr. Lu assists the Chief Executive Officer principally with respect to marketing, data, corporate customer matters of the Company. He has also held the post of Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company) since April 2000. Mr. Lu is also a director of China Mobile Communication Co., Ltd., Chairman of Aspire Holdings Limited and a director of Phoenix Satellite Television Holdings Ltd.. He previously served as the Director General of the Fujian Wireless Telecommunications Administration and the Deputy Director General of the Mobile Telecommunications Bureau of the Ministry of Posts and Telecommunications. Mr. Lu graduated from the Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications with a Master's Degree in wireless telecommunication, and holds a doctoral degree in economics from Peking University. Mr. Lu is a professor-level senior engineer with nearly 25 years of experience in the telecommunications industry.

4. **Mr. XUE Taohai**
Age 51, Executive Director, Vice President and Chief Financial Officer of the Company, joined the Board of Directors of the Company in July 2002. Mr. Xue assists the Chief Executive Officer in relation to the management of corporate finance and human resources remuneration of the Company. He is also a Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company) and a director of China Mobile Communication Co., Ltd.. Mr. Xue previously served as the Deputy Director General of the Finance Department of the former Ministry of Posts and Telecommunications, Deputy Director General of the Department of Financial Adjustment and Clearance of the Ministry of Information Industry and Deputy Director General of the former Directorate General of Telecommunications. He graduated from Henan University and received an EMBA degree from Peking University. Mr. Xue is a senior accountant with over 27 years of experience in the telecommunications industry and financial management.

5. **Mr. ZHANG Chenshuang**
Age 55, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in July 2004. Mr. Zhang assists the Chief Executive Officer in relation to the corporate affairs of the Company. He has also held the post of Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company) since April 2001. Mr. Zhang is also a director of China Mobile Communication Co., Ltd.. He previously served as the Deputy Director General of the Office of the Ministry of Posts and Telecommunications, the Director General of the Neimenggu Posts and Telecommunications Administration, and the Assistant to the President of China Mobile Communications Corporation. Mr. Zhang graduated from the Party School of the CPC and received a MBA degree from Hong Kong Polytechnic University. He is a senior economist with over 27 years of experience in the telecommunications industry.

## EXECUTIVE DIRECTORS

6. **Mr. SHA Yuejia**
Age 49, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in March 2006. Mr. Sha assists the Chief Executive Officer in relation to business support, technology and R&D of the Company. He is also a Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company) and a director of China Mobile Communication Co., Ltd.. He previously served as Director of the Engineering Construction Department IV Division of Beijing Telecommunications Administration, President of Beijing Telecommunications Planning Design Institute, Deputy Director General of Beijing Telecommunications Administration, Vice President of Beijing Mobile Communications Company, Director and Vice President, Chairman and President of Beijing Mobile. Mr. Sha graduated from Beijing University of Posts and Telecommunications, and received a Master's Degree from the Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications and a doctoral degree in business administration from Hong Kong Polytechnic University. He is a professor-level senior engineer with over 24 years of experience in the telecommunications industry.

7. **Mr. LIU Aili**
Age 43, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in March 2006. Mr. Liu assists the Chief Executive Officer in relation to business expansion of the Company. He is also a Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company), a director of China Mobile Communication Co., Ltd. and Chairman of Paktel Limited. He previously served as Deputy Director General of Shandong Mobile Telecommunications Administration, Director General of Shandong Mobile Telecommunications Administration and General Manager of Shandong Mobile Communications Enterprises, Vice President of Shandong Mobile Communications Company, Director-General of Network Department of China Mobile Communications Corporation, Chairman and President of Shandong Mobile and Zhejiang Mobile. Mr. Liu graduated from Heilongjiang Posts and Telecommunications School with an associate degree and completed a post-graduate program in economics at Shandong University. Mr. Liu also received a Master of Management degree from Norwegian School of Management BI and a doctoral degree in business administration from Hong Kong Polytechnic University. He is a professor-level senior engineer with over 24 years of experience in the telecommunications industry.

8. **Madam XIN Fanfei**
Age 50, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in January 2006. Madam Xin assists the Chief Executive Officer in relation to the general administration and investor and media relations of the Company. She is also Chairwoman of Peoples. She previously served as Deputy Director of the Foreign Affairs Division, Deputy Director of the Planning Division and Chief of the Planning Office, Director of the Planning Division, Director of the Department of Planning and Construction of Tianjin Posts and Telecommunications Administration, Assistant to the Director General and Director of the Department of Planning and Construction of Tianjin Mobile Telecommunications Administration, Vice President of Tianjin Mobile Communications Company, Vice President of Tianjin Mobile, President of Heilongjiang Mobile Communications Company, and Chairwoman and President of Heilongjiang Mobile. Madam Xin graduated from Xidian University and received an EMBA degree from Peking University. She is currently pursuing a doctoral degree in business administration from Hong Kong Polytechnic University. Madam Xin is a professor-level senior engineer with many years of experience in the telecommunications industry.

9. **Mr. XU Long**
Age 50, Executive Director of the Company, joined the Board of Directors of the Company in August 1999. Mr. Xu is the Chairman and President of Guangdong Mobile, responsible for the Company's mobile telecommunications operations in Guangdong Province. He previously served as the Deputy Director of the Shaoxing Posts and Telecommunications Bureau, President of Zhejiang Nantian Posts and Telecommunications Group Company, Director of the General Office and Deputy Director General of the Posts and Telecommunications Administration in Zhejiang Province, and Chairman and President of Zhejiang Mobile. He graduated from Zhejiang Radio and Television University in 1985, and holds a doctoral degree in business administration from Hong Kong Polytechnic University. Mr. Xu is a senior economist with 29 years of experience in the telecommunications industry.

## NON-EXECUTIVE DIRECTOR

**10. Mr. Paul Michael DONOVAN**

Age 48, Non-Executive Director of the Company, joined the Board of Directors of the Company in June 2006. Mr. Donovan is currently Vodafone's Chief Executive Officer for EMAPA. He is also a member of the Executive Committee of Vodafone, a director of Vodafone's operating companies located in Turkey, Hungary, Australia, New Zealand, Egypt, Czech Republic and Romania and also a director of certain other subsidiaries of Vodafone. Prior to his appointment as the Chief Executive Officer of EMAPA division, Mr. Donovan was Chief Executive Officer of the Other Vodafone Subsidiaries ("OVS"), which included 14 of Vodafone's operating subsidiaries. Mr. Donovan joined Vodafone UK in 1999 as Managing Director – Commercial, and in 2001 was appointed the Chief Executive Officer of Vodafone Ireland. In 2004 he assumed the additional role of Global Director of Business Integration, leading One Vodafone, Vodafone's business transformation programme. Mr. Donovan began his career in FMCG sales and marketing at the Mars Group, before becoming Marketing Director at Coca-Cola and Schweppes Beverages in 1989. He holds a BA in Scandinavian Studies from University College London and a Masters Degree in Business Administration from Bradford University Management Centre, and has over 15 years experience in the telecommunications and IT industries, gained at Apple Computer, BT and Cable and Wireless subsidiary One2One as Commercial Director, and as Chief Commercial Officer at Australian telecoms provider Optus Communications. His other directorships held in listed public companies in the last three years include Vodafone Libertel NV, Vodafone Egypt Telecommunications S.A.E., Vodafone-PanafonHellenic Telecommunications Company S.A. and Bharti Tele-Ventures Limited.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**11. Dr. LO Ka Shui**

Age 60, Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in April 2001. Dr. Lo is the Chairman and Managing Director of Great Eagle Holdings Limited, and is the non-executive chairman of Eagle Asset Management (CP) Limited (Manager of the publicly listed Champion Real Estate Investment Trust). He is also a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited, City e-Solutions Limited, Melco International Development Limited, The HSBC China Fund Limited, Tom Online Inc. and Winsor Properties Holdings Limited. Apart from the aforesaid, he does not hold any other directorships in other listed public companies in the last three years, and was a Director of Hong Kong Exchanges and Clearing Limited. He is also a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research and a Member of the Airport Authority. Dr. Lo graduated with a Bachelor of Science Degree from McGill University in Canada and a Doctorate Degree in medicine from Cornell University in the United States. He is board certified in cardiology. He has more than 27 years of experience in property and hotel development and investment both in Hong Kong and overseas.

**12. Mr. Frank WONG Kwong Shing**

Age 59, Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in August 2002. Mr. Wong is currently Vice Chairman of DBS Bank, Chief Operating Officer and a member of the DBS Bank and DBS Group Holdings boards, and Chairman of DBS Bank (Hong Kong). Mr. Wong is also a director of the Singapore Tourism Board, National Healthcare Group Pte Ltd and Mapletree Investments Pte Ltd, and is a member of the University Court of The University of Hong Kong. He previously held a series of progressively senior positions with regional responsibility at Citibank, JP Morgan and NatWest from 1967 to 1999. Mr. Wong has also served in various positions with Hong Kong's government bodies including the Chairman of the Hong Kong Futures Exchange. Mr. Wong has many years of finance and commercial management experience.

**13. Mr. Moses CHENG Mo Chi**

Age 57, Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in March 2003. Mr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co. Mr. Cheng was a member of the Legislative Council of Hong Kong between 1991 and 1995. He is the Founder Chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. His other directorships held in listed public companies in the last three years include Beijing Capital International Airport Company Limited, City Telecom (HK) Limited, China COSCO Holdings Company Limited, China Resources Enterprise, Limited, Guangdong Investment Limited, Kader Holdings Company Limited, Galaxy Entertainment Group Limited (formerly known as K. Wah Construction Materials Limited), Liu Chong Hing Investment Limited, Shui On Construction and Materials Limited, Tian An China Investments Company Limited and Hong Kong Exchanges and Clearing Limited.


正德厚生
臻于至善

**Dear Shareholders,**

**In 2006, with the benefits of stable and rapid economic growth in China, with the vibrant market demand and a rational competitive environment, the Group leveraged its strong competitive advantages and achieved rapid business development on top of its sustained growth in recent years. These were attained through leveraging network and brand advantages, strengthening economies of scale, developing innovative capabilities, enhancing management and service and implementing proactive and effective marketing strategies. The Group's subscriber base surpassed 300 million and its leading position in the mobile telecommunications market in China was further consolidated. The Group achieved remarkable operating results.**

## REMARKABLE OPERATING RESULTS

In 2006, the Group's operating revenue achieved notable growth and reached RMB295,358 million, representing an increase of 21.5 per cent. over the previous year. Profitability was further enhanced, and profit attributable to shareholders reached RMB66,026 million, representing an increase of 23.3% over the previous year. Margin of profit attributable to shareholders reached a relatively high level of 22.4%. EBITDA reached RMB159,574 million and basic earnings per share reached RMB3.32, representing an increase of 19.7 per cent. and 22.5 per cent. over the previous year, respectively. Notably, the Group's revenue attributable to its value-added business continued to maintain a rapid growth momentum and amounted to RMB69,309 million in 2006, representing an increase of 38.1 per cent. over the previous year. The revenue attributable to value-added business accounted for 23.5 per cent. of the Group's total operating revenue in 2006, 2.9 percentage points above that in the previous year, which is at a relatively high level among its international peers in the industry. The Group believes that its sound capital structure and financial strengths will further provide a solid foundation for sustainable future development.

## BUSINESS DEVELOPMENT

In 2006, while striving to retain its existing customers and stimulate customer usage volume, the Group actively explored market opportunities and developed new customers with a particular focus on the development of the rural mobile telecommunications market in China. The Group's subscriber base continued to grow rapidly and voice usage volume achieved a notable increase. During the year the Group maintained relatively rapid and parallel growth in its subscriber base, revenue and profit. As at 31 December 2006, the Group's total subscriber base reached 301 million, total usage volume reached 1,252.15 billion minutes, average minutes of usage per user per month (MOU) reached 381 minutes and average revenue per user per month (ARPU) was RMB90.

The rural mobile telecommunications market in China presents a momentum of robust growth. The Group strengthened its efforts in the development of the rural market and further improved its network coverage in rural areas. The Group enhanced resource utilization and controlled its customer acquisition costs and service costs through large-scale integrated sales. The Group also developed products and services targeting rural customers and launched sales packages that fit the unique consumption characteristics in rural areas. In 2006, nearly half of the Group's subscriber growth came from rural markets.

In 2006, the Group kept forging ahead with keen determination and proactively pursued innovation. The Group continued to promote product innovation and business expansion. The proportion of the total revenue attributable to the Group's value-added business continued to increase and a hierarchical product structure was established to meet the needs of the future. In 2006, the Group's SMS business volume continued to increase and the average SMS usage volume reached nearly 1 billion per day. The Group's "Color Ring", MMS and WAP businesses also showed rapid growth and its mobile music business achieved a robust development. New product offerings of Mobile Mailbox and Mobile Paper were introduced to the market and presented a momentum of favorable growth. Mobile phones have gradually become a key and indispensable tool in our daily lives. Following the collaboration and win-win principles, the Company entered into strategic alliance with Phoenix Satellite Television Holdings Limited and News Corporation to explore new development opportunities in mobile telecommunications businesses and to prepare for the development of next generation businesses.

In 2006, the Group continued to strengthen its operations in various areas to hone premium service quality. The Group further enhanced brand awareness and increased its brand value. The Group also consolidated its sales channels, improved its customer services and enhanced customer satisfaction. In addition, the Group further strengthened its infrastructure capabilities and improved the functionality of its business support systems comprehensively in order to ensure improvement in management and to meet future business development requirements. In April 2006, "China Mobile" ranked number 4 globally in the "BRANDZ™ Top 100 Most Powerful Brands" published by Millward Brown, a global market research firm. In August 2006, "China Mobile" ranked number 1 in the "20 Best Chinese Brands" jointly published by Interbrand and *BusinessWeek*, demonstrating a wider recognition of the brand value of "China Mobile".

The Group boasts the world's largest mobile telecommunications network and the world's largest mobile subscriber base. In 2006, the Group continued to extend and deepen its network coverage. The Group further promoted and refined network optimization and further centralized network operation and maintenance, enabling the Group to maintain good network performance indicators and premium network quality. The Group had 234,000 base stations as of the end of 2006 and its wireless connection rate reached 99.3%. The coverage of the Group's global roaming services continued to expand. As of the end of 2006, the Group's GSM global roaming services covered 301 operators in 219 countries and regions and its GPRS roaming services covered 138 countries and regions. The Group maintained its leading position in network and business offerings.

## ACQUISITION AND CONSOLIDATION

Since Peoples formally became the Company's wholly-owned subsidiary on 28 March 2006, the Company has proactively achieved synergies. Through the integration of networks and support systems, the Company centralized and unified management, effectively reducing costs and extending the Group's competitive advantages in networks, services and business offerings. As a result, China Mobile customers can more easily access the convenient, premium and localized services in Hong Kong.

## MANAGEMENT OF THE COMPANY

Good operating performance comes in part from effective management. The Company seeks to continuously improve its management. In 2006, the Company further promoted refined management and optimized its operational management system. The Group implemented the "One China Mobile" project, whereby a centralized, computerized management system with standard operating procedure was established. The Group strengthened its unified management over the operating subsidiaries, effectively enhancing management efficiency and execution capabilities. At the same time, the Company further strengthened its efforts in corporate governance. In 2006, the Company implemented a comprehensive project in relation to its compliance with Section 404 of the Sarbanes-Oxley Act, upgraded its internal controls and established a comprehensive internal control and risk management system in accordance with the COSO framework. The Group believes that these initiatives will enable its internal controls system to fully play its supervisory role and help build a solid foundation for strengthening its corporate governance standards.

The Company's outstanding performance has won popular recognition and acclaim. In 2006, the Company ranked number 112 as compared to number 128 in the previous year in "The World's 2000 Biggest Public Companies" by *Forbes* magazine. The Company was once again selected by *Financial Times* as one of the "FT Global 500" companies, ranked number 38 as compared to number 64 in the previous year. The Company was also selected by the *BusinessWeek* as one of the 2006 global "Info Tech 100" companies, leaping to number 8 from number 17 in the previous year. Based on the Group's solid financial strengths, tremendous business development potential and sound financial management, in July 2006, Moody's and Standard & Poor's revised the Company's credit rating upward to A2/Positive Outlook and A/Outlook Stable, respectively.

## CORPORATE SOCIAL RESPONSIBILITY

The Company has always attached great importance to its corporate social responsibility and upheld its core value proposition of "Responsibility makes Perfection". The Company has strived to build an "informationalized" society, help eliminate Digital Divide, care for the underprivileged, and proactively support public welfare initiatives. The Company has also focused on energy conservation and environmental protection, with a view to achieving a harmonious development among the enterprise, society and the environment. In 2006, the Group's efforts in corporate social responsibility won extensive recognition and acclaim. The Company has also established a corporate social responsibility management structure. A designated department that reports directly to the Chairman has been put in charge of the planning and promotion of the Group's corporate social responsibility initiatives. Details of the Group's corporate social responsibility initiatives are contained in the Company's first Corporate Responsibility Report.

## DIVIDENDS OF THE COMPANY

The Company holds in the highest regard the interests of its shareholders and the returns achieved for them, especially the minority shareholders. In consideration of the Company's favorable operating results in 2006 and its long-term development in the future, and in accordance with the dividend payout plan for the full year of 2006, the Board recommends payment of an ordinary final dividend of HK$0.763 per share for the financial year ended 31 December 2006. This, together with the ordinary interim dividend of HK$0.62 per share paid during 2006, amounts to an aggregate ordinary dividend payment of HK$1.383 per share for the full financial year of 2006, representing an increase of 35.6 per cent. over the annual dividend of HK$1.02 per share for the full year of 2005. The dividend payout ratio for the year 2006 was 42 per cent.. In addition, whilst the profit and dividend per share for the year 2006 continued to maintain a favorable growth, the Board, having taken into full account the interests of its shareholders, recommends payment of a special final dividend in 2006 of HK$0.069 per share to cater for the effect of the Company's revised depreciation policy on the profits attributable to shareholders. This, together with the special interim dividend of HK$0.09 per share paid during 2006, amounts to an aggregate special dividend payment of HK$0.159 per share for the full financial year of 2006. Having taken into account various relevant factors, such as the Company's overall financial condition, cash flow generating capabilities and future continuing development needs, the Company plans the dividend payout ratio for the full financial year of 2007 to be 43 per cent.. In addition, the Company will consider distributing a special dividend for the year 2007 for the effect on the profit attributable to shareholders based on the planned revision of depreciation policy in 2007. The Board believes that the Company's strong free cash flow will be capable of supporting the investments required to maintain the sustained stable growth of the Company, while also providing shareholders with a favorable cash return. The Company will continue its efforts to achieve a sustainable, steadily increasing dividend over the longer term, with a view to generating the best possible returns for shareholders.

## LOOKING TO THE FUTURE

Looking to the future, the rapid growth of the Chinese economy and the rise of Chinese residents' consumption power have resulted in an increasing demand for mobile telecommunications products and services. The development of China's rural economy has driven the development of the mobile telecommunications market in rural areas, thereby bringing new opportunities for the Company's market expansion. The accelerated development in China's "informationalization" has created tremendous demand for mobile telecommunications businesses, and the potential of China's mobile telecommunications market remains enormous. However, the ever-increasing technological advancement and the globalization process bring business opportunities as well as challenges. The deepening of the reform in the national telecommunications industry and the issuance of 3G licences in China may result in substantial changes in the industry and the competitive environment.

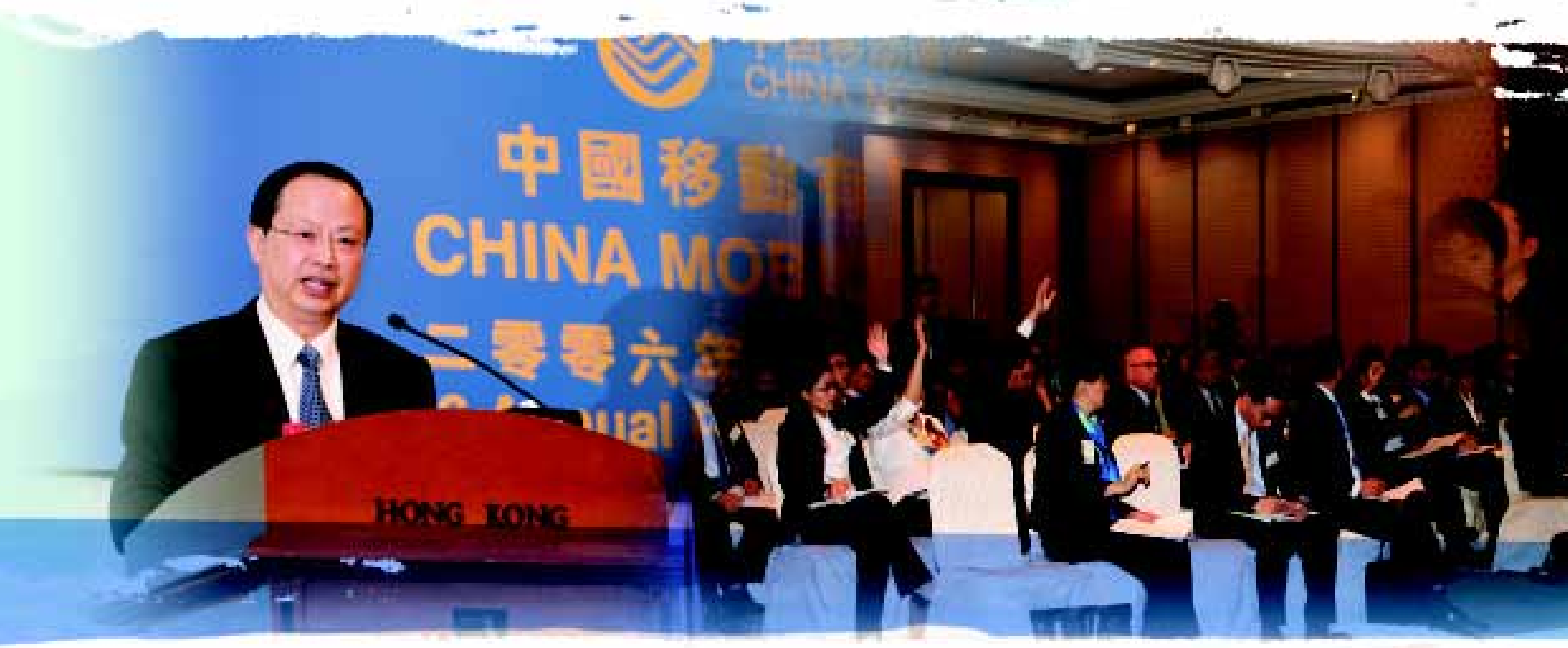
An outstanding enterprise should be equipped with strong capabilities to face adversities and tolerate risks. It should strengthen its advantages, emphasize fundamental management, strategic management and human resources training and cultivate corporate culture. It should also encourage innovative thinking, swiftly adjust and adapt itself to the changing environment, make the best use of the situation and turn adversities into opportunities.

In the face of opportunities as well as challenges, the Group will persist in its strategic positioning as a "Mobile Information Expert", leverage its economies of scale, focus on premium quality, actively seek opportunities for expansion and growth and constantly promote innovations so as to maintain sustainable development. The Group also intends to enhance its overall strengths and maintain a favorable environment in the industry, with a view to achieving harmonious development. As the only mobile telecommunications services partner for the 2008 Beijing Olympics, the Group will make all efforts to ensure the provision of premium quality mobile telecommunications services. At the same time, the Group will actively carry out preparatory work for the future, including preparation for the next generation mobile telecommunications network and technologies, and will actively explore new mobile multi-media products. The Group seeks to ensure the continued viability of the driving forces behind its sustained development, to extend its momentum of healthy and continuous development and to maintain a long-term, solid business foundation, with a view to bringing better returns for its investors.

**Wang Jianzhou**
*Chairman and Chief Executive Officer*

Hong Kong, 21 March 2007

# OPEN DIALOGUE WITH THE COMPANY'S SENIOR MANAGEMENT




**The Company announced its 2006 annual results on 21 March 2007. In addition to the publication of a press release and the posting of the annual results on its Internet web-site, on the same day the Company also conducted an investment analyst conference, a press conference, an investor telephone conference and discussions with various investors to explain the results to investors and the general public in Hong Kong and overseas, and address their questions.**

**The following is a summary of certain key questions raised by some of the leading investment analysts, and the replies given by the Company's senior management:**

## 1. IN 2006, THE COMPANY ACHIEVED A REVENUE GROWTH OF 21.5%, WHAT WERE THE MAJOR DRIVING FORCES?

In 2006, by seizing favorable market development opportunities, the Company further expanded its subscriber base, value-added business and voice usage volume and built a low-cost and effective business model in the rural areas. These have greatly enhanced the Company's operating results and led to a rapid, sustainable, steady and harmonious development of the Company's business.

On the basis of maintaining its existing customers and stimulating customer usage volume, the Company actively explored market opportunities, developed new customers and placed particular effort in the development of the rural mobile telecommunications market. The Company's subscriber base continued to grow rapidly, and the net additional subscribers reached 53.22 million. In addition, benefiting from the favorable price elasticity of our services, our voice usage volume recorded a notable increase of 38.6%. Simultaneously, the Company actively launched new products and business promotion and as a result, the value added-business revenue grew 38.1% over 2005. The proportion of value added business revenue to total operating revenue further increased to 23.5%. These factors were the main attributes for the strong revenue growth.


## 2. CAN THE COMPANY PROVIDE A BREAKDOWN OF CAPEX IN 2006 AND A BREAKDOWN OF CAPEX PLAN IN 2007, RESPECTIVELY?

The Company's capital expenditure in 2006 was approximately RMB87.0 billion, which was mainly used for the development of GSM networks, the addition of equipment such as base stations, the expansion of coverage and capacity, the refinement of networks for value-added business, the reinforcement of the support system capacity, therefore, effectively satisfying the rapid growth in customers, voice usage volume and value-added business, securing steady increase in revenue and profits.

CAPEX for 2006 was mainly used for the construction of GSM networks (59 per cent.), development of new businesses and new technologies (7 per cent.), construction of transmission facilities (17 per cent.), support systems (7 per cent.), and structural facilities.

CAPEX plan for 2007 will mainly be used for the construction of GSM networks (56 per cent.), development of new businesses and new technologies (9 per cent.), construction of transmission facilities (15 per cent.), support systems (9 per cent.), and structural facilities.

In view of the rapid growth momentum of the Chinese economy in the future, the citizen's increasing spending power, and the nation's development of "informationalization" and in order to satisfy the vibrant market demand, promote the continuous development of value-added business, maintain the leading position and competitive advantages of the network and meet the new tide of technological evolution, the Company's capital expenditure budget newly set for 2007 is RMB99.8 billion, which will be used mainly for the construction of GSM networks, support systems and transmission facilities, and for the development of new technologies and new businesses, after taking into account the continuous evolution of new generation technologies. The required funding will be sourced largely from cash generated from the Company's operating activities.

## 3. HOW MUCH DID THE COMPANY PAY IN TERMS OF DIVIDEND PER SHARE FOR 2006? WHAT IS THE DIVIDEND POLICY IN THE FUTURE?

The ordinary final dividend for 2006 is HK$0.763 per share. This, together with the ordinary interim dividend of HK$0.62 per share paid during 2006, amounts to an aggregate ordinary dividend payment of HK$1.383 per share for the full financial year of 2006. The dividend payout ratio for the year 2006 was 42 per cent..

In addition, the Board, having taken into full account the interests of its shareholders and the effect of the Company's revised depreciation policy on the profits attributable to shareholders, recommended payment of a special final dividend of HK$0.069 per share in 2006. This, together with the special interim dividend of HK$0.09 per share paid during 2006, amounts to an aggregate special dividend payment of HK$0.159 per share for the full financial year of 2006.

Having taken into account various factors such as business operation, financial and cash flow positions, the Company proposed a dividend payout ratio of 43% for the full year of 2007. In addition, the Company will consider distributing a special dividend for the year of 2007 for the effect on the profit attributable to shareholders based on the planned revision of depreciation policy in 2007.

The Company believes that its strong free cash flow will be capable of supporting the investment required to sustain its steady growth, while also providing shareholders with a favorable cash return. The Company will endeavor to achieve a sustainable, steadily increasing dividend over the longer term, with a view to generating the best possible return for shareholders.

## 4. WHAT IS THE CURRENT DEVELOPMENT OF THE RURAL MARKET? WHAT STRATEGIES DID THE COMPANY HAVE WHEN DEVELOPING MARKET IN RURAL AREAS?

The new national rural policy effectively fosters economic development in rural areas. Continuous growth of per capita net income further strengthens consumption power. Huge rural population with low mobile penetration rate indicates huge growth potential in rural market.

By strictly adhering to the strategy of low cost, the Company has increased its efforts in developing the mobile telecommunications in rural areas in 2006. The network coverage in rural areas was further improved and the low-cost marketing and sales service system has taken shape. Through the offering of "Shenzhouxing Village-only Card", ultra low-price handsets, over-the-air recharging and implementing marketing and sales strategies that fit in with the special characteristics of rural areas, the Company achieved significant result. Almost half of the subscriber growth came from rural market.

The Agricultural Information Service was launched to specifically address the needs of the market in rural areas and its business has shown rapid growth, and it has met the information needs in relation to the production, supply and sale of agricultural products, management of rural administrative affairs and matters concerning peasants' livelihood. Rural market exhibits strong growth and huge potential.

## 5. CAN THE COMPANY ELABORATE ON THE STRONG DEVELOPMENT OF ITS VALUE-ADDED BUSINESS IN 2006?

The Company has proactively pursued product innovation and business promotion, and as a result the proportion of revenue from value-added business has further increased and the structure of revenue from value-added business has been further optimized. In 2006, revenue from value-added business reached RMB69.3 billion, representing an increase of 38.1 per cent. from 2005. Revenue from value-added business accounted for 23.5 per cent. of the Company's operating revenue, representing a further increase from 2005. The SMS business continued to grow. In 2006, revenue from SMS reached RMB32.2 billion and SMS usage volume reached 353.4 billion messages with an average daily usage volume of nearly 1 billion messages.

