

# Notes to the financial statements

(Expressed in Renminbi unless otherwise indicated)

## 1 Significant accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the IASB. 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”) and accounting principles generally accepted in Hong Kong, are consistent with IFRSs, these financial statements also comply with HKFRSs 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 (“Listing rules”). A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the “Group”) is set out below.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Group, the Group’s interest in associates and a jointly controlled entity.

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

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

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

Judgements and estimates made by management in the application of IFRSs and HKFRSs that have a significant effect on the financial statements are discussed in note 44.

### (c) Subsidiaries and minority interests

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

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

# Notes to the financial statements (Continued)

*(Expressed in Renminbi unless otherwise indicated)*

## 1 Significant accounting policies (Continued)

### (c) Subsidiaries and minority interests (Continued)

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

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

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

### (d) Associates and jointly controlled entities

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.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity 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 or the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and a jointly controlled entity for the year.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, 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 or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealized profits and losses resulting from transactions between the Group and its associates and a jointly controlled entity are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss. In the Company's balance sheet, its investments in associates and a jointly controlled entity are stated at cost less impairment losses (see note 1(j)).

# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (e) Goodwill

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

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

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

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

### (f) Other intangible assets

The useful lives of other intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date. The amortization of the intangible assets with finite lives is recorded in other operating expenses.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

#### (i) Brand names

Brand names are stated at cost less any impairment losses (see note 1(j)) on an individual basis.

#### (ii) Customer base, licenses and others

Customer base, licenses and others are stated at cost less accumulated amortization and impairment losses (see note 1(j)) and are amortized using a straight-line basis over the estimated useful lives from 2 to 15 years.

### (g) Other investments in equity securities

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

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

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

# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (h) Property, plant and equipment

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

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss 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	5 – 10 years
Office equipment, furniture and fixtures and others	4 – 18 years

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

### (i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

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

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

# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (i) Leased assets (Continued)

#### (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 for at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred. There are no contingent rentals recognized by the Group during the years presented.

#### (iii) Operating lease charges

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

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

### (j) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries, associates and a jointly controlled entity) 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. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (j) Impairment of assets (Continued)

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

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

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

#### (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, associates and a jointly controlled entity;
- goodwill; and
- other intangible assets.

# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (j) Impairment of assets (Continued)

#### (ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

##### (i) *Calculation of recoverable amount*

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

##### (ii) *Recognition of impairment losses*

An impairment loss is recognized in profit or loss 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 profit or loss in the year in which the reversals are recognized.

#### (iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS/HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(j)(i) and (ii)).

Impairment losses recognized in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no losses, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates. No impairment losses were recognized in respect of goodwill and unquoted equity securities carried at cost during the interim period.

# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (k) Construction in progress

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

### (l) Inventories

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

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

### (m) Accounts receivable and other receivables

Accounts receivable and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for doubtful accounts (see note 1(j)), except where the effect of discounting would be immaterial. In such case, the receivables are stated at cost less impairment losses for doubtful accounts (see note 1(j)).

### (n) Deferred revenue

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

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

Deferred tax credit of purchase of domestic telecommunications equipment is amortized over the remaining lives of the related equipment and the amortization is included in income tax expense.

### (o) Interest-bearing borrowings

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

### (p) Accounts payable and other payables

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



# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (q) Cash and cash equivalents

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

### (r) Revenue recognition

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

- (i) usage fees, value-added services fees and other operating revenue are recognized as revenue when the service is rendered;
- (ii) monthly fees are recognized as revenue in the month during which the service is rendered;
- (iii) deferred revenue from prepaid services is recognized as revenue when the mobile telecommunications services are rendered upon actual usage by subscribers;
- (iv) interest income is recognized as it accrues using the effective interest method; and
- (v) sales of SIM cards and handsets are recognized on delivery of goods to the buyer. Such revenue, net off 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 profit or loss 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.

# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (s) Income tax (Continued)

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

### (t) Provisions and contingent liabilities

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

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

# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (u) Employee benefits

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

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

The Company and a subsidiary in Hong Kong are required to make contributions to Mandatory Provident Funds under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Such contributions are recognized as an expense in profit or loss as incurred.

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

#### (ii) Share-based payments

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

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

#### (iii) Termination benefits

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

# Notes to the financial statements (Continued)

*(Expressed in Renminbi unless otherwise indicated)*

## 1 Significant accounting policies (Continued)

### (v) Borrowing costs

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

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

### (w) Translation of foreign currencies

The functional currency of the Company and its subsidiary incorporated outside the PRC is Hong Kong dollar ("HK\$"). The Group adopted Renminbi ("RMB") as its presentation currency in the preparation of these annual financial statements which is the currency of the primary economic environment in which most of the Group's entities operated.

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of overseas entities are translated into RMB at the exchange rates approximating the foreign exchange rate ruling at the dates of transactions. Balance sheets items are translated into RMB at the exchange rates ruling at the balance sheet date. The resulting exchange differences are included in a separate component of equity. On disposal of an overseas entity, the cumulative amount of the exchange differences recognized under equity relating to that particular foreign operation is included in the calculation of the profit or loss on disposal.

For the purpose of the consolidated cash flow statement, the cash flows of overseas entities within the Group are translated into RMB by using the exchange rates approximating the foreign exchange rate ruling the dates of cash flows.

### (x) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 1 Significant accounting policies (Continued)

### (x) Related parties (Continued)

- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

### (y) Segment reporting

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

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

## 2 Changes in accounting policies

The IASB has issued a number of new Interpretations and an amendment to IFRSs that are first effective for the current accounting period commencing 1 January 2008 or available for early adoption. The equivalent new and revised HKFRSs and Interpretations consequently issued by HKICPA have the same effective date as those issued by the IASB and are in all material respects identical to the pronouncements issued by the IASB. There have been no other material changes to HKFRSs.

These developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's and the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 45).

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 3 Turnover

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

Turnover represents usage fees, monthly fees, value-added services fees and other operating revenue derived from the Group's mobile telecommunications networks, net of PRC business tax. Business tax is charged at approximately 3 per cent. of the corresponding revenue generated from the service rendered in the Mainland China. No business tax is charged on the revenue generated from the Group's mobile telecommunications and related services in Hong Kong.

Value-added services fees are mainly derived from voice value-added services, short message services ("SMS") and non-SMS data services.

Other operating revenue mainly represents interconnection revenue.

### 4 Personnel

	<b>2008</b>	2007
	<b>RMB million</b>	RMB million
Salaries, wages and other benefits	<b>17,829</b>	15,963
Retirement costs: contributions to defined contribution retirement plans	<b>1,909</b>	1,508
Equity-settled share-based payment expenses	<b>222</b>	806
	<b>19,960</b>	18,277

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 5 Other operating expenses

	2008 RMB million	2007 RMB million
Selling and promotion	66,886	55,995
Maintenance	25,761	18,106
Impairment loss for doubtful accounts	4,385	3,872
Impairment loss of inventories	6	4
Amortization of other intangible assets	204	258
Operating lease charges		
— land and buildings	5,723	4,283
— others (Note 1)	2,591	2,537
Gain on disposal of property, plant and equipment	(8)	(11)
Write-off of property, plant and equipment	3,250	2,788
Auditors' remuneration		
— audit services (Note 2)	76	78
— tax services (Note 3)	—	—
— other services (Note 4)	3	5
Others (Note 5)	44,477	35,515
	<b>153,354</b>	<b>123,430</b>

Note 1: Other operating lease charges represent the operating lease charges for motor vehicles, computer and other office equipment.

Note 2: Audit services in 2008 include reporting on the Group's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of the United States of America ("SOX 404") of RMB17,800,000 (2007: RMB18,500,000).

Note 3: Tax services in 2008 include tax compliance services for the Group of RMB55,000 (2007: RMB53,000).

Note 4: Other services in 2007 and 2008 include SOX 404 advisory services and other advisory services.

