

CHINA MOBILE LTD /ADR/  
Form 20-F  
April 25, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 20-F**

.. **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

..

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

Date of event requiring this shell company report \_\_\_\_\_

Commission file number: 1-14696

# **China Mobile Limited**

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant's Name into English)

**Hong Kong, China**

(Jurisdiction of Incorporation or Organization)

**60th Floor, The Center**

**99 Queen's Road Central**

**Hong Kong, China**

(Address of Principal Executive Offices)

**Grace Wong**

**Company Secretary**

**China Mobile Limited**

**60th Floor, The Center**

**99 Queen's Road Central**

**Hong Kong, China**

**Telephone: (852) 3121-8888**

**Fax: (852) 2511-9092**

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

**Securities registered pursuant to Section 12(b) of the Act:**

Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

**Title of Each Class**  
**Ordinary shares, par value HK\$0.10 per share**

**Name of Each Exchange on Which Registered**  
**New York Stock Exchange\***

\* **Not for trading, but only in connection with the listing on the New York Stock Exchange of American depositary shares representing the ordinary shares.**

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**None**

**(Title of Class)**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

**(Title of Class)**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2012, 20,100,340,600 ordinary shares, par value HK\$0.10 per share, were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP

International Financial Reporting Standards as issued

Other

Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

by the International Accounting Standards Board

If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

**Table of Contents**

**TABLE OF CONTENTS**

**China Mobile Limited**

|  | Page |
|--|------|
| <u>Forward-Looking Statements</u>  | 1    |
| <b><u>PART I</u></b>   |      |
| Item 1. <u>Identity of Directors, Senior Management and Advisers</u>                         | 2    |
| Item 2. <u>Offer Statistics and Expected Timetable</u>                                       | 2    |
| Item 3. <u>Key Information</u>   | 2    |
| Item 4. <u>Information on the Company</u>  | 14   |
| Item 4A. <u>Unresolved Staff Comments</u>  | 31   |
| Item 5. <u>Operating and Financial Review and Prospects</u>                                  | 31   |
| Item 6. <u>Directors, Senior Management and Employees</u>                                    | 44   |
| Item 7. <u>Major Shareholders and Related Party Transactions</u>                             | 48   |
| Item 8. <u>Financial Information</u>   | 53   |
| Item 9. <u>The Offer and Listing</u>   | 53   |
| Item 10. <u>Additional Information</u>   | 54   |
| Item 11. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                   | 61   |
| Item 12. <u>Description of Securities Other than Equity Securities</u>                       | 62   |
| <b><u>PART II</u></b>  |      |
| Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u>                              | 64   |
| Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u> | 64   |
| Item 15. <u>Controls and Procedures</u>  | 64   |
| Item 16A. <u>Audit Committee Financial Expert</u>  | 66   |
| Item 16B. <u>Code of Ethics</u>  | 66   |
| Item 16C. <u>Principal Accountant Fees and Services</u>                                      | 66   |
| Item 16D. <u>Exemptions from the Listing Standards for Audit Committees</u>                  | 66   |
| Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>      | 66   |
| Item 16F. <u>Change in Registrant's Certifying Accountant</u>                                | 66   |
| Item 16G. <u>Corporate Governance</u>  | 67   |
| Item 16H. <u>Mine Safety Disclosure</u>  | 68   |
| <b><u>PART III</u></b>   |      |
| Item 17. <u>Financial Statements</u>   | 69   |
| Item 18. <u>Financial Statements</u>   | 69   |
| Item 19. <u>Exhibits</u>   | 69   |

**Table of Contents**

**Forward-Looking Statements**

This annual report on Form 20-F contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

our business objectives and strategies;

our operations and prospects;

our telecommunications network expansion plans and related capital expenditure plans;

the expected impact of any acquisitions or other strategic transactions;

our provision of services, including 3G services and services based on evolution of 3G technology, and our ability to attract customers to these services;

the planned development of future generations of mobile telecommunications technologies and other technologies and related applications;

the anticipated evolution of the industry chain of 3G, 4G and future generations of mobile telecommunications technologies, including future development in, and availability of, terminals that support our provision of services based on 3G, 4G and future generations of mobile telecommunications technologies;

the expected impact of tariff changes on our business, financial condition and results of operations;

the expected impact of new service offerings on our business, financial condition and results of operations; and

future developments in the telecommunications industry in Mainland China, including changes in the regulatory and competitive landscape.

The words aim, anticipate, believe, could, estimate, expect, intend, may, plan, seek, should, target, will and similar expressions, are intended to identify certain of these forward-looking statements. We do not intend to update these forward-looking statements and are under no obligation to do so.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors. Moreover, our future business expansion and other capital expenditure and development plans are dependent on numerous factors, including the risk factors set forth in Item 3. Key Information Risk Factors and the following:

## Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

changes in political, economic, legal, tax and social conditions in Mainland China, including, without limitation, the PRC government's policies with respect to new entrants in the PRC telecommunications industry, the entry of foreign companies into Mainland China's telecommunications market and Mainland China's continued economic growth; and

the availability of qualified management and technical personnel.

-1-

**Table of Contents****PART I****Item 1. Identity of Directors, Senior Management and Advisers.**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable.**

Not applicable.

**Item 3. Key Information.****Selected Financial Data**

The following tables present selected historical financial data of our company as of and for each of the years in the five-year period ended December 31, 2012. Except for amounts presented in U.S. dollars and per American depository share, or ADS, data, the selected historical consolidated statement of comprehensive income data and other financial data for the years ended December 31, 2010, 2011 and 2012 and the selected historical consolidated balance sheet data as of December 31, 2011 and 2012 set forth below are derived from, should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements, including the related notes, included elsewhere in this annual report on Form 20-F. The selected historical consolidated statement of comprehensive income data for the years ended December 31, 2008 and 2009 and the selected historical consolidated balance sheet data as of December 31, 2008, 2009 and 2010 set forth below are derived from our audited consolidated financial statements that are not included in this annual report on Form 20-F. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

The statistical information set forth in this annual report on Form 20-F relating to Mainland China is taken or derived from various publicly available government publications that have not been prepared or independently verified by us. This statistical information may not be consistent with other statistical information from other sources within or outside Mainland China.

|  | 2008 <sup>(1)</sup><br>RMB | As of or for the year ended December 31, |             |             |             | 2012<br>US\$ |
|--|----------------------------|--|-------------|-------------|-------------|--------------|
|  |                            | 2009<br>RMB                              | 2010<br>RMB | 2011<br>RMB | 2012<br>RMB |              |
| (in millions, except share, per share and per ADS information) |                            |  |             |             |             |              |
| <b>Consolidated Statement of Comprehensive Income Data:</b>    |                            |  |             |             |             |              |
| Operating revenue  | 411,810                    | 452,103                                  | 485,231     | 527,999     | 560,413     | 89,952       |
| Operating expenses   | 269,415                    | 305,095                                  | 334,477     | 376,700     | 409,891     | 65,792       |
| Profit from operations   | 142,395                    | 147,008                                  | 150,754     | 151,299     | 150,522     | 24,160       |
| Profit before taxation   | 149,523                    | 153,836                                  | 159,071     | 166,582     | 171,300     | 27,496       |
| Taxation   | (36,735)                   | (38,413)                                 | (39,047)    | (40,603)    | (41,919)    | (6,728)      |
| Profit for the year attributable to equity shareholders        | 112,627                    | 115,166                                  | 119,640     | 125,870     | 129,274     | 20,750       |
| Basic earnings per share <sup>(2)</sup>                        | 5.62                       | 5.74                                     | 5.96        | 6.27        | 6.43        | 1.03         |
| Diluted earnings per share <sup>(2)</sup>                      | 5.53                       | 5.67                                     | 5.89        | 6.20        | 6.36        | 1.02         |
| Basic earnings per ADS <sup>(2)</sup>                          | 28.10                      | 28.71                                    | 29.82       | 31.36       | 32.17       | 5.16         |
| Diluted earnings per ADS <sup>(2)</sup>                        | 27.66                      | 28.35                                    | 29.44       | 30.98       | 31.78       | 5.10         |



**Table of Contents**

|   | 2008 <sup>(1)</sup><br>RMB  | 2009<br>RMB | 2010<br>RMB | 2011<br>RMB | 2012<br>RMB | 2012<br>US\$ |
|---|---|-------------|-------------|-------------|-------------|--------------|
|   | (in millions, except share, per share<br>and per ADS information) |             |             |             |             |              |
| Number of shares utilized in basic calculation (in thousands)   | 20,043,934  | 20,057,674  | 20,062,910  | 20,068,194  | 20,090,824  | 20,090,824   |
| Number of shares utilized in diluted calculation (in thousands) | 20,356,126  | 20,312,459  | 20,321,332  | 20,315,252  | 20,341,516  | 20,341,516   |
| <b>Consolidated Balance Sheet Data:</b>                         |   |             |             |             |             |              |
| Working capital <sup>(3)</sup>                                  | 56,561  | 77,500      | 66,202      | 109,441     | 148,797     | 23,884       |
| Cash and cash equivalents                                       | 87,426  | 78,894      | 87,543      | 86,259      | 70,906      | 11,381       |
| Bank deposits   | 130,833   | 185,613     | 204,803     | 246,687     | 331,997     | 53,289       |
| Accounts receivable   | 6,913   | 6,405       | 7,632       | 9,165       | 11,722      | 1,882        |
| Property, plant and equipment                                   | 327,783   | 360,075     | 385,296     | 408,165     | 430,509     | 69,101       |
| Total assets  | 658,427   | 751,368     | 861,935     | 952,558     | 1,052,109   | 168,875      |
| Bonds - current portion <sup>(4)</sup>                          |   |             | 4,981       |             |             |              |
| non-current portion   | 9,920   | 9,918       | 4,982       | 4,984       | 4,986       | 800          |
| Deferred consideration payable <sup>(5)</sup>                   | 23,633  | 23,633      | 23,633      | 23,633      | 23,633      | 3,793        |
| Total liabilities   | 217,776   | 243,734     | 284,532     | 302,139     | 326,800     | 52,455       |
| Share capital   | 2,138   | 2,139       | 2,139       | 2,140       | 2,142       | 344          |
| Shareholders' equity  | 440,022   | 506,748     | 576,157     | 649,064     | 723,447     | 116,121      |
| <b>Other Financial Data:</b>                                    |   |             |             |             |             |              |
| Capital expenditures and land lease prepayments <sup>(6)</sup>  | 122,814   | 116,675     | 114,338     | 124,414     | 125,024     | 20,068       |
| Net cash generated from operating activities                    | 193,647   | 207,123     | 231,379     | 226,756     | 230,709     | 37,031       |
| Net cash used in investing activities                           | (139,026)   | (165,927)   | (171,572)   | (169,356)   | (191,176)   | (30,686)     |
| Net cash used in financing activities                           | (45,684)  | (49,774)    | (51,051)    | (58,420)    | (54,897)    | (8,812)      |
| Dividend declared   | 48,364  | 49,544      | 51,818      | 54,298      | 55,821      | 8,960        |
| Dividend declared per share (RMB)                               | 2.415   | 2.471       | 2.595       | 2.730       | 2.773       | 0.44         |
| Dividend declared per share (HK\$)                              | 2.743   | 2.804       | 3.014       | 3.327       | 3.411       | 0.44         |

- (1) With effect from January 1, 2009, the Company retrospectively adopted the International Financial Reporting Interpretations Committee Interpretation 13, or IFRIC Interpretation 13. The comparative figures as of and for the year ended December 31, 2008 have been restated according to IFRIC Interpretation 13.
- (2) The basic earnings per share have been computed by dividing profit attributable to our equity shareholders by the weighted average number of shares outstanding in 2008, 2009, 2010, 2011 and 2012. The diluted earnings per share have been computed after adjusting for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares resulting from the share options granted to our directors and employees under the share option scheme would decrease profit attributable to equity shareholders per share. The basic and diluted earnings per ADS amounts have been computed based on one ADS representing five ordinary shares.
- (3) Represents current assets minus current liabilities. Certain amounts in 2008, 2009 and 2010 have been reclassified to conform to the presentation of 2011 and 2012.
- (4) The guaranteed bonds due in 2011 with an aggregate principal amount of RMB5,000 million were fully redeemed upon maturity in June 2011.
- (5) Represents the respective balance of the purchase consideration payable to our immediate holding company for our acquisition of the eight regional mobile telecommunications companies in 2002 and for our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in 2004. See Item 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources - Contractual Obligations and Commitments.
- (6) Represents payments made for capital expenditures and land lease prepayments during the year and included in net cash used in investing activities.

**Table of Contents****Exchange Rate Information**

We publish our consolidated financial statements in Renminbi. Solely for the convenience of the reader, this annual report on Form 20-F contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars and vice versa at RMB6.2301 = US\$1.00 and HK\$7.7507 = US\$1.00, the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2012. The noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York are published on a weekly basis in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States. These translations should not be construed as representations that the Renminbi or Hong Kong dollar amounts could actually be converted into U.S. dollars at such rates or at all.

The noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB6.1772 = US\$1.00 and HK\$7.7637 = US\$1.00, respectively, on April 19, 2013. The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

**Noon Buying Rate**

|                                   | RMB per US\$1.00 |        |                                   | HK\$ per US\$1.00 |        |
|-----------------------------------|------------------|--------|-----------------------------------|-------------------|--------|
|                                   | High             | Low    |                                   | High              | Low    |
| October 2012                      | 6.2877           | 6.2372 | October 2012                      | 7.7549            | 7.7494 |
| November 2012                     | 6.2454           | 6.2221 | November 2012                     | 7.7518            | 7.7493 |
| December 2012                     | 6.2502           | 6.2251 | December 2012                     | 7.7518            | 7.7493 |
| January 2013                      | 6.2303           | 6.2134 | January 2013                      | 7.7585            | 7.7503 |
| February 2013                     | 6.2438           | 6.2213 | February 2013                     | 7.7580            | 7.7531 |
| March 2013                        | 6.2246           | 6.2105 | March 2013                        | 7.7640            | 7.7551 |
| April 2013 (up to April 19, 2013) | 6.2078           | 6.1720 | April 2013 (up to April 19, 2013) | 7.7652            | 7.7615 |

The following table sets forth the average noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars in 2008, 2009, 2010, 2011 and 2012 calculated by averaging the noon buying rates on the last day of each month during the relevant year.

**Average Noon Buying Rate**

|      | RMB per US\$1.00 | HK\$ per US\$1.00 |
|------|------------------|-------------------|
| 2008 | 6.9193           | 7.7814            |
| 2009 | 6.8295           | 7.7513            |
| 2010 | 6.7603           | 7.7692            |
| 2011 | 6.4475           | 7.7793            |
| 2012 | 6.2990           | 7.7556            |

**Risk Factors**

We wish to caution readers that the following important factors, and those important factors described in other reports submitted to, or filed with, the SEC, among other factors, could affect our actual results and could cause our actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf, and that such factors may have a material adverse effect on our business, financial condition, results of operations and prospects as well as our ordinary shares and ADSs.

**Table of Contents****Risks Relating to Our Business**

*We may not be able to maintain the same level of growth as we have experienced over the past decade, which could have a material adverse effect on our financial condition and results of operations as well as our profitability.*

We have experienced significant growth over the past decade, measured by the increase in both our customer base and our revenue. However, in certain of the more recent years, our rate of growth as measured by our revenue has shown signs of decreasing. We cannot assure you that we will be able to achieve a high level of growth in the future due in part to the increased market saturation and competition among mobile telecommunications operators and from other related industries in Mainland China. In particular, according to data published by the Ministry of Industry and Information Technology, or the MIIT, mobile penetration rate in Mainland China reached 82.6% as of December 31, 2012. Moreover, the restructuring of the telecommunications industry in 2008 has significantly changed the competitive landscape in the telecommunications industry in Mainland China, and together with the policy adopted by the PRC government to encourage non-State-owned telecommunications services providers to enter into the telecommunications markets, have resulted and will result in further intensified competition among existing industry participants as well as increasing competition from providers offering telecommunications services using alternative technologies, in particular Internet service providers. See Competition from other telecommunications services providers and competitors in other related industries may further increase, which may reduce our market share and decrease our profit margin, and we cannot assure you that any potential change in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations. All of these factors, among others, have contributed to a slowdown in the growth in demand for our telecommunications services in Mainland China. As a result, our profit from operations decreased by 0.5% in 2012 and our market share decreased from 66.5% in 2011 to 63.9% in 2012. Our efforts to achieve growth could be hampered and our profitability may decrease if we are unable to compete effectively with other telecommunications services providers and Internet service providers in Mainland China. We cannot assure you that we will be successful in our efforts to achieve a high level of customer growth or to increase the utilization of our telecommunications services. If we are unable to sustain our growth, our financial condition and results of operations as well as our profitability may be materially and adversely affected.

*Competition from other telecommunications services providers and competitors in other related industries may further increase, which may reduce our market share and decrease our profit margin, and we cannot assure you that any potential change in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations.*

We continue to face increasing competition from other telecommunications services providers in Mainland China. As a result of the restructuring of the PRC telecommunications industry in 2008, principal participants in the telecommunications industry in Mainland China include United Network Communications Group Company Limited, or China Unicom, China Telecommunications Corporation, or China Telecom, and us, with both China Telecom and China Unicom being full-service telecommunications services providers that operate both fixed-line telecommunications networks and mobile telecommunications networks. See Item 4. Information on the Company The History and Development of the Company Industry Restructuring and Changes in Our Shareholding Structure and Item 4. Information on the Company Business Overview Competition. In addition, the PRC government has in the past extended favorable regulatory policies to some of our competitors in order to help them become more viable competitors. See Risks Relating to the Telecommunications Industry in Mainland China Current or future asymmetrical and other regulatory measures adopted by the PRC regulatory authorities could materially harm our competitive position. Further increased competition could reduce the rate at which we add new customers to our network and decrease our market share as customers choose to receive mobile telecommunications services from other providers. Our market share decreased to 63.9% as of December 31, 2012. We cannot assure you that we will not experience increases in churn rates as competition intensifies, which may materially reduce our profitability as we may incur significant additional selling expenses to retain existing customers and attract new customers. Moreover, we cannot assure you that any potential change, and in particular, any further restructuring in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations.

Moreover, the PRC government recently published a series of regulations to encourage non-State-owned companies to enter the telecommunications industry. In particular, a recent draft circular published by the MIIT for public comment would permit mobile virtual network operators to lease bandwidth from China Unicom, China Telecom or us and provide mobile services to end customers after repackaging their bandwidth resources. We may face intense competition from these non-State-owned telecommunications services providers in light of such policy and initiatives by the MIIT.

In addition, the rapid development of new technologies, new services and products, and new business models has begun to eliminate the distinctions between traditional, local, long distance, wireless, cable and Internet communication services and bring new competitors into the telecommunications market. As a result, we are subject to increasing competition from providers offering telecommunications services using alternative technologies. These new competitors, which include Internet service providers, mobile device manufacturers and mobile software and application developers, compete against us in both voice and data businesses by offering mobile Internet access, alternative voice and

messaging services and other mobile services and are gaining an increasing share of the telecommunications industry value chain. See Changes in technology and business models may render our current technologies and business model obsolete and intensify competition from telecommunications services providers that use alternative technologies, which could materially and adversely affect on our business and market position.

**Table of Contents**

Our ability to compete effectively will depend on how successfully we respond to various factors affecting the telecommunications industry in Mainland China, including new technologies and business models, changes in consumer preferences and demand for existing services. We cannot assure you that the measures we are taking in response to these competitive challenges will achieve the expected results.

*The TD-SCDMA industry chain requires further development. As a result, we have encountered and may continue to encounter challenges in the deployment of our 3G services.*

We are committed to developing our 3G business based on the Time Division Synchronous Code Division Multiple Access, or TD-SCDMA, technology. As a result, our ability to deploy and deliver our 3G services depends, to a large extent, on the TD-SCDMA technology. The TD-SCDMA industry chain has undergone substantial development in 2012. However, if the evolution of the TD-SCDMA industry chain does not meet the requirements of the operation of our 3G business, we may not be able to effectively and economically deliver our 3G services based on this technology. Furthermore, we face intense competition in the delivery of 3G services from our competitors, which are delivering 3G services using Wideband Code Division Multiple Access, or WCDMA, and Code Division Multiple Access 2000, or CDMA 2000, technologies, both of which are perceived to be more mature 3G technologies that have been used widely in western Europe and the United States and may offer more effective global roaming or other services to customers. If the TD-SCDMA technology proves not to be as competitive as the WCDMA or CDMA 2000 technology, or otherwise ends up not being widely adopted, our ability to attract and retain customers or offer services to our customers may be limited, our business and prospects may suffer and our revenues and profitability could be materially and adversely affected. We may not be able to successfully overcome our current challenges and may encounter new challenges in the development of our 3G business, and the deployment of our 3G services may not proceed according to anticipated schedules.

In addition, we have made substantial investments and incurred significant expenses in the development of our 3G services, including the leasing of network capacity from our parent company, China Mobile Communications Corporation, or CMCC, and the development of our 3G market. We expect to continue making significant investments in the construction of our core mobile telecommunications network and related systems and facilities, which we intend to use for our services based on current and future generations of telecommunications technologies. Accordingly, the amount of our capital expenditures in future years could remain high. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures for more information on our expected capital expenditures. If the deployment of our 3G business does not reach anticipated scale, or if we encounter other challenges in the provision of our 3G services, our ability to realize benefits from our significant capital investment in our networks and 3G services will be limited, which could have a material adverse effect on our financial condition and results of operations.

*We may encounter difficulties and challenges in developing and implementing TD-LTE technologies and developing our 4G services.*

We are committed to pursuing our 4G business based on the TDD mode long-term evolution, or TD-LTE, technology. Starting from 2013, we will bear all capital expenditures for the development of TD-LTE networks. In 2012, the extended large scale trial of TD-LTE networks was carried out in 15 cities in Mainland China and the quality and scale of the TD-LTE networks in Hangzhou, Guangzhou and Shenzhen have reached pre-commercial standard. We plan to construct more than 200,000 TD-LTE base stations in 2013. However, our ability to successfully launch and deploy 4G services depends on various factors, including the maturity level of TD-LTE technology and availability of terminals as well as required licenses. We may encounter unexpected technological difficulties and risks in developing and implementing new telecommunications technologies, including TD-LTE technology, and as a result may incur substantial cost or service disruptions, which could have a material adverse effect on our business, financial condition, results of operations and prospects. We may also encounter limited availability of terminals, such as handsets, data cards and other terminals such as MiFi, which is a wireless router acting as mobile Wi-Fi hotspot, and customer-premises equipment, to meet the demand of our business development based on TD-LTE technology. Furthermore, we will require a license from the MIIT to operate our business based on TD-LTE technology and we cannot assure you whether, when and on what conditions we will be able to obtain this license. See Risks Relating to the Telecommunications Industry in Mainland China We are subject to extensive government regulation and may be materially affected by any change in the regulatory environment, especially in the telecommunications industry, in the PRC. As a result, we cannot assure you that the expansion or upgrade plan to implement the TD-LTE technology will achieve the expected results, or that we will be able to launch telecommunications services based on the TD-LTE technology in a commercially viable manner and on a timely basis, or at all.

---

**Table of Contents**

In addition, we expect to make substantial investments in the development of our 4G services, including construction of infrastructure networks and base stations. Accordingly, the amount of our capital expenditures in future years could remain high. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures for more information on our expected capital expenditures. If we are unable to launch 4G services in a commercially viable manner and on a timely basis, our ability to realize benefits from our significant capital investment and expenses in our networks and 4G services will be limited, and our operating revenue and profit from operations could be materially and adversely affected.

***Failure to capitalize on new business opportunities may substantially reduce our growth potential.***

We may pursue acquisitions or otherwise make investments in other business opportunities as such opportunities arise. We cannot assure you that we will be successful in pursuing such acquisitions or investments or will otherwise be able to successfully integrate any acquired business into our existing operations. Our ability to capture new business opportunities may also depend on the availability of sufficient financing from internal as well as external sources. Any failure to capitalize on new business opportunities may have a material adverse effect on our competitive position, as well as materially reduce our future profitability and growth.

In October 2010, we, through our wholly-owned subsidiary China Mobile Group Guangdong Co., Ltd., or Guangdong Mobile, acquired 20% of the enlarged share capital of Shanghai Pudong Development Bank, or SPD Bank, for an aggregate amount of RMB39.5 billion (approximately US\$6.0 billion). In connection with this acquisition, we entered into a strategic cooperation agreement with SPD Bank in November 2010, pursuant to which we will cooperate with SPD Bank in the areas of mobile finance and mobile e-Commerce businesses such as mobile payment which includes on-site payment and remote payment as well as in the sharing of customers services and channels resources. See Item 4. Information on the Company Business Overview Investment in, and strategic cooperation with, SPD Bank. SPD Bank's profitability is impacted to some extent by macroeconomic conditions and changes in monetary and fiscal policies in Mainland China, and we cannot assure you that our investment in SPD Bank will achieve the desired level of return. In addition, any strategic cooperation may not produce the intended benefits due to a number of factors, some of which are beyond our control, including the lack of a well-developed consumer market for mobile e-Commerce in Mainland China. If we encounter difficulties in carrying out our cooperation with SPD Bank, the prospects of the mobile finance and mobile e-Commerce businesses contemplated to be jointly developed by us and SPD Bank may be materially and adversely affected. Furthermore, expected benefits from our investment in networks, licenses and new technologies may not be realized.

In 2011, we established certain subsidiaries to operate certain aspects of our businesses, such as procuring and distributing terminals through China Mobile Group Device Company Limited, or China Mobile Device, and conducting our international businesses through China Mobile International Company Limited, or China Mobile International, and expect to further enhance our operational efficiency by establishing other subsidiaries that operate certain other aspects of our businesses. We cannot assure you, however, that this business model would be sustainable or that we will achieve the expected benefits.

In August 2012, China Mobile Communication Co., Ltd., or CMC, our wholly-owned subsidiary, entered into a share subscription agreement with Anhui USTC iFLYTEK Co., Ltd., or Anhui USTC, a company listed on the Shenzhen Stock Exchange, pursuant to which CMC would subscribe for 15% of the shares of Anhui USTC for an aggregate subscription price of RMB1,363,314,339 (approximately US\$218,827,040). The share subscription was completed on April 24, 2013. Concurrent with the share subscription, we and Anhui USTC also entered into a strategic cooperation agreement to cooperate in various areas, including smart voice portals, smart voice cloud services, smart voice technologies and product innovations, applications in relation to customer services and basic telecommunications businesses and informatization of the telecommunications industry. We cannot assure you that our investment in Anhui USTC will achieve the desired level of return or the strategic cooperation will produce the expected benefits, if at all.

---

**Table of Contents**

***Changes in technology and business models may render our current technologies and business model obsolete and intensify competition from providers offering telecommunications services using alternative technologies, which could materially and adversely affect our business and market position.***

In recent years, the telecommunications industry in Mainland China has been characterized by rapidly changing and increasingly complex technologies. Accordingly, although we strive to keep our technologies up to international standards, the mobile telecommunications technologies that we currently employ may become obsolete. In addition, the development and application of new technologies involve time, substantial costs and risks. We may encounter unexpected technological difficulties in developing and implementing new technologies and as a result may incur substantial costs or services disruptions, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Moreover, the rapid development of new technologies, new services and products and new business models has also accelerated the convergence of traditional, local, long distance, wireless, cable and Internet communication services and resulted in new competitors entering the telecommunications market. As a result, we are subject to increasing competition from providers offering telecommunications services using alternative technologies, including Internet service providers, mobile device manufacturers and, mobile software and application developers. For example, due to the increasing competition from Internet instant messaging applications, revenue generated from SMS and MMS decreased by 4.8% from RMB46,462 million in 2011 to RMB44,215 million in 2012. The growth rate of our voice usage has also decreased, partly due to competition from providers offering alternative voice services through the Internet. The intensified competitive landscape requires us to implement new technologies and develop new businesses in order to adapt to and maintain our share of the evolving value chain of the telecommunications industry in Mainland China. Furthermore, as the development of new businesses, such as mobile Internet, Internet of Things and cloud computing, require significant time, costs and risk, we may not be able to successfully launch or develop such new businesses within a short time period or otherwise achieve the expected benefits.

***Substantial increase in data traffic significantly strains the existing capacity of our telecommunications network infrastructures.***

Our wireless data traffic business has experienced significant growth in recent years, which contributed to the growth of our operating revenue and provides our business with further opportunities for development. In particular, wireless data traffic increased from 361.4 billion megabytes in 2011 to 1,039.2 billion megabytes in 2012. Revenue generated from wireless data traffic business also increased by 53.6% in 2012. The substantial increase in data traffic resulting from the growth of our wireless data traffic business significantly strains the existing capacity of our telecommunications network infrastructure. As a result, we have made and will continue to make substantial investments in the construction of our infrastructure network to carry increasing data traffic. We cannot assure you that these investments would successfully address the issues resulting from the substantial increases in data traffic or otherwise achieve the desired economic returns.

***Any failure to achieve and maintain effective internal controls could have a material adverse effect on our reputation, business, results of operations and the market prices of our shares and ADSs.***

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to prevent fraud. We are required to comply with various Hong Kong and U.S. laws, rules and regulations on internal controls, including the Sarbanes-Oxley Act of 2002. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include a report of management on our internal control over financial reporting in our annual reports on Form 20-F that contains an assessment by our management of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must issue an auditor's report on the effectiveness of our internal control over financial reporting.

Internal controls may not prevent or detect misstatements because of their inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. In addition, projections of any evaluation of the effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in operating conditions or a deterioration in the degree of compliance with our policies or procedures. As a result, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal control over financial reporting, our management may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may disagree. If our independent registered public accounting firm is not satisfied with our internal control over financial reporting or the level at which our controls are designed or operated, or if the independent registered public accounting firm interprets the requirements, rules or regulations differently from us, it may decline to express an opinion on the effectiveness of our internal control over financial reporting or may issue an adverse opinion. Any of these possible outcomes could result in a loss of investor confidence in the reliability of our consolidated financial statements, which could cause the market prices of our ordinary shares and ADSs to decline significantly. In addition, any deficiency in our internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the New York Stock Exchange, regulatory investigations and civil or

criminal sanctions.



---

**Table of Contents**

***We may not be able to timely detect or prevent employee misconduct, including senior management, and such misconduct may damage our reputation and could cause the trading price of our ordinary shares and ADSs to decrease.***

In recent years, certain of the management personnel of our company and our subsidiaries, including certain executive directors, were alleged to have engaged in unlawful conduct. Such allegations of unlawful conduct include the acceptance of bribes. While some of these incidents are still under investigation, we believe that such management misconduct involved isolated incidents resulting from individual misconduct.

In order to further strengthen our internal system and policies for detecting and preventing similar and other misconduct, we have re-examined our policies and procedures and have implemented additional operational measures. In particular, with respect to our business cooperation arrangements with third parties, we have adjusted the model of business cooperation and have implemented more stringent policies and processes. These efforts are expected to reduce the ability of third parties to engage in improper business relationships with our employees. We have also further expanded the type of equipment and products that are subject to centralized procurement. Furthermore, we have implemented a rotation policy under which the management of our major operating subsidiaries will rotate among different subsidiaries every few years. In addition, we have revised our policy in relation to, and strengthened control over, the material investment projects. We have also provided ongoing compliance and ethics trainings to our employees. We cannot assure you, however, that we will timely detect or prevent misconduct or allegations of misconduct by our management and staff. If various measures we have taken prove ineffective in preventing employee misconduct, our reputation may be severely harmed, and the trading price of our ordinary shares and ADSs could decrease significantly.

***We are controlled by CMCC, which may not always act in our best interest.***

As of March 31, 2013, CMCC indirectly owned approximately 74.08% of our outstanding shares. Accordingly, CMCC is, and will be, able to (i) nominate substantially all of the members of our board of directors and, in turn, indirectly influence the selection of our senior management; (ii) control the timing and amount of our dividend payments; and (iii) otherwise control or influence actions that require approvals of our shareholders.

The interests of CMCC as our ultimate controlling person may conflict with the interests of our minority shareholders. In particular, CMCC may take actions with respect to our business that may not be in our other shareholders' best interest.

In addition, CMCC provides our operating subsidiaries in Mainland China with services that are necessary for our business activities. See Item 5. Operating and Financial Review and Prospects Overview of Our Operations Our Operating Arrangements with CMCC Have Affected and May Continue to Affect Our Financial Results. Furthermore, we operate our 3G business pursuant to arrangements with CMCC, which was granted a license by the PRC government to operate a 3G business based on the TD-SCDMA technology. The interests of CMCC as the provider of these services to our operating subsidiaries in Mainland China may conflict with the interests of us or our other shareholders.

***We may conduct a public offering and listing of our shares in Mainland China, which may result in increased regulatory scrutiny and compliance costs as well as increased fluctuations in the prices of our ordinary shares and ADSs listed in overseas markets.***

We may conduct a public offering and listing of our shares on a stock exchange in Mainland China. We have not set a specific timetable or decided on any specific form for an offering in the PRC. The precise timing of the offering and listing of our shares in Mainland China would depend on a number of factors, including relevant regulatory developments and market conditions. If we complete a public offering in Mainland China, we would become subject to the applicable laws, rules and regulations governing public companies listed in Mainland China, in addition to the various laws, rules and regulations that we are currently subject to in the Hong Kong Special Administrative Region of the People's Republic of China, or Hong Kong, and the United States. The listing and trading of our securities in multiple jurisdictions and multiple markets may lead to increased compliance costs for us, and we may face the risk of significant intervention by regulatory authorities in these jurisdictions and markets.

---

**Table of Contents**

In addition, under the current PRC laws, rules and regulations, our ordinary shares listed on the Hong Kong Stock Exchange will not be interchangeable or fungible with any shares we may decide to list on a Mainland China stock exchange, and there is no trading or settlement between these two markets. Furthermore, these two markets have different trading characteristics and investor bases, including different levels of retail and institutional participation. As a result of these differences, the trading prices of our ordinary shares listed on the Hong Kong Stock Exchange may not be the same as the trading prices of any shares we may decide to list on a Mainland China stock exchange. The issuance of a separate class of shares and fluctuations in its trading price may also lead to increased volatility in, and may otherwise materially and adversely affect, the prices of our ordinary shares and ADSs listed in overseas markets.

***Our future network capacity growth may be constrained by the frequency spectrum available to us.***

Mobile telecommunications network capacity is to a certain extent limited by the amount of frequency spectrum available for its use. Since the MIIT controls the allocation of frequency spectrum to mobile telecommunications operators in Mainland China, the capacity of our mobile telecommunications network is limited by the amount of spectrum that the MIIT allocates to our parent company, CMCC. For our GSM network, the MIIT has allocated a total of 45x2 MHz of spectrum to be used for transmission and reception, respectively, to our parent company, CMCC. Of the 45x2 MHz of spectrum allocated to us, 40x2 MHz in the 900 MHz and 1800 MHz frequency bands is allocated for use nationwide, and 5x2 MHz in the 1800 MHz frequency band is allocated for use in the cities of Beijing, Shanghai and Chengdu and Guangdong province. In connection with our 3G business, the MIIT has allocated to CMCC, in various frequency bands, a total of 35 MHz of spectrum to be used for nationwide coverage and an additional 50 MHz of spectrum to be used for indoor coverage. Under the existing agreement between CMCC and us, we have the right to use the allocated frequency spectrum in Mainland China.

We believe that our current spectrum allocation is sufficient for anticipated customer growth in the near term. However, we may need additional spectrum to accommodate future customer growth or to develop our 4G services. We cannot assure you that when we are ready to launch commercial 4G services, we will be able to obtain additional spectrum from the MIIT that would meet our expectations or business needs on a timely basis. Our network expansion or upgrade plans may be affected if we are unable to obtain additional spectrum. This could in turn constrain our future network capacity growth and materially and adversely affect our business and prospects as well as our financial condition and results of operations.

***Since our services require interconnection with networks of other operators, disruption in interconnections with those networks could have a material adverse effect on our business, profitability and growth.***

Our mobile telecommunications services depend, in large part, upon our interconnection arrangements and access to other networks. Interconnection is necessary in the case of all calls between our customers and customers of other networks. We have entered into interconnection and transmission line leasing agreements with other operators. Any disruption on our interconnection with the networks of other operators with which we interconnect due to technical or competitive reasons may affect our operations, service quality and customer satisfaction, and in turn our business and results of operations. In addition, any obstacles in existing interconnection arrangements and leased line agreements or any change in their terms, as a result of natural events, accidents, or for regulatory, technological, competitive or other reasons, could lead to temporary service disruptions and increased costs that can severely jeopardize our operations and materially decrease our profitability and growth.

***Future implementation of value-added tax to replace business tax in Mainland China will reduce our operating revenue and may decrease our profitability.***

Our business operations in Mainland China are subject to PRC business tax, which is assessed against our operating revenue at a rate of 3% or 5%. On November 16, 2011, the Ministry of Finance and the State Administration of Taxation issued a pilot tax program under which the PRC business tax will be replaced by value-added tax. The pilot tax program will be implemented in the transportation industry and certain service sectors in selected regions of Mainland China. Effective from January 1, 2012, the transportation companies and companies in certain service sectors in Shanghai became subject to value-added tax in lieu of the PRC business tax. The application of the pilot tax program may be expanded to other industries and regions of Mainland China in the future. The timetable for applying the pilot program to the telecommunications industry and the applicable tax rate remain uncertain. The replacement of the PRC business tax with the value-added tax will reduce our operating revenue and may decrease our profitability.

---

**Table of Contents**

**Risks Relating to the Telecommunications Industry in Mainland China**

*We are subject to extensive government regulation and may be materially affected by any change in the regulatory environment, especially in the telecommunications industry, in the PRC.*

As a telecommunications operator in China, we are subject to regulation by, and under the supervision of, the MIIT, the primary regulator of the telecommunications industry in China. Other PRC government authorities also take part in regulating the telecommunications industry in areas such as tariff policies and foreign investment. The regulatory framework within which we operate may limit our flexibility to respond to changes in market conditions or competition, including changes in our cost structure. For instance, we cannot predict when or if changes in tariff policies or rates may occur. Future adverse changes in tariff policies and rates could significantly decrease our revenues and materially reduce our profitability.

The MIIT, under the direction of the State Council, has been preparing a draft telecommunications law, which, once adopted, will become the fundamental telecommunications statute and the legal basis for telecommunications regulations in Mainland China. In 2000, the State Council promulgated a set of telecommunications regulations, or the Telecommunications Regulations, that apply in the interim period prior to the adoption of the telecommunications law. Although we expect that the telecommunications law will positively affect the overall development of the telecommunications industry in Mainland China, we do not fully know what will be its nature and scope. The telecommunications law and other new telecommunications regulations or rules may contain provisions that could have a material adverse effect on our business, financial condition, results of operations and prospects.

We operate our businesses with approvals granted by the State Council and under licenses granted by the MIIT. We also have arrangements with CMCC, our parent company, under which we operate a 3G telecommunications business based on a 3G license granted to CMCC by the MIIT. If the conditions or other obligations relating to these approvals or licenses are amended in a manner that is detrimental to us, our business and operations could be materially and adversely affected. Moreover, we will require a license from the MIIT to operate our 4G business. We cannot assure you whether, when and on what conditions we will be able to obtain this license. If we are unable to obtain or use the license for operating our 4G business, or if the conditions or other obligations relating to this license are detrimental to us, our business and operations, as well as profitability and growth, could be materially and adversely affected.

*Current or future asymmetrical and other regulatory measures adopted by the PRC regulatory authorities could materially harm our competitive position.*

The PRC government has in the past extended favorable regulatory policies to some of our competitors in order to help them become more viable competitors to us. Under the restructuring initiatives relating to the telecommunications industry in Mainland China announced in May 2008, the PRC government may also implement necessary asymmetrical regulatory measures over a period of time, in order to optimize the allocation of telecommunications resources in the PRC and improve the competitive landscape. One of the regulatory measures announced by the MIIT in 2008 as part of the restructuring initiatives was the offering of roaming services across different mobile telecommunications networks. Under such roaming services, the prices at which the mobile telecommunications services providers may settle for these inter-network roaming services would be initially set by the PRC regulatory authorities. We cannot predict at this point in time the impact, if any, such offering of roaming services or other measures may have on our business and prospects. In addition, the PRC government may implement other asymmetrical regulatory measures. For example, a one-way mobile number portability policy is under trial implementation in Hainan Province, which allows our 2G customers to switch to services of China Unicom or China Telecom while being able to retain their existing mobile numbers. A two-way mobile number portability policy has been under trial implementation in Tianjin since November 2010, which allows our 2G customers, as well as the 2G and 3G customers of China Unicom and China Telecom, to switch to services of another telecommunications services provider while being able to retain their existing mobile numbers. The PRC government may continue to expand the trial implementation of the mobile number portability policy in other areas of Mainland China.

## **Table of Contents**

The PRC government may also adopt other regulatory measures that may adversely affect our competitive position. For example, the PRC government recently published a series of regulations to encourage private companies to enter telecommunications industry. In particular, a recent draft circular published by the MIIT for public comment permits mobile virtual network operators to lease bandwidth from China Unicom, China Telecom or us and provide mobile services to end customers after repackaging its bandwidth resources.

The implementation of asymmetrical and other regulatory measures could materially harm our competitive position, which could in turn significantly reduce our revenues and profitability, and our financial condition and results of operations may be materially and adversely affected.

***The PRC government may require major operators, including us, to provide universal services with specified obligations, and we may not be compensated adequately for providing these services.***

Under the Telecommunications Regulations, telecommunications operators in Mainland China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government, and the MIIT has the authority to delineate the scope of these service obligations. However, the specific rules have not been promulgated and there are currently no specific regulatory requirements relating to the provision of universal services in Mainland China.

While the scope of specific universal services obligations is not yet clear, we believe that these services may include mandatory provision of basic mobile telecommunications services in less economically developed areas in Mainland China and mandatory contribution to a universal service fund. In addition, as part of the transitional measure prior to the formalization of a universal service obligation framework, the MIIT has required major telecommunications services providers in Mainland China, including CMCC, to participate in a project to provide basic telecommunications services in remote villages in Mainland China.

We cannot predict whether we will be required to provide universal services in the future and, if so, whether we will be adequately compensated by the government or by the universal service fund. We also cannot assure you whether we will be required to make contribution to the universal service fund. Any of these events could reduce our revenues and/or profitability.