Non-SMS data businesses grew rapidly, in which "Color Ring", WAP and MMS showed strong growth. In 2006, revenues from "Color Ring", WAP, and MMS reached RMB6.75 billion, RMB6.88 billion and RMB0.98 billion, respectively. Their respective growth rates were 97%, 93% and 170%.

In 2006, the launching and development of products such as Mobile Music and Mobile Paper have strongly promoted the evolution of mobile multimedia and mobile news media. Through cooperation with traditional media, Mobile Paper has become a new form of media based on mobile handsets. In addition, the IM business provided by "Fetion" has enriched the general public's ways to communicate with each other. Mobile Mailbox, Mobile Blog and Mobile Search have enabled subscribers to access the world of Internet through mobile phone. It has become apparent that mobile phones have become so important that they cannot be dispensed with in our daily lives. The Company will leverage its own competitive advantages and seize the future opportunities, to continuously nurture a large number of value-added business with growth potential.

# Subscriber Base

## Surpassed 300 million

**In 2006, by seizing favorable market opportunities, the Group further expanded its subscriber base, implemented brand management, enhanced sales and marketing efficiency and innovated its business models. The Group placed emphasis on developing its core competencies for the Group's future development, on maximizing the growth potentials of new customers, value-added business and voice usage volume and on building a low-cost and effective business model in the rural areas. These have greatly enhanced the Group's operational results and led to a rapid, sustainable, steady and harmonious development of the Group's business.**

As at the end of 2006, the Group's subscriber base reached 301.232 million, representing an annual growth rate of 22.1 per cent., nearly half of the subscriber growth was from the rural areas. The aggregate subscriber usage volume reached 1,252.15 billion minutes, representing an annual growth rate of 38.6 per cent.. The number of value-added business users reached 270.384 million, representing an annual growth rate of 30.8 per cent.. SMS usage volume reached 353.38 billion messages, representing an annual growth rate of 41.6 per cent.. Revenue from value-added business reached RMB69.309 billion, representing an annual growth rate of 38.1 per cent.. Revenue from value-added business accounted for 23.5 per cent. of the Group's operating revenue, representing an increase of 2.9 percentage points from 2005.

## Key Operating Data of the Group for 2005 through 2006

| | 2005 | 2006 |
|---|---|---|
| Mobile Subscribers (Million) | 246.7 | **301.2** |
| Net Additional Subscribers (Million) [(1)] | 42.4 | **53.2** |
| Total Usage (Billion Minutes) | 903.1 | **1,252.1** |
| Average Usage per User per Month (MOU) (Minutes/User/Month) | 335 | **381** |
| Average Revenue per User per Month (ARPU) (RMB/User/Month) [(2)] | 90 | **90** |
| SMS Usage Volume (Billion Messages) | 249.6 | **353.4** |

| | 2005 | 2006 |
|---|---|---|
| Contract Subscribers [(3)] | | |
| Mobile Subscribers (Million) | 61.3 | **65.3** |
| Average Usage per User per Month (MOU) (Minutes/User/Month) | 589 | **671** |
| Average Revenue per User per Month (ARPU) (RMB/User/Month) | 185 | **207** |

| | 2005 | 2006 |
|---|---|---|
| Prepaid Subscribers [(3)] | | |
| Mobile Subscribers (Million) | 185.4 | **235.9** |
| Average Usage per User per Month (MOU) (Minutes/User/Month) | 241 | **293** |
| Average Revenue per User per Month (ARPU) (RMB/User/Month) | 55 | **55** |

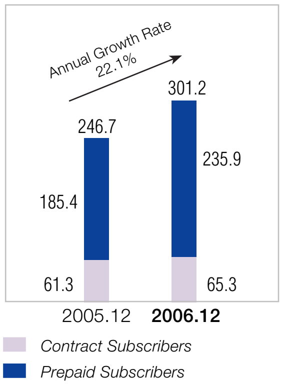
(1) *The total net additional subscribers of 2006 excluded the subscriber base of 1.359 million as of end of 2005 acquired from Peoples.*

(2) *All monetary figures shown in this Business Review section are expressed in Renminbi.*

(3) *For management reference purposes, contract subscribers are classified to include "GoTone" subscribers and subscribers who have signed service contracts with the Group, while prepaid subscribers are classified to include subscribers of "Shenzhouxing" and "M-Zone" and local brands or packages targeting low usage volume users.*

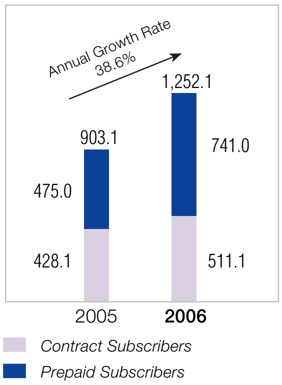
## Subscriber Base

*(Million)*



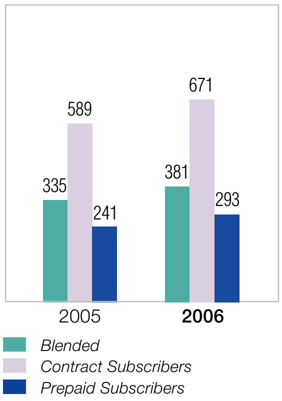

## Total Usage

*(Billion minutes)*




## MOU

*(Minutes)*




## CUSTOMER GROWTH

In 2006, the Group maintained a steady and rapid growth in its subscriber base. As at 31 December 2006, the Group's mobile subscriber base reached 301.232 million, of which 65.269 million were contract subscribers and 235.963 million were prepaid subscribers. In 2006, the total net increase in the Group's subscriber base was 53.221 million (excluding the subscriber base of 1.359 million as of end of 2005 acquired from Peoples) and the average monthly net additional subscribers exceeded 4.43 million, nearly half of which were from the rural areas. The eastern region and the central and western regions, cities and rural areas have shown an enormous potential of growth.

As at the end of 2006, the Group had maintained its position as the market leader, with a market share of approximately 67.5 per cent.. The mobile telephone penetration rate within areas serviced by the Group was approximately 35.3 per cent.. The mobile telephone penetration rate in the rural areas was relatively low. The healthy and rapid growth of China's economy, further improved consumption level and spending power of the population, the construction of new rural areas, the drive provided by "informationalization" and the State's emphasis on the telecommunications services based on low energy consumption will provide favorable conditions and further room for the development of the Group.


By strictly adhering to the low-cost strategy, the Group has increased its efforts in developing the mobile telecommunications in rural areas in 2006. The network coverage in rural areas was further improved and the low-cost marketing and sales service system has initially taken shape, and the markets in rural areas have shown a strong momentum of growth through "Shenzhouxing Village-only Card", ultra-low-cost mobile handsets, over-the-air recharging and marketing and sales strategies that fit in with the special characteristics of rural areas. The Agricultural Information Service was launched to specifically address the needs of the market in rural areas and its business has shown rapid growth, and it has met the information needs in relation to the production, supply and sale of agricultural products, management of rural administrative affairs and matters concerning rural residents' livelihood. The service platform of rural information has strengthened the integration and utilization of the rural-related information resources.

The Group has developed its corporate customer base in earnest and provided customized total solutions to corporate customers in response to their unique requirements. Large-scale promotional campaigns have been launched for key industry-specific application products such as Weather Information Service, Campus Information Service, Banking Information Service, Police Information Service and Municipal Information Service, and as a result the Group has entered into agreements with a number of multinational and multi-provincial corporate customers in relation to mobile information projects. As at the end of 2006, the total number of corporate customers reached 1.39 million, and individual customers served via service agreements with corporate accounts amounted to 26.4 per cent. of total subscriber base.

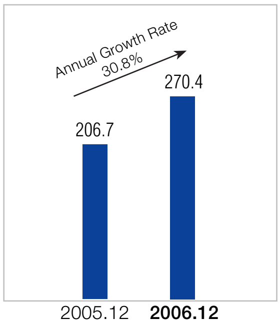
## BUSINESS DEVELOPMENT

In 2006, the Group seized the favorable market opportunities and further strengthened its sales packages, which have optimized the distribution structure of voice usage volume and enhanced the yield of voice usage volume. In 2006, the Group's aggregate mobile subscriber usage volume reached 1,252.15 billion minutes, representing an annual growth rate of 38.6 per cent.. The Group's average minutes of usage per user per month (MOU) in 2006 was 381 minutes, representing an increase of 13.6 per cent. from that of 335 minutes in 2005. The MOU of contract subscribers and prepaid subscribers in 2006 were 671 minutes and 293 minutes, respectively. The Group's average revenue per user per month (ARPU) was RMB90, remained generally stable. The ARPU of contract subscribers and prepaid subscribers in 2006 were RMB207 and RMB55, respectively.

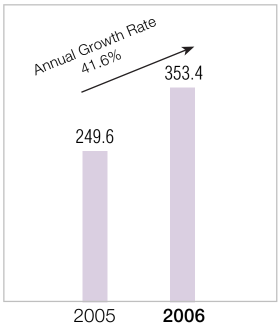
The Group has proactively pursued product innovation and business promotion, and as a result the proportion of revenue from value-added business has further increased and the structure of revenue from value-added business has been further optimized. In 2006, revenue from value-added business reached RMB69.309 billion, representing an increase of 38.1 per cent. from 2005. Revenue from value-added business accounted for 23.5 per cent. of the Group's operating revenue, representing a further increase from 2005. The SMS business continued to grow. In 2006, revenue from SMS reached RMB32.201 billion, the SMS penetration rate (the proportion of the SMS subscribers to all the subscribers) reached 89.8 per cent. and SMS usage volume reached 353.38 billion messages with an average daily usage volume of nearly 1 billion messages. Non-SMS data businesses grew rapidly, in which "Color Ring", WAP and

Mobile Music

**Number of Value-Added Business Users**
*(Million)*




**SMS Usage**
*(Billion messages)*



MMS showed strong growth. In 2006, revenues from "Color Ring", WAP, and MMS reached RMB6.751 billion, RMB6.875 billion and RMB0.984 billion, respectively. The mobile music business has gradually become a trendy mode of purchasing and experiencing musical products by subscribers. "Color Ring" subscribers downloaded the ring-back tone by more than 0.47 billion times throughout the year. Through cooperation with traditional media, Mobile Paper has become a new form of media based on mobile phone handsets. The IM business provided by "Fetion" has enriched the general public's ways to communicate with each other. Mobile Mailbox, Mobile Blog and Mobile Search have enabled subscribers to access the world of the Internet through mobile phone. It has become apparent that mobile phones have become so important that they cannot be dispensed with in our daily lives.

Mobile Paper

## CONSOLIDATION OF COMPETITIVE ADVANTAGES

The Group's competitive advantages in terms of its scale of operation, networks, support system, brands, marketing and sales channels and provision of services have been further consolidated throughout 2006, thereby laying solid foundations for its competition in the future.

The Group owns the world's largest subscriber base as well as the world's largest network scale. The Group had over 300 million subscribers and approximately 234,000 base stations as of the end of 2006. The existence of economies of scale has enabled the Group to effectively control the marginal cost, presented the Group with sufficient capacity and competence to proceed with the exploration of the markets in rural areas, and further enabled the Group to consolidate and enhance its influence and leading position in the value chain. The extensive and rich subscriber information had favorably facilitated the Group's constant development of new products and applications for the purpose of exploring the anticipated needs of subscribers as well as our service to subscribers, and such information has become the Group's distinctive advantages in terms of information resources. The strong competitive advantages existed as a result of the enormous economies of scale have presented the Group with a broader platform for operational management.

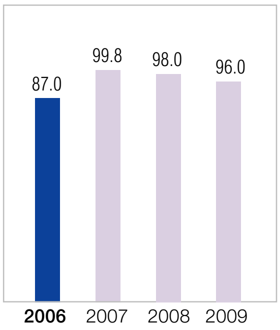
The Group has continued to reinforce its basic capability throughout 2006. As a result, its network coverage has been continually enlarged and broadened. The Group has continued the centralized network maintenance and has further strengthened network refinement, and the network quality has constantly been maintained at an internationally leading position notwithstanding the rapid growth of the subscribers and businesses. The population coverage rate reached more than 97%, the wireless connection rate reached 99.3 per cent., the voice call drop rate was 0.85 per cent., and the SMS delivery rate reached 98.8 per cent..

The Group's supporting capability for its operation and management has reached a leading level in the industry. The Group's advanced network management system secured the premium and efficient operation of its network, which is the world's largest of its kind. The management information system improved the efficiency of, and reduced the costs of, the Group's day-to-day operation and management. The Group owns the world's largest business support system in terms of capacity and number of subscribers, and such system is able to provide comprehensive support for the Group's marketing, customer services, fee recording and billing, business analysis and operational decision making with its considerable capacity in terms of computation, storage and provision of services. Such advanced and flexible business support system is able to compile all the Group's essential operational indicators of the previous day on a daily basis, enable the Group to deliver trans-regional service across the nation smoothly. In addition, the system has enabled the Group to become the first in the PRC to fulfill the pledge that "Any Billing Error, Double Refund" and to perform refined and extensive operational analysis.

The Group's brand value has started to gain international recognition. In April 2006, "China Mobile" ranked number 4 in the "BRANDZ™ Top 100 Most Powerful Brands" announced in The *Financial Times* by Millward Brown, a global market research firm and, in August 2006, it ranked number 1 in the "20 Best Chinese Brands" jointly announced by Interbrand and *BusinessWeek*. The Group has reinforced brand awareness and highlighted brand characteristics through the planning and management of its three major brands, namely "GoTone", "Shenzhouxing" and "M-Zone" throughout 2006 and, through the driving forces of business, services, tariff, marketing and sales channels, image and rebate, brand image and brand association have become unified, a clearer brand structure has been established and the coordinated development between the brands has been accomplished. The brand "Shenzhouxing" was successfully marketed in rural areas where both the sales and marketing costs and service costs were lowered by effective measures.

The Group has been proactively establishing its proprietary marketing and sales channels throughout 2006 in order to increase the proportion of such channels and reinforce its control over such channels. The Group's proprietary sales outlets amounted to approximately 34,000 in 2006. The ability of the proprietary sales outlets to promote value-added business has been further enhanced through the reinforcement of trial sales of such business via the proprietary sales and marketing channels, and the proprietary sales outlets have changed their role from "services" to "services plus marketing and sales". The Group has refined its management of cooperative sales and marketing channels, proactively developed sales and marketing channels in the community and consolidated favorable resources. The Group has been actively diversifying its sales and marketing channels and enriching the functions of its electronic channels. As a result of persistent efforts, the Group was able to establish an initial marketing and sales network covering both urban and rural areas, and the coverage of marketing and sales channels as well as management have demonstrated notable competitive edge. The rapid development of markets in rural areas was attributable to the Group's establishment of low-cost sales and marketing channels and network in rural areas with local resources.

**Capital Expenditure**
*(RMB Billion)*




*Capital Expenditure for 2006*
*Capital Expenditure Budgets for 2007 to 2009*

The Group's customer service hotline was successfully upgraded in 2006 and the level of unified services has been improved across the entire network. The mobile information service was further standardized and, with continuous efforts being made to special projects such as "Smooth Network and Trustworthy Services", customer complaints have reduced notably. Customer satisfaction levels have improved steadily and the Group's overall customer satisfaction rate reached 79.6 per cent..

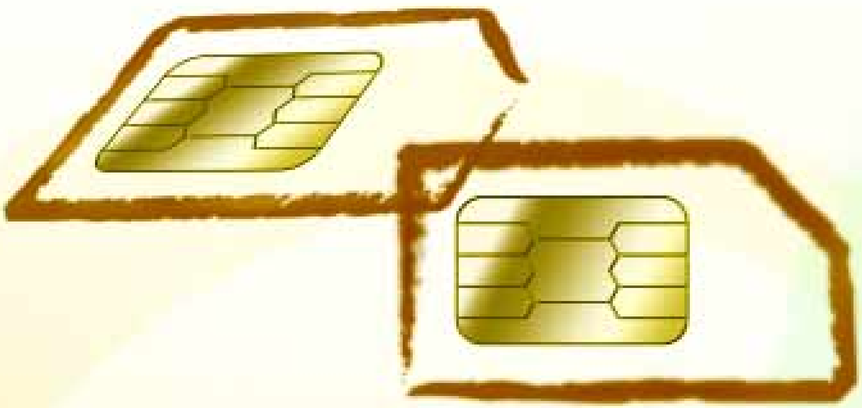
## CAPITAL EXPENDITURE

In 2006, the Group experienced rapid growth in its customers, voice usage volume and all types of business. In order to seize market opportunities, satisfy business needs and ensure network quality and return on investment, the Group's capital expenditure in 2006 was approximately RMB87.0 billion. The capital expenditure was mainly used for the development of GSM networks, the addition of equipment such as base stations, the expansion of coverage and capacity, the refinement of networks for value-added business, the reinforcement of the support system capacity, therefore, securing steady increase in revenue and profits.

In view of the momentum of the rapid growth of the Chinese economy, the citizen's increasing spending power, and the nation's development of "informationalization", the Group's business will maintain its rapid growth momentum in the next three years. In order to satisfy the vibrant market demand, promote the continuous development of value-added business, maintain the leading position and competitive advantages of the network and meet the new tide of technological evolution, the Group's capital expenditure budgets newly set for each of the three years from 2007 to 2009 are RMB99.8 billion, RMB98.0 billion and RMB96.0 billion, respectively. The capital expenditure for the next three years will be used mainly for the construction of GSM networks, support systems and transmission facilities, and for the development of new technologies and new businesses. The required funding will be sourced largely from cash generated from the Group's operating activities.

## FUTURE BUSINESS STRATEGIES

Looking to the future, the Group will fully develop the growth potential presented by the new customers, value-added business and voice usage volume as well as largely explore the markets in rural areas by leveraging and consolidating its competitive advantages in terms of its scale of operation, networks, support system, brands, marketing and sales channels, and provision of service on an ongoing basis so as to maintain its market leading position in the mobile telecommunications market. The Group will bring innovations in the provision of services, business, technology and management so as to further develop its multi-media communication service and become the mobile information expert, and will commit itself fully to servicing the 2008 Olympics and prepare itself well for the new generation of mobile telecommunications network and technology so as to take its business into a new phase in the future.



Excellent Financial Performance

Expanding Returns

WE will deliver for YOU

# FINANCIAL REVIEW

**Benefiting from China's stable and rapid economic growth, vigorous market demand and healthy competitive environment, together with the Group's highly efficient quality network, strong brand advantages and economies of scale, this year, building on years of its sustained successive development, subscribers, revenue and profits marked another terrific record year for 2006, delivering an overall impressive performance. Operating revenue for 2006 rose to RMB295,358 million, up 21.5 per cent.. Earnings capability was further enhanced. Profit attributable to shareholders increased 23.3 per cent. to RMB66,026 million. Margin of profit attributable to shareholders rose to a relatively high level of 22.4 per cent.. EBITDA reached RMB159,574 million, up 19.7 per cent.. Basic earnings per share grew 22.5 per cent. to RMB3.32. The Group continued to reinforce its financial strengths, which further consolidated its industry leadership position in the mobile telecommunications market in China.**

* *Financial information for the year 2006 set out in this Financial Review includes the operating results of the Company, its thirty-one operating subsidiaries in Mainland China and the newly acquired China Mobile Peoples Telephone Company Limited whereas that of the year 2005 includes the operating results of the Company and its thirty-one operating subsidiaries.*

## Extracts from income statement

| | 2006 RMB million | 2005 RMB million | Change % |
|---|---|---|---|
| **Operating revenue (Turnover)** | **295,358** | 243,041 | 21.5 |
| Usage fees and monthly fees | **211,339** | 181,765 | 16.3 |
| Value-added services fees | **69,309** | 50,187 | 38.1 |
| Other operating revenue | **14,710** | 11,089 | 32.7 |
| **Operating expenses** | **203,230** | 169,355 | 20.0 |
| Leased lines | **2,451** | 3,224 | (24.0) |
| Interconnection | **18,783** | 15,309 | 22.7 |
| Depreciation | **64,574** | 56,368 | 14.6 |
| Personnel | **16,853** | 14,200 | 18.7 |
| Other operating expenses | **100,569** | 80,254 | 25.3 |
| Profit from operations | **92,128** | 73,686 | 25.0 |
| Other net income | **2,872** | 3,284 | (12.5) |
| Profit attributable to shareholders | **66,026** | 53,549 | 23.3 |
| EBITDA | **159,574** | 133,338 | 19.7 |

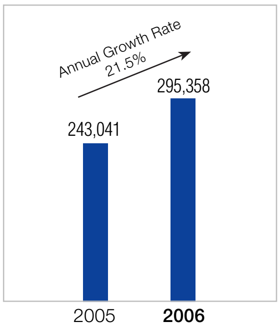
## Extracts from balance sheet

| | 2006 RMB million | 2005 RMB million | Change % |
|---|---|---|---|
| Current assets | **171,507** | 121,076 | 41.7 |
| Non-current assets | **323,169** | 299,951 | 7.7 |
| Total assets | **494,676** | 421,027 | 17.5 |
| Current liabilities | **140,607** | 109,954 | 27.9 |
| Non-current liabilities | **34,696** | 37,966 | (8.6) |
| Total liabilities | **175,303** | 147,920 | 18.5 |
| Minority interests | **371** | 283 | 31.1 |
| Shareholders' equity | **319,002** | 272,824 | 16.9 |

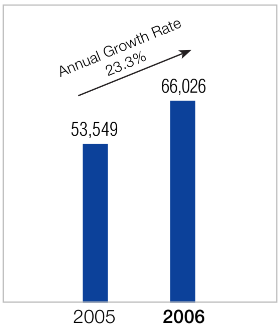
## Extracts from cash flow statement

| | 2006 RMB million | 2005 RMB million | Change % |
|---|---|---|---|
| Net cash generated from operating activities | **149,346** | 131,709 | 13.4 |
| Net cash used in investing activities | **(118,841)** | (87,116) | 36.4 |
| Net cash used in financing activities | **(23,587)** | (25,173) | (6.3) |

### Operating Revenue
*(RMB Million)*




### Profit Attributable to Shareholders
*(RMB Million)*




## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Summary of Financial Results

In 2006, benefiting from China's stable and rapid economic growth, vigorous market demand and healthy competitive environment, the Group continued to propel its economies of scale and maintain its innovative growth. Building upon its years of growth in the eastern region and leveraging its highly efficient superior network and strong brand advantages, the Group further explored into the central and western regions and the rural markets that have enormous market potential. Through rational capital expenditures, stringent cost control measures and comprehensive implementation of refined management methodology, the Group continued to deliver impressive operating performance.

With the continuing push of three driving forces – new customers, new businesses and new voice usage, the financial results of the Group marked a new height. Operating revenue of the Group for 2006 reached RMB295,358 million, representing an increase of 21.5 per cent. over the previous year. The operating revenue from value-added business, which has continued its rapid growth momentum, reached RMB69,309 million, representing an increase of 38.1 per cent. over the previous year, and accounted for 23.5 per cent. of the Group's total operating revenue. In order to maintain its competitive advantages and sustainable and healthy development, the Group allocated more resources towards the establishment of sales and marketing channels and the provisions of differentiated services in 2006 while appropriately expanding its network capacity and performing network maintenance at the same time. As such, operating expenses reached RMB203,230 million, representing an increase of 20.0 per cent. over the previous year. Such percentage increase in operating expenses from 2005 to 2006 was lower than that in operating revenue during the same period which, in combination with the continued decrease in average operating expenses per user per month and per minute, further demonstrated the Group's competitive advantages in its refined and effective cost control measures and economies of scale.

Profit attributable to shareholders was RMB66,026 million, representing an increase of 23.3 per cent. over the previous year, and margin of profit attributable to shareholders reached a relatively high level of 22.4 per cent.. EBITDA was RMB159,574 million, representing an increase of 19.7 per cent. over the previous year, giving a margin of 54.0 per cent.. Basic earnings per share was RMB3.32, representing an increase of 22.5 per cent. from the previous year and demonstrating a relatively high profitability.

The Group sustained its robust cash flow as a result of favorable business growth, effective cost management and control measures, efficient capital expenditure and increasing economies of scale. In 2006, the Group's net cash generated from operating activities and free cash flow reached RMB149,346 million and RMB62,358 million, respectively. The Group's total debt to capitalization ratio and interest coverage multiple remained at a sound level. Each of Moody's and Standard and Poor's further upgraded the Company's corporate credit rating in 2006, reflecting that the prudent approach consistently adopted by the Company has won popular recognition from the market.

### Operating Revenue (Turnover)

Operating revenue for 2006 reached RMB295,358 million, representing an increase of 21.5 per cent. over the previous year. The Group advocated and continued to promote rational competition, strengthened its innovative capabilities, and implemented effective measures to further develop its market. Subscriber base continued its rapid growth momentum. The average net increase of the Group's number of subscribers exceeded 4.43 million per month in 2006. Total minutes of usage increased to 1,252,146 million minutes, representing an increase of 38.6 per cent. from the previous year. The revenue per minute declined by 12.3 per cent. from the previous year. Such rate of decline was under sound control and the growth rate of both the voice usage volume and revenue increased proportionately. The growth in subscriber base and voice volume usage ensured the rapid growth in operating revenue and ARPU stability.

The Group proactively carried out product innovations and business promotion for valued-added business. The Group's various value-added business maintained good growth momentum and the increase in the revenue attributable to such business was notable in 2006. Revenue from value-added business reached RMB69,309 million in 2006, representing an increase of 38.1 per cent. over the previous year, and accounted for 23.5 per cent. of the Group's total operating revenue, representing an increase of 2.9 percentage points compared to that of 20.6 per cent. in the previous year, thus reaching a relatively high level among its international counterparts. Revenue from Short Message Services (SMS) and non-SMS data businesses reached RMB52,888 million in 2006 and accounted for 76.3 per cent. of the Group's revenue from value-added business. While the SMS business continued to maintain its relatively high growth rate, businesses such as WAP, "Color Ring" and Multimedia Messaging Service (MMS) grew rapidly. New product offerings and new applications such as "IM" and mobile email were introduced to the market. Businesses such as mobile music were also proactively developed. As a result, the revenue structure of the value-added business was further optimized in 2006.

## Operating Expenses

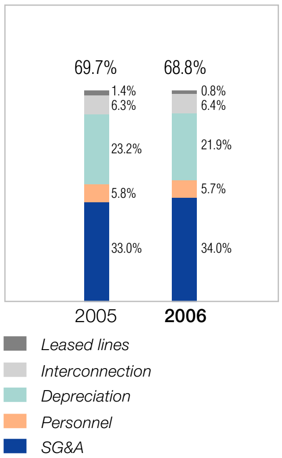
The Group benefited from its refined and effective cost control measures consistently adopted, efficient capital expenditures and notably its advantages of economies of scale. As a result, the percentage increase in operating expenses from 2005 to 2006 was lower than the increase in operating revenue during the same period, and the Group's costs structure became more rationalized. Operating expenses for 2006 were RMB203,230 million, representing an increase of 20.0 per cent. from the previous year. Operating expenses for 2006 amounted to 68.8 per cent. of the total operating revenue, representing a decline of 0.9 percentage points from the previous year. Average operating expenses per user per month for 2006 were RMB61.8, representing a decline of 1.7 per cent. from the previous year, and the average operating expenses per minute of usage were RMB0.162, representing a decline of 13.4 per cent. from the previous year.

The Group continued to optimize its network structure and augment the Group's network. Self-constructed and jointly-constructed lines have reached a sizeable scale. The Group's leased line expenses continued to decline significantly. The Group's leased line expenses for 2006 were RMB2,451 million, representing a decline of 24.0 per cent. from the previous year. Leased line expenses accounted for 0.8 per cent. of the total operating revenue in 2006.

As a result of the sustained growth of the Group's subscriber base and the continued increase in voice usage volume, interconnection expenses were RMB18,783 million in 2006, representing an increase of 22.7 per cent. over the previous year and amounted to 6.4 per cent. of the total operating revenue. The Group increased its efforts to optimize network structure, carefully reorganized and re-routed traffic volume through marketing strategies and continued to increase the proportion of the voice usage volume within the network so that the proportion of interconnection expenses to total operating revenue was maintained at a reasonable level.

The continuing evolution of telecommunication technology and the appearance of a large number of new technologies and new services had a considerable impact on the life of the Group's technologies and the remaining life of certain existing network equipment. The Group consistently performed assessment and evaluation on the utilization of its existing network equipment in accordance with the principle of prudent financial management. In 2006, the Group revised the estimated useful lives of its 2G wireless network equipment from seven years to five years based on the assessment and evaluation, and to better reflect the actual utilization of the assets. As a result, depreciation expenses were RMB64,574 million in 2006, representing an increase of 14.6 per cent. from the previous year. Depreciation expenses accounted for 21.9 per cent. of the total operating revenue, representing a decline of 1.3 percentage points from that of the previous year. The additional depreciation expenses as a result of the revision in the useful lives of the Group's 2G wireless network equipment amounted to RMB11,451 million. In 2007, following the consistent review and assessment on its existing assets with the latest development of telecommunications technologies, the Company plans to revise the estimated useful lives of its switching centre equipment (excluding soft switching equipment that is conformed with the new generation technology) from 7 years to 5 years. However, the effect of such change to depreciation expense for the year ending 31 December 2007 is estimated to be less than that of 2006.

**Proportion of Operating Expenses over Operating Revenue**



The Group continued to strengthen its highly-efficient staff management and incentive structure, promote human resources management and persistently implement effective and comprehensive budget management and performance-based evaluation, thus maintaining a competitive advantage of human resources. Meanwhile, the percentage increase in personnel expenses from 2005 to 2006 was kept lower than the percentage increase in operating revenue and profit attributable to shareholders during the same period. Personnel expenses were RMB16,853 million, accounted for 5.7 per cent. of the total operating revenue of 2006, representing a slight decline from the previous year. The Group had a total of 111,998 employees as of 31 December 2006.

