

CHINA MOBILE LTD /ADR/  
Form 20-F  
April 26, 2018  
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**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**

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

**For the fiscal year ended December 31, 2017**

**OR**

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

**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**

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

**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)**

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**60th Floor, The Center**

**99 Queen s Road Central**

**Hong Kong, China**

**(Address of Principal Executive Offices)**

**Grace Wong**

**Company Secretary**

**China Mobile Limited**

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**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:**

**Title of Each Class**  
**Ordinary shares**

**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, 2017, 20,475,482,897 ordinary shares 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer                      Accelerated filer                      Non-accelerated filer                      Emerging growth  
company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

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

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.    Yes            No

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**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, or the Exchange Act. 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, including those relating to the development of our terminal procurement and distribution business;

our operations and prospects;

our network expansion and capital expenditure plans;

the expected impact of any acquisitions or other strategic transactions;

our provision of services, including fourth generation, or 4G, services, wireline broadband services and services based on technological evolution, and our ability to attract customers to these services;

the planned development of future generations of mobile technologies, including 5G technologies, and other technologies and related applications;

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

the expected benefit from our investment in and any arrangements with China Tower Corporation Limited;

the expected impact of the implementation in Mainland China of the policy of speed upgrade and tariff reduction on our business, financial condition and results of operations;

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, endeavor, estimate, expect, intend, may, plan, seek, will and similar expressions, as they relate to us, 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, including the risk factors set forth in Item 3. Key Information Risk Factors.



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**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, 2017. 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, 2015, 2016 and 2017 and the selected historical consolidated balance sheet data as of December 31, 2016 and 2017 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 (other than ADS data) for the year ended December 31, 2014 and the selected historical consolidated balance sheet data as of December 31, 2014 and 2015 set forth below should be read in conjunction with and are qualified in their entirety by reference to our audited consolidated financial statements that are included in our previous annual reports on Form 20-F. The selected historical consolidated statement of comprehensive income data for the year ended December 31, 2013 and the selected historical consolidated balance sheet data as of December 31, 2013 set forth below are derived from our internal records and management accounts 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 IFRSs, as issued by the International Accounting Standards Board, or IASB.

We completed the acquisition of certain assets, businesses and related liabilities as well as their related employees in relation to the fixed-line telecommunications operations, or Target Assets and Businesses, of China TieTong Telecommunications Corporation, or China TieTong, in December 2015. See Item 4. Information on the Company Business Overview Investments and Acquisitions. Because we and Target Assets and Businesses were under common control of China Mobile Communications Group Co., Ltd.(formerly known as China Mobile Communications Corporation), or CMCC, both prior to and after the acquisition, the acquisition was considered as a business combination under common control and was accounted for using merger accounting in accordance with the Accounting Guideline 5 Merger Accounting for Common Control Combinations, or AG 5, issued by the Hong Kong Institute of Certified Public Accountants, or the HKICPA. Target Assets and Businesses were stated at their historical cost, and were included in the consolidated financial statements included in this annual report on Form 20-F as if Target Assets and Businesses had always been part of our company during all the relevant periods presented.



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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 were not 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.

	<b>As of or for the year ended December 31,</b>					
<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>	
<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
<b>(in millions, except share, per share</b>						
<b>and per ADS information)</b>						
<b>Consolidated Statement of Comprehensive Income</b>						
<b>Data:</b>						
Operating revenue	640,048	651,509	668,335	708,421	740,514	113,815
Operating expenses	508,624	534,189	565,413	590,333	620,388	95,352
Profit from operations	131,424	117,320	102,922	118,088	120,126	18,463
Profit before taxation	153,649	142,522	143,734	144,462	148,137	22,768
Taxation	(36,746)	(33,179)	(35,079)	(35,623)	(33,723)	(5,183)
Profit for the year attributable to equity shareholders	116,791	109,218	108,539	108,741	114,279	17,564
Basic earnings per share <sup>(1)</sup>	5.81	5.38	5.30	5.31	5.58	0.86
Diluted earnings per share <sup>(1)</sup>	5.74	5.35	5.30	5.31	5.58	0.86
Basic earnings per ADS <sup>(1)</sup>	29.05	26.91	26.51	26.55	27.90	4.29
Diluted earnings per ADS <sup>(1)</sup>	28.71	26.76	26.50	26.55	27.90	4.29
Number of shares utilized in basic earnings per share calculation (in thousands)	20,101,232	20,293,254	20,473,119	20,475,483	20,475,483	20,475,483
Number of shares utilized in diluted earnings per share calculation (in thousands)	20,343,120	20,408,441	20,479,706	20,475,483	20,475,483	20,475,483

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	2013 RMB	As of or for the year ended December 31,					2017 US\$
		2014 RMB	2015 RMB	2016 RMB	2017 RMB	2017 US\$	
(in millions, except share, per share and per ADS information)							
<b>Consolidated Balance Sheet Data:</b>							
Working capital <sup>(2)</sup>	80,009	34,433	(12,341)	50,256	28,214	4,336	
Cash and cash equivalents	51,180	73,812	79,842	90,413	120,636	18,541	
Bank deposits	375,127	353,507	323,330	335,297	279,371	42,939	
Accounts receivable	14,083	16,715	17,743	19,045	24,153	3,712	
Property, plant and equipment	520,571	605,023	585,631	622,356	648,029	99,600	
Total assets	1,222,684	1,348,035	1,427,895	1,520,994	1,522,113	233,944	
Bonds - current portion <sup>(3)</sup>		1,000		4,998			
non-current portion	5,989	4,992	4,995				
Total liabilities	401,561	459,052	507,527	538,856	533,232	81,956	
Share capital <sup>(4)</sup>	2,142	400,737	402,130	402,130	402,130	61,806	
Shareholders' equity	819,171	886,916	917,336	979,021	985,636	151,489	
<b>Other Financial Data:</b>							
Capital expenditures and land lease prepayments <sup>(5)</sup>	(149,121)	(175,701)	(173,693)	(189,366)	(193,605)	(29,757)	
Net cash generated from operating activities	226,905	216,438	235,089	253,701	245,514	37,735	
Net cash used in investing activities	(180,122)	(151,230)	(142,743)	(194,523)	(106,533)	(16,374)	
Net cash used in financing activities	(71,312)	(42,530)	(86,510)	(48,958)	(108,231)	(16,635)	
Dividend declared	52,675	47,170	46,145	48,993	110,909	17,046	
Dividend declared per share (RMB)	2.621	2.311	2.205	2.385	5.508	0.820	
Dividend declared per share (HK\$)	3.311	2.920	2.721	2.732	6.405	0.820	

- (1) 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 2013, 2014, 2015, 2016 and 2017. 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.
- (2) Represents current assets minus current liabilities.
- (3) The current portion of the bonds as of December 31, 2014 was issued by China TieTong on August 18, 2005, with a principal amount of RMB1,000 million, at an issue price equal to the face value of the bonds. The bond was unsecured and bore interest at the rate of 4.6% per annum which is payable annually. The bond was fully repaid on August 18, 2015. The current portion of the bonds as of December 31, 2016 was issued by China Mobile Group Guangdong Co., Ltd., or Guangdong Mobile, with a principal amount of RMB5,000 million. The bonds were unsecured and bore interest at the rate of 4.5% per annum which is payable annually. The bonds, redeemable at 100% of the principal amount, were fully repaid on October 28, 2017.
- (4) Under the Hong Kong Companies Ordinance (Cap. 622 of the laws of Hong Kong), or the Companies Ordinance, which has been in effect since March 3, 2014, the concept of authorized share capital no longer exists and our shares no longer have a par or nominal value. There is no impact on the number of shares in issue

or the relative entitlement of any of our shareholders as a result of this transition. In addition, in accordance with the transitional provisions set forth in Section 37 of Schedule 11 to the Companies Ordinance, any amount standing to the credit of the share premium account has become part of our share capital.

- (5) Represents payments made for capital expenditures and land lease prepayments during the year and included in net cash used in investing activities.

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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 RMB6.5063 = US\$1.00 and HK\$7.8128 = US\$1.00, the noon buying rates in New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on December 29, 2017. The noon buying rates in New York 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 for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB6.2765 = US\$1.00 and HK\$7.8486 = US\$1.00, respectively, on April 19, 2018. 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 2017	6.6533	6.5712	October 2017	7.8106	7.7996
November 2017	6.6385	6.5967	November 2017	7.8118	7.7955
December 2017	6.6210	6.5063	December 2017	7.8228	7.8050
January 2018	6.5263	6.2841	January 2018	7.8230	7.8161
February 2018	6.3471	6.2649	February 2018	7.8267	7.8183
March 2018	6.3565	6.2685	March 2018	7.8486	7.8275
April 2018 (up to April 19, 2018)	6.3045	6.2655	April 2018 (up to April 19, 2018)	7.8499	7.8482

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 2013, 2014, 2015, 2016 and 2017 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
2013	6.1412	7.7565
2014	6.1704	7.7554
2015	6.2869	7.7519
2016	6.6549	7.7618
2017	6.7350	7.7950

**Risk Factors**

The following factors, and those factors described in our 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 such factors may have a material adverse effect on our business, financial condition, results of operations and prospects as well as the value of our ordinary shares and ADSs.

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**Risks Relating to Our Business**

*The increasing competition from other telecommunications services providers and competitors in related industries and changes in the competitive landscape of the telecommunications industry in Mainland China may reduce our market share and decrease our profit margin.*

We continue to face increasing competition from other telecommunications services providers in Mainland China. Principal participants in the telecommunications industry in Mainland China include China Unicom (Hong Kong) Limited, or China Unicom, China Telecom Corporation Limited, or China Telecom, and us. In particular, we have been competing against China Telecom and China Unicom in the delivery of 4G services since the MIIT granted permissions to all three telecommunications services providers to provide 4G services based on the LTE/Time Division Duplex standard, or TD-LTE technology, in December 2013. We expect that the competition will intensify after we recently received the permission to provide 4G services based on the Frequency-Division Long-Term Evolution standard, or LTE FDD technology, on April 3, 2018, while China Telecom and China Unicom obtained such permission in February 2015. In accordance with this permission, we can develop mobile IoT and Industrial Internet services nationwide, and LTE FDD services only in rural areas. Constrained by the services available to us, we may not effectively compete with other operators except for rural areas. And it may result in the potential risk of ROIC (Return on Invested Capital) of mobile IoT and LTE FDD network. Moreover, China Unicom and China Telecom have entered into a strategic cooperation agreement to promote resource-sharing in several key aspects of business operations. For further information, see Item 4. Information on the Company Business Overview Competition. Such cooperation may significantly change the competitive landscape of the telecommunications industry in Mainland China. Accordingly, we cannot assure you that we will be able to compete effectively, or that such competition will not materially and adversely affect our business, financial condition and results of operations.

The government of the People's Republic of China, or the PRC, has extended favorable regulatory policies to some of our competitors in order to help them become more viable competitors. See Current or future asymmetrical and other regulatory measures adopted by the PRC regulatory authorities could materially harm our competitive position or enhance competition in the telecommunications industry.

Furthermore, the evolution of telecommunication technologies and services has changed the competitive landscape in the telecommunications industry in Mainland China. On the one hand, the intensified competition in new products and services as a result of new technologies could reduce our tariff rates, increase our customer acquisition cost and decrease our market share as customers choose to receive mobile services from other providers. On the other hand, the increased competition from non-traditional telecommunications services providers brought by new technologies and services, such as Internet service providers, mobile software and applications developers and equipment vendors, pose challenges to us in retaining existing customers and market position. These new competitors compete against us in both voice and data businesses by offering mobile Internet access and Over The Top services, such as instant messaging, Voice over Internet Protocol, or VoIP, services, or audio or video content services delivered over the Internet. In addition, the strategic cooperation between Internet service providers and telecommunications operators is reshaping the competition in the telecommunications market. See Changes in the technology and business models of the PRC telecommunications industry may render our current technologies and business model obsolete, and we may encounter difficulties and challenges in developing and implementing new technologies and services. In addition, although currently we are rapidly expanding our wireline broadband services, we obtained permission to enter into the wireline broadband market later than the other two telecommunications operators, and we cannot assure you that our wireline broadband businesses may not be constrained by the first-mover advantages of our competitors or any other factors arising from the competition in the wireline broadband market.



As part of changes in our marketing model, we may, depending on the competitive environment, offer more tariff promotions to our customers, which may negatively impact our revenues and profit margins. In the meantime, our competitors are expanding their network coverage and offering discounts to their tariff plans, which may affect our ability to retain our customers. As a result of the above, we cannot assure you that we will not experience increases in churn rates as competition intensifies, which may materially reduce our results of operations. 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.

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Moreover, the PRC government has implemented a number of measures that permit certain operators approved by the Ministry of Industry and Information Technology, or the MIIT, to lease telecommunications infrastructure and repackage mobile services for sale to end-customers. On May 17, 2013, the MIIT announced that it would accept applications from non-State-owned companies to, on a trial basis, lease mobile services from China Unicom, China Telecom or us and provide mobile services to end-customers after repackaging these services. Although the initial trial period of the pilot program ended on December 31, 2015, the mobile services leasing and repackaging will continue to be governed by the rules of the pilot program until the MIIT issues any further rules. As of December 31, 2017, the MIIT has approved 42 companies to operate such business. We may face intense competition from these new mobile network operators in light of such policy and decisions by the MIIT. In particular, increased competition may cause tariff rates to further decline, which could in turn materially and adversely affect our business, financial condition and results of operations.

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

***Changes in the technology and business models of the PRC telecommunications industry may render our current technologies and business model obsolete, and we may encounter difficulties and challenges in developing and implementing new technologies and services.***

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 technologies that we currently employ may become obsolete. Moreover, the rapid development of new technologies, new services and products and new business models has also accelerated the convergence of local, long-distance, wireless, cable and Internet communication services, resulted in new competitors entering the telecommunications market and changed customer behaviors. For example, due to the adoption of new technologies and the growing popularity of the Over The Top services, customer usage and revenue generated from our voice services, short message services, or SMS, and multimedia message services, or MMS, has declined in recent years. We are thus required to implement new technologies, develop new services and adjust our business strategies in order to adapt to and maintain our share of the evolving value chain of the telecommunications industry in Mainland China. In order to meet the challenges posed by changes in the technology and business models of the PRC telecommunications industry, we have striven to promote the transition from voice to data traffic operations, from mobile communication services to innovative full services, and from communication services to digital services. We cannot assure you that the measures we are taking in response to those challenges will achieve the results we expect.

Revenue generated from our wireless data traffic grew substantially in 2017, mainly due to the expansion of our 4G network, enhanced data service customer experience, and widespread use of mobile applications. However, there is no guarantee that our wireless data traffic business will continue to grow rapidly or that any increase in revenue generated from wireless data traffic will offset any decrease in our voice services revenue and revenue generated from SMS and MMS and other services. The development of 4G business and technology requires substantial investments. However, there is no guarantee that our investments and efforts will deliver the results we desire. See Our continued investments in the construction of our infrastructure network may not adequately address the issues resulting from the substantial increases in data traffic or otherwise achieve the desired outcomes.

We currently provide certain Internet-related services, including home digital services, mobile payment, digital content and other applications and information services. The development of our Internet-related services depends on our ability to continue to expand and innovate our Internet-related services and take advantage of our strategic

cooperation with renowned Internet service providers. However, our competitors, including telecommunications operators, Internet service providers and technology companies, have also been developing the same services, which has increased the competition in this area. If we cannot develop or expand our Internet-related services as we anticipated, or if we develop or expand our Internet-related services at a pace slower than that of our competitors, our Internet-related services may not be as successful and we may not be able to maintain steady growth in our revenue from our Internet-related services.

As the implementation of our business strategies, as well as the development of new businesses, such as mobile Internet, Internet of Things, or IoT, and cloud computing, require significant time, financial and other resources and involve substantial risks, we may not be able to successfully implement our strategies, launch or develop such new businesses in time, or achieve the expected benefits. We may also 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.

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**Table of Contents*****Our tariff reduction and future policy developments in the telecommunications industry in relation to tariff reduction may continue to adversely affect our financial conditions.***

From time to time, we need to adjust our tariff plans as part of our business strategy and in some cases in accordance with PRC national policies, and such adjustments may have a material negative impact on our revenue and profitability. In May 2015, the PRC government introduced the new national policy of speed upgrade and tariff reduction. Since May 2015, in response to the expectations of the general public and customers and in order to implement the said national policy, we have, in addition to continue enhancing network capacity and increasing network speed, offered discounts to our tariff plans. With respect to our data traffic tariff, we launched in October 2015 an unused data traffic carry-over program for our mobile monthly plans that are charged based on pre-determined data traffic, according to which customers could carry over their monthly plans remaining unused data traffic to the following month. In May 2017, we rolled out a series of preferential data traffic plans as one of our tariff reduction measures. In 2017, we also substantially reduced the Internet dedicated line tariffs for small and medium enterprises. In addition, we took an orderly and balanced approach in reducing voice tariff. In response to the market demand and in light of the national policy of achieving coordinated development of Beijing Municipality, Tianjin Municipality and Hebei Province, we cancelled the domestic long-distance and roaming tariffs for voice services within the tariff zones of Beijing Municipality, Tianjin Municipality and Hebei Province in August 2015 so that our customers are only charged with local usage tariff for our voice services provided within the tariff zones. Similarly, we extended the same tariff policies to the tariff zones of Sichuan Province and Chongqing Municipality in October 2016. Furthermore, in response to the government initiative in furtherance of the speed upgrade and tariff reduction policy in March 2017, we cancelled all handset domestic long-distance and roaming tariffs since September 1, 2017 and reduced international long-distance call tariffs. In March 2018, the PRC government announced additional policy on network speed upgrade and tariff reduction, and we will introduce corresponding measures in due course. See Item 4. Information on the Company Business Overview Tariffs.

Such measures have resulted in reduced tariffs of our data traffic services and voice services in 2017, which in turn had a negative impact on our revenue and profitability. We believe that any prospective reduction in tariffs could continue to have an adverse impact on our financial condition and results of operations. Furthermore, we cannot assure you that we would not further reduce our tariffs or take other initiatives to respond to the market conditions or to further implement the national policy of speed upgrade and tariff reduction or other similar national policies, which may materially and adversely affect our financial condition and results of operations.

***There remain uncertainties in connection with the future operation of the China Tower Corporation Limited (or China Tower, formerly known as China Communications Facilities Services Corporation Limited).***

China Tower was established in July 2014 by China Mobile Communication Co., Ltd. or CMC, our wholly-owned subsidiary, China United Network Communications Corporation Limited, or CUCL, a wholly-owned subsidiary of China Unicom, and China Telecom for, among others, the construction, maintenance and operation of telecommunications towers. As of March 31, 2018, we indirectly owned 38% equity interest in China Tower through CMC. On October 14, 2015, CMC entered into an agreement on transfer of its then-owned telecommunications towers and related assets, or Tower Assets, for issuance of consideration shares and payment in cash, or the Transaction Agreement, with CUCL, China Telecom, China Reform Holdings Corporation Limited, or CRHC, and China Tower, pursuant to which CMC, CUCL and China Telecom shall transfer their telecommunications towers and related assets to China Tower, and CRHC shall subscribe for new shares in China Tower in cash. The transfer of Tower Assets was completed on October 31, 2015. See Item 4. Information on the Company The History and Development of the Company Industry Restructuring and Changes in Our Shareholding Structure.

On July 8, 2016, CMC entered into the Commercial Pricing Agreement, or the Lease Agreement, with China Tower, pursuant to which CMC agreed to lease from China Tower telecommunications towers and related assets acquired and newly constructed by China Tower. On January 31, 2018, the parties entered into a supplementary agreement to the Lease Agreement. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Telecommunications Towers and Related Assets Lease Arrangement. The purpose of establishing China Tower is to reduce the overall capital expenditures and operational costs and redundant projects of the three major telecommunications operators and to improve network coverage of the operators. We believe that participating in the establishment of China Tower will benefit our operation and business development in the following significant aspects: (i) to enhance our telecommunications network coverage ability, (ii) to save capital expenditures and optimize cash management, and (iii) to realize investment return from the equity investment in the long run. However, because we do not own a majority interest of, or otherwise control, China Tower, China Tower may not always act in the best interests of us, and there are uncertainties as to whether the services of China Tower can sufficiently support our business needs and plans, in particular, our plan to expand our 4G business, and whether China Tower can fulfill any usage arrangements to be agreed with us and properly operate, maintain and manage its assets.

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Furthermore, since it is expected that none of us, China Unicom or China Telecom will construct any telecommunications tower after the establishment of China Tower, our business will rely on the Lease Agreement and any other telecommunications towers usage arrangements with China Tower. We cannot assure you that we are able to use telecommunications towers and related assets on terms and conditions we desire. The Lease Agreement provides for a pricing adjustment mechanism under which the fees may be further negotiated or agreed upon after considering any effects of inflation, significant fluctuations in the real estate market or the steel price, many of which are beyond our control. Furthermore, prior to the expiration of lease periods of individual towers, we have to negotiate with China Tower new leases of such towers. If we are unable to enter into any new leases or if we are able to enter into new leases but the lease terms are less favorable to us, our business operations, financial condition and results of operations may materially and adversely affected. In addition, establishment of China Tower may enable our competitors to expand their 4G networks and businesses at a faster pace, which may, in turn, reduce our competitiveness and market share. Failure of China Tower to fulfill any usage arrangements with us or properly operate, maintain and manage its telecommunications tower assets or to provide stable services to us could adversely affect the quality and uninterrupted services of our networks, which would in turn materially and adversely affect our business operations as well as our financial condition and results of operations.

Further, during 2016 and 2017, the SEC issued comment letters relating to the Company's previously filed annual reports on Form 20-F for the fiscal years ended December 31, 2015 and 2016. The comment letters inquired mainly about the background, execution process, and accounting treatment in relation to the Company's disposal and lease of telecommunications towers and related assets with the China Tower. The Company responded to these comment letters and was notified by the SEC in its letter dated October 20, 2017 that it has completed its review of such previously filed annual reports of the Company. The SEC did not in its October 2017 letter require us to make any amendment to those previously filed annual reports. However, given the significance of the transactions with the China Tower, there is no assurance that the SEC will not issue comment letters on our disclosure relating to these and future transactions with the China Tower.

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

The PRC government has extended favorable regulatory policies to some of our competitors in order to help them become more viable competitors to us. For example, the MIIT has decided to make asymmetrical changes, effective January 1, 2014, to the public telecommunications network interconnection settlement standards of basic telecommunications operators in Mainland China. As a result of these changes, when mobile users of China Telecom and China Unicom and our mobile users in Mainland China (excluding TD-SCDMA users with certain specified prefix numbers) make calls to each other, the settlement charges payable by China Telecom and China Unicom to us were adjusted from RMB0.06/minute to RMB0.04/minute, while the settlement charges payable by us to China Telecom and China Unicom remained at RMB0.06/minute. The MIIT will assess the above interconnection settlement policy once every two years based on the development conditions of the telecommunications market and will make adjustments when appropriate. See Item 4. Information on the Company Business Overview Interconnection. Moreover, in 2016, MIIT approved the China Telecom and China Unicom to reform their respective spectrum by reallocating the frequencies initially allocated to 2G and 3G services to 4G services. Compared to the higher frequencies allocated to 4G, frequencies allocated to 2G and 3G services are lower, therefore they can reach farther and have less penetration loss. As a result, the spectrum refarming would facilitate such operators to raise the overall network quality at a lower cost. We received the permission to provide 4G services based on the LTE FDD technology on April 3, 2018 and our parent company, CMCC, is applying to the MIIT to reform its spectrum by reallocating the frequencies initially allocated to 2G services for use in LTE FDD services. However, there remain uncertainties in the timing of obtaining the approval and the scope and use of the permitted spectrum refarming. Constrained by the frequency spectrum available to us, we may not effectively compete with these operators in our

provision of 4G services. See Our future network capacity growth may be constrained by the frequency spectrum available to us.

The PRC government has adopted other regulatory measures to encourage competition in the telecommunications industry. For example, in recent years, the PRC governmental authorities have taken more stringent measures to enforce the PRC Anti-Monopoly Law, such as the anti-monopoly investigation in 2012 undertaken by the National Development and Reform Commission, or the NDRC, which remains ongoing, of other PRC telecommunication companies over certain pricing practices with respect to Internet dedicated leased line services provided by them to Internet service providers. Any amendments to the PRC Anti-Monopoly Law or any changes to the PRC anti-unfair competition regime, in particular those on the telecommunications industry, may subject us to more stringent anti-monopoly and anti-unfair competition regulation. As a result of the regulatory measures, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition.

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

### ***Cyber attacks could have an adverse effect on our business.***

Cyber attacks, including through the use of malware, computer viruses, distributed denial of services attacks, credential harvesting and other means for obtaining unauthorized access to or disrupting the operation of our networks and systems and those of our suppliers, vendors and other service providers, could have an adverse effect on our business. Cyber attacks may cause equipment failures, loss of information, including sensitive personal information of customers or employees or valuable technical and marketing information, as well as disruptions to our operations or our customers' operations. As a telecommunications operator, we are considered a critical information infrastructure operator under the relevant PRC law and therefore may be more likely to be targeted by cyber-attack activities. We devote significant resources to network security, data security and other security measures to protect our systems and data, such as deploying network protection devices, performing regular security assessment and anonymizing personal data. We cannot assure you that the security measures we have implemented will not be bypassed or otherwise can fully protect the integrity of our network, including our mobile network. The economic costs to us to eliminate or alleviate cyber attacks could be significant and may be difficult to estimate or calculate because the loss may differ based on the identity and motive of the programmer or hacker, which are often difficult to identify. Further, the perpetrators of cyber attacks are not restricted to specific groups or persons. These attacks may be committed by company employees or external actors operating in any geography, including jurisdictions where law enforcement measures to address such attacks are unavailable or ineffective, and may even be launched by or at the behest of nation states. While, to date, we have not been subject to cyber attacks which, individually or in the aggregate, have been material to our operations or financial condition, the preventive actions we take to reduce the risks associated with cyber attacks, including protection of our systems and networks, may be insufficient to repel or mitigate the effects of a major cyber attack in the future.

The inability to operate our networks and systems or those of our suppliers, vendors and other service providers as a result of cyber attacks, even for a limited period of time, may result in significant expenses to us and/or a loss of market share to other telecommunications operators. The potential costs associated with these attacks could exceed the insurance coverage we maintain. In addition, if we fail to prevent the theft of valuable information such as financial data, sensitive information about our intellectual property, or if we fail to protect the privacy of customer and employee confidential data against cyber attacks, it could result in lawsuits, government claims, investigations or proceedings, and damage to our reputation, which could adversely impact customer and investor confidence. Any of these occurrences could result in a material adverse effect on our results of operations and financial condition.

### ***We may encounter difficulties and challenges in the research and development of 5G technologies and commercializing 5G services.***

We have been actively engaged in 5G-related research and development, or R&D, activities and are involved in setting 5G standards. See Item 4. Information on the Company Business Overview Research and Development Setting Technical Standards and Promoting Industry Development. These efforts require us to devote financial and operational resources. In addition, as we are developing relevant technologies for the eventual launch of our 5G services, we expect to make substantial investments in the construction of the infrastructure of our future 5G network. However, there remain uncertainties in the timing of obtaining such approvals from the relevant authorities, including the operating permit and frequency spectrum for launching and providing our future 5G services. Furthermore, we have been exploring optimal business models for our future 5G services. If we are unable to launch 5G services in a timely and commercially viable manner, the expected benefits from our significant investment in the R&D of 5G



technologies and relevant infrastructure construction would not be fully realized or if at all, which in turn could materially and adversely affect our business, financial conditions and results of operations.

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***Our continued investments in the construction of our infrastructure network may not adequately address the issues resulting from the substantial increases in data traffic or otherwise achieve the desired outcomes.***

Our wireless data traffic business has experienced significant growth in recent years, which has contributed to the growth of our operating revenue and provides our business with further opportunities for development. In addition, we have launched our 4G services, which are expected to drive further growth in data traffic. The continued substantial increase in data traffic significantly strains the existing capacity of our telecommunications network infrastructure, which we expect to make continuous investments to improve. Accordingly, the amount of our capital expenditures in future years could remain high. We incurred capital expenditures of RMB177,533 million in 2017, which was spent on areas including 4G, transmission, broadband access, NB-IoT and IT support in order to back the development of the four growth engines and continuously strengthen network development capabilities. We estimate to incur an additional capital expenditures of approximately RMB166.1 billion in 2018. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures for more information on our expected capital expenditures. Moreover, our increased efforts to facilitate the commercialization of 5G technologies and services require investment in the construction of relevant network infrastructure. As a result, we have made and will continue to make substantial investments in the construction of our infrastructure network, including TD-LTE, LTE FDD and 5G infrastructure, to carry the increasing data traffic and capture the first-mover advantage in the new generation of technology. 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 outcomes.

***We may suffer damage to our reputation and financial losses due to communications fraud carried out on our network.***

Communications fraud in Mainland China poses a risk to our business. Because we provide connections to the network and host websites for customers and develop Internet content and applications, we may be perceived as being associated with the content distributed through our network or displayed on websites that we host. If any communications fraud is committed on our network, websites or applications, we may face litigations due to the perceived association with such fraud. We have carried out various technical and administrative measures to control and prevent such fraud. For example, we have implemented the real-name registration system for our customers in accordance with the requirements of government authorities, developed a number of anti-fraud systems to detect and intercept fraud calls, spam SMS and smartphone malware, refined our customer service to facilitate the instant reporting of fraud, and strengthened the protection of customers' personal data from unauthorized access and leakage. See Item 4. Information on the Company Business Overview Sales and Customer Services Service Quality. However, we cannot and do not screen all of the information distributed through our network or websites. There is no assurance that our measures to prevent or detect fraud will work effectively. Litigations arising from the claims of communications fraud have been brought against other providers of online services in the past. Regardless of the merits of the litigations, they can be costly to defend, divert management resources and attention, which could in turn damage our reputation and have an adverse effect on our business and results of operations.

***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 materially harm our competitive position, as well as materially reduce our future profitability and growth.

We made acquisitions of and hold investments in other entities, with some of which we also established contractual arrangements such as the strategic cooperation. Such investments and acquisitions include our equity interest in Shanghai Pudong Development Bank, or SPD Bank, IFLYTEK CO., LTD., or IFLYTEK, True Corporation Public Company Limited, or True Corporation and China Mobile Innovative Business Fund (Shenzhen) Partnership (Limited Partnership), or China Mobile Fund, our acquisitions of business and assets of China TieTong, and ShiJinShi Credit Information Services Co. Ltd., our joint venture with China Merchants Group. See Item 4. Information on the Company Business Overview Investments and Acquisitions. Furthermore, we have established certain subsidiaries to carry out specialized operations, such as China Mobile Group Device Company Limited, or China Mobile Device, China Mobile International Limited, or China Mobile International, China Mobile IoT Company Limited, China Mobile Online Services Co., Ltd., China Mobile (Suzhou) Software Technology Co., Ltd., China Mobile (Hangzhou) Information Technology Company Limited, MIGU Co., Ltd., or MIGU, China Mobile Internet Company Limited and China Mobile Investment Holdings Co., Ltd. We expect to further enhance our operational efficiency by establishing other subsidiaries that operate certain other aspects of our businesses in accordance with our business development strategies.

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We cannot assure you that our abovementioned investments will achieve the desired level of return, or that any strategic cooperation and integration will produce the expected benefits, if at all. The profitability of entities held by us is impacted to some extent by macroeconomic conditions and changes in monetary and fiscal policies in the countries and regions in which they operate. Moreover, if we encounter difficulties in carrying out our cooperation with our strategic cooperation partners or the integration with the target companies we acquired, the prospects of relevant business operations may be materially and adversely affected. In addition, we cannot assure you that the business model of each of the entities we held would be sustainable, and the expected benefits from our investment in networks, licenses and new technologies may not be realized.

***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 are able to 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.

***Some employee misconduct, including misconduct by senior management, may not be detected or prevented in a timely manner, and such misconduct may damage our reputation and cause the trading price of our ordinary shares and ADSs to decrease significantly.***

Certain management personnel of certain subsidiaries of our Company were alleged to have engaged in unlawful conduct in recent periods. 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 are 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 probability of third parties engaging in improper business relationships with our employees. We have also further expanded the type of equipment, products and services 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.

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As described above, we have taken various measures to prevent employee misconduct. We cannot assure you, however, that all misconducts or allegations of misconduct by our management and staff will be detected or prevented in a timely manner. 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.

### ***Our success depends on the continued services of our senior management team and other qualified employees.***

Our continued success and growth depends on our ability to identify, hire, train and retain suitably skilled and qualified employees, including management personnel, with relevant professional skills. The services of our directors and members of senior management are essential to our success and future growth. The loss of a significant number of our directors and senior management could have a material adverse effect on our business if we are unable to find suitable replacements in a timely manner. We also face fierce competitions with other telecommunication operators and technology companies in hiring and retaining qualified employees or other talents with skills tailored to our development. Therefore, we cannot assure you that we will always be able to attract and retain our desired personnel, and any failure to recruit and retain the necessary management personnel and other key personnel for our operations could have a material adverse impact on our business and results of operations.

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

As of March 31, 2018, CMCC indirectly owned approximately 72.72% 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 and 4G businesses pursuant to arrangements with CMCC, which was granted licenses by the PRC government to operate a 3G business based on TD-SCDMA technology and a 4G business based on TD-LTE technology and LTE FDD 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 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.

