

# 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 2011 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 43.

### (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.

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***1 SIGNIFICANT ACCOUNTING POLICIES (Continued)****(c) Subsidiaries and non-controlling interests (Continued)**

Non-controlling 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.

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.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Associates and jointly controlled entities (Continued)

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealized profits and losses resulting from transactions between the Group and its associates and a jointly controlled entity are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

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 recognized 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)). Amortization of intangible assets with finite useful lives is recorded in other operating expenses on a straight-line basis over the assets' estimated useful lives, from the date they are available for use. Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized while their useful lives are assessed to be indefinite. 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.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) Other investments in equity securities

The Group's accounting 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 location and condition 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	8–30 years
Telecommunications transceivers, switching centers, transmission and other network equipment	5–10 years
Office equipment, furniture and fixtures and others	3–10 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

(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 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.

**Notes to the Financial Statements***(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)

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).
- 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 (see note 1(j)(ii)).
- 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 these financial assets 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.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Internal and external sources of information are reviewed at 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.

- 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.

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***1 SIGNIFICANT ACCOUNTING POLICIES (Continued)****(j) Impairment of assets (Continued)****(iii) Interim financial reporting and impairment**

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

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

**(k) Construction in progress**

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

**(l) Inventories**

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

When inventories are sold, the carrying amount of those inventories is recognized as a deduction of other net income due to its insignificance. The amount of any write-down of inventories to net realizable 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 using the effective interest method less allowance for impairment loss (see note 1(j)), except where the effect of discounting would be immaterial. In such case, the receivables are stated at cost less allowance for impairment loss (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.



**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***1 SIGNIFICANT ACCOUNTING POLICIES (Continued)****(n) Deferred revenue (Continued)**

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

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

**(o) Interest-bearing borrowings**

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

**(p) Accounts payable and other payables**

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

**(q) Cash and cash equivalents**

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

**(r) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

- (i) revenue derived from voice and data services are recognized when the service is rendered;
- (ii) revenue from prepaid services is recognized when the mobile telecommunications services are delivered based upon actual usage by customers;
- (iii) sales of SIM cards and terminals 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;
- (iv) interest income is recognized as it accrues using the effective interest method; and
- (v) 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.

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***1 SIGNIFICANT ACCOUNTING POLICIES** (Continued)**(s) Income tax** (Continued)

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

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

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

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

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

The carrying amount of a deferred tax asset is reviewed at 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

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (s) Income tax (Continued)

- 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.

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.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (u) Employee benefits (Continued)

##### (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.

#### (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.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (w) Translation of foreign currencies (Continued)

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

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) The entity is controlled or jointly controlled by a person identified in (a); or
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

#### (y) Segment reporting

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenue 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 as a whole is an operating segment since the Group is only engaged in mobile telecommunications 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 revenue derived from activities outside Mainland China are less than 5% of the Group's assets and operating revenue, respectively.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new or revised IFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2011. The equivalent new or revised HKFRSs consequently issued by HKICPA as a result of these developments have the same effective date as those issued by the IASB and are consistent with the pronouncements issued by the IASB.

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

- IAS/HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs/HKFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 44).

The impacts of the developments are discussed below:

- IAS/HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. IAS/HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. As a result, the Group has re-assessed the modified disclosure requirements for government-related entities and revised the disclosures accordingly.
- Improvements to IFRSs/HKFRSs (2010) omnibus standard introduce a number of amendments to the disclosure requirements in IFRS/HKFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognized in the financial statements in the current and previous periods.

### 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 in Hong Kong. The principal activity of the Company is investment holding.

During the year, following a review of the presentation of the components of revenue, the Group re-categorized the presentation of revenue in the consolidated statement of comprehensive income. The new presentation categorizes operating revenue into voice services revenue, data services revenue and other operating revenue. Voice services revenue includes revenue derived from voice usage services (including usage fees and monthly fee) and from voice value-added services that were categorized in value-added services in prior years' presentation. Data services revenue includes revenue derived from short message services ("SMS") and multimedia message services ("MMS"), wireless data traffic, and applications and information services. Other operating revenue mainly includes interconnection revenue.

This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any of the periods presented. The comparative figures have been reclassified to conform to current year's presentation.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 4 PERSONNEL

	2011 RMB million	2010 RMB million
Salaries, wages and other benefits	25,498	22,039
Retirement costs: contributions to defined contribution retirement plans	3,174	2,485
	<b>28,672</b>	24,524

### 5 OTHER OPERATING EXPENSES

	2011 RMB million	2010 RMB million
Maintenance	35,096	31,390
Impairment loss of doubtful accounts	3,548	4,019
Impairment loss of inventories	87	55
Amortization of other intangible assets	54	62
Operating lease charges		
– land and buildings	8,150	7,208
– others (Note 1)	3,085	2,631
Loss on disposal of property, plant and equipment	3	–
Write-off of property, plant and equipment	5,853	2,763
Auditors' remuneration		
– audit services (Note 2)	84	83
– tax services (Note 3)	1	1
– other services (Note 4)	11	11
Others (Note 5)	69,392	59,127
	<b>125,364</b>	107,350

Notes:

- (1) Other operating lease charges represent the operating lease charges for 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 (2010: RMB19,000,000).
- (3) Tax services include tax compliance services for the Group of RMB600,000 (2010: RMB1,000,000).
- (4) Other services include SOX 404 advisory services, risk assessment 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***(Expressed in Renminbi unless otherwise indicated)***6 OTHER NET INCOME**

	<b>2011</b> <i>RMB million</i>	2010 <i>RMB million</i>
Sales of SIM cards and terminals	<b>6,020</b>	5,451
Cost of SIM cards and terminals	<b>(4,926)</b>	(4,361)
Others	<b>1,465</b>	1,246
	<b>2,559</b>	2,336

**7 NON-OPERATING NET INCOME**

	<b>2011</b> <i>RMB million</i>	2010 <i>RMB million</i>
Exchange loss	<b>(9)</b>	(6)
Penalty income	<b>257</b>	257
Dividend income from unlisted securities	<b>13</b>	17
Others	<b>310</b>	417
	<b>571</b>	685

**8 FINANCE COSTS**

	<b>2011</b> <i>RMB million</i>	2010 <i>RMB million</i>
Interest on bank loans and other borrowings repayable within five years	<b>7</b>	–
Interest on bank loans and other borrowings repayable after five years	<b>220</b>	431
Interest on bonds	<b>338</b>	471
	<b>565</b>	902



## Notes to the Financial Statements

(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	2011 Total '000
<b>Executive directors</b>					
WANG Jianzhou	180	1,172	616	287	2,255
XI Guohua*	78	462	244	115	899
LI Yue	180	1,067	560	261	2,068
LU Xiangdong**	180	960	504	236	1,880
XUE Taohai	180	960	504	236	1,880
HUANG Wenlin	180	960	504	236	1,880
SHA Yuejia	180	960	504	235	1,879
LIU Aili	180	960	504	235	1,879
XIN Fanfei	180	960	504	229	1,873
XU Long	180	950	504	232	1,866
<b>Independent non-executive directors</b>					
LO Ka Shui	505	–	–	–	505
WONG Kwong Shing, Frank	440	–	–	–	440
CHENG Mo Chi, Moses	440	–	–	–	440
	<b>3,083</b>	<b>9,411</b>	<b>4,948</b>	<b>2,302</b>	<b>19,744</b>

\* Mr. XI Guohua was appointed as an executive director and the vice chairman of the Company with effect from 26 July 2011.

