

Corporate Governance Report



The Company's goal has always been to enhance its corporate value, to ensure its sustainable long-term development and to generate greater returns for its shareholders. In order to better achieve the above objectives, we shall practise good corporate governance with a principle of sincerity, transparency, openness and efficiency and implement persistently sound corporate governance structure and measures. With respect to key participants involved in the practice of good corporate governance including shareholders, board of directors, management, internal audit, external auditors and other stakeholders (including our customers, communities, peers, regulatory authorities, etc.), we established and improved various policies, internal controls and other mechanisms.

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

Our corporate governance practices in 2007 include:

- Established a separate legal department and progressively developed our legal risk management system.

- Promoted the China Mobile core value of "Responsibility Makes Perfection" throughout the group.
- Established the corporate social responsibility ("CSR") management system, organizational structure and task forces, issued the China Mobile CSR Report and commenced a series of CSR management practices.
- Developed an anti-corruption system and conducted relevant staff trainings and activities on prevention and penalization of corruption and bribery.

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

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

Throughout the financial year ended 31 December 2007, except for the code provision that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual, the Company has complied with all code provisions of the Code on Corporate Governance Practices as set forth in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

Currently, the roles of Chairman and Chief Executive Officer of the Company are performed by Mr. Wang Jianzhou. Mr. Wang joined the board of directors of the Company (the "Board") in November 2004 and since then, has been the Chairman and the Chief Executive Officer of the Company in charge of the overall management of the Company. The Company considers that the combination of the roles of Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to seize business opportunities efficiently and promptly. The Company considers that through the supervision of the Board and its independent non-executive directors, checks and balances exist so that the interests of the shareholders are adequately and fairly represented.

Shareholders

The Company's controlling shareholder is China Mobile (Hong Kong) Group Limited, which, as of 31 December 2007, indirectly held approximately 74.33 per cent. of the Company's share capital through a wholly-owned subsidiary, China Mobile Hong Kong (BVI) Limited. The remaining share capital of approximately 25.67 per cent. was held by public investors.

The Company engages a number of formal channels to account to shareholders for the performance and operations of the Company, particularly our annual and interim reports. Generally, when announcing its interim results, annual results or any major transactions in accordance with relevant regulatory requirements, the Company arranges investment analyst conferences, press conferences and investor telephone conferences to explain the relevant results or major transactions to shareholders, investors and the general public, and to address any questions they may have. In addition, the Company adheres to the practice of voluntarily and additionally disclosing on a quarterly basis certain key, unaudited operational and financial data to further increase the Group's transparency and to provide shareholders, investors and the general public with additional timely information so as to facilitate their understanding of the Group's operation.

The Company also has high regard for the annual general meetings of its shareholders, and makes substantial efforts to enhance the communications between the Board and the shareholders. At the annual general meetings of shareholders, the Board always makes efforts to fully address any questions raised by shareholders. The last annual general meeting of the Company was held on 16 May 2007 in the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong. The major items discussed and the percentage of votes cast in favor of the resolutions are set out as follows:

- considering and approving the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2006 (99.9983%);
- the re-election of WANG Jianzhou, LI Yue, ZHANG Chenshuang, Frank WONG Kwong Shing, Paul Michael DONOVAN as directors (99.9273% to 99.9803%);
- the re-appointment of Messrs. KPMG as auditors and authorising the Board to determine its remuneration (99.9950%).

All resolutions were passed at this annual general meeting. Poll results were announced at the meeting, on the websites of the Company and the Hong Kong Stock Exchange as well as in newspapers on the day following the meeting.

The Board of Directors

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting management targets, monitoring internal controls and financial management and supervising the management's performance while the day-to-day operations and management are delegated by the Board to the executives of the Company. The Board operates in accordance with established practices (including those relating to reporting and supervision), and is directly responsible for formulating the Company's corporate governance guidelines.

