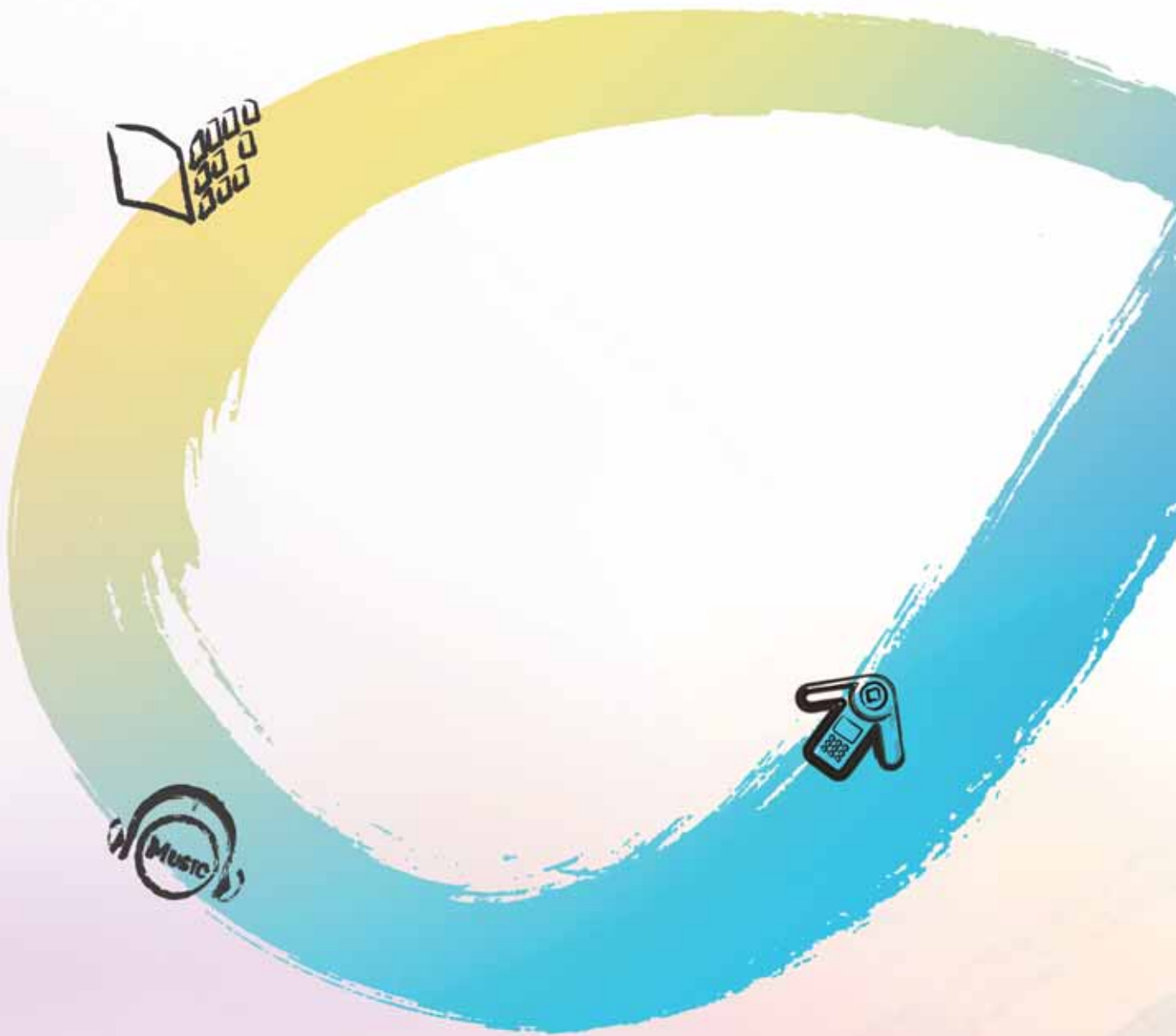
