

REPORT OF DIRECTORS

The directors take pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Group's principal activity is providing mobile telecommunications and related services in 31 provinces, autonomous regions and directly-administered municipalities in Mainland China and Hong Kong. The principal activity of the Company is investment holding.

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's aggregate turnover with its five largest customers did not exceed 30% of the Group's total turnover in 2014.

Purchases from the largest supplier for the year represented 13% of the Group's total purchases. The five largest suppliers accounted for an aggregate of 29% of the Group's purchases in 2014. Purchases for the Group include network equipment purchases, leasing of transmission lines and payments in relation to interconnection arrangements. Purchases from suppliers, other than suppliers of leased lines and network equipment and interconnection arrangements, were not material to the Group's total purchases.

At no time during the year ended 31 December 2014 have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the number of issued shares of the Company) had any interest in these five largest suppliers.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and the Group's associates as at 31 December 2014 are set out in notes 18 and 19, respectively, to the consolidated financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2014 and the financial conditions of the Company and the Group as at that date are set out in the consolidated financial statements on pages 70 to 129.

DIVIDENDS

The Board believes that the Company's favorable profitability and healthy cash flow generating capability will be able to provide sufficient support to its future development, while providing shareholders with a favorable return. Based on the Group's operating performance in 2014 and taking into consideration its long-term future development, in accordance with the dividend payout ratio of 43% planned for the full financial year of 2014, the Board recommends payment of a final dividend of HK\$1.380 per share for the financial year ended 31 December 2014. This, together with the interim dividend of HK\$1.540 per share that was paid, amounts to an aggregate dividend payment of HK\$2.920 per share for the full financial year of 2014. In 2015, taking into consideration various relevant factors, including the Group's overall financial condition, cash flow generating capability and future sustainable development needs, the Company's planned dividend payout ratio for the full year of 2015 will be 43%.

DONATIONS

Donations made by the Group during the year amounted to RMB55,987,029 (2013: RMB67,661,542).

PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group and the Company during the year ended 31 December 2014 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEMES

Details of the Company's share capital and share option scheme are set out in note 35 to the consolidated financial statements and the paragraph "Share Option Schemes" below, respectively.

BONDS

Details of the bonds of the Group are set out in note 33 to the consolidated financial statements.

RESERVES

Changes to the reserves of the Group during the year are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year are set out in note 35 to the consolidated financial statements.

DIRECTORS

The directors during the financial year were:

Executive Directors:

Xi Guohua (*Chairman*)
Li Yue
Xue Taohai
HUANG Wenlin (resigned on 19 March 2015)
SHA Yuejia
LIU Aili

Independent Non-Executive Directors:

LO Ka Shui
Frank WONG Kwong Shing
Moses CHENG Mo Chi
Paul CHOW Man Yiu

In accordance with Article 95 of the Company's Articles of Association, Mr. XUE Taohai, Mr. Frank WONG Kwong Shing and Dr. Moses CHENG Mo Chi will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

The biographies of the directors proposed for re-election at the forthcoming annual general meeting ("Directors for Re-election") are set out on pages 12 and 14. Except as disclosed in such biographies, the Directors for Re-election have not held any other directorships in any listed public companies in the last three years. Further, except as noted in the biographies, none of the Directors for Re-election is connected with any directors, senior management or substantial or controlling shareholders of the Company and, except as disclosed in the paragraphs headed "Directors' and Chief Executive's Interest and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Schemes" below, none of them has any interests in the shares of the Company within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO").

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Mr. Frank WONG Kwong Shing was appointed as an independent non-executive director of the Company since August 2002. He has many years of finance and commercial experience and is a highly valued and respected member of the Board. He is also a chairman of the Audit Committee, a member of the Remuneration Committee and Nomination Committee. Each year, Mr. Frank WONG Kwong Shing provided the Company with a confirmation of his independence in accordance with the relevant requirements of the Hong Kong Listing Rules and the Board believes that Mr. Frank WONG Kwong Shing is independent. The Board also believes that he is able to discharge his duties as an independent non-executive director of the Company and will also continue to contribute to the various committees of the Board. Accordingly, the Board is of the view that the re-election of Mr. Frank WONG Kwong Shing as an independent non-executive director of the Company is in the interests of the Company and its shareholders as a whole.