Note 5: Others consist of office expenses, utilities charges, travelling expenses, entertainment expenses, spectrum charges and number resources fees, consultant and professional fees, consumables and supplies, labor services expenses and other miscellaneous expenses.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 6 Other net income

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

	2008 RMB million	2007 RMB million
Sales of SIM cards and handsets	10,090	9,351
Cost of SIM cards and handsets	(7,931)	(7,028)
	2,159	2,323

### 7 Non-operating net income

	2008 RMB million	2007 RMB million
Exchange loss	(32)	(22)
Penalty income	222	235
Dividend income from unlisted securities	15	31
Others	312	413
	517	657

### 8 Finance costs

	2008 RMB million	2007 RMB million
Interest on bank loans and other borrowings repayable after five years	1,026	1,279
Interest on bonds	524	546
	1,550	1,825



## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 9 Directors' remuneration

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

(Expressed in Hong Kong dollar)

	Directors' fees	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement scheme contributions	Subtotal	Fair value of share options	2008 Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Note)	
<b>Executive directors</b>							
WANG Jianzhou	180	1,172	660	285	2,297	849	3,146
ZHANG Chunjiang (appointed on 5 June 2008)	103	612	344	147	1,206	–	1,206
LI Yue	180	960	540	234	1,914	683	2,597
LU Xiangdong	180	960	540	234	1,914	683	2,597
XUE Taohai	180	960	540	234	1,914	683	2,597
HUANG Wenlin	180	960	540	234	1,914	–	1,914
SHA Yuejia	180	960	540	233	1,913	683	2,596
LIU Aili	180	960	540	233	1,913	132	2,045
XIN Fanfei	180	960	540	225	1,905	–	1,905
XU Long	180	950	540	231	1,901	236	2,137
<b>Independent non-executive directors</b>							
LO Ka Shui	505	–	–	–	505	350	855
WONG Kwong Shing, Frank	440	–	–	–	440	350	790
CHENG Mo Chi, Moses	440	–	–	–	440	350	790
<b>Non-executive director</b>							
Paul Michael DONOVAN (resigned on 19 December 2008)	174	–	–	–	174	–	174
	3,282	9,454	5,324	2,290	20,350	4,999	25,349

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 9 Directors' remuneration (Continued)

(Expressed in Hong Kong dollar)

	Directors' fees	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement scheme contributions	Subtotal	Fair value of share options	2007 Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Note)	
<b>Executive directors</b>							
WANG Jianzhou	180	1,172	660	270	2,282	2,773	5,055
LI Yue	180	960	540	230	1,910	2,013	3,923
LU Xiangdong	180	960	540	230	1,910	2,013	3,923
XUE Taohai	180	960	540	232	1,912	2,013	3,925
HUANG Wenlin (appointed on 24 September 2007)	48	260	147	63	518	–	518
SHA Yuejia	180	960	540	222	1,902	1,933	3,835
LIU Aili	180	960	540	222	1,902	459	2,361
XIN Fanfei	180	960	540	217	1,897	–	1,897
XU Long	180	928	540	221	1,869	783	2,652
ZHANG Chenshuang (resigned on 9 July 2007)	94	497	280	246	1,117	1,154	2,271
<b>Independent non-executive directors</b>							
LO Ka Shui	505	–	–	–	505	936	1,441
WONG Kwong Shing, Frank	440	–	–	–	440	936	1,376
CHENG Mo Chi, Moses	440	–	–	–	440	936	1,376
<b>Non-executive director</b>							
Paul Michael DONOVAN	180	–	–	–	180	–	180
	3,147	8,617	4,867	2,153	18,784	15,949	34,733

Note: This item represents the fair value of share options granted to certain directors under the Company's share option scheme as estimated at the grant date for financial reporting purpose, determined under IFRS/HKFRS 2, rather than an amount paid to or realized by the named director, which is consistent with the approach of determining share-based compensation expense in the consolidated financial statements as set out in note 1(u)(ii). The details of the share option scheme are disclosed under the paragraph "Share Option Schemes" in the report of directors and note 36.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 10 Individuals with highest emoluments

For the years ended 31 December 2007 and 2008, all of the five individuals with the highest emoluments are directors whose emoluments are disclosed in note 9.

### 11 Taxation

#### (a) Taxation in the consolidated income statement represents:

	2008 RMB million	2007 RMB million
<b>Current tax</b>		
Provision for Hong Kong profits tax on the estimated assessable profits for the year	74	72
Provision for PRC enterprise income tax on the estimated taxable profits for the year	38,216	40,473
Over-provision in respect of PRC enterprise income tax for prior years	(24)	(91)
	38,266	40,454
<b>Deferred tax</b>		
Origination and reversal of temporary differences (note 22)	(1,477)	1,605
	36,789	42,059

- (i) In February 2008, the Hong Kong Government announced a decrease in the profits tax rate from 17.5 per cent. to 16.5 per cent. applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. Accordingly, the provision for Hong Kong profits tax for 2008 is calculated at 16.5 per cent. (2007: 17.5 per cent.) of the estimated assessable profits for the year.
- (ii) The provision for the PRC enterprise income tax is based on a statutory rate of 25 per cent. (2007: 33 per cent.) of the taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year ended 31 December 2008, except for certain subsidiaries of the Company or certain operations of the subsidiaries located within special economic zones in the PRC, which were previously taxed at preferential rate of 15 per cent. in 2007, for which the applicable preferential tax rate is 18 per cent. for 2008 and will be increased to 20 per cent., 22 per cent., 24 per cent. and 25 per cent. for the years ending 31 December 2009, 2010, 2011 and 2012, respectively. Accordingly, the deferred tax of the Group is recognized based on the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 11 Taxation (Continued)

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

	2008 RMB million	2007 RMB million
Profit before taxation	149,743	129,238
Notional tax on profit before tax, calculated at statutory tax rates	37,436	42,649
Tax effect of non-taxable item		
— Interest income	(16)	(64)
Tax effect of non-deductible expenses on PRC operations	653	816
Tax effect of non-deductible expenses on Hong Kong operations	261	254
Rate differential on PRC operations	(874)	(2,315)
Rate differential on Hong Kong operations	96	157
Effect of change in PRC enterprise income tax rate	–	1,513
Effect of change in Hong Kong profits tax rate	(6)	–
Over-provision for PRC operations in prior years	(24)	(91)
Amortization of tax credit on purchase of domestic telecommunications equipment	(644)	(788)
Others	(93)	(72)
Taxation	36,789	42,059

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

	2008 RMB million	2007 RMB million
Provision for PRC enterprise income tax for the year	38,192	40,382
Provision for Hong Kong profits tax for the year	74	72
Balance of PRC enterprise income tax recoverable relating to prior year	(124)	(459)
Balance of Hong Kong profits tax recoverable relating to prior year	–	(9)
PRC enterprise income tax paid	(26,853)	(25,837)
Hong Kong profits tax paid	(45)	(12)
Balance as at 31 December	11,244	14,137
Add: Tax recoverable	39	124
Tax payable	11,283	14,261

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 12 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB1,086,000,000 (2007: loss of RMB1,070,000,000) which has been dealt with in the financial statements of the Company.

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

	2008 RMB million	2007 RMB million
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	(1,086)	(1,070)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	50,201	51,467
Company's profit for the year (note 37(b))	49,115	50,397

### 13 Dividends

#### (a) Dividends attributable to the year:

	2008 RMB million	2007 RMB million
Ordinary interim dividend declared and paid of HK\$1.339 (equivalent to approximately RMB1.177) (2007: HK\$0.837 (equivalent to approximately RMB0.816)) per share	23,532	16,178
No special interim dividend declared (2007: HK\$0.085 (equivalent to approximately RMB0.083) per share)	–	1,643
Ordinary final dividend proposed after the balance sheet date of HK\$1.404 (equivalent to approximately RMB1.238) (2007: HK\$1.160 (equivalent to approximately RMB1.086)) per share	24,832	21,762
No special final dividend proposed after the balance sheet date (2007: HK\$0.016 (equivalent to approximately RMB0.015) per share)	–	300
	48,364	39,883

The proposed ordinary final dividend which is declared in Hong Kong dollar is translated into RMB at the rate HK\$1 = RMB0.88189, being the rate announced by the State Administration of Foreign Exchange in the PRC on 31 December 2008. As the ordinary final dividend is declared after the balance sheet date, such dividend is not recognized as liability as at 31 December 2008.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 13 Dividends (Continued)

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

	2008 RMB million	2007 RMB million
Ordinary final dividend in respect of the previous financial year, approved and paid during the year, of HK\$1.160 (equivalent to approximately RMB1.086) (2007: HK\$0.763 (equivalent to approximately RMB0.767)) per share	20,742	14,918
Special final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.016 (equivalent to approximately RMB0.015) (2007: HK\$0.069 (equivalent to approximately RMB0.069)) per share	286	1,349
	<b>21,028</b>	16,267

