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 2009 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 made by management in the application of IFRSs and HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty 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 statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income 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 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 and any impairment loss relating to the investment. The consolidated statement of comprehensive income 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 investee. For this purpose, the Group's interest in the investee 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 investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(d) Associates and jointly controlled entities (Continued)

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)).

(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 arising on a business combination is allocated to each cash-generating units, or groups of cash generating units, that is expected to benefit from the synergies of the combination 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

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortization (were the estimated useful life is finite) and impairment losses (see note 1(j)). 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(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.

(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) 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 investments in associates and jointly controlled entities recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(j)(ii).

— 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.

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

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;

— goodwill; and

— other intangible assets.

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

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell 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. 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 favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(j) Impairment of assets (Continued)

(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.

(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)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(n) Deferred revenue

Deferred revenue consists primarily of prepaid service fees received from customers, revenue deferred for unredeemed point rewards under Customer Point Reward Program (Reward Program) and deferred tax credit on purchase of domestic telecommunications equipment.

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

Revenue deferred for unredeemed point rewards are recognized when such rewards are redeemed or expired.

Deferred tax credit on purchase of domestic telecommunications equipment is amortized over the remaining lives of the related equipment as a reduction to 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.

(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

Revenue is measured at the fair value of the consideration received or receivable. 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 delivered based upon actual usage by customers;

(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 and such amount, net of cost of goods sold, is included in other net income due to its insignificance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

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

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

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

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

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

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.

1 Significant accounting policies (Continued)

(s) Income tax (Continued)

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

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

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

  — the same taxable entity; or

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

(t) Provisions and contingent liabilities

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

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

(u) Employee benefits

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

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

The Company 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(u) Employee benefits (Continued)

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

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.

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). In the Company's balance sheet, 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 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 that are 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 are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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 are recognized in profit or loss.

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 recognized in other comprehensive income and accumulated separately in equity in the exchange reserve. On disposal of an overseas entity, the cumulative amount of the exchange differences relating to that particular foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

For the purpose of the consolidated cash flow statements, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(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;

(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

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses, and is identified on the basis of the internal financial reports that are provided to and regularly reviewed by the Group's chief operating decision maker in order to allocate resource and assess performance of the segment. For the periods presented, chief operating decision maker has determined that the Group has no operating segments as the Group is only engaged in mobile telecommunication and related business. No Group's geographical information has been disclosed as the majority of the Group's operating activities are carried out in Mainland China. The Group's assets located and operating revenues derived from activities outside the Mainland China are less than 5% of the Group's assets and operating revenues, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies

The IASB has issued a number of new or revised IFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2009. The equivalent new or revised HKFRSs consequently issued by HKICPA as a result of these developments have the same effective date as those issued by the IASB and are consistent with the pronouncements issued by the IASB.

Of these, the following developments are relevant to the Group's financial statements:

- IAS/HKAS 1 (revised 2007), *Presentation of financial statements*
- IFRIC/HK(IFRIC) Interpretation 13, *Customer loyalty programmes*
- Amendments to IFRS/HKFRS 7, *Financial instruments: Disclosure — improving disclosures about financial instruments*
- IFRS/HKFRS 8, *Operating segments*
- Amendments to IAS/HKAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*
- IAS/HKAS 23 (revised 2007), *Borrowing costs*
- Amendments to IFRS/HKFRS 2, *Share-based payment — vesting conditions and cancellations*
- Improvements to IFRSs/HKFRSs (2008)

The adoption of IFRS/HKFRS 8, the amendments to IFRS/HKFRS 7, IAS/HKAS 27, IAS/HKAS 23, IFRS/HKFRS 2 and improvements to IFRSs/HKFRSs (2008) have had no material impact on the Group's financial statements. The impact of the remainder of these developments on the financial statements is as follows:

(i) IAS/HKAS 1 (revised 2007), *Presentation of financial statements*

As a result of the adoption of IAS/HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in the consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in these financial statements and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies (Continued)

(ii) IFRIC/HK(IFRIC) Interpretation 13, *Customer loyalty programmes*

The Group has launched a Reward Program to its customers, which provides customers the option of electing to receive free telecommunications services or other gifts. The level of point reward earned by customers under the Reward Program varies depending on the customers' services consumption, years in services and payment history.

In prior years, the Group accounted for the obligation to provide free or discounted services or goods offered to the customers under the Reward Program using the incremental costs method. The estimated incremental cost to provide free or discounted services or goods was recognized as expenses and accrued as a current liability when customers were entitled to bonus points. When customers redeemed awards or their entitlements expired, the incremental cost liability was reduced accordingly to reflect the outstanding obligations.

With effect from 1 January 2009, as a result of adoption of IFRIC/HK(IFRIC) Interpretation 13, the point reward is accounted for as a separately identifiable component of the sales transactions in which the points are granted. The consideration received in relation to the sales transactions is allocated to points reward by reference to the estimated fair value of the points as revenue and is deferred until such reward is redeemed by the customers or the points expired.

The new accounting policy has been adopted retrospectively and the comparative amounts have been restated.

The effect on the consolidated balance sheet as at 1 January 2008 is an increase in deferred tax assets, an increase in deferred revenue, a decrease in accrued expenses and other payables and a decrease in net assets of RMB676,000,000, RMB6,308,000,000, RMB3,542,000,000 and RMB2,090,000,000, respectively.

The effect on the consolidated balance sheet as at 31 December 2008 is an increase in deferred tax assets, an increase in deferred revenue, a decrease in accrued expenses and other payables and a decrease in net assets of RMB730,000,000, RMB6,841,000,000, RMB3,855,000,000 and RMB2,256,000,000, respectively.

The effect on the Group's consolidated statement of comprehensive income for the year ended 31 December 2008 is an decrease in operating revenue, operating expenses, taxation and profit for the year of RMB533,000,000, RMB313,000,000, RMB54,000,000 and RMB166,000,000, respectively. The effect on the basic earnings per share and diluted earnings per share for the year ended 31 December 2008 is a decrease of RMB0.01 and RMB0.01, respectively.