***Our share price has been and may continue to be volatile in response to conditions in the global securities markets generally and in the telecommunications and technology sectors in particular.***

Our share price has been subject to significant volatility, due in part to highly volatile securities markets, particularly for telecommunications companies' shares, as well as variations in our sales and profit from operations. Factors other than our results of operations that may affect our share price include, among other things, overall market conditions and performance, market expectations of our performance, projected growth in the mobile telecommunications market in Mainland China and adverse changes in our brand value. In addition, our share price may be affected by factors such as the level of business activity or perceived growth (or the lack thereof) in the telecommunications market in general, the performance of other telecommunications companies, announcements by or the results of operations of our competitors, customers and suppliers, announcements by and information released by governmental entities, and new technologies, products and services. See Item 9. The Offer and Listing for information regarding the trading price history of our ordinary shares and ADSs.

***Actual or perceived health risks associated with the use of mobile devices could impair our ability to retain and attract customers, reduce wireless telecommunications usage or result in litigation.***

There continues to be public speculation about possible health risks to individuals from exposure to electromagnetic fields from base stations and from the use of mobile devices. While a substantial amount of scientific research conducted to date by various independent research bodies has shown that radio signals, at levels within the limits prescribed by public health authority safety standards and recommendations, present no adverse effect to human health, we cannot be certain that future studies, irrespective of their relative reliability or trustworthiness, will not impute a link between electromagnetic fields and adverse health effects. Research into these issues is ongoing by government agencies, international health organizations and other scientific bodies in order to develop a better scientific understanding and public awareness of these issues. In addition, several wireless industry participants were the targets of lawsuits alleging various health consequences as a result of wireless phone usage or seeking protective measures. While we are not aware of any scientific studies or objective evidence which substantiates such alleged health risks, we cannot assure you that the actual, or perceived, risks associated with radio wave transmission will not impair our ability to retain customers and attract new customers, reduce wireless telecommunications usage or result in litigation.

---

**Table of Contents**

**Risks Relating to Mainland China**

***An economic slowdown in Mainland China may reduce the demand for our services and have a material adverse effect on our financial condition, results of operations and business prospects.***

We conduct most of our business and generate substantially all our revenues in Mainland China. As a result, economic, political and legal developments in Mainland China have a significant effect on our financial condition and results of operations, as well as our future prospects. In recent years, Mainland China has been one of the world's fastest growing economies in terms of gross domestic product, or GDP, growth. If China's economic growth slows down, there will be reduced business activities and reduced demand for our services, which could materially and adversely affect our business, as well as our financial condition and results of operations.

***The PRC legal system contains uncertainties which could limit the legal protections available to our shareholders.***

Most of our operating subsidiaries are organized under the laws of the PRC and are subject to laws, rules and regulations in China. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases may be cited for reference but have limited precedential value. The PRC government has promulgated laws, rules and regulations dealing with economic matters, such as corporate organization and governance, commerce, property, taxation, trade and foreign investment. However, because some of these laws and regulations are relatively new, and because of the relatively limited volume of published cases and their non-binding nature, interpretation and/or enforcement of these laws, rules and regulations involves uncertainties, which may limit the remedies available to our investors and to us in the event of any claims or disputes with third parties. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention. Consequently, the protection provided by the PRC legal system may not be the same as the legal protection available to investors in the United States or elsewhere. Furthermore, various uncertainties involved in the rulemaking, interpretation and enforcement process of the laws, rules and regulations in the PRC that are related to our business and operations, particularly those relating to telecommunications and taxation, may also materially and adversely affect our financial condition, result of operations and prospects.

***Natural disasters and health hazards in China may severely disrupt our business and operations and may have a material adverse effect on our financial condition and results of operations.***

Several natural disasters have struck Mainland China in recent years. Our network equipment, including our base stations, in the affected areas sustained extensive damages in some of these natural disasters, leading to service stoppage and other disruptions in our operations in those areas. We are unable to predict the effect, if any, that any future natural disasters and health hazards may have on our business. Any future natural disasters and health hazards may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, such natural disasters and health hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business and prospects. As a result, any natural disasters or health hazards in China may have a material adverse effect on our financial condition and results of operations.

***Our investors may be deprived of the benefits of PCAOB's oversight of our independent registered public accounting firm through inspections.***

Under the Sarbanes-Oxley Act of 2002, the Public Company Accounting Oversight Board, or PCAOB, has the authority and is required to conduct continuing inspections of registered public accounting firms that provide audit services to public companies subject to the reporting requirements of the SEC. Our external auditor is registered with the PCAOB and is subject to inspections by the PCAOB. However, the PCAOB is currently unable to inspect a registered public accounting firm's audit work relating to a company's operations in China where the documentation of such audit work is located in China, such as our registered public accounting firm's audit work relating to our operations in China. As a result, our investors may be deprived of the benefits of PCAOB's oversight of our independent registered public accounting firm through such inspections.

## **Table of Contents**

### **Item 4. Information on the Company.**

We provide a full range of mobile telecommunications services in all 31 provinces, autonomous regions and directly-administered municipalities in Mainland China as well as in Hong Kong. As of December 31, 2012, the total population residing in Mainland China exceeded 1.3 billion. Based on publicly available information, we are the leading provider of mobile telecommunications services in Mainland China and the largest provider of mobile telecommunications services in the world as measured by total number of customers as of December 31, 2012. As of the same date, our total number of customers reached approximately 710.3 million, representing approximately 63.9% of all mobile customers in Mainland China. As of March 31, 2013, our total number of customers reached approximately 726.3 million.

### **The History and Development of the Company**

We were incorporated under the laws of Hong Kong on September 3, 1997 as a limited liability company under the name China Telecom (Hong Kong) Limited. We changed our name to China Mobile (Hong Kong) Limited on June 28, 2000 and to China Mobile Limited on May 29, 2006 after obtaining the approval of our shareholders.

Our ordinary shares are listed on the Hong Kong Stock Exchange, and our ADSs, each currently representing the right to receive five ordinary shares, are listed on the New York Stock Exchange.

### ***Expansion Through Acquisitions***

Our initial mobile telecommunications operations included those in Guangdong Province and Zhejiang Province, conducted by Guangdong Mobile Communication Company Limited (currently known as China Mobile Group Guangdong Co., Ltd.), or Guangdong Mobile, and Zhejiang Mobile Communication Company Limited (currently known as China Mobile Group Zhejiang Co., Ltd.), or Zhejiang Mobile, respectively. As part of the restructuring in preparation for our initial public offering in 1997, the former Ministry of Posts and Telecommunications transferred to us a 100% equity interest in Guangdong Mobile and a 99.63% equity interest in Zhejiang Mobile. We subsequently increased our shareholding in Zhejiang Mobile to 100%.

We carried out a series of acquisitions between 1998 and 2004, through which we acquired from CMCC, our parent company, mobile telecommunications operations conducted by its other regional subsidiaries. As a result, we significantly expanded the geographical coverage of our operations to all 31 provinces, autonomous regions and directly-administered municipalities in Mainland China.

In addition, we acquired all of the issued and outstanding shares of China Resources Peoples Telephone Company Limited (currently known as China Mobile Hong Kong Company Limited, or Hong Kong Mobile), a mobile telecommunications services provider based in Hong Kong, in 2006.

In 2011, we, through our wholly-owned subsidiary, CMC, acquired 100% of the share capital of China Topssion Communication Co., Ltd., or Topssion, a company primarily engaged in the sale of mobile phone handsets and devices, from CMCC, ZTE, Eastern Communications Co., Ltd., Beijing Digital China Limited, Ningbo Bird Co., Ltd. and Shenzhen Huawei Investment & Holding Co., Ltd. for an aggregate purchase price of RMB237,070,000 (approximately US\$37,666,630). CMC subsequently transferred 1% of the share capital of Topssion to CMCC, and further subscribed for additional share capital of Topssion. Topssion thereafter changed its name to China Mobile Device. As of March 31, 2013, we held 99.97% of equity interest in China Mobile Device.

These acquisitions have significantly enlarged our customer base and expanded the geographical coverage and scope of our business. The integration of these acquired operations has also enabled us to realize synergies and economies of scale.

### ***Industry Restructuring and Changes in Our Shareholding Structure***

Prior to 1993, all public telecommunications networks and services in Mainland China were controlled and operated by the former Ministry of Posts and Telecommunications through the former Directorate General of Telecommunications, provincial telecommunications administrations and their city and county level bureaus.

Between 1993 and 2008, the telecommunication industry of Mainland China underwent significant reforms and restructuring that resulted in improved competitive environment and enhanced regulation of the industry.



## **Table of Contents**

In March 2008, the MIIT was created as the industry regulator providing industry policy guidance and exercising regulatory authority over all telecommunications services providers in Mainland China, including, among others, formulating and enforcing industry policy, standards and regulations, granting telecommunications licenses and permits, formulating interconnection and settlement standards for implementation between telecommunications networks, formulating tariff and service charge standards for certain telecommunications services together with other relevant regulatory authorities, supervising the operations of telecommunications services providers, promoting fair and orderly market competition among operators, and allocating and administering public telecommunications resources.

On May 24, 2008, the MIIT, the National Development and Reform Commission, or the NDRC, and the Ministry of Finance, or the MOF, jointly issued a joint announcement relating to the further reform of the telecommunications industry in Mainland China, which led to a future restructuring of the then-existing telecommunications services providers. The restructuring resulted in: (i) the acquisition by China Telecom of the CDMA network (including both assets and customer base) then owned by China United Telecommunications Corporation in July 2008; (ii) the merger between China United Telecommunications Corporation and China Netcom to form China Unicom in January 2009; (iii) the transfer of the basic telecommunications services business then operated by China Satellite into China Telecom; and (iv) the consolidation of China Tietong Telecommunications Corporation, or China Tietong, into CMCC in July 2008.

On January 7, 2009, the MIIT issued a CDMA 2000 3G license to China Telecom, a WCDMA 3G license to China Unicom and a TD-SCDMA 3G license to CMCC, our parent company.

As a result of the industry restructuring in 2008 and early 2009, principal participants in the telecommunications industry in Mainland China, other than China Tietong and us, currently also include China Telecom and China Unicom. China Telecom and China Unicom currently operate both mobile and fixed-line telecommunications services. We currently operate mobile telecommunications services, while China Tietong currently operates fixed-line telecommunications services.

## **Organizational Structure**

As of March 31, 2013, CMCC owned 74.08% equity interest in us through intermediate holding companies. We operate in all thirty-one provinces, autonomous regions and directly-administered municipalities throughout Mainland China and in Hong Kong. As of March 31, 2013, we owned, directly or through intermediate holding companies, 100% equity interests in the following companies:

|  |   |
|--|---|
| China Mobile Communication Co., Ltd.   | China Mobile Group Hubei Co., Ltd.            |
| China Mobile Group Guangdong Co., Ltd. | China Mobile Group Hunan Co., Ltd.            |
| China Mobile Group Zhejiang Co., Ltd.  | China Mobile Group Shaanxi Co., Ltd.          |
| China Mobile Group Jiangsu Co., Ltd.   | China Mobile Group Shanxi Co., Ltd.           |
| China Mobile Group Fujian Co., Ltd.    | China Mobile Group Neimenggu Co., Ltd.        |
| China Mobile Group Henan Co., Ltd.     | China Mobile Group Jilin Co., Ltd.            |
| China Mobile Group Hainan Co., Ltd.    | China Mobile Group Heilongjiang Co., Ltd.     |
| China Mobile Group Beijing Co., Ltd.   | China Mobile Group Guizhou Co., Ltd.          |
| China Mobile Group Shanghai Co., Ltd.  | China Mobile Group Yunnan Co., Ltd.           |
| China Mobile Group Tianjin Co., Ltd.   | China Mobile Group Xizang Co., Ltd.           |
| China Mobile Group Hebei Co., Ltd.     | China Mobile Group Gansu Co., Ltd.            |
| China Mobile Group Liaoning Co., Ltd.  | China Mobile Group Qinghai Co., Ltd.          |
| China Mobile Group Shandong Co., Ltd.  | China Mobile Group Ningxia Co., Ltd.          |
| China Mobile Group Guangxi Co., Ltd.   | China Mobile Group Xinjiang Co., Ltd.         |
| China Mobile Group Anhui Co., Ltd.     | China Mobile Group Design Institute Co., Ltd. |
| China Mobile Group Jiangxi Co., Ltd.   | China Mobile Hong Kong Company Limited        |



Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

China Mobile Group Chongqing Co., Ltd.

China Mobile International Limited

China Mobile Group Sichuan Co., Ltd.

-15-

## **Table of Contents**

In addition, we indirectly own a 99.97% equity interest in China Mobile Device through CMC and a 92% equity interest in China Mobile Finance through China Mobile Group Beijing Co., Ltd., or Beijing Mobile, and directly own a 66.41% equity interest in Aspire Holdings Limited, or Aspire, a company incorporated in the Cayman Islands.

## **General Information**

Our principal executive offices are located at 60th Floor, The Center, 99 Queen's Road Central, Hong Kong, China; telephone: 852-3121-8888. We also maintain a regional headquarters in each of our regional mobile telecommunications companies in Mainland China and Hong Kong. Our web site address is [www.chinamobileltd.com](http://www.chinamobileltd.com). The information on our web site is not a part of this annual report on Form 20-F.

## **Business Overview**

We offer mobile telecommunications services principally using the Global System for Mobile Communications, or GSM, standard. We intend to use our GSM network to primarily carry voice usage and certain data traffic from mobile phones. Our GSM networks reach virtually all cities and counties and major roads and highways, as well as a substantial part of rural areas, throughout Mainland China and, through the network of Hong Kong Mobile, a substantial part of Hong Kong.

Starting from January 7, 2009, we also offer mobile telecommunications services using the TD-SCDMA standard. We operate our 3G business based on an Internet Protocol based core mobile telecommunications network that is shared by our 2G and 3G services and will be shared with 4G services as well as the TD-SCDMA network capacity leased from CMCC. See **Mobile Telecommunications Networks** below. We intend to use the TD-SCDMA network to primarily carry data traffic from mobile phones. CMCC's TD-SCDMA wireless network covered all county-level or above cities and some towns and villages in Mainland China as of December 31, 2012.

In addition, we provide our customers with high-speed Internet access through wireless local area networks, or WLAN (also known as Wi-Fi), through our WLAN access points located throughout Mainland China. We intend to use our WLAN network to primarily carry Internet data from computers, mobile phones and other terminals. As of December 31, 2012, we had approximately 3.83 million access points covering locations such as airports, hotels, conference centers, schools and exhibition centers throughout Mainland China.

Moreover, starting from 2013, we commenced investments in the development of TD-LTE network. We intend to use the TD-LTE network to primarily carry high bandwidth and high quality wireless broadband businesses. In 2012, the extended large scale trial of the TD-LTE network was carried out in 15 cities in Mainland China and approximately 20,000 base stations were built. The quality and scale of the TD-LTE networks in Hangzhou, Guangzhou and Shenzhen have reached pre-commercial standard. In addition, we started providing commercial 4G services in Hong Kong in 2012 with the LTE FDD and TD-LTE bandwidths we previously obtained from the Office of the Telecommunications Authority of Hong Kong in 2009 and 2012, respectively. We plan to construct more than 200,000 TD-LTE base stations in 2013.

Furthermore, we cooperate with China Tietong in strengthening our capabilities to provide full telecommunications services. We continue to increase our reserves of basic resources, such as metropolitan area transmission networks, public Internet and broadband access networks in Mainland China, accelerate Internet Data Center, or IDC, development and focus on the development of fiber broadband access for corporate customers. The number of IP-VPN lines leased by our corporate customers reached 781,000 in 2012.

## ***Our Business Strategy***

As a pioneer and the market leader in the world's largest mobile telecommunications market, we intend to enhance our businesses in the mobile telecommunications market by promoting the co-ordinated and synergistic development of our businesses carried by the four networks based on their respective GSM, TD-SCDMA, WLAN and TD-LTE technologies, strengthening our full service capabilities and further developing our mobile Internet business.

---

## **Table of Contents**

***Co-ordinated and Synergistic Development of Businesses Carried by the Four Networks.*** We intend to continue promoting the co-ordinated and synergistic development of our businesses carried by the four networks based on their respective GSM, TD-SCDMA, WLAN and TD-LTE technologies to create a world-class wireless network with wide and deep coverage, high quality and high speed. To achieve this goal, we intend to continue maintaining high voice quality and optimizing the utilization rate of our GSM network. We also intend to continue working with CMCC to optimize the TD-SCDMA network with broad and in-depth coverage to improve its utilization rate. With respect to our WLAN network, we will focus on enhancing its coverage, network quality and utilization rate to alleviate the data traffic capacity constraints on our networks. In addition, we will continue to promote the development of TD-LTE technology industrial convergence within and outside the PRC and accelerate the construction of TD-LTE networks and commercialization of TD-LTE technology.

***Strengthening Full Service Capabilities.*** We intend to strengthen our capabilities in response to competition from the telecommunications operators that provide full services. In order to achieve this goal, we continue to increase our reserves of basic resources, such as metropolitan area transmission networks, public Internet and broadband access networks in Mainland China, accelerate IDC development and focus on the development of fiber broadband access for corporate customers. In addition, we intend to improve the efficiency of our business by focusing on high-bandwidth and high-value mobile Internet access and developing standardized products on a large scale. Moreover, we will differentiate our services in response to different needs of our customers. We intend to further focus on expanding our corporate customer base and selectively expand into family customer market.

***Developing Mobile Internet Business.*** We intend to function as a smart pipe that provides value beyond data connectivity. In order to achieve this goal, we intend to accelerate the development of our mobile Internet business to maintain a fair share of the growing value chain of the mobile Internet industry in Mainland China. We are building an open platform for innovative application services, developing featured businesses that are distinctive and competitive compared to the products of our competitors and converting mobile terminals into a user-friendly interface to enhance customer experience when accessing our services.

In order to achieve the foregoing goals, we will focus on improving the quality of our networks, the quality of our services and our business support capabilities. See Service Quality. Moreover, we will continue to improve our customer services to achieve broader customer satisfaction. See Customer Services. In addition, we will make efforts to enhance our operational efficiency by establishing a number of subsidiaries, such as China Mobile International and China Mobile Device, that operate certain aspects of our businesses. In addition, we will continue to focus on retaining existing customers, expanding corporate customer base, achieving growth in our wireless data business and increasing sales of terminals.

### ***Customers and Usage***

Our customer base has grown substantially from approximately 649.6 million at the end of 2011 to approximately 710.3 million at the end of 2012. As of December 31, 2012, we had a market share of approximately 63.9% in Mainland China. As of March 31, 2013, our total number of customers reached approximately 726.3 million, and our total number of 3G customers reached approximately 114.4 million. Our customer growth is primarily attributable to a number of factors, including:

economic growth in our markets, including in rural areas;

the PRC government's promotion of informatization and reform and development initiatives targeting the rural areas of Mainland China;

growth potential in small and medium-sized cities, rural areas and migrant population markets;

decreased cost of initiating services due to a decline in handset prices as well as the decrease in other tariffs for our services;

our increased marketing and sales efforts and new business initiatives;

## Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

our competitive advantages in terms of scale of operations, networks, support systems, brands, marketing and sales channels, and services; and

the further development of TD-SCDMA industry chain, in particular the increasing availability of TD-SCDMA handsets, especially smartphones, in the market which contributes to the increase in our 3G customer base.

-17-

**Table of Contents**

We continued to experience growth in our corporate customer base in 2012. As of December 31, 2012, the total number of our corporate accounts reached 3.46 million, and the number of individual customers served under corporate accounts reached 34.5% of our total customer base.

However, due to the increasing mobile penetration rate and intensified competition among mobile telecommunications operators and from competitors in other related industries, our customer base may not continue to grow as fast as it has been over the past few years, if at all.

Our total voice usage reached 4,192.3 billion minutes in 2012, representing an increase of approximately 7.8% from 2011. Our short message services, or SMS, usage reached 744.5 billion messages in 2012, representing an increase of approximately 1.1% from 2011. Furthermore, wireless data traffic reached 1,039.2 billion megabytes in 2012 from 361.4 billion megabytes in 2011. The lower growth rate of our voice usage and SMS usage is partly due to the increasing competition from providers offering telecommunications services using alternative technologies, in particular Internet service providers.

The following table sets forth selected historical information about our customer base and customer usage as of or for the periods indicated.

|  | As of or for the year ended |         |         |
|--|-----------------------------|---------|---------|
|  | December 31,                |         |         |
|  | 2010                        | 2011    | 2012    |
| Customer Base (in millions)  | 584.0                       | 649.6   | 710.3   |
| Total Voice Usage (in billions of minutes)                           | 3,461.6                     | 3,887.2 | 4,192.3 |
| Wireless Data Traffic (in billions of megabytes)                     | 143.3                       | 361.4   | 1,039.2 |
| Including: Mobile Data Traffic (in billions of megabytes)            | 103.1                       | 161.0   | 289.8   |
| Average Minutes of Usage Per User Per Month (minutes) <sup>(1)</sup> | 521                         | 525     | 512     |
| Average Revenue Per User Per Month (RMB) <sup>(2)</sup>              | 73                          | 71      | 68      |
| Average Monthly Churn Rate (%) <sup>(3)</sup>                        | 3.22                        | 3.21    | 3.25    |

- (1) Calculated by (A) dividing the total minutes of usage during the relevant year by the average number of customers during the year (calculated as the average of the numbers of customers at the end of each of the thirteen calendar months from the end of the previous year to the end of the current year) and (B) dividing the result by 12.
- (2) Calculated by (A) dividing the operating revenue during the relevant year by the average number of customers during the year (calculated in the same manner as in note (1) above) and (B) dividing the result by 12. The operating revenue in 2010, 2011 and 2012 is derived from our consolidated statements of comprehensive income for the years ended December 31, 2010, 2011 and 2012, respectively.
- (3) Measures the monthly rate of customer disconnections from mobile telecommunications services, determined by dividing: (A) the result obtained by dividing (i) the sum of voluntary and involuntary terminations from our network (excluding internal transfer) during the relevant year by (ii) the average number of customers during the year (calculated in the same manner as in note (1) above) by (B) 12.

**Businesses**

Our businesses primarily consist of voice business and data business.

**Voice Business.** Our voice business includes voice usage services and voice value-added services.

Our voice usage services focus on enabling our customers make and receive calls with a mobile phone at any point within the coverage area of our mobile telecommunications networks. The services include local calls, domestic long distance calls, international long distance calls, domestic roaming and international roaming. Our voice usage services have continued to grow, and total voice usage increased approximately 7.8% in 2012 compared to 2011.

Our voice value-added services mainly include caller identity display, caller restrictions, call waiting, call forwarding, call holding, voice mail, conference calls and other services.

**Data Business.** Our data business includes short message and multimedia message services, or SMS and MMS, wireless data traffic business and applications and information services.



**Table of Contents**

SMS refers to services that employ the existing network resources and the corresponding functions of mobile telecommunications terminals to deliver and receive text messages, mainly including customer-to-customer messages, corporate SMS, Monternet -based short messages. SMS offers convenience and multi-functionality to our customers. MMS is a technology that allows users to exchange multimedia communications, such as graphics, animated color pictures, sound files and short text messages, over wireless networks. Although SMS usage increased to 744.5 billion messages in 2012 from 736.1 billion messages in 2011, revenue generated from SMS and MMS decreased to RMB44,215 million in 2012, compared to RMB46,462 million in 2011 due to the increasing competition from Internet instant messaging applications.

Our wireless data traffic business includes mobile data traffic service and WLAN service. Wireless data traffic increased from 361.4 billion megabytes in 2011 to 1,039.2 billion megabytes in 2012. Revenue generated from wireless data traffic business reached RMB68,257 million in 2012, compared to RMB44,428 million in 2011.

*Mobile Data Traffic.* Our mobile data traffic service is a service that we provide to our customers that enables wireless access to the Internet through 2G or 3G networks. We experienced a significant growth in the provision of mobile data traffic services in 2012, with mobile data traffic reaching 289.8 billion megabytes in 2012, representing an 80.0% increase compared to 2011. Revenue generated from mobile data traffic service reached RMB66,529 million in 2012, compared to RMB43,689 million in 2011.

*WLAN.* WLAN service refers to a service that provides high-speed Internet access through WLAN. We further streamlined the verification process for our customers to access our WLAN and experienced significant growth in our WLAN service in 2012. As of December 31, 2012, we had approximately 3.83 million access points covering locations such as airports, hotels, conference centers, schools and exhibition centers throughout Mainland China. Data traffic carried by WLAN reached 749.4 billion megabytes in 2012 compared to 200.4 billion megabytes in 2011. Revenue generated from WLAN service reached RMB1,728 million in 2012, compared to RMB739 million in 2011.

Our applications and information services mainly include Mobile Mailbox, Mobile Reading, Mobile Video, Mobile Gaming, Wireless Music, Fetion , 12580 Integrated Information Service Line , Mobile Payment/Wallet, location-based services, Mobile Animation and Mobile Market. Revenue generated from applications and information services reached RMB53,876 million in 2012, compared to RMB48,440 million in 2011.

*Mobile Mailbox.* Mobile Mailbox provides our customers with e-mail services with multiple value-added functions. In addition to the regular functions of Internet mail services, our customers will receive notifications on their mobile phones when they receive new e-mails and are able to read and send e-mails via mobile phones. Revenue generated from Mobile Mailbox reached RMB2,394 million in 2012, compared to RMB1,539 million in 2011.

*Mobile Reading.* Mobile Reading provides our customers with content services, including books, magazines and comics, through mobile phones and mobile e-book devices. Revenue generated from Mobile Reading reached RMB1,093 million in 2012, compared to RMB627 million in 2011.

*Mobile Video.* Mobile Video provides our customers with mobile network-based audio and video services, which enable our customers to download or stream various types of videos, such as news, movies, entertainment and sports programs on their mobile phones. Revenue generated from Mobile Video reached RMB936 million in 2012, compared to RMB571 million in 2011.

*Mobile Gaming.* Mobile Gaming provides video game downloads and online gaming services to our customers. Revenue generated from Mobile Gaming reached RMB869 million in 2012, compared to RMB550 million in 2011.

Some of our other applications and information services, including location-based services and Mobile Animation, also experienced rapid growth in 2012, and we have strengthened our efforts in developing other new products and applications in our data business, such as M-cloud, which is a cloud storage service, Lingxi , which is a smart voice application, voice mailbox and voice positioning service.

We have been making efforts to build up open platforms through our Mobile Market in the past few years. Mobile Market serves as a platform for software developers and their applications as well as our own businesses so that our customers may use their terminals to download applications and subscribe for our businesses. We intend to build Mobile Market into a sales platform for our customers to subscribe for our businesses, a platform for developers to upload their applications and a platform that provides support to our terminal and content suppliers. As of December 31, 2012, the cumulative number of registered customers of Mobile Market reached 270 million, with the number of application downloads in 2012 from Mobile Market reaching 610 million.

## **Table of Contents**

In 2012, we expanded the application of Internet of Things to various areas such as urban management, smart transportation and industrial control, and have developed standardized Internet of Things products including home security service, fleet management service, QR code and remote surveillance. We have also built high quality and centralized Internet of Things networks. The number of Internet of Things users increased from 13.05 million in 2011 to 22.45 million in 2012. Our Wireless City platform provides citizens with various information services covering government affairs, traffic control, public administration and other areas, and is a platform that facilitates communications among the government authorities, corporations and citizens. In 2012, the cumulative number of customers using Wireless City reached 70 million.

We believe that data business will continue to be one of the fastest growing segments of the telecommunications market in Mainland China in the coming years. In 2012, we increased the promotion of our data business by launching new products and increasing marketing efforts. Our data services revenue increased to RMB166,348 million in 2012, representing an increase of 19.4% from 2011. As a percentage of operating revenue, data services revenue increased to 29.7% in 2012 from 26.4% in 2011.

We also plan to continue promoting industry-specific applications of data business to corporate customers to further enhance the penetration and utilization of our data business. During 2012, we further strengthened and broadened the scope of key industry-specific application solutions to cover major sectors of the society and the economy. These efforts, coupled with our efforts to enhance service quality and improve customer relationship, led to an expansion of our customer base among multi-provincial and multi-national corporations. We also expanded our Internet of Things applications and Mobile e-Commerce businesses in different areas involving our corporate customers. As of December 31, 2012, the total number of our corporate accounts reached 3.46 million.

## ***Tariffs***

The tariffs payable by our customers include primarily usage charges, monthly fees (if applicable) and service fees for voice value-added services and data services. Effective on January 1, 2010, when not using roaming services, our customers incur usage charges in the form of either local usage charges or, for outgoing domestic and international long distance calls, domestic and international long distance charges. When using domestic roaming services, our customers incur either domestic roaming usage charges or, for outgoing international long distance calls, international long distance charges. When using international roaming services, our customers incur charges based on tariffs that vary depending on whether it is an incoming call or an outgoing call and on the destination of the call.

We offer our customers a variety of tariff packages that have varied monthly charges, minimum charges for basic usage, charges for usage exceeding the covered basic usage, fixed charges for selected features and functions, as well as charges for voice value-added services. We offer tariff packages with respect to wireless data traffic business, or charge the tariff by the actual data traffic usage. We also offer different tariff packages with respect to SMS and MMS, and applications and information services.

We have flexible tariff plans distinguishing between peak time and non-peak time usage, and offer tailored service plans based upon the needs of different customer groups as well as our network resources. Given the rapid growth in mobile penetration rates and increased competition, in order to remain competitive in terms of price and performance with other mobile telecommunications operators, we provide certain discounts and promotional offers in and during certain service areas and call periods targeting various customers. These discounts and promotional offers mainly include rewards for the pre-payment of fees, free trials of voice value-added services or data services, tariff discounts for voice usage during off-peak hours and in low-traffic areas, tariff discounts for wireless data traffic during off-peak hours and tariff discounts for specified call recipients.

## ***Interconnection***

Interconnection refers to various arrangements that permit the connection of our networks to other mobile or fixed-line networks. These agreements provide for the settlement of revenues from the local usage charges, domestic and international long distance charges, SMS and MMS usage charges and wireless data traffic charges.

Our networks interconnect with the networks of other operators, which enables our customers to communicate with the customers of those operators. Each of our operating subsidiaries has interconnection agreements with those operators in its service area. The economic terms of these agreements are standardized from province to province.



## **Table of Contents**

### ***Roaming***

We provide roaming services to our customers, which allow them to access mobile telecommunications services while they are physically outside of their registered service area or in the coverage areas of other mobile telecommunications networks in other countries and regions with which we have roaming arrangements.

A mobile customer using domestic roaming services is charged at our per-minute roaming usage charges or, for outgoing international long distance calls, international long distance charges. A mobile customer using international roaming services incur charges based on tariffs that vary depending on whether it is an incoming call or an outgoing call and on the destination of the call. In recent years, our international and domestic roaming usage charges have generally declined, resulting in lower average revenue per minute from roaming services. In March 2008, the PRC regulators reduced the maximum rate at which a mobile telecommunications services provider may charge on domestic roaming services. In December 2009, the PRC regulators further promulgated policies to eliminate domestic roaming usage charges on outgoing international long distance calls when domestic roaming services are used. We believe that the decrease in roaming usage charges helped drive growth in voice volume usage and that growth in voice volume usage helped partially offset the negative impact of the decline in roaming usage charges.

### ***Research and Development***

Our research and development, or R&D, functions are undertaken jointly by our research institute, other relevant departments and business units. The responsibilities of our research institute include defining network and technology evolution roadmap, supporting the operation of existing networks and services, engaging in international standard setting activities and defining corporate specifications, leading new products and services developments and field testing, cooperating with industry partners, procurement testing and certification of network devices, mobile terminals and information technology systems. In 2012, our main R&D efforts focused on a number of aspects:

***TD-LTE.*** We carried out extended large scale TD-LTE trials. We continued to work closely with other operators in the Global TD-LTE Initiative, or GTI, specifically on multi-mode multi-band terminal specification and international roaming tests.

***Optical and IP Network.*** We completed testing of the first 100 gigabits per second long-distance optical network in Mainland China. In addition, we have developed the strategy and roadmap for the migration from version four of IP, or IPv4, networks to version six of IP, or IPv6, networks and launched IPv6 network trials in Shenzhen.

***Data Center and Cloud Computing.*** We defined the deployment strategy, roadmap and specifications for large-scale data center and cloud computing in 2012. In addition, we are currently engaged in two R&D projects, namely *Big Cloud*, which supports cloud computing, cloud storage and data mining services, and *OMP (Open Mobile Platform)*, which provides an open platform for the application developers to use SMS, MMS and in-application purchase capabilities.

***Featured Services.*** We developed a unique voice over IP, or VoIP, service that automatically combines an international VoIP account with a mobile phone number. We have also developed innovative technologies for mobile payment that facilitate the collaboration between UnionPay and us.

***Mobile Terminals.*** We defined and implemented the *Wireless Mobile Multimedia Transmission Protocol (WiMo)* standard, which is a standard to support mirroring the screens between smartphones, tablets, computers, projectors and televisions. We also designed *System Application Framework, or SAF*, which enables unified user authentication, in-application purchase, and always online and push services.

## Table of Contents

### *Sales and Customer Services*

**Sales Channels.** We offer our services through an extensive network of proprietary sales outlets, retail outlets and electronic sales and marketing channels. In addition to providing retail sales and network connection services, most of our proprietary sales outlets also offer differentiated services to customers under different service brands, including billing information and payment collection, services consultation, sale of terminals and other customer services. Furthermore, most of our proprietary sales outlets provide training and service demonstrations to retail outlets. The retail outlets offer our services according to agency agreements with us. In connection with these sales, all applicable fees payable after initial connection are paid to us. Moreover, we offer certain services to our customers through electronic channels, including, among others, subscription of voice value-added services and data business, change of tariff plans, credit loading for pre-paid services, sales of SIM cards and terminals and redemption of Customer Reward points. Sales effected through our electronic channels have increased consistently in recent years and the percentage of our business transactions that were processed through our electronic channels further increased in 2012. Furthermore, we have enhanced our service capabilities through the expansion and optimization of our proprietary sales channels, the expansion of electronic channels and the integration of resources relating to sales and marketing channels. We are able to establish sales and service networks at lower cost by utilizing existing resources in rural areas to serve and expand our customer base in these areas. We have also established concept stores in major cities within Mainland China to showcase our services and products, particularly our data services, and to facilitate certain sales and marketing activities.

**Market Segmentation Strategy.** As customers' demands for mobile telecommunications become more varied and complex, we have conducted research on market segmentation and have launched brands and products which cater to the specific needs of different customer groups to increase awareness of our brands and products and maintain our customer base. Our marketing efforts focus on retaining medium- and high-end customers. We aim to retain individual customers, corporate customers as well as family customers. With respect to individual customers, we mainly promote three brands, each with a different focus. GoTone targets high to middle-end customers, Easy own targets the mass market and the M-Zone brand targets the young user group through the integration of voice and data services, in each case supported by a series of tailored service packages.

Moreover, we provide differentiated applications and services to our corporate customers under customized service contracts. As of December 31, 2012, we had signed service contracts with approximately 3.46 million corporate accounts, and individual customers served under these service contracts with corporate accounts accounted for approximately 34.5% of our total customers. With the expansion of our corporate customer base, we also seek to provide customized total solutions to these corporate customers in response to their particular requirements.

Furthermore, we have developed customized products and service packages in response to the unique consumption characteristics of rural areas, and have developed advertising and distribution channels unique to the rural markets to promote and expand our business in the rural areas. We have also encouraged handset producers to introduce inexpensive handsets with moderate functions to lower the barrier of using mobile phones in the rural areas.

**Strategies Relating to 3G Services.** We have been operating our 3G business by leasing wireless network capacity from CMCC since 2009. We have enhanced our efforts to market new 3G services, products and applications, including through our voice and data businesses, to individuals, families, corporations and those in need of industry information products. We expect the TD-SCDMA network to continue to play an important role in carrying data traffic and will continue to increase sales of 3G smart phones and optimize the 3G network to accelerate the migration of customers from the 2G network to the 3G network. We intend to further expand our 3G business by, among other things, leveraging the support from the PRC government in terms of land use, frequency resources and construction of wireless cities.

**Development of 4G Services.** In 2012, the extended large scale trial of the TD-LTE network was carried out in 15 cities in Mainland China and approximately 20,000 base stations were built. The quality and scale of the TD-LTE networks in Hangzhou, Guangzhou and Shenzhen have reached pre-commercial standard. In addition, we started providing commercial 4G services in Hong Kong in 2012 with the LTE FDD and TD-LTE bandwidths we previously obtained from the Office of the Telecommunications Authority of Hong Kong in 2009 and 2012, respectively. Starting from 2013, we will bear all capital expenditures for the development of TD-LTE networks. We plan to construct more than 200,000 TD-LTE base stations in 2013.

**Customer Services.** Our customer support service centers offer 24-hour staff-answering and automatic-answering service hotlines in Mainland China, dealing with customer enquiries regarding services and billing, as well as handling customer complaints. In order to retain high-value and corporate customers and enhance customer satisfaction, we offer a series of personalized and differentiated services targeted at high-value and corporate customers, including dedicated account executives, on-site visits and systems for collecting comments and handling complaints.

## **Table of Contents**

In 2012, we continued to optimize our customer service processes through efforts such as improving service quality at our sales outlets, 10086 hotline and online portal. Our customers may also purchase SIM cards and handsets through our electronic channels. We have also actively promoted electronic channels, including expanding scope of services provided through our electronic channel and shortening the processing time at the electronic channel, and the percentage of our business transactions that were processed through the electronic channels further increased in 2012. In addition, we implemented service measures such as increasing transparency in the billing process, inquiry and data services unsubscription function through SMS and refunding before investigation in case of a billing dispute for Monternet services to ensure our customers would be fully informed of the payments they would make. We continued to filter spam SMS and software that were sent to our customers. Our continued improvement in customer services resulted in broader customer satisfaction in 2012.

**Service Quality.** We strive to improve the quality of our services through improvements in the quality of our infrastructure network. In particular, with respect to our 2G services, the voice call drop rate decreased to 0.48% and successful call connection rate increased to 99.26% in 2012, and with respect to our 3G services, the voice call drop rate decreased to 0.29% and successful call connection rate increased to 98.90% in 2012. The success rate for product subscription increased to approximately 99.78%. In addition, the network speed of our Internet business has been further enhanced. We have also improved our business support capabilities, especially in the areas of billing and data business subscription support.

**Customer Retention.** Due to increasing competition, we place great emphasis on customer retention. Our strategy is to attract and retain high-value customers by providing high quality services. We have implemented a Customer Point Reward Program, which is a bonus point-based scheme that rewards customers according to their service consumption, loyalty and payment history. This represents an important measure by us to retain high-value customers. Customers are identified and grouped as Diamond, Gold and Silver card members according to their respective value contribution and points accrued. Different levels of membership entitle members to different privileges. In addition, certain high-value customers may receive rewards, including free voice minutes or discounts on handsets, through redemption of bonus points or pre-payment of fees. In addition, we offer special services to our GoTone members, including cross-region services, airport VIP services, hospital VIP services and handset service clubs.

In 2012, we further enhanced customer loyalty through offering medium- and high-end handsets and entering into long-term contracts with our mid to high-end customers.

**Churn Management.** We have devised internal monitoring systems to detect customers who are prone to discontinue their subscriptions. In particular, our churn alert system prompts customer service representatives to proactively approach those customers, and customers who have recently discontinued their service, to improve customer relations and minimize churn.

**Credit Control.** We have implemented customer registration procedures, such as identity checks for individual customers and information checks for corporate customers, to assist in credit control. In certain situations, we require our customers to pay an advance deposit representing a pre-determined amount of usage charges before certain telecommunications services are activated. The actual usage charges incurred are verified against the balance of the amount deposited and, if there are unusual circumstances, additional measures will be implemented. Direct debit services are available in each geographical area. The accounts of contract customers are required to be settled on a monthly basis, and a late payment fee is imposed on each customer whose account balance is not settled by the monthly due date. If the customer's account remains overdue, the customer's services will be deactivated and such customer must pay all overdue amounts, including applicable late payment fees, to reactivate services. As a majority of our existing customers pre-pay for our services, we have limited credit risk exposure to our customers. We make an allowance for doubtful accounts based on our assessment of the recoverability of accounts receivable.

### ***Corporate Social Responsibility and Sustainable Development.***

We are committed to fulfilling our responsibilities to stakeholders and proactively implementing a sustainable development strategy. We have focused on energy conservation and environmental protection in many aspects of our operations. We have also strived to provide more environment-friendly information solutions to our customers, contribute to the informatization of society, and support philanthropic activities. When natural disasters occurred in Mainland China in 2012, we reacted with timely and effective telecommunications support and services and relief efforts. We continued to help remote villages in Mainland China to build up basic communication facilities. In 2012, we were included in the Dow Jones Sustainability World Index, or DJSI World, for the fifth consecutive year, and we are the first and only company from Mainland China to be included in DJSI World. We were also included in the Hang Seng Corporate Sustainability Index for the third consecutive year and received the Sustainability Excellence Award from the Chamber of Hong Kong Listed Companies.

## **Table of Contents**

### ***Terminals***

The TD-SCDMA industry chain has undergone substantial development in recent years with the launch of 242 models of TD-SCDMA terminals, including 138 smartphone models, and the sale of more than 56 million TD-SCDMA handsets in 2012. The main TD-SCDMA terminal models are as competitive as WCDMA or CDMA 2000 terminals in terms of launching time, quality and price. We also sold a large number of terminals through China Mobile Device, our subsidiary engaging in procuring and distributing terminals.

### ***Information Systems***

Our information systems primarily consist of a network management system, a business operation support system and a management information system. The network management system collects and processes the operating data from each network, and manages, supervises and controls our networks for safe and efficient operation. The business operation support system provides day-to-day operational support to each business unit, and is a unified and comprehensive system that enables the sharing of information resources. This system standardizes and integrates each of our sales, billing, settlement, customer service and network failure handling databases in a centralized and orderly manner. The management information system collects and processes our management information and provides support to our management personnel. In addition, this system has computerized and automated our management in finance, inventory, procurement and human resources. Furthermore, we have an internal communications network, which consists of our office automation system, our internal computer network, video conference system, telephone system and others, the combination of which supports our internal communications.

