

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 1 GENERAL INFORMATION

China Mobile Limited (the “Company”) was incorporated in the Hong Kong Special Administrative Region (“Hong Kong”) of the People’s Republic of China (the “PRC”) on 3 September 1997. The principal activities of the Company and its subsidiaries (together referred to as the “Group”) are the provision of mobile telecommunications and related services in Mainland China and in Hong Kong (For the purpose of preparing these consolidated financial statements, Mainland China refers to the PRC excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan). The Company’s ultimate holding company is China Mobile Communications Corporation (“CMCC”). The address of the Company’s registered office is 60th Floor, The Center, 99 Queen’s Road Central, Hong Kong.

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “HKEx”) on 23 October 1997 and the American Depositary Shares of the Company were listed on the New York Stock Exchange on 22 October 1997.

## 2 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”), are consistent with IFRSs as it relates to the Group’s financial statements. These financial statements also comply with HKFRSs and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). In accordance with the transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit” as set out in sections 76 to 87 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), these financial statements are prepared in accordance with the applicable requirements of the predecessor Hong Kong Companies Ordinance (Cap. 32) for this financial year and the comparative period. A summary of the significant accounting policies adopted by the Group is set out below.

### (b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2014 comprise the Group and the Group’s interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis, as modified by the revaluation of available-for-sale financial assets which are carried at fair value.

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 40.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 gains 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. Accounting policies of subsidiaries would be changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Company.

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 or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(j)). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Associates

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.

An investment in an associate is accounted for using the equity method.

Under the equity method, the investment is initially recorded at cost. 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 note 2(j)). The Group's share of the post-acquisition post-tax results of the investee for the year is recognized as share of profit or loss of associates in the consolidated statement of comprehensive income, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognized as other comprehensive income in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, 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.

Unrealized profits and losses resulting from transactions between the Group and its associates 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. Accounting policies of associates would be changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

#### (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 unit, 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 2(j)). Each unit or groups of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose. Goodwill is monitored at the operating segment level.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (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 2(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 where their useful lives are assessed to be indefinite. The useful life of an intangible asset that is not being amortized is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. Otherwise, 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.

#### (g) Other financial assets

Other financial assets represent investments in unquoted equity securities (other than investments in subsidiaries and interest in associates), which are recognized in the balance sheet at cost less impairment losses (see note 2(j)) when those investments in equity securities do not have a quoted market price in an active market and their fair value cannot be reliably measured.

#### (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 2(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 entity. 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, fixtures and others	3–10 years

Both the assets' useful lives and residual values, if any, are reviewed annually.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (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 based 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.

#### (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 is 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 useful life of the asset as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(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, available-for-sale financial assets and receivables

Investments in equity securities (other than investments in subsidiaries), available-for-sale financial assets and receivables 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 entity;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the entity will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the entity; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

## **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

#### **(i) Impairment of investments in equity securities, available-for-sale financial assets and receivables (Continued)**

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

- For interest in associates recognized using the equity method (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(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 2(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 such equity securities are not reversed.
- For debt instruments classified as available-for-sale financial assets, if any impairment evidence exists, the cumulative loss (measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from equity and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss. For equity instruments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any impairment evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from equity and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.
- 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 an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 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 and intangible assets with indefinite useful lives, 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 of disposal 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 of disposal, 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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(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.

#### (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 cost of products sold. 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 2(j)), except where the effect of discounting would be immaterial.

#### (n) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Regular way purchases and sales of available-for-sale financial assets are recognized on the trade-date (the date on which the Group commits to purchase or sell the asset). The investments are initially recognized at fair value plus transaction costs and are subsequently carried at fair value. Changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income.

Available-for-sale financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognized in equity is removed and recognized in profit or loss.

Interest on available-for-sale debt instruments calculated using the effective interest method is recognized in profit or loss. Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive payments is established.

#### (o) Deferred revenue

Deferred revenue consists primarily of prepaid service fees received from customers which are generally not refundable and revenue deferred for unredeemed point rewards under Customer Point Reward Program ("Reward Program", see note 2(s)(iv)).

The prepaid service fees are stated at the amount of proceeds received less the amount already recognized as revenue.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (p) 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.

#### (q) 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.

#### (r) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in 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.

#### (s) 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) sales of products are recognized when the title is passed to the buyer;
- (iii) for offerings which include the provision of services and discounted sale of mobile handset, the Group determines the revenue from the sale of the mobile handset by deducting the fair value of the service element from the total contract consideration; and
- (iv) for transactions which offer customer points reward when services are provided, the consideration allocated to the customer points reward is based on its fair value which is recorded as deferred revenue when the rewards are granted and recognized as revenue when the points are redeemed or expired.

#### (t) Interest income

Interest income is recognized as it accrues using the effective interest method.

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (u) Income tax (Continued)

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 initial recognition of goodwill, 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 and associates to the extent that, in the case of taxable temporary 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 profits 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 has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (v) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group 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 the amount can be estimated reliably. 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.

#### (w) 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 retirement 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 Hong Kong are required to make contributions to Mandatory Provident Funds under the Hong Kong Mandatory Provident Fund (“MPF”) Schemes Ordinance. 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\$30,000 (HK\$25,000 prior to June 2014). Such contributions are recognized as an expense in profit or loss as incurred.

The employees of the subsidiaries in Mainland China participate in the defined contribution retirement plans managed by the local government authorities whereby the subsidiaries are required to contribute to the schemes at fixed rates of the employees’ salary costs. In addition to the local governmental defined contribution retirement plans, the subsidiaries also participate in a pension scheme launched by the Group managed by an independent insurance company 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 Company and subsidiaries have no obligations for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

## **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(w) 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 at each balance sheet date. Any resulting adjustment to the cumulative fair value recognized in prior years is credited/charged 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). The equity amount is recognized in the capital reserve until either the option is exercised (when it is transferred to the share capital account (share premium account before 3 March 2014, see note 35(c)(iii))) 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 which is without realistic possibility of withdrawal or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### **(x) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (y) Translation of foreign currencies

The functional currency of major entities within the Group is Renminbi (“RMB”). The Group adopted RMB as its presentation currency in the preparation of the 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 retranslated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of overseas entities are translated into RMB at the exchange rates approximating the foreign exchange rate ruling at the dates of transactions. Balance sheet 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.

For the purpose of the consolidated statement of cash flow, 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.

#### (z) 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 of 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 note 2(z)(a); or
- (vii) A person identified in note 2(z)(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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(aa) 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 ("CODM") in order to allocate resources and assess performance of the segment. The CODM has been identified as the Executive Directors of the Company. For the years presented, the Group as a whole is an operating segment since the Group is only engaged in mobile telecommunications and related businesses. No 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.

**3 CHANGES IN ACCOUNTING POLICIES**

The Group has adopted certain new and amended IFRS/HKFRS effective for accounting period beginning on 1 January 2014. Details of the adoption are as follows:

Amendment to IAS/HKAS 32, "Financial Instruments: Presentation"  
IFRIC/HK(IFRIC) – Int 21, "Levies"

The adoption of the above new and amended standards did not have any material impact on the Group's financial statements. The Group did not apply any other amendments, new standards or interpretation that is not yet effective for the current accounting year (see note 41).

**4 OPERATING REVENUE (TURNOVER)**

	2014 Million	2013 Million
<b>Revenue from telecommunications services</b>		
Voice services	<b>308,959</b>	355,686
Data services	<b>253,088</b>	206,886
Others	<b>19,770</b>	28,239
	<b>581,817</b>	590,811
<b>Revenue from sales of products and others</b>		
	<b>59,631</b>	39,366
	<b>641,448</b>	630,177

On 29 April 2014, a notification (the "Cai Shui [2014] No. 43") was jointly issued by the Ministry of Finance and the State Administration of Taxation of the People's Republic of China ("SAT"), and as approved by the State Council of the People's Republic of China, the telecommunications industry would be included in the scope of the pilot program for the transformation from business tax to value-added tax (the "VAT Program") from 1 June 2014. According to the Cai Shui [2014] No. 43, the value-added tax rates for the provision of basic telecommunications services and value-added telecommunications services are 11% and 6%, respectively. With the implementation of the VAT Program from 1 June 2014, the Group is not required to pay the business tax of 3% on the telecommunications services.

