

Business Review

In 2007, the Group maintained the three driving forces of its business — new customers, new business and new voice usage. Subscriber base further expanded, voice usage volume continued to be effectively stimulated and the contribution of value-added business to revenue continued to increase. The Group further developed the rural market, placed emphasis on corporate customer development and advanced the Olympics related business and services as planned. Competitive advantages were secured. These have greatly enhanced the operational results and led to a rapid, sustainable, steady and harmonious business development.



Business Review (Continued)

As at the end of 2007, the Group's subscriber base reached 369.339 million, representing an annual growth rate of 22.6 per cent.. The total voice usage volume reached 1,818.89 billion minutes, representing an annual growth rate of 45.3 per cent.. The number of value-added business users reached 349.551 million, representing an annual growth rate of 29.3 per cent..

SMS usage volume reached 502.74 billion messages, representing an annual growth rate of 42.3 per cent.. Revenue from value-added business reached RMB91.609 billion, representing an annual growth rate of 32.2 per cent.. Revenue from value-added business accounted for 25.7 per cent. of the operating revenue, representing an increase of 2.2 percentage points from 2006.

Key Operating Data of the Group for 2006 through 2007

	2007	2006
Subscriber Base (million)	369.3	301.2
Net Additional Subscribers (million)	68.1	53.2
Total Voice Usage Volume (billion minutes)	1,818.9	1,252.1
Average Minutes of Usage per User per Month (MOU) (minutes/user/month)	455	381
Average Revenue per User per Month (ARPU) (RMB/user/month) *	89	90
SMS Usage Volume (billion messages)	502.7	353.4

* All monetary figures shown in this Business Review section are expressed in Renminbi.

Subscriber Growth

In 2007, the Group maintained rapid growth in its subscriber base. As at 31 December 2007, the Group's subscriber base reached 369.339 million. The total net additional subscribers was 68.107 million and the average monthly net additional subscribers exceeded 5.67 million, nearly half of the subscriber growth was contributed by the rural market. The continuous growth in the developed eastern region, the marked achievements in realizing the market potential in the central region, as well as the notable acceleration of the growth in the western region, all contributed to the continuous expansion of the total subscriber base. As such, as at the end of 2007, the Group maintained its leading market position, with a market share of approximately 69.3 per cent..

Despite the rapid subscriber growth, the mobile penetration rate in Mainland China was approximately 41.6 per cent., and was even lower in the rural areas, bearing an enormous potential of growth. Furthermore, China's economy continues to grow and modernized services industry develops rapidly. These together with the increased internal demands and the stimulated domestic consumptions, the broadening of the scope and the level of application of informatization, the urbanization and the new rural construction, as well as the hosting of the Olympics and the World Expo, provide favorable conditions and opportunities for the further development of the Group.

In 2007, rural market continued to be one of the focus of development and the Group continued to strictly adhere to its rural-specific marketing strategies to drive market growth, thereby realizing economies of scale. The Group's application of low-cost and effective marketing means that fit in with the special characteristics of rural areas, such as wall advertising and banners, promotion of the "Shenzhouxing Village-only Card", as well as utilization of low-price handsets and over-the-air recharging methods, had contributed to the rapid growth in rural subscribers. The network coverage in rural areas further improved, so did the widespread network of low-cost sales and marketing channels. After continuous development, an operating analysis system targeted at the rural market was enhanced. Meanwhile, the Group further promoted the provision of rural information services through its unified information service platform,

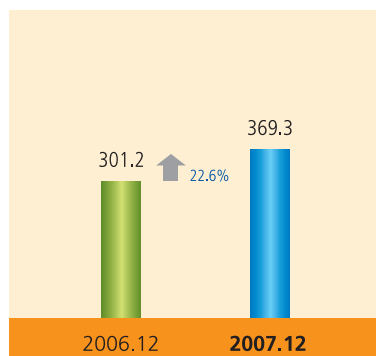
providing a variety of information, which enhanced attractiveness to rural subscribers and their loyalty. The rural market has become the key source of the additional subscribers and a significant driving force for revenue growth.

In 2007, the Group devoted its efforts in establishing and refining its corporate customer operation system, unifying with other cooperation partners within the value chain, as well as intensively promoting corporate informatization and industry-specific application solutions using mobile terminals as the media. Sales and marketing services to multinational and multi-provincial corporate customers have been steadily advanced. This is achieved by enhancing the efforts in researching the needs of the corporate customers and by strengthening the operational capability in system integration design. The Group has further strengthened and broadened the scope of industry-specific applications, such as the Agricultural Information Service, Campus Information Service, Banking Information Service, Police Information Service and Municipal Information Service. At the same time, the Group has penetrated into new areas with new industry-specific applications, such as the Trade & Business Express, the Supply and Sales Information Service and the Financial Information Express. The Group also achieved large-scale expansion of the Machine-to-Machine business in sectors such as power, transportation, environmental and petroleum. As at the end of 2007, the total number of corporate customers reached 2.12 million, and individual subscribers served under corporate accounts amounted to 29.2 per cent. of the total subscriber base.



Subscriber Base

(million)



Total Voice Usage Volume

(billion minutes)



MOU

(minutes)



Business Development

In 2007, the Group adhered to its successful sales strategy and utilized a variety of marketing initiatives as well as price elasticity. This resulted in the effective stimulation of voice usage volume and in turn further growth in operating revenue. In 2007, the Group's total voice usage volume reached 1,818.89 billion minutes, representing an annual growth rate of 45.3 per cent.. The average minutes of usage per user per month (MOU) in 2007 was 455 minutes, representing an increase of 19.4 per cent. from that of 381 minutes in 2006. The average revenue per user per month (ARPU) was RMB89, which slightly declined over that of RMB90 in 2006.

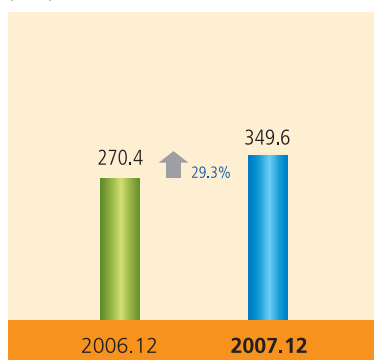
The Group has vigorously developed its value-added business and as a result, its contribution to operating revenue has further increased. In 2007, value-added business increased by 32.2 per cent. to RMB91.609 billion and its contribution to the operating revenue has further increased to 25.7 per cent.. Significant contribution was noted from a variety of value-added businesses. The SMS business continued to grow. In 2007, revenue from SMS reached RMB41.935 billion, the SMS penetration rate (the proportion of SMS subscribers to total subscriber base) reached 94.6 per cent. and SMS usage volume reached 502.74 billion messages with an average daily usage volume of 1.4 billion messages. Non-SMS data businesses grew rapidly, in which revenue from "Color Ring", WAP and MMS continued to increase, reaching RMB11.794 billion, RMB9.094 billion



and RMB1.567 billion, respectively. In addition, the scale of key products such as Mobile Music, Mobile Paper and "Fetion" businesses reached a new level. Throughout the year "Color Ring" subscribers downloaded the ring-back tone by approximately 0.78 billion times. The number of senior members of Wireless Music Club reached 35.46 million. The number of paying subscribers of Mobile Paper reached 23.55 million and the number of active subscribers of "Fetion" reached 12.81 million. On top of the existing value-added businesses being offered, the Group strengthened its reserves of new products and applications, such as Full Track Download, Mobile TV, Mobile Search, Mobile Mailbox and Mobile Map, as well as proactively explored new business areas, such as Mobile Advertising and Mobile Payment.

Value-Added Business Users

(million)



SMS Usage Volume

(billion messages)



Competitive Advantages

The Group's competitive advantages in terms of its scale of operation, network, support system, brands, sales and marketing channels and provision of services have been further consolidated and its overall competitiveness has continued to strengthen in 2007. This created favorable conditions for the Group to maintain sustainable development in the future competitive environment.

The subscriber base and the scale of the Group's network are enormous, with approximately 307,000 base stations. The existence of economies of scale has enabled the Group to effectively control marginal cost and presented the Group with the capabilities to proceed with the exploration of the rural market. The influence and leading position of the Group in the value chain were enhanced and more resources can be put into the research on customers' information.

As a result of the Group's notable advantages over network and its leading network quality, the population coverage rate reached more than 97%, the wireless connection rate reached 99.2 per cent., the voice call drop rate was 0.72 per cent., and the SMS delivery rate reached 99.1 per cent..

Equipped with its advanced and flexible support network, the Group was able to establish differentiated support advantages in areas such as network management system, management information system, business operation support system, customer relationship management system and operational analysis system.

The Group's corporate brand value has gained international recognition. In 2007, the "China Mobile" brand ranked number 5 globally in the "BRANDZ™ Top 100 Most Powerful Brands" published by Millward Brown and *Financial Times*. Its clear customer brand structure enhanced the recognition and loyalty of its customers and is widely recognized by the market.

By establishing proprietary sales and marketing channels, the Group is able to exert better control and the Group's proprietary sales outlets reached 42,000. At the same time, the enhancement of the management of its community sales and marketing channels and the vigorous development of the application of electronic channels established a diversified sales and marketing services network, the coverage and management of which has demonstrated notable competitive edge.

The Group's level of services has been further improved. Customer complaint rate has reduced notably, indicating that customer satisfaction level has improved steadily and the overall customer satisfaction rate reached 80.8 per cent..

Capital Expenditure

(RMB billion)



Capital Expenditure

The Group's capital expenditure in 2007 was approximately RMB105.1 billion, which was mainly used for the construction of the GSM networks, support system and transmission facilities as well as the development of new technologies and new businesses. Such expenditure has effectively satisfied the rapid growth in subscribers, voice usage volume, and value-added business, thereby securing steady increase in revenue and profits.

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 for each of the three years from 2008 to 2010 are set at RMB127.2 billion, RMB119.0 billion and RMB109.0 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 Group will persistently and continuously dedicate its efforts in efficient utilization of capital expenditure to ensure favorable returns through rational investments.

Energy Conservation and Emission Reduction

Energy conservation and emission reduction is not only an important aspect of the corporate social responsibilities to be undertaken by the Group, it also

assists in reducing its operating costs, thereby enhancing its profitability in the long-run. The development of these efforts will further enhance the Group's competitiveness and overall strength.

Electricity is the main source of energy for mobile operators. As such, conserving electricity is the focus of the Group's efforts in energy conservation and emission reduction. The Group prioritized the use of low-consumption, high-efficiency equipment and solutions and actively promoted the application of new technologies and new products. By encouraging the adoption of standardized facilities, the Group conserved energy in its business processes. The Group has entered into agreements with major telecommunications equipment manufacturers, and plans to enter into agreements with major IT equipment manufacturers for the supply of equipment in compliance with energy conservation standards. The Group also recommended international mobile operators to take concerted actions to use equipment that meets energy conservation standards.

In respect of environmental protection, the Group is committed to waste recycling and alternative energy consumption. In 2007, 2.6 million disposed mobile handsets and batteries were recycled through the "Green Boxes Environmental Protection Campaign". The Group actively promoted the reduction in the quantity of packaging materials used in order to avoid over-packaging and the use of environmentally-friendly, recyclable packaging materials. The Group also placed its efforts on the establishment of e-marketing services system and implemented e-applications in both internal and external managements, thereby promoting conservation as well as improving efficiency.





Olympic Services

The Beijing 2008 Olympic Games is soon approaching. The Group will commit itself fully to servicing the Olympics by providing “the most advanced technology, the most abundant business and the most considerate service” to the Olympics.

The Group has preliminarily completed its network coverage over the Olympic Games venues. To address the demand explosion in voice usage and data communications at key spectators’ areas such as stadiums and sports fields and media villages during critical times such as opening and closing ceremonies, advanced networking solutions and technical support have been arranged. The Group has also overcome numerous difficulties and successfully built and connected the world’s highest base station at 6,500 meters above sea level on Mount Everest, which would facilitate the Olympic Torch Relay and enhance the Group’s corporate image.

The Group has seized the rare opportunity brought about by the Olympics to display its corporate brand and image in every aspect by developing its Olympic marketing and

promotion efforts, designing and earnestly promoting its Olympic products. In Olympic cities, the Group stressed the promotion of its three special Olympic products, being Wireless Video Live Transmission, Immediate Photo Transmission and Wireless Info. The nationwide promotion of its other Olympic products such as Olympic Mobile Paper, Olympic Music and Olympic News Express are emphasized. The Group optimized its on-site services at Olympic Games venues and dedicated to securing the provision of premium quality mobile services for the Olympics. Working with the major operators across the five continents, the Group also reinforced its services to international roaming customers during the Olympics with a view to providing diversified services for their customers roaming to China, such as welcome greeting SMS, backup mobile handset and SIM card, mobile access to the official Olympic website and multi-lingual customer service hotline.

The Group will continue to promote and reinforce the use of Olympic rights and interests throughout the country, achieving maximum use and strive to turn such rights and interests into benefits and returns for the Group.

Future Business Strategies

Looking to the future, the Group will continue to develop new growth potential presented by new customers, value-added business and voice usage volume. It will continue to explore the rural market and actively promote the development of corporate customers by leveraging and consolidating its various competitive advantages, so as to maintain its leading market position in the mobile telecommunications market. The Group will continue its innovation in technologies, operations and business model so as to adapt itself to the convergence and constant changes in the industry and to maintain a sustainable development. The Group will also prepare itself for the new generation of mobile telecommunications network and technology and to closely monitor LTE technology so as to take its future business to a new phase.