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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The Group has assessed and determined in the preparation of these annual financial statements that the new and revised HKFRSs have no significant impact on the Group's current and prior accounting period's financial position and results of operations.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the ''Group'') and the Group's interest in associates.

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

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

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

Judgements and estimates made by management in the application of HKFRSs that have significant effect on the financial statements are discussed in note 41.

(c) Subsidiaries and minority interests

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

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

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

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Subsidiaries and minority interests (Cont'd)

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

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

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year.

When the Group's share of losses exceeds its interest in the associates, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates. For this purpose, the Group's interest in the associate 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.

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

(e) Goodwill

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

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

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) Intangible assets (other than goodwill)

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 life and assessed for impairment whenever there is an indication that the intangible asset 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.

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Intangible assets (other than goodwill) (Cont'd)

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 name*

The Group's brand name are stated at cost less any impairment losses (see note 1(j)) on an individual basis.

(ii) *Customer base, license and contract-based agreement*

The Group's customer base, license and contract-based agreement are stated at cost less any impairment losses (see note 1(j)) and are amortized using straight-line basis over the estimated useful lives from 2 to 15 years.

(g) Other investments in equity securities

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

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

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

(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 the income statement on the date of retirement or disposal.

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

Buildings	8 – 35 years
Telecommunications transceivers, switching centres, 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.

During the year, the Group reviewed the estimated useful lives of all property, plant and equipment and changed the estimated useful lives of certain network equipment from 7 years to 5 years. The effect of such change in accounting estimate is set out in note 14.

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the 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 the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to the income statement in the accounting period in which they are incurred. There are no contingent rentals recognized by the Group during the years presented.

(iii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal 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 the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred. There are no contingent rentals recognized by the Group during the years presented.

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

(j) Impairment of assets

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

Investments in equity securities and other current receivables that are stated at cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

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

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

- For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Impairment of assets (Cont'd)

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

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 the income statement. 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.

(ii) *Impairment of other assets*

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

— property, plant and equipment;

— construction in progress;

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

— investments in subsidiaries and associates;

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

(ii) *Recognition of impairment losses*

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

(iii) *Reversals of impairment losses*

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

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Impairment of assets (Cont'd)

(iii) *Interim financial reporting and impairment*

Under the Hong Kong Listing Rules, the Group is required to prepare an interim financial report in compliance with 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)).

(n) Deferred revenue

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

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

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

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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 the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Accounts payable and other payables

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

(q) Cash and cash equivalents

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

(r) Revenue recognition

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

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

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

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

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

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

(s) Income tax

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Income tax (Cont'd)

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

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

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the 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.

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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 the income statement as incurred.

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 the income statement when incurred. The subsidiaries have no obligations for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(ii) *Share-based payments*

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

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

(iii) *Termination benefits*

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) Borrowing costs

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

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

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

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 foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items of foreign operations, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized directly in a separately component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognized under equity, which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(x) Related parties

For the purposes of these financial statements, a party is considered to be related to be 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;

(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;

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(x) Related parties (Cont'd)

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

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

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

(y) Segment reporting

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

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 1 summarizes the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The adoption of these new and revised HKFRSs did not result in any significant impact for current and prior accounting periods.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 42) except for HK(IFRIC) 10, Interim financial reporting and impairment, which is effective for accounting periods beginning on or after 1 November 2006.

3 TURNOVER

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

Turnover represents usage fees, monthly fees, value-added services fees and other operating revenue derived from the Group's mobile telecommunications networks, net of PRC business tax. Business tax is charged at approximately 3 per cent of the corresponding revenue. 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 business.

Other operating revenue mainly represents interconnection revenue.

4 OTHER OPERATING EXPENSES

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

5 OTHER NET INCOME

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

	2006 RMB million	2005 RMB million
Sales of SIM cards and handsets	**8,278**	6,524
Cost of SIM cards and handsets	**(5,406)**	(3,240)
	2,872	3,284

6 NON-OPERATING NET INCOME

	2006 RMB million	2005 RMB million
Exchange loss	**(212)**	(130)
Penalty income	**182**	177
Amortization of deferred tax credit on purchase of domestic telecommunications equipment	**732**	526
Others	**315**	452
	1,017	1,025

7 PROFIT BEFORE TAXATION

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

		2006 RMB million	2005 RMB million
(a)	Finance costs:		
	Interest on bank loans and other borrowings repayable within five years	**2**	38
	Interest on bank loans and other borrowings repayable after five years	**946**	647
	Interest on bonds	**562**	528
	Interest on convertible notes	**—**	135
	Total borrowing costs	**1,510**	1,348
	Less: Borrowing costs capitalized as construction in progress (Note)	**—**	(2)
		1,510	1,346

Note: In 2005, borrowing costs have been capitalized at a rate of 3.45 per cent. to 5.75 per cent. per annum for construction in progress. No borrowing costs were capitalized in 2006.

(Expressed in Renminbi unless otherwise indicated)

7 PROFIT BEFORE TAXATION (CONT'D)

		2006 RMB million	2005 RMB million
(b)	Personnel:		
	Salaries, wages and other benefits	**13,440**	11,761
	Retirement costs: contributions to defined contribution retirement plans	**1,149**	886
	Equity-settled share-based payment expenses	**2,264**	1,553
		16,853	14,200

		2006 RMB million	2005 RMB million
(c)	Other items:		
	Amortization of other intangible assets	**203**	—
	Depreciation	**64,574**	56,368
	Impairment loss		
	— accounts and other receivables	**3,852**	2,968
	— inventories	**7**	4
	Loss on disposal of property, plant and equipment	**46**	411
	Write-off of property, plant and equipment	**2,857**	5,645
	Auditors' remuneration		
	— audit services (Note 1)	**80**	61
	— tax services (Note 2)	**—**	—
	— other services (Note 3)	**35**	1
	Operating lease charges: minimum lease payments		
	— land and buildings	**3,259**	2,727
	— leased lines	**2,451**	3,224
	— others (Note 4)	**2,013**	1,430
	Dividend income	**(39)**	(51)

Note 1: Audit services in 2006 include reporting on the Company's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of the United States of America (''SOX 404'') of RMB20,000,000 (2005: Nil).

Note 2: Tax services in 2006 represent tax compliance services for the Group of RMB52,000 (2005: RMB24,000) and preparation and submission of response letter to Inland Revenue Department of RMB98,000 (2005: Nil).

Note 3: Other services in 2006 include the SOX 404 advisory services.

Note 4: Others represent the operating lease charges for motor vehicles, computer and other office equipment.

