



中国移动通信
CHINA MOBILE

China Mobile (Hong Kong) Limited

ANNUAL REPORT 2005

Stock code: 941

正德厚生 臻于至善



Responsibility makes perfection



About the cover

Over the years, China Mobile has never rested on its laurels and has never ceased its efforts in innovation and development. The continuing growth of the Chinese economy presents the telecommunications industry opportunities as vast as the wide, blue ocean. With "Responsibility makes perfection" as its guideline, China Mobile will fulfil its responsibilities, strive for pre-eminence and bring itself to ever new heights.

To be a World-Class Enterprise and the Mobile Information Expert.

Table of Contents

02	Financial Highlights
03	Company Profile
04	Milestones
05	Corporate Information
06	Biographical Details of Directors and Senior Management
11	Chairman's Statement
14	Open Dialogue with the Company's Senior Management
18	Business Review
26	Financial Review
32	Corporate Governance Report
38	Human Resources Development and Corporate Social Responsibility
40	Report of the Directors
54	Notice of Annual General Meeting
57	Auditors' Report
58	Consolidated Income Statement
59	Consolidated Balance Sheet
61	Balance Sheet
62	Consolidated Statement of Changes in Equity
63	Consolidated Cash Flow Statement
65	Notes to the Financial Statements
122	Supplementary Information for ADS Holders
130	Financial Summary
132	Glossary

FINANCIAL HIGHLIGHTS

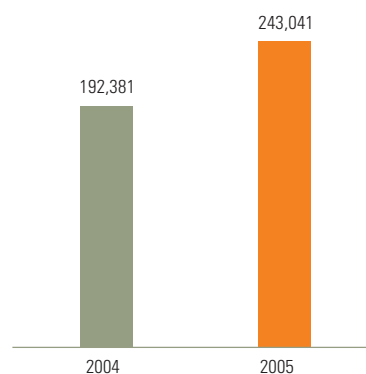
Actual	2005	2004 (Restated)	Growth
Operating revenue (Turnover) (RMB Million)	243,041	192,381	26.3%
EBITDA (RMB Million)	133,338	106,832	24.8%
EBITDA margin	54.9%	55.5%	
Profit attributable to shareholders (RMB Million)	53,549	41,749	28.3%
Basic earnings per share (RMB)	2.71	2.12	27.8%
Dividend per share – Interim (HK\$)	0.45	0.20	
– Final (HK\$)	0.57	0.46	
– Full year (HK\$)	1.02	0.66	54.5%

31 Subsidiaries Combined	2005	2004	Growth
Operating revenue (Turnover) (RMB Million)	243,041	203,993	19.1%
EBITDA (RMB Million)	133,338	112,646	18.4%
EBITDA margin	54.9%	55.2%	
Profit attributable to shareholders (RMB Million)	53,549	42,952	24.7%

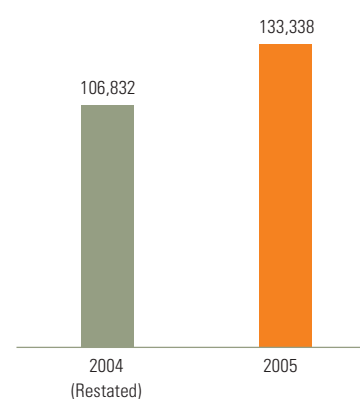
Note:

For comparative analysis purpose only, the thirty-one subsidiaries combined operating results are prepared on the assumption that the existing corporate structure of the Group with thirty-one operating subsidiaries was in place since 1 January 2004.

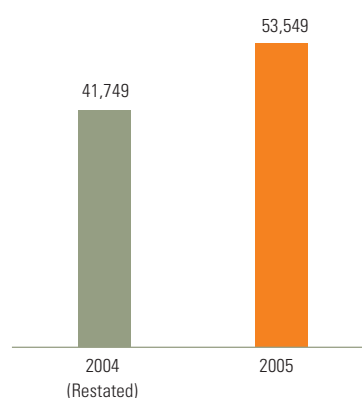
OPERATING REVENUE (TURNOVER)
(RMB Million)



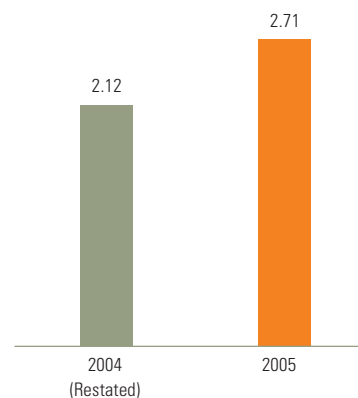
EBITDA
(RMB Million)



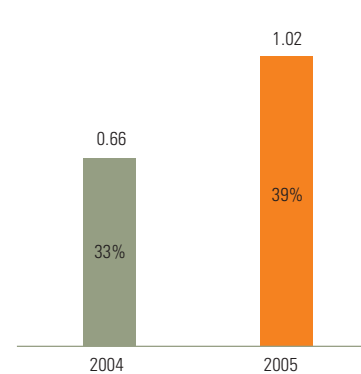
PROFIT ATTRIBUTABLE TO SHAREHOLDERS
(RMB Million)



BASIC EARNINGS PER SHARE
(RMB)



DIVIDEND PER SHARE, DIVIDEND PAYOUT RATIO
(HK\$)



China Mobile (Hong Kong) Limited (the “Company”, together with its subsidiaries, the “Group”) was incorporated in Hong Kong on 3 September 1997. The Company was listed on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited on 22 October 1997 and 23 October 1997, respectively. The Company was admitted as a constituent stock of the Hang Seng Index in Hong Kong on 27 January 1998. As the leading mobile services provider in Mainland China, the Group boasts the world’s largest unified, contiguous all-digital mobile network and the world’s largest mobile subscriber base. In 2005, the Company was once again selected as one of the “FT Global 500” by *Financial Times*, and “The World’s 2000 Biggest Public Companies” by *Forbes* magazine. Currently, the Company’s corporate credit rating is A- /Positive Outlook by Standard and Poor’s and A2 /Outlook Stable by Moody’s (respectively equivalent to China’s sovereign rating).

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

(“Guizhou Mobile”), Yunnan Mobile Communication Company Limited (“Yunnan Mobile”), Xizang Mobile Communication Company Limited (“Xizang Mobile”), Gansu Mobile Communication Company Limited (“Gansu Mobile”), Qinghai Mobile Communication Company Limited (“Qinghai Mobile”), Ningxia Mobile Communication Company Limited (“Ningxia Mobile”) and Xinjiang Mobile Communication Company Limited (“Xinjiang Mobile”), and operates nationwide mobile telecommunications networks in all 31 provinces, autonomous regions and directly-administered municipalities in Mainland China through these thirty-one subsidiaries. In 2006, the Company acquired all the issued shares of China Resources Peoples Telephone Company Limited by voluntary conditional cash offers.

As of 31 December 2005, the Group had an aggregate staff of 99,104, an aggregate mobile telecommunications subscriber base of over 246.6 million, and enjoyed a market share of approximately 65.6 per cent.. The Group’s GSM global roaming services covered 203 countries and regions and GPRS roaming services covered 98 countries and regions.

The Company’s majority shareholder is China Mobile (Hong Kong) Group Limited, which, as of 31 December 2005, indirectly held an equity interest of approximately 75.07 per cent. of the Company through a wholly-owned subsidiary, China Mobile Hong Kong (BVI) Limited. The remaining equity interest of approximately 24.93 per cent. of the Company was held by public investors.

MILESTONES

2005

10 NOVEMBER

China Mobile (Hong Kong) Limited made a voluntary conditional cash offer to acquire, through its wholly-owned subsidiary, Fit Best Limited, all the issued shares of China Resources Peoples Telephone Company Limited. On 29 December 2005, being the first closing date of the offer, all conditions of the offer had been satisfied and the offer became unconditional.

2004

5 NOVEMBER

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

1 JULY

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

2003

22 JANUARY

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

2002

28 OCTOBER

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

1 JULY

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

2001

18 JUNE

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

2000

13 NOVEMBER

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

3 NOVEMBER

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

4 OCTOBER

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

28 JUNE

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

9 JUNE

China Telecom (Shenzhen) Limited, a wholly-owned subsidiary of China Telecom (Hong Kong) Limited, was established.

5 JUNE

China Telecom (Hong Kong) Limited established Aspire Holdings Limited for the research and development of wireless data businesses.

1999

12 NOVEMBER

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

2 NOVEMBER

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

1998

4 JUNE

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

1997

22 & 23 OCTOBER

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

3 SEPTEMBER

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WANG Jianzhou

(Executive Director, Chairman & Chief Executive Officer)

Mr. LI Yue

(Executive Director & Vice President)

Mr. LU Xiangdong

(Executive Director & Vice President)

Mr. XUE Taohai

(Executive Director, Vice President & Chief Financial Officer)

Mr. ZHANG Chenshuang

(Executive Director & Vice President)

Mr. SHA Yuejia

(Executive Director & Vice President)

Mr. LIU Aili

(Executive Director & Vice President)

Madam XIN Fanfei

(Executive Director & Vice President)

Mr. XU Long

(Executive Director of the Company & President of Guangdong Mobile)

Independent Non-Executive Directors

Dr. LO Ka Shui

Mr. Frank WONG Kwong Shing

Mr. Moses CHENG Mo Chi

Non-Executive Director

Sir Julian Michael HORN-SMITH

PRINCIPAL BOARD COMMITTEES

Audit Committee

Dr. LO Ka Shui *(Chairman)*

Mr. Frank WONG Kwong Shing

Mr. Moses CHENG Mo Chi

Remuneration Committee

Dr. LO Ka Shui *(Chairman)*

Mr. Frank WONG Kwong Shing

Mr. Moses CHENG Mo Chi

Nomination Committee

Dr. LO Ka Shui *(Chairman)*

Mr. Frank WONG Kwong Shing

Mr. Moses CHENG Mo Chi

COMPANY SECRETARY

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

QUALIFIED ACCOUNTANT

Ms. NG Phek Yen *(ACCA)*

AUDITORS

KPMG

LEGAL ADVISERS

Linklaters

Sullivan & Cromwell LLP

REGISTERED OFFICE

60/F., The Center

99 Queen's Road Central

Hong Kong

Public and Investor Relations:

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Fax: 852 2511 9092

Website: www.chinamobilehk.com

Stock code: (Hong Kong) 941

(New York) CHL

CUSIP Reference Number: 16941M109

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Hong Kong Registrars Limited

Shops 1712-1716, 17/F

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

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The Bank of New York

101 Barclay Street, 22/F

New York NY 10286

USA

Tel: 1 888 269 2377 (toll free in USA)

PUBLICATIONS

As required by the United States securities laws and regulations, the Company will file an annual report on Form 20-F with the United States Securities and Exchange Commission before 30 June 2006. Copies of the annual report of the Company as well as the annual report on Form 20-F, once filed, will be available at:

Hong Kong:

China Mobile (Hong Kong) Limited

60/F., The Center

99 Queen's Road Central

Hong Kong

The United States:

The Bank of New York

101 Barclay Street, 22/F

New York NY 10286

USA

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Front Row

Mr. WANG Jianzhou

Executive Director, Chairman & Chief Executive Officer (center)

Mr. LU Xiangdong

Executive Director & Vice President (left)

Mr. XUE Taohai

Executive Director, Vice President & Chief Financial Officer (right)

Back Row

Mr. LI Yue

Executive Director & Vice President (right)

Mr. ZHANG Chenshuang

Executive Director & Vice President (left)

Madam XIN Fanfei

Executive Director & Vice President (center)



EXECUTIVE DIRECTORS



Mr. WANG Jianzhou, age 57, Executive Director, Chairman and Chief Executive Officer of the Company, joined the Board of Directors of the Company in November 2004. Mr. Wang is in charge of the overall management of the Company. He is also the President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company), and Chairman of China Mobile Communication Co., Ltd. He formerly served as Deputy Director General and Director General of the Posts and Telecommunications Bureau of Hangzhou City, Deputy Director General of the Posts and Telecommunications Administration of Zhejiang Province, Director General of the Department of Planning and Construction of the Ministry of Posts and Telecommunications, Director General of the Department of General Planning of the Ministry of Information Industry, Director, Executive Vice President, President and Chairman of China United Telecommunications Corporation, Executive Director, President, Chairman and Chief Executive Officer of China Unicom Limited, and Chairman and President of China United Telecommunications Corporation Limited. Mr. Wang graduated in 1985 from Department of Management Engineering of Zhejiang University and received a Master's Degree. Mr. Wang is a professor-level senior engineer with extensive knowledge and 28 years of management experience in the telecommunications industry.

Mr. LI Yue, age 47, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in March 2003. Mr. Li assists the Chief Executive Officer in relation to the matters of network, planning, development strategy and management information systems of the Company. He has also held the post of Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company) since April 2000. Mr. Li is also a director of China Mobile Communication Co., Ltd. He previously served as the Deputy Director General of the Tianjin Posts and Telecommunications Administration and the President of Tianjin Mobile Communications Company. Mr. Li graduated from Tianjin University with a Master's Degree and has over 30 years of management experience in the telecommunications industry.



Mr. LU Xiangdong, age 46, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in March 2003. Mr. Lu assists the Chief Executive Officer principally with respect to marketing, data, corporate customer matters of the Company. He has also held the post of Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company) since April 2000. Mr. Lu is also a director of China Mobile Communication Co., Ltd. and Chairman of Aspire Holdings Limited. He previously served as the Director General of the Fujian Wireless Telecommunications Administration and the Deputy Director General of the Mobile Telecommunications Bureau of the Ministry of Posts and Telecommunications. Mr. Lu graduated from the Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications with a Master's Degree and has nearly 24 years of management experience in the telecommunications industry.

Mr. XUE Taohai, age 50, Executive Director, Vice President and Chief Financial Officer of the Company, joined the Board of Directors of the Company in July 2002. Mr. Xue assists the Chief Executive Officer in relation to the management of corporate finance and human resources remuneration of the Company. He is also a Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company) and a director of China Mobile Communication Co., Ltd. Mr. Xue previously served as the Deputy Director General of the Finance Department of the former Ministry of Posts and Telecommunications, Deputy Director General of the Department of Financial Adjustment and Clearance of the Ministry of Information Industry and Deputy Director General of the former Directorate General of Telecommunications. He graduated from Henan University and received an EMBA degree from Peking University. He has over 26 years of experience in the telecommunications industry and financial management.



Mr. ZHANG Chenshuang, age 54, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in July 2004. Mr. Zhang assists the Chief Executive Officer in relation to the corporate affairs of the Company. He has also held the post of Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company) since April 2001. Mr. Zhang is also a director of China Mobile Communication Co., Ltd. He previously served as the Deputy Director General of the Office of the Ministry of Posts and Telecommunications, the Director General of the Neimenggu Posts and Telecommunications Administration, and the Assistant to the President of China Mobile Communications Corporation. Mr. Zhang graduated from the Party School of the CPC and has over 26 years of management experience in the telecommunications industry.

EXECUTIVE DIRECTORS (CONT'D)



Mr. SHA Yuejia, age 48, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in March 2006. Mr. Sha assists the Chief Executive Officer in relation to business support, technology and R&D of the Company. He is also a Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company). He previously served as Director of the Engineering Construction Department IV Division of Beijing Telecommunications Administration, President of Beijing Telecommunications Planning Design Institute, Deputy Director General of Beijing Telecommunications Administration, Vice President of Beijing Mobile Communications Company, Director and Vice President, Chairman and President of Beijing Mobile. Mr. Sha graduated from Beijing University of Posts and Telecommunications, and received a Master's Degree from the Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications and a doctoral degree in business administration from Hong Kong Polytechnic University. He has over 23 years of management experience in the telecommunications industry.

Mr. LIU Aili, age 42, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in March 2006. Mr. Liu assists the Chief Executive Officer in relation to business expansion of the Company. He is also a Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company). He previously served as Deputy Director General of Shandong Mobile Telecommunications Administration, Director General of Shandong Mobile Telecommunications Administration and General Manager of Shandong Mobile Communications Enterprises, Vice President of Shandong Mobile Communications Company, Director-General of Network Department of China Mobile Communications Corporation, Chairman and President of Shandong Mobile and Zhejiang Mobile. Mr. Liu graduated from Heilongjiang Posts and Telecommunications School and received a doctoral degree in business administration from Hong Kong Polytechnic University. He has over 23 years of management experience in the telecommunications industry.



Madam XIN Fanfei, age 49, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in January 2006. Madam Xin assists the Chief Executive Officer in relation to the general administration and investor and media relations of the Company. She previously served as Deputy Director of the Foreign Affairs Division, Deputy Director of the Planning Division and Chief of the Planning Office, Deputy Director (in chief) and Director of the Planning Division, Director of the Department of Planning and Construction of Tianjin Posts and Telecommunications Administration, Assistant to the Director General and Director of the Department of Planning and Construction of Tianjin Mobile Telecommunications Administration, Vice President of Tianjin Mobile Communications Company, Vice President of Tianjin Mobile, President of Heilongjiang Mobile Communications Company, and Chairman and President of Heilongjiang Mobile. Madam Xin graduated from Xidian University and received an EMBA degree from Peking University. She is currently pursuing a doctoral degree in business administration from Hong Kong Polytechnic University. Madam Xin is a professor-level senior engineer with many years of experience in the telecommunications industry.

Mr. XU Long, age 49, Executive Director of the Company, joined the Board of Directors of the Company in August 1999. Mr. Xu is the Chairman and President of Guangdong Mobile, responsible for the Company's mobile telecommunications operations in Guangdong Province. He previously served as the Deputy Director of the Shaoxing Posts and Telecommunications Bureau, President of Zhejiang Nantian Posts and Telecommunications Group Company, Director of the General Office and Deputy Director General of the Posts and Telecommunications Administration in Zhejiang Province, and Chairman and President of Zhejiang Mobile. He graduated from Zhejiang Radio and Television University in 1985, and has 28 years of experience in the telecommunications industry.



NON-EXECUTIVE DIRECTOR



Sir Julian Michael HORN-SMITH, age 57, Non-Executive Director of the Company, joined the Board of Directors of the Company in March 2005. Sir Julian is the Deputy Chief Executive and a member of the board of directors of Vodafone Group Plc.. He is also Chairman of the Supervisory Board of Vodafone Holding GmbH, a member of the Verizon Wireless Board of Representatives, a Non-Executive Director of Smiths Group Plc. and Lloyds TSB Group Plc., and serves on the board of the Prince of Wales International Business Leaders Forum (IBLF). Since joining Vodafone in 1984, Sir Julian has held various senior management positions including Vodafone's Group Chief Operating Officer and was a member of Vodafone's founding team. He obtained an MSc in Business Administration from Bath University, and a BSc (Econ) from London University. Sir Julian was recognized in HM The Queen's Birthday Honours 2004, with a Knighthood for services to International Mobile Telecoms.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. LO Ka Shui, age 59, Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in April 2001. Dr. Lo is the Deputy Chairman and Managing Director of Great Eagle Holdings Limited. He is also a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited, City e-Solutions Limited, Melco International Development Limited, The HSBC China Fund Limited, Tom Online Inc. and Winsor Properties Holdings Limited. Apart from the aforesaid, he does not hold any other directorships in other listed public companies in the last three years. He is also a Director of Hong Kong Exchanges and Clearing Limited and a past chairman of the Listing Committees of the Main Board and the Growth Enterprise Market, a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research and a Member of the Airport Authority. He was also a past chairman of the Hospital Authority. Dr. Lo graduated with a Bachelor of Science Degree from McGill University in Canada and a Doctorate Degree in medicine from Cornell University in the United States. He is board certified in cardiology. He has more than 26 years of experience in property and hotel development and investment both in Hong Kong and overseas.



Mr. Frank WONG Kwong Shing, age 58, Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in August 2002. Mr. Wong is currently Vice Chairman of DBS Bank, Chief Operating Officer and a member of the DBS Bank and DBS Group Holdings boards, and Chairman of DBS Bank (Hong Kong). Mr. Wong is also a director of the Singapore Tourism Board and a member of the University Court of The University of Hong Kong. He previously held a series of progressively senior positions with regional responsibility at Citibank, JP Morgan and NatWest from 1967 to 1999. Mr. Wong has also served in various positions with Hong Kong's government bodies including the Chairman of the Hong Kong Futures Exchange. Mr. Wong has many years of finance and commercial management experience.

Mr. Moses CHENG Mo Chi, age 56, Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in March 2003. Mr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co. Mr. Cheng was a member of the Legislative Council of Hong Kong between 1991 and 1995. He is the Founder Chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. His other directorships held in listed public companies in the last three years include Beijing Capital International Airport Company Limited, City Telecom (HK) Limited, China COSCO Holdings Company Limited, China Resources Enterprise, Limited, Guangdong Investment Limited, Kader Holdings Company Limited, Galaxy Entertainment Group Limited (formerly known as K. Wah Construction Materials Limited), Liu Chong Hing Investment Limited, Shui On Construction and Materials Limited and Tian An China Investments Company Limited.





CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

In 2005, the Group pursued the market-oriented guiding principle, responded to competition rationally, and implemented its "service and offering leadership" business strategy. The Group strived to enhance its competitive advantages in terms of its scale of operation, maintained a rapid and healthy growth momentum, consolidated its leading position in Mainland China's mobile telecommunications market and achieved commendable results. In addition, the Company made a general offer in cash to acquire all the issued shares of the Hong Kong-based China Resources Peoples Telephone Company Limited ("Peoples").

FINANCIAL RESULTS

With the benefit of a healthy and stable competition environment and solid business growth, the Group achieved commendable financial results in 2005, during which the Group's operating revenue achieved notable growth and reached RMB243,041 million, representing an increase of 26.3 per cent. from previous year. EBITDA reached RMB133,338 million, representing an increase of 24.8 per cent. from previous year. Profit attributable to shareholders reached RMB53,549 million, representing an increase of 28.3 per cent. from previous year. EBITDA margin and margin of profit attributable to shareholders maintained at high level, reaching 54.9 per cent. and 22.0 per cent., respectively. Basic earnings per share reached RMB2.71, representing an increase of 27.8 per cent. from previous year. The Group maintained its sound capital structure and robust free cash flow, thereby providing a stable foundation for its future development in a sustainable, healthy and steady manner.

For ease of comparison, on the assumption that the Group's current structure of holding thirty-one operating subsidiaries had been in place since 1 January 2004, the Group's operating revenue, EBITDA and profit attributable to shareholders achieved in 2005 enjoyed an increase of 19.1 per cent., 18.4 per cent. and 24.7 per cent., respectively over the previous year's combined operating revenue, EBITDA and profit attributable to shareholders in respect of the thirty-one provinces. It is pleasing to note that the Group's revenue attributable to its new businesses continued to grow rapidly, and it amounted to RMB50,187 million. Such revenue accounted for 20.6 per cent. of the Group's operating revenue which, comparing with that of 15.5 per cent. of the previous year on a combined basis, represented an increase of 5.1 percentage points, and the contribution of new businesses to the total revenue is increasingly notable.

BUSINESS REVIEW

In 2005, the overall competition in China's mobile telecommunications market took on a rational trend, and the Group was committed to implementing its business strategy of "service and offering leadership", promoted the development of the three major brands of "GoTone", "Shenzhouxing" and "M-Zone", continuously developed new businesses, improved its services and maintained the Company's sustainable and healthy development. During 2005, the impetus from the growth in subscriber base, voice usage volume and new businesses was notable. The Group's subscriber base continued to grow. In particular, the subscriber base growth in Mainland China's central and western regions accelerated remarkably. Voice usage volume grew steadily. Competitive advantages in terms of brand, sales channel and service became increasingly notable. The overall development capability of new businesses was enhanced and the proportion of the Group's total operating revenue derived from new businesses exceeded 20 per cent.. The business volume of "Short Message Service" or "SMS" continued to increase and non-SMS data businesses such as "Color Ring" and WAP maintained a rapid growth. The Group achieved remarkable results with respect to corporate customers, and the promotion of information applications in key industry sectors achieved considerable progress. The Group's leading market position was further consolidated.

In 2005, the Group's overall network capability has further strengthened, and its competitive advantages in terms of network quality were consolidated. The Group's advanced and flexible support system effectively enhanced its operation and management, further strengthened the Group's leading position and competitiveness and provided a strong basis for its future development.

The coverage of the Group's global roaming services was further extended. As at the end of December 2005, the Group's GSM global roaming services covered 203 countries and regions and GPRS roaming services covered 98 countries and regions.

During the past year, as the only mobile telecommunications services partner for the 2008 Beijing Olympics, the Group actively participated in a series of promotional activities sponsored by the Beijing Olympic Games Preparatory Committee. Through leveraging the Olympic logos, the Group strengthened its brand promotion and enhanced its brand image. The Group also did the real time transmission for the release of the Olympic slogan, the Olympic song and the Olympic mascots via SMS, "Color Ring" and MMS, spreading the Olympic spirit and Olympic ideology. Whilst enabling the Group's subscribers to fully experience the promptness and convenience of media releases through mobile phones, the Group also demonstrated its ability in serving the Olympics.

ACQUISITION AND CONSOLIDATION

In November 2005, after careful consideration and evaluation, the Company made a general offer to acquire Peoples at a reasonable price. As at 12 January 2006, the Company acquired 99.68 per cent. of Peoples' shares and the requirements for privatizing Peoples were met. Trading in Peoples' shares was suspended with effect from 13 January 2006. The Company will complete the acquisition in accordance with the requirements under the Hong Kong Code on Takeovers and Mergers.

After the completion of the acquisition, by combining the Group's and Peoples' experiences, the Company will improve Peoples' business and services, and cost reduction will be achieved by integrating network equipment and support systems and implementing centralized procurement and unified management. The Company will endeavor to enhance Peoples' competitiveness and increase its profitability and to provide high quality mobile telecommunications services to subscribers in Hong Kong and Mainland China, with a view to generating greater returns for shareholders.

MANAGEMENT OF THE GROUP

In 2005, the Company strengthened its integrated management over its subsidiaries through further implementation of management reform. The Company implemented comprehensive refined management methods in the aspects of, among others, resource allocation, costs control, human resources and network management. The Company strengthened and refined its performance appraisal systems and further enhanced its management efficiency and the overall execution capabilities. At the same time, the Company further refined its supervisory mechanism, which facilitated its risk control. The Company attached great importance to Section 404 of the Sarbanes-Oxley Act of 2002. In this regard, the Company formulated a special project plan, established a special project management committee, engaged professional advisers and systematically evaluated and inspected the internal control systems relating to financial reporting of the Company and all its subsidiaries. The Company will remedy its deficiencies identified, refine its systems, and comprehensively promote standardized internal control. To date, the project is progressing smoothly, in an orderly manner and on schedule. The project will enhance the Company's internal control and risk management and provides a solid foundation for improving the Company's overall management.

The Company's outstanding performance has won popular recognition and acclaim. In 2005, the Company was once again selected by Financial Times as one of the "FT Global 500", ranking number 64 therein as compared to number 67 last year. The Company was selected and ranked 128 in "The World's 2000 Biggest Public Companies" by Forbes magazine. Based on the Group's solid financial strength, tremendous business development potential and sound financial management, in July 2005, whilst upgrading China's sovereignty rating, Standard & Poor's revised the Company's credit rating upward to A-/Positive Outlook, and in September 2005, Moody's also revised the Company's credit rating upward to A2/Outlook Stable, equivalent to China's sovereignty rating.

CORPORATE CULTURE

China Mobile has grown by improving and bettering itself, and during such process it has nurtured and established its corporate culture. In 2005, an important juncture between its past and future, the Company summarized its corporate culture, and summarized its core value proposition as "responsibility makes perfection", implying that the spirit of China Mobile is to fulfil responsibilities and strive for pre-eminence. Looking ahead, the Company will pursue ever greater perfection in line with such guidelines to achieve evolution from excellence to pre-eminence.

CORPORATE SOCIAL RESPONSIBILITY

The Group has always put emphasis on its responsibility to the community and its participation in social services. During 2005, the Group assisted its parent company in the implementation of the "Village-Connected Project," extending networks to rural areas with no telecommunications services, thereby benefiting the people's livelihood whilst at the same time extending the Group's network coverage. In addition, the Group launched an environmental protection programme entitled "Green Boxes". The Group also ensured the reliable provision of telecommunications services at times of major public events, emergencies and disasters, thereby winning acclaim from all sectors of society. The Group further enhanced its image in terms of public welfare and was selected as "Best Corporate Citizen" by a number of bodies.

DIVIDENDS

The Company holds in the highest regard the interests of its shareholders and the returns achieved for its shareholders, especially minority shareholders. Having taken into account such factors as the on-going health status of the Company's fundamental structure, strong cash flow position and requirements to ensure the sustainable future growth of the Company's business, the Board recommends payment of a final dividend of HK\$0.57 per share for the financial year ended 31 December 2005. This, together with the interim dividend of HK\$0.45 per share already paid during 2005, amounts to an aggregate dividend payment of HK\$1.02 per share for the full financial year, representing an increase of 54.5 per cent. over the annual dividend of HK\$0.66 per share for the full year of 2004. Dividend payout ratio for the year 2005 is 39 per cent.. At the same time, the dividend payout ratio of the Company for the full year of 2006 is planned to be 42 per cent.. The Board is of the view that the Company's strong free cash flow is capable of supporting the investments required to maintain the stable growth of the Company, while also providing a favorable cash return to shareholders. The Company will endeavor to achieve a longer term sustainable, steadily increasing dividend, with a view to generating the best possible return for shareholders.

LOOKING TO THE FUTURE

From a macro economic perspective, current trends indicate that the Chinese economy will continue to maintain relatively strong growth in the future. The continued increase in consumer spending, the development of industry informalization and the demand for telecommunications services as a result of rural development provide the telecommunications industry with tremendous opportunities for development. In comparison with developed countries, the telecommunications penetration rate in

Mainland China remains relatively low and as a result, great potential for development still exists in the mobile telecommunications market. With the development and maturing of the market, competition will become more rational. As Third Generation Mobile Communication Technology (3G) and products become more mature, the conditions for 3G development in China will also gradually mature. The issuance of 3G licences in Mainland China may result in changes in the industry's environment. Looking to the future, the Company faces great opportunities and challenges at the same time.

The Group will leverage its existing advantages in and promote the development of economies of scale, encourage innovation, enhance management and service standards, and direct the industry towards rational competition, with a view to maintaining the momentum of the Group's continued healthy development and extending its leading position. The Group will actively monitor policies relating to 3G technologies, utilize its competitive advantages in terms of networks and scale, and make networks, service and product offerings preparation, in order to lay a solid foundation for the launch of commercial application services of 3G at the appropriate time.

Looking to the future, the Group will work towards building a pre-eminent operating system, creating a pre-eminent organization and cultivating a pre-eminent staff force, and strive to become a creator of pre-eminent quality. Focusing on its defined strategy of being "a World-class Enterprise and the Mobile Information Expert", the Group will continue to maintain its existing competitive advantages, provide quality services and products, innovate in its growth model, and pioneer multi-media mobile services. The Group will also foster an eminent corporate culture and maintain growth in value, with a view to "building a lasting good business", and bringing better returns for its investors.

Finally, I would like to take this opportunity to express my heartfelt thanks to all shareholders and friends who have cared for and supported the Company, as well as to the Company's employees who have worked hard during the past year.



Wang Jianzhou

Chairman and Chief Executive Officer

Hong Kong, 16 March 2006

OPEN DIALOGUE WITH THE COMPANY'S SENIOR MANAGEMENT

The Company announced its 2005 annual results on 16 March 2006. In addition to the publication of a press release and the posting of the annual results on its Internet web-site, on the same day the Company also conducted an investment analyst conference, a press conference, an investor telephone conference and discussions with various investors to explain the results to investors and the general public in Hong Kong and overseas, and address their questions.

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

1. IN 2005, THE COMPANY'S AVERAGE MONTHLY NET INCREASE IN SUBSCRIBERS EXCEEDED 3.5 MILLION, WHAT MARKETING STRATEGIES HAS THE COMPANY ADOPTED TO ENHANCE SUBSCRIBER GROWTH? WOULD THE COMPANY ANTICIPATE THAT THE RAPID SUBSCRIBER GROWTH RATE BE MAINTAINED IN 2006?

Mr. WANG Jianzhou, Executive Director, Chairman and Chief Executive Officer of the Company:

- The Company achieved excellent growth in 2005 with new subscribers from areas of low penetration rate such as counties, townships and villages. The total voice usage volume increased by 36.6 per cent. from 2004 and MOU increased from 297 minutes to 335 minutes. New businesses continued to grow rapidly and the proportion of operating revenue derived from new businesses increased to 20.6 per cent.. In terms of development strategies, we will pursue new growth areas rather than limit to existing markets, and we will focus on the development of new customers, new voice usage and new businesses, thereby maintaining a sustainable rapid growth. Our strategy is *"to introduce mobile phones to those who have not used them and to encourage mobile phone users to use it more frequently"*. The number of subscribers increased by more than 4 million in January 2006 and the momentum of growth is excellent. We will continue to pursue our strategy of developing in new areas in order to maintain sustainable development of the Company.

2. THE DIVIDEND DECLARED FOR THE FULL YEAR OF 2005 WAS HK\$1.02 PER SHARE AND THE DIVIDEND PAYOUT RATIO REACHED 39 PER CENT., REPRESENTING AN INCREASE OF 54.5 PER CENT. OVER THE DIVIDEND PER SHARE FOR 2004. WHAT IS THE DIVIDEND POLICY IN THE FUTURE?

Mr. WANG Jianzhou, Executive Director, Chairman and Chief Executive Officer of the Company:

- The Company has taken into account the interests of its shareholders and the returns achieved for its shareholders

and the dividend per share for 2005 represents an increase of 54.5 per cent. over that for 2004. The Company plans to set the dividend payout ratio for the full year of 2006 at 42 per cent.. With the rapid growth in customers, voice usage volume and new businesses, the Company is currently facing favorable development opportunities and requires capital for the expansion of its existing networks in order to ensure the quality of operations and to satisfy the increasing demand in voice usage and new businesses. At the same time, the Company plans to make full preparation for 3G so as to provide a foundation for the Company's growth in a sustainable and healthy manner over the longer term. We are of the view that the Company's strong free cash flow is capable of supporting the development of the Company, while also providing a favorable cash return to shareholders. The amount of dividend payable in the future will be subject to the approval by the Board after taking into account various factors such as the financial position, the cash flow position and the requirements to ensure a sustainable growth of the business at that particular time. The Company will endeavor to achieve a sustainable, steadily increasing dividend over the longer term, with a view to generating the best possible return for shareholders.

3. WOULD THE COMPANY ELABORATE ON THE CAPEX PLAN FOR THE NEXT THREE YEARS? CAN THE COMPANY PROVIDE A BREAKDOWN OF CAPEX IN 2005 AND A BREAKDOWN OF CAPEX PLAN IN 2006, RESPECTIVELY?

Mr. XUE Taohai, Executive Director, Vice President and Chief Financial Officer of the Company:

- The growth rate in total voice usage volume reached 36.6 per cent. in 2005. Having considered such factors as the sustained rapid growth in subscriber base and voice usage volume and in order to grasp development opportunities, the Company needs to expand its network capacity, thereby ensuring the quality of its service. The Company's newly budgeted CAPEX for each of the three years from 2006 to 2008 is RMB83.3 billion, RMB78.0 billion and RMB76.0 billion, respectively. Such CAPEX plan does not include the



investment of 3G construction. The Company will endeavor to maintain growth in revenue and favorable return to investment. The Company will strengthen its centralized procurement and also the refined management in investment projects, thereby enhancing investment efficiency.

- CAPEX for 2005 was mainly used for the construction of GSM networks (60 per cent.), development of new businesses and new technologies (7 per cent.), construction of transmission facilities (16 per cent.), support systems (7 per cent.), and structural facilities.
- CAPEX plan for 2006 will mainly be used for the construction of GSM networks (56 per cent.), development of new businesses and new technologies (9 per cent.), construction of transmission facilities (16 per cent.), support systems (9 per cent.), and structural facilities.
- From the experience of 3G operations in Europe, voice usage and SMS businesses will still be the main source of revenue. Hence the investment in 2G networks is merited, and we are of the view that 2G and 3G will co-exist in our networks over the longer term. At the same time, we are of the view that if 3G networks are constructed, the CAPEX for 2G will be reduced, and the extent of reduction depends on the timing of the issuance of the licence.

4. WHAT ARE THE MAIN DATA BUSINESSES TO BE ROLLED OUT BY THE COMPANY IN 2006 TO STIMULATE THE GROWTH OF THE COMPANY?

Mr. LU Xiangdong, Executive Director and Vice President of the Company:

- Regarding the mature SMS business, the Company will continue to develop new applications and functions for SMS, thereby simulating the sustained growth of SMS business. Focusing on businesses such as "Color

Ring" and WAP, the Company will further strengthen business sales and promotion and products optimization, thereby driving the growth in revenue. Regarding businesses such as MMS and IM, the Company will nurture customers' consumption habits and expand subscriber base, with a view to achieving the rapid growth of such businesses. At the same time, the Company will enhance the preparations for new products and new applications such as Mobile Search, Mobile Music, Push Mail, Location Based Service. The Company will focus on the promotion of industry-specific application of data businesses to corporate customers, thereby further enhancing the penetration rate and utilization rate of data businesses.

5. THE DEVELOPMENT OF MOBILE MUSIC BUSINESS HAS BEEN RAPID, AND WOULD YOU PLEASE ELABORATE ON ITS DEVELOPMENT IN THE FUTURE?

Mr. LU Xiangdong, Executive Director and Vice President of the Company:

- As an important part of the Mobile Music business, "Color Ring" had subscribers exceeding 90 million in 2005 with a revenue of RMB3.4 billion. The Company will further increase its efforts in developing Mobile Music through implementing better platform management methods, enriching customers' channels of application, optimizing the procedures for business applications, innovating products and their applications, strengthening cooperation and promotion, thereby further enhancing the popularity and utilization of Mobile Music products. In order to complement the competitive advantages in terms of resources, the Company will launch business sales and promotion campaign jointly with resourceful record companies and partners.



MOBILE INFORMATION EXPERT ||||



In 2005, the Group continued to pursue rational and orderly competition and enhance its competitive advantage in terms of market leadership. The driving effect of the growth in its subscriber base, voice usage volume and new businesses was prominent. These, together with the strong development in data businesses, the increasingly prominent advantage in terms of brand, the continuous refinement of marketing and sales channels, the sustained improvement in basic customer service, the strengthened capability and quality of our network and the steady enhancement in the levels of operational and managerial support, attributed to the rapid development of the Group's overall business.

As at the end of 2005, the Group's subscriber base reached 246.652 million, representing an annual growth rate of 20.7 per cent.. The aggregate subscriber usage volume reached 903.12 billion minutes, representing an annual growth rate of 36.6 per cent.. The number of mobile data services users reached 206.682 million, representing an annual growth rate of 31.8 per cent.. SMS usage volume reached 249.61 billion messages, representing an annual growth rate of 44.6 per cent.. Revenue from new businesses reached RMB50.187 billion, representing an annual growth rate of 58.6 per cent.. Revenue from new businesses accounted for 20.6 per cent. of the Group's operating revenue, representing an increase of 5.1 percentage points from 2004.

The table below summarizes the key operating data of the Group for the period from 2004 to 2005. Operating figures shown in this table and in this "Business Review" section are, unless otherwise specified, combined results of the thirty-one provinces, which means it has been assumed that the existing corporate structure of the Group with thirty-one operating subsidiaries was in place since 1 January 2004.

Key Operating Data of the Group for 2004 through 2005

	2005	2004
Mobile Subscribers (Million)	246.7	204.3
Net Additional Subscribers (Million)	42.4	38.2
Total Usage (Billion Minutes)	903.1	660.9
Average Usage per User per Month (MOU) (Minutes/User/Month)	335	297
Average Revenue per User per Month (ARPU) (RMB/User/Month) ⁽¹⁾	90	92
SMS Usage Volume (Billion Messages)	249.6	172.6

	2005	2004
Contract Subscribers ⁽²⁾		
Mobile Subscribers (Million)	61.3	59.9
Average Usage per User per Month (MOU) (Minutes/User/Month)	589	517
Average Revenue per User per Month (ARPU) (RMB/User/Month)	185	167

	2005	2004
Prepaid Subscribers ⁽²⁾		
Mobile Subscribers (Million)	185.4	144.4
Average Usage per User per Month (MOU) (Minutes/User/Month)	241	194
Average Revenue per User per Month (ARPU) (RMB/User/Month)	55	56

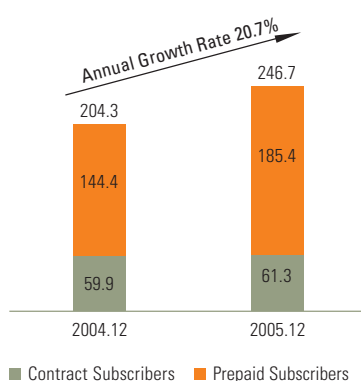
Notes:

⁽¹⁾ All monetary figures shown in this Business Review section are expressed in Renminbi.

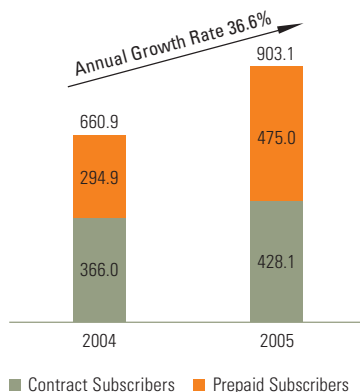
⁽²⁾ For management reference purposes, contract subscribers are classified to include "GoTone" subscribers and subscribers who have signed service contracts with the Group, while prepaid subscribers are classified to include subscribers of "Shenzhouxing" and "M-Zone" and local brands or packages targeting low usage volume users.

SUBSCRIBER BASE

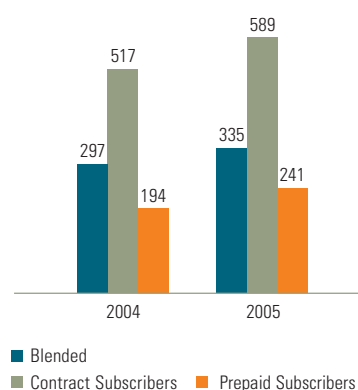
(Million)

**TOTAL USAGE**

(Billion Minutes)

**MOU**

(Minutes)

**CUSTOMER GROWTH**

In 2005, the Group maintained a steady and rapid growth in its subscriber base. As at 31 December 2005, the Group's mobile subscriber base reached 246.652 million, of which 61.311 million were contract subscribers and 185.341 million were prepaid subscribers. In 2005, the total net increase in the Group's subscriber base was 42.360 million and the average monthly net additional subscribers exceeded 3.50 million. In particular, the subscriber base in the eastern regions has continued to expand, the favorable momentum of growth in the central and western regions has become prominent and the geographical distribution of new subscribers has shown an encouraging change.

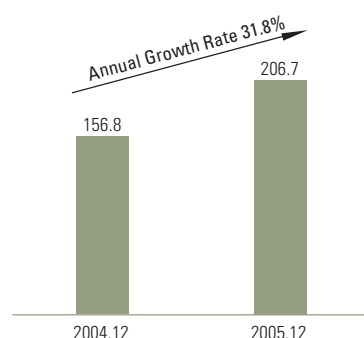
As at the end of 2005, the Group had maintained its position as the market leader, with a market share of approximately 65.6 per cent.. The mobile telephone penetration rate within areas serviced by the Group was approximately 30.3 per cent., within which the penetration rate in the central and western regions, as well as in small and medium-sized cities and rural areas, remained relatively low. The growth of China's economy, the drive provided by "informationalization" and the modernization of rural areas will provide further room for growth in mobile telecommunications.

The Group has strongly developed its corporate customer base and has achieved significant results, thereby facilitating the maintenance and further development of the individual customer base and building a strong foundation for the Group's future development, gaining the first mover advantage. As at the end of 2005, the number of corporate customers that had signed service agreements with the Group reached 1.11 million, and individual customers served via service agreements with corporate accounts amounted to 27 per cent. of total subscriber base. The Group has provided basic "informationalization" solutions to 0.399 million corporate customers. Significant progress has been taken place in the development and integration of "informationalization" products and in the application of "informationalization" in key industries. Targeting more than 20 industries including urban management, education, policing, agriculture, meteorology and banking, the Group has developed and launched nearly 300 industry-specific application products and functions such as Municipal Information Service, Campus Information Service and Police Information Service. Such products and functions have been successfully used in more than 1,000 distinguished industry-specific application cases, and have been recognized by corporate customers with the highest acclaim.

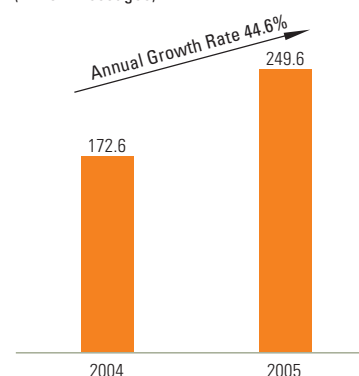
In 2005, the Group developed appropriate products and sales packages in response to the unique consumption characteristics of rural areas. The Group has established sales and marketing service networks at low cost by utilizing existing resources in rural areas, and has provided customized services to users in rural areas in accordance with their requirements. The Group has also established networks using low cost techniques and solutions, and has lowered the barriers to use by guiding handset producers to introduce inexpensive handsets with moderate functions. Such policies have tremendously enhanced the development of the customer base in rural areas.

NUMBER OF MOBILE DATA SERVICES USERS

(Million)

**SMS USAGE**

(Billion Messages)

**BUSINESS DEVELOPMENT**

In 2005, the Group continued to pursue rational and orderly competition. It has further integrated sales packages to optimize the distribution structure of voice usage volume and enhance the yield of voice usage volume. As a result, the decline in average tariff levels was kept under effective control and the growth in revenue and in voice usage volume became more balanced. In 2005, the Group's aggregate mobile subscriber usage volume reached 903.12 billion minutes, representing an annual growth rate of 36.6 per cent.. The Group's average minutes of usage per user per month (MOU) in 2005 was 335 minutes, representing an increase of 12.9 per cent. from that of 297 minutes in 2004. The MOU of contract subscribers and prepaid subscribers in 2005 were 589 minutes and 241 minutes, respectively. The Group's average revenue per user per month (ARPU) was RMB90, representing a decline of 1.5 per cent. from that of RMB92 in 2004. The ARPU of contract subscribers and prepaid subscribers in 2005 were RMB185 and RMB55, respectively. The ARPU remained generally stable.

As one of the strong drivers of the development of the Group, the accelerated growth in new businesses stimulated the growth in operating revenue. The proportion of non-SMS data businesses revenue in the new businesses revenue has further increased, and the sources of revenue generated by new businesses were even more diversified. In 2005, revenue from new businesses reached RMB50.187 billion, representing an increase of 58.6 per cent. from 2004. The proportion of the Group's operating revenue that derived from new businesses reached 20.6 per cent., representing significant growth as compared to 2004. The SMS business continued to grow. In 2005, revenue from SMS reached RMB24.671 billion, the SMS penetration rate (SMS subscribers as a percentage of total subscriber base) reached 83.8 per cent. and SMS usage volume reached 249.61 billion messages. Non-SMS data businesses grew rapidly, in which "Color Ring" and WAP showed strong growth. In 2005, revenues from "Color Ring" and WAP reached RMB3.423 billion and RMB3.570 billion, respectively. The mobile music business started to show its potential. "Wireless Music Rank" was launched in April 2005. The Group has increased its efforts in business model innovation and strengthened its cooperation with the music media to stimulate and direct customers to try out, use and get accustomed to mobile music products based on "Color Ring", "IVR for Mobile Music" and "Ringtone Download". "Color Ring" subscribers downloaded the ring-back tone by more than 300 million times throughout the year, and the effect of handsets as a new media for the sales of musical products became increasingly prominent.



BRAND, MARKETING AND SALES CHANNELS AND SERVICES

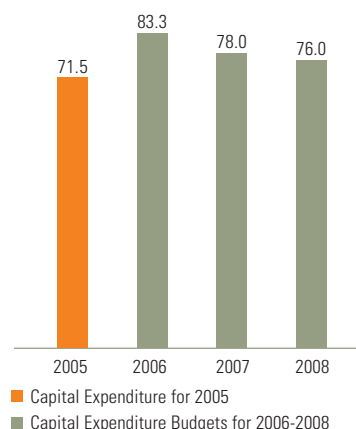
The Group has achieved outstanding results in brand development, further extending our brand advantage. In 2005, focusing on the development of the "GoTone" brand, the Group continued to launch differentiated products and services and to further enrich brand association and enhance brand image. The Group has further enhanced brand loyalty by various measures such as Cross-region Services, Airport VIP Services, Hospital VIP Services, Golf Clubs and Handset Service Clubs, etc. The Group has continued to enhance internal integration within the "Shenzhouxing" brand and improved the standardization and management of sales packages, thereby achieving stabilized average tariff levels and enhanced operational effectiveness. Through the accentuation of the brand characteristics of "M-Zone" and enhancing the application of data businesses, together with the development of brand alliances and the implementation of various schemes including product and service upgrades, the subscriber base of "M-Zone" has expanded rapidly.

The Group continued to strengthen its marketing and sales channels by further expanding the scale of its proprietary sales channels and optimizing and refining its formation and structure and enhanced the capability to promote new businesses, sales of customized terminals and marketing and sales management, established appropriate coverage and built up a stronger capability to offer marketing and sales services. The Group has enhanced its service capabilities through the expansion of electronic channels. The Group has strengthened its management and control of marketing and sales channels through integrating the resources relating to sales and marketing channels in the community. In pursuit of the development of markets in rural areas, the Group has accelerated the establishment of sales and service networks in rural areas. The Group has extended its coverage through various measures such as utilizing its proprietary sales outlets, retail outlets and resources in rural areas, thereby establishing a competitive advantage in rural areas.

In 2005, the Group continued to optimize its service processes to remove service bottlenecks, resulting in sustained improvement in basic services and thereby achieving a steady improvement in customer satisfaction levels. Overall customer satisfaction rate has reached 75 per cent., representing an increase of 0.86 percentage points from 2004.



CAPITAL EXPENDITURE
(RMB Billion)



Note: The above capital expenditure budgets currently exclude investment of 3G construction

NETWORKS, SUPPORT SYSTEMS AND INVESTMENTS

In 2005, the Group's overall network capability was comprehensively enhanced. Business development of the Group was strongly supported by its high quality, efficient, stable and advanced network. The Group continued to lead in terms of network quality. The wireless connection rate reached 99.0 per cent., the voice call drop rate was less than 0.8 per cent., and the SMS delivery rate reached 98.6 per cent.. Network quality continued to stay at a high level. Network utilization rate was maintained at a relatively high level. As at the end of 2005, the Group's network capacity reached 302 million subscribers and the network utilization rate reached 81.6 per cent..