Other operating expenses (consisting primarily of sales and marketing expenses, customer services, subscriber retention costs, doubtful debts, administration and other general expenses) were RMB100,569 million in 2006, representing an increase of 25.3 per cent. from the previous year, and accounted for 34.0 per cent. of the total operating revenue. In order to further enhance brand awareness and levels of differentiated service offerings, reward and retain high-value customers and increase customer loyalty, the Group increased its efforts in marketing, promotions and customer service. As a result, sales and marketing expenses increased accordingly. In view of the Group's emphasis on rigorous customer credit management and the stringent control over defaults in payment by customers, the Group continued to restrain its bad debt ratio to a relatively low level of 1.30 per cent. in 2006. Furthermore, in order to meet the requirements of new technology and development of new businesses, the Group continued to upgrade certain outdated equipment and wrote off and disposed off corresponding assets of RMB2,903 million in 2006, thus further improving its assets quality and better preparing itself for the transition of its network to the next generation as well as the development of new businesses in the future. In addition, the Group further expanded its scope of centralized equipment procurement and reduced the purchase costs by enhancing its economies of scale to optimum.

The Company determines to continue to pursue refined management methodology, constantly optimize its cost structure, and emphasize cost effectiveness in order to maximize returns.

## EBITDA, PROFIT FROM OPERATIONS AND PROFIT ATTRIBUTABLE TO SHAREHOLDERS

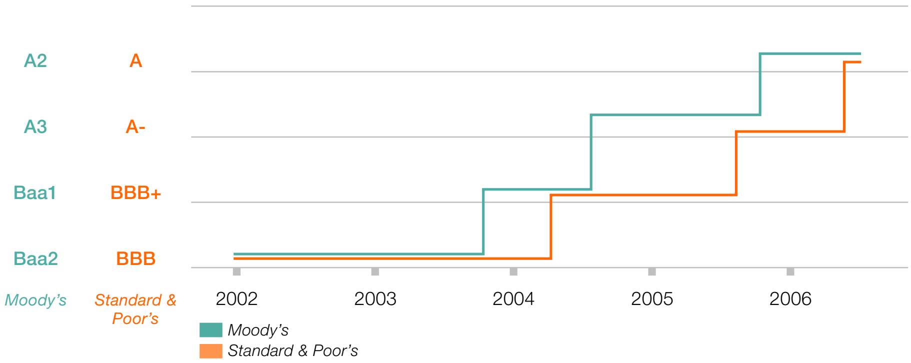
The Group has consistently endeavored to maintain long-term, sustainable and favorable profit growth. Margin of profit attributable to shareholders and EBITDA margin in 2006 remained high at 22.4 per cent. and 54.0 per cent., respectively. Operating profit was RMB92,128 million and maintained at a stable growth. EBITDA was RMB159,574 million, representing an increase of 19.7 per cent. over the previous year. Profit attributable to shareholders was RMB66,026 million, representing an increase of 23.3 per cent. over the previous year. Basic earnings per share was RMB3.32, representing an increase of 22.5 per cent. over the previous year. These commendable earnings performance and the continuous improvement on earnings level reflected the Group's ceaseless efforts in generating greater returns and creating value for its shareholders. Along with the favourable revenue growth, these results also reflected the Group's efforts in strengthening its management efficiencies on operating expenses and economies of scale. This further enhanced the operational efficiency of the Group. The Group will seek to continue to pursue sustainable and steady long-term growth.

## STRONG CASH FLOW AND SOUND CAPITAL STRUCTURE

In 2006, the Group continued generating strong cash flow. The Group's net cash generated from operating activities was RMB149,346 million and free cash flow (net cash generated from operating activities after deduction of capital expenditure incurred) was RMB62,358 million. At the end of 2006, the Group's total cash and bank balances were RMB153,461 million, of which 96.2 per cent., 0.5 per cent. and 3.3 per cent. were denominated in RMB, U.S. dollars and Hong Kong dollars, respectively.

To further reduce the cost of capital, the Group continued to reinforce its centralized treasury function and make appropriate allocations of overall capital, thereby enhancing the Group's ability to deploy internal funds with maximum utility. Robust cash flow and stable capital management have provided a solid foundation for the long-term development of the Group.

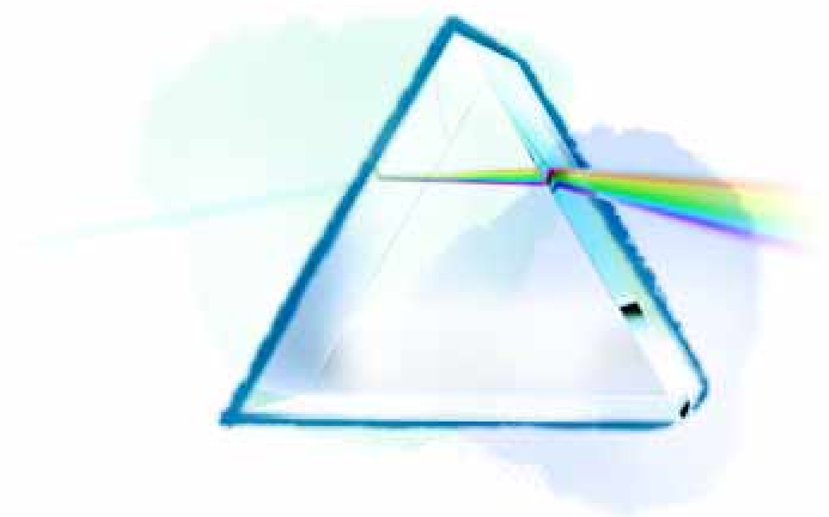
At the end of 2006, the Group's long-term loans and short-term loans were RMB38,850 million in aggregate, and its debt to capitalization ratio (with capitalization representing the sum of total debt and total equity) was approximately 10.9 per cent., reflecting the Group's financial position continued to remain at a sound level. Of the total borrowings, 39.2 per cent. were in RMB (consisting principally of RMB bonds, bank loans, etc.), and 60.8 per cent. were in U.S. dollars (consisting principally of the balance of the deferred consideration for the acquisition of the eight and the ten provincial telecommunications operators). Approximately 73.8 per cent. of the Group's borrowings were made at floating interest rates. The actual average interest rate of borrowings (including capitalized interest) of the Group in 2006 was approximately 3.93 per cent., whereas the actual interest coverage multiple (ratio of profit before interest and tax to interest expenses) was 63 times. This position reflects the prudent financial risk management principles consistently adopted by the Group, as well as its solid cash flow and sound repayment capability. In 2006, with the upgrading of China's sovereign credit rating, Standard & Poor's upgraded the Company's corporate credit rating from "A-/Positive Outlook" to "A/Outlook Stable". At the same time, Moody's also upgraded the Company's corporate credit rating from "A2/Outlook Stable" to "A2/Positive Outlook". These ratings demonstrated that the Group's sound financial strengths, huge business opportunities and solid financial management have established wide and deep market recognition.




## DIVIDENDS

The Company consistently holds in the highest regard the interests of its shareholders and the returns achieved for them, especially the minority shareholders. In consideration of the Company's remarkable operating results in 2006 and its long-term development in the future, and in accordance with the dividend payout plan for the full year of 2006, the Board recommends payment of an ordinary final dividend of HK$0.763 per share for the financial year ended 31 December 2006. This, together with the ordinary interim dividend of HK$0.62 per share already paid during 2006, amounts to an aggregate ordinary dividend payment of HK$1.383 per share for the full financial year of 2006, representing an increase of 35.6 per cent. over the annual dividend of HK$1.02 per share for the full year of 2005. Dividend payout ratio for the year 2006 was 42 per cent.. In addition, whilst the profit and dividend per share for the year 2006 continued to maintain a favourable growth, the Board, having taken into account the interest of the Company's shareholders, recommends payments of a special dividend in 2006 of HK$0.069 per share on the effect resultant from revision of the Group's assets depreciable lives. This, together with the special interim dividend of HK$0.09 per share paid during 2006, amounts to a special dividend payment of HK$0.159 per share for the full financial year of 2006. Having taken into account various relevant factors such as the Group's overall financial condition, cash flow generating capabilities and future continuing development, the Company plans the dividend payout ratio for the full year of 2007 to be 43 per cent.. In addition, the Company will consider distributing a special dividend in 2007 for the effect on the profit attributable to shareholders based on the planned revision of depreciation policy in 2007. The Board is of the view that the Group's strong free cash flow is capable of supporting the investments required to maintain the stable growth of the Company, while providing shareholders with a favorable cash return. The Company will endeavor to achieve a longer term sustainable, steadily increasing dividend, with a view to generating the best possible return for shareholders.

The Group will continue to pursue prudent financial principles, strictly control financial risk, maintain its robust cash-flow generating capability, allocate its resources in an efficient manner, maintain debt at a sustainable level and reinforce and develop favorable economic efficiency, with a view to continue generating greater returns for its shareholders.



Improving Corporate Governance
Enhancing Corporate Value
Generating Greater Returns For Shareholders

The Company's goal has always been to enhance its corporate value, to ensure its sustainable long-term development and to generate greater returns for its shareholders. We believe that, in order to achieve the above goal, the Company must maintain and implement corporate governance principles and structures that are credible, transparent, open and highly effective. For this reason, beginning in 1998, we have been taking numerous measures in an effort to achieve an effective board of directors, including establishing three principal board committees, namely, the audit committee, the remuneration committee and the nomination committee. We have established a disclosure committee to help improve and maintain our disclosure controls and procedures and ensure that all material information relating to the Company is made known to our senior management and our board of directors promptly and disclosed in an accurate and timely manner, and further enhanced our internal control over financial reporting in compliance with Section 404 of the U.S. Sarbanes-Oxley Act of 2002 (the "SOX Act") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Moreover, we have established an internal audit department, implemented internal audit mechanisms and procedures, and promulgated a code of ethics governing senior management and other designated senior officers of the Group. In order to continuously improve our corporate governance, the Company also conducted training courses on corporate governance on an on-going basis. Our efforts and achievements in corporate governance have won wide recognition and acclaim, and the Company has received a number of awards from internationally renowned professional organizations and journals.

In addition, as a company listed in both Hong Kong and New York, the Company is not only subject to applicable Hong Kong laws and regulations, including the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") and the Hong Kong Companies Ordinance, it is also subject to applicable U.S. Federal securities laws and regulations, including the U.S. Securities Exchange Act of 1934, as amended, and the SOX Act. The Company is also subject to the listing standards of The New York Stock Exchange (the "NYSE") to the extent they apply to non-U.S. issuers. For this reason, we also set forth in this report a summary of the significant differences between the corporate governance practices of the Company and the corporate governance practices required to be followed by U.S. companies under the NYSE's listing standards.

## COMPLIANCE WITH THE CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the financial year ended 31 December 2006, except for the code provision that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual, the Company has complied with all code provisions of the Code on Corporate Governance Practices as set forth in Appendix 14 to the Hong Kong Listing Rules.

Currently, the roles of Chairman and Chief Executive Officer of the Company are performed by Mr. Wang Jianzhou. Mr. Wang joined the board of directors of the Company (the "Board") in November 2004 and since then, has been the Chairman and the Chief Executive Officer of the Company in charge of the overall management of the Company. The Company considers that the combination of the roles of Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to seize business opportunities efficiently and promptly. The Company considers that through the supervision of the Board and its independent non-executive directors, checks and balances exist so that the interests of the shareholders are adequately and fairly represented.

## CORPORATE TRANSPARENCY, SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company's controlling shareholder is China Mobile (Hong Kong) Group Limited, which, as of 31 December 2006, indirectly held approximately 74.57 per cent. of the Company's share capital through a wholly-owned subsidiary, China Mobile Hong Kong (BVI) Limited. The remaining share capital of approximately 25.43 per cent. was held by public investors.

The Company engages a number of formal channels to account to shareholders for the performance and operations of the Company, particularly our annual and interim reports. Generally, when announcing its interim results, annual results or any major transactions in accordance with relevant regulatory requirements, the Company arranges investment analyst conferences, press conferences and investor telephone conferences to explain the relevant results or major transactions to shareholders, investors and the general public, and to address any questions they may have. In addition, the Company adheres to the practice of voluntarily and additionally disclosing on a quarterly basis certain key, unaudited operational and financial data to further increase the Group's transparency and to provide shareholders, investors and the general public with additional timely information so as to facilitate their understanding of the Group's operating results.

The Company also has high regard for the annual general meetings of its shareholders, and makes substantial efforts to enhance the communications between the Board and the shareholders. At the annual general meetings of shareholders, the Board always makes efforts to fully address any questions raised by shareholders. The last annual general meeting of shareholders of the Company was held on 18 May 2006 at 2:00 p.m. in the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong, during which meeting the major items discussed included, among other things, the audited financial statements for the year ended 31 December 2005, the Report of the Directors, the Report of the Auditors, the final dividend for the year ended 31 December 2005, the re-election of Directors, the re-appointment of the auditors and the approval of the change of name of the Company. At this annual general meeting, the Chairman of the meeting demanded that all the above resolutions be voted by poll, and all resolutions were passed by an overwhelming majority of votes cast in favor of them. Poll results were announced at the meeting, on the websites of the Company and the Hong Kong Stock Exchange as well as in newspapers on the day following the meeting.

## THE BOARD OF DIRECTORS

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting management targets, regulating internal controls and financial management and supervising the management's performance while the day-to-day operations and management are delegated by the Board to the executives of the Company. The Board operates in accordance with established practices (including those relating to reporting and supervision), and is directly responsible for formulating the Company's corporate governance guidelines.

The Board currently comprises 13 directors, namely, Mr. WANG Jianzhou (Chairman), Mr. LI Yue, Mr. LU Xiangdong, Mr. XUE Taohai, Mr. ZHANG Chenshuang, Mr. Sha Yuejia, Mr. Liu Aili, Madam XIN Fanfei and Mr. XU Long as executive directors, Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi as independent non-executive directors and Mr. Paul Michael DONOVAN as a non-executive director. Their biographies are presented on pages 7 to 9 of this annual report and also on the Company's website. The Company and its directors (including non-executive directors) have not entered into any service contract with a specified length of service. All directors are subject to retirement by rotation and re-election at annual general meetings of the Company every three years. The Company has received a confirmation of independence from each of the independent non-executive directors, namely Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi, and considers them to be independent. The Company has received acknowledgements from the directors of their responsibility for preparing the financial statements and a statement by the auditors of the Company about their reporting responsibilities.

The Board currently has three principal board committees, which are the audit committee, the remuneration committee and the nomination committee, and all of which are comprised solely of independent non-executive directors. The terms of reference of each of the board committees are available on the Company's website or by written application to the Company Secretary.

Board meetings are held at least once a quarter and as and when necessary. Five board meetings (inclusive of meetings held by way of telephone conference) were held during the financial year ended 31 December 2006. Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing, Mr. Moses CHENG Mo Chi, Mr. WANG Jianzhou, Mr. XUE Taohai, Mr. ZHANG Chengshuang, Mr. LIU Aili (appointed as an executive director of the Company with effect from 16 March 2006), Madam XIN Fanfei (appointed as an executive director of the Company with effect from 3 January 2006), Mr. XU Long and Madam LI Mofang (resigned as an executive director of the Company with effect from 16 March 2006) have recorded full attendance in respect of board meetings while Mr. LI Yue attended four board meetings, Mr. LU Xiangdong attended three board meetings and Mr. SHA Yuejia (appointed as an executive director of the Company with effect from 16 March 2006) attended two board meetings. Each of Mr. Paul Michael DONOVAN (appointed as a non-executive director of the Company with effect from 7 June 2006) and Sir Julian Michael HORN-SMITH (resigned as a non-executive director of the Company with effect from 7 June 2006) attended one board meeting in person and their alternate director, Mr. Gavin DARBY, attended three board meetings.

The directors have disclosed to the Company the positions held by them in other listed public companies or organizations or associated companies, and the information regarding their directorships in other listed public companies in the last three years is set out in the biography of directors and senior management on pages 7 to 9 of this annual report and on the Company's website.

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") to regulate the directors' securities transactions. Save and except the interests as disclosed in the report of the directors on page 43 of this annual report, none of the directors had any interest in the shares of the Company as at 31 December 2006. All directors have confirmed, following enquiry by the Company, that they have complied with the Model Code during the period between 1 January 2006 and 31 December 2006.

## AUDIT COMMITTEE

The current members of the Company's audit committee are Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi. All members of our audit committee have many years of finance and business management experience and expertise.

The audit committee's primary responsibilities include, among other things, making recommendation to the board of directors on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, developing and implementing policies on the engagement of external auditors to provide non-audit services, monitoring the integrity of financial statements of the Company and the Company's reports and financial statements and overseeing the Company's financial reporting system and internal control procedures. The terms of reference of our audit committee are available on the Company's website.

In 2006, the audit committee met on four occasions with all members attending all meetings and, among other things, the audit committee:

- reviewed the Company's financial statements and results announcement for the year 2005, report of the directors for the year 2005 and financial review for the year 2005;
- reviewed the interim report and the interim results announcement of the Company for the six months ended 30 June 2006;
- discussed and approved the audit memorandum prepared by, budgets and remuneration of, and services provided by, the external auditors;
- approved the 2006 overall audit plan as proposed by the external auditors;
- reviewed and approved the interim report on the internal audit of the human resources management process and the report on the revised working plan for 2006 internal audit;
- approved the 2006 assessment report on the disclosure controls and procedures;
- approved the follow-up report on the internal audit of networks administration and control procedures;
- approved the Company's 2005 annual report on Form 20-F;
- reviewed and approved the progress report and phase one testing report on the overall work plan for the SOX Act Section 404 compliance project; and
- reviewed the Company's compliance with relevant laws and regulations.

## REMUNERATION COMMITTEE

The current members of the Company's remuneration committee are Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi. The primary responsibilities of the remuneration committee include, among other things, determining the remuneration packages of all executive directors and senior management, making recommendations to the Board on the remuneration of non-executive directors, reviewing and approving performance-based remuneration, ensuring that no director or any of his or her associates is involved in deciding his or her own remuneration, making recommendations to the board of directors on the Company's policy and structure for remuneration of employees, including salaries, incentive schemes and other stock plans. The terms of reference of our remuneration committee are available on the Company's website. In 2006, the remuneration committee met once and all members attended the meeting, during which the remuneration committee reviewed and approved the 2005 performance-linked annual bonus for our senior management.

At present, the cash portion of our senior management's remuneration consists of a fixed monthly salary and a performance-linked annual bonus. The award of the performance-linked annual bonus is tied to the attainment of key performance indicators or targets. In terms of long-term incentives, the Company has adopted a share option scheme. Depending on their ranking, members of the management are awarded different numbers of share options. The remuneration of non-executive directors is determined in part by reference to the prevailing market conditions and their workload of serving as non-executive directors and members of the board committees of the Company.

## NOMINATION COMMITTEE

The current members of the Company's nomination committee are Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi. The primary responsibilities of the nomination committee include, among other things, reviewing on a regular basis the structure, size and composition of the Board, identifying individuals suitably qualified to become board members, and assessing the independence of independent non-executive directors. The terms of reference of our nomination committee are available on the Company's website. In 2006, the nomination committee met three times (inclusive of meetings held by way of telephone conference) with all members attending all meetings, and it discussed and approved matters regarding changes in directorships and made recommendations to the Board in relation to the appointments of Madam XIN Fanfei, Mr. SHA Yuejia and Mr. LIU Aili as executive directors and the appointment of Mr. Paul Michael DONOVAN as non-executive director.

Currently, executive directors are mainly selected internally within the Group from executives who have considerable years of management experience and expertise in the telecommunications industry, whereas for the identification of independent non-executive directors, importance is attached to the individual's independence as well as his or her experience and expertise in finance and business management. The nomination committee, taking into consideration the requirements of the jurisdictions where it is listed and the structure and composition of the Board, identifies, reviews and nominates with diligence and care individuals suitably qualified as board members of the Company before making recommendations to the Board for their final appointment. All newly-appointed directors should be subject to election by shareholders at the first general meeting after their appointment. Every director should be subject to retirement by rotation at least once every three years.

## INTERNAL CONTROLS AND INTERNAL AUDIT

To protect its assets and to ensure the accuracy and reliability of the financial information that the Company employs in its business or releases to the public, the Board conducts regular reviews of the effectiveness of the Group's internal controls. The scope of these reviews includes, among other things, finance, operations, regulatory compliance and risk management.

The Company, in compliance with the requirements of Section 404 of the SOX Act, established and refined a comprehensive internal control and risk management regime on the basis of the COSO framework. By using the standardized internal control manual and matrix as models, the Company conducted systematic and comprehensive recording of process related to the internal control over financial reporting in 35 business units, including its 31 operating subsidiaries in Mainland China, in 2006. The Company also refined its systems and implemented standardized management of internal controls, including the controls of 11 business processes, such as those in relation to capital expenditure, revenue and billing as well as accounting and financial reporting, the general controls of information technology and the controls at company level. Simultaneously, the Company established a responsibility and accountability mechanism with a well-defined division of responsibilities, and combined the management of internal controls with that of day-to-day business with a view to improving the employees' awareness of risk management and enhancing the monitoring role of internal controls. Based on an evaluation conducted by the Company's management, the Company's management believes that, as of 31 December 2006, the Company's internal control over financial reporting was effective and provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for reporting purposes in accordance with generally accepted accounting principles.

All disclosure of material information relating to the Company is made through the unified leadership and management of the Board, with the Company's management performing its relevant duties. To help ensure that disclosures by the Company are true, accurate, complete and timely, the Company established a disclosure committee in 2002 to improve and maintain its disclosure controls and procedures in compliance with the requirements of Section 302 of the SOX Act. The Company regularly reviews the effectiveness of its disclosure controls and procedures with a view to ensuring that disclosure of material information relating to the Company is true, accurate and complete and that material information relating to the Company is promptly recorded, processed, summarized and disclosed. The Company has performed an annual review of the effectiveness of the Company's disclosure controls and procedures in 2006, and concluded that the Company's disclosure controls and procedures were effective in ensuring that material information relating to the Company was promptly recorded, processed, summarized and disclosed.

The Company has an internal audit department ("IA Department"), whose principal roles are to ensure the establishment and performance of the Company's internal controls and to improve the Company's corporate governance, risk management and internal controls with a view to safeguarding the Company's funds and assets, enhancing operational efficiency and benefits and achieving the Company's long-term goals. Taking into account the potential risk and urgency in respect of the internal controls that are subsisting in the Company's management structures and business processes, the IA Department routinely carries out audits as well as inspections and evaluations of the Company's accounting information, internal controls and other types of operational and management activities through the application of systematic and standardized audit procedures and methods, in order to assess the Company's internal controls and to monitor their performance.

The IA Department formulates an annual internal audit plan, which is submitted to the audit committee for review, and the IA Department carries out audits on the Company's management structures and business processes on an on-going basis. The head of the IA Department reports to and makes recommendations regarding the improvement of internal controls to the Chief Financial Officer and the audit committee on a regular basis, and the audit committee in turn reports regularly to the Board. The head of the internal audit department is also responsible for the implementation of plans to improve internal controls.

## AUDITORS' REMUNERATION

The Company engaged KPMG as statutory auditors of the Company. In 2006, the principal services provided by KPMG included reviewing interim consolidated financial statements of the Group, auditing annual consolidated financial statements of the Group, issuing an audit opinion on the consolidated financial statements of the Group as part of our 2006 annual report on Form 20-F, issuing annual audit reports for our subsidiaries separately, and auditing and issuing an attestation report on the Company's 2006 internal control over financial reporting.

Apart from providing the above-mentioned audit services to the Group, KPMG was also engaged in providing the Group with other non-audit services which are permitted under the SOX Act and with the prior approval of our audit committee. The following table sets forth the type of, and fees for, the principal audit services and non-audit services provided by KPMG to the Group:

| | **2006** | 2005 |
|---|---|---|
| Audit fees | **HK$80 million[(1)]** | HK$59 million |
| Non-audit fees | **HK$35 million[(2)]** | HK$0.6 million[(3)] |

(1) *including the fees rendered for the audit of internal control over financial reporting as required by Section 404 of the SOX Act.*

(2) *including the fees for SOX Act advisory services provided to the Company.*

(3) *including project fees for the review of operation processes of our subsidiaries for our internal audit function.*

## CODE OF ETHICS

For the purpose of promoting honest and ethical conduct and deterring wrongdoing, the Company, in 2004, adopted a code of ethics (the "Code"), which is applicable to our Chief Executive Officer, Chief Financial Officer, Deputy Chief Financial Officer, Assistant Chief Financial Officer and other designated senior officers of the Group, in accordance with the requirements of the SOX Act. Under the Code, in the event of a breach of the Code, the Company may take appropriate preventive or disciplinary actions after consultation with the Board. The Code has been filed with the U.S. Securities and Exchange Commission as an exhibit to our annual report on Form 20-F for the financial year ended 31 December 2003, which may also be viewed and downloaded from the Company's website.

## SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN THE CORPORATE GOVERNANCE PRACTICES OF THE COMPANY AND THE CORPORATE GOVERNANCE PRACTICES REQUIRED TO BE FOLLOWED BY U.S. COMPANIES UNDER THE NYSE'S LISTING STANDARDS

In accordance with the requirements of Section 303A.11 of the NYSE Listed Company Manual, the following is a summary of the significant differences between the Company's corporate governance practices and those required to be followed by U.S. companies under the NYSE's listing standards.

Section 303A.01 of the NYSE Listed Company Manual provides that listed companies must have a majority of independent directors. As a listed company in Hong Kong, the Company is subject to the requirement under the Hong Kong Listing Rules that at least three members of its board of directors be independent as determined under the Hong Kong Listing Rules. The Company currently has three independent directors out of a total of thirteen directors. The Hong Kong Listing Rules set forth standards for establishing independence, which differ from those set forth in the NYSE Listed Company Manual.

Section 303A.03 of the NYSE Listed Company Manual provides that listed companies must schedule regular executive sessions in which non-management directors meet without management participation. The Company is not required, under the applicable Hong Kong law, to hold such executive sessions.

Section 303A.04 of the NYSE Listed Company Manual provides that the nominating/corporate governance committee of a listed company must have a written charter that addresses the committee's purpose and responsibilities, which include, among others, the development and recommendation of corporate governance guidelines to the listed company's board of directors. The board of directors of the Company is directly in charge of developing the Company's corporate governance guidelines.

Section 303A.07 of the NYSE Listed Company Manual provides that if an audit committee member simultaneously serves on the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then in each case, the board of directors must determine that such simultaneous service would not impair the ability of such member to effectively serve on the listed company's audit committee and disclose such determination. The Company is not required, under the applicable Hong Kong law, to make such determination.

Section 303A.10 of the NYSE Listed Company Manual provides that listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees. While the Company is not required, under the Hong Kong Listing Rules, to adopt such similar code, as required under the SOX Act, the Company has adopted a code of ethics that is applicable to the Company's principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions.

Section 303A.12(a) of the NYSE Listed Company Manual provides that each listed company's chief executive officer must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. The Company's Chief Executive Officer is not required, under the applicable Hong Kong law, to make similar certifications.

## CONTINUOUS EVOLVEMENT OF CORPORATE GOVERNANCE

We will closely study the development of corporate governance practices among the world's leading corporations, future evolution of the relevant regulatory environment, and the requirements of the investing community on an on-going basis. We will also review and enhance our corporate governance procedures and practices from time to time so as to ensure the long-term sustainable development of the Company.

# HUMAN RESOURCES DEVELOPMENT

In 2006, the Group's human resources work sought to develop pre-eminent organizations and human resources to contribute to the realization of the great blueprint of "One China Mobile" by following the scientific development concepts and the human resources development concepts. Guided by the demands of the market and customers, the Group made further efforts to improve and optimize the organizational structure, to advance and deepen its human resources enhancement project, to proactively explore a new system for its staff selection and utilization, to consolidate the foundations for its human resources management, and to improve the development of its human resources management information system. By making the best of the guiding role of forward-looking planning and consultancy, the Group continued to carry out innovations and reforms, to improve its management system, to advance its market-oriented operations and to improve the level of its professionalism. All these efforts provided firm organizational and human resources support for the strategic goal of being "a worldwide leader in telecommunications and achieving evolution from excellence to pre-eminence".

In 2006, closely in line with the Company's key strategies and corporate culture cultivation requirements, the Group improved the relevant systems and practices, regulated the employees' conduct, enhanced their level of professionalism, improved their organizational skills and further improved the performance management of the departments and employees. The Group employed a scientific appraisal methodology, selected essential appraisal indicators and enhanced the linkage between performance and competence, leading its performance management to become more standardized, scientific and market-oriented.

In 2006, the Group continued to progress in developing its market-oriented remuneration system to enhance the external competitiveness and internal equity of the remuneration system, enhance the linkage between remuneration management and performance management, and improve the cost efficiency of remuneration by concentrating on the refinement of each of the internal management systems. Moreover, the Group proactively improved the remuneration management methodology and procedures for all levels of employees, revised the remuneration allocation process for the senior and mid-level managers and strengthened the link between remuneration levels and the business performance in order to increase the motivational effect of remuneration.

During 2006, the Group continued to advance and deepen the human resources reform. The guideline of "enhancing by levels and categories and striving to innovate methodology" was established based on the subsidiaries' actual progress in implementing the human resources enhancement project. As the progress of the subsidiaries' implementations differed from one another, the Group has defined classifications and prioritizations and proposed upgrading plans accordingly and, on such basis, together with proactive emphasis on competence, the foundation for the further development of its human resources management system has been established.

Having always attached great importance to attracting, recruiting, nurturing and retaining talented people, the Group continued to increase its efforts in human resources exchange and training, and implement its strategy of enhancing employees' competence. In 2006 the Group took various modes to recruit talented people, consolidated the formation of professional teams, innovated the management model for its senior management, and improved the staff component of all levels of management teams. As a result, corporate leadership was further enhanced. In order to further improve the competitiveness of the Group and its employees, the Group attached more importance to the close alignment of training and the business results, with a view to improving its capacity of providing overall training solutions and to improving the development of both the business and the employees. The training program framework for China Mobile has basically been established and the Internet-based education program covering the thirty-one subsidiaries was implemented and promoted, reinforcing the development, management and analysis of the basic training data, and improving the efficiency and quality of the training efforts.

