

Business Review

In 2008, the Group has achieved favorable performance in its continuous development of new customers, new voice usage and new business, resulting from further expansion in subscriber base, growth in voice usage and a stronger boost from value-added business. Meanwhile, the rural market remained a key growth driver, corporate business continued to expand, and the Group's competitive advantages were further consolidated. In the year, through providing telecommunications services for the Olympic Games, the Group has enhanced its brand value, business capability and service standard. The Group has also successfully restored and ensured reliable telecommunications services in the areas hit by massive natural disasters. Despite the challenges and adversities it faced, the Group has further enhanced its operating results and comprehensive strengths.

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As at the end of 2008, the Group's subscriber base grew 23.8 per cent. to 457.250 million. Total voice usage volume grew 34.2 per cent. to 2,441.31 billion minutes. The number of value-added business users grew to 419.764 million, representing an annual growth rate of 20.1 per cent. SMS usage volume reached 607.13 billion messages, representing an annual growth rate of 20.8 per cent.. Revenue from value-added business reached RMB113.444 billion, which represents an annual growth rate of 23.8 per cent. and accounts for 27.5 per cent. of the operating revenue of the Group, an increase of 1.8 percentage points from the previous year.

Key Operating Data of the Group

	2008	2007
Subscriber Base (million)	457.3	369.3
Net Additional Subscribers (million)	87.9	68.1
Total Voice Usage Volume (billion minutes)	2,441.3	1,818.9
Average Minutes of Usage per User per Month (MOU) (minutes/user/month)	492	455
Average Revenue per User per Month (ARPU) (RMB/user/month)*	83	89
SMS usage volume (billion messages)	607.1	502.7
"Color Ring" subscription volume (million times)	1,350	779
WAP traffic volume (billion megabytes)	13.3	5.3
MMS usage volume (billion messages)	33.1	14.3

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

Subscriber Growth

In 2008, the Group sustained its rapid subscriber growth. As at 31 December 2008, its total subscriber base reached 457.250 million, and the number of net additional subscribers for the year was 87.911 million, translating into an average increase in net additional subscribers of over 7.3 million per month. The rural market, which continues to serve as a key growth driver, contributed to nearly half of the subscriber growth in the year. The Group continues its market leadership with a market share of approximately 72.4 per cent..

Substantial changes in the macro-economic environment arising from the international financial crisis have had adverse effects on the telecommunications industry. With slower economic growth in certain regions, production cut by exporters, an increase in loss-making enterprises and a decrease in migratory workers, the demand for telecommunications services from those affected has been somewhat reduced. The mobile penetration rate in Mainland China has reached 48.5 per cent. and the market

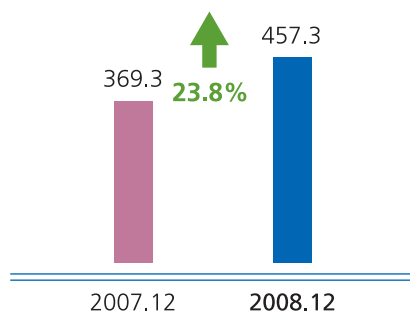
in certain large cities began to show signs of becoming mature. The restructuring of the telecommunications industry has also changed the competitive landscape and competition is increasingly intensified. Due to the impact of these factors, the Group's subscriber growth showed signs of slowing down.

The Group believes that a series of State policies targeted at expanding domestic demands and maintaining a stable yet speedy growth of the economy will stimulate demand for telecommunications services. Despite a higher mobile penetration rate as compared to that in the last few years, there remains considerable growth potential in Mainland China's mobile telecommunications market. With the advancement of rural infrastructure and the continuous development of social enterprises, the rural areas become a key market for the telecommunications industry with great growth potential. Furthermore, new business and new applications in mobile communications and informatization continued to develop. For example, the needs of new communications, such as handset-to-machine and machine-to-machine, etc, will create enormous demand. These factors

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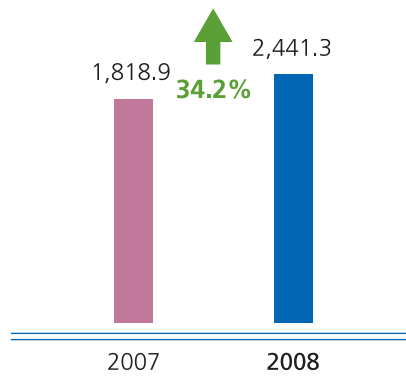
Subscriber Base

