
Report of Directors

The directors take pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's aggregate turnover with its five largest customers did not exceed 30% of the Group's total turnover in 2010.

Purchases from the largest supplier for the year represented 11% of the Group's total purchases. The five largest suppliers accounted for an aggregate of 34% of the Group's purchases in 2010. Purchases for the Group include network equipment purchases, leasing of transmission lines and payments in relation to interconnection arrangements. Purchases from suppliers, other than suppliers of leased lines and network equipment and interconnection arrangements, were not material to the Group's total purchases.

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

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITY

Particulars of the Company's subsidiaries, the Group's associates and jointly controlled entity as at 31 December 2010 are set out in notes 18, 19 and 20, respectively, to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's financial affairs as at that date are set out in the financial statements on pages 65 to 132.

DIVIDENDS

The Board is of the view that the Company's good profitability and strong ability to generate cashflow will continue to support the future sustainable development of the Company, while providing shareholders with a favorable return. In view of the Company's good profitability in 2010 and taking into consideration its long-term future development, the Board recommends payment of a final dividend of HK\$1.597 per share for the financial year ended 31 December 2010 in accordance with the dividend payout ratio of 43% planned for the full year of 2010. This, together with the interim dividend of HK\$1.417 per share that was paid in 2010, amounts to an aggregate dividend payment of HK\$3.014 per share for the full financial year of 2010. Taking into consideration various relevant factors such as the Company's overall financial condition, ability to generate cash flow and the need for future sustainable development, the Company plans the dividend payout ratio for the full year of 2011 to be 43%.

DONATIONS

Donations made by the Group during the year amounted to RMB60,766,897 (2009: RMB143,710,962).

PROPERTY, PLANT AND EQUIPMENT

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

Report of Directors

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the Company's share capital and share option scheme are set out in note 36 to the financial statements and the paragraph "Share option schemes" below, respectively.

BONDS

Details of the bonds of the Group are set out in note 31 to the financial statements.

RESERVES

Changes to the reserves of the Group during the year are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year are set out in note 36 to the financial statements.

DIRECTORS

The directors during the financial year were:

Executive directors:

WANG Jianzhou (*Chairman*)

ZHANG Chunjiang (*Vice Chairman*) (removed on 7 January 2010)

LI Yue

LU Xiangdong

XUE Taohai

HUANG Wenlin

SHA Yuejia

LIU Aili

XIN Fanfei

XU Long

Independent non-executive directors:

LO Ka Shui

Frank WONG Kwong Shing

Moses CHENG Mo Chi

Non-executive director:

Nicholas Jonathan READ (resigned with effect from 22 September 2010)

In accordance with Article 97 of the Company's Articles of Association, Mr. XUE Taohai, Madam HUANG Wenlin, Mr. XU Long and Dr. LO Ka Shui will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

The biographies of the directors proposed for re-election at the forthcoming annual general meeting ("**Directors for Re-election**") are set out on pages 7 to 11. Except as disclosed in such biographies, the Directors for Re-election have not held any other directorships in any listed public companies in the last three years. Further, except as noted in the biographies, none of the Directors for Re-election is connected with any directors, senior management or substantial or controlling shareholders of the Company and, except for the share options granted to the Directors for Re-election as set out in the paragraph "Share option schemes" below, none of them has any interests in the shares of the Company within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("**SFO**").

Report of Directors

Dr. LO Ka Shui was appointed as an independent non-executive director of the Company since April 2001. He has over 30 years of business experience in Hong Kong and overseas and is a highly valued and respected member of the Board of Directors. He is also the chairman of the Audit Committee, the Remuneration Committee and the Nomination Committee. Each year, Dr. LO Ka Shui provided the Company with a confirmation of his independence in accordance with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”) and it is the belief of the Board of Directors that Dr. LO Ka Shui is independent. Not only is he fully able to discharge his duties as an independent non-executive Director of the Company, he will also continue to provide leadership to the various Board committees. Accordingly, the Board of Directors is of the view that the re-election of Dr. LO Ka Shui as an independent non-executive director of the Company is in the interests of the Company and its shareholders as a whole.

