Financial Review

In 2008, despite the negative impacts of natural disasters and the global financial crisis, as well as the new challenges emerging from the restructuring of the Chinese telecommunications industry, we overcame difficulties and continued to achieve favorable results with the support of our high network quality, powerful brand advantages, increasingly apparent economies of scale and highly effective refined management. Operating revenue for the Group sustained its steady growth, up 15.5 per cent. to RMB412,343 million. Profitability continued to maintain at a relatively high level. Profit attributable to shareholders rose 29.6 per cent. to RMB112,793 million, with margin of 27.4 per cent.. EBITDA reached RMB216,487 million, up 11.6 per cent.. Basic EPS grew 29.4 per cent. to RMB5.63. Our solid capital structure and financial strength continue to provide a solid foundation for our future sustainable development.

Key data of income statement

	2008 RMB million	2007 RMB million	Change %
Operating revenue (Turnover)	412,343	356,959	15.5
Usage fees and monthly fees	278,985	247,344	12.8
Value-added services fees	113,444	91,609	23.8
Other operating revenue	19,914	18,006	10.6
Operating expenses	269,728	232,891	15.8
Leased lines	2,641	2,330	13.3
Interconnection	22,264	21,500	3.6
Depreciation	71,509	67,354	6.2
Personnel	19,960	18,277	9.2
Other operating expenses	153,354	123,430	24.2
Profit from operations	142,615	124,068	14.9
Other net income	2,159	2,323	(7.1)
Profit attributable to shareholders	112,793	87,062	29.6
EBITDA[1]	216,487	194,003	11.6
Basic EPS (RMB)	5.63	4.35	29.4

[1] China Mobile Limited defines EBITDA as profit for the year before taxation, finance costs, interest income, non-operating net income, depreciation and amortization of other intangible assets.

Key data of balance sheet

	2008 RMB million	2007 RMB million	Change %
Current assets	240,170	207,635	15.7
Non-current assets	417,527	355,858	17.3
Total assets	657,697	563,493	16.7
Current liabilities	180,573	154,953	16.5
Non-current liabilities	34,217	34,301	(0.2)
Total liabilities	214,790	189,254	13.5
Minority interests	629	488	28.9
Shareholders' equity	442,278	373,751	18.3

Key data of cash flow

	2008 RMB million	2007 RMB million	Change %
Net cash generated from operating activities	193,647	168,612	14.8
Net cash used in investing activities	(139,026)	(123,039)	13.0
Net cash used in financing activities	(45,684)	(37,276)	22.6
Free cash flow[2]	57,355	63,473	(9.6)
Total cash and bank balances[3]	218,259	188,544	15.8

2 China Mobile Limited defines free cash flow as net cash generated from operating activities less investments incurred in capital expenditure. Free cash flow is a measure we use internally to evaluate our cash flow performance, but is not a measure of financial performance in accordance with generally accepted accounting principles. "Free cash flow" should not be used to determine the financial position of the Group. There is only limited comparability between China Mobile Limited's definition of free cash flow and methods of calculating this measure and similarly designated measures and disclosures of other companies.

3 Total cash and bank balances represent cash and cash equivalents and bank deposits.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary of Financial Results

In 2008, despite the challenges and the impact of natural disasters, global financial crisis and the restructuring of the Chinese telecommunications industry, the Group continued to achieve favorable financial results attributable to our high quality network, powerful brand advantages, increasingly apparent economies of scale and highly effective refined management.

Our three driving forces for growth, namely new customers, new businesses and new voice usage, continued to drive the Group's financial performance. Total operating revenue of the Group for 2008 reached RMB412,343 million (all monetary amounts below are expressed in RMB, unless otherwise specified), up 15.5 per cent.. Among these, value-added business continued to demonstrate its strong growth momentum and generated 113,444 million of revenue, an increase of 23.8 per cent. as compared to the previous year. The contribution to total operating revenue reached 27.5 per cent.. In order to support the positive development of subscribers, voice usage and new businesses, as well as to maintain the Group's competitive advantages and capabilities in sustaining healthy development, we focused on boosting our future competitiveness and strengthening resource allocation. We increased our investments in sales channels, customer service, network optimization, system support and R&D.

