

REPORT OF DIRECTORS

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

PRINCIPAL ACTIVITIES

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

SUBSIDIARIES AND ASSOCIATES

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

FINANCIAL STATEMENTS

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

DIVIDENDS

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

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

DONATIONS

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTION SCHEME

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

BONDS

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

RESERVES

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

DIRECTORS

The directors during the financial year were:

Executive directors:

WANG Jianzhou (*Chairman*)

LI Yue

LU Xiangdong

XUE Taohai

ZHANG Chenshuang

SHA Yuejia (appointed on 16 March 2006)

LIU Aili (appointed on 16 March 2006)

XIN Fanfei (appointed on 3 January 2006)

XU Long

LI Mofang (resigned on 16 March 2006)

HE Ning (resigned on 3 January 2006)

LI Gang (resigned on 3 January 2006)

Independent non-executive directors:

LO Ka Shui

Frank WONG Kwong Shing

Moses CHENG Mo Chi

Non-executive directors:

Paul Michael DONOVAN (appointed on 7 June 2006)

Julian Michael HORN-SMITH (resigned on 7 June 2006)

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

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

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

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

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

SHARE OPTION SCHEMES

Share option schemes of the Company

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

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

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

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

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

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

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

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

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

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

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

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

REPORT OF DIRECTORS (CONT'D)

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

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

REPORT OF DIRECTORS (CONT'D)

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

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

Notes:

- (a) The total number of shares involved in the options outstanding at the end of the year represents 2.64 per cent. of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report.
- (b) No options to subscribe for shares in the Company were granted to the directors of the Company in 2006.
- (c) Particulars of share options:

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

Details of share options exercised during the year:

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

SHARE OPTION SCHEME OF ASPIRE HOLDINGS LIMITED (“ASPIRE”)

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

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

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

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

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

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

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

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

REPORT OF DIRECTORS (CONT'D)

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

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

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

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

Notes:

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

- (1) The total number of shares involved in the options outstanding at the end of the year represents 1.7 per cent. of the issued share capital of Aspire as at the date of this report.
- (2) (a) 50 per cent. of the options are exercisable between the period:
 - commencing on the later of: (i) two years after the date of appointment as director or the date of grant of the option (as the case may be) or (ii) the listing of the shares of Aspire; and
 - ending on the date falling 10 years from the option grant date; and
- (b) the remaining 50 per cent. of such options shall be exercisable between the period commencing three years after the initial 50 per cent. of the option becomes exercisable and ending on the date falling 10 years from the option grant date.
- (3) (a) 50 per cent. of the options granted to a particular employee are exercisable between the period:
 - commencing on the later of: (i) two years after the commencement of employment of that employee or the option offer date (as the case may be) or (ii) the listing of the shares of Aspire; and
 - ending on the date falling 10 years from the option grant date; and
- (b) the remaining 50 per cent. of such options shall be exercisable between the period commencing three years after the initial 50 per cent. of the option becomes exercisable and ending on the date falling 10 years from the option grant date.

REPORT OF DIRECTORS (CONT'D)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONNECTED TRANSACTIONS

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

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

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

- (1) platform development charges paid by CMCC to Aspire or its subsidiaries have not exceeded 3 per cent. of the Group's consolidated net tangible assets as at 31 December 2006. The platform development charges payable were determined according to standards laid down by the relevant government departments and/or by reference to market rates;
- (2) rental and property management service charges paid by the Group to CMCC have not exceeded RMB900 million. The charges payable by the Group in respect of properties owned by CMCC and its subsidiaries are determined with reference to market rates whilst the charges payable in respect of properties which CMCC or its subsidiaries lease from third parties and sub-let to the Group are determined according to the actual rent payable by CMCC or its subsidiaries to such third parties together with the amount of any tax payable; and
- (3) telecommunications service charges, price of transmission towers and spare parts purchased and the charges for related installation and maintenance services paid by the Group to CMCC have not exceeded RMB2,500 million. The telecommunications service charges, price of transmission towers and spare parts purchased and the charges for related installation and maintenance services are determined with reference to and cannot exceed relevant standards laid down and revised from time to time by the government of the PRC. Where there are no government standards, the prices and charges are determined according to market rates.

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

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

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

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

- (A) have received the approval of the Company's board of directors;
- (B) were in accordance with the pricing policy as stated on page 52 of this report;
- (C) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and
- (D) have not exceeded their respective upper limits set out above for the financial year ended 31 December 2006.

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

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

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

BANK AND OTHER LOANS

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

FINANCIAL SUMMARY

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

EMOLUMENT POLICY

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

EMPLOYEE RETIREMENT BENEFITS

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

PUBLIC FLOAT

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

AUDITORS

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

By order of the board

Wang Jianzhou

Chairman

Hong Kong, 21 March 2007