The effect on the consolidated balance sheet as at 31 December 2009 is a decrease in deferred tax assets, a decrease in deferred revenue, an increase in accrued expenses and other payables and an increase in net assets of RMB724,000,000, RMB6,095,000,000, RMB3,146,000,000 and RMB2,225,000,000, respectively, had the previous accounting policy still been applied in the current year.

The effect on the Group's consolidated statement of comprehensive income for the year ended 31 December 2009 is a decrease in operating revenue, operating expenses, taxation and profit for the year of RMB746,000,000, RMB709,000,000, RMB6,000,000 and RMB31,000,000, respectively. The effect on the basic earnings per share and diluted earnings per share for year ended 31 December 2009 is a decrease of RMB0.002 and RMB0.002, respectively, had the previous accounting policy still been applied in the current year.

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% 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

	2009 ***RMB million***	2008 *RMB million*
Salaries, wages and other benefits	**19,316**	17,829
Retirement costs: contributions to defined contribution retirement plans	**2,164**	1,909
Equity-settled share-based payment expenses	**–**	222
	21,480	19,960

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

5 Other operating expenses

	2009 **RMB million**	2008 *RMB million* (restated)
Selling and promotion	**80,043**	66,573
Maintenance	**28,109**	25,761
Impairment loss for doubtful accounts	**4,503**	4,385
Impairment loss of inventories	**16**	6
Amortization of other intangible assets	**56**	204
Operating lease charges		
— land and buildings	**6,449**	5,723
— others *(Note 1)*	**2,302**	2,591
Loss/(gain) on disposal of property, plant and equipment	**11**	(8)
Write-off of property, plant and equipment	**4,493**	3,250
Auditors' remuneration		
— audit services *(Note 2)*	**80**	76
— tax services *(Note 3)*	**–**	–
— other services *(Note 4)*	**9**	3
Others *(Note 5)*	**52,512**	44,477
	178,583	153,041

Notes:

(1) Other operating lease charges represent the operating lease charges for network capacity, motor vehicles, computer and other office equipment.

(2) Audit services in 2009 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 RMB19,000,000 (2008: RMB17,800,000).

(3) Tax services in 2009 include tax compliance services for the Group of RMB72,000 (2008: RMB55,000).

(4) Other services in 2008 and 2009 include SOX 404 advisory services and other advisory services.

(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, labour 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.

	2009 **RMB million**	2008 *RMB million*
Sales of SIM cards and handsets	**7,754**	10,090
Cost of SIM cards and handsets	**(5,974)**	(7,931)
	1,780	2,159

7 Non-operating net income

	2009 **RMB million**	2008 *RMB million*
Exchange gain/(loss)	**3**	(32)
Penalty income	**265**	222
Dividend income from unlisted securities	**18**	15
Others	**73**	312
	359	517

8 Finance costs

	2009 **RMB million**	2008 *RMB million*
Interest on bank loans and other borrowings repayable after five years	**777**	1,026
Interest on bonds	**466**	524
	1,243	1,550

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 *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Performance related bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	Subtotal *HK$'000*	Fair value of share options *HK$'000* *(Note)*	2009 Total *HK$'000*
Executive directors							
WANG Jianzhou	180	1,172	660	286	2,298	–	2,298
ZHANG Chunjiang	180	1,067	600	260	2,107	–	2,107
LI Yue	180	960	540	234	1,914	–	1,914
LU Xiangdong	180	960	540	234	1,914	–	1,914
XUE Taohai	180	960	540	234	1,914	–	1,914
HUANG Wenlin	180	960	540	234	1,914	–	1,914
SHA Yuejia	180	960	540	233	1,913	–	1,913
LIU Aili	180	960	540	233	1,913	–	1,913
XIN Fanfei	180	960	540	229	1,909	–	1,909
XU Long	180	950	540	232	1,902	–	1,902
Independent non-executive directors							
LO Ka Shui	505	–	–	–	505	–	505
WONG Kwong Shing, Frank	440	–	–	–	440	–	440
CHENG Mo Chi, Moses	440	–	–	–	440	–	440
Non-executive director							
Nicholas Jonathan READ (appointed on 19 March 2009)	142	–	–	–	142	–	142
	3,327	9,909	5,580	2,409	21,225	–	21,225

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

9 Directors' remuneration (Continued)

(Expressed in Hong Kong dollar)

	Directors' Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Performance related bonuses *HK$'000*	Retirement scheme contributions *HK$'000*	Subtotal *HK$'000*	Fair value of share options *HK$'000* *(Note)*	2008 Total *HK$'000*
Executive directors							
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
Independent non-executive directors							
LO Ka Shui	505	–	–	–	505	350	855
WONG Kwong Shing, Frank	440	–	–	–	440	350	790
CHENG Mo Chi, Moses	440	–	–	–	440	350	790
Non-executive director							
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

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 35.

10 Individuals with highest emoluments

For the years ended 31 December 2008 and 2009, all of the five individuals with the highest emoluments are directors whose emoluments are disclosed in note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

11 Taxation

(a) Taxation in the consolidated statement of comprehensive income represents:

	2009 **RMB million**	2008 RMB million (restated)
Current tax		
Provision for Hong Kong profits tax on the estimated assessable profits for the year	**91**	74
Provision for PRC enterprise income tax on the estimated taxable profits for the year	**39,666**	38,216
Over-provision in respect of PRC enterprise income tax in prior years	**–**	(24)
	39,757	38,266
Deferred tax		
Origination and reversal of temporary differences *(note 21)*	**(1,344)**	(1,531)
	38,413	36,735

(i) The provision of Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) of the assessable profits for the year ended 31 December 2009.

(ii) The provision for the PRC enterprise income tax is based on the statutory rate of 25% of the taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year ended 31 December 2009, except for certain subsidiaries of the Company and certain operations of the subsidiaries located within special economic zones in the PRC, for which the applicable preferential tax rate was 18% and 20% for 2008 and 2009 and is increased to 22%, 24% and 25% for the years ending 31 December 2010, 2011 and 2012 onwards, respectively.