8 DIRECTORS' REMUNERATION

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

(Expressed in Hong Kong dollars)

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Retirement scheme contributions HK$'000	Subtotal HK$'000	Fair value of share options HK$'000	2006 Total HK$'000
Executive directors							
WANG Jianzhou	180	1,172	660	255	2,267	7,161	9,428
LI Yue	180	960	540	217	1,897	5,241	7,138
LU Xiangdong	180	960	540	217	1,897	5,241	7,138
XUE Taohai	180	960	540	219	1,899	5,241	7,140
ZHANG Chenshuang	180	960	540	227	1,907	5,241	7,148
SHA Yuejia (appointed on 16 March 2006)	143	765	540	209	1,657	3,903	5,560
LIU Aili (appointed on 16 March 2006)	143	765	540	208	1,656	934	2,590
XIN Fanfei (appointed on 3 January 2006)	179	955	540	179	1,853	—	1,853
XU Long	180	920	400	132	1,632	2,050	3,682
LI Mofang (resigned on 16 March 2006)	37	195	—	91	323	1,171	1,494
HE Ning (resigned on 3 January 2006)	1	6	—	—	7	32	39
LI Gang (resigned on 3 January 2006)	1	—	—	—	1	12	13
Independent non-executive directors							
LO Ka Shui	505	—	—	—	505	2,428	2,933
WONG Kwong Shing, Frank	440	—	—	—	440	2,428	2,868
CHENG Mo Chi, Moses	440	—	—	—	440	2,428	2,868
Non-executive directors							
Paul Michael DONOVAN (appointed on 7 June 2006)	102	—	—	—	102	—	102
Julian Michael HORN-SMITH (resigned on 7 June 2006)	78	—	—	—	78	1,149	1,227
	3,149	8,618	4,840	1,954	18,561	44,660	63,221

(Expressed in Renminbi unless otherwise indicated)

8 DIRECTORS' REMUNERATION (CONT'D)

(Expressed in Hong Kong dollars)

	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	2005 Total HK$'000
Executive directors							
WANG Jianzhou	180	1,172	660	258	2,270	4,264	6,534
LI Yue	180	960	540	210	1,890	2,080	3,970
LU Xiangdong	180	960	540	210	1,890	2,080	3,970
XUE Taohai	180	960	540	212	1,892	2,080	3,972
ZHANG Chenshuang	180	960	540	220	1,900	2,080	3,980
LI Mofang	180	960	540	226	1,906	2,080	3,986
HE Ning	180	960	540	161	1,841	2,080	3,921
LI Gang	180	854	520	190	1,744	1,371	3,115
XU Long	180	920	640	299	2,039	1,331	3,370
Independent non-executive directors							
LO Ka Shui	505	—	—	—	505	395	900
Frank WONG Kwong Shing	440	—	—	—	440	395	835
Moses CHENG Mo Chi	440	—	—	—	440	395	835
Non-executive directors							
J. Brian CLARK (resigned on 11 March 2005)	34	—	—	—	34	—	34
Julian Michael HORN-SMITH (appointed on 11 March 2005)	146	—	—	—	146	395	541
	3,185	8,706	5,060	1,986	18,937	21,026	39,963

The above emoluments include the fair value of share options granted to certain directors under the Company's share option scheme as estimated at the grant date. The details of the share option scheme are disclosed under the paragraph "Share Option Schemes" in the directors' report and note 33. As set out in note 1(u)(ii), the fair value of share options granted to the employees including directors is measured based on a binomial lattice model and recognized as an expense in the income statement. However, such expense does not represent the actual benefit paid/payable to the employees including directors.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the years ended 31 December 2006 and 2005, all of the five individuals with the highest emoluments are directors whose emoluments are disclosed in note 8.

(Expressed in Renminbi unless otherwise indicated)

10 TAXATION

(a) Taxation in the consolidated income statement represents:

	2006 RMB million	2005 RMB million
Current tax		
Provision for Hong Kong profits tax on the estimated assessable profits for the year	3	—
Under-provision in respect of Hong Kong profits tax for prior year	9	—
Provision for PRC enterprise income tax on the estimated taxable profits for the year	31,802	27,487
Over-provision in respect of PRC enterprise income tax for prior years	(550)	(247)
	31,264	27,240
Deferred tax		
Origination and reversal of temporary differences (note 22)	(470)	(2,565)
	30,794	24,675

(i) The provision for Hong Kong profits tax for 2006 is calculated at 17.5 per cent. (2005: 17.5 per cent.) of the estimated assessable profits for the year. For the year ended 31 December 2005, no provision has been made for Hong Kong profits tax as there were no estimated Hong Kong assessable profits during the year.

(ii) The provision for the PRC enterprise income tax is based on a statutory rate of 33 per cent. of the assessable profit of the Group as determined in accordance with the relevant income tax rules and regulations of the People's Republic of China (the "PRC") during the year, except for certain subsidiaries of the Company and certain operations of the subsidiaries located within special economic zones in the PRC, which enjoy a preferential rate of 30 per cent. or 15 per cent. respectively.

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

	2006 RMB million	2005 RMB million
Profit before taxation	96,908	78,264
Notional tax on profit before tax, calculated at statutory tax rates	31,980	25,827
Tax effect of non-taxable item		
— Interest income	(34)	(24)
Tax effect of non-deductible expenses on PRC operations	1,068	711
Tax effect of non-deductible expenses on Hong Kong operations	236	180
Rate differential on PRC operations	(1,986)	(1,801)
Rate differential on Hong Kong operations	175	123
Reversal of deferred taxation due to change of tax rate on certain PRC operating subsidiaries	(56)	(1)
Over-provision for PRC operations in prior years	(550)	(247)
Under-provision for Hong Kong operations in prior year	9	—
Others	(48)	(93)
Taxation	30,794	24,675

(Expressed in Renminbi unless otherwise indicated)

10 TAXATION (CONT'D)

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

	The Group	
	2006 RMB million	2005 RMB million
Provision for PRC enterprise income tax for the year	**31,802**	27,487
Provision for Hong Kong profits tax for the year	**3**	—
Balance of PRC enterprise income tax (recoverable)/payable relating to prior year	**(237)**	99
PRC enterprise income tax paid	**(22,201)**	(18,502)
Hong Kong profits tax paid	**(12)**	—
Balance at 31 December	**9,355**	9,084
Add: Tax recoverable	**468**	165
Tax payable	**9,823**	9,249

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB1,153,000,000 (2005: loss of RMB797,000,000) 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:

	2006 RMB million	2005 RMB million
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	**(1,153)**	(797)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**28,680**	28,625
Company's profit for the year (note 34(b))	**27,527**	27,828

12 DIVIDENDS

(a) Dividends attributable to the year:

	2006 RMB million	2005 RMB million
Ordinary interim dividend declared and paid of HK$0.62 (equivalent to approximately RMB0.64) (2005: HK$0.45 (equivalent to approximately RMB0.47)) per share	**12,612**	9,259
Special interim dividend declared and paid of HK$0.09 (equivalent to approximately RMB0.09) (2005: Nil) per share	**1,831**	—
Ordinary final dividend proposed after the balance sheet date of HK$0.763 (equivalent to approximately RMB0.767) (2005: HK$0.57 (equivalent to approximately RMB0.59)) per share	**15,327**	11,767
Special final dividend proposed after the balance sheet date of HK$0.069 (equivalent to approximately RMB0.069) (2005: Nil) per share	**1,386**	–
	31,156	21,026

(Expressed in Renminbi unless otherwise indicated)

12 DIVIDENDS (CONT'D)

(a) Dividends attributable to the year: (Cont'd)

The proposed ordinary and special final dividends which are declared in Hong Kong dollars are translated into RMB at the rate HK$1 = RMB1.00467, being the rate announced by the State Administration of Foreign Exchange in the PRC on 31 December 2006. As the ordinary and special final dividends are declared after the balance sheet date, such dividends are not recognized as liabilities as at 31 December 2006.

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

	2006 RMB million	2005 RMB million
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.57 (equivalent to approximately RMB0.59) (2005: HK$0.46 (equivalent to approximately RMB0.49)) per share	11,719	9,635

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 RMB66,026,000,000 (2005: RMB53,549,000,000) and the weighted average number of 19,892,968,234 shares (2005: 19,738,229,495 shares) in issue during the year, calculated as follows:

(i) *Weighted average number of shares*

	2006 Number of shares	2005 Number of shares
Issued shares at 1 January	19,835,160,399	19,700,639,399
Effect of share options exercised (note 33)	57,807,835	37,590,096
Weighted average number of shares at 31 December	19,892,968,234	19,738,229,495

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the adjusted profit attributable to equity shareholders of the Company of RMB66,026,000,000 (2005: RMB53,684,000,000, after adding back the interest expense on the convertible notes) and the weighted average number of shares 20,078,548,959 (2005: 19,892,163,022 shares), calculated as follows:

(i) *Adjusted profit attributable to equity shareholders of the Company (diluted)*

	2006 RMB million	2005 RMB million
Profit attributable to equity shareholders	66,026	53,549
After tax effect of effective interest on liability component of convertible notes	–	135
Adjusted profit attributable to equity shareholders (diluted)	66,026	53,684

13 EARNINGS PER SHARE (CONT'D)

(b) Diluted earnings per share (Cont'd)

(ii) *Weighted average number of shares (diluted)*

	2006 Number of shares	2005 Number of shares
Weighted average number of shares at 31 December	**19,892,968,234**	19,738,229,495
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 33)	**185,580,725**	77,510,206
Effect of conversion of convertible notes	**—**	76,423,321
Weighted average number of shares (diluted) at 31 December	**20,078,548,959**	19,892,163,022

14 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings RMB million	Teleommunications transceivers, switching centres, transmission and other network equipment RMB million	Office equipment, furniture and fixtures and others RMB million	Total RMB million
Cost:				
At 1 January 2005	32,783	291,031	14,059	337,873
Additions	328	1,657	906	2,891
Transferred from construction in progress	4,477	58,691	543	63,711
Disposals	(57)	(2,160)	(223)	(2,440)
Assets written-off	(45)	(37,360)	(505)	(37,910)
At 31 December 2005	37,486	311,859	14,780	364,125
At 1 January 2006	**37,486**	**311,859**	**14,780**	**364,125**
Acquired on acquisition of a subsidiary	**14**	**2,272**	**77**	**2,363**
Additions	**407**	**1,508**	**1,024**	**2,939**
Transferred from construction in progress	**6,147**	**58,530**	**597**	**65,274**
Disposals	**(33)**	**(1,884)**	**(158)**	**(2,075)**
Assets written-off	**(524)**	**(19,683)**	**(1,143)**	**(21,350)**
Exchange differences	**(1)**	**(79)**	**(2)**	**(82)**
At 31 December 2006	**43,496**	**352,523**	**15,175**	**411,194**

(Expressed in Renminbi unless otherwise indicated)

14 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(a) The Group (Cont'd)

	Buildings RMB million	Teleommunications transceivers, switching centres, transmission and other network equipment RMB million	Office equipment, furniture and fixtures and others RMB million	Total RMB million
Accumulated Depreciation:				
At 1 January 2005	3,591	115,775	6,048	125,414
Charge for the year	1,920	51,915	2,533	56,368
Written back on disposals	(21)	(1,703)	(173)	(1,897)
Assets written-off	(31)	(31,880)	(354)	(32,265)
At 31 December 2005	5,459	134,107	8,054	147,620
At 1 January 2006	**5,459**	**134,107**	**8,054**	**147,620**
Additions from acquisition of a subsidiary	**3**	**1,147**	**67**	**1,217**
Charge for the year	**2,298**	**61,780**	**496**	**64,574**
Written back on disposals	**(6)**	**(1,801)**	**(142)**	**(1,949)**
Assets written-off	**(457)**	**(17,120)**	**(916)**	**(18,493)**
Exchange differences	**—**	**(47)**	**(2)**	**(49)**
At 31 December 2006	**7,297**	**178,066**	**7,557**	**192,920**
Net book value:				
At 31 December 2006	**36,199**	**174,457**	**7,618**	**218,274**
At 31 December 2005	32,027	177,752	6,726	216,505

The estimated useful lives of certain existing network equipment are affected by the continuing evolution of telecommunications technology and the appearance of a large number of new technologies and services. During the first half of 2006, the Group reviewed the current condition of existing network equipment and assessed the impact of the continuous evolution in telecommunications technology on that network equipment. As a result, the Group revised the estimated useful lives of certain network equipment from 7 years to 5 years.

The change in accounting estimate is accounted for prospectively from 1 January 2006. Effect of change in useful lives is estimated to have increased depreciation by approximately RMB11,451,000,000 and RMB8,197,000,000 for year ended 31 December 2006 and for the asset's revised remaining useful lives, respectively. Having considered the latest development of telecommunications technology, the Group plans to revise the estimated useful lives of switching centre equipment from 7 years to 5 years in 2007. Based on the current estimate, the Group considers that the additional depreciation charge as a result of such change of estimated useful life for the year ending 31 December 2007 is expected to be less of those for the year ended 31 December 2006. As the effect of such change of depreciable lives represents a timing difference, the change of estimated useful lives does not have any effect on the total depreciation expenses of those assets during their assets' lives.