In addition, under current PRC laws, rules and regulations, our ordinary shares listed on The Stock Exchange of Hong Kong Limited, or 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. As a result, 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.

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On November 17, 2014, the China Securities Regulatory Commission, or the CSRC, and the Hong Kong Securities and Futures Commission, or the SFC, launched a pilot scheme to allow investors in Mainland China to trade shares in designated companies listed on the Hong Kong Stock Exchange, including constituent stocks of the Hang Seng Composite LargeCap Indexes such as our ordinary shares, subject to certain quota limitations. We cannot predict the impact that this initiative will have on cross-border investment by investors in Mainland China or on the trading prices of our ordinary shares and ADSs.

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

Mobile 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 operators in Mainland China, the capacity of our mobile network is limited by the amount of spectrum that the MIIT allocates to our parent company, CMCC. For our Global System for Mobile Communications, or GSM, network, the MIIT has allocated a total of 45x2 MHz of spectrum in the 900 MHz and 1800 MHz frequency bands to be used nationwide for transmission and reception to our parent company, CMCC. 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. In connection with our 4G business, the MIIT has allocated to CMCC, in various frequency bands, a total of 145 MHz of spectrum to be used for nationwide coverage, including 20 MHz of spectrum previously allocated for use by our 3G business for outdoor coverage and 50 MHz of spectrum previously allocated for use by our 3G business for indoor coverage. In addition, CMCC is applying to the MIIT to reform its spectrum by reallocating the frequencies initially allocated to 2G services for use in LTE FDD services. However, there remain uncertainties in the timing of obtaining the approval and the scope and use of the permitted spectrum refarming. Meanwhile, the MIIT may reallocate 900MHz and 1800MHz bands that expire at the end of 2019. There will be an uncertainty that we can get more spectrum or maintain the existing spectrum at that time. 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 further develop our 4G services, and the quality of spectrum available to us may affect our competitive position. We cannot assure you that 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 our market share, which would in turn 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 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 in 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 could severely harm our operations and materially decrease our profitability and growth.



***Compliance with the SEC's rule for disclosures on conflict minerals may be time-consuming and costly and could adversely affect our reputation.***

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC has adopted a rule that applies to companies that use certain minerals and metals, known as conflict minerals, in their products, including certain products manufactured for them by third parties. The rule will require companies that use conflict minerals in the production of their products to conduct due diligence as to whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries and to file certain information with the SEC about the use of these minerals. We filed our conflict minerals report for the years ended December 31, 2014, 2015 and 2016 with the SEC, and our conflict minerals report for the year ended December 31, 2017 is due May 31, 2018. We will incur additional costs to comply with the due diligence and disclosure requirements. In addition, depending upon our findings, or our inability to make reliable findings, about the source of any possible conflict minerals that may be used in any products manufactured for us by third parties, our reputation could be harmed, and there may also be disruptions to our business and strategy.

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*We are subject to extensive government regulation and any change in the regulatory environment in the PRC, especially with respect to the telecommunications industry, may materially impact us.*

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 and could negatively affect our cost structure, profit margin and market share. For example, in recent years, PRC government authorities have required the implementation of real name registration for mobile users. Furthermore, since 2015, the PRC government announced a number of policies on network speed upgrade and tariff reduction, and we introduced, and will continue to introduce, corresponding measures. See Item 4. Information on the Company Business Overview Tariffs. The PRC government may announce additional tariff reduction policies in the future, and we cannot predict to what extent we may be required to further reduce tariffs. Future changes in tariff policies could significantly decrease our revenues and materially reduce our profitability. See Risks Relating to Our Business Our tariff reduction and future policy developments in the telecommunications industry in relation to tariff reduction may continue to adversely affect our financial conditions. Additionally, the PRC government had started mobile number portability pilot programs to allow customers in certain cities to switch mobile carriers while retaining their numbers. If the PRC government expands the mobile number portability pilot programs in more cities or implement mobile number portability in the Mainland China, the competition among telecommunication operators may significantly intensify. In response, we may offer more tariff promotions to attract and retain customers. As a result of such intensified competition and related counter measures adopted, our results of operations, profitability and market share may suffer. Any change in the regulatory environment in the PRC, especially with respect to the telecommunications industry, may have a material adverse effect on our business, financial condition, results of operations and prospects.

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 3G and 4G telecommunications businesses based on the 3G and 4G licenses granted by the MIIT. Any future adverse change in the conditions or other obligations relating to these approvals and licenses could have a material adverse effect on our business, financial condition, results of operations and prospects.

Furthermore, personal privacy, cyber security, and data protection are becoming increasingly significant issues in China. The regulatory framework governing the collection, processing, storage and use of business information and personal data is rapidly evolving. The recently enacted Cyber Security Law of the PRC, or the Cyber Security Law, which came into effect on June 1, 2017, sets forth an overarching framework regulating the network products, equipment, and services, as well as the operation and maintenance of information networks, the protection of personal information, and the supervision and administration of cyber security in Mainland China. See Item 4. Information on

the Company Business Overview Regulation Cyber Security. These requirements could increase our costs of compliance. Given the implementation of Cyber Security Law is at an early stage and may be subject to uncertainties in interpretations and enforcement, we are unable to determine its impact on our business. Although we have taken and will continue to take measures to comply with the Cyber Security Law, we cannot assure you that we will comply with the regulatory requirements in all aspects at all times. Any inability to comply with the Cyber Security Law and the relevant regulations and policies, could result in additional cost and liability to us, damage our reputation and adversely affect our business. Moreover, increased costs to comply with and other burdens imposed by the Cyber Security Law and relevant regulations and policies that are applicable to the businesses of our suppliers, vendors and other service providers, as well as our customers, may inhibit our business development or curb the demand of our products and services. If we are unable to respond to changing laws, regulations and policies related to privacy or cyber security, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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***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. In December 2015, the Ministry of Finance, or the MOF, and the MIIT jointly issued a notice on the pilot program to promote basic universal telecommunications services in rural areas where telecommunications operators in Mainland China, including us, are encouraged to support the broadband development in rural and remote areas, so as to facilitate the achievement of certain strategic goals relating to Broadband China. This includes achieving, by 2020, the goal of broadband access in 98% of the villages by administrative division and the rural broadband access capacity of more than 12Mbps. As of December 31, 2017, we have provided broadband access to 35,000 villages by administrative division under the universal service program. We cannot predict whether we will be required to provide other 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 publicly traded shares of telecommunications companies, 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 market in Mainland China and 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 materially 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 materially impair our ability to retain customers and attract new customers, significantly reduce wireless telecommunications usage or result in litigation.



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**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 business, financial condition, results of operations and 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. Though Mainland China has been one of the world's fastest growing economies in recent years in terms of gross domestic product, or GDP, growth, it may not be able to sustain the same growth rate. For example, China's real GDP growth rate declined from approximately 7.7% in 2012 to 6.9% in 2017. There is no assurance that the GDP growth rate of Mainland China will not further decline. A deterioration in Mainland China's business environment as a result of the slowdown in economic growth could reduce business activities and demand for our services, which could materially and adversely affect our business, financial condition and results of operations.

***We are subject to reviews and inspections by governmental authorities and regulatory agencies.***

We are subject to reviews and inspections by various governmental authorities and regulatory agencies. These reviews and inspections could cover a broad range of aspects in relation to our business and operations, including financial reporting, tax reporting, internal control and compliance with applicable laws, rules and regulations. We cannot predict the impact of any findings of these reviews and inspections, and we cannot assure you that the outcome of any such reviews and inspections would not have a material adverse effect on our business, financial condition, results of operations and prospects.

***Fluctuation of the Renminbi could materially affect our financial condition, results of operations and cash flows.***

We receive substantially all of our revenues, and our financial statements are presented, in Renminbi. The value of the Renminbi against U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC and international economic conditions and foreign exchange policies. The conversion of Renminbi into foreign currencies, including U.S. dollars and Hong Kong dollars, is based on rates set by the People's Bank of China, or PBOC. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. In August 2015, PBOC announced that the mid-point exchange rate for the floating range of Renminbi against the U.S. dollar will be determined based on market maker submissions that take into account the Renminbi-U.S. dollar exchange rate at the previous day's closing of the inter-bank spot foreign exchange market, the supply and demand dynamics and the movements of other major currencies. Since October 1, 2016, the Renminbi has joined the International Monetary Fund's basket of currencies that make up the Special Drawing Right, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends payable on our ordinary shares in foreign currency terms. Our financial condition and results of operations may also be affected by changes in the value of certain

currencies other than the Renminbi, in which certain of our cash and cash equivalents and bank deposits are denominated. If we incur, in the future, debt denominated in currencies other than the Renminbi, such as in the U.S. dollar, the fluctuation of the Renminbi against the other currencies could adversely affect our financial condition and results of operations. For further information on our foreign exchange risks and certain exchange rates, see Item 3. Key Information Exchange Rate Information and Item 11. Quantitative and Qualitative Disclosures About Market Risk. We cannot assure you that any future movements in the exchange rate of the Renminbi against the U.S. dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

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**Table of Contents*****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 the PRC. 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, rules and regulations remain relatively untested, 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 involve potentially significant 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 may also materially and adversely affect our financial condition, results of operations and prospects.

***Natural disasters, terrorist acts, acts of war and health hazards in China may cause damage to our infrastructure and severely disrupt our business and operations.***

Our business operations are subject to interruption by natural disasters, power outages, terrorist attacks or other hostile acts, health hazards, among others, which are beyond our control. Such events could cause significant damage to our infrastructure upon which our business operations rely, resulting in degradation or disruption of service to our customers. For example, 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 or other similar events may have on our business. While we maintain insurance coverage for some of these events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Our system redundancy may be ineffective or inadequate, and our disaster recovery planning may not be sufficient for all eventualities. These events could also damage the infrastructure of the suppliers, vendors and service providers that provide us with the equipment and services we need to operate our business and provide products to our customers. Any future natural disasters or other similar events may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, such natural disasters and other similar events 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 other similar events in China may have a material adverse effect on our financial condition and results of operations.

***You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.***

Substantially all of our assets and our subsidiaries are located in the PRC. In addition, most of our directors and officers reside within the PRC, and substantially all of the assets of our directors and officers are located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon most of our directors or officers, including with respect to matters arising under applicable laws and regulations. Moreover, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom or most other Western countries, and Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States.



As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

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**Table of Contents*****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. 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.

***If additional remedial measures are imposed on the PRC-based network firms of the Big Four accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.***

In December 2012, the SEC instituted administrative proceedings against the PRC-based network firms of the Big Four accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' audit work papers with respect to certain PRC-based companies that are publicly traded in the United States. On January 22, 2014, the administrative law judge, or ALJ, presiding over the matter rendered an initial decision that each of the firms had violated the SEC's rules of practice by failing to produce audit work papers to the SEC. The initial decision censured each of the firms and barred them from practicing before the SEC for a period of six months. These firms subsequently appealed the ALJ's initial decision to the SEC. The ALJ's decision does not take effect unless and until it is endorsed by the SEC. On February 6, 2015, the four PRC-based accounting firms each agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S.-listed companies. The settlement required the accounting firms to follow detailed procedures and to seek to provide the SEC with access to firms' audit documents via the CSRC. If future document productions fail to meet specified criteria or there is a problem with the process between the SEC and CSRC, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. If the accounting firms are subject to additional remedial measures imposed by the SEC or other regulatory authorities, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with SEC requirements could ultimately lead to the delisting of our ADSs from the New York Stock Exchange or the termination of the registration of our ADSs under the Exchange Act, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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

We provide a full range of mobile services in all 31 provinces, autonomous regions and directly-administered municipalities in Mainland China as well as in Hong Kong. Based on publicly available information, we are the leading provider of mobile services in Mainland China and the largest provider of mobile services in the world as measured by total number of mobile customers as of December 31, 2017. As of March 31, 2018, our total number of mobile customers reached approximately 899 million.

**The History and Development of the Company**

We were incorporated under the laws of Hong Kong on September 3, 1997 under the predecessor of the Companies Ordinance 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 then to China Mobile Limited on May 29, 2006.

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***

At our inception, our mobile operations included those in Guangdong Province and Zhejiang Province, conducted by Guangdong Mobile (formerly known as Guangdong Mobile Communication Company Limited), and China Mobile Group Zhejiang Co., Ltd. (formerly known as Zhejiang Mobile Communication Company Limited), 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%.

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We carried out a series of acquisitions between 1998 and 2004, through which we acquired from CMCC, our parent company, mobile 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 services provider based in Hong Kong, in 2006. As a result, we expanded the geographical coverage of our operations to Hong Kong.

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, for an aggregate purchase price of RMB237,070,000 (approximately US\$37,667,000). CMC subsequently transferred 1% of the share capital of Topssion to CMCC, and further subscribed to additional share capital of Topssion. Topssion thereafter changed its name to China Mobile Device. As of March 31, 2018, we held a 99.97% equity interest in China Mobile Device.

In 2015, we, through our wholly-owned subsidiary, China Mobile TieTong Company Limited, or CM TieTong, acquired Target Assets and Businesses of China TieTong, for a final consideration of RMB31,967 million (approximately US\$4,934.9 million). The acquisition was completed in December 2015. We expect that our acquisition of Target Assets and Businesses from China TieTong will facilitate our transformation into a full-service operator offering both fixed-line and mobile services.

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 telecommunications industry of Mainland China underwent significant reforms and restructuring that resulted in an improved competitive environment and enhanced regulation of the industry.

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 NDRC and 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 the consolidation of the telecommunications

industry in Mainland China into three service providers: China Telecom, China Unicom and CMCC.

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, also include China Telecom and China Unicom. China Telecom and China Unicom since then operate both mobile and fixed-line services. On November 27, 2015, CM TieTong, our wholly-owned subsidiary, entered into the Acquisition Agreement with China TieTong, pursuant to which CM TieTong has agreed to acquire Target Assets and Business. The acquisition was completed in December 2015.

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On July 11, 2014, CMC entered into a promoters' agreement with CUCL, a wholly-owned subsidiary of China Unicom, and China Telecom to establish China Tower, which had a registered capital of RMB10 billion. Pursuant to the promoters' agreement, we have made an investment of RMB4,000 million and indirectly owned a 40% equity interest in China Tower. On October 14, 2015, CMC entered into the Transaction Agreement with CUCL, China Telecom, CRHC and China Tower, pursuant to which CMC, CUCL and China Telecom shall transfer their telecommunications towers and related assets to China Tower, China Tower shall issue and allot shares in China Tower and/or pay certain cash as consideration for such transfers, and CRHC shall subscribe for new shares in China Tower in cash. Following the completion of the transaction on October 31, 2015, China Tower was owned by CMC, China Unicom, China Telecom and CRHC as to 38%, 28.1%, 27.9% and 6%, respectively. CMC transferred its existing telecommunications towers and related assets to China Tower for a final consideration of RMB102,736 million (approximately US\$15,859.7 million). On July 8, 2016, CMC entered into the Lease Agreement with China Tower, pursuant to which CMC agreed to lease from China Tower telecommunications towers and related assets acquired and newly constructed by China Tower. As of March 31, 2018, we indirectly owned 38% equity interest in China Tower.

**Organizational Structure**

As of March 31, 2018, CMCC owned 72.72% equity interest in us through intermediate holding companies. We operate in all 31 provinces, autonomous regions and directly-administered municipalities throughout Mainland China and in Hong Kong. As of March 31, 2018, 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

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China Mobile Group Chongqing Co., Ltd.	China Mobile International Limited
China Mobile Group Sichuan Co., Ltd.	China Mobile IoT Company Limited
China Mobile Information Technology Company Limited	China Mobile Online Services Co., Ltd.
China Mobile (Suzhou) Software Technology Co., Ltd.	China Mobile (Hangzhou) Information Technology Company Limited
MIGU Co., Ltd.	China Mobile Internet Company Limited
China Mobile TieTong Company Limited	China Mobile Quantong System Integration Co., Ltd.
China Mobile Investment Holdings Co., Ltd.	

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For detailed information about our significant subsidiaries, see note 17 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

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

Set out below is a chart illustrating our corporate structure as of March 31, 2018:

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**Table of Contents****General Information**

Our principal executive offices are located at 60<sup>th</sup> 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 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**

Over the past several years, we have achieved a number of technological improvements and upgrades to our core mobile network, which has evolved into an integrated network that is capable of supporting transmissions using the 2G standard, 3G standard and 4G standard. We have built an Internet Protocol based core network that is capable of supporting the GSM, TD-SCDMA, TD-LTE and LTE FDD networks, which we believe could also evolve into a network that supports other future generations of mobile technologies. See [Mobile Networks](#) below. In addition, our acquisition from China TieTong of Target Assets and Businesses, has facilitated our transformation into a full-service operator offering both fixed-line and mobile services, enabling us to expand our customer base, increase our wireline broadband network capacity, coverage and efficiency through an integrated network and seize growth opportunities in the wireline broadband market. See [The History and Development of the Company](#) [Industry Restructuring and Changes in Our Shareholding Structure](#).

On April 3, 2018, the MIIT granted to CMCC the permission to provide 4G services based on LTE FDD technology through us. In accordance with the permission, we will promote the development of mobile IoT and Industrial Internet nationwide; in rural areas, we will initiate the scale application of TD-LTE/LTE FDD convergence network and enhance the quality of our high-speed broadband and mobile communications services, raising the overall network quality at a lower cost. In addition, we will increase efforts to innovate our products and services to deliver better customer experience. We believe this permission will be conducive to the implementation of our strategies, our transformation into a full-service provider and our development toward a world's leading telecommunications operator in digital innovation.

***Our Business Strategy***

As a pioneer and market leader in the world's largest mobile market, we have aligned ourselves with mobile Internet development trends. We aim to maintain our leading position in 4G development in China and have fully embraced the transition from voice to data traffic operation. We have also striven to enhance our wireline broadband services and promote the transition from mobile communication services to innovative full services. Since 2016, revenue from wireless data traffic has become our largest revenue source, exceeding traditional telecommunications business (including voice, SMS and MMS). In 2017, our revenue from wireless data traffic, on a full-year basis, has accounted for more than half of our total telecommunications services revenue for the first time, demonstrating a fundamental change in our revenue structure.

In response to the development of the [Internet of Everything](#), we launched the [Big Connectivity](#) strategy to expand the scope of connections from those among people to connections joining people and things as well as connections among things. In our efforts to implement this strategy, we have shifted focus from the traditional operating model to an integrated development driven by [four growth engines](#), namely, to capitalize on the momentum in the personal mobile market, the household market, the corporate market and the emerging business.

*Personal Mobile Market.* We have been dedicated to the development of our 4G network. As of December 31, 2017, we cumulatively put in use 1.87 million 4G base stations, which covered 99% of the population of China. In 2017, the

number of our 4G customers increased by 114 million, reaching approximately 650 million at the end of the year. Our robust network capabilities and industry-leading customer service quality contributed to the rapid growth in data traffic. Our handset data traffic reached 12,569 billion megabytes in 2017, significantly increased from that of 5,681 billion megabytes in 2016. Moreover, we have built one of the world's largest networks of Voice over LTE, or VoLTE, providing VoLTE for commercial use in 346 cities in Mainland China. Our VoLTE customers reached 200 million as of December 31, 2017. In 2018, we will endeavor to maintain our market leading position in China in terms of handset data traffic and further enhance 4G network quality and customer perception through the continued promotion of VoLTE, carrier aggregation, or CA, and customer information protection.

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*Household Market.* In 2017, we sped up the development of our household broadband business. We focused on enhancing network speed and quality, differentiating our products and services, securing customer groups with high loyalty and revenue contribution, and increasing customer value through our home digital services. For example, subscribers to Mobaihe, our home digital set-top box providing high-definition video-on-demand service, reached 57.25 million at the end of 2017. The expansion in both our household broadband customer base and market share continued in 2017. Our household broadband customers exceeded 109 million at the end of 2017, increasing by 46.9% from 74 million at the end of 2016, 68% of which subscribe to broadband products with bandwidth of 50 Mbps or higher. Our household broadband market share grew from 29.9% at the end of 2016 to 37.0% at the end of 2017. In 2018, we plan to build an integrated household product portfolio, enhance our brand awareness and increase the value proposition to our customers, through which we can further expand the market share, especially in areas where we have low penetration.

*Corporate Market.* We have focused on key services such as Internet dedicated lines, voice and data dedicated lines and Internet Data Center, or IDC, services, built a network-wide coordinated sales system to target major corporate customers and have developed products targeting key industries such as manufacturing, agriculture, education, public administration, finance, transportation and healthcare. We further improved the transmission capacity of our fiber optic cable and the accessibility of Internet dedicated lines. Moreover, in order to meet the specific needs of small- and medium-sized enterprises, we offered Internet dedicated line service to these customers at reduced tariffs. In 2018, we will expedite the development of products and solutions tailored for key industries, enhance our service quality and bolster our capabilities in developing services based on the integrated information and communication technology.

*Emerging Business.* We have been engaged in developing innovative applications and information services, making a number of achievements in 2017. Our centralized public IoT networks had 229 million connections as of December 31, 2017, which remained the largest dedicated IoT network in the world in terms of the number of connections. Additionally, our mobile payment service and-Wallet exceeded RMB2.1 trillion in transaction value, and we further promoted our and-Video service, which provides streaming media and video-on-demand on mobile, and and-Reading services, which offers a mobile-based platform of digital books and magazines. In 2018, we plan to accelerate the development and application of IoT and further expand our home digital services.

In terms of long-term strategy, we will continue to implement our Big Connectivity and Four Growth Engines strategies, striving to become a world-leading operator offering innovative digital services. We also endeavor to achieve a leading position in the markets brought by technologies such as 5G, big data, IoT and artificial intelligence. To this end, we will adopt a market-responsive business development model to align our strategic growth targets with market progress. To capture future development momentum, we will continue to enhance our service quality, expand our international presence and continue to optimize our revenue structure. We strive to strengthen our leadership in mobile communications and build up our advantages in the household, corporate and IoT markets, through which we can accelerate our development of digital content business.

***Customers and Usage***

Our mobile customer base has grown from approximately 848.9 million at the end of 2016 to approximately 887.2 million at the end of 2017. As of March 31, 2018, our total number of mobile customers reached approximately 899 million, and our 4G customers reached approximately 672 million. Our total number of wireline broadband customers achieved a substantial growth from 77.6 million by the end of 2016 to 112.7 million by the end of 2017, and further reached approximately 124 million as of March 31, 2018. 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, Internet+, Digital China 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;

the implementation of our business strategy for the transformation to become an innovative integrated service provider;

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the introduction of new technologies, products and services with enhanced customer experience;

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

the further development of 4G industry chain, in particular the increasing availability of 4G handsets, especially smartphones, in the market which contributes to the increase in our 4G customer base;

the increasing prevalence of customers using multiple SIM cards; and

the higher customer demand for high speed Internet access.

However, due to the increasing mobile penetration rate and intensified competition among telecommunications operators and from competitors in related industries, our customer base may not continue to grow as fast as it has over the past few years, if at all. See Item 3. Key Information Risk Factors Risks Relating to Our Business The increasing competition from other telecommunications services providers and competitors in related industries and changes in the competitive landscape of the telecommunications industry in Mainland China may reduce our market share and decrease our profit margin.

Our total voice usage was 3,811.6 billion minutes in 2017, representing a decrease by 7.0% from 2016. Our SMS usage totaled 541.0 billion messages in 2017, a decrease by 0.3% from 2016. The decreases in our voice usage and SMS usage are mainly due to the substitution effect of Over The Top services, such as instant messaging, VoIP services, or audio or video content services delivered over the Internet.

Our total handset data traffic significantly increased to 12,569 billion megabytes in 2017, representing an increase of 121.3% from 2016. Our average handset data traffic per user per month reached 1,399 megabytes in 2017, representing an increase of 100.9% from 2016. The significant rise in our handset data traffic usage is primarily driven by our more comprehensive product offerings of mobile applications, robust network capabilities, enhanced customer service quality and increased efforts in precision marketing.

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

	<b>As of or for the year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Mobile Business</b>			
Customer base (in millions)	826.2	848.9	887.2
of which: 4G customer base (in millions)	312.3	535.0	649.5
Total voice usage (in billions of minutes)	4,220.8	4,100.2	3,811.6
Handset data traffic (in billions of megabytes)	2,494.6	5,680.7	12,569.3
Average minutes of usage per user per month (minutes) <sup>(1)</sup>	430	408	366

Average handset data traffic per user per month (MB) <sup>(2)</sup>	339	697	1,399
Average handset data traffic per 4G user per month (MB)	748	1,027	1,756
Average revenue per user per month (RMB) <sup>(3)</sup>	56.3	57.5	57.7
Average monthly churn rate (%) <sup>(4)</sup>	2.78	2.32	2.06
<b>Wireline Broadband Business</b>			
Customer base (in millions)	55.0	77.6	112.7
Average revenue per user per month (RMB) <sup>(5)</sup>	31.9	32.1	35.1
<b>IoT Business</b>			
Connections (in millions)	65	103	229

- (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 13 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 total handset data usage during the relevant year by the average number of handset data users during the year and (B) dividing the result by 12.

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- (3) Calculated by (A) dividing the revenue from mobile services during the relevant year by the average number of mobile customers during the year (calculated as the average of the numbers of customers at the end of each of the 13 calendar months from the end of the previous year to the end of the current year) and (B) dividing the result by 12. The revenue from mobile services in 2015, 2016 and 2017 is derived from our consolidated statements of comprehensive income for the years ended December 31, 2015, 2016 and 2017, respectively.
- (4) 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.
- (5) Calculated by (A) dividing the revenue from wireline broadband services during the relevant year by the average number of wireline broadband customers during the year (calculated as the average of the numbers of customers at the end of each of the 13 calendar months from the end of the previous year to the end of the current year) and (B) dividing the result by 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 to make and receive calls with a mobile phone at any point within the coverage area of our mobile networks. The services include local calls, domestic long-distance calls, international long-distance calls, domestic roaming and international roaming. Our voice usage services experienced a decrease due to a decline in total voice usage by 7.0% in 2017 from 2016, as a result of the substitution effect of Over The Top services and reduced voice tariff as a result of the cancellation of handset domestic long-distances roaming tariffs since September 1, 2017.

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 businesses include SMS and MMS, wireless data traffic services, wireline broadband services and applications and information services. In 2017, our data business revenue, which has become the primary driver for our revenue growth since 2016, increased by 24.9% from RMB394,937 million in 2016 to RMB493,350 million (US\$75,827 million). As a percentage of revenue from telecommunications services, our data services revenue increased to 73.8% in 2017 from 63.3% in 2016.

**SMS and MMS.** SMS refers to services that employ the existing network resources and the corresponding functions of mobile terminals to deliver and receive text 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. Our SMS usage decreased from 542.4 billion messages in 2016 to 541.0 billion messages in 2017, and our revenue generated from SMS and MMS decreased from RMB28,555 million in 2016 to RMB28,058 million (US\$4,312 million) in 2017 due to the substitution effect of Over The Top services.

**Wireless Data Traffic Services.** Our wireless data traffic business primarily includes handset data traffic services. Revenue generated from our wireless data traffic business reached RMB364,906 million (US\$56,085 million) in 2017, compared to RMB288,178 million in 2016, representing 54.6% of revenue from telecommunications services.



Our handset data traffic service is a service that we provide to our customers that enables mobile access to the Internet through 2G, 3G or 4G networks via handsets. We experienced significant growth in handset data traffic service in 2017 driven by our more comprehensive product offerings of mobile applications, robust network capabilities, enhanced customer service quality and increased efforts in precision marketing. Our handset data traffic reached 12,569 billion megabytes in 2017, significantly increased from that of 5,681 billion megabytes in 2016.

*Wireline Broadband Services.* Our wireline broadband business offers primarily the wireline broadband data traffic service, including household broadband services and Internet dedicated lines for corporate customers. Revenue generated from our wireline broadband business increased to RMB39,731 million (US\$6,107 million) in 2017, representing an increase by 55.1% from RMB25,618 million in 2016, and the average revenue per user per month increased from RMB32.1 in 2016 to RMB35.1 in 2017. In 2017, we maintained our position as the second largest telecommunications operator in terms of wireline broadband customer base in Mainland China.

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*Applications and Information Services.* Our applications and information services include network resources services, mobile applications and IoT. Revenue generated from our applications and information services reached RMB60,655 million (US\$9,323 million) in 2017, compared to RMB52,586 million in 2016.

Our network resources services mainly include IDC services and voice and data dedicated line services. Our IDC services refer to our server hostage, bandwidth leasing and other network infrastructure services, and our dedicated line services refer to our data and voice services provided through exclusive lines to corporate customers.

We closely monitor and follow the industry trend in our development of applications and information services, and have extended our business into various emerging areas, such as IoT, home digital services, mobile payment, digital contents and other services. We have established several specialized companies, including, among others, China Mobile IoT Company Limited, China Mobile Internet Company Limited and MIGU to focus on these areas. In 2017, we advanced the application of IoT in aspects such as urban management, smart transportation and industrial control, and have developed standardized IoT products including home security services, automobile fleet management services and remote surveillance. We also established centralized public IoT networks with IoT connections reaching 229 million, which is the largest dedicated network for IoT in the world in terms of the number of connections. Our home digital services include high-definition video-on-demand services provided through Mobaihe set-top box, Smart Home Gateway, and-Mu family surveillance camera and IMS fixed line services. Subscribers to Mobaihe reached 57.25 million at the end of 2017, compared to 22.8 million at the end of 2016. Moreover, in 2017, our mobile payment service and-Wallet exceeded RMB2.1 trillion in transaction value, significantly increased from that of RMB1 trillion in 2016. We also promoted our and-Video service, which provides streaming media and video-on-demand on mobile, and and-Reading service, which offers a mobile-based platform of digital books and magazines. We will continue to promote our digital services, explore new growth drivers, further advance our the market-orientated innovation, so as to strengthen our position in the competitive digital landscape.

Please see Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended December 31, 2017 Compared to Year Ended December 31, 2016 and Item 5. Operating and Financial Review and Prospects Results of Operations Year Ended December 31, 2016 Compared to Year Ended December 31, 2015 for more information about our service revenue.

## ***Tariffs***

Our tariffs are subject to regulation by various government authorities, including the MIIT, the NDRC and the relevant price regulatory authorities in Mainland China. The MIIT has continued encouraging mobile operators in Mainland China to implement the caller-party-pays regime, and mobile 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 May 2014, the PRC regulators further promulgated policies to permit mobile services providers to set the tariffs of all telecommunications services. Our international roaming usage charges are set in accordance with agreements with the relevant foreign mobile operators.

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 rate and increased competition, in order to remain competitive in terms of price and performance with other mobile operators we provide certain discounts and promotional offers in and during certain service areas and call periods targeting various customers.

In 2013, we introduced mix-and-match plans, which allow our customers greater flexibility in customizing the voice, data traffic and applications components of their plans. For middle-to-high-end customers, we created a single price plan for local, domestic long-distance and roaming calls. In 2014, we introduced new 4G mix-and-match plans and actively sought to reduce the unit price for international roaming. We introduced RMB3/6/9 per 3 megabytes international roaming plans and RMB30/60/90 per day unlimited international data traffic plans and also expanded our 4G international roaming services. In 2015, we promoted the restructuring of tariff plans and launched innovative services such as corporate-sponsored data tariff plans and data traffic sharing service. In 2016, in response to the PRC government's Belt and Road Initiative, we extended the RMB30/60/90 per day unlimited international data traffic plans to various countries or regions covered by the Belt and Road Initiative and launched the Belt and Road multi-country international data package. In 2017, we further lowered the voice and data roaming tariffs in the relevant countries and regions.

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Since May 2015, in response to the expectations of the general public and customers and in order to implement the relevant national policy, we, in addition to continue enhancing network capacity and increasing network speed, launched customized voice and data tariff plans at lower rates to meet a variety of customer needs, particularly, to reduce the tariffs for out-of-plan data usage and international roaming in certain countries and regions. With respect to our data traffic tariff, we launched an unused data traffic carry-over program for our mobile monthly plans that are charged based on pre-determined data traffic, according to which customers could carry over their monthly plan's remaining unused data traffic to the following month in October 2015. In May 2017, we rolled out a series of preferential data traffic plans as one of our tariff reduction measures.

In addition, we took an orderly and balanced approach in reducing voice tariff. In August 2015, we cancelled the domestic long-distance and roaming tariffs for voice services within the tariff zones of Beijing Municipality, Tianjin Municipality and Hebei Province so that our customers are only charged with local usage tariff for our voice services provided within the tariff zones. Similarly, we extended the same tariff policies to the tariff zones of Sichuan Province and Chongqing Municipality in October 2016. In 2017, in furtherance of the speed upgrade and tariff reduction policy, we cancelled all handset domestic long-distance and roaming tariffs since September 1, 2017 and reduced international long-distance call tariffs. Additionally, as a result of our efforts in cooperation with overseas telecommunications operators, our international roaming tariffs further decreased in 2017. These measures have had certain adverse impact on our financial condition and results of operations, resulting in decreases in the overall tariffs of our data traffic services and voice services in 2016 and 2017, respectively, as compared to those in previous years.