(million)



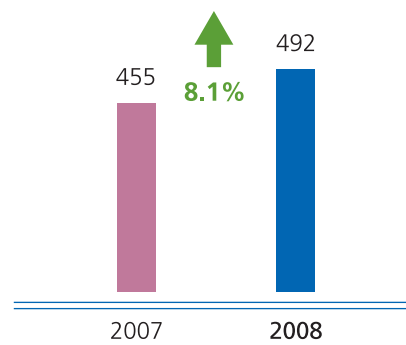
Total Voice Usage Volume

(billion minutes)



MOU

(minutes)



together provide prime conditions for the growth of the telecommunications industry and the Group's subscriber base.

In 2008, the Group has taken full advantage of the reform and development of the rural areas driven by the State. By consistently pushing for a strategy of "lower ARPU, lower MOU, lower cost", the Group furthered its rural market development. Subscriber acquisition and service costs on a per subscriber basis were lowered through enhanced resource utilization and efficiency, as a result of better economies of scale achieved from increased co-ordinated sales and marketing efforts. The Group launched sales and marketing activities by leveraging the effect of economies of scale in its mass broadcasting and made use of effective and economical advertising channels unique to rural markets to promote its business. Besides that, significant efforts were made to develop low-cost distribution channels in rural areas and promote over-the-air recharging and small denomination recharging services. In addition, the Group applied its existing operation analysis system to rural market management. It also furthered the informatization of the rural community by enriching the business content of its Agricultural Information Service.

The Group saw continued growth of its corporate customer base in 2008. Service provision to trans-provincial and multi-national corporate customers was enhanced. Business offerings and usage of corporate informatization as well as industry-specific application solutions through mobile terminals reached a sizeable mass. Marketing, product planning, business integration and end-to-end business support with respect to corporate market were further

strengthened. While further promoting industry-specific applications, the Group also developed the application of machine-to-machine business in different areas in the corporate arena. As at the end of 2008, the corporate customer base reached 2.33 million accounts and the number of individual subscribers served under corporate accounts reached 28.1 per cent. of the total subscriber base.

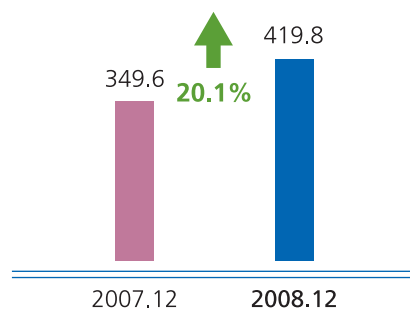
Business Development

In 2008, the Group further stepped up its efforts in sales and marketing for voice business by implementing differentiated and innovative sales and marketing strategies as well as measured fee adjustments, which effectively stimulated an increase in usage volume. On the other hand, the macro-economic factors have slowed down the demand

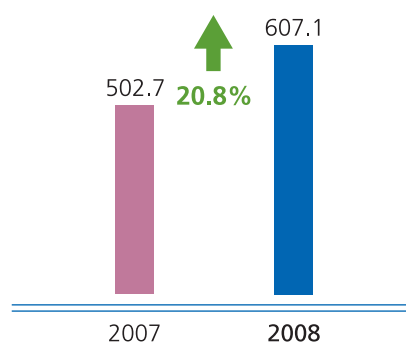


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Value-Added Business Users
(million)



SMS Usage Volume
(billion messages)



for telecommunications services including the slower growth of outgoing international calls in certain areas. Also, price elasticity in some regions was weakened and roaming fee adjustment have caused certain impact. Nonetheless, the Group's revenue from voice business continued to grow. In 2008, the total voice usage volume reached 2,441.31 billion minutes, representing an annual growth rate of 34.2 per cent.. The average minutes of usage per user per month (MOU) was 492 minutes, an increase of 8.1 per cent. from 455 minutes in 2007. Average revenue per user per month (ARPU) was RMB83, lower than that of RMB89 in 2007.

Accounting for an increasingly higher proportion of the Group's operating revenue, value-added business has shown a more prominent pulling effect on revenue. In 2008, revenue from value-added business amounted to RMB113.444 billion, representing an increase of 23.8 per cent. from 2007. Revenue from value-added business contributed to a higher percentage of operating revenue than in 2007, reaching 27.5 per cent. of operating revenue.