### 14 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 RMB112,793,000,000 (2007: RMB87,062,000,000) and the weighted average number of 20,043,933,958 shares (2007: 20,005,123,269 shares) in issue during the year, calculated as follows:

*Weighted average number of shares*

	2008 Number of shares	2007 Number of shares
Issued shares as at 1 January	20,031,905,590	19,967,815,140
Effect of share options exercised	12,028,368	37,308,129
Weighted average number of shares as at 31 December	<b>20,043,933,958</b>	20,005,123,269

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 14 Earnings per share (Continued)

#### (b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the profit attributable to equity shareholders of the Company of RMB112,793,000,000 (2007: RMB87,062,000,000) and the weighted average number of shares 20,356,125,657 (2007: 20,339,428,112 shares), calculated as follows:

*Weighted average number of shares (diluted)*

	<b>2008</b>	2007
	<b>Number of</b>	Number of
	<b>shares</b>	shares
Weighted average number of shares as at 31 December	<b>20,043,933,958</b>	20,005,123,269
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<b>312,191,699</b>	334,304,843
Weighted average number of shares (diluted) as at 31 December	<b>20,356,125,657</b>	20,339,428,112

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 15 Property, plant and equipment, net

#### (a) The Group

	Buildings RMB million	Telecom- munications transceivers, switching centers, transmission and other network equipment RMB million	Office equipment, furniture and fixtures and others RMB million	Total RMB million
<b>Cost:</b>				
As at 1 January 2007	43,496	352,523	15,175	411,194
Additions	480	2,077	1,234	3,791
Transferred from construction in progress	7,134	95,458	2,731	105,323
Disposals	(6)	(14)	(21)	(41)
Assets written-off	(61)	(17,386)	(995)	(18,442)
Exchange differences	(2)	(161)	(5)	(168)
As at 31 December 2007	51,041	432,497	18,119	501,657
As at 1 January 2008	<b>51,041</b>	<b>432,497</b>	<b>18,119</b>	<b>501,657</b>
Additions	<b>612</b>	<b>794</b>	<b>1,249</b>	<b>2,655</b>
Transferred from construction in progress	<b>12,179</b>	<b>126,708</b>	<b>3,899</b>	<b>142,786</b>
Disposals	<b>(1)</b>	<b>(1)</b>	<b>(95)</b>	<b>(97)</b>
Assets written-off	<b>(156)</b>	<b>(15,026)</b>	<b>(1,103)</b>	<b>(16,285)</b>
Exchange differences	<b>(1)</b>	<b>(135)</b>	<b>(4)</b>	<b>(140)</b>
As at 31 December 2008	<b>63,674</b>	<b>544,837</b>	<b>22,065</b>	<b>630,576</b>



## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 15 Property, plant and equipment, net (Continued)

#### (a) The Group (Continued)

	Buildings RMB million	Telecom- munications transceivers, switching centers, transmission and other network equipment RMB million	Office equipment, furniture and fixtures and others RMB million	Total RMB million
<b>Accumulated depreciation:</b>				
As at 1 January 2007	7,297	178,066	7,557	192,920
Charge for the year	2,232	62,645	2,477	67,354
Written back on disposals	(1)	(12)	(19)	(32)
Assets written-off	(40)	(14,851)	(763)	(15,654)
Exchange differences	(1)	(96)	(4)	(101)
As at 31 December 2007	9,487	225,752	9,248	244,487
As at 1 January 2008	9,487	225,752	9,248	244,487
Charge for the year	2,652	65,839	3,018	71,509
Written back on disposals	–	(1)	(82)	(83)
Assets written-off	(109)	(11,928)	(998)	(13,035)
Exchange differences	–	(83)	(2)	(85)
As at 31 December 2008	12,030	279,579	11,184	302,793
<b>Net book value:</b>				
As at 31 December 2008	51,644	265,258	10,881	327,783
As at 31 December 2007	41,554	206,745	8,871	257,170

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 15 Property, plant and equipment, net (Continued)

#### (b) The Company

	Office equipment, furniture and fixtures and others RMB million
<b>Cost:</b>	
As at 1 January 2007	13
Additions	–
As at 31 December 2007	13
As at 1 January 2008	13
Additions	4
As at 31 December 2008	17
<b>Accumulated depreciation:</b>	
As at 1 January 2007	8
Charge for the year	1
As at 31 December 2007	9
As at 1 January 2008	9
Charge for the year	2
As at 31 December 2008	11
<b>Net book value:</b>	
As at 31 December 2008	6
As at 31 December 2007	4

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 15 Property, plant and equipment, net (Continued)

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

	<b>The Group 2008</b>	2007
	RMB million	RMB million
Hong Kong		
Long-term leases	3	3
Medium-term leases	14	16
	17	19
Mainland China		
Long-term leases	3,272	3,002
Medium-term leases	46,706	37,302
Short-term leases	1,649	1,231
	51,627	41,535
	51,644	41,554

### 16 Construction in progress

	<b>The Group 2008</b>	2007
	RMB million	RMB million
Balance as at 1 January	47,420	52,436
Additions	130,849	100,311
Transferred to property, plant and equipment	(142,786)	(105,323)
Exchange differences	(1)	(4)
Balance as at 31 December	35,482	47,420

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed as at 31 December 2008.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 17 Goodwill

	<b>The Group</b>	
	<b>2008</b>	2007
	<b>RMB million</b>	RMB million
Cost and carrying amount:		
As at 1 January and 31 December	<b>36,894</b>	36,894

#### Impairment tests for goodwill

As set out in IAS/HKAS 36 Impairment of assets, cash-generating units are the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash flows from other assets. For the purpose of impairment testing of goodwill, goodwill is allocated to a group of cash-generating units (being subsidiaries acquired in each acquisition). Such group of cash-generating units represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and also is within the segment determined in accordance with IAS/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 2013 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5 per cent. for the operation in Hong Kong and 1 per cent. for operations in the Mainland China to perpetuity are used which comply with general expectations for the business. The present value of cash flows is calculated by discounting with pre-tax interest rates of approximately 10 per cent..

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 18 Other intangible assets

	The Group			Total RMB million
	Brand name RMB million	Customer base RMB million	License and others RMB million	
<b>Cost:</b>				
As at 1 January 2007	184	516	378	1,078
Additions	–	–	31	31
Exchange differences	–	–	(17)	(17)
As at 31 December 2007	184	516	392	1,092
As at 1 January 2008	184	516	392	1,092
Additions	–	–	37	37
Exchange differences	–	–	(13)	(13)
As at 31 December 2008	184	516	416	1,116
<b>Accumulated amortization:</b>				
As at 1 January 2007	–	170	208	378
Amortization for the year	–	173	85	258
Exchange differences	–	–	(13)	(13)
As at 31 December 2007	–	343	280	623
As at 1 January 2008	–	343	280	623
Amortization for the year	–	173	31	204
Exchange differences	–	–	(9)	(9)
As at 31 December 2008	–	516	302	818
<b>Net book value:</b>				
As at 31 December 2008	184	–	114	298
As at 31 December 2007	184	173	112	469

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 18 Other intangible assets (Continued)

#### Impairment test for other intangible asset with indefinite useful life

The useful life of the brand name is assessed to be indefinite. The factors considered in the assessment of the useful life of the brand name include analysis of the market and competitive trends, product life cycles, brand extension opportunities and management's long-term strategic development. Overall, these factors provided evidence that the brand name is expected to generate long-term net cash inflows to the Group indefinitely.

The recoverable amount of the brand name is estimated based on value-in-use calculations by discounting future cash flows annually. The data from the Group's detailed planning is used to project cash flows for the subsidiary (cash-generating unit) to which the intangible asset relates for the five years ending 31 December 2013 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5 per cent. to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting with a pre-tax interest rate of approximately 10 per cent..

### 19 Investments in subsidiaries

	The Company	
	2008	2007
	RMB million	RMB million
Unlisted equity, at cost	471,810	471,810
Equity share-based payment in subsidiaries	4,972	4,758
	<b>476,782</b>	476,568

In accordance with IFRS/HKFRS 2 Share-based payment, share-based payment transactions in which an entity receives services from its employees as consideration for equity instruments of the entity are accounted for as equity-settled transactions (see note 1(u)(ii)). The Company has recognized the grant of equity instruments to its subsidiaries' employees amounting to RMB4,972,000,000 (2007: RMB4,758,000,000) as capital contributions to its subsidiaries.