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:

	2009 RMB million	2008 *RMB million* (restated)
Profit before taxation	**153,836**	149,523
Notional tax on profit before tax, calculated at PRC's statutory tax rate of 25% *(Note)*	**38,459**	37,382
Tax effect of non-taxable item		
— Interest income	**(2)**	(16)
Tax effect of non-deductible expenses on PRC operations	**699**	653
Tax effect of non-deductible expenses on Hong Kong operations	**155**	261
Rate differential on PRC operations	**(470)**	(874)
Rate differential on Hong Kong operations	**35**	96
Effect of change in Hong Kong profits tax rate	**–**	(6)
Over-provision for PRC operations in prior years	**–**	(24)
Amortization of tax credit on purchase of domestic telecommunications equipment	**(527)**	(644)
Others	**64**	(93)
Taxation	**38,413**	36,735

Note: The PRC's statutory tax rate is adopted as the majority of the Group's operations are subject to this rate.

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

	2009 RMB million	2008 *RMB million*
Provision for PRC enterprise income tax for the year	**39,666**	38,192
Provision for Hong Kong profits tax for the year	**91**	74
Balance of PRC enterprise income tax recoverable relating to prior year	**(39)**	(124)
PRC enterprise income tax paid	**(31,605)**	(26,853)
Hong Kong profits tax paid	**(51)**	(45)
Balance as at 31 December	**8,062**	11,244
Add: Tax recoverable	**17**	39
Tax payable	**8,079**	11,283

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 RMB861,000,000 (2008: loss of RMB1,086,000,000) 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:

	2009 RMB million	2008 *RMB million*
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	**(861)**	(1,086)
Dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**61,561**	50,201
Company's profit for the year *(note 36(a))*	**60,700**	49,115

13 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the year is based on the profit attributable to equity shareholders of the Company of RMB115,166,000,000 (2008 (restated): RMB112,627,000,000) and the weighted average number of 20,057,674,088 shares (2008: 20,043,933,958 shares) in issue during the year, calculated as follows:

Weighted average number of shares

	2009 Number of shares	2008 *Number of shares*
Issued shares as at 1 January	**20,054,379,231**	20,031,905,590
Effect of share options exercised	**3,294,857**	12,028,368
Weighted average number of shares as at 31 December	**20,057,674,088**	20,043,933,958

(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 RMB115,166,000,000 (2008 (restated): RMB112,627,000,000) and the weighted average number of shares 20,312,459,133 (2008: 20,356,125,657 shares), calculated as follows:

Weighted average number of shares (diluted)

	2009 Number of shares	2008 *Number of shares*
Weighted average number of shares as at 31 December	**20,057,674,088**	20,043,933,958
Effect of deemed issue of shares under the company's share option scheme for nil consideration	**254,785,045**	312,191,699
Weighted average number of shares (diluted) as at 31 December	**20,312,459,133**	20,356,125,657

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Property, plant and equipment

(a) The Group

	Buildings *RMB million*	Telecommunications transceivers, switching centers, transmission and other network equipment *RMB million*	Office equipment, furniture and fixtures and others *RMB million*	Total *RMB million*
Cost:				
As at 1 January 2008	51,041	432,497	18,119	501,657
Additions	612	794	1,249	2,655
Transferred from construction in progress	12,179	126,708	3,899	142,786
Disposals	(1)	(1)	(95)	(97)
Assets written-off	(156)	(15,026)	(1,103)	(16,285)
Exchange differences	(1)	(135)	(4)	(140)
As at 31 December 2008	63,674	544,837	22,065	630,576
As at 1 January 2009	**63,674**	**544,837**	**22,065**	**630,576**
Additions	**648**	**1,427**	**1,203**	**3,278**
Transferred from construction in progress	**9,280**	**101,548**	**2,883**	**113,711**
Disposals	**(1)**	**(8)**	**(98)**	**(107)**
Assets written-off	**(95)**	**(35,788)**	**(1,304)**	**(37,187)**
Exchange differences	**–**	**(4)**	**–**	**(4)**
As at 31 December 2009	**73,506**	**612,012**	**24,749**	**710,267**

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

14 Property, plant and equipment (Continued)

(a) The Group (Continued)

	Buildings *RMB million*	Telecommunications transceivers, switching centers, transmission and other network equipment *RMB million*	Office equipment, furniture and fixtures and others *RMB million*	Total *RMB million*
Accumulated depreciation:				
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
As at 1 January 2009	**12,030**	**279,579**	**11,184**	**302,793**
Charge for the year	**3,253**	**74,133**	**2,793**	**80,179**
Written back on disposals	**–**	**(7)**	**(76)**	**(83)**
Assets written-off	**(77)**	**(31,533)**	**(1,084)**	**(32,694)**
Exchange differences	**–**	**(3)**	**–**	**(3)**
As at 31 December 2009	**15,206**	**322,169**	**12,817**	**350,192**
Net book value:				
As at 31 December 2009	**58,300**	**289,843**	**11,932**	**360,075**
As at 31 December 2008	51,644	265,258	10,881	327,783

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

14 Property, plant and equipment (Continued)

(b) The Company

	Office equipment, furniture and fixtures and others *RMB million*
Cost:	
As at 1 January 2008	13
Additions	4
As at 31 December 2008	17
As at 1 January 2009	**17**
Additions	**–**
As at 31 December 2009	**17**
Accumulated depreciation:	
As at 1 January 2008	9
Charge for the year	2
As at 31 December 2008	11
As at 1 January 2009	**11**
Charge for the year	**2**
As at 31 December 2009	**13**
Net book value:	
As at 31 December 2009	**4**
As at 31 December 2008	6

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Property, plant and equipment (Continued)

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

	The Group	
	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Hong Kong		
Long-term leases	**3**	3
Medium-term leases	**14**	14
	17	17
Mainland China		
Long-term leases	**3,507**	3,272
Medium-term leases	**52,861**	46,706
Short-term leases	**1,915**	1,649
	58,283	51,627
	58,300	51,644

15 Construction in progress

	The Group	
	2009	2008
	RMB million	*RMB million*
Balance as at 1 January	**35,482**	47,420
Additions	**124,323**	130,849
Transferred to property, plant and equipment	**(113,711)**	(142,786)
Exchange differences	**–**	(1)
Balance as at 31 December	**46,094**	35,482

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed as at 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

16 Goodwill

	The Group	
	2009	2008
	RMB million	*RMB million*
Cost and carrying amount:		
As at 1 January and 31 December	**36,894**	36,894

Impairment tests for goodwill

As set out in IAS/HKAS 36 Impairment of assets, a cash-generating unit is the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash flows from other assets or groups of 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 represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and also is not larger than an operating segment determined in accordance with IFRS/HKFRS 8 Operating Segment.