The Board currently comprises 13 directors, namely Mr. WANG Jianzhou (Chairman), Mr. LI Yue, Mr. LU Xiangdong, Mr. XUE Taohai, Madam HUANG Wenlin, Mr. SHA Yuejia, Mr. LIU Aili, Madam XIN Fanfei and Mr. XU Long as executive directors, Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing and Dr. Moses CHENG Mo Chi as independent non-executive directors and Mr. Paul Michael DONOVAN as non-executive director. Their biographies are presented on pages 9 to 11 of this annual report and also on the Company's website. There is no financial, business, family or other material relationships among members of the board of our Company. In 2007, Mr. ZHANG Chengshuang resigned from his position as an executive director and vice president of the Company due to reassignment of work. To fill the casual vacancy, Madam HUANG Wenlin was appointed as an executive director and vice president of the Company. The Company purchased Directors' and Officers' liabilities insurance and reviewed the terms of such policy annually.

The Company and its directors (including the non-executive directors) have not entered into any service contract with a specified length of service. All directors are subject to retirement by rotation and re-election at annual general meetings of the Company every three years. The Company has received a confirmation of independence from each of the independent non-executive directors, namely Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing and Dr. Moses CHENG Mo Chi, and considers them to be independent. The Company has received acknowledgements from the directors of their responsibility for preparing the financial statements and a statement by the auditors of the Company about their reporting responsibilities.

Board meetings are held at least once a quarter and as and when necessary. During the financial year ended 31 December 2007, the Board met on four occasions and passed written resolutions in one occasion. Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing, Mr.

WANG Jianzhou, Mr. LI Yue, Mr. LU Xiangdong, Mr. XUE Taohai, Mr. ZHANG Chengshuang (resigned as an executive director of the Company with effect from 9 July 2007), Madam HUANG Wenlin (appointed as an executive director of the Company with effect from 24 September 2007), Mr. SHA Yuejia, Madam XIN Fanfei and Mr. XU Long attended all board meetings while Dr. Moses CHENG Mo Chi, Mr. LIU Aili and Mr. Paul Michael DONOVAN attended three board meetings.

The directors have disclosed to the Company the positions held by them in other listed public companies or organizations or associated companies, and the information regarding their directorships in other listed public companies in the last three years is set out in the biographies of directors and senior management on pages 9 to 11 of this annual report and on the Company's website.

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") to regulate the directors' securities transactions. Save and except the interests disclosed in the report of the directors on page 50 of this annual report, none of the directors had any other interest in the shares of the Company as at 31 December 2007. All directors have confirmed, following enquiry by the Company, that they have complied with the Model Code during the period between 1 January 2007 and 31 December 2007.

The Board currently has three principal board committees, which are the audit committee, the remuneration committee and the nomination committee, and all of which are comprised solely of independent non-executive directors. The terms of reference of each of the board committees are available on the Company's website and can be obtained from the Company Secretary in writing.

Audit Committee

Membership

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

Responsibilities

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

Work Done in 2007

In 2007, the audit committee met on four occasions and passed written resolutions in one occasion. Dr. LO Ka Shui and Mr. Frank WONG Kwong Shing attended all meetings while Dr. Moses CHENG Mo Chi attended three of the four meetings. Among other things, the audit committee:

- reviewed the Company's financial statements and results announcement for the year 2006, report of the directors and financial review for the year 2006;
- reviewed the interim report and the interim results announcement of the Company for the six months ended 30 June 2007;
- discussed and approved the audit memorandum prepared by, budgets and remuneration of, and services provided by, the external auditors;
- discussed and approved the engagement of external auditors to provide non-audit services;
- approved the Company's 2006 annual report on Form 20-F;
- reviewed and approved the working plan for 2007 internal audit;
- approved the 2007 assessment report on the disclosure controls and procedures;
- reviewed and approved the progress report in relation to the U.S. Sarbanes-Oxley Act of 2002 (the "SOX Act") Section 404 compliance project; and
- reviewed the Company's compliance with relevant laws and regulations.

