

CHINA MOBILE LTD /ADR/
Form 20-F
June 23, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from to

OR

..

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

Date of event requiring this shell company report

Commission file number: 1-14696

China Mobile Limited

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant's Name into English)

Hong Kong, China

(Jurisdiction of Incorporation or Organization)

60th Floor, The Center

99 Queen's Road Central

Hong Kong, China

(Address of Principal Executive Offices)

Grace Wong

Company Secretary

China Mobile Limited

60th Floor, The Center

99 Queen's Road Central

Hong Kong, China

Telephone: (852) 3121-8888

Fax: (852) 2511-9092

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary shares, par value HK\$0.10 per share	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, 2008, 20,054,379,231 ordinary shares, par value HK\$0.10 per share, were issued and outstanding.

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

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

Other

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

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

Table of Contents

TABLE OF CONTENTS

China Mobile Limited

	Page
<u>Forward-Looking Statements</u>	1
<u>Special Note on Our Financial Information and Certain Statistical Information Presented in This Annual Report</u>	3
<u>PART I</u>	
Item 1. <u>Identity of Directors, Senior Management and Advisers.</u>	4
Item 2. <u>Offer Statistics and Expected Timetable.</u>	4
Item 3. <u>Key Information.</u>	4
Item 4. <u>Information on the Company.</u>	16
Item 4A. <u>Unresolved Staff Comments.</u>	33
Item 5. <u>Operating and Financial Review and Prospects.</u>	33
Item 6. <u>Directors, Senior Management and Employees.</u>	47
Item 7. <u>Major Shareholders and Related Party Transactions.</u>	52
Item 8. <u>Financial Information.</u>	56
Item 9. <u>The Offer and Listing.</u>	57
Item 10. <u>Additional Information.</u>	58
Item 11. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	65
Item 12. <u>Description of Securities Other than Equity Securities.</u>	66
<u>PART II</u>	
Item 13. <u>Defaults, Dividend Arrearages and Delinquencies.</u>	67
Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds.</u>	67
Item 15. <u>Controls and Procedures.</u>	67
Item 16A. <u>Audit Committee Financial Expert.</u>	69
Item 16B. <u>Code of Ethics.</u>	69
Item 16C. <u>Principal Accountant Fees and Services.</u>	69
Item 16D. <u>Exemptions from the Listing Standards for Audit Committees.</u>	69
Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers.</u>	69
Item 16F. <u>Change in Registrant's Certifying Accountant.</u>	69
Item 16G. <u>Corporate Governance.</u>	70
<u>PART III</u>	
Item 17. <u>Financial Statements.</u>	71
Item 18. <u>Financial Statements.</u>	71
Item 19. <u>Exhibits.</u>	71
Table of Contents	6

Table of Contents

Forward-Looking Statements

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

our business objectives and strategies;

our operations and prospects;

our telecommunications network expansion plans and related capital expenditure plans, including, among others, those relating to construction and operation of third generation mobile telecommunications technology, or 3G, networks;

our provision of 3G services, and our ability to attract customers to these services;

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

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 anticipate, believe, could, estimate, expect, intend, may, 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 and the following:

any changes in the regulatory policies of the Ministry of Industry and Information Technology, or the MIIT (which was created by the State Council of the PRC in March 2008 to assume, among other things, the duties of the former Ministry of Information Industry, or the MII) or other relevant government authorities, which could affect, among other things, the granting of requisite government approvals, licenses and permits, interconnection and transmission line arrangements, tariff policies, capital investment priorities, the provision of telephone services in rural areas of the PRC, and spectrum and numbering resources allocation;

the effect of competition on the demand for and price of our services;

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

changes in mobile telephony and related technologies, which could affect the viability and competitiveness of our mobile telecommunications networks; and

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

In addition, our future network expansion and other capital expenditure and development plans are dependent on numerous factors, including:

our ability to obtain sufficient financing on commercially acceptable terms;

the adequacy of currently available frequency spectrum or the availability of additional frequency spectrum;

the availability of transmission lines and equipment, and the availability of the requisite number of sites for locating network equipment, on commercially acceptable terms;

Table of Contents

our ability to successfully provide and expand our 3G services based on the Time Division Synchronous Code Division Multiple Access, or TD-SCDMA, technology;

our ability to develop or obtain new technology and related applications; and

the availability of qualified management and technical personnel.

