

正德厚生  
臻于至善



**Dear Shareholders,**

**In 2006, with the benefits of stable and rapid economic growth in China, with the vibrant market demand and a rational competitive environment, the Group leveraged its strong competitive advantages and achieved rapid business development on top of its sustained growth in recent years. These were attained through leveraging network and brand advantages, strengthening economies of scale, developing innovative capabilities, enhancing management and service and implementing proactive and effective marketing strategies. The Group's subscriber base surpassed 300 million and its leading position in the mobile telecommunications market in China was further consolidated. The Group achieved remarkable operating results.**

## REMARKABLE OPERATING RESULTS

In 2006, the Group's operating revenue achieved notable growth and reached RMB295,358 million, representing an increase of 21.5 per cent. over the previous year. Profitability was further enhanced, and profit attributable to shareholders reached RMB66,026 million, representing an increase of 23.3% over the previous year. Margin of profit attributable to shareholders reached a relatively high level of 22.4%. EBITDA reached RMB159,574 million and basic earnings per share reached RMB3.32, representing an increase of 19.7 per cent. and 22.5 per cent. over the previous year, respectively. Notably, the Group's revenue attributable to its value-added business continued to maintain a rapid growth momentum and amounted to RMB69,309 million in 2006, representing an increase of 38.1 per cent. over the previous year. The revenue attributable to value-added business accounted for 23.5 per cent. of the Group's total operating revenue in 2006, 2.9 percentage points above that in the previous year, which is at a relatively high level among its international peers in the industry. The Group believes that its sound capital structure and financial strengths will further provide a solid foundation for sustainable future development.

## BUSINESS DEVELOPMENT

In 2006, while striving to retain its existing customers and stimulate customer usage volume, the Group actively explored market opportunities and developed new customers with a particular focus on the development of the rural mobile telecommunications market in China. The Group's subscriber base continued to grow rapidly and voice usage volume achieved a notable increase. During the year the Group maintained relatively rapid and parallel growth in its subscriber base, revenue and profit. As at 31 December 2006, the Group's total subscriber base reached 301 million, total usage volume reached 1,252.15 billion minutes, average minutes of usage per user per month (MOU) reached 381 minutes and average revenue per user per month (ARPU) was RMB90.

The rural mobile telecommunications market in China presents a momentum of robust growth. The Group strengthened its efforts in the development of the rural market and further improved its network coverage in rural areas. The Group enhanced resource utilization and controlled its customer acquisition costs and service costs through large-scale integrated sales. The Group also developed products and services targeting rural customers and launched sales packages that fit the unique consumption characteristics in rural areas. In 2006, nearly half of the Group's subscriber growth came from rural markets.

In 2006, the Group kept forging ahead with keen determination and proactively pursued innovation. The Group continued to promote product innovation and business expansion. The proportion of the total revenue attributable to the Group's value-added business continued to increase and a hierarchical product structure was established to meet the needs of the future. In 2006, the Group's SMS business volume continued to increase and the average SMS usage volume reached nearly 1 billion per day. The Group's "Color Ring", MMS and WAP businesses also showed rapid growth and its mobile music business achieved a robust development. New product offerings of Mobile Mailbox and Mobile Paper were introduced to the market and presented a momentum of favorable growth. Mobile phones have gradually become a key and indispensable tool in our daily lives. Following the collaboration and win-win principles, the Company entered into strategic alliance with Phoenix Satellite Television Holdings Limited and News Corporation to explore new development opportunities in mobile telecommunications businesses and to prepare for the development of next generation businesses.

In 2006, the Group continued to strengthen its operations in various areas to hone premium service quality. The Group further enhanced brand awareness and increased its brand value. The Group also consolidated its sales channels, improved its customer services and enhanced customer satisfaction. In addition, the Group further strengthened its infrastructure capabilities and improved the functionality of its business support systems comprehensively in order to ensure improvement in management and to meet future business development requirements. In April 2006, "China Mobile" ranked number 4 globally in the "BRANDZ™ Top 100 Most Powerful Brands" published by Millward Brown, a global market research firm. In August 2006, "China Mobile" ranked number 1 in the "20 Best Chinese Brands" jointly published by Interbrand and *BusinessWeek*, demonstrating a wider recognition of the brand value of "China Mobile".

The Group boasts the world's largest mobile telecommunications network and the world's largest mobile subscriber base. In 2006, the Group continued to extend and deepen its network coverage. The Group further promoted and refined network optimization and further centralized network operation and maintenance, enabling the Group to maintain good network performance indicators and premium network quality. The Group had 234,000 base stations as of the end of 2006 and its wireless connection rate reached 99.3%. The coverage of the Group's global roaming services continued to expand. As of the end of 2006, the Group's GSM global roaming services covered 301 operators in 219 countries and regions and its GPRS roaming services covered 138 countries and regions. The Group maintained its leading position in network and business offerings.

## ACQUISITION AND CONSOLIDATION

Since Peoples formally became the Company's wholly-owned subsidiary on 28 March 2006, the Company has proactively achieved synergies. Through the integration of networks and support systems, the Company centralized and unified management, effectively reducing costs and extending the Group's competitive advantages in networks, services and business offerings. As a result, China Mobile customers can more easily access the convenient, premium and localized services in Hong Kong.

## MANAGEMENT OF THE COMPANY

Good operating performance comes in part from effective management. The Company seeks to continuously improve its management. In 2006, the Company further promoted refined management and optimized its operational management system. The Group implemented the "One China Mobile" project, whereby a centralized, computerized management system with standard operating procedure was established. The Group strengthened its unified management over the operating subsidiaries, effectively enhancing management efficiency and execution capabilities. At the same time, the Company further strengthened its efforts in corporate governance. In 2006, the Company implemented a comprehensive project in relation to its compliance with Section 404 of the Sarbanes-Oxley Act, upgraded its internal controls and established a comprehensive internal control and risk management system in accordance with the COSO framework. The Group believes that these initiatives will enable its internal controls system to fully play its supervisory role and help build a solid foundation for strengthening its corporate governance standards.