Remuneration Committee

Membership

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

Responsibilities

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

Work Done in 2007

In 2007, the remuneration committee met twice and all members attended the meetings, during which the committee mainly reviewed and approved the 2006 performance-linked annual bonus for our senior management.

Nomination Committee

Membership

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

Responsibilities

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

Work Done in 2007

In 2007, the nomination committee, by means of a written resolution, considered, nominated and recommended to the Board Madam HUANG Wenlin to fill the casual vacancy as an executive director of the Company. In respect of the recommendation of Madam HUANG as an executive director, the nomination committee has considered Madam HUANG's many years of experience in the telecommunications industry and in management as well as her qualifications.

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

Currently, executive directors are mainly selected internally within the Group from executives who have considerable years of management experience and expertise in the telecommunications industry, whereas for the identification of independent non-executive directors, importance is attached to the individual's independence as well as his or her experience and expertise in finance and business management. The nomination committee, taking into consideration the requirements of the jurisdictions where the Company is listed and the structure and composition of the Board, identifies, reviews and nominates with diligence and care individuals suitably qualified as board members of the Company before making recommendations to the Board for their final appointment. All newly-appointed directors receive a comprehensive induction of directors' duties to make sure they have a proper understanding of the operations and business of the Company, and that they are fully aware of their responsibilities as a director, the listing rules of the stock exchanges on which the Company is listed, applicable laws and regulations, and the operation and governance policies of the Company. All newly-appointed directors should be subject to election by shareholders at the first general meeting after their appointment. Every director should be subject to retirement by rotation at least once every three years.

Management

The task of China Mobile management is to implement the strategy and direction as determined by the Board, and to take care of the day-to-day operations and functions of the Company. The division of responsibilities of our CEO and other senior management is set out in the biographies of directors and senior management on pages 9 to 11 of this annual report and on the Company's website.

For the purpose of promoting honest and ethical conduct and deterring wrongdoing, the Company, in 2004, adopted a code of ethics, which is applicable to our Chief Executive Officer, Chief Financial Officer, Deputy Chief Financial Officer, Assistant Chief Financial Officer and other designated senior officers of the Group, in accordance with the requirements of the SOX Act. Under the code, in the event of a breach of the code, the Company may take appropriate preventive or disciplinary actions after consultation with the Board. The code has been filed with the U.S. Securities and Exchange Commission as an exhibit to our annual report on Form 20-F for the financial year ended 31 December 2003, which may also be viewed and downloaded from the Company's website.

To prevent and penalize corruption and bribery, we developed an anti-corruption system and adopted an employee code of conduct and an employee handbook to put all employees under specific obligations as to the manner in which they should deal with issues such as integrity, code of ethics and conflicts of interest. During 2007, a series of staff trainings and briefings on prevention and penalization of corruption and bribery took place.

Internal Audit

The Company and its operating subsidiaries have set up Internal Audit Departments, which independently audit the business units of the Company and its operating subsidiaries. The head of the Internal Audit Department of the Company directly reports to the Audit Committee which, in return, reports to the Board regularly. Internal Audit Department has unrestricted access to all areas of the Group's business units, assets, records and personnel in the course of conducting its work. The main objectives of internal audit are to ensure that the Company has established adequate internal controls which are effectively complied with an aim of safeguarding the funds and assets of the Company, enhancing the operational efficiency and effectiveness, improving the Company's corporate governance, risk assessment, risk management and internal controls, and assisting the Company to achieve its long-term development goals.

The Internal Audit Department regularly assesses the risks associated with market operations, financial management, legal compliance and other core business processes by using standardized methodology. According to the results of the risk assessment, it formulates an annual audit plan which, together with the resources allocation, are reviewed and approved by the Audit Committee. It carries out operational and financial audits on the Company's different management mechanisms and business processes on an on-going basis.

Taking into account the potential risk and urgency in respect of the internal controls that are subsisting in the Company's different management mechanisms and business processes, the Internal Audit Department carries out audits as well as inspections and evaluations of the Company's financial information, internal controls and other types of operational activities through the application of systematic and standardized audit procedures and methods, in order to assess the Company's internal controls and to monitor their compliance. It also conducts special projects and investigations in response to requests from the Company's management and the Audit Committee.

