
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, the requirements of the Hong Kong Companies Ordinance, and 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 2010 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 non-controlling 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.

Non-controlling interests (previously known as “minority interests”) represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary’s net identifiable assets.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and non-controlling interests (Continued)

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling 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 non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 1(d)).

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.

Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(j)). The Group's share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognized as share of profit or loss in the consolidated statement of comprehensive income, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognized as other comprehensive income in the consolidated statement of comprehensive income.

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.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates and jointly controlled entities (Continued)

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.

In the Company's balance sheet, its investments in an associate or a jointly controlled entity are stated at cost less impairment losses (see note 1(j)).

(e) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

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)).

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 (where 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 annually. 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. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do 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)).

(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 were 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 were 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 receivables

Investments in equity securities (other than investments in subsidiaries) and other receivables that are stated at cost or amortized cost are reviewed at the end of each reporting 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.

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

- For investments in associates and jointly controlled entities recognized 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).

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 receivables (Continued)

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

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

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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;
- prepaid 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.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

- 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).
- Recognition of impairment losses
An impairment loss is recognized in profit or loss if 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.
- 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.

(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 was capitalized to construction in progress during the years presented.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)**(l) Inventories**

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

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

(m) Accounts receivable and other receivables

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

(n) Deferred revenue

Deferred revenue consists primarily of 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 expire.

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.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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) 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;
- (v) interest income is recognized as it accrues using the effective interest method; and
- (vi) revenue from a fixed price contract is recognized using the percentage of completion method.

(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 business combination, or 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.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax (Continued)

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 the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group or the Company has the legal, 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 Group or the Company 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 subsidiaries incorporated in the Hong Kong Special Administrative Region of the PRC ("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 (For the purpose of preparing these financial statements, Mainland China refers to the People's Republic of China ("the PRC") excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan) 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 resulting adjustment to the cumulative fair value recognized in prior years is 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.

(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.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Translation of foreign currencies

The primary functional currency of entities within the Group is Renminbi ("RMB"). The Group adopted RMB as its presentation currency in the preparation of the annual financial statements, which is the currency of the primary economic environment in which most of the Group's entities operate.

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 at the dates of the cash flows.

(x) Related parties

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

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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, the Group has no operating segments since 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 Mainland China are less than 5% of the Group's assets and operating revenue, respectively.

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 2010. 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:

- IFRS/HKFRS 3 (revised), *Business combinations*
- IAS/HKAS 27 (amended), *Consolidated and separate financial statements*
- Amendments to IFRS/HKFRS 2, *Share based payment – Group cash – settled share-based payment transactions*
- HK-Interpretation 5, *Presentation of financial statements: classification of a term loan that contains a repayment on demand clause*
- Improvements to IFRSs/HKFRSs (2009)

These developments have had no material impact on the Group's financial statements.

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

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. The principal activity of the Company is investment holding.

Turnover represents mainly usage fees, monthly fees, value-added services fees and other operating revenue derived from the Group's mobile telecommunications networks, net of the PRC business tax. Business tax is charged at approximately 3% of the corresponding revenue generated from the service rendered in 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"), Mobile Internet Access services and other data services.

Other operating revenue mainly represents interconnection revenue.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

4 PERSONNEL

	2010 RMB million	2009 RMB million
Salaries, wages and other benefits	22,039	19,316
Retirement costs: contributions to defined contribution retirement plans	2,485	2,164
	24,524	21,480

5 OTHER OPERATING EXPENSES

	2010 RMB million	2009 RMB million
Selling and promotion	90,590	80,043
Maintenance	31,390	28,109
Impairment loss of doubtful accounts	4,019	4,503
Impairment loss of inventories	55	16
Amortization of other intangible assets	62	56
Operating lease charges		
– land and buildings	7,208	6,449
– others (Note 1)	2,631	2,302
Loss on disposal of property, plant and equipment	–	11
Write-off of property, plant and equipment	2,763	4,493
Auditors' remuneration		
– audit services (Note 2)	83	80
– tax services (Note 3)	1	–
– other services (Note 4)	11	9
Others (Note 5)	59,127	52,512
	197,940	178,583

Notes:

- (1) Other operating lease charges represent the operating lease charges for network capacity, motor vehicles, computer and other office equipment.
- (2) Audit services 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 (2009: RMB19,000,000).
- (3) Tax services include tax compliance services for the Group of RMB1,000,000 (2009: RMB72,000).
- (4) Other services include SOX 404 advisory services and other IT related advisory services.
- (5) Others consist of office expenses, utilities charges, travelling expenses, entertainment expenses, spectrum charges, consultancy 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

	2010 RMB million	2009 <i>RMB million</i>
Sales of SIM cards and handsets	5,451	7,754
Cost of SIM cards and handsets	(4,361)	(5,974)
Others	1,246	–
	2,336	1,780

7 NON-OPERATING NET INCOME

	2010 RMB million	2009 <i>RMB million</i>
Exchange (loss)/gain	(6)	3
Penalty income	257	265
Dividend income from unlisted securities	17	18
Others	417	73
	685	359