The recoverable amount of the cash-generating units is determined based on the value-in-use which is calculated by using 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 2014 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5% for the operation in Hong Kong and 1% 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 the cash flow by pre-tax interest rate of approximately 10%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

17 Other intangible assets

	The Group			
	Brand name *RMB million*	**Customer Base** *RMB million*	**License and others** *RMB million*	**Total** *RMB million*
Cost:				
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
As at 1 January 2009	**184**	**516**	**416**	**1,116**
Additions	**–**	**–**	**485**	**485**
As at 31 December 2009	**184**	**516**	**901**	**1,601**
Accumulated amortization:				
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
As at 1 January 2009	**–**	**516**	**302**	**818**
Amortization for the year	**–**	**–**	**56**	**56**
As at 31 December 2009	**–**	**516**	**358**	**874**
Net book value:				
As at 31 December 2009	**184**	**–**	**543**	**727**
As at 31 December 2008	184	–	114	298

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

17 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 2014 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5% to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting the cash flow by a pre-tax interest rate of approximately 10%.

18 Investments in subsidiaries

	The Company	
	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Unlisted equity, at cost	**471,810**	471,810
Equity share-based payment in subsidiaries	**4,972**	4,972
	476,782	476,782

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 (2008: RMB4,972,000,000) 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 31(c)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 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
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Held by a Subsidiary	Principal activity
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
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a Subsidiary	Principal activity
China Mobile Group Sichuan Co., Ltd.*	PRC	RMB7,483,625,572	–	100%	Mobile telecom-munications 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 telecom-munications 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 telecom-munications 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 telecom-munications 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 telecom-munications 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 telecom-munications operator
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 telecom-munications 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 telecom-munications operator
Guizhou 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)

18 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a Subsidiary	Principal activity
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
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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a Subsidiary	Principal activity
China Mobile Communication (BVI) Limited	BVI	1 share at HK$1	100%	–	Investment holding company
China Mobile Communication Co., Ltd.*	PRC	RMB1,641,848,326	–	100%	Network and business coordination center
China Mobile Holding Company Limited*	PRC	US$30,000,000	100%	–	Investment holding company
China Mobile (Shenzhen) Limited*	PRC	US$7,633,000	–	100%	Provision of roaming clearance services
Aspire Holdings Limited	Cayman Islands	HK$93,964,583	66.41%	–	Investment holding company
Aspire (BVI) Limited#	BVI	US$1,000	–	100%	Investment holding company
Aspire Technologies (Shenzhen) Limited*#	PRC	US$10,000,000	–	100%	Technology platform development and maintenance
Aspire Information Network (Shenzhen) Limited*#	PRC	US$5,000,000	–	100%	Provision of mobile data solutions, system integration and development
Aspire Information Technologies (Beijing) Limited*#	PRC	US$5,000,000	–	100%	Technology platform development and maintenance
Fujian FUNO Mobile Communication Technology Company Limited**	PRC	US$3,800,000	–	51%	Network planning and 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a Subsidiary	Principal activity
China Mobile Hong Kong Company Limited ("CMHK")	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%.

19 Interest in associates

	The Group As at 31 December 2009 RMB million	As at 31 December 2008 RMB million
Share of net assets	**–**	–

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

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

Owing to the lack of recent audited financial statements of the associates, the Group's share of the associates' net assets is based on latest management accounts which showed net liabilities as at 31 December 2008 and 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

20 Interest in jointly controlled entity

	The Group		The Company	
	As at 31 December 2009 ***RMB million***	As at 31 December 2008 *RMB million*	**As at 31 December 2009** ***RMB million***	As at 31 December 2008 *RMB million*
Unlisted shares, at cost	**–**	–	**14**	7
Share of net assets	**6**	7	**–**	–
	6	7	**14**	7

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

Name of jointly controlled entity	Place of incorporation and operation	Proportion of ownership interest held by the Group and the Company	Principal activity
JIL B.V.	The Netherlands	25%	Research and develop telecommunication technologies and application services

JIL B.V. was formed by the Company and other two shareholders in 2008, and commenced operation in 2009. As at the end of 2008, each of the three shareholders, including the Company, had funded US$1,000,000 (equivalent to RMB7,000,000) to JIL B.V. in accordance with the shareholders agreement. During 2009, a new investor became the fourth shareholder and the proportion of ownership interests held by the Group and the Company decreased from 33.33% to 25%. As at the end of 2009, each of the four shareholders, including the Company, has funded US$2,000,000 (equivalent to RMB14,000,000) to JIL B.V. in accordance with the shareholders agreement, and each shareholder has committed to funding an additional US$3,000,000 by June 2010.