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

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

External Auditors

The Company engaged KPMG as statutory auditors of the Company. In 2007, the principal services provided by KPMG included:

- review of interim consolidated financial statements of the Group;
- audit of annual consolidated financial statements of the Group and annual financial statements of its subsidiaries; and
- audit of the effectiveness of the Company's internal control over financial reporting.

Apart from providing the above-mentioned audit services to the Group, KPMG was also engaged in providing other non-audit services to the Group which were permitted under the SOX Act Section 404 and pre-approved by the audit committee.

The following table sets forth the type of, and fees for, the principal audit services and non-audit services provided by KPMG to the Group (refer to note 5 of financial statements for details):

| | 2007 RMB million | 2006 RMB million |
|-----------------------------|---------------------|---------------------|
| Audit fees ¹ | 78 | 80 |
| Non-audit fees ² | 5 | 35 |

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

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

Other Stakeholders

Good corporate governance practices require due concerns for the impact of our business decisions on our shareholders as well as other relevant parties such as customers, local communities, peers and regulatory authorities. The 2007 CSR report, which is issued together with this annual report, introduces our philosophy on corporate social responsibility and our performance with respect to social and environmental management in 2007. This annual report and the CSR Report illustrate the Company's efforts and development in the areas of industry development, community advancement and environmental protection and also explain how we fulfilled our obligations to employees, customers, environment, the local communities and other stakeholders.

Internal Controls

To protect its assets and to ensure the accuracy and reliability of the financial information that the Company employs in its business or releases to the public, the Board conducts regular reviews of the effectiveness of the Group's internal controls. The scope of these reviews includes, among other things, finance, operations, regulatory compliance and risk management.

The Company continued to improve its comprehensive internal control and risk management regime according to the requirements of the SOX Act Section 404 and using the control criteria framework of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission titled *Internal Control-Integrated Framework*. On the one hand, in adapting to the external regulatory requirements and internal development, the Company conducted routine internal controls management. It systematically optimized, updated and solidified business processes and control points. At the same time, it further integrated the management of internal control with business to gradually implement and strengthen its internal control process management mechanism. On the other hand, the Company further improved its monitoring and inspection mechanism that was regularly enforced by the internal audit department covering business units at various levels and all business departments. The Company adopted the top-down risk-based approach to continuously improve its testing and evaluation system in order to minimize the risks

effectively. Based on the evaluation conducted, the management believes that, as of 31 December 2007, the Company's internal control over financial reporting was effective and provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for reporting purposes in accordance with generally accepted accounting principles.

All disclosure of material information relating to the Company is made through the unified leadership and management of the Board, with the Company's management performing its relevant duties. The Company has performed an annual review of the effectiveness of the Company's disclosure controls and procedures in 2007, and concluded that the Company's disclosure controls and procedures were effective in ensuring that material information relating to the Company was promptly recorded, processed, summarized and disclosed.

Summary of Significant Differences between the Corporate Governance Practices of the Company and the Corporate Governance Practices Required to be Followed by U.S. Companies under the NYSE's Listing Standards

In accordance with the requirements of Section 303A.11 of the NYSE Listed Company Manual, the following is a summary of the significant differences between the Company's corporate governance practices and those required to be followed by U.S. companies under the NYSE's listing standards.

Section 303A.01 of the NYSE Listed Company Manual provides that listed companies must have a majority of independent directors. As a listed company in Hong Kong, the Company is subject to the requirement under the Hong Kong Listing Rules that at least three members of its board of directors be independent as determined under the Hong Kong Listing Rules. The Company currently has three independent directors out of a total of thirteen directors. The Hong Kong Listing Rules set forth standards for establishing independence, which differ from those set forth in the NYSE Listed Company Manual.

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

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

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

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

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

Continuous Evolvement of Corporate Governance

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