Accordingly, operating expenses reached 269,728 million, up 15.8 per cent.. The percentage increase was in line with the increase in operating revenue. However, average operating expenses per user per month and per minute continued to decline. This further demonstrated the effectiveness of the Group's refined cost management and economies of scale.

Profit attributable to shareholders was 112,793 million, up 29.6 per cent. year-on-year, attributable partly to the positive impact of change in the PRC enterprise income tax rate. Margin of profit attributable to shareholders reached a relatively high level of 27.4 per cent.. EBITDA was 216,487 million, up 11.6 per cent. year-on-year, arriving at a margin of 52.5 per cent.. Basic EPS was 5.63, up 29.4 per cent. year-on-year. This reflected favorable profitability and earnings capability.

The Group sustained its robust cash flow as a result of favorable business growth, effective cost control measures, efficient capital expenditure and economies of scale. Net cash generated from operating activities and free cash flow reached 193,647 million and 57,355 million, respectively. Total debt to total book capitalization ratio and interest coverage multiple remained at sound level. Standard and Poor's further upgraded the Company's corporate credit rating, while Moody's maintained the Company's corporate credit rating, in line with China's sovereign credit rating in 2008. This reflected our commitment to consistently practicing prudent management discipline has earned good market recognition.

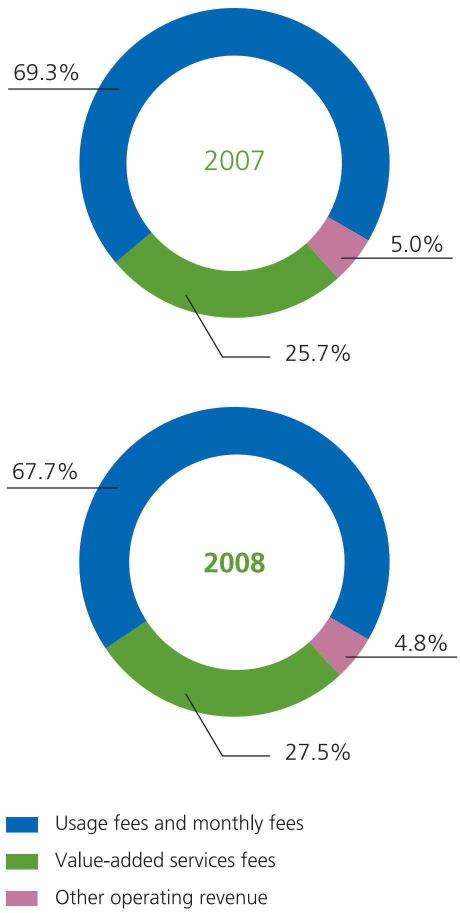
Financial Review (Continued)

Operating Revenue (Turnover)

With the rapid growth of subscriber base, voice usage volume and value-added business, operating revenue for 2008 reached 412,343 million, up 15.5 per cent.. The Group continued to advocate and actively pursue rational competition. Various ongoing efforts focused on enhancing innovative capabilities and expanding rural market were on the agenda. Subscriber base continued growing at a high-speed momentum. Average net increase in number of subscribers exceeded 7.30 million per month. In response to regulatory requirements and market demand, the Group gradually advanced the adjustment of its tariff structure and roaming tariff. Although affected by the change in macro economy, voice usage volume nonetheless maintained favorable growth. Total minutes of usage rose to 2,441.31 billion minutes, up 34.2 per cent. year-on-year.