### ***Trademark***

We market our services under the CHINA MOBILE trademark, which is the trademark we use throughout Mainland China. CHINA MOBILE is a registered trademark in the PRC owned by our parent company, CMCC. On January 1, 2008, we entered into a trademark license agreement, or the 2008 Trademark License Agreement, to replace the then existing trademark license agreements with CMCC. Upon expiration, the trademark license agreement will be automatically renewed for a term of one year unless otherwise terminated by the parties. Under the trademark license agreement, we and our operating subsidiaries have a non-exclusive right to use the CHINA MOBILE trademark in Mainland China and Hong Kong. No license fee is payable by us to CMCC during the term of the trademark license agreement.

In addition, the CHINA MOBILE name has been registered as a trademark by CMCC in Australia, Brunei, Cambodia, Canada, Hong Kong, India, Indonesia, Macau, New Zealand, Pakistan, South Korea, Taiwan, Thailand, the United States, Vietnam, South Africa and Yemen. Furthermore, CMCC has filed applications to register the CHINA MOBILE name and logo as a trademark in Malaysia, in connection with certain goods and services. CMCC has also registered the CHINA MOBILE name and logo as a trademark under the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks.

### ***Mobile Telecommunications Networks***

Over the past several years, we have performed a number of technological improvements and upgrading to our core mobile telecommunications network, which has evolved into an integrated network that is capable of supporting transmissions using both the 2G standard and the 3G standard. We have built an Internet Protocol based core network that is capable of supporting the GSM, TD-SCDMA, WLAN and TD-LTE networks, which we believe could also evolve into a network that supports other future generations of mobile telecommunications technologies.

Prior to January 7, 2009, we offered mobile telecommunications services using the GSM standard, which is a pan-European mobile telecommunications system based on digital transmission and mobile telecommunications network architecture with roaming capabilities. Each of our GSM networks consists of base stations, base station controllers, mobile switching centers, transmission lines and software applications.

---

## **Table of Contents**

Starting from January 7, 2009, in addition to offering mobile telecommunications services using the GSM standard, or the 2G standard, we also offer mobile telecommunications services using the TD-SCDMA standard, or the 3G standard. The key network components for our 3G business include Node Bs, which contain radio transmitters and receivers that communicate directly with mobile terminals, and radio network controllers, which carry out radio resources management and are responsible for controlling the Node Bs that are connected to them.

In addition, we provide our customers with access to broadband Internet connection through WLAN, which connects computers using wireless communication technology. Our customers may use mobile terminals such as handsets and notebooks to gain wireless access to the Internet or corporate intranet.

We are committed to pursuing our 4G business based on the TD-LTE technology. TD-LTE is one of two models of LTE, a mainstream standard for the evolution of 3G technology, and a standard for the evolution of TD-SCDMA technology. We obtained TD-LTE spectrum bands in Hong Kong through a public auction in February 2012, which will be used in the construction of a TD-LTE network in Hong Kong. Together with the LTE FDD band we had previously obtained, we started providing commercial 4G services and commenced the integration of our TD-LTE and LTE FDD networks in Hong Kong in 2012. In January 2012, the TD-LTE Advanced technology, as a successor technology to the TD-LTE technology, was recognized as one of the international standards for future generations of technology by the International Telecommunication Union.

***Network Capacity Expansion and Optimization Plans.*** Our customers currently use our 2G services, our 3G services, our WLAN services, or all of them. Our customers will also use our 4G services after we launch commercial 4G services. We intend to continue our network expansion and optimization with an emphasis on improving network utilization and operating efficiency, facilitating a smooth transition between, and integration of, our 2G, 3G and 4G services, and expanding the coverage and capacity of our integrated network. Our network expansion and optimization plans depend to a large extent upon the availability of sufficient spectrum.

***Spectrum.*** A mobile telecommunications network's capacity is to a certain extent limited by the amount of frequency spectrum available. For our GSM network, the MIIT has allocated a total of 45x2 MHz of spectrum to be used for transmission and reception, respectively, to our parent company, CMCC. Of the 45x2 MHz of spectrum allocated to us, 40x2 MHz of spectrum in the 900 MHz and 1800 MHz frequency bands is used nationwide, and 5x2 MHz of spectrum in the 1800 MHz frequency band, is used in the cities of Beijing, Shanghai and Chengdu and Guangdong Province. In connection with our 3G business, the MIIT has allocated to CMCC, in various frequency bands, a total of 35 MHz of spectrum to be used for nationwide coverage, and an additional 50 MHz of spectrum to be used for indoor coverage.

***Transmission Infrastructure.*** The physical infrastructure linking our network components and interconnecting our networks to other networks consists of transmissions lines, which provide the backbone infrastructure through which voice and data traffic is carried.

***Leased Lines.*** Transmission lines constructed by us reached a sizeable scale through the continuous optimization of our network structure in recent years. In addition to our own transmission lines, we also lease intra-provincial and local transmission lines from other operators and pay them fees based on tariff schedules stipulated by the relevant regulatory authorities after adjusting for the discounts that we have negotiated. For the inter-provincial transmission lines we lease through CMCC from other providers, CMCC collects leasing fees from us and pays fees to the relevant transmission line providers.

***Network Operations and Maintenance.*** We believe that we have considerable network operation and maintenance experience and technical expertise. Day-to-day traffic management, troubleshooting, system maintenance and network optimization are conducted by our experienced team of engineers and technicians. Technical staffs are available for emergency repair work 24 hours a day and we employ specialist teams for central maintenance of the networks. Most technical difficulties relating to the networks are resolved by our staff and the maintenance service providers with which we have business relationships, while our equipment suppliers also provide back-up maintenance and technical support.

***Base Stations.*** In urban areas, our base stations are located mostly on existing structures, typically at the top of tall buildings. In rural areas, masts are often constructed for locating base stations. Typically, base stations are of limited size, as base station equipment does not generally require significant space. As of the end of 2012, the number of our 2G base stations reached 810,000, compared to 700,000 as of the end of 2011.

## **Table of Contents**

The number of 3G base stations that we lease from CMCC reached approximately 280,000 as of the end of 2012, compared to 220,000 as of the end of 2011. We anticipate that we will need more new 3G base stations in connection with the expansion of our 3G networks.

In 2012, approximately 20,000 TD-LTE base stations were built. We plan to construct more than 200,000 TD-LTE base stations in 2013. Certain 3G base stations may also be upgraded to TD-LTE base stations.

We cannot assure you that we will be able to obtain the requisite number of base station sites on reasonable commercial terms.

***Equipment Suppliers.*** We select our principal suppliers from leading international and domestic manufacturers of mobile telecommunications equipment and in accordance with technical standards set by the MIIT. In 2012, we purchased our networks equipment primarily from Huawei Technologies, Ericsson, Nokia Siemens, ZTE and Alcatel-Lucent.

### ***Strategic Alliance Agreement with PhoenixTV and Memorandum of Understanding with News Corporation and STAR Group Limited***

On June 8, 2006, we entered into a strategic alliance agreement with Phoenix Satellite Television Holdings Limited, or PhoenixTV, a leading satellite television operator broadcasting into Mainland China, pursuant to which we and PhoenixTV will cooperate in, among other areas, the joint development, marketing and delivery of innovative wireless content, products, services and applications. We currently have a number of cooperation initiatives underway with PhoenixTV.

In addition, we entered into a memorandum of understanding with News Corporation and STAR Group Limited on June 8, 2006 relating to a potential long-term wireless media strategic partnership as well as the exploring of various areas of cooperation, which may include the aggregation, development and marketing of multimedia content and other wireless data services, by combining the strength and experience of one of the largest media companies in the world and one of the largest mobile telecommunications companies in the world. We are currently working with News Corporation and STAR Group Limited on a number of cooperation initiatives.

### ***Business Cooperation Framework Agreement with Far EasTone***

On April 29, 2009, we entered into a share subscription agreement with Far EasTone Telecommunications Co., Ltd., or Far EasTone, one of the major mobile telecommunications operators in Taiwan, pursuant to which we would acquire 12% of the enlarged issued share capital of Far EasTone. Completion of the share subscription was subject to certain conditions, including the obtaining of all necessary regulatory approvals. Concurrent with the share subscription agreement, we also entered into a strategic cooperation agreement with Far EasTone, which would become effective upon the completion of the share subscription.

As some of the conditions precedent have not been satisfied, the share subscription agreement has been terminated. The strategic cooperation agreement lapsed upon the termination of the share subscription agreement.

In April 2013, we entered into a business cooperation framework agreement with Far EasTone, pursuant to which we and Far EasTone will jointly explore opportunities to continue broad-based cooperation in a number of areas in the mobile telecommunications business and reconsider the possibility of an equity investment by us in Far EasTone when there is a favorable change in regulatory environment in Taiwan that would permit such investments.

### ***Investment in, and Strategic Cooperation with, SPD Bank***

In October 2010, Guangdong Mobile, our wholly-owned subsidiary, completed its acquisition of 20% of the enlarged issued share capital of SPD Bank for an aggregate amount of approximately RMB39.5 billion (approximately US\$6.0 billion). SPD Bank is a joint-stock commercial bank incorporated in the PRC, with its shares listed on the Shanghai Stock Exchange.

## **Table of Contents**

In connection with the acquisition, we and SPD Bank also entered into a strategic cooperation agreement in November 2010, pursuant to which we and SPD Bank will cooperate in the areas of mobile finance and mobile e-Commerce businesses in Mainland China, such as mobile payment, including on-site payment and remote payment, as well as in the sharing of customers services and channels resources. The term of cooperation is five years, which will be automatically renewed for successive one-year terms unless terminated. The scope of cooperation will include, but will not be limited to, the joint development of mobile payments business, mobile bank cards business and other forms of mobile finance and mobile e-Commerce businesses, the joint research and development of mobile finance software and mobile security technologies. The parties agree to jointly explore cooperation in mobile fund transfer business. The parties also agree to promote their cooperation in the areas of basic banking services and basic telecommunications services, and leverage on their respective competitive advantages to bring synergies in terms of branding, customers, channels and network platform resources into full play. Through such strategic cooperation, we and SPD Bank have issued co-branded bank cards in some provinces in Mainland China during 2012, and are also developing near field communication services, including mobile bill payment, mobile remittance and other mobile payment applications and products.

### ***Investment in, and Strategic Cooperation with, Anhui USTC***

In August 2012, CMC, our wholly-owned subsidiary, entered into a share subscription agreement with Anhui USTC, pursuant to which CMC would subscribe for 15% of the shares of Anhui USTC for an aggregate subscription price of RMB1,363,314,339 (approximately US\$218,827,040). The share subscription was completed on April 24, 2013. Concurrent with the share subscription, we and Anhui USTC entered into a strategic cooperation agreement to cooperate in various areas, including smart voice portals, smart voice cloud services, smart voice technologies and product innovations, applications in relation to customer services and basic telecommunications business and informatization of the telecommunications industry.

### ***Competition***

We compete with other telecommunications services providers. We are one of the three licensed mobile telecommunications services providers in Mainland China. The PRC government encourages orderly and fair competition in the telecommunications industry in Mainland China. In particular, the PRC government has extended favorable regulatory policies to some of our competitors in order to help them become more viable competitors to us. We may also face intense competition from existing operators from time to time. Our competitors launch, from time to time, promotional offers, such as handset subsidies and tariff packages, to attract customers.

In May 2008, the MIIT, the NDRC and the MOF jointly announced a policy initiative to further reform the PRC telecommunications industry by encouraging the formation of three telecommunications services providers of comparable scale and standing, each with nationwide network resources, full-service capabilities and competitive strength, by way of a series of restructuring transactions. See [Item 4. Information on the Company](#) [The History and Development of the Company](#) [Industry Restructuring and Changes in Our Shareholding Structure](#).

After completion of the industry restructuring in January 2009, China Telecom and China Unicom, each of which is now operating a mobile telecommunications network, have been benefiting from, among other things, broader customer bases, more extensive networks, greater financial and other resources and more comprehensive technological capabilities, as compared to their customer bases, networks, resources and technological capabilities prior to the industry restructuring. These factors have intensified, and could further intensify, competition. Our market share was approximately 63.9% as of December 31, 2012. In addition, pursuant to the policy initiative announced in May 2008, China Telecom and China Unicom have each become full-service telecommunications services providers that operate both fixed-line telecommunications networks and mobile telecommunications networks. We are also in the process of applying for the license to offer fixed-line telecommunications services but we cannot predict when we can obtain such license. Our competitors may also benefit from any asymmetrical and other regulatory measures that may be adopted by the PRC government from time to time. In addition, the PRC government has published a series of regulations to encourage non-State-owned companies to enter the telecommunications industry and we may face increasing competition from these non-State-owned telecommunications services providers. We also face increasing competition from providers offering telecommunications services using alternative technologies. See [Risk Factors](#) [Risks Relating to Our Business](#) [Competition from other telecommunications services providers and competitors in other related industries may further increase, which may reduce our market share and decrease our profit margin, and we cannot assure you that any potential change in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations](#) and [Risk Factors](#) [Risks Relating to the Telecommunications Industry in Mainland China](#) [Current or future asymmetrical and other regulatory measures adopted by the PRC regulatory authorities could materially harm our competitive position.](#)

## **Table of Contents**

### ***Regulation***

The mobile telecommunications industry in Mainland China is highly regulated. Regulations issued or implemented by the State Council, the MIIT and other relevant government authorities including the NDRC and the Ministry of Commerce, encompass all key aspects of mobile telecommunications network operations, including entry into the telecommunications industry, scope of permissible business, interconnection and transmission line arrangements, technology and equipment standards, tariff standards, capital investment priorities, foreign investment policies and spectrum and numbering resources allocation.

The MIIT, under the supervision of the State Council, is responsible for formulating policies and regulations for the telecommunications industry, granting telecommunications licenses, allocating frequency spectrum and numbers, formulating interconnection and settlement arrangements between telecommunications operators, and enforcing industry regulations.

In order to provide a uniform regulatory framework to encourage the orderly development of the telecommunications industry, the MIIT, under the direction of the State Council, has been preparing a draft telecommunications law. We expect that, if and when the telecommunications law is adopted by the National People's Congress, it will become the basic telecommunications statute and the legal source of telecommunications regulations in Mainland China. In addition, the State Council promulgated a set of telecommunications regulations on September 25, 2000. These regulations apply in the interim period prior to the adoption of the telecommunications law. Although we expect that the telecommunications law will have a positive effect on the overall development of the telecommunications industry in Mainland China, we cannot predict what the ultimate nature and scope of the telecommunications law will be.

***Entry into the Industry.*** Under the current regulations, operators of mobile telecommunications networks, providers of other basic telecommunications services such as local and long distance fixed-line telephone services, and data service providers whose telecommunications services cover two or more provinces, directly-administered municipalities or autonomous regions in Mainland China must apply for specific permits from the MIIT in order to provide such services. Granting of permits for providing basic telecommunications services will be through a tendering process. In addition to us, China Telecom and China Unicom are currently also authorized to provide mobile telecommunications services in all provinces, directly-administered municipalities and autonomous regions in China.

Pursuant to China's commitments under the WTO and the Provisions on the Administration of Foreign-Funded Telecommunications Enterprises, which became effective on January 1, 2002, foreign investors may invest in joint ventures that provide telecommunications services in Mainland China. However, these investments will presumably bear no direct relation to the issuance of licenses to providers of telecommunications services in Mainland China, as the issuance of new licenses by the relevant authority is governed by a separate set of rules and regulations. Pursuant to the Provisions on the Administration of Foreign-Funded Telecommunications Enterprises, as amended in September 2008, foreign ownership in a telecommunications enterprise may be gradually increased to 49% if such enterprise provides basic telecommunications services and 50% if such enterprise provides value-added telecommunications services (including radio paging services).

The MIIT has promulgated the Administrative Measures for the Licensing of Telecommunication Business Operations, which became effective on April 10, 2009. Those regulations apply to the application for, and examination and approval of, telecommunications business licenses in the PRC.

In June 2012, the MIIT issued a circular under which non-State-owned companies are encouraged to enter the telecommunications industry. On January 7, 2013, the MIIT further published for public comment a draft regulation that would permit mobile virtual network operators to lease bandwidth from China Unicom, China Telecom or us and provide mobile services to end customers after repackaging its bandwidth resources.

***Spectrum Usage.*** In coordination with the relevant provincial authorities, the MIIT regulates the allocation of radio frequency. The frequency assigned to an entity is not allowed to be leased or, without approval of the MIIT, transferred by the entity to any other third party. In accordance with a joint circular from the NDRC and the MOF, CMCC has entered into an agreement with us that specifies the amount of fees to be paid to the MIIT for spectrum usage by each mobile telecommunications network operator based on the bandwidth of the frequency used.



## **Table of Contents**

Spectrum usage fees for GSM networks are currently charged at the annual rate of RMB17 million per MHz for the 900 MHz frequency band and RMB15 million per MHz for the 1800 MHz frequency band. Spectrum usage fees are charged on the basis that uplink and downlink frequencies are separately charged. The annual rate of spectrum usage fees for TD-SCDMA networks are RMB15 million or RMB12 million per MHz, depending on the frequency bands. Spectrum usage fees for TD-SCDMA networks are currently charged at a discounted rate, and the full rate will apply starting from 2014. The relevant regulatory authorities in China may review these fee arrangements in the future.

**Numbering Resources.** The MIIT is responsible for the administration of the telecommunications numbering resources within Mainland China, including the telecommunications network numbers and customer numbers. The use of numbering resources by any telecommunications operator is subject to the approval by the MIIT. In January 2003, the former Ministry of Information Industry, or the MII, issued the Measures on Administration of Telecommunications Network Numbering Resources, pursuant to which a user of numbering resources is required to pay a usage fee to the state. In December 2004, the MII, the MOF and the NDRC jointly issued the Provisional Administrative Measures with respect to the Collection of the Usage Fee of Telecommunications Network Numbering Resources, under which telecommunications companies are required to pay a usage fee to the PRC government by the 10th day of the first month of each quarter. Moreover, under these provisional measures, mobile telecommunications companies are required to pay an annual usage fee of RMB12 million for each network number.

**Tariff Setting.** Our tariffs are subject to regulation by various government authorities, including the MIIT, the NDRC and the relevant price regulatory authorities in Mainland China. Under the current telecommunications regulations, telecommunications tariffs are categorized into market based tariffs, government guidance tariffs and government standard tariffs. As a general matter, the actual price range in each service area is proposed by a network operator in that service area, and must be approved by the relevant price regulatory authorities in that service area. In addition, local usage charges, monthly fees, maximum domestic roaming usage charges and maximum domestic long distance tariffs (other than tariffs for IP phone calls) are also determined generally by the MIIT in consultation with the NDRC. In August 2005, the MII amended its tariff regulations relating to certain telecommunications services, which gave network operators more flexibility in setting, among other things, their domestic and international long distance tariffs and domestic roaming usage charges, provided that these tariffs and charges do not exceed the respective maximum tariffs it determined in consultation with the NDRC and that the tariff plans are filed with the MII (and, currently, with the MIIT) and the NDRC or, in some cases, the relevant price regulatory authorities at the provincial level.

The MIIT has continued encouraging mobile telecommunications operators in Mainland China to implement the caller-party-pays regime, and mobile telecommunications operators, including us, have been implementing the caller-party-pays regime. In particular, all of the new calling plan packages that we offer in Mainland China are generally based on tariffs equivalent to the caller-party-pays regime.

In March 2008, the MII reduced the maximum domestic roaming usage charges that a mobile telecommunications services provider may charge on roaming services. In December 2009, the PRC regulators further promulgated policies to eliminate domestic roaming usage charges on outgoing international long distance calls when domestic roaming services are used, as well as eliminate local usage charges on outgoing domestic and international long distance calls when roaming services are not used.

Our international roaming usage charges are set in accordance with agreements with the relevant foreign mobile operators. Under the current telecommunications regulations, tariffs for those telecommunications businesses that are considered fully competitive may be set by the service providers as market based tariffs.

**Interconnection Arrangements and Lease Line Arrangements.** Under the current telecommunications regulations, parties seeking interconnection must enter into an interconnection agreement and file such agreement with the MIIT. In addition, major telecommunications services providers that have control over essential telecommunications infrastructure and possess significant market share must allow interconnection to their networks by other operators. These telecommunications services providers must also establish interconnection rules and procedures based on the principles of non-discrimination and transparency and submit such rules and procedures to the MIIT for approval. The termination of any interconnection arrangements will require prior approval by the MIIT.

**Table of Contents**

The applicable regulations provide that interconnection related equipment must conform to the technical standards approved by the MIIT. See Technical Standards below. The MIIT also determines the standard lease tariffs to be paid by telecommunications operators with respect to the leasing of transmission lines that facilitate interconnection between telecommunications networks.

**Technical Standards.** Certain regulatory authorities in Mainland China, including the MIIT, set technical standards and control the type, quality, manufacturing and sales of mobile telecommunications equipment used in or connected to public networks, all radio telecommunications equipment and all interconnection related equipment.

The establishment of base stations requires the approval of the relevant provincial regulatory authorities. We have not experienced and do not expect to experience material difficulty in obtaining permission to establish additional sites.

**Capital Investment.** We may be required to obtain approvals from relevant regulatory authorities in Mainland China with respect to some of our investment projects.

**Sharing of Telecommunications Infrastructure.** In September 2008, the MIIT and the SASAC jointly issued a Notice on Promoting Joint Construction and Sharing of Telecommunications Infrastructure, which stipulates that the telecommunications operators in Mainland China must share existing transmission towers and masts and jointly construct future transmission towers and masts. The joint notice also requires the telecommunications operators to share and jointly construct base station facilities and transmission lines to the extent feasible, and prohibits exclusive arrangements in the leasing of third-party sites and premises. CMCC, China Unicom and China Telecom have subsequently entered into an agreement to set out the framework under which they will jointly construct and share relevant telecommunications infrastructure.

**Convergence of Telecom, Broadcasting and Internet Businesses.** In January 2010, the PRC government announced a policy decision, or the Three-Network-Convergence Policy, to accelerate the advancement of the convergence of television and radio broadcasting, telecommunications and Internet access businesses in order to realize interconnection and resource sharing between the three networks and further develop the provision of voice, data, television and other services. Specifically, the Three-Network Convergence Policy will be initially carried out on a trial basis in selective geographic locations between 2010 and 2012 and further implemented on a larger scale in 2013 through 2015. The PRC government may amend the relevant regulations or promulgate new regulations in order to implement the Three-Network Convergence Policy. The new policy decision is expected to enhance the development of information industries, satisfy consumers' diverse demands, promote domestic consumption and form new areas for economic growth. In 2012, we received an audio and video transmission license from the former State Administration of Radio, Film and Television of the PRC, which enables us to provide audio and video programs through mobile Internet.

**Employees**

As of December 31, 2010, 2011 and 2012, we had 164,336, 175,336 and 182,487 employees, respectively. Substantially all of our employees are located in Mainland China. The employees as of December 31, 2012 were classified in the following table. Approximately 63.1% of our permanent employees have college or graduate degrees. Set forth below is a breakdown of our employees by functions as of December 31, 2012.

|                 |                |
|-----------------|----------------|
| Management      | 33,983         |
| Technical       | 55,205         |
| Marketing       | 60,188         |
| General affairs | 33,111         |
| <b>Total</b>    | <b>182,487</b> |

We provide benefits to certain employees, including housing, retirement benefits and hospital, maternity, disability and dependent medical care benefits. Most of our employees are members of a labor association. We have not experienced any strikes, slowdowns or labor disputes that have interfered with our operations to date, and we believe that our relations with our employees are good.

The number of workers sourced by third parties that provided services to us reached 334,782 as of December 31, 2012.

**Table of Contents****Properties, Plants and Equipment**

We own, lease or have usage rights in various properties which consist of land and buildings for offices, administrative centers, staff quarters, retail outlets and technical facilities. We believe that all of our owned and leased properties are well maintained and are suitable and adequate for their present use.

**Item 4A. Unresolved Staff Comments.**

None.

**Item 5. Operating and Financial Review and Prospects.**

You should read the following discussion and analysis in conjunction with our consolidated financial statements, together with the related notes, included elsewhere in this annual report on Form 20-F.

**Overview of Our Operations**

The following table sets forth selected information about our operations for the periods indicated.

|  | Year ended December 31, |         |         |
|--|-------------------------|---------|---------|
|  | 2010                    | 2011    | 2012    |
| Total Voice Usage (in billions of minutes)                   | 3,461.6                 | 3,887.2 | 4,192.3 |
| Wireless Data Traffic (in billions of megabytes)             | 143.3                   | 361.4   | 1,039.2 |
| Including: Mobile Data Traffic (in billions of megabytes)    | 103.1                   | 161.0   | 289.8   |
| Operating Revenue (in RMB millions)                          | 485,231                 | 527,999 | 560,413 |
| Operating Expenses (in RMB millions)                         | 334,477                 | 376,700 | 409,891 |
| Profit Attributable to Equity Shareholders (in RMB millions) | 119,640                 | 125,870 | 129,274 |

In 2010, 2011 and 2012, our customer base and voice usage volume continued to experience stable growth while our wireless data traffic business continued to experience rapid growth. Our total net increase in the number of customers was 60.7 million in 2012 and our total customer base reached approximately 710.3 million as of December 31, 2012. Our total voice usage increased by 12.3% from 2010 to 2011, and by 7.8% from 2011 to 2012. Our wireless data traffic increased by 152.1% from 2010 to 2011, and by 187.6% from 2011 to 2012. Our mobile data traffic increased by 56.1% from 2010 to 2011, and by 80.0% from 2011 to 2012. As a result, our operating revenue increased by 8.8% from 2010 to 2011, and by 6.1% from 2011 to 2012. Our data business continued to grow, and our data services revenue accounted for 26.4% and 29.7% of our operating revenue in 2011 and 2012, respectively. Our operating expenses increased by 12.6% from 2010 to 2011, and by 8.8% from 2011 to 2012. Our profit attributable to equity shareholders increased by 5.2% from 2010 to 2011, and by 2.7% in 2012.

The PRC economy continued to grow in terms of GDP by 7.8% in 2012, which provided a favorable environment for our continued business development. However, we faced various challenges arising from increased market saturation and intensified competition among mobile telecommunications operators and from providers offering telecommunications services using alternative technologies, in particular Internet service providers. As the mobile penetration rate in Mainland China reached 82.6% as of December 31, 2012, the mobile telecommunications markets in some economically developed regions of Mainland China began to show signs of saturation. We intend to continue to cope with market and industry challenges that may arise from time to time by leveraging our customer base, network quality, brand name, execution capabilities and quality of our customer service. Moreover, the continuous growth in the PRC economy and its modernization and urbanization offer an opportunity and platform for the ongoing development of telecommunications industry, in particular the development of mobile Internet. Such development presents potential opportunities for us to further develop our wireless data traffic business and applications and information services.

We have been a mobile telecommunications services provider in China since our inception in 1997. We acquired all of the issued and outstanding shares of Hong Kong Mobile in 2006, which enabled us to expand into the Hong Kong mobile telecommunications market. See Item 4. Information on the Company The History and Development of the Company Expansion Through Acquisitions.



**Table of Contents**

We operate in an extensively regulated environment and our operations and financial performance are significantly affected by the PRC government's regulation of the telecommunications industry. These regulations and policies may affect, among other things, our tariffs, technology and equipment standards and capital investment, as described in more detail under Item 4. Information on the Company Business Overview Regulation. In addition, we believe that the effects of the industry restructuring that took place in 2008, increasing competition from telecommunications services providers that use alternative technologies and entry of non-State-owned telecommunications services providers into the telecommunications services market have had, and will continue to have, a significant impact on the competitive landscape of the telecommunications industry in Mainland China. We expect competition from other telecommunications services providers may intensify. See Risk Factors Risks Relating to Our Business Competition from other telecommunications services providers and competitors in other related industries may further increase, which may reduce our market share and decrease our profit margin, and we cannot assure you that any potential change in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations, Risk Factors Changes in technology and business models may render our current technologies and business model obsolete and intensify competition from providers offering telecommunications services using alternative technologies, which could materially and adversely affect our business and market position and Risk Factors Risks Relating to the Telecommunications Industry in Mainland China Current or future asymmetrical and other regulatory measures adopted by the PRC regulatory authorities could materially harm our competitive position. Our financial performance is also subject to the economic and social conditions in Mainland China. See Risk Factors Risks Relating to Mainland China An economic slowdown in Mainland China may reduce the demand for our services and have a material adverse effect on our financial condition, results of operations and business prospects.

***Our Operating Arrangements with CMCC Have Affected and May Continue to Affect Our Financial Results***

We have entered into agreements with CMCC with respect to, among other things, inter-provincial transmission lines leasing. Pursuant to these agreements, for the inter-provincial transmission lines we lease from other providers through CMCC, CMCC maintains its inter-provincial transmission line leasing arrangements with the relevant transmission line providers, and collects leasing fees from us and pays fees to the relevant transmission line providers.

Prior to September 13, 2012, we had an arrangement with CMCC under which CMCC maintained its settlement arrangements with respect to international interconnection and roaming with the relevant telecommunications services providers in foreign countries and regions, and collected the relevant usage fees and other fees from us and paid the same to the relevant mobile telecommunications services providers in foreign countries and regions. On September 13, 2012, we entered into an agreement with CMCC, pursuant to which CMCC would gradually transfer its settlement arrangements with certain telecommunications services providers in foreign countries and regions to China Mobile International, our wholly-owned subsidiary. As a result, our arrangement with CMCC with respect to international interconnection and roaming with certain telecommunications services providers has been gradually phasing out.

We have also entered into a telecommunications services cooperation agreement with CMCC, pursuant to which we and CMCC provide customer development services to each other by utilizing our respective sales channels and resources, and cooperate in the provision of basic telecommunications services and value-added telecommunications services to customers of each other.

In addition, we have entered into a network capacity leasing agreement with CMCC, pursuant to which we and our operating subsidiaries lease TD-SCDMA network capacity from CMCC and pay leasing fees to CMCC. We have also entered into a network assets leasing agreement with CMCC, pursuant to which we and CMCC will lease our respective telecommunications network operation assets to each other for a leasing fee.

***Tariff Adjustments***

The tariffs charged by PRC telecommunications operators are regulated by the PRC government. See Item 4. Information on the Company Business Overview Regulation Tariff Setting. Moreover, we are allowed to offer our customers a variety of tariff packages with different monthly charges, levels of basic usage and charges for usage exceeding the covered basic usage, voice value-added services, data services and other features. See Item 4. Information on the Company Business Overview Tariffs.

Our average voice services revenue per minute has generally decreased in recent years as tariffs have generally decreased. We expect the decrease in tariff to gradually slow down after the adjustments we implemented in recent years.

## **Table of Contents**

### ***Our ARPU Has Declined and May Further Decline in the Future***

Our ARPU decreased from RMB71 in 2011 to RMB68 in 2012, primarily due to the fact that a significant number of our new customers are users with relatively low usage of mobile telecommunications services and the availability of alternative voice services through the Internet. This decline was also due to the gradual implementation of the tariff adjustments that generally resulted in declines in tariffs. As we continue to expand our customer base and implement tariff adjustments, we expect our ARPU to further decline.

### **Critical Accounting Policies and Estimates**

The following discussion and analysis is based on our consolidated financial statements, which have been prepared in accordance with IFRS for the years ended December 31, 2010, 2011 and 2012. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and revenues and expenses during the years reported. Estimates are also used when accounting for certain items such as revenue recognition, provision for customer point reward program, allowance for doubtful accounts, depreciation, amortization of other intangible assets, impairment of property, plant and equipment, goodwill and other intangible assets arising from acquisitions. Actual results may differ from those estimates under different assumptions or conditions.

We believe that the following critical accounting estimates and related assumptions and uncertainties inherent in our accounting policies have a more significant impact on our consolidated financial statements, either because of the significance of the financial statement elements to which they relate or because they require judgment and estimation.

#### ***Revenue Recognition***

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

- (i) revenue derived from voice and data services are recognized as revenue when the service is rendered;
- (ii) revenue from prepaid services is recognized as revenue when the mobile telecommunications services are delivered based upon actual usage by customers;
- (iii) sales of SIM cards and terminals are recognized on delivery of goods to the customers and such amount, net of cost of goods sold, is included in other net income due to its insignificance;
- (iv) interest income is recognized as it accrues using the effective interest method; and
- (v) revenue from fixed price contracts is recognized using the percentage of completion method.

#### ***Provision for Customer Point Reward Program***

We invite our customers to participate in a customer point reward program, or the Reward Program, which provides customers the option of electing to receive free telecommunications services or other non-cash gifts. The level of bonus points earned under the Reward Program varies depending on the customers' service consumption, loyalty and payment history.

Starting from January 1, 2009, as a result of the adoption of IFRIC Interpretation 13, we accounted for the reward points as a separately identifiable component of the sales transactions in which the points are granted. We allocate the consideration received with respect to a sales transaction to reward points by reference to the estimated fair value of the points and defer the revenue recognition until such reward points are redeemed by the customer or the points expire.

#### ***Allowance for Doubtful Accounts***

We maintain allowances for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables at each balance sheet date. We base our estimates on the aging of our accounts receivable and other receivable balances and our historical write-off experience, net of recoveries. If the financial condition of our customers were to deteriorate, additional allowances may be required.



## **Table of Contents**

### ***Depreciation***

Depreciation is based on the estimated useful lives of items of property, plant and equipment, less their estimated residual value, if any, to write off the cost of these items using the straight-line method over their estimated useful lives. We review the estimated useful lives and residual values of our assets annually. We determine the useful life and residual values of our assets based on our historical experience with similar assets, expected usage of the assets and anticipated technological changes with respect to those assets. Estimates and assumptions used in setting depreciable lives require both judgment and estimation. Our policies regarding accounting for these assets are set forth in note 1(h) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

### ***Amortization of Other Intangible Assets***

Amortization of other intangible assets is calculated to write off the cost of items of other intangible assets using the straight-line method over their estimated useful lives unless such lives are indefinite. We review the estimated useful lives of other intangible assets annually in order to determine the amount of amortization expense to be recorded during any reporting period. The useful lives are based on the estimated period over which future economic benefits will be received by us and taking into account any unexpected adverse changes in circumstances or events. The amortization expense for future periods is adjusted if there are significant changes from previous estimates. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the level of the cash-generating unit. Such intangible assets are not amortized. Our policies regarding accounting for these assets are set forth in note 1(f) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

### ***Impairment of Property, Plant and Equipment, Goodwill and Other Intangible Assets***

Our property, plant and equipment, consisting primarily of telecommunications transceivers, switching centers, transmission and other network equipment, comprise a significant portion of our total assets. Changes in technology or industry conditions may cause the estimated period of use or the value of these assets to change. Property, plant and equipment and other intangible assets subject to amortization, are reviewed at least annually to determine whether there is any indication of impairment. The recoverable amount is estimated whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. In addition, for goodwill and other intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset is the greater of its fair value less costs to sell and its 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 judgment relating to level of revenue and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in impairment charges or reversal of impairment in future periods. No impairment of property, plant and equipment, goodwill and other intangible assets was recorded in 2010, 2011 or 2012.

Estimates and assumptions used in testing for recoverability require both judgment and estimation. Our policies regarding accounting for these assets and assessing their recoverability are set forth in note 1(j) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.



**Table of Contents****Results of Operations**

The following table sets forth selected consolidated statements of comprehensive income data for the years indicated:

|  | Year Ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2010                    | 2011           | 2012           |
|  | (in millions of RMB)    |                |                |
| <b>Operating revenue<sup>(1)</sup>:</b>    |                         |                |                |
| Voice services                             | 343,985                 | 364,189        | 368,025        |
| Data services                              | 120,768                 | 139,330        | 166,348        |
| Others                                     | 20,478                  | 24,480         | 26,040         |
| <b>Total</b>                               | <b>485,231</b>          | <b>527,999</b> | <b>560,413</b> |
| <b>Operating expenses:</b>                 |                         |                |                |
| Leased lines                               | 3,897                   | 5,188          | 9,909          |
| Interconnection                            | 21,886                  | 23,533         | 25,140         |
| Depreciation                               | 86,230                  | 97,113         | 100,848        |
| Personnel                                  | 24,524                  | 28,672         | 31,256         |
| Selling expenses                           | 90,590                  | 96,830         | 104,906        |
| Other operating expenses                   | 107,350                 | 125,364        | 137,832        |
| <b>Total</b>                               | <b>334,477</b>          | <b>376,700</b> | <b>409,891</b> |
| Profit from operations                     | 150,754                 | 151,299        | 150,522        |
| Other net income                           | 2,336                   | 2,559          | 2,208          |
| Non-operating net income                   | 685                     | 571            | 615            |
| Interest income                            | 5,658                   | 8,413          | 12,661         |
| Finance costs                              | (902)                   | (565)          | (390)          |
| Share of profit of associates              | 558                     | 4,306          | 5,685          |
| Share of loss of jointly controlled entity | (18)                    | (1)            | (1)            |
| <b>Profit before taxation</b>              | <b>159,071</b>          | <b>166,582</b> | <b>171,300</b> |
| Taxation                                   | (39,047)                | (40,603)       | (41,919)       |
| <b>Profit for the year</b>                 | <b>120,024</b>          | <b>125,979</b> | <b>129,381</b> |
| <b>Attributable to:</b>                    |                         |                |                |
| Equity shareholders                        | 119,640                 | 125,870        | 129,274        |
| Non-controlling interests                  | 384                     | 109            | 107            |
| <b>Profit for the year</b>                 | <b>120,024</b>          | <b>125,979</b> | <b>129,381</b> |

(1) We re-categorized the presentation of our operating revenue components in 2011, and as a result also re-categorized the historical presentation of our operating revenue components for 2010. We categorized our operating revenue components to reflect the continuous development of our business and the way in which we drive economic benefits from different types of telecommunications services. Under the current categorization, our operating revenue components are voice services revenue, data services revenue and other operating revenue. Voice services revenue includes revenue derived from voice usage services (including usage fees and monthly fee) and revenue derived from voice value-added services. Data services revenue includes revenue derived from SMS and MMS, wireless data traffic, and applications

and information services. Other operating revenue mainly includes interconnection revenue. Revenue derived from voice value-added services and certain voice-related services that had been included in value-added services revenue in our consolidated financial statements under the presentation in 2010 was re-categorized as voice services revenue. In addition, revenue derived from certain voice-related services that had been included in other operating revenue in our consolidated financial statements under the presentation in 2010 was also re-categorized as voice services revenue. Such re-categorization had no effect on our reported profit or loss, total income and expense or net assets for any of the periods presented.

**Table of Contents****Year Ended December 31, 2012 Compared to Year Ended December 31, 2011**

**Operating Revenue.** Our operating revenue mainly consists of voice services revenue and data services revenue. Voice services revenue mainly includes standard local usage fees for airtime and applicable domestic and international long distance charges receivable from customers for the use of our mobile telecommunications networks and facilities, fees in respect of roaming out calls made by our customers outside their registered service areas and fees charged for voice value-added services. Data services revenue is mainly derived from SMS and MMS, wireless data traffic and applications and information services. Other operating revenue mainly represents interconnection revenue. See note 1 to the table above.

Operating revenue increased by 6.1% from RMB527,999 million in 2011 to RMB560,413 million (US\$89,952 million) in 2012. This increase was primarily due to the continued expansion in our customer base, rapid growth of wireless data traffic business and the continued growth in applications and information services. Our total number of customers was 710.3 million as of December 31, 2012, compared to 649.6 million as of December 31, 2011.

Voice services revenue increased slightly by 1.1% from RMB364,189 million in 2011 to RMB368,025 million (US\$59,072 million) in 2012. This increase principally resulted from the continued expansion in our customer base and further increases in our voice usage in 2012. Our average voice services revenue per minute continued to reflect a downward trend from RMB0.094 in 2011 to RMB0.088 in 2012. With intensified market competition and with further declines in tariffs, our average voice services revenue per minute may continue to decline in future periods. As a percentage of operating revenue, voice services revenue decreased from 69.0% in 2011 to 65.7% in 2012.

Set forth below is a table summarizing certain results of our data business for the periods indicated.

|  | <b>Year Ended December 31,</b>       |             |
|--|--------------------------------------|-------------|
|  | <b>2011</b>                          | <b>2012</b> |
|  | <b>(Revenue, in millions of RMB)</b> |             |
| SMS and MMS  | 46,462                               | 44,215      |
| Wireless data traffic                                      | 44,428                               | 68,257      |
| Applications and information services                      | 48,440                               | 53,876      |
| Data services revenue                                      | 139,330                              | 166,348     |
| Data services revenue as a percentage of operating revenue | 26.4%                                | 29.7%       |

Data services revenue increased by 19.4% from RMB139,330 million in 2011 to RMB166,348 million (US\$26,701 million) in 2012. This increase was mainly due to our continued efforts in product innovation and business development. Our data business include SMS and MMS, wireless data traffic and applications and information services. Revenue generated from SMS and MMS decreased by 4.8% to RMB44,215 million in 2012 from RMB46,462 million in 2011 as SMS and MMS tariffs continue to decline and as competition from Internet instant messaging applications continued to intensify. Revenue generated from wireless data traffic grew substantially by 53.6% to RMB68,257 million in 2012, as compared to RMB44,428 million in 2011, primarily due to the significant increase in mobile data traffic resulting from the rapid development of the mobile Internet business and the increasing market penetration of smartphone terminals. Growth of applications and information services, in particular Mobile Mailbox, Mobile Reading, Mobile Video and Mobile Gaming, was also an important driver for our data business. Revenue generated from applications and information services grew by 11.2% to RMB53,876 million in 2012, as compared to RMB48,440 million in 2011. As a percentage of operating revenue, data services revenue increased from 26.4% in 2011 to 29.7% in 2012. We expect our data services revenue, in particular revenue generated from wireless data traffic business and applications and information services, to continue to grow in 2013.

Other operating revenue increased by 6.4% from RMB24,480 million in 2011 to RMB26,040 million (US\$4,180 million) in 2012. As a percentage of operating revenue, other operating revenue remained stable at 4.6% in 2011 and 2012.