**5 PERSONNEL**

	2014 Million	2013 Million
Salaries, wages and other benefits	<b>31,740</b>	30,066
Retirement costs: contributions to defined contribution retirement plans	<b>5,090</b>	4,310
	<b>36,830</b>	34,376

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**6 OTHER OPERATING EXPENSES**

	Note	2014 Million	2013 Million
Maintenance		52,450	46,059
Impairment loss of doubtful accounts		5,494	5,084
Impairment loss of goodwill (note 17)		1,594	–
Write-down of inventories		293	202
Amortization of other intangible assets		106	78
Operating lease charges			
– land and buildings		12,471	10,784
– others	(i)	4,755	3,808
Gain on disposal of property, plant and equipment		–	(3)
Write-off of property, plant and equipment		2,093	2,074
Auditors' remuneration			
– audit services	(ii)	91	85
– tax services		–	1
– other services		6	6
Others	(iii)	96,989	89,353
		<b>176,342</b>	157,531

Note:

- (i) Other operating lease charges represent the operating lease charges for motor vehicles, computer and other office equipment.
- (ii) 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 of RMB20,000,000 (2013: RMB18,000,000).
- (iii) Others consist of office expenses, utilities charges, travelling expenses, entertainment expenses, spectrum charges, consultancy and professional fees, consumables and supplies, labour service expenses and other miscellaneous expenses.

**7 NON-OPERATING INCOME, NET**

	2014 Million	2013 Million
Penalty income	507	405
Dividend income from unlisted securities	–	34
Others	582	471
	<b>1,089</b>	910

**8 FINANCE COSTS**

	2014 Million	2013 Million
Interest on bank loans and other borrowings repayable within five years	–	104
Interest on bonds	228	227
	<b>228</b>	331

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**9 DIRECTORS' REMUNERATION**

Directors' remuneration during the year is as follows:

(Expressed in Hong Kong dollar)	Directors' fees '000	Salaries, allowances and benefits in kind '000	Performance related bonuses '000	Retirement scheme contributions '000	2014 Total '000
<b>Executive directors</b>					
XI Guohua	180	1,174	565	256	2,175
LI Yue (Chief Executive Officer)	180	1,067	513	234	1,994
XUE Taohai	180	960	462	210	1,812
HUANG Wenlin*	180	960	462	210	1,812
SHA Yuejia	180	960	462	210	1,812
LIU Aili	180	960	462	210	1,812
<b>Independent non-executive directors</b>					
LO Ka Shui	325	–	–	–	325
WONG Kwong Shing, Frank	470	–	–	–	470
CHENG Mo Chi, Moses	440	–	–	–	440
CHOW Man Yiu, Paul	330	–	–	–	330
	<b>2,645</b>	<b>6,081</b>	<b>2,926</b>	<b>1,330</b>	<b>12,982</b>

(Expressed in Hong Kong dollar)	Directors' fees '000	Salaries, allowances and benefits in kind '000	Performance related bonuses '000	Retirement scheme contributions '000	2013 Total '000
<b>Executive directors</b>					
XI Guohua	180	1,174	634	287	2,275
LI Yue (Chief Executive Officer)	180	1,067	577	263	2,087
XUE Taohai	180	960	520	237	1,897
HUANG Wenlin	180	960	520	237	1,897
SHA Yuejia	180	960	520	236	1,896
LIU Aili	180	960	520	236	1,896
<b>Independent non-executive directors</b>					
LO Ka Shui	399	–	–	–	399
WONG Kwong Shing, Frank	458	–	–	–	458
CHENG Mo Chi, Moses	440	–	–	–	440
CHOW Man Yiu, Paul**	194	–	–	–	194
	<b>2,571</b>	<b>6,081</b>	<b>3,291</b>	<b>1,496</b>	<b>13,439</b>

\* Madam HUANG Wenlin resigned from the position as executive director of the Company with effect from 19 March 2015.

\*\* Mr. Paul CHOW Man Yiu has been appointed as an independent non-executive director of the Company with effect from 30 May 2013.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the years ended 31 December 2014 and 2013, all of the five individuals with the highest emoluments are directors whose emoluments are disclosed in note 9.

### 11 TAXATION

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

	Note	2014 Million	2013 Million
<b>Current tax</b>			
Provision for Hong Kong profits tax on the estimated assessable profits for the year	(i)	106	167
Provision for the PRC enterprise income tax on the estimated taxable profits for the year	(ii)	36,193	40,412
		<b>36,299</b>	40,579
<b>Deferred tax</b>			
Origination and reversal of temporary differences (note 20)	(iii)	(3,112)	(3,803)
		<b>33,187</b>	36,776

Note:

- (i) The provision for Hong Kong profits tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year ended 31 December 2014.
- (ii) The provision for the PRC enterprise income tax is based on the statutory tax rate of 25% (2013: 25%) on the estimated taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year ended 31 December 2014. Certain subsidiaries of the Company enjoy the preferential tax rate of 15% (2013: 15%).
- (iii) Deferred taxes of the Group are recognized based on tax rates that are expected to apply to the periods when the temporary differences are realized or settled.
- (iv) On 22 April 2009, SAT issued the "Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management" ("2009 Notice"). The Company is qualified as a PRC offshore-registered resident enterprise for purposes of the 2009 Notice. In accordance with the 2009 Notice and the PRC enterprise income tax law, the dividend income of the Company from its subsidiaries in the PRC is exempted from PRC enterprise income tax.

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

	2014 Million	2013 Million
Profit before taxation	142,592	158,579
Notional tax on profit before tax, calculated at the PRC's statutory tax rate of 25% (Note)	35,648	39,645
Tax effect of non-taxable items		
– Share of profit of associates	(2,062)	(1,766)
– Interest income	(26)	(31)
Tax effect of non-deductible expenses on the PRC operations	693	548
Tax effect of non-deductible expenses on Hong Kong operations	46	54
Rate differential of certain PRC operations (note 11(a)(ii))	(1,329)	(1,243)
Rate differential on Hong Kong operations	(107)	(95)
Tax credit on purchase of domestic telecommunications equipment	–	(9)
Tax effect of goodwill impairment loss	398	–
Others	(74)	(327)
Taxation	<b>33,187</b>	36,776

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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

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

For the year ended 31 December 2014, profit attributable to equity shareholders of the Company included a profit of RMB50,328,000,000 (2013: RMB67,682,000,000), which has been dealt with in the financial statements of the Company. As at 31 December 2014 and 2013, the amounts of distributable reserves of the Company are set out in note 35(a).

**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 RMB109,279,000,000 (2013: RMB121,692,000,000) and the weighted average number of 20,293,253,516 shares (2013: 20,101,232,387 shares) in issue during the year, calculated as follows:

**Weighted average number of shares**

	2014 Number of shares	2013 Number of shares
Issued shares as at 1 January	20,102,539,665	20,100,340,600
Effect of share options exercised	190,713,851	891,787
Weighted average number of shares in issue during the year	<b>20,293,253,516</b>	20,101,232,387

**(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 RMB109,279,000,000 (2013: RMB121,692,000,000) and the weighted average number of 20,408,441,343 shares (2013: 20,343,120,320 shares), calculated as follows:

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

	2014 Number of shares	2013 Number of shares
Weighted average number of shares in issue during the year	20,293,253,516	20,101,232,387
Dilutive equivalent shares arising from share options	115,187,827	241,887,933
Weighted average number of shares (diluted) during the year	<b>20,408,441,343</b>	20,343,120,320

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 14 PROPERTY, PLANT AND EQUIPMENT