# MAJOR AWARDS & RECOGNITION IN 2006


In 2006, the Company's outstanding performance has won popular recognition and acclaim, including:

The Company ranked number 112 as compared to number 128 in the previous year in *Forbes* magazine's "The World's 2000 Biggest Public Companies".

The Company was once again selected by *Financial Times* as one of the "FT Global 500" companies, ranked number 38 as compared to number 64 in the previous year.

The Company was selected by *BusinessWeek* as one of the 2006 global "Info Tech 100" companies, leaping to number 8 from number 17 in the previous year.

The Company ranked number 1 in terms of market value and number 4 in terms of sales in "Asia's Fab 50 Companies" by *Forbes Asia*.

The "China Mobile" brand ranked number 4 globally in the "BRANDZ™ Top 100 Most Powerful Brands" published by Millward Brown and *Financial Times* in 2006, and ranked number 1 in the "20 Best China Brands" jointly published by Interbrand and *BusinessWeek*.

The Company was awarded "The Best Chinese Carrier" in the "2006 Telecom Asia Awards" organized by *Telecom Asia* magazine.

The directors take pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The Group's principal activity is providing mobile telecommunications and related services in thirty-one provinces, autonomous regions and directly-administered municipalities in Mainland China and Hong Kong. The principal activity of the Company is investment holding.

The turnover of the Group during the financial year consisted primarily of income generated from the provision of mobile telecommunications services.

## MAJOR CUSTOMERS AND SUPPLIERS

The Group's aggregate turnover with its five largest customers did not exceed 30 per cent. of the Group's total turnover in 2006.

Purchases from the largest supplier for the year represented 9 per cent. of the Group's total purchases. The five largest suppliers accounted for an aggregate of 37 per cent. of the Group's purchases in 2006. Purchases for the Group include network equipment purchases, leasing of transmission lines and payments in relation to interconnection arrangements. Purchases from suppliers, other than suppliers of leased lines and network equipment and interconnection arrangements, were not material to the Group's total purchases.

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5 per cent. of the Company's share capital) had any interest in these five largest suppliers.

## SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and the Group's associates as at 31 December 2006 are set out in note 19 and note 20, respectively, to the financial statements.

## FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2006 and the state of the Company's and the Group's financial affairs as at that date are set out in the financial statements on pages 57 to 117.

## DIVIDENDS

The Board considers that the Company's strong free cash flow is capable of supporting the investments required to maintain the sustained stable growth of the Company, while also providing shareholders with a favorable cash return. In consideration of the Company's favourable operating results in 2006 and its long-term development in the future, and in accordance with the dividend payout plan for the full year of 2006, the Board recommends payment of an ordinary final dividend of HK$0.763 per share for the financial year ended 31 December 2006. This, together with the ordinary interim dividend of HK$0.62 per share paid during 2006, amounts to an aggregate ordinary dividend payment of HK$1.383 per share for the full financial year of 2006, representing an increase of 35.6 per cent. over the annual dividend of HK$1.02 per share for the financial year of 2005. The dividend payout ratio for the financial year of 2006 was 42 per cent.. In addition, whilst the profit and dividend per share for the financial year of 2006 continued to maintain a favourable growth, the Board, having taken into full account the interests of the Company's shareholders, recommends payment of a special final dividend in 2006 of HK$0.069 per share to cater for the effect of the Company's revised depreciation policy on the profits attributable to shareholders. This, together with the special interim dividend of HK$0.09 per share paid during 2006, amounts to an aggregate special dividend payment of HK$0.159 per share for the full financial year of 2006.

The Company will endeavor to achieve a sustainable, steadily increasing dividend over the longer term, with a view to generating the best possible return for shareholders.

## DONATIONS

Donations made by the Group during the year amounted to RMB46,619,254 (2005: RMB32,286,971).

## PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the Company's share capital and share option scheme are set out in note 34 to the financial statements and the paragraph "Share option schemes" below, respectively.

## BONDS

Details of the bonds of the Group are set out in note 30 to the financial statements.

## RESERVES

Changes to the reserves of the Group and the Company during the year are set out in note 34 to the financial statements.

## DIRECTORS

The directors during the financial year were:

### Executive directors:

| | |
|---|---|
| WANG Jianzhou *(Chairman)* | |
| LI Yue | |
| LU Xiangdong | |
| XUE Taohai | |
| ZHANG Chenshuang | |
| SHA Yuejia | (appointed on 16 March 2006) |
| LIU Aili | (appointed on 16 March 2006) |
| XIN Fanfei | (appointed on 3 January 2006) |
| XU Long | |
| LI Mofang | (resigned on 16 March 2006) |
| HE Ning | (resigned on 3 January 2006) |
| LI Gang | (resigned on 3 January 2006) |

### Independent non-executive directors:

LO Ka Shui
Frank WONG Kwong Shing
Moses CHENG Mo Chi

### Non-executive directors:

| | |
|---|---|
| Paul Michael DONOVAN | (appointed on 7 June 2006) |
| Julian Michael HORN-SMITH | (resigned on 7 June 2006) |

In accordance with Article 97 of the Company's Articles of Association, Mr. WANG Jianzhou, Mr. LI Yue, Mr. ZHANG Chenshuang, and Mr. Frank WONG Kwong Shing will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election. In accordance with Article 101 of the Company's Articles of Association, Mr. Paul Michael DONOVAN will also retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

The biographies of the directors proposed for re-election at the forthcoming annual general meeting ("Directors for Re-election") are set out on pages 7 to 9. Except as disclosed in such biographies, the Directors for Re-election have not held any other directorships in any listed public companies in the last three years. Further, except as noted in the biographies, none of the Directors for Re-election is connected with any directors, senior management or substantial or controlling shareholders of the Company and, except for the share options granted to the Directors for Re-election (other than Mr. Paul Michael DONOVAN) as set out in the paragraph "Share option schemes" below, none of them has any interests in the shares of the Company within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO").

The service contracts of all the Directors for Re-election do not provide for a specified length of services and each of such directors will be subject to retirement by rotation and re-election at annual general meetings of the Company every three years. Each of the Directors for Re-election is entitled to an annual director's fee of HK$180,000 as proposed by the board of directors and approved by the shareholders of the Company. Director's fees are payable on a time pro-rata basis for any non full year's service. Mr. Frank WONG Kwong Shing is also entitled to an additional annual fee of HK$260,000 as member of the Audit Committee, the Nomination Committee and the Remuneration Committee. In addition, for the financial year ended 31 December 2006, Mr. WANG Jianzhou, Mr. LI Yue and Mr. ZHANG Chenshuang received annual remuneration, including retirement scheme contributions, of HK$1,427,000, HK$1,177,000 and HK$1,187,000, respectively, plus a discretionary bonus as determined by the board of directors with respect to the director's performance. The remuneration of these directors has been determined with reference to the individual's duties, responsibilities and experience, and to prevailing market conditions.

None of the Directors for Re-election has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

Save as disclosed herein, there are no other matters relating to the re-election of the Directors for Re-election that need to be brought to the attention of the shareholders of the Company nor there is any information to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Hong Kong Listing Rules.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Certain directors of the Company personally hold options to subscribe for ordinary shares of the Company. Details of such options are disclosed under the paragraph "Share option schemes" below. These share options were granted pursuant to the terms of the share option schemes adopted by the Company.

Apart from those disclosed herein, as at 31 December 2006, none of the directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) that is required to be recorded and kept in the register in accordance with section 352 of the SFO, any interests required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## SHARE OPTION SCHEMES

### Share option schemes of the Company

Pursuant to a resolution passed at the annual general meeting held on 24 June 2002, the share option scheme established on 8 October 1997 (the "Old Scheme") was terminated and the current share option scheme (the "Current Scheme") was adopted. The Current Scheme shall be valid and effective for a period of 10 years commencing on its adoption date.

The purpose of the Old Scheme was to provide an incentive to the employees and directors of the Company and/or its subsidiaries. Under the Old Scheme, the directors of the Company may, at their discretion, invite employees, including executive directors of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company.

As set out in the Company's circular to shareholders dated 8 April 2002, the purpose of the Current Scheme is to provide the Company with a flexible and effective means of remunerating and providing benefits to the employees, the executive directors and the non-executive directors of the Company, any of its holding companies and their respective subsidiaries and any entity in which the Company or any of its subsidiaries holds any equity interest (the "Participants"), thereby incentivising the Participants. Under the Current Scheme, the directors of the Company may, at their discretion, invite the Participants to take up options to subscribe for shares in the Company.

The maximum aggregate number of shares which can be subscribed pursuant to options that are or may be granted under the above schemes equals to 10 per cent. of the total issued share capital of the Company as at the date of adoption of the Current Scheme. Options lapsed or cancelled in accordance with the terms of the Old Scheme or the Current Scheme will not be counted for the purpose of calculating this 10 per cent. limit.

As the Old Scheme was terminated with effect on 24 June 2002, no further options were granted under the Old Scheme thereafter. As at 31 December 2006, the total number of shares which may be issued on the exercise of the outstanding options granted under the Old Scheme is 14,401,300, representing approximately 0.07 per cent. of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report. As at the same date, the total number of shares which may be issued on the exercise of the outstanding options granted or to be granted under the Current Scheme is 1,559,974,404, representing approximately 7.80 per cent. of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report. However, the total number of shares in the Company issued and to be issued upon exercise of the options granted to a Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the issued share capital of the Company. The consideration payable for the grant of each option under each of the Old Scheme and the Current Scheme is HK$1.00.

For options granted before 1 September 2001 under the Old Scheme, the exercise price of options was determined by the directors of the Company at their discretion provided that such price may not be set below a minimum price which is the higher of:

(i) the nominal value of a share; and

(ii) 80 per cent. of the average of the closing price of the share on the Stock Exchange on the five trading days immediately preceding the date on which the option was granted.

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

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

(i) the nominal value of a share;

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

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

No share options were granted under the Current Scheme during the year ended 31 December 2006.

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

As at 31 December 2006, the directors and chief executive of the Company and the employees of the Group had the following personal interests in options to subscribe for shares of the Company granted under the Old Scheme and the Current Scheme.

| | No. of shares involved in the options outstanding at the beginning of the year | No. of shares involved in the options outstanding at year end | Date on which options were granted | No. of shares involved in the options lapsed during the year | No. of shares acquired on exercise of options during the year | Exercise price HK$ |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| WANG Jianzhou | 600,000 | 515,000 | 21 December 2004 | – | 85,000 | 26.75 |
| *(also the chief executive officer)* | 970,000 | 970,000 | 8 November 2005 | – | – | 34.87 |
| LI Yue | 240,000 | 154,000 | 28 October 2004 | – | 86,000 | 22.75 |
| | 780,000 | 780,000 | 8 November 2005 | – | – | 34.87 |
| LU Xiangdong | 192,000 | 154,000 | 28 October 2004 | – | 38,000 | 22.75 |
| | 780,000 | 780,000 | 8 November 2005 | – | – | 34.87 |
| XUE Taohai | 100,000 | 100,000 | 3 July 2002 | – | – | 22.85 |
| | 192,000 | 154,000 | 28 October 2004 | – | 38,000 | 22.75 |
| | 780,000 | 780,000 | 8 November 2005 | – | – | 34.87 |
| ZHANG Chenshuang | 192,000 | 164,000 | 28 October 2004 | – | 28,000 | 22.75 |
| | 780,000 | 780,000 | 8 November 2005 | – | – | 34.87 |
| SHA Yuejia | 45,750 | 250 | 22 June 2001 | – | 45,500 | 32.10 |
| | 90,000 | 90,000 | 3 July 2002 | – | – | 22.85 |
| | 110,500 | 82,600 | 28 October 2004 | – | 27,900 | 22.75 |
| | 780,000 | 780,000 | 8 November 2005 | – | – | 34.87 |
| LIU Aili | 60,000 | – | 22 June 2001 | – | 60,000 | 32.10 |
| | 90,000 | 90,000 | 3 July 2002 | – | – | 22.85 |
| | 110,500 | 82,600 | 28 October 2004 | – | 27,900 | 22.75 |
| | 150,500 | 141,500 | 8 November 2005 | – | 9,000 | 34.87 |
| XU Long | 1,170,000 | 1,000,000 | 25 April 2000 | – | 170,000 | 45.04 |
| | 47,500 | – | 22 June 2001 | – | 47,500 | 32.10 |
| | 90,000 | 90,000 | 3 July 2002 | – | – | 22.85 |
| | 156,000 | 117,000 | 28 October 2004 | – | 39,000 | 22.75 |
| | 270,000 | 254,000 | 8 November 2005 | – | 16,000 | 34.87 |
| LO Ka Shui | 400,000 | 400,000 | 8 November 2005 | – | – | 34.87 |
| Frank WONG Kwong Shing | 400,000 | 400,000 | 8 November 2005 | – | – | 34.87 |
| Moses CHENG Mo Chi | 400,000 | 400,000 | 8 November 2005 | – | – | 34.87 |

| | No. of shares involved in the options outstanding at the beginning of the year | No. of shares involved in the options outstanding at year end | Date on which options were granted | No. of shares involved in the options lapsed during the year | No. of shares acquired on exercise of options during the year | Exercise price HK$ |
|---|---|---|---|---|---|---|
| Employees* | | | | | | |
| | 2,000,000 | 1,000,000 | 26 November 1999 | 1,000,000 | – | 33.91 |
| | 26,438,000 | 4,858,500 | 25 April 2000 | 348,000 | 21,231,500 | 45.04 |
| | 52,380,000 | 7,542,550 | 22 June 2001 | – | 44,837,450 | 32.10 |
| | 75,575,000 | 71,864,350 | 3 July 2002 | 263,250 | 3,447,400 | 22.85 |
| | 213,446,500 | 156,838,619 | 28 October 2004 | 548,300 | 56,059,581 | 22.75 |
| | 282,878,000 | 275,800,490 | 8 November 2005 | 716,500 | 6,361,010 | 34.87 |
| | | 527,163,459 | (Note (a)) | | | |

* *The number of shares involved in the options outstanding at the beginning of the year included share options granted to Madam LI Mofang, Mr. HE Ning, Mr. LI Gang and Sir Julian Michael HORN-SMITH involving a total of 5,402,000 shares. Madam LI Mofang resigned as executive director, vice president and chief engineer of the Company in March 2006. Mr. HE Ning resigned as executive director and vice president of the Company and Mr. LI Gang resigned as executive director of the Company in January 2006. Sir Julian Michael HORN-SMITH resigned as non-executive director of the Company in June 2006.*

*Notes:*

(a) The total number of shares involved in the options outstanding at the end of the year represents 2.64 per cent. of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report.

(b) No options to subscribe for shares in the Company were granted to the directors of the Company in 2006.

(c) Particulars of share options:

| Date of grant | Exercise period |
|---|---|
| 26 November 1999 | 26 November 1999 to 7 October 2007 (in respect of 50% of the options granted)<br>26 November 2002 to 7 October 2007 (in respect of the remaining 50% of the options granted) |
| 25 April 2000 | 25 April 2002 to 7 October 2007 (in respect of 50% of the options granted)<br>25 April 2005 to 7 October 2007 (in respect of the remaining 50% of the options granted) |
| 22 June 2001 | 22 June 2003 to 7 October 2007 (in respect of 50% of the options granted)<br>22 June 2006 to 7 October 2007 (in respect of the remaining 50% of the options granted) |
| 3 July 2002 | 3 July 2004 to 2 July 2012 (in respect of 50% of the options granted)<br>3 July 2007 to 2 July 2012 (in respect of the remaining 50% of the options granted) |
| 28 October 2004 | 28 October 2005 to 27 October 2014 (in respect of 40% of the options granted)<br>28 October 2006 to 27 October 2014 (in respect of 30% of the options granted)<br>28 October 2007 to 27 October 2014 (in respect of the remaining 30% of the options granted) |
| 21 December 2004 | 21 December 2005 to 20 December 2014 (in respect of 40% of the options granted)<br>21 December 2006 to 20 December 2014 (in respect of 30% of the options granted)<br>21 December 2007 to 20 December 2014 (in respect of the remaining 30% of the options granted) |
| 8 November 2005 | 8 November 2006 to 7 November 2015 (in respect of 40% of the options granted)<br>8 November 2007 to 7 November 2015 (in respect of 30% of the options granted)<br>8 November 2008 to 7 November 2015 (in respect of the remaining 30% of the options granted) |

Details of share options exercised during the year:

| Period during which share options were exercised | Exercise price HK$ | Weighted average closing price per share immediately before dates of exercise of options HK$ | Proceeds received HK$ | Number of shares involved in the options |
|---|---|---|---|---|
| 19 April 2006 to 29 December 2006 | 45.04 | 53.10 | 963,923,560 | 21,401,500 |
| 3 January 2006 to 29 December 2006 | 32.10 | 48.30 | 1,444,193,445 | 44,990,450 |
| 4 January 2006 to 29 December 2006 | 22.85 | 46.51 | 78,773,090 | 3,447,400 |
| 3 January 2006 to 29 December 2006 | 22.75 | 50.35 | 1,281,834,668 | 56,344,381 |
| 2 May 2006 | 26.75 | 45.10 | 2,273,750 | 85,000 |
| 6 January 2006 to 29 December 2006 | 34.87 | 55.52 | 222,680,168 | 6,386,010 |

## SHARE OPTION SCHEME OF ASPIRE HOLDINGS LIMITED ("ASPIRE")

Pursuant to a resolution passed at the annual general meeting of the Company held on 24 June 2002, the share option scheme of Aspire (the "Aspire Scheme") was adopted. The Aspire Scheme shall be valid and effective for a period of 10 years commencing on its adoption date.

As set out in the Company's circular to shareholders dated 8 April 2002, the purpose of the Aspire Scheme is to provide Aspire with a flexible and effective means of remunerating and providing benefits to the employees, the executive directors and the non-executive directors of Aspire or any of its subsidiaries (the "Aspire Participants"), thereby incentivising the Aspire Participants. Under the Aspire Scheme, the board of directors of Aspire may, at their discretion, invite Aspire Participants to take up options to subscribe for shares of Aspire (the "Aspire Shares").

The maximum aggregate number of Aspire Shares which can be subscribed pursuant to options that are or may be granted under the Aspire Scheme equals to 10 per cent. of the total issued share capital of Aspire as at the date of adoption of the Aspire Scheme. Options lapsed or cancelled in accordance with the terms of the Aspire Scheme will not be counted for the purpose of calculating this 10 per cent. limit. As at 31 December 2006, the total number of shares which may be issued on the exercise of the outstanding options granted or to be granted under the Aspire Scheme was 93,964,582, representing 10 per cent. of the issued share capital of Aspire as at the date of this annual report. However, the total number of Aspire Shares issued and to be issued upon exercise of the options granted to an Aspire Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the issued share capital of Aspire.

The consideration payable by an Aspire Participant for the grant of each option is HK$1.00.

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

(i) US$0.298; and

(ii) the price determined by applying a maximum discount of 20 per cent. to the price per Aspire Share calculated by dividing the valuation of Aspire as a whole by the aggregate number of issued Aspire Shares at the time of employment/appointment of the Aspire Participant or the grant of the options to the Aspire Participant (as the case may be),

provided, however, that 10 per cent. of the options to be granted under the Aspire Scheme may have an exercise price less than (i) and (ii) above but not less than US$0.182.

Under the Aspire Scheme, the term of the option is determined by the directors of Aspire at their discretion, provided that all options shall be exercised within 10 years after the date on which the option is granted.

Under the vesting conditions on the options under the Aspire Scheme:

(a) 50 per cent. of any options granted shall be exercisable: (i) 2 years after the time of commencement of employment (or the appointment as director) of the relevant Aspire Participant (in the case of options specified in the employment contract with the relevant Aspire Participant) or (in other cases) the date on which the Aspire Participant is offered with the option or (ii) after listing of Aspire, whichever is later; and

(b) the remaining 50 per cent. of such options shall be exercisable 3 years after the initial 50 per cent. of the options becomes exercisable.

As at 31 December 2006, directors and the employees of Aspire had the following personal interests in options to subscribe for shares of Aspire granted under the Aspire Scheme.

| | No. of shares involved in the options outstanding at the beginning of the year | No. of shares involved in the options outstanding at year end | Date on which options were granted | Normal period during which options are exercisable | No. of shares involved in the options lapsed during the year | Exercise Price US$ |
|---|---|---|---|---|---|---|
| Directors of Aspire* | 2,800,000 | 2,800,000 | 18 February 2003 | *(Note 2)* | – | 0.182 |
| | 500,000 | 500,000 | 28 May 2004 | *(Note 2)* | – | 0.298 |
| Employees of Aspire* | 9,705,000 | 8,485,000 | 18 February 2003 | *(Note 3)* | 1,220,000 | 0.298 |
| | 720,000 | 490,000 | 18 April 2003 | *(Note 3)* | 230,000 | 0.298 |
| | 2,540,000 | 1,740,000 | 16 September 2003 | *(Note 3)* | 800,000 | 0.298 |
| | 1,970,000 | 1,740,000 | 18 March 2004 | *(Note 3)* | 230,000 | 0.298 |
| | 595,000 | 405,000 | 28 May 2004 | *(Note 3)* | 190,000 | 0.298 |
| | | 16,160,000 | *(Note 1)* | | | |

*Notes:*

* *During the year ended 31 December 2006, no share options have been granted under the Aspire Scheme for the directors and chief executive of the Company.*

(1) The total number of shares involved in the options outstanding at the end of the year represents 1.7 per cent. of the issued share capital of Aspire as at the date of this report.

(2) (a) 50 per cent. of the options are exercisable between the period:

- commencing on the later of: (i) two years after the date of appointment as director or the date of grant of the option (as the case may be) or (ii) the listing of the shares of Aspire; and
- ending on the date falling 10 years from the option grant date; and

(b) the remaining 50 per cent. of such options shall be exercisable between the period commencing three years after the initial 50 per cent. of the option becomes exercisable and ending on the date falling 10 years from the option grant date.

(3) (a) 50 per cent. of the options granted to a particular employee are exercisable between the period:

- commencing on the later of: (i) two years after the commencement of employment of that employee or the option offer date (as the case may be) or (ii) the listing of the shares of Aspire; and
- ending on the date falling 10 years from the option grant date; and

(b) the remaining 50 per cent. of such options shall be exercisable between the period commencing three years after the initial 50 per cent. of the option becomes exercisable and ending on the date falling 10 years from the option grant date.

No options granted under the Aspire Scheme were exercised during the year ended 31 December 2006.

Share options involving 2,670,000 Aspire Shares have been cancelled during the year ended 31 December 2006.

The options granted are not recognized in the financial statements until they are exercised.

Since the options granted pursuant to the Aspire Scheme are for the subscription of shares in Aspire which are not listed, the value of the options granted is not required to be disclosed under the Hong Kong Listing Rules.

In any event, since (i) the shares in Aspire are not listed, (ii) the options granted under the Aspire Scheme are not freely transferable (and hence there is no open market for transacting these options); and (iii) the grantee of an option will also not be able to charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any option, any valuation of the options will necessarily be based on subjective assumptions, and may not provide a reliable measure of the fair value of the options and would potentially be misleading to the shareholders of the Company.

Apart from the foregoing, at no time during the year was the Company, any of its holding companies or subsidiaries, a party for any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## PRE-IPO SHARE OPTION SCHEME OF CHINA MOBILE PEOPLES TELEPHONE COMPANY LIMITED

Pursuant to a resolution passed by the shareholders of Peoples on 4 March 2004, the pre-IPO share option scheme (the "Peoples Pre-IPO Scheme") was adopted to incentivize the then employees of Peoples.

No share options were granted under the Peoples Pre-IPO Scheme after the listing of Peoples on 31 March 2004 and no further share options will be granted under the scheme. The total number of shares involved in the share options granted under the Peoples Pre-IPO Scheme which were outstanding at the beginning and at the end of the financial year ended 31 December 2006 were 13,820,000 and 70,000, respectively. All the share options outstanding at the beginning of the year were granted to employees of Peoples on 11 March 2004, and the exercise price was HK$4.55 per share, being the offer price of the shares of Peoples at the time of its initial public offering. Grantees of the outstanding share options are entitled to exercise the share options from 11 March 2005 to 10 March 2014. No share option granted under the Peoples Pre-IPO Scheme has been exercised during the year. Share options involving 3,470,000 and 10,280,000 shares were cancelled and lapsed, respectively in accordance with the terms of Peoples Pre-IPO Scheme during the year. The share options outstanding at the end of the year were held by 7 individuals, 6 of whom have left the employment of Peoples.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company has been notified of the following interests in the Company's issued shares at 31 December 2006 amounting to 5 per cent. or more of the ordinary shares in issue:

| | | Ordinary shares held | | Percentage of total issued |
|---|---|---|---|---|
| | | directly | indirectly | shares |
| (i) | China Mobile Communications Corporation ("CMCC") | – | 14,890,116,842 | 74.57% |
| (ii) | China Mobile (Hong Kong) Group Limited ("CMHK (Group)") | – | 14,890,116,842 | 74.57% |
| (iii) | China Mobile Hong Kong (BVI) Limited ("CMHK (BVI)") | 14,890,116,842 | – | 74.57% |

Note: *In light of the fact that CMCC and CMHK (Group) directly or indirectly control one-third or more of the voting rights in the shareholders' meetings of CMHK (BVI), in accordance with the SFO, the interests of CMHK (BVI) are deemed to be, and have therefore been included in, the interests of CMCC and CMHK (Group).*

Apart from the foregoing, as at 31 December 2006, no person or corporation had any interest in the share capital of the Company as recorded in the register required to be kept under section 336 of the SFO as having an interest in 5 per cent. or more of or any short position in the issued share capital of the Company.

## CONNECTED TRANSACTIONS

### Continuing Connected Transactions which were subject to waivers previously granted by the Stock Exchange

Details of the continuing connected transactions which were subject to waivers previously granted by the Stock Exchange (the "Continuing Connected Transactions") are set out in note 35 to the financial statements.

For the financial year ended 31 December 2006, the Continuing Connected Transactions have not exceeded their respective upper limits:

(1) platform development charges paid by CMCC to Aspire or its subsidiaries have not exceeded 3 per cent. of the Group's consolidated net tangible assets as at 31 December 2006. The platform development charges payable were determined according to standards laid down by the relevant government departments and/or by reference to market rates;

(2) rental and property management service charges paid by the Group to CMCC have not exceeded RMB900 million. The charges payable by the Group in respect of properties owned by CMCC and its subsidiaries are determined with reference to market rates whilst the charges payable in respect of properties which CMCC or its subsidiaries lease from third parties and sub-let to the Group are determined according to the actual rent payable by CMCC or its subsidiaries to such third parties together with the amount of any tax payable; and

(3) telecommunications service charges, price of transmission towers and spare parts purchased and the charges for related installation and maintenance services paid by the Group to CMCC have not exceeded RMB2,500 million. The telecommunications service charges, price of transmission towers and spare parts purchased and the charges for related installation and maintenance services are determined with reference to and cannot exceed relevant standards laid down and revised from time to time by the government of the PRC. Where there are no government standards, the prices and charges are determined according to market rates.

The transactions referred to in paragraph (1) above were entered into pursuant to the platform development master agreement dated 10 January 2001 between CMCC and Aspire. The entering into of the platform development master agreement was announced by the Company on 10 January 2001. The transactions referred to in paragraph (2) and (3) above were entered into pursuant to the property leasing and management services agreement dated 30 December 2004 between the Company and CMCC and the telecommunications services agreement dated 30 December 2004 between the Company and CMCC, respectively. The entering into of the property leasing and management services agreement and the telecommunications services agreement was announced by the Company on 30 December 2004.

In the opinion of the independent non-executive directors, the Continuing Connected Transactions were entered into by the Group:

(i) in the ordinary and usual course of its business;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The board of directors has received a letter from the auditors of the Company stating that the Continuing Connected Transactions:

(A) have received the approval of the Company's board of directors;

(B) were in accordance with the pricing policy as stated on page 52 of this report;

(C) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and

(D) have not exceeded their respective upper limits set out above for the financial year ended 31 December 2006.

In respect of the Continuing Connected Transactions, the Company has complied with the disclosure requirements under the Hong Kong Listing Rules in force from time to time.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2006 are set out in note 30 to the financial statements.

## FINANCIAL SUMMARY

A summary of the audited results and of the audited statements of the assets and liabilities of the Group for the last five financial years is set out on pages 126 to 127.

## EMOLUMENT POLICY

The Group has always emphasized the importance of recruiting, incentivizing, developing and retaining its staff, paid close attention to the external competitiveness and internal equity of its remuneration structure, as well as, the cost-effectiveness of remuneration and emphasized the importance of the interrelationship between remuneration management and performance management in order to continue to maintain the sustainable development of the enterprise's competitiveness. Employees' remuneration is comprised of a basic salary, a performance-based bonus and a long-term incentive scheme in the form of share option schemes for eligible employees, details of which are set out under the paragraph "Share option schemes" above.

## EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in note 32 to the financial statements.

## PUBLIC FLOAT

As at the date of this annual report, the Company has maintained the prescribed public float under the Hong Kong Listing Rules and as agreed with the Stock Exchange, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company.

## AUDITORS

A resolution for the reappointment of KPMG as auditors of the Company shall be proposed at the forthcoming annual general meeting.

By order of the board

**Wang Jianzhou**
*Chairman*
Hong Kong, 21 March 2007

# NOTICE OF ANNUAL GENERAL MEETING

**Notice is hereby given** that the Annual General Meeting of China Mobile Limited will be held on Wednesday, 16 May 2007 at 10:00 a.m. in the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong for the following purposes:

As Ordinary Business:

1. To receive and consider the audited financial statements and the Reports of the Directors and Auditors of the Company and its subsidiaries for the year ended 31 December 2006.