In March 2018, the PRC government announced additional policy requirements relating to network speed upgrade and tariff reduction, including, among other things, to achieve full coverage of high-speed broadband in urban and rural areas, to expand free Internet access in public places, to significantly reduce the tariffs of household broadband and Internet dedicated line services, to cancel domestic data roaming charges, namely, to unify the charges for data consumed within and outside of the province of the customers' residence, and to reduce handset data traffic tariff by at least 30% in the year of 2018. Accordingly, we will introduce measures in due course to implement these policy requirements. We may be required to further adjust our tariff under the speed upgrade and tariff reduction policy or implement other similar policies to be issued by the PRC government in the future.

The reduction in tariffs as a result of these measures, on the one hand, has had, and we expect that it will continue to have, adverse impact on our financial condition and results of operations. See Item 3. Key Information Risk Factors Risks Relating to Our Business Our tariff reduction and future policy developments in the telecommunications industry in relation to tariff reduction may continue to adversely affect our financial conditions. On the other hand, we have implemented a number of measures to enhance our data traffic operations in response to the speed upgrade and tariff reduction initiatives. For example, in our efforts to enhance customer experience, we continued to increase our network speed. We believe these initiatives will, in the long run, facilitate the transformation of our business model to focus on data traffic and digital services.

For our wireline broadband services and applications and information services, we determine tariffs mainly according to market conditions.

## ***Interconnection***

Interconnection refers to various arrangements that permit the connection of our networks to other mobile or fixed-line networks. These arrangements provide for the sharing and settlement of revenues from the base usage charges and, if applicable, roaming charges and long-distance charges.

Under the current telecommunications regulations, parties seeking interconnection must enter into an interconnection agreement. 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. The applicable regulations provide that interconnection related equipment must conform to the technical standards approved by the MIIT. See Regulation Technical Standards below.

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Our interconnection arrangements with other telecommunications operators enable our subscribers to communicate with the subscribers of those operators through making and receiving local, domestic and international long-distance calls. Each of our operating subsidiaries has interconnection agreements with those operators in its service area. The economic terms of these agreements are generally standardized from province to province.

The MIIT has made adjustments to the public telecommunications network interconnection settlement standards of basic telecommunications operators in Mainland China. With effect from January 1, 2014, when mobile users of China Telecom and China Unicom in Mainland China and our mobile users in Mainland China (excluding TD-SCDMA users with specified prefix numbers of 157 and 188) make calls to each other, the settlement charges payable by China Telecom and China Unicom to us were adjusted from RMB0.06/minute to RMB0.04/minute, while the settlement charges payable by us to China Telecom and China Unicom remained at RMB0.06/minute. The MIIT will assess the above interconnection settlement policy once every two years based on the development conditions of the telecommunications market and will make adjustments when appropriate. The interconnection settlement policies for TD-SCDMA remain unchanged, meaning that when mobile users of China Telecom and China Unicom in Mainland China and our TD-SCDMA users with specified prefix numbers of 157 and 188 make calls to each other, the settlement charges payable by China Telecom and China Unicom to us are RMB0.06/minute, and the settlement charges payable by us to China Telecom and China Unicom are RMB0.012/minute. When users of different basic telecommunications operators in Mainland China send SMS or MMS to each other, the settlement charges for SMS were adjusted from RMB0.03/message to RMB0.01/message, and the settlement charges for MMS were adjusted from RMB0.10/message to RMB0.05/message.

***Roaming***

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

A mobile customer using domestic roaming services is charged at our roaming usage charges or, for outgoing international long-distance calls, international long-distance charges. A mobile customer using international roaming services incurs 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. For example, since 2015, we reduced the international data roaming charges in certain countries and regions and cancelled the domestic long-distance and roaming charges for voice services within the tariff zones in Beijing-Tianjin-Hebei and other designated regions and the tariff zones in Sichuan Province and Chongqing Municipality. We cancelled all handset domestic long-distance and roaming tariffs since September 1, 2017. In addition, we further lowered our international roaming charges since 2016 in response to customers' expectation, and our international roaming voice usage increased. See Tariffs.

In December 2016, we initiated the Hand-in-Hand Program, a cooperation program among international telecommunications operators to jointly enhance network functionality and interconnection, aiming at delivering better international roaming experience for customers.

***Research and Development***

Our research and development, or R&D, functions are undertaken jointly by our research institute, research centers in Suzhou and Hangzhou and other relevant business units. The responsibilities of our research institute include defining our network and technology evolution roadmap, supporting the operation of existing networks and services, engaging in international standard setting activities and defining corporate specifications, leading the development and field

testing of new products and services, procurement testing and certification of network devices, mobile terminals and information technology systems.

We also work closely with industry partners for R&D in various areas, such as telecommunication, business service, Internet, IoT, smart home services, digital content and industry applications. In November 2017, we announced the 1-3-9 Cooperative Initiatives, which promote (i) an IoT network with extensive coverage and advanced technologies; (ii) three industry alliances including IoT, home digital business and 5G; and (iii) nine capabilities applications in furtherance of industry development, including our communication capacity open platform, which served more than 130,000 enterprises as of December 31, 2017, our unified authentication platform, which processed an average of more than 500 million accreditations per day in 2017, and our OneNET platform, an open IoT platform launched in 2014 intended to nurture the IoT ecosystem, which connected 33 million devices.

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In 2017, our main R&D efforts were focused on a number of aspects:

***Improving Networks and Services.*** In 2017, we optimized 3D-MIMO performance as a part of upgrading our 4G network. We also strengthened our R&D efforts in order to lay the groundwork for the transition to Network Function Virtualization, or NFV, and software defined network, or SDN. We refined the NovoNet target architecture of the next generation network, devised the overall technical requirements of Telecom Integrated Cloud, or TIC, and streamlined the overall structure, deployment strategy and recommendations of NFV/SDN. We completed the NovoNet trial network (Phase II) and tested the decoupling of three layers in NFV architecture.

***Setting Technical Standards and Promoting Industry Development.*** In 2017, we actively promoted 5G-related standard-setting initiatives by participating and collaborating with international organizations, such as the 3rd Generation Partnership Project, or 3GPP, the International Telecommunication Union and the Next Generation Mobile Networks, where we led the formulation of 5G core network architecture standards. In December 2017, we completed the first edition of international standard for 5G system architecture. Furthermore, we presented our vision of next generation networking transformation at international conferences and technology forums on multiple occasions and demonstrated VoLTE high definition audio and video service life cycle management based on end-to-end NFV/SDN orchestration. Additionally, we, together with AT&T, set up the NFV/SDN open source community.

***Building Independent R&D Capabilities in Cloud Computing and Big Data.*** In order to deepen the top-level design of the information technology systems and to promote the maturity of independently developed products, we formulated plans for the construction and evolution of enterprise-level big data centers, data control and professional operations, improved the independent R&D product lines in the areas of cloud computing and big data, strengthened the application of relevant products and realized the independent integration of cloud services to the general public.

***Advancing Development of Artificial Intelligence Platform.*** In November 2017, we commenced the construction of an artificial intelligence platform and launched the open platform *Jiu Tian*, which aims to facilitate the application of deep learning and artificial intelligence in market operation, network connection and customer services.

### ***Sales and Customer Services***

We continue to optimize our customer service system that separate front- and back-line services and have established sales and services channels tailored to the needs of customers by providing electronic and mobile Internet channels.

***Sales Channels.*** We offer our services through an extensive network of proprietary sales outlets, retail outlets and electronic sales and marketing channels. Our proprietary sales outlets, in addition to providing retail sales and network connection services, also offer differentiated services to customers, including, among others, billing information and payment collection, services consultation and sale of terminals. Most of our proprietary sales outlets provide training and service demonstrations to retail outlets, which, in turn, offer our services to customers according to agency agreements with us. In connection with these sales, all applicable fees payable after initial connection are paid to us. Our electronic channels offer services 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. In addition, 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 products which cater to the specific



needs of different customer groups to increase awareness of our brand and products and maintain our customer base. Our marketing efforts focus on retaining middle-to-high-end customers. We have developed products, service packages and advertising and distribution channels unique to certain groups of customers, such as corporate customers and customers in the rural areas. With respect to corporate customers, we have focused on key services such as voice and data dedicated lines and IDC services, built a network-wide coordinated sales system targeting major corporate customers and have developed product series targeting corporate customers in key industries, such as public administration, finance, transportation, education, healthcare and agriculture. In terms of customers in the rural areas, in order to lower the barrier of using mobile phones, we have encouraged handset producers to introduce inexpensive handsets with moderate functions.

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**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. Our main strategy in retaining customers is to continue to implement our customer classification, customer bonus points program and customer club program. We classify our customers according to their level of value contribution and match them with differentiated service resources according to their level, with higher-level customers enjoying premium services. Our customer bonus points program is an important measure to this end, under which customers receive bonus points based on their service consumption and loyalty. Customers may exchange their accrued bonus points for tariffs, data and other benefits. Customer club program offers certain membership privileges taking into account customers' demand, our marketing focuses, as well as internal and external resources available to us.

In 2017, we continued to optimize our customer service processes through efforts such as improving service quality at our sales outlets, 10086 hotline and online portal, in particular our online-based customer service. We have actively promoted electronic channels, including expanding the scope of services provided through our electronic channels and shortening the processing time at the electronic channels. In addition, we implemented service measures such as increasing transparency in the billing process, inquiry and data services unsubscription function through SMS to ensure our customers would be fully informed of the payments they would make. We continued to block spam SMS and malicious software for our customers. Our ongoing improvement in customer services resulted in broader customer satisfaction in 2017.

**Service Quality.** We strive to improve the quality of our services through improvements in the quality of our infrastructure network and customer perception. In 2017, we continued to upgrade our service quality management system and created a transparent and secure communication platform. In particular, we started to integrate customer services resources to our 10086 customer service hotline operation, which increased our service efficiency and overall hotline connection rate. We have also improved our business support capabilities, especially in the areas of billing and data business subscription support.

Additionally, we have devoted significant resources to network security to implement high standards of data privacy protection for our customers, aiming at creating a secure communication platform for our customers. We introduced resilient and protected features, such as our anti-fraud system utilizing big data technology and anonymization of personal data, so as to strictly protect the privacy of our customers. We implemented policies and procedures that target phishing, spam SMS and malware in order to reduce the spam, improper SMS and malware transmitted to our customers. We also implemented measures such as adopting the real-name registration system, refining our service process, providing instant channels to report spam and fraud, for purpose of early detection of, and quick response to, fraud. Our security solution against telephone scams in 2017 was awarded as the WSIS (World Summit on the Information Society) Champion project by International Telecommunication Union.

**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 identity and information checks during the customer registration procedures to assist in credit control. 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 customer will be subject to late payment fees for amounts overdue and subject to account deactivation if the customer's account remains overdue. As a majority of our existing customers pre-pay for our services, we have limited credit risk exposure to our customers. We make an impairment loss for doubtful accounts based on our assessment of the recoverability of accounts receivable.



**Table of Contents*****Corporate Social Responsibility and Sustainable Development***

We are committed to fulfilling our responsibilities to stakeholders and proactively pursuing shared and sustainable development with stakeholders while striving to contribute to the achievement of the Sustainable Development Goals for 2030. We have focused on energy conservation and environmental protection in many aspects of our operations. We furthered our Green Action Plan and realized a reduction in overall energy consumption per unit of information flow by 40% in 2017 compared to 2016. We have also actively promoted the application of new technologies in pollution prevention, control and monitoring and devoted to offering innovative solutions towards the development of environment-friendly industries. Through our China Mobile Charity Foundation, we continued to carry out philanthropic activities such as poverty alleviation and education support. We have cumulatively sponsored treatments for 4,498 children in poverty diagnosed with congenital heart disease, and provided trainings to approximately 104,000 principals of rural primary and secondary schools in villages in central and western China.

In 2017, we were listed in the Dow Jones Sustainability Indices for the tenth consecutive year and were also listed in the Hang Seng Corporate Sustainability Index Series for the eighth consecutive year. In 2017, we were still the first and the only company from Mainland China named on the Global Carbon Disclosure Project's Climate A List and were awarded Climate Leadership Award by Carbon Disclosure Project China for the fourth consecutive year.

***Terminals***

Our 4G services based on TD-LTE technology have been developing rapidly, and the quality and value of TD-LTE models continue to improve. Since launching our TD-LTE services, we have focused on the development of multi-mode, multi-band terminals, low-cost TD-LTE terminals and terminals with 4G+ new technology, as well as self-branded terminals. In 2017, we launched two models of self-branded smartphones, namely A3 and A3s. A3 is an entry-level VoLTE-compatible phone priced at RMB499 per unit. A3s, priced at RMB799 per unit, supports fingerprint identification. To expand our global presence, we have built China Mobile Global Device Alliance cooperated with overseas customers (mainly including those in Asia and Europe) and domestic vendor partners and launched 16 models of terminal products. In 2018, we plan to develop six to seven 4G+ self-branded smartphones, including N series terminals, all of which will be VoLTE-compatible and support upper stream 64QAM. NFC and RCS technologies will be adopted in the N series, targeting the mid-level market. In terms of overseas market, we plan to launch international terminal product portfolio to explore opportunities in international terminal markets, with a focus on smart devices. We have devoted ourselves to promoting the long-term development of the 4G terminal supply chain and have focused on the sales of 4G terminals, which strongly drove growth in data traffic.

***Information Systems***

Our information systems primarily consist of a network management system, a business 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 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 hold rights to various trademarks and other intellectual property rights necessary to conduct our business. We actively pursue the filing and registration of trademarks within Mainland China and abroad.

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. In December 2017, we entered into a trademark license agreement, or the 2018 Trademark License Agreement, to replace the trademark license agreement that we entered into on January 1, 2013, or the 2013 Trademark License Agreement. Under the 2018 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. The term of the 2018 Trademark License Agreement shall be five years, effective from January 1, 2018 and expiring on December 31, 2022. No license fee is payable by us to CMCC during the term of the 2018 Trademark License Agreement.

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In 2013, we unveiled our new corporate logo. The new logo has been registered as a trademark in Mainland China, Hong Kong, Macau, Taiwan, United Arab Emirates, Peru and Saudi Arabia and an application as a trademark under the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks has been approved in the United Kingdom and the United States. In addition, individual applications have been filed in 16 countries and an application as a trademark under the Protocol Relating to the Madrid Agreement has been filed in 45 countries.

### ***Mobile Networks***

We offer mobile services using the GSM standard, which is a pan-European mobile system based on digital transmission and mobile network architecture with roaming capabilities. This standard is also referred as the 2G standard. Each of our GSM networks consists of base stations, base station controllers, mobile switching centers, transmission lines and software applications. 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.

We also offer mobile services using the TD-SCDMA standard, or the 3G standard. We operate our 3G business based on an Internet Protocol based core network that is shared by our 2G, 3G and 4G services as well as the TD-SCDMA network capacity leased from CMCC.

On December 4, 2013, the MIIT granted to CMCC, China Telecom and China Unicom permission to operate TD-LTE businesses, and CMCC received permission to operate a TD-LTE business through us. Subsequently, we launched our TD-LTE business. 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 use the TD-LTE network to primarily carry high-bandwidth and high-quality wireless broadband businesses. In 2017, we further improved the performance of our 4G network by fixing the interference of atmospheric waveguide and optimizing 3D-MIMO performance, and continued to promote the standardization of VoLTE international roaming services. Furthermore, we grew our content delivery network to cover 340 cities and launched Narrowband Internet of Things, or NB-IoT, in 346 cities, achieving end-to-end scale commercial use. As of March 31, 2018, the number of 4G customers reached approximately 672 million. On April 3, 2018, the MIIT granted to CMCC permission to operate a LTE FDD business through us. In addition, we have been providing 4G services in Hong Kong since 2012 with the LTE FDD and TD-LTE bandwidths we previously obtained from the Office of the Telecommunications Authority of Hong Kong.

Our customers currently use our 2G services, our 3G services, our 4G services, or all of them. 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. 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.

***Spectrum.*** A mobile network's capacity is to a certain extent limited by the amount of frequency spectrum available. 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 network operator based on the bandwidth of the frequency used.

Since July 2017, spectrum usage fees were no longer charged based on different generations of telecommunications but on the particular frequency bands used. Meanwhile, the NDRC and the MOF adjusted the fees charged for each frequency band. The annual rate for frequency band below 960 MHz was reduced from RMB17 million to RMB16 million per MHz while the annual rate for 960 MHz to 2,300 MHz frequency bands was reduced from RMB15 million to RMB14 million per MHz. Additionally, the annual rate for frequency band above 2,300 MHz was adjusted from RMB12 million to RMB 8 million per MHz.

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Our network expansion and optimization plans depend to a large extent upon the availability of sufficient spectrum. For our GSM network, the MIIT has allocated a total of 45x2 MHz of spectrum in the 900 MHz and 1,800 MHz frequency bands to be used nationwide for transmission and reception to our parent company, CMCC. 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. In connection with our 4G business, the MIIT has allocated to CMCC, in various frequency bands, a total of 145 MHz of spectrum to be used for nationwide coverage, including 20 MHz of spectrum previously allocated for use by our 3G business for outdoor coverage and 50 MHz of spectrum previously allocated for use by our 3G business for indoor coverage. In addition, CMCC is applying to the MIIT to reform its spectrum by reallocating the frequencies initially allocated to 2G services to LTE FDD services. Under the existing agreement between CMCC and us, we have the right to use CMCC's allocated frequency spectrum in Mainland China.

***Transmission Infrastructure.*** The physical infrastructure linking our network components and interconnecting our networks to other networks consists of transmission lines, which provide the backbone infrastructure through which voice and data traffic is carried. We have directed efforts to establishing high-speed backbone transmission network and improving its overall transmission capabilities. As of December 31, 2017, the bandwidth of our backbone network has expanded by 52% as compared to December 31, 2016.

***Leased Lines.*** The MIIT 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. 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.

***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 or towers are often constructed for locating base stations. In 2017, we focused on constructing 4G base stations and put in use 0.37 million additional 4G base stations, increasing the total number of stations to 1.87 million, covering 99% of the total population in China. We utilize the telecommunications towers from China Tower to construct our base stations.

***Equipment Suppliers.*** We select our principal suppliers from leading international and domestic manufacturers of mobile equipment and in accordance with technical standards set by the MIIT. In 2017, we purchased our networks equipment primarily from Huawei Technologies, ZTE Corporation, Nokia, FiberHome and Ericsson.

***Fixed-Line Networks***

We operate fixed-line networks which provide extensive coverage in China. These networks are technologically advanced and conducive to the introduction of the next generation fixed-line networks. These networks support a wide range of end-to-end fixed-line telecommunications services and enable customized products to be delivered to meet a variety of telecommunications needs.

Our fixed-line networks consist of fixed-line telephone networks, broadband Internet and data networks, transmission networks, value-added service platforms, information technology support systems and related infrastructures. Our transmission networks consist primarily of fiber-optic based networks, which cover our major service regions, supplemented by satellite transmission and digital microwave links. As of December 31, 2017, customers with fiber access exceeded 98% as a percentage of our total household broadband customers.



***Investments and Acquisitions***

As of December 31, 2017, Guangdong Mobile, our wholly-owned subsidiary, held a 18.18% equity interest in the issued share capital of SPD Bank as a result of shares issued to certain other shareholders. SPD Bank is a joint-stock commercial bank incorporated in the PRC, with its shares listed on the Shanghai Stock Exchange. We and SPD Bank entered into a strategic cooperation agreement in November 2010, pursuant to which we and SPD Bank cooperate in the areas of internet finance and mobile payment businesses in Mainland China, as well as in the sharing of customer services and channels resources. Through such strategic cooperation, we and SPD Bank have issued China Mobile SPD Bank co-branded debit and credit cards, which support NFC, in 29 provinces in Mainland China. In January 2016, we renewed our strategic cooperation with SPD Bank and developed an and-Finance system to provide SPD Bank and our customers with payment, wealth management and financing services.

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In August 2012, CMC, our wholly-owned subsidiary, entered into a share subscription agreement with IFLYTEK, pursuant to which CMC would subscribe for 15% of the shares of IFLYTEK 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 IFLYTEK entered into a strategic cooperation agreement and, in December 2015, renewed the agreement to cooperate in various areas, including smart voice businesses, content-based businesses, customer services, basic telecommunications businesses and informatization of the telecommunications industry and other areas upon the parties' written agreement. As of December 31, 2017, CMC held a 12.90% equity interest in IFLYTEK.

In June 2014, China Mobile International Holdings Limited, or CMI Holdings, our wholly-owned subsidiary, entered into a share subscription agreement with True Corporation, a major national telecommunications provider in Thailand, pursuant to which CMI Holdings agreed to subscribe to ordinary shares of True Corporation representing, following the completion of the subscription, 18% of the total issued and outstanding shares of True Corporation, for a total consideration of Baht 28.57 billion (approximately RMB5.51 billion). The subscription was completed in September 2014. Also in June 2014, we entered into a cooperation memorandum, and, in September 2014, we entered into a strategic cooperation agreement with True Corporation to explore business cooperation opportunities in various areas, including products or value-added services or contents, international businesses, network, device procurement, general procurement and human resources. In June 2016, CMI Holdings subscribed for certain newly issued ordinary shares which were allocated to it in proportion to its shareholding percentage for a total consideration of Baht 10.8 billion (approximately RMB2.0 billion) during the capital increase of True Corporation. As of December 31, 2017, CMI Holdings held an 18% equity interest in True Corporation.

In May 2015, CMC, our wholly-owned subsidiary, entered into a partnership agreement with State Development & Investment Corp., Ltd., and China Mobile Fund Management Co., Ltd., to establish China Mobile Fund to make investments in companies with growth potential which are engaged in the mobile Internet and related upstream and downstream businesses. Pursuant to such partnership agreement, CMC has made a capital commitment of RMB1,500 million (approximately US\$231.6 million) and became a limited partner of China Mobile Fund. As of December 31, 2017, CMC had contributed RMB759 million to China Mobile Fund and has a commitment to make further investment in an amount of RMB741 million upon the request by China Mobile Fund.

In November 2015, CM TieTong, our wholly-owned subsidiary, acquired Target Assets and Businesses of China TieTong, for a final consideration of RMB31,967 million (approximately US\$4,934.9 million). Target Assets and Businesses acquired include approximately 99,000 cable kilometers of nationwide backbone networks, approximately 1,822,000 cable kilometers of metro fiber, approximately 24.71 million IPv4 addresses, 1,814 real properties and 685 land assets, approximately 11.98 million customers of fixed broadband services, and approximately 18.29 million customers for wireline services. The acquisition was completed in December 2015. Because we and Target Assets and Businesses were under common control of CMCC both prior to and after the acquisition, the acquisition was considered as a business combination under common control and was accounted for using merger accounting in accordance with AG 5 issued by the HKICPA. Target Assets and Businesses were stated at their historical cost, and were included in the consolidated financial statements included in this annual report on Form 20-F as if Target Assets and Businesses had always been part of our company during all the periods presented. In 2017, partially due to the benefit from the integration and synergy brought by CM TieTong, our wireline broadband services experienced a rapid growth in both revenue and market share. See [Businesses Data Business](#). We expect that our acquisition of Target Assets and Businesses will further facilitate our transformation into a full-service operator offering both wireline broadband and mobile services, enable us to seize the opportunities in the wireline broadband market, expand our customer base, offer an integrated services consisting of the fixed-line and the mobile services, and increase our wireline broadband network capacity, coverage and efficiency through an integrated network.

In March 2016, CMC, our wholly-owned subsidiary, entered into a joint venture agreement with China Merchants Group to establish ShiJinShi Credit Information Services Co. Ltd., in Qianhai, Shenzhen of China with a registered capital of RMB300 million, in which we held a 42% equity interest. As of December 31, 2017, we had contributed RMB63 million (approximately US\$9.7 million) to the joint venture. The joint venture is intended to provide credit reporting services and products for individuals, utilizing our competitive strengths in big data.

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***Competition***

We compete with other market players in the telecommunications and related industries.

We are one of the three licensed telecommunications services providers in Mainland China. The PRC government encourages orderly and fair competition in the telecommunications industry in Mainland China. 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 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. On November 27, 2015, CM TieTong entered into the Acquisition Agreement with China TieTong to acquire Target Assets and Business, which we expect will facilitate our transformation into a full-service operator offering both wireline broadband and mobile services. Having each operated a wireline broadband services business for a number of years, China Telecom and China Unicom have advantages in terms of wireline broadband services.

In the area of basic telecommunications services, the PRC government has begun to allow operators approved by the MIIT to lease and repackage mobile services for sale to end-customers on a trial basis and we may face increasing competition from these new mobile network operators. Furthermore, in light of our recent permission to provide 4G services based on LTE FDD technology, we expect that the competition will intensify in the delivery of 4G services against China Telecom and China Unicom, which operate their 4G services based mainly on LTE FDD technology for several years. Furthermore, in January 2016, China Unicom and China Telecom entered into a strategic cooperation agreement to promote resource-sharing between the two companies. The areas of strategic cooperation include sharing capital expenditures such as their new rural 4G network, promoting a new smartphone standard, and jointly negotiating international roaming rates. Such cooperation may significantly change the competitive landscape of the telecommunications industry in Mainland China.

We also face a variety of competition from competitors in related industries, generally Internet service providers and technology companies. They compete against us in both voice and data businesses by offering mobile Internet access and Over The Top services, such as instant messaging, VoIP services, or audio or video content services delivered over the Internet. As we diversify our offerings to become a full-service provider, we also compete with them in emerging business, including home digital services, mobile payment, IoT, smart home services, streaming media and on-demand video and other digital content business.

See Item 3. Key Information Risk Factors Risks Relating to Our Business The increasing competition from other telecommunications services providers and competitors in related industries and changes in the competitive landscape of the telecommunications industry in Mainland China may reduce our market share and decrease our profit margin and Item 3. Key Information Risk Factors Risks Relating to Our Business Current or future asymmetrical and other regulatory measures adopted by the PRC regulatory authorities could materially harm our competitive position or

enhance competition in the telecommunications industry.

***Regulation***

The 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 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.

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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 will be the ultimate nature and scope of the telecommunications law.

On December 25, 2015, the MIIT issued the Catalog of Telecommunications Services (2015 Edition), which became effective on March 1, 2016. It sets out classifications of various telecommunications services for regulatory and licensing purposes.

***Entry into the Industry.*** Under the current regulations, operators of mobile 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 services in all provinces, directly-administered municipalities and autonomous regions in China.

Pursuant to China's commitments under the World Trade Organization 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 February 2016, 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.

The MIIT has promulgated the Administrative Measures for the Licensing of Telecommunication Business Operations, which became effective on September 1, 2017. Those regulations apply to the application for, approval of, use and management of telecommunications business licenses in the PRC.

The PRC government implemented a number of measures that permit certain operators approved by the MIIT to lease telecommunications infrastructure and repackage mobile services for sale to end-customers. On May 17, 2013, the MIIT announced that it would accept applications from non-State-owned companies to, on a trial basis, lease mobile services from China Unicom, China Telecom or us and provide mobile services to end-customers after repackaging these services. The trial period ended on December 31, 2015. On January 24, 2018, the MIIT released a notice for public comment regarding the conversion of pilot license to an official license for the mobile services leasing and repackaging. On May 5, 2016, the MIIT officially issued a telecom license to China Broadcasting Network Ltd, making it the nation's fourth telecommunications operator. In 2016, the MIIT also approved certain operators to reform

their respective frequency spectrum used for 2G and 3G services to provide 4G services.

**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 addition, a user of numbering resources is required to pay a usage fee to the PRC government by the 10<sup>th</sup> day of the first month of each quarter. Moreover, under the applicable regulations, mobile companies are required to pay an annual usage fee of RMB6 million for each network number.

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**Technical Standards.** Certain regulatory authorities in Mainland China, including the MIIT, set technical standards and control the type, quality, manufacturing and sales of mobile 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 May 2017, the MIIT and the State-owned Assets Supervision and Administration Commission of the State Council jointly issued the 2017 Implementation Opinions on Promoting the Joint Construction and Sharing of Telecommunications Infrastructure, or the Opinions. First, the Opinions required supporting facilities for base stations, such as the telecommunications towers, and the indoor distribution systems for public transportation and buildings, shall generally be uniformly planned, constructed and delivered by China Tower, with the exception that certain facilities may be constructed by a telecommunications operator if serving only such operators' demand. The Opinions also set forth the sharing requirements in the construction of fiber access network. In newly built residential and commercial areas, certain national and local standards applicable to fiber access network construction should be strictly implemented. Telecommunication operators are prohibited from entering into any exclusivity arrangement with real estate developers or property management companies. In the upgrading of fiber access network for existing residential and commercial areas, telecommunication operators and relevant stakeholders must cooperate with each other to comply with the joint construction and sharing requirements. Moreover, with respect to transmission facilities, sharing and joint construction of transmission poles and pipeline is mandatory whenever conditions allow.

**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. The PRC government may amend the relevant regulations or promulgate new regulations in order to implement the Three-Network Convergence Policy. 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.

**Value-added Tax Reform Applicable to the Telecommunications Industry.** Effective from June 1, 2014, the PRC business tax was replaced with a value-added tax, or VAT, in the telecommunications industry. The pilot tax rates for basic telecommunications services, value-added telecommunications services and sales of products and others are 11%, 6% and 17%, respectively. According to Cai Shui [2018] No.32, the VAT at the rate of 11% currently applicable to our basic telecommunications services would be reduced to 10%, and the VAT at the rate of 17% currently applicable to our sales of products and others would be reduced to 16%, which shall come into effect on May 1, 2018.

Our output VAT is excluded from operating revenue while our input VAT, which is incurred as a result of our receipt of services and purchases of telecommunications equipment and materials, is excluded from operating expenses or the original cost of equipment purchased and can be netted against our output VAT, arriving at the net amount of VAT recoverable or payable. As the VAT obligations are borne by our branches and subsidiaries, input and output VAT are set off at branches and subsidiaries levels, and the net amount of VAT recoverable or payable of branches and subsidiaries are not offset at the consolidation level. Such net amount of VAT is recorded in the line item of prepayments and other current assets and accrued expenses and other payables, respectively on the face of



consolidated balance sheets.

We will strive to reduce the short-term adverse effect of the application of VAT to the telecommunications industry on our revenues and profits. Through various measures, including optimization of the development and sales and marketing models, implementation of enhanced management over cost, procurement and vendors' tax qualifications, obtaining more input VAT credits on capital expenditures, we may receive more input VAT credits to offset our VAT output tax obligation. Besides, we can optimize our revenue structure by actively promoting value-added telecommunications services, which are subject to a lower VAT rate. As a result, our overall VAT obligation could be further reduced.

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As the application of VAT was expanded to other industries nationwide from May 1, 2016, such as construction industry and other service industries, more capital expenditures and operating expenses, such as commission and service expenses for third parties, are entitled to input VAT credits, and in turn, further offset our VAT output tax obligations. We believe this will be beneficial to the development of our business and further reduce the adverse impact of the implementation of VAT on our operating revenues and profitability.

**Cyber Security.** We are subject to the Cyber Security Law, which came into effect on June 1, 2017. The Cyber Security Law sets forth an overarching framework regulating the network products, equipment, and services, as well as the operation and maintenance of information networks, protection of personal information, and supervision and administration of cyber security in Mainland China.

According to the Cyber Security Law, the Cyberspace Administration of China, or the CAC, has a central role in planning, coordination, supervision, and management of network security measures while the MIIT, the national public safety bureau, and other relevant authorities are in charge of network security protection, supervision and management within the scope of their respective responsibilities. China Mobile, as a critical information infrastructure operator as defined under the Cyber Security Law, is required to perform a security assessment when transferring personal information cross Chinese borders. Such requirements, among other things, could increase our compliance costs. While several related regulations, including the Security Review Method (Trial) and the Internet News Information Service Management Regulations, published by the CAC came into effect on the same day as the Cyber Security Law, the implementation of the Cyber Security Law is still at an early stage. The PRC government may amend the relevant regulations or promulgate new regulations to clarify and further implement the Cyber Security Law. Although we expect that the Cyber Security Law will have a positive effect on the overall development of the telecommunications industry and enhance information protection in Mainland China, we currently cannot predict the scope of any specific requirements that may be imposed on us and their implications for our operations under the Cyber Security Law and relevant regulations.

**Employees.**

As of December 31, 2015, 2016 and 2017, we had 438,645, 460,647 and 464,656 employees, respectively. Substantially all of our employees are located in Mainland China. The employees as of December 31, 2017 are classified in the following table. Approximately 62.9% of our permanent employees have college or graduate degrees. Set forth below is a breakdown of our employees by function as of December 31, 2017.

	<b>Number</b>	<b>% of Total</b>
Management	33,678	7.2
Technical	108,449	23.3
Marketing	262,807	56.6
General affairs	46,886	10.1
Other	12,836	2.8
Total	464,656	100.0

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 union. We have not experienced any strikes, slowdowns or labor disputes that have interfered with our operations during 2017. We believe we have built a harmonious relationship with our employees.

The number of labor sourced by third parties was 30,736 by the end of 2017.

**Property, 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 our present use.

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### **Disclosure of Iranian Activities under Section 13(r) of the Exchange Act**

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act. Section 13(r) of the Exchange Act requires an issuer to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction. Disclosure is required even where the activities, transactions or dealings are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable non-U.S. law, and whether or not the activities are sanctionable under U.S. law.