#### (a) The Group

	Buildings Million	Telecommunications transceivers, switching centers, transmission and other network equipment Million	Office equipment, furniture, fixtures and others Million	Total Million
<b>Cost:</b>				
As at 1 January 2013	109,208	831,329	18,683	959,220
Additions	1,371	1,300	805	3,476
Transferred from construction in progress	15,977	133,168	2,976	152,121
Disposals	–	(125)	(80)	(205)
Assets written-off	(344)	(37,962)	(3,033)	(41,339)
Exchange differences	(7)	(76)	(17)	(100)
As at 31 December 2013	126,205	927,634	19,334	1,073,173
As at 1 January 2014	<b>126,205</b>	<b>927,634</b>	<b>19,334</b>	<b>1,073,173</b>
Additions	<b>176</b>	<b>792</b>	<b>822</b>	<b>1,790</b>
Transferred from construction in progress	<b>13,881</b>	<b>186,401</b>	<b>1,841</b>	<b>202,123</b>
Disposals	–	(7)	(10)	(17)
Assets written-off	(417)	(40,237)	(1,376)	(42,030)
Exchange differences	6	10	–	16
As at 31 December 2014	<b>139,851</b>	<b>1,074,593</b>	<b>20,611</b>	<b>1,235,055</b>
<b>Accumulated depreciation:</b>				
As at 1 January 2013	27,456	489,574	11,681	528,711
Charge for the year	6,166	95,567	3,003	104,736
Written back on disposals	–	(120)	(44)	(164)
Assets written-off	(291)	(36,272)	(2,702)	(39,265)
Exchange differences	(6)	(59)	(7)	(72)
As at 31 December 2013	33,325	548,690	11,931	593,946
As at 1 January 2014	<b>33,325</b>	<b>548,690</b>	<b>11,931</b>	<b>593,946</b>
Charge for the year	<b>5,849</b>	<b>107,878</b>	<b>2,532</b>	<b>116,259</b>
Written back on disposals	–	(7)	(9)	(16)
Assets written-off	(381)	(38,291)	(1,265)	(39,937)
Exchange differences	3	5	–	8
As at 31 December 2014	<b>38,796</b>	<b>618,275</b>	<b>13,189</b>	<b>670,260</b>
<b>Net book value:</b>				
As at 31 December 2014	<b>101,055</b>	<b>456,318</b>	<b>7,422</b>	<b>564,795</b>
As at 31 December 2013	92,880	378,944	7,403	479,227

Write-off of property, plant and equipment mainly represents the retirement of individual network asset due to obsolescence or damages. Such assets have been disconnected from existing network, abandoned or demolished. Total net book value of such assets written off was RMB2,093,000,000 in 2014 (2013: RMB2,074,000,000). These assets were disposed at scrap value.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

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

**(b) The Company**

	Office equipment, furniture, fixtures and others Million
<b>Cost:</b>	
As at 1 January 2013 and 2014, 31 December 2013 and 2014	17
<b>Accumulated depreciation:</b>	
As at 1 January 2013	15
Charge for the year	1
As at 31 December 2013	16
As at 1 January 2014	<b>16</b>
Charge for the year	-
As at 31 December 2014	<b>16</b>
<b>Net book value:</b>	
As at 31 December 2013 and 2014	<b>1</b>

**15 CONSTRUCTION IN PROGRESS**

	The Group 2014 Million	2013 Million
As at 1 January	85,000	55,507
Additions	210,464	181,614
Transferred to property, plant and equipment	(202,123)	(152,121)
As at 31 December	<b>93,341</b>	85,000

Construction in progress primarily comprises expenditure incurred on the network expansion projects not yet completed as at 31 December 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 16 LAND LEASE PREPAYMENTS AND OTHER PREPAYMENTS

The Group's land lease prepayments represent prepaid operating lease payments for land use rights in Mainland China and majority of the land lease prepayments are medium-term lease with remaining lease term less than 50 years but not less than 10 years as at balance sheet dates.

For the year ended 31 December 2014, the land lease prepayments expensed in the profit or loss amounted to approximately RMB406,000,000 (2013: approximately RMB385,000,000).

### 17 GOODWILL

	The Group 2014 Million	2013 Million
<b>Cost and carrying amount:</b>		
As at 1 January	36,894	36,894
Impairment	(1,594)	–
As at 31 December	35,300	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 tests of goodwill, goodwill is allocated to groups of cash-generating units (being subsidiaries acquired in each acquisition). Such groups of cash-generating units represent the lowest level within the Group for which the goodwill is monitored for internal management purposes.

Among the goodwill as at 31 December 2014, RMB35,300,000,000 (2013: RMB35,300,000,000) and RMB nil (2013: RMB1,594,000,000) are attributable to the groups of cash-generating units in relation to the operations in Mainland China and Hong Kong respectively, which management currently monitors. The recoverable amounts of these groups of cash-generating units are determined based on the greater of its fair value less costs of disposal and value-in-use. Value-in-use is calculated by using the discounted cash flow method. This method considers the pre-tax cash flows of the subsidiaries (cash-generating units) for the five years ending 31 December 2019 with subsequent transition to perpetuity. For the five years ending 31 December 2019, the average growth rates are assumed 1.5% and 2.4% for the operations in Mainland China and Hong Kong, respectively. For the years beyond 31 December 2019, the assumed continual growth rates to perpetuity of 1% and 0.5% are used for the operations in Mainland China and Hong Kong, respectively. The present value of cash flows are calculated by discounting the cash flow using pre-tax interest rates of approximately 12% and 13% for the operations in Mainland China and Hong Kong, respectively. The management performed impairment test for the goodwill in relation to the operation in Mainland China and determined such goodwill was not impaired. Reasonably possible changes in key assumptions will not lead to the goodwill impairment loss. For the operations in Hong Kong, with the development of the 4th generation mobile communication technology ("4G") business in Hong Kong during the year ended 31 December 2014, the competition in Hong Kong telecommunication market has become increasingly fierce. The management anticipates more pressure on the operating performance in future considering the necessity of investment in capital expenditure and increased marketing expenses to sustain the development of business. Based on the impairment test result, the management has made a provision for impairment loss of goodwill amounting to RMB1,594,000,000 in relation to the operation in Hong Kong as at 31 December 2014.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**18 INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES**

	<b>The Company</b>	
	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2014</b>	<b>2013</b>
	<b>Million</b>	<b>Million</b>
Unlisted equity, at cost	<b>480,137</b>	474,176
Equity share-based payment in subsidiaries	<b>4,972</b>	4,972
	<b>485,109</b>	479,148

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 2(w) (ii)). The Company has recognized the grant of equity instruments to its subsidiaries’ employees amounting to RMB4,972,000,000 (2013: 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 arise in the ordinary course of business. As at 31 December 2014, 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 is unsecured and will be settled on 28 October 2017 (see note 33).

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/ establishment 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	British Virgin Islands (“BVI”)	HK\$1	100%	–	Investment holding company
China Mobile Communication Co., Ltd. (“CMC”) **	PRC	RMB1,641,848,326	–	100%	Network and business coordination center
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
China Mobile Group Jiangsu Co., Ltd	PRC	RMB2,800,000,000	–	100%	Mobile telecommunications operator
China Mobile Group Fujian Co., Ltd.	PRC	RMB5,247,480,000	–	100%	Mobile telecommunications operator
China Mobile Group Henan Co., Ltd.	PRC	RMB4,367,733,641	–	100%	Mobile telecommunications operator

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**18 INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (CONTINUED)**

Name of company*	Place of incorporation/ establishment 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 Hainan Co., Ltd.	PRC	RMB643,000,000	–	100%	Mobile telecommunications operator
China Mobile Group Beijing Co., Ltd. (“Beijing Mobile”)	PRC	RMB6,124,696,053	–	100%	Mobile telecommunications operator
China Mobile Group Shanghai Co., Ltd.	PRC	RMB6,038,667,706	–	100%	Mobile telecommunications operator
China Mobile Group Tianjin Co., Ltd.	PRC	RMB2,151,035,483	–	100%	Mobile telecommunications operator
China Mobile Group Hebei Co., Ltd.	PRC	RMB4,314,668,600	–	100%	Mobile telecommunications operator
China Mobile Group Liaoning Co., Ltd.	PRC	RMB5,140,126,680	–	100%	Mobile telecommunications operator
China Mobile Group Shandong Co., Ltd.	PRC	RMB6,341,851,146	–	100%	Mobile telecommunications operator
China Mobile Group Guangxi Co., Ltd.	PRC	RMB2,340,750,100	–	100%	Mobile telecommunications operator
China Mobile Group Anhui Co., Ltd.	PRC	RMB4,099,495,494	–	100%	Mobile telecommunications operator
China Mobile Group Jiangxi Co., Ltd.	PRC	RMB2,932,824,234	–	100%	Mobile telecommunications operator
China Mobile Group Chongqing Co., Ltd.	PRC	RMB3,029,645,401	–	100%	Mobile telecommunications operator
China Mobile Group Sichuan Co., Ltd.	PRC	RMB7,483,625,572	–	100%	Mobile telecommunications operator
China Mobile Group Hubei Co., Ltd.	PRC	RMB3,961,279,556	–	100%	Mobile telecommunications operator
China Mobile Group Hunan Co., Ltd.	PRC	RMB4,015,668,593	–	100%	Mobile telecommunications operator