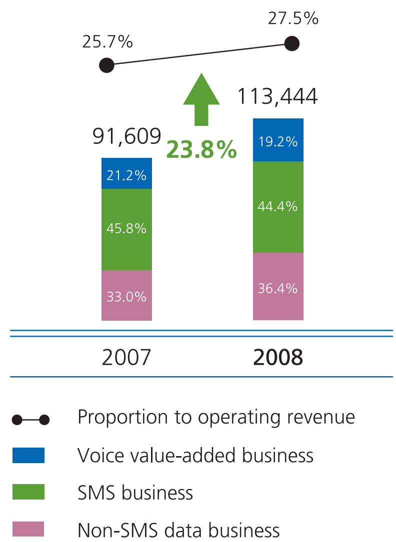
The Group actively conducted product innovation and business development for value-added business. These drove forward growth in various value-added businesses and the contribution to revenue growth was increasingly notable. In 2008, revenue from value-added business reached 113,444 million, accounting for 27.5 per cent. of the Group's total operating revenue. Revenue from Short Message Services (SMS) and non-SMS data businesses reached 50,384 million and 41,294 million, respectively, and contributed a total of 80.8 per cent. to the Group's value-added business revenue. While the SMS business continued to maintain at a relatively high growth momentum, the contribution of other value-added businesses, such as "Color Ring", WAP and Multimedia Messaging Services (MMS), to revenue increased notably. Businesses such as Wireless Music Club, "Fetion" and Mobile Paper also demonstrated a rapid growth. Overall revenue structure for value-added business was further optimized.

Operating Revenue Distribution

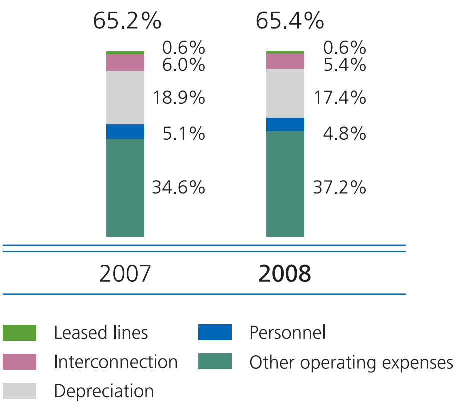


Value-added Services Fees

(RMB million)



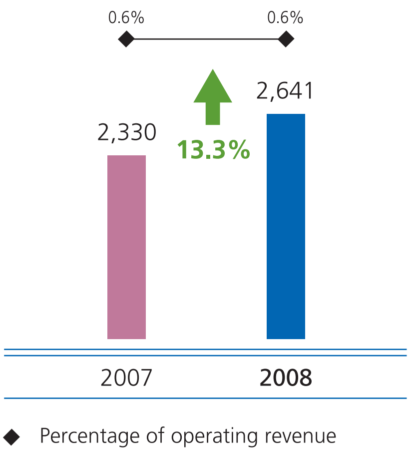
Operating Expenses Structure



Note: Each of the above percentage represents the proportion of the operating expense to operating revenue.

Leased Lines

(RMB million)



Operating Expenses

With an effort focusing on boosting our future competitiveness, we consistently uphold our doctrines of rational investment, effective resource allocation, forward-looking planning and effective refined management in cost allocations. In 2008, operating expenses of the Group were 269,728 million, increased 15.8 per cent. year-on-year and amounted to 65.4 per cent. of the total operating revenue, which was in line with that of the previous year. Average operating expenses per user per month were 54.3, declining by 6.7 per cent.. Average operating expenses per minute of usage were 0.110, declining by 13.7 per cent.. We commit to continuously pursuing effective refined management on cost effectiveness and optimizing the cost structure to achieve the best returns at the minimum costs.

Leased Lines

With the Group's continuous effort in optimizing network structure and timely putting into use of new lines, the self-constructed and jointly-constructed lines reached a sizeable scale. The continuous declining scale of leased lines expenses over the years therefore reached an optimal level. Following the needs of business development, leased line for internet increased. Leased line expenses to total operating revenue in 2008 remained constant as compared to previous year.

Interconnection

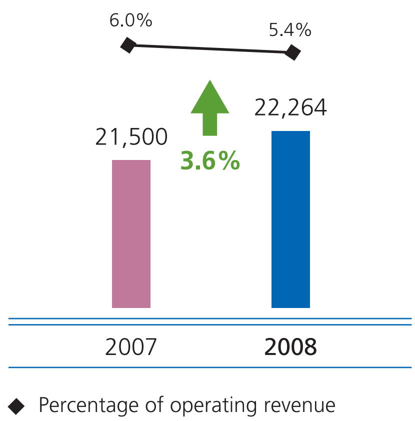
In 2008, interconnection expenses increased by 764 million over the previous year as a result of the sustained growth in subscriber base and voice usage volume. The Group continued to increase its efforts in optimizing the network structure. Through effective marketing strategy, the Group thoroughly reorganized and re-routed traffic volume. The proportion of voice usage volume of intra-network continued to increase. Interconnection expenses to total operating revenue reflected a declining trend.