As of the date of this report, we are not aware of any activity, transaction or dealing by us or any of our affiliates in 2017 that requires disclosure in this report under Section 13(r) of the Exchange Act, except as set forth below.

CMCC, our parent company, is a party to international GSM roaming agreements with Telecommunication Kish Company and Mobile Company of Iran in Iran, which may be government-controlled entities. China Mobile International, one of our wholly-owned subsidiaries, is a party to international roaming agreements with Irancell Telecommunications Services Company, Mobile Company of Iran and Telecommunication Kish Company in Iran, which may be government-controlled entities. In 2017, our gross revenue generated by roaming traffic under these agreements was less than US\$500,000.

China Mobile International intends to, and we understand that CMCC intends to, continue these activities in the future.

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

Not applicable.

### **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.

#### **Financial Highlights**

Our operating revenue reached RMB740,514 million (US\$113,815 million) in 2017, representing an increase by 4.5% from 2016. The growth rate of revenue from our telecommunications services stood at 7.2%. Our revenue structure further improved in 2017. Revenue from wireless data traffic reached RMB364,906 million (US\$56,085 million) in 2017, which remained our largest revenue source and, on a full-year basis, accounted for more than half of the total telecommunications services revenue for the first time. Our profit attributable to equity shareholders reached RMB114,279 million (US\$17,564 million) in 2017, or basic earnings per share of RMB5.58. With a special dividend payment of HK\$3.200 per share to celebrate the 20th anniversary of our initial public offering, the total dividend payment for 2017 reached HK\$6.405 per share.

#### **Overview of Our Operations**

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

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Total voice usage (in billions of minutes)	4,220.8	4,100.2	3,811.6
Handset data traffic (in billions of megabytes)	2,494.6	5,680.7	12,569.3
Operating revenue (in RMB millions)	668,335	708,421	740,514
Operating expenses (in RMB millions)	565,413	590,333	620,388
Profit attributable to equity shareholders (in RMB millions)	108,539	108,741	114,279

In 2015, 2016 and 2017, our customer base continued to experience stable growth while our wireless data traffic business continued to experience rapid growth. Wireless data traffic remained the largest revenue source in 2017, surpassing the combined revenue of voice, SMS and MMS. Our total net increase in the number of mobile customers was 38.3 million in 2017 and our total mobile customer base reached 887.2 million as of December 31, 2017. Our total voice usage decreased by 2.9% in 2016 and decreased by 7.0% in 2017. Our handset data traffic increased by 127.7% in 2016 and by 121.3% in 2017. Our operating revenue increased by 6.0% in 2016 and by 4.5% in 2017. Our data business continued to grow, and our data services revenue accounted for 63.3% and 73.8% of our revenue from telecommunications services in 2016 and 2017, respectively. Our operating expenses increased by 4.4% in 2016 and by 5.1% in 2017. Our profit attributable to equity shareholders increased by 0.2% in 2016 and by 5.1% in 2017.

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The PRC economy continued to grow in terms of GDP by 6.9% in 2017, 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 operators and from providers offering telecommunications services using alternative technologies, in particular Internet service providers. As the mobile penetration rate in Mainland China exceeded 100% as of December 31, 2017, the mobile markets in some economically developed regions of Mainland China have showed 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, economic growth in the PRC and its modernization and urbanization offer an opportunity and platform for the ongoing development of the 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 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 market. See Item 4. Information on the Company The History and Development of the Company Expansion Through Acquisitions.

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 and Item 3. Key Information Risk Factors Risks Relating to Our Business Our tariff reduction and future policy developments in the telecommunications industry in relation to tariff reduction may continue to adversely affect our financial conditions. 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 Item 3. Key Information Risk Factors Risks Relating to Our Business The increasing competition from other telecommunications services providers and competitors in related industries and changes in the competitive landscape of the telecommunications industry in Mainland China may reduce our market share and decrease our profit margin, Item 3. Key Information Risk Factors Risks Relating to Our Business Changes in the technology and business models of the PRC telecommunications industry may render our current technologies and business model obsolete, and we may encounter difficulties and challenges in developing and implementing new technologies and services and Item 3. Key Information Risk Factors Risks Relating to Our Business Current or future asymmetrical and other regulatory measures adopted by the PRC regulatory authorities could materially harm our competitive position or enhance competition in the telecommunications industry. Our financial performance is also subject to the economic and social conditions in Mainland China. See Item 3. Key Information 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 business, financial condition, results of operations and 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.

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 is being gradually phased out.

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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. Since 2013, we have paid the leasing fees to CMCC for the Village Connect assets constructed before 2013 and undertaken the investments on any new Village Connect assets after 2013.

We have also 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. 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.

### ***Average Revenue Per User***

Our average revenue per mobile user increased to RMB57.7 in 2017 from RMB57.5 in 2016 due to our rapid growth in revenue from data services, partially offset by a decline in handset data traffic tariff. Our average revenue per wireline broadband user increased to RMB35.1 in 2017 from RMB32.1 in 2016.

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

The following discussion and analysis is based on our consolidated financial statements, which have been prepared in accordance with IFRSs for the years ended December 31, 2015, 2016 and 2017. 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, interest income, impairment loss for doubtful accounts, depreciation, impairment of property, plant and equipment, interest in associates, 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 is recognized when the service is rendered;
- (ii) sales of products are recognized when title passes to the buyer;
- (iii) for offerings that include the provision of services and the sale of mobile handsets, we determine revenue from the sale of the mobile terminals by deducting the fair value of the service element from the total contract consideration; and
- (iv) for transactions that offer customer points rewards when the services are provided, the consideration allocated to the customer points rewards is based on its fair value, which is deducted from revenue and recorded as deferred revenue when the rewards are granted and recognized as revenue when the points are redeemed or expire.

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**Table of Contents*****Interest Income***

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

***Impairment Loss for Doubtful Accounts***

We assess impairment loss for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables at each balance sheet date. Our estimates are based 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 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. We review the estimated useful lives and residual values of our assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. 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 2(g) 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 and Investments Accounted for Using the Equity Method***

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, other intangible assets subject to amortization and investments accounted for using the equity method 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 of disposal 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 estimation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in further impairment charge or reversal of impairment in future periods. No impairment of property, plant and equipment, interest in associates, goodwill and other intangible assets was recorded in 2015, 2016 and 2017, except for certain inefficient terminal transmission equipment and WLAN assets impairment in 2015 and inefficient 2G wireless network equipment. Details are set forth in notes 13, 16 and 18 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

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 2(i) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

*Classification of Leases*

We have a number of lease arrangements. We follow the guidance of IAS 17 Leases to determine the classification of leases as operating leases versus finance leases. Significant judgements and assumptions are required in the assessment of the classification. The determination of classification depends on whether the lease transfers substantially all the risks and rewards of the assets to us. In particular, during the assessment, the management estimates (i) economic lives of lease assets, (ii) the discount rate used in the calculation of present value of minimum lease payments, and (iii) the fair value of the leased assets. Any future changes to these judgements or assumptions will affect the classification and hence the results of operation and financial position of us.

**Table of Contents*****Possible Impact of Amendments, New Standards, Interpretations and Disclosures Issued but Not Yet Effective for the Year Ended December 31, 2017***

Up to the date of issue of our consolidated financial statements for the year ended December 31, 2017, the IASB has issued a number of amendments and new standards and interpretations which are not yet effective for the year ended December 31, 2017 and which have not been adopted by us.

Of these developments, the following relate to matters that may be relevant to our operations and consolidated financial statements:

	<b>Effective for accounting periods beginning on or after</b>
IFRS 9 Financial Instrument	January 1, 2018
IFRS 15 Revenue from Contracts with Customers	January 1, 2018
Annual Improvement to IFRSs 2014-2016 cycle*	January 1, 2018
IFRIC Int 22, Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRS 16 Leases	January 1, 2019
IFRIC Int 23, Uncertainty over Income Tax Treatments	January 1, 2019
Annual Improvement to IFRSs 2015-2017 cycle	January 1, 2019
Amendment to IFRS 10, Consolidated Financial Statements	To be determined
Amendment to IAS 28, Investments in Associates and Joint Ventures	To be determined

\* It included amendment to IFRS 12 which was effective in January 1, 2017 and does not have a material impact on the Group.

The implementation of IFRS 15 Revenue from contracts with customers, IFRS 9 Financial instruments and IFRS 16 Leases may require the Company to change its accounting and operational policies or restate its consolidated financial statements. The IASB issued IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments, which became effective from January 1, 2018, and IFRS 16 Leases, which shall become effective from January 1, 2019. The Company has analyzed the potential impact of the first-time application of these standards on its consolidated financial statements. For detailed information of our management's assessment and anticipation, see note 40 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

The IFRS 15 Revenue from contracts with customers standard specifies how and when the Company will recognize revenue as well as requiring the Company to provide users of financial statements with more informative and relevant disclosures. IFRS 15 requires the identification of the distinct deliverables in contracts with customers that qualify as separate performance obligations and the allocation of the transaction price receivables from customers to each performance obligation on relative stand-alone selling price basis. Upon the completion of the principal or agent analysis under the new standard, the Company will allocate the total consideration to each performance obligation, including telecommunications services, handsets and customer point rewards and other promotional goods or services. The current accounting policy for telecommunications services, handsets and customer points rewards is disclosed in note 2(r) to our consolidated financial statements included elsewhere in this annual report on Form 20-F, and

promotional items are accounted for as selling expenses under the existing treatment. Moreover, IFRS 15 requires customer acquisition cost to be capitalized as an asset and amortized on a systematic basis consistent with the pattern of the transfer of the goods or services to which the asset relates. The Company considers that certain types of sales commissions will be capitalized and amortized on a straight-line basis over the period under the new standards. The change will impact on the timing of the expense recognition.

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In accordance with the IFRS 9 Financial instruments standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, and a new impairment model for financial assets. Management anticipates the application of IFRS 9 will affect the classification and measurement of the Company's available-for-sale investments and have an impact on amounts reported in respect of the Group's wealth management products issued by banks and certain equity investments. There will be no impact on the Company's accounting for financial liabilities, and the Company expects no material impact on the loss allowance for the financial assets classified at amortized cost, contract assets under IFRS 15 Revenue from Contracts with Customers, trade debtors and certain other financial assets. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 16 Leases will result in almost all leases being recognized on the balance sheets, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and financial liabilities to pay rentals are recognized. Upon preliminary evaluation, given that the Company leases certain telecommunications facilities for time periods longer than a year, the application of IFRS 16 in 2019 is expected to have impact on the Company's consolidated financial statements to certain extent because present values of lease liabilities and leased assets will be recorded on the balance sheet when the standard is applied. Accordingly, the Company expects a corresponding increase in its assets and liabilities. In addition, related operating lease expenses will be reclassified as depreciation and finance costs.

As a result of the new IFRS standards, the Company might be required to change its accounting policies, to alter its operational policies so that they reflect new financial reporting standards, or to restate its published consolidated financial statements. Such changes may have an adverse effect on the Company's business, financial position and profit, or could cause an adverse deviation between the Company's revenue and operating result targets.

**Results of Operations**

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

	Year Ended December 31,					
	2015		2016		2017	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in millions of RMB, except percentage data)					
Operating revenue <sup>(1)</sup> :						
Revenue from telecommunications services	584,089	87.4	623,422	88.0	668,351	90.3
Revenue from sales of products and others	84,246	12.6	84,999	12.0	72,163	9.7
Total	668,335	100.0	708,421	100.0	740,514	100.0
Operating expenses:						
Leased lines and network assets	20,668	3.7	39,083	6.6	46,336	7.5
Interconnection	21,668	3.8	21,779	3.7	21,762	3.5
Depreciation	136,832	24.2	138,090	23.4	149,780	24.1
Employee benefit and related expenses	74,805	13.2	79,463	13.5	85,513	13.8
Selling expenses	59,850	10.6	57,493	9.7	61,086	9.8

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Cost of products sold	89,297	15.8	87,352	14.8	73,668	11.9
Other operating expenses	162,293	28.7	167,073	28.3	182,243	29.4
<b>Total</b>	<b>565,413</b>	<b>100.0</b>	<b>590,333</b>	<b>100.0</b>	<b>620,388</b>	<b>100.0</b>
Profit from operations	102,922		118,088		120,126	
Gain on the transfer of Tower Assets	15,525					
Other gains	1,800		1,968		2,389	
Interest income	15,852		16,005		15,883	
Finance costs	(455)		(235)		(210)	
Share of profit of investments accounted for using the equity method	8,090		8,636		9,949	
Profit before taxation	143,734		144,462		148,137	
Taxation	(35,079)		(35,623)		(33,723)	
Profit for the year	108,655		108,839		114,414	
<b>Attributable to:</b>						
Equity shareholders	108,539	99.9	108,741	99.9	114,279	99.9
Non-controlling interests	116	0.1	98	0.1	135	0.1
Profit for the year	108,655	100.0	108,839	100.0	114,414	100.0

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- (1) Our operating revenue components are revenue from telecommunications services and revenue from sales of products and others. Revenue from telecommunications services consists of voice services revenue, data services revenue and other revenue from telecommunications services. Revenue from sales of products and others is mainly derived from sales of SIM cards and terminals as well as revenue from construction contracts.

**Year Ended December 31, 2017 Compared to Year Ended December 31, 2016**

**Operating Revenue.** Our operating revenue components are revenue from telecommunications services and revenue from sales of products and others. Revenue from telecommunications services primarily 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 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 services, wireline broadband business and applications and information services. Other revenue from telecommunications services largely represents interconnection revenue. Revenue from sales of products and others is mainly derived from sales of SIM cards and terminals, as well as revenue from construction contracts. See note 1 to the table above.

Operating revenue increased by 4.5% from RMB708,421 million in 2016 to RMB740,514 million (US\$113,815 million) in 2017. This increase was primarily due to the growth in our data services.

Revenue from telecommunications services increased by 7.2% from RMB623,422 million in 2016 to RMB668,351 million (US\$102,724 million) in 2017. Voice services revenue decreased by 25.3% from RMB209,949 million in 2016 to RMB156,918 million (US\$24,118 million) in 2017. This decrease was principally due to the substitution effect of Over The Top services and reduced voice tariff as a result of the cancellation of handset domestic long-distance roaming tariffs. Our average voice services revenue per minute continued to reflect a downward trend from RMB0.050 in 2016 to RMB0.040 in 2017. With intensified market competition and further tariff decreases, our average voice services revenue per minute may continue to decline in future periods. In response to the downward trend in voice services revenue, we are providing reasonable tariff packages and undertaking sales and marketing activities. As a percentage of revenue from telecommunications services, voice services revenue decreased from 33.7% in 2016 to 23.5% in 2017.

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

	<b>Year Ended December 31,</b>		<b>Increase</b>	
	<b>2016</b>	<b>2017</b>	<b>(Decrease)</b>	<b>Change</b>
	<b>(Revenue, in millions of RMB, except percentage data) (%)</b>			
SMS and MMS	28,555	28,058	(497)	(1.7)
Wireless data traffic	288,178	364,906	76,728	26.6
Wireline broadband	25,618	39,731	14,113	55.1
Applications and information services	52,586	60,655	8,069	15.3
Data services revenue	394,937	493,350	98,413	24.9
	63.3%	73.8%	10.5	



Data services revenue as a percentage of  
revenue from telecommunications services

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Data services revenue increased by 24.9% from RMB394,937 million in 2016 to RMB493,350 million (US\$75,827 million) in 2017. This increase was mainly due to the expansion of our 4G network capacity and our increased efforts to promote data traffic services with reduced data tariff which attracted new customers. Furthermore, the widespread use of mobile applications also drove the increase in data usage. Our data business includes wireless data traffic, wireline broadband, SMS and MMS, and applications and information services. The growth of our revenue from handset data traffic in 2017 was partially offset by decreased handset data traffic tariff as a result of a series of preferential data traffic plans which we rolled out in May 2017. Revenue generated from wireline broadband business grew by 55.1% to RMB39,731 million (US\$6,107 million) in 2017, as compared to RMB25,618 million in 2016. Revenue generated from SMS and MMS decreased by 1.7% from RMB28,555 million in 2016 to RMB28,058 million (US\$4,312 million) in 2017 due to the substitution effect of Over The Top services, which resulted in a decrease in SMS usage from 542.4 billion messages in 2016 to 541.0 billion messages in 2017. Revenue generated from applications and information services increased by 15.3% to RMB60,655 million (US\$9,323 million) in 2017, as compared to RMB52,586 million in 2016. As a percentage of revenue from telecommunications services, data services revenue increased from 63.3% in 2016 to 73.8% in 2017.

Revenue from sales of products and others decreased by 15.1% from RMB84,999 million in 2016 to RMB72,163 million (US\$ 11,091 million) in 2017 mainly due to the decrease in our sales of 4G terminals because we encouraged customers to purchase handsets from open market channels.

**Operating Expenses.** Operating expenses include leased lines and network assets, interconnection expenses, depreciation expenses relating to our telecommunications network and other property, plant and equipment, employee benefit and related expenses, selling expenses, cost of products sold and other operating expenses. Other operating expenses primarily consist of network maintenance expenses, operation support and research and development expenses, power and utilities expenses, operating lease charges, assets impairment and written off, impairment loss of doubtful accounts and other miscellaneous expenses.

Operating expenses increased by 5.1% from RMB590,333 million in 2016 to RMB620,388 million (US\$95,352 million) in 2017. Among the operating expenses:

Leased lines and network assets expenses increased by 18.6% from RMB39,083 million in 2016 to RMB46,336 million (US\$7,122 million) in 2017. The increase was mainly attributable to the leasing fee we paid for using telecommunications towers, which increased to RMB36.9 billion (US\$5.7 billion) by 31.3% from 2016, partially offset by the decreases in network leasing fees for 3G network and Village Connect assets. As a percentage of operating expenses, leased lines and network assets expenses increased from 6.6% in 2016 to 7.5% in 2017.

Interconnection expenses in 2017 was RMB21,762 million (US\$3,345 million), which remained relatively stable compared to RMB21,779 million in 2016. Interconnection expenses as a percentage of operating expenses decreased from 3.7% in 2016 to 3.5% in 2017.

Depreciation expenses increased by 8.5% from RMB138,090 million in 2016 to RMB149,780 million (US\$23,021 million) in 2017. The increase was mainly because we maintained our investment level and expanded our network assets. As a percentage of operating expenses, depreciation expenses increased from 23.4% in 2016 to 24.1% in 2017.

Employee benefit and related expenses increased by 7.6% from RMB79,463 million in 2016 to RMB85,513 million (US\$13,143 million) in 2017. This increase was primarily due to our adjustment and optimization of compensation structure, enhanced incentives for junior employees, and an increase in the standards of social insurance. As a percentage of operating expenses, employee benefit and related expenses increased from 13.5% in 2016 to 13.8% in 2017.

Selling expenses increased by 6.2% from RMB57,493 million in 2016 to RMB61,086 million (US\$9,389 million) in 2017. This increase was principally the result of our increased efforts in precision marketing and promotion of emerging business in response to intensified competition in 4G and wireline broadband markets. As a percentage of operating expenses, selling expenses slightly increased from 9.7% in 2016 to 9.8% in 2017.

Cost of products sold decreased by 15.7% from RMB87,352 million in 2016 to RMB73,668 million (US\$11,323 million) in 2017. This decrease was primarily due to the decrease in terminals sold. As a percentage of operating expenses, cost of products sold decreased from 14.8% in 2016 to 11.9% in 2017.

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Other operating expenses increased by 9.1% from RMB167,073 million in 2016 to RMB182,243 million (US\$28,010 million) in 2017. This increase was primarily due to the increases in expenses to support new business operation, R&D for new technologies and ICT (Information and Communication Technology) integrated services. In addition, considering the declining 2G network utility, the significant growth in VoLTE usage and the further decline of voice tariff, we made provisions for the impairment of 2G wireless network equipment of RMB10,450 million (US\$1,606 million). As a percentage of operating expenses, other operating expenses increased from 28.3% in 2016 to 29.4% in 2017. For more information on our other operating expenses and the above-mentioned provision, see note 6 and 13, respectively, 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 1.7% from RMB118,088 million in 2016 to RMB120,126 million (US\$18,463 million) in 2017, and operating margin (profit from operations as a percentage of operating revenue) decreased from 16.7% in 2016 to 16.2% in 2017.

**Other Gains.** Other gains increased by 21.4% from RMB1,968 million in 2016 to RMB2,389 million (US\$367 million) in 2017, principally due to an increase in penalty and compensation income from RMB764 million in 2016 to RMB1,118 million (US\$172 million) in 2017.

**Interest Income.** Interest income decreased by 0.8% from RMB16,005 million in 2016 to RMB15,883 million (US\$2,441 million) in 2017, mainly because the average bank and cash balance during the year decreased compared to the previous year.

**Finance Costs.** Finance costs decreased by 10.6% from RMB235 million in 2016 to RMB210 million (US\$32 million) in 2017. This decrease was mainly due to a decrease in interest on bonds, which we fully repaid in October 2017.

**Share of Profit of Investments Accounted for Using the Equity Method.** We had a share of profit of investments accounted for using the equity method of RMB9,949 million (US\$1,529 million) in 2017, an increase by 15.2% from RMB8,636 million in 2016, which was primarily attributable to our shareholding in SPD Bank and China Tower. For more information on our share of profit of investments accounted for using the equity method, see note 18 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

**Profit before Taxation.** As a result of the foregoing, profit before tax increased by 2.5% from RMB144,462 million in 2016 to RMB148,137 million (US\$22,768 million) in 2017.

**Taxation.** Our income tax expense decreased by 5.3% from RMB35,623 million in 2016 to RMB33,723 million (US\$5,183 million) in 2017. This decrease was due to preferential tax rates became applicable to certain of our subsidiaries and branches in 2017. Our effective tax rate decreased from 24.7% in 2016 to 22.8% in 2017.

**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 5.1% from RMB108,741 million in 2016 to RMB114,279 million (US\$17,564 million) in 2017. Net profit margin (profit attributable to equity shareholders as a percentage of operating revenue) increased from 15.3% in 2016 to 15.4% in 2017.

### **Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**

**Operating Revenue.** Our operating revenue components are revenue from telecommunications services and revenue from sales of products and others. Revenue from telecommunications services primarily 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 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 services, wireline broadband business and applications and information services. Other revenue from telecommunications services largely represents interconnection revenue. Revenue from sales of products and others is mainly derived from sales of SIM cards and terminals, as well as revenue from construction contracts. See note 1 to the table above.

Operating revenue increased by 6.0% from RMB668,335 million in 2015 to RMB708,421 million in 2016. This increase was primarily due to the growth in our data services.

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Revenue from telecommunications services increased by 6.7% from RMB584,089 million in 2015 to RMB623,422 million in 2016. Voice services revenue decreased by 19.8% from RMB261,896 million in 2015 to RMB209,949 million in 2016. This decrease was principally due to the substitution effect of Over The Top services, which resulted in a decrease in voice usage. Our average voice services revenue per minute continued to reflect a downward trend from RMB0.061 in 2015 to RMB0.050 in 2016. With intensified market competition and further tariff decreases, our average voice services revenue per minute may continue to decline in future periods. In response to the downward trend in voice services revenue, we are providing reasonable tariff packages and undertaking sales and marketing activities. As a percentage of revenue from telecommunications services, voice services revenue decreased from 44.8% in 2015 to 33.7% in 2016.

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

	<b>Year Ended December 31,</b>		<b>Increase</b>	<b>Change</b>
	<b>2015</b>	<b>2016</b>	<b>(Decrease)</b>	
	<b>(Revenue, in millions of RMB, except percentage data) (%)</b>			
SMS and MMS	31,244	28,555	(2,689)	(8.6)
Wireless data traffic	200,857	288,178	87,321	43.5
of which: Handset data traffic	195,490	283,229	87,739	44.9
Wireline broadband	18,339	25,618	7,279	39.7
Applications and information services	52,985	52,586	(399)	(0.8)
Data services revenue	303,425	394,937	91,512	30.2
Data services revenue as a percentage of revenue from telecommunications services	52.0%	63.3%	11.3	

Data services revenue increased by 30.2% from RMB303,425 million in 2015 to RMB394,937 million in 2016, surpassing our voice services revenue for the second time. This increase was mainly due to our continued efforts to promote data traffic services operations, with a focus on the expansion of our 4G network capacity to continue to attract new customers and in response to the national policy of speed upgrade and tariff reduction, we offered discounts to our tariff plans. Our data business includes wireless data traffic, wireline broadband, SMS and MMS, and applications and information services. Revenue generated from handset data traffic, which has become a strong driver of revenue growth, grew by 44.9% to RMB283,229 million in 2016, as compared to RMB195,490 million in 2015, primarily due to the rapid development of the mobile Internet business, the increasing market penetration of smartphones by focusing on the sales of 4G terminals and the development of 4G services. The growth of our revenue from handset data traffic in 2016 was partially offset by the tariff plans with discounts we offered to attract more subscribers. Revenue generated from wireline broadband business grew by 39.7% to RMB25,618 million in 2016, as compared to RMB18,339 million in 2015. Revenue generated from SMS and MMS decreased by 8.6% from RMB31,244 million in 2015 to RMB28,555 million in 2016, as competition from Internet instant messaging applications continued to intensify, and SMS usage decreased by 3.1% from 559.9 billion messages in 2015 to 542.4 billion messages in 2016. Revenue generated from applications and information services slightly decreased by 0.8% to RMB52,586 million in 2016, as compared to RMB52,985 million in 2015. As a percentage of revenue from telecommunications services, data services revenue increased from 52.0% in 2015 to 63.3% in 2016.

Revenue from sales of products and others increased by 0.9% from RMB84,246 million in 2015 to RMB84,999 million in 2016 mainly due to the increase in our sales of 4G terminals.

**Operating Expenses.** Operating expenses include leased lines and network assets, interconnection expenses, depreciation expenses relating to our telecommunications network and other property, plant and equipment, employee benefit and related expenses, selling expenses, cost of products sold and other operating expenses. Other operating expenses primarily consist of network maintenance expenses, operating lease charges, impairment loss of doubtful accounts, assets written off, power and utilities expenses and other miscellaneous expenses.

Operating expenses increased by 4.4% from RMB565,413 million in 2015 to RMB590,333 million in 2016. Among the operating expenses:

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Leased lines and network assets expenses increased by 89.1% from RMB20,668 million in 2015 to RMB39,083 million in 2016. The increase was mainly attributable to the RMB28.1 billion we paid to China Tower for using the telecommunications towers, which was offset by the decrease in network leasing fees for 3G network and Village Connect assets. As a percentage of operating expenses, leased lines and network assets expenses increased from 3.7% in 2015 to 6.6% in 2016.

Interconnection expenses in 2016 were RMB21,779 million, which remained relatively stable compared to RMB21,668 million in 2015. Interconnection expenses as a percentage of operating expenses decreased from 3.8% in 2015 to 3.7% in 2016.

Depreciation expenses increased by 0.9% from RMB136,832 million in 2015 to RMB138,090 million in 2016. The increase was mainly because we maintained our investment level and expanded our network assets, partially offset by the decreased capital expenditures as a result of changes in telecommunications tower operating model following the transfer of Tower Assets. As a percentage of operating expenses, depreciation expenses decreased from 24.2% in 2015 to 23.4% in 2016.

Employee benefit and related expenses increased by 6.2% from RMB74,805 million in 2015 to RMB79,463 million in 2016. This increase was primarily due to our adjustment and optimization of compensation structure to increase compensation for frontline employees and an increase in the standards of social insurance. As a percentage of operating expenses, employee benefit and related expenses increased from 13.2% in 2015 to 13.5% in 2016.

Selling expenses decreased by 3.9% from RMB59,850 million in 2015 to RMB57,493 million in 2016. This decrease was principally the result of our deepened transformation of marketing model and enhanced precision marketing, resulting in a further improvement in the allocation of our use of marketing resources. As a percentage of operating expenses, selling expenses decreased from 10.6% in 2015 to 9.7% in 2016.

Cost of products sold decreased by 2.2% from RMB89,297 million in 2015 to RMB87,352 million in 2016. This decrease was primarily due to our reduced handset subsidy as a result of our efforts to promote the sales of mobile handsets through public distribution channels. As a percentage of operating expenses, cost of products sold decreased from 15.8% in 2015 to 14.8% in 2016.

Other operating expenses increased by 2.9% from RMB162,293 million in 2015 to RMB167,073 million in 2016. This increase was primarily due to the increase in power and utilities expenses as a result of the increases in base stations, IDC equipment and other devices, which was partially offset by the decreases in our maintenance expenses and leasing expenses due to changes in the operating model of telecommunications towers following the transfer of Tower Assets and our refined cost management. As a percentage of operating expenses, other operating expenses decreased from 28.7% in 2015 to 28.3% in 2016. For more information on our other operating expenses, see note 6 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 14.7% from RMB102,922 million in 2015 to RMB118,088 million in 2016, and operating margin (profit from operations as a percentage of operating revenue) increased from 15.4% in 2015 to 16.7% in 2016.

***Other Gains.*** Other gains increased by 9.3% from RMB1,800 million in 2015 to RMB1,968 million in 2016, principally due to an increase in penalty and compensation income from RMB658 million in 2015 to RMB764 million in 2016.



**Interest Income.** Interest income increased by 1.0% from RMB15,852 million in 2015 to RMB16,005 million in 2016, mainly because the average bank and cash balance during the year increased compared to the previous year, which was partially offset by the reduction of benchmark deposit rates by PBOC.

**Finance Costs.** Finance costs decreased by 48.4% from RMB455 million in 2015 to RMB235 million in 2016. This decrease was mainly due to a decrease in interest on entrusted loans as we repaid certain amount of entrusted loans to CMCC.

**Share of Profit of Investments Accounted for Using the Equity Method.** We had a share of profit of investments accounted for using the equity method of RMB8,636 million in 2016, an increase by 6.7% from RMB8,090 million in 2015, which was primarily attributable to our shareholding in SPD Bank. For more information on our share of profit of investments accounted for using the equity method, see note 19 to our consolidated financial statements included elsewhere in this annual report on Form 20-F for the fiscal year ended December 31, 2016.

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**Profit before Taxation.** As a result of the foregoing, profit before tax increased by 0.5% from RMB143,734 million in 2015 to RMB144,462 million in 2016.

**Taxation.** Our income tax expense increased by 1.6% from RMB35,079 million in 2015 to RMB35,623 million in 2016. This increase was due to an increase in taxable income. Our effective tax rate was 24.4% in 2015 and 24.7% in 2016, 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 0.2% from RMB108,539 million in 2015 to RMB108,741 million in 2016. Net profit margin (profit attributable to equity shareholders as a percentage of operating revenue) decreased from 16.2% in 2015 to 15.3% in 2016.

**Liquidity and Capital Resources****Liquidity**

Our principal source of liquidity is cash generated from our operations. As of December 31, 2017, we had working capital (current assets minus current liabilities) of RMB28,214 million (US\$4,336 million), compared to working capital of RMB50,256 million as of December 31, 2016 and negative working capital of RMB12,341 million as of December 31, 2015. The decrease in our working capital as of December 31, 2017 from December 31, 2016 was primarily due to a decrease in proceeds receivable for the transfer of Tower Assets as we have collected all outstanding consideration from China Tower from the transfer of Tower Assets in 2017, and a decrease in bank deposits, and is partially offset by the increases in available-for-sale financial assets and cash and cash equivalents. The current portion of our finance lease obligations as of December 31, 2015, 2016 and 2017 were nil, nil and nil, respectively.

Bank deposits represent term deposits with banks with original maturity exceeding three months. As of December 31, 2017, we had bank deposits of RMB279,371 million (US\$42,939 million), compared to bank deposits of RMB335,297 million as of December 31, 2016 and bank deposits of RMB323,330 million as of December 31, 2015. The decrease in bank deposits in 2017 was mainly due to the increased dividends paid to shareholders, while the increase in bank deposits in 2016 was mainly because of the increased cash flow generated from operating activities.

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

	<b>Years ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(in millions of RMB)</b>		
Net cash generated from operating activities	235,089	253,701	245,514
Net cash used in investing activities	(142,743)	(194,523)	(106,533)
Net cash used in financing activities	(86,510)	(48,958)	(108,231)
Net increase / (decrease) in cash and cash equivalents	5,836	10,220	30,750

Net cash generated from operating activities decreased by 3.2% from RMB253,701 million in 2016 to RMB245,514 million (US\$37,735 million) in 2017, which primarily reflects a decrease in accounts payable, compared to an increase in 2016, a smaller increase in deferred revenue and a smaller increase in accrued expenses

and other payables, and was partially offset by an increase in our profit before taxation excluding depreciation and amortization, and a decrease in other receivables, compared to an increase in 2016.

Net cash generated from operating activities increased by 7.9% from RMB235,089 million in 2015 to RMB253,701 million in 2016, which primarily reflects an increase in our profit before taxation excluding depreciation and amortization, an increase in accounts payable, compared to a decrease in 2015, gain on the transfer of Tower Assets in 2015, compared to none in 2016 and a decrease in inventories, compared to an increase in 2015, which was partially offset by a smaller increase in deferred revenue, an increase in prepayments and other current assets, compared to a decrease in 2015 and a larger increase in other receivables.

Net cash used in investing activities decreased by 45.2% from RMB194,523 million in 2016 to RMB106,533 million (US\$16,374 million) in 2017, primarily due to a decrease in bank deposits, compared to an increase in 2016, and receipt of consideration from China Tower, which was partially offset by an increase in purchase of available-for-sale financial assets, and an increase in short-term loans granted by China Mobile Finance and payment for other investments.