Table of Contents

**Special Note on Our Financial Information and
Certain Statistical Information Presented in This Annual Report**

Our consolidated income statements for the years ended December 31, 2006, 2007 and 2008 and consolidated balance sheets as of December 31, 2007 and 2008 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission, or the SEC, which became effective on March 4, 2008, we are not required to provide a reconciliation to generally accepted accounting principles in the United States.

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

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

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

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

The following tables present selected historical financial data of our company as of and for each of the years in the three-year period ended December 31, 2008. Except for amounts presented in U.S. dollars, the selected historical consolidated income statement data and other financial data for the years ended December 31, 2006, 2007 and 2008 and the selected historical consolidated balance sheet data as of December 31, 2007 and 2008 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 balance sheet data as of December 31, 2006 set forth below are derived from our audited consolidated financial statements that are not included in this annual report on Form 20-F. As disclosed above under "Special Note on Our Financial Information and Certain Statistical Information Presented in This Annual Report", our consolidated income statements for the years ended December 31, 2006, 2007 and 2008 and consolidated balance sheets as of December 31, 2007 and 2008 have been prepared and presented in accordance with IFRS.

	As of or for the year ended December 31,			
	2006 RMB	2007 RMB	2008 RMB	2008 US\$
	(in millions, except share, per share and per ADS information)			
Consolidated Income Statement Data:				
Operating revenue	295,358	356,959	412,343	60,439
Operating expenses	203,433	232,891	269,728	39,535
Profit from operations	91,925	124,068	142,615	20,904
Profit before taxation ⁽¹⁾	96,176	129,238	149,743	21,948
Taxation ⁽¹⁾	30,062	42,059	36,789	5,392
Profit for the year attributable to equity shareholders	66,026	87,062	112,793	16,533
Basic earnings per share ⁽²⁾	3.32	4.35	5.63	0.83
Diluted earnings per share ⁽²⁾	3.29	4.28	5.54	0.81
Basic earnings per ADS ⁽²⁾	16.60	21.76	28.14	4.12
Diluted earnings per ADS ⁽²⁾	16.44	21.40	27.70	4.06
Shares utilized in basic calculation (in thousands)	19,892,968	20,005,123	20,043,934	20,043,934
Shares utilized in diluted calculation (in thousands)	20,078,549	20,339,428	20,356,126	20,356,126

Table of Contents

	As of or for the year ended December 31,			
	2006 RMB	2007 RMB	2008 RMB	2008 US\$
(in millions, except share, per share and per ADS information)				
Consolidated Balance Sheet Data:				
Working capital ⁽³⁾	30,900	52,682	59,597	8,735
Cash and cash equivalents	71,167	78,859	87,426	12,814
Deposits with banks	82,294	109,685	130,833	19,177
Accounts receivable, net	7,153	6,985	6,913	1,013
Property, plant and equipment, net	218,274	257,170	327,783	48,044
Total assets	494,676	563,493	657,697	96,401
Bonds ⁽⁴⁾	12,937	9,949	9,920	1,454
Deferred consideration payable ⁽⁵⁾	23,633	23,633	23,633	3,464
Total liabilities	175,303	189,254	214,790	31,483
Share capital	2,130	2,136	2,138	313
Shareholders' equity	319,002	373,751	442,278	64,826
Other Financial Data:				
Capital expenditures and land lease prepayments ⁽⁶⁾	77,566	99,551	122,814	18,001
Net cash generated from operating activities	149,346	168,612	193,647	28,384
Net cash used in investing activities	(118,841)	(123,039)	(139,026)	(20,378)
Net cash used in financing activities	(23,587)	(37,276)	(45,684)	(6,696)
Dividend declared or proposed	31,156	39,883	48,364	7,089
Dividend declared per share (RMB)	1.566	2.000	2.415	0.35
Dividend declared per share (HK\$)	1.542	2.098	2.743	0.35

- (1) Amortization of tax credit on purchase of domestically manufactured telecommunications equipment is included in income tax expense in 2007 and 2008. Accordingly, the amounts in 2006 have been reclassified to conform to current year's presentation.
- (2) The basic earnings per share and per ADS amounts have been computed by dividing profit attributable to our equity shareholders by the weighted average number of shares and the weighted average number of ADSs, respectively, outstanding in 2006, 2007 and 2008. The diluted earnings per share have been computed after adjusting for the effects of all dilutive potential ordinary shares, respectively. 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.
- (3) Represents current assets minus current liabilities.
- (4) The guaranteed bonds due 2007 with an aggregate principal amount of RMB3,000 million were fully redeemed upon maturity on October 28, 2007.
- (5) Represents the respective balance of the purchase consideration payable to our immediate holding company for our acquisition of the eight regional mobile telecommunications companies in 2002 and for our acquisition of the ten regional mobile telecommunications companies and other telecommunications assets in 2004. See Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Contractual Obligations and Commitments.
- (6) Represents payments made for capital expenditures and land lease prepayments during the year.

