中国移动通信
CHINA MOBILE

CHINA MOBILE LIMITED

Stock Code: 941

ANNUAL REPORT 2009

Major Awards & Recognition

In 2009, the Company's outstanding performance has won popular recognition and acclaim, including:

The Company ranked number 55 as compared to number 78 in the previous year in *Forbes* "Global 2000 — the World's 2000 Biggest Public Companies".

The Company had been once again selected by *Financial Times* as one of the "FT Global 500" companies, remaining number 5 in ranking.

For the eighth consecutive year, the Company had been included by *BusinessWeek* in its global "Info Tech 100" companies, ranking number 23.

The Company ranked number 1 in the China section of *FinanceAsia*'s "Asia's Best Companies" survey 2009 in four categories — "Best Managed Company", "Best Corporate Governance", "Best Corporate Social Responsibility" and "Most Committed to a Strong Dividend Policy".

For the fourth consecutive year, the "China Mobile" brand had been included in "BRANDZ™ Top 100 Most Powerful Brands", ranking number 7 globally. This ranking is published by Millward Brown and *Financial Times* since 2006.

In the Thomson Reuters Extel Asia Pacific IR Survey 2009 in association with IR magazine, the Company won four awards including "Best Overall Investor Relations, Asia Pacific", "Grand Prix for Best Overall Investor Relations, Large Cap — Hong Kong", "Best Corporate Governance", "Best Investment Meetings/One-on-Ones".

This annual report is printed on environmentally friendly, totally chlorine-free paper

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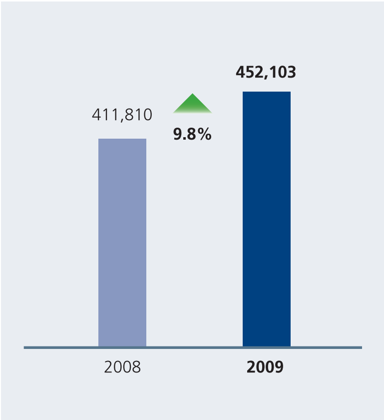
Financial Highlights

	2009	2008[1]	Growth
Operating revenue (RMB million)	**452,103**	411,810	9.8%
EBITDA (RMB million)	**229,023**	216,267	5.9%
EBITDA margin	**50.7%**	52.5%	
Profit attributable to shareholders (RMB million)	**115,166**	112,627	2.3%
Profit attributable to shareholders margin	**25.5%**	27.3%	
Basic EPS (RMB)	**5.74**	5.62	2.2%
Dividend per share — Interim (HK$)	**1.346**	1.339	
— Final (HK$)	**1.458**	1.404	
— Full year (HK$)	**2.804**	2.743	

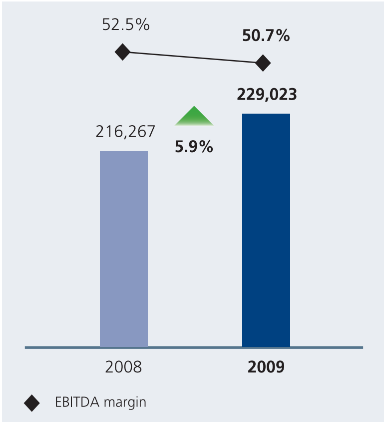
Operating Revenue

(RMB million)



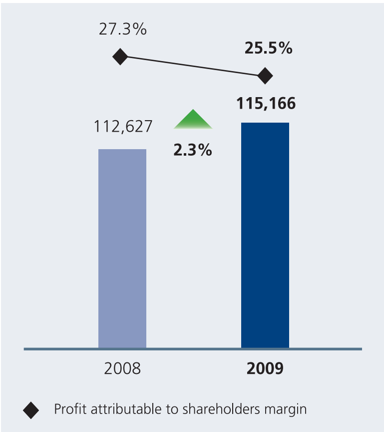
EBITDA

(RMB million)



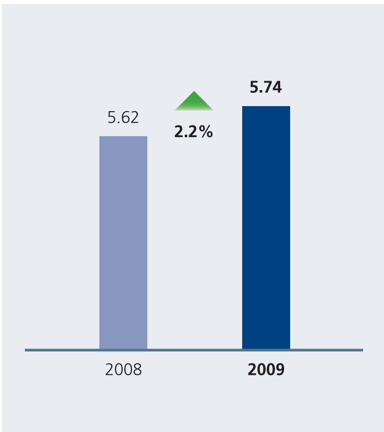
Profit Attributable To Shareholders

(RMB million)



Basic EPS

(RMB)



[1] *With effect from 1 January 2009, the Company retrospectively adopted the IFRIC/HK(IFRIC) Interpretation 13 — Customer loyalty programmes. The comparative figures have been restated according to IFRIC/HK(IFRIC) Interpretation 13.*

Company Profile

China Mobile Limited (the "Company", and together with its subsidiaries, the "Group") was incorporated in Hong Kong on 3 September 1997. The Company was listed on the New York Stock Exchange ("NYSE") and The Stock Exchange of Hong Kong Limited ("HKEx") on 22 October 1997 and 23 October 1997, respectively. The Company was admitted as a constituent stock of the Hang Seng Index in Hong Kong on 27 January 1998. As the leading mobile services provider in China, the Group boasts the world's largest mobile network and the world's largest mobile customer base. In 2009, 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, and was again recognized on the Dow Jones Sustainability Indexes ("DJSI"). Currently, the Company's credit rating is A+/Outlook Stable by Standard and Poor's and A1/Outlook Positive by Moody's (respectively equivalent to China's sovereign credit rating).

The Company owns 100% interest in the following operating subsidiaries:
China Mobile Group Guangdong Company Limited ("Guangdong Mobile"), China Mobile Group Zhejiang Company Limited ("Zhejiang Mobile"), China Mobile Group Jiangsu Company Limited ("Jiangsu Mobile"), China Mobile Group Fujian Company Limited ("Fujian Mobile"), China Mobile Group Henan Company Limited ("Henan Mobile"), China Mobile Group Hainan Company Limited ("Hainan Mobile"), China Mobile Group Beijing Company Limited ("Beijing Mobile"), China Mobile Group Shanghai Company Limited ("Shanghai Mobile"), China Mobile Group Tianjin Company Limited ("Tianjin Mobile"), China Mobile Group Hebei Company Limited ("Hebei Mobile"), China Mobile Group Liaoning Company Limited ("Liaoning Mobile"), China Mobile Group Shandong Company Limited ("Shandong Mobile"), China Mobile Group Guangxi Company Limited ("Guangxi Mobile"), China Mobile Group Anhui Company Limited ("Anhui Mobile"), China Mobile Group Jiangxi Company Limited ("Jiangxi Mobile"), China Mobile Group Chongqing Company Limited ("Chongqing Mobile"), China Mobile Group Sichuan Company Limited ("Sichuan Mobile"), China Mobile Group Hubei Company Limited ("Hubei Mobile"), China Mobile Group Hunan Company Limited ("Hunan Mobile"), China Mobile Group Shaanxi Company Limited ("Shaanxi Mobile"), China Mobile Group Shanxi Company Limited ("Shanxi Mobile"), China Mobile Group Neimenggu Company Limited ("Neimenggu Mobile"), China Mobile Group Jilin Company Limited ("Jilin Mobile"), China Mobile Group Heilongjiang Company Limited ("Heilongjiang Mobile"), China Mobile Group Guizhou Company Limited ("Guizhou Mobile"), China Mobile Group Yunnan Company Limited ("Yunnan Mobile"), China Mobile Group Xizang Company Limited ("Xizang Mobile"), China Mobile Group Gansu Company Limited ("Gansu Mobile"), China Mobile Group Qinghai Company Limited ("Qinghai Mobile"), China Mobile Group Ningxia Company Limited ("Ningxia Mobile"), China Mobile Group Xinjiang Company Limited ("Xinjiang Mobile") and China Mobile Hong Kong Company Limited (formerly known as China Mobile Peoples Telephone Company Limited) ("Hong Kong Mobile"), and operates nationwide mobile telecommunications networks in all 31 provinces, autonomous regions and directly-administered municipalities in Mainland China and in Hong Kong SAR through these subsidiaries.

As of 31 December 2009, the Group had a total staff of 145,954 and a customer base of 522.283 million, and enjoyed a market share of approximately 70.6% in Mainland China. The Group's GSM global roaming services covered 237 countries and regions and its GPRS roaming services covered 182 countries and regions.

The Company's majority shareholder is China Mobile (Hong Kong) Group Limited, which, as of 31 December 2009, indirectly held an equity interest of approximately 74.22% in the Company through a wholly-owned subsidiary, China Mobile Hong Kong (BVI) Limited. The remaining equity interest of approximately 25.78% of the Company was held by public investors.

Milestones

1997

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

22 & 23 October
China Telecom (Hong Kong) Limited raised US$4.2 billion in its Initial Public Offering, with its shares listed on the NYSE and HKEx, respectively.

1998

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

1999

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

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

2000

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

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

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

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

2001

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

2002

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

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

MILESTONES

2003

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

2004

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

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

2005

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

2006

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

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

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

2007

22 & 23 October
The 10th anniversary of China Mobile Limited's Listing on the HKEx and NYSE.

2009

29 April
China Mobile Limited entered into a share subscription agreement with Far EasTone Telecommunications Co., Ltd. ("Far EasTone") to acquire, through its wholly-owned subsidiary, 444,341,020 shares, representing 12% of the enlarged issued share capital of Far EasTone.

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)

Madam HUANG Wenlin
(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
Dr. Moses CHENG Mo Chi

Non-Executive Director

Mr. Nicholas Jonathan READ

Principal Board Committees

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

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

Qualified Accountant

Ms. NG Phek Yen *(CPA, FCCA)*

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.chinamobileltd.com
Stock code: (Hong Kong) 941
(New York) CHL
CUSIP Reference Number: 16941M109

Share Registrar

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

American Depositary Receipts Depositary

BNY Mellon
Depositary Receipts
101 Barclay Street, 22/F
New York, NY 10286
USA
Tel: 1 888 269 2377 (toll free in USA)
1 201 680 6825 (international call)
Email: shrrelations@bnymellon.com

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 2010. Copies of the annual report of the Company as well as the annual report on Form 20-F, once filed, will be available at:

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

The United States:
BNY Mellon
Depositary Receipts
101 Barclay Street, 22/F
New York, NY 10286
USA

Biographies of Directors and Senior Management

Executive Directors

Mr. WANG Jianzhou

Age 61, 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, Deputy Director General of the Posts and Telecommunications Administration of Zhejiang, 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 ("MII"), Director, Executive Vice President, President and Chairman of China United Telecommunications Corporation, Executive Director, President, Chairman and Chief Executive Officer of China Unicom Limited, and Chairman and President of China United Telecommunications Corporation Limited. Mr. Wang graduated in 1985 from Department of Management Engineering of Zhejiang University with a Master's Degree in Engineering, and holds a doctoral degree in business administration from Hong Kong Polytechnic University. Mr. Wang is a professor-level senior engineer with extensive knowledge and 32 years of experience in the telecommunications industry.

Mr. LI Yue

Age 51, 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 mainly in relation to the legal, marketing and data 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. Li is also a director of China Mobile Communication Co., Ltd. and was appointed a non-executive director of Phoenix Satellite Television Holdings Ltd. in March 2010. 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 in business administration, and holds a doctoral degree in business administration from Hong Kong Polytechnic University. Mr. Li is a professor-level senior engineer with over 34 years of experience in the telecommunications industry.

Mr. LU Xiangdong

Age 50, 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 development strategy, planning and procurement of the Company. He has also held the post of Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company) since April 2000. Mr. Lu is also a director of China Mobile Communication Co., Ltd., Chairman of Aspire Holdings Limited and Union Mobile Pay Limited. He previously served as the Director General of the Fujian Wireless Telecommunications Administration, the Deputy Director General of the Mobile Telecommunications Administration of the Ministry of Posts and Telecommunications and a non-executive director of Phoenix Satellite Television Holdings Ltd.. Mr. Lu graduated from the Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications with a Master's Degree in wireless telecommunication, and holds a doctoral degree in economics from Peking University. Mr. Lu is a professor-level senior engineer with nearly 28 years of experience in the telecommunications industry.

Biographies of Directors and Senior Management

Mr. XUE Taohai

Age 54, 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 internal audit 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 MII and Deputy Director General of the former Directorate General of Telecommunications. He graduated from Henan University and received an EMBA degree from Peking University. Mr. Xue is a senior accountant with over 30 years of experience in the telecommunications industry and financial management.

Madam HUANG Wenlin

Age 55, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in September 2007. Madam Huang assists the Chief Executive Officer in relation to the corporate affairs and human resources matters of the Company. She 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.. Madam Huang previously served as Director of Domestic Communications Division and Director of Communications Organization Division of the Directorate General of Telecommunications of the Ministry of Posts and Telecommunications, Vice President of China Telecommunications Corporation, Executive Director and Executive Vice President of China Telecom Corporation Limited. Madam Huang graduated in 1984 from Beijing University of Posts and Telecommunications with a major in management engineering and received an EMBA degree from Peking University. Madam Huang is a senior economist with 34 years of operational and managerial experience in the telecommunications industry.

Mr. SHA Yuejia

Age 52, Executive Director and Vice President of the Company, joined the Board of Directors of the Company in March 2006. Mr. Sha assists the Chief Executive Officer in relation to business support, technology and R&D of the Company. He is also a Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company) and a director of China Mobile Communication Co., Ltd.. He previously served as Director of the Engineering Construction Department IV Division of Beijing Telecommunications Administration, President of Beijing Telecommunications Planning Design Institute, Deputy Director General of Beijing Telecommunications Administration, Vice President of Beijing Mobile Communications Company, Director and Vice President, Chairman and President of Beijing Mobile. Mr. Sha graduated from Beijing University of Posts and Telecommunications, and received a Master's Degree from the Academy of Posts and Telecommunications of the Ministry of Posts and Telecommunications and a doctoral degree in business administration from Hong Kong Polytechnic University. He is a professor-level senior engineer with over 27 years of experience in the telecommunications industry.

Biographies of Directors and Senior Management

Mr. LIU Aili

Age 46, 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 network, management information systems, information security and industrial management of the Company. He is also a Vice President of China Mobile Communications Corporation (the ultimate controlling shareholder of the Company), a director of China Mobile Communication Co., Ltd. and non-executive director of China Communications Services Corporation Limited. He previously served as Deputy Director General of Shandong Mobile Telecommunications Administration, Director General of Shandong Mobile Telecommunications Administration and General Manager of Shandong Mobile Communications Enterprises, Vice President of Shandong Mobile Communications Company, Director-General of Network Department of China Mobile Communications Corporation, Chairman and President of Shandong Mobile and Zhejiang Mobile and Chairman of CMPak Limited. Mr. Liu graduated from Heilongjiang Posts and Telecommunications School with an associate degree and completed a post-graduate program in economics at Shandong University. Mr. Liu also received a Master of Management degree from Norwegian School of Management BI and a doctoral degree in business administration from Hong Kong Polytechnic University. He is a professor-level senior engineer with over 27 years of experience in the telecommunications industry.

Madam XIN Fanfei

Age 53, 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, Director of the Planning Division, Director of the Department of Planning and Construction of Tianjin Posts and Telecommunications Administration, Vice President of Tianjin Mobile Communications Company, Director and Vice President of Tianjin Mobile, Chairwoman and President of Heilongjiang Mobile, and Chairwoman of former China Mobile Peoples Telephone Company Limited. Madam Xin graduated from Xidian University, and received an EMBA degree from Peking University and a Doctor of Management degree 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 53, 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. 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, and Chairman and President of Zhejiang Mobile. He graduated from Zhejiang Radio and Television University in 1985, and holds a doctoral degree in business administration from Hong Kong Polytechnic University. Mr. Xu is a senior economist with 32 years of experience in the telecommunications industry.

Biographies of Directors and Senior Management

Non-Executive Director

Mr. Nicholas Jonathan READ

Age 45, Non-Executive Director of the Company, joined the Board of Directors of the Company in March 2009. Mr. Read is currently Vodafone's Regional Chief Executive Officer for Asia Pacific and Middle East Region. He is also a director of Vodafone Essar Limited, Vodafone Essar Towers Limited, Vodafone Egypt Communications S.A.E., Vodafone Hutchison Australia Limited, Vodafone Qatar Q.S.C and JIL B.V.. Prior to his appointment as Vodafone's Regional Chief Executive Officer for Asia Pacific and Middle East Region, Mr. Read was the Chief Executive Officer of Vodafone UK. Mr. Read joined Vodafone UK in 2002 as Chief Financial Officer, and in 2003 was appointed the Chief Commercial Officer of Vodafone UK. Prior to joining Vodafone, Mr. Read had been the Chief Financial Officer of Miller Freeman Worldwide and the Chief Financial Officer for the EMEA (Europe, Middle East and Africa) Region of Federal Express. Mr. Read graduated in 1986 from the Manchester Metropolitan University with a Bachelor of Arts (Honours) degree in Accountancy and Finance. Mr. Read is a Fellow Chartered Management Accountant. His other directorships held in the last three years in listed public companies include Emtel Europe Plc and Mobile Telecom Plc..

Independent Non-Executive Directors

Dr. LO Ka Shui

Age 63, Independent Non-Executive Director of the Company, was appointed to the Board of Directors of the Company in April 2001. He was appointed Chairman of Audit Committee, Remuneration Committee and Nomination Committee of the Company. Dr. Lo is the Chairman and Managing Director of Great Eagle Holdings Limited, the Non-executive Director and Chairman of Eagle Asset Management (CP) Limited (Manager of the publicly listed Champion Real Estate Investment Trust). He is also a Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited and an Independent Non-executive Director of Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited, Winsor Properties Holdings Limited, Melco International Development Limited and City-e-Solutions Limited. Dr. Lo is a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research and a Board Member of the Hong Kong Airport Authority and the Chairman of The Chamber of Hong Kong Listed Companies. Dr. Lo graduated from McGill University with a Bachelor of Science Degree and from Cornell University with a Doctor of Medicine (M.D.) Degree. He was certified in Internal Medicine and Cardiology. He has more than 30 years of experience in property and hotel development and investment both in Hong Kong and overseas.

Mr. Frank WONG Kwong Shing

Age 62, Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in August 2002. Mr. Wong serves as an independent non-executive director of Industrial and Commercial Bank of China Limited, China and PSA International Pte Ltd, Singapore. He previously served as Vice Chairman of DBS Bank, a member of the DBS Bank and DBS Group Holdings boards, and Chairman of DBS Bank (Hong Kong). He held a series of progressively senior positions with regional responsibility at Citibank, JP Morgan and NatWest from 1967 to 1999 and served as independent non-executive director of National Healthcare Group Pte Ltd and Mapletree Investments Pte Ltd, Singapore and the Chairman of Galleon Asia Pte Ltd. Mr. Wong also served in various positions with Hong Kong's government bodies including the Chairman of the Hong Kong Futures Exchange between 1993 and 1998 . Mr. Wong has many years of finance and commercial management experience.

Biographies of Directors and Senior Management

Dr. Moses CHENG Mo Chi, GBS, OBE, JP

Age 60, Independent Non-executive Director of the Company, joined the Board of Directors of the Company in March 2003. Dr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co.. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng is also the Chairman of the Advisory Committee on Post-service Employment of Civil Servants. Dr. Cheng currently holds directorships in City Telecom (H.K.) Limited, China COSCO Holdings Company Limited, Liu Chong Hing Investment Limited, China Resources Enterprise, Limited, Towngas China Company Limited, Hong Kong Exchanges and Clearing Limited, Kader Holdings Company Limited, Guangdong Investment Limited and Tian An China Investments Company Limited, all being public listed companies in Hong Kong. Dr. Cheng was also appointed a director of K. Wah International Holdings Limited (a public listed company in Hong Kong) in August 2009. His other directorships in public listed companies in the last 3 years include Beijing Capital International Airport Company Limited, Galaxy Entertainment Group Limited (formerly known as K. Wah Construction Materials Limited) and Shui On Construction and Materials Limited. He is also an independent non-executive director of ARA Asset Management Limited, a company whose shares are listed on Singapore Exchange Limited, and an independent director of ARA Asset Management (Singapore) Limited, which manages Fortune Real Estate Investment Trust, a real estate investment trust listed on Singapore Exchange Limited.

Chairman's Statement

Dear Shareholders,

The Chinese economy began to recover from the aftermath of the global financial crisis in 2009, while the new structure of the telecom market in China gradually took shape following the issuance of 3G licenses. Meanwhile, increasing mobile penetration rates have been observed in a number of more developed regions. In this new yet challenging environment, the Group continued to maintain steady growth and good profitability, thanks to its robust management approach, institutionalized processes and procedures, strong execution capability, high quality network with extensive coverage, large scale and premium brand. The Group maintained its leading position among international peers in terms of market capitalization and brand value, and once again was selected to be a constituent of the Dow Jones Sustainability Indexes.

Financial Results

In 2009, the Group recorded RMB452,103 million in operating revenue, a steady rise of 9.8% over last year. Continuously leading the industry in profitability, the Group achieved 2.3% increase in profit attributable to shareholders, which reached RMB115,166 million, arriving at a margin of 25.5%. EBITDA rose 5.9% to RMB229,023 million, with EBITDA margin reaching 50.7%. Basic earnings per share grew 2.2% to RMB5.74.

Underpinned by its solid capital structure and financial strength, the Group is well-positioned to manage risks and achieve continued healthy growth.

Business Development

The Group's business grew steadily despite facing multiple challenges in 2009 and the Group successfully competed to win higher market share from new customers, while also maintaining a low customer churn rate. The Group preserved its existing customer base and kept average minutes of usage per user per month (MOU) stable. The total customer base at the end of 2009 reached 522 million, of which 65.03 million were net additions. The contribution to total revenue from value-added business increased substantially, including revenue generated from Mobile Music, which again exceeded RMB10 billion. In 2009, the Group's total voice usage volume was 2,918.712 billion minutes, with MOU at 494 minutes and average revenue per user per month (ARPU) at RMB77.

The Group's value-added business grew rapidly. Revenue from value-added business increased 16.0% over last year, a contribution of 29.1% to the Group's total operating revenue, thanks to the continuous expansion of some of our major service offerings such as SMS, Color Ring, MMS, Handset Internet Access and Mobile Paper. Customers of our Wireless Music Club, Fetion and 12580 Integrated Information Service Line also reached critical mass. "139 Mailbox" and Mobile Gaming services showed rapid growth, while we further developed and optimized several services in our product pipeline including Mobile Video, Mobile Reading and Mobile Payment. Launched in August 2009, Mobile Market – the platform designed and built to provide a wide range of mobile applications – offered a pioneering example of collaboration between a mobile network operator and application developers. The application of the recently popularized concept, the "Internet of Things" also gained encouraging initial momentum in the market and is expected to become an additional revenue stream for the Group.

In 2009, complementing state policies for economic development in rural areas, the Group leveraged its large scale to implement an integrated and more efficient sales and marketing approach to expand into the rural market. The offerings of "Agricultural Information Service", our information provisioning service tailored for rural customers, were broadened in an effort to increase customer loyalty and enhance value for rural customers. We are pleased to see that our presence is increasingly influential and that our competitive edge is strengthening in the rural market. The rural sector continues to contribute to the Group's overall revenue growth and expansion of its customer base.

Positioned as a "Mobile Information Expert", the Group has been proactively promoting information applications to corporate customers. In 2009, our management priority was focused on improving corporate customer marketing services, product planning & business integration, and operation systems support. Through a variety of initiatives, including the "Customer Cultivation Plan" for SMEs and the "Power 100" service package, we attracted a substantial number of new corporate customers subscribing to M2M and mobile e-Commerce services. As of 31 December 2009, the number of our corporate accounts reached 2.78 million and the number of individual customers managed through corporate accounts approached 185 million, and revenues from industry-specific information services broke through the RMB10 billion threshold.

China Mobile is the world's No. 1 mobile operator by number of customers and enjoys prominent advantages from our economies of scale and market leading position. In 2009, the Group further enhanced its network in terms of both quality and coverage. We maintained our world-class network quality and continued to widen our international roaming service coverage. The number of base stations exceeded 460,000, with a population coverage rate of 98%, while the optic fiber base station access rate surpassed 96%, putting our services in the near vicinity of most office and commercial buildings. The Group has completed the upgrading of its core network to be fully IP-based, hence laying a solid foundation for a full-service network that is geared to future needs and capable of providing integrated services.

3G Development

In 2009, in coordination with its parent company, the Group rapidly and efficiently built and optimized the 3G network. With the second and third phases of the network construction completed, the 3G network coverage fanned out to include 238 cities across the country, with a 70% coverage rate among prefecture-level cities. Technological innovations helped solve critical technical network challenges and enabled the quality of the 3G network to be close to that of our world-class 2G network.

The Group is committed to lead and participate in the development of TD-SCDMA (TD) technology throughout the entire supply chain in an effort to accelerate the maturity of the industry. The Group's parent company set up a TD Terminal Joint R&D Incentive Fund which seeks to attract additional participation and investment from major terminal manufacturers. Through the collective efforts of multiple parties including the Group, there are already 266 different designs of TD terminals on the market, including medium to high-end series with improved features, as well as models for the mass market priced around or below RMB1,000. To lead in the mobile handset industry, we also launched the intelligent mobile terminal software platform OMS, the development process for which the Group played a leading role, and terminal manufacturers joined forces with the Group to launch the OPhones.