Depreciation

In order to effectively support business development and maintain network leading position, the Group continuously performed the required network optimization and construction, leading to a corresponding increase in depreciation expense by 4,155 million over the previous year. However, our premium network enhanced customer loyalty and supported rapid business development and favorable financial results. In addition, the Group derived advantages from rational capital expenditures and economies of scale, depreciation expenses per minute of usage decreased by 20.9 per cent. as compared to the previous year. This reflected a favorable return on investments.

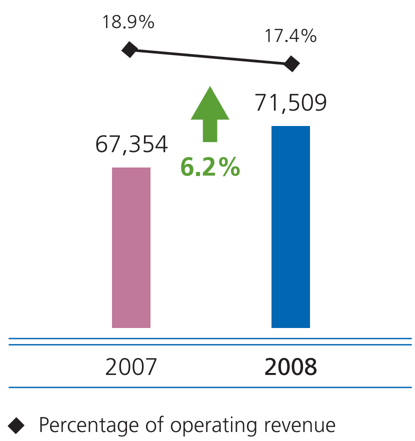
Interconnection

(RMB million)



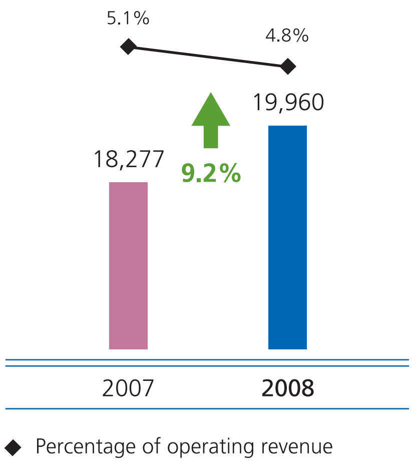
Depreciation

(RMB million)



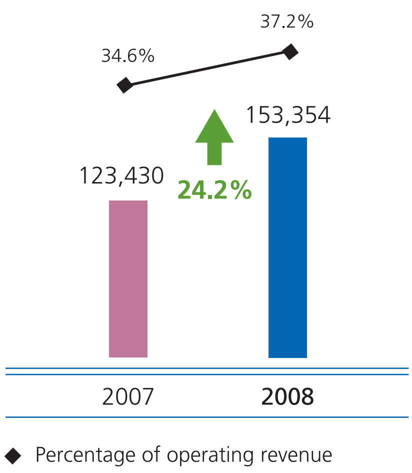
Personnel

(RMB million)



Other Operating Expenses

(RMB million)



Personnel

The Group continued to strengthen the efficiency of its human capital management and incentive mechanism to enhance its human resources development. While continuously enriching competitiveness of human capital, personnel expenses rose by 1,683 million over the previous year. The respective ratios of personnel expenses to operating revenue and to operating costs declined considerably comparing to the previous year. As at 31 December 2008, the Group had a total of 138,368 employees.

Other Operating Expenses

Other operating expenses (consisting primarily expenses for selling and promotion, network maintenance, operating lease, labor service expenses, bad debts, asset write-offs, administration and others) increased by 29,924 million over the previous year in 2008. In order to boost its future competitiveness, the Group increased its investments in sales channels, customer service, network optimization, system support and R&D to support the Group's stable and sustainable business growth. As a result, other operating expenses such as selling and promotion expenses, network maintenance expenses and operating lease expenses increased accordingly. The number of labor sourced by third parties reached 267,394 as at 31 December 2008 and the associated expenses were 10,156 million. In view of the Group's continuous efforts in monitoring customer credit and stringent control over defaults in payment by customers, the Group maintained its bad debt ratio at a relatively low level of 1.06 per cent. in 2008. Furthermore, in order to meet the demand of new technology and development of new business, the Group upgraded certain outdated equipment by writing off and disposing of the corresponding assets amounting to a total of 3,242 million in 2008. This further improved the Group's assets quality.