14 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(b) The Company

	Office equipment, furniture and fixtures and others RMB million
Cost:	
At 1 January 2005	9
Additions	1
At 31 December 2005	10
At 1 January 2006	**10**
Additions	**3**
At 31 December 2006	**13**
Accumulated depreciation:	
At 1 January 2005	6
Charge for the year	1
At 31 December 2005	7
At 1 January 2006	**7**
Charge for the year	**1**
At 31 December 2006	**8**
Net book value:	
At 31 December 2006	**5**
At 31 December 2005	3

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

	The Group	
	2006 RMB million	2005 RMB million
Hong Kong		
Long-term leases	**2**	—
Medium-term leases	**9**	—
Short-term leases	**—**	—
	11	—
Mainland China		
Long-term leases	**2,723**	633
Medium-term leases	**33,190**	31,242
Short-term leases	**275**	152
	36,188	32,027
	36,199	32,027

(Expressed in Renminbi unless otherwise indicated)

15 CONSTRUCTION IN PROGRESS

	The Group	
	2006 RMB million	2005 RMB million
Balance at 1 January	**34,201**	30,510
Acquired on acquisition of a subsidiary	**9**	—
Additions	**83,500**	67,400
Transferred to property, plant and equipment	**(65,274)**	(63,711)
Interest capitalization	**—**	2
Balance at 31 December	**52,436**	34,201

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed at 31 December 2006.

16 ACQUISITION OF A SUBSIDIARY

On 10 November 2005, the Group through Fit Best Limited, a company incorporated in the British Virgin Islands which is a wholly-owned subsidiary of the Company, made a voluntary conditional cash offer to acquire all the issued shares of China Resources Peoples Telephone Company Limited (currently known as "China Mobile Peoples Telephone Company Limited", or "Peoples Telephone"), a mobile telecommunications services provider based in Hong Kong with its shares listed on the Stock Exchange of Hong Kong Limited (the "SEHK"). The offer became unconditional in all respects on 29 December 2005.

On 5 January 2006, Fit Best Limited successfully acquired 736,221,101 shares of Peoples Telephone, representing 99 per cent of the issued shares of Peoples Telephone. Up to 12 January 2006, the Company received additional valid acceptance in respect of the voluntary conditional cash offer to acquire 5,073,500 shares of Peoples Telephone, representing 0.68 per cent. of the issued shares of Peoples Telephone. On the same day, the Company applied the provisions of the Hong Kong Companies Ordinance to compulsorily acquire any remaining issued shares of Peoples Telephone.

On 28 March 2006, the compulsory acquisition of all the issued and outstanding shares of Peoples Telephone was completed at a total cash consideration of HK$3,384,000,000 (approximately RMB3,520,000,000) and the listing of the shares of Peoples Telephone on the SEHK was withdrawn with effect from 29 March 2006.

The newly acquired subsidiary has contributed profit for the year of RMB159,000,000 (equivalent to HK$155,000,000). If the acquisition had occurred on 1 January 2006, the estimated Group revenue and profit for the year would be approximately the same as comparing to the actual result.

16 ACQUISITION OF A SUBSIDIARY (CONT'D)

The acquisition has the following effect on the Group's assets and liabilities:

	Recognized values on acquisition RMB million	Pre-acquisition carrying amounts RMB million
Property, plant and equipment	1,146	1,146
Construction in progress	9	9
Land lease prepayments	11	11
Other intangible assets	859	27
Inventories	17	17
Accounts receivable and other receivables	194	194
Cash and cash equivalents	178	178
Bills payable	(44)	(44)
Accounts payable and other payables	(192)	(192)
Interest-bearing borrowings	(104)	(104)
Deferred tax liabilities	(80)	(80)
Net identified assets and liabilities	1,994	1,162
Goodwill on acquisition	1,594	
	3,588	
Cost of acquisition		
Purchase consideration, satisfied in cash	3,520	
Other directly attributable costs	68	
	3,588	
Cash acquired	(178)	
Net cash outflow	3,410	

Apart from other intangible assets, the acquiree's book value of net assets acquired at the date of acquisition approximates its fair value as disclosed above.

The goodwill is attributable to the significant synergies expected to arise after the Group's acquisition of Peoples Telephone.

The amortization expenses of other intangible assets for the year ended 31 December 2006 amounted to RMB203,000,000 (2005: Nil).

17 GOODWILL

	The Group RMB million
Cost and carrying amount:	
At 1 January 2005, 31 December 2005 and 1 January 2006	35,300
Addition arising on acquisition of a subsidiary	1,594
At 31 December 2006	36,894

17 GOODWILL (CONT'D)

Impairment tests for goodwill

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

The recoverable amount of the cash-generating units equals the value-in-use which is determined by the discounted cash flow method. The data from the Group's detailed planning is used to project cash flows for the subsidiaries (cash generating units) to which the goodwill relates for the five years ending 31 December 2011 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5 per cent. for the operation in Hong Kong and 1 per cent. for operations in the Mainland China to perpetuity are used which comply with general expectations for the business. The present value of cash flows is calculated by discounting with pre-tax interest rates of approximately 11 per cent..

18 OTHER INTANGIBLE ASSETS

	The Group			
	Brand name RMB million	Customer base RMB million	Others RMB million	Total RMB million
Cost:				
At 1 January 2006	—	—	—	—
Acquired on acquisition of a subsidiary	184	516	340	1,040
Additions	—	—	45	45
Exchange differences	—	—	(7)	(7)
At 31 December 2006	184	516	378	1,078
Accumulated amortization:				
At 1 January 2006	—	—	—	—
Acquired on acquisition of a subsidiary	—	—	181	181
Amortization for the year	—	170	33	203
Exchange differences	—	—	(6)	(6)
At 31 December 2006	—	170	208	378
Net book value:				
At 31 December 2006	184	346	170	700
At 31 December 2005	—	—	—	—

18 OTHER INTANGIBLE ASSETS (CONT'D)

Impairment test for other intangible asset with indefinite useful life

The brand name resulted from the acquisition in the current year and 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 relate for the five years ending 31 December 2011 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5 per cent. to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting with a pre-tax interest rate of approximately 11 per cent..

19 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006 RMB million	2005 RMB million
Unlisted equity, at cost	**471,810**	468,222
Equity share-based payment in subsidiaries	**3,974**	1,771
	475,784	469,993

In accordance with 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 recognizes the grant of equity instruments to its subsidiaries' employees amounted to RMB3,974,000,000 (2005: RMB1,771,000,000) 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 represents amount due to China Mobile Group Guangdong Co., Ltd. (formerly "Guangdong Mobile Communication Company Limited") ("Guangdong Mobile") in relation to the guaranteed bonds, which are unsecured, interest bearing and repayable after more than one year except RMB2,996,000,000 under current liabilities which is repayable within one year (see note 30(c)).