Capitalizing on the Group's advantages in brand recognition and network coverage and complementing marketing initiatives related to the 3G logo launch, the Group adopted an integrated dual-network approach in 2009 to boost the full scale introduction of 3G services to the individual, family and corporate markets. Following the principle of continuous innovation, we introduced a variety of devices including handsets, netbooks and G3 Readers, which offer more ways to use 3G applications such as Handset Internet Access and Broadcast Mobile TV services. We have begun the pilot project for TD Wireless City roll-out in selected cities, and various industry-specific applications are being used by government organizations and corporations. The number of customers who used 3G services in December 2009 was 3.41 million. In the context of state policies encouraging "home-grown innovation", the Group will continue to work closely with all parties across the supply chain to propel the development of TD and expand the 3G market.

Innovation and Improvement

Committed to continuous innovation, in a determined effort to forge ahead, the Group took actions across the organization, ranging from technological development to operations and management improvements, that will help ensure sustainable development in the future.

Following the management principle of "one China Mobile", the Group was able to manage the company more effectively by accessing detailed data from its centralized IT system to achieve improved operational efficiencies and lower costs. Capacity upgrades and optimization of our IT systems provided the backbone to our efforts at the centralization, standardization and informatization of management. Centralization of the Group's operations and maintenance has led to a high utilization rate for our network resources. More centralized procurement lowered our costs even further. Finally, progress in the centralization of our financial management has already led to improved transparency and effective cost control.

We undertook efforts to upgrade our core network to become fully IP-based, and established a 2G and 3G soft switch IP network that offers superior quality and is the world's biggest. We are committed to network quality improvement and TD technology innovation. We have increased investment in R&D for TD technology evolution. We participated in a number of projects sponsored by the National Engineering Lab on new generation broadband mobile telecommunications applications. We also promoted the international standardization of TD-LTE in several international organizations, paving the way for the continuous and healthy development of the TD industry. We will debut our TD-LTE showcase network at the World Expo Shanghai 2010.

At this juncture, as the mobile telecommunications and Internet industries are converging, apart form being the first operator to launch mobile applications store — Mobile Market, the Group introduced several value-added applications and services including Mobile TV, Mobile Reading and Mobile Payment to capitalize on these emerging trends. At the same time, we made major breakthroughs in critical technology and research about the "Internet of Things", which is an important step in securing our leading position in future technology evolution and our influence in setting industry standards, as well as accelerating commercial applications.

Investments and Acquisitions

On 10 March 2010, the Company through its wholly-owned subsidiary, Guangdong Mobile, entered into a conditional share subscription agreement with Shanghai Pudong Development Bank Co., Ltd. ("SPD Bank"). Pursuant to the share subscription agreement, Guangdong Mobile will conditionally subscribe for 2,207,511,410 A shares to be issued by SPD Bank, representing 20% of the issued shares of SPD Bank as increased by the subscription. We have also entered into a Memorandum of Understanding for strategic cooperation with SPD Bank. Upon completion of the subscription, the Group and SPD Bank will closely cooperate in the joint development of mobile e-Commerce businesses, among other things. The cooperation between the Group and SPD Bank signifies the exploration of a closer integration between mobile communications and e-Commerce applications. Our aims are to provide safer, faster and more convenient services to our customers and to improve people's quality of life. We believe this cooperation will open up a new market for both parties and result in a win-win situation.

The Company will continue to look for investment opportunities in the overseas telecommunications sector and will seek new avenues of growth in international markets.

Corporate Social Responsibility

As the world's largest mobile telecommunications operator in terms of customer base and network scale, the Group attaches great importance to corporate social responsibility, and we developed a series of programs in this area in 2009. In addition to ensuring that the communications system and services we offered are reliable, efficient and safe, we have also worked toward narrowing the digital divide to enable more people to have access to digital information technology. We also consider employee satisfaction to be a fundamental management priority.

In 2009, the Group launched the "China Mobile Charity Foundation". As part of our initiatives to tackle the issue of climate change, the Group volunteered to reduce our average operating energy consumption per unit of telecommunications traffic by 20% in 2012 compared with 2008, a concrete contribution to energy saving and emissions reduction. The Group's efforts with regard to corporate social responsibility and sustainable development were recognized as it continued to be named a constituent of the Dow Jones Sustainability Indexes.

Chairman's Statement

Awards and Recognition

In 2009, our achievements continued to be widely recognized. The Company was ranked 5th place in the Financial Times' "FT Global 500". Our position in Forbes Magazine's "Global 2000" list rose from 78th to 55th place. We made the BusinessWeek global "Info Tech 100" list for the eighth consecutive year, placing 23rd. The China Mobile brand was in "BRANDZ™ Top 100 Most Powerful Brands" by Milliward Brown and Financial Times for the fourth consecutive year and currently ranks 7th, with the brand value having increased to US$61.283 billion. In the same period, Standard & Poor's and Moody's kept our ratings at A+/Outlook Stable and A1/Outlook Positive respectively, which is the same as China's sovereign credit rating.

Dividends

The Company determines and commits to hold in the highest regard the interests of its shareholders and the returns achieved for them, especially for minority shareholders. In view of the Company's good profitability of 2009 and taking into consideration its long-term future development, the Board recommends payment of a final dividend of HK$1.458 per share for the financial year ended 31 December 2009 in accordance with the dividend payout ratio of 43% planned for the full financial year of 2009. This, together with the interim dividend of HK$1.346 per share that was paid in 2009, amounts to an aggregate dividend payment of HK$2.804 per share for the full financial year of 2009. The dividend payout ratio for the year of 2009 was 43%.

In 2010, taking into consideration various relevant factors such as the Company's overall financial condition, cash flow generating capability and the need for future sustainable development, the Company plans the dividend payout ratio for the full year of 2010 to be 43%.

The Board is of the view that the Company's good profitability and strong cash flow generating capability will continue to support the future sustainable development of the Company, while providing shareholders with a favorable return.

Future Outlook

The continuing impact of the global financial crisis on the Chinese economy, the change in the competitive landscape, the increasing mobile penetration rate and the convergence across telecommunications, Internet and Radio & TV Broadcasting networks all pose fresh challenges to the Group's future development. On the other hand, the Chinese government has pursued policies aimed at boosting domestic consumption and strengthening economic growth. The resulting economic development and growing consumer purchasing power will lead to increased demand for telecommunications and information services throughout all sectors, particularly from individuals and families. We also expect to see growth in the corporate sector, driven by accelerating demand for enterprise and industry informatization. The government attaches great importance and gives strong support to "home-grown innovation", which motivates us and gives us confidence in our 3G development. In addition, the flourishing Mobile Internet and the "Internet of Things" concept, as well as the integration of mobile payments into the financial system, have all created new revenue stream possibilities. The convergence across telecommunications, Internet and Radio & TV Broadcasting networks will form a new market beyond the traditional telecommunications industry. All these trends present us with new opportunities for future development.

Chairman's Statement

We believe in growth via making new markets, in line with the strategy popularly known as "Blue Ocean Strategy", and we advocate for rational competition, thereby preserving industry profitability levels without compromising our leading position. Based on our strong foundation and integrated capabilities, the Group will focus on growing its telecommunications and information service business, continuing to meet our customers' needs, and achieving sustained growth. Driven by value creation, we will expand 3G services and promote mobile broadband service to individuals, families and corporate customers. Capitalizing on the advantages of our network and the synergies with our parent company, the Group will continue to operate efficiently, and to implement our distinctive, differentiated full-service strategy. We will expand into new business areas in mobile Internet and the "Internet of Things". At the same time, we will capitalize on our overall influence to actively participate in the research and promote the development of LTE mobile network evolution.

Our commitment is unwavering – we will continue the efforts to maintain our leading position in the international telecommunications industry and create value for shareholders by building a prosperous and sustainable business.

Wang Jianzhou
Chairman and Chief Executive Officer

Hong Kong, 18 March 2010

Open Dialogue with Senior Management

The customer base of the Group continued to be solid in 2009, can you further elaborate?

In 2009, the Group's customer base continued to be solid. As at the end of 2009, its total customer base reached 522.283 million, and the number of net additional customers for the year was 65.033 million, translating into an average increase in net additional customers of 5.42 million per month. The rural market, which continues to serve as a key growth driver, contributed to nearly half of the customer growth in the year.

The increased mobile penetration rate in Mainland China, the further intensified market competition after the telecommunications industry restructuring and the issuance of 3G licenses as well as the effect of the global financial crisis on the country's economy have led to a decrease in the Group's customer growth. The Group still maintained 60.5% of market share for net customer additions. As at the end of 2009, the Group's total customer market share was approximately 70.6%.

In 2009, the Group continued to pursue the rural market development strategy of "Lower ARPU, Lower MOU, Lower cost". The Group has taken full advantage of the State policies to reduce development costs for the rural market and enhanced the influence. The Group has first-mover advantage in rural markets. Whilst urbanization in rural areas progresses, the rural telecommunications market presents significant potential and the rural market will continue to be the key growth driver for the Group.

In 2009, the Group saw steady growth in its corporate customer base, which has become an increasingly important contributor to the Group. The Group made significant efforts in retaining and developing corporate customers. The Group endeavored to achieve breakthroughs in the application of machine-to-machine (M2M) and Mobile e-Commerce business in the corporate arena. As at the end of 2009, corporate customer base reached 2.78 million accounts and the number of individual customers served under corporate accounts reached 35.4% of the total customer base. Revenue from corporate informatization exceeded RMB10 billion.

The Group launched its 3G business in 2009, can you further elaborate on its overall development?

In 2009, the Group commenced operations of 3G network by leasing wireless network capacity from its parent company and actively pushed forward the development of 3G business. In December 2009, the number of customers who used our 3G network service was 3.408 million. The Group coordinated with its parent company to complete Phases Two and Three of 3G network construction. The total number of 3G base stations in operation exceeded 80,000, covering 238 cities across the country (representing more than 70% coverage of prefecture-level cities). The Group was committed to enhancing network quality and resolving major technical problems. The 3G network quality is comparable to that of the Group's 2G network, which is of world leading quality.

In 2009, the parent company established a RMB650 million R&D incentive fund to be used for joint research and development of TD-SCDMA terminals and chipsets with manufacturers. This initiative has boosted confidence in the industry chain and encouraged more capable manufacturers to participate. As at the end of 2009, there were 266 different models of TD-SCDMA terminals, and the TD-SCDMA terminal industry chain gradually matures.

In 2009, the Group fully leveraged on the new 3G business and products, to target individuals, families, corporations and industry informatization markets. It actively promoted G3 applications through voice, broadband data and value-added businesses. It launched applications such as video calling, video messaging, video conferencing and video-on-demand IVVR services. The Group has also introduced G3 wireless desktop phone and pilot-launched Push To Talk and video surveillance products.

Value-added business made a prominent boost to the Group's revenue growth in 2009, can you elaborate on its overall development?

In 2009, value-added business enjoyed favorable growth and has prominently boosted Group revenue, taking up an increasing proportion of the Group's operating revenue. In 2009, revenue from value-added business amounted to RMB131.434 billion, representing an increase of 16.0% from 2008, reaching 29.1% of operating revenue, which is an increase from that of 2008. Mature businesses, such as SMS sustained growth despite having reached optimal scale. Non-SMS data business continued to grow rapidly and revenue from Handset Internet Access and MMS businesses in 2009 reached RMB18.338 billion and RMB3.306 billion, respectively. Other businesses such as Wireless Music, Mobile Paper, "Fetion", 12580 Integrated Information Service Line and "139 Mailbox" have also grown rapidly. The Group will continue to tap the growth potential of SMS, Handset Internet Access, "Color Ring" and MMS and increase the revenue contribution of these mature businesses. The Group will further expand the business scale of Wireless Music, Mobile Paper, "Fetion" and 12580 Integrated Information Service Line, as well as refine the functions and optimize the products of Mobile Gaming and Music Download. The Group will realize the nationwide offering of new businesses such as Mobile Wallet, Mobile Reading and Mobile Video. It will push forward the operation of Mobile Market, "139 Community" and Internet Data Center (IDC), and promote the use of corporate email box. The Group will push forward the application and development of the "Internet of Things", using Machine-to-Machine (M2M) business as a key development area in that space.

Can the Group provide a breakdown of CAPEX in 2009 and a breakdown of CAPEX plan in 2010, respectively?

CAPEX in 2009 was RMB129.4 billion. It effectively satisfied the needs of rapid development of customers, voice usage and value-added business as well as the 2G/3G network integration and ensured stable growth of revenue and net profits.

To satisfy growth in market demand, foster the continuous development of value-added business, sustain leading network advantages and promote the 2G/3G network integration, the Group has set the CAPEX budget for 2010 at RMB123.0 billion.

CAPEX for 2009 was mainly used for the construction of mobile communications networks (43%), development of new technologies and new businesses (12%), construction of transmission facilities (23%), support systems (8%) and structural facilities.

CAPEX budget for 2010 will primarily be used for the construction of mobile communications networks (38%), development of new technologies and new businesses (13%), construction of transmission facilities (24%), support systems (10%) and structural facilities.

How much did the Company pay in terms of dividend per share for 2009? What is the dividend policy in the future?

The Company determines and commits to hold in the highest regard the interests of its shareholders and the returns achieved for them, especially for minority shareholders. In view of the Company's good profitability of 2009 and taking into consideration its long-term future development, the Board recommends payment of a final dividend of HK$1.458 per share for the financial year ended 31 December 2009 in accordance with the dividend payout ratio of 43% planned for the full financial year of 2009. This, together with the interim dividend of HK$1.346 per share that was paid in 2009, amounts to an aggregate dividend payment of HK$2.804 per share for the full financial year of 2009. The dividend payout ratio for the year of 2009 was 43%.

In 2010, taking into consideration various factors such as the Company's overall financial condition, cash flow generating capability and the need for future sustainable development, the Company plans the dividend payout ratio for the full year of 2010 to be 43%.

The Board is of the view that the Company's good profitability and strong cash flow generating capability will continue to support the future sustainable development of the Company, while providing shareholders with a favorable return.

Business Review

In 2009, the Group proactively responded to challenges arising from the macro-economic conditions, increased mobile penetration rate and intensified market competition. The Group continued to maintain a solid customer base and achieved stable growth in voice usage volume. Value-added business has prominently boosted revenue. Meanwhile, the rural market remained a key growth driver, corporate business continued to expand, and 3G business made impressive achievements at the current stage. The Group has maintained stable growth in its operating results, strengthened its overall capabilities, enhanced its competitive advantages, and continued with its innovation endeavors.

As at the end of 2009, the Group's customer base grew 14.2% to 522.283 million. Total voice usage volume grew 19.6% to 2,918.712 billion minutes. The number of value-added business customers grew to 463.386 million, representing an annual growth rate of 10.4%. SMS usage volume reached 681.225 billion messages, representing an annual growth rate of 12.2%. Revenue from value-added business reached RMB131.434 billion, which represented an annual growth rate of 16.0% and accounted for 29.1% of the operating revenue of the Group, an increase of 1.6 percentage point from the previous year.

Key Operating Data of the Group

	2009	2008
Customer Base (million) *	**522.3**	457.3
Net Additional Customers (million)	**65.0**	87.9
Total Voice Usage Volume (billion minutes)	**2,918.7**	2,441.3
Average Minutes of Usage per User per Month (MOU) (minutes/user/month)	**494**	492
Average Revenue per User per Month (ARPU) (RMB/user/month) **	**77**	83
SMS Usage Volume (billion messages)	**681.2**	607.1
"Color Ring" Subscription Volume (million times)	**1,684**	1,350
Handset Internet Access Traffic Volume (billion megabytes)	**35.0**	13.3
MMS Usage Volume (billion messages)	**45.4**	33.1

* *The number of G3 customers who used our 3G network services in December 2009 was 3.408 million.*

** *All monetary figures shown in this Business Review are expressed in Renminbi.*

Customer Growth

In 2009, the Group's customer base continued to be solid. As at the end of 2009, the Group's total customer base reached 522.283 million, and the number of net additional customers for the year was 65.033 million, translating into an average increase in net additional customers of 5.42 million per month. The rural market, which continues to serve as a key growth driver, contributed to nearly half of the customer growth in the year.

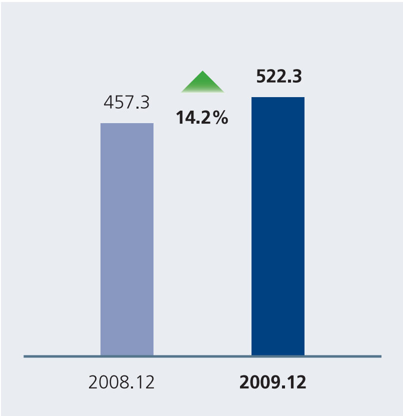
As at the end of 2009, mobile penetration rate in Mainland China reached 56.3%. While there were significant regional differences in their development, some large cities began to show signs of market maturity. The restructuring of the telecommunications industry and the issuance of 3G licenses have changed the competitive landscape and competition has intensified. The global financial crisis has adversely affected the country's economy. As a result, the Group's customer growth decreased in 2009. However, the Group still maintained 60.5% of market share for net customer additions. As at the end of 2009, the Group's total customer market share was approximately 70.6%.

In 2009, the Group continued to pursue the rural market development strategy of "Lower ARPU, Lower MOU, Lower cost". Cost savings were achieved through enhanced efficiency and co-ordinated sales and marketing efforts. The Group has taken full advantage of the State policies of building the new countryside. Through participating in the Home Appliances to the Countryside Scheme, the Group promoted sales of mobile handsets in rural areas, thereby reducing development costs for the rural market and enhancing the Company's influence. The Group further developed and promoted data business products to cater for the personalized needs of the rural customers, so as to increase their loyalty and enhance customer value. The Group continued to develop low-cost distribution channels in rural areas and to promote over-the-air recharging and small denomination recharging services. The Group has first-mover advantage in rural markets. Whilst urbanization in rural areas progresses, the rural telecommunications market presents significant potential and the rural market will continue to be the key growth driver for the Group.

Business Review

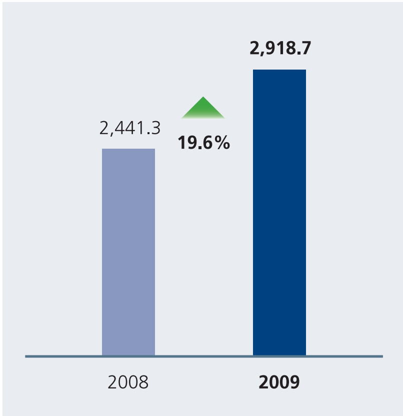
Customer Base

(million)



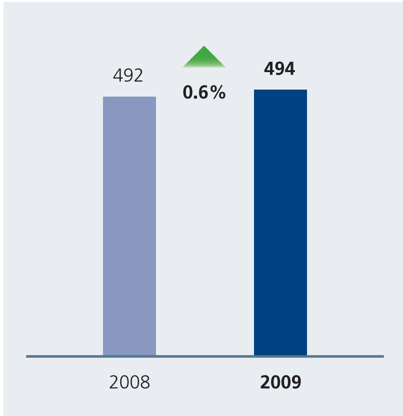
Total Voice Usage Volume

(billion minutes)



MOU

(minutes)



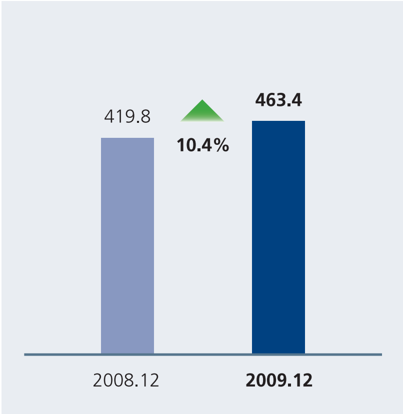
In 2009, the Group saw steady growth in its corporate customer base, which has become an increasingly important contributor to the overall growth of the Group. The Group made significant efforts in retaining and developing corporate customers. The Group has also been promoting broadband connection and content integration, informatization of small-to-medium sized enterprises and urban and rural areas. Sales, product planning, business integration and operation support were enhanced. The Group endeavored to achieve breakthroughs in the application of machine-to-machine (M2M) and Mobile e-Commerce business in the corporate arena. Leveraging on products with market advantages such as M2M, Mobile Mailbox and "All-In-One Card", the Group not only provided new mobile informatization solutions to customers, but also stimulated new market demands. B2B e-Commerce business targeting corporate customers has been officially launched. As at the end of 2009, corporate customer base reached 2.78 million accounts and the number of individual customers served under corporate accounts reached 35.4% of the total customer base. Revenue from corporate informatization exceeded RMB10 billion.

The Group believes that the country's economy is gradually recovering. While the Government continues to undertake effective measures to boost domestic economic growth, income of both urban and rural residents is increasing, urbanization is taking place rapidly and domestic demand is also expanding. All these factors will further stimulate demand for telecommunications and information services. Despite a higher mobile penetration rate compared to that of the past few years, there remains considerable growth potential in Mainland China's mobile telecommunications market. Demand for corporate and industry informatization remains robust. In rural areas, the Group will shift its focus to market penetration and promoting informatization. The rural areas will continue to be a key market for the development of the telecommunications sector and we see significant growth potential in this market. The campus market and migrant population present new development opportunities for the Group. Furthermore, new businesses and new applications continue to emerge, and the penetration of mobile Internet brought new growth opportunities. The accelerated initiation of the "Internet of Things" further enhances opportunities for business growth. These factors provided advantages for the growth of the telecommunications industry and the Group's customer base.

Business Review

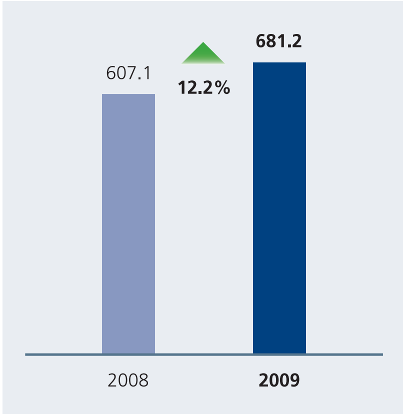
Value-Added Business Users

(million)



SMS Usage Volume

(billion messages)



Business Development

In 2009, despite the negative impact of the external environment, the Group further refined its sales for the voice business and product bundles by taking on differentiated sales strategies and a steady approach to tariff adjustment. These measures have stimulated usage volume. In 2009, the total voice usage volume reached 2,918.712 billion minutes, representing an annual growth rate of 19.6%. Average minutes of usage per user per month (MOU) was 494 minutes, which remained relatively stable compared to 2008. Average revenue per user per month (ARPU) dropped to RMB77.

Value-added business enjoyed favorable growth and has prominently boosted Group revenue, taking up an increasing proportion of the Group's operating revenue. In 2009, revenue from value-added business amounted to RMB131.434 billion, representing an increase of 16.0% from 2008, reaching 29.1% of operating revenue, which is an increase from that of 2008. Mature businesses, such as SMS continued to grow from their current scale. In 2009, revenue from SMS business reached RMB53.557 billion and SMS usage volume was 681.225 billion messages, averaging 1.866 billion messages a day. Non-SMS data business continued to grow rapidly and revenue from Handset

Internet Access and MMS businesses in 2009 reached RMB18.338 billion and RMB3.306 billion, respectively. Other businesses such as Wireless Music, Mobile Paper, "Fetion", 12580 Integrated Information Service Line and "139 Mailbox" have also grown rapidly. Subscription of "Color Ring" service exceeded 1.684 billion times. The number of senior members of the Wireless Music Club reached 94.80 million and the Group recorded 82 million times of music download. The number of paying customers of Mobile Paper, active customers of "Fetion" and active customers of "139 Mailbox" reached 49.12 million, 62.56 million and 23.75 million, respectively. The number of searches through 12580 Integrated Information Service Line reached 273 million. The Group will continue to tap the growth potential of SMS, Handset Internet Access, "Color Ring" and MMS and increase the revenue contribution of these mature businesses. The Group will further expand the business scale of Wireless Music, Mobile Paper, "Fetion" and 12580 Integrated Information Service Line, as well as refine functions and optimize the products of Mobile Gaming and music download. The Group will realize the nationwide offering of new businesses such as Mobile Wallet, Mobile Reading and Mobile Video. It will push forward the operation of Mobile Market, "139 Community" and Internet Data Center (IDC), and promote the use of corporate email box. The Group will push forward the application and development of the "Internet of Things", using Machine-to-Machine (M2M) business as a key development area in that arena.

In 2009, the Group focused on innovation and expanding the telecommunications sector. It actively explored areas where the mobile telecommunications industry might integrate with other industries, with an aim to creating new demands. The Group also launched Mobile Market, providing customers with an open platform which enables convenient downloads of rich mobile software and applications. The Group launched its proprietary OMS platform, an intelligent mobile terminal software platform. Jointly working with handset vendors, the Group has launched OPhone handsets, and provided an end-to-end mobile Internet user experience. The Group's independently developed Mobile e-Commerce system was already in pre-commercial use.

In 2009, our parent company's wholly owned subsidiary, China TieTong Telecommunications Corporation provided assistance to the Group in areas including joint sales and marketing and corporate market development, achieving favorable progress.

3G Development

In 2009, the Group commenced operations of 3G network by leasing wireless network capacity from its parent company and actively pushed forward the development of 3G business. In December 2009, the number of customers who used our 3G network service was 3.408 million. The Group took innovative measures to enable customers to enjoy 3G services without changing their mobile numbers, SIM cards or re-registration. It also enhanced the 2G/3G network handover quality by using new mechanism, new standards and new measurements, and facilitated integration of networks, businesses and applications. The Group coordinated with its parent company to complete Phases Two and Three of 3G network construction, with 66,000 new and operational base stations constructed in the year. The total number of 3G base stations in operation exceeded 80,000, covering 238 cities across the country (representing more than 70% of prefecture-level cities nationwide). The Group was committed to enhancing network quality and resolving major technical problems. The 3G network quality was comparable to that of the Group's 2G network, which was of world leading quality. The Group has made impressive achievement in the construction and operation of 3G networks at the current stage.

In 2009, the parent company proactively promoted the development of the industry chain and established a RMB650 million R&D incentive fund to be used for joint research and development of TD-SCDMA terminals and chipsets with manufacturers. This initiative has boosted confidence in the industry chain and encouraged more capable manufacturers to participate. As at the end of 2009, there were 266 models of TD-SCDMA terminals, and the TD-SCDMA terminal industry chain gradually matures.

In 2009, the Group fully leveraged on the new 3G business and products, to target individuals, families, corporations and industry informatization markets. It actively promoted G3 applications through voice, broadband data and value-added businesses. It launched applications such as video calling, video messaging, video conferencing and video-on-demand IVVR services. The Group has also introduced G3 wireless desktop phone and pilot-launched Push To Talk and video surveillance products.

As a home-grown telecommunications technology, the TD-SCDMA business received strong support from the Government. TD-SCDMA netbooks were included in the Government's procurement program, and the TD-SCDMA technology was applied in the Government and the industry informatization arena. The Group signed strategic cooperation agreements with the local government of 31 provinces, autonomous regions and directly administered municipalities, and received full support from those local governments that prioritize the development of TD-SCDMA on land use, frequency resources and construction of wireless cities. More importantly, in addition to the existing 35 MHz frequency spectrum, TD-SCDMA has received an additional 50 MHz frequency spectrum for indoor coverage, thus further strengthening the competitive advantage of TD-SCDMA in frequency spectrum.

In 2009, the Group continued to partner with organizations within and outside the country on the development of TD-LTE and was committed to creating a harmonious industry with win-win outcome. The TD-LTE technology has been recognized by the International Organization for Standardization (ISO), equipment manufacturers and operators, and was confirmed by the International Telecommunication Union (ITU) as a candidate technology scheme for 4G. Currently, TD-LTE has completed indoor and outdoor tests on a small-to-medium scale, and the test performance met the design objectives of the Next Generation Broadband wireless system. Meanwhile, research and development of system and terminal chipsets have entered joint debugging stage and will be launched in stages during 2010. Up till now, a relatively complete industry chain with more than 30 reputable foreign and domestic enterprises was formed for TD-LTE. Global operators in Europe, America and the Asia Pacific region are actively planning for TD-LTE tests and considering the possibility of introducing TD-LTE to their markets. Based on the requirements and planning of the Shanghai 2010 Expo, the Group is fully committed to completing the final phase of construction of the TD-LTE demonstration network for the event. The objective is to serve the Expo with the most advanced technologies, impressive demonstrations and meticulous services.

Overall Capabilities

As a market leader, the Group enjoys competitive advantage in scale, networks, support systems, branding, channels and services. Its solid financial strength helps weather various risks. Quality of management has been significantly enhanced. Its high quality workforce provides strong execution and innovation capabilities. These strengths form a solid foundation for sustainable growth in the future competitive environment.

The Group has an enormous customer base and networks with more than 460,000 2G base stations. Base station fiber optic access rate reached 96%. Significant economies of scale allow the Group to control marginal costs, explore the rural market, and maintain influence in the value chain. The Group has distinct network advantages, which are demonstrated in its leading 2G network quality, population coverage of 98%, wireless connection rate of 99.22%, voice call drop rate of 0.56% and SMS delivery rate of 99.47%.

Equipped with an advanced and flexible support network, the Group was able to establish differentiated competitive advantages in areas including network management system, business operation support system, customer relationship management system, operation analysis system, innovation management support system and management information system. Through continued brand building, the Group's corporate brand value ranked first amongst the world's telecommunications operators for the fourth consecutive year. Its clear brand structure is generally recognized. Overall customer satisfaction is leading in the market.

As at the end of 2009, the Group had 53,000 proprietary sales outlets. The Group continued to expand its sales and marketing channels and strengthen control. It has increased its efforts in building sales and marketing channels for G3 business and established a marketing and servicing system covering all major channels. The Group also worked on the refined management and operation of its proprietary channels and at the same time, strengthened its management of community sales and marketing channels. It further promoted the application of electronic channels and implemented co-operation amongst all the chained community channels within the network, with an aim of creating a diversified, open, concerted and controlled system of sales and marketing channels and sustaining competitive advantage.

The Group reinforced its centralized management and exercised effective control over investment scale and schedule. Network resource utilization was maintained at a relatively high level. B2B e-Commerce business was officially launched and the scale of centralized procurement was further expanded, resulting in substantial reduction in procurement costs. A higher degree of centralization in financial management has been achieved, enhancing management transparency. Measures for controlling costs, including reduction in non-production related expenditures, were beginning to show effect.

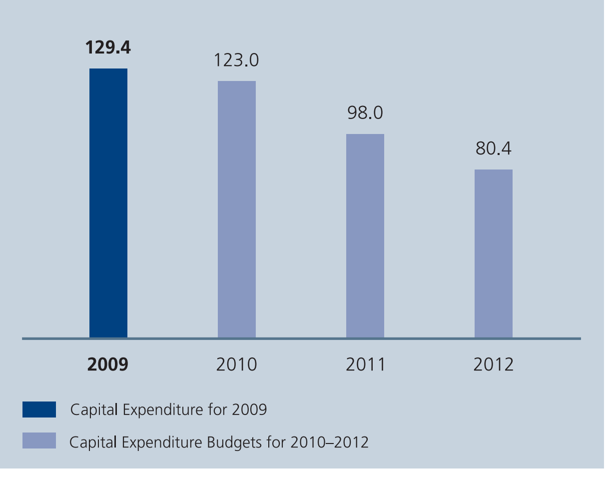
Capital Expenditure

The Group's capital expenditure for 2009 was approximately RMB129.4 billion, primarily on the construction of mobile communications networks, support systems and transmission facilities and the development of new technologies and new businesses. Such expenditure has allowed the Group to meet the demands of stable growth in customer base and voice usage volume. The capital expenditure has ensured 2G/3G network integration and concerted development, strengthened the Group's competitiveness in its full service business, supported the rapid development of value-added business and laid a strong foundation for the continued growth of revenue and profits.

Facing a new operating environment, the Group continued to enhance its management over investment returns. The Group endeavors to meet the steadily growing market demand, facilitate the continued development of value-added business, maintain leadership in networks, further promote 2G/3G network integration, and respond to full service competition. Meanwhile, centralization, standardization and informatization continue to drive down investment cost per traffic unit. The capital expenditure budgets of the Group for the years 2010, 2011 and 2012 are set at RMB123.0 billion, RMB98.0 billion and RMB80.4 billion respectively, representing an appropriate decrease from the amounts originally proposed.

Capital Expenditure

(RMB billion)



"Green Action Plan"

The Group continued implementing the "Green Action Plan" on various aspects of its operations and has achieved favorable results in areas including conservation of electricity, land resources, raw materials and cost control. The electricity usage per traffic unit in 2009 dropped by 14% as compared to that in 2008 and 1.8 billion kWh of electricity was conserved. As at the end of 2009, through the implementation of standardized facilities, the Group saved a total floor area of approximately 140,000m^2 on its premises. Approximately 40,000 tones of steel was saved as a result of the adoption of standardized tower design, and more than 6,000 green energy base stations were in our network. The Group's efforts in promoting environmentally friendly packaging were further strengthened and resulted in the use of green packaging of approximately 46,000 times and conservation of 2,375m^3 of timber. Through the "Green Boxes Environmental Protection Campaign", more than 5.31 million pieces of disposed mobile handsets and accessories were recycled.

The Group has further strengthened its cooperation with environmentally friendly supply chains and has reduced unnecessary resource consumption in the areas of product design, production technology, parts and components selection and raw material supply. As at the end of 2009, the Group entered into Strategic Cooperation Memorandum of Understanding on "Green Action Plan" with 53 major suppliers around the world, driving the industry in energy conservation and emission reduction. To further improve the energy efficiency of communications equipment, the Group has established an energy conservation grading system for the main communications equipment and auxiliary equipment such as power switches. Through this system, equipment vendors are encouraged to strengthen technology research and development to enhance overall equipment performance.

Energy conservation and emission reduction achieved through the "Green Action Plan" is not only a realization of the social responsibility borne by the Group, it also resulted in substantial cost savings, thereby further enhancing competitiveness of the Group.

Outlook

Looking to the future, the Group will proactively respond to difficulties and challenges, further the construction and operation of TD-SCDMA on a larger scale, and seize every opportunity brought about by the rapid development of mobile Internet, the "Internet of Things" and the integration of the three networks. The Group will also continue to strengthen and make full use of its strengths and enhance its competitive edge in the new operating environment. It will promote the centralization, standardization and informatization processes, thereby refining the low-cost, high-efficiency operating model. It will reinforce its development strategy of new customers, new voice usage and new business, actively explore "blue ocean" markets, and cope with the cross convergence and changes in the industry through continuous innovation of technology, products and business model. The Group will accelerate its development of TD-LTE technology to maintain sustainable business development. The Company aims to become an innovative enterprise and secure market leadership on the international stage.

Financial Review

We actively responded to challenges, our strategy delivered results and our profitability continued to lead the industry:

- Operating revenue up by 9.8%
- EBITDA margin reached 50.7%
- Margin of profit attributable to shareholders reached 25.5%

Our solid financial strength and strong cash flow provide us a solid foundation for managing risks and for future development.

Key Financial Data

	2009 RMB million	2008[1] RMB million	Change %
Financial Results			
Operating revenue (Turnover)	452,103	411,810	9.8
Usage fees and monthly fees	300,632	278,608	7.9
Value-added services fees	131,434	113,288	16.0
Other operating revenue	20,037	19,914	0.6
Operating expenses	305,095	269,415	13.2
Leased lines	3,006	2,641	13.8
Interconnection	21,847	22,264	(1.9)
Depreciation	80,179	71,509	12.1
Personnel	21,480	19,960	7.6
Other operating expenses	178,583	153,041	16.7
Profit from operations	147,008	142,395	3.2
Other net income	1,780	2,159	(17.6)
Profit attributable to shareholders	115,166	112,627	2.3
EBITDA[2]	229,023	216,267	5.9
Basic EPS (RMB)	5.74	5.62	2.2
Financial Position			
Current assets	287,355	240,170	19.6
Including: total cash and bank balances[3]	264,507	218,259	21.2
Non-current assets	464,013	418,257	10.9
Total assets	751,368	658,427	14.1
Current liabilities	209,805	183,559	14.3
Non-current liabilities	33,929	34,217	(0.8)
Total liabilities	243,734	217,776	11.9
Minority interests	886	629	40.9
Shareholders' equity	506,748	440,022	15.2
Cash Flows			
Net cash generated from operating activities	207,123	193,647	7.0
Net cash used in investing activities	(165,927)	(139,026)	19.3
Net cash used in financing activities	(49,774)	(45,684)	9.0
Free cash flow[4]	77,756	57,355	35.6

1 *With effect from 1 January 2009, the Company retrospectively adopted the IFRIC/HK(IFRIC) Interpretation 13—Customer loyalty programmes. The comparative figures have been restated according to IFRIC/HK(IFRIC) Interpretation 13.*

2 *China Mobile Limited defines EBITDA as profit for the year before taxation, share of loss of jointly controlled entity, finance costs, interest income, non-operating net income, depreciation and amortization of other intangible assets.*

3 *Total cash and bank balances represent cash and cash equivalents and bank deposits.*

4 *China Mobile Limited defines free cash flow as net cash generated from operating activities less investments incurred in capital expenditure. Free cash flow is a measure we use internally to evaluate our cash flow performance, but is not a measure of financial performance in accordance with generally accepted accounting principles. "Free cash flow" should not be used to determine the financial position of the Group. There is only limited comparability between China Mobile Limited's definition of free cash flow and methods of calculating this measure and similarly designated measures and disclosures of other companies.*

Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary of Financial Results

2009 has been an extraordinary year for the telecommunications industry in China. The country's economy is gradually recovering from the aftermath of the global financial crisis. Following the restructuring of the telecommunications industry and the issuance of 3G licenses, market competition has increasingly intensified. The increasing mobile penetration rate has gradually shown its impact on our business in some economically developed regions. Despite all the challenges, the Group embraced rational competition and endeavored to explore innovations. Through our effective refined management and by leveraging our enormous customer base, premium network quality, powerful brand, strong execution capability and other advantages, the Group's business development remained stable and healthy. Operating performance achieved steady growth. Market leading position continued to strengthen.

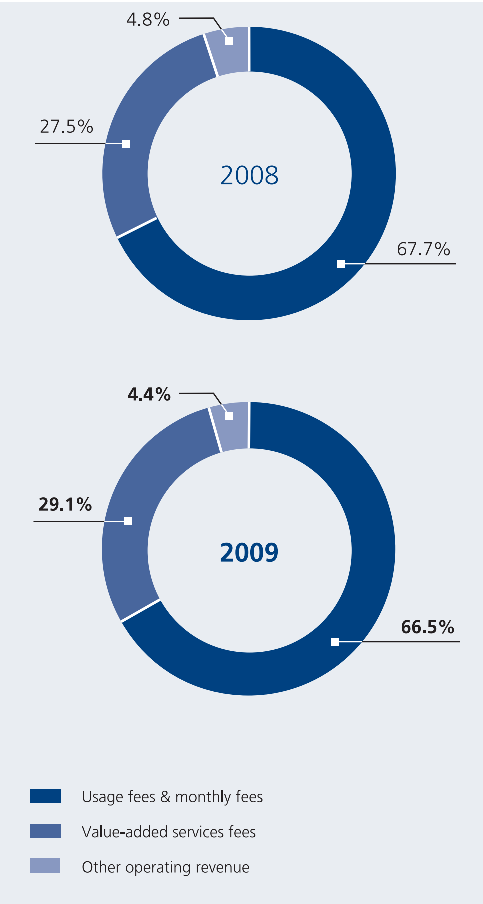
Benefited from the continuous consolidation of customer base, stable growth in voice usage volume and the prominent pulling effect of the value-added business on revenue, operating revenue of the Group for 2009 grew steadily to RMB452,103 million, up 9.8% year-on-year. In order to support the positive development of customers, voice usage and new businesses, as well as to maintain the Group's competitive advantages and capabilities in sustaining healthy development, we focused on boosting our future competitiveness and strengthening resource allocation. We appropriately increased our investments in sales channels, customer service, network optimization, system support and R&D. Operating expenses reached RMB305,095 million, up 13.2% as compared to the previous year. The Group's profitability remained industry-leading. Profit attributable to shareholders was RMB115,166 million, up 2.3% year-on-year. Margin of profit attributable to shareholders reached a high level of 25.5%. EBITDA was RMB229,023 million, up 5.9% year-on-year, arriving at a margin of 50.7%. Basic EPS was RMB5.74, up 2.2% year-on-year.

The Group sustained its robust cash flow as a result of healthy business growth, refined management over cost control, rational and efficient investment in capital expenditure and consistently apparent economies of scale. In 2009, the Group's net cash generated from operating activities and free cash flow reached RMB207,123 million and RMB77,756 million, respectively. Total debt to total book capitalization ratio and interest coverage multiple remained at sound level. Moody's further upgraded the Company's corporate credit rating to A1/Outlook Positive along with the upgrading of China's sovereign credit rating, while Standard and Poor's maintained the Company's corporate credit rating in line with China's sovereign credit rating. Our commitment to consistently practicing prudent management discipline continued to earn market recognition.

Underpinned by its solid capital structure and financial strength as well as strong cash flow generating capability, the Group is well-positioned to manage risks and achieve continued healthy growth.

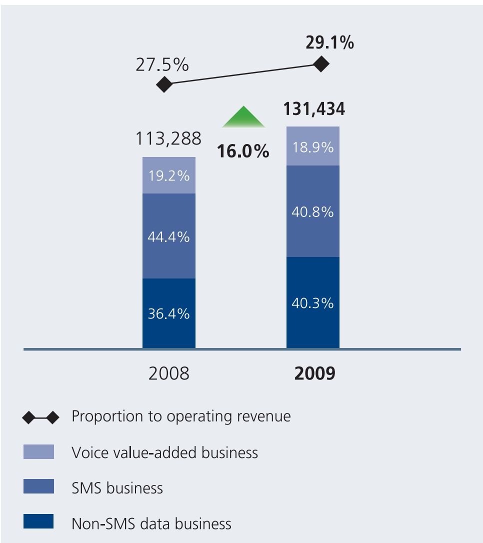
FINANCIAL REVIEW

Operating Revenue Distribution



Value-added Services Fees

(RMB million)



Operating Revenue (Turnover)

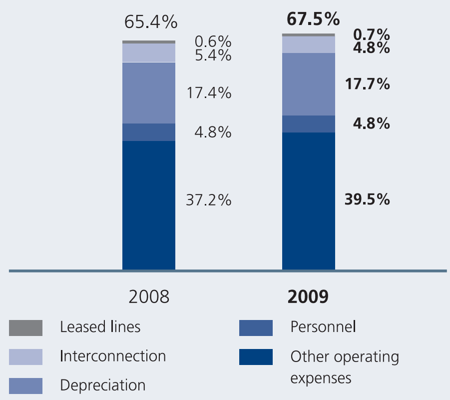
In 2009, benefited from the continuous consolidation of customer base, stable growth in voice usage volume and the prominent pulling effect of the value-added business on revenue, operating revenue of the Group reached RMB452,103 million, up 9.8% year-on-year. The Group persistently advocated and actively pursued rational competition. Various ongoing efforts which focused on enhancing innovative capabilities, exploring families and corporate customers to the greatest extent while at the same time continuing to vigorously develop the rural market, exploring the potentials of existing customers to the greatest extent, proactively retaining high-value customers, were on the agenda. In 2009, the number of net addition customers for the Group was 65.033 million. In addition, the Group gradually advanced the adjustment of its tariff structure and increasingly enhanced its specific marketing efforts in relation to voice usage. Although affected by the change in macro-economy, voice usage volume nonetheless maintained a relatively rapid growth. Total minutes of usage rose to 2,918.712 billion minutes, up 19.6% year-on-year. The increasingly strengthened customer base and the stable growth in voice usage volume guaranteed the sustainable revenue growth of the Group.

The Group actively conducted product innovation and business development for value-added business. These drove forward growth in various value-added businesses and the contribution to revenue growth was increasingly notable. In 2009, revenue from value-added business grew 16.0% year-on-year to RMB131,434 million, accounting for 29.1% of the Group's total operating revenue. While the Short Message Services (SMS) business continued to maintain at a relatively high growth momentum, the contribution of other value-added businesses, such as "Color Ring", Handset Internet Access and Multimedia Messaging Services (MMS), to revenue increased notably. Businesses such as Wireless Music Club, "Fetion" and 12580 Integrated Information Service Line also demonstrated a rapid growth. Revenue from SMS and non-SMS data businesses reached RMB53,557 million and RMB52,998 million, representing 40.8% and 40.3% of the Group's value-added business revenue, respectively. Overall revenue structure for value-added business was further optimized.

Operating Expenses

In order to strengthen the dominance of the Group in the mobile communications industry and boost our future competitiveness, we consistently uphold our principles of rational investment, effective resource allocation, forward-looking planning and effective refined management in cost allocations. The Group implemented centralization, standardization and informatization in areas such as procurement, operation and maintenance, business support and financial management. Management efficiency was thereby enhanced and highly-efficient operation was achieved at a low cost. In 2009, operating expenses were RMB305,095 million, increased 13.2% year-on-year and amounted to 67.5% of the total operating revenue. Average operating expenses per user per month were RMB51.7, declining by 4.7%. Average operating expenses per minute of voice usage were RMB0.105, declining by 5.3%. We commit to continuously enhancing effective refined management on cost effectiveness and optimizing the cost structure to enhance the efficiency and effectiveness of cost investment and achieve the best returns on costs.

Operating Expenses Structure



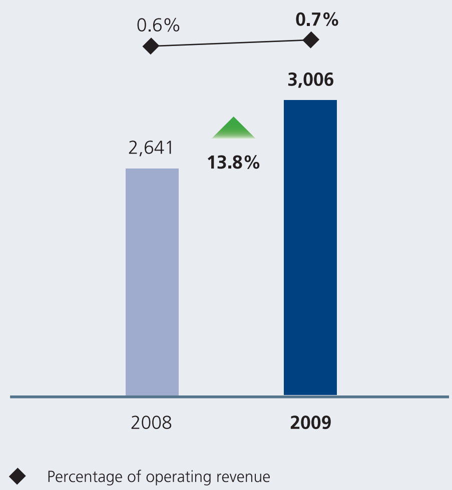
Note: Each of the above percentage represents the proportion of the operating expense to operating revenue.

Leased Lines

With the Group's continuous effort in optimizing network structure and efficient utilization of new lines, the self-constructed and jointly-constructed lines reached a sizeable scale. The scale of leased lines had been relatively small. Following the operation of 3G business using TD wireless network leased from the parent company, the Group's TD network capacity leasing fees payable to its parent company were RMB222 million in 2009. Leased line expenses as a percentage of total operating revenue in 2009 increased as compared to the previous year.

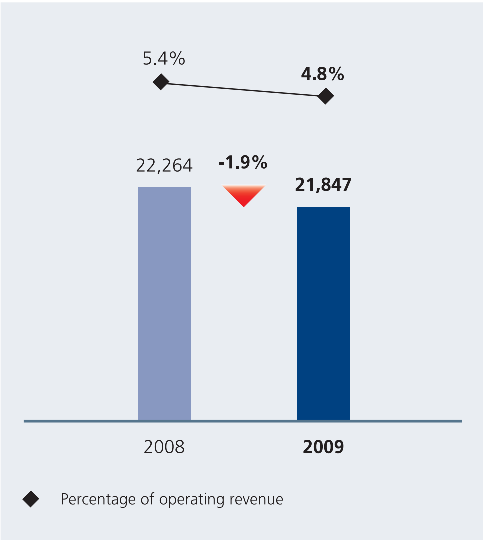
Leased Lines

(RMB million)



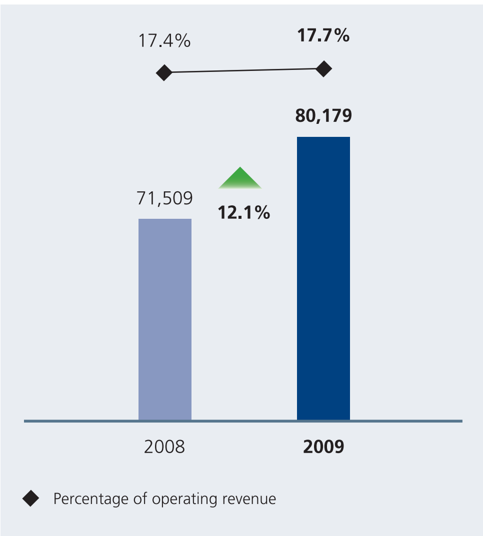
Interconnection

(RMB million)



Depreciation

(RMB million)



Interconnection

In 2009, interconnection expenses decreased by RMB417 million from the previous year. The Group continued to increase its efforts in optimizing the network structure. Through effective marketing strategy, the Group thoroughly reorganized and re-routed traffic volume. The proportion of intra-network voice usage volume continued to increase.

Depreciation

In order to maintain the leading position and competitive advantages of our network, to better support the growth of customers and voice usage volume as well as to meet the development of various innovative data and information businesses, the Group continued to allocate capital expenditure for network construction and optimization, leading to a corresponding increase in depreciation expense by RMB8,670 million over the previous year. Despite the increase, our premium network enhanced customer loyalty and supported the sustainable development of our new businesses as well as our favorable financial results. In addition, the Group derived advantages from rational capital expenditures and economies of scale, depreciation expenses per minute of voice usage decreased by 6.2% as compared to the previous year. This reflected a favorable return on investments.

Personnel

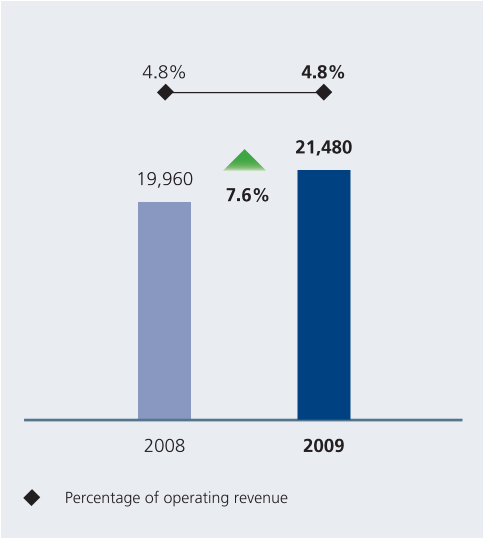
The Group continued to strengthen its highly-efficient personnel management and incentive mechanism and enhance its human resources management. The Group has implemented a comprehensive budget management system and performance-based evaluation system, which helped to maintain its competitive advantage in terms of human resources while appropriately controlling personnel expenses. Personnel expenses for 2009 were RMB21,480 million. The ratio of personnel expenses to operating revenue remained the same as last year and the ratio of personnel expenses to operating expenses declined slightly comparing to the previous year. As at 31 December 2009, the Group had a total of 145,954 employees.

Other Operating Expenses

In 2009, other operating expenses (consisting primarily expenses for selling and promotion, network maintenance, operating lease, labor service expenses, bad debts, asset write-offs, administration and others) increased by RMB25,542 million over the previous year. In order to effectively respond to market competition and boost its future competitiveness, the Group appropriately increased its investments in sales channels, customer service, network optimization, system support and R&D to support the Group's sustainable and stable business growth. As a result, other operating expenses such as selling and promotion expenses, network maintenance expenses and operating lease expenses increased accordingly. The number of labor sourced by third parties reached 281,306 as at 31 December 2009 and the associated expenses were RMB13,577 million. In view of the Group's continuous efforts in monitoring customer credit and stringent control over defaults in payment by customers, the Group maintained its bad debt ratio at a relatively low level of 1.00% in 2009.

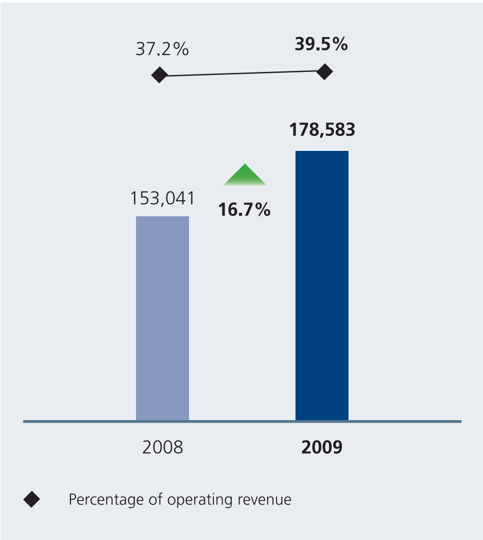
Personnel

(RMB million)



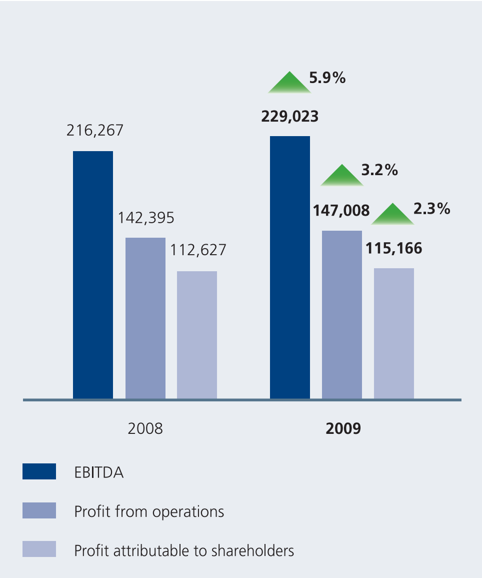
Other Operating Expenses

(RMB million)



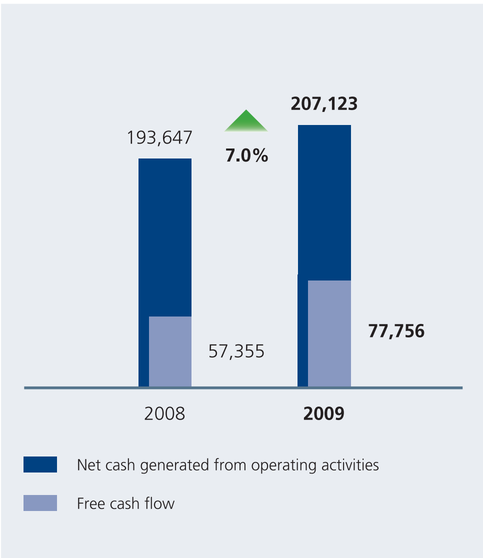
EBITDA, Profit from Operations and Profit Attributable to Shareholders

(RMB million)



Cash Flow

(RMB million)



EBITDA, Profit from Operations and Profit Attributable to Shareholders

The Group continued to maintain a relatively high level of profitability in the industry. Margin of profit attributable to shareholders and EBITDA margin in 2009 reached 25.5% and 50.7%, respectively. Profit from operations reached RMB147,008 million. EBITDA, profit attributable to shareholders and basic EPS were RMB229,023 million, RMB115,166 million and RMB5.74, respectively. Along with the steady revenue growth, these results also reflected the Group's ongoing efforts in optimizing resource allocation and management efficiency on operating expenses and in leveraging economies of scale. Overall operational efficiency of the Group was enhanced. We consistently commit to achieving good profitability so as to generate greater returns and create value for its shareholders.

Fund Management, Cash Flow, Capital Structure and Credit Rating

Fund Management and Cash Flow

The Group consistently upheld prudent financial principles and strict fund management policy. In order to strengthen the safe custody of cash, enhance fund efficiency and reduce cost of capital, the Group continued to reinforce its centralized fund management function and make appropriate allocations of overall funds, thereby enhancing the Group's ability to effectively deploy internal funds with maximum utility. Through highly centralized management of our investments and financing and strict control over investments, the Group's funds were safeguarded.

In 2009, the Group continued generating strong cash flow. The Group's net cash generated from operating activities was RMB207,123 million and free cash flow was RMB77,756 million. As at the end of 2009, the Group's total cash and bank balance was RMB264,507 million, of which 96.9%, 0.3% and 2.8% was denominated in RMB, U.S. dollar and Hong Kong dollar, respectively. The steady fund management and sufficient cash flow further provided a solid foundation for the long-term development of the Group.

Credit Rating

Capital Structure

As at the end of 2009, the sum of the Group's long-term and short-term debts were RMB34,261 million in the aggregate, and its total debt to total book capitalization ratio (with total book capitalization representing the sum of total debt and shareholders' equity) was 6.3%, reflecting the fact that the Group's financial position continues to remain at a sound level.

Of the total borrowings, 31.0% were in RMB (consisting principally of RMB bonds), and 69.0% were in U.S. dollars (consisting principally of the balances of the deferred consideration for the acquisition of the eight and the ten provincial telecommunications operators). Approximately 83.6% of the Group's borrowings were made at floating interest rates. The effective average interest rate of borrowings of the Group was approximately 3.70%. The effective interest coverage multiple (ratio of profit before interest and tax to finance costs) was about 120 times. This reflected the prudent financial risk management principle that was consistently adopted by the Group, as well as its strong cash flow and sound repayment capabilities.

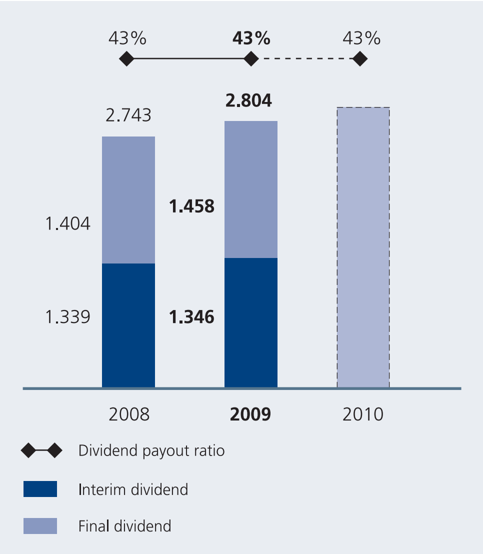
Credit Rating

In 2009, with the upgrading of China's sovereign credit rating, Moody's upgraded the Company's corporate credit rating from A1/Outlook Stable to A1/Outlook Positive. Standard & Poor's maintained the Company's corporate credit rating in line with China's sovereign credit rating as A+/Outlook Stable. These ratings demonstrated that the Group's sound financial strength, favorable business opportunities and solid financial management have established wide and deep market recognition.

Financial Review

Dividend and Dividend Payout Ratio

(HK$)



Dividends

The Company determines and commits to hold in the highest regard the interests of its shareholders and the returns achieved for them, especially for minority shareholders. In the view of the Company's good profitability of 2009 and taking into consideration its long-term future development, the Board recommends payment of a final dividend of HK$1.458 per share for the financial year ended 31 December 2009 in accordance with the dividend payout ratio of 43% planned for the full year of 2009. This, together with the interim dividend of HK$1.346 per share that was paid in 2009, amounts to an aggregate dividend payment of HK$2.804 per share for the full financial year of 2009. The dividend payout ratio for the year of 2009 was 43%.

In 2010, taking into consideration various relevant factors such as the Company's overall financial condition, cash flow generating capability and the need for future sustainable development, the Company plans the dividend payout ratio for the full year of 2010 to be 43%.

The Board is of the view that the Company's good profitability and strong cash flow generating capability will continue to support the future sustainable development of the Company, while providing shareholders with a favorable return.

Conclusion

We will consistently uphold prudent financial principles and strictly monitor the financial risks, with an aim to striving for stable profitability and robust cash generating capability. In addition, we will focus on forward-looking resource allocation optimization and maintain stable debt level with a view to continuously creating value for our shareholders.

Corporate Governance Report

Our goal has always been to enhance our corporate value, maintain our sustainable long-term development and generate greater returns for our shareholders. In order to better achieve the above objectives, we have established good corporate governance practices following the principles of sincerity, transparency, openness and efficiency, and have implemented sound governance structure and measures. With respect to the key participants involved in the practice of good corporate governance, including shareholders, board of directors and its committees, management and staff, internal audit, external auditors and other stakeholders (including our customers, communities, peers, regulatory authorities, etc.), we have established and improved various policies, internal controls and other mechanisms.

We believe that corporate governance goes hand in hand with corporate culture. High standards of corporate governance are built on good corporate culture. Corporate governance principles and policies can only be applied effectively and consistently when a corporate culture that emphasizes honesty and integrity is built. Our core value is Responsibility Makes Perfection and our goal is to achieve a harmonious development between enterprise and industry, enterprise and society, and enterprise and environment.

Our corporate governance practices in 2009 include:

- made full use of the internal audit functions: the Company took a risk awareness oriented approach in carrying out audit work in close connection with new growth opportunities of the Company. Particularly, focus was given to auditing and evaluating the Company's IT risks and client information security control risks in order to improve client privacy protection. We further strengthened the in-depth and professionalism of our internal audit by actively applying computer-aided auditing techniques and tools. We built and applied a unified internal audit information system, realized information support and efficiency enhancement for our internal audit, its organization and management, and improved the supervision, assessment and service functions of our internal audit department.

- strengthened legal risk management: we conducted an overall legal risk evaluation on our operations, further improved the management system and established legal review mechanism especially on areas such as market competition, corporate customer businesses, data businesses and contract management. We also conducted internal trainings on various laws and regulations including Contract Law, Labour Contract Law and Anti-monopoly Law of China.

- corporate social responsibility ("CSR") management: in order to achieve the on-going improvement of our CSR performance, we launched the China Mobile Sustainability Index System and completed the first full assessment of the sustainability capabilities of our 31 operating subsidiaries. We also completed the pilot work for the CSR risk management, launched the China Mobile CSR Electronic Information Platform and set out the CSR Management Measures. In 2009, for the second consecutive year, we were recognized on the DJSI.

In addition, as a company listed in both Hong Kong and New York, we also set forth in this report a summary of the significant differences between the corporate governance practices of the Company and the corporate governance practices required to be followed by U.S. companies under the NYSE's listing standards.

Compliance with the Code Provisions of the Code on Corporate Governance Practices

Throughout the financial year ended 31 December 2009, except for the code provision that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual, the Company has complied with all code provisions of the Code on Corporate Governance Practices as set forth in Appendix 14 to the Hong Kong Listing Rules.

Currently, the roles of Chairman and Chief Executive Officer of the Company are performed by Mr. WANG Jianzhou. Mr. Wang joined the board of directors of the Company (the "Board") in November 2004 and since then, has been the Chairman and the Chief Executive Officer of the Company in charge of the overall management of the Company. The Company believes 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 believes that through the supervision of the Board and its independent non-executive directors, checks and balances exist so that the interests of the shareholders are adequately and fairly represented.

Shareholders

The Company's controlling shareholder is China Mobile (Hong Kong) Group Limited, which, as of 31 December 2009, indirectly held approximately 74.22% of the Company's share capital through a wholly-owned subsidiary, China Mobile Hong Kong (BVI) Limited. The remaining share capital of approximately 25.78% was held by public investors.

The Company uses a number of formal channels to account to shareholders for the performance and operations of the Company, particularly through our annual and interim reports. Generally, when announcing 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 disclosing on a quarterly basis certain key, unaudited operational and financial data, and on a monthly basis the number of customers on its website 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 operations.

The Company also has high regard for the annual general meetings of its shareholders, and makes substantial efforts to enhance communications between the Board and the shareholders. At the annual general meetings of shareholders, the Board always makes efforts to fully address any questions raised by shareholders. The last annual general meeting ("AGM") of the Company was held on 19 May 2009 in the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong. The major items discussed and the percentage of votes cast in favor of the resolutions are set out as follows:

- the approval of the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2008 (99.9949%);

- the re-election of Mr. WANG Jianzhou, Mr. ZHANG Chunjiang, Mr. SHA Yuejia, Mr. LIU Aili, Mr. XU Long, Dr. Moses CHENG Mo Chi and Mr. Nicholas Jonathan READ as directors (94.8570% to 99.7565%);

- the re-appointment of KPMG as auditors and authorizing the Board to determine its remuneration (99.9776%).

All resolutions were duly passed at this AGM. There were no restrictions on any shareholder casting votes on any of the proposed resolutions and Hong Kong Registrars Limited, the share registrar of the Company, acted as scrutineer for the vote-taking at the AGM. Poll results were announced at the meeting and on the websites of the Company and the HKEx on the day of the meeting.

The following table lists the key dates for our shareholders in the 2010 financial year. We will notify shareholders as soon as possible in case there is any change to the dates.

FY 2010 Shareholders' Calendar

18 March	Announcement of 2009 final results and final dividend
7 April	Upload of 2009 annual report on the Company website
8 April	Despatch of 2009 annual report to shareholders
12 May	2010 Annual General Meeting
End of May	Payment of 2009 final dividend
Mid-August	Announcement of 2010 interim results and interim dividend
End of September	Payment of 2010 interim dividend

The Board of Directors and the Board Committees

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting management targets, monitoring 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, Madam HUANG Wenlin, 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 Dr. Moses CHENG Mo Chi as independent non-executive directors and Mr. Nicholas Jonathan READ as non-executive director. Their biographies are presented on pages 7 to 11 of this annual report and also on the Company's website. To ensure the timely disclosure of any change of directors' personal information, the Company has set up a specific communication channel with each of our directors. There is no financial, business, family or other material relationships among members of the Board. The Company purchases Directors' and Officers' liabilities insurance on behalf of its directors and officers and reviews the terms of such insurance annually.

On 7 January 2010, a Board meeting was convened, at which meeting it was resolved that Mr. Zhang Chunjiang be removed from the Vice Chairman and executive director positions with effect from 7 January 2010 due to his alleged serious financial irregularities. So far as the Company is concerned, the Board has no disagreement with Mr. Zhang Chunjiang and saved as disclosed in the Company's announcements dated 27 December 2009, 31 December 2009 and 7 January 2010, there is no matter relating to the removal of Mr. Zhang Chunjiang that needs to be brought to the attention of the shareholders of the Company. The Company confirms that the removal will not have any material effect on the business and operations of the Group.

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. In 2010, 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 Dr. Moses CHENG Mo Chi, and considers them to be independent. The Company has also received acknowledgements from the directors of their responsibility for preparing the financial statements and a representation by the auditors of the Company about their reporting responsibilities.

Board meetings are held at least once a quarter and as and when necessary. During the financial year ended 31 December 2009, the Board met on five occasions. Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing, Dr. Moses CHENG Mo Chi, Mr. WANG Jianzhou, Mr. XUE Taohai, Madam XIN Fanfei, Mr. LIU Aili and Mr. XU Long attended all board meetings while Mr. LI Yue, Mr. SHA Yuejia and Mr. Nicholas Jonathan READ attended four board meetings, and Mr. LU Xiangdong and Madam HUANG Wenlin attended three board meetings. Mr. ZHANG Chunjiang (removed from his positions with effect from 7 January 2010) attended two board meetings.

The directors have disclosed to the Company the positions held by them in other listed public companies or organizations or associated companies, and the information regarding their directorships in other listed public companies in the last three years is set out in the biographies of directors and senior management on pages 7 to 11 of this annual report and on the Company's website.

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") to regulate the directors' securities transactions. Save and except for the interests disclosed in the report of the directors on pages 60 to 61 of this annual report, none of the directors had any other interest in the shares of the Company as at 31 December 2009. All directors have confirmed, following enquiry by the Company, that they have complied with the Model Code during the period between 1 January 2009 and 31 December 2009.

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. Each of the Board committees operates under its Terms of Reference. The Terms of Reference of each of the board committees are available on the Company's website and can be obtained from the Company Secretary by written request.

Audit Committee

Membership

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

Responsibilities

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

Work Done in 2009

In 2009, the audit committee met on four occasions where all members attended all meetings. Among other things, the audit committee:

- reviewed the Company's financial statements and results announcement for the year 2008, report of the directors and financial review for the year 2008;
- reviewed the interim report and the interim results announcement of the Company for the six months ended 30 June 2009;
- approved the budgets and remuneration of the external auditors;
- approved the 2009 project plan of the internal audit department and budget for external engagement;
- approved the Company's 2008 Annual Report on Form 20-F, which was filed with the U.S. Securities and Exchange Commission;
- approved the 2009 assessment report on the disclosure controls and procedures;
- Reviewed and approved the progress report in relation to the U.S. Sarbanes-Oxley Act of 2002 (the "SOX Act") Section 404 compliance project, and other summary reports on various special audit projects and the 2009 budget report on relevant support services expenses;
- reviewed the Company's compliance with relevant laws and regulations; and
- discussed various internal audit reports.

Remuneration Committee

Membership

The current members of the Company's remuneration committee are Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Dr. Moses CHENG Mo Chi, who are all independent directors.

Responsibilities

The primary responsibilities of the remuneration committee include, among other things, determining the remuneration packages of all executive directors and senior management, making recommendations to the Board on the remuneration of non-executive directors, reviewing and approving performance based remuneration, ensuring that no director or any of his or her associates is involved in deciding his or her own remuneration, and making recommendations to the Board on the Company's policy and structure for remuneration of employees, including salaries, incentive schemes and other stock plans.

Work Done in 2009

In 2009, the remuneration committee met once and all members attended the meeting, during which the committee mainly reviewed and approved the 2008 performance-linked annual bonus.

Nomination Committee

Membership

The current members of the Company's nomination committee are Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Dr. Moses CHENG Mo Chi, who are all independent directors.

Responsibilities

The primary responsibilities of the nomination committee include, among other things, reviewing on a regular basis the structure, size and composition of the Board, identifying individuals suitably qualified to become board members, and assessing the independence of independent non-executive directors.

Work Done in 2009

In 2009, the nomination committee met once and all members attended the meeting. The committee approved the appointment of Mr. Nicholas Jonathan Read as an non-executive director.

Remuneration, Appointment and Rotation of Directors

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

Currently, executive directors are mainly selected internally within the Group from executives who have considerable years of management experience and expertise in the telecommunications industry, whereas for the identification of independent non-executive directors, importance is attached to the individual's independence as well as his or her experience and expertise in finance and business management. The nomination committee, taking into consideration the requirements of the jurisdictions where the Company is listed and the structure and composition of the Board, identifies, reviews and nominates with diligence and care individuals suitably qualified as board members of the Company before making recommendations to the Board for their final appointment. For the nomination and appointment of Mr. Nicholas Jonathan READ, these criteria and procedures have been applied.

All newly-appointed directors receive a comprehensive induction of directors' duties to make sure that they have a proper understanding of the operations and business of the Company, and that they are fully aware of their responsibilities as a director, the listing rules of the stock exchanges on which the Company is listed, applicable laws and regulations, and the operation and governance policies of the Company. All newly-appointed directors are subject to election by shareholders at the first general meeting after their appointment. Every director is subject to retirement by rotation and needs to stand for re-election at least once every three years.

Management

The task of the Company's management is to implement the strategy and direction as determined by the Board, and to take care of the day-to-day operations and functions of the Company. The division of responsibilities among our CEO and other members of the senior management is set out in the biographies of directors and senior management on pages 7 to 11 of this annual report and on the Company's website.

For the purpose of promoting honest and ethical conduct and deterring wrongdoing, the Company, in 2004, adopted a code of ethics, 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 of ethics, in the event of a breach of such code, the Company may take appropriate preventive or disciplinary actions after consultation with the Board. The code of ethics has been filed with the U.S. Securities and Exchange Commission as an exhibit to our Annual Report on Form 20-F for the financial year ended 31 December 2003, which may also be viewed and downloaded from the Company's website.

To prevent and penalize corruption and bribery, we developed an anti-corruption system and adopted an employee code of conduct and an employee handbook to put all employees under specific obligations as to the manner in which they should deal with issues such as integrity, code of ethics and conflicts of interest. During 2009, we continued to pay equal emphasis on education, system and supervision as well as prevention and penalty, with focus on preventive measures. We held 44 training sessions with aggregating 2,046 disciplinary supervisory personnel attended.

Internal Audit

The internal audit department of the Company conducts independent, objective supervision and assessment, and provides consulting services, in respect of the appropriateness, compliance and effectiveness of the Company's operational activities and internal controls by applying systematic and standardized auditing procedures and methods, and assists the Company in improving the effectiveness of corporate governance, risk management and control process, with an aim to increasing its corporate value, improving its operations, promoting its sustainable and healthy development as well as contributing to the achievement of its strategic objectives.

The Company and its operating subsidiaries have set up internal audit departments, which independently audit the business units of the Company and its operating subsidiaries. The head of the internal audit department of the Company directly reports to the Audit Committee which, in turn, reports to the Board regularly. The internal audit departments have unrestricted access to all areas of the Group's business units, assets, records and personnel in the course of conducting their work.

The internal audit department of the Company establishes an internal audit scope and framework and carries out risk investigations on an annual basis. According to the results of the risk investigations, the internal audit department formulates an internal audit project rolling plan and an annual audit plan and, together with the Audit Committee, reviews and approves the annual audit plan and resources allocation. The annual audit plan of the internal audit department covers various areas, namely financial audit, internal control audit, risk assessment, audit investigation and consultancy services. For financial audit, the internal audit department audits and assesses the truthfulness, accuracy, compliance and efficiency of the Company's financial activities and financial information as well as the management and utilization of the Company's capital and assets. For internal control audit, the internal audit department audits and assesses the effectiveness in the design and implementation of the Company's internal control system. At the same time, the internal audit department evaluates and assesses the risk management and control in the Company's business processes and management mechanisms, and conducts special projects and investigations in response to requests from the Company's management or the Audit Committee or if otherwise required. In addition, without prejudice to its independence, if requested by the Company's management and as required by business needs, the internal audit department provides management advice or consultancy services by making use of audit resources and audit information to facilitate the Company's decision-making and operational management.

According to the requirements under Section 404 of the SOX Act, the internal audit department of the Company organizes and performs internal audit tests of the internal control over financial reporting of the Company, providing assurance for the Company's management in its issuance of the internal control assessment report.

The internal audit department makes improvement recommendations in respect of its findings in the course of the audits and requests the management to undertake and to confirm the implementation plan, the methods and the time. It regularly monitors the status of the implementation of the recommendations to ensure their completion.

In 2009, the internal audit department of the Company further strengthened the in-depth and professionalism of our internal audit and enhanced its supervision, assessment and service functions:

- took a risk awareness oriented approach in carrying out the audit work in close connection with new growth opportunities of the Company. Particularly, focus was given to auditing and evaluating the Company's IT risks and client information security control risks in order to improve client privacy protection;

- adopted the effective audit approach to make an objective assessment of the efficiency and effectiveness of the operational management of the Company with an aim to promoting the highly-efficient operation of the Company;

- further strengthened the in-depth and professionalism of our internal audit, and improved the capability and depth of identifying problems through the internal audit process by actively applying computer-aided auditing techniques and tools so as to enable the Company to reveal operational risks promptly;

- built and applied a unified internal audit information system to provide information support for our internal audit, its organization and management and improved efficiency, and further enhanced the uniformity and standardization of our internal audit;

- conducted risk evaluation on our seven core business processes and our management mechanism, and encouraged relevant business units to adopt appropriate risk control measures so as to improve our internal control risk framework, optimize our business processes and reduce the risks arising from operational management processes; and

- optimized the organization and management of internal tests for compliance with the SOX Act, strengthened the target and effectiveness of internal tests, placed emphasis on the key issues and areas of internal control over financial reporting, standardized test methods and samples, enhanced the effectiveness of the tests, and encouraged the business units to continue to improve internal control over financial reporting.

External Auditors

The Company engaged KPMG as statutory auditors of the Company. In 2009, the principal services provided by KPMG included:

- review of interim consolidated financial statements of the Group;

- audit of annual consolidated financial statements of the Group and annual financial statements of its subsidiaries; and

- audit of the effectiveness of the Company's internal control over financial reporting.

Apart from providing the above-mentioned audit services to the Group, KPMG was also engaged in providing other non-audit services to the Group which were permitted under Section 404 of the SOX Act and pre-approved by the 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 (refer to note 5 to financial statements for details):

	2009 **RMB million**	2008 RMB million
Audit fees[1]	**80**	76
Non-audit fees[2]	**9**	3

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

2 *Including the fees for SOX Act Section 404 advisory service and other advisory services.*

Other Stakeholders

Good corporate governance practices require due concerns for the impact of our business decisions on our shareholders as well as other relevant parties such as customers, local communities, peers and regulatory authorities. The 2009 CSR report, which is issued together with this annual report, explains our philosophy on corporate social responsibility and our performance with respect to social and environmental management in 2009. This annual report and the CSR Report illustrate the Company's efforts and development in the areas of industry development, community advancement and environmental protection and also explain how we have fulfilled our obligations to employees, customers, environment, the local communities and other stakeholders.