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Net cash used in investing activities increased by 36.3% from RMB142,743 million in 2015 to RMB194,523 million in 2016, primarily due to an increase in capital expenditure, an increase in purchase of available-for-sale financial assets, an increase in bank deposits, compared to a decrease in 2015 and an increase in restricted bank deposits, compared to the decreases in 2015, which was partially offset by an increase in maturity of available-for-sale financial assets and an increase in receipt of consideration from China Tower.

Net cash used in financing activities increased by 121.1% from RMB48,958 million in 2016 to RMB108,231 million (US\$16,635 million) in 2017. The larger amount of cash used in financing activities in 2017 compared to 2016 was mainly attributable to an increase in dividends paid to our shareholders.

Net cash used in financing activities decreased by 43.4% from RMB86,510 million in 2015 to RMB 48,958 million in 2016. The smaller amount of cash used in financing activities in 2016 compared to 2015 was mainly attributable to our payment of consideration for the acquisition of Target Assets and Businesses of China TieTong in 2015 and decrease in repayment of entrusted loans in 2016.

## ***Capital Expenditures***

Capital expenditures incurred in 2015, 2016 and 2017 were RMB195,577 million, RMB187,291 million and RMB177,533 million (US\$27,286 million), respectively. We incurred capital expenditures principally for the construction of mobile communication networks, NB-IoT and information technology support, transmission facilities, buildings, infrastructure and power systems, business networks, support systems and others. The level of our capital expenditures decreased in 2017 principally due to our prudent planning and allocation of resources to increase capital expenditure efficiency.

We estimate that we will incur capital expenditures of approximately RMB166.1 billion (US\$25.5 billion) in 2018. Capital expenditure to telecommunications services revenue ratio is expected to further go down.

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 operations through the end of 2018.

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, 2016 and 2017, our indebtedness mainly included corporate bonds of RMB4,998 million and nil as described below, respectively.

On October 28, 2002, our wholly-owned subsidiary, Guangdong Mobile, issued RMB5,000 million guaranteed bonds due 2017, with the entire net proceeds used to settle part of the deferred consideration for our acquisition of eight regional mobile companies in China from CMCC. These bonds commenced trading on the Shanghai Stock Exchange on January 22, 2003. The guaranteed bonds bear fixed interest of 4.5%, payable annually and was fully repaid on October 28, 2017.

We currently have a corporate credit rating of A1/Outlook Stable from Moody's and A+/Outlook Stable from Standard & Poor's, which remain at levels equivalent to China's sovereign credit rating, respectively. 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.

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

As of December 31, 2017, 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);

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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 37 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, 2017:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Payments Due by Period</b>			
		<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>More than 5 years</b>
		<b>(in millions of RMB)</b>			
Accounts Payable	233,169	233,169			
Bills Payable	3,303	3,303			
Accrued Expenses and Other Payables	190,866	190,866			
Amount Due to Ultimate Holding Company	8,646	8,646			
<b>Total Contractual Obligations</b>	<b>435,984</b>	<b>435,984</b>			

The following table sets forth certain information regarding our other commercial commitments as of December 31, 2017:

<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 to 3 years</b>	<b>3 to 5 years</b>	<b>More than 5 years</b>
		<b>(in millions of RMB)</b>			
Operating Lease Commitments	197,967	58,097	88,434	45,364	6,072
Capital Commitments	43,062	37,598	5,464		
<b>Total Commercial Commitments</b>	<b>241,029</b>	<b>95,695</b>	<b>93,898</b>	<b>45,364</b>	<b>6,072</b>

Apart from the commitments listed above, as of December 31, 2017, the company has a commitment to invest RMB741 million to China Mobile Fund upon its request.

**Research and Development, Patents and Licenses, etc.**

See Item 4. Information on the Company Business Overview Research and Development.

### **Trend Information**

See our discussion in each section of Overview of Our Operations and Results of Operations included elsewhere under this Item.

### **Off-Balance Sheet Arrangements**

As of December 31, 2017, 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. Most of our current operating subsidiaries are incorporated in Mainland China. 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.

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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 19, 2018.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Mr. SHANG Bing	62	Executive Director and Chairman
Mr. LI Yue	58	Executive Director and Chief Executive Officer
Mr. SHA Yuejia	60	Executive Director and Vice President
Mr. DONG Xin	51	Executive Director, Vice President and Chief Financial Officer
Mr. Frank K.S. WONG	70	Independent Non-Executive Director
Dr. Moses M.C. CHENG	68	Independent Non-Executive Director
Mr. Paul M.Y. CHOW	71	Independent Non-Executive Director
Mr. Stephen K.W. YIU	57	Independent Non-Executive Director

Mr. SHANG Bing has served as our Executive Director and Chairman since September 2015. He is in charge of our overall management. Mr. Shang is also the Chairman of CMCC as well as a director and the Chairman of CMC. Mr. Shang previously served as a Director of Industrial Technology Development Centre in Liaoning Province, a General Manager of Economic and Technological Development Company in Liaoning Province, a General Manager of China United Telecommunications Corporation Liaoning Branch, a Director and President of China United Telecommunications Corporation, an Executive Director and President of China United Telecommunications Corporation Limited and China Unicom Limited, a Vice President of China Telecom, an Executive Director, President and Chief Operating Officer of China Telecom and the Vice Minister of the MIIT. Mr. Shang graduated from Shenyang Chemical Industry Institution with a Bachelor's degree in 1982. He received a Master's degree in business administration from the State University of New York in 2002 and a doctoral degree in business administration from the Hong Kong Polytechnic University in 2005. Mr. Shang is a senior economist and has spent many years working in basic telecommunications enterprises, with extensive experience in enterprise management and telecommunications industry.

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 operations, strategic development as well as planning and construction. 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, 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. SHA Yuejia has served as our Executive Director and Vice President since March 2006. Mr. Sha is principally in charge of marketing, corporate customer business and international businesses. He is also a Vice President of CMCC, a director and vice president of CMC, a non-executive director of PhoenixTV and a non-executive director of 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 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.

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Mr. DONG Xin has served as our Executive Director, Vice President and Chief Financial Officer since March 2017. Mr. Dong is principally in charge of corporate affairs, finance, internal audit, legal matters, investor relations, human resources and information technology of the Company. He is also a Vice President and General Counsel of CMCC and a Director and Vice President of CMC. Mr. Dong formerly served as a Deputy Director of Corporate Finance Division of Finance Department of the former Ministry of Posts and Telecommunications, a Director of Economic Adjustment Division of the Department of Economic Adjustment and Communication Clearing of the former Ministry of Information Industry of China, Director General of the Finance Department of CMCC, Chairman and President of China Mobile Group Hainan Company Limited, Director General of the Planning and Construction Department of CMCC, Chairman and President of China Mobile Group Henan Company Limited and China Mobile Group Beijing Company Limited. Mr. Dong received a Bachelor's degree from Beijing University of Posts and Telecommunications in 1989, a Master's degree in financial and accounting management from Australian National University, and a doctoral degree in business administration jointly issued by Shanghai Jiao Tong University and ESC Rennes School of Business, France. Mr. Dong is a senior engineer and senior accountant with many years of experience in the telecommunications industry and financial management.

Mr. Frank K.S. WONG has served as our Independent Non-Executive Director since August 2002. Mr. Wong currently serves on the boards of PSA International Private Limited and PSA Corporation Limited, Singapore as a non-executive director. He previously served as Vice Chairman of DBS Bank in Singapore, Chairman of DBS Bank (Hong Kong) in Hong Kong and DBS Bank (China) in China and was a member of the boards of DBS Bank and DBS Group Holdings. Early on in his professional career, Mr. Wong held a series of progressively senior positions at Citibank, JP Morgan and NatWest. More recently, he was the chairman and independent non-executive director of Mapletree Greater China Commercial Trust Management Ltd, an independent non-executive director of Industrial and Commercial Bank of China Limited (China), Mapletree Investments Pte Ltd and National Healthcare Group Pte Ltd, Singapore. 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 and a member of the Financial Services Development Council of the Hong Kong SAR Government between 2013 and 2015. Mr. Wong has many years of finance and commercial management experience.

Dr. Moses M.C. CHENG has served as our Independent Non-Executive Director since March 2003. Dr. Cheng is a practising solicitor and a consultant of Messrs. P.C. Woo & Co. after serving as its senior partner from 1994 to 2015. 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 is now the Honorary President and Chairman Emeritus. He also serves as the chairman of the Insurance Authority and chairman of the Process Review Panel for the Securities and Futures Commission. Dr. Cheng currently holds directorships in Liu Chong Hing Investment Limited, China Resources Beer (Holdings) Company Limited, Towngas China Company 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 companies in Hong Kong. Dr. Cheng had ceased to be an independent non-executive director of ARA Asset Management Limited, a company formerly listed in Singapore. Except as disclosed above, Dr. Cheng did not hold any directorship, whether in Hong Kong or overseas, in any other public companies in the previous three years.

Mr. Paul M.Y. CHOW has served as our Independent Non-Executive Director since May 2013. Mr. Chow was the chief executive of the Asia Pacific Region (ex-Japan) of HSBC Asset Management (Hong Kong) Limited from 1997 to 2003, an executive director and Chief Executive of Hong Kong Exchanges and Clearing Limited from April 2003 to January 2010, the chairman of Hong Kong Cyberport Management Company Limited from June 2010 to May 2016, an independent non-executive director of Bank of China Limited from October 2010 to August 2016 and a member of the Advisory Committee on Innovation and Technology of the Government of the Hong Kong Special Administrative Region from April 2015 to March 2017. Mr. Chow currently serves as an independent non-executive

director of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd, and CITIC Limited.

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Mr. Stephen K.W. YIU has served as our Independent Non-Executive Director since March 2017. Mr. Yiu is currently a non-executive director of the Insurance Authority, an independent non-executive director of Hong Kong Exchanges and Clearing Limited and a Council member of The Hong Kong University of Science and Technology. Mr. Yiu joined the global accounting firm KPMG in Hong Kong in 1983 and was seconded to KPMG in London, the United Kingdom from 1987 to 1989. Mr. Yiu became a partner of KPMG in 1994, served as the partner in charge of audit of KPMG from 2007 to 2010, and served as the chairman and chief executive Officer of KPMG China and Hong Kong as well as a member of the Executive Committee and the Board of KPMG International and KPMG Asia Pacific from April 2011 to March 2015. Mr. Yiu formerly also served as a member of the Audit Profession Reform Advisory Committee and the Mainland Affairs Committee of the HKICPA. Mr. Yiu is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the HKICPA and a member of the Institute of Chartered Accountants of England and Wales. Mr. Yiu received a professional diploma in accountancy from The Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in 1983, and holds a Master's degree in business administration from the University of Warwick in the United Kingdom.

## **Compensation**

The amount of compensation that we paid to our executive directors for their services in 2017 was approximately RMB4.23 million (US\$0.65 million). The amount of compensation that we paid to our independent non-executive directors for their services in 2017 was approximately HK\$1.64 million (US\$0.21 million). See note 9 to our consolidated financial statements included in this annual report on Form 20-F for details of the compensation we paid to our directors on an individual basis.

## **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 Mr. Frank K.S. Wong, as chairman of the committee, Dr. Moses M.C. Cheng, Mr. Paul M.Y. Chow and Mr. Stephen K.W. Yiu. The audit committee's major responsibilities include:

to review the financial reports, the related report of the 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 of directors on a regular basis.

The audit committee usually meets five times each year.

***Remuneration Committee***

The members of our remuneration committee are Dr. Moses M.C. Cheng, as chairman of the committee, Mr. Frank K.S. Wong and Mr. Paul M.Y. Chow. 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.

**Table of Contents*****Nomination Committee***

The members of our nomination committee are Mr. Paul M.Y. Chow, 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.

We have not entered into any service contract with a specific term with our directors. All directors are subject to retirement by rotation. No compensations are payable to our directors upon termination of their services with us, except certain statutory compensation.

**Employees**

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

**Share Ownership**

As of March 31, 2018, our directors and senior management 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>
Frank K.S. Wong	150,000	0.0007%
Moses M.C. Cheng	300,000	0.0015%

\* Including interest of controlled corporation.

Under our 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.

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

As of March 31, 2018, China Mobile Hong Kong (BVI) Limited, a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited, held 14,890,116,842 ordinary shares of our Company, representing approximately 72.72% of our issued and outstanding share capital. 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, 2018, our majority shareholders held, directly or indirectly, between

approximately 72.72% and 76.5% 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 Articles of Association, our major shareholders do not have different voting rights when compared to other holders of shares in the same class. See Item 9. The Offer and Listing for the number of our ordinary shares and the number of the holders of our ADSs.

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, 2018, CMCC indirectly owned an aggregate of approximately 72.72% 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.

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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***

Pursuant to an agreement between us and CMCC (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 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, Hong Kong, Macau, Taiwan, United Arab Emirates, Peru and Saudi Arabia and an application as a trademark under the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks has been approved in the United Kingdom and the United States. In addition, individual applications have been filed in 16 countries and an application as a trademark under the Protocol Relating to the Madrid Agreement has been filed in 45 countries.

In December 2017, we entered into the 2018 Trademark License Agreement to replace the 2013 Trademark License Agreement. Under the 2018 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. The term of the 2018 Trademark License Agreement shall be five years, effective from January 1, 2018 and expiring on December 31, 2022. No license fee is payable by us to CMCC during the term of the 2013 Trademark License Agreement or the 2018 Trademark License Agreement.

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

The MIIT and the MOF jointly determine the standardized spectrum fees payable to the MIIT by all mobile 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 network operator based on the bandwidth of the frequency used.

Pursuant to an agreement between us and CMCC (the *Spectrum and Numbering Resources Agreement*), CMCC can 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 Ministry of Information Industry, the predecessor of the MIIT). 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. In 2017, no consideration was paid from us to CMCC or from CMCC to us under the *Spectrum and Numbering Resources Agreement*.

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



Pursuant to an agreement between us and CMCC (the Inter-Provincial Transmission Line Leasing Settlement Agreement ), 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 pays the same to the transmission line providers in respect of the inter-provincial transmission lines we lease from such providers. In 2017, no consideration was paid from us to CMCC or from CMCC to us under the Inter-Provincial Transmission Line Leasing Settlement Agreement.

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**Table of Contents*****Platform Development***

Aspire, which is 66.41% owned by us, is our joint venture with Vodafone and Hewlett-Packard Company. Aspire has a platform development master agreement (the Platform Development Agreement) with CMCC, pursuant to which 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, nationwide 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. In 2017, no consideration was paid from us to CMCC or from CMCC to us under the Platform Development Agreement.

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

Pursuant to a network capacity leasing agreement between us and CMCC (the Network Capacity Leasing Agreement), we and our operating subsidiaries lease TD-SCDMA network capacity from CMCC and pay leasing fees to CMCC. The initial term of the Network Capacity Leasing Agreement expired on December 31, 2009 and the agreement has been renewed for successive one-year periods since that time.

The leasing fees are 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 RMB4,000 million in 2017, 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 RMB3,300 million in 2018. The transactions contemplated under the Network Capacity Leasing Agreement constitute our continuing connected transactions under Rule 14A.31 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, or 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***

China TieTong, which was a then wholly-owned subsidiary of CMCC, was our connected person for purposes of the Hong Kong Listing Rules. Pursuant to an agreement among us, CMCC and China TieTong (the Tripartite Agreement), we and China TieTong make settlement payments to each other in respect of calls made or received by our respective customers. The initial term of the Tripartite Agreement expired on December 31, 2009. The Tripartite Agreement provides that unless the parties agree otherwise, upon expiry of its term, the Tripartite Agreement shall automatically be renewed for further terms of one year.

Following the completion of the acquisition of Target Assets and Businesses on December 31, 2015, the business contracts and relevant transactions between us, CMCC and China TieTong as contemplated under the Tripartite Agreement have been conducted by us and our subsidiaries. As a result, the interconnection settlement arrangements pursuant to the Tripartite Agreement ceased to be our continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

***Network Assets Leasing Agreement***

In order to better position ourselves 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 initial term of the Network Assets Leasing Agreement expired on December 31, 2011, and the agreement has been renewed for successive one-year periods since that time.

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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 the same kinds of network assets. The amount of leasing fees receivable by us from CMCC in 2017 under the Network Assets Leasing Agreement did not exceed the de minimis threshold under Chapter 14A of the Hong Kong Listing Rules, and the amount of leasing fees payable by us to CMCC in 2017 under the Network Assets Leasing Agreement did not exceed RMB5,000 million. It is expected, in 2018, that the amount of leasing fees payable by us to CMCC under the Network Assets Leasing Agreement (as renewed) will not exceed RMB3,500 million, while the aggregate amount of the leasing fees receivable by us from CMCC will not exceed the de minimis threshold under Rule 14A.76 of the Hong Kong Listing Rules. The transactions contemplated under the Network Assets Leasing Agreement constitute our continuing connected transactions under Rule 14A.31 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.

***Transfer of Tower Assets to China Tower***

On October 14, 2015, CMC entered into the Transaction Agreement with CUCL, China Telecom, CRHC and China Tower, pursuant to which CMC, CUCL and China Telecom shall transfer their then-owned telecommunications towers and related assets to China Tower, China Tower shall issue and allot shares in China Tower and/or pay certain cash as consideration for such transfers and CRHC shall subscribe for new shares in China Tower in cash. The transaction was completed on October 31, 2015. CMC transferred Tower Assets to China Tower for a final consideration of RMB102,736 million (approximately US\$15,859.7 million). In January 2016, seven subsidiaries of CMC and China Tower entered into share subscription agreements to settle the number of shares subscribed by such subsidiaries and the amount of the consideration. As of March 31, 2018, we indirectly owned a 38% equity interest in China Tower through CMC, our wholly-owned subsidiary.

***Telecommunications Towers and Related Assets Lease Arrangement***

Upon the completion of the transfer of Tower Assets to China Tower, based on the proposed usage pricing calculation mechanism and the actual usage of the telecommunications towers, we accrued an expense of approximately RMB5.6 billion in 2015. On July 8, 2016, CMC entered into the Lease Agreement with China Tower, pursuant to which CMC agreed to lease from China Tower telecommunications towers and related assets acquired and newly constructed by China Tower. Under the Lease Agreement, leasing fees and lease periods are determined on an individualized basis with respect to each telecommunications tower. We shall pay leasing fees calculated based on a pricing formula taking into account various factors, subject to a pricing adjustment mechanism.

On January 31, 2018, pursuant to the Commercial Pricing Agreement and after mutual negotiations and discussion on an arm's-length basis, the parties agreed on the supplementary provisions to the Lease Agreement (the Supplementary Agreement), which mainly included amendments to the pricing of tower products stated in the Lease Agreement. The term of the Supplementary Agreement shall be five years, effective from January 1, 2018 and expiring on December 31, 2022. The parties shall negotiate the pricing terms going forward prior to expiry.

***Property Leasing and Management Services***

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 Chapter 14A of 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 CMCC and us or its subsidiaries (which have not been acquired by us) remain as connected

transactions under Chapter 14A of the Hong Kong Listing Rules. As of the date of this annual report on Form 20-F, in order to streamline the management of the connected transactions between CMCC and us, we consolidated the Property Leasing and Management Services Agreement (the Property Leasing and Management Services Agreement ) between CMCC and us, 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.

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The rental and property management service charges paid by us to CMCC and its subsidiaries under the Property Leasing and Management Services Agreement did not exceed RMB2,200 million, RMB2,800 million and RMB2,200 million in 2015, 2016 and 2017, respectively. The transactions contemplated under the Property Leasing and Management Services Agreement constitute our continuing connected transactions under Rule 14A.31 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. The rental and property management service charges payable by us to CMCC and its subsidiaries under the Property Leasing and Management Services Agreement in 2018 are not expected to exceed RMB2,200 million.

## **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 operating results in 2017 and having taken into account our long-term future development, our board of directors recommended payment of a final dividend of HK\$1.582 per share for the fiscal year ended December 31, 2017, representing a full-year dividend payout ratio of 48%. This, together with the interim dividend of HK\$1.623 per share and a special dividend of HK\$3.200 per share celebrating the 20th listing anniversary that was paid, amounted to an aggregate dividend payment of HK\$6.405 per share for the full fiscal year of 2017.

In 2018, taking into consideration the our financial position, ability to generate cash flow and future development needs, we will maintain a stable dividend payout ratio for 2018 and strive to attain a stable-to-rising dividend payout ratio.

Our board of directors believes that our industry-leading profitability and ability to generate healthy cash flow will provide sufficient support for our future development while continuing to create higher value for our shareholders.

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

In connection with our initial public offering, our ADSs, each representing 20 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, 2017 and March 31, 2018, there were 20,475,482,897 and 20,475,482,897, respectively, of our ordinary shares issued and outstanding. As of December 31, 2017 and March 31, 2018, there were, respectively, 439 and 431 registered holders of American depositary receipts evidencing 107,960,439 and 109,331,535 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 depositary for the ADSs is The Bank of New York Mellon.

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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>2013</b>	91.45	75.05	59.53	47.74
<b>2014</b>	101.70	64.50	64.91	41.55
<b>2015</b>	116.10	87.35	75.00	56.29
<b>2016</b>				
First Quarter	87.50	79.65	56.32	50.66
Second Quarter	91.90	83.40	58.95	53.68
Third Quarter	99.00	86.75	63.72	56.31
Fourth Quarter	97.45	80.50	63.12	51.92
<b>2017</b>				
First Quarter	90.35	82.00	58.52	52.87
Second Quarter	86.95	82.80	55.81	52.69
Third Quarter	88.35	79.05	56.55	50.57
Fourth Quarter	80.35	75.90	51.59	48.91
October	79.45	78.05	51.03	50.13
November	80.35	78.05	51.59	50.16
December	79.25	75.90	50.54	48.91
<b>2018</b>				
January	82.80	77.40	53.00	49.42
February	82.00	73.40	52.32	46.49
March	72.90	70.30	46.35	44.56
First Quarter	82.80	70.30	53.00	44.56
April (through April 19)	74.40	70.45	47.18	45.34

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

According to the Companies Ordinance, we have the capacity and the rights, powers and privileges of a natural person of full age 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.

**Directors**

**Material Interests.** A director (or an entity connected with a director) who is in any way, whether directly or indirectly, interested in a transaction, arrangement or contract or proposed transaction, arrangement or contract with us shall declare the nature and extent of his interest in accordance with the provisions of the Companies Ordinance and our Articles of Association. A director shall not vote (nor shall be counted in the quorum), on any resolution of the board in respect of any contract or transaction or arrangement or proposal in which he or any of his Associates (as such term is defined in the Hong Kong Listing Rules), is to his knowledge, materially interested, and if he shall do so,



his vote shall not be counted (nor shall be 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;

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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, whether 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 5% 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 5% 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 both to our, or any of our subsidiaries', directors, his Associates and employees 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.

***Remuneration and Pension.*** The directors shall be entitled to receive by way of remuneration for their services such sum as we may determine from time to time in a general meeting. The directors shall also be 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 or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or give or procure the giving of 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 is allied or associated with us or with any of our subsidiaries, or (2) who are or were at any time our or any of our subsidiaries' directors or officers, and holding or who have held any salaried employment or office in our company or any of our subsidiaries, and the wives, widows, families and dependents of any such persons. Any director holding any such employment or office shall be entitled to participate in, and retain for his own benefit, any such donation, gratuity, pension, allowance or emolument.

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***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 the 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 any debt, liability or obligation of our company or any third party.

***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 and at each general meeting, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office by rotation. 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***

***Voting Rights.*** Under the Companies Ordinance, any action to be taken by the shareholders in a general meeting requires the affirmative vote of either an ordinary or a special resolution passed at the meeting. An ordinary resolution is one passed by the majority of such shareholders as are entitled to, and do, vote in person or by proxy at a general meeting. A special resolution is one passed by not less than three-quarters of such shareholders as are entitled to, and do, vote in person or by proxy at a general meeting. Generally, resolutions of shareholders are passed by ordinary resolution. However, the Companies Ordinance stipulates that certain matters may only be passed by special resolutions.

At any general meeting a resolution put to the vote of the meeting shall be decided on a poll demanded by:

the chairman of the meeting;

at least three members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote at the meeting;

any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing in the aggregate not less than five per cent. of the total voting rights of all members having the right to attend and vote at the meeting; or

any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than five per cent. of the total sum paid up on all shares conferring that right;

provided that a resolution put to the vote of the meeting may be decided on a show of hands to the extent permitted by Hong Kong Listing Rules.

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, every member who (being an individual) is present in person or (being a corporation) is present by a representative duly authorized under Section 606 of the Companies Ordinance at any general meeting shall be entitled, on a show of hands, to one vote only and, on a poll, to one vote for every fully paid-up share of which he is the holder.

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On a poll, votes may be given either personally or by proxy and a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

**Modification of Rights.** All or any of the special rights attached to any class of shares (unless otherwise provided for by the terms of issue of the shares of that class) for the time being in issue may, subject to the provisions of the Companies Ordinance, at any time, as well as before or during liquidation, be altered or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class.

**Issue of Shares.** A general meeting resolving upon the creation of any new shares may direct that the same or any of them shall be offered, in the first instance, to all the holders for the time being of any class of shares in the capital of our company, in proportion to the number of shares of such class held by them respectively, or make any other provisions as to the issue and allotment of the new shares, and in default of any such direction, or so far as the same shall not extend, the new shares shall be at the disposal of the directors, and Article 9 of the Articles of Association shall apply thereto.

**Dividends.** We may by ordinary resolution declare dividends, but no such dividend shall be declared in excess of the amount recommended by the directors.

The directors may, if they think fit, from time to time, resolve to pay to the members such interim dividends as appear to the directors to be justified.

**Winding Up.** If we shall be wound up, the liquidator (whether voluntary or official) may, with the sanction of a special resolution, divide among the shareholders in specie or kind the whole or any part of our assets or vest any part of our assets in trustees upon such trusts for the benefit of the members or any of them as the resolution shall provide.

**Miscellaneous.** The shareholders are not entitled to any redemption rights, conversion rights or preemptive rights on the transfer of our securities.

## ***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 within six months after the end of each fiscal year and at such place(s) as may be determined by the directors. All other general meetings are extraordinary general 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 resolution requiring special notice as stipulated under Section 578 of the Companies Ordinance 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 Ltd., Shops 1712-1716, 17<sup>th</sup> 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.



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### **Material Contracts**

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

### **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 against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC and international economic conditions and foreign exchange policies. The conversion of Renminbi into foreign currencies, including U.S. dollars and Hong Kong dollars, is based on rates set by the PBOC. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. In August 2015, the PBOC announced that the mid-point exchange rate for the floating range of Renminbi against the U.S. dollar will be determined based on market-maker submissions that take into account the Renminbi-U.S. dollar exchange rate at the previous day's closing of the inter-bank spot foreign exchange market, the supply and demand dynamics and the movements of other major currencies. Since October 1, 2016, the Renminbi has joined the International Monetary Fund's basket of currencies that make up the Special Drawing Right, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

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 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 since 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.



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### ***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.

### ***Other 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 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, either by withholding or otherwise, unless such dividends are attributable to a trade, profession or business carried on in Hong Kong.

### ***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 (except that the respective half-rates of 8.25% and 7.5% apply for the first HK\$2 million of assessable gains for years of assessment beginning on or after April 1, 2018), 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 by the Hong Kong Inland Revenue Department 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.



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***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. If one of the parties to the sale is a non-Hong Kong resident and does not pay the required stamp duty, the duty not paid will be assessed on the instrument of transfer (if any) and the transferee will be liable for payment of such duty. 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 depository or for the account of the depository 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 ordinary shares or ADSs. This section applies to you only if you are a U.S. holder, as defined below, and you hold your ordinary 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 or currencies;

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 or of the total value of our stock;

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

a person that purchases or sells ordinary 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, or the Code, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as on the agreement between the United States and the PRC for the avoidance of double taxation (the U.S.-PRC Treaty ). These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary, and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

If a partnership holds the ordinary 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 ordinary shares or ADSs should consult its tax advisor with regard to the United States federal income tax treatment of its investment in the ordinary shares or ADSs.

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

a citizen or resident of the United States;

a domestic corporation;

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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 tax consequences of owning and disposing of ordinary shares and 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 ordinary shares represented by those ADRs. Exchanges of ordinary shares for ADRs, and ADRs for ordinary 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 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 non-corporate 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 ordinary 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 that are paid with respect to ADSs that are readily tradable on an established securities market in the United States are qualified dividend income. Under this rule, we expect that the dividends we pay with respect to the ADSs will be qualified dividend income. In addition, dividends paid by a non-U.S. corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States will be qualified dividend income. As our ordinary shares are not readily tradable on an established securities market in the United States and because we are uncertain as to whether we are eligible for the benefits of the U.S.-PRC Treaty, it is unclear whether dividends paid with respect to our ordinary shares will also be qualified dividend income.

The dividend is taxable to you when you, in the case of ordinary shares, or the 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 as a U.S. holder 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. The gain or loss generally will be income or loss 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 ordinary 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.

Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential tax rates.

Dividends will generally be income from sources outside the United States and will generally be passive income for purposes of computing the foreign tax credit allowable to you. If you are subject to PRC withholding tax (as discussed in Taxation PRC Taxation of Dividends, above), you must include any such tax withheld from the dividend payment in your gross income, even though you do not in fact receive it. Subject to certain limitations, the PRC tax withheld and paid over to the PRC tax authorities will be creditable against your United States federal income tax liability. To the extent a refund of the tax withheld is available under PRC law, or to the extent that you could have avoided the withholding tax by complying with any certification, identification requirement or by completing any forms, the amount of tax withheld that is refundable or that could have been avoided will not be eligible for credit against your United States federal income tax liability.

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**Table of Contents*****Taxation of Capital Gains***

Subject to the passive foreign investment company rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your ordinary 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 ordinary shares or ADSs. Capital gain of a non-corporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. Subject to the paragraph immediately below regarding gain subject to PRC tax, the gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Your ability to deduct capital losses is subject to limitations. Any Hong Kong stamp duty that you pay will not be a creditable tax for United States federal income tax purposes, but you may be able to deduct such stamp duty subject to limitations under the Code.

It is not clear if PRC tax will be imposed on any gain from the disposition of your ordinary shares or ADSs (as discussed above in *Taxation PRC Taxation of Capital Gains* ). Under the U.S.-PRC Treaty, if PRC tax were to be imposed on any gain from the disposition of your ordinary shares or ADSs, then such gain will be treated as PRC source income if you are eligible for the benefits of the U.S.-PRC Treaty. U.S. holders should consult their tax advisors regarding the possibility of PRC tax being imposed on gain from the disposition of their ordinary shares or ADSs, the tax consequences if PRC tax were to be imposed on such dispositions, and the availability of the foreign tax credit under their particular circumstances.

***PFIC Rules***

We believe that we should not be treated as a passive foreign investment company, or 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 ADSs or ordinary shares:

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, directly or indirectly, 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 does 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 ordinary 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 ordinary shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the ordinary shares or ADSs).

Under these rules:

the gain or excess distribution will be allocated ratably over your holding period for the ordinary 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

the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.



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Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If we are a PFIC and you own ADSs, then you can make a mark-to-market election with respect to the ADSs. If we are a PFIC and you own ordinary shares, then you can make a mark-to-market election if the ordinary shares are treated as marketable stock under the applicable regulations. 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 ordinary shares or ADSs at the end of the taxable year over your adjusted basis in your ordinary shares or ADSs. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your ordinary 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 ordinary shares or ADSs will be adjusted to reflect any such income or loss amounts. Your gain, if any, recognized upon the sale of your ordinary shares or ADSs will be taxed as ordinary income.

In addition, notwithstanding any election you make with regard to the ordinary shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC (or are treated as a PFIC with respect to you) either in the taxable year of the distribution or the preceding taxable year. Moreover, subject to the following sentence, your ordinary 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 ordinary shares or ADSs, even if we are not currently a PFIC. The rule in the preceding sentence will not apply, however, if you had a mark-to-market election in effect with respect to your ordinary shares or ADSs in the final year in which we are a PFIC or if you made a special purging election with respect to your ordinary shares or ADSs. 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 ordinary shares or ADSs during any year that we are a PFIC with respect to you, 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. 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 2017.

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, 2017, 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.

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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,		As of December 31,	
						2017		2016	
	2018	2019	2020	2021	2022	Thereafter	Total	Total	Fair Value
							Recorded Amount	Fair Value	

(RMB equivalent in millions, except interest rates)

Debt:									
Bonds issued by Guangdong Mobile								4,998	5,045
Average interest rate								4.50%	

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,		As of December 31,	
						2017		2016	
	2018	2019	2020	2021	2022	Thereafter	Total	Total	Fair Value
							Recorded Amount	Fair Value	

(RMB equivalent in millions)

On-balance sheet financial instruments									
Restricted bank deposits:									
in U.S. dollars	1						1	1	1
Bank deposits:									
in U.S. dollars	2,720						2,720	2,720	428
in Hong Kong dollars	3,637						3,637	3,637	2,748
Cash and cash equivalents:									
in U.S. dollars	2,798						2,798	2,798	1,285
in Hong Kong dollars	756						756	756	683

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

The Bank of New York Mellon, located at 101 Barclay Street, New York, New York 10286, USA, 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.