(Expressed in Renminbi unless otherwise indicated)

19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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	Proportion of ownership interest: Held by a subsidiary	Principal activity/ies
Guangdong Mobile*	PRC	RMB5,594,840,700	100%	—	Mobile telecommunications operator
China Mobile Group Zhejiang Co., Ltd.* (formerly "Zhejiang Mobile Communication Company Limited") ("Zhejiang Mobile")	PRC	RMB2,117,790,000	100%	—	Mobile telecommunications operator
Jiangsu Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
China Mobile Group Jiangsu Co., Ltd.* (formerly "Jiangsu Mobile Communication Company Limited") ("Jiangsu Mobile")	PRC	RMB2,800,000,000	—	100%	Mobile telecommunications operator
Fujian Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
China Mobile Group Fujian Co., Ltd.* (formerly "Fujian Mobile Communication Company Limited") ("Fujian Mobile")	PRC	RMB5,247,480,000	—	100%	Mobile telecommunications operator
Henan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
China Mobile Group Henan Co., Ltd.* (formerly "Henan Mobile Communication Company Limited") ("Henan Mobile")	PRC	RMB4,367,733,641	—	100%	Mobile telecommunications operator
Hainan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company

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19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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/ies
China Mobile Group Hainan Co., Ltd.* (formerly "Hainan Mobile Communication Company Limited") ("Hainan Mobile")	PRC	RMB643,000,000	—	100%	Mobile telecommunications operator
Beijing Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
China Mobile Group Beijing Co., Ltd.* (formerly "Beijing Mobile Communication Company Limited")	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.* (formerly "Shanghai Mobile Communication Company Limited")	PRC	RMB6,038,667,706	—	100%	Mobile telecommunications operator
Tianjin Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
China Mobile Group Tianjin Co., Ltd.* (formerly "Tianjin Mobile Communication Company Limited")	PRC	RMB2,151,035,483	—	100%	Mobile telecommunications operator
Hebei Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
China Mobile Group Hebei Co., Ltd.* (formerly "Hebei Mobile Communication Company Limited")	PRC	RMB4,314,668,600	—	100%	Mobile telecommunications operator
Liaoning Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company

(Expressed in Renminbi unless otherwise indicated)

19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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/ies
China Mobile Group Liaoning Co., Ltd.* (formerly "Liaoning Mobile Communication Company Limited")	PRC	RMB5,140,126,680	—	100%	Mobile telecommunications operator
Shandong Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
China Mobile Group Shandong Co., Ltd.* (formerly "Shandong Mobile Communication Company Limited")	PRC	RMB6,341,851,146	—	100%	Mobile telecommunications operator
Guangxi Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
China Mobile Group Guangxi Co., Ltd.* (formerly "Guangxi Mobile Communication Company Limited")	PRC	RMB2,340,750,100	—	100%	Mobile telecommunications operator
Anhui Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
China Mobile Group Anhui Co., Ltd.* (formerly "Anhui Mobile Communication Company Limited")	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.* (formerly "Jiangxi Mobile Communication Company Limited")	PRC	RMB2,932,824,234	—	100%	Mobile telecommunications operator
Chongqing Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company

(Expressed in Renminbi unless otherwise indicated)

19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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/ies
China Mobile Group Chongqing Co., Ltd.* (formerly "Chongqing Mobile Communication Company Limited")	PRC	RMB3,029,645,401	—	100%	Mobile telecommunications operator
Sichuan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
China Mobile Group Sichuan Co., Ltd.* (formerly "Sichuan Mobile Communication Company Limited")	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.* (formerly "Hubei Mobile Communication Company Limited")	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.* (formerly "Hunan Mobile Communication Company Limited")	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.* (formerly "Shaanxi Mobile Communication Company Limited")	PRC	RMB3,171,267,431	—	100%	Mobile telecommunications operator
Shanxi Mobile Communication (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company

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19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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/ies
China Mobile Group Shanxi Co., Ltd.* (formerly "Shanxi Mobile Communication Company Limited")	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.* (formerly "Neimenggu Mobile Communication Company Limited")	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.* (formerly "Jilin Mobile Communication Company Limited")	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.* (formerly "Heilongjiang Mobile Communication Company Limited")	PRC	RMB4,500,508,035	—	100%	Mobile telecommunications operator
Guizhou Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company
China Mobile Group Guizhou Co., Ltd.* (formerly "Guizhou Mobile Communication Company Limited")	PRC	RMB2,541,981,749	—	100%	Mobile telecommunications operator
Yunnan Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company

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19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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/ies
China Mobile Group Yunnan Co., Ltd.* (formerly "Yunnan Mobile Communication Company Limited")	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.* (formerly "Xizang Mobile Communication Company Limited")	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.* (formerly "Gansu Mobile Communication Company Limited")	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.* (formerly "Qinghai Mobile Communication Company Limited")	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.* (formerly "Ningxia Mobile Communication Company Limited")	PRC	RMB740,447,232	—	100%	Mobile telecommunications operator
Xinjiang Mobile (BVI) Limited	BVI	1 share at HK$1	100%	—	Investment holding company

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19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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/ies
China Mobile Group Xinjiang Co., Ltd.* (formerly "Xinjiang Mobile Communication Company Limited")	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.* (formerly "Beijing P&T Consulting & Design Institute Company Limited") ("Jingyi Design Institute")	PRC	RMB160,232,500	—	100%	Provision of telecommunications network planning design and consulting services
China Mobile Communication (BVI) Limited	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

(Expressed in Renminbi unless otherwise indicated)

19 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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/ies
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 optimising 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
Peoples Telephone	Hong Kong	HK$356,947,689	—	100%	Provision of mobile telecommunications and related services

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

\# Effective interest held by the Group is 66.41%.

(Expressed in Renminbi unless otherwise indicated)

20 INTEREST IN ASSOCIATES

	The Group	
	2006 RMB million	2005 RMB million
Share of net assets	**–**	–

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

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

Owing to the lack of recent audited financial statements of the associates, the Group's share of the associates' net assets are based on latest management accounts which showed net liabilities as at 31 December 2005 and 2006. The Group has made full impairment loss on the cost of investment in the associates in 2005 and 2006.