2. To declare an ordinary final dividend and a special final dividend for the year ended 31 December 2006.

3. To re-elect Directors.

4. To re-appoint Auditors and authorize the Directors to fix their remuneration.

And as Special Business, to consider and, if thought fit, to pass the following as ordinary resolutions:

## ORDINARY RESOLUTIONS

5. "**THAT**:

   (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase shares of HK$0.10 each in the capital of the Company including any form of depositary receipt representing the right to receive such shares ("Shares") be and is hereby generally and unconditionally approved;

   (b) the aggregate nominal amount of Shares which may be purchased on The Stock Exchange of Hong Kong Limited or any other stock exchange on which securities of the Company may be listed and which is recognized for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited pursuant to the approval in paragraph (a) above shall not exceed or represent more than 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly;

   (c) for the purpose of this Resolution "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

      (1) the conclusion of the next annual general meeting of the Company; or

      (2) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; or

      (3) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting."

6. "**THAT** a general mandate be and is hereby unconditionally given to the Directors to exercise full powers of the Company to allot, issue and deal with additional shares in the Company (including the making and granting of offers, agreements and options which might require shares to be allotted, whether during the continuance of such mandate or thereafter) provided that, otherwise than pursuant to (i) a rights issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares; (ii) the exercise of options granted under any share option scheme adopted by the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend in accordance with the Articles of Association of the Company, the aggregate nominal amount of the shares allotted shall not exceed the aggregate of:

   (a) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, plus

   (b) (if the Directors are so authorized by a separate ordinary resolution of the shareholders of the Company) the nominal amount of the share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution).

Such mandate shall expire at the earlier of:

(1) the conclusion of the next annual general meeting of the Company; or

(2) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; or

(3) the date of any revocation or variation of the mandate given under this Resolution by ordinary resolution of the shareholders of the Company at a general meeting."

7. "**THAT** the Directors be and are hereby authorized to exercise the powers of the Company referred to in the resolution set out in item 6 in the notice of this meeting in respect of the share capital of the Company referred to in paragraph (b) of such resolution."

By order of the Board
**Wong Wai Lan, Grace**
*Company Secretary*

3 April 2007

*Notes:*

1. Any member entitled to attend and vote at the above Meeting is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's registered office at 60/F, The Center, 99 Queen's Road Central, Central, Hong Kong at least 36 hours before the time for holding the above Meeting. Completion and return of a form of proxy will not preclude a member from attending and voting in person if he is subsequently able to be present.

3. According to the Articles of Association of the Company, a poll may be demanded by:

   (a) the chairman of the above Meeting; or

   (b) at least three members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote at the above Meeting; or

   (c) any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the above Meeting; or

   (d) any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding shares conferring a right to attend and vote at the above Meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

4. A poll shall be taken at such time (being not later than thirty days after the date of the demand) and in such manner as the chairman of the above Meeting may appoint. On a poll, every member present at the meeting shall be entitled to one vote for every fully paid-up share of which he is the holder. The result of such poll shall be deemed for all purposes to be the resolution of the meeting at which the poll was so directed or demanded.

5. The Board of Directors has recommended an ordinary final dividend of HK$0.763 per share and a special final dividend of HK$0.069 per share for the year ended 31 December 2006 and, if such dividends are declared by the members passing Resolution 2, they are expected to be paid on or about 25 May 2007 to those shareholders whose names appear on the Company's register of members on 16 May 2007.

6. The register of members of the Company will be closed from 14 May 2007 to 16 May 2007 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for the proposed ordinary final and special final dividends, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Hong Kong Registrars Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 11 May 2007.

7. Concerning Resolution 5 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares of the Company in circumstances which they deem appropriate for the benefit of the shareholders. The Explanatory Statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchase by the Company of its own shares, as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be set out in a separate letter from the Company to be enclosed with the 2006 Annual Report.

# INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of
**China Mobile Limited**
*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of China Mobile Limited (the "Company") set out on pages 57 to 117, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the group as at 31 December 2006 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

21 March 2007

# CONSOLIDATED INCOME STATEMENT

*for the year ended 31 December 2006 (Expressed in Renminbi)*

| | Note | 2006 RMB million | 2005 RMB million |
|---|---|---|---|
| **Operating revenue (Turnover)** | 3 | | |
| Usage fees | | **189,710** | 156,710 |
| Monthly fees | | **21,629** | 25,055 |
| Value-added services fees | | **69,309** | 50,187 |
| Other operating revenue | | **14,710** | 11,089 |
| | | **295,358** | 243,041 |
| **Operating expenses** | | | |
| Leased lines | | **2,451** | 3,224 |
| Interconnection | | **18,783** | 15,309 |
| Depreciation | | **64,574** | 56,368 |
| Personnel | 7(b) | **16,853** | 14,200 |
| Other operating expenses | 4 | **100,569** | 80,254 |
| | | **203,230** | 169,355 |
| **Profit from operations** | | **92,128** | 73,686 |
| **Amortization of other intangible assets** | 18 | **(203)** | — |
| **Other net income** | 5 | **2,872** | 3,284 |
| **Non-operating net income** | 6 | **1,017** | 1,025 |
| **Interest income** | | **2,604** | 1,615 |
| **Finance costs** | 7(a) | **(1,510)** | (1,346) |
| **Profit before taxation** | 7 | **96,908** | 78,264 |
| **Taxation** | 10(a) | **(30,794)** | (24,675) |
| **Profit for the year** | | **66,114** | 53,589 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **66,026** | 53,549 |
| Minority interests | | **88** | 40 |
| **Profit for the year** | | **66,114** | 53,589 |
| **Dividends payable to equity shareholders of the Company attributable to the year:** | | | |
| Ordinary interim dividend declared and paid during the year | 12(a) | **12,612** | 9,259 |
| Special interim dividend declared and paid during the year | 12(a) | **1,831** | — |
| Ordinary final dividend proposed after the balance sheet date | 12(a) | **15,327** | 11,767 |
| Special final dividend proposed after the balance sheet date | 12(a) | **1,386** | — |
| | | **31,156** | 21,026 |
| **Earnings per share** | | | |
| **Basic** | 13(a) | **RMB3.32** | RMB2.71 |
| **Diluted** | 13(b) | **RMB3.29** | RMB2.70 |

The notes on pages 64 to 117 form part of these financial statements.

# CONSOLIDATED BALANCE SHEET

*at 31 December 2006 (Expressed in Renminbi)*

| | Note | **2006 RMB million** | 2005 RMB million |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14(a) | **218,274** | 216,505 |
| Construction in progress | 15 | **52,436** | 34,201 |
| Land lease prepayments | | **7,675** | 7,243 |
| Goodwill | 17 | **36,894** | 35,300 |
| Other intangible assets | 18 | **700** | — |
| Interest in associates | 20 | **—** | — |
| Other financial assets | 21 | **77** | 77 |
| Deferred tax assets | 22 | **7,113** | 6,625 |
| | | **323,169** | 299,951 |
| **Current assets** | | | |
| Inventories | 23 | **3,007** | 2,365 |
| Accounts receivable | 24 | **7,153** | 6,603 |
| Other receivables | 25 | **2,500** | 1,911 |
| Prepayments and other current assets | | **4,613** | 3,583 |
| Amount due from ultimate holding company | 26 | **305** | 63 |
| Tax recoverable | 10(c) | **468** | 165 |
| Deposits with banks | | **82,294** | 41,925 |
| Cash and cash equivalents | 27 | **71,167** | 64,461 |
| | | **171,507** | 121,076 |
| **Current liabilities** | | | |
| Accounts payable | 28 | **57,240** | 41,931 |
| Bills payable | | **2,212** | 1,359 |
| Deferred revenue | 29 | **21,823** | 16,975 |
| Accrued expenses and other payables | | **46,130** | 40,007 |
| Amount due to ultimate holding company | 26 | **129** | 269 |
| Amount due to immediate holding company | 26 | **186** | 96 |
| Interest-bearing borrowings | 30(a) | **2,996** | — |
| Obligations under finance leases | 31 | **68** | 68 |
| Current taxation | 10(c) | **9,823** | 9,249 |
| | | **140,607** | 109,954 |
| **Net current assets** | | **30,900** | 11,122 |
| **Total assets less current liabilities carried forward** | | **354,069** | 311,073 |

*at 31 December 2006 (Expressed in Renminbi)*

| | Note | 2006 RMB million | 2005 RMB million |
|---|---|---|---|
| **Total assets less current liabilities brought forward** | | **354,069** | 311,073 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 30(a) | **(33,574)** | (36,545) |
| Deferred revenue, excluding current portion | 29 | **(930)** | (1,324) |
| Deferred tax liabilities | 22 | **(192)** | (97) |
| | | **(34,696)** | (37,966) |
| **NET ASSETS** | | **319,373** | 273,107 |
| **CAPITAL AND RESERVES** | 34(a) | | |
| Share capital | | **2,130** | 2,116 |
| Reserves | | **316,872** | 270,708 |
| **Total equity attributable to equity shareholders of the Company** | | **319,002** | 272,824 |
| **Minority interests** | | **371** | 283 |
| **TOTAL EQUITY** | | **319,373** | 273,107 |

Approved and authorized for issue by the board of directors on 21 March 2007

**Wang Jianzhou**
*Director*

**Xue Taohai**
*Director*

The notes on pages 64 to 117 form part of these financial statements.

# BALANCE SHEET

*at 31 December 2006 (Expressed in Renminbi)*

| | Note | 2006 RMB million | 2005 RMB million |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14(b) | **5** | 3 |
| Investments in subsidiaries | 19 | **475,784** | 469,993 |
| | | **475,789** | 469,996 |
| **Current assets** | | | |
| Amounts due from subsidiaries | 19 | **10,675** | 9,023 |
| Other receivables | | **76** | 13 |
| Deposits with banks | | **—** | 134 |
| Cash and cash equivalents | 27 | **5,010** | 4,551 |
| | | **15,761** | 13,721 |
| **Current liabilities** | | | |
| Accrued expenses and other payables | | **20** | 24 |
| Amount due to immediate holding company | 26 | **186** | 96 |
| Amount due to a subsidiary | 19 | **2,996** | — |
| | | **3,202** | 120 |
| **Net current assets** | | **12,559** | 13,601 |
| **Total assets less current liabilities** | | **488,348** | 483,597 |
| **Non-current liabilities** | | | |
| Amount due to a subsidiary | 19 | **(9,941)** | (12,912) |
| Interest-bearing borrowings | 30(b) | **(23,633)** | (23,633) |
| | | **(33,574)** | (36,545) |
| **NET ASSETS** | | **454,774** | 447,052 |
| **CAPITAL AND RESERVES** | 34(b) | | |
| Share capital | | **2,130** | 2,116 |
| Reserves | | **452,644** | 444,936 |
| **TOTAL EQUITY** | | **454,774** | 447,052 |

Approved and authorized for issue by the board of directors on 21 March 2007

**Wang Jianzhou**
*Director*

**Xue Taohai**
*Director*

The notes on pages 64 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*for the year ended 31 December 2006 (Expressed in Renminbi)*

| | Note | 2006 RMB million | 2006 RMB million | 2005 RMB million | 2005 RMB million |
|---|---|---|---|---|---|
| **Total equity at 1 January** | | | **273,107** | | 233,437 |
| **Net expenses recognized directly in equity** | | | | | |
| Exchange difference on translation of financial statements of foreign subsidiary | 34(a) | | **(43)** | | — |
| **Net profit for the year** | 34(a) | | **66,114** | | 53,589 |
| **Total recognized income and expenses for the year** | | | **66,071** | | 53,589 |
| Attributable to: | | | | | |
| Equity shareholders of the Company | | **65,983** | | 53,549 | |
| Minority interests | | **88** | | 40 | |
| | | **66,071** | | 53,589 | |
| Dividends declared or approved during the year | 34(a) | | **(26,162)** | | (18,894) |
| **Movements in equity arising from capital transactions:** | | | | | |
| Shares issued under share option scheme | 34(a) | **14** | | 14 | |
| Share premium arising on issuance of shares | 34(a) | **4,079** | | 3,408 | |
| Equity settled share-based transactions | 34(a) | **2,264** | | 1,553 | |
| | | | **6,357** | | 4,975 |
| **Total equity at 31 December** | | | **319,373** | | 273,107 |

The notes on pages 64 to 117 form part of the financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

*for the year ended 31 December 2006 (Expressed in Renminbi)*

| | Note | 2006 RMB million | 2005 RMB million |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **96,908** | 78,264 |
| Adjustments for: | | | |
| — Depreciation of property, plant and equipment | | **64,574** | 56,368 |
| — Amortization of land lease prepayments | | **176** | 169 |
| — Amortization of other intangible assets | | **203** | — |
| — Loss on disposal of property, plant and equipment | | **46** | 411 |
| — Write-off of property, plant and equipment | | **2,857** | 5,645 |
| — Impairment loss for doubtful accounts | | **3,852** | 2,968 |
| — Interest income | | **(2,604)** | (1,615) |
| — Interest expense | | **1,510** | 1,346 |
| — Dividend income | | **(39)** | (51) |
| — Equity-settled share-based payment expenses | | **2,264** | 1,553 |
| — Unrealized exchange loss, net | | **212** | 108 |
| **Operating profit before changes in working capital** | | **169,959** | 145,166 |
| (Increase)/decrease in inventories | | **(626)** | 134 |
| Increase in accounts receivable | | **(4,310)** | (3,037) |
| (Increase)/decrease in other receivables | | **(313)** | 134 |
| Increase in prepayments and other current assets | | **(1,030)** | (609) |
| (Increase)/decrease in amount due from ultimate holding company | | **(242)** | 293 |
| Increase in accounts payable | | **6,556** | 2,303 |
| (Decrease)/increase in bills payable | | **(3)** | 11 |
| Increase in deferred revenue | | **4,455** | 4,419 |
| Increase in accrued expenses and other payables | | **6,033** | 7,670 |
| Decrease in amount due to ultimate holding company | | **(140)** | (190) |
| **Cash generated from operations** | | **180,339** | 156,294 |
| Tax paid | | | |
| — Hong Kong profits tax paid | | **(21)** | — |
| — PRC enterprise income tax paid | | **(30,972)** | (24,585) |
| **Net cash generated from operating activities** | | **149,346** | 131,709 |
| **Investing activities** | | | |
| Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired) | (b) | **(3,410)** | — |
| Capital expenditure | | **(76,969)** | (66,027) |
| Land lease prepayments | | **(597)** | (1,079) |
| Payment for purchase of other intangible assets | | **(45)** | — |
| Proceeds from disposal of property, plant and equipment | | **80** | 132 |
| Increase in deposits with banks | | **(40,369)** | (21,661) |
| Interest received | | **2,430** | 1,468 |
| Dividends received | | **39** | 51 |
| **Net cash used in investing activities** | | **(118,841)** | (87,116) |
| **Financing activities** | | | |
| Proceeds from issue of shares under share option scheme | | **4,093** | 3,422 |
| Redemption of convertible notes | | **—** | (5,611) |
| Repayments of bank and other loans | | **(104)** | (2,455) |
| Interest paid | | **(1,414)** | (1,635) |
| Dividends paid | | **(26,162)** | (18,894) |
| **Net cash used in financing activities** | | **(23,587)** | (25,173) |
| **Net increase in cash and cash equivalents** | | **6,918** | 19,420 |
| **Cash and cash equivalents at beginning of year** | | **64,461** | 45,149 |
| **Effect of changes in foreign exchange rate** | | **(212)** | (108) |
| **Cash and cash equivalents at end of year** | 27 | **71,167** | 64,461 |

*for the year ended 31 December 2006 (Expressed in Renminbi)*

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisition of a subsidiary

| | 2006 RMB million |
|---|---|
| **Net assets acquired** | |
| Property, plant and equipment | 1,146 |
| Construction in progress | 9 |
| Land lease prepayments | 11 |
| Other intangible assets | 859 |
| Inventories | 17 |
| Accounts receivable | 91 |
| Other receivables | 103 |
| Cash and cash equivalents | 178 |
| Bills payable | (44) |
| Accounts payable | (96) |
| Other payables | (96) |
| Interest-bearing borrowings | (104) |
| Deferred tax liabilities | (80) |
| | 1,994 |
| Goodwill arising on acquisition | 1,594 |
| | 3,588 |
| Satisfied by: Cash consideration | 3,588 |

### (b) Analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary:

| | 2006 RMB million |
|---|---|
| Cash consideration | 3,588 |
| Cash and bank balances acquired | (178) |
| Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary | 3,410 |

### (c) Significant non-cash transactions

The Group incurred payables of RMB36,851,000,000 (2005: RMB28,176,000,000) and RMB2,143,000,000 (2005: RMB1,332,000,000) to equipment suppliers and banks respectively for additions of construction in progress during the year ended 31 December 2006.

The notes on pages 64 to 117 form part of these financial statements.

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (''HKFRSs''), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (''HKASs'') and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA''), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Hong Kong Listing Rules''). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The Group has assessed and determined in the preparation of these annual financial statements that the new and revised HKFRSs have no significant impact on the Group's current and prior accounting period's financial position and results of operations.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the ''Group'') and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and estimates made by management in the application of HKFRSs that have significant effect on the financial statements are discussed in note 41.

### (c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (c) Subsidiaries and minority interests (Cont'd)

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)).

### (d) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year.

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the income statement.

### (e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(j)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognized immediately in the income statement.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the gain or loss on disposal.

### (f) Intangible assets (other than goodwill)

The useful lives of other intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (f) Intangible assets (other than goodwill) (Cont'd)

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

#### (i) *Brand name*

The Group's brand name are stated at cost less any impairment losses (see note 1(j)) on an individual basis.

#### (ii) *Customer base, license and contract-based agreement*

The Group's customer base, license and contract-based agreement are stated at cost less any impairment losses (see note 1(j)) and are amortized using straight-line basis over the estimated useful lives from 2 to 15 years.

### (g) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the balance sheet at cost less impairment losses (see note 1(j)).

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

### (h) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)).

The cost of property, plant and equipment comprises the purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in the income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 8 – 35 years |
| Telecommunications transceivers, switching centres, transmission and other network equipment | 5 – 10 years |
| Office equipment, furniture and fixtures and others | 4 – 18 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

During the year, the Group reviewed the estimated useful lives of all property, plant and equipment and changed the estimated useful lives of certain network equipment from 7 years to 5 years. The effect of such change in accounting estimate is set out in note 14.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### (i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

#### (ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to the income statement in the accounting period in which they are incurred. There are no contingent rentals recognized by the Group during the years presented.

#### (iii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred. There are no contingent rentals recognized by the Group during the years presented.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

### (j) Impairment of assets

#### (i) *Impairment of investments in equity securities and other receivables*

Investments in equity securities and other current receivables that are stated at cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

If any such evidence exists, impairment loss is determined and recognized as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (j) Impairment of assets (Cont'd)

#### (i) *Impairment of investments in equity securities and other receivables (Cont'd)*

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

#### (ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

— property, plant and equipment;

— construction in progress;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— investments in subsidiaries and associates;

— goodwill; and

— other intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Recognition of impairment losses*

An impairment loss is recognized in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

(iii) *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognized.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (j) Impairment of assets (Cont'd)

#### (iii) *Interim financial reporting and impairment*

Under the Hong Kong Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(j)(i) and (ii)).

Impairment losses recognized in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no losses, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates. No impairment losses were recognized in respect of goodwill and unquoted equity securities carried at cost during the interim period.

### (k) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 1(j)). Cost comprises direct costs of construction as well as interest expense and exchange differences capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use. No exchange difference is capitalized to construction in progress during the years presented.

### (l) Inventories

Inventories are carried at the lower of cost and net realizable value. Cost represents purchase cost of goods calculated using the weighted average cost method. Net realizable value is determined by reference to the sales proceeds of items sold in the ordinary course of business or to management's estimates based on prevailing market conditions.

When inventories are sold, the carrying amount of those inventories is recognized as a deduction of other net income due to its insignificance. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs. No reversal of any write-down of inventories occurred during the years presented.

### (m) Accounts receivable and other receivables

Accounts receivable and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for doubtful accounts (see note 1(j)), except where the effect of discounting would be immaterial. In such case, the receivables are stated at cost less impairment losses for doubtful accounts (see note 1(j)).

### (n) Deferred revenue

Deferred revenue consists primarily of deferred revenue from prepaid service fees received from subscribers and deferred tax credit of purchase of domestic telecommunications equipment.

Revenue from prepaid service fees is recognized when the mobile telecommunications services are rendered.

Deferred tax credit of purchase of domestic telecommunications equipment is amortized over the remaining lives of the related property, plant and equipment and credited as non-operating income in the income statement.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (o) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (p) Accounts payable and other payables

Accounts payable and other payables are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (q) Cash and cash equivalents

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

### (r) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the income statement as follows:

(i) usage fees, value-added services fees and other operating revenue are recognized as revenue when the service is rendered;

(ii) monthly fees are recognized as revenue in the month during which the service is rendered;

(iii) deferred revenue from prepaid services is recognized as revenue when the mobile telecommunications services are rendered upon actual usage by subscribers;

(iv) interest income is recognized as it accrues using the effective interest method; and

(v) sales of SIM cards and handsets are recognized on delivery of goods to the buyer. Such revenue, net of cost of goods sold, is included in other net income due to its insignificance.

### (s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (s) Income tax (Cont'd)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

### (t) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (u) Employee benefits

#### (i) *Short term employee benefits and contributions to defined contribution retirement plans*

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

The Company and a subsidiary in Hong Kong are required to make contributions to Mandatory Provident Funds under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Such contributions are recognized as an expense in the income statement as incurred.

The employees of the subsidiaries in Mainland China participate in the defined contribution retirement plans managed by the local government authorities whereby the subsidiaries are required to contribute to the schemes at fixed rates of the employees' salary costs. In addition to the local governmental defined contribution retirement plans, certain subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs or in accordance with the terms of the plans. The Group's contributions to these plans are charged to the income statement when incurred. The subsidiaries have no obligations for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

#### (ii) *Share-based payments*

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest. Otherwise, the fair value of options is recognized in the period in which the options are granted.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustments to the cumulative fair value recognized in prior years are charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits). Share-based payment transactions in which the Company grants share options to subsidiaries' employees are accounted for as an increase in value of investments in subsidiaries in the Company's balance sheet which is eliminated on consolidation.

#### (iii) *Termination benefits*

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

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (v) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

### (w) Translation of foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange prevailing on the transaction dates. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses, other than those capitalized as construction in progress, are recognized in the income statement. Exchange differences attributable to the translation of borrowings denominated in currencies other than the functional currency and used for financing the construction of property, plant and equipment, are included in the cost of the related construction in progress.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items of foreign operations, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized directly in a separately component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognized under equity, which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

### (x) Related parties

For the purposes of these financial statements, a party is considered to be related to be the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

## 1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (x) Related parties (Cont'd)

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

No analysis of the Group's turnover and contribution to profit from operations by geographical segment or business segment has been presented as the majority of the Group's operating activities are carried out in Mainland China and less than 10 per cent. of the Group's turnover and contribution to profit from operations were derived from activities outside Mainland China or outside the Group's mobile telecommunications and related services activities. There is no other geographical or business segment with segment assets equal to or greater than 10 per cent. of the Group's total assets.

## 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 1 summarizes the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The adoption of these new and revised HKFRSs did not result in any significant impact for current and prior accounting periods.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 42) except for HK(IFRIC) 10, Interim financial reporting and impairment, which is effective for accounting periods beginning on or after 1 November 2006.

## 3 TURNOVER

The principal activities of the Group are the provision of mobile telecommunications and related services in thirty-one provinces, autonomous regions and municipalities of Mainland China and Hong Kong Special Administrative Region (''Hong Kong''). The principal activity of the Company is investment holding.

Turnover represents usage fees, monthly fees, value-added services fees and other operating revenue derived from the Group's mobile telecommunications networks, net of PRC business tax. Business tax is charged at approximately 3 per cent of the corresponding revenue. No business tax is charged on the revenue generated from the Group's mobile telecommunications and related services in Hong Kong.

Value-added services fees are mainly derived from voice value-added services, short message services (''SMS''), and non-SMS data business.

Other operating revenue mainly represents interconnection revenue.

## 4 OTHER OPERATING EXPENSES

Other operating expenses primarily comprise selling and promotion expenses, impairment loss for doubtful accounts, operating lease charges, maintenance charges, debt collection fees, spectrum charges, write-off of property, plant and equipment and other miscellaneous expenses.

## 5 OTHER NET INCOME

Other net income represents the gross margin from sales of SIM cards and handsets.

| | **2006 RMB million** | 2005 RMB million |
|---|---|---|
| Sales of SIM cards and handsets | **8,278** | 6,524 |
| Cost of SIM cards and handsets | **(5,406)** | (3,240) |
| | **2,872** | 3,284 |

## 6 NON-OPERATING NET INCOME

| | **2006 RMB million** | 2005 RMB million |
|---|---|---|
| Exchange loss | **(212)** | (130) |
| Penalty income | **182** | 177 |
| Amortization of deferred tax credit on purchase of domestic telecommunications equipment | **732** | 526 |
| Others | **315** | 452 |
| | **1,017** | 1,025 |

## 7 PROFIT BEFORE TAXATION

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

| | | **2006 RMB million** | 2005 RMB million |
|---|---|---|---|
| (a) | Finance costs: | | |
| | Interest on bank loans and other borrowings repayable within five years | **2** | 38 |
| | Interest on bank loans and other borrowings repayable after five years | **946** | 647 |
| | Interest on bonds | **562** | 528 |
| | Interest on convertible notes | **—** | 135 |
| | Total borrowing costs | **1,510** | 1,348 |
| | Less: Borrowing costs capitalized as construction in progress (Note) | **—** | (2) |
| | | **1,510** | 1,346 |

Note: In 2005, borrowing costs have been capitalized at a rate of 3.45 per cent. to 5.75 per cent. per annum for construction in progress. No borrowing costs were capitalized in 2006.

## 7 PROFIT BEFORE TAXATION (CONT'D)

| | | 2006 RMB million | 2005 RMB million |
|---|---|---|---|
| (b) | Personnel: | | |
| | Salaries, wages and other benefits | **13,440** | 11,761 |
| | Retirement costs: contributions to defined contribution retirement plans | **1,149** | 886 |
| | Equity-settled share-based payment expenses | **2,264** | 1,553 |
| | | **16,853** | 14,200 |

| | | 2006 RMB million | 2005 RMB million |
|---|---|---|---|
| (c) | Other items: | | |
| | Amortization of other intangible assets | **203** | — |
| | Depreciation | **64,574** | 56,368 |
| | Impairment loss | | |
| | — accounts and other receivables | **3,852** | 2,968 |
| | — inventories | **7** | 4 |
| | Loss on disposal of property, plant and equipment | **46** | 411 |
| | Write-off of property, plant and equipment | **2,857** | 5,645 |
| | Auditors' remuneration | | |
| | — audit services (Note 1) | **80** | 61 |
| | — tax services (Note 2) | **—** | — |
| | — other services (Note 3) | **35** | 1 |
| | Operating lease charges: minimum lease payments | | |
| | — land and buildings | **3,259** | 2,727 |
| | — leased lines | **2,451** | 3,224 |
| | — others (Note 4) | **2,013** | 1,430 |
| | Dividend income | **(39)** | (51) |

Note 1: Audit services in 2006 include reporting on the Company's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of the United States of America ("SOX 404") of RMB20,000,000 (2005: Nil).

Note 2: Tax services in 2006 represent tax compliance services for the Group of RMB52,000 (2005: RMB24,000) and preparation and submission of response letter to Inland Revenue Department of RMB98,000 (2005: Nil).

Note 3: Other services in 2006 include the SOX 404 advisory services.

Note 4: Others represent the operating lease charges for motor vehicles, computer and other office equipment.