Exchange Rate Information

We publish our consolidated financial statements in Renminbi. Solely for the convenience of the reader, this annual report on Form 20-F contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars and vice versa at RMB6.8225 = US\$1.00 and HK\$7.7499 = US\$1.00, the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008. These translations should not be construed as representations that the Renminbi or Hong Kong dollar amounts could actually be converted into U.S. dollars at such rates or at all.

The noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB6.8360 = US\$1.00 and HK\$7.7500 = US\$1.00, respectively, on June 19, 2009. 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:

Table of Contents**Noon Buying Rate**

	RMB per US\$1.00			HK\$ per US\$1.00	
	High	Low		High	Low
December 2008	6.8842	6.8225	December 2008	7.7522	7.7497
January 2009	6.8403	6.8225	January 2009	7.7618	7.7504
February 2009	6.8470	6.8241	February 2009	7.7551	7.7511
March 2009	6.8438	6.8240	March 2009	7.7593	7.7497
April 2009	6.8361	6.8180	April 2009	7.7508	7.7495
May 2009	6.8326	6.8176	May 2009	7.7526	7.7500
June 2009 (up to June 19, 2009)	6.8371	6.8264	June 2009 (up to June 19, 2009)	7.7516	7.7499

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 2004, 2005, 2006, 2007 and 2008, 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
2004	8.2768	7.7899
2005	8.1826	7.7755
2006	7.9579	7.7685
2007	7.5806	7.8008
2008	6.9193	7.7814

Risk Factors

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

Risks Relating to Our Business

We may not be able to maintain a high level of growth due to, among other things, the increase in the mobile penetration rate in Mainland China, the effects of the recent restructuring of the telecommunications industry in Mainland China and the changes in the macroeconomic environment arising from the global financial crisis.

We have experienced significant growth over the past few years, measured by the increase in both our subscriber base and our revenue. We cannot assure you, however, that we will be able to maintain a high level of growth in the future. In particular, the mobile penetration rate in Mainland China reached 48.5% as of December 31, 2008, and the mobile telecommunications markets in some of the larger cities of Mainland China have begun showing signs of saturation. Moreover, the effects of the recent restructuring of the telecommunications industry that has significantly changed the competitive landscape in the telecommunications industry in Mainland China have begun to emerge, and have principally resulted in further intensified competition. See Competition from other telecommunications services providers may further increase, which may reduce our market share and decrease our profit margin, and we cannot assure you that any potential change in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations. In addition, changes in the macroeconomic environment arising from the global financial crisis have had an adverse impact on Mainland China as well as its telecommunications industry. All of these factors, among others, have contributed to a slowdown in the growth in demand for our telecommunications services in Mainland China. As a result, our subscriber base grew at a lower rate in the fourth quarter of 2008 and the first quarter of 2009 than in prior years. We had 19.91 million new subscribers in the first quarter of 2009, representing

Table of Contents

a 12.7% decrease from the number of new subscribers that we added for the same period in 2008. Our total voice usage volume in the first quarter of 2009 was 661.38 billion minutes, representing only a marginal increase from that in the fourth quarter of 2008. Furthermore, the growth in our operating revenue in the first quarter of 2009 was significantly less than that for the same period in 2008. We have also experienced a continued decline in our average revenue per user per month, or ARPU, over the past several years, which declined from RMB90 in 2006 to RMB83 in 2008 and to RMB73 in the first quarter of 2009. As most of our new subscribers are relatively low-end users, such as those from less affluent rural areas, the continued implementation of our growth strategy may result in our experiencing a lower ARPU than what we have experienced historically. Our efforts to achieve growth could be hampered if we are unable to compete effectively with other telecommunications services providers in Mainland China or the macroeconomic environment does not improve. We cannot assure you that we will be successful in our efforts to achieve a high level of subscriber growth or to increase our market share and the utilization of our telecommunications services. If we are unable to sustain our growth, our financial condition and results of operations as well as our profitability may be materially and adversely affected.

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

We compete with other telecommunications services providers in all of the thirty-one provinces, autonomous regions and directly-administered municipalities in Mainland China. The PRC government encourages orderly competition in the telecommunications industry in Mainland China and has in the past 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.