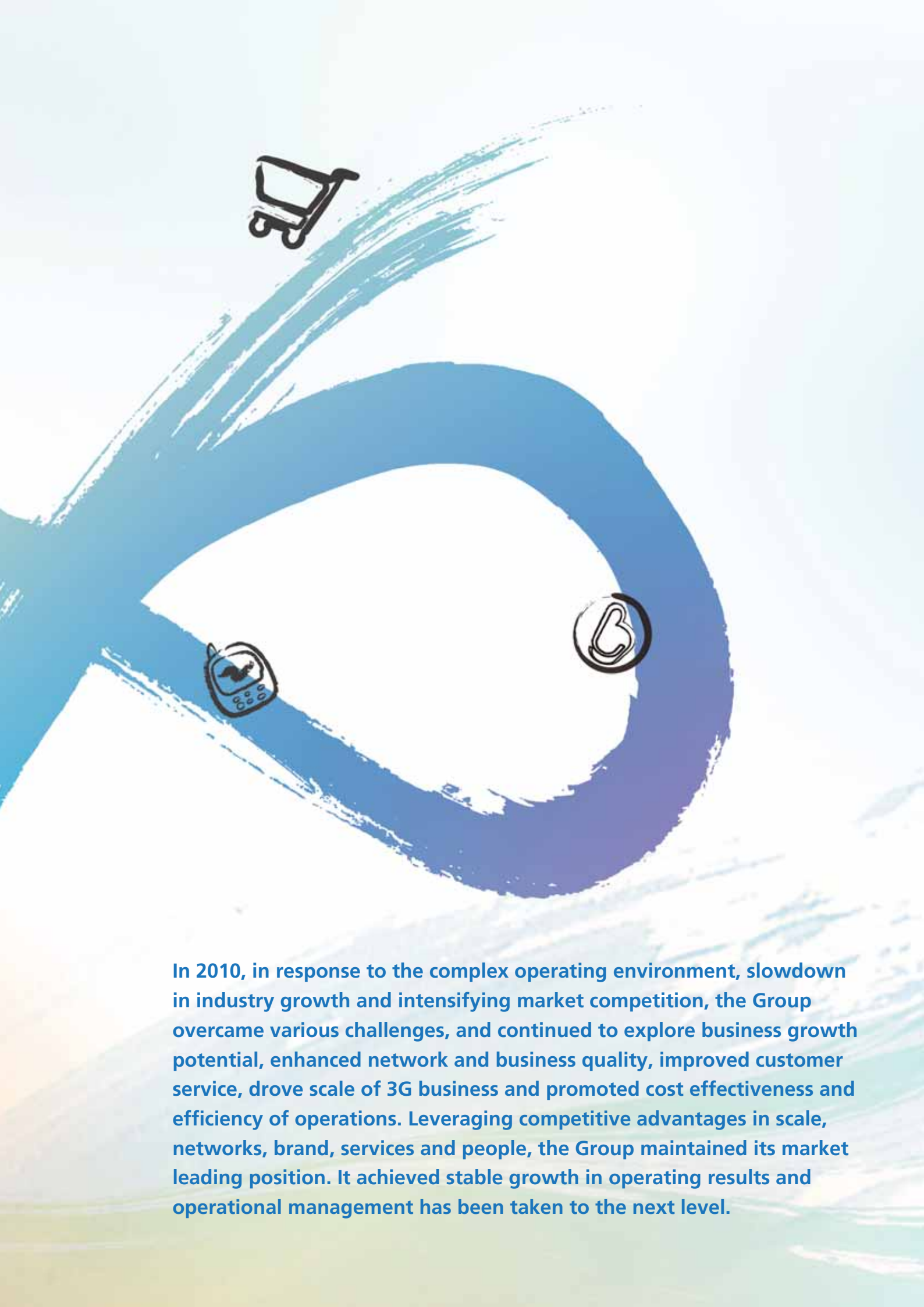