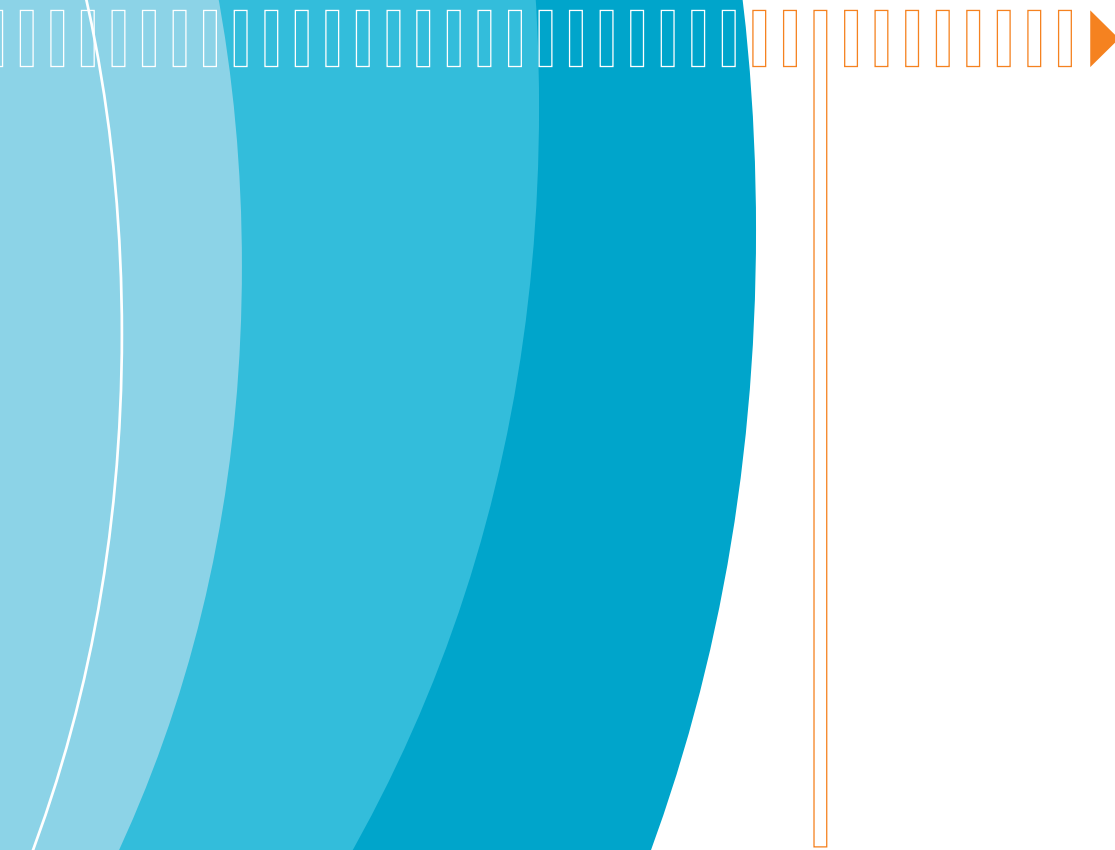
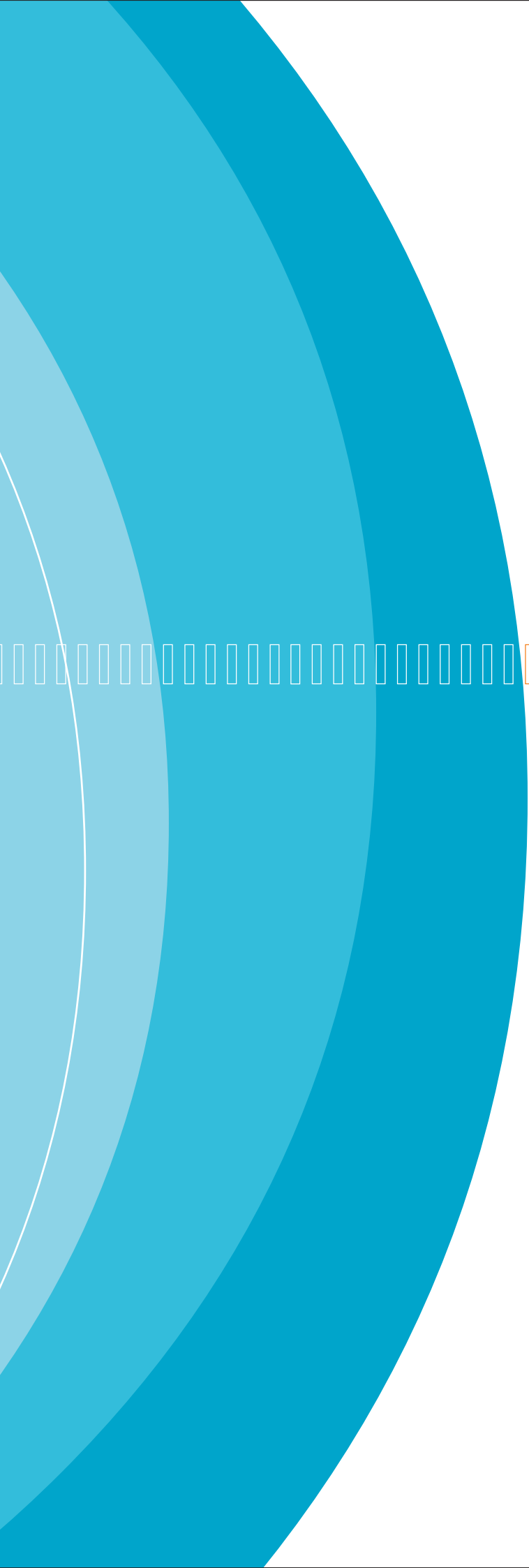
In 2005, the Group further expanded its global roaming services coverage. As at the end of 2005, GSM global roaming services covered 203 countries and regions, while GPRS global roaming services coverage extended to 98 countries and regions. The Group's subscribers were able to send or receive short messages to or from the subscribers of 214 mobile telecommunications operators in 106 countries and regions around the world.

The Group has established on a preliminary basis an advanced and flexible support system which effectively enhanced its operation and management. As a result, certain aspects such as customer service quality, speed of response to and grasping of the market, scope and depth of its operational analysis and the quality of decision-making have been enhanced notably. The support system further strengthened the Group's leading position and competitiveness and provided assurance for its future development.

The Group's capital expenditure in 2005 was approximately RMB71.5 billion. Having taken into account the growth in subscriber base and voice usage volume, the capital expenditure budgets newly set for each of the three years from 2006 to 2008 are RMB83.3 billion, RMB78.0 billion and RMB76.0 billion, respectively. The capital expenditure for the next three years will be used mainly for the construction of GSM networks, support systems and transmission facilities, and for the development of new technologies and new businesses. Such capital expenditure budgets currently do not include investment of 3G construction. The required funding will be sourced largely from cash generated from the Group's operating activities.

FUTURE BUSINESS STRATEGIES

Looking to the future, the Group will further consolidate its market leading position in the mobile telecommunications market by innovatively developing new customers, new voice usage and new businesses. The Group will continue to develop its brand, enhance its proprietary sales channel capabilities, strengthen the establishment and integration of its electronic sales channels, continually improve its basic customer service, and strengthen its ability to innovate in terms of businesses, technologies, management and business model. The Group will pay particular attention to developing its corporate customer base, develop a new competitive advantage in terms of its network and support systems, commit itself fully to servicing Olympics and carry out planning and operational preparation for the development of 3G, and take its business into a new phase in the future.



In 2005, the Group persisted in “service and offering leadership” and consolidated its leading position in the mobile telecommunications market in Mainland China. The Group fully realized its economies of scale and brand advantages, and with the sustained rapid growth in operating revenue and profit, the Group maintained its sound capital structure and robust free cash flow. Operating revenue for 2005 reached RMB243,041 million, representing an increase of 26.3 per cent. from 2004. EBITDA and profit attributable to shareholders reached RMB133,338 million and RMB53,549 million, respectively, representing a growth of 24.8 per cent. and 28.3 per cent., respectively, from 2004. EBITDA margin and margin of profit attributable to shareholders maintained at high level of 54.9 per cent. and 22.0 per cent., respectively. Basic earnings per share reached RMB2.71, representing an increase of 27.8 per cent. from 2004. The Group has achieved commendable overall financial results and has maintained rapid and healthy development.

For ease of comparison, on the assumption that the Group's current structure of holding thirty-one operating subsidiaries had been in place since 1 January 2004, the Group's operating revenue, EBITDA, and profit attributable to shareholders achieved in 2005 enjoyed an increase of 19.1 per cent., 18.4 per cent. and 24.7 per cent., respectively, over the operating revenue, EBITDA and profit attributable to shareholders in respect of the thirty-one provinces, autonomous regions and municipalities of previous year.

* For ease of comparison, unless otherwise specified, the financial information relating to the income statement for 2004 set out below in this Financial Review represents the Group's unaudited combined data in respect of the thirty-one provinces, which assumes that the existing corporate structure of the Group with thirty-one operating subsidiaries was in place since 1 January 2004. Financial information relating to the balance sheet and the cash flow statement set out in this Financial Review is extracted from the audited financial statements.

The financial information set out in this Financial Review has reflected the effect of the Group's adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) in 2005.

Extracts from income statement

	2005 Consolidated (RMB Million)	2004 31 Subsidiaries Combined (RMB Million)	Change %
Operating revenue (Turnover)	243,041	203,993	19.1
Usage fees and monthly fees	181,765	163,334	11.3
New businesses revenue	50,187	31,651	58.6
Other operating revenue	11,089	9,008	23.1
Operating expenses	169,355	142,600	18.8
Leased lines	3,224	4,199	(23.2)
Interconnection	15,309	12,705	20.5
Depreciation	56,368	47,910	17.7
Personnel	14,200	10,910	30.1
Other operating expenses	80,254	66,876	20.0
Profit from operations	73,686	61,393	20.0
Other net income	3,284	3,343	(1.8)
Profit attributable to shareholders	53,549	42,952	24.7
EBITDA	133,338	112,646	18.4

Extracts from balance sheet

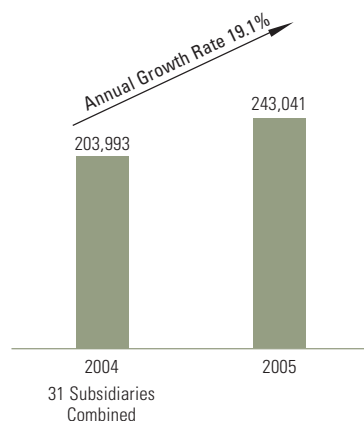
	2005 Consolidated (RMB Million)	2004 Consolidated (RMB Million)	Change %
Current assets	121,076	79,909	51.5
Non-current assets	299,951	288,843	3.8
Total assets	421,027	368,752	14.2
Current liabilities	109,954	97,666	12.6
Non-current liabilities	37,966	37,682	0.8
Total liabilities	147,920	135,348	9.3
Minority interests	283	243	16.4
Shareholders' equity	272,824	233,161	17.0

Extracts from cash flow statement

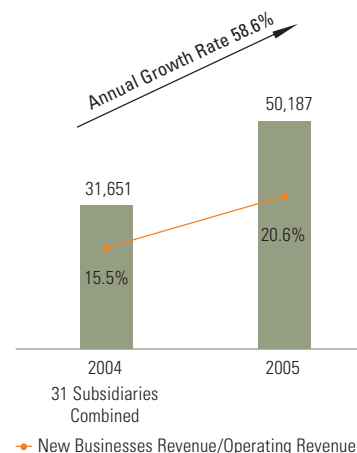
	2005 Consolidated (RMB Million)	2004 Consolidated (RMB Million)	Change %
Net cash generated from operating activities	131,709	103,779	26.9
Net cash used in investing activities	(87,116)	(73,302)	18.8
Net cash used in financing activities	(25,173)	(24,457)	2.9

OPERATING REVENUE

(RMB Million)

**NEW BUSINESSES REVENUE**

(RMB Million)

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Summary of Financial Results**

In 2005, the Group benefited from the sustainable growth of the China's economy and the competitive environment, which took on a rationalized trend. The Group persisted in "service and offering leadership" and adopted effective marketing strategies and plans, and effectively leveraged the Group's competitive advantage in terms of its leading position and economies of scale in the mobile telecommunications market in Mainland China. The Group enhanced its brand development, made efficient capital expenditures and put in place effective cost control measures, and comprehensively implemented refined management methods, thereby achieving commendable financial results.

Driven by the growth in subscriber base, voice usage volume and new businesses, operating revenue for 2005 reached RMB243,041 million (all monetary amounts below are expressed in RMB, unless otherwise specified), representing an increase of 19.1 per cent. over the previous year. The operating revenue from new businesses, which has continued its rapid growth momentum, reached 50,187 million and accounted for over 20 per cent. of the Group's operating revenue. To ensure steady growth in subscriber base and to maintain the competitiveness of its network, the Group appropriately increased its efforts in sales and marketing initiatives and made suitable expansion to its network capacity and performed network maintenance at the same time. As such, operating expenses reached 169,355 million, representing an increase of 18.8 per cent. over the previous year. Such percentage range increase in operating expenses is lower than that in operating revenue, together with the continuous decrease in average operating expenses per user per month and per minute, demonstrated the competitive advantages in terms

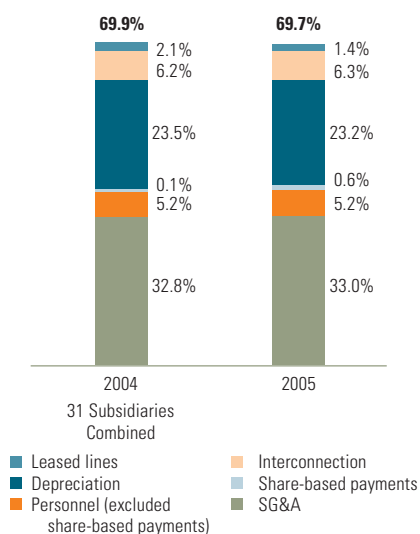
of refined and effective cost control measures and economies of scale. EBITDA was 133,338 million, representing an increase of 18.4 per cent. from the previous year. EBITDA margin was 54.9 per cent.. Profit attributable to shareholders was 53,549 million, representing an increase of 24.7 per cent. from that of the previous year. Basic earnings per share was 2.71, representing an increase of 27.8 per cent. from the previous year which demonstrated a relatively high profitability.

The Group sustained its robust cash flow as a result of favorable business growth, effective cost control measures, meticulous capital expenditure management and the effect of economies of scale. In 2005, the Group's net cash generated from operating activities and free cash flow reached 131,709 million and 60,256 million, respectively. The Group's total debt to capitalization ratio and interest coverage multiple remained at a sound level. Each of Moody's and Standard and Poor's upgraded the Company's corporate credit rating, reflecting that the prudent approach consistently adopted by the Company has won further recognition from the market.

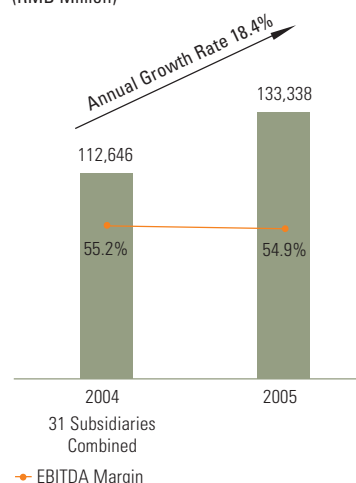
Operating Revenue (Turnover)

Operating revenue for 2005 reached 243,041 million, representing an increase of 19.1 per cent. over the previous year. The Group continued to pursue rational competition and, through adopting effective marketing strategies and plans, the Group enhanced its leading position in earnest. Subscriber base continued its rapid growth momentum. The average net increase of the Group's number of subscribers reached 3.53 million per month. Total minutes of usage increased to 903,122 million minutes, representing an increase of 36.6 per cent. from the previous year. The revenue per minute declined by 12.8 per cent. from the previous year. Such rate of decline was under effective control and the growth rate of both the voice usage volume and revenue increased proportionately. The growth in

PROPORTION OF OPERATING EXPENSES OVER OPERATING REVENUE



EBITDA (RMB Million)



subscriber base and voice volume usage ensured the rapid growth in operating revenue and ARPU stability.

The Group strengthened the promotion of new businesses. Revenue from new businesses continued its rapid and robust growth momentum and its role as a driver of the Group's overall operating revenue growth was further intensified. Revenue from new businesses reached 50,187 million in 2005, representing an increase of 58.6 per cent. over the previous year, and accounted for 20.6 per cent. of the Group's operating revenue, representing an increase of 5.1 percentage points compared to that of 15.5 per cent. in 2004. The Group continued to maintain a leading position in mobile data businesses in Mainland China. Revenue from Short Message Services (SMS) and other data businesses reached 37,122 million in 2005 and accounted for 74.0 per cent. of the Group's revenue from new businesses. While the SMS business continued to maintain its relatively high growth rate, businesses such as WAP and "Color Ring" grew rapidly. The mobile music business has shown promising potential and the growth rate of revenue from non-SMS data businesses has been accelerating. The sources of revenue generated by new businesses were further diversified.

Operating expenses

The Group benefited from refined and effective cost control measures, efficient capital expenditures and the advantages of economies of scale. As a result, the percentage range increase in operating expenses as compared to the previous year was lower than the increase in operating revenue, and the costs structure became more rationalized. Operating expenses for 2005 were 169,355 million, representing an increase of 18.8 per cent. from the previous year. Operating expenses for 2005 amounted to

69.7 per cent. of the operating revenue, representing a decline of 0.2 percentage points from the previous year. Average operating expenses per user per month for 2005 were 62.9, representing a decline of 1.9 per cent. from the previous year, and the average operating expenses per minute of usage were 0.188, representing a decline of 13.1 per cent. from the previous year.

The Group continued to optimize the Group's network structure, augment the Group's network, optimize network usage during off-peak hours, and increase network resources utilization rate. By suitably adjusting line capacity and terminating surplus leased lines, the Group further reduced leased line expenses. The Group's leased line expenses for 2005 were 3,224 million, representing a decline of 23.2 per cent. from the previous year. Leased line expenses accounted for 1.4 per cent. of the operating revenue.

As a result of the sustained growth of subscriber base and the continuous increase in voice usage volume, network interconnection expenses were 15,309 million in 2005, representing an increase of 20.5 per cent. from that of the previous year and amounted to 6.3 per cent. of the operating revenue. The Group will increase its efforts to optimize network structure and carefully reorganize and re-route traffic volume so that the proportion of interconnection expenses to operating revenue will be maintained at a reasonable level.

Depreciation expenses were 56,368 million in 2005, representing an increase of 17.7 per cent. from the previous year. Depreciation expenses accounted for 23.2 per cent. of operating revenue, representing a decline of 0.3 percentage points from that of the previous year. The Group's costs

structure became more rationalized. To effectively support the healthy growth of subscriber base and the development of new businesses and to maintain and consolidate its network advantages, the Group carried out necessary network optimization and expansion of its network capacity and constructed various support networks. Notwithstanding the increase in the Group's capital expenditures and related depreciation expenses, the high quality of service provided by the Group's premium networks increased customer loyalty and supported the rapid development of the Group's businesses as well as its excellent financial results. At the same time, overall network utilization rate remained at a relatively high level, the average depreciation expense per minute reduced from 0.072 in 2004 to 0.062 in 2005 and the proportion of capital expenditure to operating revenue reduced by 2.3 percentage points from the previous year to 29.4 per cent., which amply demonstrated the effectiveness of the Group's investments.

The Group continued to strengthen its highly-efficient staff management and incentive structure, promote human resources management, persistently implement effective and comprehensive budget management and performance-based evaluation, thereby maintaining a competitive advantage in terms of human resources while effectively controlling personnel expenses. Personnel expenses were 14,200 million in 2005, and accounted for 5.8 per cent. of the operating revenue. However, personnel expenses (excluding share options) as a percentage of operating revenue amounted to 5.2 per cent., which remained generally stable when compared with the previous year. The Group had a total of 99,104 employees as at 31 December 2005. In order to align the interest of the employees with that of the shareholders, the Group granted share options to eligible employees pursuant to the share option scheme of the Company. Share options involving 289,777,500 shares were granted in 2005. Details of the share option schemes are set out in the "Report of the Directors" and note 32 to the financial statements in this annual report.

Other operating expenses (consisting primarily of sales and marketing expenses, customer services, subscriber retention costs, bad debts, administration and other general expenses) were 80,254 million, representing an increase of 20.0 per cent. from the previous year, and accounted for 33.0 per cent. of the operating revenue. In order to enhance brand development and customer service levels, retain high-value customers and increase customer loyalty, the Group increased its efforts in marketing, promotions and customer service. As a result, sales and marketing expenses increased. In view of the Group's emphasis on rigorous customer credit management and the stringent control over defaults in payment by customers, the Group restrained its bad debt ratio to a relatively low level of

1.22 per cent. in 2005, representing a decline of 0.06 percentage points from the previous year. In addition, in order to meet the requirements of new technology and development of new businesses, in 2005, the Group upgraded certain outdated equipment, wrote off and disposed off corresponding assets amounted to 6,056 million, thereby further improving its assets quality, and laying down solid foundation for the transition of its network to the next generation and also the development of new businesses in the future.

The Company will continue to pursue refined management methods, effectively control expenditure growth, constantly optimize its cost structure, and emphasize cost effectiveness in order to maximize returns.

EBITDA, PROFIT FROM OPERATIONS AND PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group has consistently endeavored to maintain long-term, sustainable and favorable profit growth. EBITDA margin and margin of profit attributable to shareholders in 2005 remained high at 54.9 per cent. and 22.0 per cent., respectively. Operating profit was 73,686 million and maintained stable growth. EBITDA was 133,338 million, representing an increase of 18.4 per cent. over the previous year. Profit attributable to shareholders was 53,549 million, representing an increase of 24.7 per cent. over the previous year. Basic earnings per share was 2.71, representing an increase of 27.8 per cent. over the previous year. These commendable earnings level reflect the Group's ceaseless efforts to generate improved returns and create value for its shareholders. These results also reflect that on the basis of favorable operating revenue growth, the Group strengthened its effective management of operating expenses, so as to further accomplished economies of scale and continuously enhanced its operational efficiency. The Group will continue to pursue sustainable and steady long-term growth.

STRONG CASH FLOW AND SOUND CAPITAL STRUCTURE

In 2005, the Group continued to maintain a strong cash flow. The Group's net cash generated from operating activities was 131,709 million and free cash flow (net cash generated from operating activities after deduction of capital expenditure incurred) was 60,256 million. At the end of 2005, the Group's total cash and bank balances were 106,386 million, of which 95.3 per cent., 0.6 per cent. and 4.1 per cent. were denominated in RMB, U.S. dollars and Hong Kong dollars, respectively.

To further reduce the cost of capital, the Group continued to reinforce its centralized treasury function, making appropriate allocations of overall capital, thereby enhancing the Group's ability to deploy internal funds with maximum utility. In accordance with its overall capital arrangement, in 2005, the Group redeemed US\$690 million convertible notes with its own funds. Robust cash generating capability and stable capital management have provided a solid foundation for the long-term development of the Group.

At the end of 2005, the Group's debt to capitalization ratio (capitalization represents the sum of total debt and total equity value) was approximately 12.2 per cent.. The sum of long-term loans and short-term loans, was 37,972 million, representing a decline of 8,585 million over the previous year, which reflects that the Group's financial position continued to remain at a sound level. Of the total borrowings, 37.8 per cent. was in RMB (consisting principally of RMB bonds, bank loans, etc.), and 62.2 per cent. was in U.S. dollars (consisting principally of the balance of the deferred consideration for the acquisition of the eight and the ten provincial telecommunications operators). Approximately 75.5 per cent. of the Group's borrowings were made at floating interest rates. The actual average interest rate of borrowings (including capitalized interest) of the Group in 2005 was approximately 3.19 per cent., whereas the actual interest coverage multiple (ratio of profit before interest and tax to interest expenses) was 58 times. This position reflects the prudent financial risk management policies consistently adopted by the Group, as well as its solid cash flow and sound repayment capability. In 2005, whilst upgrading China's sovereignty rating, Standard & Poor's also upgraded the Company's corporate credit rating from "BBB+/Positive Outlook" to "A-/Positive Outlook" and Moody's also upgraded the Company's corporate credit rating from "A3/Outlook Positive" to "A2/Outlook Stable", demonstrating the further recognition of

the Group from the market as a corporation of sound financial strength, tremendous business opportunities and prudent financial management.