EBITDA, Profit from Operations and Profit Attributable to Shareholders

The Group consistently endeavored to drive long-term, sustainable and favorable profitability growth. Margin of profit attributable to shareholders and EBITDA margin in 2008 remained relatively high at 27.4 per cent. and 52.5 per cent., respectively. Profit from operations was 142,615 million, which maintained a steady growth. EBITDA, profit attributable to shareholders and basic EPS were 216,487 million, 112,793 million and 5.63, respectively. Along with the favorable revenue growth, these results also reflected the Group's efforts in optimizing resource allocation and management efficiency on operating expenses and economies of scale. Operational efficiency of the Group was further enhanced. These commendable earnings performance and the continuous improvement on earnings level once again reflected the Group's ceaseless efforts in generating greater returns and creating value for its shareholders.

Fund Management, Cash Flow, Capital Structure and Credit Rating

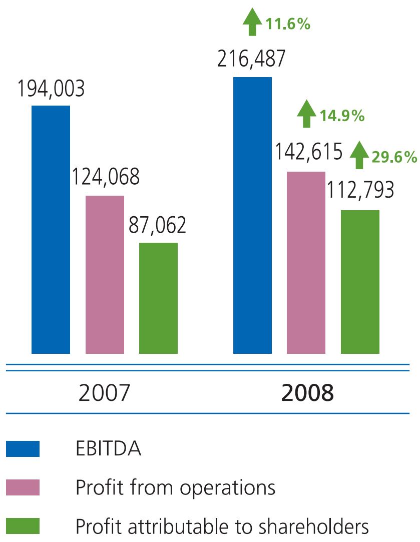
Fund Management and Cash Flow

The Group has consistently upheld prudent financial principles and strict fund management policy. In order to strengthen the safe custody of cash and reduce cost of capital, the Group continued to reinforce its centralized fund management function and make appropriate allocations of overall funds, thereby enhancing the Group's ability to effectively deploy internal funds with maximum utility. Through highly centralized investment and financing management, the Group's funds is safeguarded by strict control over investments, and therefore no losses incurred for the Group from the global financial crisis.

In 2008, the Group continued generating strong cash flow. The Group's net cash generated from operating activities was 193,647 million and free cash flow was 57,355 million. At the end of 2008, the Group's total cash and bank balances was 218,259 million, of which 99.1 per cent., 0.3 per cent. and 0.6 per cent. was denominated in RMB, U.S. dollar and Hong Kong dollar, respectively. The steady fund management and sufficient cash flow further provided a solid foundation for the long-term development of the Group.

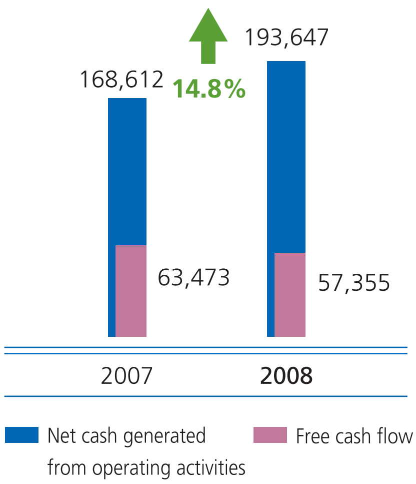
EBITDA, Profit from Operations and Profit Attributable to Shareholders

(RMB million)

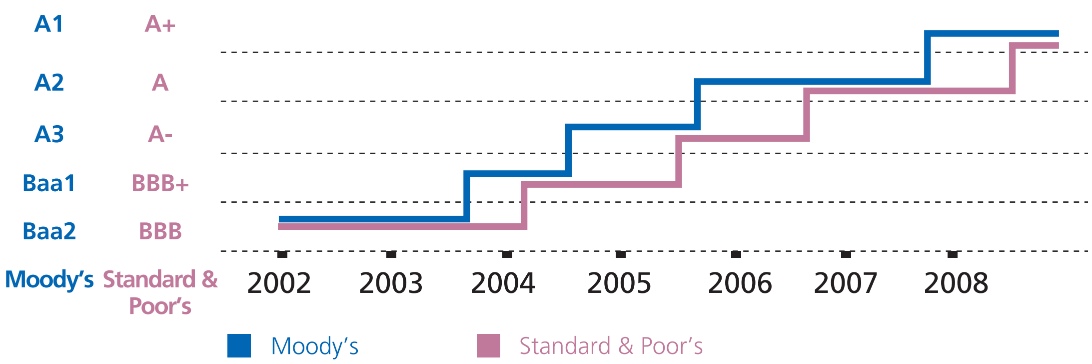


Cash Flow

(RMB million)