<b>ADR holders must pay:</b>	<b>For:</b>
US\$5 (or less) per 100 ADSs (or portion thereof)	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 the purpose of calculating fees
US\$0.02 (or less) per ADS	Any cash distribution (not including cash dividend distribution)
Registration or transfer fees	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
Expenses of the depository	Conversion of Hong Kong dollars to U.S. dollars Cable, telex and facsimile transmission expenses
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	As necessary

The Bank of New York Mellon, as the depository, 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 2017 was nil. 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 in 2017 was US\$131,844.23.

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**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 Exchange Act, 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, 2017, 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 Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2017, 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, 2017, 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 (2013) 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, 2017.

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The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm, as stated in their report dated April 26, 2018 appearing on page F-2 of this annual report on Form 20-F.

/s/ LI Yue

Name: LI Yue

Title: Executive Director and Chief Executive Officer

/s/ DONG Xin

Name: DONG Xin

Title: Executive Director, Vice President and Chief Financial Officer

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**Changes in Internal Control Over Financial Reporting.** During 2017, 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, Mr. Frank K.S. WONG has many years of finance and commercial management experience and expertise, and Mr. Stephen K.W. YIU has many years of accounting and finance experience and expertise. For detailed biographical information of Mr. Wong and Mr. Yiu, see Item 6. Directors, Senior Management and Employees Directors and Senior Management. Our board of directors has determined that each of Mr. Wong and Mr. Yiu is qualified as an audit committee financial expert, as defined in Item 16A of Form 20-F. Both Mr. Wong and Mr. Yiu satisfy the independence requirements of Section 303A of the New York Stock Exchange Listed Company Manual.

**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 <http://www.chinamobileltd.com/en/about/cg/ethics.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 2016 and 2017:

	Audit Fees <sup>(1)</sup>	Audit-Related Fees	Tax Fees <sup>(2)</sup>	All Other Fees <sup>(2)</sup>
	(in millions of RMB)			
2016	103		1	9
2017	107		3	12

(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 tax compliance and advisory services, risk assessment and compliance advisory services, performance improvement and business process optimization advisory services and other advisory services. 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.**

Not applicable.



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**Item 16G. Corporate Governance.**

As a foreign private issuer (as defined in Rule 3b-4 under the Exchange Act), 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 shall be independent non-executive directors as determined under the Hong Kong Listing Rules. We currently have four independent directors out of a total of eight 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 the chairman of a listed company in Hong Kong should hold meetings at least annually with the non-executive directors (including independent non-executive directors) without the presence of the executive directors. In 2017, our Audit Committee comprising four independent non-executive directors met once with our external auditors without any executive directors present.

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.

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 a 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(s), principal financial officer(s), principal accounting officer(s) 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.

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**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:**

<u>Index to Consolidated Financial Statements</u>	F-1
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated statements of comprehensive income</u>	F-4
<u>Consolidated balance sheets</u>	F-6
<u>Consolidated statements of changes in equity</u>	F-9
<u>Consolidated statements of cash flows</u>	F-11
<u>Notes to the consolidated financial statements</u>	F-15

**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:

**Exhibit**

<b>Number</b>	<b>Description of Exhibit</b>
1.1	<u>Articles of Association (as amended).</u> <sup>(10)</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	<u>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).</u> <sup>(1)</sup>
4.1	<u>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).</u> <sup>(2)</sup>

- 4.2 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>(3)</sup>
- 4.3 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>(4)</sup>
- 4.4 TD-SCDMA Network Capacity Leasing Agreement, dated December 29, 2008, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(4)</sup>
- 4.5 Telecommunications Services Cooperation Agreement, dated November 6, 2009, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(5)</sup>
- 4.6 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>(5)</sup>
- 4.7 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>(6)</sup>

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- 4.8 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>(6)</sup>
- 4.9 Network Assets Leasing Agreement, dated August 18, 2011, between China Mobile Communications Corporation and China Mobile Limited (with English translation).<sup>(7)</sup>
- 4.10 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).<sup>(8)</sup>
- 4.11 Property Leasing and Management Services Agreement for the Years from 2014 to 2016, dated August 15, 2013, between China Mobile Limited and China Mobile Communications Corporation (with English translation).<sup>(9)</sup>
- 4.12 Telecommunications Services Agreement for the Years from 2014 to 2016, dated August 15, 2013, between China Mobile Limited and China Mobile Communications Corporation (with English translation).<sup>(9)</sup>
- 4.13 Promoters Agreement, dated July 11, 2014, among China Mobile Communication Co., Ltd., China United Network Communications Corporation Limited, and China Telecom Corporation Limited (with English translation).<sup>(10)</sup>
- 4.14 Agreement on Purchase of Existing Telecommunications Towers and Related Assets by Issuing Shares and Paying Cash Consideration, dated October 14, 2015, among China Mobile Communication Co., Ltd., China United Network Communications Corporation Limited, China Telecom Corporation Limited, China Reform Holdings Corporation Limited and China Tower Corporation Limited (with English translation).<sup>(11)</sup>
- 4.15 Agreement on the Transfer of Business and Assets of China TieTong Telecommunications Corporation, dated November 27, 2015, between China Mobile TieTong Company Limited and China TieTong Telecommunications Corporation (with English translation).<sup>(11)</sup>
- 4.16 Share Subscription Agreement, dated January 30, 2016, between China Mobile Group Anhui Co., Ltd. and China Tower Corporation Limited (with English translation).<sup>(11)</sup>
- 4.17 Share Subscription Agreement, dated January 30, 2016, between China Mobile Group Henan Co., Ltd. and China Tower Corporation Limited (with English translation).<sup>(11)</sup>
- 4.18 Share Subscription Agreement, dated January 30, 2016, between China Mobile Group Hebei Co., Ltd. and China Tower Corporation Limited (with English translation).<sup>(11)</sup>
- 4.19 Share Subscription Agreement, dated January 30, 2016, between China Mobile Group Guangdong Co., Ltd. and China Tower Corporation Limited (with English translation).<sup>(11)</sup>
- 4.20 Share Subscription Agreement, dated January 30, 2016, between China Mobile Group Jiangsu Co., Ltd. and China Tower Corporation Limited (with English translation).<sup>(11)</sup>
- 4.21 Share Subscription Agreement, dated January 30, 2016, between China Mobile Group Shandong Co., Ltd. and China Tower Corporation Limited (with English translation).<sup>(11)</sup>
- 4.22 Share Subscription Agreement, dated January 30, 2016, between China Mobile Group Zhejiang Co., Ltd. and China Tower Corporation Limited (with English translation).<sup>(11)</sup>

- 4.23 Commercial Pricing Agreement, dated July 8, 2016, between China Mobile Communication Company Limited and China Tower Corporation Limited (with English translation). <sup>(12)</sup>

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4.24 Property Leasing and Management Services Agreement for the Years from 2017 to 2019, dated August 11, 2016, between China Mobile Limited and China Mobile Communications Corporation (with English translation).<sup>(12)</sup>

4.25 Trademark Licensing Agreement, entered in December 2017, between China Mobile Communications Corporation, China Mobile Limited and China Mobile Communication Co., Ltd. (with English translation).

4.26 Supplementary Agreement to Commercial Pricing Agreement, dated January 31, 2018, between China Mobile Communication Co., Ltd. and China Tower Corporation Limited (with English translation).

8.1 List of Major Subsidiaries.

11.1 Code of Ethics.<sup>(2)</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).

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

- (1) 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.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2011 (File No. 1-14696), filed with the SEC on April 25, 2012.
- (8) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2012 (File No. 1-14696), filed with the SEC on April 25, 2013.
- (9) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2013 (File No. 1-14696), filed with the SEC on April 25, 2014.
- (10)

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- Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2014 (File No. 1-14696), filed with the SEC on April 24, 2015.
- (11) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2015 (File No. 1-14696), filed with the SEC on April 26, 2016.
- (12) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2016 (File No. 1-14696), filed with the SEC on April 27, 2017.

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**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 26, 2018

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<u>Consolidated statements of comprehensive income</u>	F-4
<u>Consolidated balance sheets</u>	F-6
<u>Consolidated statements of changes in equity</u>	F-9
<u>Consolidated statements of cash flows</u>	F-11
<u>Notes to consolidated financial statements</u>	F-15

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of China Mobile Limited

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of China Mobile Limited and its subsidiaries (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 15 of this Annual Report on Form 20-F. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

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Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

**/s/ PricewaterhouseCoopers Zhong Tian LLP**

Beijing, the People's Republic of China

April 26, 2018

We have served as the Company's auditor since 2013.

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Consolidated Statements of Comprehensive Income

for the year ended December 31

*(Expressed in Renminbi ( RMB ))*

	<i>Note</i>	<i>2017</i> Million	<i>2016</i> Million	<i>2015</i> Million
<b>Operating revenue</b>	<b>4</b>			
Revenue from telecommunications services		668,351	623,422	584,089
Revenue from sales of products and others		72,163	84,999	84,246
		<b>740,514</b>	<b>708,421</b>	<b>668,335</b>
<b>Operating expenses</b>				
Leased lines and network assets		46,336	39,083	20,668
Interconnection		21,762	21,779	21,668
Depreciation		149,780	138,090	136,832
Employee benefit and related expenses	5	85,513	79,463	74,805
Selling expenses		61,086	57,493	59,850
Cost of products sold		73,668	87,352	89,297
Other operating expenses	6	182,243	167,073	162,293
		620,388	590,333	565,413
<b>Profit from operations</b>		120,126	118,088	102,922
<b>Gain on the transfer of Tower Assets</b>	<b>7</b>			15,525
<b>Other gains</b>	<b>8</b>	2,389	1,968	1,800
<b>Interest income</b>		15,883	16,005	15,852
<b>Finance costs</b>	<b>9</b>	(210)	(235)	(455)
<b>Share of profit of investments accounted for using the equity method</b>		9,949	8,636	8,090
<b>Profit before taxation</b>		148,137	144,462	143,734
<b>Taxation</b>	<b>12(a)</b>	(33,723)	(35,623)	(35,079)
<b>PROFIT FOR THE YEAR</b>		114,414	108,839	108,655

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Consolidated Statements of Comprehensive Income (Continued)

for the year ended December 31

*(Expressed in RMB)*

	<i>Note</i>	<i>2017</i> Million	<i>2016</i> Million	<i>2015</i> Million
<b>Other comprehensive (loss)/income for the year, net of tax:</b>				
<b>Item that will not be subsequently reclassified to profit or loss</b>				
Share of other comprehensive loss of investments accounted for using the equity method			(16)	
<b>Items that may be subsequently reclassified to profit or loss</b>				
Change in value of available-for-sale financial assets		(5)	24	
Exchange differences on translation of financial statements of overseas entities		(735)	774	603
Share of other comprehensive (loss)/income of investments accounted for using the equity method		(1,038)	(1,043)	901
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		112,636	108,578	110,159
<b>Profit attributable to:</b>				
Equity shareholders of the Company		114,279	108,741	108,539
Non-controlling interests		135	98	116
<b>PROFIT FOR THE YEAR</b>		114,414	108,839	108,655
<b>Total comprehensive income attributable to:</b>				
Equity shareholders of the Company		112,501	108,480	110,043
Non-controlling interests		135	98	116
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		112,636	108,578	110,159
<b>Earnings per share Basic</b>	13(a)	RMB5.58	RMB5.31	RMB5.30
<b>Earnings per share Diluted</b>	13(b)	RMB5.58	RMB5.31	RMB5.30

The notes on pages F-15 to F-91 are an integral part of these consolidated financial statements.

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Consolidated Balance Sheets

as of December 31

*(Expressed in RMB)*

	<i>Note</i>	<i>As of December 31, 2017 Million</i>	<i>As of December 31, 2016 Million</i>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	648,029	622,356
Construction in progress	15	78,112	89,853
Land lease prepayments and others	16	28,322	26,720
Goodwill	17	35,343	35,343
Other intangible assets		1,721	1,708
Investments accounted for using the equity method	19	132,499	124,039
Deferred tax assets	20	33,343	29,767
Available-for-sale financial assets	21	44	35
Restricted bank deposits	22	6,504	4,528
		963,917	934,349
<b>Current assets</b>			
Inventories	23	10,222	8,832
Accounts receivable	24	24,153	19,045
Other receivables	25	31,201	25,693
Proceeds receivable for the transfer of Tower Assets	7		57,152
Prepayments and other current assets	25	24,552	16,801
Amount due from ultimate holding company	26	221	221
Tax recoverable		1,519	1,097
Available-for-sale financial assets	21	65,630	31,897
Restricted bank deposits	22	691	197
Bank deposits	27	279,371	335,297
Cash and cash equivalents	28	120,636	90,413
		558,196	586,645
<b>Total assets</b>		1,522,113	1,520,994

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Consolidated Balance Sheets (Continued)

as of December 31

*(Expressed in RMB)*

	<i>Note</i>	<i>As of December 31, 2017 Million</i>	<i>As of December 31, 2016 Million</i>
<b>Equity and liabilities</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Interest-bearing borrowings	29		4,998
Accounts payable	30	233,169	250,838
Bills payable		3,303	1,206
Deferred revenue	31	85,282	84,289
Accrued expenses and other payables	32	190,866	180,950
Amount due to ultimate holding company	26	8,646	5,563
Current taxation		8,716	8,545
		529,982	536,389
<b>Non-current liabilities</b>			
Deferred revenue non-current	31	2,888	2,175
Deferred tax liabilities	20	362	292
		3,250	2,467
<b>Total liabilities</b>		533,232	538,856



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Consolidated Balance Sheets (Continued)

as of December 31

*(Expressed in RMB)*

	Note	As of December 31, 2017 Million	As of December 31, 2016 Million
<b>Equity</b>			
Share capital	34(a)	402,130	402,130
Reserves		583,506	576,891
<b>Total equity attributable to equity shareholders of the Company</b>		985,636	979,021
<b>Non-controlling interests</b>		3,245	3,117
<b>Total equity</b>		988,881	982,138
<b>Total equity and liabilities</b>		1,522,113	1,520,994

The notes on pages F-15 to F-91 are an integral part of these consolidated financial statements.

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## Consolidated Statements of Changes in Equity

for the year ended December 31

*(Expressed in RMB)*

	Attributable to equity shareholders of the Company						Non-		Total equity Million
	Share capital Million	Capital reserve Million	General reserve Million	Exchange reserve Million	PRC statutory reserves Million	Retained profits Million	Total Million	controlling interests Million	
<b>As of January 1, 2015</b>	400,737	(231,954)	72	(768)	258,942	459,887	886,916	2,067	888,983
<b>Changes in equity for 2015:</b>									
Profit for the year						108,539	108,539	116	108,655
Currency translation differences				603			603		603
Share of other comprehensive income of investments accounted for using the equity method		901					901		901
Total comprehensive income for the year		901		603		108,539	110,043	116	110,159
Dividends approved in respect of previous year (note 34(b)(ii))						(22,283)	(22,283)	(21)	(22,304)
Dividends declared in respect of current year (note 34(b)(i))						(25,629)	(25,629)		(25,629)
Shares issued under share option scheme	1,393	(369)					1,024		1,024
Transfer to PRC statutory reserves (note 34(c)(ii))					20,542	(20,502)	40		40
Transfer between reserves upon expiry of options		(92)				92			
Consideration for business combination under common control		(31,967)					(31,967)		(31,967)
Transfer of assets of entities under common control to the ultimate holding company		(808)					(808)		(808)
Capital injection from non-controlling interests of a subsidiary								870	870
<b>As of December 31, 2015</b>	402,130	(264,289)	72	(165)	279,484	500,104	917,336	3,032	920,368

The notes on pages F-15 to F-91 are an integral part of these consolidated financial statements.

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## Consolidated Statements of Changes in Equity (Continued)

for the year ended December 31

*(Expressed in RMB)*

	Attributable to equity shareholders of the Company						Non-		Total equity Million
	Share capital Million	Capital reserve Million	General reserve Million	Exchange reserve Million	PRC statutory reserves Million	Retained profits Million	Total Million	controlling interests Million	
<b>As of January 1, 2016</b>	402,130	(264,289)	72	(165)	279,484	500,104	917,336	3,032	920,368
<b>Changes in equity for 2016:</b>									
Profit for the year						108,741	108,741	98	108,839
Change in value of available-for-sale financial assets		24					24		24
Currency translation differences				774			774		774
Share of other comprehensive loss of investments accounted for using the equity method		(1,043)				(16)	(1,059)		(1,059)
<b>Total comprehensive income for the year</b>		(1,019)		774		108,725	108,480	98	108,578
Dividends approved in respect of previous year (note 34(b)(ii))						(20,764)	(20,764)	(13)	(20,777)
Dividends declared in respect of current year (note 34(b)(i))						(26,227)	(26,227)		(26,227)
Transfer to PRC statutory reserves (note 34(c)(ii))					25,721	(25,525)	196		196
<b>As of December 31, 2016</b>	402,130	(265,308)	72	609	305,205	536,313	979,021	3,117	982,138
<b>As of January 1, 2017</b>	402,130	(265,308)	72	609	305,205	536,313	979,021	3,117	982,138
<b>Changes in equity for 2017:</b>									
Profit for the year						114,279	114,279	135	114,414
Change in value of available-for-sale financial assets		(5)					(5)		(5)
Currency translation differences				(735)			(735)		(735)
Share of other comprehensive loss of investments accounted for using the equity method		(1,038)					(1,038)		(1,038)
<b>Total comprehensive income for the year</b>		(1,043)		(735)		114,279	112,501	135	112,636
Dividends approved in respect of previous year (note 34(b)(ii))						(22,204)	(22,204)	(7)	(22,211)
Dividends declared in respect of current year (note 34(b)(i))						(83,832)	(83,832)		(83,832)
Transfer to PRC statutory reserves (note 34(c)(ii))					21,958	(21,808)	150		150

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<b>As of December 31, 2017</b>	402,130	(266,351)	72	(126)	327,163	522,748	985,636	3,245	988,881
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The notes on pages F-15 to F-91 are an integral part of these consolidated financial statements.

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## Consolidated Statements of Cash Flows

as of December 31

*(Expressed in RMB)*

	Note	2017 Million	2016 Million	2015 Million
<b>Operating activities</b>				
Profit before taxation		148,137	144,462	143,734
Adjustments for:				
- Depreciation of property, plant and equipment		149,780	138,090	136,832
- Amortization of other intangible assets	6	515	499	274
- Amortization of land lease prepayments	16	446	443	426
- Gain on the transfer of Tower Assets	7			(15,525)
- Loss/(gain) on disposal of property, plant and equipment	6	8	(180)	(4)
- Write-off and impairment of property, plant and equipment	6	12,593	7,216	7,614
- Impairment loss of doubtful accounts	6	3,392	3,734	4,839
- Write-down of inventories	6	297	282	272
- Interest income		(15,883)	(16,005)	(15,852)
- Finance costs	9	210	235	455
- Dividend income from unlisted securities	8			(11)
- Share of profit of investments accounted for using the equity method		(9,949)	(8,636)	(8,090)
- Unrealized exchange (gain)/loss, net		(27)	115	182
- Gain on disposal of other financial assets				(14)
<b>Operating cash flows before changes in working capital</b>		289,519	270,255	255,132
(Increase)/decrease in inventories		(1,690)	886	(1,005)
Increase in accounts receivable		(8,367)	(4,930)	(5,830)
Decrease/(increase) in other receivables		648	(4,668)	(1,341)
(Increase)/decrease in prepayments and other current assets		(6,330)	(5,071)	276
Decrease/(increase) in amount due from ultimate holding company			26	(135)
Increase in deposited customer reserves	22	(3,047)		
(Decrease)/increase in accounts payable		(1,246)	11,931	(6,832)
Increase in bills payable		1,695	227	12
Increase in deferred revenue		1,811	7,231	14,005
Increase in accrued expenses and other payables		9,956	17,545	18,633
Increase/(decrease) in amount due to ultimate holding company		24	10	(32)
<b>Cash generated from operations</b>		282,973	293,442	272,883
Tax paid				
- Hong Kong profits tax paid		(135)	(236)	(232)
- PRC enterprise income tax paid		(37,324)	(39,505)	(37,562)
<b>Net cash generated from operating activities</b>		245,514	253,701	235,089

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Consolidated Statements of Cash Flows (Continued)

for the year ended December 31

*(Expressed in RMB)*

	<i>Note</i>	<i>2017</i> Million	<i>2016</i> Million	<i>2015</i> Million
<b>Investing activities</b>				
Capital expenditure		(193,015)	(188,209)	(172,243)
Land lease prepayments and others		(590)	(1,157)	(1,450)
Acquisition of other intangible assets		(638)	(1,399)	(212)
Proceeds from disposal of property, plant and equipment		287	564	7
Decrease/(increase) in bank deposits		53,889	(11,967)	30,177
Decrease/(increase) in restricted bank deposits (excluding deposited customer reserves)	22	578	(135)	4,877
Interest received		15,204	13,862	15,655
Payment for investment accounted for using the equity method		(168)	(2,451)	(376)
Dividends received from investments accounted for using the equity method	19	847	1,944	2,842
Dividends received from unlisted securities	8			11
Purchase of available-for-sale financial assets		(106,296)	(77,320)	(24,965)
Maturity of available-for-sale financial assets		75,550	65,881	8,294
Short-term loans granted by China Mobile Finance and payment for other investments		(14,417)	(1,650)	(5,500)
Maturity of short-term loans granted by China Mobile Finance and other investments		4,650	2,500	
Proceeds from disposal of other financial assets				140
Receipt of consideration from China Tower	7	57,585	5,000	
Others		1	14	
<b>Net cash used in investing activities</b>		<b>(106,533)</b>	<b>(194,523)</b>	<b>(142,743)</b>

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Consolidated Statements of Cash Flows (Continued)

for the year ended December 31

*(Expressed in RMB)*

	<i>Note</i>	<i>2017</i> Million	<i>2016</i> Million	<i>2015</i> Million
<b>Financing activities</b>				
Proceeds from issuance of shares under share option scheme				1,024
Capital injection from non-controlling shareholders of a subsidiary				870
Interest paid		(247)	(232)	(442)
Dividends paid to the Company's equity shareholders	34(b)	(106,036)	(46,991)	(47,912)
Dividends paid to non-controlling shareholders of subsidiaries		(7)	(13)	(21)
Consideration for business combination under common control				(31,880)
Proceeds from entrusted loans	35(a)			8,592
Repayment of entrusted loans	35(a)			(18,834)
Short-term deposits placed by ultimate holding company	35(a)	8,611	5,552	7,274
Repayment of short-term deposits placed by ultimate holding company	35(a)	(5,552)	(7,274)	(4,181)
Repayment of bonds	29	(5,000)		(1,000)
<b>Net cash used in financing activities</b>		<b>(108,231)</b>	<b>(48,958)</b>	<b>(86,510)</b>
<b>Net increase in cash and cash equivalents</b>		<b>30,750</b>	<b>10,220</b>	<b>5,836</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>90,413</b>	<b>79,842</b>	<b>73,812</b>
<b>Effect of changes in foreign exchange rate</b>		<b>(527)</b>	<b>351</b>	<b>194</b>
<b>Cash and cash equivalents at end of year</b>	<b>28</b>	<b>120,636</b>	<b>90,413</b>	<b>79,842</b>

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Consolidated Statements of Cash Flows (Continued)

for the year ended December 31

*(Expressed in RMB)*

***Significant non-cash transactions***

The Group recorded payables of RMB100,584,000,000 (2016: RMB103,940,000,000; 2015: RMB125,210,000,000) to equipment suppliers as of December 31, 2017 for additions of construction in progress during the year then ended.

***Changes in liabilities arising from financing activities***

There are no changes in liabilities arising from financing activities other than the placement and repayment of short-term deposits of ultimate holding company (note 26) and the repayment of bonds (note 29).

The notes on pages F-15 to F-91 are an integral part of these consolidated financial statements.



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Notes to the consolidated financial statements

*(Expressed in RMB unless otherwise indicated)*

**1 GENERAL INFORMATION**

China Mobile Limited (the Company) was incorporated in the Hong Kong Special Administrative Region ( Hong Kong ) of the People's Republic of China (the PRC) on September 3, 1997. The principal activities of the Company and its subsidiaries (together referred to as the Group) are the provision of telecommunications and related services in Mainland China and in Hong Kong (for the purpose of preparing these consolidated financial statements, Mainland China refers to the PRC excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan). The Company's immediate holding company is China Mobile Hong Kong (BVI) Limited (incorporated in British Virgin Islands), and the Company's ultimate holding company is China Mobile Communications Group Co., Ltd. ( CMCC, formerly known as China Mobile Communications Corporation ). The address of the Company's registered office is 50<sup>th</sup> floor, The Center, 99 Queen's Road Central, Hong Kong.

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

**2 SIGNIFICANT ACCOUNTING POLICIES**

**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ( IFRSs ) issued by the International Accounting Standards Board ( IASB ), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ( IASs ) and Interpretations issued by the IASB. A summary of the significant accounting policies adopted by the Group is set out below.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Basis of preparation**

The consolidated financial statements comprise the Group and the Group's interest in associates and joint ventures.

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

The preparation of financial statements in conformity with IFRSs 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 39.

**Acquisition of Target Assets and Businesses from China Tietong Telecommunications Corporation**

On November 27, 2015, China Mobile TieTong Company Limited ( CM TieTong ), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with China Tietong Telecommunications Corporation ( TieTong ), a wholly-owned subsidiary of CMCC, under which CM TieTong has agreed to acquire, and TieTong has agreed to sell, certain assets, businesses and related liabilities as well as its related employees in relation to the fixed-line telecommunications operations ( Target Assets and Businesses ). The final consideration for the acquisition of the Target Assets and Businesses based on the acquisition agreement was RMB31,967,000,000. The acquisition was completed on December 31, 2015.

The acquisition of the Target Assets and Businesses was considered as a business combination under common control as CM TieTong and the Target Assets and Businesses are both ultimately controlled by CMCC. Under IFRSs, the acquisition of the Target Assets and Businesses was accounted for using merger accounting in accordance with the Accounting Guideline 5 Merger Accounting for Common Control Combinations ( AG 5 ) issued by the Hong Kong Institute of Certified Public Accountants (note 2(c)(iii)).

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**(i) Subsidiaries**

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized gains arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries would be changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

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

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**(ii) Business combination other than under common control**

The Group applies the acquisition method to account for business combination of entities and businesses which are not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

**(iii) Business combination under common control**

Under IFRSs, the Group use merger accounting to account for the business combination of entities and businesses under common control in accordance with AG 5.

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The assets and liabilities of the combining entities or businesses are combined using the carrying book values from the controlling parties perspective. No amount is recognized in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the consideration at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination. Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognized as an expense in the period in which they were incurred.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(d) Investments accounted for using the equity method**

Investments accounted for using the equity method include investment in associates and joint ventures.

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.

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Under the equity method, the investment is initially recorded at cost. Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(i)). The Group's share of the post-acquisition post-tax results of the investee for the year is recognized as share of profit or loss of investments accounted for using the equity method 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 its share of other comprehensive income in the consolidated statements of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or joint ventures, 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 associates or joint ventures.

Unrealized profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss. Accounting policies of associates or joint ventures would be changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

Gain or loss on dilution of equity interest in associates and joint ventures are recognized in profit or loss.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(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 of the acquisition date.

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(i)). Each unit or groups of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose. Goodwill is monitored at the operating segment level.

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

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

Intangible assets are not amortized where their useful lives are assessed to be indefinite. The useful life of an intangible asset that is not being amortized is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. Otherwise, the change in useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

**Table of Contents****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Property, plant and equipment**

Property, plant and equipment are stated in the balance sheets at cost less accumulated depreciation and impairment losses (see note 2(i)).

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

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

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

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

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

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(h) Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

**(i) Classification of assets leased to the Group**

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

**(ii) Assets acquired under finance leases**

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments of such assets is included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided for at rates, which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the useful life of the asset as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). 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.

**(iii) Leased lines and network assets and 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.

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



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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(h) Leased assets (Continued)**

**(iv) Sale and leaseback**

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognized as income by a seller-lessee. Instead, it shall be deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognized immediately. If the sale price is below fair value, any profit or loss shall be recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortized over the period for which the asset is expected to be used.

**(i) Impairment of assets**

**(i) Impairment of investments accounted for using the equity method, available-for-sale financial assets and receivables**

Investments accounted for using the equity method, available-for-sale financial assets and receivables are reviewed at the end of each reporting date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

significant financial difficulty of the entity;

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

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

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

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

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Impairment of assets (Continued)**

**(i) Impairment of investments accounted for using the equity method, available-for-sale financial assets and receivables (Continued)**

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

For investment accounted for using the equity method (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(i)(ii). The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount in accordance with note 2(i)(ii).

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

For debt instruments classified as available-for-sale financial assets, if any impairment evidence exists, the cumulative loss (measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is reclassified from equity and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss. For equity instruments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any impairment evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is reclassified from equity and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

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**Table of Contents****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(i) Impairment of assets (Continued)****(i) Impairment of investments accounted for using the equity method, available-for-sale financial assets and receivables (Continued)**

For trade and other current receivables 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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Impairment of assets (Continued)**

**(ii) Impairment of other assets**

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

property, plant and equipment;

construction in progress;

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

investments in subsidiaries;

goodwill; and

other intangible assets.

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

**Calculation of recoverable amount**

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

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Impairment of assets (Continued)**

**(ii) Impairment of other assets (Continued)**

Recognition of impairment losses

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

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable 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.

**(j) Construction in progress**

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

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Inventories**

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

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

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

Accounts receivable and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method less allowance for impairment loss (see note 2(i)), except where the effect of discounting would be immaterial.

**(m) Available-for-sale financial assets**

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

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

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

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

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

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(n) Deferred revenue**

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

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

**(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.

**(q) Cash and cash equivalents**

Cash and cash equivalents comprise bank deposits with original maturity within three months, 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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(r) Revenue recognition**

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

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

**(s) Interest income**

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

**(t) Income tax**

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

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

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



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**Table of Contents****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(t) Income tax (Continued)**

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

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

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

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(t) Income tax (Continued)**

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

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

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

the same taxable entity; or

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

**(u) Provisions and contingent liabilities**

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

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

**(v) 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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(v) Employee benefits (Continued)**

**(i) Short-term employee benefits and contributions to defined contribution retirement plans (Continued)**

The Company and subsidiaries incorporated in Hong Kong are required to make contributions to Mandatory Provident Funds under the Hong Kong Mandatory Provident Fund ( MPF ) Schemes Ordinance. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Such contributions are recognized as an expense in profit or loss as incurred.

The employees of the subsidiaries in Mainland China participate in the defined contribution retirement plans managed by the local government authorities whereby the subsidiaries are required to contribute to the schemes at fixed rates of the employees' salary costs. In addition to the local governmental defined contribution retirement plans, the subsidiaries also participate in a pension scheme launched by the Group managed by an independent insurance company whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs or in accordance with the terms of the plans. The Group's contributions to these plans are charged to profit or loss when incurred.

The Company and subsidiaries have no obligations for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

**(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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(v) Employee benefits (Continued)**

**(ii) Share-based payments (Continued)**

During the vesting period, the number of share options that is expected to vest is reviewed at each balance sheet date. Any resulting adjustment to the cumulative fair value recognized in prior years is credited/charged to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve). The equity amount is recognized in the capital reserve until either the option is exercised (when it is transferred to the share capital account) or the option expires (when it is released directly to retained profits).

**(iii) Termination benefits**

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

**(w) 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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(x) Translation of foreign currencies**

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

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

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

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

For the purpose of the consolidated statements of cash flows, 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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(y) Related parties**

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control of the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in note 2(y)(a); or

(vii) A person identified in note 2(y)(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.

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**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(z) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal financial reports that are provided to and regularly reviewed by the Group's Chief Operating Decision Maker ( CODM ) in order to allocate resources and assess performance of the segment. The CODM has been identified as the Executive Directors of the Company. For the years presented, the Group as a whole is an operating segment since the Group is only engaged in telecommunications and related businesses. No geographical information has been disclosed as the majority of the Group's operating activities are carried out in Mainland China. The Group's assets located and operating revenue derived from activities outside Mainland China are less than 5% of the Group's assets and operating revenue, respectively.

**(aa) Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

**3 CHANGES IN ACCOUNTING POLICIES**

Amendments to IFRS and IAS effective for the financial year beginning on January 1, 2017 do not have a material impact on the Group.

The Group did not apply any other amendments, new standards or interpretation that is not yet effective for the current accounting year (see note 40).