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**18 INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (CONTINUED)**

Name of company*	Place of incorporation/ establishment 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 Shaanxi Co., Ltd.	PRC	RMB3,171,267,431	–	100%	Mobile telecommunications operator
China Mobile Group Shanxi Co., Ltd.	PRC	RMB2,773,448,313	–	100%	Mobile telecommunications operator
China Mobile Group Neimenggu Co., Ltd.	PRC	RMB2,862,621,870	–	100%	Mobile telecommunications operator
China Mobile Group Jilin Co., Ltd.	PRC	RMB3,277,579,314	–	100%	Mobile telecommunications operator
China Mobile Group Heilongjiang Co., Ltd.	PRC	RMB4,500,508,035	–	100%	Mobile telecommunications operator
China Mobile Group Guizhou Co., Ltd.	PRC	RMB2,541,981,749	–	100%	Mobile telecommunications operator
China Mobile Group Yunnan Co., Ltd.	PRC	RMB4,137,130,733	–	100%	Mobile telecommunications operator
China Mobile Group Xizang Co., Ltd.	PRC	RMB848,643,686	–	100%	Mobile telecommunications operator
China Mobile Group Gansu Co., Ltd.	PRC	RMB1,702,599,589	–	100%	Mobile telecommunications operator
China Mobile Group Qinghai Co., Ltd.	PRC	RMB902,564,911	–	100%	Mobile telecommunications operator
China Mobile Group Ningxia Co., Ltd.	PRC	RMB740,447,232	–	100%	Mobile telecommunications operator
China Mobile Group Xinjiang Co., Ltd.	PRC	RMB2,581,599,600	–	100%	Mobile telecommunications operator
China Mobile Group Design Institute Co., Ltd.	PRC	RMB160,232,500	–	100%	Provision of telecommunications network planning design and consulting services
China Mobile Holding Company Limited **	PRC	US\$30,000,000	100%	–	Investment holding company



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**18 INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (CONTINUED)**

Name of company*	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Held by the Company	Held by a subsidiary	
China Mobile (Shenzhen) Limited **	PRC	US\$7,633,000	–	100%	Provision of roaming clearance services
Aspire Holdings Limited	Cayman Islands	HK\$93,964,583	66.41%	–	Investment holding company
Aspire (BVI) Limited #	BVI	US\$1,000	–	100%	Investment holding company
Aspire Technologies (Shenzhen) Limited ***	PRC	US\$10,000,000	–	100%	Technology platform development and maintenance
Aspire Information Network (Shenzhen) Limited ***	PRC	US\$5,000,000	–	100%	Provision of mobile data solutions, system integration and development
Aspire Information Technologies (Beijing) Limited ***	PRC	US\$5,000,000	–	100%	Technology platform development and maintenance
Fujian FUNO Mobile Communication Technology Company Limited ***	PRC	US\$3,800,000	–	51%	Network planning and optimizing construction testing and supervising, technology support, development and training of Nokia GSM900/1800 Mobile Communication System
Advanced Roaming & Clearing House Limited	BVI	US\$2	100%	–	Provision of roaming clearance services
Fit Best Limited	BVI	US\$1	100%	–	Investment holding company
China Mobile Hong Kong Company Limited (“CMHK”)	Hong Kong	HK\$951,046,930	–	100%	Provision of mobile telecommunications and related services
China Mobile International Holdings Limited (“CMI Holdings”)	Hong Kong	HK\$10,500,000,000	100%	–	Investment holding company
China Mobile International Limited	Hong Kong	HK\$3,000,000,000	–	100%	Provision of voice and roaming clearance services, internet services and value-added services

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**18 INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (CONTINUED)**

Name of company*	Place of incorporation/ establishment 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 Device Co., Ltd.	PRC	RMB6,200,000,000	–	99.97%	Provision of electronic communication products design and sale of related products
China Mobile Group Finance Co., Ltd. (“China Mobile Finance”)**	PRC	RMB5,000,000,000	–	92%	Provision of non-banking financial services
China Mobile M2M Company Limited	PRC	RMB500,000,000	–	100%	Provision of network services
China Mobile (Suzhou) Software Technology Co., Ltd.	PRC	RMB600,000,000	–	100%	Provision of computer hardware and software research and development services
China Mobile (Hangzhou) Information Technology Co., Ltd.	PRC	RMB600,000,000	–	100%	Provision of computer hardware and software research and development services
China Mobile Online Service Co., Ltd.	PRC	RMB50,000,000	–	100%	Provision of call center service

\* The nature of all the legal entities established in the PRC is limited liability company.

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

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

# Effective interest held by the Group is 66.41%.

\*\* China Mobile Finance was established by CMCC and Beijing Mobile, a wholly-owned subsidiary of the Company, with equity interest of 8% and 92%, respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**19 INTEREST IN ASSOCIATES**

	<b>The Group</b>	
	<b>As at</b>	As at
	<b>31 December</b>	31 December
	<b>2014</b>	2013
	<b>Million</b>	Million
Share of net assets of associates		
– Unlisted company	<b>3,954</b>	–
– Listed company	<b>66,490</b>	53,940
	<b>70,444</b>	53,940

Details of the associates are as follows:

Name of associate	Place of incorporation/ establishment and operation	Proportion of ownership interest held by a subsidiary	Principal activity
<b>Unlisted 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
China Tower Corporation Limited ("Tower Company")	PRC	40%	Constructions, maintenance and operation of communications towers
<b>Listed company</b>			
Shanghai Pudong Development Bank Co., Ltd. ("SPD Bank")	PRC	20%	Provision of banking services
IFLYTEK Co., Ltd. ("IFLYTEK", renamed on 16 April 2014, formerly known as "Anhui USTC iFLYTEK Co., Ltd.")	PRC	15%	Provision of Chinese speech and language technology products and services
True Corporation Public Company Limited ("True Corporation")	Thailand	18%	Provision of telecommunications services

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**19 INTEREST IN ASSOCIATES (CONTINUED)**

Except that IFLYTEK and Tower Company are owned by CMC and True Corporation is owned by CMI Holdings, all the other interest in associates are owned by Guangdong Mobile.

During 2014, CMI Holdings, a wholly-owned subsidiary of the Company subscribed for 4,429,427,068 ordinary shares of True Corporation (a fully-integrated, nationwide telecommunications service provider in Thailand) at the price of Baht6.45 per share with a total consideration of Baht28.57 billion (equivalent approximately RMB5.51 billion). Upon the completion of the subscription, CMI Holdings owns 18% of the share capital and has become the second largest shareholder of True Corporation and two designees nominated by CMI Holdings have been appointed as directors of True Corporation. Accordingly, the Group recognized the investment as interest in an associate considering the Group can exercise significant influence over financial and operating policy decisions of True Corporation.

Also in 2014, CMC, a wholly-owned subsidiary of the Company, entered into an agreement with China United Network Communications Corporation Limited and China Telecom Corporation Limited to establish Tower Company. Pursuant to the agreement, CMC contributed RMB4 billion in cash, which represents 40.0% of the registered capital of Tower Company. Upon the completion of the subscription, the Group has appointed three directors for Tower Company. Accordingly, the Group recognized the investment as interest in an associate considering the Group can exercise significant influence over financial and operating policy decisions of Tower Company. For the year ended 31 December 2014, Tower Company has not carried out substantial operation, and the total assets and equity were approximately equal to the registered capital as at 31 December 2014.

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 2014 and 2013.