In 2009, we focused on promoting our capability in maintaining sustainable growth and promoted the integration between CSR and our operation. We launched the China Mobile Sustainability Index System and completed the first overall evaluation of the sustainability capabilities of our 31 operating subsidiaries. We also completed the pilot work for the CSR risk management and set in motion the standards, principles, and best practices of social responsibility. All of these have been integrated into our business development and operational management. In 2009, CSR risk management regime has first been set up in 8 operating subsidiaries. It is anticipated that the nationwide setup of such regime will be completed by 2010. In addition, we launched the China Mobile CSR Electronic Information Platform in February 2009, which facilitated the monitoring of the CSR index and its implementation within the Group. We also implemented the two-level CSR Management Measures, which established the CSR management regime between the headquarters and our operating subsidiaries. In 2009, for the second consecutive years, we were recognized on the DJSI.

Internal Controls

The Board conducts regular reviews of the effectiveness of the Group's internal controls to reasonably ensure that the Company is operating legally and that the assets of the Company are safeguarded and to ensure the accuracy and reliability of the financial information that the Company employs in its business or releases to the public. The scope of these reviews includes, among other things, business strategy, finance, operations, marketing and rules and regulations.

According to the provisions of Section 404 of the SOX Act, the Company's management is responsible for establishing and maintaining internal control over financial reporting. The Company completed its internal control evaluation based on the control criteria framework of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission titled Internal Control-Integrated Framework. We have continued our efforts to refine the routine management mechanism of internal controls and further strengthen a long-term effective and comprehensive risk management regime. Pursuant to external regulatory requirements and the development of businesses and internal management processes, the Company reviewed and evaluated the reasonableness and effectiveness of its internal control design. This refined and standardized the Company's internal control. Furthermore, the Company implemented the construction of management information system of internal control. Through this management information system, the Company is able to keep itself abreast of the status of internal control compliance in each business unit, enhance the efficiency, and hence reinforce the accountability of internal controls.

Based on the evaluation conducted, the management believes that, as of 31 December 2009, the Company's internal control over financial reporting was effective and provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for reporting purposes in accordance with generally accepted accounting principles.

All disclosure of material information relating to the Company is made through the unified leadership and management of the Board, with the Company's management performing its relevant duties. The Company has performed an annual review of the effectiveness of the Company's disclosure controls and procedures, and concluded that, as of 31 December 2009, the Company's disclosure controls and procedures were effective at a reasonable assurance level.

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

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

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 13 directors. The Hong Kong Listing Rules set forth standards for establishing independence, which differ from those set forth in the NYSE Listed Company Manual.

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

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

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

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

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

Continuous Evolvement of Corporate Governance

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

Human Resources Development

In 2009, the Company confronted with challenging competitive landscape and industry conditions. In response to the corporate strategic goal of being an internationally leading enterprise and its needs for developing the 3G business, and in order to develop a new competitive edge in human resources in support of its business operation, the Group's human resources work was energetically deployed following the scientific development concepts and through the proactive analysis of the changes in internal and external circumstances. By enhancing its system for employee utilization and optimizing its human resources structure, the Group improved its organizational capabilities. The Group consistently innovated its human resources management system and process and promoted the application of differentiation and diversified management. All these efforts provided stronger organizational and human resources support for the strategic goal of being "a worldwide leader in telecommunications and achieving evolution from excellence to pre-eminence".

In 2009, closely combined with its corporate key strategies and development needs for corporate reform and innovation, the Group's systems and practices were enhanced. Based on its corporate strategies, the Group launched its human resources strategic planning and management systems construction, and actively conducted researches on challenges and opportunities in relation to areas such as human resources strategies, management and personnel. Furthermore, the Group fully optimized its management system and proactively promoted the further development of its human resources management system. The Group has further pursued its human resources enhancement work and laid down the theoretical system and basic framework for its competence model building. The fundamental employment and labor management systems were consolidated so as to lower employment risks. In light of the current development stage and the direction for future development, the Group strengthened its performance management and brought the motivational and binding effect of the remuneration strategy into full play. The Group earnestly promoted the establishment of its core talent team and continuously optimized the dynamic of talent management system and built up the competitive advantage in key talents. The recruitment management system was fully optimized to maintain the enhancement of the efficiency of talent selection. A competence-based management system for senior management personnel was developed to produce a team of prominent leaders. The qualities of corporate human resources were comprehensively improved by effectively advancing the development of training system, perfecting the internal trainer management system, promoting the implementation of the training curriculum, and furthering the popularization of on-line learning. Foundation work was carried out in a pragmatic manner to propel the informatization of human resources management. According to the results of a survey conducted in September 2009 by Universum Communications, an internationally well-known employer brand management company, China Mobile was ranked first on the list of ideal employer brands.

In close connection with the business needs, the Group innovated its training methods and increased its training efforts. The Group provided training to employees for 921,000 times, out of which 8,751 times were for senior- and- middle management. The average training hours for each employee were 56.7 hours. The trainings enabled the participants to acquire new knowledge, grasp new skills and exchange experiences, and contributed to the implementation of corporate strategies, the promotion of businesses, and the enforcement of policies. In addition to providing on-the-job training to its employees, the Group also paid close attention to the building of employees' capabilities. A variety of learning facilities for its employees were provided to enable them to learn by mobile phones and on-line. Autonomous learning was encouraged and the Group was actively exploring in this area. All these efforts contributed to the enhancement of employees' competence and the promotion of their personal development.

Human Resources Development

In 2010, given the complex and changing internal and external circumstances, the increasingly fierce competition in the industry, the Group's human resources needs will become more and more diversified and complicated and the Group's human resources work will be in pressing need of innovations and optimizations. The Group's human resources work will revolve around the overall corporate annual work requirements, be based on proactive analysis of the changes in internal and external circumstances, and be subject to adjustments according to actual needs and guidance according to actual circumstances. Efforts will be made to enhance its system for employee utilization as well as optimize and incentivize its employees so as to maintain employees' passion for work, integrate advantageous resources and enhance organizational capabilities. The Group will persistently innovate its human resources management system and process, and promote the diversity, differentiation and informatization of human resources management, so as to ensure that all tasks are carried out in a systematic, refined and professional manner and to strive to develop a new competitive advantage in human resources in support of its business operations.

Report of Directors

The directors take pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2009.

Principal Activities

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

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

Major Customers and Suppliers

The Group's aggregate turnover with its five largest customers did not exceed 30% of the Group's total turnover in 2009.

Purchases from the largest supplier for the year represented 11% of the Group's total purchases. The five largest suppliers accounted for an aggregate of 34% of the Group's purchases in 2009. 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% of the Company's share capital) had any interest in these five largest suppliers.

Subsidiaries, Associates and Jointly Controlled Entity

Particulars of the Company's subsidiaries, the Group's associates and jointly controlled entity as at 31 December 2009 are set out in notes 18, 19 and 20, respectively, to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2009 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 74 to 149.

Dividends

The Board is of the view that the Company's good profitability and strong cash flow generating capability will continue to support the future sustainable development of the Company, while providing shareholders with a favorable return. In the view of the Company's good profitability of 2009 and taking into consideration its long-term future development, the Board recommends payment of a final dividend of HK$1.458 per share for the financial year ended 31 December 2009 in accordance with the dividend payout ratio of 43% planned for the full year of 2009. This, together with the interim dividend of HK$1.346 per share that was paid in 2009, amounts to an aggregate dividend payment of HK$2.804 per share for the full financial year of 2009. The dividend payout ratio for the year of 2009 was 43%. Taking into consideration various relevant factors such as the Company's overall financial condition, cash flow generating capability and the need for future sustainable development, the Company plans the dividend payout ratio for the full year of 2010 to be 43%.

Donations

Donations made by the Group during the year amounted to RMB143,710,962 (2008: RMB124,848,016).

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 36 to the financial statements and the paragraph "Share option schemes" below, respectively.

Bonds

Details of the bonds of the Group are set out in note 31 to the financial statements.

Reserves

Changes to the reserves of the Group during the year are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year are set out in note 36 to the financial statements.

Directors

The directors during the financial year were:

Executive directors:

WANG Jianzhou *(Chairman)*
ZHANG Chunjiang *(Vice Chairman)* (removed on 7 January 2010)
LI Yue
LU Xiangdong
XUE Taohai
HUANG Wenlin
SHA Yuejia
LIU Aili
XIN Fanfei
XU Long

Independent non-executive directors:

LO Ka Shui
Frank WONG Kwong Shing
Moses CHENG Mo Chi

Non-executive director:

Nicholas Jonathan READ (appointed on 19 March 2009)

In accordance with Article 97 of the Company's Articles of Association, Mr. LI Yue, Mr. LU Xiangdong, Madam XIN Fanfei and Mr. Frank WONG Kwong Shing will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

The biographies of the directors proposed for re-election at the forthcoming annual general meeting ("**Directors for Re-election**") are set out on pages 7 to 11. Except as disclosed in such biographies, the Directors for Re-election have not held any other directorships in any listed public companies in the last three years. Further, except as noted in the biographies, none of the Directors for Re-election is connected with any directors, senior management or substantial or controlling shareholders of the Company and, except for the share options granted to the Directors for Re-election as set out in the paragraph "Share option schemes" below, none of them has any interests in the shares of the Company within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("**SFO**").

The service contracts of all the Directors for Re-election do not provide for a specified length of services and each of such directors will be subject to retirement by rotation and re-election at annual general meetings of the Company every three years. Each of the Directors for Re-election is entitled to an annual director's fee of HK$180,000 as proposed by the Board of Directors and approved by the shareholders of the Company. Director's fees are payable on a time pro-rata basis for any non full year's service. Mr. Frank WONG Kwong Shing is also entitled to an additional annual fee of HK$260,000 as member of the Audit Committee, the Remuneration Committee and the Nomination Committee. In addition, for the financial year ended 31 December 2009, Mr. LI Yue, Mr. LU Xiangdong and Madam XIN Fanfei received annual remuneration, including retirement scheme contributions, of HK$1,194,000, HK$1,194,000 and HK$1,189,000, respectively, plus a discretionary bonus as determined by the Board of Directors with respect to the director's performance. The remuneration of these directors has been determined with reference to the individual's duties, responsibilities and experience, and to prevailing market conditions.

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

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

Directors' Interests in Contracts

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

Directors' and Chief Executive's Interest and Short Positions in Shares, Underlying Shares and Debentures

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

Apart from those disclosed herein, as at 31 December 2009, none of the directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) that is required to be recorded and kept in the register in accordance with section 352 of the SFO, any interests required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Share Option Schemes

Share option schemes of the Company

Pursuant to a resolution passed at the annual general meeting held on 24 June 2002, a share option scheme (the "**Scheme**") was adopted to replace an old share option scheme established on 8 October 1997 (the "**Old Scheme**") and the Old Scheme was terminated. The 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 Scheme is to provide the Company with a flexible and effective means of remunerating and providing benefits to the executive directors, non-executive directors and employees of the Company, any of its holding companies and their respective subsidiaries and any entity in which the Company or any of its subsidiaries holds any equity interest (the "**Participants**"), thereby incentivising the Participants. Under the Scheme, the Board 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% of the total issued share capital of the Company as at the date of adoption of the Scheme. Options lapsed or cancelled in accordance with the terms of the Old Scheme or the Scheme will not be counted for the purpose of calculating this 10% 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 2009, the total number of shares which may be issued on the exercise of the outstanding options granted or to be granted under the Scheme is 1,481,337,193, representing approximately 7.38% 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% of the issued share capital of the Company. The consideration payable for the grant of each option under the Scheme is HK$1.00.

The exercise price of the options granted under the Scheme shall be determined by the Board 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 in the Company;

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

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

No share options were granted or cancelled under the Scheme during the year ended 31 December 2009.

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

As at 31 December 2009, the directors and chief executive of the Company and the employees of the Group had the following personal interests in options to subscribe for shares of the Company granted under the Scheme.

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	No. of shares involved in the options lapsed during the year	No. of shares acquired on exercise of options during the year	Exercise price HK$
Directors						
WANG Jianzhou	475,000	475,000	21 December 2004	–	–	26.75
(also the chief executive officer)	970,000	970,000	8 November 2005	–	–	34.87
LI Yue	154,000	154,000	28 October 2004	–	–	22.75
	780,000	780,000	8 November 2005	–	–	34.87
LU Xiangdong	154,000	154,000	28 October 2004	–	–	22.75
	780,000	780,000	8 November 2005	–	–	34.87
XUE Taohai	154,000	154,000	28 October 2004	–	–	22.75
	780,000	780,000	8 November 2005	–	–	34.87

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	No. of shares involved in the options lapsed during the year	No. of shares acquired on exercise of options during the year	Exercise price HK$
SHA Yuejia	25,000	7,000	3 July 2002	–	18,000	22.85
	82,575	82,575	28 October 2004	–	–	22.75
	780,000	780,000	8 November 2005	–	–	34.87
LIU Aili	82,600	82,600	28 October 2004	–	–	22.75
	141,500	141,500	8 November 2005	–	–	34.87
XU Long	117,000	117,000	28 October 2004	–	–	22.75
	254,000	254,000	8 November 2005	–	–	34.87
LO Ka Shui	400,000	400,000	8 November 2005	–	–	34.87
Frank WONG Kwong Shing	400,000	400,000	8 November 2005	–	–	34.87
Moses CHENG Mo Chi	400,000	400,000	8 November 2005	–	–	34.87
Employees	38,989,104	33,451,909	3 July 2002	–	5,537,195	22.85
	120,405,339	119,656,204	28 October 2004	–	749,135	22.75
	267,725,370	267,555,280	8 November 2005	–	170,090	34.87
		427,575,068	*(Note (a))*			

Notes:

(a) The total number of shares involved in the options outstanding at the end of the year represents 2.13% of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report.

(b) No options to subscribe for shares in the Company was granted to the directors of the Company in 2009.

(c) *Particulars of share options:*

Date of grant	***Exercise period***
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 share options were exercised	**Exercise price HK$**	**Weighted average closing price per share immediately before dates of exercise of options HK$**	**Proceeds received HK$**	**Number of shares involved in the options**
2 January 2009 to 31 December 2009	22.85	78.72	126,936,206	5,555,195
2 January 2009 to 31 December 2009	22.75	78.43	17,042,821	749,135
2 January 2009 to 31 December 2009	34.87	78.43	5,931,038	170,090

Share Option Scheme of Aspire Holdings Limited ("Aspire")

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

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

The maximum aggregate number of Aspire Shares which can be subscribed pursuant to options that are or may be granted under the Aspire Scheme equals to 10% 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% limit. As at 31 December 2009, 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% 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% 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 board of 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% 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% 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 board of 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% 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% of such options shall be exercisable 3 years after the initial 50% of the options become exercisable.

As at 31 December 2009, the employees of Aspire had the following personal interests in options to subscribe for shares of Aspire granted under the Aspire Scheme.

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	Normal period during which options are exercisable	No. of shares involved in the options lapsed during the year	Exercise Price US$
Employees of Aspire*	5,645,000	4,225,000	18 February 2003	*(Note (2))*	1,420,000	0.298
	170,000	170,000	18 April 2003	*(Note (2))*	–	0.298
	1,740,000	1,740,000	16 September 2003	*(Note (2))*	–	0.298
	1,460,000	1,145,000	18 March 2004	*(Note (2))*	315,000	0.298
	285,000	235,000	28 May 2004	*(Note (2))*	50,000	0.298
		7,515,000	*(Note (1))*			

* *During the year ended 31 December 2009, no share options have been granted under the Aspire Scheme for the directors and chief executive of the Company.*

Notes:

(1) The total number of shares involved in the options outstanding at the end of the year represents 0.80% of the issued share capital of Aspire as at the date of this report.

(2) (a) 50% of the options granted to a particular employee are exercisable between the period:

— commencing on the later of:

(i) two years after the commencement of employment of that employee or the option offer date (as the case may be); or

(ii) the listing of the shares of Aspire; and

— ending on the date falling 10 years from the option grant date; and

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

No options were granted or exercised under the Aspire Scheme during the year ended 31 December 2009.

Share options involving 1,785,000 Aspire Shares have been cancelled during the year ended 31 December 2009.

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

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

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

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

Pre-IPO Share Option Scheme of China Mobile Hong Kong Company Limited

Pursuant to a resolution passed by the shareholders of China Mobile Hong Kong Company Limited (formerly known as "China Mobile Peoples Telephone Company Limited") ("**CMHK**") on 4 March 2004, the pre-IPO share option scheme (the "**CMHK Pre-IPO Scheme**") was adopted to incentivize the then employees of CMHK.

No share options were granted under the CMHK Pre-IPO Scheme after the listing of CMHK on 31 March 2004 and no further share options will be granted under the scheme. There were 70,000 shares involved in the share options granted under the CMHK Pre-IPO Scheme which were outstanding at the beginning and at the end of the financial year ended 31 December 2009. All the share options outstanding at the beginning of the year were granted to employees of CMHK on 11 March 2004, and the exercise price was HK$4.55 per share, being the offer price of the shares of CMHK at the time of its initial public offering. Grantees of the outstanding share options are entitled to exercise the share options from 11 March 2005 to 10 March 2014. No share options granted under the CMHK Pre-IPO Scheme have been exercised during the year. No share options were cancelled or lapsed during the year. The share options outstanding as at 31 December 2009 were held by 7 individuals, 6 of whom have left the employment of CMHK.

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 as at 31 December 2009 amounting to 5% or more of the ordinary shares in issue:

		Ordinary shares held directly	Ordinary shares held indirectly	Percentage of total issued share capital
(i)	China Mobile Communications Corporation ("CMCC")	–	14,890,116,842	74.22%
(ii)	China Mobile (Hong Kong) Group Limited ("CMHK (Group)")	–	14,890,116,842	74.22%
(iii)	China Mobile Hong Kong (BVI) Limited ("CMHK (BVI)")	14,890,116,842	–	74.22%

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 2009, no person or corporation had any interest in the share capital of the Company as recorded in the register required to be kept under section 336 of the SFO as having an interest in 5% or more of or any short position in the issued share capital of the Company.

Connected Transactions

Continuing Connected Transactions

Details of the continuing connected transactions are set out in note 37 to the financial statements.

For the financial year ended 31 December 2009, the following continuing connected transactions (the "**Continuing Connected Transactions**") have not exceeded their respective upper limits:

(1) rental and property management service charges paid by the Group to CMCC have not exceeded RMB1,500 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;

(2) telecommunications service charges, prices 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 RMB4,500 million. The telecommunications service charges, prices 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;

(3) settlement charges paid by the Company to China TieTong Telecommunications Corporation ("**TieTong**"), wholly-owned subsidiary of CMCC, in respect of calls made or received by their respective customers have not exceeded RMB480 million and the settlement charges received by the Company from TieTong in respect of calls made or received by their respective customers have not exceeded RMB450 million. The rates for the settlement charges payable and receivable by the Company to and from TieTong are based on the previous interconnection settlement agreements entered into between TieTong and CMCC;

(4) leasing fees paid by the Company to CMCC for the leasing by the Company from CMCC of the TD-SCDMA network capacity have not exceeded RMB1,000 million. The leasing fees are determined on a basis that reflects the Group's total usage of CMCC's TD-SCDMA network capacity and to compensate CMCC for the costs of such network capacity; and

(5) service charges paid by the Company to CMCC for sales channel utilization and for the cooperation in the provision of Basic Telecommunications Services and Value-Added Telecommunications Services to customers of the Company have not exceeded RMB1,200 million. The service charges for agency services are determined with reference to market prices after taking into consideration the actual volume of agency services provided by CMCC and performance indicators such as total sales being recognized and additional number of customers acquired as a result of the provision of agency services by CMCC. The service charges in respect of business cooperation are determined with reference to government fixed price or guidance price and where there is no government fixed price or guidance price, market price, and after taking into account the actual volume of Basic Telecommunications Services and Value-Added Telecommunications Services provided.

The transactions referred to in paragraphs (1) and (2) above were entered into pursuant to the 2008–2010 property leasing and management services agreement dated 13 December 2007 between the Company and CMCC (the "**2008–2010 Property Leasing Agreement**") and the 2008–2010 telecommunications services agreement dated 13 December 2007 between the Company and CMCC (the "**2008–2010 Telecommunications Services Agreement**"), respectively. The entering into of the 2008–2010 Property Leasing Agreement and the 2008–2010 Telecommunications Services Agreement was announced by the Company on 13 December 2007. The upper limit in respect of the transactions under the 2008-2010 Telecommunications Services Agreement for the year 2009 was increased from RMB3,300 million to RMB4,300 million, and subsequently to RMB4,500 million. These increases were announced by the Company on 27 August 2008 and 13 November 2008.

The transactions referred to in paragraph (3) above were entered into pursuant to the tripartite agreement among the Company, CMCC and TieTong dated 13 November 2008 (the "**Tripartite Agreement**"). The entering into of the Tripartite Agreement was announced by the Company on 13 November 2008. The Tripartite Agreement has been renewed for a period of one year from 1 January 2010 and the renewal was announced by the Company on 6 November 2009.

The transactions referred to in paragraph (4) above were entered into pursuant to the network capacity leasing agreement between the Company and CMCC dated 29 December 2008 (the "**Network Capacity Leasing Agreement**"). The entering into of the Network Capacity Leasing Agreement was announced by the Company on 29 December 2008. The Network Capacity Leasing Agreement has been renewed for a period of one year from 1 January 2010 and the renewal was announced by the Company on 6 November 2009.

The transactions referred to in paragraph (5) above were entered into pursuant to the telecommunications services cooperation agreement between the Company and CMCC dated 6 November 2009 (the "**Telecommunications Services Cooperation Agreement**"). The entering into of the Telecommunications Services Cooperation Agreement was announced by the Company on 6 November 2009. The aggregate amount of charges received by the Company for services provided to CMCC under the Telecommunications Services Cooperation Agreement for the year ended 31 December 2009 were below 0.1% of each of the applicable percentage ratios set out in Rule 14.07 of the Hong Kong Listing Rules.

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

(A) have received the approval of the Board;

(B) were in accordance with the pricing policy as stated on pages 66 to 68 of this annual 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 2009.

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 2009 are set out in note 31 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 150 to 151 of this annual report.

Emolument Policy

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

Employee Retirement Benefits

Particulars of the employee retirement benefits of the Group are set out in note 34 to the financial statements.

Public Float

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

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 and Chief Executive Officer
Hong Kong, 18 March 2010

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of China Mobile Limited will be held on Wednesday, 12 May 2010 at 10:00 a.m. in the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong for the following purposes:

As Ordinary Business:

1. To receive and consider the audited financial statements and the Reports of the Directors and Auditors of the Company and its subsidiaries for the year ended 31 December 2009.

2. To declare a final dividend for the year ended 31 December 2009.

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% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution, and the said approval shall be limited accordingly;

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

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

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

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

NOTICE OF ANNUAL 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% 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% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution).

   Such mandate shall expire at the earlier of:

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

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

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

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

By Order of the Board
Wong Wai Lan, Grace
Company Secretary

8 April 2010

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, 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. *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.*

4. *The Board of Directors has recommended a final dividend of HK$1.458 per share for the year ended 31 December 2009 and, if such dividend is declared by the members passing Resolution 2, it is expected to be paid on or about 28 May 2010 to those shareholders whose names appear on the Company's register of members on 12 May 2010. Shareholders should read the announcement issued by the Company on 19 March 2010 regarding the closure of register of members and the withholding and payment of enterprise income tax for non-resident enterprises in respect of the proposed final dividend.*

5. *The register of members of the Company will be closed from 10 May 2010 to 12 May 2010 (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 4:30 p.m. on 7 May 2010.*

6. *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 2009 Annual Report.*

Independent Auditor's Report

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

We have audited the consolidated financial statements of China Mobile Limited (the "Company") set out on pages 74 to 149, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the group as at 31 December 2009 and of the group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

18 March 2010

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB million	2008 RMB million (restated)
Operating revenue (Turnover)	3		
Usage fees		**285,971**	260,542
Monthly fees		**14,661**	18,066
Value-added services fees		**131,434**	113,288
Other operating revenue		**20,037**	19,914
		452,103	411,810
Operating expenses			
Leased lines		**3,006**	2,641
Interconnection		**21,847**	22,264
Depreciation	14(a)	**80,179**	71,509
Personnel	4	**21,480**	19,960
Other operating expenses	5	**178,583**	153,041
		305,095	269,415
Profit from operations		**147,008**	142,395
Other net income	6	**1,780**	2,159
Non-operating net income	7	**359**	517
Interest income		**5,940**	6,002
Finance costs	8	**(1,243)**	(1,550)
Share of loss of jointly controlled entity	20	**(8)**	–
Profit before taxation		**153,836**	149,523
Taxation	11(a)	**(38,413)**	(36,735)
PROFIT FOR THE YEAR		**115,423**	112,788
Other comprehensive income for the year			
Exchange differences on translation of financial statements of overseas entities		**42**	(393)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**115,465**	112,395

Consolidated Statement of Comprehensive Income (continued)

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	**2009 RMB million**	2008 RMB million (restated)
Profit attributable to:			
Equity shareholders of the Company		**115,166**	112,627
Minority interests		**257**	161
PROFIT FOR THE YEAR		**115,423**	112,788
Total comprehensive income attributable to:			
Equity shareholders of the Company		**115,208**	112,234
Minority interests		**257**	161
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**115,465**	112,395
Earnings per share – Basic	*13(a)*	**RMB5.74**	RMB5.62
Earnings per share – Diluted	*13(b)*	**RMB5.67**	RMB5.53

The notes on pages 82 to 149 form part of these financial statements. Details of dividends are set out in note 36(b).

Consolidated Balance Sheet

as at 31 December 2009
(Expressed in Renminbi)

	Note	**As at 31 December 2009 RMB million**	As at 31 December 2008 RMB million (restated)	As at 1 January 2008 RMB million (restated)
Non-current assets				
Property, plant and equipment	14(a)	**360,075**	327,783	257,170
Construction in progress	15	**46,094**	35,482	47,420
Land lease prepayments		**11,201**	10,102	8,383
Goodwill	16	**36,894**	36,894	36,894
Other intangible assets	17	**727**	298	469
Interest in associates	19	**–**	–	–
Interest in jointly controlled entity	20	**6**	7	–
Deferred tax assets	21	**8,939**	7,614	6,121
Other financial assets	22	**77**	77	77
		464,013	418,257	356,534
Current assets				
Inventories	23	**3,847**	3,494	3,295
Accounts receivable	24	**6,405**	6,913	6,985
Other receivables	25	**3,490**	3,715	2,929
Prepayments and other current assets	25	**9,064**	7,641	5,680
Amount due from ultimate holding company	26	**25**	109	78
Tax recoverable	11(c)	**17**	39	124
Deposits with banks	27	**185,613**	130,833	109,685
Cash and cash equivalents	28	**78,894**	87,426	78,859
		287,355	240,170	207,635
Current liabilities				
Accounts payable	29	**95,985**	79,606	63,927
Bills payable		**642**	2,111	1,853
Deferred revenue	30	**35,573**	32,930	30,070
Accrued expenses and other payables	32	**69,335**	57,437	47,318
Amount due to ultimate holding company	26	**4**	6	26
Amount due to immediate holding company	26	**119**	118	196
Obligations under finance leases	33	**68**	68	68
Current taxation	11(c)	**8,079**	11,283	14,261
		209,805	183,559	157,719
Net current assets		**77,550**	56,611	49,916
Total assets less current liabilities carried forward		**541,563**	474,868	406,450

CONSOLIDATED BALANCE SHEET (CONTINUED)

as at 31 December 2009
(Expressed in Renminbi)

	Note	**As at 31 December 2009 RMB million**	As at 31 December 2008 RMB million (restated)	As at 1 January 2008 RMB million (restated)
Total assets less current liabilities brought forward		**541,563**	474,868	406,450
Non-current liabilities				
Interest-bearing borrowings	31(a)	**(33,551)**	(33,553)	(33,582)
Deferred revenue, excluding current portion	30	**(317)**	(584)	(597)
Deferred tax liabilities	21	**(61)**	(80)	(122)
		(33,929)	(34,217)	(34,301)
NET ASSETS		**507,634**	440,651	372,149
CAPITAL AND RESERVES				
Share capital		**2,139**	2,138	2,136
Reserves		**504,609**	437,884	369,525
Total equity attributable to equity shareholders of the Company		**506,748**	440,022	371,661
Minority interests		**886**	629	488
TOTAL EQUITY		**507,634**	440,651	372,149

Approved and authorized for issue by the Board of Directors on 18 March 2010.

Wang Jianzhou
Director

Xue Taohai
Director

The notes on pages 82 to 149 form part of these financial statements.

Balance Sheet

as at 31 December 2009

(Expressed in Renminbi)

	Note	As at 31 December 2009 RMB million	As at 31 December 2008 RMB million
Non-current assets			
Property, plant and equipment	14(b)	**4**	6
Investments in subsidiaries	18	**476,782**	476,782
Interest in jointly controlled entity	20	**14**	7
		476,800	476,795
Current assets			
Amounts due from subsidiaries	18	**41,620**	34,293
Other receivables		**7**	8
Cash and cash equivalents	28	**6,662**	489
		48,289	34,790
Current liabilities			
Accrued expenses and other payables		**1,269**	28
Amount due to immediate holding company	26	**119**	118
		1,388	146
Net current assets		**46,901**	34,644
Total assets less current liabilities		**523,701**	511,439
Non-current liabilities			
Amount due to a subsidiary	18	**(9,918)**	(9,920)
Interest-bearing borrowings	31(b)	**(23,633)**	(23,633)
		(33,551)	(33,553)
NET ASSETS		**490,150**	477,886
CAPITAL AND RESERVES	36(a)		
Share capital		**2,139**	2,138
Reserves		**488,011**	475,748
TOTAL EQUITY		**490,150**	477,886

Approved and authorized for issue by the Board of Directors on 18 March 2010.

Wang Jianzhou
Director

Xue Taohai
Director

The notes on pages 82 to 149 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company									
	Share capital *RMB million*	**Share premium** *RMB million*	**Capital reserve** *RMB million*	**General reserve** *RMB million*	**Exchange reserve** *RMB million*	**PRC statutory reserves** *RMB million*	**Retained profits** *RMB million*	**Total** *RMB million*	**Minority interests** *RMB million*	**Total equity** *RMB million*
As at 1 January 2008 (previously reported)	2,136	385,743	(292,156)	72	(688)	84,840	193,804	373,751	488	374,239
— prior period adjustment arising from changes in accounting policies under IFRIC/HK(IFRIC) Interpretation 13 *(note 2)*	–	–	–	–	–	(418)	(1,672)	(2,090)	–	(2,090)
As at 1 January 2008 (restated)	2,136	385,743	(292,156)	72	(688)	84,422	192,132	371,661	488	372,149
Changes in equity for 2008:										
Dividends approved in respect of the previous year *(note 36(b)(ii))*	–	–	–	–	–	–	(21,028)	(21,028)	–	(21,028)
Dividends declared in respect of the year *(note 36(b)(i))*	–	–	–	–	–	–	(23,532)	(23,532)	–	(23,532)
Dividends declared to minority interests in respect of the year	–	–	–	–	–	–	–	–	(20)	(20)
Shares issued under share option scheme *(note 36(c)(ii))*	2	494	(31)	–	–	–	–	465	–	465
Equity settled share-based transactions	–	–	222	–	–	–	–	222	–	222
Transfer to PRC statutory reserves (restated)	–	–	–	–	–	22,419	(22,419)	–	–	–
Total comprehensive income for the year (restated)	–	–	–	–	(393)	–	112,627	112,234	161	112,395
As at 31 December 2008 (restated)	2,138	386,237	(291,965)	72	(1,081)	106,841	237,780	440,022	629	440,651
As at 1 January 2009 (unadjusted)	**2,138**	**386,237**	**(291,965)**	**72**	**(1,081)**	**107,292**	**239,585**	**442,278**	**629**	**442,907**
— prior period adjustment arising from changes in accounting policies under IFRIC/HK(IFRIC) Interpretation 13 *(note 2)*	**–**	**–**	**–**	**–**	**–**	**(451)**	**(1,805)**	**(2,256)**	**–**	**(2,256)**
As at 1 January 2009 (adjusted)	**2,138**	**386,237**	**(291,965)**	**72**	**(1,081)**	**106,841**	**237,780**	**440,022**	**629**	**440,651**
Changes in equity for 2009:										
Dividends approved in respect of the previous year *(note 36(b)(ii))*	**–**	**–**	**–**	**–**	**–**	**–**	**(24,823)**	**(24,823)**	**–**	**(24,823)**
Dividends declared in respect of the year *(note 36(b)(i))*	**–**	**–**	**–**	**–**	**–**	**–**	**(23,791)**	**(23,791)**	**–**	**(23,791)**
Shares issued under share option scheme *(note 36(c)(ii))*	**1**	**138**	**(7)**	**–**	**–**	**–**	**–**	**132**	**–**	**132**
Transfer to PRC statutory reserves	**–**	**–**	**–**	**–**	**–**	**23,077**	**(23,077)**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**42**	**–**	**115,166**	**115,208**	**257**	**115,465**
As at 31 December 2009	**2,139**	**386,375**	**(291,972)**	**72**	**(1,039)**	**129,918**	**281,255**	**506,748**	**886**	**507,634**

The notes on pages 82 to 149 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	**2009 RMB million**	2008 RMB million (restated)
Operating activities			
Profit before taxation		**153,836**	149,523
Adjustments for:			
— Depreciation of property, plant and equipment	*14(a)*	**80,179**	71,509
— Amortization of other intangible assets	*5*	**56**	204
— Amortization of land lease prepayments		**261**	279
— Loss/(gain) on disposal of property, plant and equipment	*5*	**11**	(8)
— Write-off of property, plant and equipment	*5*	**4,493**	3,250
— Impairment loss for doubtful accounts	*5*	**4,503**	4,385
— Interest income		**(5,940)**	(6,002)
— Finance costs	*8*	**1,243**	1,550
— Dividend income from unlisted securities	*7*	**(18)**	(15)
— Share of loss of jointly controlled entity	*20*	**8**	–
— Equity-settled share-based payment expenses	*4*	**–**	222
— Unrealized exchange (gain)/loss, net	*7*	**(3)**	32
Operating cashflow before changes in working capital		**238,629**	224,929
Increase in inventories		**(353)**	(199)
Increase in accounts receivable		**(3,945)**	(4,309)
Decrease in other receivables		**127**	270
Increase in prepayments and other current assets		**(1,423)**	(1,961)
Decrease/(increase) in amount due from ultimate holding company		**84**	(31)
Increase in accounts payable		**2,598**	3,245
Increase in bills payable		**25**	4
Increase in deferred revenue		**2,376**	2,847
Increase in accrued expenses and other payables		**11,946**	10,031
Decrease in amount due to ultimate holding company		**(2)**	(20)
Cash generated from operations		**250,062**	234,806
Tax paid			
— Hong Kong profits tax paid		**(80)**	(96)
— PRC enterprise income tax paid		**(42,859)**	(41,063)
Net cash generated from operating activities carried forward		**207,123**	193,647

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB million	2008 RMB million (restated)
Net cash generated from operating activities brought forward		**207,123**	193,647
Investing activities			
Capital expenditure		**(115,314)**	(120,816)
Land lease prepayments		**(1,361)**	(1,998)
Payment for purchase of other intangible assets		**(484)**	(37)
Proceeds from disposal of property, plant and equipment		**13**	22
Increase in deposits with banks		**(54,780)**	(21,148)
Interest received		**5,988**	4,943
Payment for investment in jointly controlled entity	*20*	**(7)**	(7)
Dividends received from unlisted securities	*7*	**18**	15
Net cash used in investing activities		**(165,927)**	(139,026)
Financing activities			
Proceeds from issuance of shares under share option scheme	*36(c)(ii)*	**132**	465
Interest paid		**(1,292)**	(1,569)
Dividends paid to the Company's equity shareholders	*36(b)*	**(48,614)**	(44,560)
Dividends paid to minority interest		**–**	(20)
Net cash used in financing activities		**(49,774)**	(45,684)
Net (decrease)/increase in cash and cash equivalents		**(8,578)**	8,937
Cash and cash equivalents at beginning of year		**87,426**	78,859
Effect of changes in foreign exchange rate		**46**	(370)
Cash and cash equivalents at end of year	*28*	**78,894**	87,426

Significant non-cash transactions

The Group recorded payables of RMB52,427,000,000 (2008: RMB42,933,000,000) and RMB591,000,000 (2008: RMB2,084,000,000) to equipment suppliers and banks respectively as at 31 December 2009 for additions of construction in progress during the year then ended.

The notes on pages 82 to 149 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the IASB. 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") and accounting principles generally accepted in Hong Kong, are consistent with IFRSs, these financial statements also comply with HKFRSs 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 ("Listing rules"). A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the "Group") is set out below.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Group, the Group's interest in associates and a jointly controlled entity.

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

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

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

Judgements made by management in the application of IFRSs and HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 44.

(c) Subsidiaries and minority interests

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(c) Subsidiaries and minority interests (Continued)

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

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

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

(d) Associates and jointly controlled entities

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

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets and any impairment loss relating to the investment. The consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax results of the associates and a jointly controlled entity for the year.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(d) Associates and jointly controlled entities (Continued)

In the Company's balance sheet, its investments in associates and a jointly controlled entity are stated at cost less impairment losses (see note 1(j)).

(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 arising on a business combination is allocated to each cash-generating units, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(j)).

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

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

(f) Other intangible assets

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortization (were the estimated useful life is finite) and impairment losses (see note 1(j)). The useful lives of other intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date. The amortization of the intangible assets with finite lives is recorded in other operating expenses.

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

(i) Brand names

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

(ii) Customer base, licenses and others

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(g) Other investments in equity securities

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

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

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

(h) Property, plant and equipment

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

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

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

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

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

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

(i) Leased assets

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

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(i) Leased assets (Continued)

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

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

(j) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries) and other current receivables that are stated at cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(j) Impairment of assets (Continued)

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

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

— For investments in associates and jointly controlled entities recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(j)(ii).

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(j) Impairment of assets (Continued)

(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;

— goodwill; and

— other intangible assets.

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

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Recognition of impairment losses

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

(iii) Reversals of impairment losses

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(j) Impairment of assets (Continued)

(iii) Interim financial reporting and impairment

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

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

(k) Construction in progress

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

(l) Inventories

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

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

(m) Accounts receivable and other receivables

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(n) Deferred revenue

Deferred revenue consists primarily of prepaid service fees received from customers, revenue deferred for unredeemed point rewards under Customer Point Reward Program (Reward Program) and deferred tax credit on purchase of domestic telecommunications equipment.

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

Revenue deferred for unredeemed point rewards are recognized when such rewards are redeemed or expired.

Deferred tax credit on purchase of domestic telecommunications equipment is amortized over the remaining lives of the related equipment as a reduction to income tax expense.

(o) Interest-bearing borrowings

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

(p) Accounts payable and other payables

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

(q) Cash and cash equivalents

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

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(s) Income tax (Continued)

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

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

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

  — the same taxable entity; or

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

(t) Provisions and contingent liabilities

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

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

(u) Employee benefits

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(u) Employee benefits (Continued)

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

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

(ii) Share-based payments

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(v) Borrowing costs

Borrowing costs that are 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 are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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

(w) Translation of foreign currencies

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

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in profit or loss.

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

The results of overseas entities are translated into RMB at the exchange rates approximating the foreign exchange rate ruling at the dates of transactions. Balance sheets items are translated into RMB at the exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve. On disposal of an overseas entity, the cumulative amount of the exchange differences relating to that particular foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(x) Related parties

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

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

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

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

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

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

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

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

(y) Segment reporting

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses, and is identified on the basis of the internal financial reports that are provided to and regularly reviewed by the Group's chief operating decision maker in order to allocate resource and assess performance of the segment. For the periods presented, chief operating decision maker has determined that the Group has no operating segments as the Group is only engaged in mobile telecommunication and related business. No Group's geographical information has been disclosed as the majority of the Group's operating activities are carried out in Mainland China. The Group's assets located and operating revenues derived from activities outside the Mainland China are less than 5% of the Group's assets and operating revenues, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies

The IASB has issued a number of new or revised IFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2009. The equivalent new or revised HKFRSs consequently issued by HKICPA as a result of these developments have the same effective date as those issued by the IASB and are consistent with the pronouncements issued by the IASB.

Of these, the following developments are relevant to the Group's financial statements:

- IAS/HKAS 1 (revised 2007), *Presentation of financial statements*
- IFRIC/HK(IFRIC) Interpretation 13, *Customer loyalty programmes*
- Amendments to IFRS/HKFRS 7, *Financial instruments: Disclosure — improving disclosures about financial instruments*
- IFRS/HKFRS 8, *Operating segments*
- Amendments to IAS/HKAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*
- IAS/HKAS 23 (revised 2007), *Borrowing costs*
- Amendments to IFRS/HKFRS 2, *Share-based payment — vesting conditions and cancellations*
- Improvements to IFRSs/HKFRSs (2008)

The adoption of IFRS/HKFRS 8, the amendments to IFRS/HKFRS 7, IAS/HKAS 27, IAS/HKAS 23, IFRS/HKFRS 2 and improvements to IFRSs/HKFRSs (2008) have had no material impact on the Group's financial statements. The impact of the remainder of these developments on the financial statements is as follows:

(i) IAS/HKAS 1 (revised 2007), *Presentation of financial statements*

As a result of the adoption of IAS/HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in the consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in these financial statements and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies (Continued)

(ii) IFRIC/HK(IFRIC) Interpretation 13, *Customer loyalty programmes*

The Group has launched a Reward Program to its customers, which provides customers the option of electing to receive free telecommunications services or other gifts. The level of point reward earned by customers under the Reward Program varies depending on the customers' services consumption, years in services and payment history.

In prior years, the Group accounted for the obligation to provide free or discounted services or goods offered to the customers under the Reward Program using the incremental costs method. The estimated incremental cost to provide free or discounted services or goods was recognized as expenses and accrued as a current liability when customers were entitled to bonus points. When customers redeemed awards or their entitlements expired, the incremental cost liability was reduced accordingly to reflect the outstanding obligations.

With effect from 1 January 2009, as a result of adoption of IFRIC/HK(IFRIC) Interpretation 13, the point reward is accounted for as a separately identifiable component of the sales transactions in which the points are granted. The consideration received in relation to the sales transactions is allocated to points reward by reference to the estimated fair value of the points as revenue and is deferred until such reward is redeemed by the customers or the points expired.

The new accounting policy has been adopted retrospectively and the comparative amounts have been restated.

The effect on the consolidated balance sheet as at 1 January 2008 is an increase in deferred tax assets, an increase in deferred revenue, a decrease in accrued expenses and other payables and a decrease in net assets of RMB676,000,000, RMB6,308,000,000, RMB3,542,000,000 and RMB2,090,000,000, respectively.

The effect on the consolidated balance sheet as at 31 December 2008 is an increase in deferred tax assets, an increase in deferred revenue, a decrease in accrued expenses and other payables and a decrease in net assets of RMB730,000,000, RMB6,841,000,000, RMB3,855,000,000 and RMB2,256,000,000, respectively.

The effect on the Group's consolidated statement of comprehensive income for the year ended 31 December 2008 is an decrease in operating revenue, operating expenses, taxation and profit for the year of RMB533,000,000, RMB313,000,000, RMB54,000,000 and RMB166,000,000, respectively. The effect on the basic earnings per share and diluted earnings per share for the year ended 31 December 2008 is a decrease of RMB0.01 and RMB0.01, respectively.

The effect on the consolidated balance sheet as at 31 December 2009 is a decrease in deferred tax assets, a decrease in deferred revenue, an increase in accrued expenses and other payables and an increase in net assets of RMB724,000,000, RMB6,095,000,000, RMB3,146,000,000 and RMB2,225,000,000, respectively, had the previous accounting policy still been applied in the current year.

The effect on the Group's consolidated statement of comprehensive income for the year ended 31 December 2009 is a decrease in operating revenue, operating expenses, taxation and profit for the year of RMB746,000,000, RMB709,000,000, RMB6,000,000 and RMB31,000,000, respectively. The effect on the basic earnings per share and diluted earnings per share for year ended 31 December 2009 is a decrease of RMB0.002 and RMB0.002, respectively, had the previous accounting policy still been applied in the current year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Turnover

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

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

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

Other operating revenue mainly represents interconnection revenue.

4 Personnel

	2009 ***RMB million***	2008 *RMB million*
Salaries, wages and other benefits	**19,316**	17,829
Retirement costs: contributions to defined contribution retirement plans	**2,164**	1,909
Equity-settled share-based payment expenses	**–**	222
	21,480	19,960

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

5 Other operating expenses

	2009 **RMB million**	2008 *RMB million* (restated)
Selling and promotion	**80,043**	66,573
Maintenance	**28,109**	25,761
Impairment loss for doubtful accounts	**4,503**	4,385
Impairment loss of inventories	**16**	6
Amortization of other intangible assets	**56**	204
Operating lease charges		
— land and buildings	**6,449**	5,723
— others *(Note 1)*	**2,302**	2,591
Loss/(gain) on disposal of property, plant and equipment	**11**	(8)
Write-off of property, plant and equipment	**4,493**	3,250
Auditors' remuneration		
— audit services *(Note 2)*	**80**	76
— tax services *(Note 3)*	**–**	–
— other services *(Note 4)*	**9**	3
Others *(Note 5)*	**52,512**	44,477
	178,583	153,041

Notes:

(1) Other operating lease charges represent the operating lease charges for network capacity, motor vehicles, computer and other office equipment.

(2) Audit services in 2009 include reporting on the Group's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of the United States of America ("SOX 404") of RMB19,000,000 (2008: RMB17,800,000).

(3) Tax services in 2009 include tax compliance services for the Group of RMB72,000 (2008: RMB55,000).

(4) Other services in 2008 and 2009 include SOX 404 advisory services and other advisory services.

(5) Others consist of office expenses, utilities charges, travelling expenses, entertainment expenses, spectrum charges and number resources fees, consultant and professional fees, consumables and supplies, labour services expenses and other miscellaneous expenses.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

6 Other net income

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

	2009 **RMB million**	2008 *RMB million*
Sales of SIM cards and handsets	**7,754**	10,090
Cost of SIM cards and handsets	**(5,974)**	(7,931)
	1,780	2,159

7 Non-operating net income

	2009 **RMB million**	2008 *RMB million*
Exchange gain/(loss)	**3**	(32)
Penalty income	**265**	222
Dividend income from unlisted securities	**18**	15
Others	**73**	312
	359	517

8 Finance costs

	2009 **RMB million**	2008 *RMB million*
Interest on bank loans and other borrowings repayable after five years	**777**	1,026
Interest on bonds	**466**	524
	1,243	1,550

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

9 Directors' remuneration

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

(Expressed in Hong Kong dollar)

	Directors' Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Performance related bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	Subtotal *HK$'000*	Fair value of share options *HK$'000* *(Note)*	2009 Total *HK$'000*
Executive directors							
WANG Jianzhou	180	1,172	660	286	2,298	–	2,298
ZHANG Chunjiang	180	1,067	600	260	2,107	–	2,107
LI Yue	180	960	540	234	1,914	–	1,914
LU Xiangdong	180	960	540	234	1,914	–	1,914
XUE Taohai	180	960	540	234	1,914	–	1,914
HUANG Wenlin	180	960	540	234	1,914	–	1,914
SHA Yuejia	180	960	540	233	1,913	–	1,913
LIU Aili	180	960	540	233	1,913	–	1,913
XIN Fanfei	180	960	540	229	1,909	–	1,909
XU Long	180	950	540	232	1,902	–	1,902
Independent non-executive directors							
LO Ka Shui	505	–	–	–	505	–	505
WONG Kwong Shing, Frank	440	–	–	–	440	–	440
CHENG Mo Chi, Moses	440	–	–	–	440	–	440
Non-executive director							
Nicholas Jonathan READ (appointed on 19 March 2009)	142	–	–	–	142	–	142
	3,327	9,909	5,580	2,409	21,225	–	21,225

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

9 Directors' remuneration (Continued)

(Expressed in Hong Kong dollar)

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

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

10 Individuals with highest emoluments

For the years ended 31 December 2008 and 2009, all of the five individuals with the highest emoluments are directors whose emoluments are disclosed in note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

11 Taxation

(a) Taxation in the consolidated statement of comprehensive income represents:

	2009 **RMB million**	2008 RMB million (restated)
Current tax		
Provision for Hong Kong profits tax on the estimated assessable profits for the year	**91**	74
Provision for PRC enterprise income tax on the estimated taxable profits for the year	**39,666**	38,216
Over-provision in respect of PRC enterprise income tax in prior years	**–**	(24)
	39,757	38,266
Deferred tax		
Origination and reversal of temporary differences *(note 21)*	**(1,344)**	(1,531)
	38,413	36,735

(i) The provision of Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) of the assessable profits for the year ended 31 December 2009.

(ii) The provision for the PRC enterprise income tax is based on the statutory rate of 25% of the taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year ended 31 December 2009, except for certain subsidiaries of the Company and certain operations of the subsidiaries located within special economic zones in the PRC, for which the applicable preferential tax rate was 18% and 20% for 2008 and 2009 and is increased to 22%, 24% and 25% for the years ending 31 December 2010, 2011 and 2012 onwards, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

11 Taxation (Continued)

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

	2009 RMB million	2008 RMB million (restated)
Profit before taxation	**153,836**	149,523
Notional tax on profit before tax, calculated at PRC's statutory tax rate of 25% *(Note)*	**38,459**	37,382
Tax effect of non-taxable item		
— Interest income	**(2)**	(16)
Tax effect of non-deductible expenses on PRC operations	**699**	653
Tax effect of non-deductible expenses on Hong Kong operations	**155**	261
Rate differential on PRC operations	**(470)**	(874)
Rate differential on Hong Kong operations	**35**	96
Effect of change in Hong Kong profits tax rate	**–**	(6)
Over-provision for PRC operations in prior years	**–**	(24)
Amortization of tax credit on purchase of domestic telecommunications equipment	**(527)**	(644)
Others	**64**	(93)
Taxation	**38,413**	36,735

Note: The PRC's statutory tax rate is adopted as the majority of the Group's operations are subject to this rate.