**Operating Expenses.** Operating expenses include leased line expenses, interconnection expenses, depreciation expenses relating to our mobile telecommunications network and other property, plant and equipment, personnel expenses, selling expenses and other operating expenses. Other operating expenses primarily consist of network maintenance expenses, impairment loss for doubtful accounts, impairment loss of inventories, amortization of other intangible assets, operating lease charges, write-off of property, plant and equipment that have been demolished and disconnected from our existing network, labor service expenses, administration and other miscellaneous expenses.



---

**Table of Contents**

Operating expenses increased by 8.8% from RMB376,700 million in 2011 to RMB409,891 million (US\$65,792 million) in 2012. This increase was generally in line with the continued growth in our business and expansion in our customer base and our ongoing efforts to deliver better quality services and to cope with intensified competition in the telecommunications market in Mainland China.

Leased line expenses increased significantly by 91.0% from RMB5,188 million in 2011 to RMB9,909 million (US\$1,591 million) in 2012. This increase reflected an increase in leasing fees of Internet ports paid or payable to other telecommunications operators as a result of the rapid development of our Internet related businesses and an increase in payment of RMB1,385 million to CMCC in connection with the lease of its TD-SCDMA network capacity mainly due to an increase in the utilization of the TD-SCDMA network. As a percentage of operating expenses, leased line expenses increased from 1.4% in 2011 to 2.4% in 2012.

Interconnection expenses increased by 6.8% from RMB23,533 million in 2011 to RMB25,140 million (US\$4,035 million) in 2012, primarily due to an increase in interconnection voice usage volume. Our continuing marketing strategy of reorganizing and re-routing traffic volume has led to a lower proportion of inter-network traffic volume, and interconnection expenses as a percentage of operating expenses decreased slightly from 6.2% in 2011 to 6.1% in 2012.

Depreciation expenses increased by 3.8% from RMB97,113 million in 2011 to RMB100,848 million (US\$16,187 million) in 2012. This increase was mainly due to our ongoing capital expenditures for the construction of our mobile telecommunications networks, support systems, transmission and structural facilities and the development of new businesses to better support the growth of customer base and voice usage and to meet an unprecedented increase in demand in wireless data traffic. As a percentage of operating expenses, depreciation expenses decreased from 25.8% in 2011 to 24.6% in 2012.

Personnel expenses increased by 9.0% from RMB28,672 million in 2011 to RMB31,256 million (US\$5,017 million) in 2012. This increase was primarily due to an increase in headcount from 175,336 as of the end of 2011 to 182,487 as of the end of 2012 as we hired new staff members to cope with the demands of our business development, especially in connection with our effort to achieve enhanced operational efficiency by establishing subsidiaries to operate certain aspects of our businesses. As a percentage of operating expenses, personnel expenses remained stable at 7.6% in 2011 and 2012.

Selling expenses increased by 8.3% from RMB96,830 million in 2011 to RMB104,906 million (US\$16,839 million) in 2012. This increase was principally the result of an increase in expanding sales channels, developing new models of terminals and improving customer service in response to intensified market competition. As a percentage of operating expenses, selling expenses decreased slightly from 25.7% in 2011 to 25.6% in 2012.

Other operating expenses increased by 9.9% from RMB125,364 million in 2011 to RMB137,832 million (US\$22,124 million) in 2012. This increase was primarily due to an increase in maintenance expenses from RMB35,096 million in 2011 to RMB39,184 million in 2012. This increase was also due to an increase in labor service expenses for services provided by third parties from RMB20,014 million in 2011 to RMB23,934 million in 2012, and an increase in the cost of utilities, such as water, electricity and heating. Increase in other operating expenses were partially offset by a decrease in write-off of property, plant and equipment from RMB5,853 million in 2011 to RMB2,818 million in 2012. In addition, this increase was due to an increase in operating lease charges from RMB11,235 million in 2011 to RMB12,752 million in 2012, incurred mainly in connection with our continued investments in our network equipment and facilities. As a percentage of operating expenses, other operating expenses increased from 33.3% in 2011 to 33.6% in 2012. For more information on our other operating expenses, see note 5 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

**Profit from Operations.** As a result of the foregoing, profit from operations decreased by 0.5% from RMB151,299 million in 2011 to RMB150,522 million (US\$24,160 million) in 2012, and operating margin (profit from operations as a percentage of operating revenue) decreased from 28.7% in 2011 to 26.9% in 2012.

**Other Net Income.** Other net income represents primarily net sales from SIM cards and terminals and revenue from construction contracts. Other net income decreased by 13.7% from RMB2,559 million in 2011 to RMB2,208 million (US\$354 million) in 2012. This decrease was principally due to a decrease in revenue from construction contracts.

**Non-Operating Net Income.** Non-operating net income increased by 7.7% from RMB571 million in 2011 to RMB615 million (US\$99 million) in 2012, principally due to a foreign exchange gain of RMB17 million in 2012, compared to a foreign exchange loss of RMB9 million in 2011. Non-operating net income is mainly comprised of penalty income and other miscellaneous non-operating income.

**Interest Income.** Interest income increased by 50.5% from RMB8,413 million in 2011 to RMB12,661 million (US\$2,032 million) in 2012, mainly due to an increase in the average yield of our bank deposits as we adjusted the composition of our bank deposits and an increase in the

amount of bank deposits in 2012.

**Table of Contents**

**Finance Costs.** Finance costs decreased by 31.0% from RMB565 million in 2011 to RMB390 million (US\$63 million) in 2012. The higher finance costs in 2011, as compared to 2012, was mainly attributable to the redemption in June 2011 of guaranteed bonds due in 2011 in the aggregate principal amount of RMB5,000 million. This decrease was also due to lower interest rates in 2012 in respect of the deferred consideration payable in connection with the acquisition of our subsidiaries in 2002 and 2004 respectively. In 2012, the average interest rate that we paid on our outstanding borrowings was approximately 1.36%, compared to 1.81% in 2011.

**Share of Profit of Associates.** We had a share of profit of associates of RMB5,685 million (US\$913 million) in 2012, which was primarily attributable to our shareholding of 20% of the enlarged issued share capital of SPD Bank, compared to a share of profit of associates of RMB4,306 million in 2011. Our share of profit of associates has been adjusted to reflect the amortization of the proportionate fair value of SPD Bank's identifiable net assets as of the date of our investment in excess of our cost of investment.

**Profit before Taxation.** As a result of the foregoing, profit before tax increased by 2.8% from RMB166,582 million in 2011 to RMB171,300 million (US\$27,496 million) in 2012.

**Taxation.** Our income tax expense increased by 3.2% from RMB40,603 million in 2011 to RMB41,919 million (US\$6,728 million) in 2012. This increase was mainly due to an increase in our profit before taxation. Our effective tax rate was 24.4% in 2011 and 24.5% in 2012, respectively.

**Profit Attributable to Equity Shareholders.** As a result of the foregoing and after taking into account non-controlling interests, profit attributable to equity shareholders increased by 2.7% from RMB125,870 million in 2011 to RMB129,274 million (US\$20,750 million) in 2012. Net profit margin (profit attributable to equity shareholders as a percentage of operating revenue) decreased from 23.8% in 2011 to 23.1% in 2012.

**Year Ended December 31, 2011 Compared to Year Ended December 31, 2010**

**Operating Revenue.** Our operating revenue mainly consists of voice services revenue and data services revenue. Voice services revenue mainly includes standard local usage fees for airtime and applicable domestic and international long distance charges receivable from customers for the use of our mobile telecommunications networks and facilities, fees in respect of roaming out calls made by our customers outside their registered service areas and fees charged for voice value-added services. Data services revenue is mainly derived from SMS and MMS, wireless data traffic and applications and information services. Other operating revenue mainly represents interconnection revenue.

Operating revenue increased by 8.8% from RMB485,231 million in 2010 to RMB527,999 million in 2011. This increase was primarily due to the continued expansion in our customer base, rapid growth of data business and the continued growth in voice usage volume. Our total number of customers was approximately 649.6 million as of December 31, 2011, compared to approximately 584.0 million as of December 31, 2010.

Voice services revenue increased by 5.9% from RMB343,985 million in 2010 to RMB364,189 million in 2011. This increase principally resulted from the further increase in our voice usage and the continued expansion in our customer base during 2011. Although our average revenue per minute reflected a downward trend from RMB0.140 in 2010 to RMB0.136 in 2011, this decline was partially offset by higher growth in our voice usage in 2011. With intensified market competition and with further declines in tariffs, our average revenue per minute may continue to decline in future periods. As a percentage of operating revenue, voice services revenue decreased from 70.9% in 2010 to 69.0% in 2011.

Set forth below is a table summarizing certain results of our data business for the periods indicated.

|  | <b>Year Ended December 31,</b>       |             |
|--|--------------------------------------|-------------|
|  | <b>2010</b>                          | <b>2011</b> |
|  | <b>(Revenue, in millions of RMB)</b> |             |
| SMS and MMS  | 46,889                               | 46,462      |
| Wireless data traffic                                      | 30,644                               | 44,428      |
| Applications and information services                      | 43,235                               | 48,440      |
| Data services revenue                                      | 120,768                              | 139,330     |
| Data services revenue as a percentage of operating revenue | 24.9%                                | 26.4%       |





---

**Table of Contents**

Data services revenue increased by 15.4% from RMB120,768 million in 2010 to RMB139,330 million in 2011. This increase was mainly due to our continued efforts in product innovation and business development. Our data business include SMS and MMS, wireless data traffic and applications and information services. Revenue generated from SMS and MMS decreased by 0.9% to RMB46,462 million in 2011 from RMB46,889 million in 2010 as SMS and MMS tariffs continue to decline and as competition from Internet instant messaging applications continued to intensify. Revenue generated from wireless data traffic grew substantially by 45.0% to RMB44,428 million in 2011, as compared to RMB30,644 million in 2010. The rapid growth of our applications and information services, in particular Wireless Music, Mobile Reading, Mobile Video and Mobile Mailbox, was an important driver for our data business. In particular, revenue generated from applications and information services grew by 12.0% to RMB48,440 million in 2011, as compared to RMB43,235 million in 2010. As a percentage of operating revenue, data services revenue increased from 24.9% in 2010 to 26.4% in 2011. We expect our data business, in particular wireless data traffic and applications and information services, to continue to grow.

Other operating revenue increased by 19.5% from RMB20,478 million in 2010 to RMB24,480 million in 2011. As a percentage of operating revenue, other operating revenue increased from 4.2% in 2010 to 4.6% in 2011 largely due to the increase in interconnection revenue as a result of increasing volume of incoming calls from other telecommunications operators.

**Operating Expenses.** Operating expenses include leased line expenses, interconnection expenses, depreciation expenses relating to our mobile telecommunications network and other property, plant and equipment, personnel expenses, selling expenses and other operating expenses. Other operating expenses primarily consist of network maintenance expenses, impairment loss for doubtful accounts, impairment loss of inventories, amortization of other intangible assets, operating lease charges, write-off of property, plant and equipment that have been demolished and disconnected from our existing network, labor service expenses, administration and other miscellaneous expenses.

Operating expenses increased by 12.6% from RMB334,477 million in 2010 to RMB376,700 million in 2011. This increase, notably in other operating expenses (particularly maintenance expenses and labor services expenses) and depreciation, was generally in line with the continued growth in our customer base and usage volume and our ongoing efforts to deliver better quality services and to cope with intensified competition.

Leased line expenses increased by 33.1% from RMB3,897 million in 2010 to RMB5,188 million in 2011. This increase reflected an increase in payment of RMB514 million to CMCC in connection with the lease of its TD-SCDMA network capacity and the increase in leasing fees of Internet ports paid to other telecommunications operators as a result of the rapid development of our Internet related businesses. As a percentage of operating expenses, leased line expenses increased slightly from 1.2% in 2010 to 1.4% in 2011.

Interconnection expenses increased by 7.5% from RMB21,886 million in 2010 to RMB23,533 million in 2011, primarily due to an increase in interconnection voice usage volume. Our continuing marketing strategy to reorganize and re-route traffic volume has led to a lower proportion of inter-network traffic volume. Interconnection expenses as a percentage of operating expenses decreased from 6.5% in 2010 to 6.2% in 2011.

Depreciation expense increased by 12.6% from RMB86,230 million in 2010 to RMB97,113 million in 2011. This increase was mainly due to our continuous capital expenditures for the construction of our mobile telecommunications networks, support systems, transmission and structural facilities and the development of new businesses to better support the growth of customer base and voice usage and to meet an unprecedented increase in demand in wireless data traffic. As a percentage of operating expenses, depreciation expense remained stable at 25.8% in 2010 and 2011.

Personnel expenses increased by 16.9% from RMB24,524 million in 2010 to RMB28,672 million in 2011. This increase was primarily due to an increase in headcount from 164,336 as of the end of 2010 to 175,336 as of the end of 2011 as we hired new staff members to cope with the demands of our business development, especially in connection with our effort to achieve enhanced operational efficiency by establishing a number of subsidiaries, such as China Mobile International and China Mobile Device, that operate certain aspects of our businesses. As a percentage of operating expenses, personnel expenses increased from 7.3% in 2010 to 7.6% in 2011.

Selling expenses increased by 6.9% from RMB90,590 million in 2010 to RMB96,830 million in 2011. This increase was principally the result of an increase in expanding sales channels and improving customer service in response to intensified market competition. As a percentage of operating expenses, selling expenses decreased from 27.1% in 2010 to 25.7% in 2011.

**Table of Contents**

Other operating expenses increased by 16.8% from RMB107,350 million in 2010 to RMB125,364 million in 2011. This increase was primarily due to an increase in maintenance expenses from RMB31,390 million in 2010 to RMB35,096 million in 2011, an increase in write-off of property, plant and equipment from RMB2,763 million in 2010 to RMB5,853 million in 2011, incurred principally as a result of retirement of obsolete or damaged network assets with a net book value of RMB5,853 million, and an increase in operating lease charges from RMB9,839 million in 2010 to RMB11,235 million in 2011, incurred principally as a result of our continued investments in our network equipment and facilities. This increase was also due to an increase in labor service expenses for services provided by third parties from RMB15,649 million in 2010 to RMB20,014 million in 2011, and an increase in the price of utilities, such as water, electricity and heating. Increase in other operating expenses were partially offset by a decrease in impairment loss of doubtful accounts from RMB4,019 million in 2010 to RMB3,548 million in 2011. As a percentage of operating expenses, other operating expenses increased from 32.1% in 2010 to 33.3% in 2011. For more information on our other operating expenses, see note 5 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

**Profit from Operations.** As a result of the foregoing, profit from operations increased by 0.4% from RMB150,754 million in 2010 to RMB151,299 million in 2011, and operating margin (profit from operations as a percentage of operating revenue) decreased from 31.1% in 2010 to 28.7% in 2011.

**Other Net Income.** Other net income represents primarily net sales from SIM cards and terminals and revenue from construction contracts. These items are included in other net income due to their insignificance. Other net income increased by 9.5% from RMB2,336 million in 2010 to RMB2,559 million in 2011. This increase was principally due to an increase in revenue from construction contracts and an increase in net sales from sales of SIM cards and terminals.

**Non-Operating Net Income.** Non-operating net income decreased by 16.6% from RMB685 million in 2010 to RMB571 million in 2011. The higher non-operating net increase in 2010 was attributable to a write back of accounts payable while there was no such a write back in 2011. Non-operating net income is mainly comprised of penalty income and other miscellaneous non-operating income.

**Interest Income.** Interest income increased by 48.7% from RMB5,658 million in 2010 to RMB8,413 million in 2011, mainly due to the higher interest rate in 2011 and an increase in our bank deposits.

**Finance Costs.** Finance costs decreased by 37.4% from RMB902 million in 2010 to RMB565 million in 2011. This decrease was primarily due to the redemption of guaranteed bonds due in 2011 with an aggregate principal amount of RMB5,000 million and a lower interest rate in 2011 in respect of the deferred consideration payable in connection with the acquisition of our subsidiaries in 2002 and 2004 respectively. In 2011, the average interest rate that we paid on our outstanding borrowings was approximately 1.81%, compared to 2.68% in 2010.

**Share of Profit of Associates.** We had a share of profit of associates of RMB4,306 million in 2011, which was attributable to our shareholding of 20% of the enlarged issued share capital of SPD Bank, compared to a share of profit of associates of RMB558 million in 2010. Our share of profit of associates has been adjusted to reflect the amortization of the proportionate fair value of SPD Bank's identifiable net assets as of the date of our investment in excess of our cost of investment.

**Profit before Taxation.** As a result of the foregoing, profit before tax increased by 4.7% from RMB159,071 million in 2010 to RMB166,582 million in 2011.

**Taxation.** Our income tax expense increased by 4.0% from RMB39,047 million in 2010 to RMB40,603 million in 2011. This increase was mainly due to an increase in our profit before taxation. Our effective tax rate was 24.5% in 2010 and 24.4% in 2011, respectively.

**Profit Attributable to Equity Shareholders.** As a result of the foregoing and after taking into account non-controlling interests, profit attributable to equity shareholders increased by 5.2% from RMB119,640 million in 2010 to RMB125,870 million in 2011. Net profit margin (profit attributable to equity shareholders as a percentage of operating revenue) decreased from 24.7% in 2010 to 23.8% in 2011.

**Table of Contents****Liquidity and Capital Resources****Liquidity**

Our principal source of liquidity is cash generated from our operations. As of December 31, 2012, we had working capital (current assets minus current liabilities) of RMB148,797 million (US\$23,884 million), compared to working capital of RMB109,441 million as of December 31, 2011 and working capital of RMB66,202 million as of December 31, 2010. The increase in our working capital as of December 31, 2012 from December 31, 2011 was primarily due to increases in our bank deposits, prepayments and other current assets and accounts receivable, partially offset by a decrease in cash and cash equivalents and an increase in accrued expenses and other payables, accounts payable as well as deferred revenue. The current portion of our finance lease obligations as of December 31, 2010, 2011 and 2012 were RMB68 million, RMB68 million and RMB68 million (US\$11 million), respectively.

The following table summarizes certain cash flow information for the periods indicated.

|  | Year ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2010                    | 2011      | 2012      |
|  | (in millions of RMB)    |           |           |
| Net cash generated from operating activities         | 231,379                 | 226,756   | 230,709   |
| Net cash used in investing activities                | (171,572)               | (169,356) | (191,176) |
| Net cash used in financing activities                | (51,051)                | (58,420)  | (54,897)  |
| Net increase/(decrease) in cash and cash equivalents | 8,756                   | (1,020)   | (15,364)  |

Net cash generated from operating activities increased by 1.7% from RMB226,756 million in 2011 to RMB230,709 million (US\$37,031 million) in 2012, primarily reflecting a larger increase in accounts payable, a larger increase in accrued expenses and other payables as well as a decrease in inventories in 2012 compared to an increase in inventories in 2011, which was partially offset by an increase in PRC enterprise income tax paid and a larger increase in accounts receivable. Net cash generated from operating activities decreased by 2.0% from RMB231,379 million in 2010 to RMB226,756 million in 2011, principally reflecting a lower overall increase in accrued expenses and other payables and a smaller increase in accounts payable, which was partially offset by an increase in our profit as a result of the continued expansion of our customer base and growth in our voice and data businesses.

Net cash used in investing activities increased by 12.9% from RMB169,356 million in 2011 to RMB191,176 million (US\$30,686 million) in 2012, primarily due to a greater increase in our bank deposits of RMB43,426 million and an increase in our restricted bank deposits of RMB5,264 million, which was partially offset by an increase in the repayment of trust loans granted to large state-owned enterprises through commercial banks of RMB11,300 million. Net cash used in investing activities decreased by 1.3% from RMB171,572 million in 2010 to RMB169,356 million in 2011. The higher net cash used in investing activities in 2010 was largely attributable to our acquisition of 20% of the enlarged share capital of SPD Bank in 2010. The decrease in cash used in investing activities in 2011 was partially offset by a greater increase in our bank deposits of RMB22,694 million and a net increase in trust loans of RMB11,300 million.

Net cash used in financing activities decreased by 6.0% from RMB58,420 million in 2011 to RMB54,897 million (US\$8,812 million) in 2012. The larger amount of cash used in financing activities in 2011 compared to 2012 was mainly attributable to the redemption in June 2011 of guaranteed bonds due in 2011 in the aggregate principal amount of RMB5,000 million, which was partially offset by an increase in dividends paid to shareholders of RMB2,850 million. Net cash used in financing activities increased by 14.4% from RMB51,051 million in 2010 to RMB58,420 million in 2011. This increase was largely due to the redemption of guaranteed bonds due in June 2011 with the aggregate principal amount of RMB5,000 million.

**Capital Expenditures**

Capital expenditures incurred in 2010, 2011 and 2012 were RMB124,347 million, RMB128,548 million and RMB127,403 million (US\$20,450 million), respectively. We incurred capital expenditures principally for the construction of our mobile telecommunications networks, transmission facilities, support system and buildings and infrastructure and development of business. The level of our capital expenditures increased in 2011 principally as a result of our efforts to meet increased demand on our network services arising from the continued expansion of our customer base and fast growth of our data business.

## Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

We estimate that we will incur capital expenditures of approximately RMB190.2 billion (US\$30.5 billion) in 2013. We expect that approximately 42% of our capital expenditures in 2013 will be used in the construction of mobile telecommunications networks, approximately 31% will be used in the construction of transmission facilities, approximately 13% will be used in construction of buildings and infrastructure, approximately 6% will be used in building support systems, and approximately 6% will be used in business development. We expect that 22% of our capital expenditures in 2013 will be used in the construction of our TD-LTE networks and base stations.

-41-

---

## **Table of Contents**

We have generally funded our capital requirements primarily with cash generated from operations. We believe our available cash and cash generated from future operations will be sufficient to fund the capital expenditures and working capital necessary for the planned network expansion and continued growth of our mobile telecommunications operations through the end of 2013.

We may seek to obtain additional sources of financing to fund our network expansion and possible future acquisitions, to the extent necessary.

### ***Contractual Obligations and Commitments***

#### **Indebtedness**

As of December 31, 2011 and 2012, we did not have any long-term or short-term bank and other loans, excluding the current portion of our finance lease obligations of RMB68 million and RMB68 million (US\$11 million), respectively.

On October 28, 2002 our wholly-owned subsidiary, Guangdong Mobile, issued RMB5,000 million guaranteed bonds due 2017. These bonds commenced trading on the Shanghai Stock Exchange on January 22, 2003. The guaranteed bonds bear fixed interest of 4.5%, payable annually. We have issued a joint and irrevocable guarantee for the performance of these bonds, and CMCC has issued a further guarantee in relation to the performance by us of our guarantee obligation. These bonds received a consolidated credit rating of AAA by China Chengxin International Credit Rating Company Limited and a consolidated credit rating of AAA by Dagong Global Credit Rating Co. Ltd, a PRC credit rating agency. The entire net proceeds from the offering were applied solely to satisfy part of the US\$2,800 million deferred consideration for the acquisition by the Company of the entire interest in China Mobile Group Anhui Co., Ltd., China Mobile Group Jiangxi Co., Ltd., China Mobile Group Chongqing Co., Ltd., China Mobile Group Sichuan Co., Ltd., China Mobile Group Hubei Co., Ltd., China Mobile Group Hunan Co., Ltd., China Mobile Group Shaanxi Co., Ltd. and China Mobile Group Shanxi Co., Ltd. in 2002.

The deferred consideration of US\$2,800 million for our acquisition of the eight regional mobile telecommunications companies in 2002 and the deferred consideration of US\$1,650 million for our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in 2004 are subordinated to other senior debt owed by us from time to time. In addition, these deferred considerations are payable by the 15th anniversary of the date of the completion of the respective acquisitions, and we may make an early payment of all or part of these deferred considerations at any time without penalty. We are required to pay interest semi-annually on the actual amount of these deferred considerations unpaid from the date of completion of the respective acquisitions. Interest is calculated at the two-year U.S. dollar London Inter-Bank Offered Rate, or LIBOR, swap rate at 11:00 a.m. (New York City time) on the second business day next preceding the date of the respective acquisition agreements for the first two years after completion of the respective acquisitions. Thereafter, the interest rate will be adjusted every two years to equal the two-year U.S. dollar LIBOR swap rate prevailing at 11:00 a.m. (New York City time) on the relevant interest determination dates. The payment of the deferred considerations and the interest payments can be made in Hong Kong dollars (HK\$7.7993 to US\$1.00 and HK\$7.7995 to US\$1.00 for our acquisitions of the regional mobile telecommunications companies in 2002 and 2004, respectively), RMB (RMB8.2770 to US\$1.00 and RMB8.2768 to US\$1.00 for our acquisitions of the regional mobile telecommunications companies in 2002 and 2004, respectively) or U.S. dollars (or other agreed currencies), with the relevant exchange rates set forth in the respective acquisition agreements. Any payment made in currencies other than U.S. dollars will be accounted for based on the exchange rates between U.S. dollars and such currencies prevailing at 12:00 noon (New York City time) on the day which is two business days next preceding the date of the respective acquisition agreements.

We currently have a corporate credit rating of Aa3/Outlook Stable from Moody's Investors Service and AA-/Outlook Stable from Standard & Poor's, each of which is consistent with China's sovereign credit rating. Any downgrade in our credit rating will not trigger any events of default on our outstanding bonds or loans or our existing credit facilities.

For a discussion of our interest rate risk, please see Item 11. Quantitative and Qualitative Disclosures About Market Risk.

**Table of Contents****Other Contractual Obligations and Commitments**

As of December 31, 2012, we had various contractual obligations and commitments which are more fully disclosed in the notes to our consolidated financial statements. The principal components of these obligations and commitments include:

our short-term and long-term debts (in addition to the bonds described under **Indebtedness** above), which includes finance leases;

operating leases; and

capital commitments.

In the ordinary course of our business, we routinely enter into commercial commitments for various aspects of our operations, such as repair and maintenance. However, we believe that those commitments will not have a material effect on our financial condition, results of operations or cash flows.

For further disclosure regarding leases and other commitments, please see note 39 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

The following table sets forth certain information regarding our contractual obligations to make future payments (including relevant estimated interest payment) as of December 31, 2012:

| <b>Contractual Obligations</b>       | <b>Total</b>   | <b>Payments Due by Period</b> |                  |                  |                          |
|--------------------------------------|----------------|-------------------------------|------------------|------------------|--------------------------|
|                                      |                | <b>Less than 1 year</b>       | <b>1 3 years</b> | <b>3 5 years</b> | <b>More than 5 years</b> |
|                                      |                | (in millions of RMB)          |                  |                  |                          |
| Accounts Payable                     | 123,896        | 123,896                       |                  |                  |                          |
| Bills Payable                        | 1,159          | 1,159                         |                  |                  |                          |
| Accrued expenses and other payables  | 103,774        | 103,774                       |                  |                  |                          |
| Deferred Consideration Payable       | 24,263         | 141                           | 222              | 10,156           | 13,744                   |
| Bonds                                | 6,085          | 225                           | 450              | 5,410            |                          |
| Finance Lease Obligations            | 71             | 71                            |                  |                  |                          |
| <b>Total Contractual Obligations</b> | <b>259,248</b> | <b>229,266</b>                | <b>672</b>       | <b>15,566</b>    | <b>13,744</b>            |

The following table sets forth certain information regarding our other commercial commitments as of December 31, 2012:

| <b>Other Commercial Commitments</b> | <b>Total Amount Committed</b> | <b>Amount of Commitment Expiration Per Period</b> |                  |                  |                          |
|-------------------------------------|-------------------------------|---|------------------|------------------|--------------------------|
|                                     |                               | <b>Less than 1 year</b>                           | <b>1 3 years</b> | <b>3 5 years</b> | <b>More than 5 years</b> |
|                                     |                               | (in millions of RMB)                              |                  |                  |                          |
| Operating Lease Commitments         | 37,232                        | 11,626  | 12,819           | 7,198            | 5,589                    |
| Capital Commitments                 | 212,478                       | 179,056   | 33,422           |                  |                          |
| <b>Total Commercial Commitments</b> | <b>249,710</b>                | <b>190,682</b>                                    | <b>46,241</b>    | <b>7,198</b>     | <b>5,589</b>             |

**Off-Balance Sheet Arrangements**

## Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

As of December 31, 2012, we did not have any off-balance sheet arrangements or any written options on non-financial assets.

### **Foreign Exchange**

We maintain our accounts in Renminbi and substantially all of our revenue and expenses are denominated in Renminbi. All of our current operating subsidiaries are incorporated in Mainland China, except for Hong Kong Mobile. Under the current foreign exchange system in Mainland China, our subsidiaries in Mainland China may not be able to hedge effectively against currency risk, including any possible future Renminbi devaluation. See Item 10. Additional Information Exchange Controls.

**Table of Contents**

Each of our operating subsidiaries in Mainland China is able to purchase foreign exchange for settlement of current account transactions, as defined in applicable regulations, in order to satisfy its foreign exchange requirements.

**Item 6. Directors, Senior Management and Employees.**  
**Directors and Senior Management**

The following table sets forth certain information concerning our directors and senior management as of April 25, 2013.

| <b>Name</b>          | <b>Age</b> | <b>Position</b>  |
|----------------------|------------|--|
| Mr. XI Guohua        | 61         | Executive Director and Chairman                                |
| Mr. LI Yue           | 53         | Executive Director and Chief Executive Officer                 |
| Mr. XUE Taohai       | 56         | Executive Director, Vice President and Chief Financial Officer |
| Mdm. HUANG Wenlin    | 58         | Executive Director and Vice President                          |
| Mr. SHA Yuejia       | 55         | Executive Director and Vice President                          |
| Mr. LIU Aili         | 49         | Executive Director and Vice President                          |
| Dr. LO Ka Shui       | 66         | Independent Non-Executive Director                             |
| Mr. Frank K.S. WONG  | 65         | Independent Non-Executive Director                             |
| Dr. Moses M.C. CHENG | 63         | Independent Non-Executive Director                             |

\* Mr. XU Long resigned as an Executive Director of our company on December 14, 2012.

Mr. XI Guohua has served as our Executive Director since July 2011 and our Chairman since March 2012. He is in charge of our overall management. Mr. Xi served as our Vice Chairman from July 2011 to March 2012. Mr. Xi is also the Chairman of CMCC and CMC. Mr. Xi previously held positions at the Post and Telecommunications Administration of Shanghai as Deputy Director General of the Telegraph Bureau, Deputy Director of the Telecommunications Division, Deputy Director General and Director General of the Long-Distance Telecommunications Bureau, Deputy Chief Engineer and Deputy Director General, respectively. Mr. Xi also served as Deputy Director General of the Directorate General of Telecommunications of the Ministry of Posts and Telecommunications, Chairman and Executive Vice President of Shanghai Bell Company Limited, the Vice Minister of the MII, the President of China Network Communications Group Corporation and the Vice Minister of the MIIT. Mr. Xi graduated in 1977 from the Department of Electrical Engineering of Hefei University of Technology, and holds a Master of Management degree in Economics and Management from Shanghai Jiaotong University and a Doctor of Management degree from the School of Economics and Management of Tongji University. Mr. Xi is a professor-level senior engineer and has extensive experience in telecommunications management, operations and technology.

Mr. LI Yue has served as our Executive Director since March 2003 and our Chief Executive Officer since August 2010. He is in charge of our operation and management. Mr. Li is also the President and director of CMCC and CMC. Mr. Li previously served as Deputy Director General and Chief Engineer of Tianjin Long-Distance Telecommunications Bureau, Deputy Director General of Tianjin Posts and Telecommunications Administration, President of Tianjin Mobile Communications Company, Deputy Head of the Preparatory Team of CMCC, Vice President of CMCC, Chairman of Aspire Holdings Limited, a non-executive director of Phoenix Satellite Television Holdings Ltd and Chairman of Union Mobile Pay Limited. Mr. Li graduated from the Correspondence College of Beijing University of Posts and Telecommunications with a Bachelor's Degree in telephone exchange, holds a Master's Degree in business administration from Tianjin University and a doctoral degree in business administration from Hong Kong Polytechnic University. He is a professor-level senior engineer and has won multiple national, provincial and ministerial level Science and Technology Advancement Awards. Mr. Li has many years of experience in the telecommunications industry, including experience in telecommunications network operations and maintenance, planning and construction, operational management and development strategies.

Mr. XUE Taohai has served as our Executive Director, Vice President and Chief Financial Officer since July 2002. Mr. Xue is principally in charge of our corporate affairs, finance and internal audit. Mr. Xue is also a Vice President of CMCC, a director of CMC and a director and Chairman of China Mobile Finance. Mr. Xue previously served as the Deputy Director General of the Finance Department of the former Ministry of Posts and Telecommunications, Deputy Director General of the Department of Financial Adjustment and Clearance of the MII and Deputy Director General of the former Directorate General of Telecommunications. He graduated from Henan University and received an EMBA degree from Peking University. He is a senior accountant with many years of experience in the telecommunications industry and financial management.





**Table of Contents**

Mdm. HUANG Wenlin has served as our Executive Director and Vice President since September 2007. Mdm. Huang is principally in charge of human resources and inspection matters. Mdm. Huang is also a director of CMCC and CMC. Mdm. Huang previously served as a Vice President of CMCC, the Director of Domestic Communications Division and Director of Communications Organization Division of the Directorate General of Telecommunications of the former Ministry of Posts and Telecommunications, Vice President of China Telecommunications Corporation and Executive Director and Executive Vice President of China Telecom Corporation Limited. Mdm. Huang graduated in 1984 from Beijing University of Posts and Telecommunications with a major in management engineering and received an EMBA degree from Peking University. Mdm. Huang is a senior economist with many years of operational and managerial experience in the telecommunications industry.

Mr. SHA Yuejia has served as our Executive Director and Vice President since March 2006. Mr. Sha is principally in charge of marketing, data business and corporate customers management. He is also a Vice President of CMCC, a director of CMC, Chairman of Union Mobile Pay Limited and a non-executive director of PhoenixTV and SPD Bank. He previously served as Director of the Engineering Construction Department IV Division of Beijing Telecommunications Administration, President of Beijing Telecommunications Planning Design Institute, Deputy Director General of Beijing Telecommunications Administration, Vice President of Beijing Mobile Communications Company, and Director and Vice President, Chairman and President of Beijing Mobile. Mr. Sha graduated from Beijing University of Posts and Telecommunications, and received a Master's Degree from the Academy of Posts and Telecommunications of the former Ministry of Posts and Telecommunications and a doctoral degree in business administration from Hong Kong Polytechnic University. He is a professor-level senior engineer with many years of experience in the telecommunications industry.

Mr. LIU Aili has served as our Executive Director and Vice President since March 2006. Mr. Liu is principally in charge of planning and construction of network operation, business support and information management. He is also a Vice President of CMCC and a director of CMC. Mr. Liu ceased to be a non-executive director of China Communications Services Corporation Limited in November 2012. He previously served as Deputy Director General of Shandong Mobile Telecommunications Administration, Director General of Shandong Mobile Telecommunications Administration and General Manager of Shandong Mobile Communications Enterprises, Vice President of Shandong Mobile Communications Company, Director-General of Network Department of CMCC, and Chairman and President of China Mobile Group Shandong Co., Ltd. and Zhejiang Mobile and Chairman of CMPak Limited. Mr. Liu graduated from Heilongjiang Posts and Telecommunications School with an associate degree. Mr. Liu also received a Master of Management degree from Norwegian School of Management BI and a doctoral degree in business administration from Hong Kong Polytechnic University. He is a professor-level senior engineer with many years of experience in the telecommunications industry.

Dr. LO Ka Shui has served as our independent Non-Executive Director since April 2001. Dr. Lo is the Chairman and Managing Director of Great Eagle Holdings Limited, and is the non-executive director and chairman of Eagle Asset Management (CP) Limited (manager of the publicly listed Champion Real Estate Investment Trust). He is also an independent non-executive director of Shanghai Industrial Holdings Limited, Phoenix Satellite Television Holdings Limited, Winsor Properties Holdings Limited and City-e-Solutions Limited. He is also a Vice President of the Real Estate Developers Association of Hong Kong, a Trustee of the Hong Kong Centre for Economic Research, the Chairman of The Chamber of Hong Kong Listed Companies and a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. Dr. Lo previously served as a non-executive director of The Hongkong and Shanghai Banking Corporation Limited and an independent non-executive director of Winsor Properties Holdings Limited. Dr. Lo graduated from McGill University with a Bachelor of Science Degree and from Cornell University with a Doctor of Medicine (M.D.) Degree. He was certified in internal medicine and cardiology. He has more than 30 years of experience in property and hotel development and investment both in Hong Kong and overseas.

Mr. Frank K.S. WONG has served as our independent Non-Executive Director since August 2002. Mr. Wong currently serves as an independent non-executive director of Industrial and Commercial Bank of China Limited, China and Mapletree Investments Pte Ltd, Singapore, a non-executive director of PSA International Pte Ltd, Singapore and a member of Hong Kong Financial Services Development Council. Mr. Wong previously served as Vice Chairman of DBS Bank, a member of the boards of DBS Bank and DBS Group Holdings and Chairman of DBS Bank (Hong Kong) and DBS Bank (China). He held a series of progressively senior positions with regional responsibility at Citibank, JP Morgan and NatWest from 1967 to 1999, and served as non-executive director of National Healthcare Group Pte Ltd. Mr. Wong has also served in various positions with Hong Kong's government bodies including the Chairman of the Hong Kong Futures Exchange between 1993 and 1998. Mr. Wong has many years of finance and commercial management experience.

---

## **Table of Contents**

Dr. Moses M.C. CHENG has served as our independent Non-Executive Director since March 2003. Dr. Cheng is a practising solicitor and the senior partner of Messrs. P.C. Woo & Co. Dr. Cheng was a member of the Legislative Council of Hong Kong. He is the founder chairman of the Hong Kong Institute of Directors of which he currently is the Honorary President and Chairman Emeritus. Dr. Cheng is also the Chairman of the Advisory Committee on Post-service Employment of Civil Servants and currently holds directorships in City Telecom (H.K.) Limited, China COSCO Holdings Company Limited, Liu Chong Hing Investment Limited, China Resources Enterprise, Limited, Towngas China Company Limited, Hong Kong Exchanges and Clearing Limited, Kader Holdings Company Limited, K. Wah International Holdings Limited, Guangdong Investment Limited and Tian An China Investments Company Limited, all of which are public listed companies in Hong Kong. He is also an independent non-executive director of ARA Asset Management Limited, a company with shares listed on the Singapore Exchange Limited. His other directorships in public listed companies in the last 3 years include ARA Asset Management (Singapore) Limited, a company with shares listed on the Singapore Exchange Limited, China COSCO Holdings Company Limited and Hong Kong Exchanges and Clearing Limited.

### **Compensation**

The aggregate amount of compensation that we paid to our directors and executive officers in 2012 for services performed as directors, officers or employees was approximately HK\$16 million (US\$2.1 million).

We adopted a share option scheme on October 8, 1997, or the 1997 Scheme, pursuant to which our directors may, at their discretion, invite our employees, including executive directors, or employees of our subsidiaries, to take up options to subscribe for ordinary shares up to a maximum aggregate number of ordinary shares equal to 10% of our total issued share capital.

Pursuant to a resolution passed at the annual general meeting held on June 24, 2002, the 1997 Scheme was terminated and another share option scheme, or the 2002 Scheme, was implemented for a term of 10 years commencing on June 24, 2002. Pursuant to the 2002 Scheme, the board of directors may, at their discretion, invite the executive directors, non-executive directors and employees of our company, any of its holding companies and their respective subsidiaries, and any entity in which our company or any of its subsidiaries holds any equity interest to take up options to subscribe for shares in our company. The 2002 Scheme ceased to be effective from June 24, 2012 and no further options were granted under the 2002 Scheme thereafter. The 2002 Scheme will however remain in effect to the extent necessary to give effect to the exercise of any options granted prior to June 24, 2012 and which at that time or thereafter become capable of being exercised under the 2002 Scheme or otherwise to the extent as may be required in accordance with the 2002 Scheme.

The maximum aggregate number of ordinary shares which can be subscribed pursuant to options that are or may be granted under the above schemes equals to 10% of the total issued share capital of our company as of the date of adoption of the 2002 Scheme. Options lapsed or cancelled in accordance with the terms of the 1997 Scheme or the 2002 Scheme will not be counted for the purpose of calculating this 10% limit.

As the 1997 Scheme was terminated with effect on June 24, 2002, no further options were granted under the 1997 Scheme thereafter. Under the 1997 Scheme, all options not exercised on or before October 7, 2007 have lapsed. Accordingly, as of December 31, 2012, there were no outstanding options granted under the 1997 Scheme. As of the same date, the total number of ordinary shares which may be issued on the exercise of the outstanding options granted or to be granted under the 2002 Scheme was 387,811,349. No share options were granted under the 2002 Scheme during the year ended December 31, 2012.

The consideration payable for the grant of option under the 2002 Scheme is HK\$1.00.

## **Table of Contents**

The exercise price of the options granted under the 2002 Scheme is determined by our board of directors at its discretion provided that such price may not be set below a minimum price which is the highest of:

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

Under the 2002 Scheme, the term of the option is determined by the board of directors at its discretion, provided that all options shall be exercised within 10 years after the date on which the option is granted.

As of December 31, 2012, the directors and employees of our company had options to subscribe for the ordinary shares of our company granted under the 2002 Scheme. In 2012, 28,275,029 of these options had been exercised. See [Share Ownership](#) below for details on options granted to our directors.

## **Board Practices**

To enhance our corporate governance, we have three principal board committees, the audit committee, the remuneration committee and the nomination committee. The audit committee, the remuneration committee and the nomination committee are all comprised solely of independent non-executive directors.

### ***Audit Committee***

The members of our audit committee are Dr. Lo Ka Shui, as chairman of the committee, Mr. Frank K.S. Wong and Dr. Moses M.C. Cheng. The audit committee's major responsibilities include:

to review the financial reports, the related report of independent registered public accounting firm and management's responses to the reports;

to discuss the audit procedures with the independent registered public accounting firm as well as any issues arising out of such procedures;

to review the appointment of the independent registered public accounting firm, the audit and non-audit fees and any matters relating to the termination or resignation of the independent registered public accounting firm; and

to examine the effectiveness of our internal controls, to review our internal audit plan and to submit relevant reports and recommendations to our Board on a regular basis.

The audit committee usually meets four times each year.