Summary financial information on principal associates:

	<b>SPD Bank</b>	
	<b>As at</b>	As at
	<b>31 December</b>	31 December
	<b>2014</b>	2013
	<b>Million</b>	Million
Total assets	<b>4,195,924</b>	3,680,125
Total liabilities	<b>3,932,639</b>	3,472,898
Total equity	<b>263,285</b>	207,227
Total equity attributable to ordinary shareholders	<b>245,209</b>	204,375
Percentage of ownership of the Group	<b>20%</b>	20%
Total equity attributable to the Group	<b>49,042</b>	40,875
The impact of fair value adjustments at the time of acquisition and goodwill	<b>10,512</b>	11,673
Interest in associates	<b>59,554</b>	52,548

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**19 INTEREST IN ASSOCIATES (CONTINUED)**

Summary financial information on principal associates (Continued):

	IFLYTEK		True Corporation
	As at 31 December 2014 Million	As at 31 December 2013 Million	As at 31 December 2014 Million
Total current assets	2,565	2,682	16,487
Total non-current assets	2,605	1,646	27,428
Total current liabilities	1,076	714	22,026
Total non-current liabilities	193	152	8,608
Total equity	3,901	3,462	13,281
Total equity attributable to equity shareholders	3,707	3,311	13,170
Percentage of ownership of the Group	15%	15%	18%
Total equity attributable to the Group	556	497	2,371
The impact of fair value adjustments at the time of acquisition and goodwill	876	895	3,133
Interest in associates	1,432	1,392	5,504

	SPD Bank		IFLYTEK		True Corporation
	2014 Million	2013 Million	2014 Million	2013 Million	2014 Million
Revenue	123,181	100,015	1,775	1,254	20,447
Profit before taxation	62,030	53,849	434	321	(129)
Profit for the year	47,026	40,922	379	279	267
Other comprehensive income/(loss)	6,119	(3,835)	–	–	–
Total comprehensive income	53,145	37,087	379	279	267
Dividends received from associates	2,462	2,052	14	10	–

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**19 INTEREST IN ASSOCIATES (CONTINUED)**

The fair values of the interests in SPD Bank, IFLYTEK and True Corporation are disclosed as follows:

	As at 31 December 2014		As at 31 December 2013	
	Carrying amount Million	Fair value Million	Carrying amount Million	Fair value Million
SPD Bank	59,554	58,535	52,548	35,180
IFLYTEK	1,432	3,184	1,392	3,363
True Corporation	5,504	9,205	–	–
Interest in listed associates	66,490	70,924	53,940	38,543

The fair values of interest in SPD Bank, IFLYTEK and True Corporation are based on quoted market prices (level 1: quoted price (unadjusted) in active markets) at the balance sheet date without any deduction for transaction costs. As at 31 December 2014, the Group's interest in associates is principally the equity investment in SPD Bank and the fair value of investment in SPD Bank was RMB58.54 billion (2013: RMB35.18 billion), below its carrying amount by approximately 1.7% (2013: approximately 33.1%).

The Group assesses at the end of each reporting period whether there is objective evidence that interest in associates are impaired and particularly, whether there was impairment indication existed on interest in SPD Bank. The recoverable amount of the interest in SPD Bank is determined by value-in-use. The calculation used pre-tax cash flow projections for the five years ending 31 December 2019 with subsequent extrapolation to perpetuity. The discount rate used was based on a cost of capital used to evaluate investments in mainland China. Management judgement is required in estimating the future cash flows of SPD Bank which are sensitive to the cash flows projected. The key assumptions are determined with reference to external sources of information. Based on management's assessment results, there was no impairment as at 31 December 2014 and 2013. Changes in the key assumptions could have a significant impact of the recoverable amount of the interest in SPD Bank and could result in impairment charge in future periods.

The management has determined that there was no impairment indicator of the Group's interests in other associates as at 31 December 2014 and 2013.

**20 DEFERRED TAX ASSETS AND LIABILITIES**

The analysis of deferred tax assets and liabilities are as follows:

	The Group As at 31 December 2014 Million	As at 31 December 2013 Million
Deferred tax assets:		
– Deferred tax asset to be recovered after 12 months	4,639	4,453
– Deferred tax asset to be recovered within 12 months	15,868	12,948
	20,507	17,401
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	(80)	(90)
– Deferred tax liabilities to be settled within 12 months	(18)	(14)
	(98)	(104)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**20 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)**

**Deferred tax assets and liabilities recognized and the movements during 2014**

	As at 1 January 2014 Million	Credited to profit or loss Million	As at 31 December 2014 Million
<b>Deferred tax assets arising from:</b>			
Write-down for obsolete inventories	132	56	188
Write-off of certain network equipment and related assets	2,138	342	2,480
Provision for certain operating expenses	9,182	1,457	10,639
Deferred revenue from Reward Program	4,500	1,121	5,621
Impairment loss for doubtful accounts	1,449	130	1,579
	17,401	3,106	20,507
<b>Deferred tax liabilities arising from:</b>			
Depreciation allowance in excess of related depreciation	(104)	6	(98)
Total	17,297	3,112	20,409

**Deferred tax assets and liabilities recognized and the movements during 2013**

	As at 1 January 2013 Million	Credited/ (charged) to profit or loss Million	Exchange differences Million	As at 31 December 2013 Million
<b>Deferred tax assets arising from:</b>				
Write-down for obsolete inventories	97	35	–	132
Write-off of certain network equipment and related assets	1,635	503	–	2,138
Provision for certain operating expenses	7,084	2,098	–	9,182
Deferred revenue from Reward Program	3,420	1,080	–	4,500
Impairment loss for doubtful accounts	1,308	141	–	1,449
	13,544	3,857	–	17,401
<b>Deferred tax liabilities arising from:</b>				
Depreciation allowance in excess of related depreciation	(51)	(54)	1	(104)
Total	13,493	3,803	1	17,297

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**21 RESTRICTED BANK DEPOSITS**

	Note	The Group As at 31 December 2014			As at 31 December 2013	
		Non-current assets Million	Current assets Million	Total Million	Non-current assets Million	Total Million
Restricted bank deposits						
– Statutory deposit reserves	(i)	8,666	–	8,666	6,659	6,659
– Pledged bank deposits	(ii)	65	695	760	157	157
		<b>8,731</b>	<b>695</b>	<b>9,426</b>	6,816	6,816

Note:

- (i) The statutory deposit reserves are deposited by China Mobile Finance with the People's Bank of China ("PBOC") as required, which are not available for use in the Group's daily operations.
- (ii) Non-current pledged bank deposits are primarily related to the performance bonds issued by banks in favor of the Office of the Communications Authority (formerly "the Office of the Telecommunications Authority") of Hong Kong, in order to secure CMHK's due performance of network and service rollout requirement in or before 2017 and 2018, respectively.

Current pledged bank deposits represent standby letters of credit in favor of the Office of the Communications Authority of Hong Kong for CMHK fulfilling the deposit requirement for the public auction of spectrum with original maturity within one year.

**22 OTHER FINANCIAL ASSETS**

	The Group As at 31 December 2014 Million	As at 31 December 2013 Million
Investment in unlisted equity securities in the PRC	127	127

**23 INVENTORIES**

	The Group As at 31 December 2014 Million	As at 31 December 2013 Million
SIM cards and handsets	8,194	6,632
Other consumables	936	2,520
	<b>9,130</b>	9,152



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**24 ACCOUNTS RECEIVABLE**

**(a) Aging analysis**

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

	<b>The Group</b> <b>As at</b> <b>31 December</b> <b>2014</b> <b>Million</b>	<b>As at</b> <b>31 December</b> <b>2013</b> <b>Million</b>
Within 30 days	<b>9,963</b>	8,316
31–60 days	<b>2,184</b>	2,137
61–90 days	<b>1,161</b>	1,149
Over 90 days	<b>3,032</b>	2,305
	<b>16,340</b>	13,907

Accounts receivable primarily comprise receivables from customers and telecommunications operators. Accounts receivable from the provision of telecommunications services to customers are mainly 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 provided. The increase of accounts receivable over 90 days is mainly due to receivables arising from other telecommunications operators and certain corporate customers that are within credit term.

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>2014</b> <b>Million</b>	<b>2013</b> <b>Million</b>
As at 1 January	<b>5,984</b>	5,274
Impairment loss recognized	<b>5,630</b>	5,174
Accounts receivable written off	<b>(5,134)</b>	(4,464)
As at 31 December	<b>6,480</b>	5,984

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**24 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</b>	As at
	<b>31 December</b>	31 December
	<b>2014</b>	2013
	<b>Million</b>	Million
Neither past due nor impaired	<b>15,668</b>	13,202
Less than 1 month past due	<b>672</b>	705
	<b>16,340</b>	13,907

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.

**25 OTHER RECEIVABLES, PREPAYMENTS AND OTHER CURRENT ASSETS**

Other receivables primarily comprise interest receivable from banks, utilities deposits and rental deposits, which are expected to be recovered within one year.