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

	2009 RMB million	2008 RMB million
Provision for PRC enterprise income tax for the year	**39,666**	38,192
Provision for Hong Kong profits tax for the year	**91**	74
Balance of PRC enterprise income tax recoverable relating to prior year	**(39)**	(124)
PRC enterprise income tax paid	**(31,605)**	(26,853)
Hong Kong profits tax paid	**(51)**	(45)
Balance as at 31 December	**8,062**	11,244
Add: Tax recoverable	**17**	39
Tax payable	**8,079**	11,283

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

12 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB861,000,000 (2008: loss of RMB1,086,000,000) which has been dealt with in the financial statements of the Company.

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

	2009 RMB million	2008 *RMB million*
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(861)**	(1,086)
Dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**61,561**	50,201
Company's profit for the year *(note 36(a))*	**60,700**	49,115

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 RMB115,166,000,000 (2008 (restated): RMB112,627,000,000) and the weighted average number of 20,057,674,088 shares (2008: 20,043,933,958 shares) in issue during the year, calculated as follows:

Weighted average number of shares

	2009 Number of shares	2008 *Number of shares*
Issued shares as at 1 January	**20,054,379,231**	20,031,905,590
Effect of share options exercised	**3,294,857**	12,028,368
Weighted average number of shares as at 31 December	**20,057,674,088**	20,043,933,958

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the profit attributable to equity shareholders of the Company of RMB115,166,000,000 (2008 (restated): RMB112,627,000,000) and the weighted average number of shares 20,312,459,133 (2008: 20,356,125,657 shares), calculated as follows:

Weighted average number of shares (diluted)

	2009 Number of shares	2008 *Number of shares*
Weighted average number of shares as at 31 December	**20,057,674,088**	20,043,933,958
Effect of deemed issue of shares under the company's share option scheme for nil consideration	**254,785,045**	312,191,699
Weighted average number of shares (diluted) as at 31 December	**20,312,459,133**	20,356,125,657

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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:				
As at 1 January 2008	51,041	432,497	18,119	501,657
Additions	612	794	1,249	2,655
Transferred from construction in progress	12,179	126,708	3,899	142,786
Disposals	(1)	(1)	(95)	(97)
Assets written-off	(156)	(15,026)	(1,103)	(16,285)
Exchange differences	(1)	(135)	(4)	(140)
As at 31 December 2008	63,674	544,837	22,065	630,576
As at 1 January 2009	**63,674**	**544,837**	**22,065**	**630,576**
Additions	**648**	**1,427**	**1,203**	**3,278**
Transferred from construction in progress	**9,280**	**101,548**	**2,883**	**113,711**
Disposals	**(1)**	**(8)**	**(98)**	**(107)**
Assets written-off	**(95)**	**(35,788)**	**(1,304)**	**(37,187)**
Exchange differences	**–**	**(4)**	**–**	**(4)**
As at 31 December 2009	**73,506**	**612,012**	**24,749**	**710,267**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Property, plant and equipment (Continued)

(a) The Group (Continued)

	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*
Accumulated depreciation:				
As at 1 January 2008	9,487	225,752	9,248	244,487
Charge for the year	2,652	65,839	3,018	71,509
Written back on disposals	–	(1)	(82)	(83)
Assets written-off	(109)	(11,928)	(998)	(13,035)
Exchange differences	–	(83)	(2)	(85)
As at 31 December 2008	12,030	279,579	11,184	302,793
As at 1 January 2009	**12,030**	**279,579**	**11,184**	**302,793**
Charge for the year	**3,253**	**74,133**	**2,793**	**80,179**
Written back on disposals	**–**	**(7)**	**(76)**	**(83)**
Assets written-off	**(77)**	**(31,533)**	**(1,084)**	**(32,694)**
Exchange differences	**–**	**(3)**	**–**	**(3)**
As at 31 December 2009	**15,206**	**322,169**	**12,817**	**350,192**
Net book value:				
As at 31 December 2009	**58,300**	**289,843**	**11,932**	**360,075**
As at 31 December 2008	51,644	265,258	10,881	327,783

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Property, plant and equipment (Continued)

(b) The Company

	Office equipment, furniture and fixtures and others ***RMB million***
Cost:	
As at 1 January 2008	13
Additions	4
As at 31 December 2008	17
As at 1 January 2009	**17**
Additions	**–**
As at 31 December 2009	**17**
Accumulated depreciation:	
As at 1 January 2008	9
Charge for the year	2
As at 31 December 2008	11
As at 1 January 2009	**11**
Charge for the year	**2**
As at 31 December 2009	**13**
Net book value:	
As at 31 December 2009	**4**
As at 31 December 2008	6

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Property, plant and equipment (Continued)

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

	The Group	
	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Hong Kong		
Long-term leases	**3**	3
Medium-term leases	**14**	14
	17	17
Mainland China		
Long-term leases	**3,507**	3,272
Medium-term leases	**52,861**	46,706
Short-term leases	**1,915**	1,649
	58,283	51,627
	58,300	51,644

15 Construction in progress

	The Group	
	2009	2008
	RMB million	*RMB million*
Balance as at 1 January	**35,482**	47,420
Additions	**124,323**	130,849
Transferred to property, plant and equipment	**(113,711)**	(142,786)
Exchange differences	**–**	(1)
Balance as at 31 December	**46,094**	35,482

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed as at 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

16 Goodwill

	The Group	
	2009	2008
	RMB million	*RMB million*
Cost and carrying amount:		
As at 1 January and 31 December	**36,894**	36,894

Impairment tests for goodwill

As set out in IAS/HKAS 36 Impairment of assets, a cash-generating unit is the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash flows from other assets or groups of 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 represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and also is not larger than an operating segment determined in accordance with IFRS/HKFRS 8 Operating Segment.

The recoverable amount of the cash-generating units is determined based on the value-in-use which is calculated by using 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 2014 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5% for the operation in Hong Kong and 1% for operations in the Mainland China to perpetuity are used which comply with general expectations for the business. The present value of cash flows is calculated by discounting the cash flow by pre-tax interest rate of approximately 10%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

17 Other intangible assets

	The Group			
	Brand name *RMB million*	**Customer Base** *RMB million*	**License and others** *RMB million*	**Total** *RMB million*
Cost:				
As at 1 January 2008	184	516	392	1,092
Additions	–	–	37	37
Exchange differences	–	–	(13)	(13)
As at 31 December 2008	184	516	416	1,116
As at 1 January 2009	**184**	**516**	**416**	**1,116**
Additions	**–**	**–**	**485**	**485**
As at 31 December 2009	**184**	**516**	**901**	**1,601**
Accumulated amortization:				
As at 1 January 2008	–	343	280	623
Amortization for the year	–	173	31	204
Exchange differences	–	–	(9)	(9)
As at 31 December 2008	–	516	302	818
As at 1 January 2009	**–**	**516**	**302**	**818**
Amortization for the year	**–**	**–**	**56**	**56**
As at 31 December 2009	**–**	**516**	**358**	**874**
Net book value:				
As at 31 December 2009	**184**	**–**	**543**	**727**
As at 31 December 2008	184	–	114	298

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

17 Other intangible assets (Continued)

Impairment test for other intangible asset with indefinite useful life

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

The recoverable amount of the brand name is estimated based on value-in-use calculations by discounting future cash flows annually. The data from the Group's detailed planning is used to project cash flows for the subsidiary (cash-generating unit) to which the intangible asset relates for the five years ending 31 December 2014 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5% to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting the cash flow by a pre-tax interest rate of approximately 10%.

18 Investments in subsidiaries

	The Company	
	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Unlisted equity, at cost	**471,810**	471,810
Equity share-based payment in subsidiaries	**4,972**	4,972
	476,782	476,782

In accordance with IFRS/HKFRS 2 Share-based payment, share-based payment transactions in which an entity receives services from its employees as consideration for equity instruments of the entity are accounted for as equity-settled transactions (see note 1(u)(ii)). The Company has recognized the grant of equity instruments to its subsidiaries' employees amounting to RMB4,972,000,000 (2008: RMB4,972,000,000) as capital contributions to its subsidiaries.

Amounts due from subsidiaries under current assets are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business. Amount due to a subsidiary under non-current liabilities represents amount due to China Mobile Group Guangdong Co., Ltd. ("Guangdong Mobile") in relation to the guaranteed bonds, which are unsecured, interest bearing and repayable after more than one year (see note 31(c)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries (Continued)

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

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Held by a Subsidiary	Principal activity
Guangdong Mobile*	PRC	RMB5,594,840,700	100%	–	Mobile telecommunications operator
China Mobile Group Zhejiang Co., Ltd.*	PRC	RMB2,117,790,000	100%	–	Mobile telecommunications operator
Jiangsu Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Jiangsu Co., Ltd.*	PRC	RMB2,800,000,000	–	100%	Mobile telecommunications operator
Fujian Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Fujian Co., Ltd.*	PRC	RMB5,247,480,000	–	100%	Mobile telecommunications operator
Henan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Henan Co., Ltd.*	PRC	RMB4,367,733,641	–	100%	Mobile telecommunications operator
Hainan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Hainan Co., Ltd.*	PRC	RMB643,000,000	–	100%	Mobile telecommunications operator
Beijing Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Beijing Co., Ltd.*	PRC	RMB6,124,696,053	–	100%	Mobile telecommunications operator
Shanghai Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Shanghai Co., Ltd.*	PRC	RMB6,038,667,706	–	100%	Mobile telecommunications operator
Tianjin Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a Subsidiary	Principal activity
China Mobile Group Tianjin Co., Ltd.*	PRC	RMB2,151,035,483	–	100%	Mobile telecommunications operator
Hebei Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Hebei Co., Ltd.*	PRC	RMB4,314,668,600	–	100%	Mobile telecommunications operator
Liaoning Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Liaoning Co., Ltd.*	PRC	RMB5,140,126,680	–	100%	Mobile telecommunications operator
Shandong Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Shandong Co., Ltd.*	PRC	RMB6,341,851,146	–	100%	Mobile telecommunications operator
Guangxi Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Guangxi Co., Ltd.*	PRC	RMB2,340,750,100	–	100%	Mobile telecommunications operator
Anhui Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Anhui Co., Ltd.*	PRC	RMB4,099,495,494	–	100%	Mobile telecommunications operator
Jiangxi Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Jiangxi Co., Ltd.*	PRC	RMB2,932,824,234	–	100%	Mobile telecommunications operator
Chongqing Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Chongqing Co., Ltd.*	PRC	RMB3,029,645,401	–	100%	Mobile telecommunications operator
Sichuan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a Subsidiary	Principal activity
China Mobile Group Sichuan Co., Ltd.*	PRC	RMB7,483,625,572	–	100%	Mobile telecommunications operator
Hubei Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Hubei Co., Ltd.*	PRC	RMB3,961,279,556	–	100%	Mobile telecommunications operator
Hunan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Hunan Co., Ltd.*	PRC	RMB4,015,668,593	–	100%	Mobile telecommunications operator
Shaanxi Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Shaanxi Co., Ltd.*	PRC	RMB3,171,267,431	–	100%	Mobile telecommunications operator
Shanxi Mobile Communication (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Shanxi Co., Ltd.*	PRC	RMB2,773,448,313	–	100%	Mobile telecommunications operator
Neimenggu Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Neimenggu Co., Ltd.*	PRC	RMB2,862,621,870	–	100%	Mobile telecommunications operator
Jilin Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Jilin Co., Ltd.*	PRC	RMB3,277,579,314	–	100%	Mobile telecommunications operator
Heilongjiang Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Heilongjiang Co., Ltd.*	PRC	RMB4,500,508,035	–	100%	Mobile telecommunications operator
Guizhou Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a Subsidiary	Principal activity
China Mobile Group Guizhou Co., Ltd.*	PRC	RMB2,541,981,749	–	100%	Mobile telecommunications operator
Yunnan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Yunnan Co., Ltd.*	PRC	RMB4,137,130,733	–	100%	Mobile telecommunications operator
Xizang Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Xizang Co., Ltd.*	PRC	RMB848,643,686	–	100%	Mobile telecommunications operator
Gansu Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Gansu Co., Ltd.*	PRC	RMB1,702,599,589	–	100%	Mobile telecommunications operator
Qinghai Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Qinghai Co., Ltd.*	PRC	RMB902,564,911	–	100%	Mobile telecommunications operator
Ningxia Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Ningxia Co., Ltd.*	PRC	RMB740,447,232	–	100%	Mobile telecommunications operator
Xinjiang Mobile (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Xinjiang Co., Ltd.*	PRC	RMB2,581,599,600	–	100%	Mobile telecommunications operator
Beijing P&T Consulting & Design Institute (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Group Design Institute Co., Ltd.*	PRC	RMB160,232,500	–	100%	Provision of telecommunications network planning design and consulting services

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a Subsidiary	Principal activity
China Mobile Communication (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Communication Co., Ltd.*	PRC	RMB1,641,848,326	–	100%	Network and business coordination center
China Mobile Holding Company Limited*	PRC	US$30,000,000	100%	–	Investment holding company
China Mobile (Shenzhen) Limited*	PRC	US$7,633,000	–	100%	Provision of roaming clearance services
Aspire Holdings Limited	Cayman Islands	HK$93,964,583	66.41%	–	Investment holding company
Aspire (BVI) Limited#	BVI	US$1,000	–	100%	Investment holding company
Aspire Technologies (Shenzhen) Limited*#	PRC	US$10,000,000	–	100%	Technology platform development and maintenance
Aspire Information Network (Shenzhen) Limited*#	PRC	US$5,000,000	–	100%	Provision of mobile data solutions, system integration and development
Aspire Information Technologies (Beijing) Limited*#	PRC	US$5,000,000	–	100%	Technology platform development and maintenance
Fujian FUNO Mobile Communication Technology Company Limited**	PRC	US$3,800,000	–	51%	Network planning and optimizing construction-testing and supervising, technology support, development and training of Nokia GSM 900/1800 Mobile Communication System
Advanced Roaming & Clearing House Limited	BVI	US$2	100%	–	Provision of roaming clearance services
Fit Best Limited	BVI	US$1	100%	–	Investment holding company

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a Subsidiary	Principal activity
China Mobile Hong Kong Company Limited ("CMHK")	Hong Kong	HK$356,947,689	–	100%	Provision of mobile telecommunications and related services

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

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

Effective interest held by the Group is 66.41%.

19 Interest in associates

	The Group As at 31 December 2009 RMB million	As at 31 December 2008 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 is based on latest management accounts which showed net liabilities as at 31 December 2008 and 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

20 Interest in jointly controlled entity

	The Group		The Company	
	As at 31 December 2009 ***RMB million***	As at 31 December 2008 *RMB million*	**As at 31 December 2009** ***RMB million***	As at 31 December 2008 *RMB million*
Unlisted shares, at cost	**–**	–	**14**	7
Share of net assets	**6**	7	**–**	–
	6	7	**14**	7

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

Name of jointly controlled entity	Place of incorporation and operation	Proportion of ownership interest held by the Group and the Company	Principal activity
JIL B.V.	The Netherlands	25%	Research and develop telecommunication technologies and application services

JIL B.V. was formed by the Company and other two shareholders in 2008, and commenced operation in 2009. As at the end of 2008, each of the three shareholders, including the Company, had funded US$1,000,000 (equivalent to RMB7,000,000) to JIL B.V. in accordance with the shareholders agreement. During 2009, a new investor became the fourth shareholder and the proportion of ownership interests held by the Group and the Company decreased from 33.33% to 25%. As at the end of 2009, each of the four shareholders, including the Company, has funded US$2,000,000 (equivalent to RMB14,000,000) to JIL B.V. in accordance with the shareholders agreement, and each shareholder has committed to funding an additional US$3,000,000 by June 2010.

JIL B.V. is considered as a jointly controlled entity since the Company and the other shareholders have the right to appoint an equal number of directors to the board of directors.

As at and for the year ended 31 December 2009, the Group's share of the JIL B.V.'s current assets, current liabilities, net assets and loss for the year of JIL B.V. are RMB8,000,000 (2008: RMB7,000,000), RMB2,000,000 (2008: Nil), RMB6,000,000 (2008: RMB7,000,000) and RMB8,000,000 (2008: Nil), respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

21 Deferred tax assets and liabilities

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

Deferred tax assets and liabilities recognized and the movements during 2009

	As at 1 January 2009 *RMB million*	Effect on change of tax rates *RMB million*	Credited/ (charged) to profit or loss *RMB million*	Exchange differences *RMB million*	As at 31 December 2009 *RMB million*
Deferred tax assets arising from:					
Provision for obsolete inventories	5	–	1	–	6
Write-off of certain network equipment and related assets	1,849	–	(334)	–	1,515
Provision for certain operating expenses	2,989	–	946	–	3,935
Deferred revenue from customer point award program	1,669	–	(149)	–	1,520
Impairment loss for doubtful accounts	1,102	–	861	–	1,963
	7,614	–	1,325	–	8,939
Deferred tax liabilities arising from:					
Capitalized interest	(16)	–	9	–	(7)
Depreciation allowance in excess of related depreciation	(64)	–	10	–	(54)
	(80)	–	19	–	(61)
Total	7,534	–	1,344	–	8,878

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

21 Deferred tax assets and liabilities (Continued)

Deferred tax assets and liabilities recognized and the movements during 2008

	As at 1 January 2008 *RMB million* (restated)	Effect on change of tax rates *RMB million*	Credited/ (charged) to profit or loss *RMB million* (restated)	Exchange differences *RMB million*	As at 31 December 2008 *RMB million* (restated)
Deferred tax assets arising from:					
Provision for obsolete inventories	6	–	(1)	–	5
Write-off of certain network equipment and related assets	1,739	–	110	–	1,849
Provision for certain operating expenses	1,869	–	1,120	–	2,989
Deferred revenue from customer point reward program	1,555	–	114	–	1,669
Impairment loss for doubtful accounts	952	–	150	–	1,102
	6,121	–	1,493	–	7,614
Deferred tax liabilities arising from:					
Capitalized interest	(36)	–	20	–	(16)
Depreciation allowance in excess of related depreciation	(86)	5	13	4	(64)
	(122)	5	33	4	(80)
Total	5,999	5	1,526	4	7,534

	The Group		
	As at 31 December 2009 ***RMB million***	As at 31 December 2008 *RMB million* (restated)	As at 1 January 2008 *RMB million* (restated)
Net deferred tax assets recognized in the consolidated balance sheet	**8,939**	7,614	6,121
Net deferred tax liabilities recognized in the consolidated balance sheet	**(61)**	(80)	(122)
Balance as at 31 December	**8,878**	7,534	5,999

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

22 Other financial assets

	The Group	
	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Investment in unlisted equity securities in the PRC	**77**	77

23 Inventories

Inventories primarily comprise handsets, SIM cards and handset accessories.

24 Accounts receivable

(a) Aging analysis

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

	The Group	
	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Within 30 days	**4,275**	4,713
31–60 days	**1,012**	1,212
61–90 days	**673**	769
Over 90 days	**445**	219
	6,405	6,913

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

Accounts receivable are expected to be recovered within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 Accounts receivable (Continued)

(b) Impairment of accounts receivable

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

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

	The Group	
	2009	2008
	RMB million	*RMB million*
Balance as at 1 January	**4,548**	3,974
Impairment loss for doubtful accounts	**4,514**	4,382
Accounts receivable written off	**(2,967)**	(3,807)
Exchange differences	**–**	(1)
Balance as at 31 December	**6,095**	4,548

(c) Accounts receivable that are not impaired

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

	The Group	
	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Neither past due nor impaired	**5,784**	6,265
Less than 1 month past due	**621**	648
	6,405	6,913

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

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

25 Other receivables, prepayments and other current assets

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

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

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

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

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

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

27 Deposits with banks

Balance of deposits with banks as at 31 December 2009 included a pledged deposit of HK$150,000,000 (equivalent to RMB132,000,000) (2008: HK$150,000,000, equivalent to RMB132,000,000).

The pledged deposit as at 31 December 2009 relates to a performance bond issued by a bank in favor of the Office of Telecommunications Authority of Hong Kong ("the Authority") for the application of the next generation mobile services technology license ("BWA License"). The performance bond was issued to secure the due performance of CMHK in respect of the network coverage by 31 March 2014. The bank's obligation under the performance bond is guaranteed by CMHK. In the event of CMHK's default on the compliance with the due performance, the bank shall discharge the bonded sum upon demand made by the Authority. The pledged deposit is renewed annually throughout the five-year period of the performance bond.

The pledged deposit as at 31 December 2008 represents a letter of credit issued by a bank for CMHK to the Authority for eligibility in entering the bidding process for the BWA License. On 22 January 2009, CMHK became the provisional successful bidder for the BWA license and was required to pay total spectrum utilization fees of HK$495,000,000. The letter of credit was released on 11 March 2009 after the full payment of the spectrum utilization fees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 Cash and cash equivalents

	The Group		The Company	
	As at 31 December 2009 *RMB million*	As at 31 December 2008 *RMB million*	**As at 31 December 2009 *RMB million***	As at 31 December 2008 *RMB million*
Deposits with banks within three months of maturity	**8,971**	2,992	**6,637**	452
Cash at banks and in hand	**69,923**	84,434	**25**	37
	78,894	87,426	**6,662**	489

29 Accounts payable

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

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

	The Group	
	As at 31 December 2009 *RMB million*	As at 31 December 2008 *RMB million*
Due within 1 month or on demand:	**72,883**	57,483
Due after 1 month but within 3 months	**8,965**	5,566
Due after 3 months but within 6 months	**6,420**	7,098
Due after 6 months but within 9 months	**3,691**	5,134
Due after 9 months but within12 months	**4,026**	4,325
	95,985	79,606

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

30 Deferred revenue

Deferred revenue primarily includes prepaid service fees received from customers, unredeemed point reward, and deferred tax credit on purchase of domestic telecommunications equipment.

	The Group	
	2009	2008
	RMB million	*RMB million*
		(restated)
Balance as at 1 January	**33,514**	30,667
— Current portion	**32,930**	30,070
— Non-current portion	**584**	597
Additions during the year	**211,040**	180,794
Recognized in the comprehensive income statement	**(208,664)**	(177,942)
Exchange differences	**–**	(5)
Balance as at 31 December	**35,890**	33,514
Less: Current portion	**(35,573)**	(32,930)
Non-current portion	**317**	584

31 Interest-bearing borrowings

(a) The Group

	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Bonds	**9,918**	9,920
Deferred consideration payable	**23,633**	23,633
	33,551	33,553

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

31 Interest-bearing borrowings (Continued)

(b) The Company

	As at 31 December 2009 ***RMB million***	As at 31 December 2008 *RMB million*
Deferred consideration payable	**23,633**	23,633

(c) Bonds

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

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

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

The Fifteen-year Bonds bear interest at the rate of 4.5% per annum and payable annually. The bonds are redeemable at 100% of the principal amount and will mature on 28 October 2017 with interest accruing up to 27 October 2017.

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

(d) Deferred consideration payable

This represents the balances of the deferred consideration of RMB9,976,000,000 and RMB13,657,000,000 payable to immediate holding company in respect of the acquisitions of subsidiaries in 2002 and 2004 respectively, and are due on 1 July 2017 and 2019.

The deferred consideration payable is unsecured and bears interest at the rate of the two-year US dollar LIBOR swap rate per annum (for the year ended 31 December 2009: 3.238% to 3.331% per annum; for the year ended 31 December 2008: 3.238% to 5.418% per annum). The balances are subordinated to other senior debts owed by the Company from time to time. The Company may make early payment of all or part of the balances at any time before the repayment date without penalty.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

32 Accrued expenses and other payables

	The Group		
	As at 31 December 2009 ***RMB million***	As at 31 December 2008 *RMB million* (restated)	As at 1 January 2008 *RMB million* (restated)
Receipts-in-advance	**41,281**	36,054	29,386
Other payables	**11,900**	9,806	11,020
Accrued salaries, wages and benefits	**4,391**	4,113	2,995
Accrued expense	**11,763**	7,464	3,917
	69,335	57,437	47,318

33 Obligations under finance leases

The Group's obligations under finance leases repayable as at 31 December are as follows:

	As at 31 December 2009			As at 31 December 2008		
	Present value of the minimum lease payments ***RMB million***	**Interest expense relating to future periods** ***RMB million***	**Total minimum lease payments** ***RMB million***	Present value of the minimum lease payments *RMB million*	Interest expense relating to future periods *RMB million*	Total minimum lease payments *RMB million*
Within 1 year	**68**	**3**	**71**	68	3	71

34 Employee retirement benefits

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

34 Employee retirement benefits (Continued)

(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% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

35 Equity settled share-based transactions

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

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

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

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

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

(i) the nominal value of a share;

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

35 Equity settled share-based transactions (Continued)

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

	Number of instruments 2009	2008	Vesting conditions	Contractual life of options
Options granted to directors				
— on 3 July 2002	**7,000**	25,000	50% two years from the date of grant, 50% five years from the date of grant	10 years
— on 28 October 2004	**744,175**	744,175	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
— on 21 December 2004	**475,000**	475,000	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
— on 8 November 2005	**5,685,500**	5,685,500	40% one year from the date of grant, 30% two years from the date of grant 30% three years from the date of grant	10 years
Options granted to other employees				
— on 3 July 2002	**33,451,909**	38,989,104	50% two years from the date of grant, 50% five years from the date of grant	10 years
— on 28 October 2004	**119,656,204**	120,405,339	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	**267,555,280**	267,725,370	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	**427,575,068**	434,049,488		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

35 Equity settled share-based transactions (Continued)

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

	The Group			
	2009		2008	
	Weighted Average Exercise Price ***HK$***	**Number of shares involved in the options**	Weighted Average Exercise Price *HK$*	Number of shares involved in the options
As at 1 January	**30.40**	**434,049,488**	30.04	456,677,289
Exercised	**23.15**	**(6,474,420)**	23.23	(22,473,641)
Cancelled	**–**	**–**	28.71	(154,160)
As at 31 December	**30.51**	**427,575,068**	30.40	434,049,488
Option vested as at 31 December	**30.51**	**427,575,068**	30.40	434,049,488

The weighted average share price at the date of exercise for shares options exercised during the year was HK$80.08 (2008: HK$107.98).

The options outstanding as at 31 December 2009 had exercise prices ranging from HK$22.75 to HK$34.87 (2008: HK$22.75 to HK$34.87) and a weighted average remaining contractual life of 5.3 years (2008: 6.3 years).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model. No share options were granted during 2008 and 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

36 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital *RMB million*	Share premium *RMB million*	Capital reserve *RMB million*	General reserve *RMB million*	Exchange reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*
As at 1 January 2008	2,136	385,743	3,509	72	(549)	82,043	472,954
Changes in equity for 2008:							
Dividends approved in respect of previous year *(note36(b)(ii))*	–	–	–	–	–	(21,028)	(21,028)
Dividends declared in respect of the year *(note 36(b)(i))*	–	–	–	–	–	(23,532)	(23,532)
Shares issued under share option scheme *(note 36(c)(ii))*	2	494	(31)	–	–	–	465
Equity settled share-based transactions	–	–	222	–	–	–	222
Total comprehensive income for the year	–	–	–	–	(310)	49,115	48,805
As at 31 December 2008	2,138	386,237	3,700	72	(859)	86,598	477,886
As at 1 January 2009	**2,138**	**386,237**	**3,700**	**72**	**(859)**	**86,598**	**477,886**
Changes in equity for 2009:							
Dividends approved in respect of previous year *(note36(b)(ii))*	**–**	**–**	**–**	**–**	**–**	**(24,823)**	**(24,823)**
Dividends declared in respect of the year *(note 36(b)(i))*	**–**	**–**	**–**	**–**	**–**	**(23,791)**	**(23,791)**
Shares issued under share option scheme *(note 36(c)(ii))*	**1**	**138**	**(7)**	**–**	**–**	**–**	**132**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**46**	**60,700**	**60,746**
As at 31 December 2009	**2,139**	**386,375**	**3,693**	**72**	**(813)**	**98,684**	**490,150**

As at 31 December 2009, the amount of distributable reserves of the Company amounted to RMB98,756,000,000 (2008: RMB86,670,000,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

36 Capital, reserves and dividends (Continued)

(b) Dividends

(i) Dividends attributable to the year:

	2009 **RMB million**	2008 *RMB million*
Ordinary interim dividend declared and paid of HK$1.346 (equivalent to approximately RMB1.187) (2008: HK$1.339 (equivalent to approximately RMB1.177)) per share	**23,791**	23,532
Ordinary final dividend proposed after the balance sheet date of HK$1.458 (equivalent to approximately RMB1.284) (2008: HK$1.404 (equivalent to approximately RMB1.238)) per share	**25,753**	24,832
	49,544	48,364

The proposed ordinary final dividend which is declared in Hong Kong dollar is translated into RMB at the rate HK$1 = RMB0.88048, being the rate announced by the State Administration of Foreign Exchange in the PRC on 31 December 2009. As the ordinary final dividend is declared after the balance sheet date, such dividend is not recognized as liability as at 31 December 2009.

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

	2009 **RMB million**	2008 *RMB million*
Ordinary final dividend in respect of the previous financial year, approved and paid during the year, of HK$1.404 (equivalent to approximately RMB1.238) (2008: HK$1.160 (equivalent to approximately RMB1.086)) per share	**24,823**	20,742
No special final dividend in respect of the previous financial year, approved and paid during the year (2008: HK$0.016 (equivalent to approximately RMB0.015)) per share	**–**	286
	24,823	21,028

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

36 Capital, reserves and dividends (Continued)

(c) Share capital

(i) Authorized and issued share capital

	2009 **HK$ million**	2008 *HK$ million*
Authorized:		
30,000,000,000 ordinary shares of HK$0.10 each	**3,000**	3,000

Issued and fully paid:

	2009			2008		
	Number of shares	***HK$ Million***	***Equivalent RMB million***	*Number of shares*	*HK$ million*	*Equivalent RMB million*
As at 1 January	**20,054,379,231**	**2,005**	**2,138**	20,031,905,590	2,003	2,136
Shares issued under share option scheme *(note 36(c)(ii))*	**6,474,420**	**1**	**1**	22,473,641	2	2
As at 31 December	**20,060,853,651**	**2,006**	**2,139**	20,054,379,231	2,005	2,138

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 2009, options were exercised to subscribe for 6,474,420 (2008: 22,473,641) ordinary shares in the Company at a consideration of HK$150,000,000 (equivalent to RMB132,000,000) (2008: HK$522,000,000 (equivalent to RMB465,000,000)) of which HK$1,000,000 (equivalent to RMB1,000,000) (2008: HK$2,000,000 (equivalent to RMB2,000,000)) was credited to share capital and the balance of HK$149,000,000 (equivalent to RMB131,000,000) (2008: HK$520,000,000 (equivalent to RMB463,000,000)) was credited to the share premium account. HK$7,000,000 (equivalent to RMB7,000,000) (2008: HK$30,000,000 (equivalent to RMB31,000,000)) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(u)(ii).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

36 Capital, reserves and dividends (Continued)

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

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

(iii) PRC statutory reserves

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

In accordance with Rules for the Implementation of the Law of the PRC on Foreign-Capital Enterprises, foreign investment enterprises in Mainland China are required to transfer at least 10% 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% 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% of their profit after taxation determined under PRC GAAP.

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

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

As at 31 December 2009, the balances of the general reserve, enterprise expansion fund and statutory surplus reserve were RMB62,332,000,000 (2008: RMB50,793,000,000), RMB67,563,000,000 (2008: RMB56,025,000,000), and RMB23,000,000 (2008: RMB23,000,000), respectively.

(iv) Exchange reserve

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

36 Capital, reserves and dividends (Continued)

(e) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

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

As at 31 December 2009, the Group's total debt-to-book capitalization ratio was 6.3% (2008: 7.5%).

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

37 Related party transactions

(a) Transactions with CMCC Group

The following is a summary of principal related party transactions entered into by the Group with CMCC and its subsidiaries, excluding the Group, (the "CMCC Group"), for the year ended 31 December 2008 and 31 December 2009. The majority of these transactions also constitute continuing connected transactions under the Listing Rules. Further details of these continuing connected transactions are disclosed under the paragraph "Connected Transactions" in the report of directors.

	Note	**2009** ***RMB million***	2008 *RMB million*
Property leasing and management services charges	*(i)*	**1,207**	1,182
Telecommunications services charges	*(ii)*	**3,913**	3,798
Interest paid/payable	*(iii)*	**774**	1,026
Interconnection revenue	*(iv)*	**379**	183
Interconnection charges	*(iv)*	**435**	216
Leased line charges	*(iv)*	**59**	11
Property leasing fee	*(v)*	**–**	191
Facilities support fees	*(v)*	**–**	160
Operation supports and management fee	*(v)*	**–**	269
Network capacity leasing charge paid/payable	*(v)*	**222**	–
Sales channel utilizing fee received/receivable	*(vi)*	**10**	–
Sales channel utilizing charge paid/payable	*(vi)*	**495**	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

37 Related party transactions (Continued)

(a) Transactions with CMCC Group (Continued)

Notes:

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

(ii) *Telecommunications services charges represent the amounts paid/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/payable to China Mobile Hong Kong (BVI) Limited, the Company's immediate holding company, in respect of the balances of deferred consideration payable for acquisition of subsidiaries.*

(iv) *The amounts represent settlement received/receivable from or paid/payable to China TieTong Telecommunications Corporation, a wholly-owned subsidiary of CMCC, in respect of interconnection settlement and lease line charges after acquisition date.*

(v) *The amounts in 2008 represent settlement fees received/receivable by the Group for providing operating service to CMCC Group in respect of TD-SCDMA trial network.*

From the beginning of 1 January 2009, the Group leased the TD-SCDMA network capacity from CMCC Group and paid leasing fees to CMCC Group.

(vi) *The amounts in 2009 represent the sales channel utilizing settlement received/receivable from or paid/payable to CMCC Group for utilizing the existing sales channels and resources, such as sales outlets, internet sales network, etc..*

(b) Key management personnel remuneration

Remuneration for key management personnel is disclosed in note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

38 Transactions with other state-controlled entities in the PRC

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

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

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

	2009 ***RMB million***	2008 *RMB million*
Interconnection revenue	**14,655**	13,679
Interconnection charges	**18,908**	19,981
Leased line charges	**2,164**	2,202

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

	As at **31 December** **2009** ***RMB million***	As at 31 December 2008 *RMB million*
Accounts receivable and other receivables	**580**	666
Accounts payable and other payables	**964**	1,237

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

	2009 ***RMB million***	2008 *RMB million*
Interest income	**5,896**	5,791

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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

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

	As at 31 December 2009 ***RMB million***	As at 31 December 2008 *RMB million*
Deposits with banks	**183,602**	130,129
Cash and cash equivalents	**72,085**	85,805

39 Financial risk management and fair values

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

(a) Credit risk and concentration risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

39 Financial risk management and fair values (Continued)

(b) Liquidity risk

Liquidity risk refers to that funds will not be available to meet liabilities as they fall due, and results from timing and amount mismatches of cash inflow and outflow. The Group manages liquidity risk by maintaining sufficient cash balances to meet its funding needs, including working capital, principal and interest payments on debts, dividend payments and capital expenditures.

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

The Group

	As at 31 December 2009					
	Carrying amount *RMB million*	**Total contractual undiscounted cash flow** *RMB million*	**Within 1 year or on demand** *RMB million*	**More than 1 year but less than 3 years** *RMB million*	**More than 3 years but less than 5 years** *RMB million*	**More than 5 years** *RMB million*
Accounts payable	95,985	95,985	95,985	–	–	–
Bills payable	642	642	642	–	–	–
Accrued expenses and other payables	69,335	69,335	69,335	–	–	–
Amount due to ultimate holding company	4	4	4	–	–	–
Amount due to immediate holding company	119	119	119	–	–	–
Interest-bearing borrowings						
— Deferred consideration payable	23,633	26,113	514	514	514	24,571
— Bonds	9,918	12,052	425	5,542	450	5,635
Obligations under finance leases	68	71	71	–	–	–
	199,704	204,321	167,095	6,056	964	30,206

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

39 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

The Group

	As at 31 December 2008 (restated)					
	Carrying amount *RMB million*	Total contractual undiscounted cash flow *RMB million*	Within 1 year or on demand *RMB million*	More than 1 year but less than 3 years *RMB million*	More than 3 years but less than 5 years *RMB million*	More than 5 years *RMB million*
Accounts payable	79,606	79,606	79,606	–	–	–
Bills payable	2,111	2,111	2,111	–	–	–
Accrued expenses and other payables	57,437	57,437	57,437	–	–	–
Amount due to ultimate holding company	6	6	6	–	–	–
Amount due to immediate holding company	118	118	118	–	–	–
Interest-bearing borrowings						
— Deferred consideration payable	23,633	27,915	774	960	766	25,415
— Bonds	9,920	12,520	468	5,742	450	5,860
Obligations under finance leases	68	71	71	–	–	–
	172,899	179,784	140,591	6,702	1,216	31,275

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

39 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

The Company

	As at 31 December 2009					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Accrued expenses and other payables	**1,269**	**1,269**	**1,269**	**–**	**–**	**–**
Amount due to a subsidiary	**9,918**	**12,052**	**425**	**5,542**	**450**	**5,635**
Amount due to immediate holding company	**119**	**119**	**119**	**–**	**–**	**–**
Interest-bearing borrowings	**23,633**	**26,113**	**514**	**514**	**514**	**24,571**
	34,939	**39,553**	**2,327**	**6,056**	**964**	**30,206**

	As at 31 December 2008					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Accrued expenses and other payables	28	28	28	–	–	–
Amount due to a subsidiary	9,920	12,520	468	5,742	450	5,860
Amount due to immediate holding company	118	118	118	–	–	–
Interest-bearing borrowings	23,633	27,915	774	960	766	25,415
	33,699	40,581	1,388	6,702	1,216	31,275

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

39 Financial risk management and fair values (Continued)

(c) Interest rate risk

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

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

	The Group				The Company			
	2009		2008		**2009**		2008	
	Effective interest rate	***RMB million***	Effective interest rate	*RMB million*	**Effective interest rate**	***RMB million***	Effective interest rate	*RMB million*
2001 Bonds	**4.87%**	**5,000**	5.39%	5,000	**–**	**–**	–	–
Deferred consideration for acquisition of subsidiaries in 2002	**3.33%**	**9,976**	4.37%	9,976	**3.33%**	**9,976**	4.37%	9,976
Deferred consideration for acquisition of subsidiaries in 2004	**3.24%**	**13,657**	4.32%	13,657	**3.24%**	**13,657**	4.32%	13,657

As at 31 December 2009, if the base interest rate for the Peoples Bank of China increases/decreases by 100 basis points, the effective interest rate for bonds would increase/decrease by 100 basis points, and the profit for the year and total equity of the Group would decrease/increase by RMB37,500,000 (2008: RMB37,500,000).

As at 31 December 2009, if the two-year US dollar LIBOR swap rate interest rate per annum increased/decreased by 100 basis points, the effective interest rate for deferred consideration would increase/decrease by 100 basis points, and the profit for the year and total equity of the Group and of the Company would decrease/increase by RMB236,000,000 (2008: RMB236,000,000).

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

As at 31 December 2009, total cash and bank balances of the Group amounted to RMB264,507,000,000 (2008: RMB218,259,000,000). The interest income for 2009 was RMB5,940,000,000 (2008: RMB6,002,000,000) and the average interest rate was 2.46% (2008: 2.95%). Assuming the total cash and bank balances are stable in the coming year and interest rate increases/decreases by 100 basis points, the profit for the year and total equity would approximately increase/decrease by RMB2,003,000,000 (2008: RMB1,641,000,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

39 Financial risk management and fair values (Continued)

(c) Interest rate risk (Continued)

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

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

(d) Foreign currency risk

The Group has foreign currency risk as certain cash and deposits with banks are denominated in foreign currencies, principally US dollars and Hong Kong dollars. As the amount of the Group's foreign currency represented 3.1% (2008: 0.9%) of the total cash and deposits with banks and major business operations of the Group were carried out in RMB, the Group does not expect the appreciation or depreciation of the RMB against foreign currency will materially affect the Group's financial position and result of operations.

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

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008 except as follows:

	As at 31 December 2009		As at 31 December 2008	
	Carrying Amount	**Fair value**	Carrying Amount	Fair value
	RMB million	***RMB million***	*RMB million*	*RMB million*
The Group				
Interest-bearing borrowings				
— bonds	**9,918**	**10,077**	9,920	10,145

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

40 Commitments

(a) Capital commitments

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB million	*RMB million*	***RMB million***	*RMB million*
Commitments in respect of land and buildings				
— authorized and contracted for	**5,160**	2,863	**2**	–
— authorized but not contracted for	**20,494**	12,488	**–**	–
	25,654	15,351	**2**	–
Commitments in respect of telecommunications equipment				
— authorized and contracted for	**15,663**	14,074	**16**	–
— authorized but not contracted for	**61,919**	72,650	**–**	–
	77,582	86,724	**16**	–
Total commitments				
— authorized and contracted for	**20,823**	16,937	**18**	–
— authorized but not contracted for	**82,413**	85,138	**–**	–
	103,236	102,075	**18**	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

40 Commitments (Continued)

(b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases as at 31 December are payable as follows:

	The Group				The Company
	Land and buildings	Leased lines	Others	Total	Land and buildings, and others
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
As at 31 December 2009:					
Within one year	**4,459**	**1,069**	**554**	**6,082**	**11**
After one year but within five years	**8,809**	**1,429**	**541**	**10,779**	**10**
After five years	**3,161**	**308**	**141**	**3,610**	**–**
	16,429	**2,806**	**1,236**	**20,471**	**21**
As at 31 December 2008:					
Within one year	3,797	905	517	5,219	5
After one year but within five years	7,998	1,499	455	9,952	–
After five years	2,977	436	127	3,540	–
	14,772	2,840	1,099	18,711	5

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

41 Non-adjusting post balance sheet events

After the balance sheet date the directors proposed an ordinary final dividend. Further details are disclosed in note 36(b)(i).

A wholly-owned subsidiary of the Company, Guangdong Mobile, entered into a share subscription agreement ("the Agreement") with Shanghai Pudong Development Bank Co., Ltd. ("SPD Bank") on 10 March 2010. Pursuant to the Agreement, Guangdong Mobile has conditionally agreed to subscribe for and SPD Bank has conditionally agreed to issue 2,207,511,410 A-shares at a total cash consideration of RMB39,801,430,722.30. SPD Bank's shares are traded in the Shanghai Stock Exchange. Upon completion with the terms in the Agreement, the Company will, through Guangdong Mobile, hold 20% equity interests in SPD Bank. The transaction is pending for the approval from regulators and the shareholders of the Company.

42 Comparative figures

As a result of the application of IAS/HKAS 1 (revised 2007), Presentation of financial statements and IFRIC/HK(IFRIC) Interpretation 13, Customer loyalty programmes, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

43 Ultimate holding company

The directors consider the ultimate holding company as at 31 December 2009 to be China Mobile Communications Corporation, a company incorporated in the PRC.

44 Accounting estimates and judgements

Key sources of estimation uncertainty

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

Impairment loss for doubtful accounts

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

Depreciation

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

44 Accounting estimates and judgements (Continued)

Key sources of estimation uncertainty (Continued)

Amortization of other intangible assets

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

Impairment of property, plant and equipment

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

45 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2009

Up to the date of issue of these financial statements, the IASB/HKICPA have issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
IAS/HKAS 27 (amended), *Consolidated and separate financial statements*	1 July 2009
IFRS/HKFRS 3 (revised), *Business combinations*	1 July 2009
Improvements to IFRSs/HKFRSs (2009)	1 July 2009/1 January 2010
IAS24/HKAS 24, *Related Party Disclosures (revised 2009)*	1 January 2011

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 while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

Financial Summary

(Expressed in Renminbi)

Results

	2009 RMB million	2008 RMB million	2007 RMB million	2006 RMB million	2005 RMB million
Operating revenue					
Usage fees *(Note 2)*	**285,971**	260,542	226,820	188,524	155,405
Monthly fees *(Note 2)*	**14,661**	18,066	20,907	21,515	24,863
Value-added services fees *(Note 2)*	**131,434**	113,288	91,744	68,813	49,692
Other operating revenue	**20,037**	19,914	18,006	14,710	11,089
	452,103	411,810	357,477	293,562	241,049
Operating expenses					
Leased lines	**3,006**	2,641	2,330	2,451	3,224
Interconnection	**21,847**	22,264	21,500	18,783	15,309
Depreciation	**80,179**	71,509	67,354	64,574	56,368
Personnel	**21,480**	19,960	18,277	16,853	14,200
Other operating expenses *(Note 2)*	**178,583**	153,041	124,303	99,894	78,887
	305,095	269,415	233,764	202,555	167,988
Profit from operations *(Note 2)*	**147,008**	142,395	123,713	91,007	73,061
Other net income	**1,780**	2,159	2,323	2,872	3,284
Non-operating net income	**359**	517	657	285	499
Interest income	**5,940**	6,002	4,015	2,604	1,615
Finance costs	**(1,243)**	(1,550)	(1,825)	(1,510)	(1,346)
Share of loss of jointly controlled entity	**(8)**	–	–	–	–
Profit before taxation	**153,836**	149,523	128,883	95,258	77,113
Taxation	**(38,413)**	(36,735)	(42,143)	(29,760)	(23,962)
PROFIT FOR THE YEAR	**115,423**	112,788	86,740	65,498	53,151
Other comprehensive income for the year					
Exchange differences on translation of financial statements of overseas entities	**42**	(393)	(645)	(43)	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**115,465**	112,395	86,095	65,455	53,151
Profit attributable to:					
Equity shareholders of the Company	**115,166**	112,627	86,623	65,410	53,111
Minority interests	**257**	161	117	88	40
PROFIT FOR THE YEAR	**115,423**	112,788	86,740	65,498	53,151
Total comprehensive income attributable to:					
Equity shareholders of the Company	**115,208**	112,234	85,978	65,367	53,111
Minority interests	**257**	161	117	88	40
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**115,465**	112,395	86,095	65,455	53,151

FINANCIAL SUMMARY (CONTINUED)

(Expressed in Renminbi)

Assets and liabilities

	As at 31 December 2009 *RMB million*	As at 31 December 2008 *RMB million*	As at 31 December 2007 *RMB million*	As at 31 December 2006 *RMB million*	As at 31 December 2005 *RMB million*
Property, plant and equipment	**360,075**	327,783	257,170	218,274	216,505
Construction in progress	**46,094**	35,482	47,420	52,436	34,201
Land lease prepayments	**11,201**	10,102	8,383	7,675	7,243
Goodwill	**36,894**	36,894	36,894	36,894	35,300
Other intangible assets	**727**	298	469	700	–
Interest in associates	**–**	–	–	–	–
Interest in jointly controlled entity	**6**	7	–	–	–
Deferred tax assets *(Note 2)*	**8,939**	7,614	6,121	7,873	7,083
Other financial assets	**77**	77	77	77	77
Net current assets *(Note 2)*	**77,550**	56,611	49,916	28,489	9,629
Total assets less current liabilities *(Note 2)*	**541,563**	474,868	406,450	352,418	310,038
Interest-bearing borrowings	**(33,551)**	(33,553)	(33,582)	(33,574)	(36,545)
Deferred revenue, excluding current portion	**(317)**	(584)	(597)	(930)	(1,324)
Deferred tax liabilities	**(61)**	(80)	(122)	(192)	(97)
Net assets	**507,634**	440,651	372,149	317,722	272,072

Notes:

(1) *The above tables summarize the results of the Group for the years ended 31 December 2005, 2006, 2007, 2008 and 2009, together with the Group's assets and liabilities as at 31 December 2005, 2006, 2007, 2008 and 2009.*

The Group's results for the years ended 31 December 2005, 2006, 2007, 2008 and 2009 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) *Figures for 2005, 2006, 2007 and 2008 have been adjusted as the Group adopted retrospectively the new accounting policy of IFRIC/HK(IFRIC) Interpretation 13, Customer loyalty programmes.*

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.

Fetion

Instant messaging business provided by the Group which enables customers to communicate instantly through various means such as SMS, integrating functions of chatting, socializing and interactive entertainment.

Handset Internet Access

A service provided by China Mobile to its customers enabling wireless access to the Internet (including WAP and WWW websites) using mobile handsets.

Internet of Things

Equipping SIM cards, sensors, two-dimensional codes etc to different objects and connecting them to a wireless network can capacitate intelligence to inanimate objects and enables forms of conversation and communication between people and things, and between things themselves. This network of interconnected objects is called the "the Internet of Things". "Internet of Things" possesses three distinguishing features, namely: scalability, mobility and security.

LTE

Long Term Evolution, a mainstream standard for the evolution of 3G technology. It is wireless broadband data business oriented, and has the characteristics of high speed, less time delay and high quality. LTE has two models, namely FDD and TDD, of which TDD (also known as TD-LTE) is a standard for the evolution of TD-SCDMA technology. The two models of LTE can be developed in a coordinated manner to utilize symmetrical and asymmetrical bandwidths flexibly and efficiently. LTE can be integrated and co-exist with the existing 2G and 3G networks.

Mobile Internet

Mobile Internet is an emerging market created by the cross convergence of Internet and mobile communications after their respective development. Mobile users could gain wireless access to the Internet anytime and anywhere by using wireless terminals such as mobile handsets and mobile Internet terminals to meet their needs.

Mobile Market

Mobile Market is an integrated market assembling different kind of developers and their outstanding applications, enabling customers using different terminals to satisfy their demand for real time experience, downloads and subscription.

Mobile Paper

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

Mobile Wallet

An integrated mobile payment service targeting mobile customers with China Mobile accounts using mobile terminals as payment tools. In accordance with different business natures, Mobile Wallet business could be classified as remote payment (Mobile Wallet account) and on-site payment (Mobile Wallet), which provides customers with functions such as recharging, payment and enquiries through RFID, WWW, SMS/MMS and STK, etc.

OPhone

OPhone platform is a software platform for intelligent terminals for mobile Internet developed at the lead of China Mobile which owns its intellectual property right. OPhone is a mobile handset researched and developed based on this platform.

TD-SCDMA

Time Division-Synchronous Code Division Multiple Access, China's home-grown 3G mobile technology standard, is one of the international mainstream 3G standards. The Group's 3G network adopts TD-SCDMA standard.

Wireless Music

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

139 Community

139 Community is an integrated community service on the Internet provided to China Mobile customers. By using the mobile number, community users enjoy access to a variety of services such as iTalk, social circles, games, G3 voice calling and music through their personal computers or mobile handsets to login to 139 Community anytime, satisfying customers' needs for cross-platform sharing, communication, interaction and entertainment, etc.

139 Mailbox

A mailbox service introduced by the Group which possesses usual Internet based mailbox functions and at the same time fully utilizes the advantages of handsets by enabling customers to send and receive as well as manage their emails through SMS, MMS and WAP.

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