DIVIDENDS

The Company holds in the highest regard the interests of its shareholders and the returns achieved for its shareholders, especially minority shareholders. Having taken into account such factors as the on-going health status of the Company's fundamental structure, strong cash flow position and requirements to ensure the sustainable future growth of the Company's business, the Board recommends payment of a final dividend of HK\$0.57 per share for the financial year ended 31 December 2005. This, together with the interim dividend of HK\$0.45 per share already paid during 2005, amounts to an aggregate dividend payment of HK\$1.02 per share for the full financial year, representing an increase of 54.5 per cent. over the annual dividend of HK\$0.66 per share for the full year of 2004. Dividend payout ratio for the year 2005 is 39 per cent.. At the same time, the Company plans the dividend payout ratio for the full year of 2006 to be 42 per cent.. The Board is of the view that the Company's strong free cash flow is capable of supporting the investments required to maintain the stable growth of the Company, while also providing a favorable cash return to shareholders. The Company will endeavor to achieve a longer term sustainable, steadily increasing dividend, with a view to generating the best possible return for shareholders.

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

CORPORATE GOVERNANCE REPORT



- Improving Corporate Governance
- Enhancing Corporate Value
- Generating Greater Returns For Shareholders

The Company's goal has always been to enhance its corporate value, focusing on the stable and positive long-term growth of EBITDA, profit attributable to shareholders and cash flow, to ensure the sustainable long-term development of the Company and to generate greater returns for shareholders. In order to achieve the above goal and implement good corporate governance, starting from the year 1998, we have been taking numerous measures to achieve an effective board of directors, including establishing three principal board committees, namely, the audit committee, the remuneration committee and the nomination committee. We have established an information disclosure committee, maintained and refined our internal controls and procedures on information disclosure, and further enhanced our internal controls and procedures on financial reporting in compliance with Section 404 of the U.S. Sarbanes-Oxley Act of 2002 (the "SOX Act") to ensure that all material information is made known to the board of directors promptly and disclosed fairly, truthfully and in a timely manner. Moreover, we have established an internal audit department, implemented internal audit mechanisms and procedures, and promulgated a code of ethics covering senior management and other designated senior officers of the Group. In order to continuously improve our corporate governance, the Company also conducted training courses on corporate governance on an on-going basis. Our efforts and achievements in corporate governance have won popular recognition and acclaim from various

sectors, and the Company has received a number of awards from internationally renowned professional organizations and journals. We will, on a consistent basis, closely study the development of corporate governance practices among the world's leading corporations, future development of the relevant regulatory environment, and the requirements of the investing community. We will also conduct periodic reviews of, and import refinements to, our corporate governance procedures and practices so as to ensure the long-term sustainable development of the Company.

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

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

Following the issue of the Code on Corporate Governance Practices, as set out in Appendix 14 to the Hong Kong Listing Rules, the Company has carefully reviewed and considered its provisions, and carried out a detailed analysis on the corporate governance practices of the Company against the requirements of the Code. Throughout the financial year ended 31 December 2005, except for the requirement that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual, the Company has complied with all code provisions of the Code on Corporate Governance Practices.

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

INTERNAL CONTROLS AND INTERNAL AUDIT

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

All disclosure of information relating to the Company is made through the unified leadership and management of the Board, while the management performs its relevant duties. To further ensure all information disclosed is true, accurate, complete and revealed in a timely manner, the Company established an information disclosure committee in 2002, and maintained and

refined its internal controls and procedures on information disclosure in compliance with the requirements of Section 302 of the SOX Act. The Company has performed an annual review of the effectiveness of the Company's internal controls and procedures on information disclosure, and concluded that the Company's internal controls and procedures on information disclosure were effective in ensuring that material information relating to the Company was promptly recorded, processed, summarized and disclosed.

In June 2005, the Company, in compliance with the requirements of Section 404 of the SOX Act, commenced the SOX Act Section 404 compliance project. The Company formulated an overall work plan, established a project management committee and systematically evaluated and inspected the internal control systems relating to financial reporting of the Company and all its subsidiaries. The Company remedied its deficiencies, refined its systems, and implemented standardized management of internal controls and procedures. To date, the project has been progressing smoothly and in an orderly manner as planned. The Company will take this opportunity to further improve its internal controls and risk management, which, in turn, will provide a solid foundation for further enhancing overall management of the Company.

The internal audit personnel of the Company carries out regular reviews of the internal controls over various corporate structures and business processes on a continuous basis, taking into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the realization of its corporate objectives and strategies. The head of internal audit submits working reports and recommendations to the audit committee on a regular basis, which, in turn, reports regularly to the Board.

CORPORATE TRANSPARENCY, SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company's controlling shareholder is China Mobile (Hong Kong) Group Limited, which, as of 31 December 2005, indirectly held approximately 75.07 per cent. of the Company's share capital through a wholly-owned subsidiary, China Mobile Hong Kong (BVI) Limited. The remaining share capital of approximately 24.93 per cent. was held by public investors.

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

The Company also has high regard for the annual general meeting of its shareholders, and puts great efforts on communications between the Board and the shareholders. At the annual general meeting of shareholders, the Board always makes efforts to fully address any questions raised by shareholders. The last annual general meeting of the Company was held on 12 May 2005 at 1:30 p.m. at the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong, and discussed and approved the financial statements for the year ended 31 December 2004, the Report of the Directors, the declaration of a final dividend for the year ended 31 December 2004 and the election of Directors, and received the Report of the Auditors. At this annual general meeting, the Company demanded that all the above resolutions be voted by poll. Poll results were announced at the meeting, on the websites of the Company and the Hong Kong Stock Exchange as well as in newspapers on the day following the meeting.

THE BOARD OF DIRECTORS

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting management targets, regulating internal controls and financial management, and supervising the management's performance while the day-to-day operations and management are delegated by the Board to the executives of the Company. The

Board operates in accordance with established practices (including those relating to reporting and supervision), and is directly responsible for formulating the Company's corporate governance guidelines.

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

The Board convened five meetings during the financial year ended 31 December 2005. Mr. WANG Jianzhou, Mr. LU Xiangdong, Mr. ZHANG Chengshuang, Mr. LI Mofang (resigned as an executive director of the Company with effect from 16 March 2006), Mr. HE Ning (resigned as an executive director of the Company with effect from 3 January 2006), Mr. XU Long, Dr. LO Ka Shui and Mr. Frank WONG Kwong Shing attended all five board meetings while Mr. LI Yue, Mr. XUE Taohai, Mr. LI Gang (resigned as an executive director of the Company with effect from 3 January 2006) and Mr. Moses CHENG Mo Chi attended four board meetings. Sir Julian Michael HORN-SMITH attended two board meetings in person and his alternate director, Mr. Gavin DARBY, attended another two board meetings.

The Board currently has three principal board committees, which are the audit committee, the remuneration committee and the nomination committee, and all of which are comprised solely of independent non-executive directors.

AUDIT COMMITTEE

In 1998, the Company established the audit committee, which is comprised solely of independent non-executive directors, namely Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi. All members of our audit committee have many years of finance and business management experience and expertise. The audit committee's primary responsibilities include, among other things, making recommendation to the board of directors on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit procedure in accordance with applicable standards, developing and implementing policies on the engagement of external auditors to provide non-audit services, monitoring the integrity of financial statements of the Company and the Company's reports and financial statements and overseeing the Company's financial reporting system and internal control procedures. The terms of reference of our audit committee are available on the Company's website.

In 2005, the audit committee met four times, and mainly reviewed the integrity of the Company's financial statements, annual report and accounts, interim report and quarterly reports, and the significant financial reporting judgments contained in such financial statements and reports, discussed and approved the budgets and remuneration of, and services provided by, the external auditors, reviewed the Company's internal audit procedures and reports, reviewed and approved the overall work plan for the special project on compliance with Section 404 of the SOX Act, and the compliance situation with relevant laws and regulations. All members attended all meetings.

REMUNERATION COMMITTEE

In 2000, the Company established the remuneration committee, which is comprised solely of independent non-executive directors, namely Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi. The primary responsibilities of the remuneration committee

include, among other things, determining the remuneration packages of all executive directors and senior management, making recommendations to the Board on the remuneration of non-executive directors, reviewing and approving performance-based remuneration, ensuring that no director or any of his associates is involved in deciding his own remuneration, making recommendations to the board of directors on the Company's policy and structure for remuneration of employees, including salaries, incentive schemes and other stock plans. The terms of reference of our remuneration committee are available on the Company's website. In 2005, the remuneration committee met once, and reviewed and approved the plan for the issuance of employee stock options in the Group. All members attended the meeting.

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

NOMINATION COMMITTEE

In 2001, the Company established the nomination committee, which is currently comprised solely of independent non-executive directors, namely Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi. The primary responsibilities of the nomination committee include reviewing on a regular basis the structure, size and composition of the Board, identifying individuals suitably qualified to become board members, and assessing the independence of independent non-executive directors. The terms of reference of our nomination committee are available on the Company's website. In 2005, the nomination committee met once and discussed and approved matters regarding a change of director. All members attended the meeting.

Currently, executive directors are mainly selected internally within the Group from executives who have considerable years of management experience and expertise in the telecommunications industry, whereas for the identification of independent non-executive directors, importance is attached to the individual's independency and his experience and expertise in finance and business management. The Company, having considered the requirements of the jurisdictions where it is listed and the structure and composition of the Board, shall nominate in an extensive and cautious manner any individuals suitably qualified as board members of the Company to the nomination committee for examination and approval, after which directors are finally appointed by the Board. Thereafter, all directors are subject to re-election by shareholders at the annual general meeting in their first year of appointment.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") to regulate the directors' securities transactions. All directors have confirmed, following enquiry by the Company, that they have complied with the Model Code during the period between 1 January 2005 and 31 December 2005.

AUDITORS' REMUNERATION

The Company engaged KPMG as statutory auditors of the Company. In 2005, the principal services provided by KPMG include reviewing of interim consolidated financial statements of the Group, auditing of annual consolidated financial statements, issuing an audit opinion on the financial statements as exhibits to our annual report on Form 20-F, and issuing annual audit reports for our provincial subsidiaries separately.

Apart from providing the above-mentioned audit services to the Group, KPMG was also engaged in providing the Group with other non-audit services with the prior approval of our audit committee. The following table sets forth the type of, and fees for, the principal audit services and non-audit services provided by KPMG to the Group in 2004 and 2005:

	2005 (HK\$ Million)	2004 (HK\$ Million)
Audit fees	59	129 ⁽¹⁾
Non-audit fees	0.6 ⁽²⁾	6 ⁽²⁾

(1) including audit fees for KPMG, as reporting accountants, conducting an audit on three financial years' financial statements and other relevant information of the ten provincial mobile telecommunications companies we acquired in July 2004.

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

CODE OF ETHICS

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

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

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

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

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

Section 303A.03 of the NYSE Listed Company Manual provides that if an audit committee member simultaneously serves on the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then in each case, the board of directors must determine that such simultaneous service would not impair the ability of such member to effectively serve on the listed company's audit committee and disclose such determination. The Company is not required, under the applicable Hong Kong law, to make such determination.

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

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



Universum Communications of Sweden published in Globe Biweekly the results of its survey on ideal employers, and China Mobile was ranked first for science and technology and for business school graduates from the thirty-six major universities in Mainland China, and ranked first in the overall list.

HUMAN RESOURCES DEVELOPMENT

In 2005, the human resources work of the Group focused on the strategic goal of being "a worldwide leader in telecommunications and achieving evolution from excellence to pre-eminence" and closely revolved around corporate development needs. Guided by customers and the market, and taking overall and holistic reform as the starting point, the Group further strengthened the planning and research of human resources management strategy, improved its organizational structure, advanced and deepened its human resources enhancement programme, and refined its human resources management information platform. Moreover, the Group further strengthened the supporting effect of personnel costs in corporate operational performance and the motivational effect of remuneration. The Group stressed the importance of employee training, development and communication, and also placed emphasis on attracting, retaining and nurturing talent, enabling human resources to create value for the Company.

The Group actively improved and optimized its organizational structure, responsibility mechanisms and main operating processes, thereby making the Group's organization more efficient. At the same time, the Group conducted specific investigations and research into the implementation by various subsidiaries of the human resources enhancement project, held seminars to exchange views on the implementation of this project, and further promoted the integration of human resources into business operations. The Group also introduced an unified employee satisfaction survey, which provided a basis for further enhancing human resources management.

To further strengthen and refine human resources management, the Group segmented jobs into specific categories, improved the classification of posts and enhanced position management. The Group continuously improved appraisal standards and procedures, refined appraisal systems, and strengthened the relationships between corporate performance, departmental performance, employee performance and employee remuneration, thus actively improving overall performance. In November 2005, the Company issued employee share options to middle and senior managers and core technical employees of all its operating subsidiaries, so that the interests of employees would be more closely aligned with those of the corporate and the shareholders, and inspiring employees to take a greater interest in the corporate development and to continuously create greater value for the corporate. As a result, the Group's cohesion was further enhanced.

The Group has always attached great importance to attracting, nurturing and retaining talent. In accordance with its strategy of employee communication, training and the development of ability, the Group proactively built upon its employer brand name and enhanced employee competitiveness. In December 2005, Universum Communications of Sweden, an internationally renowned employer brand management company, publicized the result of its first survey among graduates from 36 major Chinese universities nationwide on their ideal employers, and China Mobile was ranked first on the list of ideal employers for science and technology and for business school graduates, and ranked first on the overall list. China Mobile also ranked



During the “Green Boxes Environmental Protection Campaign”, the Group collected used handsets and accessories from customers, thereby making its own contribution to economizing on resources to build an environmental-friendly society.

top in a survey conducted by Zhaopin.com, a nationwide job-searching website, among Chinese university students. During 2005, the Group continued to increase its efforts in talent exchange and training and, in particular, provided personnel assistance to the Group's operations in the western regions of China. Oriented by its overall strategy in relation to 3G and its strategy of internationalization, the Group carried out training at different levels in 3G and professional training to the middle and senior finance employees.

In 2005, the Group continued to push forward the work of constructing human resources management information systems, or MIS, and knowledge management platform, introduced and used human resources self-service modules and experimental on-line education websites, improved MIS management procedures, multiplied its business functions, standardized and regulated its operating process, and enhanced the quality of its data, thereby comprehensively enhancing the practical applicability and effectiveness of its human resources MIS systems.

CORPORATE SOCIAL RESPONSIBILITY

The Group initiated, and acted in accordance with, the principle of “being an outstanding corporate citizen, promoting a harmonious social structure”, and proactively established its corporate social responsibilities and responsibility for environmental protection. For instance, from 2004 to the end of 2005, the Group assisted its parent company

in implementing the “Village-connected Project”, which is promoted by the Ministry of Information Industry with an aim to enhance telecommunications services in remote and rural areas of Mainland China. The Group's efforts helped approximately 26,000 administrative villages to put an end to their historical lack of telecommunications services, and achieved inspiring and fruitful results whilst at the same time extended the Group's network coverage.

From early December 2005, the Group launched a “Green Boxes Environmental Protection Campaign” in handsets sales and marketing outlets and handsets repair centres located in 31 provincial capitals and certain selected key municipalities. During this campaign, the Group collected used handsets and accessories, including batteries and chargers, from customers, and established an open platform for the collection of used handsets and accessories, thereby making its own contribution to economizing on resources to build an environmental-friendly society.

In addition, the Group ensured the reliable provision of telecommunications services and information release platforms at times of major public events, emergencies and disasters, provided information assistance about overseas disasters, and also planned to set up the “China Mobile Environmental Protection and Education Fund”, thereby winning acclaim from all sections of the society. The Group earnestly fulfilled its corporate social responsibilities, effectively developed its image in terms in public welfare, and was selected as “Best Corporate Citizen” by a number of bodies.

REPORT OF THE DIRECTORS

The directors take pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

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

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's aggregate turnover with its five largest customers did not exceed 30 per cent. of the Group's total turnover in 2005.

Purchases from the largest supplier for the year represented 11 per cent. of the Group's total purchases. The five largest suppliers accounted for an aggregate of 37 per cent. of the Group's purchases in 2005. Purchases for the Group include network equipment purchases, leasing of transmission lines and payments in relation to interconnection arrangements. Purchases from suppliers, other than suppliers of leased lines and network equipment and interconnection arrangements, were not material to the Group's total purchases.

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

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and the Group's associates as at 31 December 2005 are set out in note 17 and note 18, respectively, to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2005 and the state of the Company's and the Group's financial affairs as at that date are set out in the financial statements on pages 58 to 121.

DIVIDENDS

The Board considers that the Company's strong free cash flow is capable of supporting the Company's development, while also providing shareholders with a favorable cash return. Having taken into account such factors as the Company's financial position, cash flow position and requirements to ensure the sustainable future growth of the Company's business, the Board recommends payment of a final dividend of HK\$0.57 per share for the financial year ended 31 December 2005. This, together with the interim dividend of HK\$0.45 per share already paid during 2005, amounts to an aggregate dividend payment of HK\$1.02 per share for the full financial year, representing an increase of 54.5 per cent. over the annual dividend of HK\$0.66 per share for the financial year 2004 and a dividend payout ratio of 39 per cent..

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

DONATIONS

Donations made by the Group during the year amounted to RMB32,286,971 (2004: RMB20,127,742).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the Company's share capital and share option scheme are set out in note 33 and note 32, respectively, to the financial statements.

CONVERTIBLE NOTES AND BONDS

Details of the convertible notes and bonds of the Group are set out in note 29 to the financial statements.

RESERVES

Changes to the reserves of the Group and the Company during the year are set out in note 33 to the financial statements.

DIRECTORS

The directors during the financial year were:

Executive directors:

WANG Jianzhou (*Chairman*)

LI Yue

LU Xiangdong

XUE Taohai

ZHANG Chenshuang

LI Mofang

HE Ning

LI Gang

XU Long

Independent non-executive directors:

Dr. LO Ka Shui

Frank WONG Kwong Shing

Moses CHENG Mo Chi

Non-executive director:

Sir Julian Michael HORN-SMITH (*appointed on 11 March 2005*)

Dr. J. Brian CLARK (*resigned on 11 March 2005*)

On 3 January 2006, Mr. HE Ning and Mr. LI Gang resigned and Madam XIN Fanfei was appointed as an executive director of the Company. On 16 March 2006, Madam LI Mofang resigned and Mr. SHA Yuejia and Mr. LIU Aili were appointed as executive directors of the Company.

In accordance with Article 97 of the Company's Articles of Association, Mr. LU Xiangdong, Mr. XUE Taohai, Mr. XU Long, Dr. LO Ka Shui and Mr. Moses CHENG Mo Chi will retire by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election. In accordance with Article 101 of the Company's Articles of Association, Mr. SHA Yuejia, Mr. LIU Aili and Madam XIN Fanfei will also retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The biographical details of the directors proposed for re-election at the forthcoming Annual General Meeting ("Directors for Re-election") are set out on pages 7 to 9. Except as disclosed in such biographical details, the Directors for Re-election have not held any other directorships in any listed public companies in the last three years. Further, except as noted in the biographical details, none of the Directors for Re-election is connected with any directors, senior management or substantial or controlling shareholders of the Company and, except for the share options granted to Mr. LU Xiangdong, Mr. XUE Taohai, Mr. XU Long, Dr. LO Ka Shui and Mr. Moses CHENG Mo Chi as set out in the paragraph "Share option schemes" below and shares options involving 1,026,250 and 411,000 shares held by MR. SHA Yuejia and Mr. LIU Aili, respectively, none of them has any interests in the shares of the Company within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO").

The service contracts of all the Directors for Re-election do not provide for a specified length of services and each of such directors will be subject to retirement by rotation and re-election at annual general meetings of the Company every three years. Each of the Directors for Re-election is entitled to an annual director's fee of HK\$180,000 as proposed by the board of directors and approved by the shareholders of the Company. Director's fees are payable on a time pro-rata basis for any non full year's service. Dr. LO Ka Shui is also entitled to an additional annual fee of HK\$325,000 as the Chairman of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Moses CHENG Mo Chi is entitled to an additional annual fee of HK\$260,000 as member of the Audit Committee, the Nomination Committee and the Remuneration Committee. In addition, for the financial year ended 31 December 2005, Mr. LU Xiangdong, Mr. XUE Taohai and Mr. XU Long received annual remuneration, including retirement scheme contributions, of HK\$1,170,000, HK\$1,172,000 and HK\$1,219,000, respectively, plus a discretionary bonus and a discretionary award of share options as determined by the board of directors with respect to the directors' performance. Each of Mr. SHA Yuejia, Mr. LIU Aili and Madam XIN Fanfei will receive annual remuneration, including retirement scheme contributions, of HK\$1,170,000 plus a discretionary bonus and a discretionary award of share options as may be determined by the Board with reference to their performance. The remuneration of these directors has been determined with reference to the individual's duties, responsibilities and experience, and to prevailing market conditions.

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

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

Apart from those disclosed herein, as at 31 December 2005, none of the directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) that is required to be recorded and kept in the register in accordance with section 352 of the SFO, any interests required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SHARE OPTION SCHEMES

Share option schemes of the Company

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

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

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

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

As the Old Scheme was terminated with effect on 24 June 2002, no further options were granted under the Old Scheme thereafter. As at 31 December 2005, the total number of shares which may be issued on the exercise of the outstanding options granted under the Old Scheme is 82,141,250, representing approximately 0.41 per cent. of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report. As at the same date, the total number of shares which may be issued on the exercise of the outstanding options granted or to be granted under the Current Scheme is 1,624,889,195, representing approximately 8.19 per cent. of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report. However, the total number of shares in the Company issued and to be issued upon exercise of the options granted to a Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the issued share capital of the Company. The consideration payable for the grant of option under each of the Old Scheme and the Current Scheme is HK\$1.00.

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

- (i) the nominal value of a share; and
- (ii) 80 per cent. of the average of the closing price of the share on the SEHK on the five trading days immediately preceding the date on which the option was granted.

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

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

- (i) the nominal value of a share;
- (ii) the closing price of the shares on the 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.

Share options involving 289,777,500 shares were granted under the Current Scheme during the year ended 31 December 2005.

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

REPORT OF THE DIRECTORS (CONT'D)

As at 31 December 2005, the directors, chief executive and employees of the Company had the following personal interests in options to subscribe for shares of the Company granted under the Old Scheme and the Current Scheme.

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	No. of shares involved in the options lapsed during the year	No. of shares acquired on exercise of options during the year	Price per share to be paid on exercise of options HK\$
Directors						
WANG Jianzhou	600,000	600,000	21 December 2004	–	–	26.75
(also the chief executive officer)	–	970,000	8 November 2005	–	–	34.87
LI Yue	320,000	240,000	28 October 2004	–	80,000	22.75
	–	780,000	8 November 2005	–	–	34.87
LU Xiangdong	320,000	192,000	28 October 2004	–	128,000	22.75
	–	780,000	8 November 2005	–	–	34.87
XUE Taohai	200,000	100,000	3 July 2002	–	100,000	22.85
	320,000	192,000	28 October 2004	–	128,000	22.75
	–	780,000	8 November 2005	–	–	34.87
ZHANG Chenshuang	320,000	192,000	28 October 2004	–	128,000	22.75
	–	780,000	8 November 2005	–	–	34.87
LI Mofang	320,000	192,000	28 October 2004	–	128,000	22.75
	–	780,000	8 November 2005	–	–	34.87
HE Ning	1,000,000	1,000,000	26 November 1999	–	–	33.91
	166,000	166,000	25 April 2000	–	–	45.04
	90,000	45,000	22 June 2001	–	45,000	32.10
	180,000	90,000	3 July 2002	–	90,000	22.85
	320,000	192,000	28 October 2004	–	128,000	22.75
	–	780,000	8 November 2005	–	–	34.87

REPORT OF THE DIRECTORS (CONT'D)

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	No. of shares involved in the options lapsed during the year	No. of shares acquired on exercise of options during the year	Price per share to be paid on exercise of options HK\$
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Directors (cont'd)

LI Gang	1,000,000	1,000,000	26 November 1999	–	–	33.91
	180,000	180,000	25 April 2000	–	–	45.04
	100,000	50,000	22 June 2001	–	50,000	32.10
	190,000	95,000	3 July 2002	–	95,000	22.85
	270,000	162,000	28 October 2004	–	108,000	22.75
	–	270,000	8 November 2005	–	–	34.87
XU Long	1,170,000	1,170,000	25 April 2000	–	–	45.04
	95,000	47,500	22 June 2001	–	47,500	32.10
	180,000	90,000	3 July 2002	–	90,000	22.85
	260,000	156,000	28 October 2004	–	104,000	22.75
	–	270,000	8 November 2005	–	–	34.87
Julian Michael HORN-SMITH	–	400,000	8 November 2005	–	–	34.87
LO Ka Shui	–	400,000	8 November 2005	–	–	34.87
Frank WONG Kwong Shing	–	400,000	8 November 2005	–	–	34.87
Moses CHENG Mo Chi	–	400,000	8 November 2005	–	–	34.87

Employees

26,854,000	26,092,000	25 April 2000	762,000	–	45.04
72,204,000	52,390,750	22 June 2001	683,000	19,130,250	32.10
118,408,500	75,570,000	3 July 2002	556,750	42,281,750	22.85
285,743,500*	213,121,500	28 October 2004	1,274,500	71,596,500	22.75
–	281,578,500	8 November 2005	346,000	63,000	34.87
	<u>662,694,250</u>	(Note (a))			

* The actual number of shares involved in the options outstanding at year end of 2004 was 285,992,500 shares and was understated by 249,000 shares.

Notes:

(a) The total number of shares involved in the options outstanding at the end of the year represents 3.34 per cent. of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report.

(b) Options were granted on 8 November 2005. The closing price per share in the trading day immediately before 8 November 2005 is HK\$34.3.

(c) Particulars of share options:

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

Details of share options exercised during the year:

Period during which options were exercised	Exercise price	Weighted average closing price per share immediately before dates of exercise of options	Proceeds received	Number of shares involved in the options
11 August 2005 to 30 December 2005	HK\$32.10	HK\$37.23	HK\$618,655,275	19,272,750
3 January 2005 to 29 December 2005	HK\$22.85	HK\$28.79	HK\$974,706,738	42,656,750
3 January 2005 to 30 December 2005	HK\$22.75	HK\$36.12	HK\$1,650,023,375	72,528,500
23 December 2005 to 29 December 2005	HK\$34.87	HK\$38.61	HK\$2,196,810	63,000

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

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

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

The maximum aggregate number of Aspire Shares which can be subscribed pursuant to options that are or may be granted under the Aspire Scheme equals to 10 per cent. of the total issued share capital of Aspire as at the date of adoption of the Aspire Scheme. Options lapsed or cancelled in accordance with the terms of the Aspire Scheme will not be counted for the purpose of calculating this 10 per cent. limit. As at 31 December 2005, the total number of shares which may be issued on the exercise of the outstanding options granted or to be granted under the Aspire Scheme was 93,964,582, representing 10 per cent. of the issued share capital of Aspire as at the date of this annual report. However, the total number of Aspire Shares issued and to be issued upon exercise of the options granted to an Aspire Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the issued share capital of Aspire.

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

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

- (i) US\$0.298; and
- (ii) the price determined by applying a maximum discount of 20 per cent. to the price per Aspire Share calculated by dividing the valuation of Aspire as a whole by the aggregate number of issued Aspire Shares at the time of employment/appointment of the Aspire Participant or the grant of the options to the Aspire Participant (as the case may be),

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

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

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

- (a) 50 per cent. of any options granted shall be exercisable: (i) 2 years after the time of commencement of employment (or the appointment as director) of the relevant Aspire Participant (in the case of options specified in the employment contract with the relevant Aspire Participant) or (in other cases) the date on which the Aspire Participant is offered with the option or (ii) after listing of Aspire, whichever is later; and
- (b) the remaining 50 per cent. of such options shall be exercisable 3 years after the initial 50 per cent. of the options becomes exercisable.

As at 31 December 2005, directors and the employees of Aspire had the following personal interests in options to subscribe for shares of Aspire granted under the Aspire Scheme.

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	Normal period during which options are exercisable	No. of shares involved in the options lapsed during the year	Price per share to be paid on exercise of options US\$
Directors of Aspire*	2,800,000	2,800,000	18 February 2003	(Note 2)	–	0.182
		500,000	28 May 2004	(Note 4)	–	0.298
Employees of Aspire*	11,545,000	9,705,000	18 February 2003	(Note 3)	1,840,000	0.298
	730,000	720,000	18 April 2003	(Note 3)	10,000	0.298
	2,810,000	2,540,000	16 September 2003	(Note 3)	270,000	0.298
	2,470,000	1,970,000	18 March 2004	(Note 3)	500,000	0.298
	1,115,000	595,000	28 May 2004	(Note 3, Note 4)	20,000	0.298
		<u>18,830,000</u>	(Note 1)			

Notes:

- * During the year ended 31 December 2005, no share options have been granted under the Aspire Scheme for the directors and chief executive of the Company.
- (1) The total number of shares involved in the options outstanding at the end of the year represents 2 per cent. of the issued share capital of Aspire as at the date of this report.
- (2) (a) 50 per cent. of the options are exercisable between the period:
- commencing on the later of:
 - (i) two years after the date of appointment as director; or
 - (ii) the date of grant of the options (as the case may be);
 - ending on 17 February 2013; and
- (b) the remaining 50 per cent. of such options shall be exercisable between the period commencing three years after the initial 50 per cent. of the option becomes exercisable and ending on 17 February 2013.
- (3) (a) 50 per cent. of the options granted to a particular employee are exercisable between the period:
- commencing on the later of:
 - (i) two years after the commencement of employment of that employee or the option offer date (as the case may be); or
 - (ii) the listing of the shares of Aspire;
 - ending on the date falling 10 years from the option grant date; and
- (b) the remaining 50 per cent. of such options shall be exercisable between the period commencing three years after the initial 50 per cent. of the option becomes exercisable and ending on the date falling 10 years from the option grant date.
- (4) A senior management of Aspire was appointed as a director of Aspire in the second half of 2005.

No options granted under the Aspire Scheme were exercised during the year ended 31 December 2005.

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

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

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

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

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

The Company has been notified of the following interests in the Company's issued shares at 31 December 2005 amounting to 5 per cent. or more of the ordinary shares in issue:

	Ordinary shares held		Percentage of
	directly	indirectly	total issued shares
(i) China Mobile Communications Corporation ("CMCC")	–	14,890,116,842	75.07%
(ii) China Mobile (Hong Kong) Group Limited ("CMHK (Group)")	–	14,890,116,842	75.07%
(iii) China Mobile Hong Kong (BVI) Limited ("CMHK (BVI)")	14,890,116,842	–	75.07%

Note:

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

Apart from the foregoing, as at 31 December 2005, no person or corporation had any interest in the share capital of the Company as recorded in the registers required to be kept under section 336 of the SFO as having an interest in 5 per cent. or more of or any short position in the issued share capital of the Company.

CONNECTED TRANSACTIONS

Continuing Connected Transactions which were subject to waivers previously granted by the SEHK

Details of the continuing connected transactions which were subject to waivers previously granted by the Stock Exchange (the "Continuing Connected Transactions") are set out in note 34 to the financial statements.

For the financial year ended 31 December 2005, the Continuing Connected Transactions have not exceeded their respective upper limits:

- (1) platform development charges paid by CMCC to Aspire or its subsidiaries have not exceeded 3 per cent. of the Group's consolidated net tangible assets as at 31 December 2005. The platform development charges payable were determined according to standards laid down by the relevant government departments and/or by reference to market rates;

- (2) rental and property management service charges paid by the Group to CMCC have not exceeded RMB800 million. The charges payable by the Group in respect of properties owned by CMCC and its subsidiaries are determined with reference to market rates whilst the charges payable in respect of properties which CMCC or its subsidiaries lease from third parties and sub-let to the Group are determined according to the actual rent payable by CMCC or its subsidiaries to such third parties together with the amount of any tax payable; and
- (3) telecommunications service charges, price of transmission towers and spare parts purchased and the charges for related installation and maintenance services paid by the Group to CMCC have not exceeded RMB2,500 million. The telecommunications service charges, price of transmission towers and spare parts purchased and the charges for related installation and maintenance services are determined with reference to and cannot exceed relevant standards laid down and revised from time to time by the government of the PRC. Where there are no government standards, the prices and charges are determined according to market rates.

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

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

- (i) in the ordinary and usual course of its business;
- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

- (a) have received the approval of the Company's board of directors;
- (b) were in accordance with the pricing policy as stated on pages 51 to 52 of this report;
- (c) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and
- (d) have not exceeded their respective upper limits set out above for the financial year ended 31 December 2005.

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

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

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

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2005 are set out in note 29 to the financial statements.

FINANCIAL SUMMARY

A summary of the audited results and of the audited statements of the assets and liabilities of the Group for the last five financial years is set out on pages 130 to 131.

EMOLUMENT POLICY

The Group has always emphasized the importance of a highly-efficient staff management and incentive structure, the continuous promotion of human resource management and effective system of remuneration and benefits, thereby maintaining a competitive advantage in human resources. Employees are remunerated with, among others, a basic fixed salary and a performance-based bonus. In terms of long term incentives, the Group has adopted share option schemes for eligible employees, details of which are set out under the paragraph "Share option schemes" above.

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in note 31 to the financial statements.

PUBLIC FLOAT

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

AUDITORS

A resolution for the reappointment of KPMG as auditors of the Company shall be proposed at the forthcoming Annual General Meeting.

By order of the board

Wang Jianzhou

Chairman

Hong Kong, 16 March 2006

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of China Mobile (Hong Kong) Limited will be held on Thursday, 18 May 2006 at 2:00 p.m. in the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong for the following purposes:

As Ordinary Business:

1. To receive and consider the audited financial statements and the Reports of the Directors and Auditors of the Company and its subsidiaries for the year ended 31 December 2005.
2. To declare a final dividend for the year ended 31 December 2005.
3. To re-elect Directors.
4. To re-appoint Auditors and authorize the Directors to fix their remuneration.

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

ORDINARY RESOLUTIONS

5. **"THAT:**

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase shares of HK\$0.10 each in the capital of the Company including any form of depositary receipt representing the right to receive such shares ("Shares") be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be purchased on The Stock Exchange of Hong Kong Limited or any other stock exchange on which securities of the Company may be listed and which is recognized for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited pursuant to the approval in paragraph (a) above shall not exceed or represent more than 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly;
- (c) for the purpose of this Resolution "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:
 - (1) the conclusion of the next annual general meeting of the Company;
 - (2) the expiration of the period within which the next annual general meeting of the Company is required by law to be held;
or
 - (3) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting."

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

- (a) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, plus
- (b) (if the Directors are so authorized by a separate ordinary resolution of the shareholders of the Company) the nominal amount of the share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution).

Such mandate shall expire at the earlier of:

- (1) the conclusion of the next annual general meeting of the Company;
 - (2) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; or
 - (3) the date of any revocation or variation of the mandate given under this Resolution by ordinary resolution of the shareholders of the Company at a general meeting."
7. **"THAT** the Directors be and are hereby authorized to exercise the powers of the Company referred to in the resolution set out in item 6 in the notice of this meeting in respect of the share capital of the Company referred to in paragraph (b) of such resolution."

And as Special Business, to consider and, if thought fit, to pass the following as a special resolution:

SPECIAL RESOLUTION

8. **"THAT** the name of the Company be changed from 'China Mobile (Hong Kong) Limited (中國移動(香港)有限公司)' to 'China Mobile Limited (中國移動有限公司)'."

By order of the Board
Wong Wai Lan, Grace
Company Secretary
30 March 2006

Notes:

1. Any member entitled to attend and vote at the above Meeting is entitled to appoint one or, if he is the holder of two or more shares, more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's registered office at 60/F, The Center, 99 Queen's Road Central, Central, Hong Kong at least 36 hours before the time for holding the above Meeting. Completion and return of a form of proxy will not preclude a member from attending and voting in person if he is subsequently able to be present.
3. According to the Articles of Association of the Company, a poll may be demanded by:
 - (a) the chairman of the above Meeting; or
 - (b) at least three members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote at the above Meeting; or
 - (c) any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the above Meeting; or
 - (d) any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding shares conferring a right to attend and vote at the above Meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.
4. A poll shall be taken at such time (being not later than thirty days after the date of the demand) and in such manner as the chairman of the above Meeting may appoint. On a poll, every member present at the meeting shall be entitled to one vote for every fully paid-up share of which he is the holder. The result of such poll shall be deemed for all purposes to be the resolution of the meeting at which the poll was so directed or demanded.
5. The Board of Directors has recommended a final dividend for the year ended 31 December 2005 of HK\$0.57 per share and, if such dividend is declared by the members passing Resolution 2, it is expected to be paid on or about 26 May 2006 to those shareholders whose names appear on the Company's register of members on 18 May 2006.
6. The register of members of the Company will be closed from 16 May 2006 to 18 May 2006 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Hong Kong Registrars Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4 p.m. on 15 May 2006.
7. Concerning Resolution 5 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares of the Company in circumstances which they deem appropriate for the benefit of the shareholders. The Explanatory Statement containing the information necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the repurchase by the Company of its own shares, as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be set out in a separate letter from the Company to be enclosed with the 2005 Annual Report.
8. Concerning Resolution 8 above, a circular setting out the reason for the proposed change of the Company's name will be despatched to shareholders of the Company together with the 2005 Annual Report.

AUDITORS' REPORT



Auditors' report to the shareholders of
China Mobile (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 58 to 121 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

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

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
Hong Kong, 16 March 2006

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2005 (Expressed in Renminbi)

	Note	2005 RMB million	2004 RMB million (restated)
Operating revenue (Turnover)	3		
Usage fees		156,710	128,534
Monthly fees		25,055	24,760
Other operating revenue		61,276	39,087
		243,041	192,381
Operating expenses			
Leased lines		3,224	3,861
Interconnection		15,309	12,072
Depreciation		56,368	44,186
Personnel	7(b)	14,200	9,972
Other operating expenses	4	80,254	62,811
		169,355	132,902
Profit from operations		73,686	59,479
Amortization of goodwill	16	—	(1,930)
Other net income	5	3,284	3,167
Non-operating net income	6	1,025	900
Interest income		1,615	1,014
Finance costs	7(a)	(1,346)	(1,679)
Profit before taxation	7	78,264	60,951
Taxation	10(a)	(24,675)	(19,180)
Profit for the year		53,589	41,771
Attributable to:			
Equity shareholders of the Company		53,549	41,749
Minority interests		40	22
Profit for the year		53,589	41,771
Dividends payable to equity shareholders of the Company attributable to the year:			
Interim dividend declared and paid during the year	12(a)	9,259	4,175
Final dividend proposed after the balance sheet date	12(a)	11,767	9,614
		21,026	13,789
Earnings per share			
Basic	13(a)	RMB2.71	RMB2.12
Diluted	13(b)	RMB2.70	RMB2.12

The notes on pages 65 to 121 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2005 (Expressed in Renminbi)

	Note	2005 RMB million	2004 RMB million (restated)
Non-current assets			
Property, plant and equipment	14(a)	216,505	212,459
Construction in progress	15	34,201	30,510
Land lease prepayments		7,243	6,333
Goodwill	16	35,300	35,300
Interest in associates	18	—	—
Other financial assets	19	77	77
Deferred tax assets	20	6,625	4,068
Deferred expenses	21	—	96
		299,951	288,843
Current assets			
Inventories	22	2,365	2,499
Accounts receivable	23	6,603	6,553
Other receivables	24	1,911	1,879
Prepayments and other current assets		3,583	2,974
Amount due from ultimate holding company	25	63	356
Tax recoverable	10(c)	165	235
Deposits with banks		41,925	20,264
Cash and cash equivalents	26	64,461	45,149
		121,076	79,909
Current liabilities			
Accounts payable	27	41,931	35,036
Bills payable		1,359	1,676
Deferred revenue	28	16,975	12,936
Accrued expenses and other payables		40,007	32,549
Amount due to ultimate holding company	25	269	459
Amount due to immediate holding company	25	96	98
Interest-bearing borrowings	29(a)	—	8,180
Obligations under finance leases	30	68	68
Current taxation	10(c)	9,249	6,664
		109,954	97,666
Net current assets/(liabilities)		11,122	(17,757)
Total assets less current liabilities carried forward		311,073	271,086

CONSOLIDATED BALANCE SHEET (CONT'D)

at 31 December 2005 (Expressed in Renminbi)

	Note	2005 RMB million	2004 RMB million (restated)
Total assets less current liabilities brought forward		311,073	271,086
Non-current liabilities			
Interest-bearing borrowings	29(a)	(36,545)	(36,633)
Deferred revenue, excluding current portion	28	(1,324)	(944)
Deferred tax liabilities	20	(97)	(105)
		(37,966)	(37,682)
NET ASSETS		273,107	233,404
CAPITAL AND RESERVES	33(a)		
Share capital		2,116	2,102
Reserves		270,708	231,059
Total equity attributable to equity shareholders of the Company		272,824	233,161
Minority interests		283	243
TOTAL EQUITY		273,107	233,404

Approved and authorized for issue by the board of directors on 16 March 2006

Wang Jianzhou

Director

Xue Taohai

Director

The notes on pages 65 to 121 form part of these financial statements.

BALANCE SHEET

at 31 December 2005 (Expressed in Renminbi)

	Note	2005 RMB million	2004 RMB million (restated)
Non-current assets			
Property, plant and equipment	14(b)	3	3
Investments in subsidiaries	17	469,993	468,469
Deferred expenses	21	—	96
		469,996	468,568
Current assets			
Amounts due from subsidiaries	17	9,023	4,171
Other receivables		13	8
Deposits with banks		134	718
Cash and cash equivalents	26	4,551	2,137
		13,721	7,034
Current liabilities			
Accrued expenses and other payables		24	36
Amount due to immediate holding company	25	96	98
Interest-bearing borrowings	29(b)	—	5,725
		120	5,859
Net current assets		13,601	1,175
Total assets less current liabilities		483,597	469,743
Non-current liabilities			
Amount due to a subsidiary	17	(12,912)	(13,000)
Interest-bearing borrowings	29(b)	(23,633)	(23,633)
		(36,545)	(36,633)
NET ASSETS		447,052	433,110
CAPITAL AND RESERVES	33(b)		
Share capital		2,116	2,102
Reserves		444,936	431,008
TOTAL EQUITY		447,052	433,110

Approved and authorized for issue by the board of directors on 16 March 2006

Wang Jianzhou

Director

Xue Taohai

Director

The notes on pages 65 to 121 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005 (Expressed in Renminbi)

	Note	2005		2004	
		RMB million	RMB million	RMB million (restated)	RMB million (restated)
Total equity at 1 January					
As previously reported:					
— attributable to equity shareholders of the Company	33	233,161		198,803	
— minority interests	33	243		182	
		233,404		198,985	
Prior period adjustments arising from changes in accounting policies	2	—		—	
As restated, before opening balance adjustments	33		233,404		198,985
Opening balance adjustments arising from changes in accounting policies	33		33		—
At 1 January, after prior period and opening balance adjustments	33		233,437		198,985
Profit for the year:					
As previously reported:	2				
— attributable to equity shareholders of the Company				42,004	
— minority interests				22	
				42,026	
Prior period adjustments arising from changes in accounting policies	2			(255)	
Profit for the year (2004: as restated)	33		53,589		41,771
Total recognized income and expense for the year (2004: as restated)			53,589		41,771
Attributable to:					
Equity shareholders of the Company		53,549		41,749	
Minority interests		40		22	
		53,589		41,771	
Dividends declared or approved during the year	33		(18,894)		(8,349)
Movements in equity arising from capital transactions:					
Shares issued under share option scheme	33	14		3	
Share premium arising on issuance of shares	33	3,408		700	
Equity settled share-based transactions (2004: as restated)	33	1,553		255	
Minority interests arising from acquisition of a subsidiary	33	—		39	
			4,975		997
Total equity at 31 December			273,107		233,404
Restatements of total recognized income and expense for the year are attributable to:					
Equity shareholders of the Company					—
Minority interests					—
					—
Arising from restatement of:					
Net income recognized directly in equity					255
Profit for the year					(255)
					—

The notes on pages 65 to 121 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005 (Expressed in Renminbi)

	Note	2005 RMB million	2004 RMB million (restated)
Operating activities			
Profit before taxation		78,264	60,951
Adjustments for:			
— Depreciation of property, plant and equipment		56,368	44,186
— Amortization of land lease prepayments		169	134
— Amortization of goodwill		—	1,930
— Loss on disposal of property, plant and equipment		411	535
— Write off of property, plant and equipment		5,645	5,900
— Impairment loss for doubtful accounts		2,968	2,273
— Amortization of deferred expenses		—	47
— Interest income		(1,615)	(1,014)
— Interest expense		1,346	1,679
— Dividend income		(51)	(84)
— Equity-settled share-based payment expenses		1,553	255
— Unrealized exchange loss, net		108	24
Operating profit before changes in working capital		145,166	116,816
Decrease/(increase) in inventories		134	(106)
Increase in accounts receivable		(3,037)	(2,082)
Decrease in other receivables		134	377
Increase in prepayments and other current assets		(609)	(555)
Decrease in amount due from fellow subsidiaries		—	896
Decrease in amount due from ultimate holding company		293	662
Increase in accounts payable		2,303	2,707
Increase in bills payable		11	—
Increase in deferred revenue		4,419	2,724
Increase in accrued expenses and other payables		7,670	6,365
Decrease in amount due to fellow subsidiaries		—	(4,661)
Decrease in amount due to ultimate holding company		(190)	(1,257)
Cash generated from operations		156,294	121,886
Tax paid			
— PRC income tax paid		(24,585)	(18,107)
Net cash generated from operating activities carried forward		131,709	103,779

CONSOLIDATED CASH FLOW STATEMENT (CONT'D)
for the year ended 31 December 2005 (Expressed in Renminbi)

	Note	2005 RMB million	2004 RMB million (restated)
Net cash generated from operating activities brought forward		131,709	103,779
Investing activities			
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)		—	(12,238)
Capital expenditure		(66,027)	(58,367)
Land lease prepayments		(1,079)	(776)
Proceeds from disposal of property, plant and equipment		132	93
Increase in deposits with banks		(21,661)	(3,037)
Interest received		1,468	939
Dividends received		51	84
Net cash used in investing activities		(87,116)	(73,302)
Financing activities			
Proceeds from issue of shares under share option scheme		3,422	703
Redemption of convertible notes		(5,611)	—
Redemption of fixed rate notes		—	(4,978)
Repayments of bank and other loans		(2,455)	(9,783)
Capital elements of finance leases rentals paid		—	(10)
Interest paid		(1,635)	(2,040)
Dividends paid		(18,894)	(8,349)
Net cash used in financing activities		(25,173)	(24,457)
Net increase in cash and cash equivalents		19,420	6,020
Cash and cash equivalents at beginning of year		45,149	39,129
Effect of changes in foreign exchange rate		(108)	—
Cash and cash equivalents at end of year	26	64,461	45,149

Notes to the consolidated cash flow statement

Significant non-cash transactions

The Group incurred payables of RMB28,176,000,000 (2004: RMB23,584,000,000) and RMB1,332,000,000 (2004: RMB1,660,000,000) to equipment suppliers and banks respectively for additions of construction in progress during the year ended 31 December 2005.

The notes on pages 65 to 121 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

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

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

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

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 41.

(c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(c) Subsidiaries (cont'd)**

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity 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 interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognized for the year (see notes 1(e) and 1(i)).

When the Group's share of losses exceeds its interest in the associate, 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.

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

(e) Goodwill

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(f) Other investments in equity securities**

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

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

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

(g) Property, plant and equipment

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

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

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

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

Buildings	8–35 years
Telecommunications transceivers, switching centers, transmission and other network equipment	7–10 years
Office equipment, furniture and fixtures and others	4–18 years

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

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

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

(ii) Assets acquired under finance leases

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(h) Leased assets (cont'd)****(iii) Operating lease charges**

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

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

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

Investments in equity securities and other current receivables that are stated at cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognized as follows:

- For unquoted equity securities and current receivables that are 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 current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

(ii) Impairment of other assets

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

- property, plant and equipment;
- construction in progress;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- investments in subsidiaries and associates; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

(i) Calculation of recoverable amount

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(i) Impairment of assets (cont'd)****(ii) Impairment of other assets (cont'd)***(ii) Recognition of impairment losses*

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

(iii) Reversals of impairment losses

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

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

(j) Construction in progress

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

(k) Inventories

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

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

(l) 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(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for doubtful accounts (see note 1(i)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(m) Deferred revenue**

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

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

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

(n) Convertible notes

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

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

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

(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 cost and redemption value being recognized in the income statement over the period of the borrowings using the effective interest method.

(p) Accounts and other payables

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

(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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(r) Revenue recognition**

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

- (i) usage fees and other operating revenue are recognized as revenue when the service is rendered;
- (ii) monthly fees are recognized as revenue in the month during which the service is rendered;
- (iii) deferred revenue from prepaid services is recognized as revenue when the mobile telecommunications services are rendered upon actual usage by subscribers;
- (iv) interest income is recognized on a time proportion basis by reference to the principal outstanding and the rate applicable; and
- (v) sales of SIM cards and handsets are recognized on delivery of goods to the buyer. Such revenue, net of cost of goods sold, is included in other net income due to its insignificance.

(s) Income tax

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

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

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

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

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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(s) Income tax (cont'd)**

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(t) Provisions and contingent liabilities

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

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

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

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

The Company's contributions to Mandatory Provident Funds, as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognized as an expense in the income statement as incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(u) Employee benefits (cont'd)****(i) Short term employee benefits and contributions to defined contribution retirement plans (cont'd)**

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

(ii) Share-based payments

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

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

(iii) Termination benefits

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

(v) Borrowing costs

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**(w) Translation of foreign currencies**

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

(x) Related parties

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

(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 all the Group's operating activities are carried out in the People's Republic of China (the "PRC") and less than 10 per cent. of the Group's turnover and contribution to profit from operations were derived from activities outside the Group's mobile telecommunications and related services activities. There is no other geographical or business segment with segment assets equal to or greater than 10 per cent. of the Group's total assets.

2 CHANGES IN ACCOUNTING POLICIES

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

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarized in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 42).

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and the Company's balance sheet and other significant related disclosure items as previously reported for the year ended 31 December 2004. The effects of the changes in accounting policies on the balances at 1 January 2004 and 2005 are disclosed in note 33.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

(a) Restatement of prior periods and opening balances (cont'd)

(i) Effect on the consolidated financial statements

Consolidated income statement for the year ended 31 December 2004

	2004 (as previously reported) RMB million	Effect of new policy (increase/(decrease) in profit for the year)				2004 (as restated) RMB million
		HKFRS 2 (note 2(f)) RMB million	HKAS 1 (note 2(d)) RMB million	HKAS 17 (note 2(e)) RMB million	Sub-total RMB million	
Operating revenue						
(Turnover)	192,381	—	—	—	—	192,381
Operating expenses						
Leased lines	(3,861)	—	—	—	—	(3,861)
Interconnection	(12,072)	—	—	—	—	(12,072)
Depreciation	(44,320)	—	—	134	134	(44,186)
Personnel	(9,717)	(255)	—	—	(255)	(9,972)
Other operating expenses	(62,677)	—	—	(134)	(134)	(62,811)
	(132,647)	(255)	—	—	(255)	(132,902)
Profit from operations	59,734	(255)	—	—	(255)	59,479
Other income and expenses	1,472	—	—	—	—	1,472
Profit before taxation	61,206	(255)	—	—	(255)	60,951
Taxation	(19,180)	—	—	—	—	(19,180)
Minority interests	(22)	—	22	—	22	—
Profit for the year	42,004	(255)	22	—	(233)	41,771
Attributable to:						
Equity shareholders of the Company	42,004	(255)	—	—	(255)	41,749
Minority interests	—	—	22	—	22	22
Profit for the year	42,004	(255)	22	—	(233)	41,771
Earnings per share						
Basic	RMB2.14	RMB(0.02)	—	—	RMB(0.02)	RMB2.12
Diluted	RMB2.13	RMB(0.01)	—	—	RMB(0.01)	RMB2.12
Other significant disclosure items:						
Operating lease charges						
— land and buildings	2,041	—	—	134	134	2,175

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

(a) Restatement of prior periods and opening balances (cont'd)

(i) Effect on the consolidated financial statements (cont'd)

Consolidated balance sheet at 31 December 2004

	2004 (as previously reported) RMB million	Effect of new policy (increase/(decrease) in profit for the year)				2004 (as restated) RMB million
		HKFRS 2 (note 2(f)) RMB million	HKAS 1 (note 2(d)) RMB million	HKAS 17 (note 2(e)) RMB million	Sub-total RMB million	
Non-current assets						
Property, plant and equipment	218,063	—	—	(5,604)	(5,604)	212,459
Construction in progress	31,239	—	—	(729)	(729)	30,510
Land lease prepayments	—	—	—	6,333	6,333	6,333
Other non-current assets	39,541	—	—	—	—	39,541
	288,843	—	—	—	—	288,843
Net current liabilities	(17,757)	—	—	—	—	(17,757)
Total assets less current liabilities	271,086	—	—	—	—	271,086
Non-current liabilities	(37,682)	—	—	—	—	(37,682)
Minority interests	(243)	—	243	—	243	—
NET ASSETS	233,161	—	243	—	243	233,404
CAPITAL AND RESERVES						
Attributable to equity shareholders of the Company						
Share capital	2,102	—	—	—	—	2,102
Capital reserve	(295,665)	255	—	—	255	(295,410)
Other reserves	417,628	—	—	—	—	417,628
Retained profits	109,096	(255)	—	—	(255)	108,841
	233,161	—	—	—	—	233,161
Attributable to minority interests	—	—	243	—	243	243
	233,161	—	243	—	243	233,404

(ii) Effect on the Company's balance sheet

Balance sheet at 31 December 2004

	2004 (as previously reported) RMB million	Effect of new policy (increase/(decrease) in net assets)		2004 (as restated) RMB million
		HKFRS 2 (note 2(f)) RMB million		
NET ASSETS	432,863	247		433,110
CAPITAL AND RESERVES				
Share capital	2,102	—		2,102
Capital reserve	—	255		255
Other reserves	375,351	—		375,351
Retained profits	55,410	(8)		55,402
	432,863	247		433,110

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

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

(i) Effect on the consolidated financial statements

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

	Effect of new policy (increase/(decrease) in profit for the year)				Total RMB million
	HKFRS 2 (note 2(f)) RMB million	HKFRS 3 (note 2(c)) RMB million	HKAS 17 (note 2(e)) RMB million	HKAS 39 (note 2(g)) RMB million	
Operating revenue (Turnover)	—	—	—	—	—
Operating expenses					
Leased lines	—	—	—	—	—
Interconnection	—	—	—	—	—
Depreciation	—	—	169	—	169
Personnel	(1,553)	—	—	—	(1,553)
Other operating expenses	—	—	(169)	—	(169)
	(1,553)	—	—	—	(1,553)
Profit from operations	(1,553)	—	—	—	(1,553)
Amortization of goodwill	—	2,001	—	—	2,001
Non-operating net income	—	—	—	32	32
Finance costs	—	—	—	(41)	(41)
Other income and expenses	—	—	—	—	—
Profit before taxation	(1,553)	2,001	—	(9)	439
Taxation	—	—	—	—	—
Profit for the year	(1,553)	2,001	—	(9)	439
Attributable to:					
Equity shareholders of the Company	(1,553)	2,001	—	(9)	439
Minority interests	—	—	—	—	—
Profit for the year	(1,553)	2,001	—	(9)	439
Earnings per share					
Basic	RMB(0.08)	RMB0.10	—	—	RMB0.02
Diluted	RMB(0.08)	RMB0.10	—	—	RMB0.02
Other significant disclosure items:					
Interest on bonds	—	—	—	(12)	(12)
Interest on convertible notes	—	—	—	(29)	(29)
Amortization of deferred expenses	—	—	—	32	32
Operating lease charges — land and buildings	—	—	(169)	—	(169)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

(i) Effect on the consolidated financial statements (cont'd)

Estimated effect on the consolidated balance sheet at 31 December 2005:

	Effect of new policy (increase/(decrease) in profit for the year)				
	HKFRS 2 (note 2(f))	HKFRS 3 (note 2(c))	HKAS 17 (note 2(e))	HKAS 39 (note 2(g))	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Non-current assets					
Property, plant and equipment	—	—	(5,922)	—	(5,922)
Construction in progress	—	—	(1,321)	—	(1,321)
Land lease prepayments	—	—	7,243	—	7,243
Goodwill	—	2,001	—	—	2,001
Deferred expenses	—	—	—	(64)	(64)
Other non-current assets	—	—	—	—	—
	—	2,001	—	(64)	1,937
Net current assets	—	—	—	—	—
Total assets less current liabilities	—	2,001	—	(64)	1,937
Non-current liabilities					
Interest-bearing borrowings	—	—	—	88	88
Other non-current liabilities	—	—	—	—	—
	—	—	—	88	88
NET ASSETS	—	2,001	—	24	2,025
CAPITAL AND RESERVES					
Effect attributable to equity shareholders of the Company					
Share capital	—	—	—	—	—
Share premium	553	—	—	—	553
Capital reserve	1,255	—	—	—	1,255
Other reserves	—	—	—	—	—
Retained profits	(1,808)	2,001	—	24	217
	—	2,001	—	24	2,025
Effect attributable to minority interests	—	—	—	—	—
	—	2,001	—	24	2,025

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

(i) Effect on the consolidated financial statements (cont'd)

Estimated effect on net income recognized directly in consolidated equity for the year ended 31 December 2005:

	Effect of new policy increase in equity		
	HKAS 17 (note 2(e)) RMB million	HKAS 39 (note 2(g)) RMB million	Total RMB million
For the year ended 31 December 2005			
Attributable to equity shareholders of the Company	—	33	33
Minority interests	—	—	—
Total equity	—	33	33

Estimated effect on amounts recognized as capital transactions with owners of the Group for the year ended 31 December 2005:

	Effect of new policy increase
	HKFRS 2 (note 2(f)) RMB million
Attributable to equity shareholders of the Company	1,553
Minority interests	—
Total equity	1,553

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

(ii) Effect on the Company's balance sheet

Estimated effect on the balance sheet at 31 December 2005:

	Effect of new policy (increase/(decrease) in net assets)		Total RMB million
	HKFRS 2 (note 2(f)) RMB million	HKAS 32 & 39 (note 2(g)) RMB million	
Non-current assets			
Deferred expenses	—	(64)	(64)
Investments in subsidiaries	1,771	—	1,771
Other non-current assets	—	—	—
	1,771	(64)	1,707
Net current assets	—	—	—
Total assets less current liabilities	1,771	(64)	1,707
Non-current liabilities			
Interest-bearing borrowings	—	88	88
Other non-current liabilities	—	—	—
	—	88	88
NET ASSETS	1,771	24	1,795
CAPITAL AND RESERVES			
Share capital	—	—	—
Share premium	553	—	553
Capital reserve	1,255	—	1,255
Other reserves	—	—	—
Retained profits	(37)	24	(13)
	1,771	24	1,795

Estimated effect on net income recognized directly in the Company's equity for the year ended 31 December 2005:

	Effect of new policy increase
	HKAS 39 (note 2(g)) RMB million
For the year ended 31 December 2005	33

Estimated effect on amounts recognized as capital transactions with owners of the Company for the year ended 31 December 2005:

	Effect of new policy increase
	HKFRS 2 (note 2(f)) RMB million
Attributable to equity shareholders of the Company	1,553

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)**(c) Amortization of positive and negative goodwill (HKFRS 3 "Business combinations" and HKAS 36 "Impairment of assets")**

In prior years:

- positive goodwill arising from acquisitions before 1 January 2001 was eliminated against reserves and was reduced by impairment losses recognized in the consolidated income statement;
- positive goodwill arising from acquisitions on or after 1 January 2001 was amortized to the consolidated income statement on a straight-line basis over 20 years. Positive goodwill was stated in the consolidated balance sheet at cost less accumulated amortization and any impairment losses;
- negative goodwill arising from acquisitions before 1 January 2001 was credited to a capital reserve; and
- negative goodwill which arose from acquisitions on or after 1 January 2001 was amortized over the weighted average life of the depreciable/amortizable non-monetary assets acquired, except to the extent is related to identified expected future losses as at the date of acquisition. In such cases it was recognized in the consolidated income statement as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group adopted a new accounting policy for amortization of positive and negative goodwill as set out in note 1(e).

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortization as at 1 January 2005 has been offset against the cost of the goodwill and no amortization charge for goodwill has been recognized in the consolidated income statement for the year ended 31 December 2005.

The change in policy relating to negative goodwill had no effect on the financial report as there was no negative goodwill deferred as at 31 December 2004.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken into reserve (i.e. goodwill which arose before 1 January 2001) will not be recognized in the consolidated income statement on disposal or impairment of the acquired business, or under any other circumstances.

(d) Minority interests (HKAS 1 "Presentation of financial statements" and HKAS 27 "Consolidated and separate financial statements")

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to equity shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group adopted a new accounting policy for minority interests as set out in note 1(c).

The presentation of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative period has been restated accordingly.

(e) Land use rights and buildings held for own use (HKAS 17 "Leases")

In prior years, land use rights and buildings held for own use were stated at cost less accumulated depreciation and impairment losses. Depreciation was calculated to write-off the cost of such assets on a straight-line basis over their estimated useful lives, to residual value.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group adopted a new accounting policy for land use rights and buildings held for own use as set out in note 1(h).

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)**(e) Land use rights and buildings held for own use (HKAS 17 "Leases") (cont'd)**

The new accounting policy has been adopted retrospectively. There is no impact on the Group's net assets as at the year end and on the Group's profit attributable to equity shareholders for the periods presented. An additional line item "Land lease prepayments", which was previously included in "Property, plant and equipment" and "Construction in progress" has been included on the face of the consolidated balance sheet. Comparative figures for "Property, plant and equipment" and "Construction in progress" have been reclassified to conform with the current year's presentation. Amortization charges relating to land lease prepayments have been included in "Other operating expenses" and "Depreciation" and "Other operating expenses" in the consolidated income statement for the year ended 31 December 2004 have also been restated.

(f) Employee share option scheme (HKFRS 2 "Share-based payment")

In prior years, no employee benefit cost or obligation was recognized when employees (which term includes directors) were granted share options by the Group over shares in the Company. When the share options were exercised, equity was increased by the amount of the proceeds received.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group adopted a new accounting policy for the employee share option scheme as set out in note 1(u).

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has adopted the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- all share options granted to employees on or before 7 November 2002; and
- all share options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

Details of the share option scheme are set out in note 32.

(g) Financial instruments (HKAS 32 "Financial instruments: Disclosure and presentation" and HKAS 39 "Financial instruments: Recognition and measurement")

In prior years, convertible notes and bonds were stated in the balance sheet at face value, less unamortized discount arising upon issuance. The discount was amortized on a straight-line basis over the period from the date of issue to the date of maturity.

With effect from 1 January 2005, and in accordance with HKAS 32 and HKAS 39, the Group adopted new accounting policies for financial instruments as set out in note 1(f), 1(n) and 1(o).

The new accounting policies have been adopted by way of opening balance adjustment to retained earnings as at 1 January 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

(h) Definition of related parties (HKAS 24 "Related party disclosures")

As a result of the adoption of HKAS 24, the definition of related parties as disclosed in note 1(x) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party to the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

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 the PRC. The principal activity of the Company is investment holding.

Turnover represents usage fees, monthly 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.

Other operating revenue mainly represents charges for wireless data and value added services and interconnection revenue.

4 OTHER OPERATING EXPENSES

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

5 OTHER NET INCOME

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

	2005 RMB million	2004 RMB million
Sales of SIM cards and handsets	6,524	6,035
Cost of SIM cards and handsets	(3,240)	(2,868)
	3,284	3,167

6 NON-OPERATING NET INCOME

	2005 RMB million	2004 RMB million
Exchange (loss)/gain	(130)	21
Penalty income	177	232
Amortization of deferred tax credit of purchase of domestic telecommunications equipment	526	352
Others	452	295
	1,025	900

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

7 PROFIT BEFORE TAXATION

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

	2005 RMB million	2004 RMB million
(a) Finance costs:		
Interest on bank loans and other borrowings repayable within five years	38	211
Interest on bank loans and other borrowings repayable after five years	647	508
Interest on fixed rate notes	—	330
Interest on bonds	528	517
Interest on convertible notes	135	129
Total borrowing costs	1,348	1,695
Less: Borrowing costs capitalized as construction in progress (Note)	(2)	(16)
	1,346	1,679

Note: Borrowing costs have been capitalized at a rate of 3.45 per cent. to 5.75 per cent. (2004: 3.45 per cent. to 5.75 per cent.) per annum for construction in progress.

	2005 RMB million	2004 RMB million (restated)
(b) Personnel:		
Retirement costs		
— Contributions to defined contribution retirement plans	886	771
Equity-settled share-based payment expenses	1,553	255
Salaries, wages and other benefits	11,761	8,946
	14,200	9,972

	2005 RMB million	2004 RMB million (restated)
(c) Other items:		
Amortization		
— positive goodwill	—	1,930
— deferred expenses	—	47
Depreciation	56,368	44,186
Impairment loss		
— accounts and other receivables	2,968	2,273
— inventories	4	29
Loss on disposal of property, plant and equipment	411	535
Write-off of property, plant and equipment	5,645	5,900
Auditors' remuneration		
— audit services		
— statutory audit	61	63
— others (Note)	—	75
— other services	1	6
Operating lease charges: minimum lease payments		
— land and buildings	2,727	2,175
— leased lines	3,224	3,861
— others	1,430	1,204
Dividend income	(51)	(84)

Note: Others represent the audit fees in connection with acquisition of the ten regional mobile telecommunications subsidiaries and other telecommunications assets in July 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

8 DIRECTORS' REMUNERATION

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

(Expressed in Hong Kong dollars)

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

The above emoluments include the fair value of share options granted to certain directors under the Company's share option scheme as estimated at the grant date. The details of the share option scheme are disclosed under the paragraph "Share Option Schemes" in the directors' report and note 32. As set out in note 1(u), the fair value of share options granted to the employees including directors is measured based on a binomial lattice model and recognized as an expense in the income statement. However, such expense does not represent the actual benefit paid/payable to these employees including directors.

The directors' remuneration for 2004 amounted to HK\$16,370,000 excluding share-based payments.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

- (a) During 2005, all of the five individuals with the highest emoluments are directors whose emoluments are disclosed in note 8.
- (b) Of the five highest paid individuals in 2004, four are directors of the Company and their remuneration has been included in note 8. The remuneration of the remaining highest paid individual falls within the band from HK\$2,000,001 to HK\$2,500,000 and his aggregate remuneration is as follows:

	2004 HK\$'000 (restated)
Salaries and other emoluments	1,454
Discretionary bonus	393
Share-based payments	155
Retirement scheme contributions	104
	2,106

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

10 TAXATION

(a) Taxation in the consolidated income statement represents:

	2005 RMB million	2004 RMB million
Current tax		
Provision for PRC enterprise income tax on the estimated taxable profits for the year	27,487	20,145
Over-provision in respect of PRC enterprise income tax for prior year	(247)	(357)
	27,240	19,788
Deferred tax		
Origination and reversal of temporary differences (note 20)	(2,565)	(608)
	24,675	19,180

- (i) No provision has been made for Hong Kong profits tax as there were no estimated Hong Kong assessable profits for the years ended 31 December 2005 and 2004.
- (ii) The provision for the PRC enterprise income tax is based on a statutory rate of 33 per cent. of the assessable profit of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC during the year, except for certain subsidiaries of the Company and certain operations of the subsidiaries located within special economic zones in the PRC, which enjoy a preferential rate of 30 per cent. and 15 per cent. respectively.

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

	The Group	
	2005 RMB million	2004 RMB million (restated)
Profit before taxation	78,264	60,951
Notional tax on profit before tax, calculated at PRC statutory tax rates	25,827	20,114
Tax effect of non-taxable items		
— Interest income	(24)	(26)
Tax effect of non-deductible expenses on PRC operations	711	635
Tax effect of non-deductible expenses on Hong Kong operations	180	217
Rate differential on PRC operations	(1,801)	(1,390)
Rate differential on Hong Kong operations	123	166
Reversal of deferred taxation due to change of tax rate	(1)	(13)
Over-provision in prior year	(247)	(357)
Others	(93)	(166)
Taxation	24,675	19,180

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

	The Group	
	2005 RMB million	2004 RMB million
Provision for PRC enterprise income tax for the year	27,487	20,145
Balance of PRC enterprise income tax payable relating to prior year	99	98
Balance of PRC enterprise income tax payable arising on acquisition of subsidiaries	—	490
PRC enterprise income tax paid	(18,502)	(14,304)
Balance at 31 December	9,084	6,429
Add: Tax recoverable	165	235
Tax payable	9,249	6,664

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB797,000,000 (2004: loss of RMB1,081,000,000 (restated)) which has been dealt with in the financial statements of the Company.

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

	2005 RMB million	2004 RMB million (restated)
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	(797)	(1,081)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	28,625	25,978
Company's profit for the year (note 33(b))	27,828	24,897

12 DIVIDENDS

(a) Dividends attributable to the year:

	2005 RMB million	2004 RMB million
Interim dividend declared and paid of HK\$0.45 (equivalent to approximately RMB0.47) (2004: HK\$0.20 (equivalent to approximately RMB0.21)) per share	9,259	4,175
Final dividend proposed after the balance sheet date of HK\$0.57 (equivalent to approximately RMB0.59) (2004: HK\$0.46 (equivalent to approximately RMB0.49)) per share	11,767	9,614
	21,026	13,789

The proposed final dividend which is declared in Hong Kong dollars is translated into RMB at the rate HK\$1 = RMB1.0403, being the rate announced by the State Administration of Foreign Exchange in the PRC on 31 December 2005. As the final dividend is declared after the balance sheet date, such dividend is not recognized as a liability as at 31 December 2005.

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

	2005 RMB million	2004 RMB million
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.46 (equivalent to approximately RMB0.49) (2004: HK\$0.20 (equivalent to approximately RMB0.21)) per share	9,635	4,174

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

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 RMB53,549,000,000 (2004: RMB41,749,000,000 (restated)) and the weighted average number of 19,738,229,495 shares (2004: 19,673,185,236 shares) in issue during the year, calculated as follows:

(i) Weighted average number of shares

	2005 Number of shares	2004 Number of shares
Issued shares at 1 January	19,700,639,399	19,671,653,899
Effect of share options exercised (note 32)	37,590,096	1,531,337
Weighted average number of shares at 31 December	19,738,229,495	19,673,185,236

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the adjusted profit attributable to equity shareholders of the Company of RMB53,684,000,000 (2004: RMB41,878,000,000 (restated)) and the weighted average number of 19,892,163,022 shares (2004: 19,774,092,867 shares), calculated as follows:

(i) Profit attributable to equity shareholders of the Company (diluted)

	2005 RMB million	2004 RMB million (restated)
Profit attributable to equity shareholders	53,549	41,749
After tax effect of effective interest on liability component of convertible notes	135	129
Profit attributable to equity shareholders (diluted)	53,684	41,878

(ii) Weighted average number of shares (diluted)

	2005 Number of shares	2004 Number of shares
Weighted average number of shares at 31 December	19,738,229,495	19,673,185,236
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 32)	77,510,206	9,749,094
Effect of conversion of convertible notes	76,423,321	91,158,537
Weighted average number of shares (diluted) at 31 December	19,892,163,022	19,774,092,867

14 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings RMB million	Telecommunications transceivers, switching centers, transmission and other network equipment RMB million	Office equipment, furniture and fixtures and others RMB million	Total RMB million
Cost:				
At 1 January 2004 (restated)	20,223	233,026	11,600	264,849
Acquired on acquisition of subsidiaries	5,425	30,203	1,679	37,307
Additions	298	1,578	1,064	2,940
Transferred from construction in progress	6,951	52,256	259	59,466
Disposals	(97)	(2,324)	(160)	(2,581)
Assets written-off	(17)	(23,708)	(383)	(24,108)
At 31 December 2004 (restated)	32,783	291,031	14,059	337,873
At 1 January 2005 (restated)	32,783	291,031	14,059	337,873
Additions	328	1,657	906	2,891
Transferred from construction in progress	4,477	58,691	543	63,711
Disposals	(57)	(2,160)	(223)	(2,440)
Assets written-off	(45)	(37,360)	(505)	(37,910)
At 31 December 2005	37,486	311,859	14,780	364,125
Accumulated depreciation:				
At 1 January 2004 (restated)	2,052	90,981	4,639	97,672
Acquired on acquisition of subsidiaries	170	3,341	212	3,723
Charge for the year	1,402	41,157	1,627	44,186
Written back on disposals	(23)	(1,828)	(108)	(1,959)
Assets written-off	(10)	(17,876)	(322)	(18,208)
At 31 December 2004 (restated)	3,591	115,775	6,048	125,414
At 1 January 2005 (restated)	3,591	115,775	6,048	125,414
Charge for the year	1,920	51,915	2,533	56,368
Written back on disposals	(21)	(1,703)	(173)	(1,897)
Assets written-off	(31)	(31,880)	(354)	(32,265)
At 31 December 2005	5,459	134,107	8,054	147,620
Net book value:				
At 31 December 2005	32,027	177,752	6,726	216,505
At 31 December 2004 (restated)	29,192	175,256	8,011	212,459

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

14 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(b) The Company

	Office equipment, furniture and fixtures and others RMB million
Cost:	
At 1 January 2004	7
Additions	2
At 31 December 2004	9
At 1 January 2005	9
Additions	1
At 31 December 2005	10
Accumulated depreciation:	
At 1 January 2004	5
Charge for the year	1
At 31 December 2004	6
At 1 January 2005	6
Charge for the year	1
At 31 December 2005	7
Net book value:	
At 31 December 2005	3
At 31 December 2004	3

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

	The Group	
	2005 RMB million	2004 RMB million (restated)
Long-term leases	633	723
Medium-term leases	31,242	28,293
Short-term leases	152	176
	32,027	29,192

All of the Group's buildings are located outside Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

15 CONSTRUCTION IN PROGRESS

	The Group	
	2005 RMB million	2004 RMB million (restated)
Balance at 1 January (restated)	30,510	27,789
Acquired on acquisition on subsidiaries	—	3,806
Additions	67,400	58,365
Transferred to property, plant and equipment	(63,711)	(59,466)
Interest capitalization	2	16
Balance at 31 December	34,201	30,510

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed at 31 December 2005.

16 GOODWILL

	The Group RMB million
Cost:	
At 1 January 2004	37,159
Addition arising on acquisition of subsidiaries	2,857
At 31 December 2004	40,016
At 1 January 2005	40,016
Opening balance adjustment to eliminate accumulated amortization	(4,716)
At 31 December 2005	35,300
Accumulated amortization:	
At 1 January 2004	2,786
Amortization for the year	1,930
At 31 December 2004	4,716
At 1 January 2005	4,716
Eliminated against cost at 1 January 2005	(4,716)
At 31 December 2005	—
Carrying amount:	
At 31 December 2005	35,300
At 31 December 2004	35,300

Impairment tests for goodwill

Goodwill arose from acquisitions of subsidiaries in previous years. In 2004, positive goodwill not already recognized directly in reserves was amortized on a straight-line basis over 20 years. The amortization of positive goodwill for the year ended 31 December 2004 was separately presented and included in the consolidated income statement.

As explained further in note 2(c), with effect from 1 January 2005, the group no longer amortizes goodwill but tests for impairment annually. In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortization of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date.

16 GOODWILL (CONT'D)**Impairment tests for goodwill (cont'd)**

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

The recoverable amount of the cash-generating units equals the value-in-use which is determined by the discounted cash flow method. The data from the Group's detailed planning is used to project cash flows for the subsidiaries (cash generating units) to which the goodwill relates for the five years ending 31 December 2010 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 1 per cent. for perpetuity was used which complies with general expectations for the business. The present value of cash flows is calculated by discounting with a pre-tax interest rate of approximately 11 per cent.

17 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005 RMB million	2004 RMB million (restated)
Unlisted equity, at cost	468,222	468,222
Equity share-based payment in subsidiaries (note 32)	1,771	247
	469,993	468,469

In accordance with HKFRS 2, share-based payment transactions in which an entity receives services from its employees as consideration for equity instruments of the entity are accounted for as equity-settled transactions (see note 2(f)). The Company recognizes the grant of equity instruments to its subsidiaries' employees which amounting to RMB1,771,000,000 (2004: RMB247,000,000 (restated)) as capital contributions to subsidiaries.

Amounts due from subsidiaries under current assets are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business. Amount due to a subsidiary included under non-current liabilities represents amount due to Guangdong Mobile Communication Company Limited ("Guangdong Mobile") in relation to the guaranteed bonds, which are unsecured, interest bearing and repayable after more than one year (see note 29(e)).

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.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group financial statements.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity/ies
			Held by the Company	Held by a subsidiary	
Guangdong Mobile*	PRC	RMB5,594,840,700	100%	—	Mobile telecommunications operator
Zhejiang Mobile Communication Company Limited* ("Zhejiang Mobile")	PRC	RMB2,117,790,000	100%	—	Mobile telecommunications operator
Jiangsu Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Jiangsu Mobile Communication Company Limited* ("Jiangsu Mobile")	PRC	RMB2,800,000,000	—	100%	Mobile telecommunications operator
Fujian Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Fujian Mobile Communication Company Limited* ("Fujian Mobile")	PRC	RMB5,247,480,000	—	100%	Mobile telecommunications operator
Henan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Henan Mobile Communication Company Limited* ("Henan Mobile")	PRC	RMB4,367,733,641	—	100%	Mobile telecommunications operator
Hainan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Hainan Mobile Communication Company Limited* ("Hainan Mobile")	PRC	RMB643,000,000	—	100%	Mobile telecommunications operator
Beijing Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Beijing Mobile Communication Company Limited*	PRC	RMB6,124,696,053	—	100%	Mobile telecommunications operator

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity/ies
			Held by the Company	Held by a subsidiary	
Shanghai Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Shanghai Mobile Communication Company Limited*	PRC	RMB6,038,667,706	—	100%	Mobile telecommunications operator
Tianjin Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Tianjin Mobile Communication Company Limited*	PRC	RMB2,151,035,483	—	100%	Mobile telecommunications operator
Hebei Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Hebei Mobile Communication Company Limited* ("Hebei Mobile")	PRC	RMB4,314,668,600	—	100%	Mobile telecommunications operator
Liaoning Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Liaoning Mobile Communication Company Limited*	PRC	RMB5,140,126,680	—	100%	Mobile telecommunications operator
Shandong Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Shandong Mobile Communication Company Limited*	PRC	RMB6,341,851,146	—	100%	Mobile telecommunications operator
Guangxi Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Guangxi Mobile Communication Company Limited*	PRC	RMB2,340,750,100	—	100%	Mobile telecommunications operator
Anhui Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Anhui Mobile Communication Company Limited* ("Anhui Mobile")	PRC	RMB4,099,495,494	—	100%	Mobile telecommunications operator

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity/ies
			Held by the Company	Held by a subsidiary	
Jiangxi Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Jiangxi Mobile Communication Company Limited* ("Jiangxi Mobile")	PRC	RMB2,932,824,234	—	100%	Mobile telecommunications operator
Chongqing Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Chongqing Mobile Communication Company Limited* ("Chongqing Mobile")	PRC	RMB3,029,645,401	—	100%	Mobile telecommunications operator
Sichuan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Sichuan Mobile Communication Company Limited* ("Sichuan Mobile")	PRC	RMB7,483,625,572	—	100%	Mobile telecommunications operator
Hubei Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Hubei Mobile Communication Company Limited* ("Hubei Mobile")	PRC	RMB3,961,279,556	—	100%	Mobile telecommunications operator
Hunan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Hunan Mobile Communication Company Limited* ("Hunan Mobile")	PRC	RMB4,015,668,593	—	100%	Mobile telecommunications operator
Shaanxi Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Shaanxi Mobile Communication Company Limited* ("Shaanxi Mobile")	PRC	RMB3,171,267,431	—	100%	Mobile telecommunications operator

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity/ies
			Held by the Company	Held by a subsidiary	
Shanxi Mobile Communication (BVI) Limited	BVI	1 share at HK\$1	100%	—	Investment holding company
Shanxi Mobile Communication Company Limited* ("Shanxi Mobile")	PRC	RMB2,773,448,313	—	100%	Mobile telecommunications operator
Neimenggu Mobile (BVI) Limited ("Neimenggu BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company
Neimenggu Mobile Communication Company Limited* ("Neimenggu Mobile")	PRC	RMB2,862,621,870	—	100%	Mobile telecommunications operator
Jilin Mobile (BVI) Limited ("Jilin BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company
Jilin Mobile Communication Company Limited* ("Jilin Mobile")	PRC	RMB3,277,579,314	—	100%	Mobile telecommunications operator
Heilongjiang Mobile (BVI) Limited ("Heilongjiang BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company
Heilongjiang Mobile Communication Company Limited* ("Heilongjiang Mobile")	PRC	RMB4,500,508,035	—	100%	Mobile telecommunications operator
Guizhou Mobile (BVI) Limited ("Guizhou BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company
Guizhou Mobile Communication Company Limited* ("Guizhou Mobile")	PRC	RMB2,541,981,749	—	100%	Mobile telecommunications operator
Yunnan Mobile (BVI) Limited ("Yunnan BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company
Yunnan Mobile Communication Company Limited* ("Yunnan Mobile")	PRC	RMB4,137,130,733	—	100%	Mobile telecommunications operator

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity/ies
			Held by the Company	Held by a subsidiary	
Xizang Mobile (BVI) Limited ("Xizang BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company
Xizang Mobile Communication Company Limited* ("Xizang Mobile")	PRC	RMB848,643,686	—	100%	Mobile telecommunications operator
Gansu Mobile (BVI) Limited ("Gansu BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company
Gansu Mobile Communication Company Limited* ("Gansu Mobile")	PRC	RMB1,702,599,589	—	100%	Mobile telecommunications operator
Qinghai Mobile (BVI) Limited ("Qinghai BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company
Qinghai Mobile Communication Company Limited* ("Qinghai Mobile")	PRC	RMB902,564,911	—	100%	Mobile telecommunications operator
Ningxia Mobile (BVI) Limited ("Ningxia BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company
Ningxia Mobile Communication Company Limited* ("Ningxia Mobile")	PRC	RMB740,447,232	—	100%	Mobile telecommunications operator
Xinjiang Mobile (BVI) Limited ("Xinjiang BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company
Xinjiang Mobile Communication Company Limited* ("Xinjiang Mobile")	PRC	RMB2,581,599,600	—	100%	Mobile telecommunications operator
Beijing P&T Consulting & Design Institute (BVI) Limited ("Zhongjing Design Institute BVI")	BVI	1 share at HK\$1	100%	—	Investment holding company

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity/ies
			Held by the Company	Held by a subsidiary	
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
Fit Best Limited	BVI	US\$1	100%	—	Investment holding company

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

18 INTEREST IN ASSOCIATES

	The Group	
	2005 RMB million	2004 RMB million
Share of net assets	—	—

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

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

Owing to the lack of recent audited financial statements of the associates, the Group's share of the associates' net assets are based on latest management accounts which showed net liabilities as at 31 December 2004 and 2005. The Company has made full impairment loss on the cost of investment in the associates in 2004 and 2005.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

19 OTHER FINANCIAL ASSETS

	The Group	
	2005 RMB million	2004 RMB million
Available-for-sale equity securities:		
— Unlisted equity securities in the PRC (2004: Investment securities)	77	77

20 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 2005

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

Deferred tax assets and liabilities recognized and the movements during 2004

	At 1 January 2004 RMB million	Additions on acquisition of subsidiaries RMB million	Credited/(charged) to consolidated income statement RMB million	At 31 December 2004 RMB million
Deferred tax assets arising from:				
Provision for obsolete inventories	23	—	7	30
Write-off of certain network equipment and related assets	1,025	—	1,201	2,226
Amortization of deferred revenue	69	—	(69)	—
Income recognition on prepaid service fee	479	—	(437)	42
Provision for certain operating expenses	367	115	394	876
Impairment loss for doubtful accounts	1,300	78	(484)	894
	3,263	193	612	4,068
Deferred tax liabilities arising from:				
Capitalized interest	(97)	(4)	(4)	(105)
Total	3,166	189	608	3,963

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

20 DEFERRED TAX ASSETS AND LIABILITIES (CONT'D)

	The Group	
	2005 RMB million	2004 RMB million
Net deferred tax assets recognized in the consolidated balance sheet	6,625	4,068
Net deferred tax liabilities recognized in the consolidated balance sheet	(97)	(105)
Balance at 31 December	6,528	3,963

21 DEFERRED EXPENSES

	The Group and the Company	
	2005 RMB million	2004 RMB million
Balance at 1 January	96	143
Less: Opening balance adjustment eliminate against financial instruments	(96)	—
Amortization for the year	—	(47)
Balance at 31 December	—	96

22 INVENTORIES

Inventories primarily comprise handsets, SIM cards and handset accessories.

23 ACCOUNTS RECEIVABLE

Accounts receivable, net of impairment loss for doubtful accounts, are all outstanding for less than three months with the following ageing analysis:

	The Group	
	2005 RMB million	2004 RMB million
Within 30 days	5,269	5,339
31–60 days	697	666
61–90 days	637	548
	6,603	6,553

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

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

24 OTHER RECEIVABLES

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

25 AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY AND AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

Amounts due from/to ultimate holding company are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business (see note 34).

Amount due to immediate holding company under current liabilities represented interest payable on the deferred consideration payable (see note 29), which is expected to be settled within one year.

26 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005 RMB million	2004 RMB million	2005 RMB million	2004 RMB million
Deposits with banks within three months of maturity	11,069	7,100	4,381	2,074
Cash at banks and in hand	53,392	38,049	170	63
	64,461	45,149	4,551	2,137

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

	The Group		The Company	
	2005 million	2004 million	2005 million	2004 million
Hong Kong Dollars	HK\$4,101	HK\$1,169	HK\$4,021	HK\$1,108
United States Dollars	US\$70	US\$154	US\$45	US\$115

27 ACCOUNTS PAYABLE

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

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

	The Group	
	2005 RMB million	2004 RMB million
Amounts payables in the next:		
1 month or on demand	27,493	22,815
2-3 months	4,599	3,119
4-6 months	3,675	2,773
7-9 months	1,448	2,465
10-12 months	4,716	3,864
	41,931	35,036

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

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

28 DEFERRED REVENUE

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

	The Group	
	2005 RMB million	2004 RMB million
Balance at 1 January	13,880	10,164
Additions on acquisition of subsidiaries	—	992
Additions during the year	105,407	83,375
Recognized in income statement	(100,988)	(80,651)
Balance at 31 December	18,299	13,880
Less: Current portion	(16,975)	(12,936)
Non-current portion	1,324	944

29 INTEREST-BEARING BORROWINGS

(a) The Group

	Note	2005			2004		
		Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million
Bank loans	(c)	—	—	—	315	—	315
Other loans	(c)	—	—	—	2,140	—	2,140
Convertible notes	(d)	—	—	—	5,725	—	5,725
Bonds	(e)	—	12,912	12,912	—	13,000	13,000
Deferred consideration payable	(f)	—	23,633	23,633	—	23,633	23,633
		—	36,545	36,545	8,180	36,633	44,813

All of the above bank and other loans are unsecured.

As at 31 December 2004, other loans include designated loans borrowed from China Mobile Communications Corporation ("CMCC"), the ultimate holding company, totalling RMB2,140,000,000, which bear interest at 3.45 per cent. per annum with maturities in 2005.

(b) The Company

	Note	2005			2004		
		Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million
Convertible notes	(d)	—	—	—	5,725	—	5,725
Deferred consideration payable	(f)	—	23,633	23,633	—	23,633	23,633
		—	23,633	23,633	5,725	23,633	29,358

29 INTEREST-BEARING BORROWINGS (CONT'D)**(c) The Group's long-term bank and other loans were repayable as follows:**

	Bank loans RMB million	The Group Other loans RMB million	Total RMB million
At 31 December 2005:			
On demand or within one year (note 29(a))	—	—	—
After one year but within two years	—	—	—
	—	—	—
At 31 December 2004:			
On demand or within one year (note 29(a))	315	—	315
After one year but within two years	—	—	—
	315	—	315

The current portion of long-term bank and other loans are included in the current liabilities of bank and other loans as set out in note 29(a) above.

(d) Convertible notes

- (i) On 3 November 2000, the Company issued convertible notes (the "Notes") in an aggregate principal amount of US\$690,000,000 at an issue price equal to 100 per cent. of the principal amount of the Notes. The Notes bore interest at the rate of 2.25 per cent. per annum, payable semi-annually on 3 May and 3 November of each year commencing 3 May 2001. Unless previously redeemed, converted or purchased and canceled, the Notes would be redeemed at 100 per cent. of the principal amount, plus any accrued and unpaid interest on 3 November 2005. The Notes were unsecured, senior and unsubordinated obligations of the Company.
- (ii) The Notes were convertible at any time on or after 3 December 2000 and before the close of business on the third business day prior to the earlier of (1) the maturity date of 3 November 2005 or (2) the redemption date fixed for early redemption, at an initial conversion price, subject to adjustment in certain events, of HK\$59.04 per share.
- (iii) During the year, no Notes were converted into ordinary shares of the Company. The Notes were fully redeemed during the year.

(e) Bonds

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

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

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

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

The Company has issued a joint and irrevocable guarantee (the "Guarantee") for the performance of the above bonds. CMCC has also issued a further guarantee in relation to the performance by the Company of its obligations under the Guarantee.

29 INTEREST-BEARING BORROWINGS (CONT'D)**(f) 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, bear interest at the rate of two year US dollar LIBOR swap rate per annum (for the year ended 31 December 2004: 2.595 to 3.801 per cent. per annum and for the year ended 31 December 2005: 3.801 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 date without penalty but the balances are not expected to be settled within one year. The balances in respect of the acquisitions of subsidiaries in 2002 and 2004 are due on 1 July 2017 and 2019 respectively.

30 OBLIGATIONS UNDER FINANCE LEASES

As at 31 December 2005, the Group had obligations under finance leases repayable as follows:

	The Group					
	Present value of the minimum lease payments RMB million	2005 Interest expense relating to future periods RMB million	Total minimum lease payments RMB million	Present value of the minimum lease payments RMB million	2004 Interest expense relating to future periods RMB million	Total minimum lease payments RMB million
Within 1 year	68	3	71	68	3	71

31 EMPLOYEE RETIREMENT BENEFITS

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

Employees in the PRC 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.

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

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

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

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

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

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

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONT'D)

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

	Number of instruments		Vesting conditions	Contractual life of options
	2005	2004		
Option granted to directors				
— on 26 November 1999	2,000,000	2,000,000	50% on date of grant, 50% three years from the date of grant	8 years
— on 25 April 2000	1,516,000	1,516,000	50% two years from the date of grant, 50% five years from the date of grant	7 years
— on 22 June 2001	142,500	285,000	50% two years from the date of grant, 50% five years from the date of grant	6 years
— on 3 July 2002	375,000	750,000	50% two years from the date of grant, 50% five years from the date of grant	10 years
— on 28 October 2004	1,518,000	2,450,000	40% one year from the date of grant, 30% two years from the date of grant 30% three years from the date of grant	10 years
— on 21 December 2004	600,000	600,000	40% one year from the date of grant, 30% two years from the date of grant 30% three years from the date of grant	10 years
— on 8 November 2005	7,790,000	—	40% one year from the date of grant, 30% two years from the date of grant 30% three years from the date of grant	10 years
Option granted to other employees				
— on 25 April 2000	26,092,000	26,854,000	50% two years from the date of grant, 50% five years from the date of grant	7 years
— on 22 June 2001	52,390,750	72,204,000	50% two years from the date of grant, 50% five years from the date of grant	6 years
— on 3 July 2002	75,570,000	118,408,500	50% two years from the date of grant, 50% five years from the date of grant	10 years

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONT'D)

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

	Number of instruments		Vesting conditions	Contractual life of options
	2005	2004		
Option granted to other employees (cont'd)				
— on 28 October 2004	213,121,500	285,992,500	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
— on 8 November 2005	281,578,500	—	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
Total share options	662,694,250	511,060,000		

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

	The Group			
	2005		2004	
	Weighted average exercise price HK\$	Number of shares involved in the options	Weighted average exercise price HK\$	Number of shares involved in the options
At 1 January	25.39	511,060,000	28.31	258,964,000
Granted	34.87	289,777,500	22.76	290,425,000
Exercised	24.13	(134,521,000)	22.85	(28,985,500)
Canceled	30.38	(3,622,250)	32.75	(9,343,500)
At 31 December	29.76	662,694,250	25.39	511,060,000
Options vested at 31 December	31.19	94,537,550	28.85	112,008,750

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$34.20 (2004: HK\$26.37).

The options outstanding at 31 December 2005 and 2004 had exercise prices ranging from HK\$22.75 to HK\$45.04 and a weighted average remaining contractual life of 8.1 years (2004: 7.9 years).

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONT'D)**(c) Fair value of share options and assumptions**

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.

	2005	2004
Fair value at measurement date	HK\$10.28	HK\$7.06
Share price	HK\$34.50	HK\$22.76
Exercise price	HK\$34.87	HK\$22.76
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	24.6%	28.0%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years	10 years
Expected dividends	2.6%	2.8%
Risk-free interest rate (based on Exchange Fund Notes)	4.5%	4.1%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends and planned dividend payout ratio, if any. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

33 CAPITAL AND RESERVES

(a) The Group

	Attributable to equity shareholders of the Company							Minority interests	Total equity
	Share capital	Share premium	Capital reserve	General reserve	PRC statutory reserves	Retained profits	Total		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2004	2,099	374,579	(295,665)	72	32,686	85,032	198,803	182	198,985
Dividends approved in respect of previous year (note 12(b))	—	—	—	—	—	(4,174)	(4,174)	—	(4,174)
Dividends declared in respect of the current year (note 12(a))	—	—	—	—	—	(4,175)	(4,175)	—	(4,175)
Shares issued under share option scheme (note 32)	3	700	—	—	—	—	703	—	703
Equity settled share-based transactions (restated) (note 32)	—	—	255	—	—	—	255	—	255
Profit for the year (restated)	—	—	—	—	—	41,749	41,749	22	41,771
Transfer to PRC statutory reserves	—	—	—	—	9,591	(9,591)	—	—	—
Minority interests arising from acquisition of a subsidiary	—	—	—	—	—	—	—	39	39
At 31 December 2004 (restated)	2,102	375,279	(295,410)	72	42,277	108,841	233,161	243	233,404
At 1 January 2005									
— As previously reported	2,102	375,279	(295,665)	72	42,277	109,096	233,161	243	233,404
— Prior period adjustment in respect of:									
— HKFRS 2	—	—	255	—	—	(255)	—	—	—
— As restated, before opening balance adjustment	2,102	375,279	(295,410)	72	42,277	108,841	233,161	243	233,404
— Opening balance adjustment in respect of:									
— HKAS 39	—	—	—	—	—	33	33	—	33
— As restated, after opening balance adjustment	2,102	375,279	(295,410)	72	42,277	108,874	233,194	243	233,437
Dividends approved in respect of previous year (note 12(b))	—	—	—	—	—	(9,635)	(9,635)	—	(9,635)
Dividends declared in respect of the current year (note 12(a))	—	—	—	—	—	(9,259)	(9,259)	—	(9,259)
Shares issued under share option scheme (note 32, 33(c)(iii))	14	3,961	(553)	—	—	—	3,422	—	3,422
Equity settled share-based transactions (note 32)	—	—	1,553	—	—	—	1,553	—	1,553
Profit for the year	—	—	—	—	—	53,549	53,549	40	53,589
Transfer to PRC statutory reserves	—	—	—	—	11,118	(11,118)	—	—	—
At 31 December 2005	2,116	379,240	(294,410)	72	53,395	132,411	272,824	283	273,107

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

33 CAPITAL AND RESERVES (CONT'D)

(b) The Company

	Share capital	Share premium	Capital reserve	General reserve	Retained profits	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2004	2,099	374,579	—	72	38,854	415,604
Dividends approved in respect of previous year (note 12(b))	—	—	—	—	(4,174)	(4,174)
Dividends declared in respect of the current year (note 12(a))	—	—	—	—	(4,175)	(4,175)
Shares issued under share option scheme (note 32)	3	700	—	—	—	703
Equity settled share-based transactions (restated) (note 32)	—	—	255	—	—	255
Profit for the year (restated)	—	—	—	—	24,897	24,897
At 31 December 2004 (restated)	2,102	375,279	255	72	55,402	433,110
At 1 January 2005						
— As previously reported	2,102	375,279	—	72	55,410	432,863
— Prior period adjustment in respect of:						
— HKFRS 2	—	—	255	—	(8)	247
— As restated, before opening balance adjustment	2,102	375,279	255	72	55,402	433,110
— Opening balance adjustment in respect of HKAS 39	—	—	—	—	33	33
— As restated, after opening balance adjustment	2,102	375,279	255	72	55,435	433,143
Dividends approved in respect of previous year (note 12(b))	—	—	—	—	(9,635)	(9,635)
Dividends declared in respect of the current year (note 12(a))	—	—	—	—	(9,259)	(9,259)
Shares issued under share option scheme (note 32, 33(c)(ii))	14	3,961	(553)	—	—	3,422
Equity settled share-based transactions (note 32)	—	—	1,553	—	—	1,553
Profit for the year	—	—	—	—	27,828	27,828
At 31 December 2005	2,116	379,240	1,255	72	64,369	447,052

At 31 December 2005, the amount of distributable reserves of the Company amounted to RMB64,441,000,000 (2004: RMB55,474,000,000 (restated)).

33 CAPITAL AND RESERVES (CONT'D)**(c) Share capital****(i) Authorized and issued share capital**

	The Group	
	2005 HK\$ million	2004 HK\$ million
<i>Authorized:</i>		
30,000,000,000 ordinary shares of HK\$0.10 each	3,000	3,000

Issued and fully paid:

	2005			2004		
	No. of shares	HK\$ million	Equivalent RMB million	No. of shares	HK\$ million	Equivalent RMB million
At 1 January	19,700,639,399	1,970	2,102	19,671,653,899	1,967	2,099
Shares issued under share option scheme (note 32)	134,521,000	14	14	28,985,500	3	3
At 31 December	19,835,160,399	1,984	2,116	19,700,639,399	1,970	2,102

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 the year, options were exercised to subscribe for 134,521,000 ordinary shares in the Company at a consideration of HK\$3,246,000,000 (equivalent to RMB3,422,000,000) of which HK\$13,500,000 (equivalent to RMB14,000,000) was credited to share capital and the balance of HK\$3,232,500,000 (equivalent to RMB3,408,000,000) was credited to the share premium account. HK\$521,000,000 (equivalent to RMB553,000,000) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(u)(ii).

(d) Nature and purpose of reserves**(i) Share premium**

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

(ii) Capital reserve

The capital reserve comprises the following:

- The fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognized in accordance with the accounting policy adopted for share-based payments in note 1(u)(ii); and
- There was RMB295,665,000,000 debit balance brought forward as a result of the elimination of goodwill arising on the acquisition of subsidiaries before 1 January 2001 against the capital reserve in previous years.

(iii) PRC statutory reserves

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

33 CAPITAL AND RESERVES (CONT'D)**(d) Nature and purpose of reserves (cont'd)****(iii) PRC statutory reserves (cont'd)**

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

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

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

At 31 December 2005, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund were RMB24,035,000,000 (2004: RMB18,394,000,000), RMB29,325,000,000 (2004: RMB23,646,000,000), RMB31,000,000 (2004: RMB102,000,000) and RMB4,000,000 (2004: RMB135,000,000) respectively.

34 RELATED PARTY TRANSACTIONS**(a) Transactions with CMCC Group**

Following the completion of acquisition of the ten mobile telecommunications companies and other mobile telecommunications assets on 1 July 2004, the Group operates the mobile telecommunications services in all thirty-one provinces, autonomous regions and directly administered municipalities in the PRC. Prior to the acquisition, transactions entered into by the Group with the subsidiaries previously directly owned by the Company's ultimate holding company, CMCC, are considered as related party transactions. Following the acquisition, as these subsidiaries now become the members of the Group, these transactions are eliminated on a consolidated basis and therefore are not considered as related party transactions.

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

	Note	RMB million
Property leasing and management services charges	(i)	589
Telecommunications services charges	(ii)	1,866
Interest paid/payable	(iii)	647

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

34 RELATED PARTY TRANSACTIONS (CONT'D)

(a) Transactions with CMCC Group (cont'd)

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 CMCC and China Mobile Hong Kong (BVI) Limited, the Company's immediate holding company, in respect of the designated loans borrowed and the balance of purchase consideration for acquisition of subsidiaries.

The following is a summary of principal related party transactions carried out by the Group with CMCC and its subsidiaries (excluding the Group) for the year ended 31 December 2004.

	Note	RMB million
Interconnection revenue	(i)	2,438
Interconnection charges	(ii)	2,117
Leased line charges	(iii)	132
Spectrum fees	(iv)	303
Operating lease charges	(v)	281
Roaming billing processing fees	(vi)	22
Equipment maintenance service fees	(vii)	81
Construction and related service fees	(viii)	287
Purchase of transmission tower and transmission tower-related service and antenna maintenance service fees	(ix)	148
Prepaid card sales commission income	(x)	142
Prepaid card sales commission expenses	(x)	155
Technology platform development and maintenance service income	(xi)	25
Telecommunications lines maintenance services fee	(xii)	54
Interest paid/payable	(xiii)	645

Notes:

- (i) A mobile telephone user using roaming services is charged at the respective roaming usage rate and applicable long distance charges for roaming in calls. Interconnection revenue represents domestic and international roaming in usage charges and applicable long distance charges from non-subscribers received or receivable from the relevant domestic and international mobile telecommunication operators through the CMCC Group.
- (ii) A mobile telephone user using roaming services is charged at the respective roaming usage rate and applicable long distance charges for roaming out calls. Interconnection charges represent the amount of domestic and international roaming out charges and applicable long distance charges received or receivable from subscribers which is to be remitted to the relevant domestic and international mobile telecommunication operators for their share of revenue through the CMCC Group.
- (iii) Leased line charges represent expenses paid or payable to the CMCC Group for the use of inter-provincial leased lines which link the Group's mobile switching centers together and with other mobile switching centers of the CMCC Group.
- (iv) Spectrum fees represent the spectrum usage fees paid or payable to the CMCC Group for the usage of the frequency bands allocated to the Company's subsidiaries in the PRC.
- (v) Operating lease charges represent the rental and property management fees paid or payable to the subsidiaries of CMCC for operating leases in respect of land and buildings and others.
- (vi) Roaming billing processing fees represent the amounts paid or payable to the CMCC Group for the provision of the roaming billing processing services to the Company's subsidiaries.

34 RELATED PARTY TRANSACTIONS (CONT'D)**(a) Transactions with CMCC Group (cont'd)**

Notes: (cont'd)

- (vii) Equipment maintenance service fees represent the amounts paid or payable to subsidiaries of CMCC for the provision of the maintenance services to the Company's subsidiaries.
- (viii) Construction and related service fees represent the amounts paid or payable to subsidiaries of CMCC for the provision of telecommunications projects planning, design and construction services and telecommunications lines and pipeline construction services to the Company's subsidiaries.
- (ix) This represents payment made by Hebei Mobile to acquire transmission towers from a subsidiary of CMCC and expenses paid or payable to the relevant subsidiary of CMCC for the provision of transmission tower related services and antenna maintenance services provided to Hebei Mobile; and payment made by the Group to Hubei Communication Services Company, a subsidiary of CMCC, in respect of the purchase of transmission towers and for the provision of transmission tower related services.
- (x) Prepaid card sales commission income and commission expenses represent handling charges received/receivable from subsidiaries of CMCC to the Company's subsidiaries or paid/payable by the Company's subsidiaries to subsidiaries of CMCC in respect of prepaid card services.
- (xi) Technology platform development and maintenance service income represents the amounts received or receivable from the CMCC Group in respect of equipment charges, systems integration fees, software licensing fees, technical support fees and/or major overhaul charges for the mobile information service center platform.
- (xii) Telecommunications lines maintenance services fees represent the amounts paid or payable by Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile to the relevant subsidiaries of CMCC for the provision of telecommunications lines maintenance services.
- (xiii) Interest paid/payable represents the interest paid or payable to CMCC and China Mobile Hong Kong (BVI) Limited in respect of the designated loans borrowed and the balance of purchase consideration for acquisition of subsidiaries.

- (b)** Pursuant to a resolution passed at the Extraordinary General Meeting held on 16 June 2004, the Company acquired the entire share capital of Neimenggu Mobile BVI, Jilin Mobile BVI, Heilongjiang Mobile BVI, Guizhou Mobile BVI, Yunnan Mobile BVI, Xizang Mobile BVI, Gansu Mobile BVI, Qinghai Mobile BVI, Ningxia Mobile BVI, Xinjiang Mobile BVI, Zhongjing Design Institute BVI and CMC BVI from CMHK BVI, the immediate holding company of the Company, for a total consideration of US\$3,650,000,000 (equivalent to RMB30,210,000,000). The total consideration was satisfied by cash. The only assets of each of Neimenggu Mobile BVI, Jilin Mobile BVI, Heilongjiang Mobile BVI, Guizhou Mobile BVI, Yunnan Mobile BVI, Xizang Mobile BVI, Gansu Mobile BVI, Qinghai Mobile BVI, Ningxia Mobile BVI, Xinjiang Mobile BVI, Zhongjing Design Institute BVI and CMC BVI are their interests in the entire equity of Neimenggu Mobile, Jilin Mobile, Heilongjiang Mobile, Guizhou Mobile, Yunnan Mobile, Xizang Mobile, Gansu Mobile, Qinghai Mobile, Ningxia Mobile, Xinjiang Mobile, Jingyi Design Institute and CMC respectively.

(c) Key management personnel remuneration

Remuneration for key management personnel are disclosed in note 8.

35 TRANSACTIONS WITH OTHER STATE-CONTROLLED ENTITIES IN THE PRC

The Group is a state-controlled enterprise and operates in an economic regime currently predominated by state-controlled enterprises. Apart from transactions with parent company and its affiliates, the Group conducts certain business activities with enterprises directly or indirectly owned or controlled by the PRC government and government authorities and agencies (collectively referred to as "state-controlled entities") in the ordinary course of business. These transactions primarily include rendering and receiving services and sales and purchase of goods, are carried out at terms similar to those that would be entered into with non-state-controlled entities and have been reflected in the financial statements.

35 TRANSACTIONS WITH OTHER STATE-CONTROLLED ENTITIES IN THE PRC (CONT'D)

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

The Group's principal transactions with other state-controlled telecommunications operators in the PRC are as follows:

	The Group	
	2005 RMB million	2004 RMB million
Interconnection revenue	6,196	4,208
Interconnection charges	13,588	10,016
Leased line charges	3,054	3,385

Although certain of the Group's activities are conducted with PRC government authorities and affiliates and other state-controlled enterprises, the Group believes that such activities are not material and the Group's principal transactions with other state-controlled telecommunications operators as described in above in the PRC has provided meaningful disclosure.

36 FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

(b) Liquidity risk

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

(c) Interest rate risk

The Group has interest rate risk as certain interest-bearing borrowings are on variable rate basis. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 29. The Group does not expect any changes in interest rate which might materially affect the Group's result of operations.

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

36 FINANCIAL INSTRUMENTS (CONT'D)**(d) Foreign currency risk**

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

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

(e) Fair values

The following financial assets and financial liabilities have their carrying amount approximately equal to their fair value: accounts receivable, other receivables, other current assets, cash and cash equivalents, accounts payable, other payables and deferred consideration payable due to its nature or short maturity except as follows:

	2005		2004	
	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million
The Group				
Interest-bearing borrowings:				
— bank and other loans	—	—	2,455	2,431
— convertible notes	—	—	5,725	5,666
— bonds	12,912	13,685	13,000	12,119
The Company				
Interest-bearing borrowings:				
— convertible notes	—	—	5,725	5,666

The fair value of bank and other loans is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. The fair value of listed convertible notes and bonds is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Expressed in Renminbi)

37 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	The Group		The Company	
	2005 RMB million	2004 RMB million	2005 RMB million	2004 RMB million
Commitments in respect of land and buildings				
— authorized and contracted for	1,478	1,249	—	—
— authorized but not contracted for	3,575	2,354	—	—
	5,053	3,603	—	—
Commitments in respect of telecommunications equipment				
— authorized and contracted for	10,389	10,370	—	—
— authorized but not contracted for	43,899	30,640	—	—
	54,288	41,010	—	—
Total commitments				
— authorized and contracted for	11,867	11,619	—	—
— authorized but not contracted for	47,474	32,994	—	—
	59,341	44,613	—	—

(b) Operating lease commitments

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group			The Company	
	Land and buildings RMB million	Leased lines RMB million	Others RMB million	Total RMB million	Land and buildings RMB million
At 31 December 2005:					
Within one year	1,506	1,477	546	3,529	6
After one year but within five years	3,509	998	1,068	5,575	1
After five years	1,053	298	104	1,455	—
	6,068	2,773	1,718	10,559	7
At 31 December 2004:					
Within one year	1,220	1,945	454	3,619	2
After one year but within five years	2,693	920	1,387	5,000	—
After five years	1,122	225	117	1,464	—
	5,035	3,090	1,958	10,083	2

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

37 COMMITMENTS (CONT'D)**(c) Acquisition of all the issued shares of Peoples (defined as below)**

Pursuant to resolution of board of directors meeting dated 19 October 2005, the directors approved the voluntary conditional cash offers to acquire all the issued shares and for cancellation of all outstanding options, of China Resources Peoples Telephone Company Limited ("Peoples") by Fit Best Limited, a wholly-owned subsidiary of the Company.

On 10 November 2005, the Company and Peoples had issued a composite offer and response document (the "Composite Document") in relation to the voluntary conditional cash offers to acquire all the issued shares of Peoples ("Share Offer") and to cancel all outstanding share options of Peoples Options ("Option Offer").

On 29 December 2005, being the First Closing Date, all conditions in the Share Offer have been fulfilled and the Share Offer has become unconditional in all aspects and the Option Offer has therefore also become unconditional on the same date. On the basis of the Share Offer price of HK\$4.55 per share and 743,641,019 shares in issue, the entire Share Offer is valued at approximately HK\$3,383,600,000 (approximately RMB 3,520,000,000). On the basis of the Option Offer price of HK\$1.00 per option and there were 484 share options outstanding, the entire Option Offer is valued at approximately HK\$484 (approximately RMB 504).

38 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) On 12 January 2006, the Company announced that they have received valid acceptance in respect of the voluntary conditional cash offer to acquire (i) 741,294,601 shares of Peoples and (ii) 310 share options of Peoples. The Company applied the provisions of the Hong Kong Companies Ordinance to compulsorily acquire any remaining issued shares of Peoples and Peoples has applied for a de-listing of shares of Peoples from the SEHK. Up to 16 March 2006, the Group has paid approximately HK\$3,378,900,000 (approximately RMB3,515,000,000) to acquire 99.86 per cent. interest in Peoples. The completion of the compulsory acquisition is currently expected to take place by the end of March 2006.

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

39 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the changes in accounting policies. Further details are disclosed in note 2.

40 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2005 to be China Mobile Communications Corporation, a company incorporated in the PRC.

41 ACCOUNTING ESTIMATES AND JUDGMENTS**Key sources of estimation uncertainty**

Notes 16, 32 and 36 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

Impairment loss for doubtful accounts

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

41 ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D)**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.

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 judgment relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HK (IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
Amendments to HKFRS 4	Insurance contracts — Financial guarantee contracts	1 January 2006
Amendments to HKAS 19	Employee benefits — Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 21	The effects of changes in foreign exchange rates — Net investment in a foreign operation	1 January 2006
Amendments to HKAS 39	Financial instruments: Recognition and measurement: — Cash flow hedge accounting of forecast intragroup transactions — Fair value option — Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
— HKAS 1	Presentation of financial statements	1 January 2006
— HKAS 27	Consolidated and separate financial statements	1 January 2006
— HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: Disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: Capital disclosures	1 January 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of the amendments to HKAS 1, HKAS 27, HKFRS 3 made as a result of the Hong Kong Companies (Amendment) Ordinance 2005 are not applicable to any of the Group's operations and that the adoption of the rest of them is unlikely to have a significant impact on the Group's results of operations and financial position.

SUPPLEMENTARY INFORMATION FOR ADS HOLDERS

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

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

(a) EFFECT OF COMBINATION OF ENTITIES UNDER COMMON CONTROL

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

As a result of the Group and the acquired subsidiaries, being under common control prior to the acquisition, such acquisitions under US GAAP are considered "combinations of entities under common control". Under US GAAP, combinations of entities under common control are accounted for under the "as if pooling-of-interests" method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination are restated on a combined basis. The consideration paid and payable by the Group has been treated as distribution to owner in the year of acquisition. Goodwill arising on consolidation and the amortization of goodwill which are recognized under HK GAAP have been reversed for US GAAP purposes.

(b) CAPITALIZATION OF INTEREST

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

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

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

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

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

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

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

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

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

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

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

(d) EMPLOYEE HOUSING SCHEME

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

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

(e) DEFERRED TAXATION

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

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

(e) DEFERRED TAXATION (CONT'D)

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

(f) SHARE OPTION SCHEME

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

Under US GAAP, the Group determines compensation expenses based on the excess, if any, of the quoted market price of the shares on the date of grant over the exercise price of the stock options. Such amount is charged to the consolidated income statement over the vesting period of the options. As a result, any expenses recognized based on the fair value of share options under HK GAAP is reversed under US GAAP. In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS 123R is effective for all interim and annual periods beginning after 15 June 2005. The Company will adopt the SFAS 123R for the accounting period commencing from 1 January 2006.

(g) REVENUE RECOGNITION

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

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

(h) INTERCONNECTION, ROAMING AND LEASED LINE AGREEMENTS

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

SUPPLEMENTARY INFORMATION FOR ADS HOLDERS (CONT'D)

Effect on net profit of significant differences between HK GAAP and US GAAP is as follows:

	2005 US\$ million (except per share data)	2005 RMB million	2004 RMB million (except per share data) (restated)	2003 RMB million (restated)
Net profit attributable to equity shareholders under HK GAAP	6,635	53,549	41,749	35,556
Adjustments:				
Effect of combination of entities under common control	—	—	1,587	(1,358)
Capitalized interest	(13)	(106)	(116)	(96)
Revaluation of property, plant and equipment	(101)	(818)	(448)	4,075
Revaluation of land lease prepayments	12	98	68	(91)
Share option scheme	184	1,485	169	(192)
Amortization of net connection fees and telephone number selection fees	1	6	109	659
Amortization of net savings from interconnection, roaming and leased line agreements	11	86	86	86
Reversal of goodwill	—	—	1,930	1,850
Deferred tax effects of US GAAP adjustments	25	204	(73)	(969)
Net profit under US GAAP	6,754	54,504	45,061	39,520
Basic net profit per share in accordance with US GAAP	US\$0.34	RMB2.76	RMB2.29	RMB2.01
Diluted net profit per share in accordance with US GAAP	US\$0.34	RMB2.75	RMB2.29	RMB2.01
Basic net profit per ADS in accordance with US GAAP*	US\$1.71	RMB13.81	RMB11.45	RMB10.05
Diluted net profit per ADS in accordance with US GAAP*	US\$1.70	RMB13.73	RMB11.43	RMB10.03

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

SUPPLEMENTARY INFORMATION FOR ADS HOLDERS (CONT'D)

Effect on shareholders' equity of significant differences between HK GAAP and US GAAP is as follows:

	2005 US\$ million	2005 RMB million	2004 RMB million (restated)
Shareholders' equity under HK GAAP	33,806	272,824	233,161
Adjustments:			
Capitalized interest	20	158	264
Revaluation of property, plant and equipment			
— cost	(665)	(5,370)	(5,370)
— accumulated depreciation and others	876	7,069	7,887
Revaluation of land lease prepayments	(266)	(2,144)	(2,242)
Deferred tax adjustments on revaluations	17	142	(57)
Employee housing scheme	(207)	(1,674)	(1,674)
Deemed capital contribution for employee housing scheme	207	1,674	1,674
Deferral of net connection fees and telephone number selection fees	—	—	(6)
Deferral of net savings from interconnection, roaming and leased line agreements	(14)	(114)	(200)
Reversal of goodwill	(4,374)	(35,300)	(35,300)
Deferred tax effects of US GAAP adjustments	(2)	(13)	(18)
Shareholders' equity under US GAAP	29,398	237,252	198,119

Solely for the convenience of the reader, the 31 December 2005 tables above and following information have been translated into United States dollars at the rate of US\$1.00 = RMB8.0702 quoted by the Federal Reserve Bank of New York on 31 December 2005. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate or at any other certain rate on 31 December 2005, or any other certain date.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME PREPARED UNDER US GAAP

	Year ended 31 December			
	2005 US\$ million (except per share data)	2005 RMB million	2004 RMB million (except per share data) (restated)	2003 RMB million (restated)
Operating revenue				
Usage fees	19,418	156,710	136,876	125,702
Monthly fees	3,105	25,055	26,458	24,067
Connection fees	1	7	252	1,173
Other operating revenue	7,593	61,280	40,678	29,339
	30,117	243,052	204,264	180,281
Operating expenses				
Cost of services (excluding depreciation of RMB55,422 million, RMB47,050 million, RMB41,861 million included below)	(3,137)	(25,315)	(21,357)	(24,757)
Depreciation	(6,867)	(55,422)	(47,050)	(41,861)
Selling, general and administration	(10,889)	(87,878)	(74,596)	(56,984)
	(20,893)	(168,615)	(143,003)	(123,602)
Profit from operations	9,224	74,437	61,261	56,679
Other net income	407	3,284	3,343	2,667
Non-operating net income	62	499	949	527
Interest income	200	1,615	1,032	860
Finance costs	(167)	(1,346)	(1,738)	(2,213)
Profit before taxation	9,726	78,489	64,847	58,520
Taxation	(2,967)	(23,945)	(19,764)	(19,009)
Profit after taxation	6,759	54,544	45,083	39,511
Minority interests	(5)	(40)	(22)	9
Net profit	6,754	54,504	45,061	39,520
Basic net profit per share	US\$0.34	RMB2.76	RMB2.29	RMB2.01
Diluted net profit per share	US\$0.34	RMB2.75	RMB2.29	RMB2.01
Basic net profit per ADS*	US\$1.71	RMB13.81	RMB11.45	RMB10.05
Diluted net profit per ADS*	US\$1.70	RMB13.73	RMB11.43	RMB10.03

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

CONDENSED CONSOLIDATED BALANCE SHEETS PREPARED UNDER US GAAP

	At 31 December		2004 RMB million (restated)
	2005 US\$ million	2005 RMB million	
ASSETS			
Current assets			
Cash and cash equivalents	7,988	64,461	45,149
Deposits with banks	5,195	41,925	20,264
Accounts receivable	799	6,446	6,447
Other receivables	233	1,888	1,835
Tax recoverable	20	165	235
Current portion of deferred tax	330	2,660	1,843
Inventories	293	2,365	2,499
Prepayments and other current assets	444	3,583	2,974
Amount due from ultimate holding company	8	63	356
Amounts due from related parties	22	180	150
Total current assets	15,332	123,736	81,752
Property, plant and equipment	27,058	218,362	215,240
Construction in progress	4,238	34,201	30,510
Land lease prepayments	632	5,099	4,091
Interest in associates	—	—	—
Other financial assets	10	77	77
Deferred tax assets	513	4,143	2,232
Deferred expenses	—	—	101
Total assets	47,783	385,618	334,003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	4,945	39,908	33,005
Bills payable	169	1,359	1,676
Interest-bearing borrowings	—	—	8,180
Current installments of obligations under finance leases	8	68	68
Current taxation	1,146	9,249	6,664
Amounts due to related parties	269	2,172	2,208
Accrued expenses and other payables	4,939	39,858	32,372
Amount due to immediate holding company	12	96	98
Amount due to ultimate holding company	33	269	459
Deferred revenue	2,104	16,975	12,936
Total current liabilities	13,625	109,954	97,666

CONDENSED CONSOLIDATED BALANCE SHEETS PREPARED UNDER US GAAP (CONT'D)

	At 31 December		2004 RMB million (restated)
	2005 US\$ million	2005 RMB million	
LIABILITIES AND SHAREHOLDERS' EQUITY (cont'd)			
Interest-bearing borrowings	1,600	12,912	13,000
Amount due to immediate holding company	2,929	23,633	23,633
Deferred revenue, excluding current portion	178	1,438	1,155
Deferred tax liabilities	18	146	187
Total liabilities	18,350	148,083	135,641
Minority interests	35	283	243
Shareholders' equity	29,398	237,252	198,119
Total liabilities and shareholders' equity	47,783	385,618	334,003

Note: The above condensed "Consolidated balance sheets" and "Consolidated statements of income" as at 31 December 2004 and 2005 and for each of the three years ended 31 December 2003, 2004 and 2005 include the results of the Company and its subsidiaries prepared under US GAAP as if the current Group structure had been in place throughout the relevant periods.

FINANCIAL SUMMARY

(Expressed in Renminbi)

RESULTS

	Note	2005 RMB million	2004 RMB million	2003 RMB million	2002 RMB million	2001 RMB million
Operating revenue						
Usage fees		156,710	128,534	111,027	93,272	73,458
Monthly fees		25,055	24,760	20,666	16,901	14,085
Connection fees		—	—	—	—	711
Other operating revenue		61,276	39,087	26,911	18,388	12,077
		243,041	192,381	158,604	128,561	100,331
Operating expenses						
Leased lines		3,224	3,861	4,914	5,287	5,005
Interconnection		15,309	12,072	12,868	12,975	13,055
Depreciation	2	56,368	44,186	36,488	26,725	17,597
Personnel	2	14,200	9,972	7,700	6,757	5,325
Other operating expenses	2	80,254	62,811	43,431	28,021	18,337
		169,355	132,902	105,401	79,765	59,319
Profit from operations	2	73,686	59,479	53,203	48,796	41,012
Amortization of goodwill		—	(1,930)	(1,850)	(936)	—
Other net income		3,284	3,167	2,464	1,686	1,594
Non-operating net income/(expenses)		1,025	900	434	571	(6)
Interest income		1,615	1,014	807	713	857
Finance costs		(1,346)	(1,679)	(2,099)	(1,852)	(1,740)
Profit before taxation		78,264	60,951	52,959	48,978	41,717
Taxation	4	(24,675)	(19,180)	(17,412)	(16,375)	(13,763)
Profit for the year		53,589	41,771	35,547	32,603	27,954
Equity shareholders of the Company		53,549	41,749	35,556	32,601	27,955
Minority interests		40	22	(9)	2	(1)
Profit for the year		53,589	41,771	35,547	32,603	27,954

FINANCIAL SUMMARY (CONT'D)

(Expressed in Renminbi)

ASSETS AND LIABILITIES

	Note	2005 RMB million	2004 RMB million	2003 RMB million	2002 RMB million	2001 RMB million
Property, plant and equipment	2	216,505	212,459	167,177	161,355	103,076
Construction in progress	2	34,201	30,510	27,789	22,524	19,581
Land lease prepayments	2	7,243	6,333	5,008	4,543	2,532
Goodwill	2	35,300	35,300	34,373	36,223	—
Interest in associates		—	—	16	16	16
Other financial assets		77	77	77	77	77
Deferred tax assets	4	6,625	4,068	3,263	4,991	2,680
Deferred expenses		—	96	143	190	180
Net current assets/(liabilities)		11,122	(17,757)	(8,693)	(4,012)	8,096
Total assets less current liabilities		311,073	271,086	229,153	225,907	136,238
Interest-bearing borrowings		(36,545)	(36,633)	(29,383)	(51,524)	(21,591)
Obligations under finance leases, excluding current installments		—	—	—	—	(812)
Deferred revenue, excluding current portion		(1,324)	(944)	(688)	(869)	(820)
Deferred tax liabilities	4	(97)	(105)	(97)	(58)	—
Net assets		273,107	233,404	198,985	173,456	113,015

Notes:

- (1) The above tables summarize the results of the Group for the years ended 31 December 2001, 2002, 2003, 2004 and 2005, together with the Group's assets and liabilities as at 31 December 2001, 2002, 2003, 2004 and 2005.

The Group's results for the years ended 31 December 2001, 2002, 2003, 2004 and 2005 include the results of the Company and its subsidiaries for the period from 1 January or the date of incorporation or acquisition, if later, to 31 December of the year.

- (2) The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in note 2 on the financial statements. Figures for 2001 to 2005 have been adjusted for these new and revised policies in accordance with the transitional provisions and as disclosed in note 2. Earlier years have only been restated to the extent that the new accounting policies are adopted retrospectively as disclosed in note 2.
- (3) Prior to 2001 positive or negative goodwill was taken directly to reserves at the time it arose and was not recognized in the income statement until disposal or impairment of the acquired business. Pursuant to the transitional provision set out in Hong Kong Statement of Standard Accounting Practice No. 30 "Business Combinations", the change in accounting policy for goodwill in 2001 was applied to the figures for 2001 and onwards and no adjustments were made in respect of goodwill which arose previously, whether or not the acquired business was still held.
- (4) Figures for the years from 2001 to 2002 have been adjusted as the Group adopted retrospectively the Hong Kong Statement of Standard Accounting Practice No. 12 (revised) "Income taxes".

GLOSSARY

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

AVERAGE NUMBER OF SUBSCRIBERS

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

COLOR RING

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

GSM

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

INTERCONNECTION

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

MMS

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

IM

Instant Messaging. IM enables subscribers to communicate instantly through various means including SMS to chat, date or for interactive entertainment.

MOBILE MUSIC

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

M-ZONE

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

NETWORK UTILIZATION RATE

The ratio of the aggregate subscriber base to the capacity of the mobile telecommunications network. At present, the capacity of the mobile telecommunications network is calculated on the basis that each wireless voice channel can support 30 subscribers.

PENETRATION RATE

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

ROAMING

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

3G (THIRD GENERATION MOBILE TELECOMMUNICATIONS TECHNOLOGIES)

Third Generation mobile telecommunications technologies are focused on providing wireless broadband multi-media communications services, including high-speed data services, imaging services and global roaming.

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