Prepayments and other current assets primarily consist of rental prepayments.

As at 31 December 2014 and 2013, there were no significant overdue amounts for other receivables.

**26 AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY**

Amount due from ultimate holding company is unsecured, interest free, repayable on demand and arising in the ordinary course of business.

As at 31 December 2014, amount due to ultimate holding company primarily comprises the short-term deposits of CMCC in China Mobile Finance and the interest payable arising from the deposits. The deposits are unsecured and carry interest at prevailing market rate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**27 AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	Note	The Group	
		As at 31 December 2014 Million	As at 31 December 2013 Million
Wealth management products issued by banks	(i)	<b>2,000</b>	–

Note:

- (i) The available-for-sale financial assets represent wealth management products issued by banks which retain the possible loss of the principal amount invested. These wealth management products will mature within one year with variable return rates indexed to the performance of underlying assets. As at 31 December 2014, the carrying amount approximated the fair value (level 3: inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs)). The fair values are based on cash flow discounted using the judgement that expected return will be obtained upon maturity.

**28 BANK DEPOSITS**

Bank deposits represent term deposits with banks with original maturity exceeding three months. The applicable interest rate is determined in accordance with the benchmark interest rate published by PBOC.

**29 CASH AND CASH EQUIVALENTS**

	The Group		The Company	
	As at 31 December 2014 Million	As at 31 December 2013 Million	As at 31 December 2014 Million	As at 31 December 2013 Million
Bank deposits with original maturity within three months	<b>27,421</b>	7,798	<b>2,585</b>	1,228
Cash at banks and in hand	<b>39,323</b>	37,133	<b>445</b>	67
	<b>66,744</b>	44,931	<b>3,030</b>	1,295

**30 ACCOUNTS PAYABLE**

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

The aging analysis of accounts payable is as follows:

	The Group	
	As at 31 December 2014 Million	As at 31 December 2013 Million
Due within 1 month or on demand	<b>193,595</b>	140,397
Due after 1 month but within 3 months	<b>13,465</b>	13,449
Due after 3 months but within 6 months	<b>6,095</b>	6,492
Due after 6 months but within 9 months	<b>3,363</b>	5,294
Due after 9 months but within 12 months	<b>6,985</b>	7,525
	<b>223,503</b>	173,157

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**31 DEFERRED REVENUE**

Deferred revenue primarily includes prepaid service fees received from customers and unredeemed point rewards.

	<b>The Group</b>	
	<b>2014</b>	2013
	<b>Million</b>	Million
As at 1 January	<b>62,451</b>	58,322
– Current portion	<b>61,789</b>	57,988
– Non-current portion	<b>662</b>	334
Additions during the year	<b>233,944</b>	256,882
Recognized in the consolidated statement of comprehensive income	<b>(232,940)</b>	(252,753)
As at 31 December	<b>63,455</b>	62,451
Less: Current portion	<b>(62,615)</b>	(61,789)
Non-current portion	<b>840</b>	662

**32 ACCRUED EXPENSES AND OTHER PAYABLES**

	<b>The Group</b>	
	<b>As at</b>	As at
	<b>31 December</b>	31 December
	<b>2014</b>	2013
	<b>Million</b>	Million
Receipts-in-advance	<b>65,000</b>	68,411
Other payables	<b>16,998</b>	14,285
Accrued salaries, wages and benefits	<b>5,372</b>	5,649
Accrued expense	<b>47,355</b>	37,466
	<b>134,725</b>	125,811

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 33 INTEREST-BEARING BORROWINGS

	The Group	
	As at 31 December 2014 Million	As at 31 December 2013 Million
Bonds	4,992	4,989

As at 31 December 2014, the bonds represent the balance of fifteen-year guaranteed bonds issued by Guangdong Mobile, a subsidiary of the Company, with a principal amount of RMB5,000,000,000, at an issue price equal to the face value of the bonds. The bonds are unsecured and bear interest at the rate of 4.5% per annum which is payable annually. The bonds, redeemable at 100% of the principal amount, will mature on 28 October 2017.

The Company has issued a joint and irrevocable guarantee (the “Guarantee”) for the performance of the 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.

### 34 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 HKEx requires the exercise price of options to be at least the higher of the nominal value of a share (no longer existed after 3 March 2014, see note 35(c)(ii)), 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 (no longer exists after 3 March 2014, see note 35(c)(ii));
- (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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**34 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)**

(a) The terms and conditions of the grants that existed as at the end of the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments		Vesting conditions	Contractual life of options
	2014	2013		
<b>Options granted to directors</b>				
– on 28 October 2004	–	473,175	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 8 November 2005	<b>2,881,500</b>	2,881,500	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 28 October 2004	–	113,418,420	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	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	<b>43,351,922</b>	268,025,464	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	<b>46,233,422</b>	385,273,559		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 34 EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

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

	The Group			
	2014	Number of shares involved in the options	2013	Number of shares involved in the options
	Weighted average exercise price HK\$		Weighted average exercise price HK\$	
As at 1 January	31.28	385,273,559	31.24	387,811,349
Exercised	30.86	(335,886,849)	24.55	(2,199,065)
Expired	23.33	(3,153,288)	–	–
Forfeited	–	–	30.39	(338,725)
As at 31 December	34.87	46,233,422	31.28	385,273,559
Option vested as at 31 December	34.87	46,233,422	31.28	385,273,559

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$79.40 (2013: HK\$84.73).

The options outstanding as at 31 December 2014 had exercise price HK\$34.87 (2013: HK\$22.75 to HK\$34.87) and a weighted average remaining contractual life of 0.9 year (2013: 1.5 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 2014 and 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 35 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 Million	Share premium Million	Capital reserve Million	General reserve Million	Exchange reserve Million	Retained profits Million	Total Million
<b>As at 1 January 2013</b>	2,142	387,183	3,642	72	(1,060)	73,138	465,117
<b>Changes in equity for 2013:</b>							
Profit for the year	–	–	–	–	–	67,682	67,682
Total comprehensive income for the year	–	–	–	–	–	67,682	67,682
Dividends approved in respect of previous year (note 35(b)(ii))	–	–	–	–	–	(28,460)	(28,460)
Dividends declared in respect of current year (note 35(b)(i))	–	–	–	–	–	(27,031)	(27,031)
Shares issued under share option scheme	–	60	(17)	–	–	–	43
Others	–	–	–	–	1,060	(1,060)	–
<b>As at 31 December 2013</b>	2,142	387,243	3,625	72	–	84,269	477,351
<b>As at 1 January 2014</b>	<b>2,142</b>	<b>387,243</b>	<b>3,625</b>	<b>72</b>	<b>–</b>	<b>84,269</b>	<b>477,351</b>
<b>Changes in equity for 2014:</b>							
Profit for the year	–	–	–	–	–	50,328	50,328
Total comprehensive income for the year	–	–	–	–	–	50,328	50,328
Dividends approved in respect of previous year (note 35(b)(ii))	–	–	–	–	–	(26,044)	(26,044)
Dividends declared in respect of current year (note 35(b)(i))	–	–	–	–	–	(24,880)	(24,880)
Shares issued under share option scheme (note 35(c)(iii))	9,279	2,073	(3,137)	–	–	–	8,215
Transfer between reserves upon expiry of options (note 34(b))	–	–	(27)	–	–	27	–
Transition to no-par value regime (note 35(c)(ii))	389,316	(389,316)	–	–	–	–	–
<b>As at 31 December 2014</b>	<b>400,737</b>	<b>–</b>	<b>461</b>	<b>72</b>	<b>–</b>	<b>83,700</b>	<b>484,970</b>

As at 31 December 2014, the amount of distributable reserves of the Company amounted to RMB83,772,000,000 (2013: RMB84,341,000,000).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 35 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

#### (b) Dividends

##### (i) Dividends attributable to the year:

	2014 Million	2013 Million
Ordinary interim dividend declared and paid of HK\$1.540 (equivalent to approximately RMB1.222) (2013: HK\$1.696 (equivalent to approximately RMB1.351)) per share	24,880	27,031
Ordinary final dividend proposed after the balance sheet date of HK\$1.380 (equivalent to approximately RMB1.089) (2013: HK\$1.615 (equivalent to approximately RMB1.270)) per share	22,290	25,644
	47,170	52,675

The proposed ordinary final dividend which is declared in Hong Kong dollar is translated into RMB at the rate HK\$1 = RMB0.78887, being the rate announced by the State Administration of Foreign Exchange in the PRC on 31 December 2014. As the ordinary final dividend is declared after the balance sheet date, such dividend is not recognized as liability as at 31 December 2014.