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 and for the year ended 31 December 2009, the Group's share of the JIL B.V.'s current assets, current liabilities, net assets and loss for the year of JIL B.V. are RMB8,000,000 (2008: RMB7,000,000), RMB2,000,000 (2008: Nil), RMB6,000,000 (2008: RMB7,000,000) and RMB8,000,000 (2008: Nil), respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

21 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 2009

	As at 1 January 2009 *RMB million*	Effect on change of tax rates *RMB million*	Credited/ (charged) to profit or loss *RMB million*	Exchange differences *RMB million*	As at 31 December 2009 *RMB million*
Deferred tax assets arising from:					
Provision for obsolete inventories	5	–	1	–	6
Write-off of certain network equipment and related assets	1,849	–	(334)	–	1,515
Provision for certain operating expenses	2,989	–	946	–	3,935
Deferred revenue from customer point award program	1,669	–	(149)	–	1,520
Impairment loss for doubtful accounts	1,102	–	861	–	1,963
	7,614	–	1,325	–	8,939
Deferred tax liabilities arising from:					
Capitalized interest	(16)	–	9	–	(7)
Depreciation allowance in excess of related depreciation	(64)	–	10	–	(54)
	(80)	–	19	–	(61)
Total	7,534	–	1,344	–	8,878

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

21 Deferred tax assets and liabilities (Continued)

Deferred tax assets and liabilities recognized and the movements during 2008

	As at 1 January 2008 *RMB million* (restated)	Effect on change of tax rates *RMB million*	Credited/ (charged) to profit or loss *RMB million* (restated)	Exchange differences *RMB million*	As at 31 December 2008 *RMB million* (restated)
Deferred tax assets arising from:					
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	1,869	–	1,120	–	2,989
Deferred revenue from customer point reward program	1,555	–	114	–	1,669
Impairment loss for doubtful accounts	952	–	150	–	1,102
	6,121	–	1,493	–	7,614
Deferred tax liabilities arising from:					
Capitalized interest	(36)	–	20	–	(16)
Depreciation allowance in excess of related depreciation	(86)	5	13	4	(64)
	(122)	5	33	4	(80)
Total	5,999	5	1,526	4	7,534

	The Group		
	As at 31 December 2009 ***RMB million***	As at 31 December 2008 *RMB million* (restated)	As at 1 January 2008 *RMB million* (restated)
Net deferred tax assets recognized in the consolidated balance sheet	**8,939**	7,614	6,121
Net deferred tax liabilities recognized in the consolidated balance sheet	**(61)**	(80)	(122)
Balance as at 31 December	**8,878**	7,534	5,999

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

22 Other financial assets

	The Group	
	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Investment in unlisted equity securities in the PRC	**77**	77

23 Inventories

Inventories primarily comprise handsets, SIM cards and handset accessories.

24 Accounts receivable

(a) Aging analysis

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

	The Group	
	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Within 30 days	**4,275**	4,713
31–60 days	**1,012**	1,212
61–90 days	**673**	769
Over 90 days	**445**	219
	6,405	6,913

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

Accounts receivable are expected to be recovered within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 Accounts receivable (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	
	2009 **RMB million**	2008 *RMB million*
Balance as at 1 January	**4,548**	3,974
Impairment loss for doubtful accounts	**4,514**	4,382
Accounts receivable written off	**(2,967)**	(3,807)
Exchange differences	**–**	(1)
Balance as at 31 December	**6,095**	4,548

(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	
	As at 31 December 2009 **RMB million**	As at 31 December 2008 *RMB million*
Neither past due nor impaired	**5,784**	6,265
Less than 1 month past due	**621**	648
	6,405	6,913

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)

25 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.

26 Amounts due from/to ultimate holding company and amount due to immediate holding company

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

Amount due to immediate holding company under current liabilities represented interest payable on the deferred consideration payable (see note 31), which is expected to be settled within one year.

27 Deposits with banks

Balance of deposits with banks as at 31 December 2009 included a pledged deposit of HK$150,000,000 (equivalent to RMB132,000,000) (2008: HK$150,000,000, equivalent to RMB132,000,000).

The pledged deposit as at 31 December 2009 relates to a performance bond issued by a bank in favor of the Office of Telecommunications Authority of Hong Kong ("the Authority") for the application of the next generation mobile services technology license ("BWA License"). The performance bond was issued to secure the due performance of CMHK in respect of the network coverage by 31 March 2014. The bank's obligation under the performance bond is guaranteed by CMHK. In the event of CMHK's default on the compliance with the due performance, the bank shall discharge the bonded sum upon demand made by the Authority. The pledged deposit is renewed annually throughout the five-year period of the performance bond.

The pledged deposit as at 31 December 2008 represents a letter of credit issued by a bank for CMHK to the Authority for eligibility in entering the bidding process for the BWA License. On 22 January 2009, CMHK became the provisional successful bidder for the BWA 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 Cash and cash equivalents

	The Group		The Company	
	As at 31 December 2009	As at 31 December 2008	**As at 31 December 2009**	As at 31 December 2008
	RMB million	*RMB million*	***RMB million***	*RMB million*
Deposits with banks within three months of maturity	**8,971**	2,992	**6,637**	452
Cash at banks and in hand	**69,923**	84,434	**25**	37
	78,894	87,426	**6,662**	489

29 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:

	The Group	
	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Due within 1 month or on demand:	**72,883**	57,483
Due after 1 month but within 3 months	**8,965**	5,566
Due after 3 months but within 6 months	**6,420**	7,098
Due after 6 months but within 9 months	**3,691**	5,134
Due after 9 months but within12 months	**4,026**	4,325
	95,985	79,606

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

30 Deferred revenue

Deferred revenue primarily includes prepaid service fees received from customers, unredeemed point reward, and deferred tax credit on purchase of domestic telecommunications equipment.

	The Group	
	2009	2008
	RMB million	*RMB million*
		(restated)
Balance as at 1 January	**33,514**	30,667
— Current portion	**32,930**	30,070
— Non-current portion	**584**	597
Additions during the year	**211,040**	180,794
Recognized in the comprehensive income statement	**(208,664)**	(177,942)
Exchange differences	**–**	(5)
Balance as at 31 December	**35,890**	33,514
Less: Current portion	**(35,573)**	(32,930)
Non-current portion	**317**	584

31 Interest-bearing borrowings

(a) The Group

	As at 31 December 2009	As at 31 December 2008
	RMB million	*RMB million*
Bonds	**9,918**	9,920
Deferred consideration payable	**23,633**	23,633
	33,551	33,553

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

31 Interest-bearing borrowings (Continued)

(b) The Company

	As at 31 December 2009 ***RMB million***	As at 31 December 2008 *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% of the principal amount, mature on 18 June 2011, with interest accruing 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 annum and payable annually. The bonds are redeemable at 100% of the principal amount and will mature on 28 October 2017 with interest accruing 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.

(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, and are due on 1 July 2017 and 2019.