### ***Remuneration Committee***

The members of our remuneration committee are Dr. Lo Ka Shui, as chairman of the committee, Mr. Frank K.S. Wong and Dr. Moses M.C. Cheng. The remuneration committee's major responsibilities include:

to advise the Board in relation to the remuneration structure and payments of our executive directors and executives; and

to represent the Board in confirming the individual remuneration packages and employment terms of executive directors and approving their related employment contracts.

Meetings of the remuneration committee are held at least once a year.

***Nomination Committee***

The members of our nomination committee are Dr. Lo Ka Shui, as chairman of the committee, Mr. Frank K.S. Wong and Dr. Moses M.C. Cheng. The primary responsibilities of the nomination committee include:

to review, advise and make recommendations to the board on the matters in relation to the appointment and re-appointment of board members; and

to ensure the proper and transparent procedures for the appointment and re-appointment of directors.

Meetings of the nomination committee are held at least once a year.

**Table of Contents****Employees**

See Item 4. Information on the Company Business Overview Employees.

**Share Ownership**

As of December 31, 2012, our directors who own shares in our company are listed as follows:

| <b>Director</b> | <b>Number of shares held</b> | <b>Percentage of ordinary shares</b> |
|-----------------|------------------------------|--------------------------------------|
| Lo Ka Shui      | 400,000                      | 0.0020%                              |
| Frank K.S. Wong | 400,000                      | 0.0020%                              |

Under our Memorandum and Articles of Association, our directors and senior management do not have different voting rights when compared to other holders of shares in the same class.

As of December 31, 2012, options exercisable for an aggregate of 6,104,675 shares had been granted to the following directors and members of our senior management under our share option scheme and were outstanding. As of the same date, none of these options had been exercised.

The following options are exercisable at a price of HK\$22.75 per share through October 27, 2014:

| <b>Director</b>                           | <b>Number of shares covered by options</b> |
|---|--|
| Li Yue                                    | 154,000                                    |
| Lu Xiangdong (resigned on March 15, 2012) | 154,000                                    |
| Xue Taohai                                | 154,000                                    |
| Sha Yuejia                                | 82,575                                     |
| Liu Aili                                  | 82,600                                     |
| Xu Long (resigned on December 14, 2012)   | 117,000                                    |

The following options are exercisable at a price of HK\$26.75 per share through December 20, 2014:

| <b>Director</b>                            | <b>Number of shares covered by options</b> |
|--|--|
| Wang Jianzhou (resigned on March 22, 2012) | 475,000                                    |

The following options are exercisable at a price of HK\$34.87 per share through November 7, 2015:

| <b>Director</b>                            | <b>Number of shares covered by options</b> |
|--|--|
| Wang Jianzhou (resigned on March 22, 2012) | 970,000                                    |
| Li Yue                                     | 780,000                                    |
| Lu Xiangdong (resigned on March 15, 2012)  | 780,000                                    |
| Xue Taohai                                 | 780,000                                    |
| Sha Yuejia                                 | 780,000                                    |
| Liu Aili                                   | 141,500                                    |
| Xu Long (resigned on December 14, 2012)    | 254,000                                    |
| Moses M.C. Cheng                           | 400,000                                    |

**Item 7. Major Shareholders and Related Party Transactions.**

**Major Shareholders**

As of March 31, 2013, approximately 74.08% of our outstanding shares were held by China Mobile Hong Kong (BVI) Limited, a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited. CMCC, a state-owned company, holds all of the voting shares and economic interest in China Mobile (Hong Kong) Group Limited. No other persons own 5% or more of our ordinary shares. Between our initial public offering and March 31, 2013, our majority shareholders held, directly or indirectly, between approximately 74.08% and 76.50% of equity interest in us, except for brief periods following our equity offerings in 1999 and 2000 but before the issuance of consideration shares to our direct shareholder, China Mobile Hong Kong (BVI) Limited, for the related acquisitions, during which periods the shareholding was temporarily lower. See Item 4. Information on the Company The History and Development of the Company Industry Restructuring and Changes in Our Shareholding Structure for changes during the past three years with respect to our majority shareholders. Under our Memorandum and Articles of Association, our major shareholders do not have different voting rights when compared to other holders of shares in the same class.

## **Table of Contents**

We are not aware of any arrangement which may at a subsequent date result in a change of control over us.

### **Related Party Transactions**

As of March 31, 2013, CMCC indirectly owned an aggregate of approximately 74.08% of our issued and outstanding share capital.

We and each of our subsidiaries have entered into various related party transactions. The principal terms of the agreements for these related party transactions are described below.

Certain charges for the services under these agreements are based on tariffs set by the PRC regulatory authorities. Those transactions where the charges are not set by PRC regulatory authorities are based on commercial negotiation between the parties, in each case on an arm's length basis.

### ***International Roaming Arrangements***

Following the completion of our acquisition of the telecommunications assets from our parent company in July 2004, we no longer have inter-provincial roaming and interconnection arrangement with CMCC (except for the interconnection arrangement with China Tietong described under *Interconnection Settlement Arrangements* below) and the handling charge with respect to roaming and international long distance calling charges are no longer shared between CMCC and us. In addition, pursuant to an agreement we entered into with CMCC on July 1, 2004 (the *International Roaming Settlement Agreement*), CMCC maintains the existing settlement arrangements with respect to international interconnection and roaming with the relevant telecommunications services providers in foreign countries and regions, and collects the relevant usage fees and other fees from us and pays the same to the relevant mobile telecommunications services providers in foreign countries and regions. On September 13, 2012, we entered into an agreement with CMCC, pursuant to which CMCC would gradually transfer its settlement arrangements with certain telecommunications services providers in foreign countries and regions to China Mobile International, our wholly-owned subsidiary. As a result, our arrangement with CMCC with respect to international interconnection and roaming with those telecommunications services providers has been gradually phasing out.

### ***Licensing of Trademark***

CMCC is the owner of the CHINA MOBILE name and logo, a registered trademark in Mainland China, Australia, Brunei, Cambodia, Canada, Hong Kong, India, Indonesia, Macau, New Zealand, Pakistan, South Korea, Taiwan, Thailand, the United States, Vietnam, South Africa and Yemen. In addition, it has filed applications to register the CHINA MOBILE name and logo as a trademark in Malaysia for certain goods and services. CMCC has also registered the CHINA MOBILE name and logo as a trademark under the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks.

On January 1, 2008, we entered into the 2008 Trademark License Agreement with CMCC, which had a term of four years, would be automatically renewed for successive one-year periods unless otherwise terminated by the parties. Under the 2008 Trademark License Agreement, we and our operating subsidiaries are granted the right to use the CHINA MOBILE name and logo. No license fee is payable by us to CMCC during the term of the 2008 Trademark License Agreement.

### ***Spectrum Fees and Numbering Resources***

The MIIT (and prior to April 2008, the MII) and the MOF jointly determine the standardized spectrum fees payable to the MIIT by all mobile telecommunications operators in Mainland China, including us. In accordance with a joint circular from the NDRC and the MOF, CMCC entered into an agreement with us that specifies the amount of fees to be paid to the MIIT for spectrum usage by each mobile telecommunications network operator based on the bandwidth of the frequency used.

Following the completion of our acquisition of the telecommunications assets from our parent company in July 2004, we entered into an agreement with CMCC on July 1, 2004 (the *Spectrum and Numbering Resources Agreement*), pursuant to which CMCC will collect usage fees from us relating to spectrum frequency and numbering resources and make payment to the MIIT (and prior to April 2008, to the MII). In addition to transferring to us all existing frequency spectrum and numbering resources allocated to it by the MIIT, CMCC has also agreed to apply for new frequency spectrum and numbering resources upon our request or notice from time to time and transfer the relevant new frequency spectrum and numbering resources to us.





## **Table of Contents**

### ***Sharing of Inter-Provincial Transmission Line Leasing Fees***

Following the completion of our acquisition of the telecommunications assets from our direct parent company in July 2004, we entered into an agreement with CMCC on July 1, 2004 (the *Inter-Provincial Transmission Line Leasing Settlement Agreement* ), pursuant to which CMCC maintains the existing settlement arrangements with respect to inter-provincial transmission line leasing with the relevant transmission line providers in Mainland China, and collects inter-provincial transmission line leasing fees from us and pay the same to the transmission line providers in respect of the inter-provincial transmission lines we lease from such providers.

### ***Platform Development***

Aspire is 66.41% owned by us, and is our joint venture with Vodafone and Hewlett-Packard Company. Aspire entered into a platform development master agreement (the *Platform Development Agreement* ) with CMCC on January 10, 2001. Under the Platform Development Agreement, Aspire (or its subsidiaries) will provide technology platform development and maintenance services to CMCC and its subsidiaries. These services include system and gateway integration services, hardware, software and system development (including development of applications), technical support and major overhaul services for a standardized, nation-wide platform for wireless data.

Under the Platform Development Agreement, CMCC will pay Aspire equipment charges, systems integration fees, software licensing fees, technical support fees and/or major overhaul charges, which will be determined according to standards laid down by the relevant governmental departments and/or by reference to market rates.

### ***Leasing of TD-SCDMA Network Capacity***

We and CMCC entered into a network capacity leasing agreement on December 29, 2008 (the *Network Capacity Leasing Agreement* ), pursuant to which we and our operating subsidiaries lease TD-SCDMA network capacity from CMCC and pay leasing fees to CMCC. The Network Capacity Leasing Agreement had a term of one year with effect from January 1, 2009 and would be automatically renewed for successive one-year periods unless otherwise notified by one party to the other party. We may terminate the Network Capacity Leasing Agreement by providing 60 days advance notice to CMCC. In view of the expiry of the Network Capacity Leasing Agreement on December 31, 2012, CMCC and we agreed to renew the Network Capacity Leasing Agreement on December 12, 2012 for a one-year term commencing on January 1, 2013.

The leasing fees will be determined on a basis that reflects our actual usage of CMCC's TD-SCDMA network capacity and compensates CMCC for the costs of such network capacity. The amount of leasing fees payable by us to CMCC under the Network Capacity Leasing Agreement did not exceed RMB3,500 million in 2012, and it is expected that the amount of leasing fees payable by us to CMCC under the Network Capacity Leasing Agreement (as renewed) will not exceed RMB6,000 million in 2013. The transactions contemplated under the Network Capacity Leasing Agreement constitute our continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules and are subject to the reporting, annual review and announcement requirements, but are exempt from the independent shareholders' approval requirements under the Hong Kong Listing Rules.

### ***Interconnection Settlement Arrangements***

As part of the industry restructuring that commenced in 2008, China Tietong became a wholly-owned subsidiary of CMCC and, as a result, our connected person.

China Tietong is a fixed-line telecommunications operator in Mainland China. From January 2002 to December 2007, CMCC entered into a series of interconnection settlement agreements (collectively, the *Interconnection Settlement Agreements* ) with China Tietong to govern the interconnection of the networks of CMCC and China Tietong and the settlement of charges for various telecommunications services, including IP phone calls, long distance calls, international telephone service and dial-up service. On November 13, 2008, we, CMCC and China Tietong entered into an agreement (the *Tripartite Agreement* ), pursuant to which the rights and obligations of CMCC under the Interconnection Settlement Agreements were transferred to us. Pursuant to the Tripartite Agreement, we and China Tietong will make settlement payments to each other in respect of calls made or received by their respective customers. The Tripartite Agreement expired on December 31, 2009, and pursuant to the terms thereof, unless the parties agree otherwise, upon the expiry of the term, the Tripartite Agreement was automatically renewed for further terms of one year in 2010, 2011 and 2012, respectively. In view of its expiration on December 31, 2012, the parties further renewed the Tripartite Agreement on December 12, 2012 for a one-year term commencing on January 1, 2013.

## **Table of Contents**

The settlement charges receivable by us from China Tietong under the Tripartite Agreement in 2012 did not exceed the de minimis threshold under Rule 14A.33 of the Hong Kong Listing Rules. The settlement charges payable by us under the Tripartite Agreement did not exceed RMB700 million in 2012. It is expected that, in 2013, the aggregate amount of settlement charges payable by us to China Tietong under the Tripartite Agreement (as renewed) will not exceed RMB700 million while the aggregate amount of settlement charges receivable by us from China Tietong will not exceed the de minimis threshold under Rule 14A.33 of the Hong Kong Listing Rules. The transactions contemplated under the Tripartite Agreement constitute our continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules and are subject to the reporting, annual review and announcement requirements, but are exempt from the independent shareholders' approval requirements under the Hong Kong Listing Rules.

### ***Telecommunications Services Cooperation Agreement***

In order to meet the customers' demand for one-stop shop telecommunications services, CMCC and we entered into a telecommunications services cooperation agreement on November 6, 2009 (the "Telecommunications Services Cooperation Agreement"), pursuant to which CMCC and we will provide customer development services to each other by utilizing our respective existing sales channels and resources, such as sales outlets, Internet sales network, sales personnel and local sales units, and cooperate in the provision of basic telecommunications services and value-added telecommunications services to customers of the other party. The Telecommunications Services Cooperation Agreement had a term of one year with effect from January 1, 2010 and was automatically renewed for successive one-year periods in 2010, 2011 and 2012, respectively. In view of the expiry of the Telecommunications Services Cooperation Agreement on December 31, 2012, the parties have agreed to further renew the Telecommunications Services Cooperation Agreement on December 12, 2012 for a one-year term commencing on January 1, 2013.

The amount of charges receivable by us in 2012 under the Telecommunications Services Cooperation Agreement did not exceed RMB900 million. The amounts of charges payable by us in 2012 under the Telecommunications Services Cooperation Agreement did not exceed RMB2,500 million. It is expected that the aggregate amount of charges payable by us to CMCC under the Telecommunications Services Cooperation Agreement (as renewed) will not exceed RMB4,000 million while the aggregate amount of charges receivable by us from CMCC will not exceed RMB1,000 million in 2013. The transactions contemplated under the Telecommunications Services Cooperation Agreement constitute our continuing connected transactions under Rule 14A.34 of Hong Kong Listing Rules and are subject to the reporting, annual review and announcement requirements, but are exempt from the independent shareholders' approval requirements under the Hong Kong Listing Rules.

### ***Network Assets Leasing Agreement***

In order for us to better position in the changing landscape of the telecommunications industry in China and to enable us to meet the customers' demand for one-stop shop telecommunications services, we entered into the Network Assets Leasing Agreement with CMCC on August 18, 2011 (the "Network Assets Leasing Agreement"), pursuant to which we and CMCC will lease our respective telecommunications network operation assets to each other in return for a leasing fee. The Network Assets Leasing Agreement expired on December 31, 2011, and pursuant to the terms thereof, unless the parties agree otherwise, upon the expiry of the term, the Network Assets Leasing Agreement was automatically renewed in 2010, 2011 and 2012, respectively. In view of the expiry of the Network Assets Leasing Agreement on December 31, 2012, CMCC and we have agreed to further renew the Network Assets Leasing Agreement on December 12, 2012 for a one-year term commencing on January 1, 2013.

## Table of Contents

The leasing fees will be determined with reference to the prevailing market rates but in any event shall not be more than the leasing fees charged to any independent third party for same kinds of network assets. The amount of leasing fees receivable by us from CMCC did not exceed the de minimis threshold under Rule 14A.33 of the Hong Kong Listing Rules and the amount of leasing fees payable by us to CMCC under the Network Assets Leasing Agreement did not exceed RMB3,500 million in 2012. It is expected that the amount of leasing fees payable by us to CMCC under the Network Assets Leasing Agreement (as renewed) will not exceed RMB8,000 million, while the aggregate amount of the leasing fees receivable by us from CMCC will not exceed the de minimis threshold under Rule 14A.33 of the Hong Kong Listing Rules in 2013. The transactions contemplated under the Network Assets Leasing Agreement constitute our continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules and are subject to the reporting, annual review and announcement requirements, but are exempt from the independent shareholders' approval requirements under the Hong Kong Listing Rules.

### *Miscellaneous*

Following the completion of our acquisition of the telecommunications assets from CMCC in July 2004, the transactions previously entered into between our subsidiaries and prior subsidiaries of CMCC which have been acquired by us no longer constitute connected transactions under the Hong Kong Listing Rules beginning on July 1, 2004 since such prior subsidiaries of CMCC became part of us on July 1, 2004. Only those transactions between us and CMCC or its subsidiaries (which have not been acquired by us) remain as connected transactions under the Hong Kong Listing Rules. In December 2004, in order to streamline the management of the connected transactions, we consolidated the agreements between us and CMCC into two agreements:

- (i) the Property Leasing and Management Services Agreement pursuant to which we rent from CMCC various properties for use as business premises and offices, retail outlets and machining rooms and CMCC and its subsidiaries provide to us property management services. Under this agreement, for properties owned by CMCC or its subsidiaries, the charges are determined with reference to market rates. For properties leased by CMCC or its subsidiaries from third parties and sublet to us, the charges are determined according to the actual rent payable by CMCC or its subsidiaries together with any tax payable; and
- (ii) the Telecommunications Services Agreement pursuant to which our subsidiaries obtain telecommunications project planning, design and construction services, telecommunications line and pipeline construction services and telecommunications line maintenance services from CMCC and its subsidiaries. Pursuant to the Telecommunications Services Agreement, subsidiaries of CMCC sell transmission towers and spare parts and provide related installation and maintenance services to our subsidiaries. Under this agreement, the charges and prices payable are generally determined with reference to and cannot exceed relevant standards set by and revised from time to time by relevant governmental authorities in Mainland China. Where there are no such standards, the charges and prices are determined with reference to market rates.

The Property Leasing and Management Services Agreement and the Telecommunications Services Agreement (together the 2004 Continuing Connected Transaction Agreements) expired on December 31, 2007. On December 13, 2007, we entered into the 2008-2010 property leasing and management services agreement (the 2008-2010 Property Leasing Agreement) and the 2008-2010 telecommunications services agreement (the 2008-2010 Telecommunications Services Agreement) with CMCC, with a view to extending the continuing connected transactions under the 2004 Continuing Connected Transaction Agreements on the same terms. Each of the 2008-2010 Property Leasing Agreement and the 2008-2010 Telecommunications Services Agreement has a fixed term of three years and is effective from January 1, 2008 to December 31, 2010. The payments payable by us to CMCC and its subsidiaries under the 2008-2010 Property Leasing Agreement did not exceed RMB1,400 million, RMB1,500 million and RMB1,600 million in 2008, 2009 and 2010, respectively, while the payments payable by us to CMCC and its subsidiaries under the 2008-2010 Telecommunications Services Agreement for the same periods did not exceed RMB4,350 million, RMB4,500 million and RMB4,400 million, respectively. The 2008-2010 Property Leasing Agreement and the 2008-2010 Telecommunications Services Agreement expired on December 31, 2010.

On December 21, 2010, we entered into the 2011-2013 property leasing and management agreement (the 2011-2013 Property Leasing Agreement) with CMCC to extend the existing continuing connected transactions under the 2008-2010 Property Leasing Agreement. On the same date, we entered into the 2011-2013 telecommunications services agreement (the 2011-2013 Telecommunications Services Agreement) with CMCC to govern the continuing connected transactions between the parties in relation to the provision of telecommunications services, which were previously governed by the 2008-2010 Telecommunications Services Agreement. The 2011-2013 Property Leasing Agreement and the 2011-2013 Telecommunications Services Agreement are for a term of three years commencing on January 1, 2011.



## **Table of Contents**

The rental and property management service charges paid by us to CMCC and its subsidiaries for each of 2011 and 2012 did not exceed RMB1,000 million, and these service charges payable by us to CMCC and its subsidiaries under the 2011-2013 Property Leasing Agreement in 2013 are not expected to exceed RMB1,000 million annually. The charges paid by us to CMCC and its subsidiaries under the 2011-2013 Telecommunications Services Agreement did not exceed RMB2,000 million and RMB2,500 million in 2011 and 2012, respectively, while the aggregate annual amount paid by CMCC and its subsidiaries to us in 2011 and 2012 did not exceed RMB2,400 million. The amount payable by us to CMCC and its subsidiaries under the 2011-2013 Telecommunications Services Agreement in 2013 is expected not to exceed RMB3,000 million and the aggregate annual amount payable by CMCC and its subsidiaries to us in 2013 is expected not to exceed RMB2,400 million. The transactions contemplated under the 2011-2013 Property Leasing Agreement and the 2011-2013 Telecommunications Services Agreement constitute our continuing connected transactions under Rule 14A.34 of the Hong Kong Listing Rules and are subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirements under the Hong Kong Listing Rules.

In 2012, no consideration was paid from us to CMCC or from CMCC to us under the 2008 Trademark License Agreement, the Spectrum and Numbering Resources Agreement, the Inter-Provincial Transmission Line Leasing Settlement Agreement and the Platform Development Agreement.

### **Item 8. Financial Information. Consolidated Financial Statements**

Our audited consolidated financial statements are set forth beginning on page F-1. Other than as disclosed elsewhere in this annual report on Form 20-F, no significant change has occurred since the date of the annual financial statements.

### **Legal Proceedings**

We are not involved in any material litigation, arbitration or administrative proceedings, and, so far as we are aware, we do not have any pending or threatened litigation, arbitration or administrative proceeding that is expected to have a material effect on our financial condition and results of operations.

### **Policy on Dividend Distributions**

We hold in the highest regard the interests of our shareholders and the returns achieved for them, especially our minority shareholders. In consideration of our stable profitability in 2012 and having taken into account our long-term development, our board of directors recommended payment of a final dividend of HK\$1.778 per share for the financial year ended December 31, 2012 in accordance with our dividend payout ratio of 43% planned for the full financial year of 2012. This, together with the interim dividend of HK\$1.633 per share paid in 2012, amounted to an aggregate dividend payment of HK\$3.411 per share for the full financial year of 2012.

In 2013, having taken into account various relevant factors, such as our overall financial condition, our cash flow generating capabilities and the need of our future sustainable development, we plan that our dividend payout ratio for the full year of 2013 will be 43%.

Our board of directors believes that our continuously stable profitability and strong cash flow generating capabilities will be able to support our future sustainable development, while providing our shareholders with a favorable return.

### **Item 9. The Offer and Listing.**

In connection with our initial public offering, our ADSs each representing twenty ordinary shares, were listed and commenced trading on the New York Stock Exchange on October 22, 1997 under the symbol "CHL". Effective from July 5, 2000, our ADS-to-share ratio has been changed to one-to-five. Our shares were listed and commenced trading on the Hong Kong Stock Exchange on October 23, 1997. Prior to these listings, there was no public market for our equity securities. The New York Stock Exchange and the Hong Kong Stock Exchange are the principal trading markets for our ADSs and ordinary shares, which are not listed on any other exchanges in or outside the United States.

As of December 31, 2012 and March 31, 2013, there were 20,100,340,600 and 20,100,615,130, respectively, of our ordinary shares issued and outstanding. As of December 31, 2012 and March 31, 2013, there were, respectively, 484 and 481 registered holders of American depositary

Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

receipts evidencing 90,582,875 and 89,913,883 of our ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depository for the ADSs is The Bank of New York Mellon.

**Table of Contents**

The high and low closing sale prices of the shares on the Hong Kong Stock Exchange and of the ADSs on the New York Stock Exchange for the periods indicated are as follows.

|                          | Price per Share (HK\$) |       | Price per ADS (US\$) |       |
|--------------------------|------------------------|-------|----------------------|-------|
|                          | High                   | Low   | High                 | Low   |
| <b>2008</b>              | 136.60                 | 53.80 | 89.30                | 34.83 |
| <b>2009</b>              | 91.55                  | 63.00 | 58.54                | 40.75 |
| <b>2010</b>              | 84.30                  | 71.95 | 54.40                | 46.27 |
| <b>2011</b>              |                        |       |                      |       |
| First Quarter            | 78.85                  | 69.20 | 50.44                | 44.83 |
| Second Quarter           | 73.95                  | 68.15 | 47.65                | 43.77 |
| Third Quarter            | 80.90                  | 69.20 | 51.70                | 44.82 |
| Fourth Quarter           | 76.60                  | 72.60 | 49.80                | 46.36 |
| <b>2012</b>              |                        |       |                      |       |
| First Quarter            | 87.45                  | 75.05 | 56.08                | 48.62 |
| Second Quarter           | 89.05                  | 76.70 | 56.89                | 49.68 |
| Third Quarter            | 92.55                  | 81.50 | 59.30                | 52.26 |
| Fourth Quarter           | 90.50                  | 83.30 | 58.72                | 53.85 |
| October                  | 87.35                  | 83.30 | 56.56                | 53.85 |
| November                 | 89.55                  | 84.10 | 56.92                | 54.08 |
| December                 | 90.50                  | 87.25 | 58.72                | 55.92 |
| <b>2013</b>              |                        |       |                      |       |
| January                  | 91.45                  | 84.00 | 59.53                | 53.81 |
| February                 | 85.95                  | 84.55 | 55.60                | 54.41 |
| March                    | 84.60                  | 80.35 | 54.72                | 52.20 |
| First Quarter            | 91.45                  | 80.35 | 59.53                | 52.20 |
| April (through April 24) | 82.95                  | 80.90 | 53.77                | 51.76 |

We may conduct in the future a public offering and listing of our shares in Mainland China. We have not set a specific timetable or decided on any specific form for an offering in Mainland China. We believe that an offering and listing of our shares in Mainland China would provide us with better access to the capital markets in Mainland China and enable our customers in Mainland China to have an opportunity to become our shareholders. A decision to proceed with such an offering, as well as the precise timing of such an offering, would depend on a number of factors, including relevant regulatory developments and market conditions.

**Item 10. Additional Information.**  
**Memorandum and Articles of Association**

Under Section 3 of our Memorandum of Association, we have the capacity and the rights, powers and privileges of a natural person and, in addition and without limit, we may do anything that we are permitted or required to do by any enactment or rule of law.



## Table of Contents

### *Directors*

**Material Interests.** A director who is in any way directly or indirectly interested in a contract or proposed contract with us shall declare the nature of his interest in accordance with the provisions of the Companies Ordinance (Chapter 32) of Hong Kong and the Articles of Association. A director shall not vote, or be counted in the quorum, on any resolution of the board in respect of any contract or arrangement or proposal in which he or any of his Associates (as such term is defined in the Listing Rules of the Hong Kong Stock Exchange), is to his knowledge, materially interested, and if he shall do so his vote shall not be counted or counted in the quorum for that resolution. The above prohibition shall not apply to any contract, arrangement or proposal:

for the giving by us of any security or indemnity to the director or his Associates in respect of money lent or obligations incurred or undertaken by him or any of them at the request of, or for, our or any of our subsidiaries benefit;

for the giving by us of any security to a third party in respect of our or any of our subsidiaries debt or obligation for which the director or his Associates has himself or themselves assumed responsibility or guaranteed or secured in whole or in part whether alone or jointly;

concerning an offer of the shares or debentures or other securities of or by us or any other company which we may promote or be interested in for subscription or purchase where the director or his Associates are, or are to be, interested as a participant in the underwriting or sub-underwriting of the offer;

in which the director or his Associates are interested in the same manner as other holders of our shares or debentures or other securities by virtue only of his or their interest in our shares or debentures or other securities;

concerning any other company in which the director or his Associates are interested, directly or indirectly, as an officer or a shareholder or in which the director or his Associates are beneficially interested in shares of that company other than a company in which the director and any of his Associates, are beneficially interested in five percent or more of the issued shares of any class of the equity share capital of such company (or of any third company through which his interest or that of his Associates is derived) or of the voting rights (excluding for the purpose of calculating such five percent interest any indirect interest of such director or his Associates by virtue of our interest in such company);

for the benefit of our or any of our subsidiaries employees, including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme which relates to both our, or any of our subsidiaries, directors and employees and such directors Associates and does not give the director or his Associates any privilege not generally accorded to the class of persons to whom such scheme or fund relates; and

concerning the adoption, modification or operation of any employees share scheme involving the issue or grant of options over shares or other securities by us to, or for the benefit of, our or any of our subsidiaries employees under which the director or his Associates may benefit.

**Compensation and Pension.** The directors are entitled to receive by way of remuneration for their services such sum as we may determine from time to time in general meeting. The directors are also entitled to be repaid their reasonable traveling, hotel and other expenses incurred by them in or about the performance of their duties as directors. The directors may award special remuneration out of our funds, by way of salary, commission or otherwise as the directors may determine, to any director who performs services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director.

The board may establish and maintain any contributory or non-contributory pension or superannuation funds for the benefit of, or give donations, gratuities, pensions, allowances or emoluments to any persons (1) who are or were at any time in employment or service of our company (or any of our subsidiaries) or are allied or associated with us or any of our subsidiaries, or (2) who are or were at any time our (or any

of our subsidiaries ) directors or officers, and who are holding or have held any salaried employment or office in our company or any of our subsidiaries, and the wives, widows, families and dependants of any of these persons. Any director holding any such employment or office is entitled to participate in, and retain for his own benefit, any such donation, gratuity, pension, allowance or emolument.

***Borrowing Powers.*** The directors may exercise all the powers of our company to borrow money and to mortgage or charge all or any part of our undertaking, property and assets (present and future) and uncalled capital and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for the debt, liability or obligation of our company or any third party.

## **Table of Contents**

***Qualification; Retirement.*** A director need not hold any of our shares to qualify as a director. There is no age limit requirement for a director's retirement or non-retirement.

Each director is subject to retirement by rotation at least once every three years. The directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became directors on the same day shall be determined by lot unless they otherwise agree between themselves. The retiring directors shall be eligible for re-election.

### ***Rights Attaching to Ordinary Shares***

The section entitled "Description of Share Capital" in our Registration Statement on Form F-3 (File No. 333-47256), as filed with the SEC on October 30, 2000, is incorporated by reference into this annual report on Form 20-F.

Pursuant to ordinary resolutions passed at our extraordinary general meeting held on November 10, 2000, our authorized share capital was increased, by the creation of an additional 14,000,000,000 ordinary shares of HK\$0.10 each, which rank pari passu with the existing ordinary shares, to a total of HK\$3,000,000,000 divided into 30,000,000,000 ordinary shares.

### ***Annual General Meetings and Extraordinary General Meetings***

We must hold, in each year, a general meeting as our annual general meeting in addition to any other meetings in that year. The annual general meeting must be held at such time (which shall be within a period of not more than 15 months, or such longer period as the Registrar of Companies may authorize in writing, after the holding of the last preceding annual general meeting) and place as may be determined by the directors. All other general meetings are extraordinary meetings. The directors may proceed to convene an extraordinary general meeting whenever they think fit, in accordance with the Companies Ordinance.

In general, an annual general meeting and a meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing, and any other general meeting shall be called by not less than 14 days' notice in writing. The notice must specify the place, date and time of the meeting and, in the case of special business, the general nature of that business.

### ***Miscellaneous***

We keep our share register with our share registrar, which is Hong Kong Registrars Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In addition, we also file certain documents with the Registrar of Companies, Hong Kong, China, in accordance with the requirements of the Companies Ordinance. Our company number is 622909.

### ***Material Contracts***

See Item 7. Major Shareholders and Related Party Transactions "Related Party Transactions" for certain arrangements we have entered into with CMCC.

### ***Exchange Controls***

The Renminbi currently is not a freely convertible currency. Under the "capital account", which includes, among others, foreign direct investment, the prior approval of the State Administration of Foreign Exchange should be obtained prior to conversion of Renminbi into foreign currency. However, under the "current account", which includes dividends, trade and service-related foreign currency transactions, the Renminbi is currently freely convertible.

The value of the Renminbi is subject to changes in PRC government policies and to international economic and political developments. Since 1994, the conversion of the Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to foreign currencies was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC government has since made and in the future may make further adjustments to the exchange rate system.



---

## **Table of Contents**

There are no limitations on the right of non-resident or foreign owners to remit dividends or to hold or vote the ordinary shares or the ADSs imposed by Hong Kong law or by our memorandum and articles of association or other constituent documents.

### **Taxation PRC**

This section describes certain PRC tax consequences relating to the ownership and disposition of our ordinary shares and ADSs. This section does not address all possible PRC tax considerations that may be relevant to an investment in our ordinary shares or ADSs in light of an investor's specific circumstances, and is based on PRC tax laws and relevant interpretations as in effect as of the date of this annual report on Form 20-F, which are subject to change, including the possibility of having retroactive effect. **Accordingly, you should consult your own tax advisor regarding the PRC and other tax consequences of an investment in our ordinary shares or ADSs under your particular circumstances.**

Under the PRC Enterprise Income Tax Law and its implementing rules, which took effect on January 1, 2008, or the PRC income tax law, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income. Moreover, the PRC tax authorities have been issuing further interpretations and notices to enhance the application of the PRC income tax law.

#### ***Taxation of Dividends***

On April 22, 2009, the PRC State Administration of Taxation, or the SAT, issued the Notice Regarding the Determination of Tax Residence Status of Chinese-Controlled Offshore-Incorporated Enterprises on the Basis of De Facto Management Bodies, or the 2009 Notice, which had retroactive effect as of January 1, 2008. We are considered a PRC resident enterprise for purposes of the 2009 Notice. In accordance with the 2009 Notice and the PRC income tax law, we are 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 our register of members, as of the record date for such dividend, and who were not individuals.

#### ***Taxation of Capital Gains***

Under the PRC income tax law, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income, but uncertainties remain as to their implementation by the relevant PRC tax authorities. We intend to comply with any interpretation or notice in relation to the taxation of capital gains issued by the PRC tax authorities in the future.

#### ***Additional PRC Tax Considerations***

*Stamp duty.* Under the Provisional Regulations of the PRC Concerning Stamp Duty and its implementing rules, both of which became effective on October 1, 1988, PRC stamp duty should not apply to acquisitions or dispositions of our ordinary shares or ADSs outside of the PRC, as the PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and protected under the PRC law.

*Estate tax.* The PRC does not currently levy estate tax.

### **Taxation Hong Kong**

The taxation of income and capital gains of holders of ordinary shares or ADSs is subject to the laws and practices of Hong Kong and of jurisdictions in which holders of ordinary shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions under Hong Kong law is based on current law and practice, is subject to changes therein and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the ordinary shares or ADSs. Accordingly, each prospective investor (particularly those subject to special tax rules, such as banks, dealers, insurance companies, tax-exempt entities and holders of 10% or more of our voting capital stock) should consult its own tax advisor regarding the tax consequences of an investment in the ordinary shares and ADSs. The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this annual report on Form 20-F, all of which are subject to change. There is no reciprocal tax treaty in effect between Hong Kong and the United States.

#### ***Tax on Dividends***

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.



## **Table of Contents**

### ***Profits Tax***

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the ordinary shares and ADSs). Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% and 15% on corporations and unincorporated businesses, respectively, and at a maximum rate of 15% on individuals. Gains from sales of the ordinary shares effected on the Hong Kong Stock Exchange may be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax may thus arise in respect of trading gains from sales of ordinary shares or ADSs realized by persons carrying on a business or trading or dealing in securities in Hong Kong.

### ***Stamp Duty***

Hong Kong stamp duty, currently charged at the rate of HK\$1 per HK\$1,000 or part thereof on the higher of the consideration for or the value of the ordinary shares, will be payable by the purchaser on every purchase and by the seller on every sale of ordinary shares (i.e., a total of HK\$2 per HK\$1,000 or part thereof is currently payable on a typical sale and purchase transaction involving ordinary shares). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of ordinary shares. The withdrawal of ordinary shares upon the surrender of ADSs, and the issuance of ADSs upon the deposit of ordinary shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless the withdrawal or deposit does not result in a change in the beneficial ownership of the ordinary shares under Hong Kong law, in which case only a fixed duty of HK\$5 is payable on the transfer. The issuance of the ADSs upon the deposit of ordinary shares issued directly to the depositary or for the account of the depositary does not attract stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

### ***Estate Duty***

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of ordinary shares whose death occurs on or after February 11, 2006.

## **Taxation United States Federal Income Taxation**

This section describes the material United States federal income tax consequences of the ownership and disposition of our shares or ADSs. This section applies to you only if you are a U.S. holder, as defined below, and you hold your shares or ADSs as capital assets for United States federal income tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

a dealer in securities;

a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;

a tax-exempt organization;

a life insurance company;

a person liable for alternative minimum tax;

a person that actually or constructively owns 10% or more of our voting stock;

## Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

a person that holds shares or ADSs as part of a straddle or a hedging or conversion transaction;

a person that purchases or sells shares or ADSs as part of a wash sale for tax purposes; or

a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of The Bank of New York Mellon, as depositary, and the assumption that each obligation in the Deposit Agreement among us, The Bank of New York Mellon, as depositary, and owners and beneficial owners of ADRs issued thereunder, and any related agreement will be performed in accordance with its terms.

-58-



---

## **Table of Contents**

If a partnership holds the shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the shares or ADSs should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the shares or ADSs.

You are a U.S. holder if you are a beneficial owner of shares or ADSs and you are:

a citizen or resident of the United States;

a domestic corporation;

an estate whose income is subject to United States federal income tax regardless of its source; or

a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

*You should consult your own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of shares or ADSs in your particular circumstances.*

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to the United States federal income tax.

### ***Taxation of Dividends***

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends that constitute qualified dividend income will be taxable to you at the preferential rates applicable to long-term capital gains provided that you hold the shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to the shares or ADSs generally will be qualified dividend income provided that, in the year that you receive the dividend, the shares or ADSs are readily tradable on an established securities market in the United States.

You must include any PRC tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of shares, or The Bank of New York Mellon, as depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income will be the U.S. dollar value of the Hong Kong dollar payments made, determined at the spot Hong Kong dollar/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. This gain or loss generally will be from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits (as determined for United States federal income tax purposes) will be treated as a non-taxable return of capital to the extent of your basis in the shares or ADSs and thereafter as capital gain. However, we do not expect to calculate earnings and profits in accordance with United States federal income tax principles. Accordingly, you should expect to generally treat distributions we make as dividends.

Subject to certain limitations, the PRC tax withheld and paid over to the PRC will be creditable or deductible against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential tax rates.



## **Table of Contents**

For foreign tax credit purposes, dividends will generally be income from sources outside the United States and will, depending on your circumstances, generally be either passive or general income for purposes of computing the foreign tax credit allowable to you.

### ***Taxation of Capital Gains***

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your shares or ADSs. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The deductibility of capital losses is subject to limitations. The gain or loss will generally be from sources within the United States for foreign tax credit limitation purposes.

### ***PFIC Rules***

We believe that shares or ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our shares or ADSs:

at least 75% of our gross income for the taxable year is passive income; or

at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC, and you are a U.S. holder that did not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

any gain you realize on the sale or other disposition of your shares or ADSs; and

any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the shares or ADSs).

Under these rules:

the gain or excess distribution will be allocated ratably over your holding period for the shares or ADSs;

the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income;

the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year; and

## Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year. Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If you own shares or ADSs in a PFIC that are treated as marketable stock, you may make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your shares or ADSs at the end of the taxable year over your adjusted basis in your shares or ADSs. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the shares or ADSs will be adjusted to reflect any such income or loss amounts.

**Table of Contents**

Your shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your shares or ADSs, even if we are not currently a PFIC. For purposes of this rule, if you make a mark-to-market election with respect to your shares or ADSs, you will be treated as having a new holding period in your shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies.

In addition, notwithstanding any election you make with regard to the shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the preferential rates applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for United States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

If you own shares or ADSs during any year that we are a PFIC, you may be required to file Internal Revenue Service Form 8621.

**Documents on Display**

You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room and its copy charges. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

The SEC allows us to incorporate by reference the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

**Item 11. Quantitative and Qualitative Disclosures About Market Risk.**

We are subject to market rate risks due to fluctuations in interest rates. The majority of our debt is in the form of long-term loans with original maturities ranging up to fifteen years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of these debt instruments. From time to time, we may enter into interest rate swap agreements designed to mitigate our exposure to interest rate risks, although we did not consider it necessary to do so in 2012.

We are also exposed to foreign currency risk relating to cash and cash equivalents denominated in foreign currencies. We may enter into foreign exchange forward contracts designed to mitigate our exposure to foreign currency risks. As of December 31, 2012, we had no foreign exchange forward contracts outstanding. We expect our foreign currency hedging activity to be generally limited to the hedging of specific future commitments in foreign currencies.

The following table provides information regarding our interest rate-sensitive financial instruments, which consist of fixed and variable rate short-term and long-term debt obligations, as of the dates indicated.

|   | Expected Maturity Date |      |      |      |       |            | As of December 31, 2012 |            | As of December 31, 2011 |            |
|---|------------------------|------|------|------|-------|------------|-------------------------|------------|-------------------------|------------|
|   | 2013                   | 2014 | 2015 | 2016 | 2017  | Thereafter | Total Recorded Amount   | Fair Value | Total Recorded Amount   | Fair Value |
| (RMB equivalent in millions, except interest rates) |                        |      |      |      |       |            |                         |            |                         |            |
| Debt:   |                        |      |      |      |       |            |                         |            |                         |            |
| Obligations under finance leases                    | 68                     |      |      |      |       |            | 68                      | 68         | 68                      | 68         |
| Average interest rate                               | 4.96%                  |      |      |      |       |            | 4.96%                   |            | 4.96%                   |            |
| Bonds   |                        |      |      |      | 4,986 |            | 4,986                   | 4,908      | 4,984                   | 4,845      |
| Average interest rate                               |                        |      |      |      | 4.50% |            | 4.50%                   |            | 4.50%                   |            |
| Deferred consideration payable                      |                        |      |      |      | 9,976 | 13,657     | 23,633                  | 23,633     | 23,633                  | 23,633     |
| Average interest rate                               |                        |      |      |      | 0.38% | 0.38%      | 0.89%                   |            | 1.19%                   |            |



**Table of Contents**

The following table provides information regarding our foreign currency-sensitive financial instruments and transactions, which consist of restricted bank deposits, bank deposits and cash and cash equivalents as of the dates indicated.

|   | Expected Maturity Date |      |      |      |      |            | As of December 31, 2012 |       | As of December 31, 2011 |       |
|---|------------------------|------|------|------|------|------------|-------------------------|-------|-------------------------|-------|
|   | 2013                   | 2014 | 2015 | 2016 | 2017 | Thereafter | Total                   | Fair  | Total                   | Fair  |
|   |                        |      |      |      |      |            | Recorded Amount         | Value | Recorded Amount         | Value |
| (RMB equivalent in millions)                  |                        |      |      |      |      |            |                         |       |                         |       |
| <b>On-balance sheet financial instruments</b> |                        |      |      |      |      |            |                         |       |                         |       |
| Restricted bank deposits:                     |                        |      |      |      |      |            |                         |       |                         |       |
| in Hong Kong dollars                          |                        |      |      |      | 122  |            | 122                     | 122   | 154                     | 154   |
| Bank deposits:                                |                        |      |      |      |      |            |                         |       |                         |       |
| in U.S. dollars                               | 336                    |      |      |      |      |            | 336                     | 336   | 327                     | 327   |
| in Hong Kong dollars                          | 1,803                  |      |      |      |      |            | 1,803                   | 1,803 | 1,558                   | 1,558 |
| Cash and cash equivalents:                    |                        |      |      |      |      |            |                         |       |                         |       |
| in U.S. dollars                               | 343                    |      |      |      |      |            | 343                     | 343   | 424                     | 424   |
| in Hong Kong dollars                          | 1,142                  |      |      |      |      |            | 1,142                   | 1,142 | 1,467                   | 1,467 |

**Item 12. Description of Securities Other than Equity Securities.**

The Bank of New York Mellon, located at One Wall Street, New York, New York 10286, as the depository of our ADSs, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may refuse to provide delivery of ADSs or deposited shares or to provide any distributions until its fees for those services are paid.