Mature businesses, such as SMS, sustained growth despite already reaching a sizeable mass. In 2008, revenue from SMS business reached RMB50.384 billion and SMS usage volume was 607.13 billion messages, averaging 1.66 billion messages a day. Non-SMS data business grew rapidly and revenue from "Color Ring", WAP and MMS businesses increased further to RMB14.380 billion, RMB12.991 billion and RMB2.878 billion, respectively. In particular, "Color Ring" and WAP became businesses that generated a monthly revenue of over RMB1 billion. Other products such as Wireless Music, Mobile Paper, "Fetion" and 139 Mailbox have also grown rapidly as a result of continual innovation and development driven by customer needs. Subscription of "Color Ring" service exceeded 1.35 billion times. The number of senior members of Wireless Music Club reached 52.73 million and the Group recorded 76 million times of full track music download. The number of paying subscribers of Mobile Paper, active subscribers of "Fetion" and active subscribers of 139 Mailbox reached 41.49 million, 37.24 million and 10 million, respectively. Furthermore, the Group strengthened the nurturing and promotion of other value-added businesses such as Mobile Gaming, Mobile Video, Mobile Map and Mobile e-Commerce. We believe that the arrival of 3G will provide more headroom for growth for the Group's value-added business.



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Comprehensive Strengths

The Group, being the market leader, enjoys clear competitive advantages in terms of scale, network, support system, branding, sales and marketing channel and quality of services. Its solid financial strength helps weather various types of risks and its high-quality workforce provides strong execution and innovative capabilities. Its strengths in these areas laid a solid foundation for sustained growth in the future competitive landscape.

The Group possesses an enormous subscriber base and network with nearly 390,000 base stations, which provides substantial economies of scale, allowing the Group to effectively control marginal costs, explore the rural market, and maintain an influential role in the value chain. The Group possesses distinct network advantages, which are reflected in its leading network quality, a population coverage rate of 98 per cent., wireless connection rate of 99.20 per cent., voice call drop rate of 0.62 per cent. and SMS delivery rate of 99.35 per cent. Equipped with an advanced and flexible support network, the Group was able to establish differentiated competitive advantages in areas such as network management system, management information system, business operation support system, customer relationships management system and operation analysis system. The Group's corporate brand value ranked fifth amongst the world's most powerful brands and first amongst mobile operators. Its clear brand structure, high degree of brand recognition and customer loyalty is widely recognised by the market. The presence of proprietary sales channels (totalling 47,000 outlets) strengthens the control over its sales and marketing channels. The Group also strengthened its management of community sales and marketing channels and intensified the application of electronic channels, which formed a diversified sales and marketing network that has greater coverage and is better managed. As a result, quality of the services has been enhanced, customer complaint rate has fallen notably and customer satisfaction has climbed steadily. Overall customer satisfaction rate has reached 81.31 per cent.

Capital Expenditure

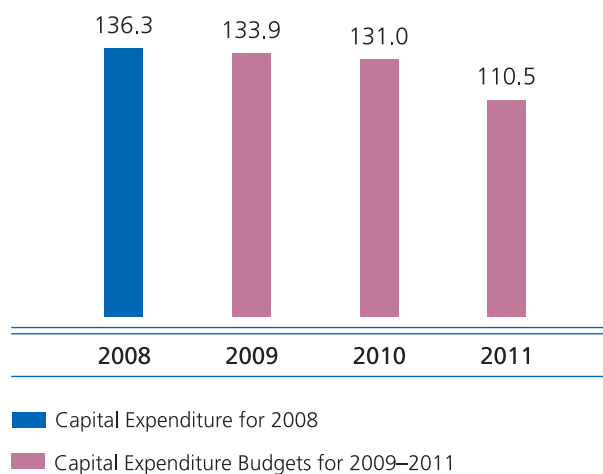
The Group's capital expenditure for 2008 was approximately RMB136.3 billion, which was primarily applied to the construction of mobile communications networks, support systems and transmission facilities and the development of

new technologies and new businesses. Such expenditure has allowed the Group to meet the demands of rapid development in subscriber base, voice usage volume and value-added business and the needs of reconstruction after the unusual incidents of snowstorms and the earthquake. The capital expenditure has laid a strong foundation for stable growth of revenue and profits.