Amounts due from subsidiaries under current assets are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business. Amount due to a subsidiary under non-current liabilities represents amount due to China Mobile Group Guangdong Co., Ltd. ("Guangdong Mobile") in relation to the guaranteed bonds, which are unsecured, interest bearing and repayable after more than one year (see note 32(c)).

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 19 Investments in subsidiaries (Continued)

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

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by a subsidiary	
Guangdong Mobile*	PRC	RMB5,594,840,700	100%	–	Mobile telecommunications operator
China Mobile Group Zhejiang Co., Ltd.*	PRC	RMB2,117,790,000	100%	–	Mobile telecommunications operator
Jiangsu Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Jiangsu Co., Ltd.*	PRC	RMB2,800,000,000	–	100%	Mobile telecommunications operator
Fujian Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Fujian Co., Ltd.*	PRC	RMB5,247,480,000	–	100%	Mobile telecommunications operator
Henan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Henan Co., Ltd.*	PRC	RMB4,367,733,641	–	100%	Mobile telecommunications operator
Hainan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Hainan Co., Ltd.*	PRC	RMB643,000,000	–	100%	Mobile telecommunications operator
Beijing Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Beijing Co., Ltd.*	PRC	RMB6,124,696,053	–	100%	Mobile telecommunications operator
Shanghai Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 19 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by a subsidiary	
China Mobile Group Shanghai Co., Ltd.*	PRC	RMB6,038,667,706	–	100%	Mobile telecommunications operator
Tianjin Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Tianjin Co., Ltd.*	PRC	RMB2,151,035,483	–	100%	Mobile telecommunications operator
Hebei Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Hebei Co., Ltd.*	PRC	RMB4,314,668,600	–	100%	Mobile telecommunications operator
Liaoning Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Liaoning Co., Ltd.*	PRC	RMB5,140,126,680	–	100%	Mobile telecommunications operator
Shandong Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Shandong Co., Ltd.*	PRC	RMB6,341,851,146	–	100%	Mobile telecommunications operator
Guangxi Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Guangxi Co., Ltd.*	PRC	RMB2,340,750,100	–	100%	Mobile telecommunications operator
Anhui Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Anhui Co., Ltd.*	PRC	RMB4,099,495,494	–	100%	Mobile telecommunications operator
Jiangxi Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Jiangxi Co., Ltd.*	PRC	RMB2,932,824,234	–	100%	Mobile telecommunications operator



## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 19 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by a subsidiary	
Chongqing Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Chongqing Co., Ltd.*	PRC	RMB3,029,645,401	–	100%	Mobile telecommunications operator
Sichuan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Sichuan Co., Ltd.*	PRC	RMB7,483,625,572	–	100%	Mobile telecommunications operator
Hubei Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Hubei Co., Ltd.*	PRC	RMB3,961,279,556	–	100%	Mobile telecommunications operator
Hunan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Hunan Co., Ltd.*	PRC	RMB4,015,668,593	–	100%	Mobile telecommunications operator
Shaanxi Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Shaanxi Co., Ltd.*	PRC	RMB3,171,267,431	–	100%	Mobile telecommunications operator
Shanxi Mobile Communication (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Shanxi Co., Ltd.*	PRC	RMB2,773,448,313	–	100%	Mobile telecommunications operator
Neimenggu Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Neimenggu Co., Ltd.*	PRC	RMB2,862,621,870	–	100%	Mobile telecommunications operator

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 19 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by a subsidiary	
Jilin Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Jilin Co., Ltd.*	PRC	RMB3,277,579,314	–	100%	Mobile telecommunications operator
Heilongjiang Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Heilongjiang Co., Ltd.*	PRC	RMB4,500,508,035	–	100%	Mobile telecommunications operator
Guizhou Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Guizhou Co., Ltd.*	PRC	RMB2,541,981,749	–	100%	Mobile telecommunications operator
Yunnan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Yunnan Co., Ltd.*	PRC	RMB4,137,130,733	–	100%	Mobile telecommunications operator
Xizang Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Xizang Co., Ltd.*	PRC	RMB848,643,686	–	100%	Mobile telecommunications operator
Gansu Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Gansu Co., Ltd.*	PRC	RMB1,702,599,589	–	100%	Mobile telecommunications operator
Qinghai Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Qinghai Co., Ltd.*	PRC	RMB902,564,911	–	100%	Mobile telecommunications operator

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 19 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by a subsidiary	
Ningxia Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Ningxia Co., Ltd.*	PRC	RMB740,447,232	–	100%	Mobile telecommunications operator
Xinjiang Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Xinjiang Co., Ltd.*	PRC	RMB2,581,599,600	–	100%	Mobile telecommunications operator
Beijing P&T Consulting & Design Institute (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Design Institute Co., Ltd.*	PRC	RMB160,232,500	–	100%	Provision of telecommunications network planning design and consulting services
China Mobile Communication (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Communication Co., Ltd.*	PRC	RMB1,641,848,326	–	100%	Network and business coordination center
China Mobile Holding Company Limited*	PRC	US\$30,000,000	100%	–	Investment holding company
China Mobile (Shenzhen) Limited*	PRC	US\$7,633,000	–	100%	Provision of roaming clearance services
Aspire Holdings Limited	Cayman Islands	HK\$93,964,583	66.41%	–	Investment holding company

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 19 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by a subsidiary	
Aspire (BVI) Limited <sup>#</sup>	BVI	US\$1,000	–	100%	Investment holding company
Aspire Technologies (Shenzhen) Limited <sup>*#</sup>	PRC	US\$10,000,000	–	100%	Technology platform development and maintenance
Aspire Information Network (Shenzhen) Limited <sup>*#</sup>	PRC	US\$5,000,000	–	100%	Provision of mobile data solutions, system integration and development
Aspire Information Technologies (Beijing) Limited <sup>*#</sup>	PRC	US\$5,000,000	–	100%	Technology platform development and maintenance
Fujian FUNO Mobile Communication Technology Company Limited <sup>**</sup>	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
China Mobile Hong Kong Company Limited (“Hong Kong Mobile”) (formerly “China Mobile Peoples Telephone Company Limited”)	Hong Kong	HK\$356,947,689	–	100%	Provision of mobile telecommunications and related services

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

\*\* Company registered as a sino-foreign equity joint venture in the PRC.

# Effective interest held by the Group is 66.41 per cent..

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 20 Interest in associates

	<b>The Group 2008</b>	2007
	<b>RMB million</b>	RMB million
Share of net assets	–	–

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

<b>Name of associate</b>	<b>Place of incorporation and operation</b>	<b>Proportion of ownership interest held by a subsidiary</b>	<b>Principal activity</b>
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 is based on latest management accounts which showed net liabilities as at 31 December 2007 and 2008. The Group has made full impairment loss on the cost of investment in the associates in 2007 and 2008.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 21 Interest in jointly controlled entity

	<b>The Group</b>	2007
	<b>2008</b>	RMB million
	<b>RMB million</b>	RMB million
Share of net assets	7	–

Details of the Group's interest in the jointly controlled entity is as follows:

<b>Name of jointly controlled entity</b>	<b>Place of incorporation and operation</b>	<b>Proportion of ownership interest held by the Group and the Company</b>	<b>Principal activity</b>
JIL B.V.	The Netherlands	33.33%	Research and develop telecommunication technologies and application services

JIL B.V. was formed by the Company and other shareholders in 2008 but did not start operations by the end of 2008. JIL B.V. is considered as a jointly controlled entity since the Company and the other shareholders have the right to appoint an equal number of directors to the board of directors. As at 31 December 2008, the Group's share of the JIL B.V.'s net assets amounted to RMB7,000,000.