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 2009: 3.238% to 3.331% per annum; for the year ended 31 December 2008: 3.238% to 5.418% 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

32 Accrued expenses and other payables

	The Group		
	As at 31 December 2009 *RMB million*	As at 31 December 2008 *RMB million* (restated)	As at 1 January 2008 *RMB million* (restated)
Receipts-in-advance	**41,281**	36,054	29,386
Other payables	**11,900**	9,806	11,020
Accrued salaries, wages and benefits	**4,391**	4,113	2,995
Accrued expense	**11,763**	7,464	3,917
	69,335	57,437	47,318

33 Obligations under finance leases

The Group's obligations under finance leases repayable as at 31 December are as follows:

	As at 31 December 2009			As at 31 December 2008		
	Present value of the minimum lease payments *RMB million*	**Interest expense relating to future periods *RMB million***	**Total minimum lease payments *RMB million***	Present value of the minimum lease payments *RMB million*	Interest expense relating to future periods *RMB million*	Total minimum lease payments *RMB million*
Within 1 year	**68**	**3**	**71**	68	3	71

34 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

34 Employee retirement benefits (Continued)

(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% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

35 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% of the total issued share capital of the Company as at the date of adoption of the Current Scheme. Options lapsed or cancelled in accordance with the terms of the Current Scheme will not be counted for the purpose of calculating this 10% limit. The consideration payable for the grant of option under 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

35 Equity settled share-based transactions (Continued)

(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			Contractual life of
	2009	2008	**Vesting conditions**	**options**
Options granted to directors				
— on 3 July 2002	**7,000**	25,000	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
Options granted to other employees				
— on 3 July 2002	**33,451,909**	38,989,104	50% two years from the date of grant, 50% five years from the date of grant	10 years
— on 28 October 2004	**119,656,204**	120,405,339	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	**267,555,280**	267,725,370	40% one year from the date of grant, 30% two years from the date of grant, 30% three years from the date of grant	10 years
Total share options	**427,575,068**	434,049,488		

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

35 Equity settled share-based transactions (Continued)

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

	The Group			
	2009		2008	
	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	**30.40**	**434,049,488**	30.04	456,677,289
Exercised	**23.15**	**(6,474,420)**	23.23	(22,473,641)
Cancelled	**–**	**–**	28.71	(154,160)
As at 31 December	**30.51**	**427,575,068**	30.40	434,049,488
Option vested as at 31 December	**30.51**	**427,575,068**	30.40	434,049,488

The weighted average share price at the date of exercise for shares options exercised during the year was HK$80.08 (2008: HK$107.98).

The options outstanding as at 31 December 2009 had exercise prices ranging from HK$22.75 to HK$34.87 (2008: HK$22.75 to HK$34.87) and a weighted average remaining contractual life of 5.3 years (2008: 6.3 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 share options granted 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 2008 and 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

36 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital *RMB million*	Share premium *RMB million*	Capital reserve *RMB million*	General reserve *RMB million*	Exchange reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*
As at 1 January 2008	2,136	385,743	3,509	72	(549)	82,043	472,954
Changes in equity for 2008:							
Dividends approved in respect of previous year *(note36(b)(ii))*	–	–	–	–	–	(21,028)	(21,028)
Dividends declared in respect of the year *(note 36(b)(i))*	–	–	–	–	–	(23,532)	(23,532)
Shares issued under share option scheme *(note 36(c)(ii))*	2	494	(31)	–	–	–	465
Equity settled share-based transactions	–	–	222	–	–	–	222
Total comprehensive income for the year	–	–	–	–	(310)	49,115	48,805
As at 31 December 2008	2,138	386,237	3,700	72	(859)	86,598	477,886
As at 1 January 2009	**2,138**	**386,237**	**3,700**	**72**	**(859)**	**86,598**	**477,886**
Changes in equity for 2009:							
Dividends approved in respect of previous year *(note36(b)(ii))*	**–**	**–**	**–**	**–**	**–**	**(24,823)**	**(24,823)**
Dividends declared in respect of the year *(note 36(b)(i))*	**–**	**–**	**–**	**–**	**–**	**(23,791)**	**(23,791)**
Shares issued under share option scheme *(note 36(c)(ii))*	**1**	**138**	**(7)**	**–**	**–**	**–**	**132**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**46**	**60,700**	**60,746**
As at 31 December 2009	**2,139**	**386,375**	**3,693**	**72**	**(813)**	**98,684**	**490,150**

As at 31 December 2009, the amount of distributable reserves of the Company amounted to RMB98,756,000,000 (2008: RMB86,670,000,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

36 Capital, reserves and dividends (Continued)

(b) Dividends

(i) Dividends attributable to the year:

	2009 **RMB million**	2008 *RMB million*
Ordinary interim dividend declared and paid of HK$1.346 (equivalent to approximately RMB1.187) (2008: HK$1.339 (equivalent to approximately RMB1.177)) per share	**23,791**	23,532
Ordinary final dividend proposed after the balance sheet date of HK$1.458 (equivalent to approximately RMB1.284) (2008: HK$1.404 (equivalent to approximately RMB1.238)) per share	**25,753**	24,832
	49,544	48,364

The proposed ordinary final dividend which is declared in Hong Kong dollar is translated into RMB at the rate HK$1 = RMB0.88048, being the rate announced by the State Administration of Foreign Exchange in the PRC on 31 December 2009. As the ordinary final dividend is declared after the balance sheet date, such dividend is not recognized as liability as at 31 December 2009.

