1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

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

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

(c) Subsidiaries

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

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Subsidiaries (cont'd)

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

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

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

(d) Associates

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

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

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

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

(e) Goodwill

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Other investments in equity securities

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

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

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

(g) Property, plant and equipment

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

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

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

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

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

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

(h) Leased assets

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

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

(ii) *Assets acquired under finance leases*

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Leased assets (cont'd)

(iii) *Operating lease charges*

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

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

(i) Impairment of assets

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

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

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

(ii) *Impairment of other assets*

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

— property, plant and equipment;

— construction in progress;

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

— investments in subsidiaries and associates; and

— goodwill.

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

(i) *Calculation of recoverable amount*

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Impairment of assets (cont'd)

(ii) *Impairment of other assets (cont'd)*

(ii) *Recognition of impairment losses*

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

(iii) *Reversals of impairment losses*

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

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

(j) Construction in progress

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

(k) Inventories

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

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

(l) Accounts receivable and other receivables

Accounts receivable and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for doubtful accounts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for doubtful accounts (see note 1(i)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Deferred revenue

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

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

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

(n) Convertible notes

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

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

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

(o) Interest-bearing borrowings

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

(p) Accounts and other payables

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

(q) Cash and cash equivalents

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Revenue recognition

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

(i) usage fees and other operating revenue are recognized as revenue when the service is rendered;

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

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

(iv) interest income is recognized on a time proportion basis by reference to the principal outstanding and the rate applicable; and

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

(s) Income tax

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Income tax (cont'd)

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

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

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

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

  — the same taxable entity; or

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

(t) Provisions and contingent liabilities

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

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

(u) Employee benefits

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(u) Employee benefits (cont'd)

(i) *Short term employee benefits and contributions to defined contribution retirement plans (cont'd)*

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

(ii) *Share-based payments*

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

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

(iii) *Termination benefits*

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

(v) Borrowing costs

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(w) Translation of foreign currencies

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

(x) Related parties

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

(y) Segment reporting

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

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

2 CHANGES IN ACCOUNTING POLICIES

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

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

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

(a) Restatement of prior periods and opening balances

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

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

(i) Effect on the consolidated financial statements

Consolidated income statement for the year ended 31 December 2004

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

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

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

Consolidated balance sheet at 31 December 2004

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

(ii) *Effect on the Company's balance sheet*

Balance sheet at 31 December 2004

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

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

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

(i) *Effect on the consolidated financial statements*

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

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

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

(ii) *Effect on the Company's balance sheet*

Estimated effect on the balance sheet at 31 December 2005:

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

(c) Amortization of positive and negative goodwill (HKFRS 3 "Business combinations" and HKAS 36 "Impairment of assets")

In prior years:

— positive goodwill arising from acquisitions before 1 January 2001 was eliminated against reserves and was reduced by impairment losses recognized in the consolidated income statement;

— positive goodwill arising from acquisitions on or after 1 January 2001 was amortized to the consolidated income statement on a straight-line basis over 20 years. Positive goodwill was stated in the consolidated balance sheet at cost less accumulated amortization and any impairment losses;

— negative goodwill arising from acquisitions before 1 January 2001 was credited to a capital reserve; and

— negative goodwill which arose from acquisitions on or after 1 January 2001 was amortized over the weighted average life of the depreciable/amortizable non-monetary assets acquired, except to the extent is related to identified expected future losses as at the date of acquisition. In such cases it was recognized in the consolidated income statement as those expected losses were incurred.

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

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

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

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

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

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

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES (CONT'D)

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

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

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

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

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

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

— all share options granted to employees on or before 7 November 2002; and

— all share options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

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

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

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

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

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

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

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

3 TURNOVER

The principal activities of the Group are the provision of mobile telecommunications and related services in thirty-one provinces, autonomous regions and municipalities of the PRC. The principal activity of the Company is investment holding.

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

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

4 OTHER OPERATING EXPENSES

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

5 OTHER NET INCOME

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

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

6 NON-OPERATING NET INCOME

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

7 PROFIT BEFORE TAXATION

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

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

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

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

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

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

8 DIRECTORS' REMUNERATION

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

(Expressed in Hong Kong dollars)

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

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

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

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) During 2005, all of the five individuals with the highest emoluments are directors whose emoluments are disclosed in note 8.

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

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

10 TAXATION

(a) Taxation in the consolidated income statement represents:

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

(i) No provision has been made for Hong Kong profits tax as there were no estimated Hong Kong assessable profits for the years ended 31 December 2005 and 2004.