8 FINANCE COSTS

	2010 RMB million	2009 <i>RMB million</i>
Interest on bank loans and other borrowings repayable after five years	431	777
Interest on bonds	471	466
	902	1,243

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:

<i>(Expressed in Hong Kong dollar)</i>	Directors' Fees '000	Salaries, allowances and benefits in kind '000	Performance related bonuses '000	Retirement scheme contributions '000	2010 Total '000
Executive directors					
WANG Jianzhou	180	1,172	660	286	2,298
ZHANG Chunjiang (removed on 7 January 2010)	3	16	–	3	22
LI Yue	180	1,005	600	245	2,030
LU Xiangdong	180	960	540	234	1,914
XUE Taohai	180	960	540	234	1,914
HUANG Wenlin	180	960	540	234	1,914
SHA Yuejia	180	960	540	233	1,913
LIU Aili	180	960	540	233	1,913
XIN Fanfei	180	960	540	229	1,909
XU Long	180	950	540	232	1,902
Independent non-executive directors					
LO Ka Shui	505	–	–	–	505
WONG Kwong Shing, Frank	440	–	–	–	440
CHENG Mo Chi, Moses	440	–	–	–	440
Non-executive director					
Nicholas Jonathan READ (resigned with effect from 22 September 2010)	131	–	–	–	131
	3,139	8,903	5,040	2,163	19,245

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

9 DIRECTORS' REMUNERATION (Continued)

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

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the years ended 31 December 2009 and 2010, 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:

	2010 RMB million	2009 RMB million
Current tax		
Provision for Hong Kong profits tax on the estimated assessable profits for the year	123	91
Provision for the PRC enterprise income tax on the estimated taxable profits for the year	39,726	39,666
	39,849	39,757
Deferred tax		
Origination and reversal of temporary differences (note 21)	(802)	(1,344)
	39,047	38,413

- (i) The provision of Hong Kong profits tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year ended 31 December 2010.
- (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 2010, 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 20% and 22% for 2009 and 2010 and is increased to 24% and 25% for the years ending 31 December 2011 and 2012 onwards, respectively.

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

	2010 RMB million	2009 RMB million
Profit before taxation	159,071	153,836
Notional tax on profit before tax, calculated at the PRC's statutory tax rate of 25% (note)	39,768	38,459
Tax effect of non-taxable items		
– Interest income	(3)	(2)
– Share of profit of associate	(139)	–
Tax effect of non-deductible expenses on the PRC operations	562	699
Tax effect of non-deductible expenses on Hong Kong operations	111	155
Rate differential on the PRC operations	(561)	(470)
Rate differential on Hong Kong operations	1	35
Amortization of tax credit on purchase of domestic telecommunications equipment	(352)	(527)
Others	(340)	64
Taxation	39,047	38,413

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

11 TAXATION (Continued)

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

	2010 <i>RMB million</i>	2009 <i>RMB million</i>
Provision for the PRC enterprise income tax for the year	39,726	39,666
Provision for Hong Kong profits tax for the year	123	91
Balance of the PRC enterprise income tax recoverable relating to prior year	(17)	(39)
The PRC enterprise income tax paid	(30,730)	(31,605)
Hong Kong profits tax paid	(59)	(51)
Balance as at 31 December	9,043	8,062
Add: Tax recoverable	135	17
Tax payable	9,178	8,079

12 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB550,000,000 (2009: loss of RMB861,000,000) 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:

	2010 <i>RMB million</i>	2009 <i>RMB million</i>
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	(550)	(861)
Dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	50,613	61,561
Company's profit for the year (<i>note 36(a)</i>)	50,063	60,700

Details of dividends paid and payable to equity shareholders of the Company are set out in note 36(b).

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

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 RMB119,640,000,000 (2009: RMB115,166,000,000) and the weighted average number of 20,062,910,111 shares (2009: 20,057,674,088 shares) in issue during the year, calculated as follows:

Weighted average number of shares

	2010 Number of shares	2009 <i>Number of</i> <i>shares</i>
Issued shares as at 1 January	20,060,853,651	20,054,379,231
Effect of share options exercised	2,056,460	3,294,857
Weighted average number of shares as at 31 December	20,062,910,111	20,057,674,088

(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 RMB119,640,000,000 (2009: RMB115,166,000,000) and the weighted average number of 20,321,332,465 shares (2009: 20,312,459,133 shares), calculated as follows:

Weighted average number of shares (diluted)

	2010 Number of shares	2009 <i>Number of</i> <i>shares</i>
Weighted average number of shares as at 31 December	20,062,910,111	20,057,674,088
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	258,422,354	254,785,045
Weighted average number of shares (diluted) as at 31 December	20,321,332,465	20,312,459,133