The Company's outstanding performance has won popular recognition and acclaim. In 2006, the Company ranked number 112 as compared to number 128 in the previous year in "The World's 2000 Biggest Public Companies" by *Forbes* magazine. The Company was once again selected by *Financial Times* as one of the "FT Global 500" companies, ranked number 38 as compared to number 64 in the previous year. The Company was also selected by the *BusinessWeek* as one of the 2006 global "Info Tech 100" companies, leaping to number 8 from number 17 in the previous year. Based on the Group's solid financial strengths, tremendous business development potential and sound financial management, in July 2006, Moody's and Standard & Poor's revised the Company's credit rating upward to A2/Positive Outlook and A/Outlook Stable, respectively.

### CORPORATE SOCIAL RESPONSIBILITY

The Company has always attached great importance to its corporate social responsibility and upheld its core value proposition of "Responsibility makes Perfection". The Company has strived to build an "informationalized" society, help eliminate Digital Divide, care for the underprivileged, and proactively support public welfare initiatives. The Company has also focused on energy conservation and environmental protection, with a view to achieving a harmonious development among the enterprise, society and the environment. In 2006, the Group's efforts in corporate social responsibility won extensive recognition and acclaim. The Company has also established a corporate social responsibility management structure. A designated department that reports directly to the Chairman has been put in charge of the planning and promotion of the Group's corporate social responsibility initiatives. Details of the Group's corporate social responsibility initiatives are contained in the Company's first Corporate Responsibility Report.

### DIVIDENDS OF THE COMPANY

The Company holds in the highest regard the interests of its shareholders and the returns achieved for them, especially the minority shareholders. In consideration of the Company's favorable operating results in 2006 and its long-term development in the future, and in accordance with the dividend payout plan for the full year of 2006, the Board recommends payment of an ordinary final dividend of HK\$0.763 per share for the financial year ended 31 December 2006. This, together with the ordinary interim dividend of HK\$0.62 per share paid during 2006, amounts to an aggregate ordinary dividend payment of HK\$1.383 per share for the full financial year of 2006, representing an increase of 35.6 per cent. over the annual dividend of HK\$1.02 per share for the full year of 2005. The dividend payout ratio for the year 2006 was 42 per cent.. In addition, whilst the profit and dividend per share for the year 2006 continued to maintain a favorable growth, the Board, having taken into full account the interests of its shareholders, recommends payment of a special final dividend in 2006 of HK\$0.069 per share to cater for the effect of the Company's revised depreciation policy on the profits attributable to shareholders. This, together with the special interim dividend of HK\$0.09 per share paid during 2006, amounts to an aggregate special dividend payment of HK\$0.159 per share for the full financial year of 2006. Having taken into account various relevant factors, such as the Company's overall financial condition, cash flow generating capabilities and future continuing development needs, the Company plans the dividend payout ratio for the full financial year of 2007 to be 43 per cent.. In addition, the Company will consider distributing a special dividend for the year 2007 for the effect on the profit attributable to shareholders based on the planned revision of depreciation policy in 2007. The Board believes that the Company's strong free cash flow will be capable of supporting the investments required to maintain the sustained stable growth of the Company, while also providing shareholders with a favorable cash return. The Company will continue its efforts to achieve a sustainable, steadily increasing dividend over the longer term, with a view to generating the best possible returns for shareholders.

### LOOKING TO THE FUTURE

Looking to the future, the rapid growth of the Chinese economy and the rise of Chinese residents' consumption power have resulted in an increasing demand for mobile telecommunications products and services. The development of China's rural economy has driven the development of the mobile telecommunications market in rural areas, thereby bringing new opportunities for the Company's market expansion. The accelerated development in China's "informationalization" has created tremendous demand for mobile telecommunications businesses, and the potential of China's mobile telecommunications market remains enormous. However, the ever-increasing technological advancement and the globalization process bring business opportunities as well as challenges. The deepening of the reform in the national telecommunications industry and the issuance of 3G licences in China may result in substantial changes in the industry and the competitive environment.

An outstanding enterprise should be equipped with strong capabilities to face adversities and tolerate risks. It should strengthen its advantages, emphasize fundamental management, strategic management and human resources training and cultivate corporate culture. It should also encourage innovative thinking, swiftly adjust and adapt itself to the changing environment, make the best use of the situation and turn adversities into opportunities.

In the face of opportunities as well as challenges, the Group will persist in its strategic positioning as a "Mobile Information Expert", leverage its economies of scale, focus on premium quality, actively seek opportunities for expansion and growth and constantly promote innovations so as to maintain sustainable development. The Group also intends to enhance its overall strengths and maintain a favorable environment in the industry, with a view to achieving harmonious development. As the only mobile telecommunications services partner for the 2008 Beijing Olympics, the Group will make all efforts to ensure the provision of premium quality mobile telecommunications services. At the same time, the Group will actively carry out preparatory work for the future, including preparation for the next generation mobile telecommunications network and technologies, and will actively explore new mobile multi-media products. The Group seeks to ensure the continued viability of the driving forces behind its sustained development, to extend its momentum of healthy and continuous development and to maintain a long-term, solid business foundation, with a view to bringing better returns for its investors.



**Wang Jianzhou**  
*Chairman and Chief Executive Officer*

Hong Kong, 21 March 2007