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

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

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

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

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

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

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

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

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

12 DIVIDENDS

(a) Dividends attributable to the year:

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

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

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

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

13 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year is based on the profit attributable to equity shareholders of the Company of RMB53,549,000,000 (2004: RMB41,749,000,000 (restated)) and the weighted average number of 19,738,229,495 shares (2004: 19,673,185,236 shares) in issue during the year, calculated as follows:

(i) *Weighted average number of shares*

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

(b) Diluted earnings per share

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

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

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

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

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

14 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

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

14 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(b) The Company

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

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

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

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

15 CONSTRUCTION IN PROGRESS

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

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

16 GOODWILL

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

Impairment tests for goodwill

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

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

16 GOODWILL (CONT'D)

Impairment tests for goodwill (cont'd)

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

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

17 INVESTMENTS IN SUBSIDIARIES

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

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

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

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

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

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

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

(Expressed in Renminbi)

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

17 INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activity/ies
Fujian FUNO Mobile Communication Technology Company Limited	PRC	US$3,800,000	—	51%	Network planning and optimizing construction-testing and supervising, technology support, development and training of Nokia GSM 900/1800 Mobile Communication System
Advanced Roaming & Clearing House Limited	BVI	US$2	100%	—	Provision of roaming clearance services
Fit Best Limited	BVI	US$1	100%	—	Investment holding company

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

18 INTEREST IN ASSOCIATES

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

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

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

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

19 OTHER FINANCIAL ASSETS

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

20 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax assets and liabilities recognized and the movements during 2005

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

Deferred tax assets and liabilities recognized and the movements during 2004

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

20 DEFERRED TAX ASSETS AND LIABILITIES (CONT'D)

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

21 DEFERRED EXPENSES

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

22 INVENTORIES

Inventories primarily comprise handsets, SIM cards and handset accessories.

23 ACCOUNTS RECEIVABLE

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

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

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

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

24 OTHER RECEIVABLES

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

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

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

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

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

26 CASH AND CASH EQUIVALENTS

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

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

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

27 ACCOUNTS PAYABLE

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

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

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

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

28 DEFERRED REVENUE

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

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

29 INTEREST-BEARING BORROWINGS

(a) The Group

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

All of the above bank and other loans are unsecured.

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

(b) The Company

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

29 INTEREST-BEARING BORROWINGS (CONT'D)

(c) The Group's long-term bank and other loans were repayable as follows:

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

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

(d) Convertible notes

(i) On 3 November 2000, the Company issued convertible notes (the "Notes") in an aggregate principal amount of US$690,000,000 at an issue price equal to 100 per cent. of the principal amount of the Notes. The Notes bore interest at the rate of 2.25 per cent. per annum, payable semi-annually on 3 May and 3 November of each year commencing 3 May 2001. Unless previously redeemed, converted or purchased and canceled, the Notes would be redeemed at 100 per cent. of the principal amount, plus any accrued and unpaid interest on 3 November 2005. The Notes were unsecured, senior and unsubordinated obligations of the Company.

(ii) The Notes were convertible at any time on or after 3 December 2000 and before the close of business on the third business day prior to the earlier of (1) the maturity date of 3 November 2005 or (2) the redemption date fixed for early redemption, at an initial conversion price, subject to adjustment in certain events, of HK$59.04 per share.

(iii) During the year, no Notes were converted into ordinary shares of the Company. The Notes were fully redeemed during the year.

(e) Bonds

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

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

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

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

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

29 INTEREST-BEARING BORROWINGS (CONT'D)

(f) Deferred consideration payable

This represents the balances of the deferred consideration of RMB9,976,000,000 and RMB13,657,000,000 payable to immediate holding company in respect of the acquisitions of subsidiaries in 2002 and 2004 respectively.

The deferred consideration payable is unsecured, bear interest at the rate of two year US dollar LIBOR swap rate per annum (for the year ended 31 December 2004: 2.595 to 3.801 per cent. per annum and for the year ended 31 December 2005: 3.801 per cent. per annum). The balances are subordinated to other senior debts owed by the Company from time to time. The Company may make early payment of all or part of the balances at any time before the date without penalty but the balances are not expected to be settled within one year. The balances in respect of the acquisitions of subsidiaries in 2002 and 2004 are due on 1 July 2017 and 2019 respectively.

30 OBLIGATIONS UNDER FINANCE LEASES

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

	The Group					
	2005			2004		
	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

31 EMPLOYEE RETIREMENT BENEFITS

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

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

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

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

32 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

(i) the nominal value of a share; and

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

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

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

(i) the nominal value of a share;

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

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

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

(Expressed in Renminbi)

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

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

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

(Expressed in Renminbi)

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

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

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

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

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

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

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

(Expressed in Renminbi)

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

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

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

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

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

33 CAPITAL AND RESERVES

(a) The Group

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

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

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

33 CAPITAL AND RESERVES (CONT'D)

(c) Share capital

(i) Authorized and issued share capital

	The Group	
	2005 HK$ million	2004 HK$ million
Authorized:		
30,000,000,000 ordinary shares of HK$0.10 each	**3,000**	3,000

