

**In 2006, by seizing favorable market opportunities, the Group further expanded its subscriber base, implemented brand management, enhanced sales and marketing efficiency and innovated its business models. The Group placed emphasis on developing its core competencies for the Group's future development, on maximizing the growth potentials of new customers, value-added business and voice usage volume and on building a low-cost and effective business model in the rural areas. These have greatly enhanced the Group's operational results and led to a rapid, sustainable, steady and harmonious development of the Group's business.**

As at the end of 2006, the Group's subscriber base reached 301.232 million, representing an annual growth rate of 22.1 per cent., nearly half of the subscriber growth was from the rural areas. The aggregate subscriber usage volume reached 1,252.15 billion minutes, representing an annual growth rate of 38.6 per cent.. The number of value-added business users reached 270.384 million, representing an annual growth rate of 30.8 per cent.. SMS usage volume reached 353.38 billion messages, representing an annual growth rate of 41.6 per cent.. Revenue from value-added business reached RMB69.309 billion, representing an annual growth rate of 38.1 per cent.. Revenue from value-added business accounted for 23.5 per cent. of the Group's operating revenue, representing an increase of 2.9 percentage points from 2005.

### Key Operating Data of the Group for 2005 through 2006

	2005	2006
Mobile Subscribers (Million)	246.7	301.2
Net Additional Subscribers (Million) <sup>(1)</sup>	42.4	53.2
Total Usage (Billion Minutes)	903.1	1,252.1
Average Usage per User per Month (MOU) (Minutes/User/Month)	335	381
Average Revenue per User per Month (ARPU) (RMB/User/Month) <sup>(2)</sup>	90	90
SMS Usage Volume (Billion Messages)	249.6	353.4
	2005	2006
Contract Subscribers <sup>(3)</sup>		
Mobile Subscribers (Million)	61.3	65.3
Average Usage per User per Month (MOU) (Minutes/User/Month)	589	671
Average Revenue per User per Month (ARPU) (RMB/User/Month)	185	207
	2005	2006
Prepaid Subscribers <sup>(3)</sup>		
Mobile Subscribers (Million)	185.4	235.9
Average Usage per User per Month (MOU) (Minutes/User/Month)	241	293
Average Revenue per User per Month (ARPU) (RMB/User/Month)	55	55

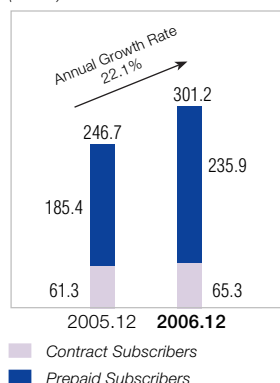
<sup>(1)</sup> The total net additional subscribers of 2006 excluded the subscriber base of 1.359 million as of end of 2005 acquired from Peoples.

<sup>(2)</sup> All monetary figures shown in this Business Review section are expressed in Renminbi.

<sup>(3)</sup> 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.

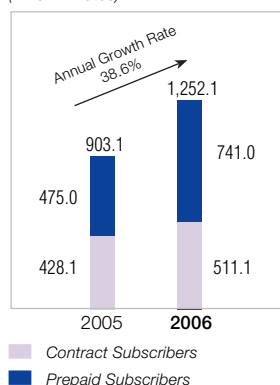
### Subscriber Base

(Million)



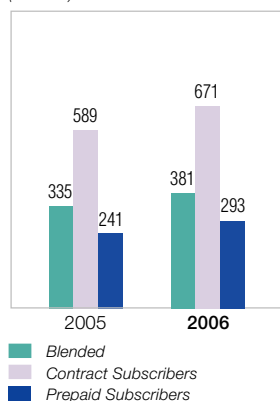
### Total Usage

(Billion minutes)



### MOU

(Minutes)



## CUSTOMER GROWTH

In 2006, the Group maintained a steady and rapid growth in its subscriber base. As at 31 December 2006, the Group's mobile subscriber base reached 301.232 million, of which 65.269 million were contract subscribers and 235.963 million were prepaid subscribers. In 2006, the total net increase in the Group's subscriber base was 53.221 million (excluding the subscriber base of 1.359 million as of end of 2005 acquired from Peoples) and the average monthly net additional subscribers exceeded 4.43 million, nearly half of which were from the rural areas. The eastern region and the central and western regions, cities and rural areas have shown an enormous potential of growth.