Dr. Moses CHENG Mo Chi was appointed as an independent non-executive director of the Company since March 2003. He has extensive legal expertise and is a highly valued and respected member of the Board. He is also a member of each of the Audit Committee, Remuneration Committee and Nomination Committee. Each year, Dr. Moses CHENG Mo Chi provided the Company with a confirmation of his independence in accordance with the relevant requirements of the Hong Kong Listing Rules and the Board believes that Dr. Moses CHENG Mo Chi is independent. The Board also believes that he is able to discharge his duties as an independent non-executive director of the Company and will also continue to contribute to the various committees of the Board. Accordingly, the Board is of the view that the re-election of Dr. Moses CHENG Mo Chi as an independent non-executive director of the Company is in the interests of the Company and its shareholders as a whole.

The service contracts of all the Directors for Re-election do not provide for a specified length of service and each of such directors will be subject to retirement by rotation and re-election at annual general meetings of the Company every three years. Each of the Directors for Re-election is entitled to an annual director's fee of HK\$180,000 as proposed by the Board and approved by the shareholders of the Company. Director's fees are payable on a time pro-rata basis for any non full year's service. Mr. Frank WONG Kwong Shing is entitled to an additional annual fee of HK\$290,000 as a chairman of Audit Committee, a member of the Remuneration Committee and Nomination Committee. Dr. Moses CHENG Mo Chi is entitled to an additional annual fee of HK\$260,000 as a member of each of the Audit Committee, Remuneration Committee and Nomination Committee. In addition, for the financial year ended 31 December 2014, Mr. XUE Taohai received annual remuneration including retirement scheme contributions of HK\$1,170,000, plus a discretionary bonus as determined by the Board with respect to the director's performance. The remuneration of the director has been determined with reference to the individual's duties, responsibilities and experience, and to prevailing market conditions.

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2014, the interests and short positions of the directors in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers are set out below.

Certain directors of the Company personally held ordinary shares of the Company. Details of the directors' holding of ordinary shares of the Company as at 31 December 2014 are as follows.

| Director | Capacity | Ordinary shares held | Percentage of the number of issued shares ¹ |
|------------------------|------------------------------------|----------------------|--|
| LO Ka Shui | Beneficial owner | 400,000 | 0.00% |
| | Interest of controlled corporation | 300,000 | 0.00% |
| Frank WONG Kwong Shing | Beneficial owner | 150,000 | 0.00% |

Note:

Based on 20,438,426,514 ordinary shares of the Company in issue as at 31 December 2014, and rounded off to two decimal places.

Certain directors of the Company personally hold options to subscribe for ordinary shares of the Company. Please refer to the paragraph headed "Share Option Schemes" below for details of the interests of the directors in such share options. The share options were granted to the directors pursuant to the terms of the share option schemes adopted by the Company.

Apart from those disclosed herein, as at 31 December 2014, none of the directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) that is required to be recorded and kept in the register in accordance with section 352 of the SFO or any interests required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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SHARE OPTION SCHEMES

Share Option Schemes of the Company

Pursuant to a resolution passed at the annual general meeting held on 24 June 2002, a share option scheme (the "Scheme") was adopted to replace an old share option scheme adopted on 8 October 1997 (the "Old Scheme") and the Old Scheme was terminated. The Scheme shall be valid and effective for a period of 10 years commencing on its adoption date after which period no further options to subscribe for shares of the Company will be granted. The Scheme ceased to be valid and effective on 24 June 2012 and accordingly, no further share options will be granted under the Scheme. However, the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted under the Scheme prior to the expiry of the 10-year period and which may become thereafter capable of being exercised under the rules of the Scheme.

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

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

The total number of shares in the Company issued and to be issued upon exercise of the options granted to a Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of the Company. The consideration payable for the grant of each option under the Scheme is HK\$1.00.

Under the Scheme, the term of the option is determined by the Board at their discretion, provided that all options must be exercised within 10 years after the date on which the option is granted. The exercise price of the options granted under the Scheme is determined by the Board at its discretion provided that such price may not be set below a minimum price which is the highest of:

- (i) the nominal value of a share in the Company;
- (ii) the closing price of the shares in the Company on the Stock Exchange on the date on which the option was granted; and
- (iii) the average closing price of the shares in the Company on the Stock Exchange for the five trading days immediately preceding the date on which the option was granted.

No share options were granted or cancelled under the Scheme during the year ended 31 December 2014.

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As at 31 December 2014, the directors and chief executive of the Company and the employees of the Group had the following personal interests in options to subscribe for shares of the Company granted under the Scheme.

| | No. of shares involved in the options outstanding at the beginning of the year | No. of shares involved in the options outstanding at year end | Date on which options were granted | No. of shares involved in the options lapsed during the year | No. of shares acquired on exercise of options during the year | Exercise price HK\$ |
|-----------------------|--|---|------------------------------------|--|---|---------------------|
| Directors | | | | | | |
| LI Yue | 154,000 | – | 28 October 2004 | 119,000 | 35,000 | 22.75 |
| | 780,000 | 780,000 | 8 November 2005 | – | – | 34.87 |
| XUE Taohai | 154,000 | – | 28 October 2004 | 154,000 | – | 22.75 |
| | 780,000 | 780,000 | 8 November 2005 | – | – | 34.87 |
| SHA Yuejia | 82,575 | – | 28 October 2004 | 82,575 | – | 22.75 |
| | 780,000 | 780,000 | 8 November 2005 | – | – | 34.87 |
| LIU Aili | 82,600 | – | 28 October 2004 | 82,600 | – | 22.75 |
| | 141,500 | 141,500 | 8 November 2005 | – | – | 34.87 |
| Moses CHENG Mo Chi | 400,000 | 400,000 | 8 November 2005 | – | – | 34.87 |
| Employees | | | | | | |
| | 113,418,420 | – | 28 October 2004 | 2,259,113 | 111,159,307 | 22.75 |
| | 475,000 | – | 21 December 2004 | 456,000 | 19,000 | 26.75 |
| | 268,025,464 | 43,351,922 | 8 November 2005 | – | 224,673,542 | 34.87 |
| 46,233,422 (Note (a)) | | | | | | |

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Notes:

- (a) The total number of shares involved in the options outstanding at the end of the year represents 0.23% of the number of issued shares of the Company as at the date of this annual report.
- (b) No options to subscribe for shares in the Company were granted to the directors of the Company in 2014.
- (c) Particulars of share options:

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

Details of share options exercised during the year:

| Period during which share options were exercised | Exercise price HK\$ | Weighted average closing price per share immediately before dates of exercise of options | Proceeds received HK\$ | Number of shares involved in the options |
|--|------------------------|--|---------------------------|--|
| | | HK\$ | | |
| 2 January 2014 to 27 October 2014 | 22.75 | 76.54 | 2,529,670,484 | 111,194,307 |
| 18 June 2014 | 26.75 | 75.50 | 508,250 | 19,000 |
| 3 January 2014 to 31 December 2014 | 34.87 | 80.14 | 7,834,366,410 | 224,673,542 |

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

Pursuant to a resolution passed at the annual general meeting of the Company held on 24 June 2002, the share option scheme of Aspire (the “Aspire Scheme”) was adopted by the Company.

The Aspire Scheme is valid and effective for a period of 10 years commencing on its adoption date after which period no further options to subscribe for shares of Aspire will be granted. The Aspire Scheme ceased to be valid and effective on 24 June 2012 and accordingly, no further options will be granted under the Aspire Scheme. However, the provisions of the Aspire Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted under the Aspire Scheme prior to the expiry of the 10-year period and which may become thereafter capable of being exercised under the rules of the Aspire Scheme.

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

The maximum aggregate number of Aspire Shares which can be subscribed pursuant to options that are or may be granted under the Aspire Scheme equals to 10% of the total issued share capital of Aspire as at the date of adoption of the Aspire Scheme. Options lapsed or cancelled in accordance with the terms of the Aspire Scheme will not be counted for the purpose of calculating this 10% limit. The total number of Aspire Shares issued and to be issued upon exercise of the options granted to an Aspire Participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of Aspire. As at 31 December 2014 and the date of this annual report, there was no outstanding option under the Aspire Scheme.

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

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

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

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

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

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

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

As at 31 December 2014, the employees of Aspire had the following personal interests in options to subscribe for shares of Aspire granted under the Aspire Scheme.

| | No. of shares involved in the options outstanding at the beginning of the year | No. of shares involved in the options outstanding at year end | Date on which options were granted | Normal period during which options are exercisable | No. of shares involved in the options lapsed during the year | Exercise price US\$ |
|----------------------|--|---|------------------------------------|--|--|------------------------|
| Employees of Aspire* | 725,000 | - | 18 March 2004 | (Note) | 725,000 | 0.298 |
| | 45,000 | - | 28 May 2004 | (Note) | 45,000 | 0.298 |

* During the year ended 31 December 2014, no share options have been granted under the Aspire Scheme to any of the directors or chief executive of the Company.

Note:

- (1) No share option under the Aspire Scheme was outstanding as at the date of this annual report.
- (2) (a) The initial 50% of the options granted to a particular employee are exercisable between the period:
 - commencing on the later of:
 - (i) 2 years after the commencement of employment of that employee or the option offer date (as the case may be); or
 - (ii) the listing of the shares of Aspire; and
 - ending on the date falling 10 years from the option grant date; and
- (b) the remaining 50% of such options shall be exercisable between the period commencing 3 years after the initial 50% of the options become exercisable and ending on the date falling 10 years from the option grant date.

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None of the directors of Aspire had any personal interests in options to subscribe for shares of Aspire granted under the Aspire Scheme at the beginning and at the end of the year ended 31 December 2014.

No options were granted or exercised under the Aspire Scheme during the year ended 31 December 2014. Share options involving 770,000 Aspire Shares (representing all the previously outstanding share options granted under the Aspire Scheme) have lapsed during the year ended 31 December 2014. The options granted are not recognized in the financial statements until they are exercised.

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

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

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

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

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

No share options were granted under the CMHK Pre-IPO Scheme after the listing of CMHK on 31 March 2004 and no further share options will be granted under the CMHK Pre-IPO Scheme. There were 70,000 shares covered by the share options granted under the CMHK Pre-IPO Scheme which were outstanding at the beginning of the financial year ended 31 December 2014. All the share options outstanding at the beginning of the year ended 31 December 2014 were granted to employees of CMHK on 11 March 2004, and the exercise price was HK\$4.55 per share, being the offer price of the shares of CMHK at the time of its initial public offering. All outstanding share options granted under the CMHK Pre-IPO Scheme have been vested. Grantees of the outstanding share options are entitled to exercise the share options from 11 March 2005 to 10 March 2014. No share options granted under the CMHK Pre-IPO Scheme have been exercised during the year ended 31 December 2014. All outstanding share options lapsed during the year ended 31 December 2014.

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

The Company has been notified of the following interests in the Company's issued shares as at 31 December 2014 amounting to 5% or more of the ordinary shares in issue:

| | Ordinary shares held | | Percentage of |
|--|----------------------|----------------|-------------------------------|
| | directly | indirectly | total number of issued shares |
| (i) China Mobile Communications Corporation ("CMCC") | – | 14,890,116,842 | 72.85% |
| (ii) China Mobile (Hong Kong) Group Limited ("CMHK (Group)") | – | 14,890,116,842 | 72.85% |
| (iii) China Mobile Hong Kong (BVI) Limited ("CMHK (BVI)") | 14,890,116,842 | – | 72.85% |

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

Apart from the foregoing, as at 31 December 2014, no persons, other than a director or chief executive of the Company, had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

Details of the continuing connected transactions are set out in note 36 to the consolidated financial statements.

For the financial year ended 31 December 2014, the following continuing connected transactions (the “Continuing Connected Transactions”) have not exceeded their respective annual caps:

- (1) rental and property management service charges paid by the Group to CMCC did not exceed RMB2,000 million. The charges payable by the Group in respect of properties owned by CMCC and its subsidiaries are determined with reference to market rates whilst the charges payable in respect of properties which CMCC or its subsidiaries lease from third parties and sub-let to the Group are determined according to the actual rent payable by CMCC or its subsidiaries to such third parties together with the amount of any tax payable;
- (2) telecommunications service charges, prices of transmission towers and spare parts and the charges payable for installation and maintenance services in respect of transmission towers paid by the Group to CMCC did not exceed RMB7,000 million. The telecommunications service charges, prices of transmission towers and spare parts and the charges payable for installation and maintenance services in respect of transmission towers are determined with reference to and cannot exceed relevant standards laid down and revised from time to time by the government of the PRC. Where there are no government standards, the prices and charges are determined according to market rates; the charges in respect of telecommunications services provided by the Group payable by CMCC and its subsidiaries to the Group did not exceed RMB2,300 million;
- (3) settlement charges paid by the Company to China TieTong Telecommunications Corporation (“TieTong”), a wholly-owned subsidiary of CMCC, in respect of calls made or received by their respective customers did not exceed RMB800 million and the settlement charges received by the Company from TieTong in respect of calls made or received by their respective customers were below 0.1% of each of the applicable percentage ratios set out in Rule 14.07 of the Hong Kong Listing Rules. The rates for the settlement charges payable and receivable by the Company to and from TieTong are based on the previous interconnection settlement agreements entered into between TieTong and CMCC;
- (4) leasing fees paid by the Company to CMCC for the leasing of the TD-SCDMA network capacity by the Company from CMCC did not exceed RMB8,500 million. The leasing fees are determined on a basis that reflects the Group’s actual usage of CMCC’s TD-SCDMA network capacity and to compensate CMCC for the costs of such network capacity;

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- (5) service charges paid by the Company to CMCC for the agency services regarding sales channel utilization and for the cooperation in the provision of basic telecommunications services (such as fixed-line phone services, fixed-line IDD phone services, IP phone-to-phone calls services, 2G GSM and 3G TD-SCDMA mobile telecommunications services) (“Basic Telecommunications Services”) and value-added telecommunications services (such as paging services, data transmission services, voice mailbox services and network connection services) (“Value-Added Telecommunications Services”) to customers of the Company under the Telecommunications Services Cooperation Agreement did not exceed RMB5,000 million. The aggregate amount of the charges received by the Company for the services provided to CMCC under the Telecommunications Services Cooperation Agreement did not exceed RMB1,200 million. The service charges for agency services are determined with reference to market prices after taking into consideration the actual volume of agency services provided by CMCC and performance indicators such as total sales being recognized and additional number of subscribers acquired as a result of the provision of agency services by CMCC. In determining the market prices for the agency services, the Company has taken into account the service fees payable by the Company and CMCC to other industry players as well as the services fees receivable by the Company and CMCC from other industry players. The service fees payable by the Company and CMCC were, from the Company’s perspective, no less favorable than the service fees charged to other industry players, being independent third parties, for the same agency services provided to such independent third parties. The service charges in respect of business cooperation are determined with reference to, after taking into account the actual volume of Basic Telecommunications Services and Value-Added Telecommunications Services provided and the resources and investment contributed, the government fixed price or the government guidance price if there is no government fixed price and where there is neither a government fixed price nor a government guidance price, the market price. Where none of the foregoing prices is applicable, the price is to be agreed between the parties and determined on a cost-plus basis. As there are no government fixed price or government guidance price for the Basic Telecommunications Services or the Value-Added Telecommunications Services, the charges payable by the Company and CMCC under the Telecommunications Services Cooperation Agreement for these services are determined with reference to the market price. In determining the market prices for the Basic Telecommunications Services and the Value-Added Telecommunications Services, the Company has taken into account the charges payable by the Company and CMCC to other industry players and the charges receivable by the Company and CMCC from other industry players. Such charges payable by the Company and CMCC were, from the Company’s perspective, no less favorable than the charges charged to other industry players, being independent third parties, for the same Basic Telecommunications Services or Value-Added Telecommunications Services; and
- (6) leasing fees paid by the Company to CMCC for the leasing of telecommunications network operation assets by the Company from CMCC did not exceed RMB14,600 million. The leasing fees are determined with reference to the prevailing market rates. In determining the market rates for the leasing fees, the Company has taken into account the charges payable by the Company and CMCC to other industry players as well as the charges receivable by the Company and CMCC from other industry players. The leasing fees payable by the Company to CMCC were not more than the leasing fees charged to other industry players, being independent third parties, for same kinds of network operation assets. The aggregate amount of leasing fees received by the Company from CMCC under the Network Assets Leasing Agreement was below 0.1% of each of the applicable percentage ratios set out in Rule 14.07 of the Hong Kong Listing Rules.

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The transactions referred to in paragraph (1) above were entered into pursuant to the 2014–2016 property leasing and management services agreement dated 15 August 2013 between the Company and CMCC (the “2014–2016 Property Leasing Agreement”). The Company announced the entering into and the terms of the 2014–2016 Property Leasing Agreement on 15 August 2013. The 2014–2016 Property Leasing Agreement has a term of three years commencing on 1 January 2014 and will expire on 31 December 2016.

The transactions referred to in paragraph (2) above were entered into pursuant to the 2014–2016 telecommunications services agreement dated 15 August 2013 between the Company and CMCC (the “2014–2016 Telecommunications Services Agreement”). The Company announced the entering into and the terms of the 2014–2016 Telecommunications Services Agreement on 15 August 2013. The 2014–2016 Telecommunications Services Agreement has a term of three years commencing on 1 January 2014 and will expire on 31 December 2016.

The transactions referred to in paragraph (3) above were entered into pursuant to the tripartite agreement among the Company, CMCC and TieTong dated 13 November 2008 (the “Tripartite Agreement”). The entering into of the Tripartite Agreement was announced by the Company on 13 November 2008. The Tripartite Agreement has been renewed and announced by the Company (i) on 6 November 2009 for a period of one year from 1 January 2010; (ii) on 21 December 2010 for a period of one year from 1 January 2011; (iii) on 6 December 2011 for a period of one year from 1 January 2012; (iv) on 12 December 2012 for a period of one year from 1 January 2013; (v) on 15 August 2013 for a period of one year from 1 January 2014; and (vi) on 14 August 2014 for a period of one year from 1 January 2015.

The transactions referred to in paragraph (4) above were entered into pursuant to the network capacity leasing agreement between the Company and CMCC dated 29 December 2008 (the “Network Capacity Leasing Agreement”). The entering into of the Network Capacity Leasing Agreement was announced by the Company on 29 December 2008. The Network Capacity Leasing Agreement has been renewed and announced by the Company (i) on 6 November 2009 for a period of one year from 1 January 2010; (ii) on 21 December 2010 for a period of one year from 1 January 2011; (iii) on 6 December 2011 for a period of one year from 1 January 2012; (iv) on 12 December 2012 for a period of one year from 1 January 2013; (v) on 15 August 2013 for a period of one year from 1 January 2014; and (vi) on 14 August 2014 for a period of one year from 1 January 2015.

The transactions referred to in paragraph (5) above were entered into pursuant to the telecommunications services cooperation agreement between the Company and CMCC dated 6 November 2009 (the “Telecommunications Services Cooperation Agreement”). The entering into of the Telecommunications Services Cooperation Agreement was announced by the Company on 6 November 2009. The Telecommunications Services Cooperation Agreement has been renewed and announced by the Company (i) on 21 December 2010 for a period of one year from 1 January 2011; (ii) on 6 December 2011 for a period of one year from 1 January 2012; (iii) on 12 December 2012 for a period of one year from 1 January 2013; (iv) on 15 August 2013 for a period of one year from 1 January 2014; and (v) on 14 August 2014 for a period of one year from 1 January 2015.

The transactions referred to in paragraph (6) above were entered into pursuant to the telecommunications network operation assets leasing agreement between the Company and CMCC dated 18 August 2011 (the “Network Assets Leasing Agreement”). The entering into of the Network Assets Leasing Agreement was announced by the Company on 18 August 2011. The Network Assets Leasing Agreement has been renewed and announced by the Company (i) on 6 December 2011 for a period of one year from 1 January 2012; (ii) on 12 December 2012 for a period of one year from 1 January 2013; (iii) on 15 August 2013 for a period of one year from 1 January 2014; and (iv) on 14 August 2014 for a period of one year from 1 January 2015.

REPORT OF DIRECTORS

CMCC is the ultimate controlling shareholder of the Company and therefore, a connected person of the Company. TieTong is a wholly-owned subsidiary of CMCC and therefore, a connected person of the Company. Accordingly, all the transactions referred to in paragraphs (1) to (6) above constitute connected transactions for the Company under the Hong Kong Listing Rules.

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

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

The auditors of the Company were engaged to report on the Group's Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Hong Kong Listing Rules. The auditors' letter has confirmed that nothing has come to their attention that cause them to believe that the Continuing Connected Transactions:

- (A) have not been approved by the Board;
- (B) were not, in all material respects, in accordance with the pricing policies of the Group as stated in this annual report;
- (C) were not entered into, in all material respects, in accordance with the relevant agreements governing the Continuing Connected Transactions; and
- (D) have exceeded their respective annual caps for the financial year ended 31 December 2014 set out in the previous announcements of the Company.

A copy of the auditors' letter in relation to the Continuing Connected Transactions has been provided by the Company to the Stock Exchange.

In respect of the Continuing Connected Transactions, the Company has complied with the disclosure requirements under the Hong Kong Listing Rules in force from time to time, and has followed the policies and guidelines as laid down in the guidance letter HKEx-GL73-14 issued by the Stock Exchange when determining the price and terms of the transactions conducted during the year ended 31 December 2014.

REPORT OF DIRECTORS

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

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2014.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2014 are set out in note 33 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the audited results and of the audited statements of the assets and liabilities of the Group for the last five financial years is set out on pages 130 to 131 of this annual report.

EMOLUMENT POLICY

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

EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in note 2 to the consolidated financial statements.

PUBLIC FLOAT

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

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting for the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the auditors of the Group for Hong Kong financial reporting and U.S. financial reporting purposes, respectively.

By order of the Board

Xi Guohua
Chairman

Hong Kong, 19 March 2015