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

14 PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings RMB million	Tele- communications transceivers, switching centers, transmission and other network equipment RMB million	Office equipments, furniture and fixtures and others RMB million	Total RMB million
Cost:				
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
As at 1 January 2010	73,506	612,012	24,749	710,267
Additions	571	1,231	1,071	2,873
Transferred from construction in progress	11,742	95,876	3,756	111,374
Disposals	(2)	(43)	(37)	(82)
Assets written-off	(254)	(19,294)	(1,596)	(21,144)
Exchange differences	(1)	(80)	(3)	(84)
As at 31 December 2010	85,562	689,702	27,940	803,204
Accumulated depreciation:				
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
As at 1 January 2010	15,206	322,169	12,817	350,192
Charge for the year	4,345	78,225	3,660	86,230
Written back on disposals	-	(40)	(30)	(70)
Assets written-off	(236)	(16,666)	(1,479)	(18,381)
Exchange differences	-	(61)	(2)	(63)
As at 31 December 2010	19,315	383,627	14,966	417,908
Net book value:				
As at 31 December 2010	66,247	306,075	12,974	385,296
As at 31 December 2009	58,300	289,843	11,932	360,075

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Group (Continued)

Write-off of property, plant and equipment represents the retirement of individual network assets due to obsolescence or damages. Such assets have been disconnected from existing network, abandoned and demolished. Total net book value of the write-off of such assets was RMB2,763,000,000 in 2010 (2009: RMB4,493,000,000). These assets were disposed of for scrap value, which was close to nil.

(b) The Company

	Office equipments, furniture and fixtures and others RMB million
Cost:	
As at 1 January 2009	17
Additions	–
As at 31 December 2009	17
As at 1 January 2010	17
Additions	–
As at 31 December 2010	17
Accumulated depreciation:	
As at 1 January 2009	11
Charge for the year	2
As at 31 December 2009	13
As at 1 January 2010	13
Charge for the year	1
As at 31 December 2010	14
Net book value:	
As at 31 December 2010	3
As at 31 December 2009	4

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 2010 <i>RMB million</i>	As at 31 December 2009 <i>RMB million</i>
Hong Kong		
Long-term leases	3	3
Medium-term leases	13	14
	16	17
Mainland China		
Long-term leases	3,567	3,507
Medium-term leases	60,247	52,861
Short-term leases	2,417	1,915
	66,231	58,283
	66,247	58,300

15 CONSTRUCTION IN PROGRESS

	The Group 2010 <i>RMB million</i>	2009 <i>RMB million</i>
Balance as at 1 January	46,094	35,482
Additions	120,148	124,323
Transferred to property, plant and equipment	(111,374)	(113,711)
Balance as at 31 December	54,868	46,094

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed as at 31 December 2010.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

16 GOODWILL

	The Group	
	2010	2009
	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 for which the goodwill is monitored for internal management purposes.

The recoverable amount of the cash-generating units is determined based on value-in-use, which is calculated by using the discounted cash flow method. This method considers the cash flows of the subsidiaries (cash-generating units) for the five years ending 31 December 2015 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 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% (2009: 10%).

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

17 OTHER INTANGIBLE ASSETS

	Brand name <i>RMB million</i>	The Group Customer base <i>RMB million</i>	License and others <i>RMB million</i>	Total <i>RMB million</i>
Cost:				
As at 1 January 2009	184	516	416	1,116
Additions	–	–	485	485
As at 31 December 2009	184	516	901	1,601
As at 1 January 2010	184	516	901	1,601
Additions	–	–	162	162
Exchange differences	–	–	(23)	(23)
As at 31 December 2010	184	516	1,040	1,740
Accumulated amortization:				
As at 1 January 2009	–	516	302	818
Amortization for the year	–	–	56	56
As at 31 December 2009	–	516	358	874
As at 1 January 2010	–	516	358	874
Amortization for the year	–	–	62	62
Exchange differences	–	–	(9)	(9)
As at 31 December 2010	–	516	411	927
Net book value:				
As at 31 December 2010	184	–	629	813
As at 31 December 2009	184	–	543	727

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 of the cash-generating unit for which the brand name is allocated. This method considers cash flows of the subsidiary (cash-generating unit) for the five years ending 31 December 2015 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% (2009: 10%).

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

18 INVESTMENTS IN SUBSIDIARIES

	The Company	
	As at 31 December 2010 RMB million	As at 31 December 2009 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 (2009: 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 current and non-current liabilities represents amount due to China Mobile Group Guangdong Co., Ltd. ("Guangdong Mobile") in relation to the guaranteed bonds, which are unsecured and non-interest bearing (see note 31(c)).