As at the end of 2006, the Group had maintained its position as the market leader, with a market share of approximately 67.5 per cent.. The mobile telephone penetration rate within areas serviced by the Group was approximately 35.3 per cent.. The mobile telephone penetration rate in the rural areas was relatively low. The healthy and rapid growth of China's economy, further improved consumption level and spending power of the population, the construction of new rural areas, the drive provided by "informationalization" and the State's emphasis on the telecommunications services based on low energy consumption will provide favorable conditions and further room for the development of the Group.



By strictly adhering to the low-cost strategy, the Group has increased its efforts in developing the mobile telecommunications in rural areas in 2006. The network coverage in rural areas was further improved and the low-cost marketing and sales service system has initially taken shape, and the markets in rural areas have shown a strong momentum of growth through "Shenzhouxing Village-only Card", ultra-low-cost mobile handsets, over-the-air recharging and marketing and sales strategies that fit in with the special characteristics of rural areas. The Agricultural Information Service was launched to specifically address the needs of the market in rural areas and its business has shown rapid growth, and it has met the information needs in relation to the production, supply and sale of agricultural products, management of rural administrative affairs and matters concerning rural residents' livelihood. The service platform of rural information has strengthened the integration and utilization of the rural-related information resources.

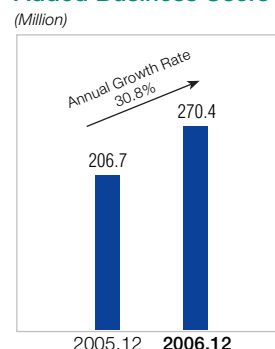
The Group has developed its corporate customer base in earnest and provided customized total solutions to corporate customers in response to their unique requirements. Large-scale promotional campaigns have been launched for key industry-specific application products such as Weather Information Service, Campus Information Service, Banking Information Service, Police Information Service and Municipal Information Service, and as a result the Group has entered into agreements with a number of multinational and multi-provincial corporate customers in relation to mobile information projects. As at the end of 2006, the total number of corporate customers reached 1.39 million, and individual customers served via service agreements with corporate accounts amounted to 26.4 per cent. of total subscriber base.

## BUSINESS DEVELOPMENT

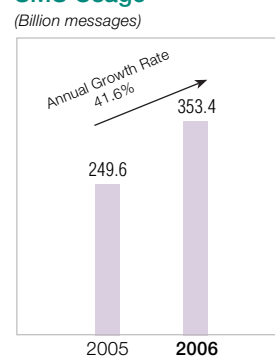
In 2006, the Group seized the favorable market opportunities and further strengthened its sales packages, which have optimized the distribution structure of voice usage volume and enhanced the yield of voice usage volume. In 2006, the Group's aggregate mobile subscriber usage volume reached 1,252.15 billion minutes, representing an annual growth rate of 38.6 per cent.. The Group's average minutes of usage per user per month (MOU) in 2006 was 381 minutes, representing an increase of 13.6 per cent. from that of 335 minutes in 2005. The MOU of contract subscribers and prepaid subscribers in 2006 were 671 minutes and 293 minutes, respectively. The Group's average revenue per user per month (ARPU) was RMB90, remained generally stable. The ARPU of contract subscribers and prepaid subscribers in 2006 were RMB207 and RMB55, respectively.

The Group has proactively pursued product innovation and business promotion, and as a result the proportion of revenue from value-added business has further increased and the structure of revenue from value-added business has been further optimized. In 2006, revenue from value-added business reached RMB69.309 billion, representing an increase of 38.1 per cent. from 2005. Revenue from value-added business accounted for 23.5 per cent. of the Group's operating revenue, representing a further increase from 2005. The SMS business continued to grow. In 2006, revenue from SMS reached RMB32.201 billion, the SMS penetration rate (the proportion of the SMS subscribers to all the subscribers) reached 89.8 per cent. and SMS usage volume reached 353.38 billion messages with an average daily usage volume of nearly 1 billion messages. Non-SMS data businesses grew rapidly, in which "Color Ring", WAP and

### Number of Value-Added Business Users



### SMS Usage



MMS showed strong growth. In 2006, revenues from “Color Ring”, WAP, and MMS reached RMB6.751 billion, RMB6.875 billion and RMB0.984 billion, respectively. The mobile music business has gradually become a trendy mode of purchasing and experiencing musical products by subscribers. “Color Ring” subscribers downloaded the ring-back tone by more than 0.47 billion times throughout the year. Through cooperation with traditional media, Mobile Paper has become a new form of media based on mobile phone handsets. The IM business provided by “Fetion” has enriched the general public’s ways to communicate with each other. Mobile Mailbox, Mobile Blog and Mobile Search have enabled subscribers to access the world of the Internet through mobile phone. It has become apparent that mobile phones have become so important that they cannot be dispensed with in our daily lives.



### CONSOLIDATION OF COMPETITIVE ADVANTAGES

The Group’s competitive advantages in terms of its scale of operation, networks, support system, brands, marketing and sales channels and provision of services have been further consolidated throughout 2006, thereby laying solid foundations for its competition in the future.

The Group owns the world’s largest subscriber base as well as the world’s largest network scale. The Group had over 300 million subscribers and approximately 234,000 base stations as of the end of 2006. The existence of economies of scale has enabled the Group to effectively control the marginal cost, presented the Group with sufficient capacity and competence to proceed with the exploration of the markets in rural areas, and further enabled the Group to consolidate and enhance its influence and leading position in the value chain. The extensive and rich subscriber information had favorably facilitated the Group’s constant development of new products and applications for the purpose of exploring the anticipated needs of subscribers as well as our service to subscribers, and such information has become the Group’s distinctive advantages in terms of information resources. The strong competitive advantages existed as a result of the enormous economies of scale have presented the Group with a broader platform for operational management.

The Group has continued to reinforce its basic capability throughout 2006. As a result, its network coverage has been continually enlarged and broadened. The Group has continued the centralized network maintenance and has further strengthened network refinement, and the network quality has constantly been maintained at an internationally leading position notwithstanding the rapid growth of the subscribers and businesses. The population coverage rate reached more than 97%, the wireless connection rate reached 99.3 per cent., the voice call drop rate was 0.85 per cent., and the SMS delivery rate reached 98.8 per cent..

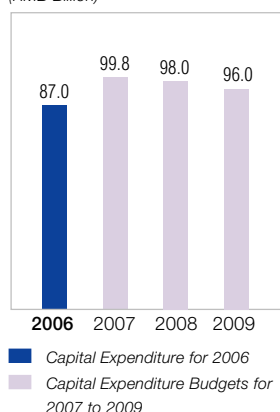
The Group's supporting capability for its operation and management has reached a leading level in the industry. The Group's advanced network management system secured the premium and efficient operation of its network, which is the world's largest of its kind. The management information system improved the efficiency of, and reduced the costs of, the Group's day-to-day operation and management. The Group owns the world's largest business support system in terms of capacity and number of subscribers, and such system is able to provide comprehensive support for the Group's marketing, customer services, fee recording and billing, business analysis and operational decision making with its considerable capacity in terms of computation, storage and provision of services. Such advanced and flexible business support system is able to compile all the Group's essential operational indicators of the previous day on a daily basis, enable the Group to deliver trans-regional service across the nation smoothly. In addition, the system has enabled the Group to become the first in the PRC to fulfill the pledge that "Any Billing Error, Double Refund" and to perform refined and extensive operational analysis.

The Group's brand value has started to gain international recognition. In April 2006, "China Mobile" ranked number 4 in the "BRANDZ™ Top 100 Most Powerful Brands" announced in *The Financial Times* by Millward Brown, a global market research firm and, in August 2006, it ranked number 1 in the "20 Best Chinese Brands" jointly announced by Interbrand and *BusinessWeek*. The Group has reinforced brand awareness and highlighted brand characteristics through the planning and management of its three major brands, namely "GoTone", "Shenzhouxing" and "M-Zone" throughout 2006 and, through the driving forces of business, services, tariff, marketing and sales channels, image and rebate, brand image and brand association have become unified, a clearer brand structure has been established and the coordinated development between the brands has been accomplished. The brand "Shenzhouxing" was successfully marketed in rural areas where both the sales and marketing costs and service costs were lowered by effective measures.

The Group has been proactively establishing its proprietary marketing and sales channels throughout 2006 in order to increase the proportion of such channels and reinforce its control over such channels. The Group's proprietary sales outlets amounted to approximately 34,000 in 2006. The ability of the proprietary sales outlets to promote value-added business has been further enhanced through the reinforcement of trial sales of such business via the proprietary sales and marketing channels, and the proprietary sales outlets have changed their role from "services" to "services plus marketing and sales". The Group has refined its management of cooperative sales and marketing channels, proactively developed sales and marketing channels in the community and consolidated favorable resources. The Group has been actively diversifying its sales and marketing channels and enriching the functions of its electronic channels. As a result of persistent efforts, the Group was able to establish an initial marketing and sales network covering both urban and rural areas, and the coverage of marketing and sales channels as well as management have demonstrated notable competitive edge. The rapid development of markets in rural areas was attributable to the Group's establishment of low-cost sales and marketing channels and network in rural areas with local resources.

### Capital Expenditure

(RMB Billion)



The Group's customer service hotline was successfully upgraded in 2006 and the level of unified services has been improved across the entire network. The mobile information service was further standardized and, with continuous efforts being made to special projects such as "Smooth Network and Trustworthy Services", customer complaints have reduced notably. Customer satisfaction levels have improved steadily and the Group's overall customer satisfaction rate reached 79.6 per cent..

### CAPITAL EXPENDITURE

In 2006, the Group experienced rapid growth in its customers, voice usage volume and all types of business. In order to seize market opportunities, satisfy business needs and ensure network quality and return on investment, the Group's capital expenditure in 2006 was approximately RMB87.0 billion. The capital expenditure was mainly used for the development of GSM networks, the addition of equipment such as base stations, the expansion of coverage and capacity, the refinement of networks for value-added business, the reinforcement of the support system capacity, therefore, securing steady increase in revenue and profits.

In view of the momentum of the rapid growth of the Chinese economy, the citizen's increasing spending power, and the nation's development of "informationalization", the Group's business will maintain its rapid growth momentum in the next three years. In order to satisfy the vibrant market demand, promote the continuous development of value-added business, maintain the leading position and competitive advantages of the network and meet the new tide of technological evolution, the Group's capital expenditure budgets newly set for each of the three years from 2007 to 2009 are RMB99.8 billion, RMB98.0 billion and RMB96.0 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. 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 fully develop the growth potential presented by the new customers, value-added business and voice usage volume as well as largely explore the markets in rural areas by leveraging and consolidating its competitive advantages in terms of its scale of operation, networks, support system, brands, marketing and sales channels, and provision of service on an ongoing basis so as to maintain its market leading position in the mobile telecommunications market. The Group will bring innovations in the provision of services, business, technology and management so as to further develop its multi-media communication service and become the mobile information expert, and will commit itself fully to servicing the 2008 Olympics and prepare itself well for the new generation of mobile telecommunications network and technology so as to take its business into a new phase in the future.