\*\* Mr. LU Xiangdong resigned from the position as an executive director and a vice president of the Company with effect from 15 March 2012.

## Notes to the Financial Statements

(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	2010 Total '000
<b>Executive directors</b>					
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
<b>Independent non-executive directors</b>					
LO Ka Shui	505	–	–	–	505
WONG Kwong Shing, Frank	440	–	–	–	440
CHENG Mo Chi, Moses	440	–	–	–	440
<b>Non-executive director</b>					
Nicholas Jonathan READ (resigned with effect from 22 September 2010)	131	–	–	–	131
	3,139	8,903	5,040	2,163	19,245

### 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the years ended 31 December 2010 and 2011, all of the five individuals with the highest emoluments are directors whose emoluments are disclosed in note 9.

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***11 TAXATION****(a) Taxation in the consolidated statement of comprehensive income represents:**

	<b>2011</b> <i>RMB million</i>	2010 <i>RMB million</i>
<b>Current tax</b>		
Provision for Hong Kong profits tax on the estimated assessable profits for the year	<b>112</b>	123
Provision for the PRC enterprise income tax on the estimated taxable profits for the year	<b>41,693</b>	39,726
	<b>41,805</b>	39,849
<b>Deferred tax</b>		
Origination and reversal of temporary differences ( <i>note 21</i> )	<b>(1,202)</b>	(802)
	<b>40,603</b>	39,047

- (i) The provision for Hong Kong profits tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year ended 31 December 2011.
- (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 2011, 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 were 22%, 24% and 25% for 2010, 2011 and 2012 onwards, respectively. Deferred taxes are recognized based on tax rates that are expected to apply to the periods when the temporary differences are realized or settled.

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***11 TAXATION** (Continued)**(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:**

	<b>2011</b> <i>RMB million</i>	2010 <i>RMB million</i>
Profit before taxation	<b>166,582</b>	159,071
Notional tax on profit before tax, calculated at the PRC's statutory tax rate of 25% <i>(note)</i>	<b>41,645</b>	39,768
Tax effect of non-taxable items		
– Share of profit of associates	<b>(1,076)</b>	(139)
– Interest income	<b>(8)</b>	(3)
Tax effect of non-deductible expenses on the PRC operations	<b>736</b>	562
Tax effect of non-deductible expenses on Hong Kong operations	<b>66</b>	111
Rate differential of certain PRC operations	<b>(198)</b>	(561)
Rate differential on Hong Kong operations	<b>(16)</b>	1
Tax credit on purchase of domestic telecommunications equipment	<b>(171)</b>	(352)
Others	<b>(375)</b>	(340)
Taxation	<b>40,603</b>	39,047

*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***(Expressed in Renminbi unless otherwise indicated)***11 TAXATION** (Continued)**(c) Current taxation in the consolidated balance sheet represents:**

	<b>2011</b> <i>RMB million</i>	2010 <i>RMB million</i>
Provision for the PRC enterprise income tax for the year	<b>41,693</b>	39,726
Provision for Hong Kong profits tax for the year	<b>112</b>	123
Balance of the PRC enterprise income tax recoverable relating to prior year	<b>(135)</b>	(17)
The PRC enterprise income tax paid for the year	<b>(30,830)</b>	(30,730)
Hong Kong profits tax paid for the year	<b>(70)</b>	(59)
Balance as at 31 December	<b>10,770</b>	9,043
Add: Tax recoverable	<b>91</b>	135
Tax payable	<b>10,861</b>	9,178

**12 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY**

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB313,000,000 (2010: loss of RMB550,000,000) 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:

	<b>2011</b> <i>RMB million</i>	2010 <i>RMB million</i>
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements	<b>(313)</b>	(550)
Dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	<b>68,762</b>	50,613
Company's profit for the year <i>(note 36(a))</i>	<b>68,449</b>	50,063

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

## Notes to the Financial Statements

(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 RMB125,870,000,000 (2010: RMB119,640,000,000) and the weighted average number of 20,068,193,892 shares (2010: 20,062,910,111 shares) in issue during the year, calculated as follows:

#### Weighted average number of shares

	2011 Number of shares	2010 Number of shares
Issued shares as at 1 January	20,065,423,246	20,060,853,651
Effect of share options exercised	2,770,646	2,056,460
Weighted average number of shares as at 31 December	<b>20,068,193,892</b>	20,062,910,111

#### (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 RMB125,870,000,000 (2010: RMB119,640,000,000) and the weighted average number of 20,315,252,412 shares (2010: 20,321,332,465 shares), calculated as follows:

#### Weighted average number of shares (diluted)

	2011 Number of shares	2010 Number of shares
Weighted average number of shares as at 31 December	20,068,193,892	20,062,910,111
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	247,058,520	258,422,354
Weighted average number of shares (diluted) as at 31 December	<b>20,315,252,412</b>	20,321,332,465