# Business Review





In 2010, in response to the complex operating environment, slowdown in industry growth and intensifying market competition, the Group overcame various challenges, and continued to explore business growth potential, enhanced network and business quality, improved customer service, drove scale of 3G business and promoted cost effectiveness and efficiency of operations. Leveraging competitive advantages in scale, networks, brand, services and people, the Group maintained its market leading position. It achieved stable growth in operating results and operational management has been taken to the next level.

## Business Review

As at the end of 2010, the Group's total customer base grew 11.8% to 584 million. Total voice usage grew 18.6% to 3,461.6 billion minutes. The number of value-added business customers grew 12.9% to 523 million, SMS usage increased 4.4% to nearly 711.0 billion messages. In 2010, revenue from value-added business reached RMB151.4 billion, representing an annual growth rate of 15.2% and accounting for 31.2% of the Group's operating revenue, which increased by 2.1 percentage points from the previous year.

### KEY OPERATING DATA OF THE GROUP

	2010	2009
Customer Base (million)	584.0	522.3
Net Additional Customers (million)	61.7	65.0
Total Voice Usage (billion minutes)	3,461.6	2,918.7
Average Minutes of Usage per User per Month (MOU) (minutes/user/month)	521	494
Average Revenue per User per Month (ARPU) (RMB/user/month)	73	77
SMS Usage (billion messages)	711.0	681.2
"Color Ring" Subscription (million times)	1,598	1,684
MMS Usage (billion messages)	53.1	45.4
Mobile Internet Access Usage (billion megabytes)	103.1	48.6

### Customer Base

(million)



### DEVELOP THE "BLUE OCEAN" AND MAINTAIN GROWTH

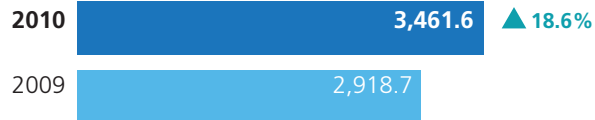
In 2010, the Group achieved remarkable results in strengthening new customer acquisitions and management of existing customers. As at 31 December 2010, the Group's total customer base reached 584 million, and the number of net additional customers for the year was 61.73 million. The Group continued to maintain its industry leading position in market share of net additional customers. The rural and migrant markets continued to be key growth drivers. The mid- to high-end customer base remained stable, while the corporate customer base continued to grow. As at

the end of 2010, our corporate customer base reached 2.93 million accounts, covering government and various industries including finance, energy and manufacturing. The number of individual customers served under corporate accounts reached 36.1% of the total customer base. The Group endeavored to extract industry value and vigorously promoted industry informatization applications. The number of customers for "Campus Information Service", and "Banking Information Service" exceeded 44 million and 15 million, respectively.

## Business Review

### Total Voice Usage

(billion minutes)



### MOU

(minutes)



In 2010, the Group actively promoted its voice business. By better targeting the needs of customers and tapping the growth potential of long-distance calls and roaming services, the Group's voice business continued to grow. Total voice usage reached 3,461.6 billion minutes, representing an annual growth rate of 18.6%. Average minutes of usage per user per month (MOU) was 521 minutes, up 5.4% from 494 minutes in 2009. Revenue from voice business reached RMB333.8 billion, up 4.1% from 2009.

The Group's value-added business grew rapidly. In 2010, revenue from value-added business amounted to RMB151.4 billion, which was an increase of 15.2% from 2009, accounting for an uplift to 31.2% of operating revenue. Businesses such as SMS, "Color Ring" and MMS continued to contribute significantly to the revenue of value-added business. In 2010, SMS usage reached nearly 711.0 billion messages with RMB52.6 billion in revenue. Revenue

from Wireless Music (including "Color Ring") exceeded RMB20.3 billion. Revenue from MMS (including Mobile Paper) exceeded RMB3.5 billion. Businesses such as Mobile Paper and "Fetion" have also reached scale. Mobile Paper's registered customers reached 72.79 million (including 41.53 million paying customers on the central platform) and its revenue was nearly RMB2.0 billion. "Fetion" generated RMB642 million in revenue with 78.42 million active customers. Mobile Reading and Mobile Payment grew rapidly after their commercial debut in 2010. The Mobile Internet Access business experienced remarkable growth in 2010 and generated a usage of 103.1 billion MB, representing a growth rate of 112.3% from 2009 and a revenue of RMB30.5 billion in 2010, which increased by 49.4% from 2009. Mobile Internet Access business has realized a healthy trend of growth in usage and revenue and has become a powerful growth driver of our value-added business.



## Business Review

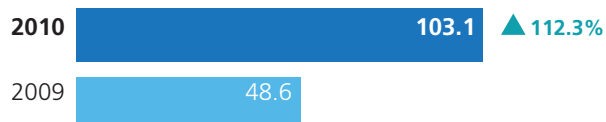
### SMS Usage

(billion messages)



### Mobile Internet Access Usage

(billion megabytes)



The Group endeavored to strengthen its competitiveness in mobile Internet, accelerate business integration and enhance synergies by focusing on improving customer experience and creating value for customers. Our mobile application store, Mobile Market, grew rapidly in scale, with 35 million cumulative registered customers and 110 million cumulative application downloads. The promotion and development of the “Youth Entrepreneurship Project” brought the cumulative number of developers to 1.10 million and 50,000 applications of various types. The Group actively promoted the “139 Community”, and achieved a big leap forward in its development from market incubation to scale expansion. The

focus of our WLAN development was in customer experience and the continuous improvement in product quality by simplifying authentication and unifying the portal. As a result, WLAN usage grew rapidly, and WLAN has effectively carried data traffic. The Group actively promoted the establishment of a warehouse-style low-cost Internet Data Center (IDC) and emphasized on introducing and maintaining premium website resources. The proportion of data traffic generated through the IDC continued to increase.