In accordance with the 2009 Notice and the PRC enterprise income tax law, the Company is required to withhold enterprise income tax equal to 10% of any dividend when it is distributed to non-resident enterprise shareholders whose names appeared on the Company's register of members, as of the record date for such dividend, and who were not individuals.

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

	2014 Million	2013 Million
Ordinary final dividend in respect of the previous financial year, approved and paid during the year, of HK\$1.615 (equivalent to approximately RMB1.270) (2013: HK\$1.778 (equivalent to approximately RMB1.442)) per share	26,044	28,460

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**35 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)**

**(c) Share capital**

**(i) Authorized and issued share capital**

	2014		2013			
	Number of shares	HK\$ Million	Number of shares	HK\$ Million		
<b>Authorized:</b>						
30,000,000,000 ordinary shares of HK\$0.10 each (note 35(c)(ii))		–		3,000		
	Number of shares	2014 HK\$ Million	Equivalent RMB Million	Number of shares	2013 HK\$ Million	Equivalent RMB Million
<b>Issued and fully paid:</b>						
As at 1 January	20,102,539,665	2,010	2,142	20,100,340,600	2,010	2,142
Shares issued under share option scheme (note 35(c)(iii))	335,886,849	11,004	9,279	2,199,065	–	–
Transition to no-par value regime (note 35(c)(ii))	–	367,576	389,316	–	–	–
As at 31 December	20,438,426,514	380,590	400,737	20,102,539,665	2,010	2,142

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) Transition to no-par value regime**

Under the new Hong Kong Companies Ordinance (Cap. 622) which commenced operation on 3 March 2014, the concept of authorized share capital no longer exists and the Company's shares no longer have a par or nominal value. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

In addition, in accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account has become part of the Company's share capital.

**(iii) Shares issued under share option scheme**

During 2014, options were exercised to subscribe for 335,886,849 ordinary shares in the Company at a consideration of HK\$10,365,000,000 (equivalent to RMB8,215,000,000) of which HK\$6,000,000 (equivalent to RMB5,000,000) was credited to share capital and HK\$1,887,000,000 (equivalent to RMB1,488,000,000) was credited to the share premium account before 3 March 2014 and HK\$8,472,000,000 (equivalent to RMB6,722,000,000) was credited to share capital after 3 March 2014. RMB585,000,000 has been transferred from the capital reserve to the share premium account before 3 March 2014 and RMB2,552,000,000 has been transferred from the capital reserve to the share capital account after 3 March 2014 in accordance with policy set out in note 2(w)(ii).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 35 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

#### (d) Nature and purpose of reserves

##### (i) Share premium

Under the new Hong Kong Companies Ordinance (Cap. 622) which commenced operation on 3 March 2014, any amount standing to the credit of the share premium account has become part of the Company's share capital (see note 35(c)(ii)).

##### (ii) Capital reserve

The capital reserve mainly 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 2(w)(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.

##### (iii) PRC statutory reserves

PRC statutory reserves mainly include statutory surplus reserve and discretionary surplus reserve.

In accordance with the Company Law of the 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 of relevant subsidiaries. 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 such subsidiaries to the statutory surplus reserves and discretionary surplus reserves accordingly.

The statutory and discretionary surplus reserves can be used to reduce previous years' losses, if any, and may be converted into paid-up capital, provided that the statutory reserve after such conversion is not less than 25% of the registered capital of relevant subsidiaries.

In accordance with relevant regulations issued by the Ministry of Finance of the PRC, a subsidiary of the Company, China Mobile Finance, is required to set aside a reserve through appropriations of profit after tax according to a certain ratio of the ending balance of its gross risk-bearing assets to cover potential losses against such assets.

##### (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 2(y).

#### (e) Capital management

The Group's primary objectives of capital management 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 stabilize the capital position and prevent operation risk. Meanwhile, the Group will maximize the shareholders' return when having high level of borrowings and will make adjustment on the capital structure in accordance with the 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 obligations under finance leases and interest-bearing borrowings as shown in the consolidated balance sheet) divided by book capitalization (equal 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 2014, the Group's total debt-to-book capitalization ratio was 0.6% (2013: 0.8%).

Except China Mobile Finance, the Company and its subsidiaries are not subject to externally imposed capital requirements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**36 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 (“CMCC Group”), other than transactions disclosed in note 26, for the years ended 31 December 2014 and 2013. The majority of these transactions also constitute continuing connected transactions as defined under Chapter 14A of Listing Rules. Further details of these continuing connected transactions are disclosed under the paragraph “Connected Transactions” in the Report of Directors.

	Note	2014 Million	2013 Million
Telecommunications services revenue	(i)	885	1,590
Telecommunications services charges	(i)	4,602	2,843
Property leasing and management services charges	(ii)	803	808
Interest expenses	(iii)	–	103
Interconnection revenue	(iv)	216	241
Interconnection charges	(iv)	425	500
Network assets leasing revenue	(v)	95	109
Network assets leasing charges	(v)	11,062	9,837
Network capacity leasing charges	(v)	5,012	3,876
Revenue derived from cooperation of telecommunications services	(vi)	481	494
Charges for cooperation of telecommunications services	(vi)	2,567	2,232

Note:

- (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 expenses paid 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 CMCC Group, in respect of interconnection settlement revenue and charges.
- (v) The amounts represent the network assets leasing settlement received/receivable from or paid/payable to CMCC Group and the TD-SCDMA network capacity charges paid/payable to CMCC Group. On 29 December 2008, the Company entered into a network capacity leasing agreement (the “Network Capacity Leasing Agreement”) with CMCC Group 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 Group. 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 Group and pays leasing fees to CMCC Group. The leasing fees are determined on a basis that reflects the actual usage of CMCC Group’s TD-SCDMA network capacity and compensates CMCC Group for the costs of such network capacity. At the end of the lease terms, there is no purchase option granted to the Group to purchase the leased network assets. The Group also does not bear any gains or losses in the fluctuation in the fair value of the leased network assets at the end of the lease terms. As a result, the Group does not bear the risks associated with the ownership of the leased network assets, and accordingly the Group accounts for the network assets leasing and the network capacity leasing as operating leases.
- (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 CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 36 RELATED PARTY TRANSACTIONS (CONTINUED)

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

Amounts due from/to CMCC Group, other than amount due from/to ultimate holding company, are included in the following accounts captions summarized as follows:

	The Group As at 31 December 2014 Million	As at 31 December 2013 Million
Accounts receivable	1,037	1,162
Other receivables	5	6
Prepayments and other current assets	146	109
Accounts payable	5,693	4,036
Accrued expenses and other payables	309	145

The amounts are unsecured, interest-free, repayable on demand/on contract terms and arise in the ordinary course of business.

#### (c) Significant transactions with associates of the Group and of CMCC Group

The Group has entered into transactions with associates over which the Group or CMCC Group can exercise significant influence. The major transactions entered into by the Group and the associates and amount due from/to the associates are follows:

	As at 31 December 2014 Million	As at 31 December 2013 Million
Bank deposits	42,660	42,752
Available-for-sale financial assets	1,000	–
Interest receivable	934	664
Accounts payable	513	208

	Note	2014 Million	2013 Million
Interest income	(i)	1,653	1,355
Mobile telecommunications services revenue	(ii)	127	84
Mobile telecommunications services charges	(iii)	1,837	2,261
Dividend income		2,476	2,062

Note:

- (i) Interest income represents interest earned from deposits placed with SPD Bank. The applicable interest rate is determined in accordance with the benchmark interest rate published by PBOC.
- (ii) The amount represents the mobile telecommunications services revenue received/receivable from SPD Bank.
- (iii) The amount represents the mobile telecommunications services charges paid/payable to Union Mobile Pay Co., Ltd., an associate of CMCC Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 36 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 (notes 26 and 36(a)) and an associate (note 36(c)) and the transaction to establish Tower Company (note 19), 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

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.