**ADR holders must pay:**

US\$5 (or less) per 100 ADSs (or portion thereof)

US\$0.02 (or less) per ADS  
Registration or transfer fees

Expenses of the depository

Taxes and other governmental charges the depository or the custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

**For:**

Each issuance of an ADS, including as a result of a distribution of shares or rights or other property

Each cancellation of an ADS, including if the deposit agreement terminates

Each distribution of securities, other than shares or ADSs, treating the securities as if they were shares for purpose of calculating fees

Any cash distribution (not including cash dividend distribution)

Transfer and registration of shares on the share register of our transfer agent and the registrar in Hong Kong from an ADR holder's name to the name of the depository or its agent when the ADR holder deposit or withdraw shares

Conversion of Hong Kong dollars to U.S. dollars

Cable, telex and facsimile transmission expenses

As necessary

**Table of Contents**

The Bank of New York Mellon, as the depositary, has agreed to pay for certain expenses incurred in connection with our shareholders' meetings. The amount of such expenses paid by the Bank of New York Mellon in 2012 was US\$169,638.24, net of withholding tax. The Bank of New York Mellon has also agreed to waive certain fees for standard costs associated with the administration of the ADR program, and the amount of such fees waived for the year ended December 31, 2012 was US\$132,919.84.



**Table of Contents**

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies.**

None.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.**

None.

**Item 15. Controls and Procedures.**

***Disclosure Controls and Procedures.*** Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including, without limitation, that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of December 31, 2012, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2012, our disclosure controls and procedures were effective at a reasonable assurance level.

***Management's Annual Report on Internal Control Over Financial Reporting.*** Management's Report on Internal Control Over Financial Reporting is set forth below.

**Management's Report on Internal Control Over Financial Reporting**

Management of China Mobile Limited (together with its consolidated subsidiaries, the Company) is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

As of December 31, 2012, the Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, conducted an assessment of the effectiveness of the Company's internal control over financial reporting using criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Company's management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2012 has been audited by KPMG, an independent registered public accounting firm, as stated in their report dated March 14, 2013.

/s/ LI Yue  
Name: LI Yue  
Title: Executive Director and Chief Executive Officer

/s/ XUE Taohai  
Name: XUE Taohai  
Title: Executive Director, Vice President and Chief Financial Officer



**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of

China Mobile Limited:

We have audited China Mobile Limited and its subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The management of China Mobile Limited and its subsidiaries is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the internal control over financial reporting of China Mobile Limited and its subsidiaries based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, China Mobile Limited and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of China Mobile Limited and its subsidiaries as of December 31, 2011 and 2012, and the related consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years in the three-year period ended December 31, 2012 and our report dated March 14, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG

Hong Kong, China

March 14, 2013

**Table of Contents**

**Changes in Internal Control Over Financial Reporting.** During 2012, no change to our internal control over financial reporting occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert.**

All members of our audit committee have extensive management experience. In particular, one of the members has many years of finance and commercial management experience and expertise. However, members of our audit committee do not possess direct experience or expertise in respect of the evaluation of reports filed with the SEC by SEC-reporting issuers. Our board of directors has determined that we do not currently have an audit committee financial expert, as defined in Item 16A(b) of Form 20-F, serving on our audit committee. Our audit committee may consider appointing, from time to time, an external financial expert as a consultant.

**Item 16B. Code of Ethics.**

We have adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Deputy Chief Financial Officer, Assistant Chief Financial Officer and our other designated senior officers. A copy of our Code of Ethics for Covered Officers was filed as Exhibit 11.1 to our annual report on Form 20-F for the fiscal year ended December 31, 2013, and may also be downloaded from our website at [www.chinamobileltd.com/images/pdf/terms/CodeofEthics\\_eng.pdf](http://www.chinamobileltd.com/images/pdf/terms/CodeofEthics_eng.pdf). Information contained on that website is not a part of this annual report on Form 20-F. Copies of our Code of Ethics for Covered Officers may also be obtained at no charge by writing to our investor relations department at 60/F, The Center, 99 Queen's Road Central, Hong Kong.

**Item 16C. Principal Accountant Fees and Services.**

The following table sets forth the aggregate audit fees, audit-related fees, tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees in 2011 and 2012:

|      | Audit Fees <sup>(1)</sup><br>RMB | Audit-<br>Related Fees<br>RMB | Tax Fees<br>RMB | All Other<br>Fees <sup>(2)</sup><br>RMB |
|------|----------------------------------|-------------------------------|-----------------|---|
| 2011 | 84,000,000                       |                               | 600,000         | 11,000,000                              |
| 2012 | 87,000,000                       |                               | 2,000,000       | 12,000,000                              |

(1) Includes the fees for services rendered in connection with the audit of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002.

(2) Includes the fees for advisory service rendered in connection with the Sarbanes-Oxley Act of 2002, risk assessment and other information technology-related advisory services provided to us.

Before our principal accountants were engaged by us or our subsidiaries to render audit or non-audit services, the engagement was approved by our audit committee as required by applicable rules and regulations of the SEC.

**Item 16D. Exemptions from the Listing Standards for Audit Committees.**

Not applicable.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

None.

**Item 16F. Change in Registrant's Certifying Accountant.  
Change of Principal Accountants**

On March 14, 2013, the board of directors of the Company resolved, as recommended by our audit committee, to propose to replace our principal accountants, KPMG, after the completion of their audit of our consolidated financial statements as of and for the year ended December 31, 2012 and the effectiveness of our internal control over financial reporting as of December 31, 2012. Such change in our principal accountants is due to the relevant regulations issued by the Ministry of Finance and the State-Owned Assets Supervision and Administration Commission of the PRC. According to the relevant regulations, there are restrictions in respect of the number of years of audit services that an accounting firm can continuously provide to a State-owned enterprise and its subsidiaries. As a result, our company will not re-appoint KPMG at the annual general meeting to be held on May 30, 2013.

---

## **Table of Contents**

None of the auditors' reports issued by KPMG on our financial statements as of and for the fiscal years ended December 31, 2011 and 2012 contained an adverse opinion or a disclaimer of opinion, or was modified or qualified as to uncertainty, audit scope, or accounting principles. During the two fiscal years ended December 31, 2011 and 2012 and through March 14, 2013, there were no disagreements with KPMG, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement if not resolved to KPMG's satisfaction would have caused them to make reference to the subject matter of the disagreement in connection with their report, nor have there been any reportable events (as defined in Item 16F(a)(1)(v) of Form 20-F). We have provided KPMG with a copy of the foregoing disclosure and have requested that KPMG furnish to us a letter addressed to the SEC stating whether or not KPMG agrees with such disclosure. A copy of the letter is filed as Exhibit 15.1 to this Form 20-F.

### **Engagement of New Principal Accountants**

On March 14, 2013, our board of directors resolved, as recommended by our audit committee, to propose to appoint PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (which we understand will be renamed PricewaterhouseCoopers Zhong Tian LLP), or collectively PwC, as our new principal accountants for Hong Kong financial reporting and U.S. financial reporting purposes, respectively. Such appointment will become effective upon the close of our forthcoming annual general meeting. During the two fiscal years ended December 31, 2011 and 2012 and through March 14, 2013, neither we nor any person on our behalf consulted with PwC regarding either (i) the application of accounting principles to a specific completed or proposed transaction or regarding the type of audit opinion that might be rendered on our financial statements and no written or oral advice was provided that PwC concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issues, or (ii) any matter being the subject of disagreement (as defined in Item 16F(a)(1)(iv) of Form 20-F) or reportable event (as defined in Item 16F(a)(1)(v) of Form 20-F).

### **Item 16G. Corporate Governance.**

As a foreign private issuer (as defined in Rule 3b-4 under the Securities Exchange Act of 1934, as amended), we are permitted to follow home country practices in lieu of some of the corporate governance practices required to be followed by U.S. companies listed on the New York Stock Exchange. As a result, our corporate governance practices differ in some respects from those required to be followed by U.S. companies listed on the New York Stock Exchange.

The significant differences between our corporate governance practices and those required to be followed by U.S. companies under the New York Stock Exchange's listing standards include:

Section 303A.01 of the New York Stock Exchange Listed Company Manual provides that listed companies must have a majority of independent directors. As a listed company in Hong Kong, we are subject to the requirement under the Hong Kong Listing Rules that at least one-third of our board of directors be independent non-executive directors as determined under the Hong Kong Listing Rules. We currently have three independent directors out of a total of nine directors. The Hong Kong Listing Rules set forth standards for establishing independence, which differ from those set forth in the New York Stock Exchange Listed Company Manual.

Section 303A.03 of the New York Stock Exchange Listed Company Manual provides that listed companies must schedule regular executive sessions in which non-management directors meet without management participation. As a listed company in Hong Kong, we are subject to the requirement under the Hong Kong Listing Rules that our Chairman should hold meetings at least annually with the non-executive directors (including independent non-executive directors) without the presence of the executive directors.

Section 303A.04 of the New York Stock Exchange Listed Company Manual provides that the nominating/corporate governance committee of a listed company must have a written charter that addresses the committee's purpose and responsibilities, which include, among others, the development and recommendation of corporate governance guidelines to the listed company's board of directors. Our board of directors is responsible for performing the corporate governance duties, including developing and reviewing our policies and practices on corporate governance guidelines.

**Table of Contents**

Section 303A.07 of the New York Stock Exchange Listed Company Manual provides that if an audit committee member simultaneously serves on the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then in each case, the board of directors must determine that such simultaneous service would not impair the ability of such member to effectively serve on the listed company's audit committee and disclose such determination. We are not required, under the applicable Hong Kong law, to make such determination.

Section 303A.10 of the New York Stock Exchange Listed Company Manual provides that listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees. While we are not required, under the Hong Kong Listing Rules, to adopt such similar code, as required under the Sarbanes-Oxley Act of 2002, we have adopted a code of ethics that is applicable to our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions.

Section 303A.12(a) of the New York Stock Exchange Listed Company Manual provides that each listed company's chief executive officer must certify to the New York Stock Exchange each year that he or she is not aware of any violation by the company of New York Stock Exchange corporate governance listing standards. Our Chief Executive Officer is not required, under the applicable Hong Kong law, to make similar certifications.

**Item 16H. Mine Safety Disclosure.**

Not applicable.

**Table of Contents****PART III****Item 17. Financial Statements.**

Not applicable.

**Item 18. Financial Statements.**

The following financial statements are filed as part of this annual report on Form 20-F.

**China Mobile Limited:**

|   |      |
|---|------|
| Index to Consolidated Financial Statements              | F-1  |
| Report of Independent Registered Public Accounting Firm | F-2  |
| Consolidated statements of comprehensive income         | F-3  |
| Consolidated balance sheets                             | F-5  |
| Consolidated statements of changes in equity            | F-8  |
| Consolidated cash flow statements                       | F-11 |
| Notes to consolidated financial statements              | F-13 |

**Item 19. Exhibits.**

- (a) See Item 18 for a list of the financial statements filed as part of this annual report on Form 20-F.
- (b) Exhibits to this annual report on Form 20-F:

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>  |
|-----------------------|--|
| 1.1                   | Memorandum and Articles of Association (as amended). <sup>(1)</sup>  |
| 2.1                   | We agree to provide the SEC, upon request, copies of instruments defining the rights of holders of our long-term debt.   |
| 2.2                   | Guarantee from China Mobile Communications Corporation for the RMB5,000 million guaranteed bonds due 2011 issued by Guangdong Mobile. <sup>(2)</sup>   |
| 2.3                   | Letter of Guarantee from China Mobile Communications Corporation for the RMB3,000 million guaranteed bonds due 2007 and RMB5,000 million guaranteed bonds due 2017, both issued by Guangdong Mobile in 2002 (with English translation). <sup>(3)</sup>   |
| 4.1                   | Agreement regarding Settlement of Interconnection and Roaming, Transmission Line Leasing, Usage of Spectrum Frequency and Numbering Resources, dated July 1, 2004, between China Mobile (Hong Kong) Limited and China Mobile Communications Corporation (with English translation). <sup>(4)</sup> |
| 4.2                   | Tax Indemnity, dated July 1, 2004, among China Mobile Hong Kong (BVI) Limited, China Mobile (Hong Kong) Limited and China Mobile Communications Corporation. <sup>(4)</sup>  |
| 4.3                   | Conditional Sale and Purchase Agreement, dated April 28, 2004 between China Mobile (Hong Kong) Limited, China Mobile Hong Kong (BVI) Limited and China Mobile Communications Corporation. <sup>(5)</sup>   |
| 4.4                   | Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation, China Mobile Group Neimenggu Co., Ltd. and Neimenggu Communication Service Company (with English translation and schedule). <sup>(5)</sup>  |



## Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

- 4.5 Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation, China Mobile Group Design Institute Co., Ltd. and Beijing P&T Consulting & Design Institute (with English translation).<sup>(5)</sup>
- 4.6 Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation and China Mobile Communication Company Limited (with English translation).<sup>(5)</sup>
- 4.7 Agreement on the Confirmation of Rights and Obligations, dated April 9, 2004, between China Mobile Communications Corporation, China Mobile Group Neimenggu Co., Ltd. and Neimenggu Communication Service Company (with English translation and schedule).<sup>(5)</sup>

**Table of Contents**

- 4.8 Agreement on the Confirmation of Rights and Obligations, dated April 9, 2004, between China Mobile Communications Corporation, China Mobile Group Design Institute Co., Ltd. and Beijing P&T Consulting & Design Institute (with English translation).<sup>(5)</sup>
- 4.9 Consent Letter to the Substitution of Borrowers under the Consigned Loan Agreement, dated February 13, 2004, between China Mobile Communications Corporation, China Mobile Group Neimenggu Co., Ltd., Neimenggu Communication Service Company and Beijing Chang an Sub-branch of Industrial and Commercial Bank of China (with English translation and schedule)<sup>(5)</sup>
- 4.10 Agreement on Sharing of Administrative Services and Administrative Costs, dated April 27, 2004, between China Mobile Communication Co., Ltd. and China Mobile Communications Corporation (with English translation).<sup>(5)</sup>
- 4.11 Tax Indemnity dated July 1, 2002 between China Mobile Hong Kong (BVI) Limited, China Mobile (Hong Kong) Limited and China Mobile Communications Corporation.<sup>(3)</sup>
- 4.12 Co-operation Framework Agreement in respect of Indirect Loan dated May 10, 2002 between China Mobile Communications Corporation and China Mobile (Hong Kong) Limited (with English translation).<sup>(3)</sup>
- 4.13 Agreement on the Sales and Maintenance of Masts and Maintenance of Antennas and Feeder Lines, dated August 1, 2000, between China Mobile Group Hebei Co., Ltd. and Hebei Provincial Posts and Telecommunications Equipment and Machinery Plant.<sup>(6)</sup>
- 4.14 Trademark License Agreement, dated January 1, 2008, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(7)</sup>
- 4.15 Tripartite Agreement on the Transfer of Rights and Obligations Relating to the Interconnection and Settlement Arrangements, dated November 13, 2008, among China Mobile Communications Corporation, China Tietong Telecommunications Corporation and China Mobile Limited (with English translation).<sup>(8)</sup>
- 4.16 TD-SCDMA Network Capacity Leasing Agreement, dated December 29, 2008, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(8)</sup>
- 4.17 Telecommunications Services Cooperation Agreement, dated November 6, 2009, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(9)</sup>
- 4.18 Share Subscription Agreement, dated March 10, 2010, between China Mobile Group Guangdong Co., Ltd. and Shanghai Pudong Development Bank Co., Ltd. (with English summary).<sup>(9)</sup>
- 4.19 Property Leasing and Management Services Agreement for the Years from 2011 to 2013, dated December 21, 2010, between China Mobile Limited and China Mobile Communications Corporation (with English translation).<sup>(10)</sup>
- 4.20 Telecommunications Services Agreement for the Years from 2011 to 2013, dated December 21, 2010, between China Mobile Limited and China Mobile Communications Corporation (with English translation).<sup>(10)</sup>
- 4.21 Network Assets Leasing Agreement, dated August 18, 2011, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(11)</sup>
- 4.22 Amendment and Transfer Agreement in connection with the Agreement regarding Settlement of Interconnection and Roaming, Transmission Line Leasing, Usage of Spectrum Frequency and Numbering Resources, dated September 13, 2012, between China Mobile Limited, China Mobile International Limited, China Mobile Communications Corporation and China Mobile Communication Co., Ltd. (with English translation).
- 8.1 List of Major Subsidiaries.
- 11.1 Code of Ethics.<sup>(5)</sup>
- 12.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).

**Table of Contents**

- 12.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
- 13.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b).
- 13.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b).
- 15.1 Letter from KPMG.
- 
- (1) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2005 (File No. 1-14696), filed with the SEC on June 9, 2006.
- (2) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000 (File No. 1-14696), filed with the SEC on June 26, 2001.
- (3) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2002 (File No. 1-14696), filed with the SEC on June 17, 2003.
- (4) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 1-14696), filed with the SEC on June 13, 2005.
- (5) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003 (File No. 1-14696), filed with the SEC on June 17, 2004.
- (6) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-47256), filed with the SEC on October 30, 2000.
- (7) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2007 (File No. 1-14696), filed with the SEC on June 11, 2008.
- (8) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2008 (File No. 1-14696), filed with the SEC on June 23, 2009.
- (9) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2009 (File No. 1-14696), filed with the SEC on June 7, 2010.
- (10) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2010 (File No. 1-14696), filed with the SEC on April 27, 2011.
- (11) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2010 (File No. 1-14696), filed with the SEC on April 25, 2012.

**Table of Contents**

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on Form 20-F on its behalf.

**CHINA MOBILE LIMITED**

By: /s/ LI Yue  
Name: LI Yue  
Title: Executive Director and Chief Executive Officer

Date: April 25, 2013

**Table of Contents**

**Index to Consolidated Financial Statements**

|  | <b>Page No.</b> |
|--|-----------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | F-2             |
| <u>Consolidated statements of comprehensive income</u>         | F-3             |
| <u>Consolidated balance sheets</u>                             | F-5             |
| <u>Consolidated statements of changes in equity</u>            | F-8             |
| <u>Consolidated cash flow statements</u>                       | F-11            |
| <u>Notes to consolidated financial statements</u>              | F-13            |

F-1

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Shareholders of China Mobile Limited:**

We have audited the accompanying consolidated balance sheets of China Mobile Limited and its subsidiaries as of December 31, 2011 and 2012, and the related consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the management of China Mobile Limited and its subsidiaries. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Mobile Limited and its subsidiaries as of December 31, 2011 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the internal control over financial reporting of China Mobile Limited and its subsidiaries as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2013 expressed an unqualified opinion on the effectiveness of the internal control over financial reporting of China Mobile Limited and its subsidiaries.

/s/ KPMG

Hong Kong, China

March 14, 2013

**Table of Contents**

Consolidated statements of comprehensive income

For the years ended December 31

*(Expressed in Renminbi)*

|  | <i>Note</i> | <i>2012</i><br>RMB million | <i>2011</i><br>RMB million | <i>2010</i><br>RMB million |
|--|-------------|----------------------------|----------------------------|----------------------------|
| <b>Operating revenue (Turnover)</b>  | 3           |                            |                            |                            |
| Voice services   |             | 368,025                    | 364,189                    | 343,985                    |
| Data services  |             | 166,348                    | 139,330                    | 120,768                    |
| Others   |             | 26,040                     | 24,480                     | 20,478                     |
|  |             | 560,413                    | 527,999                    | 485,231                    |
| <b>Operating expenses</b>  |             |                            |                            |                            |
| Leased lines   |             | 9,909                      | 5,188                      | 3,897                      |
| Interconnection  |             | 25,140                     | 23,533                     | 21,886                     |
| Depreciation   |             | 100,848                    | 97,113                     | 86,230                     |
| Personnel  | 4           | 31,256                     | 28,672                     | 24,524                     |
| Selling expenses   |             | 104,906                    | 96,830                     | 90,590                     |
| Other operating expenses   | 5           | 137,832                    | 125,364                    | 107,350                    |
|  |             | 409,891                    | 376,700                    | 334,477                    |
| <b>Profit from operations</b>  |             | 150,522                    | 151,299                    | 150,754                    |
| <b>Other net income</b>  | 6           | 2,208                      | 2,559                      | 2,336                      |
| <b>Non-operating net income</b>  | 7           | 615                        | 571                        | 685                        |
| <b>Interest income</b>   |             | 12,661                     | 8,413                      | 5,658                      |
| <b>Finance costs</b>   | 8           | (390)                      | (565)                      | (902)                      |
| <b>Share of profit of associates</b>   | 18          | 5,685                      | 4,306                      | 558                        |
| <b>Share of loss of jointly controlled entity</b>                                | 19          | (1)                        | (1)                        | (18)                       |
| <b>Profit before taxation</b>  |             | 171,300                    | 166,582                    | 159,071                    |
| <b>Taxation</b>  | 11(a)       | (41,919)                   | (40,603)                   | (39,047)                   |
| <b>PROFIT FOR THE YEAR</b>   |             | 129,381                    | 125,979                    | 120,024                    |
| <b>Other comprehensive income for the year:</b>                                  |             |                            |                            |                            |
| Exchange differences on translation of financial statements of overseas entities |             | (6)                        | (311)                      | (135)                      |
| Share of other comprehensive income of associates                                |             | (16)                       | (229)                      |                            |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                                   |             | 129,359                    | 125,439                    | 119,889                    |





**Table of Contents**

Consolidated statements of comprehensive income

For the years ended December 31 (continued)

*(Expressed in Renminbi)*

|  | <i>Note</i> | <i>2012</i><br>RMB million | <i>2011</i><br>RMB million | <i>2010</i><br>RMB million |
|--|-------------|----------------------------|----------------------------|----------------------------|
| <b>Profit attributable to:</b>                     |             |                            |                            |                            |
| Equity shareholders of the Company                 |             | 129,274                    | 125,870                    | 119,640                    |
| Non-controlling interests                          |             | 107                        | 109                        | 384                        |
| <b>PROFIT FOR THE YEAR</b>                         |             | <b>129,381</b>             | <b>125,979</b>             | <b>120,024</b>             |
| <b>Total comprehensive income attributable to:</b> |             |                            |                            |                            |
| Equity shareholders of the Company                 |             | 129,252                    | 125,332                    | 119,505                    |
| Non-controlling interests                          |             | 107                        | 107                        | 384                        |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>     |             | <b>129,359</b>             | <b>125,439</b>             | <b>119,889</b>             |
| <b>Earnings per share Basic</b>                    | 12(a)       | RMB 6.43                   | RMB 6.27                   | RMB 5.96                   |
| <b>Earnings per share Diluted</b>                  | 12(b)       | RMB 6.36                   | RMB 6.20                   | RMB 5.89                   |

The notes on pages F-13 to F-70 form part of these consolidated financial statements.

**Table of Contents**

Consolidated balance sheets

As at December 31

*(Expressed in Renminbi)*

|  | <i>Note</i> | <i>As at<br/>December 31,<br/>2012<br/>RMB million</i> | <i>As at<br/>December 31,<br/>2011<br/>RMB million</i> |
|--|-------------|--|--|
| <b>Non-current assets</b>                |             |  |  |
| Property, plant and equipment            | 13          | 430,509  | 408,165  |
| Construction in progress                 | 14          | 55,507   | 56,235   |
| Land lease prepayments                   |             | 14,244   | 12,798   |
| Goodwill                                 | 15          | 36,894   | 36,894   |
| Other intangible assets                  | 16          | 924  | 818  |
| Interest in associates                   | 18          | 48,343   | 43,794   |
| Interest in jointly controlled entity    | 19          | 6  | 7  |
| Deferred tax assets                      | 20          | 13,544   | 10,913   |
| Restricted bank deposits                 | 21          | 5,418  | 122  |
| Other financial assets                   | 22          | 127  | 127  |
|  |             | 605,516  | 569,873  |
| <b>Current assets</b>                    |             |  |  |
| Inventories                              | 23          | 7,195  | 7,944  |
| Accounts receivable                      | 24          | 11,722   | 9,165  |
| Other receivables                        | 25          | 8,605  | 19,483   |
| Prepayments and other current assets     | 25          | 15,913   | 12,854   |
| Amount due from ultimate holding company | 26          | 102  | 170  |
| Tax recoverable                          | 11(c)       | 153  | 91   |
| Restricted bank deposits                 | 21          |  | 32   |
| Bank deposits                            |             | 331,997  | 246,687  |
| Cash and cash equivalents                | 27          | 70,906   | 86,259   |
|  |             | 446,593  | 382,685  |

**Table of Contents**

Consolidated balance sheets

As at December 31 (continued)

*(Expressed in Renminbi)*

|  | <i>Note</i> | <i>As at<br/>December 31,<br/>2012<br/>RMB million</i> | <i>As at<br/>December 31,<br/>2011<br/>RMB million</i> |
|--|-------------|--|--|
| <b>Current liabilities</b>                                   |             |  |  |
| Accounts payable   | 28          | 123,896  | 116,266  |
| Bills payable  |             | 1,159  | 1,616  |
| Deferred revenue   | 29          | 57,988   | 51,753   |
| Accrued expenses and other payables                          | 31          | 103,774  | 92,362   |
| Amount due to ultimate holding company                       | 26          | 39   | 285  |
| Amount due to immediate holding company                      | 26          | 16   | 33   |
| Obligations under finance leases                             | 32          | 68   | 68   |
| Current taxation   | 11(c)       | 10,856   | 10,861   |
|  |             | 297,796  | 273,244  |
| <b>Net current assets</b>                                    |             | <b>148,797</b>   | <b>109,441</b>   |
| <b>Total assets less current liabilities carried forward</b> |             | <b>754,313</b>   | <b>679,314</b>   |

**Table of Contents**

Consolidated balance sheets

As at December 31 (continued)

*(Expressed in Renminbi)*

|  | <i>Note</i> | <i>As at<br/>December 31,<br/>2012<br/>RMB million</i> | <i>As at<br/>December 31,<br/>2011<br/>RMB million</i> |
|--|-------------|--|--|
| <b>Total assets less current liabilities brought forward</b>           |             | 754,313  | 679,314  |
| <b>Non-current liabilities</b>   |             |  |  |
| Interest-bearing borrowings  | 30          | (28,619)   | (28,617)   |
| Deferred revenue, excluding current portion                            | 29          | (334)  | (261)  |
| Deferred tax liabilities   | 20          | (51)   | (17)   |
|  |             | (29,004)   | (28,895)   |
| <b>NET ASSETS</b>  |             | 725,309  | 650,419  |
| <b>CAPITAL AND RESERVES</b>  |             |  |  |
| Share capital  |             | 2,142  | 2,140  |
| Reserves   |             | 721,305  | 646,924  |
| <b>Total equity attributable to equity shareholders of the Company</b> |             | 723,447  | 649,064  |
| <b>Non-controlling interests</b>                                       |             | 1,862  | 1,355  |
| <b>TOTAL EQUITY</b>  |             | 725,309  | 650,419  |

Approved and authorized for issue by the Board of Directors on March 14, 2013.

**Li Yue***Director***Xue Taohai***Director*

The notes on pages F-13 to F-70 form part of these consolidated financial statements.

**Table of Contents**

Consolidated statements of changes in equity

For the years ended December 31

*(Expressed in Renminbi)*

|   | Attributable to equity shareholders of the Company |                                    |                                      |                                      |                                       |  |                                       | Total<br>RMB<br>million | Non-<br>controlling<br>interests<br>RMB<br>million | Total<br>equity<br>RMB<br>million |
|---|--|------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|--|---------------------------------------|-------------------------|--|-----------------------------------|
|   | Share<br>Capital<br>RMB<br>million                 | Share<br>premium<br>RMB<br>million | Capital<br>reserve<br>RMB<br>million | General<br>reserve<br>RMB<br>million | Exchange<br>reserve<br>RMB<br>million | PRC<br>statutory<br>reserves<br>RMB<br>million | Retained<br>profits<br>RMB<br>million |                         |  |                                   |
| <b>As at January 1, 2010</b>  | 2,139  | 386,375                            | (291,972)                            | 72                                   | (1,039)                               | 129,918  | 281,255                               | 506,748                 | 886  | 507,634                           |
| <b>Changes in equity for 2010:</b>                                  |  |                                    |                                      |                                      |                                       |  |                                       |                         |  |                                   |
| Profit for the year   |  |                                    |                                      |                                      |                                       |  | 119,640                               | 119,640                 | 384  | 120,024                           |
| Other comprehensive income  |  |                                    |                                      |                                      | (135)                                 |  |                                       | (135)                   |  | (135)                             |
| <b>Total comprehensive income for the year</b>                      |  |                                    |                                      |                                      | (135)                                 |  | 119,640                               | 119,505                 | 384  | 119,889                           |
| Dividends approved in respect of the previous year (note 35(a)(ii)) |  |                                    |                                      |                                      |                                       |  | (25,651)                              | (25,651)                |  | (25,651)                          |
| Dividends declared in respect of the current year (note 35(a)(i))   |  |                                    |                                      |                                      |                                       |  | (24,550)                              | (24,550)                | (24)   | (24,574)                          |
| Shares issued under share option scheme                             |  | 101                                | (8)                                  |                                      |                                       |  |                                       | 93                      |  | 93                                |
| Transfer to PRC statutory reserves (note 35(c)(ii))                 |  |                                    |                                      |                                      |                                       | 24,260   | (24,248)                              | 12                      |  | 12                                |
| <b>As at December 31, 2010</b>                                      | 2,139  | 386,476                            | (291,980)                            | 72                                   | (1,174)                               | 154,178  | 326,446                               | 576,157                 | 1,246  | 577,403                           |

The notes on pages F-13 to F-70 form part of these consolidated financial statements.

**Table of Contents**

Consolidated statements of changes in equity

For the years ended December 31 (continued)

*(Expressed in Renminbi)*

|   | Attributable to equity shareholders of the Company |               |                 |                 |                  |                        | Retained profits | Total       | Non-controlling interests | Total equity |
|---|--|---------------|-----------------|-----------------|------------------|------------------------|------------------|-------------|---------------------------|--------------|
|   | Share Capital                                      | Share premium | Capital reserve | General reserve | Exchange reserve | PRC statutory reserves |                  |             |                           |              |
|   | RMB million  | RMB million   | RMB million     | RMB million     | RMB million      | RMB million            | RMB million      | RMB million | RMB million               | RMB million  |
| <b>As at January 1, 2011</b>  | 2,139  | 386,476       | (291,980)       | 72              | (1,174)          | 154,178                | 326,446          | 576,157     | 1,246                     | 577,403      |
| <b>Changes in equity for 2011:</b>                                  |  |               |                 |                 |                  |                        |                  |             |                           |              |
| Profit for the year   |  |               |                 |                 |                  |                        | 125,870          | 125,870     | 109                       | 125,979      |
| Other comprehensive income  |  |               | (229)           |                 | (309)            |                        |                  | (538)       | (2)                       | (540)        |
| <b>Total comprehensive income for the year</b>                      |  |               | (229)           |                 | (309)            |                        | 125,870          | 125,332     | 107                       | 125,439      |
| Dividends approved in respect of the previous year (note 35(a)(ii)) |  |               |                 |                 |                  |                        | (26,718)         | (26,718)    |                           | (26,718)     |
| Dividends declared in respect of the current year (note 35(a)(i))   |  |               |                 |                 |                  |                        | (25,857)         | (25,857)    |                           | (25,857)     |
| Shares issued under share option scheme                             | 1  | 153           | (18)            |                 |                  |                        |                  | 136         |                           | 136          |
| Transfer to PRC statutory reserves (note 35(c)(ii))                 |  |               |                 |                 |                  | 25,058                 | (25,044)         | 14          |                           | 14           |
| Partial disposal of a subsidiary                                    |  |               |                 |                 |                  |                        |                  |             | 2                         | 2            |
| <b>As at December 31, 2011</b>                                      | 2,140  | 386,629       | (292,227)       | 72              | (1,483)          | 179,236                | 374,697          | 649,064     | 1,355                     | 650,419      |

The notes on pages F-13 to F-70 form part of these consolidated financial statements.

**Table of Contents**

Consolidated statements of changes in equity

For the years ended December 31 (continued)

*(Expressed in Renminbi)*

|   | Attributable to equity shareholders of the Company |                                    |                                      |                                      |                                       |  | Retained<br>profits<br>RMB<br>million | Total<br>RMB<br>million | Non-<br>controlling<br>interests<br>RMB<br>million | Total<br>equity<br>RMB<br>million |
|---|--|------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|--|---------------------------------------|-------------------------|--|-----------------------------------|
|   | Share<br>Capital<br>RMB<br>million                 | Share<br>premium<br>RMB<br>million | Capital<br>reserve<br>RMB<br>million | General<br>reserve<br>RMB<br>million | Exchange<br>reserve<br>RMB<br>million | PRC<br>statutory<br>reserves<br>RMB<br>million |                                       |                         |  |                                   |
| <b>As at January 1, 2012</b>  | 2,140  | 386,629                            | (292,227)                            | 72                                   | (1,483)                               | 179,236  | 374,697                               | 649,064                 | 1,355  | 650,419                           |
| <b>Changes in equity for 2012:</b>                                  |  |                                    |                                      |                                      |                                       |  |                                       |                         |  |                                   |
| Profit for the year   |  |                                    |                                      |                                      |                                       |  | 129,274                               | 129,274                 | 107  | 129,381                           |
| Other comprehensive income  |  |                                    | (16)                                 |                                      | (6)                                   |  |                                       | (22)                    |  | (22)                              |
| <b>Total comprehensive income for the year</b>                      |  |                                    | (16)                                 |                                      | (6)                                   |  | 129,274                               | 129,252                 | 107  | 129,359                           |
| Dividends approved in respect of the previous year (note 35(a)(ii)) |  |                                    |                                      |                                      |                                       |  | (28,583)                              | (28,583)                |  | (28,583)                          |
| Dividends declared in respect of the current year (note 35(a)(i))   |  |                                    |                                      |                                      |                                       |  | (26,842)                              | (26,842)                |  | (26,842)                          |
| Shares issued under share option scheme (note 35(b)(ii))            | 2  | 554                                | (25)                                 |                                      |                                       |  |                                       | 531                     |  | 531                               |
| Transfer to PRC statutory reserves (note 35(c)(ii))                 |  |                                    |                                      |                                      |                                       | 32,374   | (32,349)                              | 25                      |  | 25                                |
| Non-controlling interests of a new subsidiary                       |  |                                    |                                      |                                      |                                       |  |                                       |                         | 400  | 400                               |
| <b>As at December 31, 2012</b>                                      | 2,142  | 387,183                            | (292,268)                            | 72                                   | (1,489)                               | 211,610  | 416,197                               | 723,447                 | 1,862  | 725,309                           |

The notes on pages F-13 to F-70 form part of these consolidated financial statements.

**Table of Contents**

Consolidated cash flow statements

For the years ended December 31

*(Expressed in Renminbi)*

|   | <i>Note</i> | 2012<br>RMB million | 2011<br>RMB million | 2010<br>RMB million |
|---|-------------|---------------------|---------------------|---------------------|
| <b>Operating activities</b>   |             |                     |                     |                     |
| Profit before taxation  |             | 171,300             | 166,582             | 159,071             |
| Adjustments for:  |             |                     |                     |                     |
| - Depreciation of property, plant and equipment                     |             | 100,848             | 97,113              | 86,230              |
| - Amortization of other intangible assets                           | 5           | 68                  | 54                  | 62                  |
| - Amortization of land lease prepayments                            |             | 346                 | 325                 | 298                 |
| - Loss on disposal of property, plant and equipment                 | 5           | 1                   | 3                   |                     |
| - Write-off of property, plant and equipment                        | 5           | 2,818               | 5,853               | 2,763               |
| - Impairment loss of doubtful accounts                              | 5           | 4,504               | 3,548               | 4,019               |
| - Impairment loss of inventories                                    | 5           | 313                 | 87                  | 55                  |
| - Interest income   |             | (12,661)            | (8,413)             | (5,658)             |
| - Finance costs   | 8           | 390                 | 565                 | 902                 |
| - Dividend income from unlisted securities                          | 7           | (11)                | (13)                | (17)                |
| - Share of profit of associates                                     |             | (5,685)             | (4,306)             | (558)               |
| - Share of loss of jointly controlled entity                        |             | 1                   | 1                   | 18                  |
| - Unrealized exchange (gain)/loss, net                              | 7           | (17)                | 9                   | 6                   |
| <b>Operating cashflow before changes in working capital</b>         |             | 262,215             | 261,408             | 247,191             |
| Decrease/(increase) in inventories                                  |             | 436                 | (3,492)             | (457)               |
| Increase in accounts receivable                                     |             | (7,063)             | (4,865)             | (5,232)             |
| Decrease/(increase) in other receivables                            |             | 82                  | (258)               | 170                 |
| Increase in prepayments and other current assets                    |             | (3,403)             | (2,613)             | (1,087)             |
| Decrease/(increase) in amount due from ultimate holding company     |             | 68                  | 123                 | (268)               |
| Increase in accounts payable  |             | 5,443               | 651                 | 5,704               |
| Increase/(decrease) in bills payable                                |             | 20                  | 614                 | (1)                 |
| Increase in deferred revenue  |             | 6,308               | 8,277               | 7,847               |
| Increase in accrued expenses and other payables                     |             | 11,432              | 6,719               | 16,369              |
| (Decrease)/increase in amount due to ultimate holding company       |             | (246)               | 270                 | 11                  |
| <b>Cash generated from operations</b>                               |             | 275,292             | 266,834             | 270,247             |
| Tax paid  |             |                     |                     |                     |
| - Hong Kong profits tax paid  |             | (100)               | (134)               | (99)                |
| - PRC enterprise income tax paid                                    |             | (44,483)            | (39,944)            | (38,769)            |
| <b>Net cash generated from operating activities carried forward</b> |             | 230,709             | 226,756             | 231,379             |



**Table of Contents**

Consolidated cash flow statements

For the years ended December 31 (continued)

*(Expressed in Renminbi)*

|   | <i>Note</i> | <i>2012</i><br>RMB million | <i>2011</i><br>RMB million | <i>2010</i><br>RMB million |
|---|-------------|----------------------------|----------------------------|----------------------------|
| <b>Net cash generated from operating activities brought forward</b>                   |             | 230,709                    | 226,756                    | 231,379                    |
| <b>Investing activities</b>   |             |                            |                            |                            |
| Capital expenditure   |             | (123,232)                  | (123,331)                  | (113,203)                  |
| Land lease prepayments  |             | (1,792)                    | (1,083)                    | (1,135)                    |
| Acquisition of other intangible assets  |             | (174)                      | (85)                       | (162)                      |
| Proceeds from disposal of property, plant and equipment                               |             | 6                          | 123                        | 12                         |
| Increase in bank deposits   |             | (85,310)                   | (41,884)                   | (19,190)                   |
| Increase in restricted bank deposits  |             | (5,264)                    |                            | (162)                      |
| Trust loan granted  |             |                            | (14,000)                   | (2,700)                    |
| Cash receipt from repayment of trust loan   |             | 14,000                     | 2,700                      |                            |
| Interest received   |             | 9,459                      | 7,593                      | 4,588                      |
| Acquisition of investment in an associate   |             |                            |                            | (39,617)                   |
| Acquisition of investment in a jointly controlled entity                              |             |                            |                            | (20)                       |
| Proceeds from acquisition of a subsidiary (net of cash and cash equivalents acquired) |             |                            | 140                        |                            |
| Dividends received from an associate  | 36(c)       | 1,120                      | 458                        |                            |
| Dividends received from unlisted securities   |             | 11                         | 13                         | 17                         |
| <b>Net cash used in investing activities</b>  |             | (191,176)                  | (169,356)                  | (171,572)                  |
| <b>Financing activities</b>   |             |                            |                            |                            |
| Proceeds from issuance of shares under share option scheme                            | 35(b)(ii)   | 531                        | 136                        | 93                         |
| Capital injection from non-controlling interests of a subsidiary                      |             | 400                        |                            |                            |
| Interest paid   |             | (403)                      | (651)                      | (919)                      |
| Dividends paid to the Company's equity shareholders                                   | 35(a)       | (55,425)                   | (52,575)                   | (50,201)                   |
| Dividends paid to non-controlling interests   |             |                            |                            | (24)                       |
| Repayments of bonds and other loans   |             |                            | (5,330)                    |                            |
| <b>Net cash used in financing activities</b>  |             | (54,897)                   | (58,420)                   | (51,051)                   |
| <b>Net (decrease)/increase in cash and cash equivalents</b>                           |             | (15,364)                   | (1,020)                    | 8,756                      |
| <b>Cash and cash equivalents at beginning of year</b>                                 |             | 86,259                     | 87,543                     | 78,894                     |
| <b>Effect of changes in foreign exchange rate</b>                                     |             | 11                         | (264)                      | (107)                      |
| <b>Cash and cash equivalents at end of year</b>                                       | 27          | 70,906                     | 86,259                     | 87,543                     |

**Significant non-cash transactions**

The Group recorded payables of RMB54,816,000,000 (2011: RMB60,357,000,000; 2010: RMB61,457,000,000) and RMB409,000,000 (2011: RMB835,000,000; 2010: RMB451,000,000) to equipment suppliers and banks respectively as at December 31, 2012 for additions of

construction in progress during the year then ended.