The Group continued to enrich and enhance products for family and corporate customers, and endeavored to explore



---

## *Business Review*

---

and innovate on applications for the “Internet of Things”. It launched applications such as Household Security Service, Fleet Management Service, Lift Surveillance Service, and vigorously promoted remote meter reading, remote video monitoring and wireless finance POS. The Group further expanded the scale of “Internet of Things”, with over 6.9 million M2M terminals. The Group pushed forward the research and development of standardized “Internet of Things” products such as Access Card for Machine, Access Module for Sensors and Remote Video Monitoring Service and various industry application templates. The Group drove the construction of “Wireless City” with local governments, which helped boost the rapid development of “Internet of Things” applications such as city management, intelligent traffic control and industry control.

The Group endeavored to explore new operating models. The establishment of the “South Base”, International Information Hubs and new product pilot bases has standardized centralized operations and achieved economies of scale. Meanwhile, the Group adhered to its open, cooperative and win-win principles and actively explored new business models. The Group continued to develop innovative branding cooperation. Through the innovative model of Monternet, the Group bundled premium resources, and cooperated directly with content providers and distribution channels. The concerted development of Monternet with Mobile Market has complemented resources and formed a cooperation model which facilitates mutual development.

### IMPROVE QUALITY AND ENHANCE CAPABILITY

The Group adhered to the principle that “network quality is the lifeline of any telecommunications company” and continued to maintain its overall leading position in network capability and quality. The total number of 2G base stations (554,000), the percentage of base stations connected by self-owned optical fiber (96.2%) and the number of WLAN access points in operation (545,000), all demonstrated the Group’s leading position in network scale and capability. Network performance indicators such as wireless connection rate of 99.26%, voice call drop rate of 0.54% and SMS delivery rate of 99.69%, continued to demonstrate a leading quality of our network despite the high data usage volume.

The Group has preliminarily set up a network quality evaluation system based on customer perception. It improved network quality from the perspective of customer experience and assured customer satisfaction. The Group organized competitions to identify key issues impacting network quality and to develop solutions, with a view to optimizing the networks, resolving a number of problems hindering network quality enhancements. The Group launched the “Error-Free Billing Assurance” campaign, and has preliminarily established a closed-loop mechanism for managing abnormal voice usage bills. Through centralization, the Group’s business support capability continued to improve. The Group introduced measures to enhance product quality of its value-added business, further achieving end-to-end improvements. The preliminary setup of a quality management system and an automatic testing system for value-added businesses was established. The enhancement of network and business quality has laid a solid foundation for the Group’s continuous development of its business in a complex and competitive environment.

---

*Business Review*

---

**IMPROVE SERVICES AND ENHANCE SATISFACTION**

The Group adhered to its mantra of “Customers are our priority, quality service is our principle” and endeavored to build its new competitive advantage in services. The Group actively developed electronic channels, and the proportion of business activities processed through electronic channels increased steadily. The model of “Unified Portal and Unified Navigation” was implemented in general. Campaigns were launched to improve service quality. Key issues such as long waiting time at sales outlets, 10086 hotline connection rate and spam filtering were further improved. Tariff packages were optimized. The Group also implemented service measures such as alert before debiting, centralized inquiry and un-subscription function for VAS to ensure customers were fully informed and to provide peace-of-mind for their money spent. The Group’s customer satisfaction rate and complaint rate per million customers for 2010 were the best among its industry peers in Mainland China.

**PROMOTE 3G CONSTRUCTION AND OPERATIONS AND ACHIEVE INTEGRATED DEVELOPMENT**

The Group continued to operate its TD-SCDMA based 3G network by leasing wireless network capacity from its parent company. Leveraging synergies with its parent company, the Group has integrated the development of 2G and 3G. Network coverage continued to expand. The total number of 3G base stations in operation grew to 135,000, basically covering all county-level or above cities nationwide (656 cities). The Group continued to step up in technological innovation and network optimization, which has effectively resolved some of the key technical issues, and provided a high quality network. To leverage economies of scale, the Group implemented centralized procurement of terminals which lowered cost of supply, enhanced product quality and assured development of business. The Group achieved good results in promoting Mobile TV and other businesses. As at December 2010, the Group’s 3G customers reached 20.70 million, achieving a leading market share in the 3G market.