Up to the end of 2008, each shareholder, including the Company, has funded US\$1,000,000 (equivalent to RMB7,000,000) to JIL B.V. in accordance with the shareholders agreement, and each funded shareholder has committed to funding an additional US\$4,000,000 by no later than June 2010.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 22 Deferred tax assets and liabilities

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

#### Deferred tax assets and liabilities recognized and the movements during 2008

	As at 1 January 2008 RMB million	Effect on change of tax rates RMB million	Credited/ (charged) to consolidated income statement RMB million	Exchange differences RMB million	As at 31 December 2008 RMB million
<b>Deferred tax assets arising from:</b>					
Provision for obsolete inventories	6	–	(1)	–	5
Write-off of certain network equipment and related assets	1,739	–	110	–	1,849
Provision for certain operating expenses	2,748	–	1,180	–	3,928
Impairment loss for doubtful accounts	952	–	150	–	1,102
	5,445	–	1,439	–	6,884
<b>Deferred tax liabilities arising from:</b>					
Capitalized interest	(36)	–	20	–	(16)
Depreciation allowance in excess of related depreciation	(86)	5	13	4	(64)
	(122)	5	33	4	(80)
<b>Total</b>	<b>5,323</b>	<b>5</b>	<b>1,472</b>	<b>4</b>	<b>6,804</b>

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 22 Deferred tax assets and liabilities (Continued)

#### Deferred tax assets and liabilities recognized and the movements during 2007

	As at 1 January 2007 RMB million	Effect on change of tax rates RMB million	Credited/ (charged) to consolidated income statement RMB million	Exchange differences RMB million	As at 31 December 2007 RMB million
<b>Deferred tax assets arising from:</b>					
Provision for obsolete inventories	8	(1)	(1)	–	6
Write-off of certain network equipment and related assets	2,770	(284)	(747)	–	1,739
Provision for certain operating expenses	3,165	(307)	(110)	–	2,748
Impairment loss for doubtful accounts	1,170	(99)	(119)	–	952
	7,113	(691)	(977)	–	5,445
<b>Deferred tax liabilities arising from:</b>					
Capitalized interest	(80)	8	36	–	(36)
Depreciation allowance in excess of related depreciation	(112)	–	19	7	(86)
	(192)	8	55	7	(122)
<b>Total</b>	<b>6,921</b>	<b>(683)</b>	<b>(922)</b>	<b>7</b>	<b>5,323</b>

	<b>The Group</b>	
	<b>2008</b>	2007
	<b>RMB million</b>	RMB million
Net deferred tax assets recognized in the consolidated balance sheet	<b>6,884</b>	5,445
Net deferred tax liabilities recognized in the consolidated balance sheet	<b>(80)</b>	(122)
<b>Balance as at 31 December</b>	<b>6,804</b>	5,323



## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 23 Other financial assets

	The Group	
	2008	2007
	RMB million	RMB million
Available-for-sale equity security: — Unlisted equity security in the PRC	77	77

### 24 Inventories

Inventories primarily comprise handsets, SIM cards and handset accessories.

### 25 Accounts receivable, net

#### (a) Aging analysis

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

	The Group	
	2008	2007
	RMB million	RMB million
Within 30 days	4,713	4,986
31–60 days	1,212	1,058
61–90 days	769	713
Over 90 days	219	228
	6,913	6,985

Accounts receivable primarily comprise receivables from subscribers. Accounts receivable from subscribers are due for payment within one month from date of billing. Subscribers with balances that are overdue or exceed credit limits are required to settle all outstanding balances before any further phone calls can be made.

Accounts receivable are expected to be recovered within one year.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 25 Accounts receivable, net (Continued)

#### (b) Impairment of accounts receivable

Impairment loss in respect of accounts receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts receivable directly.

The following table summarizes the changes in impairment losses for doubtful accounts:

	The Group	
	2008	2007
	RMB million	RMB million
Balance as at 1 January	3,974	3,930
Impairment loss for doubtful accounts	4,382	3,847
Accounts receivable written off	(3,807)	(3,803)
Exchange differences	(1)	–
Balance as at 31 December	4,548	3,974

#### (c) Accounts receivable that are not impaired

The aging analysis of accounts receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2008	2007
	RMB million	RMB million
Neither past due nor impaired	6,265	6,386
Less than 1 month past due	648	599
	6,913	6,985

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 26 Other receivables, prepayments and other current assets

Other receivables primarily comprise interest receivable from banks, utilities deposits and rental deposits.

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

Prepayments and other current assets include primarily construction prepayment and rental prepayment.

### 27 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.

Amount due to immediate holding company under current liabilities represented interest payable on the deferred consideration payable (see note 32), which is expected to be settled within one year.

### 28 Deposits with banks

Balance of deposits with banks as at 31 December 2008 included a pledged deposit of HK\$150,000,000 (equivalent to RMB132,000,000) (2007: Nil) representing a letter of credit issued by Hong Kong Mobile to the Office of Telecommunications Authority in Hong Kong for eligibility in entering the bidding process for a license to utilize certain radio spectrum, which can be used for next generation mobile services technology for duration of fifteen years in Hong Kong.

On 22 January 2009, Hong Kong Mobile has become the provisional successful bidder for this license and was required to pay total spectrum utilization fees of HK\$495,000,000. The letter of credit was released on 11 March 2009 after the full payment of the spectrum utilization fees.

### 29 Cash and cash equivalents

	The Group		The Company	
	2008	2007	2008	2007
	RMB million	RMB million	RMB million	RMB million
Deposits with banks within three months of maturity	2,992	8,359	452	6,775
Cash at banks and in hand	84,434	70,500	37	118
	<b>87,426</b>	78,859	<b>489</b>	6,893

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 30 Accounts payable

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

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

	<b>The Group 2008</b>	2007
	RMB million	RMB million
Amounts payables in the next:		
1 month or on demand	57,483	45,119
2–3 months	5,566	6,048
4–6 months	7,098	5,165
7–9 months	5,134	3,091
10–12 months	4,325	4,504
	<b>79,606</b>	63,927

All of the accounts payable are expected to be settled within one year or are repayable on demand.

### 31 Deferred revenue

Deferred revenue primarily includes prepaid service fees received from subscribers and deferred tax credit of purchase of domestic telecommunications equipment. 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 over the remaining lives of the related equipment and the amortization is included in income tax expense.

	<b>The Group 2008</b>	2007
	RMB million	RMB million
Balance as at 1 January	24,359	22,753
Additions during the year	180,794	154,714
Recognized in the income statement	(178,475)	(153,102)
Exchange differences	(5)	(6)
Balance as at 31 December	26,673	24,359
Less: Current portion	(26,089)	(23,762)
Non-current portion	584	597

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 32 Interest-bearing borrowings

#### (a) The Group

	2008 RMB million	2007 RMB million
Bonds	9,920	9,949
Deferred consideration payable	23,633	23,633
	<b>33,553</b>	33,582

All of the above interest-bearing borrowings are unsecured and are not expected to be settled within one year.

#### (b) The Company

	2008 RMB million	2007 RMB million
Deferred consideration payable	23,633	23,633

#### (c) Bonds

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

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

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

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

The Company has issued a joint and irrevocable guarantee (the "Guarantee") for the performance of the above bonds. China Mobile Communications Corporation ("CMCC"), the ultimate holding company, has also issued a further guarantee in relation to the performance by the Company of its obligations under the Guarantee.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 32 Interest-bearing borrowings (Continued)

#### (d) Deferred consideration payable

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

The deferred consideration payable is unsecured and bears interest at the rate of the two-year US dollar LIBOR swap rate per annum (for the year ended 31 December 2008: 3.238 to 5.418 per cent. per annum; for the year ended 31 December 2007: 5.408 to 5.418 per cent. per annum). The balances are subordinated to other senior debts owed by the Company from time to time. The Company may make early payment of all or part of the balances at any time before the repayment date without penalty. The balances in respect of the acquisitions of subsidiaries in 2002 and 2004 are due on 1 July 2017 and 2019 respectively.

### 33 Accrued expenses and other payables

	<b>The Group</b>	
	<b>2008</b>	2007
	<b>RMB million</b>	RMB million
Receipts-in-advance	36,054	29,386
Other payables	9,806	11,020
Accrued salaries, wages and benefits	4,113	2,995
Accrued expense	11,319	7,459
	<b>61,292</b>	50,860

### 34 Obligations under finance leases

As at 31 December 2008, the Group had obligations under finance leases repayable as follows:

	<b>2008</b>			2007		
	<b>Present</b>	<b>Interest</b>	<b>Total</b>	Present	Interest	Total
	<b>value of the</b>	<b>expense</b>	<b>minimum</b>	value of the	expense	minimum
	<b>minimum</b>	<b>relating</b>	<b>lease</b>	minimum	relating	lease
	<b>lease</b>	<b>to future</b>	<b>payments</b>	lease	to future	payments
	<b>payments</b>	<b>periods</b>	<b>payments</b>	payments	periods	payments
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>	RMB million	RMB million	RMB million
Within 1 year	68	3	71	68	3	71

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 35 Employee retirement benefits

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

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

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

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

### 36 Equity settled share-based transactions

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

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 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 Current Scheme is HK\$1.00.