The notes on pages F-13 to F-70 form part of these consolidated financial statements.

## **Table of Contents**

Notes to consolidated financial statements

*(Expressed in Renminbi unless otherwise indicated)*

### **1 SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ( IFRSs ) issued by the International Accounting Standards Board ( IASB ), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ( IASs ) and Interpretations issued by the IASB. These consolidated financial statements were authorized for issuance on March 14, 2013. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the Group ) is set out below.

#### **(b) Basis of preparation of the financial statements**

The consolidated financial statements comprise the Group, the Group's interest in associates and a jointly controlled entity.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with IFRSs 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 that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 41.

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

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

**Table of Contents**

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Subsidiaries and non-controlling interests (continued)**

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests 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 sheets 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 statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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

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

**(d) Associates and jointly controlled entities**

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method.

**Table of Contents****1 SIGNIFICANT ACCOUNTING POLICIES (continued)****(d) Associates and jointly controlled entities (continued)**

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

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

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

**(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 1(j)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the gain or loss on disposal.

**Table of Contents**

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Other intangible assets**

Other intangible assets that are acquired by the Group are stated in the balance sheets at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(j)). Amortization of intangible assets with finite useful lives is recorded in other operating expenses on a straight-line basis over the assets' estimated useful lives, from the date they are available for use. Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized 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. If they do not, the change in useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

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

The Group's accounting policies for investments in equity securities, other than investments in subsidiaries, associates and a jointly controlled entity, are as follows:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the balance sheets at cost less impairment losses (see note 1(j)).

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments.

**(h) Property, plant and equipment**

Property, plant and equipment are stated in the balance sheets at cost less accumulated depreciation and impairment losses (see note 1(j)).

The cost of property, plant and equipment comprises the purchase price and any directly attributable costs of bringing the asset to its working location and condition for its intended use. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

**Table of Contents****1 SIGNIFICANT ACCOUNTING POLICIES (continued)****(h) Property, plant and equipment (continued)**

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

|  |              |
|--|--------------|
| Buildings  | 8 - 30 years |
| Telecommunications transceivers, switching centers, transmission and other network equipment | 5 - 10 years |
| Office equipment, furniture and fixtures and others  | 3 - 10 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

**(i) Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made 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 life of the asset, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred. There were no contingent rentals recognized by the Group during the years presented.

---

**Table of Contents**

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(i) Leased assets (continued)**

**(iii) Operating lease charges**

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred. There were no contingent rentals recognized by the Group during the years presented.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

**(j) Impairment of assets**

**(i) Impairment of investments in equity securities and receivables**

Investments in equity securities and receivables that are stated at cost or amortized cost are reviewed at the end of each reporting date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

significant financial difficulty of the debtor;

a breach of contract, such as a default or delinquency in interest or principal payments;

it becoming probable that the debtor will enter bankruptcy or other financial reorganization;

significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

For investments in associates and jointly controlled entities recognized using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(j)(ii).



**Table of Contents**

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Impairment of assets (continued)**

**(i) Impairment of investments in equity securities and receivables (continued)**

For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed (see note 1(j)(ii)).

For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of 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.

**Table of Contents**

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Impairment of assets (continued)**

**(ii) Impairment of other assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

property, plant and equipment;

construction in progress;

prepaid interests in leasehold land classified as being held under an operating lease;

goodwill; and

other intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

**Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

**Recognition of impairment losses**

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

**Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.



**Table of Contents****1 SIGNIFICANT ACCOUNTING POLICIES (continued)****(j) Impairment of assets (continued)****(iii) Interim financial reporting and impairment**

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

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

**(k) Construction in progress**

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

**(l) Inventories**

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

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

**(m) Accounts receivable and other receivables**

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

**Table of Contents**

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(n) Deferred revenue**

Deferred revenue consists primarily of prepaid service fees received from customers, revenue deferred for unredeemed point rewards under Customer Point Reward Program ( Reward Program ) and deferred tax credit on purchase of domestic telecommunications equipment.

Revenue from prepaid service fees are recognized when the mobile telecommunications services are rendered.

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

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

**(o) Interest-bearing borrowings**

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

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

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

**(q) Cash and cash equivalents**

Cash and cash equivalents comprise cash at 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.

**(r) Revenue recognition**

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

- (i) revenue derived from voice and data services are recognized when the service is rendered;
- (ii) revenue from prepaid services is recognized when the mobile telecommunications services are delivered based upon actual usage by customers;
- (iii) sales of SIM cards and terminals are recognized on delivery of goods to the buyer and such amount, net of cost of goods sold, is included in other net income due to its insignificance;



---

**Table of Contents**

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(r) Revenue recognition (continued)**

(iv) interest income is recognized as it accrues using the effective interest method; and

(v) revenue from a fixed price contract is recognized using the percentage of completion method.

**(s) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to business combination, or items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

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

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

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

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

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

**Table of Contents**

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(s) Income tax (continued)**

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 legal, enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

the same taxable entity; or

different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

**(t) Provisions and contingent liabilities**

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.



---

**Table of Contents****1 SIGNIFICANT ACCOUNTING POLICIES (continued)****(u) Employee benefits****(i) Short term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution 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 the Hong Kong Special Administrative Region of the PRC ( Hong Kong ) are required to make contributions to Mandatory Provident Funds under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Such contributions are recognized as an expense in profit or loss as incurred.

The employees of the subsidiaries in Mainland China (For the purpose of preparing these financial statements, Mainland China refers to the People's Republic of China ( the PRC ) excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan.) participate in the defined contribution retirement plans managed by the local government authorities whereby the subsidiaries are required to contribute to the schemes at fixed rates of the employees' salary costs. In addition to the local governmental defined contribution retirement plans, certain subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs or in accordance with the terms of the plans. The Group's contributions to these plans are charged to profit or loss when incurred. The subsidiaries have no obligations for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

**(ii) Share-based payments**

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

**Table of Contents**

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(u) Employee benefits (continued)**

**(iii) Termination benefits**

Termination benefits are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

**(v) Borrowing costs**

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

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

**(w) Translation of foreign currencies**

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

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in profit or loss.

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

The results of overseas entities are translated into RMB at the exchange rates approximating the foreign exchange rate ruling at the dates of transactions. Balance sheets items are translated into RMB at the exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve. On disposal of an overseas entity, the cumulative amount of the exchange differences relating to that particular foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

**Table of Contents**

**1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(w) Translation of foreign currencies (continued)**

For the purpose of the consolidated cash flow statements, the cash flows of overseas entities within the Group are translated into RMB by using the exchange rates approximating the foreign exchange rate ruling at the dates of the cash flows.

**(x) Related parties**

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

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

F-27

**Table of Contents****1 SIGNIFICANT ACCOUNTING POLICIES (continued)****(y) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal financial reports that are provided to and regularly reviewed by the Group's chief operating decision maker in order to allocate resource and assess performance of the segment. For the periods presented, the Group as a whole is an operating segment since the Group is only engaged in mobile telecommunication and related business. No Group's geographical information has been disclosed as the majority of the Group's operating activities are carried out in Mainland China (for the purpose of preparing the financial statements, Mainland China refers to the People's Republic of China ( PRC ) excluding the Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan). 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.

**2 CHANGES IN ACCOUNTING POLICIES**

The IASB has issued a number of new or revised IFRSs, which term collectively includes IASs and interpretations, that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2012. These developments have had no material impact on the Group's financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 42).

**3 TURNOVER**

The principal activities of the Group are the provision of mobile telecommunications and related services in Mainland China and in Hong Kong.

Turnover represents voice services revenue, data services revenue and other operating revenue. Voice services revenue includes revenue derived from voice usage services (including usage fees and monthly fee) and voice value-added services. Data services revenue is mainly derived from short message services ( SMS ), multi-media message services ( MMS ), wireless data traffic, and applications and information services. Other operating revenue mainly represents interconnection revenue.

**4 PERSONNEL**

|  | <i>2012</i> | <i>2011</i> | <i>2010</i> |
|--|-------------|-------------|-------------|
|  | RMB million | RMB million | RMB million |
| Salaries, wages and other benefits                                       | 27,573      | 25,498      | 22,039      |
| Retirement costs: contributions to defined contribution retirement plans | 3,683       | 3,174       | 2,485       |
|  | 31,256      | 28,672      | 24,524      |

**Table of Contents****5 OTHER OPERATING EXPENSES**

|   | 2012<br>RMB million | 2011<br>RMB million | 2010<br>RMB million |
|---|---------------------|---------------------|---------------------|
| Maintenance                                       | 39,184              | 35,096              | 31,390              |
| Impairment loss of doubtful accounts              | 4,504               | 3,548               | 4,019               |
| Impairment loss of inventories                    | 313                 | 87                  | 55                  |
| Amortization of other intangible assets           | 68                  | 54                  | 62                  |
| Operating lease charges                           |                     |                     |                     |
| - land and buildings                              | 9,367               | 8,150               | 7,208               |
| - others (Note 1)                                 | 3,385               | 3,085               | 2,631               |
| Loss on disposal of property, plant and equipment | 1                   | 3                   |                     |
| Write-off of property, plant and equipment        | 2,818               | 5,853               | 2,763               |
| Auditors' remuneration                            |                     |                     |                     |
| - audit services (Note 2)                         | 87                  | 84                  | 83                  |
| - tax services (Note 3)                           | 2                   | 1                   | 1                   |
| - other services (Note 4)                         | 12                  | 11                  | 11                  |
| Others (Note 5)                                   | 78,091              | 69,392              | 59,127              |
|   | 137,832             | 125,364             | 107,350             |

*Notes:*

- (1) Other operating lease charges represent the operating lease charges for motor vehicles, computer and other office equipment.
- (2) Audit services include reporting on the Group's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of the United States of America (SOX 404) of RMB19,000,000 (2011: RMB19,000,000; 2010: RMB19,000,000).
- (3) Tax services include tax compliance and other tax advisory services for the Group of approximately RMB 2,000,000 (2011: RMB600,000; 2010: RMB1,000,000).
- (4) Other services include SOX 404 advisory services, risk assessment and other IT related advisory services.
- (5) Others consist of office expenses, utilities charges, travelling expenses, entertainment expenses, spectrum charges, consultancy and professional fees, consumables and supplies, labour service expenses and other miscellaneous expenses.

**6 OTHER NET INCOME**

|                                  | 2012<br>RMB million | 2011<br>RMB million | 2010<br>RMB million |
|----------------------------------|---------------------|---------------------|---------------------|
| Sales of SIM cards and terminals | 17,881              | 6,020               | 5,451               |
| Cost of SIM cards and terminals  | (16,774)            | (4,926)             | (4,361)             |
| Others                           | 1,101               | 1,465               | 1,246               |
|                                  | 2,208               | 2,559               | 2,336               |

**Table of Contents****7 NON-OPERATING NET INCOME**

|  | 2012<br>RMB million | 2011<br>RMB million | 2010<br>RMB million |
|--|---------------------|---------------------|---------------------|
| Exchange gain/(loss)                     | 17                  | (9)                 | (6)                 |
| Penalty income                           | 256                 | 257                 | 257                 |
| Dividend income from unlisted securities | 11                  | 13                  | 17                  |
| Others                                   | 331                 | 310                 | 417                 |
|  | 615                 | 571                 | 685                 |

**8 FINANCE COSTS**

|   | 2012<br>RMB million | 2011<br>RMB million | 2010<br>RMB million |
|---|---------------------|---------------------|---------------------|
| Interest on bank loans and other borrowings repayable within five years | 1                   | 7                   |                     |
| Interest on bank loans and other borrowings repayable after five years  | 162                 | 220                 | 431                 |
| Interest on bonds   | 227                 | 338                 | 471                 |
|   | 390                 | 565                 | 902                 |

**9 DIRECTORS REMUNERATION**

Directors' remuneration is as follows:

|  | Directors<br>fees<br>000 | Salaries,<br>allowances<br>and benefits<br>in kind<br>000 | Performance<br>related<br>bonuses<br>000 | Retirement<br>scheme<br>contributions<br>000 | 2012<br>Total<br>000 |
|--|--------------------------|---|--|--|----------------------|
| <i>(Expressed in Hong Kong dollar)</i>     |                          |   |  |  |                      |
| <b>Executive directors</b>                 |                          |   |  |  |                      |
| XI Guohua*                                 | 180                      | 1,152   | 660                                      | 282  | 2,274                |
| WANG Jianzhou**                            | 40                       | 242   | 146                                      | 83   | 511                  |
| LI Yue                                     | 180                      | 1,067   | 600                                      | 262  | 2,109                |
| LU Xiangdong**                             | 37                       | 181   |  | 39   | 257                  |
| XUE Taohai                                 | 180                      | 960   | 540                                      | 237  | 1,917                |
| HUANG Wenlin                               | 180                      | 960   | 540                                      | 237  | 1,917                |
| SHA Yuejia                                 | 180                      | 960   | 540                                      | 236  | 1,916                |
| LIU Aili                                   | 180                      | 960   | 540                                      | 236  | 1,916                |
| XIN Fanfei**                               | 40                       | 198   | 119                                      | 75   | 432                  |
| XU Long**                                  | 171                      | 903   | 514                                      | 221  | 1,809                |
| <b>Independent non-executive directors</b> |                          |   |  |  |                      |
| LO Ka Shui                                 | 505                      |   |  |  | 505                  |
| WONG Kwong Shing, Frank                    | 440                      |   |  |  | 440                  |

Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

|                     |       |       |       |       |        |
|---------------------|-------|-------|-------|-------|--------|
| CHENG Mo Chi, Moses | 440   |       |       |       | 440    |
|                     | 2,753 | 7,583 | 4,199 | 1,908 | 16,443 |

\* *Mr. XI Guohua was re-designated from Vice-Chairman to Chairman of the Company in March 2012.*

\*\* *Mr. WANG Jianzhou resigned as an Executive Director and the Chairman of the Company, Mr. LU Xiangdong resigned as an Executive Director and a Vice President of the Company and Madam XIN Fanfei resigned as an Executive Director and a Vice President of the Company in March 2012. Mr. XU Long resigned as an Executive Director of the Company in December 2012.*

F-30



**Table of Contents****9 DIRECTORS REMUNERATION (continued)**

| <i>(Expressed in Hong Kong dollar)</i>     | <i>Directors<br/>fees<br/>000</i> | <i>Salaries,<br/>allowances<br/>and benefits<br/>in kind<br/>000</i> | <i>Performance<br/>related<br/>bonuses<br/>000</i> | <i>Retirement<br/>scheme<br/>contributions<br/>000</i> | <i>2011<br/>Total<br/>000</i> |
|--|-----------------------------------|--|--|--|-------------------------------|
| <b>Executive directors</b>                 |                                   |  |  |  |                               |
| WANG Jianzhou                              | 180                               | 1,172  | 616  | 287  | 2,255                         |
| XI Guohua<br>(appointed on 26 July 2011)   | 78                                | 462  | 244  | 115  | 899                           |
| LI Yue                                     | 180                               | 1,067  | 560  | 261  | 2,068                         |
| LU Xiangdong                               | 180                               | 960  | 504  | 236  | 1,880                         |
| XUE Taohai                                 | 180                               | 960  | 504  | 236  | 1,880                         |
| HUANG Wenlin                               | 180                               | 960  | 504  | 236  | 1,880                         |
| SHA Yuejia                                 | 180                               | 960  | 504  | 235  | 1,879                         |
| LIU Aili                                   | 180                               | 960  | 504  | 235  | 1,879                         |
| XIN Fanfei                                 | 180                               | 960  | 504  | 229  | 1,873                         |
| XU Long                                    | 180                               | 950  | 504  | 232  | 1,866                         |
| <b>Independent non-executive directors</b> |                                   |  |  |  |                               |
| LO Ka Shui                                 | 505                               |  |  |  | 505                           |
| WONG Kwong Shing, Frank                    | 440                               |  |  |  | 440                           |
| CHENG Mo Chi, Moses                        | 440                               |  |  |  | 440                           |
|  | 3,083                             | 9,411  | 4,948  | 2,302  | 19,744                        |

**10 INDIVIDUALS WITH HIGHEST EMOLUMENTS**

For the years ended December 31, 2011 and 2012, 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 statements of comprehensive income represents:**

|   | <i>Note</i> | <i>2012<br/>RMB million</i> | <i>2011<br/>RMB million</i> | <i>2010<br/>RMB million</i> |
|---|-------------|-----------------------------|-----------------------------|-----------------------------|
| <b>Current tax</b>  |             |                             |                             |                             |
| Provision for Hong Kong profits tax on the estimated assessable profits for the year      | (i)         | 191                         | 112                         | 123                         |
| Provision for the PRC enterprise income tax on the estimated taxable profits for the year | (ii)        | 44,325                      | 41,693                      | 39,726                      |
|   |             | 44,516                      | 41,805                      | 39,849                      |
| <b>Deferred tax</b>   |             |                             |                             |                             |

Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

|   |       |         |         |        |
|---|-------|---------|---------|--------|
| Origination and reversal of temporary differences (note 20) | (iii) | (2,597) | (1,202) | (802)  |
|   |       | 41,919  | 40,603  | 39,047 |

F-31

**Table of Contents****11 TAXATION (continued)****(a) Taxation in the consolidated statements of comprehensive income represents: (continued)**

- (i) The provision for Hong Kong profits tax is calculated at 16.5% (2011 and 2010: 16.5%) of the estimated assessable profits for the year ended December 31, 2012.
- (ii) The provision for the PRC enterprise income tax is based on the statutory rate of 25% (2011: 24%-25%, 2010: 22%-25%) on the estimated taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year ended December 31, 2012.
- (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.

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

|   | 2012<br>RMB million | 2011<br>RMB million | 2010<br>RMB million |
|---|---------------------|---------------------|---------------------|
| Profit before taxation  | 171,300             | 166,582             | 159,071             |
| Notional tax on profit before tax, calculated at PRC's statutory tax rate of 25% (note) | 42,825              | 41,645              | 39,768              |
| Tax effect of non-taxable items   |                     |                     |                     |
| - Share of profit of associates   | (1,421)             | (1,076)             | (139)               |
| - Interest income   | (23)                | (8)                 | (3)                 |
| Tax effect of non-deductible expenses on the PRC operations                             | 970                 | 736                 | 562                 |
| Tax effect of non-deductible expenses on Hong Kong operations                           | 82                  | 66                  | 111                 |
| Rate differential of certain PRC operations   | (175)               | (198)               | (561)               |
| Rate differential on Hong Kong operations   | (114)               | (16)                | 1                   |
| Tax credit on purchase of domestic telecommunications equipment                         | (64)                | (171)               | (352)               |
| Others  | (161)               | (375)               | (340)               |
| Taxation  | 41,919              | 40,603              | 39,047              |

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

**(c) Current taxation in the consolidated balance sheets represents:**

|  | 2012<br>RMB million | 2011<br>RMB million | 2010<br>RMB million |
|--|---------------------|---------------------|---------------------|
| Provision for the PRC enterprise income tax for the year | 44,325              | 41,693              | 39,726              |
| Provision for Hong Kong profits tax for the year         | 191                 | 112                 | 123                 |

Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

|   |          |          |          |
|---|----------|----------|----------|
| Balance of the PRC enterprise income tax recoverable relating to prior year | (91)     | (135)    | (17)     |
| The PRC enterprise income tax paid for the year                             | (33,664) | (30,830) | (30,730) |
| Hong Kong profits tax paid for the year                                     | (58)     | (70)     | (59)     |
| Balance as at December 31   | 10,703   | 10,770   | 9,043    |
| Add: Tax recoverable  | 153      | 91       | 135      |
| Current taxation  | 10,856   | 10,861   | 9,178    |

F-32

**Table of Contents****12 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 RMB129,274,000,000 (2011: RMB125,870,000,000; 2010: RMB119,640,000,000) and the weighted average number of 20,090,824,422 shares (2011: 20,068,193,892 shares; 2010: 20,062,910,111 shares) in issue during the year, calculated as follows:

*Weighted average number of shares*

|  | <i>2012<br/>Number</i> | <i>2011<br/>Number</i> | <i>2010<br/>Number</i> |
|--|------------------------|------------------------|------------------------|
|  | <i>of shares</i>       | <i>of shares</i>       | <i>of shares</i>       |
| Issued shares as at January 1                              | 20,072,065,571         | 20,065,423,246         | 20,060,853,651         |
| Effect of share options exercised                          | 18,758,851             | 2,770,646              | 2,056,460              |
| <b>Weighted average number of shares as at December 31</b> | <b>20,090,824,422</b>  | <b>20,068,193,892</b>  | <b>20,062,910,111</b>  |

**(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 RMB129,274,000,000 (2011: RMB125,870,000,000; 2010: RMB119,640,000,000) and the weighted average number of 20,341,515,930 shares (2011: 20,315,252,412 shares; 2010: 20,321,332,465 shares), calculated as follows:

*Weighted average number of shares (diluted)*

|  | <i>2012<br/>Number</i> | <i>2011<br/>Number</i> | <i>2010<br/>Number</i> |
|--|------------------------|------------------------|------------------------|
|  | <i>of shares</i>       | <i>of shares</i>       | <i>of shares</i>       |
| <b>Weighted average number of shares as at December 31</b>                                     | <b>20,090,824,422</b>  | <b>20,068,193,892</b>  | <b>20,062,910,111</b>  |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration | 250,691,508            | 247,058,520            | 258,422,354            |
| <b>Weighted average number of shares (diluted) as at December 31</b>                           | <b>20,341,515,930</b>  | <b>20,315,252,412</b>  | <b>20,321,332,465</b>  |

**Table of Contents****13 PROPERTY, PLANT AND EQUIPMENT**

|   | <i>Buildings</i><br>RMB million | <i>Telecommunications<br/>transceivers,<br/>switching centers,<br/>transmission and<br/>other network<br/>equipment</i><br>RMB million | <i>Office<br/>equipments,<br/>furniture<br/>and<br/>fixtures and<br/>others</i><br>RMB million | <i>Total</i><br>RMB million |
|---|---------------------------------|--|--|-----------------------------|
| <b>Cost:</b>                                  |                                 |  |  |                             |
| As at January 1, 2011                         | 85,562                          | 689,702  | 27,940   | 803,204                     |
| Additions from an acquisition of a subsidiary |                                 |  | 8  | 8                           |
| Additions                                     | 787                             | 1,427  | 1,273  | 3,487                       |
| Transferred from construction in progress     | 10,176                          | 111,203  | 1,112  | 122,491                     |
| Reclassification                              |                                 | 10,915   | (10,915)   |                             |
| Disposals                                     |                                 | (398)  | (22)   | (420)                       |
| Assets written-off                            | (242)                           | (53,198)   | (1,121)  | (54,561)                    |
| Exchange differences                          | (1)                             | (115)  | (5)  | (121)                       |
| As at December 31, 2011                       | 96,282                          | 759,536  | 18,270   | 874,088                     |
| As at January 1, 2012                         | 96,282                          | 759,536  | 18,270   | 874,088                     |
| Additions                                     | 765                             | 1,502  | 1,390  | 3,657                       |
| Transferred from construction in progress     | 12,783                          | 108,733  | 849  | 122,365                     |
| Disposals                                     |                                 | (302)  | (2)  | (304)                       |
| Assets written-off                            | (622)                           | (38,141)   | (1,824)  | (40,587)                    |
| Exchange differences                          |                                 | 1  |  | 1                           |
| As at December 31, 2012                       | 109,208                         | 831,329  | 18,683   | 959,220                     |
| <b>Accumulated depreciation:</b>              |                                 |  |  |                             |
| As at January 1, 2011                         | 19,315                          | 383,627  | 14,966   | 417,908                     |
| Reclassification                              |                                 | 5,422  | (5,422)  |                             |
| Charge for the year                           | 4,140                           | 90,142   | 2,831  | 97,113                      |
| Written back on disposals                     |                                 | (284)  | (10)   | (294)                       |
| Assets written-off                            | (171)                           | (47,516)   | (1,021)  | (48,708)                    |
| Exchange differences                          |                                 | (93)   | (3)  | (96)                        |
| As at December 31, 2011                       | 23,284                          | 431,298  | 11,341   | 465,923                     |
| As at January 1, 2012                         | 23,284                          | 431,298  | 11,341   | 465,923                     |
| Charge for the year                           | 4,664                           | 94,313   | 1,876  | 100,853                     |
| Written back on disposals                     |                                 | (296)  | (1)  | (297)                       |
| Assets written-off                            | (492)                           | (35,742)   | (1,535)  | (37,769)                    |
| Exchange differences                          |                                 | 1  |  | 1                           |
| As at December 31, 2012                       | 27,456                          | 489,574  | 11,681   | 528,711                     |
| <b>Net book value:</b>                        |                                 |  |  |                             |
| As at December 31, 2012                       | 81,752                          | 341,755  | 7,002  | 430,509                     |

Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

As at December 31, 2011

72,998

328,238

6,929

408,165

F-34

**Table of Contents****13 PROPERTY, PLANT AND EQUIPMENT (continued)**

Write-off of property, plant and equipment represents the retirement of individual network assets due to obsolescence or damages. Such assets have been disconnected from existing network, abandoned and demolished. Total net book value of the write-off of such assets were RMB2,818,000,000 in 2012 (2011: RMB5,853,000,000, 2010: RMB2,763,000,000). These assets were disposed at scrap value.

**14 CONSTRUCTION IN PROGRESS**

|  | 2012<br>RMB million | 2011<br>RMB million |
|--|---------------------|---------------------|
| Balance as at January 1                      | 56,235              | 54,868              |
| Additions                                    | 121,637             | 123,858             |
| Transferred to property, plant and equipment | (122,365)           | (122,491)           |
| Balance as at December 31                    | 55,507              | 56,235              |

Construction in progress comprises expenditure incurred on the network expansion projects and construction of office buildings not yet completed as at December 31, 2012.

**15 GOODWILL**

|   | 2012<br>RMB million | 2011<br>RMB million |
|---|---------------------|---------------------|
| <b><i>Cost and carrying amount:</i></b> |                     |                     |
| As at January 1 and December 31         | 36,894              | 36,894              |

***Impairment tests for goodwill***

As set out in IAS 36 Impairment of Assets, a cash-generating unit is the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of the cash flows from other assets or groups of assets. For the purpose of impairment testing of goodwill, goodwill is allocated to a group of cash-generating units (being subsidiaries acquired in each acquisition). Such group of cash-generating units represent the lowest level within the Group for which the goodwill is monitored for internal management purposes.

The recoverable amount of the cash-generating units is determined based on value-in-use, which is calculated by using the discounted cash flow method. This method considers the cash flows of the subsidiaries (cash-generating units) for the five years ending December 31, 2017 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 0.5% for the operation in Hong Kong and 1% for operations in Mainland China to perpetuity are used which comply with general expectations for the business. The present value of cash flows is calculated by discounting the cash flow by pre-tax interest rate of approximately 10% (2011: 10%). Management performed impairment tests for the goodwill and determined that goodwill was not impaired.



**Table of Contents****16 OTHER INTANGIBLE ASSETS**

|   | <i>Brand<br/>name</i><br>RMB million | <i>Customer<br/>base</i><br>RMB million | <i>License<br/>and<br/>others</i><br>RMB million | <i>Total</i><br>RMB million |
|---|--------------------------------------|---|--|-----------------------------|
| <b><i>Cost:</i></b>                     |                                      |   |  |                             |
| As at January 1, 2011                   | 184                                  | 516                                     | 1,040  | 1,740                       |
| Additions                               |                                      |   | 85   | 85                          |
| Exchange differences                    |                                      |   | (39)   | (39)                        |
| <b>As at December 31, 2011</b>          | <b>184</b>                           | <b>516</b>                              | <b>1,086</b>                                     | <b>1,786</b>                |
| As at January 1, 2012                   | 184                                  | 516                                     | 1,086  | 1,786                       |
| Additions                               |                                      |   | 174  | 174                         |
| Retirements                             |                                      |   | (64)   | (64)                        |
| <b>As at December 31, 2012</b>          | <b>184</b>                           | <b>516</b>                              | <b>1,196</b>                                     | <b>1,896</b>                |
| <b><i>Accumulated amortization:</i></b> |                                      |   |  |                             |
| As at January 1, 2011                   |                                      | 516                                     | 411  | 927                         |
| Amortization for the year               |                                      |   | 54   | 54                          |
| Exchange differences                    |                                      |   | (13)   | (13)                        |
| <b>As at December 31, 2011</b>          |                                      | <b>516</b>                              | <b>452</b>                                       | <b>968</b>                  |
| As at January 1, 2012                   |                                      | 516                                     | 452  | 968                         |
| Amortization for the year               |                                      |   | 68   | 68                          |
| Retirements                             |                                      |   | (64)   | (64)                        |
| <b>As at December 31, 2012</b>          |                                      | <b>516</b>                              | <b>456</b>                                       | <b>972</b>                  |
| <b><i>Net book value:</i></b>           |                                      |   |  |                             |
| As at December 31, 2012                 | 184                                  |   | 740  | 924                         |
| <b>As at December 31, 2011</b>          | <b>184</b>                           |   | <b>634</b>                                       | <b>818</b>                  |

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

**Table of Contents****17 PRINCIPAL SUBSIDIARIES**

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.

| <i>Name of company</i>                        | <i>Place of incorporation and operation</i> | <i>Particulars of issued and paid up capital</i> | <i>Proportion of ownership interest</i> |                             | <i>Principal activity</i>                |
|---|---|--|---|-----------------------------|--|
|   |   |  | <i>Held by the Company</i>              | <i>Held by a subsidiary</i> |  |
| China Mobile Communication (BVI) Limited      | BVI   | 1 share at 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       |
| China Mobile Group Hainan Co., Ltd.           | PRC   | RMB643,000,000                                   |   | 100%                        | Mobile telecommunications operator       |
| China Mobile Group Beijing Co., Ltd.          | 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       |

**Table of Contents****17 PRINCIPAL SUBSIDIARIES (continued)**

| <i>Name of company</i>                    | <i>Place of incorporation and operation</i> | <i>Particulars of issued and paid up capital</i> | <i>Proportion of ownership interest Held by the Company</i> | <i>Held by a subsidiary</i> | <i>Principal activity</i>          |
|---|---|--|---|-----------------------------|------------------------------------|
| 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 |
| 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 |

**Table of Contents****17 PRINCIPAL SUBSIDIARIES (continued)**

| Name of company   | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest |                      | Principal activity  |
|---|--------------------------------------|---|----------------------------------|----------------------|---|
|   |                                      |   | Held by the Company              | Held by a subsidiary |   |
| China Mobile Group 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  |
| 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 <sup>#</sup>   | BVI                                  | US\$1,000                                 |                                  | 100%                 | Investment holding company  |
| Aspire Technologies (Shenzhen) Limited <sup>#</sup>                       | PRC                                  | US\$10,000,000                            |                                  | 100%                 | Technology platform development and maintenance   |
| Aspire Information Network (Shenzhen) Limited <sup>#</sup>                | PRC                                  | US\$5,000,000                             |                                  | 100%                 | Provision of mobile data solutions, system integration and development  |
| Aspire Information Technologies (Beijing) Limited <sup>#</sup>            | PRC                                  | US\$5,000,000                             |                                  | 100%                 | Technology platform development and maintenance   |
| Fujian FUNO Mobile Communication Technology Company Limited <sup>**</sup> | PRC                                  | US\$3,800,000                             |                                  | 51%                  | Network planning and optimizing construction testing and supervising, technology support, development and training of Nokia GSM900/1800 Mobile Communication System |
| Advanced Roaming & Clearing House Limited                                 | BVI                                  | US\$2                                     | 100%                             |                      | Provision of roaming clearance services   |
| Fit Best Limited  | BVI                                  | US\$1                                     | 100%                             |                      | Investment holding company  |
| China Mobile Hong Kong Company Limited ( CMHK )                           | Hong Kong                            | HK\$356,947,689                           |                                  | 100%                 | Provision of mobile telecommunications and related services   |
| China Mobile International Holdings Limited                               | Hong Kong                            | 1 share at HK\$1                          | 100%                             |                      | Investment holding company  |

**Table of Contents****17 PRINCIPAL SUBSIDIARIES (continued)**

| <i>Name of company</i>  | <i>Place of incorporation and operation</i> | <i>Particulars of issued and paid up capital</i> | <i>Proportion of ownership interest Held by the Company subsidiary</i> | <i>Principal activity</i>   |
|---|---|--|--|---|
| China Mobile International Limited  | Hong Kong                                   | 1 share at HK\$1                                 | 100%   | Provision of voice and roaming clearance services, internet services and value-added services |
| China Mobile Group Device Co., Ltd. (formerly China Mobile Terminal Co., Ltd. ) | PRC   | RMB6,200,000,000                                 | 99.97%   | Provision of electronic communication products design and selling                             |
| China Mobile Group Finance Co., Ltd.##  | PRC   | RMB5,000,000,000                                 | 92%  | Provision of non-banking financial services   |

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

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

# Effective interest held by the Group is 66.41%.

## China Mobile Group Finance Co., Ltd. ( China Mobile Finance ) was established by China Mobile Communications Corporation ( CMCC ) and China Mobile Group Beijing Co., Ltd. ( Beijing Mobile ), a wholly-owned subsidiary of the Company, with equity interest of 8% and 92%, respectively. China Mobile Finance commenced its business operation in 2012.

**Table of Contents****18 INTEREST IN ASSOCIATES**

|                                   | <i>As at<br/>December 31,<br/>2012</i> | <i>As at<br/>December 31,<br/>2011</i> |
|-----------------------------------|--|--|
|                                   | RMB million                            | RMB million                            |
| Share of net assets of associates | 48,343                                 | 43,794                                 |

Details of the associates are as follows:

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

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

The carrying amounts of Group's share of net assets of China Motion United Telecom Limited and Shenzhen China Motion Telecom United Limited were nil. These two entities were in a net liability position based on their latest management accounts as at December 31, 2011 and 2012.

As at December 31, 2012, the interests in associates include the investment in SPD Bank, which is a company listed on The Shanghai Stock Exchange, the PRC.

**Table of Contents****18 INTEREST IN ASSOCIATES (continued)**

Summary financial information on SPD Bank:

|                                  | <i>Assets</i><br>RMB million | <i>Liabilities</i><br>RMB million | <i>Revenue</i><br>RMB million    | <i>Profit after tax</i><br>RMB million |
|----------------------------------|------------------------------|-----------------------------------|----------------------------------|--|
| <b>2012</b>                      |                              |                                   |                                  |  |
| 100%                             | 3,145,707                    | 2,966,048                         | 82,952                           | 34,186                                 |
| Group's effective interest (20%) | 629,141                      | 593,210                           | 16,590                           | 6,837                                  |
|                                  | <i>Assets</i><br>RMB million | <i>Liabilities</i><br>RMB million | <i>Revenue</i><br>RMB<br>million | <i>Profit after tax</i><br>RMB million |
| <b>2011</b>                      |                              |                                   |                                  |  |
| 100%                             | 2,690,300                    | 2,540,700                         | 67,497                           | 27,236                                 |
| Group's effective interest (20%) | 538,060                      | 508,140                           | 13,499                           | 5,447                                  |

The fair value of the interest in SPD Bank is disclosed in Note 37(e). The management has determined that there was no impairment of the Group's interest in SPD Bank for the years ended December 31, 2011 and 2012.

**Table of Contents****19 INTEREST IN JOINTLY CONTROLLED ENTITY**

|                     | <i>As at<br/>December 31,<br/>2012<br/>RMB<br/>million</i> | <i>As at<br/>December 31,<br/>2011<br/>RMB<br/>million</i> |
|---------------------|--|--|
| Share of net assets | 6  | 7  |

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

| <i>Name of jointly controlled entity</i> | <i>Place of<br/>Incorporation<br/><br/>and operation</i> | <i>Proportion of<br/>ownership<br/>interest held<br/>by the Group</i> | <i>Principal activity</i>   |
|--|--|---|---|
| CSVV B.V. (formerly JIL B.V. )           | The Netherlands  | 25%   | Research and develop<br>telecommunication<br>technologies and<br>application services |

CSVV B.V. was formed by the Company and two other shareholders in 2008, and commenced its operation in 2009. During 2009, a new investor became the fourth shareholder and the proportion of ownership interests held by the Group and the Company decreased from 33.33% to 25%. At the end of 2011, each of the four shareholders, including the Company, has contributed US\$5,000,000 (equivalent to RMB34,000,000) to CSVV B.V. in accordance with the shareholders agreement.

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

As at and for the year ended December 31, 2012, the Group's share of the CSVV B.V.'s current assets, non-current assets, current liabilities, net assets and loss for the year of CSVV B.V. are RMB6,000,000 (2011: RMB7,000,000), RMB nil (2011: RMB1,000,000), RMB nil (2011: RMB1,000,000), RMB6,000,000 (2011: RMB7,000,000) and RMB1,000,000 (2011: RMB1,000,000), respectively.



**Table of Contents****20 DEFERRED TAX ASSETS AND LIABILITIES**

The components of deferred tax assets/(liabilities) recognized in the consolidated balance sheets and the movements during the year for the Group are as follows:

**Deferred tax assets and liabilities recognized and the movements during 2012**

|   | <i>As at<br/>January 1,<br/>2012</i> | <i>Credited/<br/>(charged)<br/>to<br/>profit or<br/>loss</i> | <i>Exchange<br/>differences</i> | <i>As at<br/>December 31,<br/>2012</i> |
|---|--------------------------------------|--|---------------------------------|--|
|   | RMB million                          | RMB million  | RMB million                     | RMB<br>million                         |
| <b>Deferred tax assets arising from:</b>                  |                                      |  |                                 |  |
| Provision for obsolete inventories                        | 25                                   | 72   |                                 | 97                                     |
| Write-off of certain network equipment and related assets | 1,382                                | 253  |                                 | 1,635                                  |
| Provision for certain operating expenses                  | 5,710                                | 1,374  |                                 | 7,084                                  |
| Deferred revenue from customer point reward program       | 2,645                                | 775  |                                 | 3,420                                  |
| Impairment loss for doubtful accounts                     | 1,151                                | 157  |                                 | 1,308                                  |
|   | 10,913                               | 2,631  |                                 | 13,544                                 |
| <b>Deferred tax liabilities arising from:</b>             |                                      |  |                                 |  |
| Capitalized interest                                      | (1)                                  | 1  |                                 |  |
| Depreciation allowance in excess of related depreciation  | (16)                                 | (35)   |                                 | (51)                                   |
|   | (17)                                 | (34)   |                                 | (51)                                   |
| Total   | 10,896                               | 2,597  |                                 | 13,493                                 |

**Deferred tax assets and liabilities recognized and the movements during 2011**

|   | <i>As at<br/>January 1,<br/>2011</i> | <i>Acquisition<br/>of a<br/>subsidiary</i> | <i>Credited/<br/>(charged)<br/>to<br/>profit or<br/>loss</i> | <i>Exchange<br/>differences</i> | <i>As at<br/>December 31,<br/>2011</i> |
|---|--------------------------------------|--|--|---------------------------------|--|
|   | RMB million                          | RMB million                                | RMB million  | RMB million                     | RMB million                            |
| <b>Deferred tax assets arising from:</b>                  |                                      |  |  |                                 |  |
| Provision for obsolete inventories                        | 12                                   | 5  | 8  |                                 | 25                                     |
| Write-off of certain network equipment and related assets | 1,235                                |  | 147  |                                 | 1,382                                  |
| Provision for certain operating expenses                  | 5,147                                | 3  | 560  |                                 | 5,710                                  |
| Deferred revenue from customer point reward program       | 2,114                                |  | 531  |                                 | 2,645                                  |
| Impairment loss for doubtful accounts                     | 1,212                                | 4  | (65)   |                                 | 1,151                                  |

Edgar Filing: CHINA MOBILE LTD /ADR/ - Form 20-F

|  |       |    |       |   |        |
|--|-------|----|-------|---|--------|
|  | 9,720 | 12 | 1,181 |   | 10,913 |
| <b>Deferred tax liabilities arising from:</b>            |       |    |       |   |        |
| Capitalized interest                                     | (4)   |    | 3     |   | (1)    |
| Depreciation allowance in excess of related depreciation | (35)  |    | 18    | 1 | (16)   |
|  | (39)  |    | 21    | 1 | (17)   |
| Total  | 9,681 | 12 | 1,202 | 1 | 10,896 |

F-44

**Table of Contents****20 DEFERRED TAX ASSETS AND LIABILITIES (continued)**

|  | <i>As at<br/>December 31,<br/>2012</i> | <i>As at<br/>December 31,<br/>2011</i> |
|--|--|--|
|  | RMB million                            | RMB million                            |
| Deferred tax assets recognized in the consolidated balance sheets      | 13,544                                 | 10,913                                 |
| Deferred tax liabilities recognized in the consolidated balance sheets | (51)                                   | (17)                                   |
|  | 13,493                                 | 10,896                                 |

**21 RESTRICTED BANK DEPOSITS**

|                              | <i>As at December 31, 2012</i> |                    |               | <i>As at December 31, 2011</i> |                    |               |
|------------------------------|--------------------------------|--------------------|---------------|--------------------------------|--------------------|---------------|
|                              | <i>Current</i>                 | <i>Non-current</i> | <i>Total</i>  | <i>Current</i>                 | <i>Non-current</i> | <i>Total</i>  |
|                              | <i>Note</i>                    | <i>assets</i>      | <i>assets</i> | <i>assets</i>                  | <i>assets</i>      | <i>assets</i> |
|                              | RMB                            | RMB                | RMB           | RMB                            | RMB                | RMB           |
|                              | million                        | million            | million       | million                        | million            | million       |
| Restricted bank deposits     |                                |                    |               |                                |                    |               |
| - Statutory deposit reserves | (i)                            | 5,296              | 5,296         |                                |                    |               |
| - Pledged bank deposits      | (ii)                           | 122                | 122           | 32                             | 122                | 154           |
|                              |                                | 5,418              | 5,418         | 32                             | 122                | 154           |

- (i) The statutory deposit reserves are deposited by China Mobile Finance with the People's Bank of China ( PBOC ) as required by the relevant rules and regulations, and are not available for use in the Group's daily operations.
- (ii) Pledged bank deposits are related to the performance bonds issued by a bank in favor of the Communication Authority (formerly the Office of the Telecommunications Authority ) of Hong Kong, in order to secure China Mobile Hong Kong Company Limited's due performance of network coverage for license with maturity date in 2017.