To meet the growing market demand, facilitate the continued development of value-added business, maintain the leading position of the network and realise 2G/3G network integration, and meet the needs of reconstruction after the natural disasters, the capital expenditure budgets of the Group for the years 2009, 2010 and 2011 are set at RMB133.9 billion, RMB131.0 billion and RMB110.5 billion, respectively. In 2009, 76 per cent. of the capital expenditures will be invested in the areas for the integration of 2G/3G, the remaining investment will be designated for 2G wireless network, of which 70 per cent. will be applied in network construction in the rural areas.

Capital Expenditure

(RMB billion)



“Green Action Plan”

The Group has implemented a “Green Action Plan” on various aspects of its operations and has achieved remarkable results in areas such as the conservation of electricity, land resources, raw materials and control of costs. The energy conservation and emission reduction targets of the current phase were met. The electricity usage

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per business unit has dropped by 11 per cent. as compared to that in 2007 and 1.17 billion kWh of electricity was conserved. Through the implementation of standardised facilities and IP technology, the Group saved a total floor area of 175,000m² on its premises. 21,000 tones of steel were saved as a result of the adoption of standardised tower design, and 2,135 green energy base stations are already in our network. Technological innovation was actively pursued and 91 applications were submitted in the year for patents relating to energy conserving and emission reduction technologies. Efforts in promoting environmentally friendly packaging were further strengthened. The Group, together with 11 mainstream equipment suppliers, urged the international communications industry to adopt "green packaging". Through the "Green Boxes Environmental Protection Campaign", as many as 3.95 million pieces of disposed mobile handsets and accessories were recycled. The Group fully promoted industry applications such as remote monitoring and intelligent control, to foster energy conservation and emission reduction by other related industries through the means of informatization.

The energy conservation and emission reduction achieved by the "Green Action Plan" is not only a realisation of the social responsibility borne by the Group, it also resulted in substantial cost savings, thereby further enhancing the competitiveness of the Group.



3G Development Strategy

At the beginning of 2009, the Group commenced operations of TD-SCDMA 3G network using 3G network capacity leased from the parent company. The Group will coordinate with the parent company to construct 3G network, and 3G coverage is planned for 238 cities, or more than 70 per cent. of all prefecture-level cities, by the end of 2009. According to the plan, there will be 160,000 3G base stations providing network coverage to 100 per cent. of all prefecture-level cities by the end of 2011.

The Group will continue to comprehensively promote the integration of 2G/3G networks and a smooth transition. Through the integration of core components of the networks, network solution, business platforms and support systems, customers can experience 3G services without changing their SIM cards or mobile numbers or requiring re-registration. Customers will be able to use 3G services in an economical and convenient way, and this will expedite the introduction of 3G services to customers.

The Group will fully leverage its existing competitive advantages. Based on the principle of mixed business development, it will integrate strategies on branding, tariff, services, channels and marketing resources and fully promote dual-mode handsets in voice, broadband data and value-added businesses. Meanwhile, the Group will earnestly develop dual-mode data cards, netbooks and notebook computers equipped with data modules, home Internet access gateways and information terminals. It will also comprehensively introduce application of 3G technology to individuals, families, corporations and those who need industry informatization products, so as to vigorously market 3G special features in an innovative manner.

The Group will take part in pushing forward the development of the TD-SCDMA industry chain and evolution of TD-SCDMA technology by actively facilitating various elements of the value chain to enhance the overall level of technology and quality of products, including coordinating efforts in various components such as systems, terminals, chipsets and instruments. It will also actively

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encourage suppliers to invest in their research and development to supply more dual-mode handsets and various types of dual-mode terminals, with special functions and features, of high quality at reasonable prices. The Group will further research into post-TD-SCDMA technologies and promote the synchronised development and convergence of TD-LTE and FDD-LTE technologies.



Outlook

Looking to the future, the Group will seize every opportunity to make full use of its strengths and enhance its competitive edge in the evolving environment when encountering any difficulties and challenges. It will adhere to its development strategy of new customers, new voice usage and new business, actively explore “blue ocean” markets, cope with the cross convergence and changes in the industry through continuous innovation of technology, products and business model, focus on research of the new generation evolution technology, promote the synchronised development and convergence of LTE technology, so as to maintain a sustainable business development in the future.