CHINA MOBILE LTD /ADR/
Form 20-F
June 09, 2006
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report ______

Commission file number: 1-14696

China Mobile Limited

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant s Name into English)

Hong Kong, China

(Jurisdiction of Incorporation or Organization)

60th Floor, The Center

99 Queen s Road Central

Hong Kong, China

(Address of Principal Executive Offices)

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

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary shares, par value HK$0.10 per share	**The New York Stock Exchange, Inc.***

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

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2005, 19,835,160,399 ordinary shares, par value HK$0.10 per share, were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15)(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Table of Contents

TABLE OF CONTENTS

China Mobile Limited

Table of Contents

Forward-Looking Statements

This annual report on Form 20-F contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies;
- our operations and business prospects;
- our network expansion plans and related capital expenditure plans, including, among others, those relating to third generation mobile telecommunications technology, or 3G, network constructions;
- the planned development of new mobile technologies and other technologies and related applications;
- the expected impact of tariff changes on our business, financial condition and results of operations;
- the expected impact of new services on our business, financial condition and results of operations; and
- future developments in the telecommunications industry in Mainland China.

The words anticipate , believe , could , estimate , expect , intend , may , seek , will and similar expressions, as they relate to us, are in identify certain of these forward-looking statements. We do not intend to update these forward-looking statements.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in Item 3. Key Information Risk Factors and the following:

- any changes in the regulatory policies of the Ministry of Information Industry or other relevant government authorities, which could affect, among other things, the granting of requisite government approvals, licenses and permits, interconnection and transmission line arrangements, tariff policies, capital investment priorities, the provision of telephone services in rural areas of the People s Republic of China, or the PRC, and spectrum and numbering resources allocation;
- the effect of competition on the demand for and price of our services;
- changes in mobile telephony and related technologies, which could affect the viability and competitiveness of our mobile telecommunications networks; and
- changes in political, economic, legal and social conditions in Mainland China, including, without limitation, the PRC government s policies with respect to new entrants in the telecommunications industry, the entry of foreign companies into Mainland China s

telecommunications market and Mainland China s continued economic growth.

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

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

Table of Contents

Special Note on Our Financial Information and

Certain Statistical Information Presented in This Annual Report

As required under generally accepted accounting principles in Hong Kong, or Hong Kong GAAP, we adopted the purchase accounting method to account for our acquisitions of various regional mobile telecommunications companies and other telecommunications assets, as described in Item 4. Information on the Company The History and Development of the Company . Accordingly, our consolidated financial statements and, except as otherwise noted, all other Hong Kong GAAP financial information presented in this annual report on Form 20-F, include the results of these companies only from the respective dates of acquisition.

For acquisitions before January 1, 2001, positive goodwill arising from acquisitions was eliminated against reserves, and negative goodwill arising from acquisitions was credited to a capital reserve. For acquisitions on or after January 1, 2001, positive goodwill arising from acquisitions is amortized to the consolidated statements of income on a straight-line basis over its estimated useful life, which shall not exceed 20 years. Positive goodwill is stated in the consolidated balance sheets at cost less any accumulated amortization and any impairment losses. Effective January 1, 2005, in order to comply with Hong Kong Financial Reporting Standard 3, Business Combinations , or HKFRS 3, and Hong Kong Accounting Standard 36, Impairment of Assets , or HKAS 36, issued by the Hong Kong Institute of Certified Public Accountants, or HKICPA, we adopted a new accounting policy for goodwill. The new policy has been applied prospectively in accordance with the transitional provisions as set out in HKFRS 3 to the effect that we no longer amortize goodwill, but test goodwill at least annually for impairment. In addition, the cumulative amount of amortization as of January 1, 2005 has been offset against the cost of the goodwill and comparative amounts have not been restated.

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

Prior to 2003, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallize in the foreseeable future. Deferred tax assets were not recognized unless their realization was assured beyond reasonable doubt. With effect from January 1, 2003, in order to comply with Statement of Standard Accounting Practice (SSAP 12 (revised)) issued by the HKICPA, we adopted a new accounting policy for deferred tax. Under our current accounting policy, deferred tax liabilities are provided in full on taxable temporary differences, while deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilized. As a result, goodwill, deferred tax assets, deferred tax liabilities and reserves in the consolidated balance sheets have been restated. In addition, deferred tax assets and deferred tax liabilities have been reclassified into non-current assets and liabilities, respectively. Income tax in the consolidated statements of income has also been revised.

Prior to 2005, minority interests were presented in the consolidated balance sheets separately from liabilities and as a deduction from net assets, and minority interests in our results for the year were also separately presented in the consolidated statements of income as a deduction before arriving at the profit attributable to equity shareholders. Effective January 1, 2005, in order to comply with HKAS 1, Presentation of Financial Statements , and HKAS 27, Consolidated and Separate Financial Statements , issued by the HKICPA, we adopted a new accounting policy for minority interests. In particular, minority interests are presented in the consolidated balance sheets and consolidated statements of equity separately from capital and reserves attributable to equity shareholders, and minority interests in our results are presented on the face of the consolidated statements of income as an allocation of the total profit or loss for the year between minority interests and equity shareholders. These changes in presentation have been applied retrospectively and comparative amounts have been restated.

Prior to 2005, land use rights and buildings held for our own use were stated at cost less accumulated depreciation and impairment losses. Depreciation was calculated to write off the cost of these assets on a straight-line basis over their estimated useful lives to residual value. Effective January 1, 2005, in order to comply with HKAS 17, Leases , issued by the HKICPA, we adopted a new accounting policy for land use rights and buildings held for own use by reclassifying land use rights and buildings held for our own use as being held under an operating lease. The corresponding amortization charges relating to land use rights and buildings held for our own use were reclassified from depreciation to other operating expenses. The new accounting policy has been adopted retrospectively and comparative amounts have been restated. There is no impact on our net assets as of the year end and on our profit attributable to equity shareholders for the periods presented.

Prior to 2005, no employee benefit cost or obligation was recognized when we granted employees (which term includes directors) share options on our shares. When the share options were exercised, capital and reserves attributable to equity shareholders were increased by the amount of the proceeds received. Effective January 1, 2005, in order to comply with HKFRS 2, Share-Based Payments, or HKFRS 2, issued by the HKICPA, we adopted a new accounting policy for the employee share option scheme where the fair value (measured at grant date using the binomial lattice model) of share options granted to employees is recognized as an employee cost with a corresponding increase in capital and reserves attributable to equity shareholders. The new accounting policy has been applied retrospectively and comparative amounts have been restated in accordance with HKFRS 2, except that we have adopted the transitional provisions set out in paragraph 53 of HKFRS 2, under which the new recognition and measurement policies have not been applied to: (i) all share options granted to employees on or before November 7, 2002; and (ii) all share options granted to employees after November 7, 2002 but which had vested before January 1, 2005.

Under U.S. GAAP, the compensation expense of share options granted was historically determined 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 share options. The excess amount was charged to the consolidated statements of income over the vesting period of the share options. As a result, any expenses recognized based on the fair value of share options under Hong Kong GAAP were reversed under U.S. GAAP. In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 123 (revised 2004), Share-Based Payment, or SFAS No. 123R, which requires companies to measure and recognize compensation expense for all share-based payment at fair value. SFAS No. 123R is effective for all interim and annual periods beginning after June 15, 2005. We have adopted SFAS No. 123R for accounting periods commencing on January 1, 2006. We will use the modified-prospective transition method and will not restate prior periods for the adoption of SFAS No. 123R. Since we will recognize the fair value of share options granted to employees as an employee cost in order to comply with HKFRS 2, we believe the impact on us as a result of the adoption of SFAS No. 123R is not significant.

Prior to 2005, convertible notes and bonds were stated in the consolidated balance sheets at face value, less unamortized discount arising upon issuance. The discount was amortized on a straight-line basis over the period from the date of issuance to the date of maturity. Effective January 1, 2005, in order to comply with HKAS 32, Financial Instruments: Disclosure and Presentation, and HKAS 39, Financial Instruments: Recognition and Measurement, or HKAS 39, issued by the HKICPA, we adopted new accounting policies for financial instruments. Under our new accounting policies, the liability component of the convertible notes and bonds are recognized initially at fair value less attributable transaction costs and the equity component (representing the excess proceeds over the amount initially recognized as the liability component) is recognized in the capital reserve until the notes are converted or redeemed. The liability component of convertible notes and bonds are subsequently carried at amortized cost and the corresponding interest expenses recognized in the consolidated statements of income are calculated using the effective interest method. The new accounting policies have been adopted by way of an opening balance adjustment to retained earnings as of January 1, 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

The statistical information set forth in this annual report on Form 20-F relating to Mainland China is taken or derived from various publicly available government publications that have not been prepared or independently verified by us. This statistical information may not be consistent with other statistical information from other sources within or outside Mainland China.

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Table of Contents

Item 3. Key Information.

Selected Financial Data

The following tables present selected historical financial data of our company as of and for each of the years in the five-year period ended December 31, 2005. The selected historical income statement data for the years ended December 31, 2003, 2004 and 2005 and the selected historical balance sheet data as of December 31, 2004 and 2005 set forth below are derived from, and should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements, including the related notes, included elsewhere in this annual report on Form 20-F. The selected historical Hong Kong GAAP income statement data for the years ended December 31, 2001 and 2002 and the selected historical Hong Kong GAAP balance sheet data as of December 31, 2001, 2002 and 2003 are derived from our audited financial statements that are not included in this annual report on Form 20-F. Certain historical income statement data for the years ended December 31, 2001, 2002, 2003 and 2004 and certain historical balance sheet data as of December 31, 2001, 2002, 2003 and 2004 have been restated to conform to current year s presentation.

Our consolidated financial statements are prepared and presented in accordance with Hong Kong GAAP. As required under Hong Kong GAAP, we adopted the purchase accounting method to account for our acquisitions of the various regional mobile telecommunications companies and other telecommunications assets, as described in Item 4. Information on the Company The History and Development of the Company . Accordingly, our consolidated financial statements and, except as otherwise noted, all other Hong Kong GAAP financial information presented in this annual report on Form 20-F, include the results of these companies only from the respective dates of acquisition. In contrast, under U.S. GAAP, our acquisitions of these companies are each considered a combination of entities under common control which would be accounted for under the as if pooling-of-interests method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination generally are restated on a combined basis. For information regarding significant differences between Hong Kong GAAP and U.S. GAAP as they relate to us, and the effects of such differences on profit attributable to equity shareholders for the years ended December 31, 2003, 2004 and 2005 and shareholders equity as of December 31, 2004 and 2005, see note 38 to our consolidated financial statements. In addition, our condensed consolidated financial statements prepared and presented in accordance with U.S. GAAP for the relevant periods are set forth in note 38 to our consolidated financial statements.

	As of or for the year ended December 31,					
	2001[1]	2002[1]	2003[1]	2004[1]	2005	2005
	RMB	RMB	RMB	RMB	RMB	US$
	(in millions, except share, per share and per ADS information)					
Income Statement Data:						
Hong Kong GAAP						
Operating revenue	100,331	128,561	158,604	192,381	243,041	30,116
Operating expenses	59,319	79,765	105,401	132,902	169,355	20,985
Profit from operations	41,012	48,796	53,203	59,479	73,686	9,131
Profit before tax	41,717	48,978	52,959	60,951	78,264	9,698
Income tax	13,763	16,375	17,412	19,180	24,675	3,058
Profit for the year attributable to equity shareholders	27,955	32,601	35,556	41,749	53,549	6,635
Basic net income per share[2]	1.50	1.70	1.81	2.12	2.71	0.34
Diluted net income per share[2]	1.50	1.70	1.81	2.12	2.70	0.33
Basic net income per ADS[2]	7.51	8.51	9.04	10.61	13.57	1.68
Diluted net income per ADS[2]	7.51	8.50	9.03	10.59	13.49	1.67
Shares utilized in basic calculation (in thousands)	18,605,371	19,151,322	19,671,654	19,673,185	19,738,229	19,738,229
Shares utilized in diluted calculation (in thousands)	18,698,023	19,243,050	19,762,812	19,774,093	19,892,163	19,892,163
U.S. GAAP[3]						
Operating revenue	148,229	167,640	186,060	210,637	249,576	30,925
Operating expenses	93,743	108,622	126,714	146,033	171,855	21,294
Profit from operations	54,486	59,018	59,346	64,604	77,721	9,631
Profit before tax	53,714	58,404	58,520	64,847	78,489	9,726
Income tax	16,886	18,986	19,009	19,764	23,945	2,967
Profit for the year attributable to equity shareholders	36,829	39,416	39,520	45,061	54,504	6,754
Basic net income per share[2]	1.90	2.01	2.01	2.29	2.76	0.34
Diluted net income per share[2]	1.89	2.01	2.01	2.29	2.75	0.34
Basic net income per ADS[2]	9.48	10.07	10.05	11.45	13.81	1.71
Diluted net income per ADS[2]	9.46	10.06	10.03	11.43	13.73	1.70
Share utilized in basic calculation (in thousands)	19,432,886	19,561,679	19,671,654	19,673,185	19,738,229	19,738,229
Share utilized in diluted calculation (in thousands)	19,525,538	19,653,406	19,762,812	19,774,093	19,892,163	19,892,163
Balance Sheet Data:						
Hong Kong GAAP						
Current assets						
Cash and cash equivalents	21,821	32,575	39,129	45,149	64,461	7,988
Deposits with banks	14,970	11,069	17,227	20,264	41,925	5,195
Accounts receivable	5,728	6,066	6,116	6,553	6,603	818
Property, plant and equipment	103,076	161,355	167,177	212,459	216,505	26,827
Total assets	174,953	286,021	307,303	368,752	421,027	52,171
Total short-term debt[4]	5,439	8,200	8,174	2,523	68	8
Total long-term debt[5]	6,739	12,676	672			
Fixed rate notes[6]	4,956	4,961	4,984			
Convertible notes[7]	5,708	5,711	5,735	5,725		
Bonds	5,000	13,000	13,000	13,000	12,912	1,600
Deferred payable[8]		15,176	9,976	23,633	23,633	2,929
Total liabilities	61,938	112,565	108,318	135,348	147,920	18,330
Share capital	1,986	2,099	2,099	2,102	2,116	262
Shareholders equity	112,983	173,265	198,803	233,161	272,824	33,806

Table of Contents

	As of or for the year ended December 31,					
	2001(1)	2002(1)	2003(1)	2004(1)	2005	2005
	RMB	RMB	RMB	RMB	RMB	US$
	(in millions, except share, per share and per ADS information)					
U.S. GAAP(3)						
Property, plant and equipment	163,825	195,100	203,486	215,240	218,362	27,058
Total assets	274,880	293,768	316,898	334,003	385,618	47,783
Total long-term debt(5)	11,803	12,687	672			
Fixed rate notes(6)	4,956	4,961	4,984			
Convertible notes(7)	5,708	5,711	5,735	5,725		
Bonds	5,000	13,000	13,000	13,000	12,912	1,600
Deferred payable(8)		15,176	9,976	23,633	23,633	2,929
Shareholders equity	153,572	159,936	190,828	198,119	237,252	29,398
Other Financial Data:						
Hong Kong GAAP						
Capital expenditures and land lease prepayments(9)	39,500	41,000	43,871	59,143	67,106	8,316
Net cash from operating activities	50,971	69,422	85,534	103,779	131,709	16,321
Net cash used in investing activities	(45,248)	(64,117)	(54,292)	(73,302)	(87,116)	(10,796)
Net cash (used in)/from financing activities	(11,604)	5,449	(24,688)	(24,457)	(25,173)	(3,119)
Dividend declared or proposed		6,678	7,517	13,789	21,026	2,605
U.S. GAAP(3)						
Net cash flow from operating activities	67,903	88,429	93,131	111,112	131,593	16,306
Dividend declared or proposed		6,678	7,517	13,789	21,026	2,605

(1) As described in Note 3 and Note 38 to our consolidated financial statements, certain restatements to periods prior to 2005 have been made to comply with the new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA that were adopted in 2005 and certain comparative data under U.S. GAAP have been reclassified to conform to current year s presentation.

(2) The basic net income per share and per ADS amounts under Hong Kong GAAP for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 have been computed by dividing profit attributable to our equity shareholders by the weighted average number of shares and the weighted average number of ADSs, respectively, outstanding during 2001, 2002, 2003, 2004 and 2005. The diluted net income per share under Hong Kong GAAP for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 has been computed after adjusting for the effects of all dilutive potential ordinary shares, respectively.

The basic net income per share and per ADS amounts under U.S. GAAP for the years ended December 31, 2001 and 2002 have been computed by dividing profit attributable to equity shareholders by the weighted average number of shares and the weighted average number of ADSs, respectively, as if 827,514,446 ordinary shares representing 165,502,889 ADSs issued to China Mobile Hong Kong (BVI) Limited as part of the consideration in the acquisition of Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile were outstanding during these periods (in addition to shares actually issued during these years). The basic net income per share and per ADS amounts under U.S. GAAP for the years ended December 31, 2003, 2004 and 2005 have been computed by dividing profit attributable to equity shareholders by the weighted average number of shares and weighted average number of ADSs, respectively, outstanding during 2003, 2004 and 2005. The diluted net income per share under U.S. GAAP for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 has been computed after adjusting for the effects of all dilutive potential ordinary shares, respectively. For the years ended December 31, 2001, 2002, 2003, 2004 and 2005 all dilutive potential ordinary shares resulting from the share options granted to the directors and employees under the share option scheme would decrease profit attributable to equity shareholders per share. For the years ended December 31, 2001, 2002, 2003, 2004 and 2005 all dilutive potential ordinary shares resulting from convertible notes would decrease profit attributable to equity shareholders per share.

(3) The amounts for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 are presented to reflect our acquisitions of various regional mobile telecommunications companies and other telecommunications assets under the as if pooling-of-interests method, as well as the effects of other differences between Hong Kong GAAP and U.S. GAAP.

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

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

(6) The fixed rate notes issued on November 2, 1999 with an aggregate principal amount of US$600 million were fully redeemed on November 2, 2004.

(7)

The convertible notes issued on November 3, 2000 with an aggregate principal amount of US$690 million were fully redeemed on November 3, 2005.

(8) Represents the balance of the purchase consideration payable to China Mobile Hong Kong (BVI) Limited for our acquisition of the eight regional mobile telecommunications companies in 2002 and for our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in 2004, as applicable. See Item 4. Information on the Company .

(9) Represents payments made for capital expenditures and land lease prepayments during the year.

Exchange Rate Information

We publish our consolidated financial statements in Renminbi. Solely for the convenience of the reader, this annual report on Form 20-F contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars and vice versa at RMB8.0702 = US$1.00 and HK$7.7533 = US$1.00, the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2005. These translations should not be construed as representations that the Renminbi or Hong Kong dollar amounts could actually be converted into U.S. dollars at such rates or at all.

The noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB8.0120 = US$1.00 and HK$7.7596 = US$1.00, respectively, on June 6, 2006. The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

Noon Buying Rate

	RMB per US$1.00			HK$ per US$1.00	
	High	**Low**		**High**	**Low**
December 2005	8.0808	8.0702	December 2005	7.7548	7.7516
January 2006	8.0596	8.0702	January 2006	7.7571	7.7506
February 2006	8.0616	8.0415	February 2006	7.7618	7.7564
March 2006	8.0505	8.0167	March 2006	7.7620	7.7570
April 2006	8.0248	8.0040	April 2006	7.7598	7.7529
May 2006	8.0300	8.0005	May 2006	7.7575	7.7510
June 2006 (up to June 6, 2006)	8.0225	8.0057	June 2006 (up to June 6, 2006)	7.7596	7.7578

The following table sets forth the average noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2001, 2002, 2003, 2004 and 2005, calculated by averaging the noon buying rates on the last day of each month during the relevant year.

Average Noon Buying Rate

	RMB per US$1.00	HK$ per US$1.00
2001	8.2772	7.7997
2002	8.2772	7.7996
2003	8.2771	7.7864
2004	8.2768	7.7899
2005	8.1826	7.7755

Risk Factors

We wish to caution readers that the following important factors, and those important factors described in other reports submitted to, or filed with, the Securities and Exchange Commission, among other factors, could affect our actual results and could cause our actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf and that such factors may adversely affect our business and financial status and therefore the value of your investment:

Risks Relating to Our Business

Extensive government regulation may limit our flexibility to respond to market conditions, competition or changes in our cost structure.

The PRC Ministry of Information Industry regulates, among other things, the following areas of the telecommunications industry under the leadership of the State Council of the PRC, or the State Council:

formulating and enforcing industry policy, standards and regulations;

granting telecommunications licenses and permits;

formulating interconnection and settlement standards for implementation between telecommunications networks;

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

- supervising the operations of telecommunications services providers;

- promoting fair and orderly market competition among operators; and

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

Other PRC government authorities also take part in regulating the telecommunications industry in the areas such as tariff policies and foreign investment. The regulatory framework within which we operate may limit our flexibility to respond to market conditions, competition or changes in our cost structure. Moreover, we cannot predict when or if changes in tariff policies or rates may occur. Future adverse changes in tariff policies and rates could decrease our revenues and reduce our profitability.

We operate our businesses with approvals granted by the State Council and under licenses granted by the Ministry of Information Industry. If these approvals or licenses are revoked or suspended, or if the conditions or other obligations relating to these approvals or licenses are amended in any material respect, our business and operations will be materially and adversely affected. Moreover, while we are actively preparing for 3G business, we cannot assure you that we will be granted the requisite approvals and licenses by the PRC government in a timely manner, or at all.

We may be affected by future regulatory changes.

To provide a uniform regulatory framework for the orderly development of the telecommunications industry, the Ministry of Information Industry, under the direction of the State Council, has been preparing a draft telecommunications law. According to the 2006 legislation agenda announced by the National People s Congress, the draft telecommunications law is scheduled to be submitted to the Standing Committee of the National People s Congress for initial review in August 2006. If and when the telecommunications law is adopted by the National People s Congress, it is expected to become the fundamental telecommunications statute and the legal basis for telecommunications regulations in Mainland China. In 2000, the State Council promulgated a set of telecommunications regulations, or the Telecommunications Regulations, that apply in the interim period prior to the adoption of the telecommunications law. Although we expect that the telecommunications law will positively affect the overall development of the telecommunications industry in Mainland China, we do not fully know what the nature and scope of the telecommunications law will be. The telecommunications law and other new telecommunications regulations or rules may contain provisions that could materially and adversely affect our business, financial condition and results of operations.

The PRC government may require major operators, including us, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services.

Under the Telecommunications Regulations, telecommunications operators in Mainland China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government, and the Ministry of Information Industry has the authority to delineate the scope of universal service obligations. The Ministry of Information Industry, together with other PRC governmental authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. These rules have not yet been promulgated, and there are currently no specific regulatory requirements relating to the provision of universal services in Mainland China.

While the scope of specific universal services obligations is not yet clear, we believe that such services may include mandatory provision of basic mobile telecommunications services in less economically developed areas in Mainland China and mandatory contribution to a universal service fund. In addition, as part of the transitional measures prior to the formalization of a universal service obligation framework, the Ministry of Information Industry has required major telecommunications services providers in Mainland China, including China Mobile Communications Corporation, or CMCC, to participate in a project to provide basic telecommunications services in remote villages in Mainland China.

We cannot predict whether we will be required to provide universal services in the future and, if so, whether we will be adequately compensated by the government, or by the universal service fund. We also cannot assure you whether we will be required to make contribution to the universal service fund. Any of these events may adversely affect our financial condition and results of operations.

Competition from other telecommunications services providers may affect our subscriber growth and profitability by causing the rate of our subscriber growth to decline and bringing about decreases in tariff rates and increases in selling and promotional expenses.

We compete with other telecommunications services providers in all of the thirty-one provinces, autonomous regions and directly-administered municipalities in Mainland China. The PRC government encourages orderly competition in the telecommunications industry in Mainland China. In particular, the PRC government has extended favorable regulatory policies to some of our competitors, such as China United Telecommunications Corporation, or China Unicom, in order to help them become more viable competitors. For example, the PRC government has permitted China Unicom to lower its mobile telecommunications services tariffs by up to 10% below the government standard rates. We believe this policy has helped China Unicom capture a significant number of price-sensitive mobile telecommunications services subscribers.

In addition, China Telecommunications Corporation, or China Telecom, and China Netcom Communications Group Corporation, or China Netcom, provide Xiaolingtong services to their customers. Xiaolingtong is a local area wireless telephone service with limited mobility and limited coverage. Xiaolingtong offers lower-priced services. As a result, Xiaolingtong services have, to a certain extent, attracted customers principally in the low-end markets. Increased competition from Xiaolingtong or other wireless telecommunications services could materially affect our business and prospects.

Increased competition from other telecommunications services providers, including China Unicom, China Telecom and China Netcom, introduction of new competitors, or the issuance of additional mobile telecommunications services licenses, including 3G licenses, could adversely affect our business by, among other factors, causing the rate of our subscriber growth to decline and bringing about decreases in tariff rates and increases in selling and promotional costs and expenses. This could in turn have a material adverse effect on our financial condition and results of operations, as well as prospects.

New entrants in and further restructuring of the telecommunications industry in Mainland China may further intensify competition and adversely affect our business and prospects.

The current prevailing PRC government policy concerning the telecommunications sector is to encourage orderly competition. In particular, we face competition from other telecommunications services providers, including China Unicom, China Telecom and China Netcom. See Item 4. Information on the Company The History and Development of the Company Industry Restructuring and Changes in Our Shareholding Structure . We cannot assure you that the State Council will not approve additional telecommunications services providers in the future, including providers of mobile telecommunications services that may compete against us. Increased competition from new entrants in Mainland China s telecommunications industry could materially and adversely affect our financial condition and results of operations as a result of, among others, decreases in the rate of subscriber growth or tariff rates or increases in selling and promotional expenses.

In addition, the rapid development of new technologies and other factors might cause the PRC government to make further adjustments of the existing structure of the PRC telecommunications industry, which might change the competitive landscape of the industry. Such further industry restructuring may affect the operations of all telecommunications operators in China, including us. We may be subject to competition from new providers of telecommunications services as a result of technological developments and the convergence of various telecommunications services. These new entrants and the industry restructuring may also cause the existing competition in the telecommunications industry in Mainland China to intensify, which may materially and adversely affect our business, financial condition, results of operations and prospects. In addition to any potential intensified competition, any further industry restructuring, whether or not directly involving us, may also result in changes that could materially and adversely affect our business, financial condition, results of operations and prospects.

We are controlled by CMCC, which may not always act in our best interest.

As of May 31, 2006, CMCC indirectly owned an aggregate of approximately 74.9% of our shares. Accordingly, CMCC is, and will be, able to:

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

- determine the timing and amount of our dividend payments; and otherwise control or influence actions that require approvals of our shareholders.

The interests of CMCC as our ultimate controlling person may conflict with the interests of our minority shareholders.

In addition, CMCC provides our operating subsidiaries with services that are necessary for our business activities, including:

- international services arrangements including, among others, international roaming arrangements, international interconnection arrangements and international transmission lines leasing arrangements;

- the coordination of the provision of inter-provincial transmission leased lines from the relevant transmission line providers in Mainland China to us; and

- certain property leasing and telecommunications services arrangements.

The interests of CMCC as the provider of these services to our operating subsidiaries may conflict with our interests. Furthermore, the State-Owned Assets Supervision and Administration Commission, or the SASAC, an agency of the State Council established in 2003, has responsibilities as an investor of state-owned assets on behalf of the PRC government and promulgates rules, regulations and policies from time to time that govern, among other things, the supervision, reform and management of state-owned enterprises, including CMCC. Actions taken by the SASAC may indirectly adversely affect our business, financial condition and results of operations and may conflict with the interests of our minority shareholders.

The limited spectrum allocated to us may constrain our future network capacity growth.

A mobile telecommunications network s capacity is to a certain extent limited by the amount of frequency spectrum available for its use. Since the Ministry of Information Industry allocates frequency spectrum to mobile telecommunications operators in Mainland China, the capacity of our mobile telecommunications network is limited by the amount of spectrum that the Ministry of Information Industry allocates to our parent company, CMCC. The Ministry of Information Industry has allocated a total of 39 MHz of spectrum, used for transmission and reception nationwide, respectively, in the 900 MHz frequency band and the 1800 MHz frequency band to our parent company, CMCC. Under the existing agreement between CMCC and us, we have the exclusive rights to use the allocated frequency spectrum in Mainland China.

We believe that our current spectrum allocation is sufficient for anticipated subscriber growth in the near term. However, we may need additional spectrum to accommodate future subscriber growth or to develop mobile telecommunications services using new wireless telecommunications technologies. Moreover, we may not be able to obtain additional spectrum from the Ministry of Information Industry. Our network expansion plans may be affected if we are unable to obtain additional spectrum. This could in turn constrain our future network capacity growth and materially and adversely affect our business and prospects, as well as our financial condition and results of operations.

Changes to our interconnection and leased line arrangements may increase our operating expenses and adversely affect our profitability.

Our mobile telecommunications services depend, in large part, upon our interconnection arrangements and access to other networks. Interconnection is necessary in the case of all local calls between our subscribers and subscribers of other networks. Interconnection and leased line arrangements are also necessary for international and certain domestic calls. We have entered into interconnection and transmission line leasing agreements with other operators. We cannot assure you that increasing usage of the other networks would not result in additional strain on its switching capacity, or that the existing quality of the other networks will remain adequate.

The terms of our interconnection arrangements and leased line arrangements have a material effect on our operating revenue and expenses. In addition, our business and operations may be materially and adversely affected if we cannot enter into future interconnection and leased line agreements on acceptable terms or on a timely basis.

We may be unable to obtain sufficient financing to fund our substantial capital requirements, which could limit our growth potential and future prospects.

We estimate that we will require approximately RMB237.3 billion (approximately US$29.4 billion) for capital expenditures from 2006 through the end of 2008 for a range of projects and other expenditures, including among others, the construction of GSM networks, support systems, transmission and structural facilities, and the development of new technologies and new businesses. However, these capital expenditures do not include construction of 3G networks.

Table of Contents

We believe that cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. We may require additional funds to the extent we have underestimated our capital requirements or overestimated our future cash flows from operations. In addition, a significant feature of our business strategy is to continue exploring opportunities in developing new technologies and new businesses in the telecommunications industry, which may require additional capital resources.

The cost of implementing new technologies and upgrading our networks or expanding network capacity may also be significant. In order for us to effectively respond to technological changes, we may be required to make substantial capital expenditures in the near future. In particular, to the extent we are granted any 3G license by the Ministry of Information Industry, we may need to make substantial capital expenditures and other investments in order to effectively implement new 3G-based technologies. However, the timing and magnitude of these capital expenditures and other investments involve many uncertainties that are beyond our control, and depend in part on when we may be granted such a license, how many licenses the Ministry of Information Industry may issue and which 3G-based technology standard we will be required to adopt. If we are required to make substantial capital expenditures and other investments in order to effectively implement new 3G-based technologies, our financial condition, results of operations and cash flow may be materially and adversely affected in one or more given periods.

Financing may not be available to us on acceptable terms or on a timely basis. In addition, any future issuance of equity securities, including securities convertible or exchangeable into or that represent the right to receive equity securities, may require approval from the relevant government authorities. If adequate capital is not available, our growth potential and future prospects could be adversely affected. Our ability to obtain additional financing on favorable commercial terms will depend on a number of factors, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by telecommunications companies; and
- economic, political and other conditions in the markets where we operate.

Changes in technology may render our current technologies obsolete and thus affect our business and market position.

The telecommunications industry is dependent upon rapidly changing and increasingly complex technologies. Accordingly, although we strive to keep our technologies up to international standards, the mobile telecommunications technologies that we currently employ may become obsolete or subject to competition from new technologies in the future, including new wireless telecommunications technologies. In addition, the development and application of new technologies involves time, substantial costs and risks, and the new technologies we may implement, such as 3G, may not generate an acceptable rate of return.

Failure to capitalize on new business opportunities may have an adverse effect on our growth potential.

We intend to pursue new growth opportunities in the broader telecommunications industry. Our success will depend in large part on our ability to offer services that address the market demand arising from these opportunities. In addition, our ability to deploy and deliver these services depends, in many instances, on new and unproven technologies. Our wireless telecommunications technologies may not perform as expected. We may not be able to successfully develop or obtain new technologies to effectively and economically deliver these services. Furthermore, we may not be able to compete successfully in the delivery of telecommunications services based on new technologies. Any failure to capitalize on new business opportunities may materially and adversely affect our competitive position and future profitability.

Actual or perceived health risks associated with the use of mobile devices could impair our ability to retain and attract customers, reduce wireless telecommunications usage or result in litigation.

There has been public speculation about possible health risks to individuals from exposure to electromagnetic fields from base stations and from the use of wireless telephone handsets. While a substantial amount of scientific research conducted to date by various independent research bodies has shown that radio signals, at levels within the limits prescribed by public health authority safety standards and recommendations, present no adverse effect to human health, we cannot be certain that future studies, irrespective of their relative reliability or trustworthiness, will not impute a link between electromagnetic fields and adverse health effects. Research into these issues is ongoing by government agencies, international health organizations and other scientific bodies in order to develop a better scientific understanding and public awareness of these issues. In addition, several wireless industry participants were the targets of lawsuits alleging various health consequences as a result of wireless phone usage or seeking protective measures. While we are not aware of any scientific studies or objective evidence which substantiates such alleged health risks, we cannot assure you that the actual, or perceived, risks associated with radio wave transmission will not impair our ability to retain customers and attract new customers, reduce wireless telecommunications usage or result in litigation.

Table of Contents

Investor confidence and the market prices of our shares may be adversely impacted if we or our independent registered public accounting firm is unable to conclude that our internal control over financial reporting is effective as of December 31, 2006 as required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are subject to the Sarbanes-Oxley Act of 2002. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires that each public company include a report of management on the company s internal control over financial reporting in its Annual Report on Form 10-K or Form 20-F, as the case may be, that contains an assessment by management of the effectiveness of the company s internal control over financial reporting. In addition, the company s independent registered public accounting firm must attest to and report on management s assessment of the effectiveness of the company s internal control over financial reporting. These requirements will first apply to our Annual Report on Form 20-F for the fiscal year ending December 31, 2006.

We have commenced a Section 404 compliance project since June 2005, including the formulation of an overall work plan, the establishment of a project management committee and a systematic evaluation and inspection of our internal control systems in an effort to further improve our internal controls. However, during the course of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404, we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act of 2002 for compliance with the requirements of Section 404. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, our management may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may disagree. If our independent registered public accounting firm is not satisfied with our internal control over financial reporting or the level at which our controls are documented, designed, operated or reviewed, or if the independent registered public accounting firm interprets the requirements, rules or regulations differently from us, then it may decline to attest to our management s assessment or may issue an adverse opinion. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements, which ultimately could negatively impact the market prices of our securities. In addition, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the New York Stock Exchange, regulatory investigations and civil or criminal sanctions.

Risks Relating to the Telecommunications Industry in Mainland China

China s accession into the World Trade Organization will gradually ease current restrictions on foreign ownership in the telecommunications industry and may increase competition in the mobile telecommunications services sector.

On December 11, 2001, China officially joined the World Trade Organization, or WTO. On January 1, 2002, the Administration of Foreign-Funded Telecommunications Enterprises Provisions was also adopted, thereby implementing China s commitments to the WTO. Those commitments include the gradual reduction of foreign ownership restrictions in the telecommunications industry and the opening of the telecommunications market in Mainland China to foreign investors. See Item 4. Information on the Company Business Overview Competition . This could lead to increased foreign investment in the telecommunications market in Mainland China, which may in turn increase competition and foreign participation in the mobile telecommunications services sector in Mainland China. Increased competition and foreign participation may have a material adverse effect on our financial conditions and results of operations, as well as our business and prospects.

Our share price has been and may continue to be volatile in response to conditions in the global securities markets generally and in the telecommunications and technology sectors in particular.

Our share price has been subject to significant volatility, in part due to highly volatile securities markets, particularly for telecommunications companies shares, as well as developments in our sales and profit from operations. Factors other than our results of operations that may affect our share price include, among other things, overall market conditions and performance, market expectations of our performance, projected growth in the mobile telecommunications market in Mainland China and adverse changes in our brand value. In addition, our share price may be affected by factors such as the level of business activity or perceived growth (or the lack thereof) in the telecommunications market in general, the performance of other telecommunications companies, announcements by or the results of operations of our competitors, customers and suppliers, the success of third generation mobile networks and new technologies, products and services, as well as general market volatility. See Item 9. The Offer and Listing for information regarding the trading price history of our ordinary shares and ADSs.

Table of Contents

Risks Relating to Mainland China

We cannot assure you that the economy of Mainland China will continue to expand in the future or that an economic slowdown in Mainland China will not materially and adversely affect our financial condition and results of operations, as well as our future prospects.

We conduct most of our business and generate substantially all our revenues in Mainland China. As a result, economic, political and legal developments in Mainland China have a significant effect on our financial condition and results of operations, as well as our future prospects. In recent years, Mainland China has been one of the world s fastest growing economies in terms of GDP growth. We cannot assure you, however, that such growth will be sustained in the future. Moreover, the slowdown in other major economies of the world, such as the United States, the European Union and certain Asian countries may adversely affect economic growth in Mainland China. We cannot assure you that our financial condition and results of operations, as well as our future prospects, will not be materially and adversely affected by an economic downturn in Mainland China.

Adverse changes in the economic policies of the PRC government could have a material adverse effect on the overall economic growth of Mainland China, which could reduce the demand for our services and adversely affect our business, financial condition and results of operations.

Since the late 1970s, the PRC government has been reforming the Chinese economic system. These reforms have resulted in significant economic growth and social progress. Although we believe that economic reform and macroeconomic policies and measures adopted by the PRC government may continue to have a positive effect on the economic development of Mainland China and that we may continue to benefit from such policies and measures, these policies and measures may from time to time be modified or revised. Adverse changes in economic and social conditions in Mainland China, in the policies of the PRC government or in the laws and regulations in Mainland China, if any, could have a material adverse effect on the overall economic growth of Mainland China and investment in the telecommunications industry in Mainland China. These developments could adversely affect our business, such as reducing the demand for our services, as well as our financial condition and results of operations.

The Renminbi is not a freely convertible currency, which could limit the ability of our subsidiaries in Mainland China to obtain sufficient foreign currency to satisfy their foreign currency requirements or pay dividends to us.

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

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

Fluctuations in exchange rates could adversely affect our financial results.

Substantially all of our operating revenue is denominated in Renminbi, while a portion of our capital expenditures and some of our financing expenses are denominated in foreign currencies, such as U.S. dollars and Hong Kong dollars. The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China s political and economic conditions. The conversion of the Renminbi into U.S. dollars and other foreign currencies has been based on the rates set by the People s Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi solely to the U.S. dollar. Instead, the value of the Renminbi is now pegged against a basket of currencies, determined by the People s Bank of China, against which it is permitted to fluctuate within a managed band. The value of the Renminbi may fluctuate significantly against the U.S. dollar in the future, depending on, among other things, the fluctuation of the basket of currencies against which the Renminbi is currently valued. In addition, the Renminbi may in the future be permitted to enter into a full float, which may also result in a significant fluctuation of the Renminbi against the U.S. dollar. Fluctuations in exchange rates, primarily those involving the U.S. dollar, may have a material adverse effect on our financial condition and results of operations.

Table of Contents

The PRC legal system embodies uncertainties which could limit the legal protections available to our shareholders.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. Since the late 1970s, the PRC government has been promulgating a comprehensive system of laws and regulations governing economic matters in general. Legislation since then has significantly enhanced the protection afforded to foreign investment in Mainland China. Our existing subsidiaries are wholly foreign-owned enterprises, which are enterprises incorporated in Mainland China and wholly-owned by Hong Kong, Macau, Taiwan or foreign investors, and subject to the laws and regulations applicable to foreign investment in Mainland China. However, the interpretation and enforcement of some of these laws, regulations and other legal requirements involve uncertainties that could limit the legal protection available to our shareholders. Moreover, China s entry into the WTO has resulted and may in the future result in the abolition or substantial amendment of the existing laws, regulations and other legal requirements. See Item 4. Information on the Company Business Overview World Trade Organization .

Any future outbreak of severe acute respiratory syndrome or similar adverse public health developments in China may have a material adverse effect on our financial condition and results of operations.

In late 2002 and the first half of 2003, China and certain other countries and regions experienced an outbreak of severe acute respiratory syndrome, or SARS. On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. Moreover, certain countries and regions, including China, have recently encountered incidents of the H5N1 strain of bird flu, or avian flu. We are unable to predict the effect, if any, that avian flu may have on our business. In particular, any future outbreak of SARS, avian flu or similar adverse public health developments may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, an outbreak may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business and prospects. As a result, we cannot assure you that any future outbreak of SARS, avian flu or similar adverse public health developments would not have a material adverse effect on our financial condition and results of operations.

Item 4. Information on the Company.

We provide a full range of mobile telecommunications services in all thirty-one provinces, autonomous regions and directly-administered municipalities in Mainland China. As of December 31, 2005, the total population residing in Mainland China is approximately 1.3 billion. Based on publicly available information, we are the leading provider of mobile telecommunications services in Mainland China and the largest provider of mobile telecommunications services in the world as measured by total number of subscribers as of December 31, 2005. As of December 31, 2005, our total number of subscribers was approximately 246.7 million, representing approximately 65.6% of all mobile telecommunications services subscribers in Mainland China. As of April 30, 2006, our total number of subscribers reached approximately 265.0 million.

On November 10, 2005, we 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, or the Hong Kong Stock Exchange. The offer became unconditional in all respects on December 29, 2005. On March 28, 2006, we completed the compulsory acquisition of all the issued and outstanding shares of Peoples Telephone. The listing of the shares of Peoples Telephone on the Hong Kong Stock Exchange was withdrawn with effect from March 29, 2006.

Table of Contents

The History and Development of the Company

We were incorporated under the laws of Hong Kong on September 3, 1997 as a limited liability company under the name China Telecom (Hong Kong) Limited . We changed our name to China Mobile (Hong Kong) Limited on June 28, 2000 and to China Mobile Limited on May 29, 2006 after obtaining the approval of our shareholders.

We completed our initial public offering in October 1997. Our ordinary shares are listed on the Hong Kong Stock Exchange, and our American Depositary Shares, or ADSs, each currently representing the right to receive five ordinary shares, are listed on the New York Stock Exchange. Our agent for service of process in the United States is CT Corporation System, and its address is 111 Eighth Avenue, 13th Floor, New York, New York 10011.

Expansion Through Acquisitions

Our initial mobile telecommunications operations included those in Guangdong Province conducted by Guangdong Mobile Communication Company Limited, or Guangdong Mobile, and in Zhejiang Province conducted by Zhejiang Mobile Communication Company Limited, or Zhejiang Mobile. As part of the restructuring in preparation for our initial public offering in 1997, the former Ministry of Posts and Telecommunications transferred to us a 100% equity interest in Guangdong Mobile and a 99.63% equity interest in Zhejiang Mobile. Since then, we have significantly expanded the geographical coverage of our operations through a series of acquisitions from CMCC, our indirect controlling shareholder, of mobile telecommunications operations conducted by its regional subsidiaries. In particular:

- We acquired Jiangsu Mobile Communication Company Limited, or Jiangsu Mobile, on June 4, 1998 for a cash consideration of HK$22.5 billion.

- We acquired Fujian Mobile Communication Company Limited, or Fujian Mobile, Henan Mobile Communication Company Limited, or Henan Mobile, and Hainan Mobile Communication Company Limited, or Hainan Mobile, on November 12, 1999 for a total purchase price of HK$49.7 billion, consisting of HK$19.0 billion in cash and the remaining HK$30.7 billion in the form of 1,273,195,021 new shares. In addition, we acquired the remaining 0.37% equity interest in Zhejiang Mobile in June 1999.

- We acquired Beijing Mobile Communication Company Limited, or Beijing Mobile, Shanghai Mobile Communication Company Limited, or Shanghai Mobile, Tianjin Mobile Communication Company Limited, or Tianjin Mobile, Hebei Mobile Communication Company Limited, or Hebei Mobile, Liaoning Mobile Communication Company Limited, or Liaoning Mobile, Shandong Mobile Communication Company Limited, or Shandong Mobile, and Guangxi Mobile Communication Company Limited, or Guangxi Mobile, on November 13, 2000 for a total purchase price of HK$256.0 billion, consisting of HK$74.6 billion in cash and the remaining HK$181.4 billion in the form of 3,779,407,375 new shares.

- We acquired Anhui Mobile Communication Company Limited, or Anhui Mobile, Jiangxi Mobile Communication Company Limited, or Jiangxi Mobile, Chongqing Mobile Communication Company Limited, or Chongqing Mobile, Sichuan Mobile Communication Company Limited, or Sichuan Mobile, Hubei Mobile Communication Company Limited, or Hubei Mobile, Hunan Mobile Communication Company Limited, or Hunan Mobile, Shaanxi Mobile Communication Company Limited, or Shaanxi Mobile, and Shanxi Mobile Communication Company Limited, or Shanxi Mobile, on July 1, 2002 for a total purchase price of US$8,573 million, consisting of an initial consideration of US$5,773 million and a deferred consideration of US$2,800 million. The initial consideration of US$5,773 million consisted of a cash payment of US$3,150 million and the issuance of new shares for the remaining US$2,623 million to China Mobile Hong Kong (BVI) Limited on the completion of acquisition. We financed the cash portion of the initial consideration by applying a portion of our existing internal cash resources, in the amount of US$2,400 million, combined with proceeds from the issuance of new shares in the amount of HK$5.85 billion (equivalent to approximately US$750 million) to Vodafone Holdings (Jersey) Limited, a wholly owned subsidiary of Vodafone Group Plc., or Vodafone. After the share placement, Vodafone s share holding in us increased from 2.18% to approximately 3.27%. The deferred consideration of US$2,800 million is payable by the fifteenth anniversary of the date of the completion of acquisition, and we may make an early payment of all or part of the deferred consideration at any time. We used the entire proceeds from the RMB3 billion guaranteed bonds due 2007 and RMB5 billion guaranteed bonds due 2017, both issued on October 28, 2002 by Guangdong Mobile, our wholly-owned subsidiary, to satisfy part of the US$2,800 million deferred consideration.

We acquired Neimenggu Mobile Communication Company Limited, or Neimenggu Mobile, Jilin Mobile Communication Company Limited, or Jilin Mobile, Heilongjiang Mobile Communication Company Limited, or Heilongjiang Mobile, Guizhou Mobile Communication Company Limited, or Guizhou Mobile, Yunnan Mobile Communication Company Limited, or Yunnan Mobile, Xizang Mobile Communication Company Limited, or Xizang Mobile, Gansu Mobile Communication Company Limited, or Gansu Mobile, Qinghai Mobile Communication Company Limited, or Qinghai Mobile, Ningxia Mobile Communication Company Limited, or Ningxia Mobile, Xinjiang Mobile Communication Company Limited, or Xinjiang Mobile, Beijing P&T Consulting & Design Institute Company Limited, or Jingyi, and China Mobile Communication Company Limited, or CMC, on July 1, 2004 for a total purchase price of US$3,650 million, consisting of an initial consideration of US$2,000 million and a deferred consideration of US$1,650 million. The deferred consideration of US$1,650 million is interest bearing and payable by the fifteenth anniversary of the date of the completion of acquisition, and we may make an early payment of all or part of the deferred consideration at any time.

Table of Contents

In addition, the Company acquired all the issued and outstanding shares of Peoples Telephone on March 28, 2006 for a total purchase price of approximately HK$3,384 million (US$436 million). As a result, Peoples Telephone became our indirect wholly-owned subsidiary and its shares were withdrawn from listing on the Hong Kong Stock Exchange with effect from March 29, 2006.

These acquisitions have significantly enlarged our subscriber base, expanded the geographical coverage of our business and enhanced the economy of scale of our operations. In addition, the integration of these acquired operations has enabled us to realize synergies and economies of scale. A discussion of the financial impact of these acquisitions is set forth in Item 5. Operating and Financial Review and Prospects .

Industry Restructuring and Changes in Our Shareholding Structure

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

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

In addition, as part of the restructuring, the telecommunications operations previously controlled by the former Ministry of Posts and Telecommunications were separated along four business lines: fixed-line telecommunications, mobile telecommunications, paging and satellite telecommunications. CMCC was established in July 1999 as a state-owned company to hold and operate the mobile telecommunications business nationwide resulting from the separation. As part of this separation, in July 1999 CMCC obtained the approximately 57% holding of voting shares and economic interest in China Mobile (Hong Kong) Group Limited, our indirect controlling shareholder, previously held by Telpo Communications (Group) Limited, an entity 100% controlled by the former Ministry of Posts and Telecommunications. In addition, in May 2000, the remaining 43% interest in China Mobile (Hong Kong) Group Limited previously held by the Directorate General of Telecommunications was transferred to CMCC. As a result, CMCC has become the owner of all voting shares and economic interest in China Mobile (Hong Kong) Group Limited and thus all of the PRC government s interest in us. In addition, following the completion of the acquisition of the ten regional mobile telecommunications companies and other telecommunications assets by us in July 2004, CMCC ceased to operate mobile telecommunications businesses in Mainland China other than through us. As of May 31, 2006, CMCC indirectly owned approximately 74.9% of all our outstanding shares, including shares represented by ADSs.

As a state-owned company, the former China Telecommunications Corporation owns and operates fixed-line telephone and data telecommunications networks. In November 2001, the State Council formally approved the restructuring of the former China Telecommunications Corporation, China Netcom Corporation Limited and Jitong Network Communications Company Limited. Under the restructuring plan, China Netcom was formed in May 2002. China Netcom consists of ten regional telecommunications companies that were originally owned by the former China Telecommunications Corporation in Beijing, Tianjin, seven provinces and one autonomous region, China Netcom Corporation Limited and Jitong Network Communications Company Limited. China Telecom retained the telecommunications companies originally owned by the former China Telecommunications Corporation in the remaining provinces, autonomous regions and directly-administered municipalities. As a result, apart from us, principal participants in the telecommunications industry in Mainland China also include China Telecom, China Netcom, China Unicom, China Railway Communications Corporation Limited and China Satellite Communications Corporation. Among these six participants, China Unicom and we are the two operators that are licensed to provide mobile telecommunications services in Mainland China.

Table of Contents

Organizational Structure

As of May 31, 2006, CMCC, a company incorporated in China, owned 74.9% equity interest in us through intermediate holding companies. As of May 31, 2006, we owned 100% equity interests in Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile, Guangxi Mobile, Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile, Shanxi Mobile, Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xijiang Mobile, Jingyi, CMC and Peoples Telephone through intermediate holding companies, and a 66.4% equity interest in Aspire Holdings Limited, or Aspire, a company incorporated in the Cayman Islands. We operate in all thirty-one provinces, autonomous regions and directly-administered municipalities throughout Mainland China and Hong Kong. CMCC no longer operates mobile telecommunications businesses in Mainland China, other than through us.

General Information

Our principal executive offices are located at 60th Floor, The Center, 99 Queen s Road Central, Hong Kong, China; telephone: 852-3121-8888. We also maintain a regional headquarters in each of our regional mobile telecommunications companies in Mainland China and Hong Kong. Our web site address is www.ChinaMobileLtd.com. The information on our web site is not a part of this annual report on Form 20-F.

Business Overview

We offer mobile telecommunications services principally using the Global System for Mobile Communications, or GSM, standard. GSM is a pan-European mobile telephone system based on digital transmission and mobile telecommunications network architecture with roaming capabilities. Our GSM networks currently reach virtually all cities and counties and major roads and highways throughout Mainland China and, through the network of Peoples Telephone, reach a substantial part of Hong Kong.

Our Strategy

As a pioneer and the market leader in the world s largest mobile telecommunications market, we intend to further consolidate our market leading position in the mobile telecommunications market by innovatively developing new customers, new voice usage and new businesses. We intend to continue to develop our brand, enhance our proprietary sales channel capabilities, strengthen the establishment and integration of our online sales channels, continually improve our basic customer service and strengthen our ability to innovate in terms of businesses, technologies, management and business model. Moreover, we will pay particular attention to developing our corporate customer base, developing a new competitive advantage in terms of our network and support systems, committing ourselves fully to servicing the 2008 Beijing Olympics and carrying out planning and operational preparation for the development of 3G.

We believe the mobile telecommunications market in Mainland China will continue to expand, and we have designed our business strategy to achieve sustainable growth. Our business strategy includes the following key elements:

- develop new customers, particularly new corporate customers;
- enhance our brand and improve our customer services;
- enhance our proprietary sales channels;
- strengthen our online sales and marketing channels;
- refine and optimize our telecommunications and information technology supporting networks;

continue to emphasize innovation in developing businesses, technologies and customers as well as management and business models;

commit to serving the 2008 Beijing Olympics; and

plan actively and prepare operationally for the construction and operation of 3G.

Subscribers and Usage

Our subscriber base has grown substantially from approximately 141.6 million at the end of 2003 to approximately 246.7 million at the end of 2005. As of December 31, 2005, we had a market share of approximately 65.6% in Mainland China. As of April 30, 2006, our total number of subscribers reached approximately 265.0 million, which include subscribers of Peoples Telephone which we acquired in March 2006. Our acquisition of a total of 29 regional mobile telecommunications companies in Mainland China between June 1998 and July 2004 and our acquisition of Peoples Telephone completed in March 2006 has substantially expanded our subscriber base. In addition to our acquisitions, our subscriber growth is also attributable to a number of other factors, including:

significant economic growth in our markets, including the modernization of rural areas;

the PRC government s promotion of informationalization ;

relatively low mobile penetration rates in the central and western regions as well as small and medium-sized cities and rural areas;

decreased cost of initiating services due to a decline in handset prices as well as the decrease in other tariffs for our services;

our increased marketing and sales efforts and improved distribution channels;

our new business initiatives; and

our brand advantage.

In addition, as of December 31, 2005, the aggregate subscriber usage volume reached 903.1 billion minutes, representing an increase of approximately 36.6% from December 31, 2004, the number of mobile data services users reached 206.7 million, representing an increase of approximately 31.8% from December 31, 2004, and the SMS usage volume reached 249.6 billion messages, representing an increase of approximately 44.6% from December 31, 2004.

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

	As of or for the year ended December 31,		
	2003	**2004**	**2005**
Subscribers (in millions)			
Contract subscribers[1]	51.1	59.9	61.3
Prepaid subscribers[1]	90.5	144.4	185.4
Total	141.6	204.3	246.7
Minutes of Usage (in billions)[2]			

Contract subscribers[1]	250.8	366.0	428.1
Prepaid subscribers[1]	122.4	294.9	475.0
Total	373.2	660.9	903.1
Average Minutes of Usage Per Subscriber Per Month (minutes)[3]			
Contract subscribers[1]	417	517	589
Prepaid subscribers[1]	129	194	241
Blended	240	297	335
Average Revenue Per Subscriber Per Month (RMB)[4]			
Contract subscribers[1]	171	167	185
Prepaid subscribers[1]	58	56	55
Blended	102	92	90
Average Monthly Churn Rate (%)[5]	1.05	1.31	1.87

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

Table of Contents

(2) The total minutes of usage in 2004 include the full year minutes of usages of the ten regional mobile telecommunications companies we acquired in 2004 as if the acquisition occurred at the beginning of 2004 and are presented for ease of comparison.

(3) Calculated by (A) dividing the total minutes of usage (calculated in the manner as set forth in note (2) above) during the relevant year by the average number of subscribers during the year (calculated as the average of the numbers of subscribers at the end of each of the thirteen calendar months from the end of the previous year to the end of the current year) and (B) dividing the result by 12.

(4) Calculated by (A) dividing the operating revenue during the relevant year by the average number of subscribers during the year (calculated in the same manner as in note (3) above) and (B) dividing the result by 12. For purposes of this note (4) only, both operating revenues and average numbers of subscribers in 2004 take into account the full year effect of the ten regional mobile telecommunications companies we acquired in 2004 as if the acquisition occurred at the beginning of 2004.

(5) Measures the monthly rate of subscriber disconnections from mobile telecommunications services, determined by dividing: (A) the result obtained by dividing (i) the sum of voluntary and involuntary terminations from our network (excluding internal transfer) during the relevant year by (ii) the average number of subscribers during the year (calculated in the same manner as in note (3) above) by (B) 12. On this basis, our calculated average monthly churn rate will be affected by the number of voluntary and involuntary terminations and the significant growth in our subscriber base. The average monthly churn rate in 2004 is calculated based on the full year information pertaining to the relevant regional mobile telecommunications companies we acquired in 2004, as if the acquisition occurred at the beginning of 2004, and is presented for ease of comparison.

Businesses

Our businesses primarily consist of voice business and new businesses.

Voice Business. Our voice business refers to the business where our subscribers make and receive calls with a mobile phone at any point within the coverage area of our mobile telecommunications networks. The services include local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. In 2005, our voice business continued to grow significantly, and total voice usage volume increased approximately 36.6% in 2005 compared to 2004.

New Businesses. Our new businesses include voice value-added services and data businesses.

Our voice value-added services mainly include caller identity display, caller restrictions, call waiting, call forwarding, call holding, voice mail, conference calls and others.

Our data businesses mainly include short message services, or SMS, Color Ring , wireless application protocol, or WAP, multimedia messaging service, or MMS, Java Applications services, instant messaging, or IM, Push Mail , BlackBerry™ wireless services and Location-Based Services . We believe that data businesses will continue to be one of the fastest growing segments of the telecommunications market in Mainland China over the next several years. In 2005, we increased the promotion of our data businesses by providing customers with diversified and personalized data services. Revenue from our data businesses significantly increased to RMB37,122 million in 2005, an increase of approximately 60.7% from 2004. As of December 31, 2005, our data businesses customers reached 206.7 million, which represented a 31.8% increase compared to 156.8 million subscribers as of December 31, 2004, and accounted for 83.8% of our total subscribers. We continued to maintain a leading position in data businesses in Mainland China.

We plan to continue developing new applications and functions for SMS to further stimulate the growth of the SMS business. Focusing on businesses such as Color Ring and WAP, we intend to further strengthen business sales and promotion as well as product optimization to drive the growth in revenue. Regarding businesses such as MMS and IM, we plan to nurture customers consumption habits and expand subscriber base, with a view to achieving the rapid growth of these businesses. At the same time, we expect to enhance the preparation for new products and new applications such as Mobile Search, Mobile Music, Push Mail, Location-Based Services. We also plan to focus on the promotion of industry-specific applications of data businesses to corporate customers to further enhance the penetration and utilization of data businesses.

SMS. SMS refers to services which employ the existing resources of GSM telecommunications networks and the corresponding functions of mobile telecommunications terminals to deliver and receive text messages, including subscriber-to-subscriber messages, Monternet -based short messages and others. SMS offers convenience and multi-functionality to our subscribers, and this business has grown rapidly in recent years. In particular, short message usage volume reached 249,609 million in 2005 from 172,573 million in 2004, and revenue generated from SMS business reached RMB24,671 million in 2005. Furthermore, the SMS penetration rate (SMS subscribers as a percentage of total subscribers) reached approximately 83.8% in 2005. As of December 31, 2005, our customers were able to send or receive short messages to or from the subscribers of 214 mobile telecommunications operators in 106 countries and regions around the world.

Color Ring . Color Ring refers to the service where subscribers can customize the answer ring tone from a wide selection of songs, melodies, sound effects or voice recordings to replace the monotonous ring connecting tone that the caller would hear. We continued to experience significant growth in our Color Ring business in 2005. Revenue generated from our Color Ring business reached RMB3,423 million in 2005.

WAP services. WAP is a technology that allows users to access information instantly via handheld wireless devices such as mobile phones. Subscribers of our WAP services are able to access the Internet via the micro-browsers on their handheld wireless devices. We continued to experience significant growth in our WAP-based businesses in 2005. Revenue generated from WAP services reached RMB3,570 million.

MMS. MMS is a technology that allows users to exchange multimedia communications, such as graphics, animated color pictures, sound files and short text messages, over wireless networks. We experienced significant growth in our MMS businesses in 2005.

Instant Messaging. IM enables mobile services subscribers to communicate instantly through various means, including SMS, for chatting, dating or interactive entertainment. Our IM business showed significant growth potential in 2005.

Our new businesses also include Mobile Music, a business that provides music services to subscribers through mobile telecommunications networks. In 2005 we increased our efforts in business model innovation and strengthened our cooperation with the music media to stimulate and direct customers to try out, use and get accustomed to mobile music products based on Color Ring , IVR for Mobile Music and Ringtone Download . As a result, our Mobile Music business grew significantly in 2005.

In addition, we provide wireless Internet access by utilizing general packet radio service, or GPRS, and wireless local area network, or WLAN, technologies to access WAP websites and Internet websites. GPRS supports a higher transmission rate than the traditional GSM cellular technology and enables network operators to provide more information and applications via a wireless connection. The usage of WAP-based services has grown significantly as the transmission speed and reliability has improved in recent years. WLAN is a wireless data transmission network which enables users to easily access local area networks via terminals with electromagnetic transmission, and is a complement to, and an extension of, wired local area networks access. We have been providing WLAN services at hot spots , such as airports, hotels, conference and exhibition centers and office buildings, within certain major cities in Mainland China.

Tariffs

The tariffs payable by our subscribers include primarily usage charges, monthly fees and service fees for voice value-added services and data services. Usage charges for both our contract and prepaid subscribers include base usage charges plus, where applicable, an additional component reflecting domestic and international long distance tariffs. When using roaming services, subscribers incur a roaming charge instead of the base usage charges, plus applicable domestic and international long distance charges.

We have flexible long distance tariff plans distinguishing between day time and night time, and offer tailored service plans based upon customer requirements as well as our network resources.

Our tariffs are subject to regulation by various government authorities, including the Ministry of Information Industry, the National Development and Reform Commission (the successor to the former State Development and Planning Commission) and the relevant price regulatory authorities in Mainland China. The actual price range in each service area is proposed by a network operator in that service area and must generally be approved by the relevant price regulatory authorities in that service area. In general, base usage charges, monthly fees, maximum domestic roaming charges and maximum applicable long distance tariffs (other than tariffs for Internet Protocol phone calls) are also determined by the Ministry of Information Industry in consultation with the National Development and Reform Commission. In August 2005, the Ministry of Information Industry amended its tariff regulations relating to some telecommunications services, pursuant to which network operators have more flexibility in setting their domestic and international long distance tariffs and domestic roaming charges, among others, provided that these tariffs set by network operators do not exceed the respective maximum tariffs determined by the Ministry of Information Industry in consultation with the National Development and Reform Commission and that the tariff plans are filed with the Ministry of Information Industry and the National Development and Reform Commission or, in some cases, the relevant price regulatory authorities at the provincial level.

We offer our subscribers a variety of tariff packages which have different monthly fees, levels of basic usage and charges for usage exceeding the covered basic usage, voice value-added services, data services or other features. In general, the higher the monthly fee of a tariff package, the greater the price concession we offer. The tariff packages often incorporate different complimentary voice value-added services and data services packages.

Given the rapid growth in mobile penetration rates and increased competition, in order to remain competitive in terms of price and performance with other mobile telecommunications operators, we provide certain discounts and promotional offers in and during corresponding service areas and call periods targeting different customers. These discounts and promotional offers mainly include rewards for the pre-payment of fees, free trials of voice value-added services or data services, tariff discounts during off-peak hours and in low-traffic areas, and tariff discounts for specified call recipients.

Interconnection

Interconnection refers to various arrangements that permit the connection of our networks to other networks such as the fixed-line networks. These agreements provide for the sharing and settlement of revenues from the base usage charges and, if applicable, roaming charges and domestic and international long distance charges.

Our networks interconnect with the networks of other operators, allowing our subscribers to communicate with the subscribers of these operators and to make and receive local, domestic and international long distance calls. Each of our operating subsidiaries has interconnection agreements with those operators in its service area. The economic terms of these agreements are standardized from province to province.

Roaming

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

As of December 31, 2005, our GSM global roaming services covered 203 countries and regions, while our GPRS global roaming services coverage was extended to 98 countries and regions.

A mobile telecommunications services subscriber using roaming services is charged at our per-minute roaming charge (instead of the base usage charge) for both incoming and outgoing calls, plus applicable long distance charges.

Revenue Sharing and Settlement of Long Distance Charge When Roaming. In addition to the base roaming charge, long distance charges may be assessed when a subscriber is roaming. Where a mobile telecommunications services subscriber makes a call while roaming, the home network operator collects all long distance charges incurred and pays all such charges to the operator of the visited network. Where a mobile telecommunications services subscriber receives a call while roaming, the home network operator receives and keeps all long distance charges incurred by that subscriber.

Research and Development

Our research and development efforts, undertaken jointly by our research institute and other relevant departments and business units, primarily focus on:

- developing advanced data application solutions suitable for the particulars of the consumer markets in Mainland China; and
- monitoring technological trends, including advancement in 3G, which may have an impact on the development of our current business and the implementation of our wireless data strategy.

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

Sales and Customer Services

Sales Channels. We offer our services through an extensive network of proprietary sales outlets and retail outlets. In addition to providing retail sales and network connection services, most of our proprietary sales outlets also offer differentiated services to subscribers under different service brands, including, for example, billing information and payment collection, services consultation, handset repair and other customer services. Furthermore, most of our proprietary sales outlets provide training and service demonstrations to retail outlets. The retail outlets offer our services according to agency agreements with us. In connection with these sales, all applicable fees payable after initial connection are paid to us. In addition, we offer certain online services to our customers, including, among others, subscription of voice value-added services, change of tariff plans, credit loading for Shenzhouxing pre-paid services and certain wireless data services, and redemption of GoTone points. Furthermore, we have enhanced our service capabilities in 2005 through the expansion and optimization of our proprietary sales channels, the expansion of online sales and marketing channels and the integration of the resources relating to sales and marketing channels in the community. Moreover, we established sales and service networks at low cost by utilizing existing resources in rural areas to serve and expand our customer base in these areas.

Table of Contents

We also establish concept stores in major cities within Mainland China to showcase our services and products, particularly our wireless data services, and to facilitate certain sales and marketing activities.

Market Segmentation Strategy. As subscribers demands for mobile telecommunications become more varied and complex, we have conducted research on market segmentation and have launched brands and products which cater to the specific needs of different subscriber groups. We mainly promote three brands, each with a different focus. GoTone targets high to middle-end subscribers, Shenzhouxing targets the mass market and the M-Zone brand targets the young user group through the integration of voice and data services.

Moreover, we provide differentiated applications and services to our corporate customers under customized service contracts. As of December 31, 2005, we had signed service contracts with approximately 1.11 million corporate customers, and individual customers served under these service contracts with corporate accounts accounted for approximately 27% of our total subscribers. In addition, we have developed and integrated industry-specific products and applications in more than 20 industries and sectors, including urban administration, education, public security, agriculture, meteorology and banking. As of December 31, 2005, we have developed and launched nearly 300 industry-specific products and applications. We believe that these industry-specific products and applications will not only enhance the loyalty of our corporate customers, but will also stimulate usage as well as attract potential new subscribers. Furthermore, we developed customized products and service packages in response to the unique consumption characteristics of rural areas, such as small denomination top-up and over-the-air recharging. We have also encouraged handset producers to introduce inexpensive handsets with moderate functions to lower the barrier of using mobile phones in the rural areas.

Customer Services. Our customer support service centers offer 24-hour staff-answering and automatic-answering service hotlines in Mainland China, dealing with customer enquiries regarding services and billing, as well as handling customer complaints. In order to retain high-value and corporate customers and enhance customer satisfaction, we offer a series of personalized and differentiated services targeted at high-value and corporate customers, including dedicated account executives, on-site visits and systems for collecting comments and handling complaints.

In 2005, we continued to optimize our customer service processes to remove service bottlenecks, resulting in sustained improvement in customer services and achieving a steady improvement in customer satisfaction levels. Overall customer satisfaction rate reached 75% in 2005, representing an increase of 0.86 percentage points from 2004.

Customer Retention. As a result of intensified competition, we place great emphasis on customer retention. Our strategy is to attract and retain high-value customers by providing high quality services. We have implemented a Customer Point Reward Program , which is a bonus point based scheme that rewards customers according to their service consumption, loyalty and payment history. This represents an important measure by us to retain high-value customers. Customers are identified and grouped as GoTone Diamond , GoTone Gold and GoTone Silver card members according to their respective value contribution and points accrued. Different levels of membership entitle members to different privileges. Customers in these four classifications are eligible to receive targeted rewards, including some of our own products and services, as well as those of our business partners. In 2005, we further differentiated our GoTone service and enhanced customer loyalty of our GoTone service through the targeted allocation of marketing resources. In addition, we offer special services to our GoTone members, including cross-region services, airport VIP services, hospital VIP services, golf clubs and handset service clubs.

In developing our M-Zone brand, we focused on expanding the subscriber base, offering new services and gaining recognition as representative of youth culture. We enhanced the brand image and the number of customers as a result of our increased advertising efforts and expansion of new businesses, including the launch of brand alliances and the implementation of product and service upgrades.

Table of Contents

In addition, we further enhanced customer loyalty through a series of efforts in 2005 including, among others, developing our portfolio of products, increasing services and industry penetration, allocating more resources in the fast-growing new businesses and optimizing management systems and procedures.

Churn Management. We have devised internal monitoring systems to detect subscribers who are prone to discontinue their subscriptions. In particular, our churn alert system prompts customer service representatives to proactively approach those subscribers, and customers who have recently discontinued their service, to improve customer relations and minimize churn.

Credit Control. We have implemented subscriber registration procedures, such as identity checks for individual customers and information checks for corporate customers, to assist in credit control. In certain situations, we require contract subscribers to pay an advance deposit representing a pre-determined amount of usage charges before certain telecommunications services are activated. The actual usage charges incurred are verified against the balance of the amount deposited at regular intervals on a daily basis, and if there are unusual circumstances, control measures will be implemented. Direct debit services are available in each geographical area. The accounts of contract subscribers are required to be settled on a monthly basis, and a late payment fee is imposed on each subscriber whose account balance is not settled by the monthly due date. If the subscriber s account remains overdue, the subscriber s services will be deactivated and such subscriber must pay all overdue amounts, including applicable late payment fees, to reactivate services. To further control credit risk, we have expanded the sphere of service offerings that require subscribers to pre-pay for services.

We make an allowance for doubtful accounts based on our assessment of the recoverability of accounts receivable on maturity. In particular, for any accounts receivable older than three months, we make an allowance for the full amount of such receivable. The total amount of our allowance for doubtful accounts for each of 2003, 2004 and 2005 was RMB2,006 million, RMB2,273 million and RMB2,968 million, respectively, or 1.3%, 1.2% and 1.2% of total operating revenue, respectively.

Promotions Relating to the 2008 Beijing Olympics. In 2005, as the only mobile telecommunications services partner for the 2008 Beijing Olympics, we actively participated in various promotional activities sponsored by the Beijing Olympic Games Preparatory Committee to further enhance our brand. These include providing the mobile telecommunications transmission on a real time basis for the release of the Olympic slogan, the Olympic song and the Olympic mascots of the 2008 Beijing Olympics via SMS, Color Ring and MMS.

Mobile telecommunications services in remote areas. We are committed to fulfilling our responsibility to the community. In an effort to promote the social and economic development in remote areas in Mainland China, CMCC has invested in and constructed the necessary network facilities in these areas as part of the project directed by the Ministry of Information Industry to provide basic mobile telecommunications services to villages in these areas. We have assisted CMCC in providing mobile telecommunications services to villages in these areas as part of the project, including providing related operating and maintenance services.

Information Systems

Our information systems primarily consist of a network management system, a business operation support system and a management information system. The network management system collects and processes the operating data from each network, and manages, supervises and controls our networks for safe and efficient operation. The business operation support system provides day-to-day operational support to each business unit, and is a unified and comprehensive system that enables the sharing of information resources. This system standardizes and integrates each of our sales, billing, settlement, customer service and network failure handling databases in a centralized and orderly manner. The management information system collects and processes our management information and provides support to our management personnel. In addition, this system has computerized and automated our management in finance, inventory, procurement and projects. Furthermore, we have an internal communications network, which consists of our office automation system, our internal computer network, video conference system, telephone system and others, the combination of which supports our internal communications. In 2005, we upgraded and expanded these systems to improve our management and operations.

Trademark. We market our services under the CHINA MOBILE trademark, which is the trademark we use throughout Mainland China. CHINA MOBILE is a registered trademark in Mainland China owned by our parent company, CMCC. In July 2002, we entered into a non-exclusive licensing agreement with CMCC for the use of the CHINA MOBILE name and logo by us and our operating subsidiaries. Under this agreement, no license fee is payable by us for the first five years from the effective date of the trademark registration in China and any fees payable after that will be no less favorable than fees paid by other affiliates of CMCC. In addition, each of the companies that we acquired in July 2004, other than Jingyi, has entered into a licensing agreement with CMCC for the use of the CHINA MOBILE name and logo. Under these agreements, no license fee is payable until December 31, 2007.

23

Table of Contents

In addition, the CHINA MOBILE name has been registered as a trademark by CMCC in Australia, Canada, Hong Kong, Macau, Taiwan, Brunei, Cambodia, Indonesia, New Zealand, South Korea, Thailand, Switzerland and the United States. Furthermore, CMCC has filed applications to register the CHINA MOBILE name and logo as a trademark in Bangladesh, India, Malaysia and Philippines. CMCC has also filed applications for trademark registration under the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks.

Mobile Telecommunications Networks

We offer mobile telecommunications services using the GSM standard. Each of our GSM networks consists of:

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

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

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

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

- software applications that drive the mobile telecommunications infrastructure.

GSM Network Capacity Expansion and Optimization Plans. All of our subscribers currently use digital GSM services. We intend to continue our network expansion and optimization with an emphasis on improving network utilization and operating efficiency as well as expanding the coverage and capacity of our GSM networks. Our network expansion and optimization plans depend to a large extent upon the availability of sufficient spectrum.

Spectrum. A mobile telecommunications network s capacity is to a certain extent limited by the amount of frequency spectrum available. The Ministry of Information Industry allocated a total of 39 MHz of spectrum, used for transmission and reception nationwide, respectively, in the 900 MHz frequency band and the 1800 MHz frequency band to our parent company, CMCC. Under the existing agreement between CMCC and us, we have the exclusive right to use such frequency spectrum in Mainland China.

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

Intra-Provincial Transmission Lines. In addition to our own transmission lines, we also lease intra-provincial and local transmission lines from other operators and pay them fees based on tariff schedules stipulated by the relevant regulatory authorities after adjusting for the discounts that we have negotiated.

Inter-Provincial Transmission Lines. Following the completion of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004, we no longer lease any inter-provincial transmission lines from CMCC, and for the inter-provincial transmission lines we leased from other providers through CMCC, CMCC collects leasing fees from us and pays the same to the relevant transmission line providers.

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

Base Station Sites. In urban areas, our base station sites are located mostly on existing structures, typically at the top of tall buildings. In rural areas, masts are often constructed for locating base stations. Typically, base station sites are of limited size, as base station equipment does not generally require significant space. Generally, depending on the length of time required for negotiation with respect to use of the land or buildings, construction of a base station takes approximately one to three months in an urban area and approximately three to six months in a rural area. We anticipate that we will need a significant number of new sites in connection with the expansion of our mobile telecommunications networks. There can be no assurance that we will be able to obtain the requisite number of sites on reasonable commercial terms.

Equipment Suppliers. We select our principal suppliers from among leading international and domestic manufacturers of mobile telecommunications equipment and in accordance with technical standards set by the Ministry of Information Industry. In 2005, we purchased our GSM networks equipment primarily from Ericsson, Nokia, Huawei Technologies, Motorola and Alcatel.

Strategic Alliance with Vodafone

We have a strategic alliance agreement with Vodafone, which provides for a number of cooperation arrangements between us and Vodafone, including:

- the exchange and sharing of corporate management, technical and operational expertise and resources;
- joint research and development;
- the introduction of global products and services for the mobile community; and
- the development and implementation of standards and protocols relevant to mobile telecommunications.

Under the agreement, Vodafone is our preferred partner in the above mentioned areas, and we are Vodafone s sole strategic partner in China for all areas of potential cooperation within the scope of the strategic alliance. As part of the alliance, Dr. J. Brian Clark, Chief Executive in the Asia Pacific Region of Vodafone, served as a Non-Executive Director of our company from August 2003 until March 2005. Sir Julian Michael Horn-Smith, Deputy Chief Executive Officer and Executive Director of Vodafone, served as a Non-Executive Director of our company from March 2005 until June 2006. Mr. Paul Michael Donovan, Chief Executive Officer for Central Europe, Middle East, Asia-Pacific and Affiliates of Vodafone, joined our board of directors as a Non-Executive Director in June 2006. See Item 6. Directors, Senior Management and Employees . In addition, as of May 31, 2006, Vodafone held approximately 3.23% of our outstanding shares. See The History and Development of Company Expansion Through Acquisitions .

We believe that the strategic alliance with Vodafone has enhanced our strengths in the telecommunications market in Mainland China and will better position us to pursue further expansion opportunities globally. In particular, this alliance has enabled us to have frequent and broad exchanges of expertise and market information. Moreover, this strategic alliance will enable Vodafone and us to share information and establish benchmarks to better assess and enhance each other s performance, thereby better positioning both parties in the global telecommunications market.

Strategic Alliance Agreement with Phoenix and Memorandum of Understanding with News Corporation and STAR Group Limited

On June 8, 2006 we entered into a strategic alliance agreement with Phoenix Satellite Television Holdings Limited, or Phoenix, a leading satellite television operator broadcasting into mainland China, pursuant to which we and Phoenix will cooperate in the joint development, marketing and delivery of innovative wireless content, products, services and applications, among others. The strategic alliance agreement is conditional upon the completion of the purchase by China Mobile (Hong Kong) Group Limited, our indirect holding company, of a 19.9% interest in Phoenix from Xing Kong Chuan Mei Group Co., Ltd., a subsidiary of STAR Group Limited and an indirect subsidiary of News Corporation, subject to the obtaining of relevant regulatory approvals and other customary closing conditions.

In addition, on the same day, we entered into a memorandum of understanding with News Corporation and STAR Group Limited in connection with the intention of the parties to build a long-term wireless media strategic partnership and to explore various areas of cooperation, which may include the aggregation, development and marketing of multimedia content and other wireless value-added services, by combining the strength and experience of one of the largest media companies in the world and one of the largest mobile telecommunications companies in the world.

Competition

We compete with other telecommunications services providers. We are one of the two licensed mobile telecommunications services providers in Mainland China. The PRC government encourages orderly and fair competition in the telecommunications industry in Mainland China. In particular, the PRC government has extended favorable regulatory policies to some of our competitors, such as China Unicom, in order to help them become more viable competitors to us. For example, the PRC government has permitted China Unicom to apply mobile service tariffs as much as 10% below the governmental standard rates. We believe this policy has helped China Unicom s market share by capturing a significant number of price-sensitive mobile telecommunications services subscribers.

In accordance with the PRC government policy of encouraging competition in the PRC telecommunications industry, the government has previously authorized new entrants to offer IP-based long distance call services, data and Internet services. In 2001, the State Council formally approved the restructuring of the former China Telecommunications Corporation, China Netcom Corporation Limited and Jitong Network Communications Company Limited, which created two large telecommunications companies, China Telecom and China Netcom. Increased competition from new entrants in China s telecommunications industry could adversely affect our financial condition and results of operations. See Item 3. Key Information Risk Factors New entrants in the telecommunications industry in Mainland China may further intensify competition and adversely affect our business and prospects .

We are facing intensified competition from other operators. China Unicom provides mobile telecommunications services through GSM and CDMA networks throughout Mainland China. In addition, China Telecom and China Netcom offer local wireless access services, such as Xiaolingtong services, throughout Mainland China. Xiaolingtong services are local telecommunications services based on the Personal Access System technology, which provide subscribers with wireless access in a low-mobility environment through radio base stations with short-distance coverage. In addition, China Unicom, China Telecom and China Netcom launch from time to time promotional offers, such as handset subsidies and tariff packages, to attract customers. China Telecom and China Netcom also offer Xiaolingtong services together with fixed-line services as a package. Despite intensified competition, we believe that we have significant competitive advantages due to:

- economies of scale;

Table of Contents

- our superior mobile telecommunications networks;
- our advanced and flexible support systems;
- our widely-recognized brand name and logo that are closely identified with us by consumers;
- our broad distribution networks and our focus on customer services;
- our extensive range of new businesses;
- our experienced management team and seasoned employees; and
- our financial resources.

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

The State Council and the Ministry of Information Industry may approve additional mobile service providers in the future that may compete with us. We may also be subject to competition from providers of new telecommunications services based on existing or new technologies, such as 3G. Nonetheless, given the relatively low mobile penetration rates in the central and western regions as well as small and medium-sized cities and rural areas, we believe there is substantial growth potential for our mobile telecommunications business. We believe that the restructuring of the telecommunications industry in Mainland China has helped to create a fair, orderly, transparent and healthy telecommunications market.

World Trade Organization

China officially joined the WTO on December 11, 2001. Under the Protocol on the Accession of the People s Republic of China, dated as of November 11, 2001, China agreed to gradually open various segments and regions of its telecommunications market to foreign investment. Pursuant to this accession protocol, both the percentage of ownership of Sino-foreign joint ventures offering telecommunications services in China and the regions where those joint ventures are permitted to offer telecommunications services will be gradually expanded over a period of six years. Under the accession protocol, the telecommunication market is divided into fixed-line services, mobile voice and data services, paging services and value added services. Value added services include electronic mail, voice mail and online information and database retrieval. By December 11, 2004, foreign investors were permitted to own up to 49% of joint ventures that offer mobile voice and data services in 17 cities in China. By December 11, 2006, such joint ventures will be permitted to offer mobile voice and data services in China without any geographic restrictions.

The table below summarizes the foreign ownership restrictions for telecommunications joint ventures in China as well as applicable geographic restrictions:

Foreign Ownership Percentage and Geographic Restrictions

for Foreign-Funded Telecommunications Enterprises

	As of December 31,						
Sector	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Mobile	25% (3 cities)[1]	35% (17 cities)[2]		49% (17 cities)[2]		49% (nationwide)	

Fixed-line	N/A	N/A	N/A	25% (3 cities)[1]	35% (17 cities)[2]	49% (nationwide)
Value added	30% (3 cities)[1]	49% (17 cities)[2]	50% (nationwide)			
Paging	30% (3 cities)[1]	49% (17 cities)[2]	50% (nationwide)			

Source: the official website of the PRC Ministry of Information Industry.

(1) The initial three cities are Beijing, Shanghai and Guangzhou.

(2) The 17 cities include Beijing, Chengdu, Chongqing, Dalian, Fuzhou, Guangzhou, Hangzhou, Nanjing, Ningbo, Qingdao, Shenyang, Shanghai, Shenzhen, Xiamen, Xi an, Taiyuan and Wuhan.

Table of Contents

Regulation

The mobile telecommunications industry in Mainland China is highly regulated. Regulations issued or implemented by the State Council, the Ministry of Information Industry and other relevant government authorities including the National Development and Reform Commission and the Ministry of Commerce, which consolidated the functions of the former Ministry of Foreign Trade and Economic Cooperation, encompass all key aspects of mobile telecommunications network operations, including entry into the telecommunications industry, scope of permissible business, interconnection and transmission line arrangements, technology and equipment standards, tariff standards, capital investment priorities, foreign investment policies and spectrum and numbering resources allocation.

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

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

In order to provide a uniform regulatory framework to encourage the orderly development of the telecommunications industry, the Ministry of Information Industry, under the direction of the State Council, has been preparing a draft telecommunications law. According to the 2006 legislation agenda announced by the National People s Congress, the draft telecommunications law is scheduled to be submitted to the Standing Committee of the National People s Congress for initial review in August 2006. We expect that, if and when the telecommunications law is adopted by the National People s Congress, it will become the basic telecommunications statute and the legal source of telecommunications regulations in Mainland China. In addition, the State Council promulgated a set of telecommunications regulations on September 25, 2000. These regulations apply in the interim period prior to the adoption of the telecommunications law. Although we expect that the telecommunications law will have a positive effect on the overall development of the telecommunications industry in Mainland China, we cannot predict what the ultimate nature and scope of the telecommunications law will be.

Entry into the Industry. Under the current regulations, operators of mobile telecommunications networks, providers of other basic telecommunications services such as local and long distance fixed-line telephone services, and value added service providers whose telecommunications services cover two or more provinces, directly-administered municipalities or autonomous regions in China must apply for specific permits from the Ministry of Information Industry in order to provide such services. Granting of permits for providing basic telecommunications services will be through a tendering process. Currently, in addition to us, China Unicom is also authorized to provide mobile telecommunications services in all provinces, directly-administered municipalities and autonomous regions in China.

On December 11, 2001, China officially joined the WTO. To implement China s commitments under the WTO, the Administration of Foreign-Funded Telecommunications Enterprises Provisions became effective on January 1, 2002, permitting foreign investment in joint ventures that provide telecommunications services in China. However, such investments will presumably bear no direct relation to the issuance of licenses to providers of telecommunications services in Mainland China, as the issuance of new licenses by the relevant authority is governed by a separate set of rules and regulations. Pursuant to the Administration of Foreign-Funded Telecommunications Enterprises Provisions, foreign ownership in a telecommunications enterprise may be gradually increased to 49% if such enterprise provides basic telecommunications services and 50% if such enterprise provides value added telecommunications services (including radio paging services).

Spectrum Usage. In coordination with the relevant provincial authorities, the Ministry of Information Industry regulates the allocation of radio frequency. The frequency assigned to an entity is not allowed to be leased or, without approval of the Ministry of Information Industry, transferred by the entity to any other third party. In accordance with a joint circular from the National Development and Reform Commission and the Ministry of Finance, CMCC entered into an agreement with us that specifies the amount of fees to be paid to the Ministry of Information Industry for spectrum usage by each mobile telecommunications network operator based on the bandwidth of the frequency used and the number of base stations within the relevant operator s networks.

On May 2, 2002, the relevant regulatory authorities in China informed us that the standard spectrum usage fees for GSM networks will be adjusted progressively over a period of three years, and that the adjustments will be effective for a period of five years from July 1, 2002. For the first year, spectrum usage fees for GSM networks will be charged at the annual rate of RMB7.5 million per MHz frequency. For the second year, the annual fee will be RMB11.25 million per MHz frequency and from the third year onward, the annual fee will be RMB15 million per MHz frequency. All adjusted annual fees are charged on the basis that upward and downward frequencies are separately charged.

Numbering Resources. The Ministry of Information Industry is responsible for the administration of the telecommunications numbering resources within Mainland China, including the telecommunications network numbers and subscriber numbers. The use of numbering resources by any telecommunications operator is subject to the approval by the Ministry of Information Industry. In January 2003, the Ministry of Information Industry issued Measures on Administration of Telecommunications Network Numbering Resources. In accordance with these measures, the telecommunications network numbering resources are owned by the state, and the user of numbering resources is required to pay a usage fee to the state starting March 1, 2003. The measures also provide for procedures for application for the use, upgrade and adjustment of numbering resources by telecommunications operators. In December 2004, the Ministry of Information Industry, the Ministry of Finance and the National Development and Reform Commission jointly issued the Provisional Administrative Measures with respect to the Collection of the Usage Fee of Telecommunications Network Numbering Resources, under which telecommunications companies are required to pay a usage fee to the PRC government by the 10th day of the first month of each quarter. Moreover, under these provisional measures, mobile telecommunications companies are required to pay an annual usage fee of RMB12 million for each network number.

Tariff Setting. The levels and categories of our tariffs are subject to regulation by various government authorities, including the Ministry of Information Industry, the National Development and Reform Commission and, at the local level, the relevant provincial price regulatory authorities. Under the current telecommunications regulations, telecommunications tariffs are categorized into market based tariffs, government guidance tariffs and government standard tariffs. In general, base usage charges, monthly fees, maximum domestic roaming charges and maximum tariffs for all domestic long distance calls and international calls (other than Internet Protocol phone calls) are fixed jointly by the Ministry of Information Industry and the National Development and Reform Commission. In August 2005, the Ministry of Information Industry amended its tariff regulations relating to some telecommunications services, pursuant to which network operators have, among other things, more flexibility in setting their domestic and international long distance tariffs and domestic roaming charges, provided that these tariffs set by network operators do not exceed the respective maximum tariffs determined by the Ministry of Information Industry in consultation with the National Development and Reform Commission and that the tariff plans are filed with the Ministry of Information Industry and the National Development and Reform Commission or, in some cases, the relevant price regulatory authorities at the provincial level. Our international roaming charges are set in accordance with agreements between CMCC and the relevant foreign mobile operators. Under the current telecommunications regulations, tariffs for those telecommunications businesses that are considered fully competitive may be set by the service providers as market based tariffs.

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

Table of Contents

The applicable regulations provide that interconnection related equipment must conform to the technical standards approved by the Ministry of Information Industry. See Technical Standards below. The Ministry of Information Industry also determines the standard lease tariffs to be paid by telecommunications operators with respect to the leasing of transmission lines that facilitate interconnection between telecommunications networks.

Technical Standards. Certain regulatory authorities in Mainland China, including the Ministry of Information Industry, set technical standards and control the type and quality of mobile telecommunications equipment used in or connected to public networks, all radio telecommunications equipment and all interconnection related equipment.

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

Capital Investment. Some of our major investment projects, including mobile telecommunications network development projects, may be required to obtain approvals from relevant regulatory authorities in Mainland China.

Employees

The total number of our employees increased from 88,127 as of December 31, 2004 to 99,104 as of December 31, 2005. Substantially all of our employees are located in Mainland China. The employees are classified in the following table. Approximately 73.5% of our permanent employees have college or graduate degrees.

Management	18,711
Technical and engineering	28,859
Sales and marketing	46,262
Financial and accounting	5,272
Total	99,104

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

Properties, Plants and Equipment

We own, lease or have usage rights in various properties which consist of land and buildings for offices, administrative centers, staff quarters, retail outlets and technical facilities. For some of our properties under construction, we have not obtained land use right certificates or property title certificates. However, such deficiencies do not affect our use of these properties. We believe that all of our owned and leased properties are well maintained and are suitable and adequate for their present use.

Item 4A. Unresolved Staff Comments.

Not applicable.

Item 5. Operating and Financial Review and Prospects.

You should read the following discussion and analysis in conjunction with our consolidated financial statements, together with the related notes, included elsewhere in this annual report on Form 20-F. Our consolidated financial statements have been prepared in accordance with Hong Kong GAAP, which differ in certain significant respects from U.S. GAAP. Note 38 to our consolidated financial statements summarizes the significant differences between Hong Kong GAAP and U.S. GAAP as they relate to us and provides a reconciliation to U.S. GAAP of profit attributable to equity shareholders and shareholders equity. In addition, note 38 to our consolidated financial statements includes our condensed consolidated financial statements prepared and presented in accordance with U.S. GAAP for the relevant periods. Our consolidated financial statements present, and the discussion and analysis in this section pertain to, our consolidated financial position and results of operations as of and for the years ended December 31, 2003, 2004 and 2005. Our consolidated financial statements reflect the results of Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi and CMC from July 1, 2004, the date of the acquisition.

Overview of Our Operations

During 2003, 2004 and 2005, our network capacity, subscriber base and usage and operations continued to experience significant growth. We believe that with the ongoing market-oriented restructuring of the telecommunications industry, as well as the continued development of the Chinese economy and increase in per capita income in Mainland China, the telecommunications industry will continue to grow rapidly. Given the relatively low penetration rates in Mainland China in general and, in particular, in the central and western regions, we believe that there is substantial potential for continued future subscriber growth.

We operate in an extensively regulated environment and our operations and financial performance are significantly affected by the PRC government s regulation of the telecommunications industry. These regulations and policies may affect, among other things, our interconnection and transmission line leasing arrangements, technology and equipment standards and capital investment, as described in more detail under Item 3. Key Information Risk Factors Adverse changes in the economic policies of the PRC government could have a material adverse effect on the overall economic growth of Mainland China, which could reduce the demand for our services and adversely affect our business, financial condition and results of operations and Item 4. Information on the Company Business Overview Regulation . Our financial performance is also subject to the economic and social conditions in Mainland China and foreign currency exchange rate fluctuations.

Our Previous Acquisitions of Regional Mobile Telecommunications Companies and Other Telecommunications Assets in Mainland China Have Materially Impacted Our Financial Results

Following our acquisition of Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi and CMC on July 1, 2004, we began to provide a full range of mobile telecommunications services in all thirty-one provinces, autonomous regions and directly-administered municipalities in Mainland China. Moreover, we acquired all of the issued and outstanding shares of Peoples Telephone on March 28, 2006. See Item 4. Information on the Company The History and Development of Company Expansion Through Acquisitions. We have adopted the purchase accounting method to account for these acquisitions under Hong Kong GAAP. Accordingly, our consolidated financial statements include the results of these companies from the respective dates of the acquisitions. Under U.S. GAAP, our acquisitions of these companies are considered a combination of entities under common control which would be accounted for under the as if pooling-of-interests method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination generally are restated on a combined basis.

These acquisitions have had a material impact on our overall results of operations. In particular, our financial results in 2004 and 2005 were significantly affected by the inclusion of the results of operations for the ten regional mobile telecommunications companies and other telecommunications assets we acquired in July 2004. By comparison, our financial results in 2003 did not include the results of operations of these companies. See Results of Operations Year Ended December 31, 2004 Compared to Year Ended December 31, 2003 . These acquisitions have, among other things, significantly expanded the size of the mobile telecommunications markets we serve and increased the number of our subscribers and usage of our services. As a result, our operating revenue and operating expenses have also increased significantly.

Operating Arrangements We Entered Into Over the Last Several Years Have Materially Impacted Our Financial Results

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

- interconnection revenue sharing and settlement arrangements with other operators;
- intra-provincial transmission line leasing agreements with other operators;
- service agreement with CMCC and certain other operators with respect to various telecommunications services and support;

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

the revaluation of property, plant and equipment and land lease prepayments of the companies we acquired as of the respective dates set forth in the financial statements included in this annual report on Form 20-F.

The original terms of our agreements relating to interconnection, leased lines and roaming have been revised as a result of tariff adjustments by the government and/or commercial negotiation with the relevant parties.

Our financial results reflect the impact of the above arrangements as of the dates they became effective. These arrangements and changes have had a material impact on our overall results of operations.

Our Operating Arrangements with CMCC Have Affected and May Continue to Affect Our Financial Results

Following the completion of our acquisition of the telecommunications assets from CMCC in July 2004, CMCC no longer provides mobile telecommunications services in Mainland China other than through us. Therefore, from July 1, 2004, the domestic roaming arrangements between CMCC and us were terminated and we no longer lease any inter-provincial transmission lines from CMCC. Moreover, we entered into an agreement with CMCC on July 1, 2004 with respect to, among other things, inter-provincial interconnection and roaming, international interconnection and roaming, and inter-provincial and international transmission lines leasing. Pursuant to this agreement, for the inter-provincial transmission lines we leased from other providers through CMCC, CMCC maintains the existing inter-provincial transmission line leasing arrangements with the relevant transmission line providers, and collects leasing fees from us and pays the same to the relevant transmission line providers. Moreover, under this agreement, CMCC (a) maintains the existing settlement arrangements with respect to international interconnection and roaming with the relevant telecommunications services providers in foreign countries and regions, and (b) collects the relevant usage fees and other fees from us or the relevant telecommunications services providers in foreign countries and regions and pays the same to the relevant mobile telecommunications services providers in foreign countries and regions or us, as the case may be. In addition, under this agreement, with respect to the inter-provincial interconnection with the relevant telecommunications services providers in Mainland China, CMCC maintains the existing inter-provincial interconnection arrangements with the relevant telecommunications services providers in Mainland China, and collects the relevant usage fees and other fees from us and pays the same to the relevant telecommunications services providers in Mainland China.

Tariff Adjustments

The PRC government introduced a wide range of tariff adjustments effective from early 2001, which include, among other things, the shortening of the billing unit for long distance charges (other than for IP-based long distance call services), from one minute to six seconds, the general reduction in domestic and international long distance call rates, the elimination of various surcharges, and connection fees charged to new contract subscribers and, a general reduction in leased line tariffs. Moreover, we are allowed to offer our subscribers a variety of tariff packages which have different monthly fees, levels of basic usage and charges for usage exceeding the covered basic usage, voice value-added services, data services or other features. In general, the higher the monthly fee of a tariff package, the greater the price concession we offer. The tariff packages often incorporate different complimentary voice value-added services and data services packages.

Renminbi Bond Offerings

Following the approval by the relevant PRC regulatory authorities, on June 18, 2001 our wholly-owned subsidiary, Guangdong Mobile, issued RMB5,000 million of guaranteed bonds due in 2011 at a floating interest rate, payable annually. These bonds are listed on the Shanghai Stock Exchange.

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

The net proceeds from the offering were applied solely to repay part of the RMB12,500 million syndicated loans we raised through our wholly-owned subsidiary, China Mobile (Shenzhen) Limited, in 2000 for our acquisition of the seven regional mobile telecommunications companies.

Following the approval by the relevant PRC regulatory authorities, Guangdong Mobile issued RMB3,000 million guaranteed bonds due 2007 and RMB5,000 million guaranteed bonds due 2017 on October 28, 2002. These bonds commenced trading on the Shanghai Stock Exchange on January 22, 2003. The RMB3,000 million guaranteed bonds and RMB5,000 million guaranteed bonds bear fixed interest of 3.5% and 4.5%, respectively, payable annually.

Table of Contents

We issued a joint and irrevocable guarantee for the performance of these bonds, and CMCC has issued a further guarantee in relation to the performance by us of our guarantee obligation. These bonds received a consolidated credit rating of AAA by China Chengxin International Credit Rating Company Limited, an affiliate of Fitch International Limited, and a consolidated credit rating of AAA by Dagong Global Credit Rating Co. Ltd.

The entire net proceeds from the offering were applied solely to satisfy part of the US$2,800 million deferred consideration for the acquisition by the Company of the entire interest in Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile in 2002.

Critical Accounting Policies and Estimates

The following discussion and analysis is based on our consolidated financial statements, which have been prepared in accordance with Hong Kong GAAP. The preparation of financial statements in conformity with Hong Kong GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the years reported. Actual results could differ from those estimates. Estimates are used when accounting for certain items such as provision for customer point reward program, allowance for doubtful accounts, depreciation and amortization period, impairment of long lived assets including property, plant and equipment and goodwill arising from acquisitions (including that taken initially to reserves) and fair value of share options granted. Actual results may differ from those estimates under different assumptions or conditions.

We believe that the following critical accounting policies have a more significant impact on our consolidated financial statements, either because of the significance of the financial statement elements to which they relate, or because they require judgment and estimation.

Provision for Customer Point Reward Program

We invite our subscribers to participate in a customer point reward program, or the Reward Program, which provides subscribers the option of electing to receive free telecommunications services or other non-cash gifts. The level of bonus points earned under the Reward Program varies depending on the subscribers service consumption, loyalty and payment history. The estimated incremental costs of providing these free rewards are expensed in the consolidated statements of income and are accrued as a current liability on the consolidated balance sheets based on (i) the number of subscribers who are qualified to exercise their redemption right at period/year end and the estimated rate of redemptions based on past experience; (ii) the estimated number of subscribers who have no right to redeem the incentives at period/year end, but who will ultimately earn and claim awards under the Reward Program; and (iii) type of incentives that subscribers will select for redemption based on past experience. Our assumptions remained unchanged in 2005. As subscribers redeem rewards or their entitlements expire, the provision is reduced accordingly.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables at each balance sheet date. We base our estimates on the ageing of our accounts receivable and other receivable balances and our historical write-off experience, net of recoveries. If the financial condition of our customers were to deteriorate, additional allowances may be required.

Depreciation

Depreciation is based on the estimated useful lives of items of property, plant and equipment, less their estimated residual value, if any, to write off the cost of these items over their estimated useful lives. We review the estimated useful lives and residual values of our assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. In 2005, there were no changes in assets estimated useful lives. The useful lives and residual values are based on our historical experience with similar assets, taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. Estimates and assumptions used in setting depreciable lives require both judgment and estimation. Our policies regarding accounting for these assets are included in note 2(f) to our consolidated financial statements.

Impairment of Property, Plant and Equipment and Goodwill

Our property, plant and equipment, consisting primarily of telecommunications transceivers, switching centers, transmission and other network equipment, comprise a significant portion of our 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 asset s recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Table of Contents

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 judgment relating to level of revenue and amount of operating costs. We use 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.

Estimates and assumptions used in testing for recoverability require both judgment and estimation. Our policies regarding accounting for these assets and assessing their recoverability are included in note 2(h) to our consolidated financial statements.

Fair Value of Share Options Granted

The fair value of share options granted to our employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity and is measured based on a binomial lattice model. In applying the model, we estimate the expected volatility based on the historical volatility of our share price (calculated based on the weighted average remaining life of the share option), adjusted for any expected changes (based on publicly available information) to future volatility. We also estimate expected dividends based on our historical dividends and planned dividend payout ratio, if any. Changes in the subjective input assumptions could materially affect the fair value estimate of share options.

Results of Operations

As a result of our acquisitions, our results of operations are not directly comparable with those in prior years.

Table of Contents

The following table sets forth selected income statement data for the periods indicated:

	Year Ended December 31, 2003	2004	2005
	(in millions of RMB)		
Operating revenue:			
Usage fees	111,027	128,534	156,710
Monthly fees	20,666	24,760	25,055
Other operating revenue	26,911	39,087	61,276
Total operating revenue	158,604	192,381	243,041
Operating expenses:			
Leased lines	4,914	3,861	3,224
Interconnection	12,868	12,072	15,309
Depreciation	36,488	44,186	56,368
Personnel	7,700	9,972	14,200
Other operating expenses	43,431	62,811	80,254
Total operating expenses	105,401	132,902	169,355
Profit from operations	53,203	59,479	73,686
Amortization of goodwill	(1,850)	(1,930)	
Other net income	2,464	3,167	3,284
Non-operating net income	434	900	1,025
Interest income	807	1,014	1,615
Finance costs	(2,099)	(1,679)	(1,346)
Profit before tax	52,959	60,951	78,264
Income tax	(17,412)	(19,180)	(24,675)
Profit after tax	35,547	41,771	53,589
Attributable to:			
Equity shareholders	35,556	41,749	53,549
Minority interests	(9)	22	40
Profit for the year	35,547	41,771	53,589

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Operating Revenue. We derive operating revenue principally from usage fees and monthly fees. Usage fees include standard local usage fees for airtime and applicable domestic and international long distance charges receivable from subscribers for the use of our mobile telecommunications networks and facilities, and fees in respect of roaming out calls made by our subscribers outside their registered service areas. Other operating revenue includes charges for data and value-added services, interconnection revenue and roaming in fees.

Operating revenue increased 26.3% from RMB192,381 million in 2004 to RMB243,041 million (US$30,115.9 million) in 2005. This increase was primarily due to the continued expansion in our subscriber base, the continued growth in voice usage volume, the rapid expansion of our new businesses and the full-year effect of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004. Our total number of subscribers was approximately 246.7 million as of December 31, 2005, compared to approximately 204.3 million as of December 31, 2004.

Revenue from usage fees increased 21.9% from RMB128,534 million in 2004 to RMB156,710 million (US$19,418.4 million) in 2005. This increase was principally due to our organic subscriber growth, the organic increase in voice usage volume and the full-year effect of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004. As a percentage of operating revenue, usage fees decreased from 66.8% in 2004 to 64.5% in 2005.

Revenue from monthly fees increased 1.2% from RMB24,760 million in 2004 to RMB25,055 million (US$3,104.6 million) in 2005. This increase was mainly due to the continued increase in contract subscribers and the full-year effect of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004. As a percentage of operating revenue, monthly fees decreased from 12.9% in 2004 to 10.3% in 2005.

Other operating revenue increased 56.7% from RMB39,087 million in 2004 to RMB61,276 million (US$7,592.9 million) in 2005. This increase resulted principally from increased revenue from wireless data and value added services as well as the full-year effect of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004.

Table of Contents

Operating Expenses. Operating expenses include leased line expenses, interconnection expenses, depreciation expenses relating to our mobile telecommunications network and other property, plant and equipment, personnel expenses and other operating expenses. Other operating expenses primarily consist of selling and promotion expenses, allowance for doubtful accounts, operating lease charges, maintenance charges, debt collection fees, spectrum charges and numbering resources charges, write-off of property, plant and equipment and other miscellaneous expenses.

Operating expenses increased 27.4% from RMB132,902 million in 2004 to RMB169,355 million (US$20,985.2 million) in 2005. This increase was primarily due to the increase in depreciation expenses, personnel expenses and other operating expenses, as well as the full-year effect of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004.

Total leased line payments decreased 16.5% from RMB3,861 million in 2004 to RMB3,224 million (US$399.5 million) in 2005. This decrease was largely a result of the termination of surplus leased lines as we continued to use more self-constructed transmission lines and also augmented our networks to increase their efficiency. As a percentage of operating expenses, total leased line payments decreased from 2.9% in 2004 to 1.9% in 2005.

Interconnection expenses increased 26.8% from RMB12,072 million in 2004 to RMB15,309 million (US$1,897.0 million) in 2005. This increase was mainly due to the increase of subscriber base and voice usage volume and the full-year effect of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004. Interconnection expenses as a percentage of operating expenses decreased from 9.1% in 2004 to 9.0% in 2005.

Depreciation expense increased 27.6% from RMB44,186 million in 2004 to RMB56,368 million (US$6,984.7 million) in 2005. This increase was mainly due to the expansion of our network capacity, the construction of various support networks and the full-year effect of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004. As a percentage of operating expenses, depreciation expense slightly increased from 33.2% in 2004 to 33.3% in 2005.

Personnel expenses increased 42.4% from RMB9,972 million in 2004 to RMB14,200 million (US$1,759.6 million) in 2005. This increase was primarily due to the recognition of the compensation expenses of share options granted in the aggregate amount of RMB1,553 million as a result of our adoption of HKFRS 2 during the year and the full-year effect of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004. As a percentage of operating expenses, personnel expenses increased from 7.5% in 2004 to 8.4% in 2005.

Other operating expenses increased 27.8% from RMB62,811 million in 2004 to RMB80,254 million (US$9,944.5 million) in 2005. This increase was primarily due to the increase in selling and promotion expenses and the full year effect of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004. As a percentage of operating expenses, other operating expenses increased from 47.3% in 2004 to 47.4% in 2005.

Profit from operations. As a result of the foregoing, profit from operations increased 23.9% from RMB59,479 million in 2004 to RMB73,686 million (US$9,130.6 million) in 2005, and operating margin (profit from operations as a percentage of operating revenue) decreased from 30.9% in 2004 to 30.3% in 2005.

Amortization of goodwill. The amount in 2004 represented the amortization of goodwill arising from acquisitions of regional mobile telecommunications companies and other telecommunications assets on or after January 1, 2001. Effective January 1, 2005, in order to comply with HKFRS 3 and HKAS 36, we adopted a new accounting policy for goodwill. The new policy has been applied prospectively in accordance with the transitional provisions as set out in HKFRS 3, whereby we no longer amortize goodwill over its estimated useful life but test it at least annually for impairment.

Other Net Income. Other net income represents primarily gross profit from sales of SIM cards, handsets and accessories. Other net income increased 3.7% from RMB3,167 million in 2004 to RMB3,284 million (US$406.9 million) in 2005. This increase was principally due to the increase in sales of SIM cards.

Non-Operating Net Income. Non-operating net income increased 13.8% from RMB900 million in 2004 to RMB1,025 million (US$127.0 million) in 2005. This increase was primarily due to the increase of amortization of deferred tax credits in the amount of RMB174 million from RMB352 million in 2004 to RMB526 million in 2005. The increase in amortization of deferred tax credit was primarily due to the increase in the tax credits we received as a result of our purchase of domestic telecommunications equipment.

35

Interest Income. Interest income increased 59.3% from RMB1,014 million in 2004 to RMB1,615 million (US$200.1 million) in 2005. The higher interest income in 2005 was primarily due to our larger cash balances as a result of the increase of our net cash from operating activities.

Finance Costs. Finance costs decreased 19.8% from RMB1,679 million in 2004 to RMB1,346 million (US$166.8 million) in 2005. This decrease was primarily due to the decrease in short-term borrowings and the repayment of US$690 million convertible notes due on November 3, 2005. In 2005, the average interest rate that we paid on our outstanding borrowings was approximately 3.3%.

Profit before Tax. As a result of the foregoing, profit before tax increased 28.4% from RMB60,951 million in 2004 to RMB78,264 million (US$9,697.9 million) in 2005.

Taxation. Our income tax expense increased 28.7% from RMB19,180 million in 2004 to RMB24,675 million (US$3,057.5 million) in 2005. This increase was primarily due to an increase in our profit before tax. Our effective tax rate was 31.3% in 2004 and 31.5% in 2005, respectively.

Profit attributable to equity shareholders. As a result of the foregoing and after taking into account minority interests, profit attributable to equity shareholders increased 28.3% from RMB41,749 million in 2004 to RMB53,549 million (US$6,635.4 million) in 2005. This increase was primarily due to our organic growth and the full-year effect of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004. Net profit margin (profit attributable to equity shareholders as a percentage of operating revenue) increased from 21.7% in 2004 to 22.0% in 2005.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Operating Revenue. Operating revenue increased 21.3% from RMB158,604 million in 2003 to RMB192,381 million in 2004. This increase was primarily due to the continued expansion in our subscriber base, the continued growth in voice usage volume, and the rapid expansion of our new businesses. In addition, our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004 also contributed significantly to the increase in our operating revenue. Our total number of subscribers was approximately 204.3 million as of December 31, 2004, compared to approximately 141.6 million as of December 31, 2003. Our July 2004 acquisition contributed to the increase of subscribers by 28.9 million as of December 31, 2004.

Revenue from usage fees increased 15.8% from RMB111,027 million in 2003 to RMB128,534 million in 2004. This increase was principally due to our organic subscriber growth, the organic increase in voice usage volume and an increase of subscribers as a result of our acquisition of the ten regional mobile telecommunications companies in July 2004. As a percentage of operating revenue, usage fees decreased from 70.0% in 2003 to 66.8% in 2004.

Revenue from monthly fees increased 19.8% from RMB20,666 million in 2003 to RMB24,760 million in 2004. This increase was mainly due to the continued increase in total subscribers, the introduction of new service packages and our acquisition of the ten regional mobile telecommunications companies in July 2004. As a percentage of operating revenue, monthly fees decreased from 13.0% in 2003 to 12.9% in 2004.

Other operating revenue increased 45.2% from RMB26,911 million in 2003 to RMB39,087 million in 2004. This increase resulted principally from increased revenue from wireless data and value added services, as well as our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004.

Operating Expenses. Operating expenses increased 26.1% from RMB105,401 million in 2003 to RMB132,902 million in 2004. This increase was primarily due to the increase in depreciation expenses and other operating expenses and the increase in operating expenses attributable to the ten regional mobile telecommunications companies and other telecommunications assets we acquired in July 2004.

Total leased line payments decreased 21.4% from RMB4,914 million in 2003 to RMB3,861 million in 2004. This decrease was largely a result of the termination of surplus leased lines as we continued to use more self-constructed transmission lines and also augmented our networks to increase their efficiency. As a percentage of operating expenses, total leased line payments decreased from 4.7% in 2003 to 2.9% in 2004.

Table of Contents

Interconnection expenses decreased 6.2% from RMB12,868 million in 2003 to RMB12,072 million in 2004. This decrease was mainly due to the optimization of our network structure and traffic routing. Interconnection expenses as a percentage of operating expenses decreased from 12.2% in 2003 to 9.1% in 2004.

Depreciation expense increased 21.1% from RMB36,488 million in 2003 to RMB44,186 million in 2004. This increase was mainly due to the expansion of our network capacity, the construction of various support networks and the effect of including depreciation expenses attributable to the ten regional mobile telecommunications companies and other telecommunications assets we acquired in July 2004. As a percentage of operating expenses, depreciation expense decreased from 34.6% in 2003 to 33.2% in 2004.

Personnel expenses increased 29.5% from RMB7,700 million in 2003 to RMB9,972 million in 2004. This increase was primarily due to the inclusion of the recognition of the compensation expenses of share options granted in the aggregate amount of RMB255 million as a result of our adoption of HKFRS 2 retrospectively and personnel expenses of the ten regional mobile telecommunications companies and other telecommunications assets we acquired in July 2004. As a percentage of operating expenses, personnel expenses increased from 7.3% in 2003 to 7.5% in 2004.

Other operating expenses increased 44.6% from RMB43,431 million in 2003 to RMB62,811 million in 2004. This increase was primarily due to the increase in selling and promotion expenses as well as the operating expenses attributable to the ten regional mobile telecommunications companies and other telecommunications assets we acquired in July 2004. As a percentage of operating expenses, other operating expenses increased from 41.2% in 2003 to 47.3% in 2004.

Profit from operations. As a result of the foregoing, profit from operations increased 11.8% from RMB53,203 million in 2003 to RMB59,479 million in 2004, and operating margin decreased from 33.5% in 2003 to 30.9% in 2004.

Amortization of goodwill. Amortization of goodwill increased 4.3% from RMB1,850 million in 2003 to RMB1,930 million in 2004. This increase was due to the effect of including the amortization of goodwill in the amount of RMB72 million that was attributable to our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004.

Other Net Income. Other net income increased 28.5% from RMB2,464 million in 2003 to RMB3,167 million in 2004. This increase was principally due to the increase in sales of SIM cards and the effect of including the other net income attributable to the ten regional mobile telecommunications companies and other telecommunications assets we acquired from our direct parent company in July 2004.

Non-Operating Net Income. Non-operating net income increased 107.4% from RMB434 million in 2003 to RMB900 million in 2004. This increase was primarily due to the increase of amortization of deferred tax credits in the amount of RMB164 million from RMB188 million in 2003 to RMB352 million in 2004. The increase in amortization of deferred tax credit was primarily due to the increase in the tax credits we received as a result of our purchase of domestic telecommunications equipment.

Interest Income. Interest income increased 25.7% from RMB807 million in 2003 to RMB1,014 million in 2004. The higher interest income in 2004 was primarily due to our larger cash balances as a result of the increase of our net cash from operating activities, as well as the effect of including the interest income attributable to the ten regional mobile telecommunications companies and other telecommunications assets we acquired in July 2004.

Finance Costs. Finance costs decreased 20.0% from RMB2,099 million in 2003 to RMB1,679 million in 2004. This decrease was primarily due to the decrease in short-term borrowings and the repayment of US$600 million fixed rate notes due on November 2, 2004, which was partially offset by the effect of including deferred consideration and finance costs attributable to the ten regional mobile telecommunications companies and other telecommunications assets we acquired in July 2004. In 2004, the average interest rate that we paid on our outstanding borrowings was approximately 3.7%.

Profit before Tax. As a result of the foregoing, profit before tax increased 15.1% from RMB52,959 million in 2003 to RMB60,951 million in 2004.

Taxation. Our income tax expense increased 10.2% from RMB17,412 million in 2003 to RMB19,180 million in 2004. This increase was primarily due to an increase in our profit before tax. Our effective tax rate was 32.9% in 2003 and 31.5% in 2004, respectively. The decrease of our effective tax rate in 2004 was primarily due to our tax planning efforts and our receipt of the approval from the PRC State Administration of Taxation at the end of 2004, as a result of which our certain expenses became tax deductible.

37

Profit attributable to equity shareholders. As a result of the foregoing and after taking into account minority interests, profit attributable to equity shareholders increased 17.4% from RMB35,556 million in 2003 to RMB41,749 million in 2004. This increase was primarily due to our organic growth and the inclusion of the profit attributable to equity shareholders of the ten regional mobile telecommunications companies and other telecommunications assets we acquired in July 2004. Net profit margin decreased from 22.4% in 2003 to 21.7% in 2004.

Liquidity and Capital Resources

Liquidity

Our principal source of liquidity is cash generated from our operations. As of December 31, 2005, we had a working capital (current assets minus current liabilities) surplus of RMB11,122 million (US$1,377 million) compared to a working capital deficit of RMB17,757 million as of December 31, 2004 and a working capital deficit of RMB8,693 million as of 2003, respectively. The increase in working capital as of December 31, 2005 was primarily due to the increase in cash balance and deposits with banks. The significant increase in working capital deficit as of December 31, 2004 was primarily due to the increase in accounts payable, accrued expenses, other payable and deferred revenue, all of which increased partially as a result of the inclusion of the accounts payable, accrued expenses, other payable and deferred revenue of the ten regional mobile telecommunications companies and other telecommunications assets we acquired in July 2004. As of December 31, 2003, 2004 and 2005, accounts receivable totaled RMB6,116 million, RMB6,553 million and RMB6,603 million (US$818 million), respectively. Short-term bank and other loans (including the current portion of long-term loans, fixed rate notes, convertible notes and capital leases obligations) as of December 31, 2003, 2004 and 2005 totaled RMB13,158 million, RMB8,248 million and RMB68 million (US$8 million), respectively.

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

	Year ended December 31,		
	2003	2004	2005
	(in millions of RMB)		
Net cash from operating activities	85,534	103,779	131,709
Net cash used in investing activities	(54,292)	(73,302)	(87,116)
Net cash used in financing activities	(24,688)	(24,457)	(25,173)
Net increase in cash and cash equivalents	6,554	6,020	19,420

Net cash from operating activities increased from 2004 to 2005, reflecting the growth in operating revenue due to the increase in our subscriber base through the continued organic growth, economies of scale and the full year effect of our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004. Net cash from operating activities increased from 2003 to 2004, reflecting the growth in operating revenue due to the increase in our subscriber base through the continued organic growth and the acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004.

Net cash used in investing activities increased from 2004 to 2005. This increase was primarily due to the increases in deposits with banks and capital expenditures. Net cash used in investing activities increased significantly from 2003 to 2004. This increase was principally a result of the payment of the consideration for our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004.

Net cash used in financing activities slightly increased from 2004 to 2005. Net cash used in financing activities remained approximately the same in 2004 and 2003.

Capital Expenditures

Capital expenditures incurred during 2003, 2004 and 2005 were RMB50,005 million, RMB61,398 million and RMB71,453 million (US$8,854 million), respectively. We incurred capital expenditures principally for the construction of our GSM networks, support systems, transmission facilities and structural facilities and the development of new technologies and new businesses. The increase in our capital expenditures was primarily due to the ten regional mobile telecommunications companies and other telecommunications assets we acquired in July 2004 as well as the organic growth of our business.

We estimate that we will spend approximately RMB83.3 billion (US$10.3 billion) in 2006, RMB78.0 billion (US$9.7 billion) in 2007 and RMB76.0 billion (US$9.4 billion) in 2008 in capital expenditures. Such capital expenditure plan currently does not include investment of 3G construction. The required funding will be sourced largely from cash generated from our operating activities. We expect to incur these expenditures primarily for the purpose of:

- further expanding our GSM network capacity and coverage;

Table of Contents

- increasing our efforts in improving our support systems;
- building our own transmission facilities where economically advantageous; and
- developing and providing new technologies and new businesses.

Following our initial public offering, we have funded our capital requirements primarily with cash generated from operations, proceeds from equity and debt offerings and, to the extent necessary, short- term and long-term borrowings. We believe our available cash and cash generated from future operations will be sufficient to fund most of the capital expenditures and working capital necessary for the planned network expansion and continued growth of our mobile telecommunications operations through the end of 2007.

Moreover, we believe that to the extent we are granted any 3G license by the Ministry of Information Industry and our 3G networks are constructed, GSM and 3G will co-exist in our networks over an extended period of time. In that case, the capital expenditures for our existing GSM networks are expected to be reduced, and the extent of such reduction depends primarily on when we will be granted a 3G license and what 3G-based technology standard we will be required to adopt.

We may seek to obtain additional sources of financing to fund our network expansion and possible future acquisitions, to the extent necessary.

Contractual Obligations and Commitments

Indebtedness

As of December 31, 2003, 2004 and 2005, our aggregate long-term bank and other loans and obligation under capital leases (excluding current portions) totaled RMB672 million, RMB0 million and RMB0 million (US$0 million), respectively, and our short-term bank and other loans (including the current portion of long-term loans, fixed rate notes, convertible notes and capital lease obligations) totaled RMB13,158 million, RMB8,248 million and RMB68 million (US$8 million), respectively. Our short-term loans and long-term loans decreased in 2005 primarily due to our redemption of convertible notes with an aggregate principal amount of US$690 million on November 3, 2005. Our short term loans and long-term loans significantly decreased in 2004 primarily due to our repayment of fixed rate notes with an aggregate principal amount of US$600 million on November 2, 2004. Capital lease obligations totaled RMB68 million and RMB68 million (US$8 million) as of December 31, 2004 and 2005, respectively.

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

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

Pursuant to agreements entered into on October 7, 2000 between our wholly-owned subsidiary, China Mobile (Shenzhen) Limited, and a syndicate of international and domestic Chinese commercial banks, we borrowed an aggregate of RMB12,500 million in bank loans, which was fully repaid by the end of 2003 with our internal cash resources and proceeds from the RMB5,000 million floating rate guaranteed bonds Guangdong Mobile issued in 2001, as described above under Overview of Our Operations Renminbi Bond Offerings .

On June 18, 2001, Guangdong Mobile, one of our wholly-owned subsidiaries, issued bonds with a principal amount RMB5,000 million at a floating rate due June 18, 2011. Guangdong Mobile s payment obligations under the bonds are guaranteed in full by us, and our guarantee is further guaranteed by CMCC.

On October 28, 2002, Guangdong Mobile, one of our wholly-owned subsidiaries, issued RMB3,000 million five-year guaranteed bonds and RMB5,000 million fifteen-year guaranteed bonds. Guangdong Mobile s payment obligations under these two bonds are guaranteed in full by us, and our guarantee obligation is further guaranteed by CMCC.

The deferred consideration of US$2,800 million for our acquisition of the eight regional mobile telecommunications companies in 2002 and the deferred consideration of US$1,650 million for our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in 2004 are subordinated to other senior debt owed by us from time to time. In addition, these deferred considerations are payable by the fifteenth anniversary of the date of the completion of the respective acquisitions, and we may make an early payment of all or part of these deferred considerations at any time without penalty. We are required to pay interest semi-annually on the actual amount of these deferred considerations unpaid from the date of completion of the respective acquisitions. Interest is calculated at the two-year US dollar London Inter-Bank Offered Rate, or LIBOR, swap rate at 11:00 a.m. (New York City time) on the second business day next preceding the date of the respective acquisition agreements for the first two years after completion of the respective acquisitions. Thereafter, the interest rate will be adjusted every two years to equal the two-year US dollar LIBOR swap rate prevailing at 11:00 a.m. (New York City time) on the relevant interest determination dates. The payment of the deferred considerations and the interest payments can be made in Hong Kong dollars, RMB or US dollars (or other agreed currencies). Any payment made in currencies other than US dollars will be accounted for based on the exchange rates between US dollars and such currencies prevailing at 12:00 noon (New York City time) on the day which is two business days next preceding the date of the respective acquisition agreements. We used the entire proceeds from the RMB3,000 million guaranteed bonds due 2007 and RMB5,000 million guaranteed bonds due 2017, both issued on October 28, 2002 by Guangdong Mobile, our wholly-owned subsidiary, to pay a portion of the US$2,800 million deferred consideration for our acquisition of the eight regional mobile telecommunications companies in 2002.

Our corporate credit rating was raised to A2/Outlook Stable by Moody s and to A-/Positive Outlook by Standard & Poor s in 2005, which is equivalent to China s sovereign credit rating. Any downgrade in our credit rating will not trigger any events on our outstanding bonds or loans or our existing credit facilities. Our management currently believes that a downgrade below A2/ Outlook Stable or A-/Positive Outlook is not likely.

For a discussion of our interest rate risk, please see Item 11. Quantitative and Qualitative Disclosures About Market Risk .

Other Contractual Obligations and Commitments

As of December 31, 2005, we had various contractual obligations and commitments which are more fully disclosed in the notes to our consolidated financial statements. The principal components of these obligations and commitments include:

- our short-term and long-term debts (in addition to the bonds and notes described under Indebtedness above), which includes capital leases;
- operating leases; and
- capital commitments.

In the ordinary course of our business, we routinely enter into commercial commitments for various aspects of our operations, such as repair and maintenance. However, we believe that those commitments will not have a material effect on our financial condition, results of operations or cash flows.

For further disclosure regarding leases and other commitments, please see notes 24 and 25 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Table of Contents

The following table sets forth certain information regarding our contractual obligations to make future payments (including relevant estimated interest payment) as of December 31, 2005:

		Payments Due by Period			
Contractual Obligations	Total	Less Than 1 year	Over 1 year but less than 3 years	Over 3 year but less than 5 years	After 5 years
		(in millions of RMB)			
Bills Payable	1,359	1,359			
Deferred Payable	39,819	1,279	2,558	2,558	33,424
Long-Term Debt	16,955	530	3,938	850	11,637
Capital Lease Obligations	68	68			
Trade Payable	41,931	41,931			
Total Contractual Obligations	100,132	45,167	6,496	3,408	45,061

The following table sets forth certain information regarding our other commercial commitments as of December 31, 2005:

		Amount of Commitment Expiration Per Period			
Other Commercial Commitments	Total Amount Committed	Less Than 1 year	Over 1 year but less than 3 years	Over 3 year but less than 5 years	After 5 years
		(in millions of RMB)			
Operating Lease Commitments	10,559	3,529	3,643	1,932	1,455
Capital Commitments	59,341	59,341			
Total Commercial Commitments	69,900	62,870	3,643	1,932	1,455

Off-Balance Sheet Arrangements

As of December 31, 2005, we did not have any off-balance sheet arrangements or any written options on non-financial assets.

Foreign Exchange

We maintain our accounts in Renminbi and substantially all of our revenue and expenses are denominated in Renminbi. Our capital expenditures totaled the equivalent of RMB50,005 million, RMB61,398 million and RMB71,453 million (US$8,854 million) in 2003, 2004 and 2005, respectively. U.S. dollar denominated debt totaled the equivalent of RMB29,420 million and RMB23,633 million (US$2,929 million) as of December 31, 2004 and 2005, respectively, constituting 63.2% and 62.2% of our total debt as of those dates, respectively.

All of our current operating subsidiaries are incorporated in Mainland China, except for Peoples Telephone which became our wholly-owned operating subsidiary as of March 28, 2006. Under the current foreign exchange system in Mainland China, our subsidiaries may not be able to hedge effectively against currency risk, including any possible future Renminbi devaluation. See Item 3. Key Information Risk Factors Fluctuations in exchange rates could adversely affect our financial results and Item 10. Additional Information Exchange Controls .

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

U.S. GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with Hong Kong GAAP, which differ in certain significant respects from U.S. GAAP. The following table sets forth a comparison of our profit attributable to equity shareholders and shareholders equity in accordance with Hong Kong GAAP and U.S. GAAP.

Table of Contents

	As of or for the year ended December 31			
	2003	2004	2005	2005
	(in millions)			
Profit for the year attributable to equity shareholders in accordance with:				
Hong Kong GAAP	RMB 35,556	RMB 41,749	RMB 53,549	USD 6,635
U.S. GAAP	RMB 39,520	RMB 45,061	RMB 54,504	USD 6,754
Shareholders equity in accordance with:				
Hong Kong GAAP	RMB 198,803	RMB 233,161	RMB 272,824	USD 33,806
U.S. GAAP	RMB 190,828	RMB 198,119	RMB 237,252	USD 29,398

Under Hong Kong GAAP, we adopted the purchase accounting method to account for our acquisitions of the eight regional mobile telecommunications companies in July 2002 and our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004. Under the purchase accounting method, the acquired results of these companies were included in the results of operations from the respective dates of acquisition. Goodwill is the excess of the cost over the fair value of our share of the identifiable assets and liabilities acquired. In prior years, goodwill arising on the date of our acquisition of the eight regional mobile telecommunications companies in July 2002 and our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004 is amortized to the consolidated statements of income on a straight line of twenty years. Effective January 1, 2005, we no longer amortize goodwill due to the adoption of HKFRS 3. See Special Note on Our Financial Information and Certain Statistical Information Presented in This Annual Report .

Under U.S. GAAP, because we and the acquired companies were deemed to be under common control prior to the acquisitions, the acquisitions were considered a combination of entities under common control . Under U.S. GAAP, combinations of entities under common control are accounted for under the as if pooling-of-interests method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination are restated on a combined basis. The consideration we paid or payable in each acquisition was treated as an equity transaction in the respective years of each acquisition, and goodwill amortization recognized under Hong Kong GAAP in 2004 was reversed for U.S. GAAP purposes.

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

- the computation of capitalized interest;
- the revaluation of property, plant and equipment and land lease prepayments of the acquired companies under Hong Kong GAAP;
- the recognition of deferred income taxes;
- the non-recognition under Hong Kong GAAP of certain of our employee housing scheme costs;
- the treatment of share options we grant to directors and employees;
- the recognition as revenue of connection fees and telephone number selection fees; and
- the net savings arising from interconnection, roaming and leased line agreements.

Disclosure relating to these differences can be found in note 38 to our consolidated financial statements. In addition, our condensed consolidated balance sheets as of December 31, 2004 and 2005 and our condensed consolidated statements of income, shareholders equity and cash flows for the years ended December 31, 2003, 2004 and 2005 prepared and presented under U.S. GAAP have been included in note 38 to our consolidated financial statements to reflect the impact of the significant differences between Hong Kong GAAP and U.S. GAAP.

Table of Contents

Item 6. Directors, Senior Management and Employees.

Directors and Senior Management

The following table sets forth certain information concerning our directors and senior management as of May 31, 2006.

Name	Age	Position
Mr. WANG Jianzhou	57	Executive Director, Chairman and Chief Executive Officer
Mr. LI Yue	47	Executive Director and Vice President
Mr. LU Xiangdong	46	Executive Director and Vice President
Mr. XUE Taohai	50	Executive Director, Vice President and Chief Financial Officer
Mr. ZHANG Chenshuang	54	Executive Director and Vice President
Mr. SHA Yuejia	48	Executive Director and Vice President
Mr. LIU Aili	42	Executive Director and Vice President
Madam XIN Fanfei	49	Executive Director and Vice President
Mr. XU Long	49	Executive Director
Sir Julian Michael HORN-SMITH*	57	Non-Executive Director
Dr. LO Ka Shui	59	Independent Non-Executive Director
Mr. Frank K. S. WONG	58	Independent Non-Executive Director
Mr. Moses M. C. CHENG	56	Independent Non-Executive Director

* Sir Julian Michael Horn-Smith resigned from our board of directors effective as of June 7, 2006.

Mr. Wang Jianzhou has served as our Chairman and Chief Executive Officer since November 2004. Mr. Wang is in charge of our overall management. He is also the President of CMCC, the ultimate controlling shareholder of the Company, and the Chairman of CMC. Prior to joining us, Mr. Wang 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, and 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 the Department of Management Engineering of Zhejiang University with a master s degree. Mr. Wang is a professor-level senior engineer and has over 28 years of management experience in the telecommunications industry.

Mr. Li Yue has served as our Executive Director and Vice President since March 2003. Mr. Li assists the Chief Executive Officer in relation to our network, planning, development strategy and management information systems. He has been serving as Vice President of CMCC since April 2000. Mr. Li is also a director of CMC. Mr. Li 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 has over 30 years of management experience in the telecommunications industry.

Mr. Lu Xiangdong has served as our Executive Director and Vice President since March 2003. Mr. Lu assists the Chief Executive Officer principally with respect to our marketing, data and corporate customer matters. He has been serving as Vice President of CMCC since April 2000. Mr. Lu is also a director of CMC and Chairman of Aspire Holdings Limited. He previously served as the Director General of 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 and has nearly 24 years of management experience in the telecommunications industry.

Mr. Xue Taohai has served as our Executive Director, Vice President and Chief Financial Officer since July 2002. Mr. Xue assists the Chief Executive Officer in relation to our corporate financial and human resources management. Mr. Xue is also Vice President of CMCC and a director of CMC. 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. He has over 26 years of experience in the telecommunications industry and financial management.

43

Table of Contents

Mr. Zhang Chenshuang has served as our Executive Director and Vice President since July 2004. Mr. Zhang assists the Chief Executive Officer in relation to our corporate affairs. Mr. Zhang has been serving as Vice President of CMCC since April 2001. Mr. Zhang is also a director of CMC. Mr. Zhang 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 CMCC. He graduated from the Party School of the CPC and has over 26 years of management experience in the telecommunications industry.

Mr. SHA Yuejia has served as our Executive Director and Vice President since March 2006. Mr. Sha assists the Chief Executive Officer in relation to our business support, technology and research & development. He is also a Vice President of CMCC since May 2005. 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, and 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 has over 23 years of management experience in the telecommunications industry.

Mr. LIU Aili has served as our Executive Director and Vice President since March 2006. Mr. Liu assists the Chief Executive Officer in relation to our business expansion. He is also a Vice President of CMCC since March 2006**.** 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, and Chairman and President of Shandong Mobile and Zhejiang Mobile. Mr. Liu graduated from Heilongjiang Posts and Telecommunications School and received a doctoral degree in business administration from Hong Kong Polytechnic University. He has over 23 years of management experience in the telecommunications industry.

Madam XIN Fanfei has served as our Executive Director and Vice President since January 2006. Madam Xin assists the Chief Executive Officer in relation to our general administration and investor and media relations. She is also Chairwoman of Peoples Telephone. She previously served as Deputy Director of the Foreign Affairs Division, 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 Chairman and President of Heilongjiang Mobile. Madam Xin graduated from Xidian University and received an Executive Master s of Business Administration 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.

Mr. Xu Long has served as our Executive Director since August 1999. He is also the Chairman and President of Guangdong Mobile, responsible for the mobile telecommunications operations in Guangdong Province. He previously served as Deputy Director of 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 has 28 years of experience in the telecommunications industry.

Sir Julian Michael Horn-Smith served as our Non-Executive Director from March 2005 until June 2006. Sir Julian Michael Horn-Smith is the Deputy Chief Executive and a member of the board of directors of Vodafone Group Plc. He is also Chairman of the Supervisory Board of Vodafone Holding GmbH, a member of the Verizon Wireless Board of Representatives, a Non-Executive Director of Smiths Group Plc. and Lloyds TSB Group Plc., and serves on the board of the Prince of Wales International Business Leaders Forum. Since joining Vodafone in 1984, Sir Julian has held various senior management positions including Vodafone s Group Chief Operating Officer and was a member of Vodafone s founding team. He obtained a Master s degree in Business Administration from Bath University, and a Bachelor of Science degree in Economics from London University. Sir Julian was recognized in HM The Queen s Birthday Honours 2004, with a Knighthood for services to international mobile telecommunications.

Dr. Lo Ka Shui has served as our independent Non-Executive Director since April 2001. Dr. Lo is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited. 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. He is also a Director of Hong Kong Exchanges and Clearing Limited and a past chairman of the Listing Committees of the Main Board and the Growth Enterprise Market, 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 in Hong Kong. He was a past chairman of the Hospital Authority in Hong Kong. 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 26 years of experience in property and hotel development and investment both in Hong Kong and overseas.

Mr. Frank K. S. Wong has served as our independent Non-Executive Director since August 2002. Mr. Wong is currently Vice Chairman of DBS Bank, Chief Operating Officer and a board member of DBS Bank and DBS Group Holdings, and Chairman of DBS Bank (Hong Kong). Mr. Wong is also a director of the Singapore Tourism Board and a member of the University Court of The University of Hong Kong. He previously held a series of senior management 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 as the Chairman of the Hong Kong Futures Exchange. Mr. Wong has many years of finance and commercial management experience.

Mr. Moses M.C. Cheng has served as our independent Non-Executive Director since March 2003. Mr. Cheng is a practicing 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 currently is 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 Enterprises 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 and Tian An China Investments Company Limited.

In addition, Mr. Paul Michael Donovan, age 47, Chief Executive Officer for Central Europe, Middle East, Asia-Pacific and Affiliates (EMAPA) of Vodafone, joined our board of directors as a Non-Executive Director effective as of June 7, 2006. Mr. Donovan is also a member of the Executive Committee of Vodafone, a director of Vodafone s operating companies located in Greece, Hungary, Australia, Ireland, New Zealand, Portugal, Egypt, the Netherlands, Czech Republic and Romania and a director of certain other subsidiaries of Vodafone. Prior to his appointment as the Chief Executive Officer of the EMAPA division, Mr. Donovan was Chief Executive Officer of the Other Vodafone Subsidiaries, 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 program. 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 Bachelor of Arts Degree in Scandinavian Studies from University College London and a Master s Degree in Business Administration from Bradford University Management Centre, and has over 15 years experience in the telecommunications and information technology industries, gained at Apple Computer, BT and Cable and Wireless subsidiary One2One as Commercial Director, and as Chief Commercial Officer at Australian telecommunications 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-Panafon Hellenic Telecommunications Company S.A. and Bharti Tele-Ventures Limited.

Compensation

The aggregate amount of compensation that we paid to our directors and executive officers in 2005 for services performed as directors, officers or employees was approximately HK$40.0 million (US$5.2 million).

We adopted a share option scheme on October 8, 1997, or the Old Scheme, pursuant to which our directors may, at their discretion, invite our employees, including executive directors, or employees of our subsidiaries, to take up options to subscribe for ordinary shares up to a maximum aggregate number of ordinary shares equal to 10% of our total issued share capital.

Pursuant to a resolution passed at the annual general meeting held on June 24, 2002, the Old Scheme was terminated and a new share option scheme, or the New Scheme, was adopted. The purpose of the New 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 holdings companies and their respective subsidiaries and any entity in which the Company or any of its subsidiaries holds any equity interest, thereby providing incentives to these participants. Under the New Scheme, the directors of the Company may, at their discretion, invite the plan participants to take up options to subscribe for the ordinary shares of the Company.

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

Table of Contents

As the Old Scheme was terminated with effect on June 24, 2002, no further options were granted under the Old Scheme thereafter. As at December 31, 2005, the total number of ordinary shares which may be issued on the exercise of the outstanding options granted under the Old Scheme is 82,141,250. As at the same date, the total number of ordinary shares which may be issued on the exercise of the outstanding options granted or to be granted under the New Scheme is 1,624,889,195. 289,777,500 share options were granted under the New Scheme during the year ended December 31, 2005.

The consideration payable for the grant of option under each of the Old Scheme and the New Scheme is HK$1.00. For options granted before September 1, 2001 under the Old Scheme, the exercise price of the 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% of the average of the closing price of the ordinary share on the Hong Kong Stock Exchange on the five trading days immediately preceding the date on which the option was granted.

For options granted under the New Scheme, the exercise price of the options are 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 an ordinary share;

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

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

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

As of December 31, 2005, the directors and employees of the Company had options to subscribe for the ordinary shares of the Company granted under both the Old Scheme and, from June 24, 2002 onwards, the New Scheme. In 2005, 134,521,000 of these options had been exercised. See Share Ownership below for details on options granted to our directors.

Board Practices

To enhance our corporate governance, we have three principal board committees, the audit committee, the remuneration committee and the nomination committee. The audit committee, the remuneration committee and the nomination committee are all comprised solely of independent non-executive directors.

Audit Committee

The members of our audit committee are Dr. Lo Ka Shui, as chairman of the committee, Mr. Frank K.S. Wong and Mr. Moses M.C. Cheng. The audit committee s major responsibilities include:

- to review the financial reports, the related report of independent registered public accounting firm and management s responses to the reports;

- to discuss the audit procedures with the independent registered public accounting firm as well as any issues arising out of such procedures;

- to review the appointment of the independent registered public accounting firm, the audit and non-audit fees and any matters relating to the termination or resignation of the independent registered public accounting firm; and

- to examine the effectiveness of our internal controls, to review our internal audit plan and to submit relevant reports and recommendations to our Board on a regular basis.

The audit committee usually meets four times each year.

Table of Contents

Remuneration Committee

The members of our remuneration committee are Dr. Lo Ka Shui, as chairman of the committee, Mr. Frank K.S. Wong and Mr. Moses M.C. Cheng. The remuneration committee s major responsibilities include:

- to advise the Board in relation to the remuneration structure and payments of our executive directors and executives; and
- to represent the Board in confirming the individual remuneration packages and employment terms of executive directors and approving their related employment contracts.

Meetings of the remuneration committee are held at least once a year.

Nomination Committee

The members of our nomination committee are Dr. Lo Ka Shui, as chairman of the committee, Mr. Frank K.S. Wong and Mr. Moses M.C. Cheng. The primary responsibilities of the nomination committee include:

- to review, advise and make recommendations to the board on the matters in relation to the appointment and re-appointment of board members; and
- to ensure the proper and transparent procedures for the appointment and re-appointment of directors.

Meetings of the nomination committee are held at least once a year.

Employees

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

Share Ownership

As of December 31, 2005, the following former and current directors and members of our senior management had interests in our share capital:

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

As of December 31, 2005, options exercisable for an aggregate of 13,941,500 shares had been granted to the following former and current directors and members of our senior management under our share option scheme and were outstanding. As of the same date, none of these options had been exercised.

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

Director	Number of shares covered by options
He Ning	1,000,000
Li Gang	1,000,000

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

Director	Number of shares covered by options
He Ning	166,000
Li Gang	180,000
Xu Long	1,170,000

The following options are exercisable at a price of HK$32.10 per share from June 22, 2006 through October 7, 2007.

Director	Number of shares covered by options
He Ning	45,000
Li Gang	50,000
Xu Long	47,500

Table of Contents

The following options are exercisable at a price of HK$22.85 per share from July 3, 2007 through July 2, 2012.

Director	Number of shares covered by options
Xue Taohai	100,000
He Ning	90,000
Li Gang	95,000
Xu Long	90,000

The following options are exercisable at a price of HK$22.75 per share through October 27, 2014:

Director	Number of shares covered by options
Li Yue	48,000

The following options are exercisable at a price of HK$22.75 per share from October 28, 2006 through October 27, 2014:

Director	Number of shares covered by options
Li Yue	96,000
Lu Xiangdong	96,000
Xue Taohai	96,000
Zhang Chengshuang	96,000
Li Mofang	96,000
He Ning	96,000
Li Gang	81,000
Xu Long	78,000

The following options are exercisable at a price of HK$22.75 per share from October 28, 2007 through October 27, 2014:

Director	Number of shares covered by options
Li Yue	96,000
Lu Xiangdong	96,000
Xue Taohai	96,000
Zhang Chengshuang	96,000
Li Mofang	96,000
He Ning	96,000
Li Gang	81,000
Xu Long	78,000

The following options are exercisable at a price of HK$26.75 per share through December 20, 2014:

Director	Number of shares

	covered by options
Wang Jianzhou	240,000

The following options are exercisable at a price of HK$26.75 per share from December 21, 2006 through December 20, 2014:

Director	Number of shares covered by options
Wang Jianzhou	180,000

The following options are exercisable at a price of HK$26.75 per share from December 21, 2007 through December 20, 2014:

Director	Number of shares covered by options
Wang Jianzhou	180,000

Table of Contents

The following options are exercisable at a price of HK$34.87 per share from November 8, 2006 through November 7, 2015:

Director	Number of shares covered by options
Wang Jianzhou	388,000
Li Yue	312,000
Lu Xiangdong	312,000
Xue Taohai	312,000
Zhang Chenshuang	312,000
Li Mofang	312,000
He Ning	312,000
Li Gang	108,000
Xu Long	108,000
Julian Michael Horn-Smith	160,000
Lo Ka Shui	160,000
Frank Wong Kwong Shing	160,000
Moses Cheng Mo Chi	160,000

The following options are exercisable at a price of HK$34.87 per share from November 8, 2007 through November 7, 2015:

Director	Number of shares covered by options
Wang Jianzhou	291,000
Li Yue	234,000
Lu Xiangdong	234,000
Xue Taohai	234,000
Zhang Chenshuang	234,000
Li Mofang	234,000
He Ning	234,000
Li Gang	81,000
Xu Long	81,000
Julian Michael Horn-Smith	120,000
Lo Ka Shui	120,000
Frank Wong Kwong Shing	120,000
Moses Cheng Mo Chi	120,000

The following options are exercisable at a price of HK$34.87 per share from November 8, 2008 through November 7, 2015:

Director	Number of shares covered by options
Wang Jianzhou	291,000
Li Yue	234,000
Lu Xiangdong	234,000
Xue Taohai	234,000
Zhang Chenshuang	234,000
Li Mofang	234,000
He Ning	234,000
Li Gang	81,000
Xu Long	81,000

Julian Michael Horn-Smith	120,000
Lo Ka Shui	120,000
Frank Wong Kwong Shing	120,000
Moses Cheng Mo Chi	120,000

Item 7. Major Shareholders and Related Party Transactions.

Major Shareholders

As of May 31, 2006, approximately 74.9% of our outstanding shares were held by China Mobile Hong Kong (BVI) Limited, a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited. CMCC, a state-owned company, holds all of the voting shares and economic interest in China Mobile (Hong Kong) Group Limited. No other persons own 5% or more of our ordinary shares. Between our initial public offering and May 31, 2006, our majority shareholders held, directly or indirectly, between approximately 74.9% and 76.5% of equity interest in us, except for brief periods following our equity offerings in 1999 and 2000 but before the issuance of consideration shares to our direct shareholder, China Mobile Hong Kong (BVI) Limited, for the related acquisitions, during which periods the shareholding was temporarily lower. See Item 4. Information on the Company Industry Restructuring and Changes in Our Shareholding Structure for changes during the past three years with respect to our majority shareholders. Under our Memorandum and Articles of Association, our major shareholders do not have different voting rights when compared to other holders of shares in the same class.

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

Related Party Transactions

As of May 31, 2006, CMCC indirectly owned an aggregate of approximately 74.9% of our issued and outstanding share capital.

We and each of our subsidiaries have entered into various related party transactions. The principal terms of the agreements for these related party transactions are described below.

Certain charges for the services under these agreements are based on tariffs set by the PRC regulatory authorities. Those transactions where the charges are not set by PRC regulatory authorities are based on commercial negotiation between the parties, in each case on an arm s length basis.

International Roaming Arrangements

Prior to July 1, 2004, international roaming and international long distance calling charges incurred by an international mobile telecommunications services subscriber making or receiving a call while roaming in Mainland China were collected for us and credited to us by CMCC, and we would make the necessary settlement with the relevant telecommunications operators in Mainland China. CMCC also collected a 15% handling charge on the roaming and international long distance calling charges from the international mobile telecommunications operators and shared such handling charge equally with us. When our subscribers roamed internationally, we would collect the roaming and international long distance calling charges together with a 15% handling charge from our subscribers and would pay the roaming and international long distance calling charges together with half of the handling charge collected to CMCC, which would make the necessary settlement with the international mobile telecommunications operators concerned. Where long distance charges could not be distinguished from base roaming charges, such long distance charges were grouped under roaming charges.

Following the completion of our acquisition of the telecommunication assets from our parent company in July 2004, CMCC no longer provides mobile telecommunications services in Mainland China other than through us. As a result, we no longer have inter-provincial roaming and interconnection arrangement with CMCC and the handling charge with respect to roaming and international long distance calling charges are no longer shared between CMCC and us. In addition, pursuant to the agreement we entered into with CMCC on July 1, 2004, CMCC maintains the existing settlement arrangements with respect to international interconnection and roaming with the relevant telecommunications services providers in foreign countries and regions, and collects the relevant usage fees and other fees from us and pays the same to the relevant mobile telecommunication service providers in foreign countries and regions.

Licensing of Trademark

CMCC is the owner of the CHINA MOBILE name and logo, a registered trademark in Mainland China, Hong Kong, Macau, Taiwan, Brunei, Cambodia, Indonesia, New Zealand, South Korea, Thailand and the United States. In addition, it has filed applications in Bangladesh, Canada, India, Malaysia and Philippines to register the CHINA MOBILE name and logo as a trademark for certain goods and services. In July 2002, we entered into a licensing agreement with CMCC for, among other things, the use of the CHINA MOBILE name and logo by us and our operating subsidiaries. This licensing agreement replaces the previous licensing agreements entered into with CMCC in October 1999 and the supplemental licensing agreement entered into in September 2000. In addition, each of the companies that we acquired in July 2004, other than Jingyi, has entered into a licensing agreement with CMCC for the use of the CHINA MOBILE name and logo. Under these agreements, no license fee is payable until December 31, 2007.