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

	2009 **RMB million**	2008 *RMB million*
Ordinary final dividend in respect of the previous financial year, approved and paid during the year, of HK$1.404 (equivalent to approximately RMB1.238) (2008: HK$1.160 (equivalent to approximately RMB1.086)) per share	**24,823**	20,742
No special final dividend in respect of the previous financial year, approved and paid during the year (2008: HK$0.016 (equivalent to approximately RMB0.015)) per share	**–**	286
	24,823	21,028

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

36 Capital, reserves and dividends (Continued)

(c) Share capital

(i) Authorized and issued share capital

	2009 **HK$ million**	2008 *HK$ million*
Authorized:		
30,000,000,000 ordinary shares of HK$0.10 each	**3,000**	3,000

Issued and fully paid:

	2009			2008		
	Number of shares	***HK$ Million***	***Equivalent RMB million***	*Number of shares*	*HK$ million*	*Equivalent RMB million*
As at 1 January	**20,054,379,231**	**2,005**	**2,138**	20,031,905,590	2,003	2,136
Shares issued under share option scheme *(note 36(c)(ii))*	**6,474,420**	**1**	**1**	22,473,641	2	2
As at 31 December	**20,060,853,651**	**2,006**	**2,139**	20,054,379,231	2,005	2,138

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 2009, options were exercised to subscribe for 6,474,420 (2008: 22,473,641) ordinary shares in the Company at a consideration of HK$150,000,000 (equivalent to RMB132,000,000) (2008: HK$522,000,000 (equivalent to RMB465,000,000)) of which HK$1,000,000 (equivalent to RMB1,000,000) (2008: HK$2,000,000 (equivalent to RMB2,000,000)) was credited to share capital and the balance of HK$149,000,000 (equivalent to RMB131,000,000) (2008: HK$520,000,000 (equivalent to RMB463,000,000)) was credited to the share premium account. HK$7,000,000 (equivalent to RMB7,000,000) (2008: HK$30,000,000 (equivalent to RMB31,000,000)) 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)

36 Capital, reserves and dividends (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 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% 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% 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% 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% of the registered capital of the subsidiaries.

As at 31 December 2009, the balances of the general reserve, enterprise expansion fund and statutory surplus reserve were RMB62,332,000,000 (2008: RMB50,793,000,000), RMB67,563,000,000 (2008: RMB56,025,000,000), and RMB23,000,000 (2008: RMB23,000,000), 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)

36 Capital, reserves and dividends (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 to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

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 2009, the Group's total debt-to-book capitalization ratio was 6.3% (2008: 7.5%).

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

37 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 2008 and 31 December 2009. 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	**2009** ***RMB million***	2008 *RMB million*
Property leasing and management services charges	*(i)*	**1,207**	1,182
Telecommunications services charges	*(ii)*	**3,913**	3,798
Interest paid/payable	*(iii)*	**774**	1,026
Interconnection revenue	*(iv)*	**379**	183
Interconnection charges	*(iv)*	**435**	216
Leased line charges	*(iv)*	**59**	11
Property leasing fee	*(v)*	**–**	191
Facilities support fees	*(v)*	**–**	160
Operation supports and management fee	*(v)*	**–**	269
Network capacity leasing charge paid/payable	*(v)*	**222**	–
Sales channel utilizing fee received/receivable	*(vi)*	**10**	–
Sales channel utilizing charge paid/payable	*(vi)*	**495**	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

37 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/payable to CMCC Group in respect of business premises and offices, retail outlets and warehouses.*

(ii) *Telecommunications services charges represent the amounts paid/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/payable to China Mobile Hong Kong (BVI) Limited, the Company's immediate holding company, in respect of the balances of deferred consideration payable for acquisition of subsidiaries.*

(iv) *The amounts represent settlement received/receivable from or paid/payable to 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 in 2008 represent settlement fees received/receivable by the Group for providing operating service to CMCC Group in respect of TD-SCDMA trial network.*

From the beginning of 1 January 2009, the Group leased the TD-SCDMA network capacity from CMCC Group and paid leasing fees to CMCC Group.

(vi) *The amounts in 2009 represent the sales channel utilizing settlement received/receivable from or paid/payable to CMCC Group for utilizing the existing sales channels and resources, such as sales outlets, internet sales network, etc..*

(b) Key management personnel remuneration

Remuneration for key management personnel is disclosed in note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

38 Transactions with other state-controlled entities in the PRC

Apart from transactions with the CMCC Group (see note 37), 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, which 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.

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:

	2009 ***RMB million***	2008 *RMB million*
Interconnection revenue	**14,655**	13,679
Interconnection charges	**18,908**	19,981
Leased line charges	**2,164**	2,202

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

	As at **31 December** **2009** ***RMB million***	As at 31 December 2008 *RMB million*
Accounts receivable and other receivables	**580**	666
Accounts payable and other payables	**964**	1,237

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

	2009 ***RMB million***	2008 *RMB million*
Interest income	**5,896**	5,791

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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

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

	As at 31 December 2009 ***RMB million***	As at 31 December 2008 *RMB million*
Deposits with banks	**183,602**	130,129
Cash and cash equivalents	**72,085**	85,805

39 Financial risk management and fair values

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 customers. Accounts receivable from customers are spread among an extensive number of customers and the majority of the receivables from customers 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 24.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

39 Financial risk management and fair values (Continued)

(b) Liquidity risk

Liquidity risk refers to that funds will not be available to meet liabilities as they fall due, and results from timing and amount mismatches of cash inflow and outflow. The Group manages liquidity risk by maintaining sufficient cash balances to meet its funding needs, including working capital, principal and interest payments on debts, dividend payments and capital expenditures.

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 earliest date the Group and the Company would be required to repay:

The Group

	As at 31 December 2009					
	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*
Accounts payable	95,985	95,985	95,985	–	–	–
Bills payable	642	642	642	–	–	–
Accrued expenses and other payables	69,335	69,335	69,335	–	–	–
Amount due to ultimate holding company	4	4	4	–	–	–
Amount due to immediate holding company	119	119	119	–	–	–
Interest-bearing borrowings						
— Deferred consideration payable	23,633	26,113	514	514	514	24,571
— Bonds	9,918	12,052	425	5,542	450	5,635
Obligations under finance leases	68	71	71	–	–	–
	199,704	204,321	167,095	6,056	964	30,206

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

39 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

The Group

	As at 31 December 2008 (restated)					
	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*
Accounts payable	79,606	79,606	79,606	–	–	–
Bills payable	2,111	2,111	2,111	–	–	–
Accrued expenses and other payables	57,437	57,437	57,437	–	–	–
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	–	–	–
	172,899	179,784	140,591	6,702	1,216	31,275

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

39 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

The Company

	As at 31 December 2009					
	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	**1,269**	**1,269**	**1,269**	**–**	**–**	**–**
Amount due to a subsidiary	**9,918**	**12,052**	**425**	**5,542**	**450**	**5,635**
Amount due to immediate holding company	**119**	**119**	**119**	**–**	**–**	**–**
Interest-bearing borrowings	**23,633**	**26,113**	**514**	**514**	**514**	**24,571**
	34,939	**39,553**	**2,327**	**6,056**	**964**	**30,206**

	As at 31 December 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
	33,699	40,581	1,388	6,702	1,216	31,275

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

39 Financial risk management and fair values (Continued)

(c) Interest rate risk

The Group has interest rate risk as certain existing interest-bearing borrowings are at variable rates 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 31.