We continue to face increasing competition from other telecommunications services providers. In May 2008, in order to optimize the allocation of telecommunications resources in the PRC and improve the competitive landscape, the MIIT, the National Development and Reform Commission and the Ministry of Finance 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. Following the announcement of the policy initiative, China United Telecommunications Corporation, formerly our largest competitor, combined with China Network Communications Group Corporation to form China United Network Communications Group Company Limited, or China Unicom, while China Telecommunications Corporation, or China Telecom, acquired the Code Division Multiple Access, or CDMA, business previously owned and operated by China United Telecommunications Corporation and became a new mobile telecommunications services provider that directly competes with us. Both of these developments resulted in more competitive pressures on us. In addition, under the PRC government's policy initiative announced in May 2008, China Telecom and China Unicom have each become full-service telecommunications services providers that operate both fixed-line telecommunications networks and mobile telecommunications networks. See Item 4. Information on the Company Business Overview Competition. Further increased competition could reduce the rate at which we add new customers to our network and decrease our market share as customers choose to receive mobile telecommunications services from other providers. Moreover, we cannot assure you that we will not experience increases in churn rates as competition intensifies, which may materially reduce our profitability as we may incur significant additional selling expenses to replace customers. Furthermore, we cannot assure you that any potential change in the competitive landscape of the telecommunications industry in Mainland China would not have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

The TD-SCDMA technology that we use for our 3G network is a new third generation mobile technology that has not been proven in commercial use or widely adopted and the TD-SCDMA industry chain is at an early stage of development. As a result, we have encountered and may continue to encounter challenges in the deployment of our 3G services, which could have a material adverse effect on our financial condition and results of operations as well as our revenues and profitability.

We are committed to pursuing our 3G business based on the TD-SCDMA technology. As a result, our ability to deploy and deliver our 3G services depends, to a large extent, on the TD-SCDMA technology, which has not been proven in commercial use. In particular, the TD-SCDMA technology may not perform as expected, and we may not be able to effectively and economically deliver our 3G services based on this technology. Furthermore, we may not be able to compete successfully in the delivery of telecommunications services based on the TD-SCDMA technology against our competitors, which are delivering their 3G services using Wideband Code Division Multiple Access, or WCDMA, and Code Division Multiple Access 2000, or CDMA2000, technologies, both of which are perceived to be more mature 3G technologies that have been used widely in western Europe and the United States and that may offer more effective global roaming or other services to customers. If the TD-SCDMA technology proves not to be commercially viable or widely adopted, or if this technology does not otherwise perform satisfactorily, our ability to attract and retain customers or offer services to our customers may be limited, our business and prospects will suffer and our revenues and profitability could materially decrease.

We have experienced various challenges in the deployment of our 3G services. The TD-SCDMA industry chain, including companies that manufacture, or conduct research and development activities relating to, TD-SCDMA systems, terminals, chipsets and instruments, is still at an early stage of development, with the related technologies and products lacking in sophistication and maturity. For example, there are currently a limited number of companies that manufacture handsets based on the TD-SCDMA technology. As a result, TD-SCDMA handsets currently available on the market may lack variety and may be comparatively more expensive and technologically less reliable than handsets based on other 3G technologies. We may not be able to successfully overcome our current challenges and may encounter new challenges in the development of our 3G business, and the deployment of our 3G services may not proceed according to anticipated schedules.

In addition, we have made substantial investments and incurred significant expenses in the development of our 3G services, including the leasing of network capacity from our parent company, China Mobile Communications Corporation, or CMCC, and the development of our 3G market. We currently plan to expand our 3G services to 238 cities in Mainland China by the end of 2009. In May 2009, a total of 746,000 subscribers used our 3G network services. We expect to continue making significant investments in the construction of our core mobile telecommunications network and related systems and facilities, which will be used for both our 2G and 3G services. Accordingly, the amount of our capital expenditures in future years could remain high. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Expenditures for more information on our expected capital expenditures. If our 3G services do not gain sufficient popularity among potential subscribers, or if we encounter other challenges in the provision of our 3G services, our ability to realize benefits from our significant capital investment in our networks and 3G services will be limited, which could have a material adverse effect on our financial condition and results of operations as well as our revenues and profitability.

Extensive government regulation may limit our flexibility to respond to changes in market conditions, competition or our cost structure.

The MIIT, which was created in March 2008 to assume, among other things, the functions of the MII, regulates, among other things, the following areas of the telecommunications industry in the PRC under the leadership of the State Council: