



MOBILE INFORMATION EXPERT



In 2005, the Group continued to pursue rational and orderly competition and enhance its competitive advantage in terms of market leadership. The driving effect of the growth in its subscriber base, voice usage volume and new businesses was prominent. These, together with the strong development in data businesses, the increasingly prominent advantage in terms of brand, the continuous refinement of marketing and sales channels, the sustained improvement in basic customer service, the strengthened capability and quality of our network and the steady enhancement in the levels of operational and managerial support, attributed to the rapid development of the Group's overall business.

As at the end of 2005, the Group's subscriber base reached 246.652 million, representing an annual growth rate of 20.7 per cent.. The aggregate subscriber usage volume reached 903.12 billion minutes, representing an annual growth rate of 36.6 per cent.. The number of mobile data services users reached 206.682 million, representing an annual growth rate of 31.8 per cent.. SMS usage volume reached 249.61 billion messages, representing an annual growth rate of 44.6 per cent.. Revenue from new businesses reached RMB50.187 billion, representing an annual growth rate of 58.6 per cent.. Revenue from new businesses accounted for 20.6 per cent. of the Group's operating revenue, representing an increase of 5.1 percentage points from 2004.

The table below summarizes the key operating data of the Group for the period from 2004 to 2005. Operating figures shown in this table and in this "Business Review" section are, unless otherwise specified, combined results of the thirty-one provinces, which means it has been assumed that the existing corporate structure of the Group with thirty-one operating subsidiaries was in place since 1 January 2004.

BUSINESS REVIEW (CONT'D)

Key Operating Data of the Group for 2004 through 2005

	2005	2004
Mobile Subscribers (Million)	246.7	204.3
Net Additional Subscribers (Million)	42.4	38.2
Total Usage (Billion Minutes)	903.1	660.9
Average Usage per User per Month (MOU) (Minutes/User/Month)	335	297
Average Revenue per User per Month (ARPU) (RMB/User/Month) ⁽¹⁾	90	92
SMS Usage Volume (Billion Messages)	249.6	172.6

	2005	2004
Contract Subscribers ⁽²⁾		
Mobile Subscribers (Million)	61.3	59.9
Average Usage per User per Month (MOU) (Minutes/User/Month)	589	517
Average Revenue per User per Month (ARPU) (RMB/User/Month)	185	167

	2005	2004
Prepaid Subscribers ⁽²⁾		
Mobile Subscribers (Million)	185.4	144.4
Average Usage per User per Month (MOU) (Minutes/User/Month)	241	194
Average Revenue per User per Month (ARPU) (RMB/User/Month)	55	56

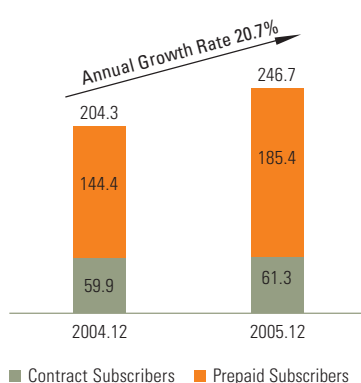
Notes:

⁽¹⁾ All monetary figures shown in this Business Review section are expressed in Renminbi.

⁽²⁾ For management reference purposes, contract subscribers are classified to include "GoTone" subscribers and subscribers who have signed service contracts with the Group, while prepaid subscribers are classified to include subscribers of "Shenzhouxing" and "M-Zone" and local brands or packages targeting low usage volume users.

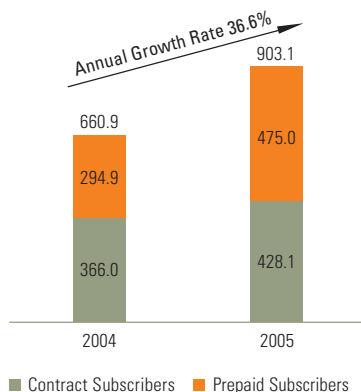
SUBSCRIBER BASE

(Million)



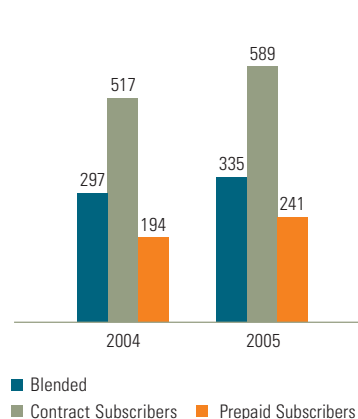
TOTAL USAGE

(Billion Minutes)



MOU

(Minutes)



CUSTOMER GROWTH

In 2005, the Group maintained a steady and rapid growth in its subscriber base. As at 31 December 2005, the Group's mobile subscriber base reached 246.652 million, of which 61.311 million were contract subscribers and 185.341 million were prepaid subscribers. In 2005, the total net increase in the Group's subscriber base was 42.360 million and the average monthly net additional subscribers exceeded 3.50 million. In particular, the subscriber base in the eastern regions has continued to expand, the favorable momentum of growth in the central and western regions has become prominent and the geographical distribution of new subscribers has shown an encouraging change.

As at the end of 2005, the Group had maintained its position as the market leader, with a market share of approximately 65.6 per cent.. The mobile telephone penetration rate within areas serviced by the Group was approximately 30.3 per cent., within which the penetration rate in the central and western regions, as well as in small and medium-sized cities and rural areas, remained relatively low. The growth of China's economy, the drive provided by "informationalization" and the modernization of rural areas will provide further room for growth in mobile telecommunications.

The Group has strongly developed its corporate customer base and has achieved significant results, thereby facilitating the maintenance and further development of the individual customer base and building a strong foundation for the Group's future development, gaining the first mover advantage. As at the end of 2005, the number of corporate customers that had signed service agreements with the Group reached 1.11 million, and individual customers served via service agreements with corporate accounts amounted to 27 per cent. of total subscriber base. The Group has provided basic "informationalization" solutions to 0.399 million corporate customers. Significant progress has been taken place in the development and integration of "informationalization" products and in the application of "informationalization" in key industries. Targeting more than 20 industries including urban management, education, policing, agriculture, meteorology and banking, the Group has developed and launched nearly 300 industry-specific application products and functions such as Municipal Information Service, Campus Information Service and Police Information Service. Such products and functions have been successfully used in more than 1,000 distinguished industry-specific application cases, and have been recognized by corporate customers with the highest acclaim.

In 2005, the Group developed appropriate products and sales packages in response to the unique consumption characteristics of rural areas. The Group has established sales and marketing service networks at low cost by utilizing existing resources in rural areas, and has provided customized services to users in rural areas in accordance with their requirements. The Group has also established networks using low cost techniques and solutions, and has lowered the barriers to use by guiding handset producers to introduce inexpensive handsets with moderate functions. Such policies have tremendously enhanced the development of the customer base in rural areas.

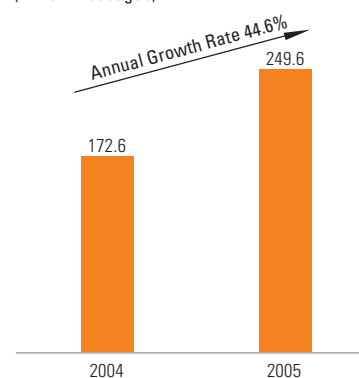
NUMBER OF MOBILE DATA SERVICES USERS

(Million)



SMS USAGE

(Billion Messages)



BUSINESS DEVELOPMENT

In 2005, the Group continued to pursue rational and orderly competition. It has further integrated sales packages to optimize the distribution structure of voice usage volume and enhance the yield of voice usage volume. As a result, the decline in average tariff levels was kept under effective control and the growth in revenue and in voice usage volume became more balanced. In 2005, the Group's aggregate mobile subscriber usage volume reached 903.12 billion minutes, representing an annual growth rate of 36.6 per cent. The Group's average minutes of usage per user per month (MOU) in 2005 was 335 minutes, representing an increase of 12.9 per cent. from that of 297 minutes in 2004. The MOU of contract subscribers and prepaid subscribers in 2005 were 589 minutes and 241 minutes, respectively. The Group's average revenue per user per month (ARPU) was RMB90, representing a decline of 1.5 per cent. from that of RMB92 in 2004. The ARPU of contract subscribers and prepaid subscribers in 2005 were RMB185 and RMB55, respectively. The ARPU remained generally stable.

As one of the strong drivers of the development of the Group, the accelerated growth in new businesses stimulated the growth in operating revenue. The proportion of non-SMS data businesses revenue in the new businesses revenue has further increased, and the sources of revenue generated by new businesses were even more diversified. In 2005, revenue from new businesses reached RMB50.187 billion, representing an increase of 58.6 per cent. from 2004. The proportion of the Group's operating revenue that derived from new businesses reached 20.6 per cent., representing significant growth as compared to 2004. The SMS business continued to grow. In 2005, revenue from SMS reached RMB24.671 billion, the SMS penetration rate (SMS subscribers as a percentage of total subscriber base) reached 83.8 per cent. and SMS usage volume reached 249.61 billion messages. Non-SMS data businesses grew rapidly, in which "Color Ring" and WAP showed strong growth. In 2005, revenues from "Color Ring" and WAP reached RMB3.423 billion and RMB3.570 billion, respectively. The mobile music business started to show its potential. "Wireless Music Rank" was launched in April 2005. The Group has increased its efforts in business model innovation and strengthened its cooperation with the music media to stimulate and direct customers to try out, use and get accustomed to mobile music products based on "Color Ring", "IVR for Mobile Music" and "Ringtone Download". "Color Ring" subscribers downloaded the ring-back tone by more than 300 million times throughout the year, and the effect of handsets as a new media for the sales of musical products became increasingly prominent.



BRAND, MARKETING AND SALES CHANNELS AND SERVICES

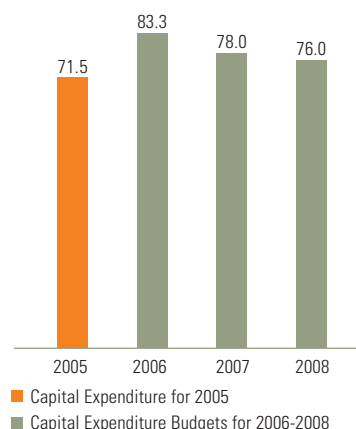
The Group has achieved outstanding results in brand development, further extending our brand advantage. In 2005, focusing on the development of the “GoTone” brand, the Group continued to launch differentiated products and services and to further enrich brand association and enhance brand image. The Group has further enhanced brand loyalty by various measures such as Cross-region Services, Airport VIP Services, Hospital VIP Services, Golf Clubs and Handset Service Clubs, etc. The Group has continued to enhance internal integration within the “Shenzhouxing” brand and improved the standardization and management of sales packages, thereby achieving stabilized average tariff levels and enhanced operational effectiveness. Through the accentuation of the brand characteristics of “M-Zone” and enhancing the application of data businesses, together with the development of brand alliances and the implementation of various schemes including product and service upgrades, the subscriber base of “M-Zone” has expanded rapidly.

The Group continued to strengthen its marketing and sales channels by further expanding the scale of its proprietary sales channels and optimizing and refining its formation and structure and enhanced the capability to promote new businesses, sales of customized terminals and marketing and sales management, established appropriate coverage and built up a stronger capability to offer marketing and sales services. The Group has enhanced its service capabilities through the expansion of electronic channels. The Group has strengthened its management and control of marketing and sales channels through integrating the resources relating to sales and marketing channels in the community. In pursuit of the development of markets in rural areas, the Group has accelerated the establishment of sales and service networks in rural areas. The Group has extended its coverage through various measures such as utilizing its proprietary sales outlets, retail outlets and resources in rural areas, thereby establishing a competitive advantage in rural areas.

In 2005, the Group continued to optimize its service processes to remove service bottlenecks, resulting in sustained improvement in basic services and thereby achieving a steady improvement in customer satisfaction levels. Overall customer satisfaction rate has reached 75 per cent., representing an increase of 0.86 percentage points from 2004.



CAPITAL EXPENDITURE
(RMB Billion)



Note: The above capital expenditure budgets currently exclude investment of 3G construction

NETWORKS, SUPPORT SYSTEMS AND INVESTMENTS

In 2005, the Group's overall network capability was comprehensively enhanced. Business development of the Group was strongly supported by its high quality, efficient, stable and advanced network. The Group continued to lead in terms of network quality. The wireless connection rate reached 99.0 per cent., the voice call drop rate was less than 0.8 per cent., and the SMS delivery rate reached 98.6 per cent.. Network quality continued to stay at a high level. Network utilization rate was maintained at a relatively high level. As at the end of 2005, the Group's network capacity reached 302 million subscribers and the network utilization rate reached 81.6 per cent..

In 2005, the Group further expanded its global roaming services coverage. As at the end of 2005, GSM global roaming services covered 203 countries and regions, while GPRS global roaming services coverage extended to 98 countries and regions. The Group's subscribers were able to send or receive short messages to or from the subscribers of 214 mobile telecommunications operators in 106 countries and regions around the world.

The Group has established on a preliminary basis an advanced and flexible support system which effectively enhanced its operation and management. As a result, certain aspects such as customer service quality, speed of response to and grasping of the market, scope and depth of its operational analysis and the quality of decision-making have been enhanced notably. The support system further strengthened the Group's leading position and competitiveness and provided assurance for its future development.

The Group's capital expenditure in 2005 was approximately RMB71.5 billion. Having taken into account the growth in subscriber base and voice usage volume, the capital expenditure budgets newly set for each of the three years from 2006 to 2008 are RMB83.3 billion, RMB78.0 billion and RMB76.0 billion, respectively. The capital expenditure for the next three years will be used mainly for the construction of GSM networks, support systems and transmission facilities, and for the development of new technologies and new businesses. Such capital expenditure budgets currently do not include investment of 3G construction. The required funding will be sourced largely from cash generated from the Group's operating activities.

FUTURE BUSINESS STRATEGIES

Looking to the future, the Group will further consolidate its market leading position in the mobile telecommunications market by innovatively developing new customers, new voice usage and new businesses. The Group will continue to develop its brand, enhance its proprietary sales channel capabilities, strengthen the establishment and integration of its electronic sales channels, continually improve its basic customer service, and strengthen its ability to innovate in terms of businesses, technologies, management and business model. The Group will pay particular attention to developing its corporate customer base, develop a new competitive advantage in terms of its network and support systems, commit itself fully to servicing Olympics and carry out planning and operational preparation for the development of 3G, and take its business into a new phase in the future.