## Notes to the Financial Statements

(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 equipment, furniture and fixtures and others RMB million	Total RMB million
<b>Cost:</b>				
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
As at 1 January 2011	<b>85,562</b>	<b>689,702</b>	<b>27,940</b>	<b>803,204</b>
Additions from an acquisition of a subsidiary	–	–	8	8
Additions	787	1,427	1,273	3,487
Transferred from construction in progress	10,176	111,203	1,112	122,491
Reclassification	–	10,915	(10,915)	–
Disposals	–	(398)	(22)	(420)
Assets written-off	(242)	(53,198)	(1,121)	(54,561)
Exchange differences	(1)	(115)	(5)	(121)
As at 31 December 2011	<b>96,282</b>	<b>759,536</b>	<b>18,270</b>	<b>874,088</b>
<b>Accumulated depreciation:</b>				
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
As at 1 January 2011	<b>19,315</b>	<b>383,627</b>	<b>14,966</b>	<b>417,908</b>
Reclassification	–	5,422	(5,422)	–
Charge for the year	4,140	90,142	2,831	97,113
Written back on disposals	–	(284)	(10)	(294)
Assets written-off	(171)	(47,516)	(1,021)	(48,708)
Exchange differences	–	(93)	(3)	(96)
As at 31 December 2011	<b>23,284</b>	<b>431,298</b>	<b>11,341</b>	<b>465,923</b>
<b>Net book value:</b>				
As at 31 December 2011	<b>72,998</b>	<b>328,238</b>	<b>6,929</b>	<b>408,165</b>
As at 31 December 2010	66,247	306,075	12,974	385,296

**Notes to the Financial Statements***(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 RMB5,853,000,000 in 2011 (2010: RMB2,763,000,000). These assets were disposed at scrap value.

During the year, as a result of a review on the assets categorization, certain types of equipment were re-categorized from office equipment to other network equipment, with no change of estimated useful life.

**(b) The Company**

	<b>Office equipment, furniture and fixtures and others RMB million</b>
<b>Cost:</b>	
As at 1 January 2010	17
Additions	–
As at 31 December 2010	17
As at 1 January 2011	17
Additions	1
Disposals	(1)
As at 31 December 2011	17
<b>Accumulated depreciation:</b>	
As at 1 January 2010	13
Charge for the year	1
As at 31 December 2010	14
As at 1 January 2011	14
Charge for the year	1
Disposals	(1)
As at 31 December 2011	14
<b>Net book value:</b>	
As at 31 December 2011	3
As at 31 December 2010	3



**Notes to the Financial Statements**  
(Expressed in Renminbi unless otherwise indicated)

**14 PROPERTY, PLANT AND EQUIPMENT** (Continued)

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

	<b>The Group</b>	
	<b>As at 31 December 2011 RMB million</b>	As at 31 December 2010 RMB million
Hong Kong		
Long-term leases	<b>3</b>	3
Medium-term leases	<b>12</b>	13
	<b>15</b>	16
Mainland China		
Long-term leases	<b>3,859</b>	3,567
Medium-term leases	<b>66,269</b>	60,247
Short-term leases	<b>2,855</b>	2,417
	<b>72,983</b>	66,231
	<b>72,998</b>	66,247

**15 CONSTRUCTION IN PROGRESS**

	<b>The Group</b>	
	<b>2011 RMB million</b>	2010 RMB million
Balance as at 1 January	<b>54,868</b>	46,094
Additions	<b>123,858</b>	120,148
Transferred to property, plant and equipment	<b>(122,491)</b>	(111,374)
Balance as at 31 December	<b>56,235</b>	54,868

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed as at 31 December 2011.

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***16 GOODWILL**

	<b>The Group</b>	
	<b>2011</b> <i>RMB million</i>	2010 <i>RMB million</i>
<b>Cost and carrying amount:</b>		
As at 1 January and 31 December	<b>36,894</b>	36,894

**Impairment tests for goodwill**

As set out in IAS/HKAS 36 Impairment of Assets, 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 2016 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% (2010: 10%). Management performed impairment tests for the goodwill and determined that goodwill was not impaired.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

## 17 OTHER INTANGIBLE ASSETS

	Brand name RMB million	The Group Customer base RMB million	License and others RMB million	Total RMB million
<b>Cost:</b>				
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
As at 1 January 2011	<b>184</b>	<b>516</b>	<b>1,040</b>	<b>1,740</b>
Additions	–	–	85	85
Exchange differences	–	–	(39)	(39)
As at 31 December 2011	<b>184</b>	<b>516</b>	<b>1,086</b>	<b>1,786</b>
<b>Accumulated amortization:</b>				
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
As at 1 January 2011	–	<b>516</b>	<b>411</b>	<b>927</b>
Amortization for the year	–	–	54	54
Exchange differences	–	–	(13)	(13)
As at 31 December 2011	–	<b>516</b>	<b>452</b>	<b>968</b>
<b>Net book value:</b>				
As at 31 December 2011	<b>184</b>	–	<b>634</b>	<b>818</b>
As at 31 December 2010	184	–	629	813

The amortization charge for the year is included in “other operating expenses” in the consolidated statement of the comprehensive income.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 18 INVESTMENTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>As at 31 December 2011 RMB million</b>	As at 31 December 2010 RMB million
Unlisted equity, at cost	471,810	471,810
Equity share-based payment in subsidiaries	4,972	4,972
	<b>476,782</b>	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 (2010: RMB4,972,000,000) as capital contributions to its subsidiaries.

Amounts due from subsidiaries under current assets are unsecured, interest free, repayable on demand and arose in the ordinary course of business. As at 31 December 2011, amount due to a subsidiary under non-current liabilities represented an amount due to China Mobile Group Guangdong Co., Ltd. ("Guangdong Mobile") in relation to the guaranteed bonds. The amount was unsecured and interest free (see note 31(a)).

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

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

**Notes to the Financial Statements***(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

(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

**Notes to the Financial Statements***(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 Hunan Co., Ltd.*	PRC	RMB4,015,668,593	–	100%	Mobile telecommunications operator
Shaanxi Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Shaanxi Co., Ltd.*	PRC	RMB3,171,267,431	–	100%	Mobile telecommunications operator
Shanxi Mobile Communication (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Shanxi Co., Ltd.*	PRC	RMB2,773,448,313	–	100%	Mobile telecommunications operator
Neimenggu Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Neimenggu Co., Ltd.*	PRC	RMB2,862,621,870	–	100%	Mobile telecommunications operator
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

## Notes to the Financial Statements

(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 Yunnan Co., Ltd.*	PRC	RMB4,137,130,733	–	100%	Mobile telecommunications operator
Xizang Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Xizang Co., Ltd.*	PRC	RMB848,643,686	–	100%	Mobile telecommunications operator
Gansu Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Gansu Co., Ltd.*	PRC	RMB1,702,599,589	–	100%	Mobile telecommunications operator
Qinghai Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Qinghai Co., Ltd.*	PRC	RMB902,564,911	–	100%	Mobile telecommunications operator
Ningxia Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Ningxia Co., Ltd.*	PRC	RMB740,447,232	–	100%	Mobile telecommunications operator
Xinjiang Mobile (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Xinjiang Co., Ltd.*	PRC	RMB2,581,599,600	–	100%	Mobile telecommunications operator
Beijing P&T Consulting & Design Institute (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Group Design Institute Co., Ltd.*	PRC	RMB160,232,500	–	100%	Provision of telecommunications network planning design and consulting services



**Notes to the Financial Statements***(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 Communication (BVI) Limited	BVI	1 share at HK\$1	100%	–	Investment holding company
China Mobile Communication Co., Ltd.***	PRC	RMB1,641,848,326	–	100%	Network and business coordination center
China Mobile Holding Company Limited***	PRC	US\$30,000,000	100%	–	Investment holding company
China Mobile (Shenzhen) Limited***	PRC	US\$7,633,000	–	100%	Provision of roaming clearance services
Aspire Holdings Limited	Cayman Islands	HK\$93,964,583	66.41%	–	Investment holding company
Aspire (BVI) Limited#	BVI	US\$1,000	–	100%	Investment holding company
Aspire Technologies (Shenzhen) Limited****#	PRC	US\$10,000,000	–	100%	Technology platform development and maintenance
Aspire Information Network (Shenzhen) Limited****#	PRC	US\$5,000,000	–	100%	Provision of mobile data solutions, system integration and development
Aspire Information Technologies (Beijing) Limited****#	PRC	US\$5,000,000	–	100%	Technology platform development and maintenance
Fujian FUNO Mobile Communication Technology Company Limited**	PRC	US\$3,800,000	–	51%	Network planning and optimizing construction testing and supervising, technology support, development and training of Nokia GSM900/1800 Mobile Communication System

## Notes to the Financial Statements

(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	
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
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
China Mobile Group Terminal Co., Ltd (formerly "China Topssion Communication Co., Ltd.") (Note 1)	PRC	RMB6,200,000,000	–	99.97%	Provision of electronic communication products design and selling

\* The Group underwent an intra-group restructuring in 2011 in order to improve the management and operational efficiency. Pursuant to the restructuring plan, the Company or the immediate holding BVI company of provincial operating company transferred its 100% of equity interests of the provincial operating company to China Mobile Communication Co., Ltd., a wholly owned subsidiary of the Company. As at 31 December 2011, the restructuring was completed. Those immediate holding BVI companies are now in the process of liquidation.

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

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

# Effective interest held by the Group is 66.41%.

Note 1: The Group acquired China Topssion Communication Co., Ltd. ("Topssion") from China Mobile Communications Corporation ("CMCC"), the ultimate holding company, and other third parties for a total consideration of RMB237,070,000. Topssion is primarily engaged in the business of sales of mobile handsets and other communication devices.

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***19 INTEREST IN ASSOCIATES**

	<b>The Group</b>	
	<b>As at 31 December 2011 RMB million</b>	As at 31 December 2010 RMB million
Share of net assets of associates	<b>43,794</b>	40,175

Details of the associates are as follows:

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

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

The carrying amounts of Group's share of net assets of China Motion United Telecom Limited and Shenzhen China Motion Telecom United Limited were nil. These two entities were in a net liability position based on their latest management accounts as at 31 December 2010 and 2011.

As at 31 December 2011, 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 costs 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 2011. The Group has recognized its share of SPD Bank's comprehensive income for the year ended 31 December 2011 based on the unaudited financial information which was publicly released by SPD Bank.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 19 INTEREST IN ASSOCIATES (Continued)

Summary financial information on SPD Bank:

	<b>Total assets</b> <i>RMB million</i>	<b>Total liabilities</b> <i>RMB million</i>	<b>Revenue</b> <i>RMB million</i>	<b>Profit after tax</b> <i>RMB million</i>
<b>2011</b>				
100%	2,690,300	2,540,700	67,497	27,236
Group's effective interest (20%)	538,060	508,140	13,499	5,447

The fair value of the interest in SPD Bank is disclosed in Note 38(e). The management has determined that there was no impairment of the Group's interest in SPD Bank for the years ended 31 December 2010 and 31 December 2011.

### 20 INTEREST IN JOINTLY CONTROLLED ENTITY

	<b>The Group</b>		<b>The Company</b>	
	<b>As at</b> <b>31 December</b> <b>2011</b> <i>RMB million</i>	<b>As at</b> 31 December 2010 <i>RMB million</i>	<b>As at</b> <b>31 December</b> <b>2011</b> <i>RMB million</i>	<b>As at</b> 31 December 2010 <i>RMB million</i>
Unlisted shares, at cost	–	–	34	34
Share of net assets	7	8	–	–
	<b>7</b>	<b>8</b>	<b>34</b>	<b>34</b>

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

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

JIL B.V. was formed by the Company and two other shareholders in 2008, and commenced its 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%. At the end of 2011, each of the four shareholders, including the Company, has contributed US\$5,000,000 (equivalent to RMB34,000,000) to JIL B.V. in accordance with the shareholders agreement.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 20 INTEREST IN JOINTLY CONTROLLED ENTITY (Continued)

JIL B.V. is considered a jointly controlled entity since the Company and other shareholders have the right to appoint an equal number of directors to the board of directors. The Company and the other shareholders share joint control over the major economic activities of JIL B.V..

As at and for the year ended 31 December 2011, 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 RMB7,000,000 (2010: RMB19,000,000), RMB1,000,000 (2010: RMB1,000,000), RMB1,000,000 (2010: RMB12,000,000), RMB7,000,000 (2010: RMB8,000,000) and RMB1,000,000 (2010: RMB18,000,000), respectively.

### 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 2011

	As at 1 January 2011 RMB million	Acquisition of a subsidiary RMB million	Credited/ (charged) to profit or loss RMB million	Exchange differences RMB million	As at 31 December 2011 RMB million
<b>Deferred tax assets arising from:</b>					
Provision for obsolete inventories	12	5	8	–	25
Write-off of certain network equipment and related assets	1,235	–	147	–	1,382
Provision for certain operating expenses	5,147	3	560	–	5,710
Deferred revenue from customer point reward program	2,114	–	531	–	2,645
Impairment loss for doubtful accounts	1,212	4	(65)	–	1,151
	9,720	12	1,181	–	10,913
<b>Deferred tax liabilities arising from:</b>					
Capitalized interest	(4)	–	3	–	(1)
Depreciation allowance in excess of related depreciation	(35)	–	18	1	(16)
	(39)	–	21	1	(17)
Total	9,681	12	1,202	1	10,896

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 21 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

#### Deferred tax assets and liabilities recognized and the movements during 2010

	As at 1 January 2010 <i>RMB million</i>	Credited/ (charged) to profit or loss <i>RMB million</i>	Exchange differences <i>RMB million</i>	As at 31 December 2010 <i>RMB million</i>
<b>Deferred tax assets arising from:</b>				
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 reward program	1,520	594	–	2,114
Impairment loss for doubtful accounts	1,963	(751)	–	1,212
	8,939	781	–	9,720
<b>Deferred tax liabilities arising from:</b>				
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

	<b>The Group</b>	
	<b>As at 31 December 2011 <i>RMB million</i></b>	As at 31 December 2010 <i>RMB million</i>
Deferred tax assets recognized in the consolidated balance sheet	<b>10,913</b>	9,720
Deferred tax liabilities recognized in the consolidated balance sheet	<b>(17)</b>	(39)
Balance as at 31 December	<b>10,896</b>	9,681

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***22 PLEDGED BANK DEPOSITS**

The pledged deposit classified in non-current assets of HK\$150,000,000 (equivalent to RMB122,000,000) matures in 2014 and is related to a performance bond issued by a bank 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.

Other pledged deposit classified in current assets of HK\$40,000,000 (equivalent to RMB32,000,000) matures in 2012 and is related to a performance bond issued by a bank in favor of the Telecommunications Authority of Hong Kong in order to secure CMHK's due performance of network coverage for the application of Mobile TV license.

**23 OTHER FINANCIAL ASSETS**

	<b>The Group</b>	
	<b>As at 31 December 2011 RMB million</b>	As at 31 December 2010 RMB million
Investment in unlisted equity securities in the PRC, at cost	<b>127</b>	127

**24 INVENTORIES**

Inventories primarily comprise SIM cards, terminals and other consumables.

	<b>The Group</b>	
	<b>As at 31 December 2011 RMB million</b>	As at 31 December 2010 RMB million
SIM cards and terminals	<b>5,445</b>	2,144
Other consumables	<b>2,499</b>	2,105
	<b>7,944</b>	4,249

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 25 ACCOUNTS RECEIVABLE

#### (a) Aging analysis

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

	<b>The Group</b>	
	<b>As at 31 December 2011 RMB million</b>	As at 31 December 2010 RMB million
Within 30 days	5,979	5,295
31–60 days	1,447	1,317
61–90 days	732	639
Over 90 days	1,007	381
	<b>9,165</b>	7,632

Accounts receivable primarily comprise receivables from customers and telecommunications operators. Accounts receivable from the provision of telecommunications services to 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 telecommunications services can be used. The increase of accounts receivable over 90 days is mainly due to receivables arising from overseas telecommunications operators within normal settlement period.

Accounts receivable are expected to be recovered within one year.

#### (b) Impairment of accounts receivable

Impairment loss in respect of accounts receivable is 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 loss of doubtful accounts:

	<b>The Group</b>	
	<b>2011 RMB million</b>	2010 RMB million
Balance as at 1 January	4,851	6,095
Impairment loss recognized	3,683	4,005
Accounts receivable written off	(4,133)	(5,248)
Exchange differences	(1)	(1)
Balance as at 31 December	<b>4,400</b>	4,851



**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***25 ACCOUNTS RECEIVABLE** (Continued)**(c) Accounts receivable that are not impaired**

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

	<b>The Group</b>	
	<b>As at 31 December 2011 RMB million</b>	As at 31 December 2010 RMB million
Neither past due nor impaired	<b>8,672</b>	6,869
Less than 1 month past due	<b>493</b>	763
	<b>9,165</b>	7,632

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, utilities deposits, rental deposits and trust loan receivables, which are expected to be recovered within one year except for utilities deposits and rental deposits.

Trust loan receivables represent loans to other PRC state-owned entities arranged through a bank, bearing initial interest rate at 5.10% – 6.56% per annum, which will be adjusted in line with the increase of benchmark loan interest rate published by the People's Bank of China ("PBOC"), and are recoverable within one year.

Prepayments and other current assets primarily consist of rental prepayment.

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

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

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

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***28 CASH AND CASH EQUIVALENTS**

	<b>The Group</b>		<b>The Company</b>	
	<b>As at 31 December 2011 RMB million</b>	<b>As at 31 December 2010 RMB million</b>	<b>As at 31 December 2011 RMB million</b>	<b>As at 31 December 2010 RMB million</b>
Deposits with banks within three months of original maturity	<b>23,618</b>	6,043	<b>894</b>	2,251
Cash at banks and in hand	<b>62,641</b>	81,500	<b>25</b>	8
	<b>86,259</b>	87,543	<b>919</b>	2,259

**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:

	<b>The Group</b>	
	<b>As at 31 December 2011 RMB million</b>	<b>As at 31 December 2010 RMB million</b>
Due within 1 month or on demand	<b>95,744</b>	88,525
Due after 1 month but within 3 months	<b>6,984</b>	9,888
Due after 3 months but within 6 months	<b>5,237</b>	5,519
Due after 6 months but within 9 months	<b>3,736</b>	3,337
Due after 9 months but within 12 months	<b>4,565</b>	4,377
	<b>116,266</b>	111,646

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

## Notes to the Financial Statements

(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	
	2011 RMB million	2010 RMB million
Balance as at 1 January	43,737	35,890
– Current portion	43,489	35,573
– Non-current portion	248	317
Additions during the year	240,342	241,927
Recognized in the statement of comprehensive income	(232,060)	(234,076)
Exchange differences	(5)	(4)
Balance as at 31 December	52,014	43,737
Less: Current portion	(51,753)	(43,489)
Non-current portion	261	248

## 31 INTEREST-BEARING BORROWINGS

## (a) The Group

	Note	As at 31 December 2011			As at 31 December 2010		
		Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million	Current liabilities RMB million	Non-current liabilities RMB million	Total RMB million
Bonds	(i)	–	4,984	4,984	4,981	4,982	9,963
Deferred consideration payable	(ii)	–	23,633	23,633	–	23,633	23,633
		–	28,617	28,617	4,981	28,615	33,596

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

- (i) As at 31 December 2011, the bonds represent the balance of fifteen-year guaranteed bonds (“Fifteen-year Bonds”) issued by Guangdong Mobile, with a principal amount of RMB5,000,000,000, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 4.5% per annum and payable annually. The bonds, redeemable at 100% of the principal amount, will mature on 28 October 2017. The ten-year guaranteed bonds with a principal amount of RMB5,000,000,000 issued by Guangdong Mobile on 18 June 2001, was fully repaid in June 2011.

The Company has issued a joint and irrevocable guarantee (the “Guarantee”) for the performance of the Fifteen-year Bonds. CMCC, the ultimate holding company, has also issued a further guarantee in relation to the performance by the Company of its obligations under the Guarantee.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 31 INTEREST-BEARING BORROWINGS (Continued)

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

- (ii) As at 31 December 2011, the deferred consideration payable represents the balance of the deferred consideration of RMB9,976,000,000 and RMB13,657,000,000 payable to immediate holding company in respect of the acquisitions of subsidiaries in 2002 and 2004 respectively. The balances are due on 1 July 2017 and 1 July 2019, respectively.

The deferred consideration payable is unsecured and bears interest at the rate of two-year US dollar LIBOR swap rate per annum (for the year ended 31 December 2011 and 2010: 1.123% to 1.238% 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 maturity date without penalty.

#### (b) The Company

	<b>As at 31 December 2011 RMB million</b>	As at 31 December 2010 RMB million
Deferred consideration payable	<b>23,633</b>	23,633

### 32 ACCRUED EXPENSES AND OTHER PAYABLES

	<b>The Group</b>	
	<b>As at 31 December 2011 RMB million</b>	As at 31 December 2010 RMB million
Receipts-in-advance	<b>56,015</b>	49,571
Other payables	<b>12,125</b>	13,489
Accrued salaries, wages and benefits	<b>5,376</b>	4,797
Accrued expense	<b>18,846</b>	17,859
	<b>92,362</b>	85,716

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***33 OBLIGATIONS UNDER FINANCE LEASES**

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

	As at 31 December 2011			As at 31 December 2010		
	Present value of the minimum lease payments <i>RMB million</i>	Interest expense relating to future periods <i>RMB million</i>	Total minimum lease payments <i>RMB million</i>	Present value of the minimum lease payments <i>RMB million</i>	Interest expense relating to future periods <i>RMB million</i>	Total minimum lease payments <i>RMB million</i>
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 Company's 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 participates in the Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance with respect to 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***(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 an equity interest, to receive options to subscribe for shares of the Company. The consideration payable for the grant of option under the Current Scheme is HK\$1.00.

The maximum aggregate number of shares which can be subscribed for pursuant to options that are or may be granted under the above scheme 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 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

(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
	2011	2010		
<b>Options granted to directors</b>				
– 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	4,885,500	5,685,500	40% one year from the date of grant, 30% two years from the date of grant 30% three years from the date of grant	10 years
<b>Options granted to other employees</b>				
– on 3 July 2002	25,361,299	29,997,239	50% two years from the date of grant, 50% five years from the date of grant	10 years
– on 28 October 2004	117,742,235	118,704,584	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	267,147,939	267,391,975	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	416,363,148	423,005,473		

**Notes to the Financial Statements***(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:**

	<b>The Group</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Weighted average exercise price HK\$</b>	<b>Number of shares involved in the options</b>	<b>Weighted average exercise price HK\$</b>	<b>Number of shares involved in the options</b>
As at 1 January	<b>30.59</b>	<b>423,005,473</b>	30.51	427,575,068
Exercised	<b>24.72</b>	<b>(6,642,325)</b>	23.26	(4,569,595)
As at 31 December	<b>30.68</b>	<b>416,363,148</b>	30.59	423,005,473
Option vested as at 31 December	<b>30.68</b>	<b>416,363,148</b>	30.59	423,005,473

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$75.45 (2010: HK\$79.63).

The options outstanding as at 31 December 2011 had exercise prices ranging from HK\$22.75 to HK\$34.87 (2010: HK\$22.75 to HK\$34.87) and a weighted average remaining contractual life of 3.4 years (2010: 4.3 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 2010 and 2011.



## Notes to the Financial Statements

(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
<b>As at 1 January 2010</b>	2,139	386,375	3,693	72	(813)	98,684	490,150
<b>Changes in equity for 2010:</b>							
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)(ii))	–	–	–	–	–	(25,651)	(25,651)
Dividends declared in respect of current year (note 36(b)(i))	–	–	–	–	–	(24,550)	(24,550)
Shares issued under share option scheme	–	101	(8)	–	–	–	93
<b>As at 31 December 2010</b>	2,139	386,476	3,685	72	(867)	98,546	490,051
<b>As at 1 January 2011</b>	2,139	386,476	3,685	72	(867)	98,546	490,051
<b>Changes in equity for 2011:</b>							
Profit for the year	–	–	–	–	–	68,449	68,449
Other comprehensive income	–	–	–	–	(186)	–	(186)
Total comprehensive income	–	–	–	–	(186)	68,449	68,263
Dividends approved in respect of previous year (note 36(b)(ii))	–	–	–	–	–	(26,718)	(26,718)
Dividends declared in respect of current year (note 36(b)(i))	–	–	–	–	–	(25,857)	(25,857)
Shares issued under share option scheme (note 36(c)(ii))	1	153	(18)	–	–	–	136
<b>As at 31 December 2011</b>	2,140	386,629	3,667	72	(1,053)	114,420	505,875

As at 31 December 2011, the amount of distributable reserves of the Company amounted to RMB114,492,000,000 (2010: RMB98,618,000,000).

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***36 CAPITAL, RESERVES AND DIVIDENDS** (Continued)**(b) Dividends****(i) Dividends attributable to the year:**

	<b>2011</b> <i>RMB million</i>	2010 <i>RMB million</i>
Ordinary interim dividend declared and paid of HK\$1.580 (equivalent to approximately RMB1.314) (2010: HK\$1.417 (equivalent to approximately RMB1.236)) per share	<b>25,857</b>	24,550
Ordinary final dividend proposed after the balance sheet date of HK\$1.747 (equivalent to approximately RMB1.416) (2010: HK\$1.597 (equivalent to approximately RMB1.359)) per share	<b>28,441</b>	27,268
	<b>54,298</b>	51,818

The ordinary final dividend which is declared in Hong Kong dollar is translated into RMB at the rate HK\$1 = RMB0.81070, being the rate announced by the State Administration of Foreign Exchange in the PRC on 30 December 2011. As the ordinary final dividend is declared after the balance sheet date, such dividend is not recognized as liability as at 31 December 2011.

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

	<b>2011</b> <i>RMB million</i>	2010 <i>RMB million</i>
Ordinary final dividend in respect of the previous financial year, approved and paid during the year, of HK\$1.597 (equivalent to approximately RMB1.359) (2010: HK\$1.458 (equivalent to approximately RMB1.284)) per share	<b>26,718</b>	25,651

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***36 CAPITAL, RESERVES AND DIVIDENDS (Continued)****(c) Share capital****(i) Authorized and issued share capital**

	2011			2010		
	HK\$ million			HK\$ million		
<i>Authorized:</i>						
30,000,000,000 ordinary shares of HK\$0.10 each	3,000			3,000		
	2011			2010		
	Number of shares	HK\$ million	Equivalent RMB million	Number of shares	HK\$ million	Equivalent RMB million
<i>Issued and fully paid:</i>						
As at 1 January	20,065,423,246	2,006	2,139	20,060,853,651	2,006	2,139
Shares issued under share option scheme (note 36(c)(ii))	6,642,325	1	1	4,569,595	-	-
As at 31 December	20,072,065,571	2,007	2,140	20,065,423,246	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 2011, options were exercised to subscribe for 6,642,325 ordinary shares in the Company at a consideration of HK\$164,230,000 (equivalent to RMB135,967,000) of which HK\$664,000 (equivalent to RMB550,000) was credited to share capital and the balance of HK\$163,566,000 (equivalent to RMB135,417,000) was credited to the share premium account. RMB18,000,000 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***(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 statutory surplus reserve and discretionary surplus reserve. After the completion of the intra-group restructuring, as mentioned in note 18, all the provincial operating companies changed their legal registration from foreign investment enterprises to domestic enterprises.

In accordance with the Company Law of PRC, domestic enterprises in Mainland China are required to transfer 10% of their profit after taxation, as determined under accounting principles generally accepted in the PRC ("PRC GAAP"), to the statutory surplus reserve until such reserve balance reaches 50% of the registered capital. Moreover, upon a resolution made by the shareholders, a certain percentage of domestic enterprises' profit after taxation, as determined under PRC GAAP, is transferred to the discretionary surplus reserve. During the year, appropriations were made by each of the above subsidiaries to the statutory surplus reserve and discretionary surplus reserve each at 10% of their profit after taxation determined under PRC GAAP.

The statutory and discretionary 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.

**(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 2011, the Group's total debt-to-book capitalization ratio was 4.5% (2010: 5.6%).

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

## Notes to the Financial Statements

(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 2010 and 31 December 2011.

	Note	2011 RMB million	2010 RMB million
Telecommunications services revenue	(i)	1,709	859
Telecommunications services charges	(i)	1,138	2,037
Property leasing and management services charges	(ii)	776	951
Interest paid/payable	(iii)	219	431
Interconnection revenue	(iv)	279	319
Interconnection charges	(iv)	446	431
Network assets leasing revenue	(iv)	47	18
Network assets leasing charges	(iv)	328	94
TD network capacity leasing charges	(v)	1,092	578
Revenue derived from cooperation of telecommunications services	(vi)	177	37
Charges for cooperation of telecommunications services	(vi)	1,154	536

Notes:

- (i) The amounts represent telecommunications services settlement received/receivable from or paid/payable to CMCC Group for the telecommunications project planning, design and construction services, telecommunications line and pipeline construction services, telecommunications line maintenance services and installation and maintenance services in respect of transmission towers.
- (ii) The amount represents the rental and property management fees paid/payable to CMCC Group in respect of business premises and offices, retail outlets and warehouses.
- (iii) The amount represents the interest paid/payable to China Mobile Hong Kong (BVI) Limited, the Company's immediate holding company, in respect of the balance of purchase consideration for acquisitions 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 network assets leasing revenue and charges.
- (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 services fee received/receivable from or paid/payable to CMCC Group for providing customer development services and cooperation in the provision of basic and value added telecommunications services.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 37 RELATED PARTY TRANSACTIONS (Continued)

#### (b) Amounts due from/to CMCC Group

Amounts due from/to CMCC Group are included in the following accounts captions summarized as follows:

	The Group	
	As at 31 December 2011 RMB million	As at 31 December 2010 RMB million
Accounts receivable	654	410
Other receivables	7	24
Prepayment and other current assets	5	3
Accounts payable	1,745	1,783
Accrued expenses and other payables	258	263

#### (c) Transactions with associates

The Group also has entered into transactions with its associates, over which the Group can exercise significant influence. The major transactions entered into by the Group and the associates include the bank deposits placed at SPD Bank, the interest income received/receivable from SPD Bank, and the mobile telecommunications services provided to SPD Bank, which were carried out in the ordinary course of business.

	Note	2011 RMB million	2010 RMB million
Bank deposits		17,320	1,999
Interest income	(i)	237	9
Mobile telecommunications services fees	(ii)	44	29

Notes:

- (i) Interest income represents interest earned from deposits placed at SPD Bank. The applicable interest rate is determined in accordance with the prevailing benchmark loan interest rate published by PBOC.
- (ii) The amount represents the mobile telecommunications services fees received/receivable from SPD Bank.

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***37 RELATED PARTY TRANSACTIONS** (Continued)**(d) Transactions with other government-related entities in the PRC**

The Group is a government-related enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government through government authorities, agencies, affiliations and other organisation (collectively referred to as “government-related entities”).

Apart from transactions with CMCC Group (note 37(a)) and associates (note 37(c)), the Group has collectively, but not individually, significant transactions with other government-related entities which include but not limited to the following:

- rendering and receiving telecommunications services, including interconnection revenue/charges
- purchasing of goods, including use of public utilities
- placing of bank deposits
- providing trust loans (note 26)

These transactions are conducted in the ordinary course of the Group’s business on terms comparable to the terms of transactions with other entities that are not government-related. The Group prices its telecommunications services and products in accordance with rules and regulations stipulated by related authorities of the PRC Government, where applicable, or based on commercial negotiations. The Group has also established its procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are government-related entities or not.

**Notes to the Financial Statements***(Expressed in Renminbi unless otherwise indicated)***38 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 deposits 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 large state-controlled financial institutions.

The accounts receivable of the Group are primarily comprised of receivables due from customers and telecommunications operators. 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 trust loan receivables, 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(c).



## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

## 38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

## (b) Liquidity risk

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

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

## The Group

	As at 31 December 2011					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within 1 year or on demand RMB million	More than 1 year but less than 3 years RMB million	More than 3 years but less than 5 years RMB million	More than 5 years RMB million
Accounts payable	116,266	116,266	116,266	-	-	-
Bills payable	1,616	1,616	1,616	-	-	-
Accrued expenses and other payables	92,362	92,362	92,362	-	-	-
Amount due to ultimate holding company	285	285	285	-	-	-
Amount due to immediate holding company	33	33	33	-	-	-
Interest-bearing borrowings						
– Deferred consideration payable	23,633	24,563	204	257	257	23,845
– Bonds	4,984	6,310	225	450	450	5,185
Obligations under finance leases	68	71	71	-	-	-
	239,247	241,506	211,062	707	707	29,030

	As at 31 December 2010					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within 1 year or on demand RMB million	More than 1 year but less than 3 years RMB million	More than 3 years but less than 5 years RMB million	More than 5 years RMB million
Accounts payable	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

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

## 38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)  
The Company

	As at 31 December 2011					
	Carrying Amount RMB million	Total contractual undiscouted cash flow RMB million	Within 1 year or on demand RMB million	More than 1 year but less than 3 years RMB million	More than 3 years but less than 5 years RMB million	More than 5 years RMB million
Accrued expenses and other payables	23	23	23	-	-	-
Amount due to a subsidiary	4,984	6,310	225	450	450	5,185
Amount due to immediate holding company	33	33	33	-	-	-
Interest-bearing borrowings	23,633	24,563	204	257	257	23,845
	28,673	30,929	485	707	707	29,030

  

	As at 31 December 2010					
	Carrying Amount RMB million	Total contractual undiscouted cash flow RMB million	Within 1 year or on demand RMB million	More than 1 year but less than 3 years RMB million	More than 3 years but less than 5 years RMB million	More than 5 years RMB million
Accrued expenses and other payables	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

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 38 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 deferred consideration payable 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 sets out the interest rate profile of the Group's floating interest bearing borrowings at the balance sheet date:

	The Group				The Company			
	2011		2010		2011		2010	
	Effective interest rate	RMB million	Effective interest rate	RMB million	Effective interest rate	RMB million	Effective interest rate	RMB million
Deferred consideration for acquisition of subsidiaries in 2002	1.12%	9,976	2.22%	9,976	1.12%	9,976	2.22%	9,976
Deferred consideration for acquisition of subsidiaries in 2004	1.24%	13,657	2.23%	13,657	1.24%	13,657	2.23%	13,657

As at 31 December 2011, 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 payable 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 (2010: 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 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 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 2011, total cash and bank balances of the Group amounted to RMB333,100,000,000 (2010: RMB292,508,000,000). The interest income for 2011 was RMB7,866,000,000 (2010: RMB5,657,000,000) and the average interest rate was 2.51% (2010: 2.03%). 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 RMB2,508,000,000 (2010: RMB2,203,000,000).

As at 31 December 2011, the balance of trust loan receivable of the Group amounted to RMB14,000,000,000 (2010: RMB2,700,000,000). The interest income for 2011 was RMB547,000,000 (2010: RMB722,000) and the average interest rate was 6.55% (2010: 4.82%). Assuming the total trust loan 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 RMB105,000,000 (2010: RMB20,250,000).

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

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

On the whole, interest rate risk of the Group is expected to be low due to the high 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 1.2% (2010: 1.4%) of the total cash and deposits with banks and predominantly all of the business operations of the Group are transacted in RMB, the Group does not expect the appreciation or depreciation of the RMB against foreign currency will materially affect the Group's financial position and result of operations.

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

#### (e) Fair values

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

	As at 31 December 2011		As at 31 December 2010	
	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million
<b>The Group</b>				
Interest in associate	43,794	31,674	40,175	35,556
Interest-bearing borrowings – bonds	4,984	4,845	9,963	10,038

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

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

## 39 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	
	2011 RMB million	2010 RMB million	2011 RMB million	2010 RMB million
<i>Commitments in respect of land and buildings</i>				
– authorized and contracted for	4,772	4,469	–	–
– authorized but not contracted for	34,089	14,211	–	–
	<b>38,861</b>	18,680	–	–
<i>Commitments in respect of telecommunications equipment</i>				
– authorized and contracted for	17,754	17,669	–	–
– authorized but not contracted for	85,108	79,819	–	–
	<b>102,862</b>	97,488	–	–
<i>Total commitments</i>				
– authorized and contracted for	22,526	22,138	–	–
– authorized but not contracted for	119,197	94,030	–	–
	<b>141,723</b>	116,168	–	–

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 39 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	
<b>As at 31 December 2011:</b>					
Within one year	6,090	1,718	838	8,646	5
After one year but within five years	12,993	2,368	560	15,921	–
After five years	4,050	574	92	4,716	–
	<b>23,133</b>	<b>4,660</b>	<b>1,490</b>	<b>29,283</b>	<b>5</b>
<b>As at 31 December 2010:</b>					
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	–
	<b>19,002</b>	<b>2,816</b>	<b>1,567</b>	<b>23,385</b>	<b>11</b>

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

### 40 POST BALANCE SHEET EVENTS

After the balance sheet date the directors declared a final dividend for the year ended 31 December 2011. Further details are disclosed in note 36(b)(i).

### 41 COMPARATIVE FIGURES

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

### 42 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company as at 31 December 2011 to be CMCC, a company incorporated in the PRC.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 43 ACCOUNTING ESTIMATES AND JUDGEMENTS

#### Key sources of estimation uncertainty

Notes 16 and 38 contain information about the assumptions and their risk factors relating to goodwill impairment 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, goodwill and other intangible assets

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. Property, plant and equipment and other intangible assets subject to amortization, are reviewed at least annually to determine whether there is any indication of impairment. The recoverable amount is estimated whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. In addition, for goodwill and other intangible assets have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

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 impairment charge or reversal of impairment in future periods.

## Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

### 44 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the IASB/HKICPA has issued a number of amendments and new standards which are not yet effective for the accounting period ended 31 December 2011 and which have not been adopted in these financial statements.

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

	<b>Effective for accounting periods beginning on or after</b>
Amendments to IFRS/HKFRS 7, <i>Financial Instruments</i> <i>Disclosures: transfers of financial assets</i>	1 July 2011
Amendments to IAS/HKAS 12, <i>Income Taxes</i> – <i>Deferred tax: recovery of underlying assets</i>	1 January 2012
Amendments to IAS 1, <i>Presentation of Financial Statements</i>	1 July 2012
IFRS/HKFRS 10, <i>Consolidated Financial Statements</i>	1 January 2013
IFRS/HKFRS 11, <i>Joint Arrangements</i>	1 January 2013
IFRS/HKFRS 12, <i>Disclosure of Interests in Other Entities</i>	1 January 2013
IFRS/HKFRS 13, <i>Fair Value Measurement</i>	1 January 2013
IAS/HKAS 27, <i>Separate Financial Statements</i>	1 January 2013
IAS/HKAS 28, <i>Investments in Associates and Joint Ventures</i>	1 January 2013
Revised IAS/HKAS 19, <i>Employee benefits</i>	1 January 2013
IFRS/HKFRS 9, <i>Financial Instruments</i>	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group 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.