21 OTHER FINANCIAL ASSETS

	The Group	
	2006 RMB million	2005 RMB million
Available-for-sale equity securities:		
— Unlisted equity securities in the PRC	**77**	77

(Expressed in Renminbi unless otherwise indicated)

22 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 2006

	At 1 January 2006 RMB million	Acquired on acquisition of a subsidiary RMB million	Credited/ (charged) to consolidated income statement RMB million	Exchange difference RMB million	At 31 December 2006 RMB million
Deferred tax assets arising from:					
Provision for obsolete inventories	9	—	(1)	—	8
Write-off of certain network equipment and related assets	3,965	—	(1,195)	—	2,770
Provision for certain operating expenses	1,680	—	1,485	—	3,165
Impairment loss for doubtful accounts	971	—	199	—	1,170
	6,625	—	488	—	7,113
Deferred tax liabilities arising from:					
Capitalized interest	(97)	—	17	—	(80)
Depreciation allowance in excess of related depreciation	—	(80)	(35)	3	(112)
	(97)	(80)	(18)	3	(192)
Total	6,528	(80)	470	3	6,921

(Expressed in Renminbi unless otherwise indicated)

22 DEFERRED TAX ASSETS AND LIABILITIES (CONT'D)

Deferred tax assets and liabilities recognized and the movements during 2005

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

	The Group	
	2006 RMB million	2005 RMB million
Net deferred tax assets recognized in the consolidated balance sheet	**7,113**	6,625
Net deferred tax liabilities recognized in the consolidated balance sheet	**(192)**	(97)
Balance at 31 December	**6,921**	6,528

23 INVENTORIES

Inventories primarily comprise handsets, SIM cards and handset accessories.

24 ACCOUNTS RECEIVABLE

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

	The Group	
	2006 RMB million	2005 RMB million
Within 30 days	**5,447**	5,269
31 – 60 days	**911**	697
61 – 90 days	**581**	637
Over 90 days	**214**	—
	7,153	6,603

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.

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

(Expressed in Renminbi unless otherwise indicated)

25 OTHER RECEIVABLES

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

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

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 (see note 35).

Amount due to immediate holding company under current liabilities represented interest payable on the deferred consideration payable (see note 30), which is expected to be settled within one year.

27 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million
Deposits with banks within three months of maturity	**9,703**	11,069	**4,988**	4,381
Cash at banks and in hand	**61,464**	53,392	**22**	170
	71,167	64,461	**5,010**	4,551

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

	The Group		The Company	
	2006 million	2005 million	**2006 million**	2005 million
Hong Kong Dollars	**HK$5,068**	HK$4,101	**HK$4,682**	HK$4,021
United States Dollars	**US$101**	US$70	**US$39**	US$45

(Expressed in Renminbi unless otherwise indicated)

28 ACCOUNTS PAYABLE

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

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

	The Group	
	2006 RMB million	2005 RMB million
Amounts payables in the next:		
1 month or on demand	**41,026**	27,493
2 – 3 months	**5,629**	4,599
4 – 6 months	**4,067**	3,675
7 – 9 months	**2,086**	1,448
10 – 12 months	**4,432**	4,716
	57,240	41,931

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

29 DEFERRED REVENUE

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

	The Group	
	2006 RMB million	2005 RMB million
Balance at 1 January	**18,299**	13,880
Additions during the year	**130,477**	105,407
Recognized in the income statement	**(126,023)**	(100,988)
Balance at 31 December	**22,753**	18,299
Less: Current portion	**(21,823)**	(16,975)
Non-current portion	**930**	1,324

30 INTEREST-BEARING BORROWINGS

(a) The Group

	Note	2006 Current liabilities RMB million	2006 Non-current liabilities RMB million	2006 Total RMB million	2005 Current liabilities RMB million	2005 Non-current liabilities RMB million	2005 Total RMB million
Bonds	(c)	**2,996**	**9,941**	**12,937**	—	12,912	12,912
Deferred consideration payable	(d)	**—**	**23,633**	**23,633**	—	23,633	23,633
		2,996	**33,574**	**36,570**	—	36,545	36,545

All of the above interest-bearing borrowings are unsecured and are not expected to be settled within one year except the bonds under current liabilities, which will mature in 2007 (see note 30(c)(ii)).

(b) The Company

	Note	2006 Current liabilities RMB million	2006 Non-current liabilities RMB million	2006 Total RMB million	2005 Current liabilities RMB million	2005 Non-current liabilities RMB million	2005 Total RMB million
Deferred consideration payable	(d)	**—**	**23,633**	**23,633**	—	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 per cent. of the principal amount, will mature on 18 June 2011 and the interest will be accrued up to 17 June 2011.

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

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

The Company has issued a joint and irrevocable guarantee (the "Guarantee") for the performance of the above bonds. 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.

(Expressed in Renminbi unless otherwise indicated)

30 INTEREST-BEARING BORROWINGS (CONT'D)

(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.

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 2006: 2.595 to 5.418 per cent. per annum and for the year ended 31 December 2005: 2.595 to 2.998 per cent. per annum). The balances are subordinated to other senior debts owed by the Company from time to time. The Company may make early payment of all or part of the balances at any time before the repayment date without penalty. The balances in respect of the acquisitions of subsidiaries in 2002 and 2004 are due on 1 July 2017 and 2019 respectively.

31 OBLIGATIONS UNDER FINANCE LEASES

As at 31 December 2006, the Group had obligations under finance leases repayable as follows:

	The Group					
	2006			2005		
	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

32 EMPLOYEE RETIREMENT BENEFITS

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

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

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

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

33 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

(i) the nominal value of a share; and

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

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

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

(i) the nominal value of a share;

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

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

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

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

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

	Number of instruments 2006	2005	Vesting conditions	Contractual life of options
Options granted to directors				
— on 26 November 1999*	**—**	2,000,000	50% on date of grant, 50% three years from the date of grant	8 years
— on 25 April 2000	**1,000,000**	1,516,000	50% two years from the date of grant, 50% five years from the date of grant	7 years
— on 22 June 2001	**250**	142,500	50% two years from the date of grant, 50% five years from the date of grant	6 years
— on 3 July 2002	**370,000**	375,000	50% two years from the date of grant, 50% five years from the date of grant	10 years
— on 28 October 2004	**908,200**	1,518,000	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
— on 21 December 2004	**515,000**	600,000	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
— on 8 November 2005	**6,465,500**	7,790,000	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
Options granted to other employees				
— on 26 November 1999*	**1,000,000**	—	50% on date of grant, 50% three years from the date of grant	8 years

(Expressed in Renminbi unless otherwise indicated)

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

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

	Number of instruments			
	2006	2005	**Vesting conditions**	**Contractual life of options**
Options granted to other employees (Cont'd)				
— on 25 April 2000	**4,858,500**	26,092,000	50% two years from the date of grant, 50% five years from the date of grant	7 years
— on 22 June 2001	**7,542,550**	52,390,750	50% two years from the date of grant, 50% five years from the date of grant	6 years
— on 3 July 2002	**71,864,350**	75,570,000	50% two years from the date of grant, 50% five years from the date of grant	10 years
— on 28 October 2004	**156,838,619**	213,121,500	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
— on 8 November 2005	**275,800,490**	281,578,500	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
Total share options	**527,163,459**	662,694,250		

* The number of shares involved in the options outstanding at the beginning of the year included 1,000,000 share options granted to Mr. He Ning, who was resigned as executive director and vice president of the Company during the year.

(Expressed in Renminbi unless otherwise indicated)

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

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

	The Group			
	2006		2005	
	Weighted average exercise price HK$	**Number of shares involved in the options**	Weighted average exercise price HK$	Number of shares involved in the options
At 1 January	**29.76**	**662,694,250**	25.39	511,060,000
Granted	**—**	**—**	34.87	289,777,500
Exercised	**30.11**	**(132,654,741)**	24.13	(134,521,000)
Cancelled	**32.36**	**(2,876,050)**	30.38	(3,622,250)
At 31 December	**29.66**	**527,163,459**	29.76	662,694,250
Option vested at 31 December	**30.54**	**200,201,609**	31.19	94,537,550

The weighted average share price at the date of exercise for shares options exercised during the year was HK$51.16 (2005: HK$34.20).

The options outstanding at 31 December 2006 and 2005 had exercise prices ranging from HK$22.75 to HK$45.04 and a weighted average remaining contractual life of 7.9 years (2005: 8.1 years).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model. No share options were granted during 2006. The fair value of options granted during the year ended 31 December 2005 was HK$10.28. The significant assumptions of the model included share price of HK$34.50 at the grant date, exercise price of HK$34.87, expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model) of 24.6%, option life (expressed as weighted average life used in the modelling under binomial lattice model) of 10 years, expected dividends of 2.6% and risk-free interest rate (based on Exchange Fund Notes) of 4.5%. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends and planned dividend payout ratio, if any. Changes in the subjective input assumptions could materially affect the fair value estimate.

(Expressed in Renminbi unless otherwise indicated)

34 CAPITAL AND RESERVES

(a) The Group

	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
At 1 January 2005	2,102	375,279	(295,410)	72	—	42,277	108,874	233,194	243	233,437
Dividends approved in respect of previous year (note 12(b))	—	—	—	—	—	—	(9,635)	(9,635)	—	(9,635)
Dividends declared in respect of the current year (note 12(a))	—	—	—	—	—	—	(9,259)	(9,259)	—	(9,259)
Shares issued under share option scheme (note 34(c)(ii))	14	3,961	(553)	—	—	—	—	3,422	—	3,422
Equity settled share-based transactions	—	—	1,553	—	—	—	—	1,553	—	1,553
Profit for the year	—	—	—	—	—	—	53,549	53,549	40	53,589
Transfer to PRC statutory reserves	—	—	—	—	—	11,118	(11,118)	—	—	—
At 31 December 2005	2,116	379,240	(294,410)	72	—	53,395	132,411	272,824	283	273,107
At 1 January 2006	**2,116**	**379,240**	**(294,410)**	**72**	**—**	**53,395**	**132,411**	**272,824**	**283**	**273,107**
Dividends approved in respect of previous year (note 12(b))	**—**	**—**	**—**	**—**	**—**	**—**	**(11,719)**	**(11,719)**	**—**	**(11,719)**
Dividends declared in respect of the current year (note 12(a))	**—**	**—**	**—**	**—**	**—**	**—**	**(14,443)**	**(14,443)**	**—**	**(14,443)**
Shares issued under share option scheme (note 34(c)(ii))	**14**	**4,567**	**(488)**	**—**	**—**	**—**	**—**	**4,093**	**—**	**4,093**
Equity settled share-based transactions	**—**	**—**	**2,264**	**—**	**—**	**—**	**—**	**2,264**	**—**	**2,264**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**66,026**	**66,026**	**88**	**66,114**
Transfer to PRC statutory reserves	**—**	**—**	**—**	**—**	**—**	**13,566**	**(13,566)**	**—**	**—**	**—**
Exchange difference	**—**	**—**	**—**	**—**	**(43)**	**—**	**—**	**(43)**	**—**	**(43)**
At 31 December 2006	**2,130**	**383,807**	**(292,634)**	**72**	**(43)**	**66,961**	**158,709**	**319,002**	**371**	**319,373**

34 CAPITAL AND RESERVES (CONT'D)

(b) The Company

	Share capital RMB million	Share premium RMB million	Capital reserve RMB million	General reserve RMB million	Retained profits RMB million	Total RMB million
At 1 January 2005	2,102	375,279	255	72	55,435	433,143
Dividends approved in respect of previous year (note 12(b))	—	—	—	—	(9,635)	(9,635)
Dividends declared in respect of the year (note 12(a))	—	—	—	—	(9,259)	(9,259)
Shares issued under share option scheme (note 34(c)(ii))	14	3,961	(553)	—	—	3,422
Equity settled share-based transactions	—	—	1,553	—	—	1,553
Profit for the year	—	—	—	—	27,828	27,828
At 31 December 2005	2,116	379,240	1,255	72	64,369	447,052
At 1 January 2006	**2,116**	**379,240**	**1,255**	**72**	**64,369**	**447,052**
Dividends approved in respect of previous year (note 12(b))	**—**	**—**	**—**	**—**	**(11,719)**	**(11,719)**
Dividends declared in respect of the current year (note 12(a))	**—**	**—**	**—**	**—**	**(14,443)**	**(14,443)**
Shares issued under share option scheme (note 34(c)(ii))	**14**	**4,567**	**(488)**	**—**	**—**	**4,093**
Equity settled share-based transactions	**—**	**—**	**2,264**	**—**	**—**	**2,264**
Profit for the year	**—**	**—**	**—**	**—**	**27,527**	**27,527**
At 31 December 2006	**2,130**	**383,807**	**3,031**	**72**	**65,734**	**454,774**

At 31 December 2006, the amount of distributable reserves of the Company amounted to RMB65,806,000,000 (2005: RMB64,441,000,000).

(c) Share capital

(i) *Authorized and issued share capital*

	2006 HK$ million	2005 HK$ million
Authorized: 30,000,000,000 ordinary shares of HK$0.10 each	**3,000**	3,000

Issued and fully paid:

	2006 No. of shares	2006 HK$ million	2006 Equivalent RMB million	2005 No. of shares	2005 HK$ million	2005 Equivalent RMB million
At 1 January	**19,835,160,399**	**1,984**	**2,116**	19,700,639,399	1,970	2,102
Shares issued under share option scheme (note 33)	**132,654,741**	**13**	**14**	134,521,000	14	14
At 31 December	**19,967,815,140**	**1,997**	**2,130**	19,835,160,399	1,984	2,116

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.