**Table of Contents****4 OPERATING REVENUE**

	<i>2017</i> Million	<i>2016</i> Million	<i>2015</i> Million
<b>Revenue from telecommunications services</b>			
Voice services	156,918	209,949	261,896
Data services	493,350	394,937	303,425
Others	18,083	18,536	18,768
	668,351	623,422	584,089
<b>Revenue from sales of products and others</b>	72,163	84,999	84,246
	740,514	708,421	668,335

**5 EMPLOYEE BENEFIT AND RELATED EXPENSES**

	<i>2017</i> Million	<i>2016</i> Million	<i>2015</i> Million
Salaries, wages, labor service expenses and other benefits	74,427	69,546	67,622
Retirement costs: contributions to defined contribution retirement plans	11,086	9,917	7,183
	85,513	79,463	74,805



**Table of Contents****6 OTHER OPERATING EXPENSES**

	<i>Note</i>	2017 Million	2016 Million	2015 Million
Maintenance		55,737	53,852	53,991
Impairment loss of doubtful accounts		3,392	3,734	4,839
Write-down of inventories		297	282	272
Amortization of other intangible assets		515	499	274
Operating lease charges				
- land and buildings		11,453	11,628	13,447
- others	(i)	3,698	4,248	6,186
Loss/(gain) on disposal of property, plant and equipment		8	(180)	(4)
Write-off and impairment of property, plant and equipment (note 14)		12,593	7,216	7,614
Power and utilities expenses		30,518	29,461	27,134
Operation support and research and development expenses	(ii)	38,016	32,296	27,209
Auditors remuneration				
- audit services	(iii)	107	103	97
- tax services		3	1	1
- other services		12	9	4
Others	(iv)	25,894	23,924	21,229
		182,243	167,073	162,293

Note:

- (i) Other operating lease charges represent the operating lease charges for motor vehicles, computer and other office equipment.
- (ii) Operation support and research and development expenses mainly include support expenses for new business operation, research and development cost for new technology evolution, amortization of testing equipment, and other related costs.
- (iii) 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 with the service fee amount of RMB22,000,000 (2016: RMB22,000,000; 2015: RMB20,000,000).
- (iv) Others consist of administrative expenses, property management expenses, taxes and surcharges, and other miscellaneous expenses.

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**7 PROCEEDS RECEIVABLE FOR THE TRANSFER OF TOWER ASSETS**

On October 14, 2015, China Mobile Communication Co., Ltd. ( CMC ), a wholly-owned subsidiary of the Company, jointly with China United Network Communications Corporation Limited ( China Unicom ), China Telecom Corporation Limited ( China Telecom ), and China Reform Holdings Corporation Ltd. ( CRHC ), entered into an agreement with China Tower Corporation Limited ( China Tower ), pursuant to which China Tower (i) purchased telecommunications towers and related assets ( Tower Assets ) from CMC, China Unicom and China Telecom and (ii) issued new equity shares to CRHC. The consideration of Tower Assets was determined based on the appraised value and subject to adjustment in accordance with the terms of the transaction agreement by each party as of the date of delivery. China Tower agreed to settle the consideration by way of issuing its equity shares to each party, plus cash consideration equalling to the excess of total consideration over the amount settled by equity shares. Upon completion of the above transactions, China Tower would be owned by CMC, China Unicom, China Telecom and CRHC with their respective shares of equity interests of 38.0%, 28.1%, 27.9% and 6.0%.

On October 31, 2015, CMC completed the transfer of Tower Assets to China Tower. In return, China Tower issued equity shares to CMC and shall pay CMC the remaining cash consideration. The first payment of RMB5,000,000,000 has been made in February 2016 and the remaining balance of cash consideration was settled in December 2017.

The gain arising from the transfer of CMC s Tower Assets, which has eliminated unrealized profits due to the Group s interest in China Tower, is recorded as Gain on the transfer of Tower Assets in the consolidated statements of comprehensive income for the year ended December 31, 2015.

**Table of Contents****8 OTHER GAINS**

	2017 Million	2016 Million	2015 Million
Penalty and compensation income	1,118	764	658
Dividend income from unlisted securities			11
Others	1,271	1,204	1,131
	2,389	1,968	1,800

**9 FINANCE COSTS**

	2017 Million	2016 Million	2015 Million
Interest on bonds	187	228	257
Interest on bank deposits received and entrusted loans (note 35(a))	21	7	194
Others	2		4
	210	235	455

**10 DIRECTORS REMUNERATION**

Directors' remuneration during 2017 is as follows:

	Directors fees 000	Salaries, allowances and bonuses 000	Contributions relating to social insurance, housing fund and retirement scheme 000	2017 Total 000
<b>Executive directors (Expressed in RMB)</b>				
SHANG Bing		781	123	904
LI Yue (Chief Executive Officer)		781	151	932
LIU Aili*		592	110	702
SHA Yuejia		702	148	850
DONG Xin**		695	145	840
		3,551	677	4,228

**Independent non-executive directors (Expressed in Hong Kong dollar)**

WONG Kwong Shing, Frank	470	470
CHENG Mo Chi, Moses	460	460
CHOW Man Yiu, Paul	455	455
YIU Kin Wah, Stephen***	255	255
	1,640	1,640

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**Table of Contents****10 DIRECTORS REMUNERATION (CONTINUED)**

Directors' remuneration during 2016 is as follows:

	<i>Directors fees 000</i>	<i>Salaries, allowances and bonuses 000</i>	<i>Contributions relating to social insurance, housing fund and retirement scheme 000</i>	<i>2016 Total 000</i>
<b>Executive directors (Expressed in RMB)</b>				
SHANG Bing <sup>#</sup>		498	122	620
LI Yue (Chief Executive Officer)		717	147	864
LIU Aili		662	141	803
XUE Taohai <sup>##</sup>		646	143	789
SHA Yuejia		662	141	803
		3,185	694	3,879
<b>Independent non-executive directors (Expressed in Hong Kong dollar)</b>				
LO Ka Shui <sup>###</sup>	130			130
WONG Kwong Shing, Frank	470			470
CHENG Mo Chi, Moses	452			452
CHOW Man Yiu, Paul	405			405
	1,457			1,457

Directors' remuneration during 2015 is as follows:

	<i>Directors fees 000</i>	<i>Salaries, allowances and bonuses 000</i>	<i>Contributions relating to social insurance, housing fund and retirement scheme 000</i>	<i>2015 Total 000</i>
<b>Executive directors (Expressed in RMB)</b>				
SHANG Bing <sup>1</sup>		107	30	137
XI Guohua <sup>2</sup>		377	113	490
LI Yue (Chief Executive Officer)		437	138	575
LIU Aili		365	133	498
XUE Taohai		387	135	522
HUANG Wenlin <sup>3</sup>		139	21	160

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SHA Yuejia	365	133	498
	2,177	703	2,880

**Independent non-executive directors (Expressed in Hong Kong dollar)**

LO Ka Shui	325		325
WONG Kwong Shing, Frank	470		470
CHENG Mo Chi, Moses	440		440
CHOW Man Yiu, Paul	330		330
	1,565		1,565

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**10 DIRECTORS REMUNERATION (CONTINUED)**

\* Mr. LIU Aili resigned from the position as executive director of the Company with effect from September 29, 2017.

\*\* Mr. DONG Xin was appointed as an executive director of the Company with effect from March 23, 2017.

\*\*\* Mr. Stephen YIU Kin Wah was appointed as an independent non-executive director of the Company with effect from March 23, 2017.

# The unpaid portion of executive directors' performance related bonuses for 2015 was included in executive directors' salaries, allowances and bonuses in 2016. Mr. SHANG Bing has been serving the Company since September 2015.

## Mr. XUE Taohai resigned from the position as executive director of the Company with effect from March 23, 2017.

### Mr. LO Ka Shui resigned from the position as independent non-executive director of the Company with effect from May 26, 2016.

<sup>1</sup> Mr. SHANG Bing was appointed as an executive director and chairman of the Company with effect from September 10, 2015.

<sup>2</sup> Mr. XI Guohua resigned from the position as executive director and chairman of the Company with effect from August 24, 2015.

<sup>3</sup> Madam HUANG Wenlin resigned from the position as executive director of the Company with effect from March 19, 2015. In 2015, 2016 and 2017, executive directors of the Company voluntarily waived their directors' fees.

The unpaid portion of executive directors' performance related bonuses for 2017 will be determined based on the evaluation conducted in 2018, and the additional bonuses related to their term of service will be determined based on the evaluation conducted upon the completion of three-year evaluation period.

**Table of Contents****11 INDIVIDUALS WITH HIGHEST EMOLUMENTS**

The emoluments payable to the five individuals with highest emoluments during 2015, 2016 and 2017 are as follows:

	<i>2017</i> <i>000</i>	<i>2016</i> <i>000</i>	<i>2015</i> <i>000</i>
Salaries, allowances and benefits in kind	5,259	5,602	8,135
Performance related bonuses	4,014	2,029	1,814
Retirement scheme contributions	158	157	148
	9,431	7,788	10,097

The emoluments fell within the following bands:

	<i>2017</i> <i>Number of</i> <i>individuals</i>	<i>2016</i> <i>Number of</i> <i>individuals</i>	<i>2015</i> <i>Number of</i> <i>individuals</i>
Emolument bands			
1,500,001 - 2,000,000	3	5	4
2,000,001 - 2,500,000	2		1



**Table of Contents****12 TAXATION****(a) Taxation in the consolidated statements of comprehensive income represents:**

	<i>Note</i>	<i>2017</i> Million	<i>2016</i> Million	<i>2015</i> Million
<b>Current tax</b>				
Provision for Hong Kong profits tax on the estimated assessable profits for the year	(i)	260	193	164
Provision for the PRC enterprise income tax on the estimated taxable profits for the year	(ii)	36,945	39,709	39,588
		37,205	39,902	39,752
<b>Deferred tax</b>				
Origination and reversal of temporary differences (note 20)	(iii)	(3,482)	(4,279)	(4,673)
		33,723	35,623	35,079

Note:

- (i) The provision for Hong Kong profits tax is calculated at 16.5% (2016: 16.5%; 2015: 16.5%) of the estimated assessable profits for the year ended December 31, 2017.
- (ii) The provision for the PRC enterprise income tax is based on the statutory tax rate of 25% (2016: 25%; 2015: 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, 2017. Certain subsidiaries of the Company enjoy the preferential tax rate of 15% (2016: 15%; 2015: 15%).
- (iii) Deferred taxes of the Group are recognized based on tax rates that are expected to apply to the periods when the temporary differences are realized or settled.
- (iv) On April 22, 2009, SAT issued the Notice regarding Matters on Determination of Tax Residence Status of Chinese-controlled Offshore Incorporated Enterprises under Rules of Effective Management ( 2009 Notice ). The Company is qualified as a PRC offshore-registered resident enterprise for purposes of the 2009 Notice. In accordance with the 2009 Notice and the PRC enterprise income tax law, the dividend income of the Company from its subsidiaries in the PRC is exempted from PRC enterprise income tax.

**Table of Contents****12 TAXATION (CONTINUED)****(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:**

	2017 Million	2016 Million	2015 Million
Profit before taxation	148,137	144,462	143,734
Notional tax on profit before tax, calculated at the PRC's statutory tax rate of 25% (Note)	37,034	36,116	35,934
Tax effect of non-taxable items			
- Share of profit of investments accounted for using the equity method	(2,487)	(2,159)	(2,023)
- Interest income	(41)	(22)	(31)
Tax effect of non-deductible expenses on the PRC operations	772	798	986
Tax effect of non-deductible expenses on Hong Kong operations	70	76	68
Rate differential of certain PRC operations (note 12(a)(ii))	(2,317)	(1,580)	(1,576)
Rate differential on Hong Kong operations (note 12(a)(i))	(182)	(133)	(122)
Tax effect of deductible temporary difference for which no deferred tax asset was recognized	154	1,562	98
Tax effect of deductible tax loss for which no deferred tax asset was recognized	818	1,349	356
Tax effect on the eliminated unrealized profits related to the transfer of Tower Assets			1,547
Others	(98)	(384)	(158)
Taxation	33,723	35,623	35,079

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

**Table of Contents****12 TAXATION (CONTINUED)**(c) **The tax credited/(charged) relating to components of other comprehensive income is as follows:**

	2017			2016			2015		
	<i>Before tax</i>	<i>Tax credited</i>	<i>After tax</i>	<i>Before tax</i>	<i>Tax charged</i>	<i>After tax</i>	<i>Before tax</i>	<i>Tax charged</i>	<i>After tax</i>
	Million	Million	Million	Million	Million	Million	Million	Million	Million
Change in value of available-for-sale financial assets	(7)	2	(5)	32	(8)	24			
Currency translation differences	(735)		(735)	774		774	603		603
Share of other comprehensive (loss)/income of investments accounted for using the equity method	(1,038)		(1,038)	(1,059)		(1,059)	901		901
<b>Other comprehensive (loss)/income</b>	(1,780)	2	(1,778)	(253)	(8)	(261)	1,504		1,504
Current tax									
Deferred tax		2			(8)				
		2			(8)				

**Table of Contents****13 EARNINGS PER SHARE****(a) Basic earnings per share**

The calculation of basic earnings per share for the year is based on the profit attributable to equity shareholders of the Company of RMB114,279,000,000 (2016: RMB108,741,000,000; 2015: RMB108,539,000,000) and the weighted average number of 20,475,482,897 shares (2016: 20,475,482,897 shares; 2015: 20,473,119,088 shares) in issue during the year, calculated as follows:

**Weighted average number of shares**

	<i>2017</i> <i>Number</i>	<i>2016</i> <i>Number</i>	<i>2015</i> <i>Number</i>
	<i>of shares</i>	<i>of shares</i>	<i>of shares</i>
Issued shares as of January 1	20,475,482,897	20,475,482,897	20,438,426,514
Effect of share options exercised			34,692,574
<b>Weighted average number of shares in issue during the year</b>	<b>20,475,482,897</b>	<b>20,475,482,897</b>	<b>20,473,119,088</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 RMB114,279,000,000 (2016: RMB108,741,000,000; 2015: RMB108,539,000,000) and the weighted average number of 20,475,482,897 shares (2016: 20,475,482,897 shares; 2015: 20,479,705,763 shares), calculated as follows:

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

	<i>2017</i> <i>Number</i>	<i>2016</i> <i>Number</i>	<i>2015</i> <i>Number</i>
	<i>of shares</i>	<i>of shares</i>	<i>of shares</i>
Weighted average number of shares in issue during the year	20,475,482,897	20,475,482,897	20,473,119,088
Dilutive equivalent shares arising from share options			6,586,675
<b>Weighted average number of shares (diluted) during the year</b>	<b>20,475,482,897</b>	<b>20,475,482,897</b>	<b>20,479,705,763</b>

In 2016 and 2017, there was no dilutive potential ordinary shares of the Company outstanding (note 33). Therefore, there was no dilution impact on weighted average number of shares (diluted) of the Company.

**Table of Contents****14 PROPERTY, PLANT AND EQUIPMENT**

	<i>Buildings</i> Million	<i>Telecommunications transceivers, switching centers, transmission and other network equipment</i> Million	<i>Office equipment, furniture, fixtures and others</i> Million	<i>Total</i> Million
<b>Cost:</b>				
As of January 1, 2016	129,460	1,174,803	22,784	1,327,047
Transferred from construction in progress	8,476	172,502	2,267	183,245
Other additions	214	2,367	287	2,868
Disposals	(1,048)	(5,017)	(138)	(6,203)
Assets written-off	(308)	(58,650)	(2,210)	(61,168)
Exchange differences	129	262	1	392
As of December 31, 2016	136,923	1,286,267	22,991	1,446,181
As of January 1, 2017	136,923	1,286,267	22,991	1,446,181
Transferred from construction in progress	10,577	174,250	833	185,660
Other additions	820	962	1,193	2,975
Disposals	(72)	(181)	(109)	(362)
Assets written-off	(331)	(38,971)	(1,117)	(40,419)
Exchange differences	(141)	(359)	(4)	(504)
As of December 31, 2017	147,776	1,421,968	23,787	1,593,531
<b>Accumulated depreciation and impairment:</b>				
As of January 1, 2016	36,825	689,564	15,027	741,416
Charge for the year	5,310	129,915	2,945	138,170
Written back on disposals	(446)	(2,336)	(68)	(2,850)
Assets written-off and impairment loss	(203)	(51,108)	(1,805)	(53,116)
Exchange differences	16	186	3	205
As of December 31, 2016	41,502	766,221	16,102	823,825
As of January 1, 2017	41,502	766,221	16,102	823,825
Charge for the year	5,695	143,026	1,227	149,948
Written back on disposals	(58)	(45)	(105)	(208)
Assets written-off and impairment loss	(299)	(26,465)	(1,068)	(27,832)
Exchange differences	(20)	(208)	(3)	(231)
As of December 31, 2017	46,820	882,529	16,153	945,502
<b>Net book value:</b>				
As of December 31, 2017	100,956	539,439	7,634	648,029
As of December 31, 2016	95,421	520,046	6,889	622,356



**Table of Contents****14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

As a result of the optimization of 4G network coverage, the continuing impact of the mobile Internet substitution effect, and particularly, the significant progress of Voice over LTE ( VoLTE ) business services this year, the usage and utilization of the Group's 2G network has been decreasing rapidly. Meanwhile, due to the further decline of voice tariff, the revenue from voice services dropped even faster and the management anticipates more pressure on the profitability of 2G wireless and related assets ( 2G Network Assets ). Therefore, management performed impairment test on the 2G Network Assets as of December 31, 2017. For the impairment testing purpose, the recoverable amounts (note 2(i)(ii)) of 2G Network Assets was determined based on value-in-use ( VIU ) calculations, i.e. the present value of estimated future net cash flows expected to arise from the continuing use of the 2G Network Assets. After considering the historical results, the prevailing market trends and the expected remaining useful lives of 2G Network Assets, the Group has made key assumptions and estimates on the period covered by the cash flow forecast and the estimated future revenue of 2G Network Assets to estimate the present value of future net cash flows applying the pre-tax discount rate of 11%. Based on the impairment test results, the Group recognized an impairment loss of RMB10,450,000,000 for the year ended December 31, 2017 (2016: nil; 2015: nil).

**15 CONSTRUCTION IN PROGRESS**

	2017 Million	2016 Million
As of January 1	89,853	88,012
Additions	173,919	185,086
Transferred to property, plant and equipment	(185,660)	(183,245)
As of December 31	78,112	89,853

As of December 31, 2017, construction in progress primarily comprises expenditure incurred on the network expansion projects but not yet completed.

**16 LAND LEASE PREPAYMENTS AND OTHERS**

For the year ended December 31, 2017, the amortization of land lease prepayments expensed in the profit or loss amounted to approximately RMB446,000,000 (2016: approximately RMB443,000,000; 2015: approximately RMB426,000,000).

**Table of Contents****17 GOODWILL**

	2017 Million	2016 Million
<b>Cost and carrying amount:</b>		
As of January 1 and December 31	35,343	35,343

**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 tests of goodwill, goodwill is allocated to groups of cash-generating units (being subsidiaries acquired in each acquisition). Such groups of cash-generating units represent the lowest level within the Group for which the goodwill is monitored for internal management purposes.

As of December 31, 2017, the goodwill of RMB35,300,000,000 is attributable to the cash-generating unit in relation to the operation in Mainland China which management currently monitors. The recoverable amount of the cash-generating unit is determined based on the VIU calculations by using the discounted cash flow method. This method considers the pre-tax cash flows of the subsidiaries (cash-generating unit) for the five years ending December 31, 2022 with subsequent transition to perpetuity. For the five years ending December 31, 2022, the average growth rate is assumed 1.5% while for the years beyond December 31, 2022, the assumed continual growth rate to perpetuity is 1%. The present value of cash flows is calculated by discounting the cash flow using pre-tax interest rates of approximately 11%. The management performed impairment test for the goodwill in relation to the operation in Mainland China and determined such goodwill was not impaired. Reasonably possible changes in key assumptions will not lead to the goodwill impairment loss.



**Table of Contents****18 SUBSIDIARIES**

The following list contains only the particulars of subsidiaries as of December 31, 2017, 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/ establishment 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	British Virgin Islands( BVI )	HK\$1	100%		Investment holding company
CMC**	Mainland China	RMB1,641,848,326		100%	Network and business coordination center
China Mobile Group Guangdong Co., Ltd. ( Guangdong Mobile )	Mainland China	RMB5,594,840,700		100%	Telecommunications operator
China Mobile Group Zhejiang Co., Ltd.	Mainland China	RMB2,117,790,000		100%	Telecommunications operator
China Mobile Group Jiangsu Co., Ltd.	Mainland China	RMB2,800,000,000		100%	Telecommunications operator
China Mobile Group Fujian Co., Ltd.	Mainland China	RMB5,247,480,000		100%	Telecommunications operator
China Mobile Group Henan Co., Ltd.	Mainland China	RMB4,367,733,641		100%	Telecommunications operator
China Mobile Group Hainan Co., Ltd.	Mainland China	RMB643,000,000		100%	Telecommunications operator
China Mobile Group Beijing Co., Ltd.	Mainland China	RMB6,124,696,053		100%	Telecommunications operator
China Mobile Group Shanghai Co., Ltd.	Mainland China	RMB6,038,667,706		100%	Telecommunications operator
China Mobile Group Tianjin Co., Ltd.	Mainland China	RMB2,151,035,483		100%	Telecommunications operator
China Mobile Group Hebei Co., Ltd.	Mainland China	RMB4,314,668,600		100%	Telecommunications operator
China Mobile Group Liaoning Co., Ltd.	Mainland China	RMB5,140,126,680		100%	Telecommunications operator
China Mobile Group Shandong Co., Ltd.	Mainland China	RMB6,341,851,146		100%	Telecommunications operator
China Mobile Group Guangxi Co., Ltd.	Mainland China	RMB2,340,750,100		100%	Telecommunications operator
China Mobile Group Anhui Co., Ltd.	Mainland China	RMB4,099,495,494		100%	Telecommunications operator
China Mobile Group Jiangxi Co., Ltd.	Mainland China	RMB2,932,824,234		100%	Telecommunications operator
China Mobile Group Chongqing Co., Ltd.	Mainland China	RMB3,029,645,401		100%	Telecommunications operator



**Table of Contents****18 SUBSIDIARIES (CONTINUED)**

<i>Name of company*</i>	<i>Place of incorporation/ establishment 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 Group Sichuan Co., Ltd.	Mainland China	RMB7,483,625,572		100%	Telecommunications operator
China Mobile Group Hubei Co., Ltd.	Mainland China	RMB3,961,279,556		100%	Telecommunications operator
China Mobile Group Hunan Co., Ltd.	Mainland China	RMB4,015,668,593		100%	Telecommunications operator
China Mobile Group Shaanxi Co., Ltd.	Mainland China	RMB3,171,267,431		100%	Telecommunications operator
China Mobile Group Shanxi Co., Ltd.	Mainland China	RMB2,773,448,313		100%	Telecommunications operator
China Mobile Group Neimenggu Co., Ltd.	Mainland China	RMB2,862,621,870		100%	Telecommunications operator
China Mobile Group Jilin Co., Ltd.	Mainland China	RMB3,277,579,314		100%	Telecommunications operator
China Mobile Group Heilongjiang Co., Ltd.	Mainland China	RMB4,500,508,035		100%	Telecommunications operator
China Mobile Group Guizhou Co., Ltd.	Mainland China	RMB2,541,981,749		100%	Telecommunications operator
China Mobile Group Yunnan Co., Ltd.	Mainland China	RMB4,137,130,733		100%	Telecommunications operator
China Mobile Group Xizang Co., Ltd.	Mainland China	RMB848,643,686		100%	Telecommunications operator
China Mobile Group Gansu Co., Ltd.	Mainland China	RMB1,702,599,589		100%	Telecommunications operator
China Mobile Group Qinghai Co., Ltd.	Mainland China	RMB902,564,911		100%	Telecommunications operator
China Mobile Group Ningxia Co., Ltd.	Mainland China	RMB740,447,232		100%	Telecommunications operator
China Mobile Group Xinjiang Co., Ltd.	Mainland China	RMB2,581,599,600		100%	Telecommunications operator
China Mobile Group Design Institute Co., Ltd.	Mainland China	RMB160,232,500		100%	Provision of telecommunications network planning design and consulting services

**Table of Contents****18 SUBSIDIARIES (CONTINUED)**

<i>Name of company*</i>	<i>Place of incorporation/ establishment 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 Holding Company Limited**	Mainland China	US\$30,000,000	100%		Investment holding company
China Mobile (Shenzhen) Limited**	Mainland China	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>	Mainland China	US\$10,000,000		100%	Technology platform development and maintenance
Aspire Information Network (Shenzhen) Limited** <sup>#</sup>	Mainland China	US\$5,000,000		100%	Provision of mobile data solutions, system integration and development
Aspire Information Technologies (Beijing) Limited** <sup>#</sup>	Mainland China	US\$5,000,000		100%	Technology platform development and maintenance
Fujian FUNO Mobile Communication Technology Company Limited** <sup>#</sup>	Mainland China	US\$3,800,000		51%	Network construction and maintenance, network planning and optimizing, training and communication services
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	Hong Kong	HK\$951,046,930		100%	Provision of telecommunications and related services
China Mobile International Holdings Limited	Hong Kong	HK\$16,495,670,000	100%		Investment holding company
China Mobile International Limited	Hong Kong	HK\$6,400,000,000		100%	Provision of voice and roaming clearance services, Internet services and value-added services
China Mobile Group Device Co., Ltd.	Mainland China	RMB6,200,000,000		99.97%	Provision of electronic communication products design and sale of related products

**Table of Contents****18 SUBSIDIARIES (CONTINUED)**

<i>Name of company*</i>	<i>Place of incorporation/ establishment 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 Group Finance Co., Ltd. ( China Mobile Finance )	Mainland China	RMB11,627,783,669		92%	Provision of non-banking financial services
China Mobile IoT Company Limited	Mainland China	RMB1,000,000,000		100%	Provision of network services
China Mobile (Suzhou) Software Technology Co., Ltd.	Mainland China	RMB980,000,000		100%	Provision of computer hardware and software research and development services
China Mobile (Hangzhou) Information Technology Co., Ltd.	Mainland China	RMB1,150,000,000		100%	Provision of computer hardware and software research and development services
China Mobile Online Services Co., Ltd.	Mainland China	RMB50,000,000		100%	Provision of call center services
MIGU Company Limited	Mainland China	RMB7,000,000,000		100%	Provision of Mobile Internet digital content services
CM TieTong	Mainland China	RMB31,880,000,000		100%	Provision of telecommunications services
China Mobile Internet Company Limited	Mainland China	RMB2,000,000,000		100%	Provision of value added telecommunications services
China Mobile Investment Holdings Company Limited	Mainland China	RMB330,000,000		100%	Investment holding company
China Mobile Quantong System Integration Co., Ltd.	Mainland China	RMB550,000,000		100%	Provision of computer system integration, construction, maintenance and related technology development services

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

\*\* Companies registered as wholly owned foreign enterprises in the Mainland China.

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

# Effective interest held by the Group is 66.41%.



**Table of Contents****19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

The amounts recognized in the consolidated balance sheets are as follows:

	<i>As of December 31, 2017 Million</i>	<i>As of December 31, 2016 Million</i>
Associates	131,636	123,255
Joint ventures	863	784
	132,499	124,039

Details of major associates are as follows:

<i>Name of associate</i>	<i>Place of incorporation/ establishment and operation</i>	<i>Proportion of ownership interest held by the Company or its subsidiary</i>	<i>Principal Activity</i>
<b>Unlisted company</b>			
China Tower	PRC	38%	Construction,  maintenance and  operation of  telecommunications  towers
<b>Listed company</b>			
Shanghai Pudong Development Bank Co., Ltd. ( SPD Bank ) (Note)	PRC	18%	Provision of  banking services
IFLYTEK Co., Ltd. ( IFLYTEK )	PRC	13%	Provision of  Chinese speech and language  technology  products and  services
True Corporation Public Company Limited ( True Corporation )	Thailand	18%	

Note:

The Group's shareholding percentage in SPD Bank has been diluted from 18.98% to 18.18% as a result from SPD Bank's issuance of new ordinary shares to other companies in 2017. Up to the release day of these financial statements, SPD Bank has not yet announced its audited annual results for the year ended December 31, 2017, therefore, the Group has recognized its share of SPD Bank's comprehensive income for the year 2017 based on the financial information which was already released by SPD Bank and publicly disclosed, with some information such as total liabilities and total equity not provided.

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**Table of Contents****19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)**

(i) Summary financial information on principal associates:

	<i>SPD Bank</i>	
	<i>As of December 31</i>	
	<i>2017</i>	<i>2016</i>
	Million	Million
Total assets	6,135,061	5,857,263
Total liabilities		5,484,329
Total equity		372,934
Total equity attributable to ordinary equity shareholders	395,466	338,027
Percentage of ownership of the Group	18%	19%
Total equity attributable to the Group	71,896	64,158
The impact of fair value adjustments at the time of acquisition and goodwill	6,663	7,780
Interest in associates	78,559	71,938

	<i>IFLYTEK</i>		<i>True Corporation</i>		<i>China Tower</i>	
	<i>As of December 31</i>		<i>As of December 31</i>		<i>As of December 31</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	Million	Million	Million	Million	Million	Million
Total current assets	7,329	5,533	23,566	23,135	30,517	39,565
Total non-current assets	6,151	4,881	69,511	61,532	292,125	272,103
Total current liabilities	4,428	2,521	39,589	30,333	150,438	171,568
Total non-current liabilities	1,042	674	26,643	29,492	44,710	14,548
Total equity	8,010	7,219	26,845	24,842	127,494	125,552
Total equity attributable to equity shareholders	7,759	7,061	26,711	24,714	127,494	125,552
Percentage of ownership of the Group	13%	14%	18%	18%	38%	38%
Total equity attributable to the Group	1,047	962	4,808	4,449	48,448	47,710
The impact of fair value adjustments at the time of acquisition and goodwill	805	814	2,664	2,847		
Elimination of unrealized profits resulting from the transfer of Tower Assets and its realization					(4,856)	(5,474)
Interest in associates	1,852	1,776	7,472	7,296	43,592	42,236

**Table of Contents****19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)**

(i) Summary financial information on principal associates (Continued):

	<i>SPD Bank</i>			<i>IFLYTEK</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
	Million	Million	Million	Million	Million	Million
Revenue	168,619	160,792	146,550	5,458	3,320	2,501
Profit before taxation	69,785	69,975	66,877	584	561	465
Profit attributable to ordinary equity shareholders for the year	52,515	51,374	49,704	428	484	425
Other comprehensive (loss)/income	(5,568)	(5,480)	4,458			
Total comprehensive income	46,947	45,894	54,162	428	484	425
Dividends received from associates	821	1,921	2,824	18	18	18

	<i>True Corporation</i>			<i>China Tower</i>		
	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
	Million	Million	Million	Million	Million	Million
Revenue	28,262	23,520	21,416	68,665	54,474	10,325
Profit/(loss) before taxation	726	(437)	839	2,685	(776)	(3,864)
Profit/(loss) for the year	465	(531)	795	1,943	(575)	(2,944)
Other comprehensive income/(loss)	32	(87)				
Total comprehensive income/(loss)	497	(618)	795	1,943	(575)	(2,944)
Dividends received from associates		5				

(ii) The fair values of the interests in SPD Bank, IFLYTEK and True Corporation are based on quoted market prices (level 1: quoted price (unadjusted) in active markets) at the balance sheet date without any deduction for transaction costs and disclosed as follows:

	<i>As of December 31, 2017</i>		<i>As of December 31, 2016</i>	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
	Million	Million	Million	Million
SPD Bank	78,559	67,166	71,938	66,522
IFLYTEK		1,852	1,776	4,854
True Corporation		7,472	7,296	8,297
Interest in listed associates		87,883	85,214	79,673

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**19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)**

(iii) The Group assesses at the end of each reporting period whether there is objective evidence that interest in associates are impaired. As of December 31, 2017, the fair value of investment in SPD Bank was RMB67,166,000,000 (2016: RMB66,522,000,000), below its carrying amount by approximately 14.5% (2016: approximately 7.5%). Management performed impairment test accordingly considering such impairment indicator. The recoverable amount of the interest in SPD Bank is determined by VIU. The calculation used pre-tax cash flow projections for the five years ending December 31, 2022 with subsequent extrapolation to perpetuity. The discount rate used was based on a cost of capital used to evaluate investments in Mainland China. Management judgement is required in estimating the future cash flows of SPD Bank. The key assumptions are determined with reference to external sources of information. Based on management's assessment results, there was no impairment as of December 31, 2017. Reasonably possible changes in key assumptions will not lead to the impairment loss.

As of December 31, 2017, the fair value of investment in True Corporation was RMB7,450,000,000 (2016: RMB8,297,000,000), below its carrying amount by approximately 0.3% (2016: exceeding by approximately 13.7%). Since the decline in the fair value of interest in True Corporation is not significant or prolonged, there was no objective evidence of impairment as of December 31, 2017.

The management has determined that there was no impairment indicator of the Group's interests in other associates as of December 31, 2016 and 2017.

**Details of major joint venture are as follows:**

In 2015, CMC together with State Development & Investment Corporation and China Mobile State Development & Investment Management Company Limited (45% of its registered capital is owned by CMCC), established China Mobile Innovative Business Fund (Shenzhen) Partnership (Limited Partnership) (the Fund). The Group recognized the investment as interest in a joint venture. CMC committed to invest RMB1,500,000,000 in cash, which represents 50% equity interest in the Fund. As of December 31, 2017, CMC has contributed RMB759,000,000 (2016: RMB721,000,000) to the Fund and has a commitment to invest RMB741,000,000 (2016: RMB779,000,000) to the Fund upon the request by the Fund. There are no contingent liabilities relating to the Group's interest in the joint venture.

