

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

SUBSIDIARIES AND ASSOCIATES

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

FINANCIAL STATEMENTS

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

DIVIDENDS

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

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

DONATIONS

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTION SCHEME

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

CONVERTIBLE NOTES AND BONDS

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

RESERVES

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

DIRECTORS

The directors during the financial year were:

Executive directors:

WANG Jianzhou (*Chairman*)

LI Yue

LU Xiangdong

XUE Taohai

ZHANG Chenshuang

LI Mofang

HE Ning

LI Gang

XU Long

Independent non-executive directors:

Dr. LO Ka Shui

Frank WONG Kwong Shing

Moses CHENG Mo Chi

Non-executive director:

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

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

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

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

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

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

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

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

SHARE OPTION SCHEMES

Share option schemes of the Company

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

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

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

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

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

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS (CONT'D)

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

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

REPORT OF THE DIRECTORS (CONT'D)

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	No. of shares involved in the options lapsed during the year	No. of shares acquired on exercise of options during the year	Price per share to be paid on exercise of options HK\$
Directors (cont'd)						
LI Gang	1,000,000	1,000,000	26 November 1999	–	–	33.91
	180,000	180,000	25 April 2000	–	–	45.04
	100,000	50,000	22 June 2001	–	50,000	32.10
	190,000	95,000	3 July 2002	–	95,000	22.85
	270,000	162,000	28 October 2004	–	108,000	22.75
	–	270,000	8 November 2005	–	–	34.87
XU Long	1,170,000	1,170,000	25 April 2000	–	–	45.04
	95,000	47,500	22 June 2001	–	47,500	32.10
	180,000	90,000	3 July 2002	–	90,000	22.85
	260,000	156,000	28 October 2004	–	104,000	22.75
	–	270,000	8 November 2005	–	–	34.87
Julian Michael HORN-SMITH	–	400,000	8 November 2005	–	–	34.87
LO Ka Shui	–	400,000	8 November 2005	–	–	34.87
Frank WONG Kwong Shing	–	400,000	8 November 2005	–	–	34.87
Moses CHENG Mo Chi	–	400,000	8 November 2005	–	–	34.87
Employees						
	26,854,000	26,092,000	25 April 2000	762,000	–	45.04
	72,204,000	52,390,750	22 June 2001	683,000	19,130,250	32.10
	118,408,500	75,570,000	3 July 2002	556,750	42,281,750	22.85
	285,743,500*	213,121,500	28 October 2004	1,274,500	71,596,500	22.75
	–	281,578,500	8 November 2005	346,000	63,000	34.87
		662,694,250	(Note (a))			

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

Notes:

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

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

REPORT OF THE DIRECTORS (CONT'D)

(c) Particulars of share options:

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

Details of share options exercised during the year:

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

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

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

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS (CONT'D)

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

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

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

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

Notes:

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

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

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

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

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

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

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

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

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

Note:

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

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

CONNECTED TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

BANK AND OTHER LOANS

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

FINANCIAL SUMMARY

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

EMOLUMENT POLICY

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

EMPLOYEE RETIREMENT BENEFITS

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

PUBLIC FLOAT

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

AUDITORS

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

By order of the board

Wang Jianzhou

Chairman

Hong Kong, 16 March 2006