**22 OTHER FINANCIAL ASSETS**

|  | <i>As at<br/>December 31,<br/>2012</i> | <i>As at<br/>December 31,<br/>2011</i> |
|--|--|--|
|  | RMB<br>million                         | RMB<br>million                         |
| Investment in unlisted equity securities in the PRC, at cost | 127                                    | 127                                    |

**Table of Contents****23 INVENTORIES**

|                         | <i>As at<br/>December 31,<br/>2012<br/>RMB million</i> | <i>As at<br/>December 31,<br/>2011<br/>RMB million</i> |
|-------------------------|--|--|
| SIM cards and terminals | 5,000  | 5,445  |
| Other consumables       | 2,195  | 2,499  |
|                         | 7,195  | 7,944  |

**24 ACCOUNTS RECEIVABLE****(a) Aging analysis**

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

|                | <i>As at<br/>December 31,<br/>2012<br/>RMB million</i> | <i>As at<br/>December 31,<br/>2011<br/>RMB million</i> |
|----------------|--|--|
| Within 30 days | 7,696  | 5,979  |
| 31 - 60 days   | 1,606  | 1,447  |
| 61 - 90 days   | 882  | 732  |
| Over 90 days   | 1,538  | 1,007  |
|                | 11,722   | 9,165  |

**Table of Contents****24 ACCOUNTS RECEIVABLE (continued)****(a) Aging analysis (continued)**

Accounts receivable primarily comprise receivables from customers and telecommunications operators. Accounts receivable from the provision of telecommunications services to customers are due for payment within one month from date of billing. Customers with balances that are overdue or exceed credit limits are required to settle all outstanding balances before any further telecommunications services can be 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 are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts receivable directly.

The following table summarizes the changes in impairment loss of doubtful accounts:

|                                  | 2012<br>RMB million | 2011<br>RMB million | 2010<br>RMB million |
|----------------------------------|---------------------|---------------------|---------------------|
| Balance as at January 1          | 4,400               | 4,851               | 6,095               |
| Impairment loss recognized       | 4,576               | 3,683               | 4,005               |
| Accounts receivable written off  | (3,702)             | (4,133)             | (5,248)             |
| Exchange differences             |                     | (1)                 | (1)                 |
| <b>Balance as at December 31</b> | <b>5,274</b>        | <b>4,400</b>        | <b>4,851</b>        |

**(c) Accounts receivable that are not impaired**

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

|                               | As at<br>December 31,<br>2012<br>RMB million | As at<br>December 31,<br>2011<br>RMB million |
|-------------------------------|--|--|
| Neither past due nor impaired | 11,100                                       | 8,672  |
| Less than 1 month past due    | 622  | 493  |
|                               | <b>11,722</b>                                | <b>9,165</b>                                 |

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.

F-47

**Table of Contents****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 except for utilities deposits and rental deposits.

Prepayments and other current assets primarily consist of rental prepayment.

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

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

Amount due to immediate holding company represented interest payable on the deferred consideration payable (see note 30(b)), which is expected to be settled within one year.

**27 CASH AND CASH EQUIVALENTS**

|  | <i>As at<br/>December 31,<br/>2012<br/>RMB million</i> | <i>As at<br/>December 31,<br/>2011<br/>RMB million</i> |
|--|--|--|
| Bank deposits with original maturity within three months | 14,457   | 23,618   |
| Cash at banks and in hand                                | 56,449   | 62,641   |
|  | <b>70,906</b>  | <b>86,259</b>  |

**Table of Contents****28 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:

|   | <i>As at<br/>December 31,<br/>2012</i> | <i>As at<br/>December 31,<br/>2011</i> |
|---|--|--|
|   | RMB million                            | RMB million                            |
| Due within 1 month or on demand         | 102,676                                | 95,744                                 |
| Due after 1 month but within 3 months   | 6,847                                  | 6,984                                  |
| Due after 3 months but within 6 months  | 5,554                                  | 5,237                                  |
| Due after 6 months but within 9 months  | 4,176                                  | 3,736                                  |
| Due after 9 months but within 12 months | 4,643                                  | 4,565                                  |
|   | 123,896                                | 116,266                                |

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

**29 DEFERRED REVENUE**

Deferred revenue primarily includes prepaid service fees received from customers, unredeemed point rewards, and deferred tax credit on purchase of domestic telecommunications equipment.

|  | <i>2012</i> | <i>2011</i> |
|--|-------------|-------------|
|  | RMB million | RMB million |
| Balance as at January 1                              | 52,014      | 43,737      |
| - Current portion                                    | 51,753      | 43,489      |
| - Non-current portion                                | 261         | 248         |
| Additions during the year                            | 255,746     | 240,342     |
| Recognized in the statements of comprehensive income | (249,438)   | (232,060)   |
| Exchange differences                                 |             | (5)         |
| Balance as at December 31                            | 58,322      | 52,014      |
| Less: Current portion                                | (57,988)    | (51,753)    |
| Non-current portion                                  | 334         | 261         |



**Table of Contents****30 INTEREST-BEARING BORROWINGS**

|                                | <i>Note</i> | <i>As at<br/>December 31,<br/>2012<br/>RMB million</i> | <i>As at<br/>December 31,<br/>2011<br/>RMB million</i> |
|--------------------------------|-------------|--|--|
| Bonds                          | (a)         | 4,986  | 4,984  |
| Deferred consideration payable | (b)         | 23,633   | 23,633   |
|                                |             | 28,619   | 28,617   |

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

**(a) Bonds**

As at December 31, 2012, the bonds represent the balance of fifteen-year guaranteed bonds ( Fifteen-year Bonds ) issued by Guangdong Mobile, with a principal amount of RMB5,000,000,000, at an issue price equal to the face value of the bonds. The bonds bear interest at the rate of 4.5% per annum and payable annually. The bonds, redeemable at 100% of the principal amount, will mature on October 28, 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.

**(b) Deferred consideration payable**

As at December 31, 2012, the deferred consideration payable represents the balance of the deferred consideration of RMB9,976,000,000 and RMB13,657,000,000 payable to immediate holding company in respect of the acquisitions of subsidiaries in 2002 and 2004 respectively. The balances are due on July 1, 2017 and July 1, 2019, respectively.

The deferred consideration payable is unsecured and bears interest at the rate of two-year US dollar LIBOR swap rate per annum (for the year ended December 31, 2012: 0.560% to 0.644% per annum; for the year ended December 31, 2011: 1.123% to 1.238% per annum). The balances are subordinated to other senior debts owed by the Company from time to time. The Company may make early payment of all or part of the balances at any time before the maturity date without penalty.

**Table of Contents****31 ACCRUED EXPENSES AND OTHER PAYABLES**

|                                      | <i>As at<br/>December 31,<br/>2012</i> | <i>As at<br/>December 31,<br/>2011</i> |
|--------------------------------------|--|--|
|                                      | RMB million                            | RMB million                            |
| Receipts-in-advance                  | 60,543                                 | 56,015                                 |
| Other payables                       | 12,232                                 | 12,125                                 |
| Accrued salaries, wages and benefits | 5,560                                  | 5,376                                  |
| Accrued expense                      | 25,439                                 | 18,846                                 |
|                                      | <b>103,774</b>                         | <b>92,362</b>                          |

**32 OBLIGATIONS UNDER FINANCE LEASES**

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

|               | <i>As at December 31, 2012</i>                                     |  |   | <i>As at December 31, 2011</i>                                     |  |   |
|---------------|--|--|---|--|--|---|
|               | <i>Present<br/>value of the<br/>minimum<br/>lease<br/>payments</i> | <i>Interest<br/>expense<br/>relating<br/>to future<br/>periods</i> | <i>Total<br/>minimum<br/>lease<br/>payments</i> | <i>Present<br/>value of the<br/>minimum<br/>lease<br/>payments</i> | <i>Interest<br/>expense<br/>relating<br/>to future<br/>periods</i> | <i>Total<br/>minimum<br/>lease<br/>payments</i> |
|               | RMB million  | RMB million  | RMB million                                     | RMB million  | RMB million  | RMB million                                     |
| Within 1 year | 68   | 3  | 71  | 68   | 3  | 71  |

**33 EMPLOYEE RETIREMENT BENEFITS**

- (a) As stipulated by the regulations of Mainland China, the subsidiaries in Mainland China participate in basic defined contribution pension plans organized by their respective municipal governments under which they are governed.

Employees in Mainland China are entitled to retirement benefits equal to a fixed proportion of their salary at their normal retirement age. The Group has no other material obligation for payment of basic retirement benefits beyond the annual contributions, which are calculated at a rate based on the salaries, bonuses and certain allowances of its employees.

Other than the above, certain Company's subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs or in accordance with the terms of the plans.

- (b) The Group also participates in the Mandatory Provident Fund Scheme (the MPF scheme) under the Hong Kong Mandatory Provident Fund Schemes Ordinance with respect to employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$25,000 (HK\$20,000 prior to June 2012). Contributions to the scheme vest immediately.



**Table of Contents**

**34 EQUITY SETTLED SHARE-BASED TRANSACTIONS**

Pursuant to a resolution passed at the Annual General Meeting held on June 24, 2002, the current share option scheme (the Current Scheme ) was adopted.

Under the Current Scheme, the directors of the Company may, at their discretion, invite employees, including executive directors and non-executive directors of the Company, any of its holding companies and any of their respective subsidiaries and any entity in which the Company or any of its subsidiaries holds an equity interest, to receive options to subscribe for shares of the Company. The consideration payable for the grant of option under the Current Scheme is HK\$1.00.

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

The Stock Exchange of Hong Kong Limited (the HKEx ) requires that the exercise price of options to be at least the higher of the nominal value of a share, the closing price of the shares on the HKEx on the date on which the option was granted and the average closing price of the shares on the HKEx for the five trading days immediately preceding the date on which the option was granted.

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

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

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

**Table of Contents****34 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)**

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

|  | <i>Number of instruments</i> |             | <i>Vesting conditions</i>   | <i>Contractual life of options</i> |
|--|------------------------------|-------------|---|------------------------------------|
|  | <i>2012</i>                  | <i>2011</i> |   |                                    |
| <b>Options granted to directors</b>        |                              |             |   |                                    |
| - on July 3, 2002                          |                              | 7,000       | 50% two years from the date of grant,<br>50% five years from the date of grant  | 10 years                           |
| - on October 28, 2004                      | 473,175                      | 473,175     | 40% one year from the date of grant,<br>30% two years from the date of grant,<br>30% three years from the date of grant | 10 years                           |
| - on November 8, 2005                      | 2,881,500                    | 2,881,500   | 40% one year from the date of grant,<br>30% two years from the date of grant,<br>30% three years from the date of grant | 10 years                           |
| <b>Options granted to other employees*</b> |                              |             |   |                                    |
| - on July 3, 2002                          |                              | 25,361,299  | 50% two years from the date of grant,<br>50% five years from the date of grant  | 10 years                           |
| - on October 28, 2004                      | 115,416,275                  | 118,013,235 | 40% one year from the date of grant,<br>30% two years from the date of grant,<br>30% three years from the date of grant | 10 years                           |
| - on December 21, 2004                     | 475,000                      | 475,000     | 40% one year from the date of grant,<br>30% two years from the date of grant,<br>30% three years from the date of grant | 10 years                           |
| - on November 8, 2005                      | 268,565,399                  | 269,151,939 | 40% one year from the date of grant,<br>30% two years from the date of grant,<br>30% three years from the date of grant | 10 years                           |
| Total share options                        | 387,811,349                  | 416,363,148 |   |                                    |

\* The number of shares involved in the options outstanding at the beginning of the year included share options granted to Mr. WANG Jianzhou, Mr. LU Xiangdong and Mr. XU Long involving a total of 2,750,000 shares. Mr. WANG Jianzhou resigned as an Executive Director and the Chairman of the Company and Mr. LU Xiangdong resigned as an Executive Director and a Vice President of the Company in March 2012. Mr. XU Long resigned as an Executive Director of the Company in December 2012.

**Table of Contents****34 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)**

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

|                                 | <i>2012</i>   | <i>2011</i>   |   |   |
|---------------------------------|---|---|---|---|
|                                 | <i>Weighted<br/>average<br/>exercise<br/>price<br/>HK\$</i> | <i>Number of<br/>shares<br/>involved in<br/>the options</i> | <i>Weighted<br/>average<br/>exercise<br/>price<br/>HK\$</i> | <i>Number of<br/>shares<br/>involved in<br/>the options</i> |
| As at January 1                 | 30.68   | 416,363,148   | 30.59   | 423,005,473   |
| Exercised                       | 23.09   | (28,275,029)  | 24.72   | (6,642,325)   |
| Expired                         | 22.85   | (276,770)   |   |   |
| As at December 31               | 31.24   | 387,811,349   | 30.68   | 416,363,148   |
| Option vested as at December 31 | 31.24   | 387,811,349   | 30.68   | 416,363,148   |

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$83.35 (2011: HK\$75.45).

The options outstanding as at December 31, 2012 had exercise prices ranging from HK\$22.75 to HK\$34.87 (2011: HK\$22.75 to HK\$34.87) and a weighted average remaining contractual life of 2.5 years (2011: 3.4 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 2011 and 2012.

**35 CAPITAL, RESERVES AND DIVIDENDS**

(a) Dividends

(i) Dividends attributable to the year:

|  | <i>2012</i>        | <i>2011</i>        | <i>2010</i>        |
|--|--------------------|--------------------|--------------------|
|  | <i>RMB million</i> | <i>RMB million</i> | <i>RMB million</i> |
| Ordinary interim dividend declared and paid of HK\$1.633 (equivalent to approximately RMB1.331) (2011: HK\$1.580 (equivalent to approximately RMB1.314); 2010: HK\$1.417 (equivalent to approximately RMB1.236)) per share                   | 26,842             | 25,857             | 24,550             |
| Ordinary final dividend proposed after the balance sheet date of HK\$1.778 (equivalent to approximately RMB1.442) (2011: HK\$1.747 (equivalent to approximately RMB1.416); 2010: HK\$1.597 (equivalent to approximately RMB1.359)) per share | 28,979             | 28,441             | 27,268             |

55,821

54,298

51,818

F-54

**Table of Contents****35 CAPITAL, RESERVES AND DIVIDENDS (continued)****(a) Dividends (continued)****(i) Dividends attributable to the year: (continued)**

The proposed ordinary final dividend which is declared in Hong Kong dollar is translated into RMB at the rate HK\$1 = RMB0.81085, being the rate announced by the State Administration of Foreign Exchange in the PRC on December 31, 2012. As the ordinary final dividend is declared after the balance sheet date, such dividend is not recognized as liability as at December 31, 2012.

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

|  | 2012<br>RMB million | 2011<br>RMB million | 2010<br>RMB million |
|--|---------------------|---------------------|---------------------|
| Ordinary final dividend in respect of the previous financial year, approved and paid during the year, of HK\$1.747 (equivalent to approximately RMB1.416) (2011: HK\$1.597 (equivalent to approximately RMB1.359); 2010: HK\$1.458 (equivalent to approximately RMB1.284)) per share | 28,583              | 26,718              | 25,651              |

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

|   | 2012<br>HK\$ million | 2011<br>HK\$ million |
|---|----------------------|----------------------|
| <i>Authorized:</i>                              |                      |                      |
| 30,000,000,000 ordinary shares of HK\$0.10 each | 3,000                | 3,000                |

|  | 2012                        |  | 2011                                  |                             |  |                                       |
|--|-----------------------------|--|---------------------------------------|-----------------------------|--|---------------------------------------|
|  | <i>Number<br/>of shares</i> | <i>Equivalent<br/>HK\$<br/>million</i> | <i>Equivalent<br/>RMB<br/>million</i> | <i>Number<br/>of shares</i> | <i>Equivalent<br/>HK\$<br/>million</i> | <i>Equivalent<br/>RMB<br/>million</i> |
| <b>Issued and fully paid:</b>                            |                             |  |                                       |                             |  |                                       |
| As at January 1  | 20,072,065,571              | 2,007                                  | 2,140                                 | 20,065,423,246              | 2,006                                  | 2,139                                 |
| Shares issued under share option scheme (note 35(b)(ii)) | 28,275,029                  | 3                                      | 2                                     | 6,642,325                   | 1                                      | 1                                     |
| As at December 31  | 20,100,340,600              | 2,010                                  | 2,142                                 | 20,072,065,571              | 2,007                                  | 2,140                                 |



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.

F-55

---

**Table of Contents**

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

**(b) Share capital (continued)**

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

During 2012, options were exercised to subscribe for 28,275,029 ordinary shares in the Company at a consideration of HK\$652,875,000 (equivalent to RMB531,193,000) of which HK\$2,828,000 (equivalent to RMB2,301,000) was credited to share capital and the balance of HK\$650,047,000 (equivalent to RMB528,892,000) was credited to the share premium account. RMB25,000,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(u)(ii).

**(c) Nature and purpose of reserves**

**(i) Capital reserve**

The capital reserve comprises the following:

The fair value of unexercised share options granted to employees of the Group recognized in accordance with the accounting policy adopted for share-based payments in note 1(u)(ii); and

RMB295,665,000,000 debit balance brought forward as a result of the elimination of goodwill arising on the acquisition of subsidiaries before January 1, 2001 against the capital reserve in previous years.

**(ii) PRC statutory reserves**

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

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

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

**Table of Contents**

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

**(c) Nature and purpose of reserves (continued)**

**(ii) PRC statutory reserves (continued)**

In accordance with relevant regulations issued by the Ministry of Finance of PRC, a wholly owned 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 gross risk-bearing assets to cover potential losses against such assets.

**(iii) Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of overseas entities. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

**(d) Capital management**

The Group's primary objectives when managing capital are to maintain a reasonable capital structure and to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders. The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The Group monitors capital on the basis of total debt-to-book capitalization ratio. This ratio is calculated as total debts (including bills payable, obligations under finance leases, current and non-current interest-bearing borrowings as shown in the consolidated balance sheets) divided by book capitalization (refer to the total equity attributable to equity shareholders of the Company as shown in the consolidated balance sheets and total debts).

As at December 31, 2012, the Group's total debt-to-book capitalization ratio was 4.0% (2011: 4.5%).

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

**Table of Contents****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 ), for the year ended December 31, 2010, 2011 and 2012.

|   | Note  | 2012<br>RMB million | 2011<br>RMB million | 2010<br>RMB million |
|---|-------|---------------------|---------------------|---------------------|
| Telecommunications services revenue                             | (i)   | 2,113               | 1,709               | 859                 |
| Telecommunications services charges                             | (i)   | 1,580               | 1,138               | 2,037               |
| Property leasing and management services charges                | (ii)  | 785                 | 776                 | 951                 |
| Interest paid/payable   | (iii) | 161                 | 219                 | 431                 |
| Interconnection revenue   | (iv)  | 253                 | 279                 | 319                 |
| Interconnection charges   | (iv)  | 472                 | 446                 | 431                 |
| Network assets leasing revenue                                  | (iv)  | 109                 | 47                  | 18                  |
| Network assets leasing charges                                  | (iv)  | 2,950               | 328                 | 94                  |
| Network capacity leasing charges                                | (v)   | 2,477               | 1,092               | 578                 |
| Revenue derived from cooperation of telecommunications services | (vi)  | 341                 | 177                 | 37                  |
| Charges for cooperation of telecommunications services          | (vi)  | 1,936               | 1,154               | 536                 |

Notes:

- (i) The amounts represent telecommunications services settlement received/receivable from or paid/payable to CMCC Group for the telecommunications project planning, design and construction services, telecommunications line and pipeline construction services, telecommunications line maintenance services and installation and maintenance services in respect of transmission towers.
- (ii) The amount represents the rental and property management fees paid/payable to CMCC Group in respect of business premises and offices, retail outlets and warehouses.
- (iii) The amount represents the interest paid/payable to China Mobile Hong Kong (BVI) Limited, the Company's immediate holding company, in respect of the balance of purchase consideration for acquisitions of subsidiaries.
- (iv) The amounts represent settlement received/receivable from or paid/payable to China TieTong Telecommunications Corporation, a wholly-owned subsidiary of CMCC, in respect of interconnection settlement and network assets leasing revenue and charges.

**Table of Contents****36 RELATED PARTY TRANSACTIONS (continued)****(a) Transactions with CMCC Group (continued)**

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

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

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

|                                      | <i>As at<br/>December 31,<br/>2012<br/>RMB million</i> | <i>As at<br/>December 31,<br/>2011<br/>RMB million</i> |
|--------------------------------------|--|--|
| Accounts receivable                  | 921  | 654  |
| Other receivables                    | 2  | 7  |
| Prepayments and other current assets | 46   | 5  |
| Accounts payable                     | 2,276  | 1,745  |
| Accrued expenses and other payables  | 157  | 258  |

**Table of Contents****36 RELATED PARTY TRANSACTIONS (continued)****(c) Transactions with associates**

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

|   | <i>Note</i> | <i>2012</i><br>RMB million | <i>2011</i><br>RMB million |
|---|-------------|----------------------------|----------------------------|
| Bank deposits (as at December 31)       |             | 29,089                     | 17,320                     |
| Interest income                         | (i)         | 797                        | 237                        |
| Mobile telecommunications services fees | (ii)        | 61                         | 44                         |
| Dividend income                         |             | 1,120                      | 458                        |

*Notes:*

- (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 fees received/receivable from SPD Bank.*

**(d) Transactions with other government-related entities in the PRC**

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

Apart from transactions with CMCC Group (note 36(a)) and associates (note 36(c)), the Group has collectively, but not individually, significant transactions with other government-related entities which include but not limited to the following:

rendering and receiving telecommunications services, including interconnection revenue/charges

purchasing of goods , including use of public utilities

placing of bank deposits

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.

**Table of Contents**

**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 sheets, which mainly include deposits with banks, accounts receivable and other receivables. The maximum exposure to credit risk is represented by the carrying amount of the financial assets.

Substantially all the Group's cash and cash equivalents are deposited in financial institutions in Hong Kong and Mainland China. The credit risk on liquid funds is limited as the majority of 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 are primarily comprised of receivables due from customers and telecommunications operators. Accounts receivable from customers are spread among an extensive number of customers and the majority of the receivables from customers are due for payment within one month from the date of billing. Other receivables primarily comprise 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).

**(b) Liquidity risk**

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

**Table of Contents****37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)****(b) Liquidity risk (continued)**

The following table sets out the remaining contractual maturities at the balance sheet date of the Group'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 sheets date) and the earliest date the Group would be required to repay:

|   | As at December 31, 2012 |  |                            |  |   |                   |
|---|-------------------------|--|----------------------------|--|---|-------------------|
|   | Carrying amount         | Total contractual undiscounted cash flow RMB | Within 1 year or on demand | More than 1 year but less than 3 years | More than 3 years but less than 5 years | More than 5 years |
|   |                         |  | RMB million                | RMB million                            | RMB million                             | RMB million       |
| Accounts payable                        | 123,896                 | 123,896                                      | 123,896                    |  |   |                   |
| Bills payable                           | 1,159                   | 1,159  | 1,159                      |  |   |                   |
| Accrued expenses and other payables     | 103,774                 | 103,774                                      | 103,774                    |  |   |                   |
| Amount due to ultimate holding company  | 39                      | 39   | 39                         |  |   |                   |
| Amount due to immediate holding company | 16                      | 16   | 16                         |  |   |                   |
| Interest-bearing borrowings             |                         |  |                            |  |   |                   |
| - Deferred consideration payable        | 23,633                  | 24,263                                       | 141                        | 222                                    | 10,156                                  | 13,744            |
| - Bonds                                 | 4,986                   | 6,085  | 225                        | 450                                    | 5,410                                   |                   |
| Obligations under finance leases        | 68                      | 71   | 71                         |  |   |                   |
|   | 257,571                 | 259,303                                      | 229,321                    | 672                                    | 15,566                                  | 13,744            |

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





**Table of Contents****37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)****(c) Interest rate risk**

The Group has interest rate risk as certain existing interest-bearing borrowings are at variable rates and therefore expose the Group to cash flow interest rate risk. These borrowings mainly include deferred consideration payable for the acquisition of subsidiaries in 2002 and 2004. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 30.

The following table sets out the interest rate profile of the Group's floating interest bearing borrowings at the balance sheet date:

|  | 2012                           |                    | 2011                           |                    |
|--|--------------------------------|--------------------|--------------------------------|--------------------|
|  | <i>Effective interest rate</i> | <i>RMB million</i> | <i>Effective interest rate</i> | <i>RMB million</i> |
| Deferred consideration for acquisition of subsidiaries in 2002 | 0.88%                          | 9,976              | 1.12%                          | 9,976              |
| Deferred consideration for acquisition of subsidiaries in 2004 | 0.90%                          | 13,657             | 1.24%                          | 13,657             |

As at December 31, 2012, if the two-year US dollar LIBOR swap rate interest rate per annum increases/decreases by 100 basis points, the effective interest rate for deferred consideration payable would increase/decrease by 100 basis points, and the profit for the year and total equity of the Group would decrease/increase by RMB236,000,000 (2011: RMB236,000,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to those financial instruments held by the Group which expose the Group to interest rate risk at the balance sheet date. The assumption of increase or decrease of interest rate of the two-year US dollar LIBOR swap rate represents management's estimation of a reasonably possible change in interest rates over the period until the next interest rate re-pricing date.

As at December 31, 2012, total cash and bank balances of the Group amounted to RMB408,321,000,000 (2011: RMB333,100,000,000). The interest income for 2012 was RMB12,313,000,000 (2011: RMB7,866,000,000) and the average interest rate was 3.32% (2011: 2.51%). 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 RMB3,077,000,000 (2011: RMB2,508,000,000).

**Table of Contents****37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)****(c) Interest rate risk (continued)**

On the whole, interest rate risk of the Group is expected to be low due to the high balance of cash and cash equivalent and low level of floating rate debts. The Group consistently monitors the current and potential fluctuation of interest rates to monitor the interest risk on a reasonable level.

During the year, the Group had not entered into any interest rate swap contracts.

**(d) Foreign currency risk**

The Group has foreign currency risk as certain cash and deposits with banks are denominated in foreign currencies, principally US dollars and Hong Kong dollars. As the amount of the Group's foreign currency represented 0.9 % (2011: 1.2%) of the total cash and deposits with banks and predominantly all of the business operations of the Group are transacted in RMB, the Group does not expect the appreciation or depreciation of the RMB against foreign currency will materially affect the Group's financial position and result of operations.

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

**(e) Fair values**

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

|                                     | <i>As at December 31, 2012</i> |                   | <i>As at December 31, 2011</i> |                   |
|-------------------------------------|--------------------------------|-------------------|--------------------------------|-------------------|
|                                     | <i>Carrying amount</i>         | <i>Fair value</i> | <i>Carrying amount</i>         | <i>Fair value</i> |
|                                     | RMB million                    | RMB million       | RMB million                    | RMB million       |
| Interest in associate               | 48,343                         | 37,008            | 43,794                         | 31,674            |
| Interest-bearing borrowings - bonds | 4,986                          | 4,908             | 4,984                          | 4,845             |

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

**Table of Contents****38 COMMITMENTS****(a) Capital commitments**

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

|   | 2012<br>RMB million | 2011<br>RMB million |
|---|---------------------|---------------------|
| <i>Commitments in respect of land and buildings</i>           |                     |                     |
| - authorized and contracted for                               | 8,043               | 4,772               |
| - authorized but not contracted for                           | 30,903              | 34,089              |
|   | 38,946              | 38,861              |
| <i>Commitments in respect of telecommunications equipment</i> |                     |                     |
| - authorized and contracted for                               | 23,150              | 17,754              |
| - authorized but not contracted for                           | 150,382             | 85,108              |
|   | 173,532             | 102,862             |
| <i>Total commitments</i>                                      |                     |                     |
| - authorized and contracted for                               | 31,193              | 22,526              |
| - authorized but not contracted for                           | 181,285             | 119,197             |
|   | 212,478             | 141,723             |

**(b) Operating lease commitments**

The total future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

|                                      | <i>Land and<br/>buildings</i><br>RMB million | <i>Leased<br/>lines</i><br>RMB million | <i>Others</i><br>RMB million | <i>Total</i><br>RMB million |
|--------------------------------------|--|--|------------------------------|-----------------------------|
| <i>As at December 31, 2012</i>       |  |  |                              |                             |
| Within one year                      | 6,836  | 3,758                                  | 1,032                        | 11,626                      |
| After one year but within five years | 14,886                                       | 4,161                                  | 970                          | 20,017                      |
| After five years                     | 4,484  | 1,035                                  | 70                           | 5,589                       |
|                                      | 26,206                                       | 8,954                                  | 2,072                        | 37,232                      |
| <i>As at December 31, 2011</i>       |  |  |                              |                             |
| Within one year                      | 6,090  | 1,718                                  | 838                          | 8,646                       |
| After one year but within five years | 12,993                                       | 2,368                                  | 560                          | 15,921                      |
| After five years                     | 4,050  | 574                                    | 92                           | 4,716                       |

|        |       |       |        |
|--------|-------|-------|--------|
| 23,133 | 4,660 | 1,490 | 29,283 |
|--------|-------|-------|--------|

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

F-65

## **Table of Contents**

### **39 NON-ADJUSTING POST BALANCE SHEET EVENTS**

After the balance sheet date the directors proposed an ordinary final dividend. Further details are disclosed in note 35(a)(i).

On August 23, 2012, CMC, a wholly-owned subsidiary of the Company, entered into a share subscription agreement (the Agreement) with ANHUI USTC IFLYTEK Co., Ltd. (Anhui USTC). Pursuant to the Agreement, CMC has conditionally agreed to subscribe for and Anhui USTC has conditionally agreed to issue 70,273,935 ordinary shares at a total consideration and direct costs of RMB1,363,000,000. Upon completion with the terms in the Agreement, the Company will, through CMC, hold 15% equity interests in Anhui USTC. Anhui USTC's shares are traded in The Shenzhen Stock Exchange, the PRC. The transaction was approved by China Securities Regulatory Commission on February 4, 2013.

### **40 ULTIMATE HOLDING COMPANY**

The directors consider the ultimate holding company as at December 31, 2012 to be CMCC, a company incorporated in the PRC.

### **41 ACCOUNTING ESTIMATES AND JUDGEMENTS**

#### ***Key sources of estimation uncertainty***

Notes 15 and 37 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are as follows:

#### ***Impairment loss for doubtful accounts***

The Group assesses impairment loss for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables at each balance sheet date. The estimates are based on the aging of the accounts receivable and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the customers were to deteriorate, additional impairment may be required.

#### ***Depreciation***

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

---

**Table of Contents****41 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)*****Key sources of estimation uncertainty (continued)******Amortization of other intangible assets***

Amortization of other intangible assets is calculated to write off the cost of items of other intangible assets using the straight-line method over their estimated useful lives unless such lives are indefinite. The Group reviews the estimated useful lives of other intangible assets annually in order to determine the amount of amortization expense to be recorded during any reporting period. The useful lives are based on the estimate period over which future economic benefits will be received by the Group and take into account any unexpected adverse changes in circumstances or events. The amortization expense for future periods is adjusted if there are significant changes from previous estimates.

***Impairment of property, plant and equipment, inventories, investment 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, inventories, investment 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 have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset is the greater of its net selling price and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in impairment charge or reversal of impairment in future periods.

**Table of Contents****42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2012**

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2012 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:

|  | <i>Effective for<br/>accounting periods<br/>beginning on or after</i> |
|--|---|
| Amendments to IAS 1, <i>Presentation of Financial Statements</i>   | July 1, 2012  |
| IFRS 10, <i>Consolidated Financial Statements</i>  | January 1, 2013   |
| IFRS 11, <i>Joint Arrangements</i>   | January 1, 2013   |
| IFRS 12, <i>Disclosure of Interests in Other Entities</i>  | January 1, 2013   |
| IFRS 13, <i>Fair Value Measurement</i>   | January 1, 2013   |
| IAS 27, <i>Separate Financial Statements</i>   | January 1, 2013   |
| IAS 28, <i>Investments in Associates and Joint Ventures</i>  | January 1, 2013   |
| Revised IAS 19, <i>Employee benefits</i>   | January 1, 2013   |
| Annual Improvements to IFRSs 2009-2011 Cycle   | January 1, 2013   |
| Amendments to IFRS 7, <i>Financial instruments: Disclosures, - Disclosures - Offsetting financial assets and financial liabilities</i> | January 1, 2013   |
| Amendments to IAS 32, <i>Financial Instruments: Presentation</i>   | January 1, 2014   |
| IFRS 9, <i>Financial Instruments</i>   | January 1, 2015   |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations are expected to be in the period of initial application. So far the Group has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.



**Table of Contents****43 CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY****(a) Condensed statements of comprehensive income**

|  | <i>2012</i><br>RMB million | <i>2011</i><br>RMB million | <i>2010</i><br>RMB million |
|--|----------------------------|----------------------------|----------------------------|
| <b>Dividend income</b>   | 14,400                     | 68,762                     | 50,613                     |
| <b>Operating expenses</b>  | 111                        | 83                         | 89                         |
| <b>Interest income</b>   | 15                         | 11                         | 15                         |
| <b>Non-operating net income</b>  | 3                          |                            |                            |
| <b>Finance costs</b>   | (164)                      | (241)                      | (476)                      |
| <b>Profit before taxation</b>  | 14,143                     | 68,449                     | 50,063                     |
| <b>Taxation</b>  |                            |                            |                            |
| <b>PROFIT FOR THE YEAR</b>   | 14,143                     | 68,449                     | 50,063                     |
| <b>Other comprehensive income for the year:</b>                                  |                            |                            |                            |
| Exchange differences on translation of financial statements of overseas entities | (7)                        | (186)                      | (53)                       |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                                   | 14,136                     | 68,263                     | 50,010                     |

**(b) Condensed balance sheets**

|                                | <i>As at</i><br><i>December 31,</i><br><i>2012</i><br>RMB million | <i>As at</i><br><i>December 31,</i><br><i>2011</i><br>RMB million |
|--------------------------------|---|---|
| <b>Non-current assets</b>      | 476,790   | 476,819   |
| <b>Current assets</b>          | 16,979  | 57,729  |
| <b>Current liabilities</b>     | 33  | 56  |
| <b>Non-current liabilities</b> | 28,619  | 28,617  |
| <b>NET ASSETS</b>              | 465,117   | 505,875   |
| <b>TOTAL EQUITY</b>            | 465,117   | 505,875   |

**Table of Contents****43 CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY (continued)****(c) Condensed cash flow statements**

|   | <i>2012</i><br>RMB million | <i>2011</i><br>RMB million | <i>2010</i><br>RMB million |
|---|----------------------------|----------------------------|----------------------------|
| <b>Net cash used in operating activities</b>                | (90)                       | (80)                       | (92)                       |
| <b>Net cash generated from investing activities</b>         | 15,364                     | 13,137                     | 7,894                      |
| <b>Net cash used in financing activities</b>                | (15,226)                   | (14,231)                   | (12,060)                   |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | 48                         | (1,174)                    | (4,258)                    |
| <b>Cash and cash equivalents at beginning of year</b>       | 919                        | 2,259                      | 6,662                      |
| <b>Effect of changes in foreign exchange rate</b>           | 7                          | (166)                      | (145)                      |
| <b>Cash and cash equivalents at end of year</b>             | 974                        | 919                        | 2,259                      |

F-70

**Table of Contents****Exhibit Index****Exhibit**

| <b>Number</b> | <b>Description of Exhibit</b>  |
|---------------|--|
| 1.1           | Memorandum and Articles of Association (as amended). <sup>(1)</sup>  |
| 2.1           | We agree to provide the SEC, upon request, copies of instruments defining the rights of holders of our long-term debt.   |
| 2.2           | Guarantee from China Mobile Communications Corporation for the RMB5,000 million guaranteed bonds due 2011 issued by Guangdong Mobile. <sup>(2)</sup>   |
| 2.3           | Letter of Guarantee from China Mobile Communications Corporation for the RMB3,000 million guaranteed bonds due 2007 and RMB5,000 million guaranteed bonds due 2017, both issued by Guangdong Mobile in 2002 (with English translation). <sup>(3)</sup>   |
| 4.1           | Agreement regarding Settlement of Interconnection and Roaming, Transmission Line Leasing, Usage of Spectrum Frequency and Numbering Resources, dated July 1, 2004, between China Mobile (Hong Kong) Limited and China Mobile Communications Corporation (with English translation). <sup>(4)</sup>   |
| 4.2           | Tax Indemnity, dated July 1, 2004, among China Mobile Hong Kong (BVI) Limited, China Mobile (Hong Kong) Limited and China Mobile Communications Corporation. <sup>(4)</sup>  |
| 4.3           | Conditional Sale and Purchase Agreement, dated April 28, 2004 between China Mobile (Hong Kong) Limited, China Mobile Hong Kong (BVI) Limited and China Mobile Communications Corporation. <sup>(5)</sup>   |
| 4.4           | Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation, China Mobile Group Neimenggu Co., Ltd. and Neimenggu Communication Service Company (with English translation and schedule). <sup>(5)</sup>  |
| 4.5           | Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation, China Mobile Group Design Institute Co., Ltd. And Beijing P&T Consulting & Design Institute (with English translation). <sup>(5)</sup>  |
| 4.6           | Asset Injection Agreement, dated April 9, 2004, between China Mobile Communications Corporation and China Mobile Communication Company Limited (with English translation). <sup>(5)</sup>  |
| 4.7           | Agreement on the Confirmation of Rights and Obligations, dated April 9, 2004, between China Mobile Communications Corporation, China Mobile Group Neimenggu Co., Ltd. and Neimenggu Communication Service Company (with English translation and schedule). <sup>(5)</sup>  |
| 4.8           | Agreement on the Confirmation of Rights and Obligations, dated April 9, 2004, between China Mobile Communications Corporation, China Mobile Group Design Institute Co., Ltd. and Beijing P&T Consulting & Design Institute (with English translation). <sup>(5)</sup>  |
| 4.9           | Consent Letter to the Substitution of Borrowers under the Consigned Loan Agreement, dated February 13, 2004, between China Mobile Communications Corporation, China Mobile Group Neimenggu Co., Ltd., Neimenggu Communication Service Company and Beijing Chang an Sub-branch of Industrial and Commercial Bank of China (with English translation and schedule). <sup>(5)</sup> |
| 4.10          | Agreement on Sharing of Administrative Services and Administrative Costs, dated April 27, 2004, between China Mobile Communication Co., Ltd. and China Mobile Communications Corporation (with English translation). <sup>(5)</sup>  |
| 4.11          | Tax Indemnity dated July 1, 2002 between China Mobile Hong Kong (BVI) Limited, China Mobile (Hong Kong) Limited and China Mobile Communications Corporation. <sup>(3)</sup>  |
| 4.12          | Co-operation Framework Agreement in respect of Indirect Loan dated May 10, 2002 between China Mobile Communications Corporation and China Mobile (Hong Kong) Limited (with English translation). <sup>(3)</sup>  |

**Table of Contents**

- 4.13 Agreement on the Sales and Maintenance of Masts and Maintenance of Antennas and Feeder Lines, dated August 1, 2000, between China Mobile Group Hebei Co., Ltd. and Hebei Provincial Posts and Telecommunications Equipment and Machinery Plant.<sup>(6)</sup>
  - 4.14 Trademark License Agreement, dated January 1, 2008, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(7)</sup>
  - 4.15 Tripartite Agreement on the Transfer of Rights and Obligations Relating to the Interconnection and Settlement Arrangements, dated November 13, 2008, among China Mobile Communications Corporation, China Tietong Telecommunications Corporation and China Mobile Limited (with English translation).<sup>(8)</sup>
  - 4.16 TD-SCDMA Network Capacity Leasing Agreement, dated December 29, 2008, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(8)</sup>
  - 4.17 Telecommunications Services Cooperation Agreement, dated November 6, 2009, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(9)</sup>
  - 4.18 Share Subscription Agreement, dated March 10, 2010, between China Mobile Group Guangdong Co., Ltd. And Shanghai Pudong Development Bank Co., Ltd. (with English summary).<sup>(9)</sup>
  - 4.19 Property Leasing and Management Services Agreement for the Years from 2011 to 2013, dated December 21, 2010, between China Mobile Limited and China Mobile Communications Corporation (with English translation).<sup>(10)</sup>
  - 4.20 Telecommunications Services Agreement for the Years from 2011 to 2013, dated December 21, 2010, between China Mobile Limited and China Mobile Communications Corporation (with English translation).<sup>(10)</sup>
  - 4.21 Network Assets Leasing Agreement, dated August 18, 2011, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(11)</sup>
  - 4.22 Amendment and Transfer Agreement in connection with the Agreement regarding Settlement of Interconnection and Roaming, Transmission Line Leasing, Usage of Spectrum Frequency and Numbering Resources, dated September 13, 2012, between China Mobile Limited, China Mobile International Limited, China Mobile Communications Corporation and China Mobile Communication, Co., Ltd. (with English translation).
  - 8.1 List of Major Subsidiaries.
  - 11.1 Code of Ethics.<sup>(5)</sup>
  - 12.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
  - 12.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
  - 13.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b).
  - 13.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b).
  - 15.1 Letter from KPMG.
- 
- (1) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2005 (File No. 1-14696), filed with the SEC on June 9, 2006.
  - (2) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2000 (File No. 1-14696), filed with the SEC on June 26, 2001.
  - (3) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2002 (File No. 1-14696), filed with the SEC on June 17, 2003.
  - (4) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 1-14696), filed with the SEC on June 13, 2005.
  - (5) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003 (File No. 1-14696), filed with the SEC on June 17, 2004.
  - (6) Incorporated by reference to our Registration Statement on Form F-3 (File No. 333-47256), filed with the SEC on October 30, 2000.

**Table of Contents**

- (7) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2007 (File No. 1-14696), filed with the SEC on June 11, 2008.
- (8) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2008 (File No. 1-14696), filed with the SEC on June 23, 2009.
- (9) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2009 (File No. 1-14696), filed with the SEC on June 7, 2010.
- (10) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2010 (File No. 1-14696), filed with the SEC on April 27, 2011.
- (11) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2010 (File No. 1-14696), filed with the SEC on April 25, 2012.