Financial Review

In 2011, the relatively high economic growth has effectively pushed forward the Group's favorable business development. However, the Group experienced challenges arising from the continued increase in mobile penetration rate, increasingly intensified competition in the telecommunications market and the structural change of the industry value chain. With reference to its mantra of "Customers are our priority, quality service is our principle", the Group focused on improving the quality and its services and engaged in rational competition. With the joint efforts of its staff, the Group maintained favorable growth in its operating results:

- Operating revenue increased by 8.8%
- EBITDA margin reached 47.5%
- Margin of profit attributable to equity shareholders reached 23.8%

Adhering to efficiency and value as our core principle, the Company implemented refined management, strived to establish a low-cost, highly efficient operating system, and promoted a sustainable and healthy development.

Financial Review

KEY FINANCIAL DATA

	2011 RMB million	2010 RMB million	Change %
Financial Results			
Operating revenue	**527,999**	485,231	8.8
Voice services	**364,189**	343,985	5.9
Data services	**139,330**	120,768	15.4
Others	**24,480**	20,478	19.5
Operating expenses	**376,700**	334,477	12.6
Leased lines	**5,188**	3,897	33.1
Interconnection	**23,533**	21,886	7.5
Depreciation	**97,113**	86,230	12.6
Personnel	**28,672**	24,524	16.9
Selling expenses	**96,830**	90,590	6.9
Other operating expenses	**125,364**	107,350	16.8
Profit from operations	**151,299**	150,754	0.4
Other net income	**2,559**	2,336	9.5
Share of profit of associates[1]	**4,306**	558	671.7
Profit attributable to equity shareholders	**125,870**	119,640	5.2
EBITDA[2]	**251,025**	239,382	4.9
Basic EPS (RMB)	**6.27**	5.96	5.2
Financial Position			
Current assets	**382,685**	321,832	18.9
Non-current assets	**569,873**	540,103	5.5
Total assets	**952,558**	861,935	10.5
Current liabilities	**273,244**	255,630	6.9
Non-current liabilities	**28,895**	28,902	(0.0)
Total liabilities	**302,139**	284,532	6.2
Non-controlling interests	**1,355**	1,246	8.7
Shareholders' equity	**649,064**	576,157	12.7
Cash Flows			
Net cash generated from operating activities	**226,756**	231,379	(2.0)
Net cash used in investing activities	**(169,356)**	(171,572)	(1.3)
Net cash used in financing activities	**(58,420)**	(51,051)	14.4
Free cash flow[3]	**98,208**	107,032	(8.2)

1 The Group recognized its share of SPD Bank's comprehensive income for the year ended 31 December 2011 based on the unaudited financial information publicly disclosed by SPD Bank.

2 The Company defines EBITDA as profit for the year before taxation, share of loss of jointly controlled entity, share of profit of associates, finance costs, interest income, non-operating net income, depreciation and amortization of other intangible assets.

3 The Company defines free cash flow as net cash generated from operating activities less investments incurred in capital expenditure.