The Stock Exchange of Hong Kong Limited (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.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 36 Equity settled share-based transactions (Continued)

Under 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 date on which the option is granted.

- (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		Vesting conditions	Contractual life of options
	2008	2007		
<b>Options granted to directors</b>				
— on 3 July 2002	25,000	300,000	50% two years from the date of grant, 50% five years from the date of grant	10 years
— on 28 October 2004	744,175	744,175	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	475,000	475,000	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	5,685,500	5,685,500	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
<b>Options granted to other employees</b>				
— on 3 July 2002	38,989,104	57,278,204	50% two years from the date of grant, 50% five years from the date of grant	10 years
— on 28 October 2004	120,405,339	123,658,660	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	267,725,370	268,535,750	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
<b>Total share options</b>	<b>434,049,488</b>	456,677,289		



## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 36 Equity settled share-based transactions (Continued)

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

	The Group			
	2008	2008	2007	
	Weighted average exercise price HK\$	Number of shares involved in the options	Weighted average exercise price HK\$	Number of shares involved in the options
As at 1 January	30.04	456,677,289	29.66	527,163,459
Exercised	23.23	(22,473,641)	25.89	(64,090,450)
Canceled	28.71	(154,160)	26.78	(584,970)
Expired	–	–	41.33	(5,810,750)
As at 31 December	30.40	434,049,488	30.04	456,677,289
Option vested as at 31 December	30.40	434,049,488	28.93	370,929,489

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$107.98 (2007: HK\$94.04).

The options outstanding as at 31 December 2008 had exercise prices ranging from HK\$22.75 to HK\$34.87 (2007: HK\$22.75 to HK\$34.87) and a weighted average remaining contractual life of 6.3 years (2007: 7.2 years).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model. No share options were granted during 2007 and 2008.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 37 Capital and reserves

#### (a) The Group

	Share capital	Share premium	Capital reserve	General reserve	Exchange 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	RMB million
As at 1 January 2007	2,130	383,807	(292,634)	72	(43)	66,961	158,709	319,002	371	319,373
Dividends approved in respect of previous year (note 13(b))	-	-	-	-	-	-	(16,267)	(16,267)	-	(16,267)
Dividends declared in respect of the year (note 13(a))	-	-	-	-	-	-	(17,821)	(17,821)	-	(17,821)
Shares issued under share option scheme (note 37(c)(ii))	6	1,936	(328)	-	-	-	-	1,614	-	1,614
Equity settled share-based transactions	-	-	806	-	-	-	-	806	-	806
Profit for the year	-	-	-	-	-	-	87,062	87,062	117	87,179
Transfer to PRC statutory reserves	-	-	-	-	-	17,879	(17,879)	-	-	-
Exchange differences	-	-	-	-	(645)	-	-	(645)	-	(645)
As at 31 December 2007	2,136	385,743	(292,156)	72	(688)	84,840	193,804	373,751	488	374,239
As at 1 January 2008	2,136	385,743	(292,156)	72	(688)	84,840	193,804	373,751	488	374,239
Dividends approved in respect of previous year (note 13(b))	-	-	-	-	-	-	(21,028)	(21,028)	-	(21,028)
Dividends declared in respect of the year (note 13(a))	-	-	-	-	-	-	(23,532)	(23,532)	-	(23,532)
Dividends declared to minority interests in respect of the year	-	-	-	-	-	-	-	-	(20)	(20)
Shares issued under share option scheme (note 37(c)(ii))	2	494	(31)	-	-	-	-	465	-	465
Equity settled share-based transactions	-	-	222	-	-	-	-	222	-	222
Profit for the year	-	-	-	-	-	-	112,793	112,793	161	112,954
Transfer to PRC statutory reserves	-	-	-	-	-	22,452	(22,452)	-	-	-
Exchange differences	-	-	-	-	(393)	-	-	(393)	-	(393)
As at 31 December 2008	2,138	386,237	(291,965)	72	(1,081)	107,292	239,585	442,278	629	442,907

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 37 Capital and reserves (Continued)

#### (b) The Company

	Share capital	Share premium	Capital reserve	General reserve	Exchange reserve	Retained profits	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
As at 1 January 2007	2,130	383,807	3,031	72	–	65,734	454,774
Dividends approved in respect of previous year (note 13(b))	–	–	–	–	–	(16,267)	(16,267)
Dividends declared in respect of the year (note 13(a))	–	–	–	–	–	(17,821)	(17,821)
Shares issued under share option scheme (note 37(c)(ii))	6	1,936	(328)	–	–	–	1,614
Equity settled share-based transactions	–	–	806	–	–	–	806
Profit for the year	–	–	–	–	–	50,397	50,397
Exchange differences	–	–	–	–	(549)	–	(549)
As at 31 December 2007	2,136	385,743	3,509	72	(549)	82,043	472,954
As at 1 January 2008	<b>2,136</b>	<b>385,743</b>	<b>3,509</b>	<b>72</b>	<b>(549)</b>	<b>82,043</b>	<b>472,954</b>
Dividends approved in respect of previous year (note 13(b))	–	–	–	–	–	(21,028)	(21,028)
Dividends declared in respect of the year (note 13(a))	–	–	–	–	–	(23,532)	(23,532)
Shares issued under share option scheme (note 37(c)(ii))	<b>2</b>	<b>494</b>	<b>(31)</b>	–	–	–	<b>465</b>
Equity settled share-based transactions	–	–	222	–	–	–	222
Profit for the year	–	–	–	–	–	49,115	49,115
Exchange differences	–	–	–	–	(310)	–	(310)
As at 31 December 2008	<b>2,138</b>	<b>386,237</b>	<b>3,700</b>	<b>72</b>	<b>(859)</b>	<b>86,598</b>	<b>477,886</b>

As at 31 December 2008, the amount of distributable reserves of the Company amounted to RMB86,670,000,000 (2007: RMB82,115,000,000).

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 37 Capital and reserves (Continued)

#### (c) Share capital

##### (i) Authorized and issued share capital

	2008			2007		
	HK\$ million			HK\$ million		
<i>Authorized:</i>						
30,000,000,000 ordinary shares of HK\$0.10 each	3,000			3,000		
<i>Issued and fully paid:</i>						
	2008			2007		
	Number of shares	HK\$ million	Equivalent RMB million	Number of shares	HK\$ million	Equivalent RMB million
As at 1 January	20,031,905,590	2,003	2,136	19,967,815,140	1,997	2,130
Shares issued under share option scheme (note 36)	22,473,641	2	2	64,090,450	6	6
As at 31 December	20,054,379,231	2,005	2,138	20,031,905,590	2,003	2,136

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 2008, options were exercised to subscribe for 22,473,641 (2007: 64,090,450) ordinary shares in the Company at a consideration of HK\$522,000,000 (equivalent to RMB465,000,000) (2007: HK\$1,659,000,000 (equivalent to RMB1,614,000,000)) of which HK\$2,000,000 (equivalent to RMB2,000,000) (2007: HK\$6,000,000 (equivalent to RMB6,000,000)) was credited to share capital and the balance of HK\$520,000,000 (equivalent to RMB463,000,000) (2007: HK\$1,653,000,000 (equivalent to RMB1,608,000,000)) was credited to the share premium account. HK\$30,000,000 (equivalent to RMB31,000,000) (2007: HK\$315,000,000 (equivalent to RMB328,000,000)) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(u)(ii).

# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 37 Capital and reserves (Continued)

### (d) Nature and purpose of reserves

#### (i) Share premium

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

#### (ii) Capital reserve

The capital reserve comprises the following:

- The fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognized in accordance with the accounting policy adopted for share-based payments in note 1(u)(ii); and
- There was RMB295,665,000,000 debit balance brought forward as a result of the elimination of goodwill arising on the acquisition of subsidiaries before 1 January 2001 against the capital reserve in previous years.

#### (iii) PRC statutory reserves

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

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

The general reserve can be used to reduce previous years' losses 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.

As at 31 December 2008, the balances of the general reserve, enterprise expansion fund and statutory surplus reserve were RMB51,019,000,000 (2007: RMB39,794,000,000), RMB56,250,000,000 (2007: RMB45,019,000,000), RMB23,000,000 (2007: RMB27,000,000) respectively.

#### (iv) Exchange reserve

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

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 37 Capital and reserves (Continued)

#### (e) Capital management

The Group's primary objectives when managing capital are to maintain a reasonable capital structure and to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders.