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			
	2009		2008		**2009**		2008	
	Effective interest rate	***RMB million***	Effective interest rate	*RMB million*	**Effective interest rate**	***RMB million***	Effective interest rate	*RMB million*
2001 Bonds	**4.87%**	**5,000**	5.39%	5,000	**–**	**–**	–	–
Deferred consideration for acquisition of subsidiaries in 2002	**3.33%**	**9,976**	4.37%	9,976	**3.33%**	**9,976**	4.37%	9,976
Deferred consideration for acquisition of subsidiaries in 2004	**3.24%**	**13,657**	4.32%	13,657	**3.24%**	**13,657**	4.32%	13,657

As at 31 December 2009, if the base interest rate for the Peoples Bank of China increases/decreases by 100 basis points, the effective interest rate for bonds would increase/decrease by 100 basis points, and the profit for the year and total equity of the Group would decrease/increase by RMB37,500,000 (2008: RMB37,500,000).

As at 31 December 2009, if the two-year US dollar LIBOR swap rate interest rate per annum increased/decreased by 100 basis points, the effective interest rate for deferred consideration would increase/decrease by 100 basis points, and the profit for the year and total equity of the Group and of the Company would decrease/increase by RMB236,000,000 (2008: 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 expose 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 2009, total cash and bank balances of the Group amounted to RMB264,507,000,000 (2008: RMB218,259,000,000). The interest income for 2009 was RMB5,940,000,000 (2008: RMB6,002,000,000) and the average interest rate was 2.46% (2008: 2.95%). Assuming the total cash and bank balances are stable in the coming year and interest rate increases/decreases by 100 basis points, the profit for the year and total equity would approximately increase/decrease by RMB2,003,000,000 (2008: RMB1,641,000,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

39 Financial risk management and fair values (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 deposits with banks are denominated in foreign currencies, principally US dollars and Hong Kong dollars. As the amount of the Group's foreign currency represented 3.1% (2008: 0.9%) of the total cash and deposits with banks and major business operations of the Group were carried out in RMB, the Group does not expect the appreciation or depreciation of the RMB against foreign currency will materially affect the Group's financial position and 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 2009 and 2008 except as follows:

	As at 31 December 2009		As at 31 December 2008	
	Carrying Amount *RMB million*	**Fair value** *RMB million*	Carrying Amount *RMB million*	Fair value *RMB million*
The Group				
Interest-bearing borrowings				
— bonds	**9,918**	**10,077**	9,920	10,145

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)

40 Commitments

(a) Capital commitments

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB million	*RMB million*	***RMB million***	*RMB million*
Commitments in respect of land and buildings				
— authorized and contracted for	**5,160**	2,863	**2**	–
— authorized but not contracted for	**20,494**	12,488	**–**	–
	25,654	15,351	**2**	–
Commitments in respect of telecommunications equipment				
— authorized and contracted for	**15,663**	14,074	**16**	–
— authorized but not contracted for	**61,919**	72,650	**–**	–
	77,582	86,724	**16**	–
Total commitments				
— authorized and contracted for	**20,823**	16,937	**18**	–
— authorized but not contracted for	**82,413**	85,138	**–**	–
	103,236	102,075	**18**	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

40 Commitments (Continued)

(b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases as at 31 December 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 2009:					
Within one year	**4,459**	**1,069**	**554**	**6,082**	**11**
After one year but within five years	**8,809**	**1,429**	**541**	**10,779**	**10**
After five years	**3,161**	**308**	**141**	**3,610**	**–**
	16,429	**2,806**	**1,236**	**20,471**	**21**
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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

41 Non-adjusting post balance sheet events

After the balance sheet date the directors proposed an ordinary final dividend. Further details are disclosed in note 36(b)(i).

A wholly-owned subsidiary of the Company, Guangdong Mobile, entered into a share subscription agreement ("the Agreement") with Shanghai Pudong Development Bank Co., Ltd. ("SPD Bank") on 10 March 2010. Pursuant to the Agreement, Guangdong Mobile has conditionally agreed to subscribe for and SPD Bank has conditionally agreed to issue 2,207,511,410 A-shares at a total cash consideration of RMB39,801,430,722.30. SPD Bank's shares are traded in the Shanghai Stock Exchange. Upon completion with the terms in the Agreement, the Company will, through Guangdong Mobile, hold 20% equity interests in SPD Bank. The transaction is pending for the approval from regulators and the shareholders of the Company.

42 Comparative figures

As a result of the application of IAS/HKAS 1 (revised 2007), Presentation of financial statements and IFRIC/HK(IFRIC) Interpretation 13, Customer loyalty programmes, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

43 Ultimate holding company

The directors consider the ultimate holding company as at 31 December 2009 to be China Mobile Communications Corporation, a company incorporated in the PRC.

44 Accounting estimates and judgements

Key sources of estimation uncertainty

Notes 16, 17 and 39 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

44 Accounting estimates and judgements (Continued)

Key sources of estimation uncertainty (Continued)

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 year ended 31 December 2009

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 2009 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:

	Effective for accounting periods beginning on or after
IAS/HKAS 27 (amended), *Consolidated and separate financial statements*	1 July 2009
IFRS/HKFRS 3 (revised), *Business combinations*	1 July 2009
Improvements to IFRSs/HKFRSs (2009)	1 July 2009/1 January 2010
IAS24/HKAS 24, *Related Party Disclosures (revised 2009)*	1 January 2011

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