34 CAPITAL AND RESERVES (CONT'D)

(c) Share capital (Cont'd)

(ii) *Shares issued under share option scheme*

During 2006, options were exercised to subscribe for 132,654,741 (2005: 134,521,000) ordinary shares in the Company at a consideration of HK$3,994,000,000 (equivalent to RMB4,093,000,000) (2005: HK$3,246,000,000 (equivalent to RMB3,422,000,000)) of which HK$13,000,000 (equivalent to RMB14,000,000) (2005: HK$14,000,000 (equivalent to RMB14,000,000)) was credited to share capital and the balance of HK$3,981,000,000 (equivalent to RMB4,079,000,000) (2005: HK$3,233,000,000 (equivalent to RMB3,408,000,000)) was credited to the share premium account. HK$464,000,000 (equivalent to RMB488,000,000) (2005: HK$521,000,000 (equivalent to RMB553,000,000)) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(u)(ii).

(d) Nature and purpose of reserves

(i) *Share premium*

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

(ii) *Capital reserve*

The capital reserve comprises the following:

— The fair value of the actual or estimated number of unexercised share options granted to employees of the 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, statutory surplus reserve and statutory public welfare fund.

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

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

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

34 CAPITAL AND RESERVES (CONT'D)

(d) Nature and purpose of reserves (Cont'd)

(iii) *PRC statutory reserves (Cont'd)*

At 31 December 2006, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund were RMB30,836,000,000 (2005: RMB24,035,000,000), RMB36,098,000,000 (2005: RMB29,325,000,000), RMB26,000,000 (2005: RMB31,000,000) and RMB1,000,000 (2005: RMB4,000,000) respectively.

(iv) *Exchange reserve*

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

35 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 2006 and 31 December 2005. The majority of these transactions also constitute continuing connected transactions under the Listing Rules. Further details of these transactions are disclosed under the paragraph "Connected Transactions" in the directors' report.

	Note	**2006 RMB million**	2005 RMB million
Property leasing and management services charges	(i)	**804**	589
Telecommunications services charges	(ii)	**2,359**	1,866
Interest paid/payable	(iii)	**946**	647

Notes:

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

(ii) Telecommunications services charges represent the amounts paid or payable to CMCC Group for the telecommunications project planning, design and construction services; telecommunications line and pipeline construction services; and telecommunications line maintenance services.

(iii) Interest paid/payable represents the interest paid or payable to China Mobile Hong Kong (BVI) Limited, the Company's immediate holding company, in respect of the balances of purchase consideration for acquisition of subsidiaries.

(b) Key management personnel remuneration

Remuneration for key management personnel are disclosed in note 8.

(Expressed in Renminbi unless otherwise indicated)

36 TRANSACTIONS WITH OTHER STATE-CONTROLED ENTITIES IN THE PRC

Apart from transactions with the CMCC Group (see note 35), the Group, a state-controled enterprise, conducts certain business activities with enterprises directly or indirectly owned or controled by the PRC government and government authorities and agencies (collectively referred to as "state-controled entities") in the ordinary course of business. These transactions primarily include 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-controled entities and have been reflected in the financial statements.

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

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

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

	2006 **RMB million**	2005 RMB million
Interconnection revenue	**8,510**	6,196
Interconnection charges	**16,416**	13,588
Leased line charges	**1,757**	3,054

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

	2006 **RMB million**	2005 RMB million
Accounts and other receivables	**452**	180
Accounts and other payable	**1,846**	2,172

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

	2006 **RMB million**	2005 RMB million
Interest income	**2,584**	1,528

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

	2006 **RMB million**	2005 RMB million
Deposits with banks	**82,294**	41,787
Cash and cash equivalents	**68,197**	59,368

(Expressed in Renminbi unless otherwise indicated)

37 FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group does not have any significant exposure to any individual customer orcounterparty. The credit risk on liquid funds is limited because the majority of counter parties are financial institutions with high credit ratings assigned by international credit-rating agencies and state-controled financial institutions with good reputation.

(b) Liquidity risk

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

(c) Interest rate risk

The Group has interest rate risk as certain interest-bearing borrowings are on a variable rate basis. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 30. The Group's cash and cash equivalents and deposits with banks are all short-term in nature, any future variations in interest rates will not have a significant impact on the results of the Group.

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

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

37 FINANCIAL INSTRUMENTS (CONT'D)

(e) Fair values

The following financial assets and financial liabilities have their carrying amounts approximately equal to their fair values: accounts receivable, other receivables, prepayments and other current assets, deposits with banks, cash and cash equivalents, accounts payable, bills payable, accrued expenses and other payables and deferred consideration payable due to its nature or short maturity, except as follows:

	2006		2005	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
The Group				
Interest-bearing borrowings				
— bonds	**12,937**	**13,218**	12,912	13,685

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

38 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The Group		**The Company**	
	2006 RMB million	2005 RMB million	**2006 RMB million**	2005 RMB million
Commitments in respect of land and buildings				
— authorized and contracted for	**1,119**	1,478	**—**	—
— authorized but not contracted for	**6,604**	3,575	**—**	—
	7,723	5,053	**—**	—
Commitments in respect of telecommunications equipment				
— authorized and contracted for	**9,361**	10,389	**—**	—
— authorized but not contracted for	**51,688**	43,899	**—**	—
	61,049	54,288	**—**	—
Total commitments				
— authorized and contracted for	**10,480**	11,867	**—**	—
— authorized but not contracted for	**58,292**	47,474	**—**	—
	68,772	59,341	**—**	—

(Expressed in Renminbi unless otherwise indicated)

38 COMMITMENTS (CONT'D)

(b) Operating lease commitments

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group				The Company
	Land and buildings RMB million	Leased lines RMB million	Others RMB million	Total RMB million	Land and buildings, and others RMB million
At 31 December 2006:					
Within one year	**2,584**	**1,493**	**567**	**4,644**	**7**
After one year but within five years	**5,079**	**1,153**	**739**	**6,971**	**10**
After five years	**1,668**	**254**	**135**	**2,057**	**—**
	9,331	**2,900**	**1,441**	**13,672**	**17**
At 31 December 2005:					
Within one year	1,506	1,477	546	3,529	6
After one year but within five years	3,509	998	1,068	5,575	1
After five years	1,053	298	104	1,455	—
	6,068	2,773	1,718	10,559	7

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

39 NON-ADJUSTING POST BALANCE SHEET EVENTS

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

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25 per cent. and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that are subsequently issued. Since implementation measure on transitional policy of preferential tax rate granted according to current tax law and administrative regulations was not yet announced, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

40 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2006 to be China Mobile Communications Corporation, a company incorporated in the PRC.

41 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Notes 17, 18 and 37 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 ageing of the accounts receivable and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the customers were to deteriorate, additional impairment may be required.

Depreciation

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

Amortization of other intangible asset

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.

(Expressed in Renminbi unless otherwise indicated)

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: Disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: Capital disclosures	1 January 2007