The Group worked with its parent company to actively promote the TD-LTE standard and develop the industry chain. The TD-LTE demonstration network at the Shanghai World Expo and Guangzhou Asian Games has attracted extensive attention and earned positive feedback. The Group has also kicked off preparation for large scale TD-LTE trials in six cities and construction of a demonstration network in Beijing.

**PROMOTE CENTRALIZATION, STANDARDIZATION AND INFORMATIZATION TO IMPLEMENT LOW-COST AND EFFICIENT OPERATIONS**

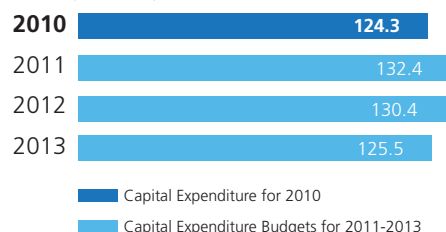
The Group further refined the management system and operational procedures, and reinforced centralized management. The Group continued to strengthen its centralized financial management and explore implementing multi-facet cost control measures. The Group continued to promote centralized network operations and maintenance and expanded the scope of centralization by province, and preliminarily formulated a model of centralized optimization of network at the provincial level. The scope of centralized procurement was further expanded, which resulted in a substantial reduction in procurement cost. The Group started up the operation of International Information Hubs, and Storage and Logistics Centers in five regions, and achieved positive results in the construction of centralized support systems in its “South Base”.

The Group continued to earnestly promote standardization and apply it in various aspects including business modeling, equipment configuration, construction regulation, products and services, business processes and corporate management, to enhance efficiency and quality, and ultimately reduce cost. At the same time, the Group achieved remarkable results in informatization. The capability of support services for the informatization of operation and management has been systematically enhanced. Business support systems such as operation analysis and channel management facilitated refined sales and precise services. The management information system has helped enhance efficiency in operational management.

## Business Review

### Capital Expenditure

(RMB billion)



The implementation of centralization, standardization and informatization has built a foundation for low-cost and efficient operations, which enables the Group to quickly adapt to changes in the complex environment, better satisfy customer needs and more effectively enhance its core competitiveness.

#### RATIONAL AND STEADY INVESTMENT TO FULFILL DEVELOPMENT NEEDS

The Group endeavored to meet the growth in new customers, new voice usage and new businesses, capitalize on opportunities arising from the robust development of mobile Internet and the "Internet of Things", actively develop high value data businesses and assure overall leading position in network quality and operating support capability. All of which will help ensure a steady growth in revenue and profits. The Group continued to undertake rational and steady investments, and to secure investment returns and long term profitability.

The Group's capital expenditure for 2010 was approximately RMB124.3 billion, which was mainly used in the construction of infrastructural networks (44%), support systems (7%), transmission facilities (23%) and for the development of new technologies and new businesses (13%). The new capital expenditure budgets of the Group for the years 2011, 2012 and 2013 are set at RMB132.4 billion, RMB130.4 billion and RMB125.5 billion, respectively. The capital expenditure budget for 2011 will primarily be used in the construction of infrastructural networks (53%), support systems (7%), transmission facilities (11%) and for the development of new technologies and new businesses (14%).

#### PROMOTE THE VISION OF "MOBILE CHANGES LIFE" AND ACHIEVE SUSTAINABLE DEVELOPMENT

Looking to the future, the Group will continue to explore the "Blue Ocean" markets and thoroughly tap their growth potentials. It will expand the "Share of Daily Life Services" for individual customers and to grasp the opportunities brought by the application of broadband in mobile communications and proliferation of smart personal terminals. The Group will push forward the development of mobile Internet, promoting mobile handsets as a media and their multi-functionalities and better integrating mobile handsets in people's work, learning, entertainment and daily life. Meanwhile, the Group will expand the "Share of Information Services" for various industries in the society. It will build the "Wireless City" platform, vigorously promote the application of the "Internet of Things" and social informatization, which will enable mobile communication services and informatization products to widely and deeply integrate into various sectors of the economy and society. The Group will strive to promote the strategic vision of "Mobile Changes Life" and achieve sustainable development.