The Group actively and regularly reviews and manages its capital structure, applies financial gearings rationally, maintains a prudent debt policy and balances between the cost of capital and the financing risks in order to maintain a reasonable capital structure.

The Group monitors capital on the basis of total debt-to-book capitalization ratio. This ratio is calculated as total debts (including bills payable, obligations under finance leases, current and non-current interest-bearing borrowings as shown in the consolidated balance sheet) divided by book capitalization (refer to the total equity attributable to equity shareholders of the Company as shown in the consolidated balance sheet and total debts).

As at 31 December 2008, the Group's total debt-to-book capitalization ratio was 7.5 per cent. (2007: 8.7 per cent.).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

### 38 Related party transactions

#### (a) Transactions with CMCC Group

The following is a summary of principal related party transactions entered into by the Group with CMCC and its subsidiaries, excluding the Group, (the "CMCC Group"), for the year ended 31 December 2007 and 31 December 2008. The majority of these transactions also constitute continuing connected transactions under the Listing Rules. Further details of these continuing connected transactions are disclosed under the paragraph "Connected Transactions" in the report of directors.

	Note	2008 RMB million	2007 RMB million
Property leasing and management services charges	(i)	1,182	940
Telecommunications services charges	(ii)	3,798	2,477
Interest paid/payable	(iii)	1,026	1,279
Interconnection revenue	(iv)	183	–
Interconnection charges	(iv)	216	–
Leased line charges	(iv)	11	–
Property leasing charges	(v)	191	–
Facilities support fees	(v)	160	–
Operation supports and management fees	(v)	269	–

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 38 Related party transactions (Continued)

#### (a) Transactions with CMCC Group (Continued)

Notes:

- (i) *Property leasing and management services charges represent the rental and property management fees paid or payable to CMCC Group in respect of business premises and offices, retail outlets and warehouses.*
- (ii) *Telecommunications services charges represent the amounts paid or payable to CMCC Group for the telecommunications project planning, design and construction services; telecommunications line and pipeline construction services; and telecommunications line maintenance services.*
- (iii) *Interest paid/payable represents the interest paid or payable to China Mobile Hong Kong (BVI) Limited, the Company's immediate holding company, in respect of the balances of purchase consideration for acquisition of subsidiaries.*
- (iv) *The amounts represent settlement paid/payable to or received/receivable from China TieTong Telecommunications Corporation, a wholly-owned subsidiary of CMCC, in respect of interconnection settlement and lease line charges after acquisition date.*
- (v) *The amounts represent settlement fees received or receivable by the Group for providing operating service to CMCC in respect of TD-SCDMA trial network. From the beginning of 1 January 2009, the Group will lease the TD-SCDMA Network Capacity from CMCC and pay leasing fees to CMCC.*

#### (b) Key management personnel remuneration

Remuneration for key management personnel is disclosed in note 9.

### 39 Transactions with other state-controlled entities in the PRC

Apart from transactions with the CMCC Group (see note 38), the Group, a state-controlled enterprise, conducts certain business activities with enterprises directly or indirectly owned or controlled by the PRC government and governmental authorities and agencies (collectively referred to as "state-controlled entities") in the ordinary course of business. These transactions, primarily include providing telecommunications services, rendering and receiving services, sales and purchase of goods and deposits with financial institutions, are carried out at terms similar to those that would be entered into with non-state-controlled entities and have been reflected in the financial statements. These transactions are conducted and settled in accordance with rules and regulations stipulated by related authorities of the PRC Government.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 39 Transactions with other state-controlled entities in the PRC (Continued)

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

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

	2008 RMB million	2007 RMB million
Interconnection revenue	13,679	11,201
Interconnection charges	19,981	18,786
Leased line charges	2,202	2,049

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

	2008 RMB million	2007 RMB million
Accounts receivable and other receivables	666	629
Accounts payable and other payables	1,237	1,675

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

	2008 RMB million	2007 RMB million
Interest income	5,791	3,910

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

	2008 RMB million	2007 RMB million
Deposits with banks	130,129	109,685
Cash and cash equivalents	85,805	75,438



# Notes to the financial statements (Continued)

*(Expressed in Renminbi unless otherwise indicated)*

## 40 Financial instruments

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk and concentration risk

The Group's credit risk is primarily attributable to the financial assets in the balance sheet, which mainly include deposit with banks, accounts receivable and other receivables. The maximum exposure to credit risk is represented by the carrying amount of those financial assets.

Substantially all the Group's cash and cash equivalents are deposited in financial institutions in Hong Kong and Mainland China. The credit risk on liquid funds is limited as the majority of counter parties are financial institutions with high credit ratings assigned by international credit-rating agencies and state-controlled financial institutions with good reputations.

The accounts receivable of the Group are primarily comprised of amounts receivable from subscribers. Accounts receivable from subscribers are spread among an extensive number of subscribers and the majority of the receivables from subscribers are due for payment within one month from the date of billing. Other receivables primarily comprise interest receivable from banks, utilities deposits and rental deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis, taking into account the counter parties' financial position, the Group's past experience and other factors. As such, management considers the aggregate risks arising from the possibility of credit losses is limited and to be acceptable.

Concentrations of credit risk with respect to accounts receivable are limited due to the Group's customer base being large and unrelated. As such, management does not expect any significant losses of accounts receivable that have not been provided for by way of allowances as shown in note 25.

### (b) Liquidity risk

The financial position of the Group maintained at a stable level with low debt asset ratio, high interest coverage ratio, strong cash generating power and sufficient cash reserve.

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

The Company strictly monitors the financial activities of its subsidiaries. Unauthorized loans borrowing and guarantee activities are strictly prohibited by the Company in order to effectively monitor the financial risks of the Group.

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 40 Financial instruments (Continued)

#### (b) Liquidity risk (Continued)

The following table sets out the remaining contractual maturities at the balance sheet date of the Group and the Company's financial liabilities, which are based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates current at the balance sheet) and the earlier date the Group and the Company would be required to repay:

#### The Group

	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	2008			
			Within 1 year or on demand RMB million	More than 1 year but less than 3 years RMB million	More than 3 years but less than 5 years RMB million	More than 5 years RMB million
Accounts payable	79,606	79,606	79,606	—	—	—
Bills payable	2,111	2,111	2,111	—	—	—
Accrued expenses and other payables	61,292	61,292	61,292	—	—	—
Amount due to ultimate holding company	6	6	6	—	—	—
Amount due to immediate holding company	118	118	118	—	—	—
Interest-bearing borrowings						
— Deferred consideration payable	23,633	27,915	774	960	766	25,415
— Bonds	9,920	12,520	468	5,742	450	5,860
Obligations under finance leases	68	71	71	—	—	—
	176,754	183,639	144,446	6,702	1,216	31,275

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 40 Financial instruments (Continued)

#### (b) Liquidity risk (Continued)

##### The Group

	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	2007			
			Within 1 year or on demand RMB million	More than 1 year but less than 3 years RMB million	More than 3 years but less than 5 years RMB million	More than 5 years RMB million
Accounts payable	63,927	63,927	63,927	–	–	–
Bills payable	1,853	1,853	1,853	–	–	–
Accrued expenses and other payables	50,860	50,860	50,860	–	–	–
Amount due to ultimate holding company	26	26	26	–	–	–
Amount due to immediate holding company	196	196	196	–	–	–
Interest-bearing borrowings						
— Deferred consideration payable	23,633	31,040	971	1,333	1,333	27,403
— Bonds	9,949	13,204	495	1,039	5,585	6,085
Obligations under finance leases	68	71	71	–	–	–
	150,512	161,177	118,399	2,372	6,918	33,488

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 40 Financial instruments (Continued)

#### (b) Liquidity risk (Continued)

##### The Company

	2008					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within 1 year or on demand RMB million	More than 1 year but less than 3 years RMB million	More than 3 years but less than 5 years RMB million	More than 5 years RMB million
Accrued expenses and other payables	28	28	28	–	–	–
Amount due to a subsidiary	9,920	12,520	468	5,742	450	5,860
Amount due to immediate holding company	118	118	118	–	–	–
Interest-bearing borrowings	23,633	27,915	774	960	766	25,415
	<b>33,699</b>	<b>40,581</b>	<b>1,388</b>	<b>6,702</b>	<b>1,216</b>	<b>31,275</b>

  

	2007					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within 1 year or on demand RMB million	More than 1 year but less than 3 years RMB million	More than 3 years but less than 5 years RMB million	More than 5 years RMB million
Accrued expenses and other payables	17	17	17	–	–	–
Amount due to a subsidiary	9,949	13,204	495	1,039	5,585	6,085
Amount due to immediate holding company	196	196	196	–	–	–
Interest-bearing borrowings	23,633	31,040	971	1,333	1,333	27,403
	<b>33,795</b>	<b>44,457</b>	<b>1,679</b>	<b>2,372</b>	<b>6,918</b>	<b>33,488</b>

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 40 Financial instruments (Continued)

#### (c) Interest rate risk

The Group has interest rate risk as certain existing interest-bearing borrowings variable rate and therefore expose the Group to cash flow interest rate risk. These borrowings mainly include bonds issued in 2001 and deferred consideration for the acquisition of subsidiaries in 2002 and 2004. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 32.