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 telecom- munications operator
China Mobile Group Zhejiang Co., Ltd.*	PRC	RMB2,117,790,000	100%	–	Mobile telecom- munications 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 telecom- munications 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 telecom- munications operator

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		Principal activity
			Held by the Company	Held by a subsidiary	
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
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

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		Principal activity
			Held by the Company	Held by a subsidiary	
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
China Mobile Group Sichuan Co., Ltd.*	PRC	RMB7,483,625,572	–	100%	Mobile telecommunications operator
Hubei Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Hubei Co., Ltd.*	PRC	RMB3,961,279,556	–	100%	Mobile telecommunications operator
Hunan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Hunan Co., Ltd.*	PRC	RMB4,015,668,593	–	100%	Mobile telecommunications operator

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		Principal activity
			Held by the Company	Held by a subsidiary	
Shaanxi Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Shaanxi Co., Ltd.*	PRC	RMB3,171,267,431	–	100%	Mobile telecommunications operator
Shanxi Mobile Communication (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Shanxi Co., Ltd.*	PRC	RMB2,773,448,313	–	100%	Mobile telecommunications operator
Neimenggu Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Neimenggu Co., Ltd.*	PRC	RMB2,862,621,870	–	100%	Mobile telecommunications operator
Jilin Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Jilin Co., Ltd.*	PRC	RMB3,277,579,314	–	100%	Mobile telecommunications operator
Heilongjiang Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Heilongjiang Co., Ltd.*	PRC	RMB4,500,508,035	–	100%	Mobile telecommunications operator
Guizhou Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Guizhou Co., Ltd.*	PRC	RMB2,541,981,749	–	100%	Mobile telecommunications operator
Yunnan Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Yunnan Co., Ltd.*	PRC	RMB4,137,130,733	–	100%	Mobile telecommunications operator
Xizang Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company

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		Principal activity
			Held by the Company	Held by a subsidiary	
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
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

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		Principal activity
			Held by the Company	Held by a subsidiary	
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 GSM900/1800 Mobile Communication System
Advanced Roaming & Clearing House Limited	BVI	US\$2	100%	–	Provision of roaming clearance services
Fit Best Limited	BVI	US\$1	100%	–	Investment holding company
China Mobile Hong Kong Company Limited ("CMHK")	Hong Kong	HK\$356,947,689	–	100%	Provision of mobile telecommunications and related services
China Mobile International Holdings Limited	Hong Kong	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		Principal activity
			Held by the Company	Held by a subsidiary	
China Mobile International Limited	Hong Kong	1 share at HK\$1	–	100%	Provision of voice and roaming clearance services, internet services and value-added 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 2010 RMB million	As at 31 December 2009 RMB million
Share of net assets	25,459	–
Goodwill	14,716	–
	40,175	–

Details of the associates are as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership interest held by a subsidiary	Principal activity
Non-listed company			
China Motion United Telecom Limited	Hong Kong	30%	Provision of telecommunications services
Shenzhen China Motion Telecom United Limited	PRC	30%	Provision of telecommunications services
Listed company			
Shanghai Pudong Development Bank Co., Ltd. ("SPD Bank")	PRC	20%	Provision of banking services

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

19 INTEREST IN ASSOCIATES (Continued)

All the above investments in associates are owned by Guangdong Mobile, the Company's wholly-owned subsidiary.

Owing to the lack of recent audited financial statements of China Motion United Telecom Limited and Shenzhen China Motion Telecom United Limited, the Group's share of these associates' net assets is based on latest management accounts which showed net liabilities as at 31 December 2009 and 2010.

As at 31 December 2010, the interests in associates include the investment in SPD Bank, which is a listed company on The Shanghai Stock Exchange, the PRC. In 2010, the Company, through Guangdong Mobile, acquired 20% of the total issued share capital in SPD Bank for a total consideration and direct cost of RMB39,617,000,000. The acquisition was completed in October 2010.

Up to the date of these financial statements released, SPD Bank has not yet announced its audited annual results for the year ended 31 December 2010, therefore, the Group has recognized its share of SPD Bank's comprehensive income from acquisition date to 31 December 2010 based on the unaudited financial information which was released by SPD Bank and publicly disclosed, with some financial information such as total liabilities not provided.

Summary financial information on SPD Bank:

	Assets <i>RMB million</i>	Revenue <i>RMB million</i>	Profit after tax <i>RMB million</i>
2010			
100%	2,162,100	49,876	19,076
Group's effective interest (20%)	432,420	2,797*	848*

* The amounts represent the Group's share of revenue and profit after tax in SPD Bank from acquisition date to 31 December 2010.

As at 31 December 2010, the fair value of the investment in SPD Bank based on quoted market price was RMB35,556,000,000. The management has determined that there was no impairment of the investment since there is no objective evidence of significant or prolong decline in the market price as at the reporting period end.

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 2010 RMB million	As at 31 December 2009 RMB million	As at 31 December 2010 RMB million	As at 31 December 2009 RMB million
Unlisted shares, at cost	–	–	34	14
Share of net assets	8	6	–	–
	8	6	34	14

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 two other shareholders in 2008, and commenced operation in 2009. 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%. By end of 2010, each of the four shareholders, including the Company, has funded US\$5,000,000 (equivalent to RMB34,000,000) to JIL B.V. in accordance with the shareholders agreement.

JIL B.V. is considered 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 and the Group or the Company and the other shareholders share joint control over the economic activity of the entity.