#### (e) For key management personnel compensation, please refer to note 9.

### 37 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 at banks and bank deposits are deposited in financial institutions in Mainland China and Hong Kong. The credit risk on liquid funds is limited as the majority of counterparties 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 is 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 interest receivable from banks, utilities deposits and rental deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis, taking into account the counter parties’ financial position, the Group’s past experience and other factors. As such, management considers the aggregate risks arising from the possibility of credit losses is limited and to be acceptable.

Concentrations of credit risk with respect to accounts receivable are limited due to the Group’s customer base being large and unrelated. As such, management does not expect any significant losses of accounts receivable that have not been provided for by way of allowances as shown in note 24(c).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

#### (b) Liquidity risk

Liquidity risk refers to the risk 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 and bank deposits (which are readily convertible to known amounts of cash) 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 at the balance sheet date) and the earliest date the Group and the Company would be required to repay:

#### The Group

	As at 31 December 2014				
	Carrying amount Million	Total contractual undiscounted cash flow Million	Within 1 year or on demand Million	More than 1 year but less than 3 years Million	More than 3 years but less than 5 years Million
Accounts payable	223,503	223,503	223,503	–	–
Bills payable	674	674	674	–	–
Accrued expenses and other payables	134,725	134,725	134,725	–	–
Amount due to ultimate holding company	4,271	4,340	4,340	–	–
Interest-bearing borrowings	4,992	5,635	225	5,410	–
Obligations under finance leases	68	71	71	–	–
	<b>368,233</b>	<b>368,948</b>	<b>363,538</b>	<b>5,410</b>	<b>–</b>

  

	As at 31 December 2013				
	Carrying amount Million	Total contractual undiscounted cash flow Million	Within 1 year or on demand Million	More than 1 year but less than 3 years Million	More than 3 years but less than 5 years Million
Accounts payable	173,157	173,157	173,157	–	–
Bills payable	1,360	1,360	1,360	–	–
Accrued expenses and other payables	125,811	125,811	125,811	–	–
Amount due to ultimate holding company	22	22	22	–	–
Interest-bearing borrowings	4,989	5,860	225	450	5,185
Obligations under finance leases	68	71	71	–	–
	<b>305,407</b>	<b>306,281</b>	<b>300,646</b>	<b>450</b>	<b>5,185</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)**

**(b) Liquidity risk (Continued)**

**The Company**

	As at 31 December 2014				
	Carrying amount Million	Total contractual undiscouted cash flow Million	Within 1 year or on demand Million	More than 1 year but less than 3 years Million	More than 3 years but less than 5 years Million
Accrued expenses and other payables	12	12	12	–	–
Amount due to a subsidiary	4,992	5,635	225	5,410	–
	<b>5,004</b>	<b>5,647</b>	<b>237</b>	<b>5,410</b>	<b>–</b>

	As at 31 December 2013				
	Carrying amount Million	Total contractual undiscouted cash flow Million	Within 1 year or on demand Million	More than 1 year but less than 3 years Million	More than 3 years but less than 5 years Million
Accrued expenses and other payables	21	21	21	–	–
Amount due to a subsidiary	4,989	5,860	225	450	5,185
	<b>5,010</b>	<b>5,881</b>	<b>246</b>	<b>450</b>	<b>5,185</b>

Regarding the Company's financial guarantee issued, please refer to note 33 for details.

**(c) Interest rate risk**

The Group consistently monitors the current and potential fluctuation of interest rates to monitor the interest rate risk on a reasonable level. As at 31 December 2014, the Group did not have any interest-bearing borrowings at variable rates, but had RMB5 billion of bonds, which were issued at fixed rate and exposes the Group to fair value interest rate risk. The Group determines the amount of its fixed rate depending on the prevailing market condition. Management does not expect fair value interest rate risk to be high as the interest involved will not be significant.

As at 31 December 2014, total cash and bank balances of the Group amounted to RMB428,288,000,000 (2013: RMB426,724,000,000). The interest income for 2014 was RMB16,149,000,000 (2013: RMB15,289,000,000) and the average interest rate was 3.78% (2013: 3.66%). 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 RMB3,229,000,000 (2013: RMB3,213,000,000).

**(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 cash and deposits with banks represented 1.4% (2013: 0.8%) 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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)**

**(e) Fair values**

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

**The Group**

	As at 31 December 2014		As at 31 December 2013	
	Carrying amount Million	Fair value Million	Carrying amount Million	Fair value Million
Interest-bearing borrowings – bonds	4,992	4,951	4,989	4,675

The fair value of bonds is based on quoted market prices (level 1: quoted price (unadjusted) in active markets) at the balance sheet date without any deduction for transaction costs.

**38 COMMITMENTS**

**(a) Capital commitments**

The Group's capital commitments outstanding as at 31 December not provided for in the consolidated financial statements were as follows:

	The Group 2014 Million	2013 Million
<b>Commitments in respect of land and buildings</b>		
– authorized and contracted for	7,547	7,212
– authorized but not contracted for	32,498	43,709
	40,045	50,921
<b>Commitments in respect of telecommunications equipment</b>		
– authorized and contracted for	24,607	25,022
– authorized but not contracted for	112,114	167,901
	136,721	192,923
<b>Total commitments</b>		
– authorized and contracted for	32,154	32,234
– authorized but not contracted for	144,612	211,610
	176,766	243,844

The Company had no significant capital commitments outstanding as at 31 December 2014 and 2013.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Expressed in RMB unless otherwise indicated)

**38 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 Million
	Land and buildings Million	Leased lines Million	Others Million	Total Million	
<b>As at 31 December 2014</b>					
Within one year	9,733	9,291	1,043	20,067	8
After one year but within five years	18,882	3,822	1,361	24,065	–
After five years	5,853	953	69	6,875	–
	<b>34,468</b>	<b>14,066</b>	<b>2,473</b>	<b>51,007</b>	<b>8</b>
<b>As at 31 December 2013</b>					
Within one year	8,008	5,627	984	14,619	9
After one year but within five years	15,966	2,706	1,355	20,027	5
After five years	4,476	669	34	5,179	–
	28,450	9,002	2,373	39,825	14

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

**39 POST BALANCE SHEET EVENT**

After the balance sheet date, the Board of Directors proposed a final dividend for the year ended 31 December 2014. Further details are disclosed in note 35(b)(i).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 40 ACCOUNTING ESTIMATES AND JUDGEMENTS

#### Key sources of estimation uncertainty

Note 17 contains information about the assumptions relating to goodwill impairment, and note 36 contains information about the judgements on the lease classification of leasing of TD-SCDMA network capacity. 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 conditions 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 determined 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.

#### Impairment of property, plant and equipment, interest in associates, 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, interest in associates 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 with 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 fair value less costs of disposal 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 estimation 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 further impairment charge or reversal of impairment in future periods. Additional information for the goodwill impairment and the impairment assessment of interest in associates is disclosed in notes 17 and 19, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS, INTERPRETATIONS AND DISCLOSURES ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the IASB/HKICPA has issued a number of amendments and new standards and interpretations which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements.

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

	Effective for accounting periods beginning on or after
Amendment to IAS/HKAS 19, "Employee Benefits"	1 July 2014
Annual Improvement to IFRSs/HKFRSs 2010-2012 cycle	1 July 2014
Annual Improvement to IFRSs/HKFRSs 2011-2013 cycle	1 July 2014
Amendment to IFRS/HKFRS 11, "Joint Arrangements"	1 January 2016
Amendment to IAS/HKAS 16, "Property, Plant and Equipment"	1 January 2016
Amendment to IAS/HKAS 38, "Intangible Assets"	1 January 2016
Amendment to IFRS/HKFRS 10, "Consolidated Financial Statements"	1 January 2016
Amendment to IAS/HKAS 28, "Investments in Associates and Joint Ventures"	1 January 2016
Amendment to IAS/HKAS 27, "Separate Financial Statements"	1 January 2016
Annual Improvement to IFRSs/HKFRSs 2012-2014 cycle	1 January 2016
IFRS/HKFRS 15 "Revenue from Contracts with Customers"	1 January 2017
IFRS/HKFRS 9 "Financial Instrument"	1 January 2018

Management is assessing the impact of such new standards, amendments to standards and will adopt the relevant standards, amendments to standards in the subsequent periods as required.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of the new Hong Kong Companies Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Hong Kong Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.