Credit Rating



Capital Structure

At the end of 2008, the sum of the Group's long-term and short-term debts were 35,732 million in aggregate, and its total debt to total book capitalization ratio (with total book capitalization representing the sum of total debt and shareholders' equity) was 7.5 per cent., reflecting the fact that the Group's financial position continues to remain at a sound level.

Of the total borrowings, 33.9 per cent. were in RMB (consisting principally of RMB bonds), and 66.1 per cent. were in U.S. dollars (consisting principally of the balances of the deferred consideration for the acquisition of the eight and the ten provincial telecommunications operators). Approximately 80.2 per cent. of the Group's borrowings were made at floating interest rates. The effective average interest rate of borrowings of the Group was approximately 4.61 per cent.. The effective interest coverage multiple (ratio of profit before interest and tax to finance costs) was 94 times. This reflected the prudent financial risk management principle that consistently adopted by the Group, as well as its solid cash flow generation and sound repayment capabilities.

Credit Rating

In 2008, with the upgrading of China's sovereign credit rating, Standard & Poor's upgraded the Company's corporate credit rating from A/Outlook Positive to A+/Outlook Stable. Moody's maintained the Company's corporate credit rating in line with China's sovereign credit rating as A1/Outlook Stable. These ratings demonstrated that the Group's sound financial strength, favorable business opportunities and solid financial management have established wide and deep market recognition.

Dividends

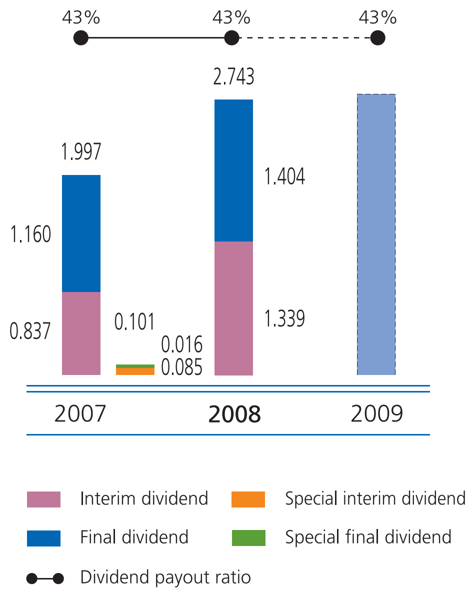
The Company determines and commits to hold in the highest regard the interests of its shareholders and the returns achieved for them, especially the minority shareholders. In the view of the Company's favorable operating results of 2008 and having taken into consideration its long-term future development, the Board recommends payment of a final dividend of HK$1.404 per share for the financial year ended 31 December 2008 in accordance with the dividend payout planned for the full year of 2008. This, together with the interim dividend of HK$1.339 per share that was paid in 2008, amounts to an aggregate dividend payment of HK$2.743 per share for the full financial year of 2008. Dividend payout ratio for the year 2008 was 43 per cent..

In 2009, having taken into consideration various relevant factors such as the Company's overall financial condition, cash flow generating capability and the needs of future sustainable development, the Company plans the dividend payout ratio for the full year of 2009 to be 43 per cent..

The Board is of the view that the Company's favorable operating results and strong cash flow generating capability will continue to support the future sustainable development of the Company, while providing shareholders with a favorable cash return. The Company will endeavor to achieve a longer term sustainable, steadily increasing dividend, with a view to creating value for its shareholders.

Dividend and Dividend Payout Ratio

(HK$)



We will consistently uphold prudent financial principles and strictly monitor the financial risks, with an aim to strive for stable profitability and robust cash generating capability. In addition, we will focus on forward-looking resource allocation optimization and maintain stable debt level with a view to continuously creating value for our shareholders.