The service contracts of all the Directors for Re-election do not provide for a specified length of service and each of such directors will be subject to retirement by rotation and re-election at annual general meetings of the Company every three years. Each of the Directors for Re-election is entitled to an annual director’s fee of HK\$180,000 as proposed by the Board of Directors and approved by the shareholders of the Company. Director’s fees are payable on a time pro-rata basis for any non full year’s service. Dr. LO Ka Shui is also entitled to an additional annual fee of HK\$325,000 as chairman of the Audit Committee, the Remuneration Committee and the Nomination Committee. In addition, for the financial year ended 31 December 2010, Mr. XUE Taohai, Madam HUANG Wenlin and Mr. XU Long received annual remuneration, including retirement scheme contributions, of HK\$1,194,000, HK\$1,194,000 and HK\$1,182,000, respectively, plus a discretionary bonus as determined by the Board of Directors with respect to the director’s performance. The remuneration of these directors has been determined with reference to the individual’s duties, responsibilities and experience, and to prevailing market conditions.

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

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

DIRECTORS’ INTERESTS IN CONTRACTS

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

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

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

Apart from those disclosed herein, as at 31 December 2010, none of the directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) that is required to be recorded and kept in the register in accordance with section 352 of the SFO, any interests required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Report of Directors

SHARE OPTION SCHEMES**Share option schemes of the Company**

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

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

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

As the Old Scheme was terminated with effect on 24 June 2002, no further options were granted under the Old Scheme thereafter. As at 31 December 2010, the total number of shares which may be issued on the exercise of the outstanding options granted or to be granted under the Scheme is 1,476,767,598, representing approximately 7.36% of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report. However, the total number of shares in the Company issued and to be issued upon exercise of the options granted to a Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company. The consideration payable for the grant of each option under the Scheme is HK\$1.00.

The exercise price of the options granted under the Scheme shall be determined by the Board 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 in the Company;
- (ii) the closing price of the shares in the Company on the Stock Exchange on the date on which the option was granted; and
- (iii) the average closing price of the shares in the Company on the Stock Exchange for the five trading days immediately preceding the date on which the option was granted.

No share options were granted or cancelled under the Scheme during the year ended 31 December 2010.

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

Report of Directors

As at 31 December 2010, the directors and chief executive of the Company and the employees of the Group had the following personal interests in options to subscribe for shares of the Company granted under the Scheme.

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	No. of shares involved in the options lapsed during the year	No. of shares acquired on exercise of options during the year	Exercise price HK\$
Directors						
WANG Jianzhou	475,000	475,000	21 December 2004	–	–	26.75
	970,000	970,000	8 November 2005	–	–	34.87
LI Yue (also the chief executive officer)	154,000	154,000	28 October 2004	–	–	22.75
	780,000	780,000	8 November 2005	–	–	34.87
LU Xiangdong	154,000	154,000	28 October 2004	–	–	22.75
	780,000	780,000	8 November 2005	–	–	34.87
XUE Taohai	154,000	154,000	28 October 2004	–	–	22.75
	780,000	780,000	8 November 2005	–	–	34.87
SHA Yuejia	7,000	7,000	3 July 2002	–	–	22.85
	82,575	82,575	28 October 2004	–	–	22.75
	780,000	780,000	8 November 2005	–	–	34.87
LIU Aili	82,600	82,600	28 October 2004	–	–	22.75
	141,500	141,500	8 November 2005	–	–	34.87
XU Long	117,000	117,000	28 October 2004	–	–	22.75
	254,000	254,000	8 November 2005	–	–	34.87
LO Ka Shui	400,000	400,000	8 November 2005	–	–	34.87
Frank WONG Kwong Shing	400,000	400,000	8 November 2005	–	–	34.87
Moses CHENG Mo Chi	400,000	400,000	8 November 2005	–	–	34.87
Employees	33,451,909	29,997,239	3 July 2002	–	3,454,670	22.85
	119,656,204	118,704,584	28 October 2004	–	951,620	22.75
	267,555,280	267,391,975	8 November 2005	–	163,305	34.87
		423,005,473	(Note (a))			

Report of Directors

Notes:

- (a) The total number of shares involved in the options outstanding at the end of the year represents 2.11% of the issued share capital of the Company as at the latest practicable date prior to the printing of this annual report.
- (b) No options to subscribe for shares in the Company was granted to the directors of the Company in 2010.
- (c) Particulars of share options:

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

Details of share options exercised during the year:

Period during which share options were exercised	Exercise price HK\$	Weighted average closing price per share immediately before dates of exercise of options HK\$	Proceeds received HK\$	Number of shares involved in the options
4 January 2010 to 31 December 2010	22.85	79.24	78,939,210	3,454,670
5 January 2010 to 31 December 2010	22.75	78.76	21,649,355	951,620
6 January 2010 to 30 December 2010	34.87	78.82	5,694,445	163,305

Report of Directors

SHARE OPTION SCHEME OF ASPIRE HOLDINGS LIMITED (“ASPIRE”)

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

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

The maximum aggregate number of Aspire Shares which can be subscribed pursuant to options that are or may be granted under the Aspire Scheme equals to 10% of the total issued share capital of Aspire as at the date of adoption of the Aspire Scheme. Options lapsed or cancelled in accordance with the terms of the Aspire Scheme will not be counted for the purpose of calculating this 10% limit. As at 31 December 2010, the total number of shares which may be issued on the exercise of the outstanding options granted or to be granted under the Aspire Scheme was 93,964,582, representing 10% of the issued share capital of Aspire as at the date of this annual report. However, the total number of Aspire Shares issued and to be issued upon exercise of the options granted to an Aspire Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of Aspire.

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

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

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

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

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

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

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

Report of Directors

As at 31 December 2010, the employees of Aspire had the following personal interests in options to subscribe for shares of Aspire granted under the Aspire Scheme.

	No. of shares involved in the options outstanding at the beginning of the year	No. of shares involved in the options outstanding at year end	Date on which options were granted	Normal period during which options are exercisable	No. of shares involved in the options lapsed during the year	Exercise price US\$
Employees of Aspire*	4,225,000	3,925,000	18 February 2003	(Note (2))	300,000	0.298
	170,000	160,000	18 April 2003	(Note (2))	10,000	0.298
	1,740,000	1,660,000	16 September 2003	(Note (2))	80,000	0.298
	1,145,000	815,000	18 March 2004	(Note (2))	330,000	0.298
	235,000	75,000	28 May 2004	(Note (2))	160,000	0.298
		6,635,000	(Note (1))			

* During the year ended 31 December 2010, no share options have been granted under the Aspire Scheme for the directors and chief executive of the Company.

Notes:

- (1) The total number of shares involved in the options outstanding at the end of the year represents 0.71% of the issued share capital of Aspire as at the date of this report.
- (2) (a) 50% of the options granted to a particular employee are exercisable between the period:
- commencing on the later of:
 - (i) 2 years after the commencement of employment of that employee or the option offer date (as the case may be); or
 - (ii) the listing of the shares of Aspire; and
 - ending on the date falling 10 years from the option grant date; and
- (b) the remaining 50% of such options shall be exercisable between the period commencing 3 years after the initial 50% of the options become exercisable and ending on the date falling 10 years from the option grant date.

No options were granted or exercised under the Aspire Scheme during the year ended 31 December 2010.

Share options involving 880,000 Aspire Shares have been cancelled during the year ended 31 December 2010.

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

Report of Directors

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

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

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

PRE-IPO SHARE OPTION SCHEME OF CHINA MOBILE HONG KONG COMPANY LIMITED

Pursuant to a resolution passed by the shareholders of China Mobile Hong Kong Company Limited (formerly known as "China Mobile Peoples Telephone Company Limited") ("**CMHK**") on 4 March 2004, the pre-IPO share option scheme (the "**CMHK Pre-IPO Scheme**") was adopted to incentivize the then employees of CMHK.

No share options were granted under the CMHK Pre-IPO Scheme after the listing of CMHK on 31 March 2004 and no further share options will be granted under the scheme. There were 70,000 shares involved in the share options granted under the CMHK Pre-IPO Scheme which were outstanding at the beginning and at the end of the financial year ended 31 December 2010. All the share options outstanding at the beginning of the year were granted to employees of CMHK on 11 March 2004, and the exercise price was HK\$4.55 per share, being the offer price of the shares of CMHK at the time of its initial public offering. Grantees of the outstanding share options are entitled to exercise the share options from 11 March 2005 to 10 March 2014. No share options granted under the CMHK Pre-IPO Scheme have been exercised during the year. No share options were cancelled or lapsed during the year. The share options outstanding as at 31 December 2010 were held by 7 individuals, 6 of whom have left the employment of CMHK.

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

The Company has been notified of the following interests in the Company's issued shares as at 31 December 2010 amounting to 5% or more of the ordinary shares in issue:

		Ordinary shares held directly	indirectly	Percentage of total issued share capital
(i)	China Mobile Communications Corporation (" CMCC ")	–	14,890,116,842	74.21%
(ii)	China Mobile (Hong Kong) Group Limited (" CMHK (Group) ")	–	14,890,116,842	74.21%
(iii)	China Mobile Hong Kong (BVI) Limited (" CMHK (BVI) ")	14,890,116,842	–	74.21%

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

Apart from the foregoing, as at 31 December 2010, no person or corporation had any interest in the share capital of the Company as recorded in the register required to be kept under section 336 of the SFO as having an interest in 5% or more of or any short position in the issued share capital of the Company.

Report of Directors

CONNECTED TRANSACTIONS**Continuing Connected Transactions**

Details of the continuing connected transactions are set out in note 37 to the financial statements.

For the financial year ended 31 December 2010, the following continuing connected transactions (the “**Continuing Connected Transactions**”) have not exceeded their respective upper limits:

- (1) rental and property management service charges paid by the Group to CMCC have not exceeded RMB1,600 million. The charges payable by the Group in respect of properties owned by CMCC and its subsidiaries are determined with reference to market rates whilst the charges payable in respect of properties which CMCC or its subsidiaries lease from third parties and sub-let to the Group are determined according to the actual rent payable by CMCC or its subsidiaries to such third parties together with the amount of any tax payable;
- (2) telecommunications service charges, prices of transmission towers and spare parts purchased and the charges for related installation and maintenance services paid by the Group to CMCC have not exceeded RMB4,400 million. The telecommunications service charges, prices of transmission towers and spare parts purchased and the charges for related installation and maintenance services are determined with reference to and cannot exceed relevant standards laid down and revised from time to time by the government of the PRC. Where there are no government standards, the prices and charges are determined according to market rates;
- (3) settlement charges paid by the Company to China TieTong Telecommunications Corporation (“**TieTong**”), wholly-owned subsidiary of CMCC, in respect of calls made or received by their respective customers have not exceeded RMB480 million and the settlement charges received by the Company from TieTong in respect of calls made or received by their respective customers were below 0.1% of each of the applicable percentage ratios set out in Rule 14.07 of the Hong Kong Listing Rules. The rates for the settlement charges payable and receivable by the Company to and from TieTong are based on the previous interconnection settlement agreements entered into between TieTong and CMCC;
- (4) leasing fees paid by the Company to CMCC for the leasing by the Company from CMCC of the TD-SCDMA network capacity have not exceeded RMB2,000 million. The leasing fees are determined on a basis that reflects the Group’s total usage of CMCC’s TD-SCDMA network capacity and to compensate CMCC for the costs of such network capacity; and
- (5) service charges paid by the Company to CMCC for sales channel utilization and for the cooperation in the provision of Basic Telecommunications Services and Value-Added Telecommunications Services to customers of the Company have not exceeded RMB1,600 million. The aggregate amount of charges received by the Company for services provided to CMCC under the Telecommunications Services Cooperation Agreement for the year ended 31 December 2010 were below 0.1% of each of the applicable percentage ratios set out in Rule 14.07 of the Hong Kong Listing Rules. The service charges for agency services are determined with reference to market prices after taking into consideration the actual volume of agency services provided by CMCC and performance indicators such as total sales being recognized and additional number of customers acquired as a result of the provision of agency services by CMCC. The service charges in respect of business cooperation are determined with reference to government fixed price or guidance price and where there is no government fixed price or guidance price, market price, and after taking into account the actual volume of Basic Telecommunications Services and Value-Added Telecommunications Services provided.

The transactions referred to in paragraphs (1) and (2) above were entered into pursuant to the 2008–2010 property leasing and management services agreement dated 13 December 2007 between the Company and CMCC (the “**2008–2010 Property Leasing Agreement**”) and the 2008–2010 telecommunications services agreement dated 13 December 2007 between the Company and CMCC (the “**2008–2010 Telecommunications Services Agreement**”), respectively. The entering into of the 2008–2010 Property Leasing Agreement and the 2008–2010 Telecommunications Services Agreement was announced by the Company on 13 December 2007. The 2008–2010 Property Leasing Agreement and the 2008–2010 Telecommunications Services Agreement expired on 31 December 2010 and the arrangements under these agreements have been renewed by the parties to such agreements entering into the 2011–2013 Property Leasing Agreement and the 2011–2013 Telecommunications Services Agreement. The entering into of these agreements and their terms were announced by the Company on 21 December 2010.

Report of Directors

The transactions referred to in paragraph (3) above were entered into pursuant to the tripartite agreement among the Company, CMCC and TieTong dated 13 November 2008 (the “**Tripartite Agreement**”). The entering into of the Tripartite Agreement was announced by the Company on 13 November 2008. The Tripartite Agreement has been renewed and announced by the Company (i) on 6 November 2009 for a period of one year from 1 January 2010 and (ii) on 21 December 2010 for a period of one year from 1 January 2011.

The transactions referred to in paragraph (4) above were entered into pursuant to the network capacity leasing agreement between the Company and CMCC dated 29 December 2008 (the “**Network Capacity Leasing Agreement**”). The entering into of the Network Capacity Leasing Agreement was announced by the Company on 29 December 2008. The Network Capacity Leasing Agreement has been renewed and announced by the Company (i) on 6 November 2009 for a period of one year from 1 January 2010 and (ii) on 21 December 2010 for a period of one year from 1 January 2011.

The transactions referred to in paragraph (5) above were entered into pursuant to the telecommunications services cooperation agreement between the Company and CMCC dated 6 November 2009 (the “**Telecommunications Services Cooperation Agreement**”). The entering into of the Telecommunications Services Cooperation Agreement was announced by the Company on 6 November 2009. The Telecommunications Services Cooperation Agreement has been renewed for a period of one year from 1 January 2011 and the renewal was announced by the Company on 21 December 2010.

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

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

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

- (A) have received the approval of the Board;
- (B) were in accordance with the pricing policy as stated on pages 58 to 59 of this annual report;
- (C) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and
- (D) have not exceeded their respective upper limits set out above for the financial year ended 31 December 2010.

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

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

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

Report of Directors

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2010 are set out in note 31 to the financial statements.

FINANCIAL SUMMARY

A summary of the audited results and of the audited statements of the assets and liabilities of the Group for the last five financial years is set out on pages 133 to 135 of this annual report.

EMOLUMENT POLICY

The Group has always emphasized the importance of recruiting, incentivising, developing and retaining its employees, paid close attention to the external competitiveness and internal equity of its remuneration structure, as well as, the cost-effectiveness of remuneration and emphasized the importance of the correlation between remuneration management and performance management in order to continue to maintain the sustainable development of the enterprise's competitiveness. Employees' remuneration comprised a basic salary, a performance-based bonus and a long-term incentive scheme in the form of share option schemes for eligible employees, details of which are set out under the paragraph "Share option schemes" above.

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in note 34 to the financial statements.

PUBLIC FLOAT

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

AUDITORS

A resolution for the reappointment of KPMG as auditors of the Company shall be proposed at the forthcoming annual general meeting.

By order of the Board

Wang Jianzhou

Chairman

Hong Kong, 16 March 2011