## 8 DIRECTORS' REMUNERATION

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

*(Expressed in Hong Kong dollars)*

| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Retirement scheme contributions HK$'000 | Subtotal HK$'000 | Fair value of share options HK$'000 | 2006 Total HK$'000 |
|---|---|---|---|---|---|---|---|
| ***Executive directors*** | | | | | | | |
| WANG Jianzhou | 180 | 1,172 | 660 | 255 | 2,267 | 7,161 | 9,428 |
| LI Yue | 180 | 960 | 540 | 217 | 1,897 | 5,241 | 7,138 |
| LU Xiangdong | 180 | 960 | 540 | 217 | 1,897 | 5,241 | 7,138 |
| XUE Taohai | 180 | 960 | 540 | 219 | 1,899 | 5,241 | 7,140 |
| ZHANG Chenshuang | 180 | 960 | 540 | 227 | 1,907 | 5,241 | 7,148 |
| SHA Yuejia (appointed on 16 March 2006) | 143 | 765 | 540 | 209 | 1,657 | 3,903 | 5,560 |
| LIU Aili (appointed on 16 March 2006) | 143 | 765 | 540 | 208 | 1,656 | 934 | 2,590 |
| XIN Fanfei (appointed on 3 January 2006) | 179 | 955 | 540 | 179 | 1,853 | — | 1,853 |
| XU Long | 180 | 920 | 400 | 132 | 1,632 | 2,050 | 3,682 |
| LI Mofang (resigned on 16 March 2006) | 37 | 195 | — | 91 | 323 | 1,171 | 1,494 |
| HE Ning (resigned on 3 January 2006) | 1 | 6 | — | — | 7 | 32 | 39 |
| LI Gang (resigned on 3 January 2006) | 1 | — | — | — | 1 | 12 | 13 |
| ***Independent non-executive directors*** | | | | | | | |
| LO Ka Shui | 505 | — | — | — | 505 | 2,428 | 2,933 |
| WONG Kwong Shing, Frank | 440 | — | — | — | 440 | 2,428 | 2,868 |
| CHENG Mo Chi, Moses | 440 | — | — | — | 440 | 2,428 | 2,868 |
| ***Non-executive directors*** | | | | | | | |
| Paul Michael DONOVAN (appointed on 7 June 2006) | 102 | — | — | — | 102 | — | 102 |
| Julian Michael HORN-SMITH (resigned on 7 June 2006) | 78 | — | — | — | 78 | 1,149 | 1,227 |
| | 3,149 | 8,618 | 4,840 | 1,954 | 18,561 | 44,660 | 63,221 |

## 8 DIRECTORS' REMUNERATION (CONT'D)

*(Expressed in Hong Kong dollars)*

| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Retirement scheme contributions HK$'000 | Subtotal HK$'000 | Fair value of share options HK$'000 | 2005 Total HK$'000 |
|---|---|---|---|---|---|---|---|
| ***Executive directors*** | | | | | | | |
| WANG Jianzhou | 180 | 1,172 | 660 | 258 | 2,270 | 4,264 | 6,534 |
| LI Yue | 180 | 960 | 540 | 210 | 1,890 | 2,080 | 3,970 |
| LU Xiangdong | 180 | 960 | 540 | 210 | 1,890 | 2,080 | 3,970 |
| XUE Taohai | 180 | 960 | 540 | 212 | 1,892 | 2,080 | 3,972 |
| ZHANG Chenshuang | 180 | 960 | 540 | 220 | 1,900 | 2,080 | 3,980 |
| LI Mofang | 180 | 960 | 540 | 226 | 1,906 | 2,080 | 3,986 |
| HE Ning | 180 | 960 | 540 | 161 | 1,841 | 2,080 | 3,921 |
| LI Gang | 180 | 854 | 520 | 190 | 1,744 | 1,371 | 3,115 |
| XU Long | 180 | 920 | 640 | 299 | 2,039 | 1,331 | 3,370 |
| ***Independent non-executive directors*** | | | | | | | |
| LO Ka Shui | 505 | — | — | — | 505 | 395 | 900 |
| Frank WONG Kwong Shing | 440 | — | — | — | 440 | 395 | 835 |
| Moses CHENG Mo Chi | 440 | — | — | — | 440 | 395 | 835 |
| ***Non-executive directors*** | | | | | | | |
| J. Brian CLARK (resigned on 11 March 2005) | 34 | — | — | — | 34 | — | 34 |
| Julian Michael HORN-SMITH (appointed on 11 March 2005) | 146 | — | — | — | 146 | 395 | 541 |
| | 3,185 | 8,706 | 5,060 | 1,986 | 18,937 | 21,026 | 39,963 |

The above emoluments include the fair value of share options granted to certain directors under the Company's share option scheme as estimated at the grant date. The details of the share option scheme are disclosed under the paragraph "Share Option Schemes" in the directors' report and note 33. As set out in note 1(u)(ii), the fair value of share options granted to the employees including directors is measured based on a binomial lattice model and recognized as an expense in the income statement. However, such expense does not represent the actual benefit paid/payable to the employees including directors.

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the years ended 31 December 2006 and 2005, all of the five individuals with the highest emoluments are directors whose emoluments are disclosed in note 8.

*(Expressed in Renminbi unless otherwise indicated)*

## 10 TAXATION

### (a) Taxation in the consolidated income statement represents:

| | 2006 RMB million | 2005 RMB million |
|---|---|---|
| **Current tax** | | |
| Provision for Hong Kong profits tax on the estimated assessable profits for the year | 3 | — |
| Under-provision in respect of Hong Kong profits tax for prior year | 9 | — |
| Provision for PRC enterprise income tax on the estimated taxable profits for the year | 31,802 | 27,487 |
| Over-provision in respect of PRC enterprise income tax for prior years | (550) | (247) |
| | 31,264 | 27,240 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences (note 22) | (470) | (2,565) |
| | 30,794 | 24,675 |

(i) The provision for Hong Kong profits tax for 2006 is calculated at 17.5 per cent. (2005: 17.5 per cent.) of the estimated assessable profits for the year. For the year ended 31 December 2005, no provision has been made for Hong Kong profits tax as there were no estimated Hong Kong assessable profits during the year.

(ii) The provision for the PRC enterprise income tax is based on a statutory rate of 33 per cent. of the assessable profit of the Group as determined in accordance with the relevant income tax rules and regulations of the People's Republic of China (the "PRC") during the year, except for certain subsidiaries of the Company and certain operations of the subsidiaries located within special economic zones in the PRC, which enjoy a preferential rate of 30 per cent. or 15 per cent. respectively.

### (b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

| | 2006 RMB million | 2005 RMB million |
|---|---|---|
| Profit before taxation | 96,908 | 78,264 |
| Notional tax on profit before tax, calculated at statutory tax rates | 31,980 | 25,827 |
| Tax effect of non-taxable item | | |
| — Interest income | (34) | (24) |
| Tax effect of non-deductible expenses on PRC operations | 1,068 | 711 |
| Tax effect of non-deductible expenses on Hong Kong operations | 236 | 180 |
| Rate differential on PRC operations | (1,986) | (1,801) |
| Rate differential on Hong Kong operations | 175 | 123 |
| Reversal of deferred taxation due to change of tax rate on certain PRC operating subsidiaries | (56) | (1) |
| Over-provision for PRC operations in prior years | (550) | (247) |
| Under-provision for Hong Kong operations in prior year | 9 | — |
| Others | (48) | (93) |
| Taxation | 30,794 | 24,675 |

## 10 TAXATION (CONT'D)

### (c) Current taxation in the consolidated balance sheet represents:

| | The Group | |
|---|---|---|
| | **2006 RMB million** | 2005 RMB million |
| Provision for PRC enterprise income tax for the year | **31,802** | 27,487 |
| Provision for Hong Kong profits tax for the year | **3** | — |
| Balance of PRC enterprise income tax (recoverable)/payable relating to prior year | **(237)** | 99 |
| PRC enterprise income tax paid | **(22,201)** | (18,502) |
| Hong Kong profits tax paid | **(12)** | — |
| Balance at 31 December | **9,355** | 9,084 |
| Add: Tax recoverable | **468** | 165 |
| Tax payable | **9,823** | 9,249 |

## 11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB1,153,000,000 (2005: loss of RMB797,000,000) which has been dealt with in the financial statements of the Company.

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

| | **2006 RMB million** | 2005 RMB million |
|---|---|---|
| Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements | **(1,153)** | (797) |
| Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year | **28,680** | 28,625 |
| Company's profit for the year (note 34(b)) | **27,527** | 27,828 |

## 12 DIVIDENDS

### (a) Dividends attributable to the year:

| | **2006 RMB million** | 2005 RMB million |
|---|---|---|
| Ordinary interim dividend declared and paid of HK$0.62 (equivalent to approximately RMB0.64) (2005: HK$0.45 (equivalent to approximately RMB0.47)) per share | **12,612** | 9,259 |
| Special interim dividend declared and paid of HK$0.09 (equivalent to approximately RMB0.09) (2005: Nil) per share | **1,831** | — |
| Ordinary final dividend proposed after the balance sheet date of HK$0.763 (equivalent to approximately RMB0.767) (2005: HK$0.57 (equivalent to approximately RMB0.59)) per share | **15,327** | 11,767 |
| Special final dividend proposed after the balance sheet date of HK$0.069 (equivalent to approximately RMB0.069) (2005: Nil) per share | **1,386** | – |
| | **31,156** | 21,026 |

*(Expressed in Renminbi unless otherwise indicated)*

## 12 DIVIDENDS (CONT'D)

### (a) Dividends attributable to the year: (Cont'd)

The proposed ordinary and special final dividends which are declared in Hong Kong dollars are translated into RMB at the rate HK$1 = RMB1.00467, being the rate announced by the State Administration of Foreign Exchange in the PRC on 31 December 2006. As the ordinary and special final dividends are declared after the balance sheet date, such dividends are not recognized as liabilities as at 31 December 2006.

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

| | **2006 RMB million** | 2005 RMB million |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.57 (equivalent to approximately RMB0.59) (2005: HK$0.46 (equivalent to approximately RMB0.49)) per share | **11,719** | 9,635 |

## 13 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the year is based on the profit attributable to equity shareholders of the Company of RMB66,026,000,000 (2005: RMB53,549,000,000) and the weighted average number of 19,892,968,234 shares (2005: 19,738,229,495 shares) in issue during the year, calculated as follows:

(i) *Weighted average number of shares*

| | **2006 Number of shares** | 2005 Number of shares |
|---|---|---|
| Issued shares at 1 January | **19,835,160,399** | 19,700,639,399 |
| Effect of share options exercised (note 33) | **57,807,835** | 37,590,096 |
| Weighted average number of shares at 31 December | **19,892,968,234** | 19,738,229,495 |

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the adjusted profit attributable to equity shareholders of the Company of RMB66,026,000,000 (2005: RMB53,684,000,000, after adding back the interest expense on the convertible notes) and the weighted average number of shares 20,078,548,959 (2005: 19,892,163,022 shares), calculated as follows:

(i) *Adjusted profit attributable to equity shareholders of the Company (diluted)*

| | **2006 RMB million** | 2005 RMB million |
|---|---|---|
| Profit attributable to equity shareholders | **66,026** | 53,549 |
| After tax effect of effective interest on liability component of convertible notes | **–** | 135 |
| Adjusted profit attributable to equity shareholders (diluted) | **66,026** | 53,684 |

*(Expressed in Renminbi unless otherwise indicated)*

## 13 EARNINGS PER SHARE (CONT'D)

### (b) Diluted earnings per share (Cont'd)

(ii) *Weighted average number of shares (diluted)*

| | **2006 Number of shares** | 2005 Number of shares |
|---|---|---|
| Weighted average number of shares at 31 December | **19,892,968,234** | 19,738,229,495 |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 33) | **185,580,725** | 77,510,206 |
| Effect of conversion of convertible notes | **—** | 76,423,321 |
| Weighted average number of shares (diluted) at 31 December | **20,078,548,959** | 19,892,163,022 |

## 14 PROPERTY, PLANT AND EQUIPMENT

### (a) The Group

| | **Buildings RMB million** | **Teleommunications transceivers, switching centres, transmission and other network equipment RMB million** | **Office equipment, furniture and fixtures and others RMB million** | **Total RMB million** |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2005 | 32,783 | 291,031 | 14,059 | 337,873 |
| Additions | 328 | 1,657 | 906 | 2,891 |
| Transferred from construction in progress | 4,477 | 58,691 | 543 | 63,711 |
| Disposals | (57) | (2,160) | (223) | (2,440) |
| Assets written-off | (45) | (37,360) | (505) | (37,910) |
| At 31 December 2005 | 37,486 | 311,859 | 14,780 | 364,125 |
| At 1 January 2006 | **37,486** | **311,859** | **14,780** | **364,125** |
| Acquired on acquisition of a subsidiary | **14** | **2,272** | **77** | **2,363** |
| Additions | **407** | **1,508** | **1,024** | **2,939** |
| Transferred from construction in progress | **6,147** | **58,530** | **597** | **65,274** |
| Disposals | **(33)** | **(1,884)** | **(158)** | **(2,075)** |
| Assets written-off | **(524)** | **(19,683)** | **(1,143)** | **(21,350)** |
| Exchange differences | **(1)** | **(79)** | **(2)** | **(82)** |
| At 31 December 2006 | **43,496** | **352,523** | **15,175** | **411,194** |

## 14 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

### (a) The Group (Cont'd)

| | Buildings RMB million | Teleommunications transceivers, switching centres, transmission and other network equipment RMB million | Office equipment, furniture and fixtures and others RMB million | Total RMB million |
|---|---|---|---|---|
| **Accumulated Depreciation:** | | | | |
| At 1 January 2005 | 3,591 | 115,775 | 6,048 | 125,414 |
| Charge for the year | 1,920 | 51,915 | 2,533 | 56,368 |
| Written back on disposals | (21) | (1,703) | (173) | (1,897) |
| Assets written-off | (31) | (31,880) | (354) | (32,265) |
| At 31 December 2005 | 5,459 | 134,107 | 8,054 | 147,620 |
| At 1 January 2006 | **5,459** | **134,107** | **8,054** | **147,620** |
| Additions from acquisition of a subsidiary | **3** | **1,147** | **67** | **1,217** |
| Charge for the year | **2,298** | **61,780** | **496** | **64,574** |
| Written back on disposals | **(6)** | **(1,801)** | **(142)** | **(1,949)** |
| Assets written-off | **(457)** | **(17,120)** | **(916)** | **(18,493)** |
| Exchange differences | **—** | **(47)** | **(2)** | **(49)** |
| At 31 December 2006 | **7,297** | **178,066** | **7,557** | **192,920** |
| **Net book value:** | | | | |
| At 31 December 2006 | **36,199** | **174,457** | **7,618** | **218,274** |
| At 31 December 2005 | 32,027 | 177,752 | 6,726 | 216,505 |

The estimated useful lives of certain existing network equipment are affected by the continuing evolution of telecommunications technology and the appearance of a large number of new technologies and services. During the first half of 2006, the Group reviewed the current condition of existing network equipment and assessed the impact of the continuous evolution in telecommunications technology on that network equipment. As a result, the Group revised the estimated useful lives of certain network equipment from 7 years to 5 years.

The change in accounting estimate is accounted for prospectively from 1 January 2006. Effect of change in useful lives is estimated to have increased depreciation by approximately RMB11,451,000,000 and RMB8,197,000,000 for year ended 31 December 2006 and for the asset's revised remaining useful lives, respectively. Having considered the latest development of telecommunications technology, the Group plans to revise the estimated useful lives of switching centre equipment from 7 years to 5 years in 2007. Based on the current estimate, the Group considers that the additional depreciation charge as a result of such change of estimated useful life for the year ending 31 December 2007 is expected to be less of those for the year ended 31 December 2006. As the effect of such change of depreciable lives represents a timing difference, the change of estimated useful lives does not have any effect on the total depreciation expenses of those assets during their assets' lives.

*(Expressed in Renminbi unless otherwise indicated)*

## 14 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

### (b) The Company

| | Office equipment, furniture and fixtures and others RMB million |
|---|---|
| **Cost:** | |
| At 1 January 2005 | 9 |
| Additions | 1 |
| At 31 December 2005 | 10 |
| At 1 January 2006 | **10** |
| Additions | **3** |
| At 31 December 2006 | **13** |
| **Accumulated depreciation:** | |
| At 1 January 2005 | 6 |
| Charge for the year | 1 |
| At 31 December 2005 | 7 |
| At 1 January 2006 | **7** |
| Charge for the year | **1** |
| At 31 December 2006 | **8** |
| **Net book value:** | |
| At 31 December 2006 | **5** |
| At 31 December 2005 | 3 |

### (c) The analysis of net book value of buildings is as follows:

| | The Group | |
|---|---|---|
| | **2006 RMB million** | 2005 RMB million |
| Hong Kong | | |
| Long-term leases | **2** | — |
| Medium-term leases | **9** | — |
| Short-term leases | **—** | — |
| | **11** | — |
| Mainland China | | |
| Long-term leases | **2,723** | 633 |
| Medium-term leases | **33,190** | 31,242 |
| Short-term leases | **275** | 152 |
| | **36,188** | 32,027 |
| | **36,199** | 32,027 |

## 15 CONSTRUCTION IN PROGRESS

| | The Group | |
|---|---|---|
| | **2006 RMB million** | 2005 RMB million |
| Balance at 1 January | **34,201** | 30,510 |
| Acquired on acquisition of a subsidiary | **9** | — |
| Additions | **83,500** | 67,400 |
| Transferred to property, plant and equipment | **(65,274)** | (63,711) |
| Interest capitalization | **—** | 2 |
| Balance at 31 December | **52,436** | 34,201 |

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed at 31 December 2006.

## 16 ACQUISITION OF A SUBSIDIARY

On 10 November 2005, the Group through Fit Best Limited, a company incorporated in the British Virgin Islands which is a wholly-owned subsidiary of the Company, made a voluntary conditional cash offer to acquire all the issued shares of China Resources Peoples Telephone Company Limited (currently known as "China Mobile Peoples Telephone Company Limited", or "Peoples Telephone"), a mobile telecommunications services provider based in Hong Kong with its shares listed on the Stock Exchange of Hong Kong Limited (the "SEHK"). The offer became unconditional in all respects on 29 December 2005.

On 5 January 2006, Fit Best Limited successfully acquired 736,221,101 shares of Peoples Telephone, representing 99 per cent of the issued shares of Peoples Telephone. Up to 12 January 2006, the Company received additional valid acceptance in respect of the voluntary conditional cash offer to acquire 5,073,500 shares of Peoples Telephone, representing 0.68 per cent. of the issued shares of Peoples Telephone. On the same day, the Company applied the provisions of the Hong Kong Companies Ordinance to compulsorily acquire any remaining issued shares of Peoples Telephone.

On 28 March 2006, the compulsory acquisition of all the issued and outstanding shares of Peoples Telephone was completed at a total cash consideration of HK$3,384,000,000 (approximately RMB3,520,000,000) and the listing of the shares of Peoples Telephone on the SEHK was withdrawn with effect from 29 March 2006.

The newly acquired subsidiary has contributed profit for the year of RMB159,000,000 (equivalent to HK$155,000,000). If the acquisition had occurred on 1 January 2006, the estimated Group revenue and profit for the year would be approximately the same as comparing to the actual result.

*(Expressed in Renminbi unless otherwise indicated)*

## 16 ACQUISITION OF A SUBSIDIARY (CONT'D)

The acquisition has the following effect on the Group's assets and liabilities:

| | Recognized values on acquisition RMB million | Pre-acquisition carrying amounts RMB million |
|---|---|---|
| Property, plant and equipment | 1,146 | 1,146 |
| Construction in progress | 9 | 9 |
| Land lease prepayments | 11 | 11 |
| Other intangible assets | 859 | 27 |
| Inventories | 17 | 17 |
| Accounts receivable and other receivables | 194 | 194 |
| Cash and cash equivalents | 178 | 178 |
| Bills payable | (44) | (44) |
| Accounts payable and other payables | (192) | (192) |
| Interest-bearing borrowings | (104) | (104) |
| Deferred tax liabilities | (80) | (80) |
| Net identified assets and liabilities | 1,994 | 1,162 |
| Goodwill on acquisition | 1,594 | |
| | 3,588 | |
| Cost of acquisition | | |
| Purchase consideration, satisfied in cash | 3,520 | |
| Other directly attributable costs | 68 | |
| | 3,588 | |
| Cash acquired | (178) | |
| Net cash outflow | 3,410 | |

Apart from other intangible assets, the acquiree's book value of net assets acquired at the date of acquisition approximates its fair value as disclosed above.

The goodwill is attributable to the significant synergies expected to arise after the Group's acquisition of Peoples Telephone.

The amortization expenses of other intangible assets for the year ended 31 December 2006 amounted to RMB203,000,000 (2005: Nil).

## 17 GOODWILL

| | The Group RMB million |
|---|---|
| **Cost and carrying amount:** | |
| At 1 January 2005, 31 December 2005 and 1 January 2006 | 35,300 |
| Addition arising on acquisition of a subsidiary | 1,594 |
| At 31 December 2006 | 36,894 |

## 17 GOODWILL (CONT'D)

### Impairment tests for goodwill

As set out in HKAS 36 Impairment of assets, cash generating units are the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash flows from other assets. For the purpose of impairment testing of goodwill, goodwill is allocated to a group of cash-generating units (being subsidiaries acquired in each acquisition). Such group of cash-generating units represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and also is within the segment determined in accordance with HKAS 14 Segment Reporting.

The recoverable amount of the cash-generating units equals the value-in-use which is determined by the discounted cash flow method. The data from the Group's detailed planning is used to project cash flows for the subsidiaries (cash generating units) to which the goodwill relates for the five years ending 31 December 2011 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5 per cent. for the operation in Hong Kong and 1 per cent. for operations in the Mainland China to perpetuity are used which comply with general expectations for the business. The present value of cash flows is calculated by discounting with pre-tax interest rates of approximately 11 per cent..

## 18 OTHER INTANGIBLE ASSETS

| | The Group | | | |
|---|---|---|---|---|
| | Brand name RMB million | Customer base RMB million | Others RMB million | Total RMB million |
| **Cost:** | | | | |
| At 1 January 2006 | — | — | — | — |
| Acquired on acquisition of a subsidiary | 184 | 516 | 340 | 1,040 |
| Additions | — | — | 45 | 45 |
| Exchange differences | — | — | (7) | (7) |
| At 31 December 2006 | 184 | 516 | 378 | 1,078 |
| **Accumulated amortization:** | | | | |
| At 1 January 2006 | — | — | — | — |
| Acquired on acquisition of a subsidiary | — | — | 181 | 181 |
| Amortization for the year | — | 170 | 33 | 203 |
| Exchange differences | — | — | (6) | (6) |
| At 31 December 2006 | — | 170 | 208 | 378 |
| **Net book value:** | | | | |
| At 31 December 2006 | 184 | 346 | 170 | 700 |
| At 31 December 2005 | — | — | — | — |

## 18 OTHER INTANGIBLE ASSETS (CONT'D)

### Impairment test for other intangible asset with indefinite useful life

The brand name resulted from the acquisition in the current year and assessed to be indefinite. The factors considered in the assessment of the useful life of the brand name include analysis of the market and competitive trends, product life cycles, brand extension opportunities and management's long-term strategic development. Overall, these factors provided evidence that the brand name is expected to generate long-term net cash inflows to the Group indefinitely.

The recoverable amount of the brand name is estimated based on value-in-use calculations by discounting future cash flows annually. The data from the Group's detailed planning is used to project cash flows for the subsidiary (cash generating unit) to which the intangible asset relate for the five years ending 31 December 2011 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5 per cent. to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting with a pre-tax interest rate of approximately 11 per cent..

## 19 INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2006 RMB million** | 2005 RMB million |
| Unlisted equity, at cost | **471,810** | 468,222 |
| Equity share-based payment in subsidiaries | **3,974** | 1,771 |
| | **475,784** | 469,993 |

In accordance with HKFRS 2 Share-based payment, share-based payment transactions in which an entity receives services from its employees as consideration for equity instruments of the entity are accounted for as equity-settled transactions (see note 1(u)(ii)). The Company recognizes the grant of equity instruments to its subsidiaries' employees amounted to RMB3,974,000,000 (2005: RMB1,771,000,000) as capital contributions to its subsidiaries.

Amounts due from subsidiaries under current assets are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business. Amount due to a subsidiary represents amount due to China Mobile Group Guangdong Co., Ltd. (formerly ''Guangdong Mobile Communication Company Limited'') (''Guangdong Mobile'') in relation to the guaranteed bonds, which are unsecured, interest bearing and repayable after more than one year except RMB2,996,000,000 under current liabilities which is repayable within one year (see note 30(c)).

*(Expressed in Renminbi unless otherwise indicated)*

## 19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest | | Principal activity/ies |
|---|---|---|---|---|---|
| | | | Held by the Company | Held by a subsidiary | |
| Guangdong Mobile* | PRC | RMB5,594,840,700 | 100% | — | Mobile telecommunications operator |
| China Mobile Group Zhejiang Co., Ltd.* (formerly "Zhejiang Mobile Communication Company Limited") ("Zhejiang Mobile") | PRC | RMB2,117,790,000 | 100% | — | Mobile telecommunications operator |
| Jiangsu Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Jiangsu Co., Ltd.* (formerly "Jiangsu Mobile Communication Company Limited") ("Jiangsu Mobile") | PRC | RMB2,800,000,000 | — | 100% | Mobile telecommunications operator |
| Fujian Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Fujian Co., Ltd.* (formerly "Fujian Mobile Communication Company Limited") ("Fujian Mobile") | PRC | RMB5,247,480,000 | — | 100% | Mobile telecommunications operator |
| Henan Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Henan Co., Ltd.* (formerly "Henan Mobile Communication Company Limited") ("Henan Mobile") | PRC | RMB4,367,733,641 | — | 100% | Mobile telecommunications operator |
| Hainan Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |

(Expressed in Renminbi unless otherwise indicated)

## 19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest: Held by the Company | Proportion of ownership interest: Held by a subsidiary | Principal activity/ies |
|---|---|---|---|---|---|
| China Mobile Group Hainan Co., Ltd.* (formerly "Hainan Mobile Communication Company Limited") ("Hainan Mobile") | PRC | RMB643,000,000 | — | 100% | Mobile telecommunications operator |
| Beijing Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Beijing Co., Ltd.* (formerly "Beijing Mobile Communication Company Limited") | PRC | RMB6,124,696,053 | — | 100% | Mobile telecommunications operator |
| Shanghai Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Shanghai Co., Ltd.* (formerly "Shanghai Mobile Communication Company Limited") | PRC | RMB6,038,667,706 | — | 100% | Mobile telecommunications operator |
| Tianjin Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Tianjin Co., Ltd.* (formerly "Tianjin Mobile Communication Company Limited") | PRC | RMB2,151,035,483 | — | 100% | Mobile telecommunications operator |
| Hebei Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Hebei Co., Ltd.* (formerly "Hebei Mobile Communication Company Limited") | PRC | RMB4,314,668,600 | — | 100% | Mobile telecommunications operator |
| Liaoning Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |

*(Expressed in Renminbi unless otherwise indicated)*

## 19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest: Held by the Company | Proportion of ownership interest: Held by a subsidiary | Principal activity/ies |
|---|---|---|---|---|---|
| China Mobile Group Liaoning Co., Ltd.* (formerly "Liaoning Mobile Communication Company Limited") | PRC | RMB5,140,126,680 | — | 100% | Mobile telecommunications operator |
| Shandong Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Shandong Co., Ltd.* (formerly "Shandong Mobile Communication Company Limited") | PRC | RMB6,341,851,146 | — | 100% | Mobile telecommunications operator |
| Guangxi Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Guangxi Co., Ltd.* (formerly "Guangxi Mobile Communication Company Limited") | PRC | RMB2,340,750,100 | — | 100% | Mobile telecommunications operator |
| Anhui Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Anhui Co., Ltd.* (formerly "Anhui Mobile Communication Company Limited") | PRC | RMB4,099,495,494 | — | 100% | Mobile telecommunications operator |
| Jiangxi Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Jiangxi Co., Ltd.* (formerly "Jiangxi Mobile Communication Company Limited") | PRC | RMB2,932,824,234 | — | 100% | Mobile telecommunications operator |
| Chongqing Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |

*(Expressed in Renminbi unless otherwise indicated)*

## 19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest Held by the Company | Proportion of ownership interest Held by a subsidiary | Principal activity/ies |
|---|---|---|---|---|---|
| China Mobile Group Chongqing Co., Ltd.* (formerly "Chongqing Mobile Communication Company Limited") | PRC | RMB3,029,645,401 | — | 100% | Mobile telecommunications operator |
| Sichuan Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Sichuan Co., Ltd.* (formerly "Sichuan Mobile Communication Company Limited") | PRC | RMB7,483,625,572 | — | 100% | Mobile telecommunications operator |
| Hubei Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Hubei Co., Ltd.* (formerly "Hubei Mobile Communication Company Limited") | PRC | RMB3,961,279,556 | — | 100% | Mobile telecommunications operator |
| Hunan Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Hunan Co., Ltd.* (formerly "Hunan Mobile Communication Company Limited") | PRC | RMB4,015,668,593 | — | 100% | Mobile telecommunications operator |
| Shaanxi Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Shaanxi Co., Ltd.* (formerly "Shaanxi Mobile Communication Company Limited") | PRC | RMB3,171,267,431 | — | 100% | Mobile telecommunications operator |
| Shanxi Mobile Communication (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |

*(Expressed in Renminbi unless otherwise indicated)*

## 19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest Held by the Company | Proportion of ownership interest Held by a subsidiary | Principal activity/ies |
|---|---|---|---|---|---|
| China Mobile Group Shanxi Co., Ltd.* (formerly "Shanxi Mobile Communication Company Limited") | PRC | RMB2,773,448,313 | — | 100% | Mobile telecommunications operator |
| Neimenggu Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Neimenggu Co., Ltd.* (formerly "Neimenggu Mobile Communication Company Limited") | PRC | RMB2,862,621,870 | — | 100% | Mobile telecommunications operator |
| Jilin Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Jilin Co., Ltd.* (formerly "Jilin Mobile Communication Company Limited") | PRC | RMB3,277,579,314 | — | 100% | Mobile telecommunications operator |
| Heilongjiang Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Heilongjiang Co., Ltd.* (formerly "Heilongjiang Mobile Communication Company Limited") | PRC | RMB4,500,508,035 | — | 100% | Mobile telecommunications operator |
| Guizhou Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Guizhou Co., Ltd.* (formerly "Guizhou Mobile Communication Company Limited") | PRC | RMB2,541,981,749 | — | 100% | Mobile telecommunications operator |
| Yunnan Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |

*(Expressed in Renminbi unless otherwise indicated)*

## 19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest Held by the Company | Proportion of ownership interest Held by a subsidiary | Principal activity/ies |
|---|---|---|---|---|---|
| China Mobile Group Yunnan Co., Ltd.* (formerly "Yunnan Mobile Communication Company Limited") | PRC | RMB4,137,130,733 | — | 100% | Mobile telecommunications operator |
| Xizang Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Xizang Co., Ltd.* (formerly "Xizang Mobile Communication Company Limited") | PRC | RMB848,643,686 | — | 100% | Mobile telecommunications operator |
| Gansu Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Gansu Co., Ltd.* (formerly "Gansu Mobile Communication Company Limited") | PRC | RMB1,702,599,589 | — | 100% | Mobile telecommunications operator |
| Qinghai Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment Holding company |
| China Mobile Group Qinghai Co., Ltd.* (formerly "Qinghai Mobile Communication Company Limited") | PRC | RMB902,564,911 | — | 100% | Mobile telecommunications operator |
| Ningxia Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Ningxia Co., Ltd.* (formerly "Ningxia Mobile Communication Company Limited") | PRC | RMB740,447,232 | — | 100% | Mobile telecommunications operator |
| Xinjiang Mobile (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |

*(Expressed in Renminbi unless otherwise indicated)*

## 19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest: Held by the Company | Proportion of ownership interest: Held by a subsidiary | Principal activity/ies |
|---|---|---|---|---|---|
| China Mobile Group Xinjiang Co., Ltd.* (formerly "Xinjiang Mobile Communication Company Limited") | PRC | RMB2,581,599,600 | — | 100% | Mobile telecommunications operator |
| Beijing P&T Consulting & Design Institute (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Group Design Institute Co., Ltd.* (formerly "Beijing P&T Consulting & Design Institute Company Limited") ("Jingyi Design Institute") | PRC | RMB160,232,500 | — | 100% | Provision of telecommunications network planning design and consulting services |
| China Mobile Communication (BVI) Limited | BVI | 1 share at HK$1 | 100% | — | Investment holding company |
| China Mobile Communication Co., Ltd.* | PRC | RMB1,641,848,326 | — | 100% | Network and business coordination center |
| China Mobile Holding Company Limited* | PRC | US$30,000,000 | 100% | — | Investment holding company |
| China Mobile (Shenzhen) Limited* | PRC | US$7,633,000 | — | 100% | Provision of roaming clearance services |
| Aspire Holdings Limited | Cayman Islands | HK$93,964,583 | 66.41% | — | Investment holding company |
| Aspire (BVI) Limited# | BVI | US$1,000 | — | 100% | Investment holding company |
| Aspire Technologies (Shenzhen) Limited*# | PRC | US$10,000,000 | — | 100% | Technology platform development and maintenance |
| Aspire Information Network (Shenzhen) Limited*# | PRC | US$5,000,000 | — | 100% | Provision of mobile data solutions, system integration and development |

*(Expressed in Renminbi unless otherwise indicated)*

## 19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

| Name of company | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest: Held by the Company | Proportion of ownership interest: Held by a subsidiary | Principal activity/ies |
|---|---|---|---|---|---|
| Aspire Information Technologies (Beijing) Limited*# | PRC | US$5,000,000 | — | 100% | Technology platform development and maintenance |
| Fujian FUNO Mobile Communication Technology Company Limited | PRC | US$3,800,000 | — | 51% | Network planning and optimising construction-testing and supervising, technology support, development and training of Nokia GSM 900/1800 Mobile Communication System |
| Advanced Roaming & Clearing House Limited | BVI | US$2 | 100% | — | Provision of roaming clearance services |
| Fit Best Limited | BVI | US$1 | 100% | — | Investment holding company |
| Peoples Telephone | Hong Kong | HK$356,947,689 | — | 100% | Provision of mobile telecommunications and related services |

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

# Effective interest held by the Group is 66.41%.

*(Expressed in Renminbi unless otherwise indicated)*

## 20 INTEREST IN ASSOCIATES

| | The Group | |
|---|---|---|
| | **2006 RMB million** | 2005 RMB million |
| Share of net assets | **–** | – |

Details of the associates, all of which are unlisted corporate entities, are as follows:

| Name of associate | Place of incorporation and operation | Proportion of ownership interest held by a subsidiary | Principal activity |
|---|---|---|---|
| China Motion United Telecom Limited | Hong Kong | 30% | Provision of telecommunications services |
| Shenzhen China Motion Telecom United Limited | PRC | 30% | Provision of telecommunications services |

Owing to the lack of recent audited financial statements of the associates, the Group's share of the associates' net assets are based on latest management accounts which showed net liabilities as at 31 December 2005 and 2006. The Group has made full impairment loss on the cost of investment in the associates in 2005 and 2006.

## 21 OTHER FINANCIAL ASSETS

| | The Group | |
|---|---|---|
| | **2006 RMB million** | 2005 RMB million |
| **Available-for-sale equity securities:** | | |
| — Unlisted equity securities in the PRC | **77** | 77 |

*(Expressed in Renminbi unless otherwise indicated)*

## 22 DEFERRED TAX ASSETS AND LIABILITIES

The components of deferred tax assets/(liabilities) recognized in the consolidated balance sheet and the movements during the year for the Group are as follows:

**Deferred tax assets and liabilities recognized and the movements during 2006**

| | At 1 January 2006 RMB million | Acquired on acquisition of a subsidiary RMB million | Credited/ (charged) to consolidated income statement RMB million | Exchange difference RMB million | At 31 December 2006 RMB million |
|---|---|---|---|---|---|
| **Deferred tax assets arising from:** | | | | | |
| Provision for obsolete inventories | 9 | — | (1) | — | 8 |
| Write-off of certain network equipment and related assets | 3,965 | — | (1,195) | — | 2,770 |
| Provision for certain operating expenses | 1,680 | — | 1,485 | — | 3,165 |
| Impairment loss for doubtful accounts | 971 | — | 199 | — | 1,170 |
| | 6,625 | — | 488 | — | 7,113 |
| **Deferred tax liabilities arising from:** | | | | | |
| Capitalized interest | (97) | — | 17 | — | (80) |
| Depreciation allowance in excess of related depreciation | — | (80) | (35) | 3 | (112) |
| | (97) | (80) | (18) | 3 | (192) |
| Total | 6,528 | (80) | 470 | 3 | 6,921 |

*(Expressed in Renminbi unless otherwise indicated)*

## 22 DEFERRED TAX ASSETS AND LIABILITIES (CONT'D)

### Deferred tax assets and liabilities recognized and the movements during 2005

| | At 1 January 2005 RMB million | Credited/ (charged) to consolidated income statement RMB million | At 31 December 2005 RMB million |
|---|---|---|---|
| **Deferred tax assets arising from:** | | | |
| Provision for obsolete inventories | 30 | (21) | 9 |
| Write-off of certain network equipment and related assets | 2,226 | 1,739 | 3,965 |
| Income recognition on prepaid service fee | 42 | (42) | — |
| Provision for certain operating expenses | 876 | 804 | 1,680 |
| Impairment loss for doubtful accounts | 894 | 77 | 971 |
| | 4,068 | 2,557 | 6,625 |
| **Deferred tax liabilities arising from:** | | | |
| Capitalized interest | (105) | 8 | (97) |
| Total | 3,963 | 2,565 | 6,528 |

| | The Group 2006 RMB million | 2005 RMB million |
|---|---|---|
| Net deferred tax assets recognized in the consolidated balance sheet | **7,113** | 6,625 |
| Net deferred tax liabilities recognized in the consolidated balance sheet | **(192)** | (97) |
| Balance at 31 December | **6,921** | 6,528 |

## 23 INVENTORIES

Inventories primarily comprise handsets, SIM cards and handset accessories.

## 24 ACCOUNTS RECEIVABLE

Ageing analysis of accounts receivable, net of impairment loss for doubtful accounts, is as follows:

| | The Group 2006 RMB million | 2005 RMB million |
|---|---|---|
| Within 30 days | **5,447** | 5,269 |
| 31 – 60 days | **911** | 697 |
| 61 – 90 days | **581** | 637 |
| Over 90 days | **214** | — |
| | **7,153** | 6,603 |

Accounts receivable from customers are due for payment within one month from date of billing. Customers with balances that are overdue or exceed credit limits are required to settle all outstanding balances before any further phone calls can be made.

All of the accounts receivable are expected to be recovered within one year.

## 25 OTHER RECEIVABLES

Other receivables primarily comprise receivables from sales agents of revenue collected on behalf of the Group, utilities deposits and rental deposits.

All of the other receivables, except utilities deposits and rental deposits, are expected to be recovered within one year.

## 26 AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY AND AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

Amounts due from/to ultimate holding company are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business (see note 35).

Amount due to immediate holding company under current liabilities represented interest payable on the deferred consideration payable (see note 30), which is expected to be settled within one year.

## 27 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006 RMB million** | 2005 RMB million | **2006 RMB million** | 2005 RMB million |
| Deposits with banks within three months of maturity | **9,703** | 11,069 | **4,988** | 4,381 |
| Cash at banks and in hand | **61,464** | 53,392 | **22** | 170 |
| | **71,167** | 64,461 | **5,010** | 4,551 |

Included in cash and cash equivalents in the balance sheets are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006 million** | 2005 million | **2006 million** | 2005 million |
| Hong Kong Dollars | **HK$5,068** | HK$4,101 | **HK$4,682** | HK$4,021 |
| United States Dollars | **US$101** | US$70 | **US$39** | US$45 |

*(Expressed in Renminbi unless otherwise indicated)*

## 28 ACCOUNTS PAYABLE

Accounts payable primarily include payables for network expansion projects expenditure, leased lines and interconnection expenses.

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

| | The Group | |
|---|---|---|
| | **2006 RMB million** | 2005 RMB million |
| Amounts payables in the next: | | |
| 1 month or on demand | **41,026** | 27,493 |
| 2 – 3 months | **5,629** | 4,599 |
| 4 – 6 months | **4,067** | 3,675 |
| 7 – 9 months | **2,086** | 1,448 |
| 10 – 12 months | **4,432** | 4,716 |
| | **57,240** | 41,931 |

The accounts payable are expected to be settled within one year.

## 29 DEFERRED REVENUE

Deferred revenue includes primarily prepaid service fees received from subscribers and deferred tax credit of purchase of domestic telecommunications equipments. Prepaid service fees are recognized as revenue when the mobile telecommunications services are rendered upon actual usage by subscribers. Deferred tax credit of purchase of domestic telecommunications equipment is amortized as non-operating income over the remaining lives of the related property, plant and equipment.

| | The Group | |
|---|---|---|
| | **2006 RMB million** | 2005 RMB million |
| Balance at 1 January | **18,299** | 13,880 |
| Additions during the year | **130,477** | 105,407 |
| Recognized in the income statement | **(126,023)** | (100,988) |
| Balance at 31 December | **22,753** | 18,299 |
| Less: Current portion | **(21,823)** | (16,975) |
| Non-current portion | **930** | 1,324 |

*(Expressed in Renminbi unless otherwise indicated)*

## 30 INTEREST-BEARING BORROWINGS

### (a) The Group

| | Note | 2006 Current liabilities RMB million | 2006 Non-current liabilities RMB million | 2006 Total RMB million | 2005 Current liabilities RMB million | 2005 Non-current liabilities RMB million | 2005 Total RMB million |
|---|---|---|---|---|---|---|---|
| Bonds | (c) | **2,996** | **9,941** | **12,937** | — | 12,912 | 12,912 |
| Deferred consideration payable | (d) | **—** | **23,633** | **23,633** | — | 23,633 | 23,633 |
| | | **2,996** | **33,574** | **36,570** | — | 36,545 | 36,545 |

All of the above interest-bearing borrowings are unsecured and are not expected to be settled within one year except the bonds under current liabilities, which will mature in 2007 (see note 30(c)(ii)).

### (b) The Company

| | Note | 2006 Current liabilities RMB million | 2006 Non-current liabilities RMB million | 2006 Total RMB million | 2005 Current liabilities RMB million | 2005 Non-current liabilities RMB million | 2005 Total RMB million |
|---|---|---|---|---|---|---|---|
| Deferred consideration payable | (d) | **—** | **23,633** | **23,633** | — | 23,633 | 23,633 |

### (c) Bonds

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

The Ten-year Bonds bear interest at a floating rate, adjusted annually from the first day of each interest payable year and payable annually. The bonds, redeemable at 100 per cent. of the principal amount, will mature on 18 June 2011 and the interest will be accrued up to 17 June 2011.

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

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

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

## 30 INTEREST-BEARING BORROWINGS (CONT'D)

### (d) Deferred consideration payable

This represents the balances of the deferred consideration of RMB9,976,000,000 and RMB13,657,000,000 payable to immediate holding company in respect of the acquisitions of subsidiaries in 2002 and 2004 respectively.

The deferred consideration payable is unsecured and bears interest at the rate of the two-year US dollar LIBOR swap rate per annum (for the year ended 31 December 2006: 2.595 to 5.418 per cent. per annum and for the year ended 31 December 2005: 2.595 to 2.998 per cent. per annum). The balances are subordinated to other senior debts owed by the Company from time to time. The Company may make early payment of all or part of the balances at any time before the repayment date without penalty. The balances in respect of the acquisitions of subsidiaries in 2002 and 2004 are due on 1 July 2017 and 2019 respectively.

## 31 OBLIGATIONS UNDER FINANCE LEASES

As at 31 December 2006, the Group had obligations under finance leases repayable as follows:

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | **2006** | | | 2005 | | |
| | **Present value of the minimum lease payments RMB million** | **Interest expense relating to future periods RMB million** | **Total minimum lease payments RMB million** | Present value of the minimum lease payments RMB million | Interest expense relating to future periods RMB million | Total minimum lease payments RMB million |
| Within 1 year | **68** | **3** | **71** | 68 | 3 | 71 |

## 32 EMPLOYEE RETIREMENT BENEFITS

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

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

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

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

## 33 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to a resolution passed at the Annual General Meeting held on 24 June 2002, the share option scheme established on 8 October 1997 (the "Old Scheme") was terminated and the current share option scheme (the "Current Scheme") was adopted.

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

The maximum aggregate number of shares which can be subscribed for pursuant to options that are or may be granted under the above schemes equals to 10 per cent. of the total issued share capital of the Company as at the date of adoption of the Current Scheme. Options lapsed or canceled in accordance with the terms of the Old Scheme or the Current Scheme will not be counted for the purpose of calculating this 10 per cent. limit. The consideration payable for the grant of option under each of the Old Scheme and the Current Scheme is HK$1.00.

For options granted before 1 September 2001 under the Old Scheme, the exercise price of options was determined by the directors of the Company at their discretion provided that such price may not be set below a minimum price which is the higher of:

(i) the nominal value of a share; and

(ii) 80 per cent. of the average of the closing price of the share on The Stock Exchange of Hong Kong Limited (the "SEHK") on the five trading days immediately preceding the date on which the option was granted.

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

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

(i) the nominal value of a share;

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

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

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

*(Expressed in Renminbi unless otherwise indicated)*

## 33 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONT'D)

**(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:**

| | Number of instruments 2006 | 2005 | Vesting conditions | Contractual life of options |
|---|---|---|---|---|
| **Options granted to directors** | | | | |
| — on 26 November 1999* | **—** | 2,000,000 | 50% on date of grant, 50% three years from the date of grant | 8 years |
| — on 25 April 2000 | **1,000,000** | 1,516,000 | 50% two years from the date of grant, 50% five years from the date of grant | 7 years |
| — on 22 June 2001 | **250** | 142,500 | 50% two years from the date of grant, 50% five years from the date of grant | 6 years |
| — on 3 July 2002 | **370,000** | 375,000 | 50% two years from the date of grant, 50% five years from the date of grant | 10 years |
| — on 28 October 2004 | **908,200** | 1,518,000 | 40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant | 10 years |
| — on 21 December 2004 | **515,000** | 600,000 | 40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant | 10 years |
| — on 8 November 2005 | **6,465,500** | 7,790,000 | 40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant | 10 years |
| **Options granted to other employees** | | | | |
| — on 26 November 1999* | **1,000,000** | — | 50% on date of grant, 50% three years from the date of grant | 8 years |

*(Expressed in Renminbi unless otherwise indicated)*

## 33 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONT'D)

**(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares: (Cont'd)**

| | Number of instruments | | | |
|---|---|---|---|---|
| | **2006** | 2005 | **Vesting conditions** | **Contractual life of options** |
| **Options granted to other employees (Cont'd)** | | | | |
| — on 25 April 2000 | **4,858,500** | 26,092,000 | 50% two years from the date of grant, 50% five years from the date of grant | 7 years |
| — on 22 June 2001 | **7,542,550** | 52,390,750 | 50% two years from the date of grant, 50% five years from the date of grant | 6 years |
| — on 3 July 2002 | **71,864,350** | 75,570,000 | 50% two years from the date of grant, 50% five years from the date of grant | 10 years |
| — on 28 October 2004 | **156,838,619** | 213,121,500 | 40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant | 10 years |
| — on 8 November 2005 | **275,800,490** | 281,578,500 | 40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant | 10 years |
| Total share options | **527,163,459** | 662,694,250 | | |

* The number of shares involved in the options outstanding at the beginning of the year included 1,000,000 share options granted to Mr. He Ning, who was resigned as executive director and vice president of the Company during the year.

*(Expressed in Renminbi unless otherwise indicated)*

## 33 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONT'D)

### (b) The number and weighted average exercise prices of share options are as follows:

| | The Group | | | |
|---|---|---|---|---|
| | **2006** | | 2005 | |
| | **Weighted average exercise price HK$** | **Number of shares involved in the options** | Weighted average exercise price HK$ | Number of shares involved in the options |
| At 1 January | **29.76** | **662,694,250** | 25.39 | 511,060,000 |
| Granted | **—** | **—** | 34.87 | 289,777,500 |
| Exercised | **30.11** | **(132,654,741)** | 24.13 | (134,521,000) |
| Cancelled | **32.36** | **(2,876,050)** | 30.38 | (3,622,250) |
| At 31 December | **29.66** | **527,163,459** | 29.76 | 662,694,250 |
| Option vested at 31 December | **30.54** | **200,201,609** | 31.19 | 94,537,550 |

The weighted average share price at the date of exercise for shares options exercised during the year was HK$51.16 (2005: HK$34.20).

The options outstanding at 31 December 2006 and 2005 had exercise prices ranging from HK$22.75 to HK$45.04 and a weighted average remaining contractual life of 7.9 years (2005: 8.1 years).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model. No share options were granted during 2006. The fair value of options granted during the year ended 31 December 2005 was HK$10.28. The significant assumptions of the model included share price of HK$34.50 at the grant date, exercise price of HK$34.87, expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model) of 24.6%, option life (expressed as weighted average life used in the modelling under binomial lattice model) of 10 years, expected dividends of 2.6% and risk-free interest rate (based on Exchange Fund Notes) of 4.5%. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends and planned dividend payout ratio, if any. Changes in the subjective input assumptions could materially affect the fair value estimate.

*(Expressed in Renminbi unless otherwise indicated)*

## 34 CAPITAL AND RESERVES

### (a) The Group

| | Share capital RMB million | Share premium RMB million | Capital reserve RMB million | General reserve RMB million | Exchange reserve RMB million | PRC statutory reserves RMB million | Retained profits RMB million | Total RMB million | Minority interests RMB million | Total equity RMB million |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2005 | 2,102 | 375,279 | (295,410) | 72 | — | 42,277 | 108,874 | 233,194 | 243 | 233,437 |
| Dividends approved in respect of previous year (note 12(b)) | — | — | — | — | — | — | (9,635) | (9,635) | — | (9,635) |
| Dividends declared in respect of the current year (note 12(a)) | — | — | — | — | — | — | (9,259) | (9,259) | — | (9,259) |
| Shares issued under share option scheme (note 34(c)(ii)) | 14 | 3,961 | (553) | — | — | — | — | 3,422 | — | 3,422 |
| Equity settled share-based transactions | — | — | 1,553 | — | — | — | — | 1,553 | — | 1,553 |
| Profit for the year | — | — | — | — | — | — | 53,549 | 53,549 | 40 | 53,589 |
| Transfer to PRC statutory reserves | — | — | — | — | — | 11,118 | (11,118) | — | — | — |
| At 31 December 2005 | 2,116 | 379,240 | (294,410) | 72 | — | 53,395 | 132,411 | 272,824 | 283 | 273,107 |
| At 1 January 2006 | **2,116** | **379,240** | **(294,410)** | **72** | **—** | **53,395** | **132,411** | **272,824** | **283** | **273,107** |
| Dividends approved in respect of previous year (note 12(b)) | **—** | **—** | **—** | **—** | **—** | **—** | **(11,719)** | **(11,719)** | **—** | **(11,719)** |
| Dividends declared in respect of the current year (note 12(a)) | **—** | **—** | **—** | **—** | **—** | **—** | **(14,443)** | **(14,443)** | **—** | **(14,443)** |
| Shares issued under share option scheme (note 34(c)(ii)) | **14** | **4,567** | **(488)** | **—** | **—** | **—** | **—** | **4,093** | **—** | **4,093** |
| Equity settled share-based transactions | **—** | **—** | **2,264** | **—** | **—** | **—** | **—** | **2,264** | **—** | **2,264** |
| Profit for the year | **—** | **—** | **—** | **—** | **—** | **—** | **66,026** | **66,026** | **88** | **66,114** |
| Transfer to PRC statutory reserves | **—** | **—** | **—** | **—** | **—** | **13,566** | **(13,566)** | **—** | **—** | **—** |
| Exchange difference | **—** | **—** | **—** | **—** | **(43)** | **—** | **—** | **(43)** | **—** | **(43)** |
| At 31 December 2006 | **2,130** | **383,807** | **(292,634)** | **72** | **(43)** | **66,961** | **158,709** | **319,002** | **371** | **319,373** |

*(Expressed in Renminbi unless otherwise indicated)*

## 34 CAPITAL AND RESERVES (CONT'D)

### (b) The Company

| | Share capital RMB million | Share premium RMB million | Capital reserve RMB million | General reserve RMB million | Retained profits RMB million | Total RMB million |
|---|---|---|---|---|---|---|
| At 1 January 2005 | 2,102 | 375,279 | 255 | 72 | 55,435 | 433,143 |
| Dividends approved in respect of previous year (note 12(b)) | — | — | — | — | (9,635) | (9,635) |
| Dividends declared in respect of the year (note 12(a)) | — | — | — | — | (9,259) | (9,259) |
| Shares issued under share option scheme (note 34(c)(ii)) | 14 | 3,961 | (553) | — | — | 3,422 |
| Equity settled share-based transactions | — | — | 1,553 | — | — | 1,553 |
| Profit for the year | — | — | — | — | 27,828 | 27,828 |
| At 31 December 2005 | 2,116 | 379,240 | 1,255 | 72 | 64,369 | 447,052 |
| At 1 January 2006 | **2,116** | **379,240** | **1,255** | **72** | **64,369** | **447,052** |
| Dividends approved in respect of previous year (note 12(b)) | **—** | **—** | **—** | **—** | **(11,719)** | **(11,719)** |
| Dividends declared in respect of the current year (note 12(a)) | **—** | **—** | **—** | **—** | **(14,443)** | **(14,443)** |
| Shares issued under share option scheme (note 34(c)(ii)) | **14** | **4,567** | **(488)** | **—** | **—** | **4,093** |
| Equity settled share-based transactions | **—** | **—** | **2,264** | **—** | **—** | **2,264** |
| Profit for the year | **—** | **—** | **—** | **—** | **27,527** | **27,527** |
| At 31 December 2006 | **2,130** | **383,807** | **3,031** | **72** | **65,734** | **454,774** |

At 31 December 2006, the amount of distributable reserves of the Company amounted to RMB65,806,000,000 (2005: RMB64,441,000,000).

### (c) Share capital

(i) *Authorized and issued share capital*

| | 2006 HK$ million | 2005 HK$ million |
|---|---|---|
| *Authorized:* 30,000,000,000 ordinary shares of HK$0.10 each | **3,000** | 3,000 |

*Issued and fully paid:*

| | 2006 No. of shares | 2006 HK$ million | 2006 Equivalent RMB million | 2005 No. of shares | 2005 HK$ million | 2005 Equivalent RMB million |
|---|---|---|---|---|---|---|
| At 1 January | **19,835,160,399** | **1,984** | **2,116** | 19,700,639,399 | 1,970 | 2,102 |
| Shares issued under share option scheme (note 33) | **132,654,741** | **13** | **14** | 134,521,000 | 14 | 14 |
| At 31 December | **19,967,815,140** | **1,997** | **2,130** | 19,835,160,399 | 1,984 | 2,116 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 34 CAPITAL AND RESERVES (CONT'D)

### (c) Share capital (Cont'd)

(ii) *Shares issued under share option scheme*

During 2006, options were exercised to subscribe for 132,654,741 (2005: 134,521,000) ordinary shares in the Company at a consideration of HK$3,994,000,000 (equivalent to RMB4,093,000,000) (2005: HK$3,246,000,000 (equivalent to RMB3,422,000,000)) of which HK$13,000,000 (equivalent to RMB14,000,000) (2005: HK$14,000,000 (equivalent to RMB14,000,000)) was credited to share capital and the balance of HK$3,981,000,000 (equivalent to RMB4,079,000,000) (2005: HK$3,233,000,000 (equivalent to RMB3,408,000,000)) was credited to the share premium account. HK$464,000,000 (equivalent to RMB488,000,000) (2005: HK$521,000,000 (equivalent to RMB553,000,000)) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(u)(ii).

### (d) Nature and purpose of reserves

(i) *Share premium*

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

(ii) *Capital reserve*

The capital reserve comprises the following:

— The fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognized in accordance with the accounting policy adopted for share-based payments in note 1(u)(ii); and

— There was RMB295,665,000,000 debit balance brought forward as a result of the elimination of goodwill arising on the acquisition of subsidiaries before 1 January 2001 against the capital reserve in previous years.

(iii) *PRC statutory reserves*

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

In accordance with Accounting Regulations for Business Enterprises, foreign investment enterprises in Mainland China are required to transfer at least 10 per cent. of their profit after taxation, as determined under accounting principles generally accepted in the PRC ("PRC GAAP") to the general reserve until the balance of the general reserve is equal to 50 per cent. of their registered capital. Moreover, they are required to transfer a certain percentage of their profit after taxation, as determined under PRC GAAP, to the enterprise expansion fund. During the year, appropriations were made by each of the above subsidiaries to the general reserve and the enterprise expansion fund each at 10 per cent. of their profit after taxation determined under PRC GAAP.

The general reserve can be used to reduce previous years' losses and to increase the capital of the subsidiaries while the enterprise expansion fund can be used to increase the capital of the subsidiaries, to acquire property, plant and equipment and to increase current assets.

Statutory surplus reserve can be used to reduce previous years' losses, if any, and may be converted into paid-up capital, provided that the balance after such conversion is not less than 25 per cent. of the registered capital of the subsidiaries. Statutory public welfare fund can only be utilized on capital items for the collective benefits of the employees such as the construction of staff quarters and other staff welfare facilities. This reserve is non-distributable other than in liquidation.

## 34 CAPITAL AND RESERVES (CONT'D)

### (d) Nature and purpose of reserves (Cont'd)

(iii) *PRC statutory reserves (Cont'd)*

At 31 December 2006, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund were RMB30,836,000,000 (2005: RMB24,035,000,000), RMB36,098,000,000 (2005: RMB29,325,000,000), RMB26,000,000 (2005: RMB31,000,000) and RMB1,000,000 (2005: RMB4,000,000) respectively.

(iv) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

## 35 RELATED PARTY TRANSACTIONS

### (a) Transactions with CMCC Group

The following is a summary of principal related party transactions entered into by the Group with CMCC and its subsidiaries, excluding the Group, (the "CMCC Group"), for the year ended 31 December 2006 and 31 December 2005. The majority of these transactions also constitute continuing connected transactions under the Listing Rules. Further details of these transactions are disclosed under the paragraph "Connected Transactions" in the directors' report.

| | Note | **2006<br>RMB million** | 2005<br>RMB million |
|---|---|---|---|
| Property leasing and management services charges | (i) | **804** | 589 |
| Telecommunications services charges | (ii) | **2,359** | 1,866 |
| Interest paid/payable | (iii) | **946** | 647 |

Notes:

(i) Property leasing and management services charges represent the rental and property management fees paid or payable to CMCC Group in respect of business premises and offices, retail outlets and warehouses.

(ii) Telecommunications services charges represent the amounts paid or payable to CMCC Group for the telecommunications project planning, design and construction services; telecommunications line and pipeline construction services; and telecommunications line maintenance services.

(iii) Interest paid/payable represents the interest paid or payable to China Mobile Hong Kong (BVI) Limited, the Company's immediate holding company, in respect of the balances of purchase consideration for acquisition of subsidiaries.

### (b) Key management personnel remuneration

Remuneration for key management personnel are disclosed in note 8.

*(Expressed in Renminbi unless otherwise indicated)*

## 36 TRANSACTIONS WITH OTHER STATE-CONTROLED ENTITIES IN THE PRC

Apart from transactions with the CMCC Group (see note 35), the Group, a state-controled enterprise, conducts certain business activities with enterprises directly or indirectly owned or controled by the PRC government and government authorities and agencies (collectively referred to as "state-controled entities") in the ordinary course of business. These transactions primarily include rendering and receiving services, sales and purchase of goods and deposits with financial institutions, are carried out at terms similar to those that would be entered into with non-state-controled entities and have been reflected in the financial statements.

As part of the transactions with state-controled entities as mentioned above, the Group has material transactions with other state-controled telecommunications operators in the PRC in the normal course of providing telecommunications services. These transactions are conducted and settled in accordance with rules and regulations stipulated by the Ministry of Information Industry of the PRC Government. Additionally, the Group has material transactions and balances with state-controled financial institutions.

Set out below are the principal transactions with state-controled telecommunications operators and state-controled financial institutions in the PRC:

(a) Principal transactions with state-controled telecommunications operators in the PRC:

| | **2006**<br>**RMB million** | 2005<br>RMB million |
|---|---|---|
| Interconnection revenue | **8,510** | 6,196 |
| Interconnection charges | **16,416** | 13,588 |
| Leased line charges | **1,757** | 3,054 |

(b) Principal balances with state-controled telecommunications operators in the PRC:

| | **2006**<br>**RMB million** | 2005<br>RMB million |
|---|---|---|
| Accounts and other receivables | **452** | 180 |
| Accounts and other payable | **1,846** | 2,172 |

(c) Principal transactions with state-controled financial institutions in the PRC:

| | **2006**<br>**RMB million** | 2005<br>RMB million |
|---|---|---|
| Interest income | **2,584** | 1,528 |

(d) Principal balances with state-controled financial institutions in the PRC:

| | **2006**<br>**RMB million** | 2005<br>RMB million |
|---|---|---|
| Deposits with banks | **82,294** | 41,787 |
| Cash and cash equivalents | **68,197** | 59,368 |

## 37 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

Substantially all the Group's cash and cash equivalents are deposited with financial institutions in Hong Kong and Mainland China. The accounts receivable of the Group are spread among an extensive number of subscribers.

The Group's credit risk is primarily attributable to accounts receivable and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not have any significant exposure to any individual customer orcounterparty. The credit risk on liquid funds is limited because the majority of counter parties are financial institutions with high credit ratings assigned by international credit-rating agencies and state-controled financial institutions with good reputation.

### (b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

### (c) Interest rate risk

The Group has interest rate risk as certain interest-bearing borrowings are on a variable rate basis. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 30. The Group's cash and cash equivalents and deposits with banks are all short-term in nature, any future variations in interest rates will not have a significant impact on the results of the Group.

During the year, the Group and the Company had not entered into any interest rate swap contracts.

### (d) Foreign currency risk

The Group has foreign currency risk as certain cash and cash equivalents are denominated in foreign currencies, principally US dollars and Hong Kong dollars. The Group does not expect any appreciation or depreciation of the Renminbi against foreign currency which might materially affect the Group's result of operations.

During the year, the Group and the Company had not entered into any forward exchange contracts.

## 37 FINANCIAL INSTRUMENTS (CONT'D)

### (e) Fair values

The following financial assets and financial liabilities have their carrying amounts approximately equal to their fair values: accounts receivable, other receivables, prepayments and other current assets, deposits with banks, cash and cash equivalents, accounts payable, bills payable, accrued expenses and other payables and deferred consideration payable due to its nature or short maturity, except as follows:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Carrying amount RMB million** | **Fair value RMB million** | Carrying amount RMB million | Fair value RMB million |
| **The Group** | | | | |
| Interest-bearing borrowings | | | | |
| — bonds | **12,937** | **13,218** | 12,912 | 13,685 |

The fair value of bonds is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

## 38 COMMITMENTS

### (a) Capital commitments

Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2006 RMB million** | 2005 RMB million | **2006 RMB million** | 2005 RMB million |
| **Commitments in respect of land and buildings** | | | | |
| — authorized and contracted for | **1,119** | 1,478 | **—** | — |
| — authorized but not contracted for | **6,604** | 3,575 | **—** | — |
| | **7,723** | 5,053 | **—** | — |
| **Commitments in respect of telecommunications equipment** | | | | |
| — authorized and contracted for | **9,361** | 10,389 | **—** | — |
| — authorized but not contracted for | **51,688** | 43,899 | **—** | — |
| | **61,049** | 54,288 | **—** | — |
| **Total commitments** | | | | |
| — authorized and contracted for | **10,480** | 11,867 | **—** | — |
| — authorized but not contracted for | **58,292** | 47,474 | **—** | — |
| | **68,772** | 59,341 | **—** | — |

## 38 COMMITMENTS (CONT'D)

### (b) Operating lease commitments

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | The Group | | | | The Company |
|---|---|---|---|---|---|
| | Land and buildings RMB million | Leased lines RMB million | Others RMB million | Total RMB million | Land and buildings, and others RMB million |
| At 31 December 2006: | | | | | |
| Within one year | **2,584** | **1,493** | **567** | **4,644** | **7** |
| After one year but within five years | **5,079** | **1,153** | **739** | **6,971** | **10** |
| After five years | **1,668** | **254** | **135** | **2,057** | **—** |
| | **9,331** | **2,900** | **1,441** | **13,672** | **17** |
| At 31 December 2005: | | | | | |
| Within one year | 1,506 | 1,477 | 546 | 3,529 | 6 |
| After one year but within five years | 3,509 | 998 | 1,068 | 5,575 | 1 |
| After five years | 1,053 | 298 | 104 | 1,455 | — |
| | 6,068 | 2,773 | 1,718 | 10,559 | 7 |

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

## 39 NON-ADJUSTING POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed an ordinary and special dividends. Further details are disclosed in note 12(a).

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25 per cent. and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that are subsequently issued. Since implementation measure on transitional policy of preferential tax rate granted according to current tax law and administrative regulations was not yet announced, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

## 40 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2006 to be China Mobile Communications Corporation, a company incorporated in the PRC.

## 41 ACCOUNTING ESTIMATES AND JUDGEMENTS

### Key sources of estimation uncertainty

Notes 17, 18 and 37 contain information about the assumptions and their risk factors relating to goodwill impairment, impairment of other intangible assets with indefinite useful lives and financial instruments. Other key sources of estimation uncertainty are as follows:

### Impairment loss for doubtful accounts

The Group assesses impairment loss for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables at each balance sheet date. The estimates are based on the ageing of the accounts receivable and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the customers were to deteriorate, additional impairment may be required.

### Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

### Amortization of other intangible asset

Amortization of other intangible assets is calculated to write off the cost of items of other intangible assets using the straight-line method over their estimated useful lives unless such lives are indefinite. The Group reviews the estimated useful lives of other intangible assets annually in order to determine the amount of amortization expense to be recorded during any reporting period. The useful lives are based on the estimate period over which future economic benefits will be received by the Group and taking into account any unexpected adverse changes in circumstances or events. The amortization expense for future periods is adjusted if there are significant changes from previous estimates.

### Impairment of property, plant and equipment

The Group's property, plant and equipment comprise a significant portion of the Group's total assets. Changes in technology or industry conditions may cause the estimated period of use or the value of these assets to change. Long-lived assets including property, plant and equipment are reviewed for impairment at least annually or whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount is estimated.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

## 42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKFRS 7 | Financial instruments: Disclosures | 1 January 2007 |
| Amendment to HKAS 1 | Presentation of financial statements: Capital disclosures | 1 January 2007 |

# SUPPLEMENTARY INFORMATION FOR ADS HOLDERS

The Group's accounting policies conform with generally accepted accounting principles in Hong Kong (''HK GAAP'') which differ in certain material respects from those applicable generally accepted accounting principles in the United States of America (''US GAAP'').

The significant differences relate principally to the following items and the adjustments considered necessary to present the net profit and shareholders' equity in accordance with US GAAP are shown in the tables set out below:

## (a) EFFECT OF COMBINATION OF ENTITIES UNDER COMMON CONTROL

Under HK GAAP, the Group adopted the acquisition method to account for the purchase of subsidiaries from the holding company. Under the acquisition method, the acquired results are included in the results of operations from the date of their acquisition. For acquisitions before 1 January 2001, goodwill arising on the acquisition, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves immediately on acquisition. For acquisitions on or after 1 January 2001, goodwill arising on the acquisition is amortized to the consolidated income statement on a straight-line basis over 20 years. With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group adopted a new accounting policy for goodwill. The Group no longer amortizes positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment.

As a result of the Group and the acquired subsidiaries, being under common control prior to the acquisition, such acquisitions under US GAAP are considered ''combinations of entities under common control''. Under US 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 are restated on a combined basis. The consideration paid and payable by the Group has been treated as distribution to owner in the year of acquisition. Goodwill arising on consolidation and the amortization of goodwill which are recognized under HK GAAP have been reversed for US GAAP purposes.

## (b) CAPITALIZATION OF INTEREST

Under HK GAAP, interest costs are only capitalized to the extent that funds are borrowed and used for the purpose of obtaining qualifying assets which necessarily takes a substantial period of time to get ready for its intended use.

Under US GAAP, interest costs capitalized are determined based on specific borrowings related to the acquisition or construction of an asset, if an entity's financing plans associate a specific new borrowing with a qualifying asset. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with an asset, additional interest costs capitalized are based on the weighted average interest rate applicable to other borrowings of the entity.

## (c) REVALUATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND LAND LEASE PREPAYMENTS

For certain periods prior to 31 May 1997, the property, plant and equipment and land lease prepayments of the subsidiaries were revalued in compliance with PRC rules and regulations, resulting in an increase in shareholders' equity.

Additionally, the property, plant and equipment and land lease prepayments of the subsidiaries were revalued as a result of the restructuring that occurred in 1997 and the subsequent acquisitions. These property, plant and equipment and land lease prepayments revaluations result in an increase in shareholders' equity with respect to the increase in carrying amount of certain property, plant and equipment and land lease prepayments above their historical cost bases, except for the acquisitions in 2002 and 2004.

In connection with the acquisitions in 2002 and 2004, the property, plant and equipment and land lease prepayments of the subsidiaries acquired were revalued at 31 December 2001 and 31 December 2003 respectively. Such revaluations resulted in an increase directly to those shareholders' equity with respect to the increase in carrying amount of certain property, plant and equipment and land lease prepayments above their historical cost bases, and a charge to the income statement with respect to the decrease in carrying amount of certain property, plant and equipment and land lease prepayments below their historical cost bases.

## (c) REVALUATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND LAND LEASE PREPAYMENTS (CONT'D)

The carrying amount of property, plant and equipment and land lease prepayments under HK GAAP is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline occurs, the carrying amount is reduced to the recoverable amount based on the expected future cash flows generated by the property, plant and equipment and land lease prepayments, discounted to their present values using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. A subsequent increase in the recoverable amount is written back to results of operations when circumstances and events that led to the write-down or write-off cease to exist.

Under US GAAP, property, plant and equipment are stated at their historical cost, less accumulated depreciation. Land lease prepayments are stated at their historical cost, amortized on a straight line basis over the period of the lease term. Accordingly, the revaluation reserve recorded directly to shareholders' equity and the charge to the income statement under HK GAAP as a result of the revaluation of property, plant and equipment and land lease prepayments are reversed for US GAAP purposes. Additionally, as a result of the tax deductibility of the revaluation reserve, a deferred tax asset related to the reversal of the revaluation is created under US GAAP with a corresponding increase in shareholders' equity.

Under US GAAP, property, plant and equipment and land lease prepayments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Any subsequent increase in the recoverable amount written back to results of operations when circumstances and events that led to the write-down or write-off cease to exist under HK GAAP is reversed for US GAAP purposes.

For the years presented, there were no differences related to impairment charges under HK GAAP and US GAAP. The US GAAP difference as shown in the reconciliation represents the reversal of revaluation reserves and the related depreciation and amortization which are recognized under HK GAAP.

## (d) EMPLOYEE HOUSING SCHEME

The Group provides staff quarters under its employee housing schemes at below market prices. Under HK GAAP, employee housing scheme costs borne by the corresponding PTAs and not charged to the subsidiaries are not recognized by the subsidiaries.

Under US GAAP, employee housing scheme costs borne by the corresponding PTAs and not charged to the subsidiaries are reflected as an expense in the statement of income and a corresponding capital contribution. Additionally, under US GAAP, the costs to be borne by the subsidiaries are accrued over the term of the program.

## (e) DEFERRED TAXATION

Until 31 December 2002, under HK GAAP, the Group provides for deferred tax liabilities only to the extent that there is a reasonable probability that such deferred tax liabilities will become payable in the foreseeable future. Deferred tax assets are not recognized unless their realisation is assured beyond reasonable doubt.

With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the HKICPA, the Group adopted a new accounting policy for deferred tax. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available. The new accounting policy has been adopted retrospectively.

## (e) DEFERRED TAXATION (CONT'D)

Under US GAAP, provisions are made for all deferred taxes as they arise, except a valuation allowance is provided against deferred tax assets when realisation of such amounts does not meet the criteria of ''more likely than not''. For the years presented, there were no differences related to the recognition of deferred tax under HK GAAP and US GAAP. The US GAAP difference as shown in the reconciliation represents the deferred tax effects of US GAAP adjustments.

## (f) SHARE OPTION SCHEME

The Company granted share options to directors and employees. Under HK GAAP and prior to January 1, 2005, the proceeds received are recognized as an increase to capital upon the exercise of the share options. The Company does not account for the issuance of stock options until they are exercised. With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognizes the fair value of such share options as an expense in the consolidated income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognized in a capital reserve within equity.

Under US GAAP, and prior to 1 January 2006, the Group follows Accounting Principles Board Opinion 25, ''Accounting for Stock Issued to Employees'', and determines compensation expenses based on the excess, if any, of the quoted market price of the shares on the date of grant over the exercise price of the stock options. Such amount is charged to the consolidated income statement over the vesting period of the options. As a result, any expenses recognized based on the fair value of share options under HK GAAP is reversed under US GAAP. With effect from 1 January 2006, in order to comply with Statement of Financial Accounting Standards No. 123 (revised 2004), ''Share-Based Payment'', the Group recognizes compensation expense for all unvested share-based payment at fair value. The Group adopts the modified-prospective transition method in which effective from 1 January 2006, the compensation expense is recognized at fair value for (i) share options granted after 1 January 2006; and (ii) all share options granted prior to 1 January 2006 that remain unvested at that date. No restatement for prior periods is required. As a result, the US GAAP difference as shown in the net profit reconciliation for the year ended 31 December 2006 represented additional compensation expense recognized under US GAAP using fair value approach for unvested share options granted to employees and directors before 7 November 2002 of which no measurement was made to such share options under HK GAAP as the Group has adopted the transitional provisions set out in paragraph 53 of HKFRS 2.

## (g) REVENUE RECOGNITION

Until 30 June 1999, under both HK GAAP and US GAAP, connection fees revenue and telephone number selection fees were recognized as received. Under US GAAP, effective 1 July 1999, net connection fees and telephone number selection fees received in excess of direct costs were deferred and recognized over the estimated customer usage period of approximately 48 months.

Under US GAAP, effective 1 January 2000, the Group adopted provisions of Staff Accounting Bulletin No. 101, ''Revenue Recognition in Financial Statements'' (''SAB101''). In December 2003, Staff Accounting Bulletin No.104, ''Revenue Recognition'' (''SAB104'') updates the guidance in SAB101 and Emerging Issues Task Force Issue 00-21 ''Revenue Arrangement with Multiple Deliverable'' (''EITF 00-21''). EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which the vendor will perform multiple revenue generating activities. Under SAB104, connection fees and telephone number selection fees received and incremental direct costs up to, but not exceeding such fees, were deferred and amortized over the estimated customer usage period for the related service. The cumulative effect from the adoption of SAB104 was not material.

## (h) INTERCONNECTION, ROAMING AND LEASED LINE AGREEMENTS

In May 2000, the Group entered into new agreements with China Mobile for inter-provincial interconnection and domestic and international roaming services, and inter-provincial long distance transmission leased line arrangements with retrospective effect from 1 October 1999 for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile and from 1 April 1999 for Fujian Mobile, Henan Mobile and Hainan Mobile. Under HK GAAP, the net savings refunded to the Group as a result of the two agreements taking retrospective effect were recorded in operations for the year ended 31 December 2000. Under US GAAP, such net savings are deferred and amortized on a straight-line basis over seven years.

## EFFECT ON NET PROFIT OF SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP IS AS FOLLOWS:

| | 2006 US$ million (except per share data) | 2006 RMB million | 2005 RMB million (except per share data) | 2004 RMB million |
|---|---|---|---|---|
| **Net profit attributable to equity shareholders under HK GAAP** | **8,460** | **66,026** | 53,549 | 41,749 |
| **Adjustments:** | | | | |
| Effect of combination of entities under common control | **—** | **—** | — | 1,587 |
| Capitalized interest | **(11)** | **(83)** | (106) | (116) |
| Revaluation of property, plant and equipment | **(146)** | **(1,145)** | (818) | (448) |
| Revaluation of land lease prepayments | **7** | **55** | 98 | 68 |
| Share option scheme | **(27)** | **(212)** | 1,485 | 169 |
| Amortization of net connection fees and telephone number selection fees | **—** | **—** | 6 | 109 |
| Amortization of net savings from interconnection, roaming and leased line agreements | **11** | **86** | 86 | 86 |
| Reversal of goodwill | **—** | **—** | — | 1,930 |
| Deferred tax effects of US GAAP adjustments | **44** | **347** | 204 | (73) |
| **Net profit under US GAAP** | **8,338** | **65,074** | 54,504 | 45,061 |
| Basic net profit per share in accordance with US GAAP | **US$0.42** | **RMB3.27** | RMB2.76 | RMB2.29 |
| Diluted net profit per share in accordance with US GAAP | **US$0.42** | **RMB3.24** | RMB2.75 | RMB2.29 |
| Basic net profit per ADS in accordance with US GAAP* | **US$2.10** | **RMB16.36** | RMB13.81 | RMB11.45 |
| Diluted net profit per ADS in accordance with US GAAP* | **US$2.08** | **RMB16.20** | RMB13.73 | RMB11.43 |

* Based on a ratio of 5 ordinary shares to one ADS.

## EFFECT ON SHAREHOLDERS' EQUITY OF SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP IS AS FOLLOWS:

| | 2006<br>US$ million | 2006<br>RMB million | 2005<br>RMB million |
|---|---|---|---|
| **Shareholders' equity under HK GAAP** | **40,876** | **319,002** | 272,824 |
| **Adjustments:** | | | |
| Capitalized interest | **9** | **75** | 158 |
| Revaluation of property, plant and equipment | | | |
| — cost | **(688)** | **(5,370)** | (5,370) |
| — accumulated depreciation and others | **759** | **5,924** | 7,069 |
| Revaluation of land lease prepayments | **(268)** | **(2,089)** | (2,144) |
| Deferred tax adjustments on revaluations | **63** | **490** | 142 |
| Employee housing scheme | **(215)** | **(1,674)** | (1,674) |
| Deemed capital contribution for employee housing scheme | **215** | **1,674** | 1,674 |
| Deferral of net savings from interconnection, roaming and leased line agreements | **(3)** | **(28)** | (114) |
| Reversal of goodwill | **(4,523)** | **(35,300)** | (35,300) |
| Deferred tax effects of US GAAP adjustments | **(2)** | **(14)** | (13) |
| **Shareholders' equity under US GAAP** | **36,223** | **282,690** | 237,252 |

Solely for the convenience of the reader, the 31 December 2006 tables above and following information have been translated into United States dollars at the rate of US$1.00 = RMB7.8041 quoted by the Federal Reserve Bank of New York on 31 December 2006. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate or at any other certain rate on 31 December 2006, or any other certain date.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME PREPARED UNDER US GAAP

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2006<br>US$ million<br>(except per share data) | 2006<br>RMB million | 2005<br>RMB million<br>(except per share data) | 2004<br>RMB million |
| **Operating revenue** | | | | |
| Usage fees | **24,309** | **189,710** | 156,710 | 136,876 |
| Monthly fees | **2,771** | **21,629** | 25,055 | 26,458 |
| Value-added services fees | **8,881** | **69,309** | 50,187 | 31,651 |
| Connection fees | **—** | **—** | 7 | 252 |
| Other operating revenue | **2,946** | **22,988** | 17,617 | 15,400 |
| | **38,907** | **303,636** | 249,576 | 210,637 |
| **Operating expenses** | | | | |
| Cost of services (excluding depreciation of RMB62,779 million, RMB55,422 million, RMB47,050 million included below) | **(4,117)** | **(32,131)** | (28,555) | (24,387) |
| Depreciation | **(8,044)** | **(62,779)** | (55,422) | (47,050) |
| Selling, general and administration | **(14,739)** | **(115,025)** | (87,878) | (74,596) |
| | **(26,900)** | **(209,935)** | (171,855) | (146,033) |
| **Profit from operations** | **12,007** | **93,701** | 77,721 | 64,604 |
| **Amortization of other intangible assets** | **(26)** | **(203)** | - | - |
| **Non-operating net income** | **36** | **285** | 499 | 949 |
| **Interest income** | **333** | **2,604** | 1,615 | 1,032 |
| **Finance costs** | **(193)** | **(1,510)** | (1,346) | (1,738) |
| **Profit before taxation** | **12,157** | **94,877** | 78,489 | 64,847 |
| **Taxation** | **(3,808)** | **(29,715)** | (23,945) | (19,764) |
| **Profit after taxation** | **8,349** | **65,162** | 54,544 | 45,083 |
| **Minority interests** | **(11)** | **(88)** | (40) | (22) |
| **Net profit** | **8,338** | **65,074** | 54,504 | 45,061 |
| Basic net profit per share | **US$0.42** | **RMB3.27** | RMB2.76 | RMB2.29 |
| Diluted net profit per share | **US$0.42** | **RMB3.24** | RMB2.75 | RMB2.29 |
| Basic net profit per ADS* | **US$2.10** | **RMB16.36** | RMB13.81 | RMB11.45 |
| Diluted net profit per ADS* | **US$2.08** | **RMB16.20** | RMB13.73 | RMB11.43 |

* Based on a ratio of 5 ordinary shares to one ADS.

## CONDENSED CONSOLIDATED BALANCE SHEETS PREPARED UNDER US GAAP

| | At 31 December | | |
|---|---|---|---|
| | 2006<br>US$ million | 2006<br>RMB million | 2005<br>RMB million |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | **9,119** | **71,167** | 64,461 |
| Deposits with banks | **10,545** | **82,294** | 41,925 |
| Accounts receivable | **865** | **6,747** | 6,446 |
| Other receivables | **314** | **2,454** | 1,888 |
| Tax recoverable | **60** | **468** | 165 |
| Current portion of deferred tax | **557** | **4,352** | 2,660 |
| Inventories | **386** | **3,007** | 2,365 |
| Prepayments and other current assets | **591** | **4,613** | 3,583 |
| Amount due from ultimate holding company | **39** | **305** | 63 |
| Amounts due from related parties | **58** | **452** | 180 |
| **Total current assets** | **22,534** | **175,859** | 123,736 |
| Property, plant and equipment | **28,049** | **218,903** | 218,362 |
| Construction in progress | **6,719** | **52,436** | 34,201 |
| Land lease prepayments | **715** | **5,586** | 5,099 |
| Goodwill | **205** | **1,594** | — |
| Interest in associates | **—** | **—** | — |
| Other intangible assets | **90** | **700** | — |
| Other financial assets | **10** | **77** | 77 |
| Deferred tax assets | **418** | **3,260** | 4,143 |
| **Total assets** | **58,740** | **458,415** | 385,618 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable | **7,127** | **55,626** | 39,908 |
| Bills payable | **283** | **2,212** | 1,359 |
| Interest-bearing borrowings | **384** | **2,996** | — |
| Current instalments of obligations under finance leases | **9** | **68** | 68 |
| Current taxation | **1,259** | **9,823** | 9,249 |
| Amounts due to related parties | **237** | **1,846** | 2,172 |
| Accrued expenses and other payables | **5,881** | **45,898** | 39,858 |
| Amount due to immediate holding company | **24** | **186** | 96 |
| Amount due to ultimate holding company | **17** | **129** | 269 |
| Deferred revenue | **2,799** | **21,851** | 16,975 |
| **Total current liabilities** | **18,020** | **140,635** | 109,954 |
| Interest-bearing borrowings | **1,274** | **9,941** | 12,912 |
| Amount due to immediate holding company | **3,028** | **23,633** | 23,633 |
| Deferred revenue, excluding current portion | **119** | **930** | 1,438 |
| Deferred tax liabilities | **28** | **215** | 146 |
| **Total liabilities** | **22,469** | **175,354** | 148,083 |
| Minority interests | **48** | **371** | 283 |
| **Shareholders' equity** | **36,223** | **282,690** | 237,252 |
| **Total liabilities and shareholders' equity** | **58,740** | **458,415** | 385,618 |

Note: The above condensed "Consolidated statements of income" for the year ended 31 December 2004 includes the results of the Company and its subsidiaries prepared under US GAAP as if the current Group structure (excluding Peoples Telephone) had been in place throughout that period.

# FINANCIAL SUMMARY

*(Expressed in Renminbi)*

## RESULTS

| | Note | 2006 RMB million | 2005 RMB million | 2004 RMB million | 2003 RMB million | 2002 RMB million |
|---|---|---|---|---|---|---|
| **Operating revenue** | | | | | | |
| Usage fees | | **189,710** | 156,710 | 128,534 | 111,027 | 93,272 |
| Monthly fees | | **21,629** | 25,055 | 24,760 | 20,666 | 16,901 |
| Value-added services fees | | **69,309** | 50,187 | 30,236 | 16,205 | 8,174 |
| Other operating revenue | | **14,710** | 11,089 | 8,851 | 10,706 | 10,214 |
| | | **295,358** | 243,041 | 192,381 | 158,604 | 128,561 |
| **Operating expenses** | | | | | | |
| Leased lines | | **2,451** | 3,224 | 3,861 | 4,914 | 5,287 |
| Interconnection | | **18,783** | 15,309 | 12,072 | 12,868 | 12,975 |
| Depreciation | 2 | **64,574** | 56,368 | 44,186 | 36,488 | 26,725 |
| Personnel | 2 | **16,853** | 14,200 | 9,972 | 7,700 | 6,757 |
| Other operating expenses | 2 | **100,569** | 80,254 | 62,811 | 43,431 | 28,021 |
| | | **203,230** | 169,355 | 132,902 | 105,401 | 79,765 |
| **Profit from operations** | 2 | **92,128** | 73,686 | 59,479 | 53,203 | 48,796 |
| **Amortization of goodwill** | | **—** | — | (1,930) | (1,850) | (936) |
| **Amortization of other intangible assets** | | **(203)** | — | — | — | — |
| **Other net income** | | **2,872** | 3,284 | 3,167 | 2,464 | 1,686 |
| **Non-operating net income** | | **1,017** | 1,025 | 900 | 434 | 571 |
| **Interest income** | | **2,604** | 1,615 | 1,014 | 807 | 713 |
| **Finance costs** | | **(1,510)** | (1,346) | (1,679) | (2,099) | (1,852) |
| **Profit before taxation** | | **96,908** | 78,264 | 60,951 | 52,959 | 48,978 |
| **Taxation** | 3 | **(30,794)** | (24,675) | (19,180) | (17,412) | (16,375) |
| **Profit for the year** | | **66,114** | 53,589 | 41,771 | 35,547 | 32,603 |
| **Equity shareholders of the Company** | | **66,026** | 53,549 | 41,749 | 35,556 | 32,601 |
| **Minority interests** | | **88** | 40 | 22 | (9) | 2 |
| **Profit for the year** | | **66,114** | 53,589 | 41,771 | 35,547 | 32,603 |

*(Expressed in Renminbi)*

## ASSETS AND LIABILITIES

| | Note | 2006 RMB million | 2005 RMB million | 2004 RMB million | 2003 RMB million | 2002 RMB million |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 2 | **218,274** | 216,505 | 212,459 | 167,177 | 161,355 |
| Construction in progress | 2 | **52,436** | 34,201 | 30,510 | 27,789 | 22,524 |
| Land lease prepayments | 2 | **7,675** | 7,243 | 6,333 | 5,008 | 4,543 |
| Goodwill | 2 | **36,894** | 35,300 | 35,300 | 34,373 | 36,223 |
| Other intangible assets | | **700** | — | — | — | — |
| Interest in associates | | **—** | — | — | 16 | 16 |
| Other financial assets | | **77** | 77 | 77 | 77 | 77 |
| Deferred tax assets | 3 | **7,113** | 6,625 | 4,068 | 3,263 | 4,991 |
| Deferred expenses | | **—** | — | 96 | 143 | 190 |
| Net current assets/(liabilities) | | **30,900** | 11,122 | (17,757) | (8,693) | (4,012) |
| **Total assets less current liabilities** | | **354,069** | 311,073 | 271,086 | 229,153 | 225,907 |
| Interest-bearing borrowings | | **(33,574)** | (36,545) | (36,633) | (29,383) | (51,524) |
| Deferred revenue, excluding current portion | | **(930)** | (1,324) | (944) | (688) | (869) |
| Deferred tax liabilities | 3 | **(192)** | (97) | (105) | (97) | (58) |
| **Net assets** | | **319,373** | 273,107 | 233,404 | 198,985 | 173,456 |

Notes:

(1) The above tables summarize the results of the Group for the years ended 31 December 2002, 2003, 2004, 2005 and 2006, together with the Group's assets and liabilities as at 31 December 2002, 2003, 2004, 2005 and 2006.

The Group's results for the years ended 31 December 2002, 2003, 2004, 2005 and 2006 include the results of the Company and its subsidiaries for the period from 1 January or the date of incorporation or acquisition, if later, to 31 December of the year.

(2) The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Figures for 2002 to 2004 have been adjusted for these new and revised policies in accordance with the transitional provisions. Earlier years have only been restated to the extent that the new accounting policies are adopted retrospectively.

(3) Figures for the year 2002 have been adjusted as the Group adopted retrospectively the Hong Kong Statement of Standard Accounting Practice No. 12 (revised) "Income taxes".

# GLOSSARY

This glossary contains certain definitions and other terms as they relate to the Company and the Group and as they are used in the Annual Report. These definitions may, or may not, correspond to standard industry definitions.

## AVERAGE NUMBER OF SUBSCRIBERS

The average number of subscribers is the weighted average of the number of subscribers in each calendar month in that year. In this annual report, the average number of subscribers is used to calculate indicators such as Minutes of Usage Per User Per Month (MOU) and Average Revenue Per User Per Month (ARPU).

## COLOR RING

''Color Ring'' is the business of replacing the normal answer ring tone heard by the calling party when making a call with a wide variety of colorful songs, melodies, sound effects or voice recordings.

## GSM

Global System for Mobile Communications, a pan-European mobile telephone system based on digital transmission and cellular network architecture with roaming capability. GSM is the standard accepted in most of Europe, the Middle East, Africa, Australia and Asia (with the exception of, among others, Japan and South Korea).

## INTERCONNECTION

The establishment of effective communication links between telecommunications networks so as to permit the subscribers of a telecommunications service operator to communicate with the subscribers of another telecommunications service operator or to utilize the telecommunications services provided by another telecommunications service operator.

## MMS

Multimedia Messaging Service (MMS). MMS is capable of delivering messages combining animated color pictures, sounds, text and motion pictures. MMS is a mobile data service launched after SMS.

## FETION

Instant messaging business provided by the Group which enables subscribers to communicate instantly through various means including SMS to chat, date or for interactive entertainment.

## MOBILE MUSIC

A business which provides musical services to subscribers through mobile telecommunications networks. Currently it mainly consists of ''Color Ring'', ''Ringtone Download'' and ''IVR for Mobile Music''

## M-ZONE

A customer brand introduced by the Group that targets the critical youth market. Customer usage is encouraged and regular usage patterns for telecommunications services are cultivated through offerings of bundled voice and mobile data services, which enable users to follow trends in fashion, entertainment and leisure, and to more readily socialize with their peers.

## MOBILE PAPER

A business developed through cooperation between the Group and mainstream media which provides customers with updated information (including contents such as news, sports, entertainment, cultural activities and lifestyle) through MMS and WAP, etc.

## PENETRATION RATE

The total number of subscribers (including the estimated subscribers using the services of other operators) divided by the total population within a designated area.

## ROAMING

A service which allows a subscriber to use his or her handset while outside of his or her home location. Roaming requires an agreement between operators in order to permit subscribers to access the other operator's system.