Issued and fully paid:

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option scheme

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

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve

The capital reserve comprises the following:

— The fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognized in accordance with the accounting policy adopted for share-based payments in note 1(u)(ii); and

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

(iii) PRC statutory reserves

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

33 CAPITAL AND RESERVES (CONT'D)

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

(iii) PRC statutory reserves (cont'd)

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

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

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

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

34 RELATED PARTY TRANSACTIONS

(a) Transactions with CMCC Group

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

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

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

34 RELATED PARTY TRANSACTIONS (CONT'D)

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

Notes:

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

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

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

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

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

Notes:

(i) A mobile telephone user using roaming services is charged at the respective roaming usage rate and applicable long distance charges for roaming in calls. Interconnection revenue represents domestic and international roaming in usage charges and applicable long distance charges from non-subscribers received or receivable from the relevant domestic and international mobile telecommunication operators through the CMCC Group.

(ii) A mobile telephone user using roaming services is charged at the respective roaming usage rate and applicable long distance charges for roaming out calls. Interconnection charges represent the amount of domestic and international roaming out charges and applicable long distance charges received or receivable from subscribers which is to be remitted to the relevant domestic and international mobile telecommunication operators for their share of revenue through the CMCC Group.

(iii) Leased line charges represent expenses paid or payable to the CMCC Group for the use of inter-provincial leased lines which link the Group's mobile switching centers together and with other mobile switching centers of the CMCC Group.

(iv) Spectrum fees represent the spectrum usage fees paid or payable to the CMCC Group for the usage of the frequency bands allocated to the Company's subsidiaries in the PRC.

(v) Operating lease charges represent the rental and property management fees paid or payable to the subsidiaries of CMCC for operating leases in respect of land and buildings and others.

(vi) Roaming billing processing fees represent the amounts paid or payable to the CMCC Group for the provision of the roaming billing processing services to the Company's subsidiaries.

34 RELATED PARTY TRANSACTIONS (CONT'D)

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

Notes: (cont'd)

(vii) Equipment maintenance service fees represent the amounts paid or payable to subsidiaries of CMCC for the provision of the maintenance services to the Company's subsidiaries.

(viii) Construction and related service fees represent the amounts paid or payable to subsidiaries of CMCC for the provision of telecommunications projects planning, design and construction services and telecommunications lines and pipeline construction services to the Company's subsidiaries.

(ix) This represents payment made by Hebei Mobile to acquire transmission towers from a subsidiary of CMCC and expenses paid or payable to the relevant subsidiary of CMCC for the provision of transmission tower related services and antenna maintenance services provided to Hebei Mobile; and payment made by the Group to Hubei Communication Services Company, a subsidiary of CMCC, in respect of the purchase of transmission towers and for the provision of transmission tower related services.

(x) Prepaid card sales commission income and commission expenses represent handling charges received/receivable from subsidiaries of CMCC to the Company's subsidiaries or paid/payable by the Company's subsidiaries to subsidiaries of CMCC in respect of prepaid card services.

(xi) Technology platform development and maintenance service income represents the amounts received or receivable from the CMCC Group in respect of equipment charges, systems integration fees, software licensing fees, technical support fees and/or major overhaul charges for the mobile information service center platform.

(xii) Telecommunications lines maintenance services fees represent the amounts paid or payable by Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile to the relevant subsidiaries of CMCC for the provision of telecommunications lines maintenance services.

(xiii) Interest paid/payable represents the interest paid or payable to CMCC and China Mobile Hong Kong (BVI) Limited in respect of the designated loans borrowed and the balance of purchase consideration for acquisition of subsidiaries.

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

(c) Key management personnel remuneration

Remuneration for key management personnel are disclosed in note 8.

35 TRANSACTIONS WITH OTHER STATE-CONTROLLED ENTITIES IN THE PRC

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

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

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

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

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

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

36 FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

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

(b) Liquidity risk

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

(c) Interest rate risk

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

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

36 FINANCIAL INSTRUMENTS (CONT'D)

(d) Foreign currency risk

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

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

(e) Fair values

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

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

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

37 COMMITMENTS

(a) Capital commitments

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

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

(b) Operating lease commitments

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

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

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

37 COMMITMENTS (CONT'D)

(c) Acquisition of all the issued shares of Peoples (defined as below)

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

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

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

38 NON-ADJUSTING POST BALANCE SHEET EVENTS

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

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

39 COMPARATIVE FIGURES

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

40 ULTIMATE HOLDING COMPANY

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

41 ACCOUNTING ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

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

Impairment loss for doubtful accounts

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

41 ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D)

Depreciation

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

Impairment of property, plant and equipment

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

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

(Expressed in Renminbi)

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

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

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

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

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