The following table set out the interest rate profile of the Group's floating interest bearing borrowings at the balance sheet date.

	The Group				The Company			
	2008		2007		2008		2007	
	Effective interest rate	RMB million	Effective interest rate	RMB million	Effective interest rate	RMB million	Effective interest rate	RMB million
2001 Bonds	5.39%	5,000	4.43%	5,000	–	–	–	–
Deferred consideration for acquisition of subsidiaries in 2002	4.37%	9,976	5.42%	9,976	4.37%	9,976	5.42%	9,976
Deferred consideration for acquisition of subsidiaries in 2004	4.32%	13,657	5.41%	13,657	4.32%	13,657	5.41%	13,657

As at 31 December 2008, if the base interest rate for the Peoples Bank of China increases/decreases by 1 per cent., the effective interest rate for bonds would increase/decrease by 1 per cent., and the profit for the year and total equity would decrease/increase by RMB37,500,000 (2007: RMB37,500,000).

As at 31 December 2008, if the two-year US dollar LIBOR swap rate interest rate per annum increased/decreased by 1 per cent., the effective interest rate for deferred consideration would increase/decrease by 1 per cent., and the profit for the year and total equity would decrease/increase by RMB236,000,000 (2007: RMB236,000,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which exposure the Group to fair value interest rate risk at the balance sheet date. The assumption of increase or decrease of interest rate of Peoples Bank of China and two-year US dollar LIBOR swap rate represents management's estimation of a reasonably possible change in interest rates over the period until the next interest rate re-pricing date.

As at 31 December 2008, total cash and bank balances of the Group amounted to RMB218,259,000,000 (2007: RMB188,544,000,000), the interest income for 2008 was RMB6,002,000,000 (2007: RMB4,015,000,000) and the average interest return rate was 2.95 per cent. (2007: 2.35 per cent.). Assuming the total cash and bank balances are stable in the coming year and return rate increases/decreases by 1 per cent., the profit for the year and total equity would approximately increase/decrease by RMB1,641,000,000 (2007: RMB1,433,000,000).

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 40 Financial instruments (Continued)

#### (c) Interest rate risk (Continued)

On the whole, interest rate risk of the Group is expected to be low due to the high volume cash and cash equivalent base and low level of floating rate debts. The Group consistently monitors the current and potential fluctuation of interest rates to monitor the interest risk on a reasonable level.

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

#### (d) Foreign currency risk

The Group has foreign currency risk as certain cash and cash equivalents are denominated in foreign currencies, principally US dollars and Hong Kong dollars. As the amount of the Group's foreign currency represented 0.9 per cent. (2007: 4.3 per cent.) of the total cash and cash equivalent balance and major business operations of the Group were carried out in RMB, the Group does not expect any appreciation or depreciation of the RMB against foreign currency which might materially affect the Group's result of operations.

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

#### (e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007 except as follows:

	2008		2007	
	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million
<b>The Group</b>				
Interest-bearing borrowings				
— bonds	9,920	10,145	9,949	9,404

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

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 41 Commitments

#### (a) Capital commitments

Capital commitments outstanding as at 31 December 2008 not provided for in the financial statements were as follows:

	The Group		The Company	
	2008	2007	2008	2007
	RMB million	RMB million	RMB million	RMB million
Commitments in respect of land and buildings				
— authorized and contracted for	2,863	2,642	—	—
— authorized but not contracted for	12,488	10,346	—	—
	15,351	12,988	—	—
Commitments in respect of telecommunications equipment				
— authorized and contracted for	14,074	13,424	—	—
— authorized but not contracted for	72,650	71,817	—	—
	86,724	85,241	—	—
Total commitments				
— authorized and contracted for	16,937	16,066	—	—
— authorized but not contracted for	85,138	82,163	—	—
	102,075	98,229	—	—

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 41 Commitments (Continued)

#### (b) Operating lease commitments

As at 31 December 2008, the total future minimum lease payments under non-cancelable operating leases are payable as follows:

	The Group				The Company
	Land and buildings RMB million	Leased lines RMB million	Others RMB million	Total RMB million	Land and buildings, and others RMB million
As at 31 December 2008:					
Within one year	3,797	905	517	5,219	5
After one year but within five years	7,998	1,499	455	9,952	–
After five years	2,977	436	127	3,540	–
	14,772	2,840	1,099	18,711	5
As at 31 December 2007:					
Within one year	3,099	1,045	665	4,809	12
After one year but within five years	6,313	1,253	495	8,061	5
After five years	2,191	350	63	2,604	–
	11,603	2,648	1,223	15,474	17

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

### 42 Non-adjusting post balance sheet events

After the balance sheet date the directors proposed an ordinary final dividend. Further details are disclosed in note 13(a).

### 43 Ultimate holding company

The directors consider the ultimate holding company as at 31 December 2008 to be China Mobile Communications Corporation, a company incorporated in the PRC.



# Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

## 44 Accounting estimates and judgements

### Key sources of estimation uncertainty

Notes 17, 18 and 40 contain information about the assumptions and their risk factors relating to goodwill impairment, impairment of other intangible assets with indefinite useful lives and financial instruments. Other key sources of estimation uncertainty are as follows:

#### **Impairment loss for doubtful accounts**

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

#### **Depreciation**

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

#### **Amortization of other intangible assets**

Amortization of other intangible assets is calculated to write off the cost of items of other intangible assets using the straight-line method over their estimated useful lives unless such lives are indefinite. The Group reviews the estimated useful lives of other intangible assets annually in order to determine the amount of amortization expense to be recorded during any reporting period. The useful lives are based on the estimate period over which future economic benefits will be received by the Group and taking into account any unexpected adverse changes in circumstances or events. The amortization expense for future periods is adjusted if there are significant changes from previous estimates.

#### **Impairment of property, plant and equipment**

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

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

## Notes to the financial statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 45 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2008

Up to the date of issue of these financial statements, the IASB/HKICPA have issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		<b>Effective for accounting periods beginning on or after</b>
IFRIC/HK(IFRIC) Interpretation 13	Customer loyalty programmes	1 July 2008
IAS/HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
IAS/HKAS 23 (Revised)	Borrowing costs	1 January 2009
IFRS/HKFRS 8	Operating segments	1 January 2009
Amendment to IAS/HKAS 27	Consolidated and separate financial statements — Cost of an investment in a subsidiary, jointly controlled entity or associate	1 January 2009
Amendment to IFRS/HKFRS 2	Share-based payment — Vesting conditions and cancellations	1 January 2009
Amendments to IFRS/HKFRS 7	Improving disclosures about financial instruments	1 January 2009
IAS/HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
IFRS/HKFRS 3 (Revised)	Business combinations	1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments, new and revised standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's or the Company's results of operations and financial position except for IFRIC/HK(IFRIC) Interpretation 13, Customer loyalty programmes.

IFRIC/HK(IFRIC) Interpretation 13 addresses the accounting by companies that grant loyalty award credits (sometimes referred to as 'points') to customers who buy goods or services. It requires the award to be accounted for as a separate component of the sale transaction, with the fair value of the award being deferred until the obligation to provide free or discounted goods or services has been redeemed. IFRIC/HK(IFRIC) Interpretation 13 is effective for annual periods beginning on or after 1 July 2008, with early application permitted. The Group intends to adopt this interpretation in the 2009 financial year and is assessing the impact of this interpretation on the Group's result of operation and financial position.

In addition, IAS/HKAS 1 (Revised), Presentation of financial statements, which is effective for annual periods beginning on or after 1 January 2009, may result in new or amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption.