

CHINA MOBILE LTD /ADR/

Form 20-F

June 23, 2009

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**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, 2008**

**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)

Grace Wong

Company Secretary

China Mobile Limited

60th Floor, The Center

99 Queen's Road Central

Hong Kong, China

Telephone: (852) 3121-8888

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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)



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

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

\* Not for trading, but only in connection with the listing on the New York Stock Exchange of American depository 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, 2008, 20,054,379,231 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  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

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

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Other

If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

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

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**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 objectives and strategies;

our operations and prospects;

our telecommunications network expansion plans and related capital expenditure plans, including, among others, those relating to construction and operation of third generation mobile telecommunications technology, or 3G, networks;

our provision of 3G services, and our ability to attract customers to these services;

the planned development of new mobile telecommunications 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 service offerings on our business, financial condition and results of operations; and

future developments in the telecommunications industry in Mainland China, including changes in the regulatory and competitive landscape.

The words anticipate, believe, could, estimate, expect, intend, may, seek, will and similar expressions, as they relate to us, are intended to identify certain of these forward-looking statements. We do not intend to update these forward-looking statements and are under no obligation to do so.

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 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 Industry and Information Technology, or the MIIT (which was created by the State Council of the PRC in March 2008 to assume, among other things, the duties of the former Ministry of Information Industry, or the MII) 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 PRC, and spectrum and numbering resources allocation;

the effect of competition on the demand for and price of our services;

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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 PRC 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:

our ability to obtain sufficient financing on commercially acceptable terms;

the adequacy of currently available frequency spectrum or the availability of additional frequency spectrum;

the availability of transmission lines and equipment, and the availability of the requisite number of sites for locating network equipment, on commercially acceptable terms;

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our ability to successfully provide and expand our 3G services based on the Time Division Synchronous Code Division Multiple Access, or TD-SCDMA, technology;

our ability to develop or obtain new technology and related applications; and

the availability of qualified management and technical personnel.

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**Special Note on Our Financial Information and  
Certain Statistical Information Presented in This Annual Report**

Our consolidated income statements for the years ended December 31, 2006, 2007 and 2008 and consolidated balance sheets as of December 31, 2007 and 2008 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission, or the SEC, which became effective on March 4, 2008, we are not required to provide a reconciliation to generally accepted accounting principles in the United States.

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.

**Table of Contents****PART I****Item 1. Identity of Directors, Senior Management and Advisers.**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable.**

Not applicable.

**Item 3. Key Information.****Selected Financial Data**

The following tables present selected historical financial data of our company as of and for each of the years in the three-year period ended December 31, 2008. Except for amounts presented in U.S. dollars, the selected historical consolidated income statement data and other financial data for the years ended December 31, 2006, 2007 and 2008 and the selected historical consolidated balance sheet data as of December 31, 2007 and 2008 set forth below are derived from, 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 consolidated balance sheet data as of December 31, 2006 set forth below are derived from our audited consolidated financial statements that are not included in this annual report on Form 20-F. As disclosed above under "Special Note on Our Financial Information and Certain Statistical Information Presented in This Annual Report", our consolidated income statements for the years ended December 31, 2006, 2007 and 2008 and consolidated balance sheets as of December 31, 2007 and 2008 have been prepared and presented in accordance with IFRS.

	As of or for the year ended December 31,			
	2006 RMB	2007 RMB	2008 RMB	2008 US\$
	(in millions, except share, per share and per ADS information)			
<b>Consolidated Income Statement Data:</b>				
Operating revenue	295,358	356,959	412,343	60,439
Operating expenses	203,433	232,891	269,728	39,535
Profit from operations	91,925	124,068	142,615	20,904
Profit before taxation <sup>(1)</sup>	96,176	129,238	149,743	21,948
Taxation <sup>(1)</sup>	30,062	42,059	36,789	5,392
Profit for the year attributable to equity shareholders	66,026	87,062	112,793	16,533
Basic earnings per share <sup>(2)</sup>	3.32	4.35	5.63	0.83
Diluted earnings per share <sup>(2)</sup>	3.29	4.28	5.54	0.81
Basic earnings per ADS <sup>(2)</sup>	16.60	21.76	28.14	4.12
Diluted earnings per ADS <sup>(2)</sup>	16.44	21.40	27.70	4.06
Shares utilized in basic calculation (in thousands)	19,892,968	20,005,123	20,043,934	20,043,934
Shares utilized in diluted calculation (in thousands)	20,078,549	20,339,428	20,356,126	20,356,126

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	As of or for the year ended December 31,			
	2006 RMB	2007 RMB	2008 RMB	2008 US\$
(in millions, except share, per share and per ADS information)				
<b>Consolidated Balance Sheet Data:</b>				
Working capital <sup>(3)</sup>	30,900	52,682	59,597	8,735
Cash and cash equivalents	71,167	78,859	87,426	12,814
Deposits with banks	82,294	109,685	130,833	19,177
Accounts receivable, net	7,153	6,985	6,913	1,013
Property, plant and equipment, net	218,274	257,170	327,783	48,044
Total assets	494,676	563,493	657,697	96,401
Bonds <sup>(4)</sup>	12,937	9,949	9,920	1,454
Deferred consideration payable <sup>(5)</sup>	23,633	23,633	23,633	3,464
Total liabilities	175,303	189,254	214,790	31,483
Share capital	2,130	2,136	2,138	313
Shareholders' equity	319,002	373,751	442,278	64,826
<b>Other Financial Data:</b>				
Capital expenditures and land lease prepayments <sup>(6)</sup>	77,566	99,551	122,814	18,001
Net cash generated from operating activities	149,346	168,612	193,647	28,384
Net cash used in investing activities	(118,841)	(123,039)	(139,026)	(20,378)
Net cash used in financing activities	(23,587)	(37,276)	(45,684)	(6,696)
Dividend declared or proposed	31,156	39,883	48,364	7,089
Dividend declared per share (RMB)	1.566	2.000	2.415	0.35
Dividend declared per share (HK\$)	1.542	2.098	2.743	0.35

- (1) Amortization of tax credit on purchase of domestically manufactured telecommunications equipment is included in income tax expense in 2007 and 2008. Accordingly, the amounts in 2006 have been reclassified to conform to current year's presentation.
- (2) The basic earnings per share and per ADS amounts 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 in 2006, 2007 and 2008. The diluted earnings per share have been computed after adjusting for the effects of all dilutive potential ordinary shares, respectively. Dilutive potential ordinary shares resulting from the share options granted to our directors and employees under the share option scheme would decrease profit attributable to equity shareholders per share.
- (3) Represents current assets minus current liabilities.
- (4) The guaranteed bonds due 2007 with an aggregate principal amount of RMB3,000 million were fully redeemed upon maturity on October 28, 2007.
- (5) Represents the respective balance of the purchase consideration payable to our immediate holding company 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. See Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Contractual Obligations and Commitments.
- (6) 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 RMB6.8225 = US\$1.00 and HK\$7.7499 = 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, 2008. 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 RMB6.8360 = US\$1.00 and HK\$7.7500 = US\$1.00, respectively, on June 19, 2009. 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:

**Table of Contents****Noon Buying Rate**

	RMB per US\$1.00			HK\$ per US\$1.00	
	High	Low		High	Low
December 2008	6.8842	6.8225	December 2008	7.7522	7.7497
January 2009	6.8403	6.8225	January 2009	7.7618	7.7504
February 2009	6.8470	6.8241	February 2009	7.7551	7.7511
March 2009	6.8438	6.8240	March 2009	7.7593	7.7497
April 2009	6.8361	6.8180	April 2009	7.7508	7.7495
May 2009	6.8326	6.8176	May 2009	7.7526	7.7500
June 2009 (up to June 19, 2009)	6.8371	6.8264	June 2009 (up to June 19, 2009)	7.7516	7.7499

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 in 2004, 2005, 2006, 2007 and 2008, 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
2004	8.2768	7.7899
2005	8.1826	7.7755
2006	7.9579	7.7685
2007	7.5806	7.8008
2008	6.9193	7.7814

**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 SEC, 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 have a material adverse effect on our business, financial condition and results of operations as well as the value of your investment.

**Risks Relating to Our Business**

*We may not be able to maintain a high level of growth due to, among other things, the increase in the mobile penetration rate in Mainland China, the effects of the recent restructuring of the telecommunications industry in Mainland China and the changes in the macroeconomic environment arising from the global financial crisis.*

We have experienced significant growth over the past few years, measured by the increase in both our subscriber base and our revenue. We cannot assure you, however, that we will be able to maintain a high level of growth in the future. In particular, the mobile penetration rate in Mainland China reached 48.5% as of December 31, 2008, and the mobile telecommunications markets in some of the larger cities of Mainland China have begun showing signs of saturation. Moreover, the effects of the recent restructuring of the telecommunications industry that has significantly changed the competitive landscape in the telecommunications industry in Mainland China have begun to emerge, and have principally resulted in further intensified competition. See Competition from other telecommunications services providers may further increase, which may reduce our market share and decrease our profit margin, and we cannot assure you that any potential change in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations. In addition, changes in the macroeconomic environment arising from the global financial crisis have had an adverse impact on Mainland China as well as its telecommunications industry. All of these factors, among others, have contributed to a slowdown in the growth in demand for our telecommunications services in Mainland China. As a result, our subscriber base grew at a lower rate in the fourth quarter of 2008 and the first quarter of 2009 than in prior years. We had 19.91 million new subscribers in the first quarter of 2009, representing



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a 12.7% decrease from the number of new subscribers that we added for the same period in 2008. Our total voice usage volume in the first quarter of 2009 was 661.38 billion minutes, representing only a marginal increase from that in the fourth quarter of 2008. Furthermore, the growth in our operating revenue in the first quarter of 2009 was significantly less than that for the same period in 2008. We have also experienced a continued decline in our average revenue per user per month, or ARPU, over the past several years, which declined from RMB90 in 2006 to RMB83 in 2008 and to RMB73 in the first quarter of 2009. As most of our new subscribers are relatively low-end users, such as those from less affluent rural areas, the continued implementation of our growth strategy may result in our experiencing a lower ARPU than what we have experienced historically. Our efforts to achieve growth could be hampered if we are unable to compete effectively with other telecommunications services providers in Mainland China or the macroeconomic environment does not improve. We cannot assure you that we will be successful in our efforts to achieve a high level of subscriber growth or to increase our market share and the utilization of our telecommunications services. If we are unable to sustain our growth, our financial condition and results of operations as well as our profitability may be materially and adversely affected.

***Competition from other telecommunications services providers may further increase, which may reduce our market share and decrease our profit margin, and we cannot assure you that any potential change in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations.***

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 and has in the past extended favorable regulatory policies to some of our competitors in order to help them become more viable competitors. See

Current or future asymmetrical and other regulatory measures adopted by the PRC regulatory authorities could materially harm our competitive position.

We continue to face increasing competition from other telecommunications services providers. In May 2008, in order to optimize the allocation of telecommunications resources in the PRC and improve the competitive landscape, the MIIT, the National Development and Reform Commission and the Ministry of Finance jointly announced a policy initiative to further reform the PRC telecommunications industry by encouraging the formation of three telecommunications services providers of comparable scale and standing, each with nationwide network resources, full-service capabilities and competitive strength, by way of a series of restructuring transactions. See Item 4. Information on the Company The History and Development of the Company Industry Restructuring and Changes in Our Shareholding Structure. Following the announcement of the policy initiative, China United Telecommunications Corporation, formerly our largest competitor, combined with China Network Communications Group Corporation to form China United Network Communications Group Company Limited, or China Unicom, while China Telecommunications Corporation, or China Telecom, acquired the Code Division Multiple Access, or CDMA, business previously owned and operated by China United Telecommunications Corporation and became a new mobile telecommunications services provider that directly competes with us. Both of these developments resulted in more competitive pressures on us. In addition, under the PRC government's policy initiative announced in May 2008, China Telecom and China Unicom have each become full-service telecommunications services providers that operate both fixed-line telecommunications networks and mobile telecommunications networks. See Item 4. Information on the Company Business Overview Competition. Further increased competition could reduce the rate at which we add new customers to our network and decrease our market share as customers choose to receive mobile telecommunications services from other providers. Moreover, we cannot assure you that we will not experience increases in churn rates as competition intensifies, which may materially reduce our profitability as we may incur significant additional selling expenses to replace customers. Furthermore, we cannot assure you that any potential change in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations.

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*The TD-SCDMA technology that we use for our 3G network is a new third generation mobile technology that has not been proven in commercial use or widely adopted and the TD-SCDMA industry chain is at an early stage of development. As a result, we have encountered and may continue to encounter challenges in the deployment of our 3G services, which could have a material adverse effect on our financial condition and results of operations as well as our revenues and profitability.*

We are committed to pursuing our 3G business based on the TD-SCDMA technology. As a result, our ability to deploy and deliver our 3G services depends, to a large extent, on the TD-SCDMA technology, which has not been proven in commercial use. In particular, the TD-SCDMA technology may not perform as expected, and we may not be able to effectively and economically deliver our 3G services based on this technology. Furthermore, we may not be able to compete successfully in the delivery of telecommunications services based on the TD-SCDMA technology against our competitors, which are delivering their 3G services using Wideband Code Division Multiple Access, or WCDMA, and Code Division Multiple Access 2000, or CDMA2000, technologies, both of which are perceived to be more mature 3G technologies that have been used widely in western Europe and the United States and that may offer more effective global roaming or other services to customers. If the TD-SCDMA technology proves not to be commercially viable or widely adopted, or if this technology does not otherwise perform satisfactorily, our ability to attract and retain customers or offer services to our customers may be limited, our business and prospects will suffer and our revenues and profitability could materially decrease.

We have experienced various challenges in the deployment of our 3G services. The TD-SCDMA industry chain, including companies that manufacture, or conduct research and development activities relating to, TD-SCDMA systems, terminals, chipsets and instruments, is still at an early stage of development, with the related technologies and products lacking in sophistication and maturity. For example, there are currently a limited number of companies that manufacture handsets based on the TD-SCDMA technology. As a result, TD-SCDMA handsets currently available on the market may lack variety and may be comparatively more expensive and technologically less reliable than handsets based on other 3G technologies. We may not be able to successfully overcome our current challenges and may encounter new challenges in the development of our 3G business, and the deployment of our 3G services may not proceed according to anticipated schedules.

In addition, we have made substantial investments and incurred significant expenses in the development of our 3G services, including the leasing of network capacity from our parent company, China Mobile Communications Corporation, or CMCC, and the development of our 3G market. We currently plan to expand our 3G services to 238 cities in Mainland China by the end of 2009. In May 2009, a total of 746,000 subscribers used our 3G network services. We expect to continue making significant investments in the construction of our core mobile telecommunications network and related systems and facilities, which will be used for both our 2G and 3G services. Accordingly, the amount of our capital expenditures in future years could remain high. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures for more information on our expected capital expenditures. If our 3G services do not gain sufficient popularity among potential subscribers, or if we encounter other challenges in the provision of our 3G services, our ability to realize benefits from our significant capital investment in our networks and 3G services will be limited, which could have a material adverse effect on our financial condition and results of operations as well as our revenues and profitability.

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

The MIIT, which was created in March 2008 to assume, among other things, the functions of the MII, regulates, among other things, the following areas of the telecommunications industry in the PRC under the leadership of 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, setting tariff and service charge standards for certain telecommunications services;

supervising the operations of telecommunications services providers;

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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 areas such as tariff policies and foreign investment. The regulatory framework within which we operate may limit our flexibility to respond to changes in market conditions, competition or 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 significantly decrease our revenues and materially reduce our profitability.

We operate our businesses with approvals granted by the State Council and under licenses granted by the MIIT. We also have arrangements with CMCC, our parent company, under which we operate a 3G telecommunications business based on a 3G license granted to CMCC by the MIIT. 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 adverse respect, our business and operations will be materially and adversely affected.

***Current or future asymmetrical and other regulatory measures adopted by the PRC regulatory authorities could materially harm our competitive position.***

The PRC government has in the past extended favorable regulatory policies to some of our competitors in order to help them become more viable competitors to us. Under the restructuring initiatives relating to the telecommunications industry in Mainland China announced in May 2008, the PRC government may also implement necessary asymmetrical regulatory measures over a period of time, in order to optimize the allocation of telecommunications resources in the PRC and improve the competitive landscape. In particular, under the restructuring initiatives announced in May 2008, the PRC government encourages the offering of roaming services across different mobile telecommunications networks, and the prices at which the mobile telecommunications services providers may settle for these inter-network roaming services would be initially set by the PRC regulatory authorities. In addition, the PRC government may implement other asymmetrical regulatory measures, such as the one-way mobile number portability policy, which may allow our subscribers to switch to another mobile telecommunications operator while being able to retain their existing mobile numbers. We cannot predict at this point in time the impact, if any, that such offering of roaming services or other measures may have on our business and prospects. The implementation of asymmetrical regulatory measures could materially harm our competitive position, which could in turn significantly reduce our revenues and profitability.

***We may be affected by the enactment of a new telecommunications law and the promulgation of new telecommunications regulations.***

To provide a uniform regulatory framework for the orderly development of the telecommunications industry, the MIIT, under the direction of the State Council, has been preparing a draft telecommunications law. It has been reported that, under the legislation agenda of the Eleventh National People's Congress of the PRC, the draft telecommunications law is to be submitted for review by the Standing Committee of the Eleventh National People's Congress of the PRC within its term. 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 will be its nature and scope. The telecommunications law and other new telecommunications regulations or rules may contain provisions that could have a material adverse effect on 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 these 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 MIIT has the authority to delineate the scope of these service obligations. The MIIT, 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.

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While the scope of specific universal services obligations is not yet clear, we believe that these 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 MIIT has required major telecommunications services providers in Mainland China, including 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 materially and adversely affect our financial condition and results of operations, as well as our profitability.

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

As of May 31, 2009, CMCC indirectly owned an aggregate of approximately 74.24% of our outstanding 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 in Mainland China 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 and network capacity leasing and telecommunications services arrangements.

Furthermore, we operate our 3G business pursuant to arrangements with CMCC, which was granted a license by the PRC government to operate a 3G business based on the TD-SCDMA technology.

The interests of CMCC as the provider of these services to our operating subsidiaries in Mainland China 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, functions as the 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 have a material adverse effect on our business, financial condition and results of operations, and may conflict with the interests of our minority shareholders.

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

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A mobile telecommunications network's capacity is to a certain extent limited by the amount of frequency spectrum available for its use. Since the MIIT controls the allocation of 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 MIIT allocates to our parent company, CMCC. For our GSM network, the MIIT has allocated a total of 44 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. In connection with our 3G business, the MIIT has allocated to CMCC a total of 35 MHz of spectrum, to be used for transmission and reception nationwide, respectively, in the 1880 MHz frequency band and the 2010 MHz frequency band. Under the existing agreement between CMCC and us, we have the exclusive rights among mobile telecommunications services providers to use the allocated frequency spectrum in Mainland China.

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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, as well as CMCC, may not be able to obtain additional spectrum from the MIIT. 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.

***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 RMB375.4 billion (approximately US\$55.0 billion) for capital expenditures from 2009 through the end of 2011 for a range of projects and other expenditures, including, among others, the construction of our core mobile telecommunications networks and related systems and facilities, the construction of our 2G wireless network and the development of new technologies and new businesses.

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, we may need to make large capital expenditures and other investments in order to achieve a successful integration of our 2G and 3G networks. In January 2009, we began to provide 3G services based on the TD-SCDMA technology. The timing and magnitude of our 3G-related capital expenditures and other investments continue to involve many uncertainties that are beyond our control. If we are required to make substantial capital expenditures and other investments in order to effectively implement the TD-SCDMA technology, our financial condition, results of operations and liquidity may be materially and adversely affected in one or more given periods.

Financing may not be available to us on commercially acceptable terms or on a timely basis. In particular, disruptions in the credit markets in the wake of the global financial crisis have caused many banks and other lenders to become reluctant to lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values, which may make it more difficult and expensive for us to obtain financing. In addition, any future issuance of equity securities, including securities convertible into or exchangeable for 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 materially and 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 characterized by 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, including the TD-SCDMA technology, may become obsolete or subject to competition from new technologies in the future, including new Internet-based telecommunications technologies. In addition, the development and application of new technologies involves time, substantial costs and risks. We may encounter unexpected technological difficulties in developing and implementing new technologies, including any next generation mobile technology, and as a result may incur substantial cost or service disruptions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.



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### ***Failure to capitalize on new business opportunities may substantially reduce 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. In particular, any new wireless telecommunications technologies deployed by us may not perform as expected. We may also 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. Moreover, we may pursue acquisitions from time to time, and we cannot assure you that we will be successful in pursuing such acquisitions or will otherwise be able to successfully integrate any acquired companies or assets into our existing operations. Any failure to capitalize on new business opportunities may have a material adverse effect on our competitive position, future profitability and growth prospects.

### ***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 continues to be public speculation about possible health risks to individuals from exposure to electromagnetic fields from base stations and from the use of 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.

### ***Any failure to achieve and maintain effective internal controls could have a material adverse effect on our reputation, business, results of operations and the market prices of our shares and ADSs.***

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to prevent fraud. We are required to comply with various Hong Kong and U.S. laws, rules and regulations on internal controls, including the Sarbanes-Oxley Act of 2002. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include a report of management on our internal control over financial reporting in our annual reports on Form 20-F that contains an assessment by management of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must issue an auditor's report on the effectiveness of our internal control over financial reporting.

Internal controls may not prevent or detect misstatements because of their inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. In addition, projections of any evaluation of the effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in operating conditions or a deterioration in the degree of compliance with our policies or procedures. As a result, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal control over financial reporting, our management may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting. 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 designed or operated, or if the independent registered public accounting firm interprets the requirements, rules or regulations differently from us, it may decline to express an opinion on the effectiveness of our internal control over financial reporting 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 cause the market prices of our ordinary shares and ADSs to decline significantly. In addition, any deficiency in our 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.

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*We may conduct a public offering and listing of our shares in Mainland China, which may result in increased regulatory scrutiny and compliance costs as well as increased fluctuations in the prices of our ordinary shares and ADSs listed in overseas markets.*

We may conduct a public offering and listing of our shares in Mainland China. The offering may take the form of an offering of our A shares, which will be a separate class of our ordinary shares denominated in Renminbi and listed on a Mainland China stock exchange. To the extent then permitted under relevant PRC laws, rules and regulations, the offering may also take the form of an offering of Chinese depositary shares, evidenced by Chinese depositary receipts, which will be denominated in Renminbi and listed on a Mainland China stock exchange and represent rights to receive our ordinary shares. We have not set a specific timetable for an offering in the PRC. The precise timing of the offering would depend on a number of factors, including the receipt of relevant regulatory approvals and market conditions. If our public offering in Mainland China is completed, we would become subject to the applicable laws, rules and regulations governing public companies listed in Mainland China, in addition to the various laws, rules and regulations that we are currently subject to in Hong Kong and the United States. The listing and trading of our securities in multiple jurisdictions and multiple markets may lead to increased compliance costs for us, and we face the risk of significant intervention by regulatory authorities in these jurisdictions and markets.

In addition, under the current PRC laws, rules and regulations, our ordinary shares listed on the Hong Kong Stock Exchange will not be interchangeable or fungible with any shares we decide to list on a Mainland China stock exchange, and there is no trading or settlement between these two markets. Furthermore, these two markets have different trading characteristics and investor bases, including different levels of retail and institutional participation. As a result of these differences, the trading prices of our ordinary shares listed on the Hong Kong Stock Exchange may not be the same as the trading prices of any shares we decide to list on a Mainland China stock exchange. The issuance of a separate class of shares and fluctuations in its trading price may also lead to increased volatility in, and may otherwise materially and adversely affect, the prices of our ordinary shares and ADSs listed in overseas markets.

*Changes to our interconnection and leased line arrangements may increase our operating expenses and reduce 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 impact on our operating revenue and expenses. In addition, our business and operations may be materially and adversely affected, and our profitability severely reduced, if we are unable to enter into future interconnection and leased line agreements on commercially acceptable terms or on a timely basis.

### **Risks Relating to the Telecommunications Industry in Mainland China**

*China's accession into the World Trade Organization has resulted in a gradual liberalization of, and may continue to lead to a decrease in, restrictions on foreign ownership in the PRC telecommunications industry, which may increase competition in the mobile telecommunications services sector.*

On December 11, 2001, China officially joined the World Trade Organization, or the 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 included the gradual reduction of foreign ownership restrictions in the PRC telecommunications industry and the opening of the telecommunications market in Mainland China to foreign investors. See Item 4. Information on the Company Business Overview World Trade Organization. Starting from December 11, 2006, foreign investors were permitted to own up to 49% of joint ventures that offer mobile voice and data services without any geographic restrictions. 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 condition and results of operations, as well as our business and prospects.

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***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, due in part to highly volatile securities markets, particularly for telecommunications companies' shares, as well as variations 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 3G mobile networks and new technologies, products and services. See Item 9. The Offer and Listing for information regarding the trading price history of our ordinary shares and ADSs.

### **Risks Relating to Mainland China**

***An economic slowdown in Mainland China may reduce the demand for our services and have a material adverse effect on our financial condition, results of operations and business 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 gross domestic product, or GDP, growth. However, the global financial crisis that unfolded in 2008 and has continued during 2009 has led to China's economic growth slowing substantially. In particular, China's GDP growth rate in the first quarter of 2009 dropped to 6.1%, the lowest since 1992. China's GDP growth rate may further decrease in the near future. As China's economic growth slows down, we have also seen the rate at which our subscriber base grows decrease. For instance, we had 19.91 million new subscribers in the first quarter of 2009, representing a 12.7% decrease from the number of new subscribers that we added for the same period in 2008. Moreover, the growth in our operating revenue in the first quarter of 2009 was significantly less than that for the same period in 2008.

Any further slowdown in the economic growth of China could lead to further reduced business activities, reduced voice traffic, and reduced demand for our services, which could materially and adversely affect our business, 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 currencies to satisfy their foreign currency requirements or pay dividends to us.***

Substantially all of our revenues, operating expenses and capital expenditures are denominated in Renminbi, while a portion of our indebtedness are denominated in foreign currencies, such as U.S. dollars and Hong Kong dollars. 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 of the PRC 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. In addition, our subsidiaries incorporated in Mainland China may not be able to obtain sufficient foreign currencies to satisfy their foreign currency requirements or pay dividends to us for our use in making any future dividend payments or in meeting our 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 currencies through debt or equity financing, including by means of loans or capital contributions from us.

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**Table of Contents*****Fluctuations in exchange rates could materially and adversely affect our financial results.***

Substantially all of our revenues, operating expenses and capital expenditures are denominated in Renminbi, while a portion of our indebtedness 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. Currently, the People's Bank of China allows the daily trading price of the Renminbi against the U.S. dollar in the inter-bank spot foreign exchange market to float within a band of 0.5% around the central parity rate it publishes on a daily basis. 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.

***The PRC legal system contains 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 in Mainland China 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 protections available to our shareholders. Moreover, China's entry into the WTO has resulted and may in the future result in the abolition of or substantial amendments to the existing laws, regulations and other legal requirements. See Item 4. Information on the Company Business Overview World Trade Organization.

***Natural disasters and health hazards in China may severely disrupt our business and operations and may have a material adverse effect on our financial condition and results of operations.***

In early 2008, parts of Mainland China, in particular its southern, central and eastern regions, experienced what was reportedly the most severe winter weather in the country in half a century, which resulted in significant and extensive damages to factories, power lines, homes, automobiles, crops and other properties, blackouts, transportation and communications disruptions and other losses in the affected areas. Our base stations in the affected areas suffered power failures and our network equipment sustained other significant damages due to this severe winter weather. In addition, a major earthquake registering 8.0 on the Richter scale struck Sichuan Province and certain other parts of Mainland China in May 2008, devastating much of the affected areas and causing tens of thousands of deaths and widespread injuries. Our network equipment, including our base stations, in the affected areas sustained extensive damages in the earthquake, leading to service stoppage and other disruptions in our operations in those areas. Moreover, certain countries and regions, including China, have encountered incidents of the H5N1 strain of bird flu, or avian flu, as well as severe acute respiratory syndrome, or SARS, over the past six years and, more recently in 2009, the outbreak of influenza A(H1N1). We are unable to predict the effect, if any, that any future natural disasters and health hazards may have on our business. Any future natural disasters and health hazards may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, such natural disasters and health hazards 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, any natural disasters or health hazards in China may have a material adverse effect on our financial condition and results of operations.

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### **Item 4. Information on the Company.**

We provide a full range of mobile telecommunications services in all 31 provinces, autonomous regions and directly-administered municipalities in Mainland China as well as in Hong Kong. As of December 31, 2008, the total population residing in Mainland China was 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, 2008. As of the same date, our total number of subscribers was approximately 457.3 million, representing approximately 72.4% of all mobile subscribers in Mainland China. As of May 31, 2009, our total number of subscribers reached approximately 488.1 million.

### **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.

### ***Expansion Through Acquisitions***

Our initial mobile telecommunications operations included those in Guangdong Province and Zhejiang Province, conducted by Guangdong Mobile Communication Company Limited (currently known as China Mobile Group Guangdong Co., Ltd.), or Guangdong Mobile, and Zhejiang Mobile Communication Company Limited (currently known as China Mobile Group Zhejiang Co., Ltd.), or Zhejiang Mobile, respectively. 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.

We carried out a series of acquisitions between 1998 and 2004, through which we acquired from CMCC, our indirect controlling shareholder, mobile telecommunications operations conducted by its other regional subsidiaries. As a result, we significantly expanded the geographical coverage of our operations to all 31 provinces, autonomous regions and directly-administered municipalities in Mainland China.

In addition, we acquired all of the issued and outstanding shares of China Resources Peoples Telephone Company Limited (currently known as China Mobile Hong Kong Company Limited, or Hong Kong Mobile), a mobile telecommunications services provider based in Hong Kong, on March 28, 2006 for a total purchase price of approximately HK\$3,384 million (US\$436 million). As a result, Hong Kong Mobile became our wholly-owned subsidiary.

These acquisitions have significantly enlarged our subscriber base and expanded the geographical coverage of our business. The integration of these acquired operations has also enabled us to realize synergies and economies of scale.

### ***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 MII 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 MII ceased to have an indirect controlling interest in us, and no longer exercised control over telecommunications operations, but continued in its capacity as industry regulator providing industry policy guidance as well as exercising regulatory authority over all telecommunications services providers in Mainland China.

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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. As part of this separation, CMCC was established in July 1999 as a state-owned company to hold and operate the mobile telecommunications business nationwide, which 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. The remaining 43% interest in China Mobile (Hong Kong) Group Limited previously held by the Directorate General of Telecommunications was transferred to CMCC in May 2000. As a result, CMCC became 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. As of May 31, 2009, CMCC indirectly owned approximately 74.24% of all our outstanding shares, including shares represented by ADSs.

As a state-owned company, the former China Telecommunications Corporation owned and operated 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, which consisted 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.

In March 2008, the MIIT was created to assume, among other things, the functions of the MII and became the industry regulator providing industry policy guidance and exercising regulatory authority over all telecommunications services providers in Mainland China, including, among others, formulating and enforcing industry policy, standards and regulations, granting telecommunications licenses and permits, formulating interconnection and settlement standards for implementation between telecommunications networks, formulating tariff and service charge standards for certain telecommunications services together with other relevant regulatory authorities, supervising the operations of telecommunications services providers, promoting fair and orderly market competition among operators, and allocating and administering public telecommunications resources.

On May 24, 2008, the MIIT, the National Development and Reform Commission and the Ministry of Finance issued a joint announcement relating to the further reform of the telecommunications industry in Mainland China. According to the joint announcement, the principal objectives of such further reform include, among others: (i) supporting the formation of three telecommunications services providers of comparable scale and standing, each with nationwide network resources, full-service capabilities and competitive strength, in order to help optimize the allocation of telecommunications resources and foster market competition; (ii) promoting homegrown innovation by telecommunications services providers; and (iii) enhancing the service capabilities and quality of, and the regulatory framework governing, the telecommunications industry. To achieve these objectives, the three ministries encouraged the following restructuring transactions: (a) the acquisition by China Telecom of the CDMA network (including both assets and subscriber base) then owned by China United Telecommunications Corporation; (b) the merger between China United Telecommunications Corporation and China Netcom; (c) the transfer of the basic telecommunications services business then operated by China Satellite into China Telecom; and (d) the consolidation of China Tietong Telecommunications Corporation, or China Tietong, into CMCC. The joint announcement required that detailed implementation plans relating to these restructuring transactions be formulated by the relevant parties involved, subject to, in each case, agreement on terms among the relevant parties and approvals by applicable PRC government authorities, and carried out, as applicable, in accordance with customary practices in the domestic and international capital markets.

Following the joint announcement, China Telecom acquired the CDMA network (including both assets and subscriber base) formerly owned by China United Telecommunications Corporation in July 2008, and China United Telecommunications Corporation and China Netcom completed their merger to form China Unicom in January 2009. China Tietong became a wholly-owned subsidiary of CMCC on July 31, 2008. On January 7, 2009, the MIIT issued a CDMA 2000 3G license to China Telecom, a WCDMA 3G license to China Unicom and a TD-SCDMA 3G license to CMCC, our parent company.

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As a result of the industry restructuring in 2008 and early 2009, principal participants in the telecommunications industry in Mainland China, other than China Tietong and us, currently also include China Telecom and China Unicom. China Telecom and China Unicom currently operate both mobile and fixed-line telecommunications services. We currently operate only mobile telecommunications services, while China Tietong currently operates fixed-line telecommunications services.

### **Organizational Structure**

As of May 31, 2009, CMCC, a company incorporated in China, owned 74.24% equity interest in us through intermediate holding companies. We operate in all thirty-one provinces, autonomous regions and directly-administered municipalities throughout Mainland China and in Hong Kong. As of May 31, 2009, we owned 100% equity interests in Guangdong Mobile, Zhejiang Mobile, China Mobile Group Jiangsu Co., Ltd., or Jiangsu Mobile, China Mobile Group Fujian Co., Ltd., or Fujian Mobile, China Mobile Group Henan Co., Ltd., or Henan Mobile, China Mobile Group Hainan Co., Ltd., or Hainan Mobile, China Mobile Group Beijing Co., Ltd., or Beijing Mobile, China Mobile Group Shanghai Co., Ltd., or Shanghai Mobile, China Mobile Group Tianjin Co., Ltd., or Tianjin Mobile, China Mobile Group Hebei Co., Ltd., or Hebei Mobile, China Mobile Group Liaoning Co., Ltd., or Liaoning Mobile, China Mobile Group Shandong Co., Ltd., or Shandong Mobile, China Mobile Group Guangxi Co., Ltd., or Guangxi Mobile, China Mobile Group Anhui Co., Ltd., or Anhui Mobile, China Mobile Group Jiangxi Co., Ltd., or Jiangxi Mobile, China Mobile Group Chongqing Co., Ltd., or Chongqing Mobile, China Mobile Group Sichuan Co., Ltd., or Sichuan Mobile, China Mobile Group Hubei Co., Ltd., or Hubei Mobile, China Mobile Group Hunan Co., Ltd., or Hunan Mobile, China Mobile Group Shaanxi Co., Ltd., or Shaanxi Mobile, China Mobile Group Shanxi Co., Ltd., or Shanxi Mobile, China Mobile Group Neimenggu Co., Ltd., or Neimenggu Mobile, China Mobile Group Jilin Co., Ltd., or Jilin Mobile, China Mobile Group Heilongjiang Co., Ltd., or Heilongjiang Mobile, China Mobile Group Guizhou Co., Ltd., or Guizhou Mobile, China Mobile Group Yunnan Co., Ltd., or Yunnan Mobile, China Mobile Group Xizang Co., Ltd., or Xizang Mobile, China Mobile Group Gansu Co., Ltd., or Gansu Mobile, China Mobile Group Qinghai Co., Ltd., or Qinghai Mobile, China Mobile Group Ningxia Co., Ltd., or Ningxia Mobile, China Mobile Group Xinjiang Co., Ltd., or Xinjiang Mobile, China Mobile Group Design Institute Co., Ltd., or Jingyi, China Mobile Communication Company Limited, or CMC, and Hong Kong Mobile through intermediate holding companies, and a 66.41% equity interest in Aspire Holdings Limited, or Aspire, a company incorporated in the Cayman Islands. As of May 31, 2009, we owned 33.33% equity interests in JIL B.V., or JIL, a private limited liability company incorporated in the Netherlands.

### **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](http://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 telecommunications system based on digital transmission and mobile telecommunications network architecture with roaming capabilities. Our GSM networks reach virtually all cities and counties and major roads and highways, as well as a substantial part of rural areas, throughout Mainland China and, through the network of Hong Kong Mobile, a substantial part of Hong Kong.

Starting from January 7, 2009, we also offer mobile telecommunications services using the TD-SCDMA standard. We operate our 3G business based on a core mobile telecommunications network that is shared by both our 2G and 3G businesses and TD-SCDMA wireless network capacity leased from CMCC. See "Mobile Telecommunications Networks" below. CMCC's TD-SCDMA wireless network is expected to cover 238 cities by the end of 2009.

### ***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 and new voice usage and value-added business opportunities as well as further expanding our efforts in exploring the rural and corporate

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customer markets. We intend to continue enhancing our competitive advantages in terms of scale of operations, networks, support systems, brands, marketing and sales channels and services, and strengthening our ability to innovate in terms of services, businesses, technologies and management, so as to further develop our multi-media communications services and become the leader in providing mobile information. Moreover, we will continue to expand both the geographic coverage and the service offerings of our 3G services and closely monitor future developments in the new generation of mobile telecommunications networks and technologies, including the long-term evolution, or LTE, technology, which is a mainstream standard for the evolution of existing 3G technologies.

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:

continue to develop new customers, particularly new corporate customers;

further expand our market share in rural areas;

develop new voice usage opportunities;

expand our efforts in developing value-added business;

enhance our competitive advantages in terms of scale of operations and networks;

refine and optimize our telecommunications and information technology supporting networks;

enhance our brand and improve our customer services;

strengthen our sales and marketing channels;

continue to emphasize innovation in terms of services, businesses, technologies and management;

promote the integration of our 2G and 3G networks and a smooth transition for customers upgrading from our 2G services to 3G services;

leverage our existing competitive advantages to promote our 3G services;

capitalize on the policies of the PRC government that seek to promote the development of the TD-SCDMA industry and participate in the development of the TD-SCDMA industry chain and improvement of the TD-SCDMA technology; and

promote the synchronized development and convergence of TD-LTE and FDD-LTE, the two models of the LTE technology.

***Subscribers and Usage***

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Our subscriber base has grown substantially from approximately 369.3 million at the end of 2007 to approximately 457.3 million at the end of 2008. As of December 31, 2008, we had a market share of approximately 72.4% in Mainland China. As of May 31, 2009, our total number of subscribers reached approximately 488.1 million. In May 2009, a total of 746,000 subscribers used our 3G network services. Our subscriber growth is primarily attributable to a number of factors, including:

economic growth in our markets, including in rural areas;

the PRC government's promotion of informatization and reform and development initiatives targeting the rural areas of Mainland China;

growth potential 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 new business initiatives; and

our competitive advantages in terms of scale of operations, networks, support systems, brands, marketing and sales channels and services.

We also continued to experience growth in our corporate customer base in 2008. As of December 31, 2008, the total number of our corporate accounts reached 2.33 million, with the number of individual subscribers served under corporate accounts reaching 128.7 million, representing 28.1% of our total subscriber base.

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Nearly half of our subscriber growth in 2008 came from rural areas. The PRC government has included mobile phones in its nationwide program to supply subsidized household electronics to rural areas, under which program handsets will be offered to rural customers at discounted prices. We expect this program to help stimulate the consumption of mobile telecommunications services in the rural areas of Mainland China and help us grow our subscriber base in those areas.

However, our subscriber base grew at a lower rate in the fourth quarter of 2008 and the first quarter of 2009 than in prior years. For instance, we had 19.91 million new subscribers in the first quarter of 2009, representing a 12.7% decrease from the number of new subscribers that we added for the same period in 2008. With the mobile telecommunications markets in some of the larger cities of Mainland China becoming saturated, competition among mobile telecommunications operators intensifying and the global financial crisis continuing to impact the macroeconomic environment, our subscriber base may not continue to grow as fast as it has been over the past few years, if at all.

Our total voice usage volume reached 2,441.3 billion minutes in 2008, representing an increase of approximately 34.2% from 2007. As of December 31, 2008, the number of our value-added business users reached 419.8 million, which was an increase of approximately 20.1% compared to December 31, 2007. Furthermore, our SMS usage volume reached 607.1 billion messages in 2008, representing an increase of approximately 20.8% from 2007.

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

	As of or for the year ended		
	December 31,		
	2006	2007	2008
Subscriber Base (in millions) <sup>(1)</sup>	301.2	369.3	457.3
Total Voice Usage Volume (in billions of minutes) <sup>(1)</sup>	1,252.1	1,818.9	2,441.3
Average Minutes of Usage Per User Per Month (minutes) <sup>(1)(2)</sup>	381	455	492
Average Revenue Per User Per Month (RMB) <sup>(1)(3)</sup>	90	89	83
Average Monthly Churn Rate (%) <sup>(1)(4)</sup>	2.73	2.64	2.71

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- (1) The historical information about our subscriber base and subscriber usage includes that of Hong Kong Mobile.
- (2) Calculated by (A) dividing the total minutes of usage during the relevant year by the average number of subscribers during the year (calculated as the average of the numbers of subscribers 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.
- (3) 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 (2) above) and (B) dividing the result by 12. The operating revenue in 2006, 2007 and 2008 is derived from our consolidated income statements for the years ended December 31, 2006, 2007 and 2008, respectively.
- (4) 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 (2) 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 growth in our subscriber base.

**Businesses**

Our businesses primarily consist of voice business and value-added business.

**Voice Business.** Our voice business focuses on enabling 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. Our voice business has continued to grow significantly, and total voice usage volume increased approximately 34.2% in 2008 compared to 2007.



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**Value-Added Business.** Our value-added business includes voice value-added services, short message services, or SMS, and non-SMS data business.

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

Our SMS mainly includes subscriber-to-subscriber messages, Monternet based short messages and others.

Our non-SMS data business mainly includes Color Ring, wireless application protocol, or WAP, multimedia messaging service, or MMS, Wireless Music, Mobile Paper, Fetion, 139 Mailbox, Mobile Gaming, Mobile Video, Mobile Map and Mobile e-Commerce services.

We believe that value-added business, in particular data business, will continue to be one of the fastest growing segments of the telecommunications market in Mainland China over the next several years. In 2008, we increased the promotion of our value-added business by providing customers with diversified and personalized services. Revenue from our value-added business increased to RMB113,444 million in 2008, representing an increase of 23.8% from 2007. As a percentage of operating revenue, revenue generated from value-added business increased to 27.5% in 2008 from 25.7% in 2007. As of December 31, 2008, the number of our value-added business users reached 419.8 million, which represented a 20.1% increase compared to 349.6 million users as of December 31, 2007. We continued to maintain a leading position in value-added business in Mainland China during 2008.

We plan to continue developing new applications and functions for SMS to further stimulate the growth of the SMS business. In addition, we seek to continue driving the growth momentum of our more mature data products, such as Color Ring, WAP and MMS, and to focus on expanding the subscriber base for our other key data products, such as Wireless Music, Mobile Paper and Fetion, with a view to creating new sources of growth in our business. At the same time, we expect to continue developing new products and applications such as 139 Mailbox, Mobile Gaming, Mobile Video, Mobile Map, and Mobile e-Commerce.

We also plan to continue promoting industry-specific applications of value-added business to corporate customers to further enhance the penetration and utilization of value-added business. During 2008, we further strengthened and broadened the scope of key industry-specific application solutions to cover major sectors of the society and the economy, including government, education, agriculture and finance. These efforts, coupled with our efforts to enhance service quality and improve customer relationship, led to an expansion of our customer base among multi-provincial and multi-national corporations. We also expanded our machine-to-machine business in different areas involving our corporate customers. As of December 31, 2008, the total number of our corporate accounts reached 2.33 million.

**SMS.** SMS refers to services that employ the existing resources of GSM 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 607,129 million messages in 2008 from 502,741 million messages in 2007, and revenue generated from SMS business reached RMB50,384 million in 2008 compared to RMB41,935 million in 2007.

**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 growth in our Color Ring business in 2008. Revenue generated from our Color Ring business reached RMB14,380 million in 2008 compared to RMB11,794 million in 2007.

**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 mini-browsers on their handheld wireless devices. We continued to experience growth in our WAP-based businesses in 2008. Revenue generated from WAP services reached RMB12,991 million in 2008 compared to RMB9,094 million in 2007.

**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. Revenue generated from MMS business reached RMB2,878 million in 2008 compared to RMB1,567 million in 2007.

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*Wireless Music.* Wireless Music refers to a service that provides music services to subscribers through mobile telecommunications networks. In 2008, we continued 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 wireless music products based on Color Ring , IVR for Wireless Music and Ringtone Download . We recorded 76 million times of full track music downloads in 2008.

*Mobile Paper.* Mobile Paper is a business we have developed in cooperation with mainstream media in Mainland China and elsewhere, which provides customers with updated information services (including contents such as news, sports, entertainment, cultural activities and lifestyle) through MMS, WAP and other types of service. The number of paying subscribers of Mobile Paper reached 41.49 million as of December 31, 2008, as compared to 23.55 million as of December 31, 2007.

*Fetion .* Fetion enables mobile subscribers to communicate instantly through various means, including SMS, for chatting, dating or interactive entertainment. Our Fetion business continued to grow significantly in 2008. The number of active subscribers of Fetion reached 37.24 million as of December 31, 2008, as compared to 12.81 million as of December 31, 2007.

*139 Mailbox .* 139 Mailbox provides subscribers with typical Internet based mailbox functions and enables them to send and receive as well as manage their emails using SMS, MMS and WAP. The number of active subscribers of 139 Mailbox reached 10 million as of December 31, 2008.

We have also strengthened our efforts with respect to new products and applications in our value-added business, such as Mobile Gaming, Mobile Video, Mobile Map and Mobile e-Commerce.

With the integration of our 2G and 3G networks, we have also been able to integrate our 2G and 3G businesses, and all our 2G products and services are also available for subscription, often with enhanced features, on our 3G platform. Our terminals that specifically target potential 3G customers include dual-mode data cards, netbooks and notebook computers equipped with data modules, home Internet access gateways and information terminals. We believe the technological capabilities provided by our 3G platform will enable us to further grow our value-added business.

## ***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 our 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 also have flexible long distance tariff plans distinguishing between day time and night time usage, 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 MIIT, the National Development and Reform Commission and the relevant price regulatory authorities in Mainland China. As a general matter, the actual price range in each service area is proposed by a network operator in that service area and must be approved by the relevant price regulatory authorities in that service area. In addition, base usage charges, monthly fees, maximum domestic roaming charges and maximum domestic and long distance tariffs (other than tariffs for Internet Protocol, or IP, phone calls) are also determined generally by the MIIT in consultation with the National Development and Reform Commission. In August 2005, the MII amended its tariff regulations relating to certain telecommunications services, which resulted in network operators having more flexibility in setting, among other things, their domestic and international long distance tariffs and domestic roaming charges, provided that these tariffs and charges do not exceed the respective maximum tariffs it determined in consultation with the National Development and Reform Commission and that the tariff plans are filed with the MII (and, currently, with the MIIT) and the National Development and Reform Commission or, in some cases, the relevant price regulatory authorities at the provincial level.

The MIIT has continued encouraging mobile telecommunications operators in Mainland China to implement the caller-party-pays regime. In April 2007, officials from the MII and the National Development and Reform Commission had indicated that the caller-party-pays regime would be phased in within approximately two years. As a result, mobile telecommunications operators, including us, have been gradually implementing the caller-party-pays regime. In particular, all of the new calling plan packages that we have been offering in the PRC since the beginning of 2007 are based on tariffs substantially equivalent to the caller-party-pays regime. We expect decreases in tariffs to generally result in usage volume increases.

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In March 2008, the MII reduced the maximum domestic roaming charges that a mobile telecommunications services provider may charge on roaming services. However, we expect that the decrease in roaming charges will drive growth in voice volume usage and that growth in voice volume usage will help partially offset the negative impact from declining roaming charges.

We offer our subscribers a variety of tariff packages that have different monthly fees, levels of basic usage and charges for usage exceeding the covered basic usage, voice value-added services, data services and 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 certain service areas and call periods targeting various 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 mobile or 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, which enables our subscribers to communicate with the subscribers of those 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, 2008, our GSM global roaming services covered 237 countries and regions, while our general packet radio service, or GPRS, global roaming services coverage was extended to 179 countries and regions.

A mobile 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. In recent years, our international and domestic roaming charges have generally declined, resulting in lower average revenue per minute from roaming services. In March 2008, the PRC regulators further reduced the maximum rate at which a mobile telecommunications services provider may charge on domestic roaming services. We believe that the decrease in roaming charges helped drive growth in voice volume usage and that growth in voice volume usage helped partially offset the negative impact of the decline in roaming charges.

### ***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 business solutions and end-to-end data application solutions suitable for the consumer markets in Mainland China;

monitoring technological trends, including advancement in the new generation of mobile telecommunications technologies, which may have an impact on the development of our current business and the implementation of our wireless data strategy; and

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researching post-TD-SCDMA technologies and promote the synchronized development and convergence of TD-LTE and FDD-LTE technologies, which are two models of LTE.

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SOFTBANK Corp., Vodafone International Holdings B.V. and we have formed JIL to promote the development of new mobile technologies, applications and services, particularly the rapidly growing area of mobile Internet services.

We have applied for a number of patents in Mainland China. Moreover, we have submitted to international standardization organizations a number of contributions, many of which have been accepted. 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 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. Moreover, we offer certain online services to our customers, including, among others, subscription of voice value-added services, change of tariff plans, credit loading for pre-paid services and certain wireless data services, and redemption of GoTone points. Furthermore, we have enhanced our service capabilities in 2008 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. The number of our proprietary sales outlets totaled approximately 47,000 as of December 31, 2008, as compared to 42,000 as of December 31, 2007. We are able to establish sales and service networks at lower cost by utilizing existing resources in rural areas to serve and expand our customer base in these areas. We have also established 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, Easy own targets the mass market and the M-Zone brand targets the young user group through the integration of voice and data services, in each case supported by a series of tailored service packages.

Moreover, we provide differentiated applications and services to our corporate customers under customized service contracts. As of December 31, 2008, we had signed service contracts with approximately 2.33 million corporate customers, and individual customers served under these service contracts with corporate accounts accounted for approximately 28.1% of our total subscribers. With the expansion of our corporate customer base, we also seek to provide customized total solutions to these corporate customers in response to their particular requirements.

Furthermore, we have developed customized products and service packages in response to the unique consumption characteristics of rural areas, such as the Easy own Village-only Card, small denomination top-ups, over-the-air recharging and the Agricultural Information Service, and have developed advertising and distribution channels unique to the rural markets to promote and expand our business in the rural areas. 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.

***Strategies Relating to 3G Services.*** Based on the principle of integrated business development, we seek to leverage our existing competitive advantages in branding, tariff, services and sales channels to promote our 3G services. With the integration of the core components of our 2G and 3G networks, we will focus on promoting dual-mode handsets, which will allow our 2G customers to upgrade to our 3G services without changing their SIM cards or mobile telephone numbers or requiring re-registration. In addition, we will enhance our efforts to market the special features of 3G applications to individuals, families, corporations and those in need of industry information products by developing dual-mode data cards, netbooks and notebook computers equipped with data modules, home Internet access gateways and information terminals.

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**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 2008, 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 81.31% in 2008.

**Customer Retention.** Due to increasing 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 classifications are eligible to receive targeted rewards, including some of our own products and services, as well as those of our business partners. In 2008, 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 our subscriber base, offering new services and gaining recognition as symbol of youth culture. We enhanced our brand image and the number of customers increased 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.

In addition, we further enhanced customer loyalty through a series of efforts in 2008 including, among others, developing our portfolio of products, increasing services and industry penetration, selectively providing handset subsidies, allocating more resources to 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 our 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, additional 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 our service offerings that require subscribers to pre-pay for services. As a result, a majority of our existing subscribers pre-pay for our services. We make an allowance for doubtful accounts based on our assessment of the recoverability of accounts receivable.

**Services Relating to the 2008 Beijing Olympics.** We were the sole mobile telecommunications services partner for the 2008 Beijing Olympics, and successfully provided uninterrupted communications support and services during the games. We were able to provide mobile telecommunications transmissions on a real time basis for the release of information relating to the 2008 Beijing Olympics via SMS, Color Ring and MMS. In addition, we were able to provide quality services to international roaming customers during the Olympics by cooperating with foreign mobile operators to provide diversified services to their customers roaming to Mainland China. Success in serving the Olympics helped improve our business and service offerings and enhance our brand value.

**Corporate Social Responsibility.** We are committed to fulfilling our responsibility to the community. We have focused on energy conservation and environmental protection by implementing a Green Action Plan in many aspects of our operations. We have also strived to build an informatized society, help eliminate the perceived digital divide, care for the underprivileged and proactively support public welfare initiatives. When natural disasters such as severe snow storms and earthquakes hit Mainland China in 2008, we reacted with timely and effective telecommunications support and services and relief efforts. In 2008, we became the first and only company from Mainland China to be listed on the Dow Jones Sustainability Indexes, a recognition of our corporate social responsibility performance. We have started issuing Corporate Social Responsibility Reports since 2007.



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### ***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 human resources. 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.

### ***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 the PRC 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 was payable by us for the first five years from the effective date of the trademark registration in the PRC and any fees payable after that would 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, entered into a licensing agreement with CMCC for the use of the CHINA MOBILE name and logo. Under these agreements, no license fee was payable by us to CMCC until December 31, 2007. On January 1, 2008, we entered into a new trademark license agreement to replace our existing trademark license agreements with CMCC. Under the new trademark license agreement, we and our operating subsidiaries have a non-exclusive right to use the CHINA MOBILE trademark in Mainland China and Hong Kong. No license fee is payable by us to CMCC under the agreement until December 31, 2012.

In addition, the CHINA MOBILE name has been registered as a trademark by CMCC in Australia, Brunei, Canada, Hong Kong, India, Indonesia, Macau, New Zealand, South Korea, Taiwan, Thailand, the United States and Vietnam. Furthermore, CMCC has filed applications to register the CHINA MOBILE name and logo as a trademark in Malaysia, Nigeria, Pakistan, the Philippines, South Africa and Yemen in connection with certain goods and services. CMCC has also registered the CHINA MOBILE name and logo as a trademark under the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks.

### ***Mobile Telecommunications Networks***

Prior to January 7, 2009, we offered 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 stations 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.



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Starting from January 7, 2009, in addition to offering mobile telecommunications services using the GSM standard, or the 2G standard, we also offer mobile telecommunications services using the TD-SCDMA standard, or the 3G standard. Our 3G business shares a core mobile telecommunications network with our 2G business. Over the past several years, we have performed a number of technological improvements and upgrading to our core mobile telecommunications network, which has evolved into an integrated network that is capable of supporting transmissions using both the 2G standard and the 3G standard. Our core mobile telecommunications network is capable of IP-based soft switching, which makes it possible to evolve into a network that supports the next generation technology. Other key network components for our 3G business include Node Bs, which contain radio transmitters and receivers that communicate directly with mobile terminals, and radio network controllers, which carry out radio resources management and are responsible for controlling the Node Bs that are connected to them.

**Network Capacity Expansion and Optimization Plans.** Our subscribers currently use our 2G services, our 3G services, or both. We intend to continue our network expansion and optimization with an emphasis on improving network utilization and operating efficiency, facilitating a smooth transition between, and integration of, our 2G and 3G services, and expanding the coverage and capacity of our integrated network. 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. For our GSM network, the MIIT has allocated a total of 44 MHz of spectrum, to be used for transmission and reception nationwide, respectively, in the 900 MHz frequency band and the 1800 MHz frequency band to our parent company, CMCC. In connection with our 3G business, the MIIT has allocated to CMCC a total of 35 MHz of spectrum, to be used for transmission and reception nationwide, respectively, in the 1880 MHz frequency band and the 2010 MHz frequency band. Under the existing agreement between CMCC and us, we have the exclusive right among mobile telecommunications services providers to use the allocated frequency spectrum in Mainland China.

**Transmission Infrastructure.** The physical infrastructure linking our network components and interconnecting our networks to other networks consists of transmission lines, which provide the backbone infrastructure through which voice and data traffic is carried.

**Leased Lines.** Transmission lines constructed by us reached a sizeable scale through the continuous optimization of our network structure in recent years. 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. For the inter-provincial transmission lines we leased through CMCC from other providers, CMCC collects leasing fees from us and pays fees 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 Stations.** In urban areas, our base stations 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 stations are of limited size, as base station equipment does not generally require significant space. As of the end of 2008, we had approximately 390,000 base stations. We anticipate that we will need a significant number of new base stations in connection with the expansion of our mobile telecommunications networks. We cannot assure you that we will be able to obtain the requisite number of base station sites on reasonable commercial terms.

In connection with the 3G wireless network capacity that we lease from CMCC, CMCC currently plans to construct 160,000 base stations providing 3G network coverage to all prefecture-level cities in Mainland China by the end of 2011.

**Equipment Suppliers.** We select our principal suppliers from leading international and domestic manufacturers of mobile telecommunications equipment and in accordance with technical standards set by the MIIT. In 2008, we purchased our networks equipment primarily from Huawei Technologies, Ericsson, Nokia, Alcatel-Lucent and Motorola.

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***Strategic Alliance with Vodafone***

We have a strategic alliance agreement with Vodafone Group Plc, or 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, Vodafone's Chief Executive Officer for EMAPA of Vodafone, served as a Non-Executive Director of our company from June 2006 until December 2008. Mr. Nicholas Jonathan Read, Vodafone's Regional Chief Executive Officer for Asia Pacific and Middle East Region, joined our board of directors as a Non-Executive Director in March 2009. See Item 6. Directors, Senior Management and Employees. As of May 31, 2009, Vodafone held approximately 3.21% of our outstanding shares.

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, among other areas, the joint development, marketing and delivery of innovative wireless content, products, services and applications. We currently have a number of cooperation initiatives underway with Phoenix.

In addition, we entered into a memorandum of understanding with News Corporation and STAR Group Limited on June 8, 2006 relating to a potential long-term wireless media strategic partnership as well as the exploring of 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. We are currently working with News Corporation and STAR Group Limited on a number of cooperation initiatives.

***Proposed Investment in, and Strategic Cooperation with, Far EasTone***

On April 29, 2009, we entered into a share subscription agreement with Far EasTone Telecommunications Co., Ltd., or Far EasTone, one of the major mobile telecommunications operators in Taiwan, pursuant to which we would acquire 12% of the enlarged issued share capital of Far EasTone for an aggregate amount of approximately 17,773.6 million New Taiwan dollars (approximately RMB3,701.4 million or US\$542.5 million, based on the respective exchange rate of 4.8018 New Taiwan dollars = RMB1.00 or 32.76 New Taiwan dollars = US\$1.00 as of December 31, 2008), subject to certain adjustments. Completion of the share subscription is subject to certain conditions, including the obtaining of all necessary regulatory approvals.



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Concurrent with the share subscription agreement, we also entered into a strategic cooperation agreement with Far EasTone, which would become effective upon the completion of the share subscription. Pursuant to the strategic cooperation agreement, we and Far EasTone would pursue long-term broad-based cooperation for the purpose of our mutual strategic development in a number of areas, including joint purchases, roaming, data and value-added businesses and network and technology advancement. We believe our strategic cooperation with Far EasTone would facilitate the expansion of our business in Mainland China, Hong Kong and Taiwan and help us expand the range of our services to individuals that travel between, and businesses that operate in, Mainland China and Taiwan. The strategic cooperation would also enable us to accumulate advanced technological and operational expertise in areas such as 3G and next generation technology.

### ***Competition***

We compete with other telecommunications services providers. We are one of the three 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 in order to help them become more viable competitors to us. We may also face intense competition from existing operators from time to time. Our competitors launch, from time to time, promotional offers, such as handset subsidies and tariff packages, to attract customers.

In May 2008, in order to optimize the allocation of telecommunications resources in the PRC and improve the competitive landscape, the MIIT, the National Development and Reform Commission and the Ministry of Finance jointly announced a policy initiative to further reform the PRC telecommunications industry by encouraging the formation of three telecommunications services providers of comparable scale and standing, each with nationwide network resources, full-service capabilities and competitive strength, by way of a series of restructuring transactions. See Item 4. Information on the Company The History and Development of the Company Industry Restructuring and Changes in Our Shareholding Structure.

After completion of the industry restructuring in January 2009, China Telecom and China Unicom, each of which is now operating a mobile telecommunications network, may benefit from, among other things, broader subscriber bases, more extensive networks, greater financial and other resources and more comprehensive technological capabilities. These factors have intensified, and could further intensify, competition. In addition, pursuant to the policy initiative announced in May 2008, China Telecom and China Unicom have each become full-service telecommunications services providers that operate both fixed-line telecommunications networks and mobile telecommunications networks. We cannot predict at this point in time the precise impact that the formation of full-service telecommunications services providers may have on our business and prospects. Our competitors may also benefit from any asymmetrical regulatory measures that may be adopted by the PRC government from time to time. See Risk Factors Risks Relating to Our Business Competition from other telecommunications services providers may further increase, which may reduce our market share and decrease our profit margin, and we cannot assure you that any potential change in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations and Risk Factors Risks Relating to Our Business Current or future asymmetrical and other regulatory measures adopted by the PRC regulatory authorities could materially harm our competitive position.

Nonetheless, given the subscriber growth potential in the central and western regions of Mainland China, as well as in the small and medium-sized cities and rural areas, we believe there is substantial growth potential for our mobile telecommunications business. In particular, we believe that the industry restructuring that commenced in 2008 will help optimize the allocation of telecommunications resources and help create a fair, orderly, transparent and healthy telecommunications market. Despite existing and future competition, we believe the following factors have contributed to our subscriber quality compared to that of our existing competitors and we seek to continue developing our competitive advantages on the basis of these factors:

our economies of scale;

our high-quality 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;

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our extensive range of value-added business;

our experienced management team and seasoned employees;

our strong capabilities of execution and innovation; and

our financial resources.

**World Trade Organization**

The People's Republic of 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 have been gradually expanded over a period of six years. Under the accession protocol, the telecommunications 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 Mainland China. By December 11, 2006, such joint ventures were permitted to offer mobile voice and data services in Mainland China without any geographic restrictions.

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

**Foreign Ownership Percentage and Geographic Restrictions  
for Foreign-Funded Telecommunications Enterprises**

Sector	As of December 31,						
	2001	2002	2003	2004	2005	2006	2007
Mobile	25%	35%		49%		49%	
	(3 cities) <sup>(1)</sup>	(17 cities) <sup>(2)</sup>		(17 cities) <sup>(2)</sup>		(nationwide)	
Fixed-line	N/A	N/A	N/A	25%		35%	49%
				(3 cities) <sup>(1)</sup>		(17 cities) <sup>(2)</sup>	(nationwide)
Value-added	30%	49%	50%				
	(3 cities) <sup>(1)</sup>	(17 cities) <sup>(2)</sup>	(nationwide)				
Paging	30%	49%	50%				
	(3 cities) <sup>(1)</sup>	(17 cities) <sup>(2)</sup>	(nationwide)				

Source: the official website of the MIIT.

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

(2)

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

### ***Regulation***

The mobile telecommunications industry in Mainland China is highly regulated. Regulations issued or implemented by the State Council, the MIIT 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 MIIT, 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;

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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 MIIT, under the direction of the State Council, has been preparing a draft telecommunications law. It has been reported that, under the legislation agenda of the Eleventh National People's Congress of the PRC, the draft telecommunications law is to be submitted for review by the Standing Committee of the Eleventh National People's Congress of the PRC within its term. 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 Mainland China must apply for specific permits from the MIIT in order to provide such services. Granting of permits for providing basic telecommunications services will be through a tendering process. In addition to us, China Telecom and China Unicom are currently 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 Provisions on the Administration of Foreign-Funded Telecommunications Enterprises became effective on January 1, 2002, permitting foreign investment in joint ventures that provide telecommunications services in Mainland China. However, these 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 Provisions on the Administration of Foreign-Funded Telecommunications Enterprises, as amended in September 2008, 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 MIIT regulates the allocation of radio frequency. The frequency assigned to an entity is not allowed to be leased or, without approval of the MIIT, 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 has entered into an agreement with us that specifies the amount of fees to be paid to the MIIT 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.

Spectrum usage fees for GSM networks are currently charged at the annual rate of RMB17 million per MHz frequency for the 900 MHz frequency band and RMB15 million per MHz frequency for the 1800 MHz frequency band. Spectrum usage fees are charged on the basis that upward and downward frequencies are separately charged. The relevant regulatory authorities in China may review these fee arrangements in the future.

**Numbering Resources.** The MIIT 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 MIIT. In January 2003, the MII 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 a user of numbering resources is required to pay a usage fee to the state



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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 MII, 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.*** Our tariffs are subject to regulation by various government authorities, including the MIIT, the National Development and Reform Commission and the relevant price regulatory authorities in Mainland China. Under the current telecommunications regulations, telecommunications tariffs are categorized into market based tariffs, government guidance tariffs and government standard tariffs. As a general matter, the actual price range in each service area is proposed by a network operator in that service area and must be approved by the relevant price regulatory authorities in that service area. In addition, base usage charges, monthly fees, maximum domestic roaming charges and maximum domestic and long distance tariffs (other than tariffs for IP phone calls) are also determined generally by the MIIT in consultation with the National Development and Reform Commission. In August 2005, the MII amended its tariff regulations relating to certain telecommunications services, which resulted in network operators having more flexibility in setting, among other things, their domestic and international long distance tariffs and domestic roaming charges, provided that these tariffs and charges do not exceed the respective maximum tariffs it determined in consultation with the National Development and Reform Commission and that the tariff plans are filed with the MII (and, currently, with the MIIT) and the National Development and Reform Commission or, in some cases, the relevant price regulatory authorities at the provincial level.

The MIIT has continued encouraging mobile telecommunications operators in Mainland China to implement the caller-party-pays regime. In April 2007, officials from the MII and the National Development and Reform Commission had indicated that the caller-party-pays regime would be phased in within approximately two years. As a result, mobile telecommunications operators, including us, have been gradually implementing the caller-party-pays regime. In particular, all of the new calling plan packages that we have been offering in the PRC since the beginning of 2007 are based on tariffs substantially equivalent to the caller-party-pays regime.

In March 2008, the MII reduced the maximum domestic roaming charges that a mobile telecommunications services provider may charge on roaming services. 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 agreement with the MIIT. In addition, 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. These telecommunications services providers must also establish interconnection rules and procedures based on the principles of non-discrimination and transparency and submit such rules and procedures to the MIIT for approval. The termination of any interconnection arrangements will require prior approval by the MIIT.

The applicable regulations provide that interconnection related equipment must conform to the technical standards approved by the MIIT. See Technical Standards below. The MIIT 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 MIIT, 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. We have not experienced and do not expect to experience material difficulty in obtaining permission to establish additional sites.

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

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**Sharing of Telecommunications Infrastructure.** In September 2008, the MIIT and the SASAC jointly issued a Notice on Promoting Joint Construction and Sharing of Telecommunications Infrastructure, which stipulates that the telecommunications operators in Mainland China must share existing transmission towers and masts and jointly construct future transmission towers and masts. The joint notice also requires the telecommunications operators to share and jointly construct base station facilities and transmission lines to the extent feasible, and prohibits exclusive arrangements in the leasing of third-party sites and premises. CMCC, China Unicom and China Telecom have subsequently entered into an agreement to set out the framework under which they will jointly construct and share relevant telecommunications infrastructure.

**Employees**

As of December 31, 2006, 2007 and 2008, we had 111,998, 127,959 and 138,368 employees, respectively. Substantially all of our employees are located in Mainland China. The employees as of December 31, 2008 are classified in the following table. Approximately 82.3% of our permanent employees have college or graduate degrees.

Management	23,889
Technical and engineering	37,579
Sales and marketing	71,118
Financial and accounting	5,782
<b>Total</b>	<b>138,368</b>

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.

The number of workers sourced by third parties that provided services to us reached 267,394 as of December 31, 2008.

**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, these 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.**

None.

**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 included elsewhere in this annual report on Form 20-F reflect, among other things, the results of Hong Kong Mobile from January 5, 2006, the date of its acquisition.

**Overview of Our Operations**

During 2006, 2007 and 2008, our subscriber base and voice usage volume continued to experience significant growth. Our average net increase in number of subscribers exceeded 7.3 million per month during the period and our total subscriber base reached 457.3 million as of December 31, 2008. Our total voice usage volume increased by 45.3% from 1,252.1 billion minutes in 2006 to 1,818.9 billion minutes in 2007, and by 34.2% to 2,441.3 billion minutes in 2008. As a result, our total operating revenue increased by 20.9% from RMB295,358 million in 2006 to RMB356,959 million in 2007, and by 15.5% to RMB412,343 million (US\$60,439



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million) in 2008. Our value-added business continued to grow, accounting for 25.7% and 27.5% of our total operating revenue in 2007 and 2008, respectively. Our total operating expenses increased by 14.5% from RMB203,433 million in 2006 to RMB232,891 million in 2007, and by 15.8% to RMB269,728 million (US\$39,535 million) in 2008. Our profit attributable to equity shareholders increased by 31.9% from RMB66,026 million in 2006 to RMB87,062 million in 2007, and by 29.6% to RMB112,793 million (US\$16,533 million) in 2008.

However, changes in the macro economic environment arising from the global financial crisis have had an adverse impact on Mainland China, as well as on the telecommunications industry of Mainland China. In particular, Mainland China's GDP growth rate dropped to 9.0% in 2008 and to 6.1% in the first quarter of 2009, with the slowdown in economic growth reflected more markedly in certain regions of the country, such as the coastal cities that historically contributed a significant portion of our operating revenue. Exports from Mainland China also dropped significantly, with a corresponding decrease in production activities by export-oriented enterprises. With the general slowdown of production activities in Mainland China, a large number of migratory workers became unemployed and had to leave the cities and return to their hometown in the rural areas of Mainland China. All of these factors, among others, contributed to a slowdown in the growth in demand for telecommunications services in Mainland China. Furthermore, as the mobile penetration rate in Mainland China reached 48.5% as of December 31, 2008, the mobile telecommunications markets in some of the larger cities of Mainland China began to show signs of saturation. The effects of the recent restructuring of the telecommunications industry, which has drastically changed the competitive landscape for the telecommunications industry in Mainland China, have also begun to emerge. As a result, our subscriber base grew at a lower rate in the fourth quarter of 2008 and the first quarter of 2009 than in prior years. Moreover, we have experienced a general decline in our tariffs in recent years. As a result of all these factors, the growth in our operating revenue in the first quarter of 2009 was significantly less than that for the same period in 2008. Nonetheless, given the overall mobile penetration rate in Mainland China, and particularly the mobile penetration rate in rural areas, we believe that there remains potential for continued growth in our subscriber base.

We have been a mobile telecommunications services provider since our inception in 1997, with our operations initially concentrated in Guangdong and Zhejiang provinces. Between 1998 and 2004, we significantly expanded the geographic coverage of operations to all 31 provinces, autonomous regions and directly-administered municipalities in Mainland China by acquiring various mobile telecommunications operations from CMCC. Furthermore, we acquired all of the issued and outstanding shares of Hong Kong Mobile in 2006, which enabled us to expand into the Hong Kong mobile telecommunications market. These acquisitions have significantly expanded our subscriber base, increased the usage of our services and greatly enlarged the size of our target markets, and have materially increased our operating revenue and expenses as well as materially affected our financial condition and results of operations. See Item 4. Information on the Company The History and Development of the Company Expansion Through Acquisitions.

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 4. Information on the Company Business Overview Regulation. In addition, we believe that the industry restructuring that took place pursuant to the PRC government's policy initiative to further reform the telecommunications industry announced in May 2008 has had, and will continue to have, a significant impact on the competitive landscape of the telecommunications industry in Mainland China, and competition from other telecommunications services providers may intensify. See Risk Factors Risks Relating to Our Business Competition from other telecommunications services providers may further increase, which may reduce our market share and decrease our profit margin, and we cannot assure you that any potential change in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations and Risk Factors Risks Relating to Our Business Current or future asymmetrical and other regulatory measures adopted by the PRC regulatory authorities could materially harm our competitive position. Our financial performance is also subject to the economic and social conditions in Mainland China and foreign currency exchange rate fluctuations. See Risk Factors Risks Relating to Mainland China An economic slowdown in Mainland China may reduce the demand for our services and have a material adverse effect on our financial condition, results of operations and business prospects and Risk Factors Risks Relating to Mainland China Fluctuations in exchange rates could materially and adversely affect our financial results.

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### ***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 and Hong Kong. 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; and

services agreement with CMCC and certain other operators with respect to various telecommunications services and support.

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, 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 its existing inter-provincial transmission line leasing arrangements with the relevant transmission line providers, and collects leasing fees from us and pays fees to the relevant transmission line providers. Moreover, under this agreement, CMCC: (i) maintains its existing settlement arrangements with respect to international interconnection and roaming with the relevant telecommunications services providers in foreign countries and regions; and (ii) collects the relevant usage fees and other fees from us or the relevant telecommunications services providers in foreign countries and regions and pays fees 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 its 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 fees to the relevant telecommunications services providers in Mainland China.

### ***Tariff Adjustments***

The PRC government has introduced a wide range of tariff adjustments since 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 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 and other features. In general, the higher the monthly fee of a tariff package, the greater the price concession we offer. The tariff packages often include complimentary voice value-added services and data services packages.

In addition, mobile telecommunications operators in Mainland China have been gradually implementing a caller-party-pays regime. Moreover, our international and domestic roaming charges have generally declined in recent years. In March 2008, the PRC regulators further reduced the price ceiling on domestic roaming services. However, we expect that decreases in tariffs will drive growth in voice volume usage and that growth in voice volume usage will help partially offset the negative impact from declining tariffs.



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Our average revenue per minute has generally decreased in recent years as tariffs have also generally decreased. However, the growth in voice usage volume that has resulted from the general decline in tariffs has helped partially offset the adverse effect of tariff decreases on our revenue.

### ***Our ARPU Has Declined and May Further Decline in the Future***

Our ARPU decreased from RMB90 in 2006 to RMB83 in 2008 and to RMB73 in the first quarter of 2009, primarily due to the fact that nearly half of our new subscribers are from less affluent rural areas and most of them are relatively low-end users. This decline was also due to the gradual implementation of the tariff adjustments. As we continue our lower ARPU, lower MOU, lower cost strategy in the rural areas, and with the continued implementation of the tariff adjustments, we expect that our ARPU will further decline.

### **Critical Accounting Policies and Estimates**

The following discussion and analysis is based on our consolidated financial statements, which have been prepared in accordance with IFRS for the years ended December 31, 2006, 2007 and 2008. The preparation of financial statements 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 dates of the financial statements and revenues and expenses during the years reported. Estimates are also used when accounting for certain items such as provision for customer point reward program, allowance for doubtful accounts, depreciation, amortization of other intangible assets, impairment of property, plant and equipment, goodwill and other intangible assets arising from acquisitions 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 estimates and related assumptions and uncertainties inherent in our 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 income statements 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. 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 aging 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. The useful lives and residual values of each class of our telecommunications assets are reviewed periodically and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method is changed to reflect the changed pattern. The depreciation expense for future period is adjusted if there are significant changes from previous estimates. We determine the useful life of our telecommunications assets based on our historical experience with similar assets, expected usage of the assets and anticipated technological changes with respect to those assets. Estimates and assumptions used in setting depreciable lives require both judgment and estimation. Our policies regarding accounting for these assets are set forth in note 1(h) to our consolidated financial statements included elsewhere in this annual report

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on Form 20-F. In 2006, taking into consideration the evolution of wireless mobile technologies, we revised the estimated useful life of our second generation mobile telecommunications technology, or 2G, wireless network equipment from seven years to five years, which was estimated to increase our depreciation expense by approximately RMB11,451 million in 2006. In 2007, in order to cope with our increasing business demand, we commenced a full scale investment in soft switching center equipment that enables us to carry out more efficient network management, which triggered a change in useful lives of relevant equipment. As a result, we revised the estimated useful lives of our switching center equipment (excluding soft switching center equipment) from seven years to five years in 2007, which was estimated to increase our depreciation expense by approximately RMB6,516 million in 2007. We did not revise the estimated useful lives of our property, plant and equipment in 2008.

***Amortization of Other Intangible Assets***

Amortization of other intangible assets is calculated to write off the cost of items of other intangible assets using the straight-line method over their estimated useful lives unless such lives are indefinite. We review the estimated useful lives of other intangible assets annually in order to determine the amount of amortization expense to be recorded during any reporting period. The useful lives are based on the estimated period over which future economic benefits will be received by us and taking into account any unexpected adverse changes in circumstances or events. The amortization expense for future periods is adjusted if there are significant changes from previous estimates. We did not revise the estimated useful lives of other intangible assets in 2006, 2007 or 2008. Our policies regarding accounting for these assets are set forth in note 1(f) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

***Impairment of Property, Plant and Equipment, Goodwill and Other Intangible Assets***

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. Property, plant and equipment and other intangible assets subject to amortization, 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 and other intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

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 charges or reversal of impairment in future periods. There was no change in these estimates in 2006, 2007 or 2008.

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 set forth in note 1(j) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

***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.

**Table of Contents****Results of Operations**

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

	Year Ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
<b>Operating revenue:</b>			
Usage fees	189,710	226,488	260,889
Monthly fees	21,629	20,856	18,096
Value-added services fees	69,309	91,609	113,444
Other operating revenue	14,710	18,006	19,914
<b>Total operating revenue</b>	<b>295,358</b>	<b>356,959</b>	<b>412,343</b>
<b>Operating expenses:</b>			
Leased lines	2,451	2,330	2,641
Interconnection	18,783	21,500	22,264
Depreciation	64,574	67,354	71,509
Personnel	16,853	18,277	19,960
Other operating expenses	100,772	123,430	153,354
<b>Total operating expenses</b>	<b>203,433</b>	<b>232,891</b>	<b>269,728</b>
Profit from operations	91,925	124,068	142,615
Other net income	2,872	2,323	2,159
Non-operating net income	285	657	517
Interest income	2,604	4,015	6,002
Finance costs	(1,510)	(1,825)	(1,550)
<b>Profit before taxation</b>	<b>96,176</b>	<b>129,238</b>	<b>149,743</b>
Taxation	(30,062)	(42,059)	(36,789)
<b>Profit for the year</b>	<b>66,114</b>	<b>87,179</b>	<b>112,954</b>
Attributable to:			
Equity shareholders	66,026	87,062	112,793
Minority interests	88	117	161
<b>Profit for the year</b>	<b>66,114</b>	<b>87,179</b>	<b>112,954</b>

**Year Ended December 31, 2008 Compared to Year Ended December 31, 2007**

**Operating Revenue.** Our operating revenue is mainly derived from usage fees, monthly fees and value-added services 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. Value-added services fees are mainly derived from voice value-added services, SMS and non-SMS data business. Other operating revenue mainly represents interconnection revenue.

Operating revenue increased 15.5% from RMB356,959 million in 2007 to RMB412,343 million (US\$60,439 million) in 2008. This increase was primarily due to the continued expansion in our subscriber base, notably in rural areas in Mainland China, and the continued growth in voice usage volume and value-added businesses. Our total number of subscribers was approximately 457.3 million as of December 31, 2008, compared to approximately 369.3 million as of December 31, 2007.

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Revenue from usage fees increased 15.2% from RMB226,488 million in 2007 to RMB260,889 million (US\$38,240 million) in 2008. This increase principally resulted from the continued economic growth in the PRC, the continued expansion in our subscriber base and the further increase in our voice usage volume during 2008. Although our average revenue per minute reflected a downward trend from RMB0.196 in 2007 to RMB0.169 in 2008, this decline was partially offset by higher growth in our voice usage volume in 2008. With the gradual phase-in of the caller-party-pays regime, further declines in domestic roaming charges and the

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general trend of declining tariffs, our average revenue per minute may continue to decline in future periods, but we currently expect that growth in our voice usage volume will help partially offset the impact of these developments on our operating revenue. As a percentage of operating revenue, usage fees slightly decreased from 63.5% in 2007 to 63.3% in 2008.

Revenue from monthly fees decreased 13.2% from RMB20,856 million in 2007 to RMB18,096 million (US\$2,652 million) in 2008. This decrease was mainly due to the fact that most of our current service packages do not have a monthly fee component. As a percentage of operating revenue, monthly fees decreased from 5.8% in 2007 to 4.4% in 2008.

Set forth below is a table summarizing the results of our value-added services for the periods indicated.

	Year Ended December 31,	
	2007	2008
	(in millions of RMB)	
Voice value-added business	19,418	21,766
SMS business	41,935	50,384
Non-SMS data business	30,256	41,294
Revenue from value-added services	91,609	113,444
Revenue from value-added services as a percentage of operating revenue	25.7%	27.5%

Revenue from value-added services increased 23.8% from RMB91,609 million in 2007 to RMB113,444 million (US\$16,628 million) in 2008. This increase was mainly due to our continued efforts in providing customers with diversified and personalized value-added services to meet their preferences and needs. Our value-added services include voice value-added services, SMS and non-SMS data business. Revenue generated from SMS reached RMB50,384 million in 2008, as compared to RMB41,935 million in 2007, representing an increase of 20.1%. In addition, revenue generated from Color Ring and WAP, which are part of our non-SMS data business, grew substantially by 21.9% and 42.9% to RMB14,380 million and RMB12,991 million, respectively in 2008, as compared to the previous year. The expansion of our subscriber base was an additional growth driver for our value-added services. As a percentage of operating revenue, value-added services fees increased from 25.7% in 2007 to 27.5% in 2008. We expect our value-added business to continue to grow, in particular SMS and non-SMS data business, over the next several years.

Other operating revenue increased 10.6% from RMB18,006 million in 2007 to RMB19,914 million (US\$2,919 million) in 2008. This increase principally resulted from an increase in interconnection revenue as a result of the continued expansion in our subscriber base and an incremental increase in voice usage. As a percentage of operating revenue, other operating revenue decreased from 5.0% in 2007 to 4.8% in 2008.

Our ARPU decreased from RMB89 in 2007 to RMB83 in 2008, primarily due to the fact that nearly half of our new subscribers are from less affluent rural areas and most of them are relatively low-end users of mobile telecommunications services.

**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, operating lease charges, maintenance expenses, impairment loss for doubtful accounts, disposal and write-off of property, plant and equipment that have been demolished and disconnected from our existing network, spectrum charges and numbering resources fees, labor service expenses, amortization of other intangible assets and other miscellaneous expenses.

Operating expenses increased 15.8% from RMB232,891 million in 2007 to RMB269,728 million (US\$39,535 million) in 2008. This increase, notably in other operating expenses, particularly in selling and promotion expenses and maintenance expenses, was generally in line with the continued growth in our subscriber base and our ongoing efforts to deliver better quality services.

Total leased line payments increased 13.3% from RMB2,330 million in 2007 to RMB2,641 million (US\$387 million) in 2008. This increase was largely a result of an increase in leased lines for Internet use. As a percentage of operating expenses, total leased line payments remained stable at 1.0% in 2007 and 2008.



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Interconnection expenses increased 3.6% from RMB21,500 million in 2007 to RMB22,264 million (US\$3,263 million) in 2008. This increase was mainly due to the continued increase in our subscriber base and voice usage volume. Interconnection expenses as a percentage of operating expenses decreased from 9.2% in 2007 to 8.3% in 2008.

Depreciation expense increased 6.2% from RMB67,354 million in 2007 to RMB71,509 million (US\$10,481 million) in 2008. This increase was mainly due to the increase in capital expenditures for the construction of our mobile telecommunications networks, support systems, transmission and structural facilities and the development of new technologies and new business. As a percentage of operating expenses, depreciation expense decreased from 28.9% in 2007 to 26.5% in 2008.

Personnel expenses increased 9.2% from RMB18,277 million in 2007 to RMB19,960 million (US\$2,926 million) in 2008. This increase was primarily due to an increase in headcount from 127,959 at the end of 2007 to 138,368 at the end of 2008. As a percentage of operating expenses, personnel expenses slightly decreased from 7.9% in 2007 to 7.4% in 2008.

Other operating expenses increased 24.2% from RMB123,430 million in 2007 to RMB153,354 million (US\$22,478 million) in 2008. This increase was primarily due to increased selling and promotion expenses in 2008 as a result of our continued efforts in promoting brand development, rewarding and retaining our existing and high-value customers, and improving customer service quality with an aim towards enhancing customer loyalty. Our selling and promotion expenses may further increase if industry competition continues to intensify and adversely affects our subscriber growth and customers retention, and increases our customer acquisition and retention costs. The increase in other operating expenses was also due to an increase in maintenance expenses and operating lease charges incurred in 2008, principally as a result of our continued investments in our network equipment and facilities. In addition, other operating expenses included impairment loss for doubtful accounts of RMB4,385 million in 2008 compared to RMB3,872 million in 2007, write-off of property, plant and equipment of RMB3,250 million in 2008 compared to RMB2,788 million in 2007, and labor service expenses for services provided by third parties of RMB10,156 million in 2008 compared to RMB7,535 million in 2007. As a percentage of operating expenses, other operating expenses increased from 53.0% in 2007 to 56.8% in 2008. For more information on our other operating expenses, see note 5 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

**Profit from Operations.** As a result of the foregoing, profit from operations increased 14.9% from RMB124,068 million in 2007 to RMB142,615 million (US\$20,904 million) in 2008, but operating margin (profit from operations as a percentage of operating revenue) slightly decreased from 34.8% in 2007 to 34.6% in 2008.

**Other Net Income.** Other net income represents primarily gross profit from sales of SIM cards and handsets. Other net income decreased 7.1% from RMB2,323 million in 2007 to RMB2,159 million (US\$316 million) in 2008. This decrease was principally due to the declining selling prices of SIM cards and handsets.

**Non-Operating Net Income.** Non-operating net income decreased by 21.3% from RMB657 million in 2007 to RMB517 million (US\$76 million) in 2008. Non-operating net income is mainly comprised of penalty income and other miscellaneous non-operating income.

**Interest Income.** Interest income increased 49.5% from RMB4,015 million in 2007 to RMB6,002 million (US\$880 million) in 2008. The higher interest income in 2008 was primarily due to our larger cash balances as a result of the continued improvement in our cash generating capability, which was reflected in the increase of our net cash from operating activities from year to year. See also Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Liquidity.

**Finance Costs.** Finance costs decreased 15.1% from RMB1,825 million in 2007 to RMB1,550 million (US\$227 million) in 2008. This decrease was primarily due to a decrease in average interest rate for deferred consideration payable, which represented the balance of the purchase consideration payable to our immediate holding company in connection with our acquisitions of eight regional mobile telecommunications companies in 2002 and ten regional mobile telecommunications companies and other telecommunications assets in 2004. The average interest rate for deferred consideration payable decreased in July 2008 from 5.41% to 3.28%. In 2008, the average interest rate that we paid on our outstanding borrowings was approximately 4.61%, as compared to 5.19% in 2007.

**Profit before Taxation.** As a result of the foregoing, profit before tax increased 15.9% from RMB129,238 million in 2007 to RMB149,743 million (US\$21,948 million) in 2008.

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**Taxation.** Our income tax expense decreased 12.5% from RMB42,059 million in 2007 to RMB36,789 million (US\$5,392 million) in 2008. This decrease was mainly due to a reduction in the statutory enterprise income tax rate from 33% to 25% in accordance with the new PRC Enterprise Income Tax Law, which took effect on January 1, 2008.

**Profit attributable to equity shareholders.** As a result of the foregoing and after taking into account minority interests, profit attributable to equity shareholders increased 29.6% from RMB87,062 million in 2007 to RMB112,793 million (US\$16,533 million) in 2008. Net profit margin (profit attributable to equity shareholders as a percentage of operating revenue) increased from 24.4% in 2007 to 27.4% in 2008. In particular, the growth in our profit attributable to equity shareholders from 2007 to 2008 benefited from the reduction in the statutory enterprise income tax rate in accordance with the new PRC Enterprise Income Tax Law, as well as the increase in depreciation charges in 2007 as a result of our revision in the estimated useful lives of switching center equipment.

**Year Ended December 31, 2007 Compared to Year Ended December 31, 2006**

**Operating Revenue.** Our operating revenue is mainly derived from usage fees, monthly fees and value-added services 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. Value-added services fees are mainly derived from voice value-added services, SMS and non-SMS data business. Other operating revenue mainly represents interconnection revenue.

Operating revenue increased 20.9% from RMB295,358 million in 2006 to RMB356,959 million in 2007. This increase was primarily due to the continued expansion in our subscriber base, notably in rural areas in Mainland China, the continued growth in voice usage volume and the rapid expansion of our value-added business. Our total number of subscribers was approximately 369.3 million as of December 31, 2007, compared to approximately 301.2 million as of December 31, 2006.

Revenue from usage fees increased 19.4% from RMB189,710 million in 2006 to RMB226,488 million in 2007. This increase principally resulted from the continued rapid economic development in the PRC, the continued expansion in our subscriber base and the further increase in our voice usage volume during 2007. Although our average revenue per minute reflected a downward trend from RMB0.236 in 2006 to RMB0.196 in 2007, such decline stimulated a strong growth in our voice usage volume that helped partially offset the adverse effect of the lower average revenue per minute on our overall revenue from usage fees in 2007. As a percentage of operating revenue, usage fees slightly decreased from 64.2% in 2006 to 63.5% in 2007.

Revenue from monthly fees decreased 3.6% from RMB21,629 million in 2006 to RMB20,856 million in 2007. This decrease was mainly due to the impact of service package substitution at point of access for specific bundles of features and services with no charge of monthly fees. As a percentage of operating revenue, monthly fees decreased from 7.3% in 2006 to 5.8% in 2007.

Set forth below is a table summarizing the results of our value-added services for the periods indicated.

	<b>Year Ended December 31,</b>	
	<b>2006</b>	<b>2007</b>
	<b>(in millions of RMB)</b>	
Voice value-added business	16,421	19,418
SMS business	32,201	41,935
Non-SMS data business	20,687	30,256
Revenue from value-added services	69,309	91,609
Revenue from value-added services as a percentage of operating revenue	23.5%	25.7%

Revenue from value-added services increased 32.2% from RMB69,309 million in 2006 to RMB91,609 million in 2007. This increase was mainly due to our efforts in promoting and developing our value-added services by providing customers with diversified and personalized value-added services. Our value-added services include voice value-added services, SMS and non-SMS data business. Revenue generated from SMS reached RMB41,935 million in 2007, as compared to RMB32,201 million in 2006, representing an increase of 30.2%. At the same time, revenue generated from Color Ring and WAP, which are part of our non-SMS data business, grew substantially by 74.7% and 32.3% to RMB11,794 million and RMB9,094 million, respectively, as compared to the previous year. In addition, the expansion of our subscriber base was another growth driver for our value-added services. As a percentage of operating revenue, value-added services fees increased from 23.5%

in 2006 to 25.7% in 2007.

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Other operating revenue increased 22.4% from RMB14,710 million in 2006 to RMB18,006 million in 2007. This increase resulted principally from an increase in interconnection revenue as a result of the expansion in our subscriber base and an incremental increase in voice usage. As a percentage of operating revenue, other operating revenue remained stable at 5.0% in 2006 and 2007.

Our ARPU decreased from RMB90 in 2006 to RMB89 in 2007, primarily due to the fact that nearly half of our new subscribers were from less affluent rural areas and most of them were relatively low-end users.

**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, network maintenance, labor service expenses, debt collection fees, spectrum charges and numbering resources charges, write-off of property, plant and equipment, amortization of other intangible assets and other miscellaneous expenses.

Operating expenses increased 14.5% from RMB203,433 million in 2006 to RMB232,891 million in 2007. This increase, notably in sales and marketing expenses and network maintenance expenses, was generally in line with our continued business expansion in order to service our increased subscriber base and to deliver better quality services.

Total leased line payments decreased 4.9% from RMB2,451 million in 2006 to RMB2,330 million in 2007. This decrease was largely a result of the termination of surplus leased lines as we continued to use more self-constructed and jointly constructed transmission lines and also augmented our networks to increase their efficiency. As a percentage of operating expenses, total leased line payments decreased from 1.2% in 2006 to 1.0% in 2007.

Interconnection expenses increased 14.5% from RMB18,783 million in 2006 to RMB21,500 million in 2007. This increase was mainly due to the increase of subscriber base and voice usage volume. Interconnection expenses as a percentage of operating expenses remained relatively stable at 9.2% in 2006 and 2007.

Depreciation expense increased 4.3% from RMB64,574 million in 2006 to RMB67,354 million in 2007. This increase was mainly due to the increase in capital expenditures, which was partially offset by the effect of a reduced basis for calculating depreciation as a result of our substantial disposal and write-off of property, plant and equipment carried out in prior years. The revision in the estimated useful lives of switching center equipment (excluding soft switching center equipment) for 2007 resulted in additional depreciation charges of RMB6,516 million in 2007. As a percentage of operating expenses, depreciation expense decreased from 31.8% in 2006 to 28.9% in 2007.

Personnel expenses increased 8.4% from RMB16,853 million in 2006 to RMB18,277 million in 2007. This increase was primarily due to an increase in headcount from 111,998 at the end of 2006 to 127,959 at the end of 2007, partially offset by a reduction in share-based compensation expenses. As a percentage of operating expenses, personnel expenses slightly decreased from 8.3% in 2006 to 7.9% in 2007.

Other operating expenses increased 22.5% from RMB100,772 million in 2006 to RMB123,430 million in 2007. This increase was primarily due to the increased sales and marketing expenses in 2007 as a result of our efforts in promoting brand development, rewarding and retaining our existing and high-value customers, and improving customer service quality with an aim towards enhancing customer loyalty. The increase in other operating expenses was also due to an increase in network maintenance fee incurred in 2007. The increase in network maintenance fee was primarily due to an increase in the size of our network, as we sought to maintain our competitive advantages in network leadership and network quality. In addition, other operating expenses included labor service expenses of RMB7,535 million for services provided by third parties. As a percentage of operating expenses, other operating expenses increased from 49.5% in 2006 to 53.0% in 2007.

**Profit from Operations.** As a result of the foregoing, profit from operations increased 35.0% from RMB91,925 million in 2006 to RMB124,068 million in 2007, and operating margin (profit from operations as a percentage of operating revenue) increased from 31.1% in 2006 to 34.8% in 2007.

**Other Net Income.** Other net income represents primarily gross profit from sales of SIM cards, handsets and accessories. Other net income decreased 19.1% from RMB2,872 million in 2006 to RMB2,323 million in 2007. This decrease was principally due to the declining selling price of SIM cards and handsets.

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**Non-Operating Net Income.** Non-operating net income was RMB657 million in 2007, as compared to RMB285 million in 2006. Non-operating net income is mainly comprised of unrealized exchange loss, penalty income and other miscellaneous non-operating income.

**Interest Income.** Interest income increased 54.2% from RMB2,604 million in 2006 to RMB4,015 million in 2007. The higher interest income in 2007 was primarily due to our larger cash balances as a result of the continued improvement in our cash generating capability, which was reflected in the increase of our net cash from operating activities from year to year. See also Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Liquidity.

**Finance Costs.** Finance costs increased 20.9% from RMB1,510 million in 2006 to RMB1,825 million in 2007. This increase was primarily due to an increase in average interest rate for deferred consideration payable, which represented the balance of the purchase consideration payable to our immediate holding company in connection with our acquisition of the eight regional mobile telecommunications companies in 2002 and the ten regional mobile telecommunications companies and other telecommunications assets in 2004. The average interest rate for deferred consideration payable increased from 2.76% to 5.41% in July 2006 and has remained at 5.41% since then. In 2007, the average interest rate that we paid on our outstanding borrowings was approximately 5.19%, as compared to 4.11% in 2006.

**Profit before Taxation.** As a result of the foregoing, profit before tax increased 34.4% from RMB96,176 million in 2006 to RMB129,238 million in 2007.

**Taxation.** Our income tax expense increased 39.9% from RMB30,062 million in 2006 to RMB42,059 million in 2007. This increase was primarily due to an increase in our profit before tax. Our effective tax rate was 31.3% in 2006 and 32.5% in 2007, respectively. The increase in our effective tax rate was primarily due to the increase in deferred tax expenses recognized during the year resulting from the change in tax rate from 33% to 25%, in accordance with the new PRC Enterprise Income Tax Law enacted on March 16, 2007, for purposes of calculating deferred tax assets.

**Profit attributable to equity shareholders.** As a result of the foregoing and after taking into account minority interests, profit attributable to equity shareholders increased 31.9% from RMB66,026 million in 2006 to RMB87,062 million in 2007. This increase was primarily due to the growth in our subscriber base, new businesses, increased voice usage volume and economies of scale. Net profit margin (profit attributable to equity shareholders as a percentage of operating revenue) increased from 22.4% in 2006 to 24.4% in 2007.

**Liquidity and Capital Resources.****Liquidity**

Our principal source of liquidity is cash generated from our operations. As of December 31, 2008, we had a working capital (current assets minus current liabilities) of RMB59,597 million (US\$8,735 million), compared to a working capital of RMB52,682 million as of December 31, 2007 and a working capital of RMB30,900 million as of December 31, 2006. The improvement in our working capital and cash and cash equivalent positions in 2008 was primarily due to the increase in our profit from operations. As of December 31, 2006, 2007 and 2008, accounts receivable totaled RMB7,153 million, RMB6,985 million and RMB6,913 (US\$1,013 million), respectively. Short-term bank and other loans (including bonds and capital lease obligations) as of December 31, 2006, 2007 and 2008 were RMB3,064 million, RMB68 million and RMB68 million (US\$10 million), respectively.

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

	Year ended December 31,		
	2006	2007	2008
	(in millions of RMB)		
Net cash from operating activities	149,346	168,612	193,647
Net cash used in investing activities	(118,841)	(123,039)	(139,026)
Net cash used in financing activities	(23,587)	(37,276)	(45,684)
Net increase in cash and cash equivalents	6,918	8,297	8,937



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Net cash from operating activities increased 12.9% from RMB149,346 million in 2006 to RMB168,612 million in 2007, and further increased 14.8% to RMB193,647 million (US\$28,384 million) in 2008, primarily reflecting the increase in our profit before taxation resulting from the continued expansion of our subscriber base and the continued growth in voice usage and our value-added business.

Net cash used in investing activities increased 13.0% from RMB123,039 million in 2007 to RMB139,026 million (US\$20,378 million) in 2008. This increase was primarily due to an increase in capital expenditures of RMB22,293 million, which was partially offset by a smaller increase in deposits with banks of RMB21,148 million in 2008 compared to RMB27,391 million in 2007, and an increase in the amount of interest received of RMB1,063 million. Net cash used in investing activities increased 3.5% from RMB118,841 million in 2006 to RMB123,039 million in 2007. This increase was primarily due to the increase in capital expenditures of RMB21,554 million, which was partially offset by a smaller increase in deposits with banks of RMB27,391 million in 2007 compared to RMB40,369 in 2006.

Net cash used in financing activities increased 22.6% from RMB37,276 million in 2007 to RMB45,684 million (US\$6,696 million) in 2008. This increase was primarily due to a larger dividend payment to shareholders in 2008 compared to 2007 and a decrease in the amount of proceeds from issuance of shares under our share option scheme. Net cash used in financing activities in 2007 was also affected by our repayment of outstanding bonds with aggregate principal amount of RMB3,000 million. Net cash used in financing activities increased 58.0% from RMB23,587 million in 2006 to RMB37,276 million in 2007. This increase was primarily due to a larger dividend payment to shareholders in 2007 compared to 2006 and the repayment of RMB3,000 million aggregate principal amount of bonds.

**Capital Expenditures**

Capital expenditures incurred in 2006, 2007 and 2008 were RMB86,988 million, RMB105,139 million and RMB136,292 million (US\$19,977 million), respectively. We incurred capital expenditures principally for the construction of our mobile telecommunications networks, support systems, transmission and structural facilities and the development of new technologies and new businesses. We increased our capital expenditures primarily in an effort to meet increased demand on our network services resulting from the continued expansion of our subscriber base, growth in voice usage volume and development of our value-added business. The level of our capital expenditures in 2008 were also affected by various reconstruction needs arising as a result of damages caused to our network equipment and facilities by the severe winter weather in the southern, central and eastern regions of Mainland China in early 2008 and the earthquake that struck Sichuan Province and certain other parts of Mainland China in May 2008.

We estimate that we will incur capital expenditures of approximately RMB133.9 billion (US\$19.6 billion) in 2009, RMB131.0 billion (US\$19.2 billion) in 2010 and RMB110.5 billion (US\$16.2 billion) in 2011. We expect that about 24% of our capital expenditures in 2009 will be used in the construction of 2G wireless networks, of which approximately 70% will be applied to network construction in the rural areas. The remaining capital expenditures will be used in the areas for 2G/3G integration, including core networks, development of new technologies and new businesses, construction of transmission facilities, support systems, structural facilities and others.

We have generally 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 the capital expenditures and working capital necessary for the planned network expansion and continued growth of our mobile telecommunications operations through the end of 2009.

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, 2007 and 2008, we did not have any long-term or short-term bank and other loans and obligations under capital leases (excluding the current portion of our capital lease obligations), and the current portion of our capital lease obligations remained at RMB68 million and RMB68 million (US\$10 million).

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On June 18, 2001 our wholly-owned subsidiary, Guangdong Mobile, issued RMB5,000 million aggregate principal amount 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 Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile.

On October 28, 2002 Guangdong Mobile issued RMB3,000 million aggregate principal amount of guaranteed bonds due 2007 and RMB5,000 million guaranteed bonds due 2017. 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. We paid back the RMB3,000 million aggregate principal amount of guaranteed bonds due 2007 at maturity on October 28, 2007. We have 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 and a consolidated credit rating of AAA by Dagong Global Credit Rating Co. Ltd, a PRC credit rating agency. 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.

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 U.S. 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 U.S. 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 (HK\$7.7993=US\$1.00 and HK7.7995=US\$1.00 for our acquisitions of the regional mobile telecommunications companies in 2002 and 2004, respectively), RMB (RMB8.2770=US\$1.00 and RMB8.2768=US\$1.00 for our acquisitions of the regional mobile telecommunications companies in 2002 and 2004, respectively) or U.S. dollars (or other agreed currencies), with the relevant exchange rates set forth in the respective acquisition agreements. Any payment made in currencies other than U.S. dollars will be accounted for based on the exchange rates between U.S. 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 A+/Outlook Stable by Standard & Poor's in 2008, in line with the upgrading of China's sovereign credit rating. Moody's Investors Service continued to rate us at A1/Outlook Stable, consistent with the sovereign rating that it gave China. Any downgrade in our credit rating will not trigger any events of default on our outstanding bonds or loans or our existing credit facilities.

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

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**Other Contractual Obligations and Commitments**

As of December 31, 2008, 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 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 note 40 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

The following table sets forth certain information regarding our contractual obligations to make future payments (including relevant estimated interest payment) as of December 31, 2008:

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1 years	3 years	More than 5 years
Accounts Payable	79,606	79,606			
Bills Payable	2,111	2,111			
Accrued expenses and other payables	61,292	61,292			
Deferred Consideration Payable	27,915	774	960	766	25,415
Long-Term Debt	12,520	468	5,742	450	5,860
Capital Lease Obligations	71	71			
<b>Total Contractual Obligations</b>	<b>183,515</b>	<b>144,322</b>	<b>6,702</b>	<b>1,216</b>	<b>31,275</b>

The following table sets forth certain information regarding our other commercial commitments as of December 31, 2008:

Other Commercial Commitments	Total Amount Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1 years	3 years	More than 5 years
Operating Lease Commitments	18,711	5,219	6,168	3,784	3,540
Capital Commitments	102,075	102,075			
<b>Total Commercial Commitments</b>	<b>120,786</b>	<b>107,294</b>	<b>6,168</b>	<b>3,784</b>	<b>3,540</b>

**Off-Balance Sheet Arrangements**

As of December 31, 2008, 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. All of our current operating subsidiaries are incorporated in Mainland China, except for Hong Kong Mobile, which became our wholly-owned operating subsidiary as of March 28, 2006. Under the current foreign exchange system in Mainland China, our subsidiaries in Mainland China may not be able to hedge effectively against currency risk, including any possible future Renminbi devaluation. See Item 3. Key Information Risk Factors Risks Relating to Mainland China Fluctuations in exchange rates could materially and adversely affect our financial results and Item 10. Additional Information Exchange Controls.

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Each of our operating subsidiaries in Mainland China 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.

**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 June 22, 2009.

Name	Age	Position
Mr. WANG Jianzhou	60	Executive Director, Chairman and Chief Executive Officer
Mr. ZHANG Chunjiang	50	Executive Director and Vice Chairman
Mr. LI Yue	50	Executive Director and Vice President
Mr. LU Xiangdong	49	Executive Director and Vice President
Mr. XUE Taohai	53	Executive Director, Vice President and Chief Financial Officer
Mdm. HUANG Wenlin	55	Executive Director and Vice President
Mr. SHA Yuejia	51	Executive Director and Vice President
Mr. LIU Aili	45	Executive Director and Vice President
Mdm. XIN Fanfei	52	Executive Director and Vice President
Mr. XU Long	52	Executive Director
Mr. Nicholas Jonathan READ	44	Non-Executive Director
Dr. LO Ka Shui	62	Independent Non-Executive Director
Mr. Frank K.S. WONG	61	Independent Non-Executive Director
Dr. Moses M.C. CHENG	59	Independent Non-Executive Director

Mr. WANG Jianzhou has served as our Executive Director, Chairman and Chief Executive Officer since November 2004. Mr. Wang is in charge of our overall management. He is also the President of CMCC and the Chairman of CMC. Prior to joining us, Mr. Wang served as Deputy Director General and Director General of the Hangzhou Posts and Telecommunications Bureau, Deputy Director General of the Zhejiang Posts and Telecommunications Administration, Director General of the Department of Planning and Construction of the former Ministry of Posts and Telecommunications, Director General of the Department of General Planning of the MII, and Director, Executive Vice President, President and Chairman of China United Telecommunications Corporation, and 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 in Engineering, and holds a doctoral degree in business administration from Hong Kong Polytechnic University. Mr. Wang is a professor-level senior engineer with extensive knowledge and has over 31 years of experience in the telecommunications industry.

Mr. ZHANG Chunjiang has served as our Executive Director and Vice Chairman since June 2008. Mr. Zhang is also the Secretary of the Committee of the Communist Party of China at CMCC and Vice President of CMCC and Vice Chairman of CMC. Prior to joining us, Mr. Zhang served as Deputy Director General of the Liaoning Posts and Telecommunications Administration, Director General of Mobile Telecommunications Administration and Deputy Minister of the MII, President of China Network Communications Group Corporation, Chairman of China Netcom (Group) Company Limited, Chairman and Executive Director of China Netcom Group Corporation (Hong Kong) Limited and Non-Executive Director of PCCW Limited. Mr. Zhang graduated in 1982 from Beijing University of Posts and Telecommunications with a bachelor's degree in telecommunications. Mr. Zhang is a professor-level senior engineer with extensive knowledge and 27 years of 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 the matters of network, planning and design institute. 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 in business administration, and holds a doctoral degree in business administration from Hong Kong Polytechnic University. Mr. Li is a professor-level senior engineer with over 33 years of experience in the telecommunications industry.



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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 and data matters. He has been serving as Vice President of CMCC since April 2000. Mr. Lu is also a director of CMC, Chairman of Aspire Holdings Limited and Union Mobile Pay Limited and a director of Phoenix Satellite Television Holdings Limited. He previously served as the Director General of Fujian Wireless Telecommunications Administration and the Deputy Director General of the Mobile Telecommunications Administration of the Ministry of Posts and Telecommunications. Mr. Lu graduated from the Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications with a Master's Degree in wireless telecommunications, and holds a doctoral degree in economics from Peking University. Mr. Lu is a professor-level senior engineer with nearly 27 years of 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 management of corporate finance and internal audit. Mr. Xue is also a 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 MII 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 is a senior accountant with over 29 years of experience in the telecommunications industry and financial management.

Mdm. HUANG Wenlin has served as our Executive Director and Vice President since September 2007. Mdm. Huang assists the Chief Executive Officer in relation to our corporate affairs and human resources matters. Mdm. Huang is also a Vice President of CMCC, and a director of CMC. Mdm. Huang previously served as the Director of Domestic Communications Division and Director of Communications Organization Division of the Directorate General of Telecommunications of the former Ministry of Posts and Telecommunications, Vice President of China Telecommunications Corporation and Executive Director and Executive Vice President of China Telecom Corporation Limited. Mdm. Huang graduated in 1984 from Beijing University of Posts and Telecommunications with a major in management engineering and received an EMBA degree from Peking University. Mdm. Huang is a senior economist with 33 years of operational and managerial 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 and a director of CMC. 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 former Ministry of Posts and Telecommunications and a doctoral degree in business administration from Hong Kong Polytechnic University. He is a professor-level senior engineer with over 26 years of 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, industrial management and management information systems. He is also a Vice President of CMCC, a director of CMC and China Communications Services Corporation Limited, and Chairman of CMPak Limited. He previously served as Deputy Director General of Shandong Mobile Telecommunications Administration, Director General of Shandong Mobile Telecommunications Administration and General Manager of Shandong Mobile Communications Enterprises, Vice President of Shandong Mobile Communications Company, Director-General of Network Department of CMCC, and Chairman and President of Shandong Mobile and Zhejiang Mobile. Mr. Liu graduated from Heilongjiang Posts and Telecommunications School with an associate degree and completed a post-graduate program in economics at Shandong University. Mr. Liu also received a Master of Management degree from Norwegian School of Management BI and a doctoral degree in business administration from Hong Kong Polytechnic University. He is a professor-level senior engineer with over 26 years of experience in the telecommunications industry.

Mdm. XIN Fanfei has served as our Executive Director and Vice President since January 2006. Mdm. Xin assists the Chief Executive Officer in relation to our general administration and investor and media relations. She previously served as Deputy Director of the Foreign Affairs Division, Deputy Director of the Planning Division and Chief of the Planning Office, Director of the Planning

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Division, Director of the Department of Planning and Construction of the Tianjin Posts and Telecommunications Administration, Vice President of Tianjin Mobile Communications Company, Director and Vice President of Tianjin Mobile, Chairwoman and President of Heilongjiang Mobile and Chairwoman of the former China Mobile Peoples Telephone Company Limited. Mdm. Xin graduated from Xidian University and received an EMBA degree from Peking University. She is currently pursuing a doctoral degree in business administration from Hong Kong Polytechnic University. Mdm. 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 our 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 Zhejiang Posts and Telecommunications Administration, and Chairman and President of Zhejiang Mobile. He graduated from Zhejiang Radio and Television University in 1985, and holds a doctoral degree in business administration from Hong Kong Polytechnic University. Mr. Xu is a senior economist with 31 years of experience in the telecommunications industry.

Mr. Nicholas Jonathan READ has served as our Non-Executive Director since March 2009. Mr. Read is currently Vodafone's Regional Chief Executive Officer for Asia Pacific and Middle East Region. He is also a director of Vodafone Essar Limited, Vodafone Essar Towers Limited, Vodafone Egypt Communications Limited, Vodafone Australia Limited, Vodafone Qatar Limited and JIL BV. Prior to his appointment as Vodafone's Regional Chief Executive Officer for Asia Pacific and Middle East Region, Mr. Read was the Chief Executive Officer of Vodafone UK. Mr. Read joined Vodafone UK in 2002 as Chief Financial Officer, and in 2003 was appointed the Chief Commercial Officer of Vodafone UK. Prior to joining Vodafone, Mr. Read had been the Chief Financial Officer of Miller Freeman Worldwide and the Chief Financial Officer for the EMEA (Europe, Middle East and Africa) Region of Federal Express. Mr. Read graduated in 1986 from the Manchester Metropolitan University with a Bachelor of Arts (Honours) degree in Accountancy and Finance. Mr. Read is a Fellow Chartered Management Accountant. His other directorships held in the last three years in listed public companies include Emtel Europe Plc and Mobile Telecom Plc.

Dr. LO Ka Shui has served as our independent Non-Executive Director since April 2001. Dr. Lo is the Chairman and Managing Director of Great Eagle Holdings Limited, and is the non-executive chairman of Eagle Asset Management (CP) Limited (manager of Hong Kong listed Champion Real Estate Investment Trust). He is also a non-executive director of The Hongkong and Shanghai Banking Corporation Limited and an independent non-executive director of Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited, City e-Solutions Limited, Melco International Development Limited and Winsor Properties Holdings Limited. He is also a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research and a Member of the Hong Kong Airport Authority. Dr. Lo graduated with a Bachelor of Science Degree from McGill University and a Doctor of Medicine (M.D.) Degree from Cornell University. He was certified in internal medicine and cardiology. He has more than 29 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 Chairman of Galleon Asia Pte Ltd., an Asian subsidiary of Galleon Group, NY, and serves as independent non-executive director of Industrial and Commercial Bank of China Limited, China, PSA International Pte Ltd., Singapore and Mapletree Investments Pte Ltd, Singapore. Mr. Wong previously served as Vice Chairman of DBS Bank, a member of the boards of DBS Bank and DBS Group Holdings and Chairman of DBS Bank (Hong Kong). He held a series of progressively senior positions with regional responsibility at Citibank, JP Morgan and NatWest from 1967 to 1999, and served as independent non-executive director of National Healthcare Group Pte Ltd, Ministry of Health of the Singapore Government between 2006 and April 2009. Mr. Wong has also served in various positions with Hong Kong's government bodies including the Chairman of the Hong Kong Futures Exchange. Mr. Wong has many years of finance and commercial management experience.

Dr. Moses M.C. CHENG has served as our independent Non-Executive Director since March 2003. Dr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co. Dr. 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 ARA Asset Management Limited, City Telecom (HK) Limited, Beijing Capital International Airport Company Limited, China COSCO Holdings Company Limited, China Resources Enterprise, Limited, Guangdong Investment Limited, Kader Holdings

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Company Limited, Galaxy Entertainment Group Limited (formerly known as K. Wah Construction Materials Limited), Liu Chong Hing Investment Limited, Shui On Construction and Materials Limited, Tian An China Investments Company Limited, Hong Kong Exchanges and Clearing Limited and Towngas China Company Limited.

### **Compensation**

The aggregate amount of compensation that we paid to our directors and executive officers in 2008 for services performed as directors, officers or employees was approximately HK\$25 million (US\$3.3 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 Current Scheme, was adopted. The purpose of the Current Scheme is to provide us with a flexible and effective means of remunerating and providing benefits to the employees, the executive directors and the non-executive directors of our company, any of our holding companies and their respective subsidiaries and any entity in which we or any of our subsidiaries holds any equity interest, thereby providing incentives to these participants. Under the Current Scheme, our board of directors may, at its discretion, invite the plan participants to take up options to subscribe for the ordinary shares of our 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 our company as at the date of adoption of the Current Scheme. Options lapsed or cancelled in accordance with the terms of the Old Scheme or the Current Scheme will not be counted for the purpose of calculating this 10% limit.

As the Old Scheme was terminated with effect on June 24, 2002, no further options were granted under the Old Scheme thereafter. Under the Old Scheme, all options not exercised on or before October 7, 2007 have lapsed. Accordingly, as at December 31, 2008, there were no outstanding options granted under the Old Scheme. 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 Current Scheme is 1,487,811,613. No share options were granted under the Current Scheme during the year ended December 31, 2008.

The consideration payable for the grant of option under the Current Scheme is HK\$1.00.

The exercise price of the options granted under the Current Scheme is determined by our board of directors at its 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 the Current Scheme, the term of the option is determined by the board of directors at its discretion, provided that all options shall be exercised within 10 years after the date on which the option is granted.

As of December 31, 2008, the directors and employees of our company had options to subscribe for the ordinary shares of our company granted under the Current Scheme. In 2008, 22,473,641 of these options had been exercised. See [Share Ownership](#) below for details on options granted to our directors.

### **Board Practices**

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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.

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### ***Audit Committee***

The members of our audit committee are Dr. Lo Ka Shui, as chairman of the committee, Mr. Frank K.S. Wong and Dr. 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.

### ***Remuneration Committee***

The members of our remuneration committee are Dr. Lo Ka Shui, as chairman of the committee, Mr. Frank K.S. Wong and Dr. 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 Dr. 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**

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

### Share Ownership

As of December 31, 2008, the following 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, 2008, options exercisable for an aggregate of 6,929,675 shares had been granted to the following 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\$22.85 per share through July 2, 2012.

Director	Number of shares covered by options
Sha Yuejia	25,000

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

<b>Director</b>	<b>Number of shares covered by options</b>
Li Yue	154,000
Lu Xiangdong	154,000
Xue Taohai	154,000
Sha Yuejia	82,575
Liu Aili	82,600
Xu Long	117,000

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

<b>Director</b>	<b>Number of shares covered by options</b>
Wang Jianzhou	475,000

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

<b>Director</b>	<b>Number of shares covered by options</b>
Wang Jianzhou	970,000
Li Yue	780,000
Lu Xiangdong	780,000
Xue Taohai	780,000
Sha Yuejia	780,000
Liu Aili	141,500
Xu Long	254,000
Lo Ka Shui	400,000
Frank K.S. Wong	400,000
Moses M.C. Cheng	400,000

**Item 7. Major Shareholders and Related Party Transactions.****Major Shareholders**

As of May 31, 2009, approximately 74.24% 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, 2009, our majority shareholders held, directly or indirectly, between approximately 74.24% 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 The History and Development of 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, 2009, CMCC indirectly owned an aggregate of approximately 74.24% 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.

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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 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 telecommunications assets from our parent company in July 2004, we no longer have inter-provincial roaming and interconnection arrangement with CMCC (except for the interconnection arrangement with China Tietong described under *Interconnection Settlement Arrangements* below) 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 an agreement we entered into with CMCC on July 1, 2004 (the *International Roaming Settlement Agreement*), 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 telecommunications services 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, Australia, Brunei, Canada, Hong Kong, India, Indonesia, Macau, New Zealand, South Korea, Taiwan, Thailand, the United States and Vietnam. In addition, it has filed applications to register the CHINA MOBILE name and logo as a trademark in Malaysia, Nigeria, Pakistan, the Philippines, South Africa and Yemen for certain goods and services. CMCC has also registered the CHINA MOBILE name and logo as a trademark under the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks.

In July 2002, we entered into a licensing agreement (the *Trademark License 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 replaced 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, entered into a licensing agreement with CMCC (together with the *Trademark License Agreement*, the *Trademark License Agreements*) for the use of the CHINA MOBILE name and logo. Under these agreements, no license fee was payable by us to CMCC until December 31, 2007. On January 1, 2008, we entered into a trademark license agreement (the *2008 Trademark License Agreement*) with CMCC to replace the *Trademark License Agreements*. Under the *2008 Trademark License Agreement*, no license fee is payable by us to CMCC until December 31, 2012.

### ***Spectrum Fees and Numbering Resources***

The MIIT (and prior to April, 2008, the MII) and the Ministry of Finance jointly determine the standardized spectrum fees payable to the MIIT 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 MIIT 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

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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. 60% of the charges will be shared on the basis of the number of base stations at the end of the previous year and 40% of 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 parent company in July 2004, we entered into an agreement with CMCC on July 1, 2004 (the *Spectrum and Numbering Resources Agreement*), pursuant to which CMCC will collect usage fees from us relating to spectrum frequency and numbering resources and make payment to the MIIT (and prior to April, 2008, to the MII). In addition to transferring to us all existing frequency spectrum and numbering resources allocated to it by the MIIT, 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 (the *Inter-Provincial Transmission Line Leasing Settlement Agreement*), 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.

### ***Leasing of TD-SCDMA Network Capacity***

In preparation for our 3G business, we and CMCC entered into a network capacity leasing agreement on December 29, 2008 (the *Network Capacity Leasing Agreement*), pursuant to which we and our operating subsidiaries will lease TD-SCDMA network capacity from CMCC and pay leasing fees to CMCC. The Network Capacity Leasing Agreement has a term of one year with effect from January 1, 2009 and will be automatically renewed for successive one-year periods unless otherwise notified by one party to the other party.

The leasing fees will be determined on a basis that reflects our actual usage of CMCC's TD-SCDMA network capacity and compensates CMCC for the costs of such network capacity. The amount of leasing fees payable by us to CMCC under the Network Capacity Leasing Agreement shall not exceed RMB1,000 million in 2009. The transactions contemplated under the Network Capacity Leasing Agreement constitute our continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules and are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirements under the Hong Kong Listing Rules.

### ***Interconnection Settlement Arrangements***

As part of the industry restructuring that commenced in 2008, China Tietong became a wholly-owned subsidiary of CMCC and, as a result, our connected person.

China Tietong is a fixed-line telecommunications operator in Mainland China. From January 2002 to December 2007, CMCC entered into a series of interconnection settlement agreements (collectively, the *Interconnection Settlement Agreements*) with China Tietong to govern the interconnection of the networks of CMCC and China Tietong and the settlement of charges for various telecommunications services, including IP phone calls, long distance calls, international telephone service and dial-up service. On November 13, 2008, we, CMCC and China Tietong entered into an agreement (the *Tripartite Agreement*), pursuant to

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which the rights and obligations of CMCC under the Interconnection Settlement Agreements were transferred to us. Pursuant to the Tripartite Agreement, we and China Tietong will make settlement payments to each other in respect of calls made or received by their respective subscribers. The Tripartite Agreement will expire on December 31, 2009, and unless the parties agree otherwise, the Tripartite Agreement will be automatically renewed for successive one-year periods.

The amounts of settlement payments payable and receivable by us under the Tripartite Agreement shall not exceed RMB480 million and RMB450 million, respectively, in 2009. The transactions contemplated under the Tripartite Agreement constitute our continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules and are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirements under the Hong Kong Listing Rules.

### ***Platform Development***

Aspire is 66.41% owned by us, and it is a joint venture with Vodafone and Hewlett-Packard Company. It entered into a platform development master agreement (the Platform Development Agreement) with CMCC on January 10, 2001. Under the Platform Development Agreement, Aspire (or its subsidiaries) provides technology platform development and maintenance services to CMCC and its then 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 Agreement, CMCC 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.

### ***Miscellaneous***

In 2008, no consideration passed through CMCC and us under the International Roaming Settlement Agreement, the Trademark License Agreements, the Spectrum and Numbering Resources Agreement, the Inter-Provincial Transmission Line Leasing Settlement Agreement and the Platform Development Agreement. The amount of settlement payments payable and receivable by us under the Tripartite Agreement in 2008 was less than 0.1% of each of the applicable percentage ratios set forth in Rule 14.07 of the Hong Kong Listing Rules. As the Network Capacity Leasing Agreement only took effect on January 1, 2009, no consideration passed through CMCC and us under this agreement in 2008.

Following the completion of our acquisition of the telecommunications assets from CMCC in July 2004, 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. 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 and Management Services 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; 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.

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The Property Leasing and Management Services Agreement and the Telecommunications Services Agreement (together the 2004 Continuing Connected Transaction Agreements ) expired on December 31, 2007. On December 13, 2007, we entered into the 2008-2010 property leasing and management services agreement (the 2008-2010 Property Leasing Agreement ) and the 2008-2010 telecommunications services agreement (the 2008-2010 Telecommunications Services Agreement ) with CMCC, with a view to extending the continuing connected transactions under the 2004 Continuing Connected Transaction Agreements on the same terms. Each of the 2008-2010 Property Leasing Agreement and the 2008-2010 Telecommunications Services Agreement has a fixed term of three years and is effective from January 1, 2008 to December 31, 2010. The payments payable by us to CMCC and its subsidiaries under the 2008-2010 Property Leasing Agreement shall not exceed RMB1,400 million, RMB1,500 million and RMB1,600 million for the years ending December 31, 2008, 2009 and 2010, respectively, while the payments payable by us to CMCC and its subsidiaries under the 2008-2010 Telecommunications Services Agreement for the same periods shall not exceed RMB4,350 million, RMB4,500 million and RMB4,400 million, respectively. The transactions contemplated under the 2008-2010 Property Leasing Agreement and the 2008-2010 Telecommunications Services Agreement constitute our continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules and are subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirements under the Hong Kong Listing Rules.

The transactions relating to platform development between CMCC and Aspire remain as connected transactions under the Hong Kong Listing Rules. Since there was no consideration passed through CMCC and Aspire or its subsidiaries for the year ended December 31, 2008, the Platform Development Agreement is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. According to the Platform Development Agreement, the platform development charges payable are to be determined according to standards laid down by the relevant government departments and/or by reference to market rates.

We expect that the consideration payable by CMCC to Aspire (or its subsidiaries) under the Platform Development Agreement for the year ending December 31, 2009 will not exceed the de minimis threshold under Rule 14A.33 of the Hong Kong Listing Rules. Accordingly, the Platform Development Agreement will continue to be exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In February 2007, CMCC, our parent company, acquired 88.86% of the outstanding shares of Paktel Limited, a mobile telecommunications operator in Pakistan, from Millicom International Cellular S.A. Paktel Limited was subsequently renamed CMPak Limited. In May 2007, CMCC acquired the remaining 11.14% of the outstanding shares of CMPak Limited from the minority shareholders of CMPak Limited and, as a result, CMPak Limited became a wholly-owned subsidiary of CMCC. CMCC has indicated that to the extent it decides to transfer or otherwise dispose of its interests in CMPak Limited in the future, it may give us preferential consideration as a potential transferee.

## **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 condition and results of operations.

**Table of Contents****Policy on Dividend Distributions**

We hold in the highest regard the interests of our shareholders and the returns achieved for them, especially our minority shareholders. In consideration of our favorable operating results in 2008 and having taken into account our long-term development, our board of directors recommended payment of a final dividend of HK\$1.404 per share for the financial year ended December 31, 2008 in accordance with our dividend payout planned for the full year of 2008. This, together with the interim dividend of HK\$1.339 per share paid in 2008, amounted to an aggregate dividend payment of HK\$2.743 per share for the full financial year of 2008. The dividend payout ratio for the year 2008 was 43%. Having taken into account various relevant factors, such as our overall financial condition, our cash flow generating capabilities and the needs of our future sustainable development, we expect our dividend payout ratio for the full year of 2009 to be 43%. Our board of directors is of the view that our favorable operating results and strong cash flow generating capabilities will provide sufficient support to our future sustainable development, while providing our shareholders with a favorable cash return. We will endeavor to achieve a longer term sustainable, steadily increasing dividend, with a view to creating value for our shareholders.

**Item 9. The Offer and Listing.**

In connection with our initial public offering, our American depository 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, 2008 and May 31, 2009, there were 20,054,379,231 and 20,056,257,131, respectively, of our ordinary shares issued and outstanding. As of December 31, 2008 and May 31, 2009, there were, respectively, 439 and 450 registered holders of American depository receipts evidencing 92,385,036 and 90,227,186 of our 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 depository for the ADSs is The Bank of New York Mellon.

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

	Price per Share (HK\$)		Price per ADS (US\$)	
	High	Low	High	Low
<b>2004</b>	27.85	19.25	18.07	12.31
<b>2005</b>	39.80	23.45	25.66	14.91
<b>2006</b>	69.40	35.60	44.96	22.82
<b>2007</b>				
First Quarter	79.35	64.70	51.39	41.85
Second Quarter	84.90	70.25	54.36	44.94
Third Quarter	129.00	80.85	83.96	51.15
Fourth Quarter	158.90	126.50	103.69	80.71
<b>2008</b>				
First Quarter	136.60	102.50	88.94	67.21
Second Quarter	136.30	104.40	89.30	66.04
Third Quarter	110.00	70.20	71.01	44.11
Fourth Quarter	84.70	53.80	55.22	34.83
December	84.70	70.30	55.22	43.72
<b>2009</b>				
January	85.00	68.15	54.23	43.34
February	76.45	68.00	50.09	43.35
March	69.80	63.00	45.31	40.75
First Quarter	85.00	63.00	54.23	40.75
April	74.30	65.65	48.45	43.16
May	76.35	71.20	49.85	43.82
June (through June 19)	83.10	76.10	54.04	49.27



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We may conduct in the future a public offering and listing of our shares in Mainland China. The offering may take the form of an offering of our A shares, which will be a separate class of our ordinary shares denominated in Renminbi and listed on a Mainland China stock exchange. To the extent then permitted under relevant PRC laws, rules and regulations, the offering may also be in the form of Chinese depository shares that are evidenced by Chinese depository receipts, which will be denominated in Renminbi and listed on a Mainland China stock exchange and represent rights to receive our ordinary shares. We have not set a specific timetable for an offering in Mainland China. We believe that an offering and listing of our shares in Mainland China would provide us with better access to the capital markets in Mainland China and enable our subscribers in Mainland China to have an opportunity to become our shareholders. A decision to proceed with such an offering, as well as the precise timing of such an offering, would depend on a number of factors, including the receipt of relevant regulatory approvals and market conditions.

### **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 that we are 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;

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);

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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

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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 SEC 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.

### ***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.

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### ***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 only 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.

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 – PRC**

This section describes certain PRC tax consequences relating to the ownership and disposition of our ordinary shares and ADSs. This section does not address all possible PRC tax considerations that may be relevant to an investment in our ordinary shares or ADSs in light of an investor's specific circumstances, and is based on PRC tax laws and relevant interpretations as in effect as of the date of this annual report on Form 20-F, which are subject to change, including the possibility of having retroactive effect. **Accordingly, you should consult your own tax advisor regarding the PRC and other tax consequences of an investment in our ordinary shares or ADSs under your particular circumstances.**



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Under the PRC Enterprise Income Tax Law and its implementing rules, which took effect on January 1, 2008, or the new PRC income tax law, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income. Moreover, the PRC tax authorities have been issuing further interpretations and notices to enhance the application of the new PRC income tax law.

### ***Taxation of Dividends***

On April 22, 2009, the PRC State Administration of Taxation, or the SAT, issued the Notice Regarding the Determination of Tax Residence Status of Chinese-Controlled Offshore-Incorporated Enterprises on the Basis of De Facto Management Bodies, or the 2009 Notice, which had retroactive effect as of January 1, 2008. We will be considered to be a PRC resident enterprise for purposes of the 2009 Notice. In accordance with the 2009 Notice and the new PRC income tax law, we are required to withhold enterprise income tax equal to 10% of the 2008 final dividend when it is distributed to non-resident enterprise shareholders whose names appeared on our register of members, as of the record date for such dividends, and who were not individuals.

### ***Taxation of Capital Gains***

Under the new PRC income tax law, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income. As the new PRC income tax law has only recently taken effect, there remain substantial uncertainties as to their interpretation and application by the relevant PRC tax authorities. We intend to comply with any interpretation or notice in relation to the taxation of capital gains issued by the PRC tax authorities in the future.

### ***Additional PRC Tax Considerations***

*Stamp duty.* Under the Provisional Regulations of the PRC Concerning Stamp Duty and its implementing rules, both of which became effective on October 1, 1988, PRC stamp duty should not apply to acquisitions or dispositions of our ordinary shares or ADSs outside of the PRC, as the PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and protected under the PRC law.

*Estate tax.* The PRC does not currently levy estate tax.

### **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.

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***Profits Tax***

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the ordinary shares and ADSs). Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a maximum rate of 15% on individuals. Gains from sales of the ordinary shares effected on the Hong Kong Stock Exchange may be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax may thus arise in respect of trading gains from sales of ordinary shares or ADSs realized by persons carrying on a business or trading or dealing in securities in Hong Kong.

***Stamp Duty***

Hong Kong stamp duty, currently charged at the rate of HK\$1 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 depository or for the account of the depository 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;

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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 Bank of New York Mellon, as depositary, and the assumption that each obligation in the Deposit Agreement among us, The Bank of New York Mellon, as depositary, and owners and beneficial owners of ADRs issued thereunder, 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;

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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. Dividends paid with respect to the shares or ADSs generally will be qualified dividend income provided that, in the year that you receive the dividend, the shares or ADSs are readily tradable on an established securities market in the United States.

You must include any PRC tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of shares, or The Bank of New York Mellon, as depository, 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.

Subject to certain limitations, the PRC tax withheld and paid over to the PRC will be creditable against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

Dividends will be income from sources outside the United States. Dividends will, depending on your circumstances, generally be either passive or general income for purposes of computing the foreign tax credit allowable to you.

***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.



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### ***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. Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

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 or 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.

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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 United States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

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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 SEC at the SEC's public reference room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room and its copy charges. The SEC also maintains a website 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 2008.

We are also exposed to foreign currency risk relating to 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, 2008, we had no foreign exchange forward contracts outstanding. We expect our foreign currency hedging activity to be generally limited to the hedging of specific future commitments in foreign currencies.

The following table provides information regarding our interest rate-sensitive financial instruments, which consist of fixed and variable rate short-term and long-term debt obligations, as of the dates indicated.

	Expected Maturity Date						As of December 31, 2008		As of December 31, 2007	
	2009	2010	2011	2012	2013	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%	
Bonds			4,943			4,977	9,920	10,145	9,949	9,404
Average interest rate			4.00%			4.50%	4.95%		4.10%	
Deferred consideration payable						23,633	23,633	23,633	23,633	23,633
Average interest rate						3.28%	4.34%		5.41%	

The following table provides information regarding our foreign currency-sensitive financial instruments and transactions, which consist of deposits with banks and cash and cash equivalents as of the dates indicated.

	Expected Maturity Date						As of December 31, 2008		As of December 31, 2007	
	2009	2010	2011	2012	2013	Thereafter	Total Recorded Amount	Fair Value	Total Recorded Amount	Fair Value
(RMB equivalent in millions, except interest rates)										

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On-balance sheet financial instruments					
Deposits with banks:					
in U.S. dollars	268	268	268	272	272
in Hong Kong dollars	705	705	705		
Cash and cash equivalents:					
in U.S. dollars	476	476	476	520	520
in Hong Kong dollars	569	569	569	7,298	7,298

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**Item 12. Description of Securities Other than Equity Securities.**

Not Applicable.

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**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies.**

None.

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

None.

**Item 15. Controls and Procedures.**

**Disclosure Controls and Procedures.** Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including, without limitation, that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2008, 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 December 31, 2008, our disclosure controls and procedures were effective at a reasonable assurance level.

**Management's Annual Report on Internal Control Over Financial Reporting.** Management's Report on Internal Control Over Financial Reporting is set forth below.

**Management's Report on Internal Control Over Financial Reporting**

Management of China Mobile Limited (together with its consolidated subsidiaries, the Company) is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and Hong Kong Financial Reporting Standards.

As of December 31, 2008, the Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, conducted an assessment of the effectiveness of the Company's internal control over financial reporting using criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Company's management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2008.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008 has been audited by KPMG, an independent registered public accounting firm, as stated in their report dated March 19, 2009 appearing on page 68.

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

/s/ XUE Taohai  
Name: XUE Taohai  
Title: Executive Director, Vice President and Chief

Financial Officer

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of

China Mobile Limited:

We have audited China Mobile Limited and subsidiaries (together refer to the Group) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of China Mobile and subsidiaries as of December 31, 2007 and 2008, and the related consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for each of the years in the three-year period ended December 31, 2008 and our report dated March 19, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG

Hong Kong, China

March 19, 2009

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**Changes in Internal Control Over Financial Reporting.** During 2008, no change to our internal control over financial reporting occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**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 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](http://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 years ended December 31, 2007 and 2008:

	Audit Fees <sup>(1)</sup>	Audit-Related Fees	Tax Fees	All Other Fees <sup>(2)</sup>
2007	RMB 78,000,000		RMB 70,000	RMB 5,000,000
2008	RMB 76,000,000		RMB 110,000	RMB 3,000,000

(1) Includes the fees for services rendered in connection with the audit of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002.

(2) Includes the fees for advisory service rendered in connection with the Sarbanes-Oxley Act of 2002 and other advisory services provided to us. 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.**

None.

**Item 16F. Change in Registrant's Certifying Accountant.**

Not applicable.

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### **Item 16G. Corporate Governance.**

As a foreign private issuer (as defined in Rule 3b-4 under the Securities Exchange Act of 1934, as amended), we are permitted to follow home country practices in lieu of some of the corporate governance practices required to be followed by U.S. companies listed on the New York Stock Exchange. As a result, our corporate governance practices differ in some respects from those required to be followed by U.S. companies listed on the New York Stock Exchange.

The significant differences between our corporate governance practices and those required to be followed by U.S. companies under the New York Stock Exchange's listing standards include:

Section 303A.01 of the New York Stock Exchange Listed Company Manual provides that listed companies must have a majority of independent directors. As a listed company in Hong Kong, we are subject to the requirement under the Hong Kong Listing Rules that at least three members of our board of directors be independent as determined under the Hong Kong Listing Rules. We currently have three independent directors out of a total of fourteen directors. The Hong Kong Listing Rules set forth standards for establishing independence, which differ from those set forth in the New York Stock Exchange Listed Company Manual.

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

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

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

Section 303A.10 of the New York Stock Exchange Listed Company Manual provides that listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees. While we are not required, under the Hong Kong Listing Rules, to adopt such similar code, as required under the Sarbanes-Oxley Act of 2002, we have adopted a code of ethics that is applicable to our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions.

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

**Table of Contents****PART III****Item 17. Financial Statements.**

Not applicable.

**Item 18. Financial Statements.**

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

**China Mobile Limited:**

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**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:

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
1.1	Memorandum and Articles of Association (as amended). <sup>(1)</sup>
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. <sup>(2)</sup>
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). <sup>(3)</sup>
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). <sup>(4)</sup>
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. <sup>(4)</sup>
4.3	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. <sup>(5)</sup>
4.4	Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation, Neimenggu Mobile and Neimenggu Communication Service Company (with English translation and schedule). <sup>(5)</sup>
4.5	Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation, China Mobile Group Design Institute Co., Ltd. and Beijing P&T Consulting & Design Institute (with English translation). <sup>(5)</sup>
4.6	Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation and China Mobile Communication Company Limited (with English translation). <sup>(5)</sup>

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- 4.7 Agreement on the Confirmation of Rights and Obligations, dated April 9, 2004, between China Mobile Communications Corporation, Neimenggu Mobile and Neimenggu Communication Service Company (with English translation and schedule).<sup>(5)</sup>

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- 4.8 Agreement on the Confirmation of Rights and Obligations, dated April 9, 2004, between China Mobile Communications Corporation, China Mobile Group Design Institute Co., Ltd. and Beijing P&T Consulting & Design Institute (with English translation).<sup>(5)</sup>
- 4.9 Consent Letter to the Substitution of Borrowers under the Consigned Loan Agreement, dated February 13, 2004, between China Mobile Communications Corporation, Neimenggu Mobile, Neimenggu Communication Service Company and Beijing Chang an Sub-branch of Industrial and Commercial Bank of China (with English translation and schedule).<sup>(5)</sup>
- 4.10 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).<sup>(5)</sup>
- 4.11 Tax Indemnity dated July 1, 2002 between China Mobile Hong Kong (BVI) Limited, China Mobile (Hong Kong) Limited and China Mobile Communications Corporation.<sup>(3)</sup>
- 4.12 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).<sup>(3)</sup>
- 4.13 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.<sup>(6)</sup>
- 4.14 Agreement on Use of Premises and Related Management Services for the Years from 2008 to 2010, dated December 13, 2007, between China Mobile Limited and China Mobile Communications Corporation (with English translation).<sup>(7)</sup>
- 4.15 Telecommunications Services Agreement for the Years from 2008 to 2010, dated December 13, 2007, between China Mobile Limited and China Mobile Communications Corporation (with English translation).<sup>(7)</sup>
- 4.16 Trademark License Agreement, dated January 1, 2008, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(7)</sup>
- 4.17 Tripartite Agreement on the Transfer of Rights and Obligations Relating to the Interconnection and Settlement Arrangements, dated November 13, 2008, among China Mobile Communications Corporation, China Tietong Telecommunications Corporation and China Mobile Limited (with English translation).
- 4.18 TD-SCDMA Network Capacity Leasing Agreement, dated December 29, 2008, between China Mobile Communications Corporation and China Mobile Limited (with English translation).
- 8.1 List of Major Subsidiaries.
- 11.1 Code of Ethics.<sup>(5)</sup>
- 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, 2005 (File No. 1-14696), filed with the SEC on June 9, 2006.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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.

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- (6) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-47256), filed with the SEC on October 30, 2000.
- (7) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2007 (File No. 1-14696), filed with the SEC on June 11, 2008.

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**SIGNATURES**

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

**CHINA MOBILE LIMITED**

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

Date: June 23, 2009

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**The Board of Directors and Shareholders of**

**China Mobile Limited:**

We have audited the accompanying consolidated balance sheets of China Mobile Limited and subsidiaries (together refer to the Group ) as of December 31, 2007 and 2008, and the related consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for each of the years in the three-year period ended December 31, 2008. 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). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2007 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 19, 2009 expressed an unqualified opinion on the effectiveness of the Group's internal control over financial reporting.

/s/ KPMG

Hong Kong, China

March 19, 2009, except as to paragraph 2 in note 41,  
which is as of May 19, 2009

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China Mobile Limited

Consolidated financial statements for the year ended December 31, 2008

Consolidated income statement

for the year ended December 31, 2008

(Expressed in Renminbi)

	<i>Note</i>	<b>2008</b> RMB million	<b>2007</b> RMB million	<b>2006</b> RMB million
<b>Operating revenue (Turnover)</b>	3			
Usage fees		260,889	226,488	189,710
Monthly fees		18,096	20,856	21,629
Value-added services fees		113,444	91,609	69,309
Other operating revenue		19,914	18,006	14,710
		412,343	356,959	295,358
<b>Operating expenses</b>				
Leased lines		2,641	2,330	2,451
Interconnection		22,264	21,500	18,783
Depreciation	14	71,509	67,354	64,574
Personnel	4	19,960	18,277	16,853
Other operating expenses	5	153,354	123,430	100,772
		269,728	232,891	203,433
<b>Profit from operations</b>		142,615	124,068	91,925
<b>Other net income</b>	6	2,159	2,323	2,872
<b>Non-operating net income</b>	7	517	657	285
<b>Interest income</b>		6,002	4,015	2,604
<b>Finance costs</b>	8	(1,550)	(1,825)	(1,510)
<b>Profit before taxation</b>		149,743	129,238	96,176
<b>Taxation</b>	11(a)	(36,789)	(42,059)	(30,062)
<b>Profit for the year</b>		112,954	87,179	66,114
<b>Attributable to:</b>				
Equity shareholders of the Company		112,793	87,062	66,026
Minority interests		161	117	88

<b>Profit for the year</b>	112,954	87,179	66,114
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China Mobile Limited

Consolidated financial statements for the year ended December 31, 2008

Consolidated income statement

for the year ended December 31, 2008 (continued)

(Expressed in Renminbi)

	<i>Note</i>	<i>2008</i> RMB million	<i>2007</i> RMB million	<i>2006</i> RMB million
<b>Dividends paid / payable to equity shareholders of the Company attributable to the year:</b>				
Ordinary interim dividend declared and paid during the year	12(a)	23,532	16,178	12,612
Special interim dividend declared and paid during the year	12(a)		1,643	1,831
Ordinary final dividend proposed after the balance sheet date	12(a)	24,832	21,762	15,327
Special final dividend proposed after the balance sheet date	12(a)		300	1,386
		48,364	39,883	31,156
<b>Earnings per share</b>				
<b>Basic</b>	13(a)	RMB 5.63	RMB 4.35	RMB 3.32
<b>Diluted</b>	13(b)	RMB 5.54	RMB 4.28	RMB 3.29

The notes on pages F-11 to F-85 form part of these consolidated financial statements.

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China Mobile Limited

Consolidated financial statements for the year ended December 31, 2008

Consolidated balance sheet as at December 31, 2008

(Expressed in Renminbi)

	<i>Note</i>	<b>2008</b> RMB million	<b>2007</b> RMB million
<b>Non-current assets</b>			
Property, plant and equipment, net	14	327,783	257,170
Construction in progress	15	35,482	47,420
Land lease prepayments		10,102	8,383
Goodwill	16	36,894	36,894
Other intangible assets	17	298	469
Interest in associates	19		
Interest in jointly controlled entity	20	7	
Deferred tax assets	21	6,884	5,445
Other financial assets	22	77	77
		417,527	355,858
<b>Current assets</b>			
Inventories	23	3,494	3,295
Accounts receivable, net	24	6,913	6,985
Other receivables	25	3,715	2,929
Prepayments and other current assets	25	7,641	5,680
Amount due from ultimate holding company	26	109	78
Tax recoverable	11(c)	39	124
Deposits with banks	27	130,833	109,685
Cash and cash equivalents	28	87,426	78,859
		240,170	207,635
<b>Current liabilities</b>			
Accounts payable	29	79,606	63,927
Bills payable		2,111	1,853
Deferred revenue	30	26,089	23,762
Accrued expenses and other payables	32	61,292	50,860
Amount due to ultimate holding company	26	6	26
Amount due to immediate holding company	26	118	196
Obligations under finance leases	33	68	68
Current taxation	11(c)	11,283	14,261
		180,573	154,953
<b>Net current assets</b>		59,597	52,682

<b>Total assets less current liabilities carried forward</b>	477,124	408,540
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China Mobile Limited

Consolidated financial statements for the year ended December 31, 2008

Consolidated balance sheet as at December 31, 2008

(continued)

(Expressed in Renminbi)

	<i>Note</i>	<b>2008</b> RMB million	<b>2007</b> RMB million
<b>Total assets less current liabilities brought forward</b>		477,124	408,540
<b>Non-current liabilities</b>			
Interest-bearing borrowings	31	(33,553)	(33,582)
Deferred revenue, excluding current portion	30	(584)	(597)
Deferred tax liabilities	21	(80)	(122)
		(34,217)	(34,301)
<b>NET ASSETS</b>		442,907	374,239
<b>CAPITAL AND RESERVES</b>			
	36		
Share capital		2,138	2,136
Reserves		440,140	371,615
<b>Total equity attributable to equity shareholders of the Company</b>		442,278	373,751
<b>Minority interests</b>		629	488
<b>TOTAL EQUITY</b>		442,907	374,239

Approved and authorized for issue by the Board of Directors on March 19, 2009.

**Wang Jianzhou***Director***Xue Taohai***Director*

The notes on pages F-11 to F-85 form part of these consolidated financial statements.



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China Mobile Limited

Consolidated financial statements for the year ended December 31, 2008

Consolidated statement of changes in equity

for the year ended December 31, 2008

(Expressed in Renminbi)

	Note	2008		2007		2006	
		RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
<b>Total equity as at January 1</b>			374,239		319,373		273,107
<b>Net expenses recognized directly in equity</b>							
Exchange difference on translation of financial statements of overseas entities	36		(393)		(645)		(43)
<b>Net profit for the year</b>	36		112,954		87,179		66,114
<b>Total recognized income and expenses for the year</b>			112,561		86,534		66,071
Attributable to:							
Equity shareholders of the Company		112,400		86,417		65,983	
Minority interests		161		117		88	
		112,561		86,534		66,071	
Dividends declared or approved during the year	36		(44,580)		(34,088)		(26,162)
<b>Movements in equity arising from capital transactions:</b>							
Shares issued under share option scheme	36	2		6		14	
Share premium arising on issuance of shares	36	463		1,608		4,079	
Equity settled share-based transactions	36	222		806		2,264	
			687		2,420		6,357
<b>Total equity as at December 31</b>			442,907		374,239		319,373

The notes on pages F-11 to F-85 form part of these consolidated financial statements.



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China Mobile Limited

Consolidated financial statements for the year ended December 31, 2008

Consolidated cash flow statement

for the year ended December 31, 2008

(Expressed in Renminbi)

	<i>Note</i>	<b>2008</b> RMB million	<b>2007</b> RMB million	<b>2006</b> RMB million
<b>Operating activities</b>				
Profit before taxation		149,743	129,238	96,176
Adjustments for:				
- Depreciation of property, plant and equipment	14	71,509	67,354	64,574
- Amortization of other intangible assets	5	204	258	203
- Amortization of land lease prepayments		279	322	176
- (Gain)/loss on disposal of property, plant and equipment	5	(8)	(11)	46
- Write-off of property, plant and equipment	5	3,250	2,788	2,857
- Impairment loss for doubtful accounts	5	4,385	3,872	3,852
- Interest income		(6,002)	(4,015)	(2,604)
- Finance costs	8	1,550	1,825	1,510
- Dividend income from unlisted securities	7	(15)	(31)	(39)
- Equity-settled share-based payment expenses	4	222	806	2,264
- Unrealized exchange loss, net	7	32	22	212
<b>Operating profit before changes in working capital</b>		<b>225,149</b>	<b>202,428</b>	<b>169,227</b>
Increase in inventories		(199)	(288)	(626)
Increase in accounts receivable		(4,309)	(3,679)	(4,310)
Decrease/(increase) in other receivables		270	(320)	(313)
Increase in prepayments and other current assets		(1,961)	(1,067)	(1,030)
(Increase)/decrease in amount due from ultimate holding company		(31)	227	(242)
Increase in accounts payable		3,245	796	6,556
Increase/(decrease) in bills payable		4	(46)	(3)
Increase in deferred revenue		2,314	1,606	4,455
Increase in accrued expenses and other payables		10,344	4,730	6,033
Decrease in amount due to ultimate holding company		(20)	(103)	(140)
<b>Cash generated from operations</b>		<b>234,806</b>	<b>204,284</b>	<b>179,607</b>
Tax paid				
- Hong Kong profits tax paid		(96)	(12)	(21)
- PRC enterprise income tax paid		(41,063)	(35,660)	(30,240)
<b>Net cash generated from operating activities carried forward</b>		<b>193,647</b>	<b>168,612</b>	<b>149,346</b>

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China Mobile Limited

Consolidated financial statements for the year ended December 31, 2008

Consolidated cash flow statement

for the year ended December 31, 2008 (continued)

(Expressed in Renminbi)

	<i>Note</i>	<b>2008</b> RMB million	<b>2007</b> RMB million	<b>2006</b> RMB million
<b>Net cash generated from operating activities brought forward</b>		193,647	168,612	149,346
<b>Investing activities</b>				
Payment for acquisition of a subsidiary (net of cash and cash equivalent acquired)				(3,410)
Capital expenditure		(120,816)	(98,523)	(76,969)
Land lease prepayments		(1,998)	(1,028)	(597)
Payment for purchase of other intangible assets		(37)	(28)	(45)
Proceeds from disposal of property, plant and equipment		22	20	80
Increase in deposits with banks		(21,148)	(27,391)	(40,369)
Interest received		4,943	3,880	2,430
Payment for investment in jointly controlled entity		(7)		
Dividends received from unlisted securities	7	15	31	39
<b>Net cash used in investing activities</b>		(139,026)	(123,039)	(118,841)
<b>Financing activities</b>				
Proceeds from issuance of shares under share option scheme	36(a)(ii)	465	1,614	4,093
Redemption of bonds			(3,000)	
Repayments of bank and other loans				(104)
Interest paid		(1,569)	(1,802)	(1,414)
Dividends paid to the Company's equity shareholders	12	(44,560)	(34,088)	(26,162)
Dividends paid to minority interest	36	(20)		
<b>Net cash used in financing activities</b>		(45,684)	(37,276)	(23,587)
<b>Net increase in cash and cash equivalents</b>		8,937	8,297	6,918
<b>Cash and cash equivalents at beginning of year</b>		78,859	71,167	64,461
<b>Effect of changes in foreign exchange rate</b>		(370)	(605)	(212)
<b>Cash and cash equivalents at end of year</b>	28	87,426	78,859	71,167



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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

Consolidated cash flow statement

for the year ended December 31, 2008 (continued)

*(Expressed in Renminbi)*

**Notes to the consolidated cash flow statement**

***Significant non-cash transactions***

The Group incurred payables of RMB42,933,000,000 (2007: RMB39,006,000,000; 2006: RMB36,851,000,000) and RMB2,084,000,000 (2007: RMB1,830,000,000; 2006 RMB2,143,000,000) to equipment suppliers and banks respectively for additions of construction in progress during the year ended December 31, 2008.

The notes on pages F-11 to F-85 form part of these consolidated financial statements.

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

Notes to the consolidated financial statements

*(Expressed in Renminbi unless otherwise indicated)*

**1 Significant accounting policies**

***(a) Statement of compliance***

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ( IFRSs ) issued by the International Accounting Standards Board ( IASB ), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ( IASs ) and Interpretations issued by the IASB. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the Group ) is set out below.

***(b) Basis of preparation of the consolidated financial statements***

The consolidated financial statements for the year ended December 31, 2008 comprise the Group, the Group's interest in associates and a jointly controlled entity.

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

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

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

Judgements and estimates made by management in the application of IFRSs that have a significant effect on the consolidated financial statements are discussed in note 43.

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

**(c) Subsidiaries and minority interests**

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

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

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

Where losses applicable to the minority exceed the minority's interests 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.

**(d) Associates and jointly controlled entities**

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.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

***(d) Associates and jointly controlled entities (continued)***

An investment in an associate or a jointly controlled entity 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 or the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and a jointly controlled entity for the year.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, 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 associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealized profits and losses resulting from transactions between the Group and its associates and a jointly controlled entity are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

***(e) Goodwill***

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

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

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

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

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

***(f) Other intangible assets***

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

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

**(i) Brand names**

Brand names are stated at cost less accumulated amortization and impairment losses (see note 1(j)) on an individual basis.

**(ii) Customer base, licenses and others**

Customer base, licenses and others are stated at cost less any impairment losses (see note 1(j)) and are amortized using a straight-line basis over the estimated useful lives from 2 to 15 years.

***(g) Other investments in equity securities***

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and a jointly controlled entity, 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 1(j)).

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

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China Mobile Limited

Consolidated financial statements for the year ended December 31, 2008

**1 Significant accounting policies (continued)****(h) 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 1(j)).

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

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

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

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

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

**(i) Leased assets**

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

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

**(i) Leased assets (continued)**

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

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

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

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

**(iii) Operating lease charges**

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

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

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

**(j) Impairment of assets**

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

Investments in equity securities (other than investments in subsidiaries, associates and a jointly controlled entity) 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. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

significant financial difficulty of the debtor;

a breach of contract, such as a default or delinquency in interest or principal payments;

it becoming probable that the debtor will enter bankruptcy or other financial reorganization;

significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

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

For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

**(j) Impairment of assets (continued)**

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

**(ii) Impairment of other assets**

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

property, plant and equipment;

construction in progress;

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

investments in subsidiaries, associates and a jointly controlled entity;

goodwill; and

other intangible assets.

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

**(i) Calculation of recoverable amount**

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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).

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

**(j) Impairment of assets (continued)**

(ii) Impairment of other assets (continued)

(ii) Recognition of impairment losses

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

(iii) Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

***(k) Construction in progress***

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

***(l) Inventories***

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

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

***(m) Accounts receivable and other receivables***

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

***(n) Deferred revenue***

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

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

Deferred tax credit of purchase of domestic telecommunications equipment is amortized over the remaining lives of the related equipment and the amortization is included in income tax expense.

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

**(o) Interest-bearing borrowings**

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

**(p) Accounts payable and other payables**

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

**(q) Cash and cash equivalents**

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

**(r) Revenue recognition**

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

- (i) usage fees, value-added services fees and other operating revenue are recognized as revenue when the service is rendered;
- (ii) monthly fees are recognized as revenue in the month during which the service is rendered;
- (iii) deferred revenue from prepaid services is recognized as revenue when the mobile telecommunications services are rendered upon actual usage by subscribers;
- (iv) interest income is recognized as it accrues using the effective interest method; and
- (v) sales of SIM cards and handsets are recognized on delivery of goods to the buyer. Such revenue, net off cost of goods sold, is included in other net income due to its insignificance.

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

**(s) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss 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.

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.

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

**(s) Income tax (continued)**

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

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

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

the same taxable entity; or

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

**(t) Provisions and contingent liabilities**

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

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

**(u) Employee benefits**

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

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

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

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

**(u) Employee benefits (continued)**

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

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

**(ii) Share-based payments**

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

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

**(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.

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

**(v) Borrowing costs**

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

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

**(w) Translation of foreign currencies**

The functional currency of the Company and its subsidiary incorporated outside the PRC is Hong Kong dollar ( HK\$ ). The Group adopted Renminbi ( RMB ) as its presentation currency in the preparation of these annual consolidated financial statements which is the currency of the primary economic environment in which most of the Group's entities operated.

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

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

The results of overseas entities are translated into RMB at the exchange rates approximating the foreign exchange rate ruling at the dates of transactions. Balance sheets items are translated into RMB at the exchange rates ruling at the balance sheet date. The resulting exchange differences are included in a separate component of equity. On disposal of an overseas entity, the cumulative amount of the exchange differences recognized under equity relating to that particular foreign operation is included in the calculation of the profit or loss on disposal.

For the purpose of the consolidated cash flow statements, the cash flows of overseas entities within the Group are translated into RMB by using the exchange rates approximating the foreign exchange rate ruling the dates of cash flows.

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*China Mobile Limited*

*Consolidated financial statements for the year ended December 31, 2008*

**1 Significant accounting policies (continued)**

**(x) Related parties**

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

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

**(y) Segment reporting**

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

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

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**2 Changes in accounting policies**

The IASB has issued a number of new Interpretations and an amendment to IFRSs that are first effective for the current accounting period commencing January 1, 2008 or available for early adoption.

These developments have had no material impact on the consolidated financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's and the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 44).

**3 Turnover**

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

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

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

Other operating revenue mainly represents interconnection revenue.

**4 Personnel**

	<i>2008</i>	<i>2007</i>	<i>2006</i>
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>
Salaries, wages and other benefits	17,829	15,963	13,440
Retirement costs: contributions to defined contribution retirement plans	1,909	1,508	1,149
Equity-settled share-based payment expenses	222	806	2,264
	19,960	18,277	16,853

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**5 Other operating expenses**

	2008	2007	2006
	RMB million	RMB million	RMB million
Selling and promotion	66,886	55,995	47,145
Maintenance	25,761	18,106	15,257
Impairment loss for doubtful accounts	4,385	3,872	3,852
Impairment loss of inventories	6	4	7
Amortization of other intangible assets	204	258	203
Operating lease charges			
- land and buildings	5,723	4,283	3,259
- others (Note 1)	2,591	2,537	2,013
(Gain)/loss on disposal of property, plant and equipment	(8)	(11)	46
Write-off of property, plant and equipment	3,250	2,788	2,857
Auditors remuneration			
- audit services (Note 2)	76	78	80
- tax services (Note 3)			
- other services (Note 4)	3	5	35
Others (Note 5)	44,477	35,515	26,018
	153,354	123,430	100,772

## Notes:

- (1) Other operating lease charges represent the operating lease charges for motor vehicles, computer and other office equipment.
- (2) Audit services in 2008 include reporting on the Group's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of the United States of America ( SOX 404 ) of RMB17,800,000 (2007: RMB18,500,000; 2006: RMB20,000,000).
- (3) Tax services in 2008 include tax compliance services for the Group of RMB55,000 (2007: RMB53,000; 2006: RMB52,000) and preparation and submission of response letter to Inland Revenue Department of RMBNil (2007: RMBNil; 2006: RMB98,000).
- (4) Other services in 2006, 2007 and 2008 include SOX 404 advisory services and other advisory services.
- (5) Others consist of office expenses, utilities charges, travelling expenses, entertainment expenses, spectrum charges and number resources fees, consultant and professional fees, consumables and supplies, labor services expenses and other miscellaneous expenses.

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**6 Other net income**

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

	2008 RMB million	2007 RMB million	2006 RMB million
Sales of SIM cards and handsets	10,090	9,351	8,278
Cost of SIM cards and handsets	(7,931)	(7,028)	(5,406)
	2,159	2,323	2,872

**7 Non-operating net income**

	2008 RMB million	2007 RMB million	2006 RMB million
Exchange loss	(32)	(22)	(212)
Penalty income	222	235	182
Dividend income from unlisted securities	15	31	39
Others	312	413	276
	517	657	285

**8 Finance costs**

	2008 RMB million	2007 RMB million	2006 RMB million
Interest on bank loans and other borrowings repayable within five years			2
Interest on bank loans and other borrowings repayable after five years	1,026	1,279	946
Interest on bonds	524	546	562
	1,550	1,825	1,510

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**9 Directors remuneration**

Directors remuneration is as follows:

	<i>Directors fees</i>	<i>Salaries, allowances and benefits in kind</i>	<i>Performance related bonuses</i>	<i>Retirement scheme contributions</i>	<i>Subtotal</i>	<i>Fair value of share options (Note)</i>	<i>2008 Total</i>
<i>(Expressed in Hong Kong dollar)</i>							
	000	000	000	000	000	000	000
<i>Executive directors</i>							
WANG Jianzhou	180	1,172	660	285	2,297	849	3,146
ZHANG Chunjiang (appointed on June 5, 2008)	103	612	344	147	1,206		1,206
LI Yue	180	960	540	234	1,914	683	2,597
LU Xiangdong	180	960	540	234	1,914	683	2,597
XUE Taohai	180	960	540	234	1,914	683	2,597
HUANG Wenlin	180	960	540	234	1,914		1,914
SHA Yuejia	180	960	540	233	1,913	683	2,596
LIU Aili	180	960	540	233	1,913	132	2,045
XIN Fanfei	180	960	540	225	1,905		1,905
XU Long	180	950	540	231	1,901	236	2,137
<i>Independent non-executive directors</i>							
LO Ka Shui	505				505	350	855
WONG Kwong Shing, Frank	440				440	350	790
CHENG Mo Chi, Moses	440				440	350	790
<i>Non-executive director</i>							
Paul Michael DONOVAN (resigned on December 19, 2008)	174				174		174
	3,282	9,454	5,324	2,290	20,350	4,999	25,349

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**9 Directors remuneration (continued)**

	<i>Directors fees</i>	<i>Salaries, allowances and benefits in kind</i>	<i>Performance related bonuses</i>	<i>Retirement scheme contributions</i>	<i>Subtotal</i>	<i>Fair value of share options (Note)</i>	<i>2007 Total</i>
<i>(Expressed in Hong Kong dollar)</i>							
	000	000	000	000	000	000	000
<i>Executive directors</i>							
WANG Jianzhou	180	1,172	660	270	2,282	2,773	5,055
LI Yue	180	960	540	230	1,910	2,013	3,923
LU Xiangdong	180	960	540	230	1,910	2,013	3,923
XUE Taohai	180	960	540	232	1,912	2,013	3,925
HUANG Wenlin (appointed on September 24, 2007)	48	260	147	63	518		518
SHA Yuejia	180	960	540	222	1,902	1,933	3,835
LIU Aili	180	960	540	222	1,902	459	2,361
XIN Fanfei	180	960	540	217	1,897		1,897
XU Long	180	928	540	221	1,869	783	2,652
ZHANG Chenshuang (resigned on July 9, 2007)	94	497	280	246	1,117	1,154	2,271
<i>Independent non-executive directors</i>							
LO Ka Shui	505				505	936	1,441
WONG Kwong Shing, Frank	440				440	936	1,376
CHENG Mo Chi, Moses	440				440	936	1,376
<i>Non-executive director</i>							
Paul Michael DONOVAN	180				180		180
	3,147	8,617	4,867	2,153	18,784	15,949	34,733

Note: This item represents the fair value of share options granted to certain directors under the Company's share option scheme as estimated at the grant date for financial reporting purpose, determined under IFRS 2, rather than an amount paid to or realized by the named director, which is consistent with the approach of determining share-based compensation expense in the consolidated financial statements as set out in note 1(u)(ii). The details of the share option scheme are disclosed under the paragraph "Share Option Schemes" in the report of directors and note 35.

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**10 Individuals with highest emoluments**

For the years ended December 31, 2007 and 2008, all of the five individuals with the highest emoluments are directors whose emoluments are disclosed in note 9.

**11 Taxation***(a) Taxation in the consolidated income statement represents:*

	2008 RMB million	2007 RMB million	2006 RMB million
<b>Current tax</b>			
Provision for Hong Kong profits tax on the estimated assessable profits for the year	74	72	3
Under-provision in respect of Hong Kong profits tax for prior year			9
Provision for PRC enterprise income tax on the estimated taxable profits for the year	38,216	40,473	31,070
Over-provision in respect of PRC enterprise income tax for prior years	(24)	(91)	(550)
	38,266	40,454	30,532
<b>Deferred tax</b>			
Origination and reversal of temporary differences (note 21)	(1,477)	1,605	(470)
	36,789	42,059	30,062

In February 2008, the Hong Kong Government announced a decrease in the profits tax rate from 17.5 per cent. to 16.5 per cent. applicable to the Group's operations in Hong Kong as from the year ended December 31, 2008. Accordingly, the provision for Hong Kong profits tax for 2008 is calculated at 16.5 per cent. (2007: 17.5 per cent.; 2006: 17.5 per cent.) of the estimated assessable profits for the year.

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**11 Taxation (continued)****(a) Taxation in the consolidated income statement represents: (continued)**

The provision for the PRC enterprise income tax is based on a statutory rate of 25 per cent. (2007: 33 per cent.; 2006: 33 per cent.) of the taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year ended December 31, 2008, except for certain subsidiaries of the Company or certain operations of the subsidiaries located within special economic zones in the PRC, which were previously taxed at preferential rate of 15 per cent. in 2007, for which the applicable preferential tax rate is 18 per cent. for 2008 and will be increased to 20 per cent., 22 per cent., 24 per cent. and 25 per cent. for the years ending December 31, 2009, 2010, 2011 and 2012, respectively. Accordingly, the deferred tax of the Group is recognized based on the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

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

	2008 RMB million	2007 RMB million	2006 RMB million
Profit before taxation	149,743	129,238	96,176
Notional tax on profit before tax, calculated at statutory tax rates	37,436	42,649	31,738
Tax effect of non-taxable item Interest income	(16)	(64)	(34)
Tax effect of non-deductible expenses on PRC operations	653	816	1,068
Tax effect of non-deductible expenses on Hong Kong operations	261	254	236
Rate differential on PRC operations	(874)	(2,315)	(1,744)
Rate differential on Hong Kong operations	96	157	175
Effect of change in PRC enterprise income tax rate		1,513	(56)
Effect of change in Hong Kong profits tax rate	(6)		
Over-provision for PRC operations in prior years	(24)	(91)	(550)
Under-provision for Hong Kong operations in prior year			9
Amortization of tax credit on purchase of domestic telecommunications equipment	(644)	(788)	(732)
Others	(93)	(72)	(48)
Taxation	36,789	42,059	30,062

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**11 Taxation (continued)**(c) *Current taxation in the consolidated balance sheet represents:*

	<i>2008</i>	<i>2007</i>	<i>2006</i>
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>
Provision for PRC enterprise income tax for the year	38,192	40,382	31,070
Provision for Hong Kong profits tax for the year	74	72	3
Balance of PRC enterprise income tax recoverable relating to prior year	(124)	(459)	(237)
Balance of Hong Kong profits tax recoverable relating to prior year		(9)	
PRC enterprise income tax paid	(26,853)	(25,837)	(21,469)
Hong Kong profits tax paid	(45)	(12)	(12)
Balance as at December 31	11,244	14,137	9,355
Add: Tax recoverable	39	124	468
Tax payable	11,283	14,261	9,823

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**12 Dividends****(a) Dividends attributable to the year:**

	2008 RMB million	2007 RMB million	2006 RMB million
Ordinary interim dividend declared and paid of HK\$1.339 (equivalent to approximately RMB1.177) (2007: HK\$0.837 (equivalent to approximately RMB0.816); 2006: HK\$0.62 (equivalent to approximately RMB0.64)) per share	23,532	16,178	12,612
No special interim dividend declared (2007: HK\$0.085 (equivalent to approximately RMB0.083); 2006: HK\$0.09 (equivalent to approximately RMB0.09) per share)		1,643	1,831
Ordinary final dividend proposed after the balance sheet date of HK\$1.404 (equivalent to approximately RMB1.238) (2007: HK\$1.160 (equivalent to approximately RMB1.086); 2006: HK\$0.763 (equivalent to approximately RMB0.767)) per share	24,832	21,762	15,327
No special final dividend proposed after the balance sheet date (2007: HK\$0.016 (equivalent to approximately RMB0.015) 2006: HK\$0.069 (equivalent to approximately RMB0.069) per share)		300	1,386
	48,364	39,883	31,156

The proposed ordinary final dividend which is declared in Hong Kong dollar is translated into RMB at the rate HK\$1 = RMB0.88189, being the rate announced by the State Administration of Foreign Exchange in the PRC on December 31, 2008. As the ordinary final dividend is declared after the balance sheet date, such dividend is not recognized as liability as at December 31, 2008.

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

	<i>2008</i> RMB million	<i>2007</i> RMB million	<i>2006</i> RMB million
Ordinary final dividend in respect of the previous financial year, approved and paid during the year, of HK\$1.160 (equivalent to approximately RMB1.086) (2007: HK\$0.763 equivalent to (approximately RMB0.767); 2006: HK\$0.57 (equivalent to approximately RMB0.59)) per share	20,742	14,918	11,719
Special final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.016 (equivalent to approximately RMB0.015) (2007: HK\$0.069 (equivalent to approximately RMB0.069); 2006: Nil) per share	286	1,349	
	21,028	16,267	11,719

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**13 Earnings per share****(a) Basic earnings per share**

The calculation of basic earnings per share for the year is based on the profit attributable to equity shareholders of the Company of RMB112,793,000,000 (2007: RMB87,062,000,000; 2006: RMB66,026,000,000) and the weighted average number of 20,043,933,958 shares (2007: 20,005,123,269 shares; 2006: 19,892,968,234 shares) in issue during the year, calculated as follows:

*Weighted average number of shares*

	<i>2008</i> <i>Number of</i> <i>shares</i>	<i>2007</i> <i>Number of</i> <i>shares</i>	<i>2006</i> <i>Number of</i> <i>shares</i>
Issued shares as at January 1	20,031,905,590	19,967,815,140	19,835,160,399
Effect of share options exercised	12,028,368	37,308,129	57,807,835
<b>Weighted average number of shares as at December 31</b>	<b>20,043,933,958</b>	<b>20,005,123,269</b>	<b>19,892,968,234</b>

**(b) Diluted earnings per share**

The calculation of diluted earnings per share for the year is based on the profit attributable to equity shareholders of the Company of RMB112,793,000,000 (2007: RMB87,062,000,000; 2006: RMB66,026,000,000) and the weighted average number of shares 20,356,125,657 (2007: 20,339,428,112 shares; 2006: 20,078,548,959 shares), calculated as follows:

*Weighted average number of shares (diluted)*

	<i>2008</i> <i>Number of</i> <i>shares</i>	<i>2007</i> <i>Number of</i> <i>shares</i>	<i>2006</i> <i>Number of</i> <i>shares</i>
<b>Weighted average number of shares as at December 31</b>	<b>20,043,933,958</b>	<b>20,005,123,269</b>	<b>19,892,968,234</b>
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	312,191,699	334,304,843	185,580,725
<b>Weighted average number of shares (diluted) as at December 31</b>	<b>20,356,125,657</b>	<b>20,339,428,112</b>	<b>20,078,548,959</b>

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**14 Property, plant and equipment, net**

	<i>Buildings</i> RMB million	<i>Tele- communica- tions transceivers, switching centers, transmission and other network equipment</i> RMB million	<i>Office equipment, furniture and fixtures and others</i> RMB million	<i>Total</i> RMB million
<b>Cost:</b>				
As at January 1, 2007	43,496	352,523	15,175	411,194
Additions	480	2,077	1,234	3,791
Transferred from construction in progress	7,134	95,458	2,731	105,323
Disposals	(6)	(14)	(21)	(41)
Assets written-off	(61)	(17,386)	(995)	(18,442)
Exchange differences	(2)	(161)	(5)	(168)
As at December 31, 2007	51,041	432,497	18,119	501,657
As at January 1, 2008	51,041	432,497	18,119	501,657
Additions	612	794	1,249	2,655
Transferred from construction in progress	12,179	126,708	3,899	142,786
Disposals	(1)	(1)	(95)	(97)
Assets written-off	(156)	(15,026)	(1,103)	(16,285)
Exchange differences	(1)	(135)	(4)	(140)
As at December 31, 2008	63,674	544,837	22,065	630,576

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**14 Property, plant and equipment, net (continued)**

	<i>Buildings</i> RMB million	<i>Tele- communica- tions transceivers, switching centers, transmission and other network equipment</i> RMB million	<i>Office equipment, furniture and fixtures and others</i> RMB million	<i>Total</i> RMB million
<b>Accumulated depreciation:</b>				
As at January 1, 2007	7,297	178,066	7,557	192,920
Charge for the year	2,232	62,645	2,477	67,354
Written back on disposals	(1)	(12)	(19)	(32)
Assets written-off	(40)	(14,851)	(763)	(15,654)
Exchange differences	(1)	(96)	(4)	(101)
<b>As at December 31, 2007</b>	<b>9,487</b>	<b>225,752</b>	<b>9,248</b>	<b>244,487</b>
As at January 1, 2008	9,487	225,752	9,248	244,487
Charge for the year	2,652	65,839	3,018	71,509
Written back on disposals		(1)	(82)	(83)
Assets written-off	(109)	(11,928)	(998)	(13,035)
Exchange differences		(83)	(2)	(85)
<b>As at December 31, 2008</b>	<b>12,030</b>	<b>279,579</b>	<b>11,184</b>	<b>302,793</b>
<b>Net book value:</b>				
As at December 31, 2008	51,644	265,258	10,881	327,783
As at December 31, 2007	41,554	206,745	8,871	257,170

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**14 Property, plant and equipment, net (continued)***The analysis of net book value of buildings is as follows:*

	<b>2008</b>	<b>2007</b>
	<b>RMB million</b>	<b>RMB million</b>
<b>Hong Kong</b>		
Long-term leases	3	3
Medium-term leases	14	16
	17	19
<b>Mainland China</b>		
Long-term leases	3,272	3,002
Medium-term leases	46,706	37,302
Short-term leases	1,649	1,231
	51,627	41,535
	51,644	41,554

**15 Construction in progress**

	<b>2008</b>	<b>2007</b>
	<b>RMB million</b>	<b>RMB million</b>
Balance as at January 1	47,420	52,436
Additions	130,849	100,311
Transferred to property, plant and equipment	(142,786)	(105,323)
Exchange differences	(1)	(4)
<b>Balance as at December 31</b>	<b>35,482</b>	<b>47,420</b>

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed as at December 31, 2008.

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**16 Goodwill**

	2008 RMB million	2007 RMB million
<b>Cost and carrying amount:</b>		
As at January 1 and December 31	36,894	36,894

**Impairment tests for goodwill**

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

The recoverable amount of the cash-generating units equals the value-in-use which is determined by the discounted cash flow method. The data from the Group's detailed planning is used to project cash flows for the subsidiaries (cash-generating units) to which the goodwill relates for the five years ending December 31, 2013 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5 per cent. for the operation in Hong Kong and 1 per cent. for operations in the Mainland China to perpetuity are used which comply with general expectations for the business. The present value of cash flows is calculated by discounting with pre-tax interest rates of approximately 10 per cent.

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**17 Other intangible assets**

	<i>Brand name</i> RMB million	<i>Customer base</i> RMB million	<i>License and others</i> RMB million	<i>Total</i> RMB million
<b>Cost:</b>				
As at January 1, 2007	184	516	378	1,078
Additions			31	31
Exchange differences			(17)	(17)
As at December 31, 2007	184	516	392	1,092
As at January 1, 2008	184	516	392	1,092
Additions			37	37
Exchange differences			(13)	(13)
As at December 31, 2008	184	516	416	1,116
<b>Accumulated amortization:</b>				
As at January 1, 2007		170	208	378
Amortization for the year		173	85	258
Exchange differences			(13)	(13)
As at December 31, 2007		343	280	623
As at January 1, 2008		343	280	623
Amortization for the year		173	31	204
Exchange differences			(9)	(9)
As at December 31, 2008		516	302	818
<b>Net book value:</b>				
As at December 31, 2008	184		114	298
As at December 31, 2007	184	173	112	469

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**17 Other intangible assets (continued)**

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

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

The recoverable amount of the brand name is estimated based on value-in-use calculations by discounting future cash flows annually. The data from the Group's detailed planning is used to project cash flows for the subsidiary (cash-generating unit) to which the intangible asset relates for the five years ending December 31, 2013 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5 per cent. to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting with a pre-tax interest rate of approximately 10 per cent..

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**18 Principal subsidiaries**

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

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by a subsidiary	
Guangdong Mobile*	PRC	RMB 5,594,840,700	100%		Mobile telecommunications operator
China Mobile Group Zhejiang Co., Ltd.*	PRC	RMB 2,117,790,000	100%		Mobile telecommunications operator
Jiangsu Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Jiangsu Co., Ltd.*	PRC	RMB 2,800,000,000		100%	Mobile telecommunications operator
Fujian Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Fujian Co., Ltd.*	PRC	RMB 5,247,480,000		100%	Mobile telecommunications operator
Henan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Henan Co., Ltd.*	PRC	RMB 4,367,733,641		100%	Mobile telecommunications operator
Hainan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Hainan Co., Ltd.*	PRC	RMB 643,000,000		100%	Mobile telecommunications operator

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**18 Principal subsidiaries (continued)**

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

<i>Name of company</i>	<i>Place of incorporation and operation</i>	<i>Particulars of issued and paid up capital</i>	<i>Proportion of ownership interest</i>		<i>Principal activity</i>
			<i>Held by the Company</i>	<i>Held by a subsidiary</i>	
Beijing Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Beijing Co., Ltd.*	PRC	RMB 6,124,696,053		100%	Mobile telecommunications operator
Shanghai Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Shanghai Co., Ltd.*	PRC	RMB 6,038,667,706		100%	Mobile telecommunications operator
Tianjin Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Tianjin Co., Ltd.*	PRC	RMB 2,151,035,483		100%	Mobile telecommunications operator
Hebei Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Hebei Co., Ltd.*	PRC	RMB 4,314,668,600		100%	Mobile telecommunications operator
Liaoning Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Liaoning Co., Ltd.*	PRC	RMB 5,140,126,680		100%	Mobile telecommunications operator

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**18 Principal subsidiaries (continued)**

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

<i>Name of company</i>	<i>Place of incorporation and operation</i>	<i>Particulars of issued and paid up capital</i>	<i>Proportion of ownership interest</i>		<i>Principal activity</i>
			<i>Held by the Company</i>	<i>Held by a subsidiary</i>	
Shandong Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Shandong Co., Ltd.*	PRC	RMB 6,341,851,146		100%	Mobile telecommunications operator
Guangxi Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Guangxi Co., Ltd.*	PRC	RMB 2,340,750,100		100%	Mobile telecommunications operator
Anhui Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Anhui Co., Ltd.*	PRC	RMB 4,099,495,494		100%	Mobile telecommunications operator
Jiangxi Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Jiangxi Co., Ltd.*	PRC	RMB 2,932,824,234		100%	Mobile telecommunications operator
Chongqing Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Chongqing Co., Ltd.*	PRC	RMB 3,029,645,401		100%	Mobile telecommunications operator

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Consolidated financial statements for the year ended December 31, 2008

**18 Principal subsidiaries (continued)**

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

<i>Name of company</i>	<i>Place of incorporation and operation</i>	<i>Particulars of issued and paid up capital</i>	<i>Proportion of ownership interest</i>		<i>Principal activity</i>
			<i>Held by the Company</i>	<i>Held by a subsidiary</i>	
Sichuan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Sichuan Co., Ltd.*	PRC	RMB 7,483,625,572		100%	Mobile telecommunications operator
Hubei Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Hubei Co., Ltd.*	PRC	RMB 3,961,279,556		100%	Mobile telecommunications operator
Hunan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Hunan Co., Ltd.*	PRC	RMB 4,015,668,593		100%	Mobile telecommunications operator
Shaanxi Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Shaanxi Co., Ltd.*	PRC	RMB 3,171,267,431		100%	Mobile telecommunications operator
Shanxi Mobile Communication (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Shanxi Co., Ltd.*	PRC	RMB 2,773,448,313		100%	Mobile telecommunications operator

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Consolidated financial statements for the year ended December 31, 2008

**18 Principal subsidiaries (continued)**

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

<i>Name of company</i>	<i>Place of incorporation and operation</i>	<i>Particulars of issued and paid up capital</i>	<i>Proportion of ownership interest</i>		<i>Principal activity</i>
			<i>Held by the Company</i>	<i>Held by a subsidiary</i>	
Neimenggu Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Neimenggu Co., Ltd.*	PRC	RMB 2,862,621,870		100%	Mobile telecommunications operator
Jilin Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Jilin Co., Ltd.*	PRC	RMB 3,277,579,314		100%	Mobile telecommunications operator
Heilongjiang Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Heilongjiang Co., Ltd.*	PRC	RMB 4,500,508,035		100%	Mobile telecommunications operator
Guizhou Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Guizhou Co., Ltd.*	PRC	RMB 2,541,981,749		100%	Mobile telecommunications operator
Yunnan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Yunnan Co., Ltd.*	PRC	RMB 4,137,130,733		100%	Mobile telecommunications operator

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**18 Principal subsidiaries (continued)**

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

<i>Name of company</i>	<i>Place of incorporation and operation</i>	<i>Particulars of issued and paid up capital</i>	<i>Proportion of ownership interest</i>		<i>Principal activity</i>
			<i>Held by the Company</i>	<i>Held by a subsidiary</i>	
Xizang Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Xizang Co., Ltd.*	PRC	RMB 848,643,686		100%	Mobile telecommunications operator
Gansu Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Gansu Co., Ltd.*	PRC	RMB 1,702,599,589		100%	Mobile telecommunications operator
Qinghai Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Qinghai Co., Ltd.*	PRC	RMB 902,564,911		100%	Mobile telecommunications operator
Ningxia Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Ningxia Co., Ltd.*	PRC	RMB 740,447,232		100%	Mobile telecommunications operator
Xinjiang Mobile (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Xinjiang Co., Ltd.*	PRC	RMB 2,581,599,600		100%	Mobile telecommunications operator

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**18 Principal subsidiaries (continued)**

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

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by a subsidiary	
Beijing P&T Consulting & Design Institute (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Group Design Institute Co., Ltd.*	PRC	RMB 160,232,500		100%	Provision of telecommunications network planning design and consulting services
China Mobile Communication (BVI) Limited	BVI	1 share at HK\$1	100%		Investment holding company
China Mobile Communication Co., Ltd.*	PRC	RMB 1,641,848,326		100%	Network and business coordination center
China Mobile Holding Company Limited*	PRC	US\$ 30,000,000	100%		Investment holding company
China Mobile (Shenzhen) Limited*	PRC	US\$ 7,633,000		100%	Provision of roaming clearance services
Aspire Holdings Limited	Cayman Islands	HK\$ 93,964,583	66.41%		Investment holding company
Aspire (BVI) Limited <sup>#</sup>	BVI	US\$ 1,000		100%	Investment holding company

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Consolidated financial statements for the year ended December 31, 2008

**18 Principal subsidiaries (continued)**

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

<i>Name of company</i>	<i>Place of incorporation and operation</i>	<i>Particulars of issued and paid up capital</i>	<i>Proportion of ownership interest</i>		<i>Principal activity</i>
			<i>Held by the Company</i>	<i>Held by a subsidiary</i>	
Aspire Technologies (Shenzhen) Limited*#	PRC	US\$ 10,000,000		100%	Technology platform development and maintenance
Aspire Information Network (Shenzhen) Limited*#	PRC	US\$ 5,000,000		100%	Provision of mobile data solutions, system integration and development
Aspire Information Technologies (Beijing) Limited*#	PRC	US\$ 5,000,000		100%	Technology platform development and maintenance
Fujian FUNO Mobile Communication Technology Company Limited**	PRC	US\$ 3,800,000		51%	Network planning and optimizing construction-testing and supervising, technology support, development and training of Nokia GSM 900/1800 Mobile Communication System
Advanced Roaming & Clearing House Limited	BVI	US\$ 2	100%		Provision of roaming clearance services

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Consolidated financial statements for the year ended December 31, 2008

**18 Principal subsidiaries (continued)**

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

<i>Name of company</i>	<i>Place of incorporation and operation</i>	<i>Particulars of issued and paid up capital</i>	<i>Proportion of ownership interest</i>		<i>Principal activity</i>
			<i>Held by the Company</i>	<i>Held by a subsidiary</i>	
Fit Best Limited	BVI	US\$ 1	100%		Investment holding company
China Mobile Hong Kong Company Limited ( Hong Kong Mobile ) (formerly China Mobile Peoples Telephone Company Limited )	Hong Kong	HK\$ 356,947,689		100%	Provision of mobile telecommunications and related services

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

\*\* Company registered as a sino-foreign equity joint venture in the PRC.

# Effective interest held by the Group is 66.41 per cent.

**19 Interest in associates**

	<i>2008</i>	<i>2007</i>
	<i>RMB million</i>	<i>RMB million</i>
Share of net assets		

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

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



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**19 Interest in associates (continued)**

Owing to the lack of recent audited financial statements of the associates, the Group's share of the associates' net assets is based on latest management accounts which showed net liabilities as at December 31, 2007 and 2008. The Group has made full impairment loss on the cost of investment in the associates in 2007 and 2008.

**20 Interest in jointly controlled entity**

	2008 RMB million	2007 RMB million
Share of net assets	7	

Details of the Group's interest in the jointly controlled entity is as follows:

<i>Name of jointly controlled entity</i>	<i>Place of incorporation and operation</i>	<i>Proportion of ownership interest held by the Group</i>	<i>Principal activity</i>
JIL B.V.	The Netherlands	33.33%	Research and develop telecommunication technologies and application services

JIL B.V. was formed by the Company and other shareholders in 2008 but did not start operations by the end of 2008. JIL B.V. is considered as a jointly controlled entity since the Company and the other shareholders have the right to appoint an equal number of directors to the board of directors. As at December 31, 2008, the Group's share of the JIL B.V.'s net assets amounted to RMB7,000,000.

Up to the end of 2008, each shareholder, including the Company, has funded US\$1,000,000 (equivalent to RMB7,000,000) to JIL B.V. in accordance with the shareholders agreement, and each funded shareholder has committed to funding an additional US\$4,000,000 by no later than June 2010.

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**21 Deferred tax assets and liabilities**

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

*Deferred tax assets and liabilities recognized and the movements during 2008*

	<i>As at 1 January 2008</i>	<i>Effect on change of tax rates</i>	<i>Credited/ (charged) to consolidated income statement</i>	<i>Exchange differences</i>	<i>As at 31 December 2008</i>
	RMB million	RMB million	RMB million	RMB million	RMB million
<i>Deferred tax assets arising from:</i>					
Provision for obsolete inventories	6		(1)		5
Write-off of certain network equipment and related assets	1,739		110		1,849
Provision for certain operating expenses	2,748		1,180		3,928
Impairment loss for doubtful accounts	952		150		1,102
	5,445		1,439		6,884
<i>Deferred tax liabilities arising from:</i>					
Capitalized interest	(36)		20		(16)
Depreciation allowance in excess of related depreciation	(86)	5	13	4	(64)
	(122)	5	33	4	(80)
<b>Total</b>	<b>5,323</b>	<b>5</b>	<b>1,472</b>	<b>4</b>	<b>6,804</b>

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**21 Deferred tax assets and liabilities (continued)***Deferred tax assets and liabilities recognized and the movements during 2007*

	<i>As at 1 January 2007</i>	<i>Effect on change of tax rates</i>	<i>Credited/ (charged) to consolidated income statement</i>	<i>Exchange differences</i>	<i>As at 31 December 2007</i>
	RMB million	RMB million	RMB million	RMB million	RMB million
<i>Deferred tax assets arising from:</i>					
Provision for obsolete inventories	8	(1)	(1)		6
Write-off of certain network equipment and related assets	2,770	(284)	(747)		1,739
Provision for certain operating expenses	3,165	(307)	(110)		2,748
Impairment loss for doubtful accounts	1,170	(99)	(119)		952
	7,113	(691)	(977)		5,445
<i>Deferred tax liabilities arising from:</i>					
Capitalized interest	(80)	8	36		(36)
Depreciation allowance in excess of related depreciation	(112)		19	7	(86)
	(192)	8	55	7	(122)
<b>Total</b>	<b>6,921</b>	<b>(683)</b>	<b>(922)</b>	<b>7</b>	<b>5,323</b>

	<i>2008 RMB million</i>	<i>2007 RMB million</i>
Net deferred tax assets recognized in the consolidated balance sheet	6,884	5,445
Net deferred tax liabilities recognized in the consolidated balance sheet	(80)	(122)
<b>Balance as at December 31</b>	<b>6,804</b>	<b>5,323</b>

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China Mobile Limited

Consolidated financial statements for the year ended December 31, 2008

**22 Other financial assets**

	2008 RMB million	2007 RMB million
Available-for-sale equity security:		
- Unlisted equity security in the PRC	77	77

**23 Inventories**

Inventories primarily comprise handsets, SIM cards and handset accessories.

**24 Accounts receivable, net***(a) Aging analysis*

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

	2008 RMB million	2007 RMB million
Within 30 days	4,713	4,986
31 - 60 days	1,212	1,058
61 - 90 days	769	713
Over 90 days	219	228
	6,913	6,985

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

Accounts receivable are expected to be recovered within one year.

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**24 Accounts receivable, net (continued)****(b) Impairment of accounts receivable**

Impairment loss in respect of accounts receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts receivable directly.

The following table summarizes the changes in impairment losses for doubtful accounts:

	2008 RMB million	2007 RMB million	2006 RMB million
Balance as at January 1	3,974	3,930	3,465
Acquired on acquisition of a subsidiary			26
Impairment loss for doubtful accounts	4,382	3,847	3,851
Accounts receivable written off	(3,807)	(3,803)	(3,412)
Exchange differences	(1)		
Balance as at December 31	4,548	3,974	3,930

**(c) Accounts receivable that are not impaired**

The aging analysis of accounts receivable that are neither individually nor collectively considered to be impaired are as follows:

	2008 RMB million	2007 RMB million
Neither past due nor impaired	6,265	6,386
Less than 1 month past due	648	599
	6,913	6,985

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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**25 Other receivables, prepayments and other current assets**

Other receivables primarily comprise interest receivable from banks, utilities deposits and rental deposits.

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

Prepayments and other current assets include primarily construction prepayment and rental prepayment.

**26 Amounts due from/to ultimate holding company and amount due to immediate holding company**

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

Amount due to immediate holding company under current liabilities represented interest payable on the deferred consideration payable (see note 31), which is expected to be settled within one year.

**27 Deposits with banks**

Balance of deposits with banks as at December 31, 2008 included a pledged deposit of HK\$150,000,000 (equivalent to RMB132,000,000) (2007: Nil) representing a letter of credit issued by Hong Kong Mobile to the Office of Telecommunications Authority in Hong Kong for eligibility in entering the bidding process for a license to utilize certain radio spectrum, which can be used for next generation mobile services technology for duration of fifteen years in Hong Kong.

On January 22, 2009, Hong Kong Mobile has become the provisional successful bidder for this license and was required to pay total spectrum utilization fees of HK\$495,000,000. The letter of credit was released on March 11, 2009 after the full payment of the spectrum utilization fees.

**28 Cash and cash equivalents**

	<i>2008</i>	<i>2007</i>
	<b>RMB million</b>	<b>RMB million</b>
Deposits with banks within three months of maturity	2,992	8,359
Cash at banks and in hand	84,434	70,500
	<b>87,426</b>	<b>78,859</b>

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**29 Accounts payable**

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

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

	2008 RMB million	2007 RMB million
<b>Amounts payables in the next:</b>		
1 month or on demand	57,483	45,119
2-3 months	5,566	6,048
4-6 months	7,098	5,165
7-9 months	5,134	3,091
10-12 months	4,325	4,504
	79,606	63,927

All of the accounts payable are expected to be settled within one year or are repayable on demand.

