



# CHAIRMAN'S STATEMENT

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## DEAR SHAREHOLDERS,

**In 2005, the Group pursued the market-oriented guiding principle, responded to competition rationally, and implemented its "service and offering leadership" business strategy. The Group strived to enhance its competitive advantages in terms of its scale of operation, maintained a rapid and healthy growth momentum, consolidated its leading position in Mainland China's mobile telecommunications market and achieved commendable results. In addition, the Company made a general offer in cash to acquire all the issued shares of the Hong Kong-based China Resources Peoples Telephone Company Limited ("Peoples").**

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## FINANCIAL RESULTS

With the benefit of a healthy and stable competition environment and solid business growth, the Group achieved commendable financial results in 2005, during which the Group's operating revenue achieved notable growth and reached RMB243,041 million, representing an increase of 26.3 per cent. from previous year. EBITDA reached RMB133,338 million, representing an increase of 24.8 per cent. from previous year. Profit attributable to shareholders reached RMB53,549 million, representing an increase of 28.3 per cent. from previous year. EBITDA margin and margin of profit attributable to shareholders maintained at high level, reaching 54.9 per cent. and 22.0 per cent., respectively. Basic earnings per share reached RMB2.71, representing an increase of 27.8 per cent. from previous year. The Group maintained its sound capital structure and robust free cash flow, thereby providing a stable foundation for its future development in a sustainable, healthy and steady manner.

For ease of comparison, on the assumption that the Group's current structure of holding thirty-one operating subsidiaries had been in place since 1 January 2004, the Group's operating revenue, EBITDA and profit attributable to shareholders achieved in 2005 enjoyed an increase of 19.1 per cent., 18.4 per cent. and 24.7 per cent., respectively over the previous year's combined operating revenue, EBITDA and profit attributable to shareholders in respect of the thirty-one provinces. It is pleasing to note that the Group's revenue attributable to its new businesses continued to grow rapidly, and it amounted to RMB50,187 million. Such revenue accounted for 20.6 per cent. of the Group's operating revenue which, comparing with that of 15.5 per cent. of the previous year on a combined basis, represented an increase of 5.1 percentage points, and the contribution of new businesses to the total revenue is increasingly notable.

## BUSINESS REVIEW

In 2005, the overall competition in China's mobile telecommunications market took on a rational trend, and the Group was committed to implementing its business strategy of "service and offering leadership", promoted the development of the three major brands of "GoTone", "Shenzhouxing" and "M-Zone", continuously developed new businesses, improved its services and maintained the Company's sustainable and healthy development. During 2005, the impetus from the growth in subscriber base, voice usage volume and new businesses was notable. The Group's subscriber base continued to grow. In particular, the subscriber base growth in Mainland China's central and western regions accelerated remarkably. Voice usage volume grew steadily. Competitive advantages in terms of brand, sales channel and service became increasingly notable. The overall development capability of new businesses was enhanced and the proportion of the Group's total operating revenue derived from new businesses exceeded 20 per cent.. The business volume of "Short Message Service" or "SMS" continued to increase and non-SMS data businesses such as "Color Ring" and WAP maintained a rapid growth. The Group achieved remarkable results with respect to corporate customers, and the promotion of information applications in key industry sectors achieved considerable progress. The Group's leading market position was further consolidated.

In 2005, the Group's overall network capability has further strengthened, and its competitive advantages in terms of network quality were consolidated. The Group's advanced and flexible support system effectively enhanced its operation and management, further strengthened the Group's leading position and competitiveness and provided a strong basis for its future development.

The coverage of the Group's global roaming services was further extended. As at the end of December 2005, the Group's GSM global roaming services covered 203 countries and regions and GPRS roaming services covered 98 countries and regions.

During the past year, as the only mobile telecommunications services partner for the 2008 Beijing Olympics, the Group actively participated in a series of promotional activities sponsored by the Beijing Olympic Games Preparatory Committee. Through leveraging the Olympic logos, the Group strengthened its brand promotion and enhanced its brand image. The Group also did the real time transmission for the release of the Olympic slogan, the Olympic song and the Olympic mascots via SMS, "Color Ring" and MMS, spreading the Olympic spirit and Olympic ideology. Whilst enabling the Group's subscribers to fully experience the promptness and convenience of media releases through mobile phones, the Group also demonstrated its ability in serving the Olympics.

### ACQUISITION AND CONSOLIDATION

In November 2005, after careful consideration and evaluation, the Company made a general offer to acquire Peoples at a reasonable price. As at 12 January 2006, the Company acquired 99.68 per cent. of Peoples' shares and the requirements for privatizing Peoples were met. Trading in Peoples' shares was suspended with effect from 13 January 2006. The Company will complete the acquisition in accordance with the requirements under the Hong Kong Code on Takeovers and Mergers.

After the completion of the acquisition, by combining the Group's and Peoples' experiences, the Company will improve Peoples' business and services, and cost reduction will be achieved by integrating network equipment and support systems and implementing centralized procurement and unified management. The Company will endeavor to enhance Peoples' competitiveness and increase its profitability and to provide high quality mobile telecommunications services to subscribers in Hong Kong and Mainland China, with a view to generating greater returns for shareholders.

### MANAGEMENT OF THE GROUP

In 2005, the Company strengthened its integrated management over its subsidiaries through further implementation of management reform. The Company implemented comprehensive refined management methods in the aspects of, among others, resource allocation, costs control, human resources and network management. The Company strengthened and refined its performance appraisal systems and further enhanced its management efficiency and the overall execution capabilities. At the same time, the Company further refined its supervisory mechanism, which facilitated its risk control. The Company attached great importance to Section 404 of the Sarbanes-Oxley Act of 2002. In this regard, the Company formulated a special project plan, established a special project management committee, engaged professional advisers and systematically evaluated and inspected the internal control systems relating to financial reporting of the Company and all its subsidiaries. The Company will remedy its deficiencies identified, refine its systems, and comprehensively promote standardized internal control. To date, the project is progressing smoothly, in an orderly manner and on schedule. The project will enhance the Company's internal control and risk management and provides a solid foundation for improving the Company's overall management.

The Company's outstanding performance has won popular recognition and acclaim. In 2005, the Company was once again selected by Financial Times as one of the "FT Global 500", ranking number 64 therein as compared to number 67 last year. The Company was selected and ranked 128 in "The World's 2000 Biggest Public Companies" by Forbes magazine. Based on the Group's solid financial strength, tremendous business development potential and sound financial management, in July 2005, whilst upgrading China's sovereignty rating, Standard & Poor's revised the Company's credit rating upward to A-/Positive Outlook, and in September 2005, Moody's also revised the Company's credit rating upward to A2/Outlook Stable, equivalent to China's sovereignty rating.

### CORPORATE CULTURE

China Mobile has grown by improving and bettering itself, and during such process it has nurtured and established its corporate culture. In 2005, an important juncture between its past and future, the Company summarized its corporate culture, and summarized its core value proposition as "responsibility makes perfection", implying that the spirit of China Mobile is to fulfil responsibilities and strive for pre-eminence. Looking ahead, the Company will pursue ever greater perfection in line with such guidelines to achieve evolution from excellence to pre-eminence.

## CORPORATE SOCIAL RESPONSIBILITY

The Group has always put emphasis on its responsibility to the community and its participation in social services. During 2005, the Group assisted its parent company in the implementation of the "Village-Connected Project," extending networks to rural areas with no telecommunications services, thereby benefiting the people's livelihood whilst at the same time extending the Group's network coverage. In addition, the Group launched an environmental protection programme entitled "Green Boxes". The Group also ensured the reliable provision of telecommunications services at times of major public events, emergencies and disasters, thereby winning acclaim from all sectors of society. The Group further enhanced its image in terms of public welfare and was selected as "Best Corporate Citizen" by a number of bodies.

## DIVIDENDS

The Company holds in the highest regard the interests of its shareholders and the returns achieved for its shareholders, especially minority shareholders. Having taken into account such factors as the on-going health status of the Company's fundamental structure, strong cash flow position and requirements to ensure the sustainable future growth of the Company's business, the Board recommends payment of a final dividend of HK\$0.57 per share for the financial year ended 31 December 2005. This, together with the interim dividend of HK\$0.45 per share already paid during 2005, amounts to an aggregate dividend payment of HK\$1.02 per share for the full financial year, representing an increase of 54.5 per cent. over the annual dividend of HK\$0.66 per share for the full year of 2004. Dividend payout ratio for the year 2005 is 39 per cent.. At the same time, the dividend payout ratio of the Company for the full year of 2006 is planned to be 42 per cent.. The Board is of the view that the Company's strong free cash flow is capable of supporting the investments required to maintain the stable growth of the Company, while also providing a favorable cash return to shareholders. The Company will endeavor to achieve a longer term sustainable, steadily increasing dividend, with a view to generating the best possible return for shareholders.

## LOOKING TO THE FUTURE

From a macro economic perspective, current trends indicate that the Chinese economy will continue to maintain relatively strong growth in the future. The continued increase in consumer spending, the development of industry informalization and the demand for telecommunications services as a result of rural development provide the telecommunications industry with tremendous opportunities for development. In comparison with developed countries, the telecommunications penetration rate in

Mainland China remains relatively low and as a result, great potential for development still exists in the mobile telecommunications market. With the development and maturing of the market, competition will become more rational. As Third Generation Mobile Communication Technology (3G) and products become more mature, the conditions for 3G development in China will also gradually mature. The issuance of 3G licences in Mainland China may result in changes in the industry's environment. Looking to the future, the Company faces great opportunities and challenges at the same time.

The Group will leverage its existing advantages in and promote the development of economies of scale, encourage innovation, enhance management and service standards, and direct the industry towards rational competition, with a view to maintaining the momentum of the Group's continued healthy development and extending its leading position. The Group will actively monitor policies relating to 3G technologies, utilize its competitive advantages in terms of networks and scale, and make networks, service and product offerings preparation, in order to lay a solid foundation for the launch of commercial application services of 3G at the appropriate time.

Looking to the future, the Group will work towards building a pre-eminent operating system, creating a pre-eminent organization and cultivating a pre-eminent staff force, and strive to become a creator of pre-eminent quality. Focusing on its defined strategy of being "a World-class Enterprise and the Mobile Information Expert", the Group will continue to maintain its existing competitive advantages, provide quality services and products, innovate in its growth model, and pioneer multi-media mobile services. The Group will also foster an eminent corporate culture and maintain growth in value, with a view to "building a lasting good business", and bringing better returns for its investors.

Finally, I would like to take this opportunity to express my heartfelt thanks to all shareholders and friends who have cared for and supported the Company, as well as to the Company's employees who have worked hard during the past year.



**Wang Jianzhou**

*Chairman and Chief Executive Officer*

Hong Kong, 16 March 2006