As at and for the year ended 31 December 2010, the Group's share of the JIL B.V.'s current assets, non-current assets, current liabilities, net assets and loss for the year of JIL B.V. are RMB19,000,000 (2009: RMB8,000,000), RMB1,000,000 (2009: Nil), RMB12,000,000 (2009: RMB2,000,000), RMB8,000,000 (2009: RMB6,000,000) and RMB18,000,000 (2009: RMB8,000,000), 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 2010

	As at 1 January 2010 RMB million	Credited/ (charged) to profit or loss RMB million	Exchange differences RMB million	As at 31 December 2010 RMB million
Deferred tax assets arising from:				
Provision for obsolete inventories	6	6	-	12
Write-off of certain network equipment and related assets	1,515	(280)	-	1,235
Provision for certain operating expenses	3,935	1,212	-	5,147
Deferred revenue from customer point award program	1,520	594	-	2,114
Impairment loss for doubtful accounts	1,963	(751)	-	1,212
	8,939	781	-	9,720
Deferred tax liabilities arising from:				
Capitalized interest	(7)	3	-	(4)
Depreciation allowance in excess of related depreciation	(54)	18	1	(35)
	(61)	21	1	(39)
Total	8,878	802	1	9,681

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 2009

	As at 1 January 2009 <i>RMB million</i>	Credited/ (charged) to profit or loss <i>RMB million</i>	Exchange differences <i>RMB million</i>	As at 31 December 2009 <i>RMB million</i>
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

	The Group As at 31 December 2010 RMB million	As at 31 December 2009 <i>RMB million</i>
Deferred tax assets recognized in the consolidated balance sheet	9,720	8,939
Deferred tax liabilities recognized in the consolidated balance sheet	(39)	(61)
Balance as at 31 December	9,681	8,878

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

22 PLEDGED BANK DEPOSITS

As at 31 December 2010, the Group has in aggregate HK\$190,000,000 (equivalent to RMB162,000,000) of performance bonds issued by banks in favour of the Telecommunications Authority of Hong Kong in order to secure CMHK's due performance of network coverage for the application of the next generation mobile services technology license ("BWA License") and the Mobile TV License.

23 OTHER FINANCIAL ASSETS

	The Group	
	As at	As at
	31 December	31 December
	2010	2009
	RMB million	RMB million
Investment in unlisted equity securities in the PRC, at cost	77	77

24 INVENTORIES

Inventories primarily comprise handsets, SIM cards and handset accessories.

25 ACCOUNTS RECEIVABLE

(a) Aging analysis

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

	The Group	
	As at	As at
	31 December	31 December
	2010	2009
	RMB million	RMB million
Within 30 days	5,295	4,275
31-60 days	1,317	1,012
61-90 days	639	673
Over 90 days	381	445
	7,632	6,405

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)

25 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 of doubtful accounts:

	The Group 2010 RMB million	2009 RMB million
Balance as at 1 January	6,095	4,548
Impairment loss for doubtful accounts	4,005	4,514
Accounts receivable written off	(5,248)	(2,967)
Exchange differences	(1)	–
Balance as at 31 December	4,851	6,095

(c) Accounts receivable that are not impaired

Accounts receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group As at 31 December 2010 RMB million	As at 31 December 2009 RMB million
Neither past due nor impaired	6,869	5,784
Less than 1 month past due	763	621
	7,632	6,405

Receivables that were neither past due nor impaired relate to a wide range of customers for which 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.

26 OTHER RECEIVABLES, PREPAYMENTS AND OTHER CURRENT ASSETS

Other receivables primarily comprise interest receivable from banks, trust loan to other PRC entity, utilities deposits and rental deposits.

Other receivables, except utilities deposits and rental deposits, are expected to be recovered within one year.

Prepayments and other current assets include primarily rental prepayment.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

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

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

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

28 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	As at 31 December 2010 RMB million	As at 31 December 2009 RMB million	As at 31 December 2010 RMB million	As at 31 December 2009 RMB million
Deposits with banks within three months of original maturity	6,043	8,971	2,251	6,637
Cash at banks and in hand	81,500	69,923	8	25
	87,543	78,894	2,259	6,662

29 ACCOUNTS PAYABLE

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

The aging analysis of accounts payable is as follows:

	The Group	
	As at 31 December 2010 RMB million	As at 31 December 2009 RMB million
Due within 1 month or on demand	88,525	72,883
Due after 1 month but within 3 months	9,888	8,965
Due after 3 months but within 6 months	5,519	6,420
Due after 6 months but within 9 months	3,337	3,691
Due after 9 months but within 12 months	4,377	4,026
	111,646	95,985

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 rewards, and deferred tax credit on purchase of domestic telecommunications equipment.

	The Group	
	2010	2009
	RMB million	RMB million
Balance as at 1 January	35,890	33,514
– Current portion	35,573	32,930
– Non-current portion	317	584
Additions during the year	241,927	211,040
Recognized in the comprehensive income statement	(234,076)	(208,664)
Exchange differences	(4)	–
Balance as at 31 December	43,737	35,890
Less: Current portion	(43,489)	(35,573)
Non-current portion	248	317

31 INTEREST-BEARING BORROWINGS

(a) The Group

	Note	As at 31 December 2010			As at 31 December 2009		
		Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
		RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Bonds	31(c)	4,981	4,982	9,963	–	9,918	9,918
Deferred consideration payable	31(d)	–	23,633	23,633	–	23,633	23,633
		4,981	28,615	33,596	–	33,551	33,551

All of the above interest-bearing borrowings are unsecured, and the non-current portion is 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 2010 RMB million	As at 31 December 2009 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 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 1 July 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 2010: 1.123% to 1.238% per annum; for the year ended 31 December 2009: 3.238% to 3.331% 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 2010 RMB million	As at 31 December 2009 RMB million
Receipts-in-advance	49,571	41,281
Other payables	13,489	11,900
Accrued salaries, wages and benefits	4,797	4,391
Accrued expense	17,859	11,763
	85,716	69,335

33 OBLIGATIONS UNDER FINANCE LEASES

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

	As at 31 December 2010			As at 31 December 2009		
	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.

- (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.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

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 "HKEx") 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 HKEx on the date on which the option was granted and the average closing price of the shares on the HKEx 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 HKEx on the date on which the option was granted; and
- (iii) the average closing price of the shares on the HKEx 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		Vesting conditions	Contractual life of options
	2010	2009		
Options granted to directors				
– on 3 July 2002	7,000	7,000	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	29,997,239	33,451,909	50% two years from the date of grant, 50% five years from the date of grant	10 years
– on 28 October 2004	118,704,584	119,656,204	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	267,391,975	267,555,280	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	423,005,473	427,575,068		

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			
	2010	2010	2009	2009
	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	30.51	427,575,068	30.40	434,049,488
Exercised	23.26	(4,569,595)	23.15	(6,474,420)
As at 31 December	30.59	423,005,473	30.51	427,575,068
Option vested as at 31 December	30.59	423,005,473	30.51	427,575,068

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$79.63 (2009: HK\$80.08).

The options outstanding as at 31 December 2010 had exercise prices ranging from HK\$22.75 to HK\$34.87 (2009: HK\$22.75 to HK\$34.87) and a weighted average remaining contractual life of 4.3 years (2009: 5.3 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 2009 and 2010.

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 2009	2,138	386,237	3,700	72	(859)	86,598	477,886
Changes in equity for 2009:							
Profit for the year	-	-	-	-	-	60,700	60,700
Other comprehensive income	-	-	-	-	46	-	46
Total comprehensive income	-	-	-	-	46	60,700	60,746
Dividends approved in respect of previous year (note 36(b)(iii))	-	-	-	-	-	(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
As at 31 December 2009	2,139	386,375	3,693	72	(813)	98,684	490,150
As at 1 January 2010	2,139	386,375	3,693	72	(813)	98,684	490,150
Changes in equity for 2010:							
Profit for the year	-	-	-	-	-	50,063	50,063
Other comprehensive income	-	-	-	-	(54)	-	(54)
Total comprehensive income	-	-	-	-	(54)	50,063	50,009
Dividends approved in respect of previous year (note 36(b)(iii))	-	-	-	-	-	(25,651)	(25,651)
Dividends declared in respect of the year (note 36(b)(i))	-	-	-	-	-	(24,550)	(24,550)
Shares issued under share option scheme (note 36(c)(ii))	-	101	(8)	-	-	-	93
As at 31 December 2010	2,139	386,476	3,685	72	(867)	98,546	490,051

As at 31 December 2010, the amount of distributable reserves of the Company amounted to RMB98,618,000,000 (2009: RMB98,756,000,000).

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:

	2010 RMB million	2009 <i>RMB million</i>
Ordinary interim dividend declared and paid of HK\$1.417 (equivalent to approximately RMB1.236) (2009: HK\$1.346 (equivalent to approximately RMB1.187)) per share	24,550	23,791
Ordinary final dividend proposed after the balance sheet date of HK\$1.597 (equivalent to approximately RMB1.359) (2009: HK\$1.458 (equivalent to approximately RMB1.284)) per share	27,268	25,753
	51,818	49,544

The proposed ordinary final dividend which is declared in Hong Kong dollar is translated into RMB at the rate HK\$1 = RMB0.85093, being the rate announced by the State Administration of Foreign Exchange in the PRC on 31 December 2010. As the ordinary final dividend is declared after the balance sheet date, such dividend is not recognized as liability as at 31 December 2010.

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

	2010 RMB million	2009 <i>RMB million</i>
Ordinary final dividend in respect of the previous financial year, approved and paid during the year, of HK\$1.458 (equivalent to approximately RMB1.284) (2009: HK\$1.404 (equivalent to approximately RMB1.238)) per share	25,651	24,823

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

	2010			2009		
	HK\$ million			HK\$ million		
<i>Authorized:</i>						
30,000,000,000 ordinary shares of HK\$0.10 each	3,000			3,000		
<i>Issued and fully paid:</i>						
	2010			2009		
	Number of shares	HK\$ million	Equivalent RMB million	Number of shares	HK\$ million	Equivalent RMB million
As at 1 January	20,060,853,651	2,006	2,139	20,054,379,231	2,005	2,138
Shares issued under share option scheme (note 36(c)(ii))	4,569,595	-	-	6,474,420	1	1
As at 31 December	20,065,423,246	2,006	2,139	20,060,853,651	2,006	2,139

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 2010, options were exercised to subscribe for 4,569,595 ordinary shares in the Company at a consideration of HK\$106,457,000 (equivalent to RMB93,398,000) of which HK\$457,000 (equivalent to RMB398,000) was credited to share capital and the balance of HK\$106,000,000 (equivalent to RMB93,000,000) was credited to the share premium account. HK\$8,000,000 (equivalent to RMB8,000,000) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(u)(ii).

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve

The capital reserve comprises the following:

- The fair value of 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
- 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.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

36 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(iii) PRC statutory reserves

PRC statutory reserves mainly include general reserve, enterprise expansion funds 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 2010, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve, and production safety fund were RMB74,456,000,000 (2009: RMB62,332,000,000), RMB79,687,000,000 (2009:RMB67,563,000,000), RMB23,000,000 (2009:RMB23,000,000), and RMB12,000,000 (2009: Nil), 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).

(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 2010, the Group's total debt-to-book capitalization ratio was 5.6% (2009: 6.3%).

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

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

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 2009 and 31 December 2010. 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	2010 RMB million	2009 RMB million
Property leasing and management services charges	(i)	951	1,207
Telecommunications services charges	(ii)	2,037	3,913
Interest paid/payable	(iii)	431	774
Interconnection revenue	(iv)	319	379
Interconnection charges	(iv)	431	435
Leased line charges	(iv)	94	59
Network capacity leasing charge paid/payable	(v)	578	222
Sales channel utilizing fee received/receivable	(vi)	37	10
Sales channel utilizing charge paid/payable	(vi)	536	495

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 represent the leasing fees paid/payable to CMCC Group in respect of the leasing of TD-SCDMA network capacity. On 29 December 2008, the Company entered into a network capacity leasing agreement (the "Network Capacity Leasing Agreement") with CMCC for the provision of TD-SCDMA related services. The lease was effective from 1 January 2009 to 31 December 2009 and is automatically renewed for successive one-year periods unless otherwise notified by one party to the other party. The Group is permitted to terminate the lease by giving 60 days advance written notice to CMCC. No penalty will be imposed in the event of a lease termination. Pursuant to the Network Capacity Leasing Agreement, the Group leases TD-SCDMA network capacity from CMCC and pays leasing fees to CMCC. The leasing fees are determined on a basis that reflects the actual usage of CMCC's TD-SCDMA network capacity and compensates CMCC for the costs of such network capacity. At the end of the lease term, there is no purchase option granted to the Group to purchase the network assets. The Group also does not bear any gains or losses in the fluctuation in the fair value of the leased network asset at the end of the lease term. The Group accounts for the TD-SCDMA network capacity lease as an operating lease.
- (vi) The amounts represent the sales channel utilizing fee 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..

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

37 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with associate

The Group also has entered into transactions with its associate, over which the Group can exercise significant influence. The major transactions entered into by the Group and the associate include the bank deposits placed in SPD Bank, the interest income, and the mobile telecommunications service, which were carried out in the normal course of business.

	Note	2010 RMB million	2009 RMB million
Cash and cash equivalents	(i)	1,999	–
Interest income	(ii)	9	–
Mobile telecommunications service fee	(iii)	29	–

(i) The amount represents the current deposits placed as at 31 December 2010 with SPD Bank, the Group's associate.

(ii) Interest income represents interest earned from deposits placed with SPD Bank after acquisition date. The applicable interest rate is determined in accordance with the prevailing bank interest rates published by the People's Bank of China.

(iii) The amount represents the fees from mobile telecommunications service, which the Group provide to SPD Bank.

(c) Key management personnel remuneration

Remuneration for key management personnel is disclosed in note 9.

38 TRANSACTIONS WITH OTHER STATE-CONTROLLED ENTITIES IN THE PRC

Apart from transactions with the CMCC Group (see note 37(a)), 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 (together 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:

	2010 RMB million	2009 RMB million
Interconnection revenue	17,028	14,655
Interconnection charges	19,076	18,908
Leased line charges	2,251	2,164

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

38 TRANSACTIONS WITH OTHER STATE-CONTROLLED ENTITIES IN THE PRC (Continued)

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

	As at 31 December 2010 RMB million	As at 31 December 2009 RMB million
Accounts receivable and other receivables	943	580
Accounts payable and other payables	709	964

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

	2010 RMB million	2009 RMB million
Interest income	5,625	5,896

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

	As at 31 December 2010 RMB million	As at 31 December 2009 RMB million
Deposits with banks	203,148	183,602
Cash and cash equivalents	86,689	72,085

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

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 the 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 receivables due 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 25(b).

(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.

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 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

	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	As at 31 December 2010			
			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	111,646	111,646	111,646	–	–	–
Bills payable	502	502	502	–	–	–
Accrued expenses and other payables	85,716	85,716	85,716	–	–	–
Amount due to ultimate holding company	15	15	15	–	–	–
Amount due to immediate holding company	35	35	35	–	–	–
Interest-bearing borrowings						
– Deferred consideration payable	23,633	25,233	281	428	383	24,141
– Bonds	9,963	11,627	5,317	450	450	5,410
Obligations under finance leases	68	71	71	–	–	–
	231,578	234,845	203,583	878	833	29,551

	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	As at 31 December 2009			
			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 Company

	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	As at 31 December 2010			
			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	2,477	2,477	2,477	-	-	-
Amount due to a subsidiary	9,963	11,627	5,317	450	450	5,410
Amount due to immediate holding company	35	35	35	-	-	-
Interest-bearing borrowings	23,633	25,233	281	428	383	24,141
	36,108	39,372	8,110	878	833	29,551

	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	As at 31 December 2009			
			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

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			
	2010		2009		2010		2009	
	Effective interest rate	RMB million	Effective interest rate	RMB million	Effective interest rate	RMB million	Effective interest rate	RMB million
2001 Bonds	4.00%	5,000	4.87%	5,000	–	–	–	–
Deferred consideration for acquisition of subsidiaries in 2002	2.22%	9,976	3.33%	9,976	2.22%	9,976	3.33%	9,976
Deferred consideration for acquisition of subsidiaries in 2004	2.23%	13,657	3.24%	13,657	2.23%	13,657	3.24%	13,657

As at 31 December 2010, if the base interest rate for the People's 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 (2009: RMB37,500,000).

As at 31 December 2010, if the two-year US dollar LIBOR swap rate interest rate per annum increases/decreases 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 (2009: 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 interest rate risk at the balance sheet date. The assumption of increase or decrease of interest rate of the People's 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 2010, total cash and bank balances of the Group amounted to RMB292,346,000,000 (2009: RMB264,507,000,000). The interest income for 2010 was RMB5,658,000,000 (2009: RMB5,940,000,000) and the average interest rate was 2.03% (2009: 2.46%). 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 RMB2,202,000,000 (2009: RMB2,003,000,000).

On the whole, interest rate risk of the Group is expected to be low due to the high balance of cash and cash equivalent 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 1.3% (2009: 3.1%) 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.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(e) Fair values

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

	As at 31 December 2010		As at 31 December 2009	
	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million
The Group				
Interest-bearing borrowings				
– bonds	9,963	10,038	9,918	10,077

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

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	
	2010 RMB million	2009 RMB million	2010 RMB million	2009 RMB million
<i>Commitments in respect of land and buildings</i>				
– authorized and contracted for	4,469	5,160	–	2
– authorized but not contracted for	14,211	20,494	–	–
	18,680	25,654	–	2
<i>Commitments in respect of telecommunications equipment</i>				
– authorized and contracted for	17,669	15,663	–	16
– authorized but not contracted for	79,819	61,919	–	–
	97,488	77,582	–	16
<i>Total commitments</i>				
– authorized and contracted for	22,138	20,823	–	18
– authorized but not contracted for	94,030	82,413	–	–
	116,168	103,236	–	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 as follows:

	The Group				The Company Land and buildings, and others RMB million
	Land and buildings RMB million	Leased lines RMB million	Others RMB million	Total RMB million	
As at 31 December 2010:					
Within one year	5,100	1,121	730	6,951	7
After one year but within five years	10,250	1,335	687	12,272	4
After five years	3,652	360	150	4,162	–
	19,002	2,816	1,567	23,385	11
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

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

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).

42 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation.

43 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company as at 31 December 2010 to be China Mobile Communications Corporation, a company incorporated in the PRC.

Notes to the Financial Statements (Continued)

(Expressed in Renminbi unless otherwise indicated)

44 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

Notes 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 take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Amortization of other intangible assets

Amortization of other intangible assets is calculated to write off the cost of items of other intangible assets using the straight-line method over their estimated useful lives unless such lives are indefinite. The Group reviews the estimated useful lives of other intangible assets annually in order to determine the amount of amortization expense to be recorded during any reporting period. The useful lives are based on the estimate period over which future economic benefits will be received by the Group and take 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 2010

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 2010 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
Revised IAS24/HKAS 24, <i>Related Party Disclosures (revised 2009)</i>	1 January 2011
Amendments to IFRS/HKFRS 7, <i>Financial Instruments Disclosures – Transfers of financial assets</i>	1 July 2011
Amendments to IAS/HKAS 12, <i>Income Taxes – Deferred tax: Recovery of underlying assets</i>	1 January 2012
IFRS/HKFRS 9, <i>Financial Instruments</i>	1 January 2013
Improvements to IFRSs/HKFRSs (2010)	1 July 2010 or 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.