**30 Deferred revenue**

Deferred revenue primarily includes prepaid service fees received from subscribers and deferred tax credit of purchase of domestic telecommunications equipment. Prepaid service fees are recognized as revenue when the mobile telecommunications services are rendered upon actual usage by subscribers. Deferred tax credit of purchase of domestic telecommunications equipment is amortized over the remaining lives of the related equipment and the amortization is included in income tax expense.

	2008 RMB million	2007 RMB million
Balance as at January 1	24,359	22,753
Additions during the year	180,794	154,714
Recognized in the consolidated income statement	(178,475)	(153,102)
Exchange differences	(5)	(6)
Balance as at December 31	26,673	24,359
Less: Current portion	(26,089)	(23,762)
Non-current portion	584	597

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**31 Interest-bearing borrowings**

	<i>Note</i>	<i>2008</i> RMB million	<i>2007</i> RMB million
Bonds	(a)	9,920	9,949
Deferred consideration payable	(b)	23,633	23,633
		33,553	33,582

All of the above interest-bearing borrowings are unsecured and are not expected to be settled within one year.

Notes:

**(a) Bonds**

(i) On June 18, 2001, Guangdong Mobile issued guaranteed bonds with a principal amount of RMB5,000,000,000 (the Ten-year Bonds ) at an issue price equal to the face value of the bonds. The Ten-year Bonds bear interest at a floating rate, adjusted annually from the first day of each interest payable year and payable annually. The bonds, redeemable at 100 per cent. of the principal amount, will mature on June 18, 2011 and the interest will be accrued up to June 17, 2011.

(ii) On October 28, 2002, Guangdong Mobile issued fifteen-year guaranteed bonds (the Fifteen-year Bonds ), with a principal amount of RMB5,000,000,000, at an issue price equal to the face value of the bonds. The Fifteen-year Bonds bear interest at the rate of 4.5 per cent. per annum and payable annually. They are redeemable at 100 per cent. of the principal amount and will mature on October 28, 2017 and the interest will be accrued up to October 27, 2017.

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

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**31 Interest-bearing borrowings (continued)**

Notes: (continued)

**(b) Deferred consideration payable**

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

The deferred consideration payable is unsecured and bears interest at the rate of the two-year US dollar LIBOR swap rate per annum (for the year ended December 31, 2008: 3.238 to 5.418 per cent. per annum; for the year ended December 31, 2007: 5.408 to 5.418 per cent. per annum). The balances are subordinated to other senior debts owed by the Company from time to time. The Company may make early payment of all or part of the balances at any time before the repayment date without penalty. The balances in respect of the acquisitions of subsidiaries in 2002 and 2004 are due on July 1, 2017 and 2019 respectively.

**32 Accrued expenses and other payables**

	2008 RMB million	2007 RMB million
Receipts-in-advance	36,054	29,386
Other payables	9,806	11,020
Accrued salaries, wages and benefits	4,113	2,995
Accrued expense	11,319	7,459
	61,292	50,860

**33 Obligations under finance leases**

As at December 31, 2008, the Group had obligations under finance leases repayable as follows:

	2008			2007		
	<i>Present value of the minimum lease payments</i>	<i>Interest expense relating to future periods</i>	<i>Total minimum lease payments</i>	<i>Present value of the minimum lease payments</i>	<i>Interest expense relating to future periods</i>	<i>Total Minimum lease payments</i>
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Within 1 year	68	3	71	68	3	71

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**34 Employee retirement benefits**

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

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

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

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

**35 Equity settled share-based transactions**

Pursuant to a resolution passed at the Annual General Meeting held on June 24, 2002, the current share option scheme (the Current Scheme) was adopted.

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

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

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**35 Equity settled share-based transactions (continued)**

The Stock Exchange of Hong Kong Limited (the SEHK) requires that the exercise price of options to be at least the higher of the nominal value of a share, the closing price of the shares on the SEHK on the date on which the option was granted and the average closing price of the shares on the SEHK for the five trading days immediately preceding the date on which the option was granted.

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

- (i) the nominal value of a share;
- (ii) the closing price of the shares on the SEHK on the date on which the option was granted; and
- (iii) the average closing price of the shares on the SEHK for the five trading days immediately preceding the date on which the option was granted.

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

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

	<i>Number of instruments</i>		<i>Vesting conditions</i>	<i>Contractual life of options</i>
	<i>2008</i>	<i>2007</i>		
<b><i>Options granted to directors</i></b>				
- on July 3, 2002	25,000	300,000	50% two years from the date of grant, 50% five years from the date of grant	10 years
- on October 28, 2004	744,175	744,175	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years

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**35 Equity settled share-based transactions (continued)**

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

	Number of instruments		Vesting conditions	Contractual life of options
	2008	2007		
<b>Options granted to directors (continued)</b>				
- on December 21, 2004	475,000	475,000	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
- on November 8, 2005	5,685,500	5,685,500	40% one year from the date of grant, 30% two years from the date of grant 30% three years from the date of grant	10 years
<b>Options granted to other employees</b>				
- on July 3, 2002	38,989,104	57,278,204	50% two years from the date of grant, 50% five years from the date of grant	10 years
- on October 28, 2004	120,405,339	123,658,660	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
- on November 8, 2005	267,725,370	268,535,750	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
Total share options	434,049,488	456,677,289		

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**35 Equity settled share-based transactions (continued)**(b) *The number and weighted average exercise prices of share options are as follows:*

	2008		2007	
	Weighted average exercise price HK\$	Number of shares involved in the options	Weighted average exercise price HK\$	Number of shares involved in the options
As at January 1	30.04	456,677,289	29.66	527,163,459
Exercised	23.23	(22,473,641)	25.89	(64,090,450)
Canceled	28.71	(154,160)	26.78	(584,970)
Expired			41.33	(5,810,750)
As at December 31	30.40	434,049,488	30.04	456,677,289
Option vested as at December 31	30.40	434,049,488	28.93	370,929,489

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$107.98 (2007: HK\$94.04).

The options outstanding as at December 31, 2008 had exercise prices ranging from HK\$22.75 to HK\$34.87 (2007: HK\$22.75 to HK\$34.87) and a weighted average remaining contractual life of 6.3 years (2007: 7.2 years).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model. No share options were granted during 2007 and 2008.

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**36 Capital and reserves**

	<i>Share capital RMB</i>	<i>Share premium RMB</i>	<i>Capital reserve RMB</i>	<i>General reserve RMB</i>	<i>Exchange reserve RMB</i>	<i>PRC statutory reserves RMB</i>	<i>Retained profits RMB</i>	<i>Total RMB</i>	<i>Minority interests RMB</i>	<i>Total equity RMB</i>
	million	million	million	million	million	million	million	million	million	million
As at January 1, 2006	2,116	379,240	(294,410)	72		53,395	132,411	272,824	283	273,107
Dividends approved in respect of previous year (note 12(b))							(11,719)	(11,719)		(11,719)
Dividends declared in respect of the year (note 12(a))							(14,443)	(14,443)		(14,443)
Shares issued under share option scheme	14	4,567	(488)					4,093		4,093
Equity settled share-based transactions			2,264					2,264		2,264
Profit for the year							66,026	66,026	88	66,114
Transfer to PRC statutory reserves						13,566	(13,566)			
Exchange differences					(43)			(43)		(43)
As at December 31, 2006	2,130	383,807	(292,634)	72	(43)	66,961	158,709	319,002	371	319,373

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**36 Capital and reserves (continued)**

	<i>Share capital RMB</i>	<i>Share premium RMB</i>	<i>Capital reserve RMB</i>	<i>General reserve RMB</i>	<i>Exchange reserve RMB</i>	<i>PRC statutory reserves RMB</i>	<i>Retained profits RMB</i>	<i>Total RMB</i>	<i>Minority interests RMB</i>	<i>Total equity RMB</i>
	million	million	million	million	million	million	million	million	million	million
As at January 1, 2007	2,130	383,807	(292,634)	72	(43)	66,961	158,709	319,002	371	319,373
Dividends approved in respect of previous year (note 12(b))							(16,267)	(16,267)		(16,267)
Dividends declared in respect of the year (note 12(a))							(17,821)	(17,821)		(17,821)
Shares issued under share option scheme (note 36(a)(ii))	6	1,936	(328)					1,614		1,614
Equity settled share-based transactions			806					806		806
Profit for the year							87,062	87,062	117	87,179
Transfer to PRC statutory reserves						17,879	(17,879)			
Exchange differences					(645)			(645)		(645)
As at December 31, 2007	2,136	385,743	(292,156)	72	(688)	84,840	193,804	373,751	488	374,239

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**36 Capital and reserves (continued)**

	<i>Share capital</i>	<i>Share premium</i>	<i>Capital reserve</i>	<i>General reserve</i>	<i>Exchange reserve</i>	<i>PRC statutory reserves</i>	<i>Retained profits</i>	<i>Total</i>	<i>Minority interests</i>	<i>Total equity</i>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>
	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>	<b>million</b>
As at January 1, 2008	2,136	385,743	(292,156)	72	(688)	84,840	193,804	373,751	488	374,239
Dividends approved in respect of previous year (note 12(b))							(21,028)	(21,028)		(21,028)
Dividends declared in respect of the year (note 12(a))							(23,532)	(23,532)		(23,532)
Dividends declared to minority interests in respect of the year									(20)	(20)
Shares issued under share option scheme (note 36(a)(ii))	2	494	(31)					465		465
Equity settled share-based transactions			222					222		222
Profit for the year							112,793	112,793	161	112,954
Transfer to PRC statutory reserves						22,452	(22,452)			
Exchange differences					(393)			(393)		(393)
As at December 31, 2008	2,138	386,237	(291,965)	72	(1,081)	107,292	239,585	442,278	629	442,907

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**36 Capital and reserves (continued)***(a) Share capital**(i) Authorized and issued share capital*

	<i>2008</i>		<i>2007</i>			
	<b>HK\$ million</b>		<b>HK\$ million</b>			
<i>Authorized:</i>						
30,000,000,000 ordinary shares of HK\$0.10 each	3,000		3,000			
<i>Issued and fully paid:</i>						
	<i>2008</i>		<i>2007</i>			
	<i>Number of shares</i>	<i>Equivalent</i>		<i>Number of shares</i>	<i>Equivalent</i>	
		<b>HK\$ million</b>	<b>RMB million</b>		<b>HK\$ million</b>	<b>RMB million</b>
As at January 1	20,031,905,590	2,003	2,136	19,967,815,140	1,997	2,130
Shares issued under share option scheme (note 35)	22,473,641	2	2	64,090,450	6	6
As at December 31	20,054,379,231	2,005	2,138	20,031,905,590	2,003	2,136

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

*(ii) Shares issued under share option scheme*

During 2008, options were exercised to subscribe for 22,473,641 (2007: 64,090,450) ordinary shares in the Company at a consideration of HK\$522,000,000 (equivalent to RMB465,000,000) (2007: HK\$1,659,000,000 (equivalent to RMB1,614,000,000)) of which HK\$2,000,000 (equivalent to RMB2,000,000) (2007: HK\$6,000,000 (equivalent to RMB6,000,000)) was credited to share capital and the balance of HK\$520,000,000 (equivalent to RMB463,000,000) (2007: HK\$1,653,000,000 (equivalent to RMB1,608,000,000)) was credited to the share premium account. HK\$30,000,000 (equivalent to RMB31,000,000) (2007: HK\$315,000,000 (equivalent to RMB328,000,000)) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(u)(ii).

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**36 Capital and reserves (continued)**

*(b) Nature and purpose of reserves*

(i) Capital reserve

The capital reserve comprises the following:

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

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

(ii) PRC statutory reserves

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

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

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

Statutory surplus reserve can be used to reduce previous years' losses, if any, and may be converted into paid-up capital, provided that the balance after such conversion is not less than 25 per cent. of the registered capital of the subsidiaries.

As at December 31, 2008, the balances of the general reserve, enterprise expansion fund and statutory surplus reserve were RMB51,019,000,000 (2007: RMB39,794,000,000), RMB56,250,000,000 (2007: RMB45,019,000,000), RMB23,000,000 (2007: RMB27,000,000) respectively.

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*Consolidated financial statements for the year ended December 31, 2008*

**36 Capital and reserves (continued)**

***(b) Nature and purpose of reserves (continued)***

***(iii) Exchange reserve***

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

***(c) Capital management***

The Group's primary objectives when managing capital are to maintain a reasonable capital structure and to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders.

The Group actively and regularly reviews and manages its capital structure, applies financial gearings rationally, maintains a prudent debt policy and balances between the cost of capital and the financing risks in order to maintain a reasonable capital structure.

The Group monitors capital on the basis of total debt-to-book capitalization ratio. This ratio is calculated as total debts (including bills payable, obligations under finance leases, current and non-current interest-bearing borrowings as shown in the consolidated balance sheet) divided by book capitalization (refer to the total equity attributable to equity shareholders of the Company as shown in the consolidated balance sheet and total debts).

As at December 31, 2008, the Group's total debt-to-book capitalization ratio was 7.5 per cent. (2007: 8.7 per cent.).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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**37 Related party transactions****(a) Transactions with CMCC Group**

The following is a summary of principal related party transactions entered into by the Group with CMCC and its subsidiaries, excluding the Group, (the CMCC Group), for the year ended December 31, 2006, December 31, 2007 and December 31, 2008. The majority of these transactions also constitute continuing connected transactions under the Listing Rules. Further details of these continuing connected transactions are disclosed under the paragraph Connected Transactions in the report of directors.

	Note	2008 RMB million	2007 RMB million	2006 RMB million
Property leasing and management services charges	(i)	1,182	940	804
Telecommunications services charges	(ii)	3,798	2,477	2,359
Interest paid/payable	(iii)	1,026	1,279	946
Interconnection revenue	(iv)	183		
Interconnection charges	(iv)	216		
Leased line charges	(iv)	11		
Property leasing charges	(v)	191		
Facilities support fees	(v)	160		
Operation supports and management fees	(v)	269		

Notes:

- (i) Property leasing and management services charges represent the rental and property management fees paid or payable to CMCC Group in respect of business premises and offices, retail outlets and warehouses.
- (ii) Telecommunications services charges represent the amounts paid or payable to CMCC Group for the telecommunications project planning, design and construction services; telecommunications line and pipeline construction services; and telecommunications line maintenance services.
- (iii) Interest paid/payable represents the interest paid or payable to China Mobile Hong Kong (BVI) Limited, the Company's immediate holding company, in respect of the balances of purchase consideration for acquisition of subsidiaries.

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**37 Related party transactions (continued)**

***(a) Transactions with CMCC Group (continued)***

Notes: (continued)

- (iv) The amounts represent settlement paid/payable to or received/receivable from China TieTong Telecommunications Corporation, a wholly-owned subsidiary of CMCC, in respect of interconnection settlement and lease line charges after acquisition date.
- (v) The amounts represent settlement fees received or receivable by the Group for providing operating service to CMCC in respect of TD-SCDMA trial network. From the beginning of January 1, 2009, the Group will lease the TD-SCDMA Network Capacity from CMCC and pay leasing fees to CMCC.

***(b) Key management personnel remuneration***

Remuneration for key management personnel is disclosed in note 9.

**38 Transactions with other state-controlled entities in the PRC**

Apart from transactions with the CMCC Group (see note 37), the Group, a state-controlled enterprise, conducts certain business activities with enterprises directly or indirectly owned or controlled by the PRC government and governmental authorities and agencies (collectively referred to as state-controlled entities ) in the ordinary course of business. These transactions, primarily include providing telecommunications services, rendering and receiving services, sales and purchase of goods and deposits with financial institutions, are carried out at terms similar to those that would be entered into with non-state-controlled entities and have been reflected in the consolidated financial statements. These transactions are conducted and settled in accordance with rules and regulations stipulated by related authorities of the PRC Government.

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**38 Transactions with other state-controlled entities in the PRC (continued)**

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

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

	2008	2007	2006
	RMB million	RMB million	RMB million
Interconnection revenue	13,679	11,201	8,510
Interconnection charges	19,981	18,786	16,416
Leased line charges	2,202	2,049	1,757

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

	2008	2007
	RMB million	RMB million
Accounts receivable and other receivables	666	629
Accounts payable and other payables	1,237	1,675

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

	2008	2007	2006
	RMB million	RMB million	RMB million
Interest income	5,791	3,910	2,584

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

	2008	2007
	RMB million	RMB million
Deposits with banks	130,129	109,685
Cash and cash equivalents	85,805	75,438

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*Consolidated financial statements for the year ended December 31, 2008*

**39 Financial instruments**

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

**(a) Credit risk and concentration risk**

The Group's credit risk is primarily attributable to the financial assets in the consolidated balance sheet, which mainly include deposit with banks, accounts receivable and other receivables. The maximum exposure to credit risk is represented by the carrying amount of those financial assets.

Substantially all the Group's cash and cash equivalents are deposited in financial institutions in Hong Kong and Mainland China. The credit risk on liquid funds is limited as the majority of counter parties are financial institutions with high credit ratings assigned by international credit-rating agencies and state-controlled financial institutions with good reputations.

The accounts receivable of the Group are primarily comprised of amounts receivable from subscribers. Accounts receivable from subscribers are spread among an extensive number of subscribers and the majority of the receivables from subscribers are due for payment within one month from the date of billing. Other receivables primarily comprise interest receivable from banks, utilities deposits and rental deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis, taking into account the counter parties financial position, the Group's past experience and other factors. As such, management considers the aggregate risks arising from the possibility of credit losses is limited and to be acceptable.

Concentrations of credit risk with respect to accounts receivable are limited due to the Group's customer base being large and unrelated. As such, management does not expect any significant losses of accounts receivable that have not been provided for by way of allowances as shown in note 24.

**(b) Liquidity risk**

The financial position of the Group maintained at a stable level with low debt asset ratio, high interest coverage ratio, strong cash generating power and sufficient cash reserve.

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

The Company strictly monitors the financial activities of its subsidiaries. Unauthorized loans borrowing and guarantee activities are strictly prohibited by the Company in order to effectively monitor the financial risks of the Group.

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**39 Financial instruments (continued)****(b) Liquidity risk (continued)**

The following table sets out the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates current at the consolidated balance sheet) and the earlier date the Group would be required to repay:

	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	2008			
			Within 1 year or on demand RMB million	More than 1 year but less than 3 years RMB million	More than 3 years but less than 5 years RMB million	More than 5 years RMB million
Accounts payable	79,606	79,606	79,606			
Bills payable	2,111	2,111	2,111			
Accrued expenses and other payables	61,292	61,292	61,292			
Amount due to ultimate holding company	6	6	6			
Amount due to immediate holding company	118	118	118			
Interest-bearing borrowings						
-Deferred consideration payable	23,633	27,915	774	960	766	25,415
-Bonds	9,920	12,520	468	5,742	450	5,860
Obligations under finance leases	68	71	71			
	176,754	183,639	144,446	6,702	1,216	31,275

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**39 Financial instruments (continued)****(b) Liquidity risk (continued)**

	2007					
	<i>Carrying amount</i>	<i>Total contractual undiscounted cash flow</i>	<i>Within 1 year or on demand</i>	<i>More than 1 year but less than 3 years</i>	<i>More than 3 years but less than 5 years</i>	<i>More than 5 years</i>
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Accounts payable	63,927	63,927	63,927			
Bills payable	1,853	1,853	1,853			
Accrued expenses and other payables	50,860	50,860	50,860			
Amount due to ultimate holding company	26	26	26			
Amount due to immediate holding company	196	196	196			
Interest-bearing borrowings						
-Deferred consideration payable	23,633	31,040	971	1,333	1,333	27,403
-Bonds	9,949	13,204	495	1,039	5,585	6,085
Obligations under finance leases	68	71	71			
	150,512	161,177	118,399	2,372	6,918	33,488

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**39 Financial instruments (continued)****(c) Interest rate risk**

The Group has interest rate risk as certain existing interest-bearing borrowings variable rate and therefore expose the Group to cash flow interest rate risk. These borrowings mainly include bonds issued in 2001 and deferred consideration for the acquisition of subsidiaries in 2002 and 2004. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 31.

The following table set out the interest rate profile of the Group's floating interest bearing borrowings at the balance sheet date.

	2008		2007	
	<i>Effective interest rate</i>	<b>RMB million</b>	<i>Effective interest rate</i>	<b>RMB million</b>
2001 Bonds	5.39%	5,000	4.43%	5,000
Deferred consideration for acquisition of subsidiaries in 2002	4.37%	9,976	5.42%	9,976
Deferred consideration for acquisition of subsidiaries in 2004	4.32%	13,657	5.41%	13,657

As at December 31, 2008, if the base interest rate for the Peoples Bank of China increases/decreases by 1 per cent., the effective interest rate for bonds would increase/decrease by 1 per cent., and the profit for the year and total equity would decrease/increase by RMB37,500,000 (2007: RMB37,500,000).

As at December 31, 2008, if the two-year US dollar LIBOR swap rate interest rate per annum increased/decreased by 1 per cent., the effective interest rate for deferred consideration would increase/decrease by 1 per cent., and the profit for the year and total equity would decrease/increase by RMB236,000,000 (2007: RMB236,000,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which exposure the Group to fair value interest rate risk at the balance sheet date. The assumption of increase or decrease of interest rate of Peoples Bank of China and two-year US dollar LIBOR swap rate represents management's estimation of a reasonably possible change in interest rates over the period until the next interest rate re-pricing date.

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**39 Financial instruments (continued)****(c) Interest rate risk (continued)**

As at December 31, 2008, total cash and bank balances of the Group amounted to RMB218,259,000,000 (2007: RMB188,544,000,000), the interest income for 2008 was RMB6,002,000,000 (2007: RMB4,015,000,000) and the average interest return rate was 2.95 per cent. (2007: 2.35 per cent.). Assuming the total cash and bank balances are stable in the coming year and return rate increases/decreases by 1 per cent., the profit for the year and total equity would approximately increase/decrease by RMB1,641,000,000 (2007: RMB1,433,000,000).

On the whole, interest rate risk of the Group is expected to be low due to the high volume cash and cash equivalent base and low level of floating rate debts. The Group consistently monitors the current and potential fluctuation of interest rates to monitor the interest risk on a reasonable level.

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

**(d) Foreign currency risk**

The Group has foreign currency risk as certain cash and cash equivalents are denominated in foreign currencies, principally US dollars and Hong Kong dollars. As the amount of the Group's foreign currency represented 0.9 per cent. (2007: 4.3 per cent.) of the total cash and cash equivalent balance and major business operations of the Group were carried out in RMB, the Group does not expect any appreciation or depreciation of the RMB against foreign currency which might materially affect the Group's result of operations.

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

**(e) Fair values**

All financial instruments are carried at amounts not materially different from their fair values as at December 31, 2008 and 2007 except as follows:

	2008		2007	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
	RMB million	RMB million	RMB million	RMB million
Interest-bearing borrowings - bonds	9,920	10,145	9,949	9,404

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

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**40 Commitments****(a) Capital commitments**

Capital commitments outstanding as at December 31, 2008 not provided for in the consolidated financial statements were as follows:

	<b>2008</b> <b>RMB million</b>	<b>2007</b> <b>RMB million</b>
<i>Commitments in respect of land and buildings</i>		
- authorized and contracted for	2,863	2,642
- authorized but not contracted for	12,488	10,346
	15,351	12,988
<i>Commitments in respect of telecommunications equipment</i>		
- authorized and contracted for	14,074	13,424
- authorized but not contracted for	72,650	71,817
	86,724	85,241
<i>Total commitments</i>		
- authorized and contracted for	16,937	16,066
- authorized but not contracted for	85,138	82,163
	102,075	98,229

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**40 Commitments (continued)****(b) Operating lease commitments**

As at December 31, 2008, the total future minimum lease payments under non-cancelable operating leases are payable as follows:

	<i>Land and buildings</i> RMB million	<i>Leased lines</i> RMB million	<i>Others</i> RMB million	<i>Total</i> RMB million
<i>As at December 31, 2008</i>				
Within one year	3,797	905	517	5,219
After one year but within five years	7,998	1,499	455	9,952
After five years	2,977	436	127	3,540
	14,772	2,840	1,099	18,711
<i>As at December 31, 2007</i>				
Within one year	3,099	1,045	665	4,809
After one year but within five years	6,313	1,253	495	8,061
After five years	2,191	350	63	2,604
	11,603	2,648	1,223	15,474

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

**41 Non-adjusting post balance sheet events**

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

On April 22, 2009, the State Administration of Taxation of the PRC issued the Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management (the Notice) with effect from January 1, 2008. Pursuant to the Notice, the Company is required to withhold enterprise income tax at 10 per cent. of the payment of dividend to its non-resident enterprise shareholders. On May 12, 2009, the Company made an announcement in relation to the withholding and payment of enterprise income tax for non-resident enterprises in respect of 2008 final dividend which was approved by the shareholders in the Annual General Meeting on May 19, 2009.

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**42 Ultimate holding company**

The directors consider the ultimate holding company as at December 31, 2008 to be China Mobile Communications Corporation, a company incorporated in the PRC.

**43 Accounting estimates and judgements**

***Key sources of estimation uncertainty***

Notes 16, 17 and 39 contain information about the assumptions and their risk factors relating to goodwill impairment, impairment of other intangible assets with indefinite useful lives and financial instruments. Other key sources of estimation uncertainty are as follows:

*Impairment loss for doubtful accounts*

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

*Depreciation*

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

*Amortization of other intangible assets*

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

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**43 Accounting estimates and judgements (continued)**

***Key sources of estimation uncertainty (continued)***

***Impairment of property, plant and equipment***

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

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

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*Consolidated financial statements for the year ended December 31, 2008***44 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended December 31, 2008**

Up to the date of issue of these consolidated financial statements, the IASB have issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2008 and which have not been adopted in these consolidated financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and consolidated financial statements:

		<i>Effective for accounting periods beginning on or after</i>
IFRIC Interpretation 13	Customer loyalty programmes	July 1, 2008
IAS 1 (Revised)	Presentation of financial statements	January 1, 2009
IAS 23 (Revised)	Borrowing costs	January 1, 2009
IFRS 8	Operating segments	January 1, 2009
Amendment to IAS 27	Consolidated and separate financial statements - Cost of an investment in a subsidiary, jointly controlled entity or associate	January 1, 2009
Amendment to IFRS 2	Share-based payment - Vesting conditions and cancellations	January 1, 2009
Amendments to IFRS 7	Improving disclosures about financial instruments	January 1, 2009
IAS 27 (Revised)	Consolidated and separate financial statements	July 1, 2009
IFRS 3 (Revised)	Business combinations	July 1, 2009

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**44 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended December 31, 2008 (continued)**

The Group is in the process of making an assessment of what the impact of these amendments, new and revised standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's results of operations and financial position except for IFRIC Interpretation 13, Customer loyalty programmes.

IFRIC Interpretation 13 addresses the accounting by companies that grant loyalty award credits (sometimes referred to as points) to customers who buy goods or services. It requires the award to be accounted for as a separate component of the sale transaction, with the fair value of the award being deferred until the obligation to provide free or discounted goods or services has been redeemed. IFRIC Interpretation 13 is effective for annual periods beginning on or after July 1, 2008, with early application permitted. The Group intends to adopt this interpretation in the 2009 financial year and is assessing the impact of this interpretation on the Group's result of operation and financial position.

In addition, IAS 1 (revised), Presentation of financial statements, which is effective for annual periods beginning on or after January 1, 2009, may result in new or amended disclosures in the consolidated financial statements, including restatement of comparative amounts in the first period of adoption.