**Table of Contents****20 DEFERRED TAX ASSETS AND LIABILITIES**

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

	<i>As of December 31, 2017 Million</i>	<i>As of December 31, 2016 Million</i>
<b>Deferred tax assets:</b>		
- Deferred tax asset to be recovered after 12 months	8,236	6,607
- Deferred tax asset to be recovered within 12 months	25,107	23,160
	33,343	29,767
<b>Deferred tax liabilities:</b>		
- Deferred tax liabilities to be settled after 12 months	(258)	(248)
- Deferred tax liabilities to be settled within 12 months	(104)	(44)
	(362)	(292)

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**Table of Contents****20 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)****Deferred tax assets and liabilities recognized and the movements during 2017**

	<i>As of January 1, 2017 Million</i>	<i>(Charged)/ credited to profit or loss Million</i>	<i>Credited to other comprehensive income Million</i>	<i>Exchange differences Million</i>	<i>As of December 31, 2017 Million</i>
<b>Deferred tax assets arising from:</b>					
Write-down for obsolete inventories	175	(55)			120
Write-off and impairment of certain network equipment and related assets	4,538	2,544			7,082
Accrued operating expenses	17,969	965			18,934
Deferred revenue from Reward Program	5,796	147			5,943
Impairment loss for doubtful accounts	1,297	(27)			1,270
Change in value of available-for-sale financial assets	(8)		2		(6)
	29,767	3,574	2		33,343
<b>Deferred tax liabilities arising from:</b>					
Depreciation allowance in excess of related depreciation	(292)	(92)		22	(362)
<b>Total</b>	<b>29,475</b>	<b>3,482</b>	<b>2</b>	<b>22</b>	<b>32,981</b>

**Table of Contents****20 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)****Deferred tax assets and liabilities recognized and the movements during 2016**

	<i>As of January 1, 2016 Million</i>	<i>(Charged)/ credited to profit or loss Million</i>	<i>Charged to other comprehensive income Million</i>	<i>Exchange differences Million</i>	<i>As of December 31, 2016 Million</i>
<b>Deferred tax assets arising from:</b>					
Write-down for obsolete inventories	217	(42)			175
Write-off and impairment of certain network equipment and related assets	4,152	386			4,538
Accrued operating expenses	14,125	3,844			17,969
Deferred revenue from Reward Program	5,350	446			5,796
Impairment loss for doubtful accounts	1,579	(282)			1,297
Change in value of available-for-sale financial assets			(8)		(8)
	25,423	4,352	(8)		29,767
<b>Deferred tax liabilities arising from:</b>					
Depreciation allowance in excess of related depreciation	(203)	(73)		(16)	(292)
Total	25,220	4,279	(8)	(16)	29,475

Deferred tax assets are recognized for deductible temporary differences and tax losses carry-forwards only to the extent that the realization of the related tax benefit through future taxable profits is probable. Certain subsidiaries of the Group did not recognize deferred tax assets of RMB1,716,000,000 (2016: RMB1,562,000,000) and RMB2,079,000,000 (2016: RMB1,349,000,000) in respect of deductible temporary differences and tax losses amounting to RMB6,885,000,000 (2016: RMB6,249,000,000) and RMB8,713,000,000 (2016: RMB5,504,000,000) respectively that can be carried forward against future taxable income as of December 31, 2017. The deductible tax losses are allowed to be carried forward in next five years against the future taxable profits.

**Table of Contents****21 AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	<i>Note</i>	<i>As of December 31, 2017 Million</i>	<i>As of December 31, 2016 Million</i>
Equity investments	(i)	44	35
Wealth management products issued by banks	(ii)	65,630	31,897
		65,674	31,932
Less: current portion		(65,630)	(31,897)
Non-current portion		44	35

Note:

- (i) The equity investments represent the Group's investments in other companies at fair values (level 1: quoted price (unadjusted) in active markets; or level 3: inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs)) through other comprehensive income as of December 31, 2017.
- (ii) The wealth management products issued by banks will mature within one year with variable return rates indexed to the performance of underlying assets. As of December 31, 2017, the carrying amount approximated the fair value (level 3 of fair value hierarchy). The fair values are based on cash flow discounted assuming the expected return will be obtained upon maturity.

**22 RESTRICTED BANK DEPOSITS**

	<i>As of December 31, 2017</i>			<i>As of December 31, 2016</i>		
	<i>Non-current assets Million</i>	<i>Current assets Million</i>	<i>Total Million</i>	<i>Non-current assets Million</i>	<i>Current assets Million</i>	<i>Total Million</i>
Restricted bank deposits						
- Statutory deposit reserves (Note)	3,453		3,453	4,527		4,527
- Deposited customer reserves (Note)	3,047		3,047			
- Pledged bank deposits	4	691	695	1	197	198
	6,504	691	7,195	4,528	197	4,725

Note: The statutory deposit reserves and the deposited customer reserves are deposited by China Mobile Finance and China Mobile E-Commerce Co., Ltd., a wholly-owned subsidiary of the Company, respectively, in accordance with relevant requirements of the People's Bank of China (PBOC), which are not available for use in the Group's daily operations.

**Table of Contents****23 INVENTORIES**

	<i>As of December 31, 2017 Million</i>	<i>As of December 31, 2016 Million</i>
SIM cards, handsets and other terminals	8,357	7,696
Other consumables	1,865	1,136
	10,222	8,832

**24 ACCOUNTS RECEIVABLE****(a) Aging analysis**

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

	<i>As of December 31, 2017 Million</i>	<i>As of December 31, 2016 Million</i>
Within 30 days	13,711	10,974
31 - 60 days	3,002	2,726
61 - 90 days	1,798	1,540
Over 90 days	5,642	3,805
	24,153	19,045

Accounts receivable primarily comprise receivables from customers and telecommunications operators. Accounts receivable from the provision of telecommunications services to customers are mainly due for payment within one month from date of billing. Customers with balances that are overdue or exceed credit limits are required to settle all outstanding balances before any further telecommunications services can be provided. The increase of accounts receivable over 90 days is mainly due to receivables arising from other telecommunications operators and certain corporate customers that are within credit term.

Accounts receivable are expected to be recovered within one year.



**Table of Contents****24 ACCOUNTS RECEIVABLE (CONTINUED)****(b) Impairment of accounts receivable**

Impairment loss in respect of accounts receivable is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts receivable directly.

The following table summarizes the changes in impairment loss of doubtful accounts:

	<i>2017</i> Million	<i>2016</i> Million
As of January 1	5,762	6,549
Impairment loss recognized	3,415	3,797
Accounts receivable written off	(3,509)	(4,584)
 As of December 31	 5,668	 5,762

**(c) Past due but not impaired**

The aging analysis of the accounts receivable that are past due but not impaired is as follows:

	<i>As of</i> <i>December 31,</i> <i>2017</i> Million	<i>As of</i> <i>December 31,</i> <i>2016</i> Million
Past due within 1 month	848	577

As of December 31, 2017, accounts receivable of RMB848,000,000 (2016: RMB577,000,000) were past due but not impaired. 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.

Remaining receivables that were neither past due nor impaired relate to a wide range of customers for which there was no recent history of default. The Group does not hold any collateral over these balances.

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

Other receivables comprise certain items which are expected to be recovered within one year, primarily including interest receivable from banks, utilities deposits and rental deposits, and short-term loans of RMB13,650,000,000 (2016: RMB4,650,000,000) granted to other companies through China Mobile Finance at the interest rate agreed by each party with reference to the market interest rate.

Prepayments and other current assets primarily consist of rental prepayments, maintenance prepayments and input VAT to be deducted.

As of December 31, 2016 and 2017, there were no significant overdue amounts for other receivables.

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

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

As of December 31, 2017, amount due to ultimate holding company comprises the short-term deposits of CMCC and its subsidiaries ( CMCC Group ) in China Mobile Finance amounting to RMB8,611,000,000 (2016: RMB5,552,000,000) and the corresponding interest payable arising from the deposits. The deposits are unsecured and carry interest at prevailing market rate.

**Table of Contents****27 BANK DEPOSITS**

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

**28 CASH AND CASH EQUIVALENTS**

	<i>As of December 31, 2017 Million</i>	<i>As of December 31, 2016 Million</i>
Bank deposits with original maturity within three months	5,907	15,115
Cash at banks and in hand	114,729	75,298
	120,636	90,413

**29 INTEREST-BEARING BORROWINGS**

	<i>As of December 31, 2017 Million</i>	<i>As of December 31, 2016 Million</i>
Bonds		4,998

As of December 31, 2016, the bonds represented the balance of fifteen-year guaranteed bonds issued by Guangdong Mobile, a wholly-owned subsidiary of the Company, with a principal amount of RMB5,000,000,000, at an issue price equal to the face value of the bonds. The bonds were unsecured and bear interest at the rate of 4.5% per annum which was payable annually. The bonds was repaid on October 28, 2017.

**Table of Contents****30 ACCOUNTS PAYABLE**

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

The aging analysis of accounts payable is as follows:

	<i>As of</i> <i>December 31,</i> <i>2017</i> Million	<i>As of</i> <i>December 31,</i> <i>2016</i> Million
<b>Payable in the periods below:</b>		
Within 1 month or on demand	201,429	215,775
After 1 month but within 3 months	13,086	14,677
After 3 months but within 6 months	7,660	8,231
After 6 months but within 9 months	2,761	4,342
After 9 months but within 12 months	8,233	7,813
	233,169	250,838

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

**Table of Contents****31 DEFERRED REVENUE**

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

	2017 Million	2016 Million
As of January 1		
- Current portion	84,289	78,100
- Non-current portion	2,175	1,291
Additions during the year	352,011	359,626
Recognized in the consolidated statements of comprehensive income	(350,305)	(352,553)
As of December 31	88,170	86,464
Less: Current portion	(85,282)	(84,289)
Non-current portion	2,888	2,175

**32 ACCRUED EXPENSES AND OTHER PAYABLES**

	<i>As of</i> <i>December 31,</i> 2017 Million	<i>As of</i> <i>December 31,</i> 2016 Million
Receipts-in-advance	73,583	75,819
Other payables	26,643	24,523
Accrued salaries, wages, labor service expenses and other benefits	6,535	6,241
Accrued expenses	84,105	74,367
	190,866	180,950

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**33 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 of the date of adoption of the Current Scheme. Options lapsed or cancelled in accordance with the terms of the Current Scheme will not be counted for the purpose of calculating this 10% limit.

The HKEX requires the exercise price of options to be at least the higher of the 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 closing price of the shares on the HKEX on the date on which the option was granted; and
- (ii) 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.

No options were outstanding as of December 31, 2016 and 2017.

No share options were granted to the directors of the company or other employees of the Group or lapsed during 2016 and 2017.

**Table of Contents****34 CAPITAL, RESERVES AND DIVIDENDS****(a) Share capital****Ordinary shares, issued and fully paid:**

	<i>Number of shares</i>	<i>HK\$ Million</i>	<i>Equivalent RMB Million</i>
As of January 1 and December 31, 2016 and 2017	20,475,482,897	382,263	402,130

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.

**(b) Dividends****(i) Dividends attributable to the year:**

	<i>2017</i>	<i>2016</i>	<i>2015</i>
	<i>Million</i>	<i>Million</i>	<i>Million</i>
Ordinary interim dividend declared and paid of HK\$1.623 (equivalent to approximately RMB1.409) (2016: HK\$1.489 (equivalent to approximately RMB1.273); 2015: HK\$1.525 (equivalent to approximately RMB1.203)) per share	28,211	26,227	25,629
Special dividend declared and paid of HK\$3.200 (equivalent to approximately RMB2.777) per share	55,621		
Ordinary final dividend proposed after the balance sheet date of HK\$1.582 (equivalent to approximately RMB1.322) (2016: HK\$1.243 (equivalent to approximately RMB1.112); 2015: HK\$1.196 (equivalent to approximately RMB1.002)) per share	27,077	22,766	20,516
	110,909	48,993	46,145

The proposed ordinary final dividend which is declared in Hong Kong dollar is translated into RMB with reference to the rate HK\$1 = RMB0.83591, being the rate announced by the State Administration of Foreign Exchange in the PRC on December 29, 2017 (December 31, 2016: HK\$1 = RMB0.89451; December 31, 2015: HK\$1 = RMB0.83778). As the ordinary final dividend is declared after the balance sheet date, such dividend is not recognized as liability as of December 31, 2017.

**Table of Contents****34 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)****(b) Dividends (Continued)**

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

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

	<i>2017</i>	<i>2016</i>	<i>2015</i>
	Million	Million	Million
Ordinary final dividend in respect of the previous financial year, approved and paid during the year, of HK\$1.243 (equivalent to approximately RMB1.112) (2016: HK\$1.196 (equivalent to approximately RMB1.002); 2015: HK\$1.380 (equivalent to approximately RMB1.089)) per share	22,204	20,764	22,283

**(c) Nature and purpose of reserves****(i) Capital reserve**

The capital reserve mainly comprises the following:

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;

Share of other comprehensive income/(loss) of investments accounted for using the equity method;

The changes in fair value of available-for-sale financial assets through other comprehensive income, net of tax, until the financial assets are derecognised; and

The difference between the consideration and the aggregate carrying amounts of Target Assets and Businesses acquired from the controlling party under business combinations under common control (see note 2(b)).



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

**(c) Nature and purpose of reserves (Continued)**

**(ii) PRC statutory reserves**

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

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

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

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

**(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 2(x).

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

**(d) Capital management**

The Group's primary objectives of capital management are to maintain a reasonable capital structure and to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders. The Group actively and regularly reviews and manages its capital structure to stabilize the capital position and prevent operation risk. Meanwhile, the Group will maximize the shareholders' return when having high level of borrowings and will make adjustment on the capital structure in accordance with the changes in economic conditions.

The Group monitors capital on the basis of total debt-to-book capitalization ratio. This ratio is calculated as total borrowings divided by book capitalization (equal to the total equity attributable to equity shareholders of the Company as shown in the consolidated balance sheets and total borrowings).

As of December 31, 2017, the Group's total debt-to-book capitalization ratio was nil (2016: 0.5%).

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

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**Table of Contents****35 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 Group, for the years ended December 31, 2015, 2016 and 2017.

	<i>Note</i>	2017 Million	2016 Million	2015 Million
Telecommunications services revenue	(i)	47	159	474
Property leasing and management services revenue	(ii)	188	197	191
Property leasing and management services charges	(ii)	999	976	956
Network assets leasing charges	(iii)	2,494	2,738	4,376
Network capacity leasing charges	(iii)	1,047	2,696	4,757
Entrusted loans received	(iv)			8,592
Entrusted loans repaid	(iv)			18,834
Short-term bank deposits received	(iv)	8,611	5,552	7,274
Short-term bank deposits repaid	(iv)	5,552	7,274	4,181
Interest expenses	(iv)	21	7	194

Note:

- (i) The amounts represent telecommunications services settlement received/receivable from CMCC Group for the telecommunications project planning, design and construction services, telecommunications line and pipeline construction services, and telecommunications line maintenance services.
- (ii) The amount represents the rental and property management fees received/receivable from or paid/payable to CMCC Group in respect of offices, retail outlets and warehouses.
- (iii) The amounts represent the network assets leasing settlement paid/payable to CMCC Group, and the TD-SCDMA network capacity charges paid/payable to CMCC Group. On December 29, 2008, the Company entered into a network capacity leasing agreement with CMCC Group for the provision of TD-SCDMA related services. Based on the lease classification assessments, the Group does not substantially bear the risks and reward incidental to the ownership of the leased network assets, and accordingly the Group accounts for the network assets leasing and the network capacity leasing as operating leases.
- (iv) The amounts represent the entrusted loans/bank deposits received from or repaid to CMCC and interest expenses paid/payable to CMCC in respect of the entrusted loans/bank deposits.

**Table of Contents****35 RELATED PARTY TRANSACTIONS (CONTINUED)****(b) Amounts due from/to CMCC Group**

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

	<i>As of December 31, 2017 Million</i>	<i>As of December 31, 2016 Million</i>
Accounts receivable	301	354
Other receivables	116	105
Accounts payable	4,580	4,251
Accrued expenses and other payables	131	88

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

**Table of Contents****35 RELATED PARTY TRANSACTIONS (CONTINUED)****(c) Significant transactions with associates and joint venture of the Group and of CMCC Group**

The Group has entered into transactions with associates and joint venture of the Group or CMCC Group. The major transactions entered into by the Group and these companies and amounts due from/to these companies are as follows:

	Note	As of December 31, 2017 Million	As of December 31, 2016 Million
Accounts receivable	(i)	313	29
Interest receivable	(ii)	997	2,134
Other receivables	(iii)	12,565	9,862
Proceeds receivable for the transfer of Tower Assets (note 7)			57,152
Prepayments and other current assets		51	17
Available-for-sale financial assets	(iii)	31,778	17,222
Bank deposits	(iii)	62,969	37,631
Accounts payable	(iv)	4,479	4,076
Accrued expenses and other payables	(iv)	5,429	4,185

	Note	2017 Million	2016 Million	2015 Million
Telecommunications services revenue	(i)	828	637	767
Telecommunications services charges	(v)		422	774
Property leasing and management services revenue	(vi)	99	1	6
Gain on the transfer of Tower Assets	(iv)			15,525
Charges for use of tower assets	(iv)	36,335	28,144	5,563
Interest income	(ii)	4,807	4,140	1,699
Dividend income		847	1,944	2,842

Note:

- (i) The amounts represent the telecommunications services revenue received/receivable from the Group's associates.
- (ii) The amounts primarily represent interest received/receivable from deposits placed with SPD Bank, short-term loans granted by China Mobile Finance to SPD Bank and China Tower, and the proceeds receivable for the transfer of Tower Assets. The interest rate of deposits placed with SPD Bank is determined in accordance with the benchmark interest rate published by PBOC.

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**Table of Contents****35 RELATED PARTY TRANSACTIONS (CONTINUED)****(c) Significant transactions with associates and joint venture of the Group and of CMCC Group (Continued)**

Note (Continued):

- (iii) Other receivables primarily represent the short-term loans granted by China Mobile Finance to SPD Bank and China Tower, and withholding power and utilities expenses and lease charges due from China Tower, etc.. The loans will mature by or before December 2018. Available-for-sale financial assets represent the wealth management products purchased from SPD Bank and bank deposits represent the deposits placed with SPD Bank.
- (iv) The amounts represent the gain arising from the transfer of Tower Assets on October 31, 2015 (note 7) and the charges paid/payable to China Tower for the use of telecommunications towers and related assets ( Leased Tower ). On July 8, 2016, CMC and China Tower finalized the leasing and pricing arrangement in relation to the lease of Leased Tower, and entered into an agreement (the Lease Agreement ). Accordingly, the respective provincial companies of CMC and China Tower entered into provincial company service agreements for the leasing of individual Leased Tower based on their actual service requirements. Pursuant to the management's assessment, the 5 years lease terms of the Lease Agreement does not account for the major part of the economic lives of the Leased Tower and the present value of the minimum lease payments is not considered substantial comparing to the fair value of the corresponding Leased Tower. At the end of the lease term, there is no purchase option granted to the Group to purchase the Leased Tower. The Group also does not bear any gains or losses in the fluctuation in the fair value of the Leased Tower at the end of the lease terms. As a result, the Group does not substantially bear the risks and reward incidental to the ownership of the Leased Tower, and hence the Group accounts for the Leased Tower leasing as operating leases. On January 31, 2018, CMC and China Tower unanimously agreed on supplementary provisions to the Lease Agreement ( Supplementary Agreement ). The Supplementary Agreement mainly included: the adjustments to the pricing of tower products, the term of the agreement shall be 5 years, effective from January 1, 2018 and expiring on December 31, 2022. The Supplementary Agreement will not affect the Group's judgement on operating lease aforementioned.
- (v) The amount represents the telecommunications services charges paid/payable to Union Mobile Pay Co., Ltd., an associate of CMCC Group until July 2016.
- (vi) The amount represents the property leasing revenue received/receivable from SPD Bank and China Tower.

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**35 RELATED PARTY TRANSACTIONS (CONTINUED)**

**(d) Transactions with other government-related entities in the PRC**

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

Apart from transactions with CMCC Group (notes 26 and 35(a)), and associates and joint venture (note 35(c)) and the transaction to increase contribution to the Fund (note 19), the Group has collectively, but not individually, significant transactions with other government-related entities which include but not limited to the following:

rendering and receiving telecommunications services, including interconnection revenue/charges

purchasing of goods, including use of public utilities

placing of bank deposits

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

**(e) For key management personnel remuneration, please refer to note 10.**

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**36 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 consolidated balance sheets, which mainly include deposits with banks, wealth management products issued by banks, accounts receivable and other receivables. The maximum exposure to credit risk is represented by the carrying amount of the financial assets.

Substantially all the Group's cash at banks and bank deposits are deposited in financial institutions in Mainland China and Hong Kong. The credit risk on liquid funds is limited as the majority of counterparties are financial institutions with high credit ratings assigned by international credit-rating agencies and large state-controlled financial institutions. Wealth management products are issued by major domestic banks investing in low risk underlying assets, which mainly consist of bank deposits, treasury bond, central bank bill, local government debt, corporate bond or debt with high credit ratings and low credit risks.

The accounts receivable of the Group is primarily comprised of receivables due from customers and telecommunications operators. Accounts receivable from customers are spread among an extensive number of customers and the majority of the receivables from customers are due for payment within one month from the date of billing. Other receivables primarily comprise interest receivable from banks, utilities deposits, rental deposits and short-term loans granted to other companies through China Mobile Finance. 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).



**Table of Contents****36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)****(b) Liquidity risk**

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

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

	<i>As of December 31, 2017</i>		
	<i>Carrying amount</i>	<i>undiscounted cash flow</i>	<i>Within 1 year or on demand</i>
	<i>Million</i>	<i>Million</i>	<i>Million</i>
Accounts payable	233,169	233,169	233,169
Bills payable	3,303	3,303	3,303
Accrued expenses and other payables	190,866	190,866	190,866
Amount due to ultimate holding company	8,646	8,646	8,646
	435,984	435,984	435,984

	<i>As of December 31, 2016</i>		
	<i>Carrying amount</i>	<i>undiscounted cash flow</i>	<i>Within 1 year or on demand</i>
	<i>Million</i>	<i>Million</i>	<i>Million</i>
Accounts payable	250,838	250,838	250,838
Bills payable	1,206	1,206	1,206
Accrued expenses and other payables	180,950	180,950	180,950
Amount due to ultimate holding company	5,563	5,563	5,563
Interest-bearing borrowings	4,998	5,185	5,185
	443,555	443,742	443,742

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**Table of Contents****36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)****(c) Interest rate risk**

The Group consistently monitors the current and potential fluctuation of interest rates in managing the interest rate risk on a reasonable level. As of December 31, 2017, the Group did not have any interest-bearing borrowings at variable rates, but had RMB8,611,000,000 of short-term bank deposits placed by CMCC (2016: RMB5,552,000,000 and RMB5,000,000,000 of bonds (note 29)), which was at fixed rate and expose the Group to fair value interest rate risk. The Group determines the amount of its fixed rate borrowings depending on the prevailing market condition. Management does not expect fair value interest rate risk to be high as the interest involved will not be significant.

As of December 31, 2017, total cash and bank balances of the Group amounted to RMB407,202,000,000 (2016: RMB430,435,000,000), and interest-bearing receivables amounted to RMB13,650,000,000 (2016: RMB62,235,000,000). The interest income for 2017 was RMB15,883,000,000 (2016: RMB16,005,000,000; 2015: RMB15,852,000,000) and the average interest rate was 3.13% (2016: 3.44%; 2015: 3.75%). Assuming the total cash and bank balances and interest-bearing receivables 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 RMB3,182,000,000 (2016: RMB3,695,000,000; 2015: RMB3,531,000,000).

**(d) Foreign currency risk**

The Group has foreign currency risk as certain cash and deposits with banks are denominated in foreign currencies, principally US dollars and Hong Kong dollars. As the amount of the Group's foreign currency cash and deposits with banks represented 2.5% (2016: 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.

**(e) Fair values**

All financial instruments are carried at amounts not materially different from their fair values at the balance sheet dates.

**Table of Contents****37 COMMITMENTS****(a) Capital commitments**

The Group's capital expenditure contracted for as of December 31, but not provided in the consolidated financial statements were as follows:

	2017 Million	2016 Million
Land and buildings	10,950	8,788
Telecommunications equipment	32,112	26,147
	43,062	34,935

**(b) Operating lease commitments**

The total future minimum lease payments under non-cancellable operating leases as of December 31 are as follows:

	<i>Leased lines</i>			
	<i>Land and buildings Million</i>	<i>and network assets Million</i>	<i>Others Million</i>	<i>Total Million</i>
<b>As of December 31, 2017</b>				
Within one year	10,344	46,730	1,023	58,097
After one year but within five years	20,372	112,465	961	133,798
After five years	4,831	1,183	58	6,072
	35,547	160,378	2,042	197,967
<b>As of December 31, 2016</b>				
Within one year	9,222	40,078	1,184	50,484
After one year but within five years	18,182	119,628	812	138,622
After five years	4,810	860	45	5,715
	32,214	160,566	2,041	194,821

The Group leases certain land and buildings, leased lines and network assets, motor vehicles, computer and other office equipment under operating leases.

**(c) Investment commitments**

The Group has an investment commitment to a joint venture (see note 19).



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### **38 POST BALANCE SHEET EVENT**

After the balance sheet date, the Board of Directors proposed a final dividend for the year ended December 31, 2017. Further details are disclosed in note 34(b)(i).

### **39 ACCOUNTING ESTIMATES AND JUDGEMENTS**

#### ***Key sources of estimation uncertainty***

Note 17 contains information about the assumptions relating to goodwill impairment, and note 35 contains information about the judgements on the lease classification of leasing of TD-SCDMA network capacity and Leased Tower. Other key sources of estimation uncertainty are as follows:

#### ***Impairment loss for doubtful accounts***

The Group assesses impairment loss for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables at each balance sheet date. The estimates are based on the aging of the accounts receivable and other receivables balances and the historical write-off experience, net of recoveries. If the financial conditions of the customers were to deteriorate, additional impairment may be required.

#### ***Depreciation***

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are determined based on the Group's historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

#### ***Taxation***

The Group is subject to income taxes mainly in Mainland China and Hong Kong. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred tax assets could be recovered. Deferred tax assets are recognised based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

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**Table of Contents****39 ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)*****Impairment of property, plant and equipment, goodwill, other intangible assets and investments accounted for using the equity method***

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

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable estimation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in further impairment charge or reversal of impairment in future periods. Additional information for the impairment assessment of property, plant and equipment, goodwill and investments accounted for using the equity method is disclosed in notes 14, 17 and 19, respectively.

***Classification of leases***

The Group has a number of lease arrangements. The Group follows the guidance of IAS 17 Leases to determine the classification of leases as operating leases versus finance leases. Significant judgements and assumptions are required in the assessment of the classification. The determination of classification depends on whether the lease transfers substantially all the risks and rewards of the assets to the Group. In particular, during the assessment, the management estimates (i) economic lives of lease assets, (ii) the discount rate used in the calculation of present value of minimum lease payments, and (iii) the fair value of the leased assets. Any future changes to these judgements or assumptions will affect the classification and hence the results of operation and financial position of the Group.

**Table of Contents****40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS, INTERPRETATIONS AND DISCLOSURES ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017**

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments and new standards and interpretations which are not yet effective for the year ended December 31, 2017 and which have not been adopted in these consolidated 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 accounting periods beginning on or after</i>
IFRS 9 Financial Instrument	January 1, 2018
IFRS 15 Revenue from Contracts with Customers	January 1, 2018
Annual Improvement to IFRSs 2014-2016 cycle*	January 1, 2018
IFRIC Int 22,  Foreign Currency Transactions and Advance Consideration	  January 1, 2018
IFRS 16 Leases	January 1, 2019
IFRIC Int 23, Uncertainty over Income Tax Treatments	January 1, 2019
Annual Improvement to IFRSs 2015-2017 cycle	January 1, 2019
Amendment to IFRS 10, Consolidated Financial Statements	To be determined
Amendment to IAS 28, Investments in Associates and Joint Ventures	To be determined

\* It included amendment to IFRS 12 which was effective on January 1, 2017 and does not have a material impact on the Group.

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**40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS, INTERPRETATIONS AND DISCLOSURES ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)**

***IFRS 9 Financial Instruments***

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on January 1, 2018.

Management anticipates the application of IFRS 9 will affect the classification and measurement of the Group's available-for-sale investments and have an impact on amounts reported in respect of the Group's wealth management products issued by banks and certain equity investments. The equity investments and the wealth management products issued by banks that were accounted for as available-for-sale financial assets and the short-term financial assets held by China Mobile Finance will be reclassified to financial assets at fair value through profit or loss. Related fair value changes will be transferred from the capital reserve to retained earnings on January 1, 2018. Subsequent changes of fair value will be recorded in profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, contract assets under IFRS 15 Revenue from Contracts with Customers, trade debtors and certain other financial assets. Based on the assessments undertaken to date, the Group expects no material impact on the loss allowance for the aforementioned assets.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 is mandatory for financial years commencing on or after January 1, 2018. The Group adopted the IFRS 9 from January 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.



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**40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS, INTERPRETATIONS AND DISCLOSURES ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)**

***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. IFRS 15 specifies how and when the Group will recognize revenue as well as requiring the Group to provide users of financial statements with more informative and relevant disclosures. The Group has finished analysis on the impact of the new standard on the Group's financial statements and has identified areas which will be affected as follows.

IFRS 15 requires the identification of the distinct deliverables in contracts with customers that qualify as separate performance obligations and the allocation of the transaction price receivables from customers to each performance obligation on relative stand-alone selling price basis. Upon the completion of the principal or agent analysis under the new standard, the Group will allocate the total consideration to each performance obligation, including telecommunications services, handsets and customer point rewards and other promotional goods or services. The current accounting policy for telecommunications services, handsets, customer points rewards is disclosed in note 2(r), and promotional items are accounted for as selling expenses under the existing treatment.

IFRS 15 requires customer acquisition cost to be capitalized as an asset and amortized on a systematic basis consistent with the pattern of the transfer of the goods or services to which the asset relates. The Group considers that certain types of sales commissions will be capitalized and amortized on a straight-line basis over the period under the new standards. The change will impact on the timing of the expense recognition.

The Group has assessed the static impact on the Group's consolidated financial statements for the year ended December 31, 2017 if IFRS 15 was applied, and the Group expected the operating revenue would decrease by approximately 2.2% while the revenue from telecommunications services would decrease by approximately 3.2% in 2017. However, the adoption of IFRS 15 is not expected to have a significant impact on profit from operations in the long-term.

IFRS 15 is mandatory for financial years commencing on or after January 1, 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group has finished the upgrade of the accounting systems and the processes of the business, and adopted the IFRS 15 from January 1, 2018 with modified retrospective approach.

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**40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS, INTERPRETATIONS AND DISCLOSURES ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)**

***IFRS 16 Leases***

IFRS 16 will result in almost all leases being recognized on the balance sheets, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17. The accounting for lessors will not significantly change.

Upon preliminary evaluation, given that the Group leases certain telecommunications facilities for time periods longer than a year, the application of IFRS 16 Leases in 2019 is expected to have impact on the Group's consolidated financial statements to certain extent because present values of lease liabilities and leased assets will be recorded on the balance sheets when the standard is applied. Accordingly, the Group expects a corresponding increase in its assets and liabilities. In addition, related operating lease expenses will be reclassified as depreciation and finance costs.

IFRS 16 is mandatory for financial years commencing on or after January 1, 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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

**Table of Contents****41 CONDENSED FINANCIAL INFORMATION OF THE COMPANY****(a) Condensed statements of comprehensive income**

	<i>2017</i> Million	<i>2016</i> Million	<i>2015</i> Million
<b>Dividend income</b>	111,490	49,080	43,848
<b>Operating expenses</b>	(77)	(71)	(77)
<b>Interest income</b>	23	11	25
<b>Other (losses)/gains</b>	(87)	57	61
<b>Finance costs</b>	(2)	(3)	(3)
<b>Profit before taxation</b>	111,347	49,074	43,854
<b>Taxation</b>	(14)	(1)	
<b>PROFIT FOR THE YEAR</b>	111,333	49,073	43,854
<b>Other comprehensive income for the year</b>			
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	111,333	49,073	43,854

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**Table of Contents****41 CONDENSED FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)****(b) Condensed balance sheets**

	<i>As of December 31, 2017 Million</i>	<i>As of December 31, 2016 Million</i>
<b>Non-current assets</b>	490,256	487,290
<b>Current assets</b>	2,718	2,144
<b>Current liabilities</b>	3,658	5,415
<b>Non-current liabilities</b>		
<b>NET ASSETS</b>	489,316	484,019
<b>TOTAL EQUITY</b>	489,316	484,019

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

**(c) Condensed statements of cash flows**

	<i>2017 Million</i>	<i>2016 Million</i>	<i>2015 Million</i>
<b>Net cash used in operating activities</b>	(72)	(69)	(78)
<b>Net cash generated from investing activities</b>	28,840	12,900	9,760
<b>Net cash used in financing activities</b>	(28,913)	(12,813)	(11,964)
<b>Net increase/(decrease) in cash and cash equivalents</b>	(145)	18	(2,282)
<b>Cash and cash equivalents at beginning of year</b>	796	753	3,030
<b>Effect of changes in foreign exchange rate</b>	(97)	25	5
<b>Cash and cash equivalents at end of year</b>	554	796	753