Spectrum Fees and Numbering Resources

The Ministry of Information Industry and the Ministry of Finance jointly determine the standardized spectrum fees payable to the Ministry of Information Industry by all mobile telecommunications operators in Mainland China, including us. In accordance with a joint circular from the National Development and Reform Commission and the Ministry of Finance, CMCC entered into an agreement with us that specifies the amount of fees to be paid to the Ministry of Information Industry for spectrum usage by each mobile telecommunications network operator based on the bandwidth of the frequency used and the number of base stations within the relevant operator s networks. In October 1999, we entered into an agreement with CMCC (as supplemented by two supplemental agreements entered into in September 2000 and April 2002), under which we have been granted the exclusive right to use the frequency spectrum and telephone numbers allocated to CMCC in Mainland China. For the usage of the 800/900 MHz and the 1800 MHz frequency bands, the charges will be shared between our operating subsidiaries and CMCC s operating subsidiaries. Sixty percent of the charges will be shared on the basis of the number of base stations at the end of the previous year and 40% of the charges will be shared on the basis of the bandwidth of the spectrum used. The agreement is valid for one year and will be automatically renewed on an annual basis unless either party notifies the other of its intention to terminate at least three months prior to the expiration of the term.

On May 2, 2002, the relevant regulatory authorities in China informed us that the standard spectrum usage fees for GSM networks will be adjusted progressively over a period of three years, and the adjustments will be effective from July 1, 2002 for a period of five years. For the first year, spectrum usage fees for GSM networks will be charged at the annual rate of RMB7.5 million per MHz frequency. For the second year, the annual fee will be RMB11.25 million per MHz frequency and from the third year onward, the annual fee will be RMB15 million per MHz frequency. All adjusted annual fees are charged on the basis that upward and downward frequencies are separately charged. The allocation of spectrum usage fees between CMCC and us remains the same under our existing agreement.

Following the completion of our acquisition of the telecommunications assets from our direct parent company in July 2004, we entered into an agreement with CMCC on July 1, 2004, pursuant to which CMCC will collect usage fees from us relating to spectrum frequency and numbering resources and make payment to the Ministry of Information Industry. In addition to transferring to us all existing frequency spectrum and numbering resources allocated to it by the Ministry of Information Industry, CMCC has also agreed to apply for new frequency spectrum and numbering resources upon our request or notice from time to time and transfer the relevant new frequency spectrum and numbering resources to us.

Sharing of Inter-Provincial Transmission Line Leasing Fees

Following the completion of our acquisition of the telecommunications assets from our direct parent company in July 2004, we entered into an agreement with CMCC on July 1, 2004, pursuant to which CMCC maintains the existing settlement arrangements with respect to inter-provincial transmission line leasing with the relevant transmission line providers in Mainland China, and collects inter-provincial transmission line leasing fees from us and pay the same to the transmission line providers in respect of the inter-provincial transmission lines we lease from such providers.

Platform Development

Aspire is 66.4% owned by us, and it is a joint venture with Vodafone and Hewlett-Packard Company. It entered into a platform development master agreement with us on January 10, 2001. Under the platform development master agreement, Aspire (or its subsidiaries) provides technology platform development and maintenance services to us and our subsidiaries. These services include system and gateway integration services, hardware, software and system development (including development of applications), technical support and major overhaul services for a standardized, nation-wide platform for wireless data.

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

Table of Contents

Property Leasing and Management Services

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

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

In addition, each of the companies that we acquired in July 2004 has entered into property leasing and management agreements with CMCC with terms similar to the agreements for our existing subsidiaries.

Construction and Related Services

Beijing Mobile, Shanghai Mobile, Liaoning Mobile and Shandong Mobile entered into agreements with certain subsidiaries of CMCC under which such subsidiaries provide services such as construction, design, equipment installation, testing and/or maintenance services and/or act as general contractors in relation to construction and other projects of our subsidiaries. Such agreements are for terms of between 6 months and 16 months, which will be automatically renewed on an annual basis unless either party (in the case of Shandong Mobile, Shanghai Mobile and Beijing Mobile) or Liaoning Mobile (in the case of Liaoning Mobile) notifies the other in writing at least three months prior to the expiration of the term of its intention to terminate the arrangement. Beijing Mobile had also previously entered into other agreements for the provision of certain construction and related services which have continued to be performed according to their terms after Beijing Mobile was acquired by us in November 2000. The charges payable for services rendered under such agreements are determined according to standards laid down by relevant governmental departments and/or by reference to market rates.

Equipment Maintenance and Related Services

Beijing Mobile, Shanghai Mobile and Liaoning Mobile entered into agreements with certain subsidiaries of CMCC under which such subsidiaries provide equipment maintenance and related services to such companies. Such agreements are for terms of between 6 months and 15 months, which will be automatically renewed on an annual basis unless either party (in the case of Beijing Mobile) or Shanghai Mobile or Liaoning Mobile (in the case of Shanghai Mobile and Liaoning Mobile, respectively) notifies the other of its intention to terminate in writing at least three months prior to the expiration of the term. Beijing Mobile had also previously entered into another agreement for the provision of certain equipment maintenance services which continued to be performed according to its terms after Beijing Mobile was acquired by us in November 2000. The charges payable for services rendered under such agreements are determined according to standards laid down by relevant governmental departments and/or by reference to market rates.

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

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

Table of Contents

Telecommunications Services

In April 2002, each of Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile has, respectively, entered into an agreement with the respective subsidiary of CMCC for the provision of certain telecommunications services. These services include:

(i) telecommunications projects planning, design and constructions services and telecommunications lines and pipelines construction services (as the case may be);

(ii) telecommunications lines maintenance services provided to Anhui Mobile, Jiangxi Mobile, Shaanxi Mobile and Shanxi Mobile; and

(iii) property leasing and property management services.

For the services described in (i) and (ii) above, the charges payable are generally determined with reference to and cannot exceed relevant standards set by and revised from time to time by relevant governmental authorities in Mainland China. Where there are no such standards, the charges are determined with reference to market rates.

In April 2004, each of our Company, Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and China Mobile Communication Company Limited has entered into agreements with CMCC and its respective subsidiaries in respect of the provision of the following services by CMCC or its subsidiaries:

(i) property leasing and property management services;

(ii) telecommunications project planning, design and construction services;

(iii) telecommunications line and pipeline construction services; and

(iv) telecommunications line maintenance services.

For the services described in (ii), (iii) and (iv) above, the charges payable are generally determined with reference to and cannot exceed relevant standards set by and revised from time to time by relevant governmental authorities in Mainland China. Where there are no such standards, the charges are determined with reference to market rates.

Transmission Tower Sales, Installation and Maintenance

On May 8, 2002, we entered into an agreement with Hubei Communication Services Company, a wholly-owned subsidiary of CMCC, under which Hubei Communication Services Company provided transmission towers and spare parts and related installation and maintenance services to our operating subsidiaries. The price of such transmission towers and spare parts and the charges payable for the services rendered under the agreement are determined either according to standards set by relevant governmental authorities in Mainland China or by reference to market rates.

Miscellaneous

These transactions entered into by us (including our subsidiaries) have been entered into in the ordinary course of business and on normal commercial terms. Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Hong Kong Listing Rules), these transactions are considered to be connected transactions and (other than the licensing of trademarks and the arrangements entered into by the subsidiaries we acquired in 2004) would normally require full disclosure and, in certain circumstances, prior independent shareholders approval on each occasion they arise. As the transactions are expected to be continued in the normal course of business, our directors consider that such disclosure and approval would be impractical. Accordingly, our directors have requested the Hong Kong Stock Exchange to grant, and the Hong Kong Stock Exchange has granted, waivers from compliance with the normal approval and disclosure requirements related to connected transactions under the Hong Kong Listing Rules (except for the licensing of trademarks and the arrangements entered into by the subsidiaries we acquired in 2004), which were effective until December 31, 2004, except that the waivers for transactions relating to platform development will be effective until December 31, 2006, upon the following conditions as applicable:

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

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

(3) our independent non-executive directors shall review annually the transactions and confirm in our Hong Kong annual report and financial statements for the relevant year that the transactions have been conducted in the manner stated in paragraph (1) above and within the upper limits stated below;

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

received the approval of our board of directors;

are in accordance with the pricing policies as stated in our annual report;

have been conducted in the manner as stated in (1)(b) above; and

have not exceeded the upper limits as set forth in paragraph (7) below;

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

(6) CMCC has undertaken to us that our auditors will be granted access to such of its and its associates accounting records for the purposes of reviewing the transactions mentioned above; and

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

payments payable by us (other than the eight regional mobile telecommunications companies we acquired in 2002 and the ten regional mobile telecommunications companies we acquired in 2004), to subsidiaries of CMCC for collection service charges in any fiscal year shall not exceed 0.1% of our consolidated operating revenue in such year, and payment payable by us (other than the eight regional mobile telecommunications companies we acquired in 2002 and the ten regional mobile telecommunications companies we acquired in 2004) to subsidiaries of CMCC for sales service charges in any fiscal year shall not exceed 0.3% of our consolidated operating revenue in such year;

payments payable by us (other than the eight regional mobile telecommunications companies we acquired in 2002 and the ten regional mobile telecommunications companies we acquired in 2004), to subsidiaries of CMCC for rental and property management fees in any fiscal year shall not exceed 0.56% of our consolidated operating revenue in such year;

payments payable by us (other than the eight regional mobile telecommunications companies we acquired in 2002 and the ten regional mobile telecommunications companies we acquired in 2004), to subsidiaries of CMCC for construction and related services in any fiscal year shall not exceed 0.25% of our consolidated operating revenue in such year;

payments payable by us (other than the eight regional mobile telecommunications companies we acquired in 2002 and the ten regional mobile telecommunications companies we acquired in 2004), to subsidiaries of CMCC for equipment maintenance and related services in any fiscal year shall not exceed 0.05% of our consolidated operating revenue in such year;

payments payable by Hebei Mobile to the relevant subsidiaries of CMCC for purchase of transmission towers, transmission tower-related services and antenna maintenance services in any fiscal year shall not exceed 0.06% of our consolidated operating revenue in such year;

handling charges received by us (other than the eight regional mobile telecommunications companies we acquired in 2002 and the ten regional mobile telecommunications companies we acquired in 2004), from subsidiaries of CMCC in respect of prepaid services for our fiscal years from January 1, 2004 to December 31, 2006 shall not exceed 1% of our consolidated operating revenue for such year, and handling charges paid by us to subsidiaries of CMCC in respect of prepaid services for our fiscal years from January 1, 2004 to December 31, 2006 shall not exceed 1% of our consolidated operating revenue for such year;

handling charges received by the eight regional mobile telecommunications companies we acquired in 2002 from the subsidiaries of CMCC in respect of prepaid services in any fiscal year shall not exceed 1% of our consolidated operating revenue in such year, and handling charges paid by the eight regional mobile telecommunications companies we acquired in 2002 to subsidiaries of CMCC in respect of prepaid services in any fiscal year shall not exceed 1% of our consolidated operating revenue in such year;

payments payable by CMCC to Aspire or its subsidiaries in respect of platform development charges in any fiscal year shall not exceed 3% of our consolidated net tangible assets as of the end of such year;

payments in respect of telecommunications projects planning, design and construction services and telecommunications lines and pipelines construction services payable by the eight regional mobile telecommunications companies we acquired in 2002 to the subsidiaries of CMCC in any fiscal year shall not exceed 0.25% of our consolidated operating revenue in such year;

telecommunications lines maintenance services payments payable by the eight regional mobile telecommunications companies we acquired in 2002 to the subsidiaries of CMCC in any fiscal year shall not exceed 0.04% of our consolidated operating revenue in such year;

property leasing and property management services payments payable by the eight regional mobile telecommunications companies we acquired in 2002 to the subsidiaries of CMCC in any fiscal year shall not exceed 0.25% of our consolidated operating revenue in such year; and

payments to Hubei Communication Services Company, a subsidiary of CMCC, by us in respect of the purchase of transmission towers and related services in any fiscal year shall not exceed 0.5% of our consolidated operating revenue in such year.

Our independent shareholders approved the connected transactions and the related upper limits at our extraordinary general meeting held on June 24, 2002 and May 15, 2003, respectively.

Following the completion of our acquisition of the telecommunications assets from CMCC in July 2004, CMCC no longer provides mobile telecommunications services in Mainland China other than through us. Therefore, the transactions previously entered into between our subsidiaries and prior subsidiaries of CMCC which have been acquired by us no longer constitute connected transactions under the Hong Kong Listing Rules beginning on July 1, 2004 since such prior subsidiaries of CMCC became part of us on July 1, 2004, and the waivers granted by the Hong Kong Stock Exchange as mentioned in sub-paragraph (7) above that are related to the transactions between our subsidiaries and such prior subsidiaries of CMCC became obsolete on July 1, 2004. Only those transactions between us and CMCC or its subsidiaries (which have not been acquired by us) remain as connected transactions under the Hong Kong Listing Rules. In December 2004, in order to streamline the management of the connected transactions, we consolidated the agreements between us and CMCC into two agreements:

(i) the Property Leasing Agreement pursuant to which we rent from CMCC various properties for use as business premises and offices, retail outlets and warehouses and CMCC and its subsidiaries provide to us property management services. Under this agreement, for properties owned by CMCC or its subsidiaries, the charges are determined with reference to market rates. For properties leased by CMCC or its subsidiaries from third parties and sublet to us, the charges are determined according to the actual rent payable by CMCC or its subsidiaries together with any tax payable. The payments payable by us to CMCC and its subsidiaries shall not exceed RMB800 million, RMB900 million and RMB1,000 million for the fiscal years ending December 31, 2005, 2006 and 2007, respectively; and

(ii) the Telecommunications Services Agreement pursuant to which our subsidiaries obtain telecommunications project planning, design and construction services, telecommunications line and pipeline construction services and telecommunications line maintenance services from CMCC and its subsidiaries. Pursuant to the Telecommunications Services Agreement, subsidiaries of CMCC sell transmission towers and spare parts and provide related installation and maintenance services to our subsidiaries. Under this agreement, the charges and prices payable are generally determined with reference to and cannot exceed relevant standards set by and revised from time to time by relevant governmental authorities in Mainland China. Where there are no such standards, the charges and prices are determined with reference to market rates. The payments payable to CMCC and its subsidiaries by us shall not exceed RMB2,500 million for each of the three fiscal years ending December 31, 2007.

The transactions relating to platform development between CMCC and Aspire remain as connected transactions under the Hong Kong Listing Rules, and the charges paid by CMCC to Aspire or its subsidiaries have not exceeded 3% of our consolidated net tangible assets as of December 31, 2005. The platform development charges payable were determined according to standards laid down by the relevant government departments and/or by reference to market rates, and the waiver granted by the Hong Kong Stock Exchange as mentioned in sub-paragraph (7) above that is related to such transactions will be effective until December 31, 2006.

Item 8. Financial Information.

Consolidated Financial Statements

Our audited consolidated financial statements are set forth beginning on page F-1. Other than as disclosed elsewhere in this annual report on Form 20-F, no significant change has occurred since the date of the annual financial statements.

Legal Proceedings

We are not involved in any material litigation, arbitration or administrative proceedings, and, so far as we are aware, we do not have any pending or threatened litigation, arbitration or administrative proceeding that is expected to have a material effect on our financial conditions and results of operation.

Policy on Dividend Distributions

We hold in the highest regard the interests of and the returns achieved for our shareholders, especially minority shareholders. Having taken into account such factors as our financial position, cash flow position and requirements to ensure the sustainable future growth of our business, our board of directors recommended payment of a final dividend of HK$0.57 per share for the financial year ended December 31, 2005. This, together with the interim dividend of HK$0.45 per share already paid during 2005, amounted to an aggregate dividend payment of HK$1.02 per share for the full financial year, representing an increase of 54.5% over the annual dividend of HK$0.66 per share for the financial year 2004 and a dividend payout ratio of 39%. Our board of directors is of the view that our strong free cash flow will be capable of supporting the investments required to sustain steady growth and generate a good cash return to our shareholders. We will endeavor to achieve a long-term sustainable, steadily increasing dividend, with a view to generating the best possible return for our shareholders.

Item 9. The Offer and Listing.

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

As of December 31, 2005 and May 31, 2006, there were 19,835,160,399 and 19,880,551,599, respectively, ordinary shares issued and outstanding. As of December 31, 2005 and May 31, 2006, there were, respectively, 259 and 119 registered holders of American depositary receipts evidencing 51,748,835 and 63,892,152 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depositary for the ADSs is The Bank of New York.

The high and low closing sale prices of the shares on the Hong Kong Stock Exchange and of the ADSs on the NYSE for the periods indicated are as follows.

	Price per Share (HK$)		Price per ADS (US$)	
	High	Low	High	Low
2001	50.50	19.40	33.00	13.19
2002	28.40	17.80	17.87	11.30
2003	23.90	14.85	15.54	9.30
2004	27.85	19.25	18.07	12.31
First Quarter	27.85	22.35	18.07	14.01
Second Quarter	23.75	19.25	15.16	12.31
Third Quarter	24.60	21.15	15.90	13.63
Fourth Quarter	26.90	22.15	17.32	14.39
2005	39.80	23.45	25.66	14.91
First Quarter	26.65	23.45	17.10	14.91
Second Quarter	29.70	25.10	19.17	16.20
Third Quarter	38.25	27.55	24.86	17.93
Fourth Quarter	39.80	33.80	25.66	21.70
December	39.80	36.70	25.66	24.00
2006				
January	39.10	36.95	25.24	24.01
February	38.05	35.85	24.66	22.82
March	41.65	35.60	26.91	23.12
April	46.75	42.05	30.27	27.35
May	46.60	40.05	30.93	25.51

Item 10. Additional Information.

Memorandum and Articles of Association

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

Directors

Material Interests. A director who is in any way directly or indirectly interested in a contract or proposed contract with us shall declare the nature of his interest in accordance with the provisions of the Companies Ordinance (Chapter 32) of Hong Kong and the Articles of Association. A director shall not vote, or be counted in the quorum, on any resolution of the board in respect of any contract or arrangement or proposal in which he or any of his Associates (as such term is defined in the Listing Rules of the Hong Kong Stock Exchange), is to his knowledge, materially interested, and if he shall do so his vote shall not be counted or counted in the quorum for that resolution. The above prohibition shall not apply to any contract, arrangement or proposal:

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

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

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

57

Table of Contents

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

concerning any other company in which the director or his Associates are interested, directly or indirectly, as an officer or a shareholder or in which the director or his Associates are beneficially interested in shares of that company other than a company in which the director and any of his Associates, are beneficially interested in five percent or more of the issued shares of any class of the equity share capital of such company (or of any third company through which his interest or that of his Associates is derived) or of the voting rights (excluding for the purpose of calculating such five percent interest any indirect interest of such director or his Associates by virtue of our interest in such company);

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

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

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

The board may establish and maintain any contributory or non-contributory pension or superannuation funds for the benefit of, or give donations, gratuities, pensions, allowances or emoluments to any persons (1) who are or were at any time in employment or service of our company (or any of our subsidiaries) or are allied or associated with us or any of our subsidiaries, or (2) who are or were at any time our (or any of our subsidiaries) directors or officers, and who are holding or have held any salaried employment or office in our company or any of our subsidiaries, and the wives, widows, families and dependants of any of these persons. Any director holding any such employment or office is entitled to participate in, and retain for his own benefit, any such donation, gratuity, pension, allowance or emolument.

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

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

Each director is subject to retirement by rotation at least once every three years. The directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became directors on the same day shall be determined by lot unless they otherwise agree between themselves. The retiring directors shall be eligible for re-election.

Rights Attaching to Ordinary Shares

The section entitled Description of Share Capital in our Registration Statement on Form F-3 (File No. 333-47256), as filed with the Securities and Exchange Commission on October 30, 2000, is incorporated by reference into this annual report on Form 20-F.

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

Table of Contents

Annual General Meetings and Extraordinary General Meetings

We must hold, in each year, a general meeting as our annual general meeting in addition to any other meetings in that year. The annual general meeting must be held at such time (which shall be within a period of not more than 15 months, or such longer period as the Registrar of Companies may authorize in writing, after the holding of the last preceding annual general meeting) and place as may be determined by the directors. All other general meetings are extraordinary meetings. The directors may proceed to convene an extraordinary general meeting whenever they think fit, in accordance with the Companies Ordinance.

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

Miscellaneous

We keep our share register with our share registrar, which is Hong Kong Registrars Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen s Road East, Wanchai, Hong Kong. In addition, we also file certain documents with the Registrar of Companies, Hong Kong, China, in accordance with the requirements of the Companies Ordinance. Our company number is 622909.

Material Contracts

See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions for certain arrangements we have entered into with CMCC.

Interconnection Arrangements

Each of our operating subsidiaries has entered into interconnection agreements with other operators in its network area. The economic terms of the interconnection arrangements are described under Item 4. Information on the Company Business Overview Interconnection .

Aspire Business Alliance with Vodafone

On January 9, 2002, Vodafone Americas Asia Inc., a subsidiary of Vodafone, and Aspire entered into a business alliance agreement under which Aspire will engage Vodafone Global Platform and Internet Services, a unit of Vodafone Americas Asia Inc., as a preferred provider of wireless data applications software in relation to the Aspire Mobile Information Service Center Platform, provided that software supplied to Aspire has at least equivalent technical specifications on the same or better commercial terms. Aspire and Vodafone Global Platform and Internet Services also agreed to use their reasonable efforts to coordinate the development of their respective wireless data platforms with the intention of providing a seamless delivery of wireless data services for their respective customers and enabling content and application providers to use a single application programming interface.

Exchange Controls

The Renminbi currently is not a freely convertible currency. The Renminbi is currently freely convertible under the current account , which includes dividends, trade and service-related foreign currency transactions, but not under the capital account , which includes foreign direct investment, unless the prior approval of the State Administration of Foreign Exchange is obtained. The State Administration of Foreign Exchange, under the authority of the People s Bank of China, controls the conversion of Renminbi into foreign currency. In the event of shortages of foreign currencies, we may be unable to convert sufficient Renminbi into a foreign currency to meet our foreign currency obligations or to pay dividends in a foreign currency.

The value of the Renminbi is subject to changes in PRC government policies and to international economic and political developments. Since 1994, the conversion of the Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the People s Bank of China, which are set daily based on the previous business day s inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to foreign currencies was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC government has since made and in the future may make further adjustments to the exchange rate system.

Table of Contents

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

Taxation   Hong Kong

The taxation of income and capital gains of holders of ordinary shares or ADSs is subject to the laws and practices of Hong Kong and of jurisdictions in which holders of ordinary shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions under Hong Kong law is based on current law and practice, is subject to changes therein and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the ordinary shares or ADSs. Accordingly, each prospective investor (particularly those subject to special tax rules, such as banks, dealers, insurance companies, tax-exempt entities and holders of 10% or more of our voting capital stock) should consult its own tax advisor regarding the tax consequences of an investment in the ordinary shares and ADSs. The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this annual report on Form 20-F, all of which are subject to change. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

Tax on Dividends

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

Profits Tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the ordinary shares and ADSs). Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5% on corporations and at a maximum rate of 16% on individuals. Gains from sales of the ordinary shares effected on the Hong Kong Stock Exchange may be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax may thus arise in respect of trading gains from sales of ordinary shares or ADSs realized by persons carrying on a business or trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the rate of HK$1 per HK$1,000 or part thereof on the higher of the consideration for or the value of the ordinary shares, will be payable by the purchaser on every purchase and by the seller on every sale of ordinary shares (i.e., a total of HK$2 per HK$1,000 or part thereof is currently payable on a typical sale and purchase transaction involving ordinary shares). In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of ordinary shares. The withdrawal of ordinary shares upon the surrender of ADSs, and the issuance of ADSs upon the deposit of ordinary shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless the withdrawal or deposit does not result in a change in the beneficial ownership of the ordinary shares under Hong Kong law, in which case only a fixed duty of HK$5 is payable on the transfer. The issuance of the ADSs upon the deposit of ordinary shares issued directly to the depositary or for the account of the depositary does not attract stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of ordinary shares whose death occurs on or after February 11, 2006.

Taxation   United States Federal Income Taxation

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

a dealer in securities;

- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a tax-exempt organization;
- a life insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of our voting stock;
- a person that holds shares or ADSs as part of a straddle or a hedging or conversion transaction; or
- a person whose functional currency is not the U.S. dollar.

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

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

- a citizen or resident of the United States;
- a domestic corporation;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

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

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to the United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements.

The dividend is taxable to you when you, in the case of shares, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income will be the U.S. dollar value of the Hong Kong dollar payments made, determined at the spot Hong Kong dollar/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. This gain or loss generally will be from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits (as determined for United States federal income tax purposes) will be treated as a non-taxable return of capital to the extent of your basis in the shares or ADSs and thereafter as capital gain. Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be passive or financial services income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on your circumstances, be passive or general income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Table of Contents

Taxation of Capital Gains

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your shares or ADSs. Capital gain of a noncorporate U.S. holder that is recognized in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the property is held more than one year. The deductibility of capital losses is subject to limitations. The gain or loss will generally be from sources within the United States for foreign tax credit limitation purposes.

PFIC Rules

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

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

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

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

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

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

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

Under these rules:

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

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

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

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

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

Table of Contents

In addition, notwithstanding any election you make with regard to the shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, your shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your shares or ADSs, even if we are not currently a PFIC. For purposes of this rule, if you make a mark-to-market election with respect to your shares or ADSs, you will be treated as having a new holding period in your shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for Untied States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

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

Documents on Display

You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the U.S. Securities and Exchange Commission at the SEC s public reference room located at MS 0102, 100 F Street, N.E., Room 1580, Washington, D.C. 20549-2521. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a web site at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

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

Item 11. Quantitative and Qualitative Disclosures About Market Risk.

We are subject to market rate risks due to fluctuations in interest rates. The majority of our debt is in the form of long-term loans with original maturities ranging from one to fifteen years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of these debt instruments. From time to time, we may enter into interest rate swap agreements designed to mitigate our exposure to interest rate risks, although we did not consider it necessary to do so in 2005.

We are also exposed to foreign currency risk as a result of our telecommunications equipment being sourced substantially from overseas suppliers. Specifically, our foreign currency exposure relates primarily to our foreign currency-denominated long-term debt, our firm purchase commitments and, to a limited extent, cash and cash equivalents denominated in foreign currencies. We have entered into foreign exchange forward contracts designed to mitigate our exposure to foreign currency risks. As of December 31, 2005, we had no foreign exchange forward contracts outstanding. Our foreign currency hedging activity generally is expected to be limited to hedging of specific future commitments and long-term debt denominated in foreign currencies.

Table of Contents

The following table provides information regarding our interest rate-sensitive financial instruments, which consist of fixed and variable rate short-term and long-term debt obligations, as of December 31, 2005 and 2004.

	Expected Maturity Date						As of December 31, 2005		As of December 31, 2004	
	2006	2007	2008	2009	2010	Thereafter	Total Recorded Amount	Fair Value	Total Recorded Amount	Fair Value
	(RMB equivalent in millions, except interest rates)									
Debt:										
Obligations under capital leases	68						68	68	68	68
Average interest rate	4.96%						4.96%		4.96%	
Fixed rate bank and other loans									1,432	1,408
Average interest rate									3.53%	
Variable rate bank and other loans									1,023	1,023
Average interest rate									3.82%	
Convertible notes									5,725	5,666
Average interest rate									2.25%	
Bonds		2,988				9,924	12,912	13,685	13,000	12,119
Average interest rate		3.50%				4.12%	3.97%		4.03%	
Deferred payable						23,633	23,633	23,633	23,633	23,633
Average interest rate						2.74%	2.74%		3.10%	

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

The following table provides information regarding our foreign currency-sensitive financial instruments and transactions, which consist of deposits with banks, cash and cash equivalents, short and long-term debt obligations and capital commitments as of December 31, 2005 and 2004.

	Expected Maturity Date						As of December 31, 2005		As of December 31, 2004	
	2006	2007	2008	2009	2010	Thereafter	Total Recorded Amount	Fair Value	Total Recorded Amount	Fair Value
	(RMB equivalent in millions, except interest rates)									
On-balance sheet financial instruments										
Deposits with banks:										
in U.S. dollars	17						17	17	900	900
in Hong Kong dollars	134						134	134	135	135
Cash and cash equivalents:										
in U.S. dollars	567						567	567	1,280	1,280
in Hong Kong dollars	4,266						4,266	4,266	1,243	1,243
Debts:										
Fixed rate bank and other loans (U.S. dollars)									63	63
Average interest rate									5.29%	
Convertible notes (U.S. dollars)									5,725	5,666
Average interest rate									2.25%	
Deferred payable (1)						23,633	23,633	23,633	23,633	23,633
Average interest rate						2.74%	2.74%		3.10%	

(1) Pursuant to our agreements with CMCC and China Mobile Hong Kong (BVI) Limited for our acquisition of the eight regional mobile telecommunications companies in July 2002 and the ten regional mobile telecommunications companies and other telecommunications assets in July 2004, respectively, we have the option to pay the deferred payable in U.S. dollars, Hong Kong dollars or Renminbi.

Item 12. Description of Securities Other than Equity Securities.

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

None.

Item 15. Controls and Procedures.

As of the end of the period covered by this annual report on Form 20-F, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this annual report on Form 20-F, our disclosure controls and procedures were effective to ensure that material information relating to our company was made known to them by others within our company.

Item 16A. Audit Committee Financial Expert.

All members of our audit committee have extensive management experience. In particular, one of the members has many years of finance and commercial management experience and expertise. However, members of our audit committee do not possess direct experience or expertise in respect of the reconciliation of financial statements with U.S. GAAP and the evaluation of reports filed with the SEC by SEC-reporting issuers. Our board of directors has determined that we do not currently have an audit committee financial expert, as defined in Item 16A(b) of Form 20-F, serving on our audit committee. Our audit committee may consider appointing, from time to time, an external financial expert as a consultant.

Item 16B. Code of Ethics.

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Deputy Chief Financial Officer, Assistant Chief Financial Officer and our other designated senior officers. A copy of our Code of Ethics for Covered Officers was filed as Exhibit 11.1 to our annual report on Form 20-F for the fiscal year ended December 31, 2003, and may also be downloaded from our website at www.ChinaMobileLtd.com/images/pdf/terms/CodeofEthics_eng.pdf. Information contained on that website is not a part of this annual report on Form 20-F. Copies of our Code of Ethics for Covered Officers may also be obtained at no charge by writing to our investor relations department at 60/F, The Center, 99 Queen s Road Central, Hong Kong.

Item 16C. Principal Accountant Fees and Services.

The following table sets forth the aggregate audit fees, audit-related fees, tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the two years ended December 31, 2004 and 2005:

	Audit Fees	Audit-Related Fees	Tax Fees	Other Fees
2004	US$ 16,591,000[1]			US$ 772,000
2005	US$ 7,606,000		US$ 3,000	US$ 77,000

(1) Including the audits fees in the amount of US$9,000,000 we paid in connection with our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in July 2004.

Before our principal accountants were engaged by us or our subsidiaries to render audit or non-audit services, the engagement was approved by our audit committee as required by applicable rules and regulations of the SEC.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Not applicable.

PART III

Item 17. Financial Statements.

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

Table of Contents

Item 18. Financial Statements.

The following financial statements are filed as part of this annual report on Form 20-F.

China Mobile Limited (formerly known as China Mobile (Hong Kong) Limited):

Item 19. Exhibits.

(a) See Item 18 for a list of the financial statements filed as part of this annual report on Form 20-F.

(b) Exhibits to this annual report on Form 20-F:

Exhibit Number	**Description of Exhibit**
1.1	Memorandum and Articles of Association (as amended).
2.1	We agree to provide the SEC, upon request, copies of instruments defining the rights of holders of our long-term debt.
2.2	Guarantee from China Mobile Communications Corporation for the RMB5,000 million guaranteed bonds due 2011 issued by Guangdong Mobile.(1)
2.3	Letter of Guarantee from China Mobile Communications Corporation for the RMB3,000 million guaranteed bonds due 2007 and RMB5,000 million guaranteed bonds due 2017, both issued by Guangdong Mobile in 2002 (with English translation).(2)
4.1	Agreement regarding Settlement of Interconnection and Roaming, Transmission Line Leasing, Usage of Spectrum Frequency and Numbering Resources, dated July 1, 2004, between China Mobile (Hong Kong) Limited and China Mobile Communications Corporation (with English translation).(3)
4.2	Tax Indemnity, dated July 1, 2004, among China Mobile Hong Kong (BVI) Limited, China Mobile (Hong Kong) Limited and China Mobile Communications Corporation.(3)
4.3	Agreement on Use of Premises and Related Management Services, dated December 30, 2004, between China Mobile (Hong Kong) Limited and China Mobile Communications Corporation (with English translation).(3)
4.4	Telecommunications Services Agreement, dated December 30, 2004, between China Mobile (Hong Kong) Limited and China Mobile Communications Corporation (with English translation).(3)
4.5	Conditional Sale and Purchase Agreement, dated April 28, 2004 between China Mobile (Hong Kong) Limited, China Mobile Hong Kong (BVI) Limited and China Mobile Communications Corporation. (4)
4.6	Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation, Neimenggu Mobile Communication Company Limited and Neimenggu Communication Service Company (with English translation and schedule). (4)
4.7	Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation, Beijing P&T Consulting & Design Institute Company Limited and Beijing P&T Consulting & Design Institute (with English translation). (4)

4.8 Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation and China Mobile Communication Company Limited (with English translation). [4]

Table of Contents

Exhibit Number	Description of Exhibit
4.9	Agreement on the Confirmation of Rights and Obligations, dated April 9, 2004, between China Mobile Communications Corporation, Neimenggu Mobile Communication Company Limited and Neimenggu Communication Service Company (with English translation and schedule). (4)
4.10	Agreement on the Confirmation of Rights and Obligations, dated April 9, 2004, between China Mobile Communications Corporation, Beijing P&T Consulting & Design Institute Company Limited and Beijing P&T Consulting & Design Institute (with English translation). (4)
4.11	Agreement on Use of Premises and Related Management Services, dated April 23, 2004, between Xinjiang Mobile Communication Company Limited and Xinjiang Communication Service Company (with English translation and schedule). (4)
4.12	Agreement on Use of Premises and Related Management Services, dated April 27, 2004, between Beijing P&T Consulting & Design Institute Company Limited and Beijing P&T Consulting & Design Institute (with English translation). (4)
4.13	Agreement on Use of Premises and Related Management Services, dated April 23, 2004, between China Mobile Communication Co., Ltd. and China Mobile Communications Corporation (with English translation). (4)
4.14	Agreement on Use of Premises and Related Management Services, dated April 23, 2004, between China Mobile Communications Corporation and China Mobile Communication Co., Ltd (with English translation). (4)
4.15	Consent Letter to the Substitution of Borrowers under the Consigned Loan Agreement, dated February 13, 2004, between China Mobile Communications Corporation, Neimenggu Mobile Communication Company Limited, Neimenggu Communication Service Company and Beijing Chang an Sub-branch of Industrial and Commercial Bank of China (with English translation and schedule).(4)
4.16	Agreement on Sharing of Administrative Services and Administrative Costs, dated April 27, 2004, between China Mobile Communication Co., Ltd. and China Mobile Communications Corporation (with English translation). (4)
4.17	Trademark Licensing Agreement, dated April 23, 2004, between China Mobile Communications Corporation and China Mobile Communication Co., Ltd (with English translation). (4)
4.18	Trademark License Agreement, dated July 18, 2002, between China Mobile Communications Corporation and China Mobile (Hong Kong) Limited (with English translation).(2)
4.19	Tax Indemnity dated July 1, 2002 between China Mobile Hong Kong (BVI) Limited, China Mobile (Hong Kong) Limited and China Mobile Communications Corporation.(2)
4.20	Telecommunications Services Agreement dated April 10, 2002 between Anhui Mobile Communication Company Limited and Anhui Communication Service Company (with English translation).(2)
4.21	Telecommunications Services Agreement dated April 10, 2002 between Jiangxi Mobile Communication Company Limited and Jiangxi Communication Service Company (with English translation).(2)
4.22	Telecommunications Services Agreement dated April 10, 2002 between Chongqing Mobile Communication Company Limited and Chongqing Communication Service Company (with English translation).(2)
4.23	Telecommunications Services Agreement dated April 27, 2002 between Sichuan Mobile Communication Company Limited and Sichuan Communication Service Company (with English translation).(2)
4.24	Telecommunications Services Agreement dated April 10, 2002 between Hubei Mobile Communication Company Limited and Hubei Communication Service Company (with English translation).(2)
4.25	Telecommunications Services Agreement dated April 10, 2002 between Hunan Mobile Communication Company Limited and Hunan Communication Service Company (with English translation).(2)
4.26	Telecommunications Services Agreement dated April 10, 2002 between Shaanxi Mobile Communication Company Limited and Shaanxi Communication Service Company (with English translation).(2)
4.27	Telecommunications Services Agreement dated April 10, 2002 between Shanxi Mobile Communication Company Limited and Shanxi Communication Service Company (with English translation).(2)

67

Table of Contents

Exhibit Number	Description of Exhibit
4.28	Service Agreement for Supply Installation and Maintenance of Steel Towers dated May 8, 2002 between China Mobile (Hong Kong) Limited and Hubei Communication Services Company (with English translation).[2]
4.29	Co-operation Framework Agreement in respect of Indirect Loan dated May 10, 2002 between China Mobile Communications Corporation and China Mobile (Hong Kong) Limited (with English translation).[2]
4.30	Building Leasing and Property Management Agreement, dated September 18, 2000, between Beijing Mobile and Beijing Communications Service Company (Beijing Service[5]).
4.31	Building Leasing and Property Management Agreement, dated September 18, 2000, between Beijing Mobile and Beijing Service. [5]
4.32	Agreement on Mobile Communications Equipment Maintenance and Modulation, dated September 18, 2000, between Beijing Mobile and Beijing Huarui Wireless Communications Equipment Installation Company (Beijing Huarui[5]).
4.33	Agreement on Communications Projects Design and Construction, dated September 18, 2000, between Beijing Mobile and Beijing Huarui.[5]
4.34	Agreement on Mobile Communications Equipment Maintenance, dated September 20, 2000, between Shanghai Mobile and Shanghai Long-distance Telecommunications Engineering Company (Shanghai Engineering[5]).
4.35	Agreement on Contracting Mobile Communications Projects, dated September 20, 2000, between Shanghai Mobile and Shanghai Engineering.[5]
4.36	Building Leasing and Property Management Agreement, dated September 20, 2000, between Shanghai Mobile and Shanghai Communications Service Company (Shanghai Service[5]).
4.37	Building Leasing Agreement, dated August 1, 2000, between Tianjin Mobile and Tianjin Communications Service Company (Tianjin Service).[5]
4.38	Building Leasing and Property Management Agreement, dated August 1, 2000, between Hebei Mobile and Hebei Communications Service Company (Hebei Service[5]).
4.39	Agreement on the Sales and Maintenance of Masts and Maintenance of Antennas and Feeder Lines, dated August 1, 2000, between Hebei Mobile and Hebei Provincial Posts and Telecommunications Equipment and Machinery Plant.[5]
4.40	Building Leasing and Property Management Agreement, dated August 10, 2000, between Liaoning Mobile and Liaoning Communications Service Company (Liaoning Service[5]).
4.41	Agreement on Communications Equipment Maintenance, dated September 8, 2000, between Liaoning Mobile and Liaoning Provincial Posts and Telecommunications Engineering Bureau (Liaoning Engineering[5]).
4.42	Agreement on Mobile Communications Projects Construction, dated September 8, 2000, between Liaoning Mobile and Liaoning Engineering.[5]
4.43	Building Leasing and Property Management Agreement, dated September 1, 2000, between Shandong Mobile and Shandong Communications Service Company (Shandong Service[5]).
4.44	Agreement on Contracting Mobile Communications Projects, dated September 1, 2000, between Shandong Mobile and Shandong Mobile Communications Engineering Bureau.[5]
4.45	Building Lease Agreement, dated August 26, 2000, between Guangxi Mobile and Guangxi Communications Service Company (Guangxi Service[5]).
8.1	List of major subsidiaries.
11.1	Code of Ethics.[4]
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
13.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b).
13.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b).

(1) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000 (File No. 1-14696), filed with the SEC on June 26, 2001.

(2) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2002 (File No. 1-14696), filed with the SEC on June 17, 2003.

(3) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 1-14696), filed with the SEC on June 13, 2005.

(4) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003 (File No. 1-14696), filed with the SEC on June 17, 2004.

(5) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-47256), filed with the SEC on October 30, 2000.

Table of Contents

SIGNATURES

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

CHINA MOBILE LIMITED

By:	/s/ WANG Jianzhou
Name:	WANG Jianzhou
Title:	Chairman and Chief Executive Officer

Date: June 9, 2006

Exhibit Index

Exhibit Number	Description of Exhibit
1.1	Memorandum and Articles of Association (as amended).
2.1	We agree to provide the SEC, upon request, copies of instruments defining the rights of holders of our long-term debt.
2.2	Guarantee from China Mobile Communications Corporation for the RMB5,000 million guaranteed bonds due 2011 issued by Guangdong Mobile.(1)
2.3	Letter of Guarantee from China Mobile Communications Corporation for the RMB3,000 million guaranteed bonds due 2007 and RMB5,000 million guaranteed bonds due 2017, both issued by Guangdong Mobile in 2002 (with English translation).(2)
4.1	Agreement regarding Settlement of Interconnection and Roaming, Transmission Line Leasing, Usage of Spectrum Frequency and Numbering Resources, dated July 1, 2004, between China Mobile (Hong Kong) Limited and China Mobile Communications Corporation (with English translation).(3)
4.2	Tax Indemnity, dated July 1, 2004, among China Mobile Hong Kong (BVI) Limited, China Mobile (Hong Kong) Limited and China Mobile Communications Corporation.(3)
4.3	Agreement on Use of Premises and Related Management Services, dated December 30, 2004, between China Mobile (Hong Kong) Limited and China Mobile Communications Corporation (with English translation).(3)
4.4	Telecommunications Services Agreement, dated December 30, 2004, between China Mobile (Hong Kong) Limited and China Mobile Communications Corporation (with English translation).(3)
4.5	Conditional Sale and Purchase Agreement, dated April 28, 2004 between China Mobile (Hong Kong) Limited, China Mobile Hong Kong (BVI) Limited and China Mobile Communications Corporation. (4)
4.6	Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation, Neimenggu Mobile Communication Company Limited and Neimenggu Communication Service Company (with English translation and schedule). (4)
4.7	Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation, Beijing P&T Consulting & Design Institute Company Limited and Beijing P&T Consulting & Design Institute (with English translation). (4)
4.8	Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation and China Mobile Communication Company Limited (with English translation). (4)
4.9	Agreement on the Confirmation of Rights and Obligations, dated April 9, 2004, between China Mobile Communications Corporation, Neimenggu Mobile Communication Company Limited and Neimenggu Communication Service Company (with English translation and schedule). (4)
4.10	Agreement on the Confirmation of Rights and Obligations, dated April 9, 2004, between China Mobile Communications Corporation, Beijing P&T Consulting & Design Institute Company Limited and Beijing P&T Consulting & Design Institute (with English translation). (4)
4.11	Agreement on Use of Premises and Related Management Services, dated April 23, 2004, between Xinjiang Mobile Communication Company Limited and Xinjiang Communication Service Company (with English translation and schedule). (4)
4.12	Agreement on Use of Premises and Related Management Services, dated April 27, 2004, between Beijing P&T Consulting & Design Institute Company Limited and Beijing P&T Consulting & Design Institute (with English translation). (4)
4.13	Agreement on Use of Premises and Related Management Services, dated April 23, 2004, between China Mobile Communication Co., Ltd. and China Mobile Communications Corporation (with English translation). (4)
4.14	Agreement on Use of Premises and Related Management Services, dated April 23, 2004, between China Mobile Communications Corporation and China Mobile Communication Co., Ltd (with English translation). (4)

Exhibit Number	Description of Exhibit
4.15	Consent Letter to the Substitution of Borrowers under the Consigned Loan Agreement, dated February 13, 2004, between China Mobile Communications Corporation, Neimenggu Mobile Communication Company Limited, Neimenggu Communication Service Company and Beijing Chang an Sub-branch of Industrial and Commercial Bank of China (with English translation and schedule).(4)
4.16	Agreement on Sharing of Administrative Services and Administrative Costs, dated April 27, 2004, between China Mobile Communication Co., Ltd. and China Mobile Communications Corporation (with English translation). (4)
4.17	Trademark Licensing Agreement, dated April 23, 2004, between China Mobile Communications Corporation and China Mobile Communication Co., Ltd (with English translation). (4)
4.18	Trademark License Agreement, dated July 18, 2002, between China Mobile Communications Corporation and China Mobile (Hong Kong) Limited (with English translation).(2)
4.19	Tax Indemnity dated July 1, 2002 between China Mobile Hong Kong (BVI) Limited, China Mobile (Hong Kong) Limited and China Mobile Communications Corporation.(2)
4.20	Telecommunications Services Agreement dated April 10, 2002 between Anhui Mobile Communication Company Limited and Anhui Communication Service Company (with English translation). (2)
4.21	Telecommunications Services Agreement dated April 10, 2002 between Jiangxi Mobile Communication Company Limited and Jiangxi Communication Service Company (with English translation). (2)
4.22	Telecommunications Services Agreement dated April 10, 2002 between Chongqing Mobile Communication Company Limited and Chongqing Communication Service Company (with English translation). (2)
4.23	Telecommunications Services Agreement dated April 27, 2002 between Sichuan Mobile Communication Company Limited and Sichuan Communication Service Company (with English translation). (2)
4.24	Telecommunications Services Agreement dated April 10, 2002 between Hubei Mobile Communication Company Limited and Hubei Communication Service Company (with English translation). (2)
4.25	Telecommunications Services Agreement dated April 10, 2002 between Hunan Mobile Communication Company Limited and Hunan Communication Service Company (with English translation). (2)
4.26	Telecommunications Services Agreement dated April 10, 2002 between Shaanxi Mobile Communication Company Limited and Shaanxi Communication Service Company (with English translation). (2)
4.27	Telecommunications Services Agreement dated April 10, 2002 between Shanxi Mobile Communication Company Limited and Shanxi Communication Service Company (with English translation). (2)
4.28	Service Agreement for Supply Installation and Maintenance of Steel Towers dated May 8, 2002 between China Mobile (Hong Kong) Limited and Hubei Communication Services Company (with English translation). (2)
4.29	Co-operation Framework Agreement in respect of Indirect Loan dated May 10, 2002 between China Mobile Communications Corporation and China Mobile (Hong Kong) Limited (with English translation). (2)
4.30	Building Leasing and Property Management Agreement, dated September 18, 2000, between Beijing Mobile and Beijing Communications Service Company (Beijing Service(5)).
4.31	Building Leasing and Property Management Agreement, dated September 18, 2000, between Beijing Mobile and Beijing Service.(5)
4.32	Agreement on Mobile Communications Equipment Maintenance and Modulation, dated September 18, 2000, between Beijing Mobile and Beijing Huarui Wireless Communications Equipment Installation Company (Beijing Huarui(5)).
4.33	Agreement on Communications Projects Design and Construction, dated September 18, 2000, between Beijing Mobile and Beijing Huarui.(5)
4.34	Agreement on Mobile Communications Equipment Maintenance, dated September 20, 2000, between Shanghai Mobile and Shanghai Long-distance Telecommunications Engineering Company (Shanghai Engineering(5)).

Table of Contents

Exhibit Number	Description of Exhibit
4.35	Agreement on Contracting Mobile Communications Projects, dated September 20, 2000, between Shanghai Mobile and Shanghai Engineering.(5)
4.36	Building Leasing and Property Management Agreement, dated September 20, 2000, between Shanghai Mobile and Shanghai Communications Service Company (Shanghai Service(5)).
4.37	Building Leasing Agreement, dated August 1, 2000, between Tianjin Mobile and Tianjin Communications Service Company (Tianjin Service).(5)
4.38	Building Leasing and Property Management Agreement, dated August 1, 2000, between Hebei Mobile and Hebei Communications Service Company (Hebei Service(5)).
4.39	Agreement on the Sales and Maintenance of Masts and Maintenance of Antennas and Feeder Lines, dated August 1, 2000, between Hebei Mobile and Hebei Provincial Posts and Telecommunications Equipment and Machinery Plant.(5)
4.40	Building Leasing and Property Management Agreement, dated August 10, 2000, between Liaoning Mobile and Liaoning Communications Service Company (Liaoning Service(5)).
4.41	Agreement on Communications Equipment Maintenance, dated September 8, 2000, between Liaoning Mobile and Liaoning Provincial Posts and Telecommunications Engineering Bureau (Liaoning Engineering(5)).
4.42	Agreement on Mobile Communications Projects Construction, dated September 8, 2000, between Liaoning Mobile and Liaoning Engineering.(5)
4.43	Building Leasing and Property Management Agreement, dated September 1, 2000, between Shandong Mobile and Shandong Communications Service Company (Shandong Service(5)).
4.44	Agreement on Contracting Mobile Communications Projects, dated September 1, 2000, between Shandong Mobile and Shandong Mobile Communications Engineering Bureau.(5)
4.45	Building Lease Agreement, dated August 26, 2000, between Guangxi Mobile and Guangxi Communications Service Company (Guangxi Service(5)).
8.1	List of major subsidiaries.
11.1	Code of Ethics.(4)
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
13.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b).
13.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b).

(1) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000 (File No. 1-14696), filed with the SEC on June 26, 2001.
(2) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2002 (File No. 1-14696), filed with the SEC on June 17, 2003.
(3) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 1-14696), filed with the SEC on June 13, 2005.
(4) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003 (File No. 1-14696), filed with the SEC on June 17, 2004.
(5) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-47256), filed with the SEC on October 30, 2000.

Table of Contents

China Mobile (Hong Kong) Limited

For the year ended December 31, 2005

Consolidated Financial Statements

Table of Contents

Index to Consolidated Financial Statements

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

China Mobile (Hong Kong) Limited:

We have audited the accompanying consolidated balance sheets of China Mobile (Hong Kong) Limited and subsidiaries (the Group) as of December 31, 2004 and 2005 and the related consolidated statements of income, shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2005, all expressed in Renminbi. These consolidated financial statements are the responsibility of the Group s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Mobile (Hong Kong) Limited and subsidiaries as of December 31, 2004 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005 in conformity with accounting principles generally accepted in Hong Kong.

In order to comply with the new and revised Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants, the Group changed its accounting policies for goodwill, land use rights and buildings held for own use, share-based payment and financial instruments and changed the manner in which it presents minority interests in the consolidated balance sheets and consolidated statements of income. Details of impact of the changes in accounting policies are discussed in note 3 to the consolidated financial statements.

Accounting principles generally accepted in Hong Kong vary in certain material respects from accounting principles generally accepted in the United States of America. Since prior period consolidated financial statements had been restated, the significant differences between HK GAAP and US GAAP are restated accordingly. Information relating to the nature and effect of such differences is presented in note 38 to the consolidated financial statements.

Table of Contents

Report of Independent Registered Public Accounting Firm (Continued)

The accompanying consolidated financial statements as of and for the year ended December 31, 2005 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation, and in our opinion, the consolidated financial statements expressed in Renminbi have been translated into United States dollars on the basis set forth in note 1 to the consolidated financial statements.

/s/ KPMG

Hong Kong

March 16, 2006

Table of Contents

Consolidated Statements of Income

(Amounts in millions, except share data)

	Note	2003 (restated) RMB	2004 (restated) RMB	2005 RMB	2005 US$
		Year ended December 31,			
Operating revenue					
Usage fees		111,027	128,534	156,710	19,418
Monthly fees		20,666	24,760	25,055	3,105
Other operating revenue		26,911	39,087	61,276	7,593
Total operating revenue	4	158,604	192,381	243,041	30,116
Operating expenses					
Leased lines		4,914	3,861	3,224	399
Interconnection		12,868	12,072	15,309	1,897
Depreciation		36,488	44,186	56,368	6,985
Personnel		7,700	9,972	14,200	1,760
Other operating expenses		43,431	62,811	80,254	9,944
Total operating expenses	5	105,401	132,902	169,355	20,985
Profit from operations		53,203	59,479	73,686	9,131
Amortization of goodwill		(1,850)	(1,930)		
Other net income	6	2,464	3,167	3,284	407
Non-operating net income	7	434	900	1,025	127
Interest income		807	1,014	1,615	200
Finance costs	23(a)	(2,099)	(1,679)	(1,346)	(167)
Profit before tax		52,959	60,951	78,264	9,698
Income tax	8	(17,412)	(19,180)	(24,675)	(3,058)
Profit for the year		35,547	41,771	53,589	6,640
Attributable to:					
Equity shareholders of the Company		35,556	41,749	53,549	6,635
Minority interests		(9)	22	40	5
Profit for the year		35,547	41,771	53,589	6,640
Dividends payable to equity shareholders of the Company attributable to the year:					
Interim dividend declared and paid during the year	9(a)	3,339	4,175	9,259	1,147
Final dividend proposed after the balance sheet date	9(a)	4,178	9,614	11,767	1,458
		7,517	13,789	21,026	2,605

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Income (Continued)

(Amounts in millions, except share data)

		Year ended December 31,			
		2003	2004		
	Note	(restated) RMB	(restated) RMB	2005 RMB	2005 US$
Basic net income per share	2(v)	RMB1.81	RMB2.12	RMB2.71	US$ 0.34
Weighted average number of shares used in calculating basic net income per share (thousands)		19,671,654	19,673,185	19,738,229	
Diluted net income per share	2(v)	RMB1.81	RMB2.12	RMB2.70	US$ 0.33
Weighted average number of shares used in calculating diluted net income per share (thousands)		19,762,812	19,774,093	19,892,163	

See accompanying notes to consolidated financial statements.

F-5

Table of Contents

Consolidated Balance Sheets

(Amounts in millions)

	Note	December 31, 2004 (restated) RMB	December 31, 2005 RMB	December 31, 2005 US$
Assets				
Current assets				
Cash and cash equivalents		45,149	64,461	7,988
Deposits with banks		20,264	41,925	5,195
Tax recoverable		235	165	20
Amount due from ultimate holding company	10	356	63	8
Prepayments and other current assets		2,974	3,583	444
Other receivables	11	1,879	1,911	236
Accounts receivable	12	6,553	6,603	818
Inventories	13	2,499	2,365	293
Total current assets		79,909	121,076	15,002
Property, plant and equipment	14	212,459	216,505	26,827
Construction in progress		30,510	34,201	4,238
Land lease prepayments		6,333	7,243	898
Goodwill	15	35,300	35,300	4,374
Interest in associates	16			
Other financial assets	17	77	77	10
Deferred tax assets	18	4,068	6,625	822
Deferred expenses	19	96		
Total assets		368,752	421,027	52,171

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Balance Sheets (Continued)

(Amounts in millions)

	Note	*December 31,* 2004 (restated) RMB	2005 RMB	2005 US$
Liabilities and equity				
Current liabilities				
Accounts payable	20	35,036	41,931	5,196
Bills payable		1,676	1,359	169
Deferred revenue current portion	21	12,936	16,975	2,104
Accrued expenses and other payables	22	32,549	40,007	4,957
Amount due to immediate holding company	10	98	96	12
Amount due to ultimate holding company	10	459	269	33
Interest-bearing borrowings	23	8,180		
Obligations under capital lease	24	68	68	8
Current taxation		6,664	9,249	1,146
Total current liabilities		97,666	109,954	13,625
Deferred tax liabilities	18	105	97	12
Interest-bearing borrowings	23	36,633	36,545	4,529
Deferred revenue, excluding current portion	21	944	1,324	164
Total liabilities		135,348	147,920	18,330
Total equity attributable to:				
Equity shareholders of the Company		233,161	272,824	33,806
Minority interests		243	283	35
Total liabilities and equity		368,752	421,027	52,171

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Cash Flows

(Amounts in millions)

	Year ended December 31,			
	2003 (restated) RMB	2004 (restated) RMB	2005 RMB	2005 US$
Operating activities				
Profit before tax	52,959	60,951	78,264	9,698
Adjustments for:				
- Depreciation of property, plant and equipment	36,488	44,186	56,368	6,985
- Amortization of land lease prepayments	123	134	169	21
- Amortization of goodwill	1,850	1,930		
- Loss on disposal of property, plant and equipment	795	535	411	51
- Write off of property, plant and equipment	669	5,900	5,645	699
- Allowance for doubtful accounts	2,006	2,273	2,968	368
- Amortization of deferred expenses	47	47		
- Interest income	(807)	(1,014)	(1,615)	(200)
- Interest expense	2,099	1,679	1,346	167
- Dividend income	(48)	(84)	(51)	(6)
- Equity-settled share-based payment expenses		255	1,553	192
- Unrealized exchange loss, net	47	24	108	13
Profit from operations before changes in working capital	96,228	116,816	145,166	17,988
(Increase)/decrease in inventories	(464)	(106)	134	17
Decrease in amount due from fellow subsidiaries		896		
Decrease in amount due from ultimate holding company	520	662	293	36
Increase in accounts receivable	(1,968)	(2,082)	(3,037)	(376)
(Increase)/decrease in other receivables	(259)	377	134	17
Increase in prepayments and other current assets	(69)	(555)	(609)	(75)
Decrease in amount due to fellow subsidiaries		(4,661)		
Increase/(decrease) in amount due to ultimate holding company	135	(1,257)	(190)	(24)
Decrease in amount due to immediate holding company	(355)			
Increase in accounts payable	940	2,707	2,303	285
Increase in bills payable			11	1
Increase in accrued expenses and other payables	6,246	6,365	7,670	950
Increase in deferred revenue	2,535	2,724	4,419	548
Cash generated from operations	103,489	121,886	156,294	19,367
Tax paid				
- PRC income tax paid	(17,955)	(18,107)	(24,585)	(3,046)
Net cash generated from operating activities carried forward	85,534	103,779	131,709	16,321

See accompanying notes to consolidated financial statements.

F-8

Table of Contents

Consolidated Statements of Cash Flows (Continued)

(Amounts in millions)

	Year ended December 31,			
	2003 **(restated) RMB**	***2004*** **(restated) RMB**	***2005*** **RMB**	***2005*** **US$**
Net cash generated from operating activities brought forward	85,534	103,779	131,709	16,321
Investing activities				
Payment of amount due to immediate holding company in respect of acquisition of subsidiaries	(5,200)			
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)		(12,238)		
Capital expenditure	(43,283)	(58,367)	(66,027)	(8,182)
Land lease prepayments	(588)	(776)	(1,079)	(134)
Proceeds from disposal of property, plant and equipment	233	93	132	16
Increase in deposits with banks	(6,158)	(3,037)	(21,661)	(2,684)
Interest received	656	939	1,468	182
Dividends received	48	84	51	6
Net cash used in investing activities	(54,292)	(73,302)	(87,116)	(10,796)
Financing activities				
Proceeds from issue of shares under share option scheme		703	3,422	424
Redemption of convertible notes			(5,611)	(695)
Redemption of fixed rate notes		(4,978)		
Proceeds from interest-bearing borrowings	760			
Repayments of interest-bearing borrowings	(12,790)	(9,783)	(2,455)	(304)
Capital elements of capital leases rentals paid		(10)		
Interest paid	(2,640)	(2,040)	(1,635)	(203)
Dividends paid	(10,018)	(8,349)	(18,894)	(2,341)
Net cash used in financing activities	(24,688)	(24,457)	(25,173)	(3,119)
Net increase in cash and cash equivalents	6,554	6,020	19,420	2,406
Cash and cash equivalents at beginning of year	32,575	39,129	45,149	5,595
Effect of changes in foreign exchange rate			(108)	(13)
Cash and cash equivalents at end of year	39,129	45,149	64,461	7,988
Analysis of the balances of cash and cash equivalents				
Deposits with banks maturing within three months when placed	5,696	7,100	11,069	1,372
Cash and bank balances	33,433	38,049	53,392	6,616
	39,129	45,149	64,461	7,988

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Continued)

(Amounts in millions)

(a) Significant non-cash transactions:

The Group incurred payables of RMB28,176 and RMB1,332 to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 2005.

The Group incurred payables of RMB23,584 and RMB1,660 to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 2004.

The Group incurred payables of RMB17,235 and RMB2,059 to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 2003.

Table of Contents

Consolidated Statements of Equity

(Amounts in millions, except share data)

Statements of equity for the years:

	Number of ordinary shares	*Attributable to equity shareholders of the Company*							*Minority interest*	*Total equity*
		Share capital **RMB**	*Share premium* **RMB**	*Capital Reserve* **RMB**	*General reserve* **RMB**	*PRC statutory reserves* **RMB**	*Retained earnings* **RMB**	*Total* **RMB**	**RMB**	**RMB**
Equity at January 1, 2003	19,671,653,899	2,099	374,579	(295,665)	72	24,714	67,466	173,265	191	173,456
Transfer from statements of income							35,556	35,556	(9)	35,547
Dividends approved in respect of previous year							(6,679)	(6,679)		(6,679)
Dividends declared in respect of current year							(3,339)	(3,339)		(3,339)
Appropriation						7,972	(7,972)			
Equity at December 31, 2003	19,671,653,899	2,099	374,579	(295,665)	72	32,686	85,032	198,803	182	198,985
Equity at January 1, 2004	19,671,653,899	2,099	374,579	(295,665)	72	32,686	85,032	198,803	182	198,985
Transfer from statements of income (restated)							41,749	41,749	22	41,771
Dividends approved in respect of previous year							(4,174)	(4,174)		(4,174)
Dividends declared in respect of current year							(4,175)	(4,175)		(4,175)
Shares issued under share option scheme	28,985,500	3	700					703		703
Equity settled share-based transactions (restated)				255				255		255
Appropriation						9,591	(9,591)			
Minority interests arising from acquisition of a subsidiary									39	39
Equity at December 31, 2004 (restated)	19,700,639,399	2,102	375,279	(295,410)	72	42,277	108,841	233,161	243	233,404
Equity at January 1, 2005										
- As previously reported	19,700,639,399	2,102	375,279	(295,665)	72	42,277	109,096	233,161	243	233,404
- Prior period adjustment in respect of Hong Kong Financial Reporting Standard 2				255			(255)			
As restated, before opening balance adjustment		2,102	375,279	(295,410)	72	42,277	108,841	233,161	243	233,404
Opening balance adjustment in respect of Hong Kong Accounting Standard 39							33	33		33
As restated, after opening balance adjustment		2,102	375,279	(295,410)	72	42,277	108,874	233,194	243	233,437
Transfer from statements of income							53,549	53,549	40	53,589
Dividends approved in respect of previous year							(9,635)	(9,635)		(9,635)
Dividends declared in respect of current year							(9,259)	(9,259)		(9,259)
Shares issued under share option scheme	134,521,000	14	3,961	(553)				3,422		3,422
Equity settled share-based transactions				1,553				1,553		1,553
Appropriation						11,118	(11,118)			
Equity at December 31, 2005	19,835,160,399	2,116	379,240	(294,410)	72	53,395	132,411	272,824	283	273,107

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation

China Mobile (Hong Kong) Limited (the Company) and its subsidiaries (hereinafter collectively referred to as the Group) are principally engaged in the provision of mobile telecommunications and related services in thirty-one provinces, autonomous regions and municipalities in the People s Republic of China (PRC) and market their services under the China Mobile logo, which is a registered trademark owned by China Mobile Communications Corporation (CMCC), a company incorporated in the PRC in July 1999 to hold and operate the mobile telecommunications networks nationwide as a result of restructuring of the telecommunications industry in the PRC. The telecommunications operations in the PRC previously controlled by the Ministry of Information Industry (MII) have been separated into four business lines: fixed line communications, mobile communications, paging services and satellite communications. Since then, the MII act exclusively as the industry regulator and are not involved in managing the day-to-day operations of telecommunications service providers in the PRC.

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

Restructuring

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

In connection with the Restructuring and in anticipation of the initial offering of the Company s ordinary shares, the property, plant and equipment of Guangdong Mobile and Zhejiang Mobile were revalued as of May 31, 1997, by a firm of independent valuers and approved by the China State-owned Assets Administration Bureau. The value of property, plant and equipment and land lease prepayments of Guangdong Mobile and Zhejiang Mobile pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB15,630. Upon the transfer of interests in Guangdong Mobile and Zhejiang Mobile by the MII and the DGT to the Company, 9,010,000,000 ordinary shares of HK$0.10 each were issued by the Company to CMHK (BVI) for consideration valued at RMB19,466. Such amount was based on the net asset value of Guangdong Mobile and Zhejiang Mobile at May 31, 1997, the effective date of the Restructuring, adjusted for additional earnings to September 26, 1997, the completion date of the Restructuring, of RMB1,135, which is reflected as capital reserve.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

Equity offering

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

Acquisition of Jiangsu Mobile Communication Company Limited (Jiangsu Mobile)

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

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

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

In prior years, goodwill arising from the First Acquisition (RMB15,569), being the excess of the cost of investments (RMB24,120) over the fair value of the Group s share of the separable net assets acquired (RMB8,551), was eliminated against reserves immediately on acquisition. The fair value of the Group s share of the separable net assets acquired was based on the net asset value of Jiangsu Mobile at December 31, 1997 (RMB8,065), adjusted for additional earnings to June 3, 1998, the completion date of the First Acquisition, of RMB489. With effect from January 1, 2005, in order to comply with Hong Kong Financial Reporting Standard (HKFRS) 3 Business combinations and Hong Kong Accounting Standard (HKAS) 36 Impairment of assets , the Group has changed its accounting policies relating to goodwill. In accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken into reserve will not be recognized in the consolidated statements of income on disposal or impairment of the acquired business, or under any other circumstances.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

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

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

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

In prior years, goodwill arising from the Second Acquisition (RMB42,340), being the excess of the cost of investments (RMB52,953) over the fair value of the Group s share of the separable net assets acquired (RMB10,613), was eliminated against reserves immediately on acquisition. The fair value of the Group s share of the separable net assets acquired was based on the net assets of Fujian Mobile, Henan Mobile and Hainan Mobile at June 30, 1999 (RMB9,624), adjusted for additional earnings to November 11, 1999, the completion date of the Second Acquisition, of RMB989. With effect from January 1, 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. In accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken into reserve will not be recognized in the consolidated statements of income on disposal or impairment of the acquired business, or under any other circumstances.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

Equity offering and debt offering

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

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

Pursuant to an ordinary resolution passed by the Company s shareholders on November 10, 2000, the Company acquired the entire issued share capital of Beijing Mobile (BVI) Limited (Beijing Mobile BVI), Shanghai Mobile (BVI) Limited (Shanghai Mobile BVI), Tianjin Mobile (BVI) Limited (Tianjin Mobile BVI), Hebei Mobile (BVI) Limited (Hebei Mobile BVI), Liaoning Mobile (BVI) Limited (Liaoning Mobile BVI), Shandong Mobile (BVI) Limited (Shandong Mobile BVI) and Guangxi Mobile (BVI) Limited (Guangxi Mobile BVI) from CMHK (BVI) for a total consideration of HK$256,021 (RMB equivalent 271,485) (hereinafter referred to as the Third Acquisition). The consideration was satisfied by cash of HK$74,609 (RMB equivalent 79,116) and an allotment of 3,779,407,375 ordinary shares of HK$0.10 each to CMHK (BVI) amounting to HK$181,412 (RMB equivalent 192,369). The only assets of each of Beijing Mobile BVI, Shanghai Mobile BVI, Tianjin Mobile BVI, Hebei Mobile BVI, Liaoning Mobile BVI, Shandong Mobile BVI and Guangxi Mobile BVI are their interests in the entire equity of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile, respectively.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

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

In prior years, goodwill arising from the Third Acquisition (RMB238,891), being the excess of the cost of investments (RMB271,485) over the fair value of the Group s share of the separable net assets acquired (RMB32,594), was eliminated against reserves immediately on acquisition. The fair value of the Group s share of the separable net assets acquired was based on the net assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile at June 30, 2000 (RMB29,966), adjusted for additional earnings to November 12, 2000, the completion date of the Third Acquisition, of RMB2,628. With effect from January 1, 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. In accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken into reserve will not be recognized in the consolidated statements of income on disposal or impairment of the acquired business, or under any other circumstances.

Equity offering and debt offering

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

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

Acquisition of Anhui Mobile Communication Company Limited (Anhui Mobile), Jiangxi Mobile Communication Company Limited (Jiangxi Mobile), Chongqing Mobile Communication Company Limited (Chongqing Mobile), Sichuan Mobile Communication Company Limited (Sichuan Mobile), Hubei Mobile Communication Company Limited (Hubei Mobile), Hunan Mobile Communication Company Limited (Hunan Mobile), Shaanxi Mobile Communication Company Limited (Shaanxi Mobile) and Shanxi Mobile Communication Company Limited (Shanxi Mobile)

Pursuant to a resolution passed at the extraordinary general meeting held on June 24, 2002, the Company acquired the entire issued share capital of Anhui Mobile BVI Limited (Anhui Mobile BVI), Jiangxi Mobile BVI Limited (Jiangxi Mobile BVI), Chongqing Mobile BVI Limited (Chongqing Mobile BVI), Sichuan Mobile BVI Limited (Sichuan Mobile BVI), Hubei Mobile BVI Limited (Hubei Mobile BVI), Hunan Mobile BVI Limited (Hunan Mobile BVI), Shaanxi Mobile BVI Limited (Shaanxi Mobile BVI) and Shanxi Mobile BVI Limited (Shanxi Mobile BVI) from CMHK (BVI). The acquisition was completed on July 1, 2002 for a total consideration of US$8,573 (RMB equivalent 70,959) (hereinafter referred to as the Fourth Acquisition). The consideration was satisfied by cash of RMB49,248 and an allotment of 827,514,446 ordinary shares of HK$0.10 each to CMHK (BVI) amounting to HK$20,458 (RMB equivalent 21,711). The only assets of each of Anhui Mobile BVI, Jiangxi Mobile BVI, Chongqing Mobile BVI, Sichuan Mobile BVI, Hubei Mobile BVI, Hunan Mobile BVI, Shaanxi Mobile BVI and Shanxi Mobile BVI are their interests in the entire equity of Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile, respectively.

In connection with the Fourth Acquisition, the property, plant and equipment and land lease prepayments of Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile were revalued as of December 31, 2001, by a firm of independent valuers and approved by the Ministry of Finance. The value of property, plant and equipment and land lease prepayments of Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB39,499.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

In prior years, positive goodwill arising from the Fourth Acquisition (RMB37,159), being the excess of the cost of investments (RMB70,959) over the fair value of the Group s share of the separable net assets acquired (RMB33,800), is amortized to the consolidated statements of income on a straight-line basis over 20 years. Positive goodwill is stated in the consolidated balance sheet at cost less accumulated amortization and any impairment losses. The fair value of the Group s share of the separable net assets acquired was based on the net assets of Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile at December 31, 2001 (RMB30,982), adjusted for additional earnings to June 30, 2002, the completion date of the Fourth Acquisition, of RMB2,818. With effect from January 1, 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortizes positive goodwill but tests it at least annually for impairment.

Equity offering and debt offering

In order to finance the acquisition consideration, the Company issued 236,634,212 new shares to Vodafone Holdings (Jersey) Limited at HK$5,850 (RMB equivalent 6,205). Further, the Company issued 827,514,446 consideration shares to CMHK (BVI), credited as fully paid as part of the acquisition consideration. Net proceeds to the Company for the equity offering, after deduction of offering expenses, was approximately RMB5,946. In addition, Guangdong Mobile issued five-year guaranteed bonds and fifteen-year guaranteed bonds, with a principal amount of RMB3,000 and RMB5,000 respectively, at an issue price equal to the face value of the bonds. Net proceeds to the Group for the debt offering, after deduction of offering expenses, was approximately RMB7,947.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

Acquisition of Neimenggu Mobile Communication Company Limited (Neimenggu Mobile), Jilin Mobile Communication Company Limited (Jilin Mobile), Heilongjiang Mobile Communication Company Limited (Heilongjiang Mobile), Guizhou Mobile Communication Company Limited (Guizhou Mobile), Yunnan Mobile Communication Company Limited (Yunnan Mobile), Xizang Mobile Communication Company Limited (Xizang Mobile), Gansu Mobile Communication Company Limited (Gansu Mobile), Qinghai Mobile Communication Company Limited (Qinghai Mobile), Ningxia Mobile Communication Company Limited (Ningxia Mobile), Xinjiang Mobile Communication Company Limited (Xinjiang Mobile), Beijing P&T Consulting & Design Institute Company Limited (Jingyi Design Institute) and China Mobile Communication Company Limited (CMC).

Pursuant to a resolution passed at the extraordinary general meeting held on June 16, 2004, the Company acquired the entire issued share capital of Neimenggu Mobile (BVI) Limited (Neimenggu Mobile BVI), Jilin Mobile (BVI) Limited (Jilin Mobile BVI), Heilongjiang Mobile (BVI) Limited (Heilongjiang Mobile BVI), Guizhou Mobile (BVI) Limited (Guizhou Mobile BVI), Yunnan Mobile (BVI) Limited (Yunnan Mobile BVI), Xizang Mobile (BVI) Limited (Xizang Mobile BVI), Gansu Mobile (BVI) Limited (Gansu Mobile BVI), Qinghai Mobile BVI Limited (Qinghai Mobile BVI), Ningxia Mobile (BVI) Limited (Ningxia Mobile BVI), Xinjiang Mobile (BVI) Limited (Xinjiang Mobile BVI), Beijing P&T Consulting & Design Institute (BVI) Limited (Zhongjing Design Institute BVI) and China Mobile Communication (BVI) Limited (CMC BVI) from CMHK (BVI). The acquisition was completed on July 1, 2004 for a total consideration of US$3,650 (RMB equivalent 30,210) (hereinafter referred to as the Fifth Acquisition). The consideration was satisfied by cash. The only assets of each of Neimenggu Mobile BVI, Jilin Mobile BVI, Heilongjiang Mobile BVI, Guizhou Mobile BVI, Yunnan Mobile BVI, Xizang Mobile BVI, Gansu Mobile BVI, Qinghai Mobile BVI, Ningxia Mobile BVI, Xinjiang Mobile BVI, Zhongjing Design Institute BVI and CMC BVI are their interests in the entire equity of Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and CMC, respectively.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

In connection with the Fifth Acquisition, the property, plant and equipment and land lease prepayments of Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and CMC were revalued as of December 31, 2003, by a firm of independent valuers and approved by the State-owned Assets Supervision and Administration Commission of the State Council (SASACSC). The value of property, plant and equipment and land lease prepayments of Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and CMC pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB33,996.

In prior years, positive goodwill arising from the Fifth Acquisition (RMB2,857), being the excess of the cost of investments (RMB30,210) over the fair value of the Group s share of the separable net assets acquired (RMB27,353), was amortized to the consolidated statements of income on a straight-line basis over 20 years. Positive goodwill was stated in the consolidated balance sheet at cost less accumulated amortization and any impairment losses. The fair value of the Group s share of the separable net assets acquired was based on the net assets of Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and CMC at December 31, 2003 (RMB25,766), adjusted for additional earnings to June 30, 2004, the completion date of the Fifth Acquisition, of RMB1,587. With effect from January 1, 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortizes positive goodwill but tests it at least annually for impairment.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

Basis of preparation

The consolidated financial statements have been prepared on a consolidated basis to reflect the financial position and results of operations of the Company, Guangdong Mobile and Zhejiang Mobile from the date of the Restructuring and of Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile, Guangxi Mobile, Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile, Shanxi Mobile, Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and CMC from their respective dates of acquisition.

The consolidated statement of income for the year ended December 31, 2005 includes the results of the Company, the mobile telecommunications subsidiary in each of the thirty-one provinces, autonomous regions and municipalities in the PRC, Jingyi Design Institute and CMC for the year ended December 31, 2005.

The consolidated statement of income for the year ended December 31, 2004 includes the results of the Company, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile, Guangxi Mobile, Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile, Shanxi Mobile for the year ended December 31, 2004 and the post-acquisition results of Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and CMC for the period from July 1, 2004 to December 31, 2004.

The consolidated statement of income for the year ended December 31, 2003 includes the results of the Company, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile, Guangxi Mobile, Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile, Shanxi Mobile for the year ended December 31, 2003.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

1 Organization, principal activities and basis of presentation (Continued)

The 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 (HK GAAP). Significant differences between HK GAAP and accounting principles generally accepted in the United States (US GAAP) are set forth in note 38.

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 January 1, 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

The consolidated financial statements are expressed in Renminbi. Solely for the convenience of the reader, for the December 31, 2005 financial statements have been translated into United States dollars at the rate of US$1.00 = RMB8.0702 quoted by the Federal Reserve Bank of New York on December 31, 2005. 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 December 31, 2005, or any other certain date.

2 Principal accounting policies

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries (see note 33 for details of the Company s principal subsidiaries). The results of subsidiary companies are included in the consolidated statements of income, and the minority interests in the results of the Group are presented on the face of the consolidated statements of income as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company. All significant inter-company balances and transactions have been eliminated.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(b) 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. None of the Group s cash and cash equivalents is restricted as to withdrawal.

(c) 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 statements of income include the Group s share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognized for the year (see notes 2(d) and 2(h)).

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.

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 consolidated statements of income.

(d) 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 2(h)).

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(d) Goodwill (Continued)

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 consolidated statements of income.

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

(e) Other investments in equity securities

The Group s policies for investments in equity securities, other than investments in 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 consolidated balance sheet at cost less impairment losses (see note 2(h)).

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

(f) Property, plant and equipment

Property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 2(h)). The circumstances and basis under which the revalued amount (including the revalued amount of land lease prepayments) is arrived at are set out in details in note 14.

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 consolidated statements of income on the date of retirement or disposal.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(f) Property, plant and equipment (Continued)

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 centers, transmission and other network equipment	7 - 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.

(g) Leased assets

(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 capital leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(g) Leased assets (Continued)

(ii) Assets acquired under capital leases

Where the Group acquires the use of assets under capital 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 capital 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 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(h). Finance charges implicit in the lease payments are charged to the consolidated statements of income 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 written off as an expense of the accounting period in which they are incurred. There were 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 consolidated statements of income in equal installments 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 consolidated statements of income as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated statements of income in the accounting period in which they are incurred. There were 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.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(h) 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, any impairment loss/allowance is determined and recognized as follows:

- For unquoted equity securities and current receivables that are carried at cost, the impairment loss/allowance 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. Allowance for doubtful receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

(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 associates; and
- goodwill

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(h) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset s recoverable amount is estimated. In addition, for goodwill, 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 consolidated statements of income 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.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(h) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

(iii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable 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 consolidated statements of income in the year in which the reversals are recognized.

(i) Construction in progress

Construction in progress is stated at cost less any impairment losses (see note 2(h)). 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 in respect of construction in progress until it is completed and ready for its intended use. No exchange differences were capitalized to the construction in progress during the years presented.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(j) Inventories

Inventories are stated 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 realizable 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.

(k) Accounts receivable and other receivables

Accounts receivable and other receivables are initially recognized at fair value and thereafter stated at amortized cost less allowances for doubtful accounts (see note 2(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less allowances for doubtful accounts (see note 2(h)).

(l) 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 consolidated statements of income.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(m) Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible notes is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognized as the liability component is recognized as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity component in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortized cost. The interest expense recognized in the consolidated statements of income on the liability component is calculated using the effective interest method. The equity component is recognized in the capital reserve until either the notes are converted or redeemed.

If the notes are converted, the capital reserve, together with the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the notes are redeemed, the capital reserve is released directly to retained earnings.

(n) 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 cost and redemption value being recognized in the consolidated statements of income over the period of the borrowings using the effective interest method.

(o) Accounts payable and other payables

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(p) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will accrue to the Group and when the revenue can be measured reliably on the following basis:

(i) usage 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 on a time-apportioned basis by reference to the principal outstanding and the rate applicable; 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.

(q) Translation of foreign currencies

The functional currency and reporting currency of the Group s operations is Renminbi. See note 31. 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 exchange rates ruling at the balance sheet date. Exchange gains and losses, other than those capitalized as construction in progress, are recognized in the consolidated statements of income. 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. No exchange differences were capitalized to construction in progress during the years presented.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(r) 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 consolidated statements of income 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.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(r) Income tax (Continued)

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 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 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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(r) Income tax (Continued)

- 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.

(s) Provisions and contingent liabilities

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

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.

(ii) Provision for customer point reward program (the Program)

The Group invites its subscribers to participate in a customer point reward program (the Program), which provides subscribers the option of electing to receive free telecommunications services or other non-cash gifts. The level of bonus points earned under the Program varies depending on the subscribers service consumption, loyalty and payment history. The estimated incremental costs of providing these free rewards are expensed in the consolidated statements of income and are accrued as a current liability on the consolidated balance sheet based on (i) the number of subscribers who are qualified to exercise their redemption right at period/year end and the estimated rate of redemptions based on past experience; (ii) the estimated number of subscribers who have no right to redeem the incentives at period/year end, but who will ultimately earn and claim awards under the Program; and (iii) type of incentives that subscribers will select for redemption based on past experience. As subscribers redeem rewards or their entitlements expire, the provision is reduced accordingly.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(t) 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 s contributions to Mandatory Provident Funds, as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognized as an expense in the consolidated statements of income as incurred.

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

(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 share options, the total estimated fair value of the share 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.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(t) Employee benefits (Continued)

(ii) Share-based payments (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged/credited to the consolidated statements of income 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 earnings).

(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.

(u) Borrowing costs

Borrowing costs are expensed in the consolidated statements of income 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 ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(v) Net income per share

The calculation of basic net income per share for the years ended December 31, 2003, 2004 and 2005 are based on the profit attributable to equity shareholders of the Company and the weighted average number of shares in issue during the years.

The calculation of diluted net income per share for the years ended December 31, 2003, 2004 and 2005 have been computed after adding back the interest expense on the convertible notes and adjusting for the effects of all dilutive potential ordinary shares. All dilutive potential ordinary shares arise from the share options granted under the share option scheme and convertible notes issued by the Group which, if converted to ordinary shares, would decrease net income per share.

(w) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(x) 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 operating revenue and contribution to profit from operations by geographical segment or business segment has been presented as all the Group s operating activities are carried out in the PRC and less than 10% of the Group s operating revenue and contribution to profit from operations were derived from activities 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% of the Group s total assets.

(y) Use of estimates

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, 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 judgments 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.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 36.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

2 Principal accounting policies (Continued)

(z) Minority interests

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheets and statements of 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 statements of income as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

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.

3 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after January 1, 2005.

The accounting policies of the Group after the adoption of these new and revised HKFRSs have been summarized in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated statements of income and other significant related disclosure items as previously reported for the years ended December 31, 2003 and 2004 and the consolidated balance sheet as previously reported as of December 31, 2004. The effects of the changes in accounting policies on the balances as of January 1, 2003, 2004 and 2005 are disclosed in consolidated statements of equity.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

3 Changes in accounting policies (Continued)

(a) Restatement of prior periods and opening balances (Continued)
Effect on the consolidated financial statements

Consolidated statement of income for the year ended December 31, 2003

	2003 (as previously reported)	*Effect of new policy (increase/ (decrease) in profit for the year)*			*2003*
		HKAS 1 (note 3(d))	*HKAS 17 (note 3(e))*	*Sub-total*	*(as restated)*
	RMB	**RMB**	**RMB**	**RMB**	**RMB**
Operating revenue	158,604				158,604
Operating expenses					
Leased lines	(4,914)				(4,914)
Interconnection	(12,868)				(12,868)
Depreciation	(36,611)		123	123	(36,488)
Personnel	(7,700)				(7,700)
Other operating expenses	(43,308)		(123)	(123)	(43,431)
Total operating expenses	(105,401)				(105,401)
Profit from operations	53,203				53,203
Other income and expenses	(244)				(244)
Profit before tax	52,959				52,959
Income tax	(17,412)				(17,412)
Minority interests	9	(9)		(9)	
Profit for the year	35,556	(9)		(9)	35,547

F-42

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

3 Changes in accounting policies (Continued)

(a) Restatement of prior periods and opening balances (Continued)
Effect on the consolidated financial statements (Continued)

Consolidated statement of income for the year ended December 31, 2003 (Continued)

	2003 (as previously reported) **RMB**	***Effect of new policy (increase/ (decrease) in profit for the year)*** ***HKAS 1 (note 3(d))*** **RMB**	***HKAS 17 (note 3(e))*** **RMB**	***Sub-total*** **RMB**	***2003 (as restated)*** **RMB**
Attributable to:					
Equity shareholders of the Company	35,556				35,556
Minority interests		(9)		(9)	(9)
Profit for the year	35,556	(9)		(9)	35,547
Net income per share					
Basic	RMB1.81				RMB1.81
Diluted	RMB1.81				RMB1.81
Other significant disclosure items:					
Operating lease charges	2,364		123	123	2,487

F-43

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

3 Changes in accounting policies (Continued)

(a) Restatement of prior periods and opening balances (Continued)
Effect on the consolidated financial statements (Continued)

Consolidated statement of income for the year ended December 31, 2004

	2004 (as previously reported) RMB	*Effect of new policy (increase/(decrease) in profit for the year)* *HKFRS 2 (note3(f))* RMB	*HKAS 1 (note 3(d))* RMB	*HKAS 17 (note 3(e))* RMB	*Sub-total* RMB	*2004 (as restated)* RMB
Operating revenue	192,381					192,381
Operating expenses						
Leased lines	(3,861)					(3,861)
Interconnection	(12,072)					(12,072)
Depreciation	(44,320)			134	134	(44,186)
Personnel	(9,717)	(255)			(255)	(9,972)
Other operating expenses	(62,677)			(134)	(134)	(62,811)
Total operating expenses	(132,647)	(255)			(255)	(132,902)
Profit from operations	59,734	(255)			(255)	59,479
Other income and expenses	1,472					1,472
Profit before tax	61,206	(255)			(255)	60,951
Income tax	(19,180)					(19,180)
Minority interests	(22)		22		22	
Profit for the year	42,004	(255)	22		(233)	41,771

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

3 Changes in accounting policies (Continued)

(a) Restatement of prior periods and opening balances (Continued)
Effect on the consolidated financial statements (Continued)

Consolidated statement of income for the year ended December 31, 2004 (Continued)

	2004 (as previously reported) RMB	*Effect of new policy (increase/(decrease) in profit for the year)* *HKFRS 2 (note 3(f))* RMB	*HKAS 1 (note 3(d))* RMB	*HKAS 17 (note 3(e))* RMB	*Sub-total* RMB	*2004 (as restated)* RMB
Attributable to:						
Equity shareholders of the Company	42,004	(255)			(255)	41,749
Minority interests			22		22	22
Profit for the year	42,004	(255)	22		(233)	41,771
Net income per share						
Basic	RMB2.14	RMB (0.02)			RMB (0.02)	RMB2.12
Diluted	RMB2.13	RMB (0.01)			RMB (0.01)	RMB2.12
Other significant disclosure items:						
Operating lease charges	3,245			134	134	3,379

F-45

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

3 Changes in accounting policies (Continued)

(a) Restatement of prior periods and opening balances (Continued)
Effect on the consolidated financial statements (Continued)

Consolidated balance sheet as of December 31, 2004

	2004 (as previously reported)	*Effect of new policy (increase/(decrease) in net assets)*				*2004*
		HKFRS 2 (note 3(f))	*HKAS 1 (note 3(d))*	*HKAS 17 (note 3(e))*	*Sub-total*	*(as restated)*
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**
Total current asset	79,909					79,909
Property, plant and equipment	218,063			(5,604)	(5,604)	212,459
Construction in progress	31,239			(729)	(729)	30,510
Land lease prepayments				6,333	6,333	6,333
Other non-current assets	39,541					39,541
Total assets	368,752					368,752
Total current liabilities	(97,666)					(97,666)
Non-current liabilities	(37,682)					(37,682)
Total liabilities	(135,348)					(135,348)
Minority interests	(243)		243		243	
	(135,591)		243		243	(135,348)
Net assets	233,161		243		243	233,404
Total equity attributable to:						
Equity shareholders of the Company	233,161					233,161
Minority interests			243		243	243
Total equity	233,161		243		243	233,404

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

3 Changes in accounting policies (Continued)

(b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated statements of income and balance sheet and other significant related disclosure items for the year ended December 31, 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Effect on the consolidated financial statements

Estimated effect on the consolidated statement of income for the year ended December 31, 2005

	Effect of new policy (increase/(decrease) in profit for the year)				
	HKFRS 2 (note 3(f)) **RMB**	*HKFRS 3 (note 3(c))* **RMB**	*HKAS 17 (note 3(e))* **RMB**	*HKAS 39 (note 3(g))* **RMB**	*Total* **RMB**
Operating revenue					
Operating expenses					
Leased lines					
Interconnection					
Depreciation			169		169
Personnel	(1,553)				(1,553)
Other operating expenses			(169)		(169)
Total operating expenses	(1,553)				(1,553)

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(Amounts in millions, except share data)

3 Changes in accounting policies (Continued)

(b) Estimated effect of changes in accounting policies on the current period (Continued)
Effect on the consolidated financial statements (Continued)

Estimated effect on the consolidated statement of income for the year ended December 31, 2005 (Continued)

	Effect of new policy (increase/(decrease) in profit for the year)				
	HKFRS 2 (note 3(f)) RMB	*HKFRS 3 (note 3(c))* RMB	*HKAS 17 (note 3(e))* RMB	*HKAS 39 (note 3(g))* RMB	*Total* RMB
Profit from operations	(1,553)				(1,553)
Amortization of goodwill		2,001			2,001
Non-operating net income				32	32
Finance costs				(41)	(41)
Other income and expenses					
Profit before tax	(1,553)	2,001		(9)	439
Income tax					
Profit for the year	(1,553)				