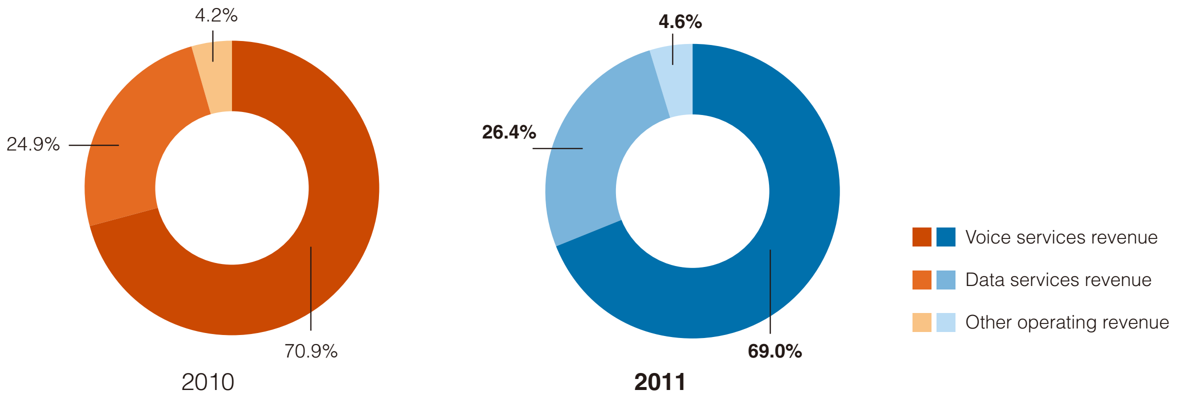
SUMMARY OF FINANCIAL RESULTS

Benefiting from the solid customer base, continued remarkable addition of new customers, stable growth in voice usage volume and rapid growth of the data business, operating revenue of the Group for 2011 reached RMB528.0 billion, representing 8.8% increase compared to the previous year. In order to support the development of the customer base, voice usage volume and the data business as well as to respond to market competition and continue to enhance the Group's core competitiveness, the Group continuously strengthened resource allocation. While increasing its investments in sales channels, customer services, network optimization, system support and research and development, the Group also improved its efficiency and effectiveness in utilizing resources. The operating expenses in 2011 were approximately RMB376.7 billion, representing an increase of 12.6% compared to the previous year. The Group's profitability continued to be in a leading position in the industry. Profit attributable to equity shareholders was RMB125.9 billion, representing an increase of 5.2% compared to the previous year. The margin of profit attributable to equity shareholders reached 23.8%. EBITDA was RMB251.0 billion, representing an increase of 4.9% compared to the previous year, arriving at a margin of 47.5%. Basic EPS was RMB6.27, representing an increase of 5.2% compared to the previous year.

The Group maintained its robust cash flow as a result of its healthy business growth, scientifically refined cost control, rational and efficient capital expenditure as well as the increasingly prominent economies of scale. In 2011, the Group's net cash generated from its operating activities and free cash flow were approximately RMB226.8 billion and RMB98.2 billion, respectively. The total debt to total book capitalization ratio (with total book capitalization representing the sum of total debt and shareholders' equity) and interest coverage multiple (ratio of profit before interest and tax to finance costs) remained at a sound level. The Company currently has a corporate credit rating of Aa3/Outlook Positive from Moody's Investor Service and AA–/Outlook Stable from Standard & Poor's, equivalent to China's sovereign credit rating respectively.

Underpinned by its perennially stable capital structure, prominent financial strength and strong cash flow generating capability, the Group has laid a sound foundation for risk management and the achievement of sustainable healthy development.

OPERATING REVENUE COMPOSITION



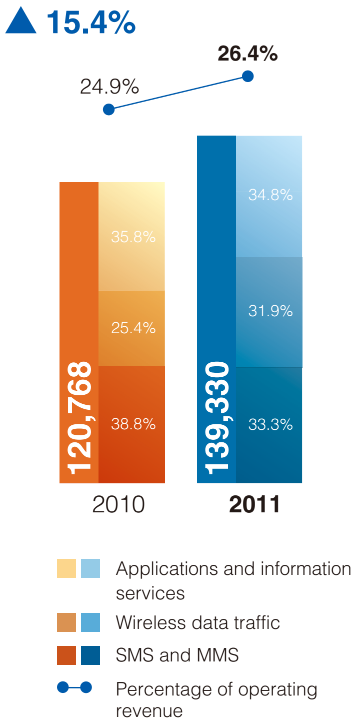
Operating Revenue

In 2011, the Group continued to achieve stable growth in its customer base and relatively rapid growth in voice usage volume. The driving force of the data business on the Group's revenue also became more evident. The operating revenue of the Group reached RMB528.0 billion, representing an increase of 8.8% compared to the previous year. The Group is devoted to optimizing its customer service system and building differentiated competitive advantages. The Group further developed the market of rural customers, vigorously explored corporate customers, enhanced relationships with the existing customers, proactively retained high-value customers and endeavored to improve customer satisfaction. In 2011, the number of net additional customers for the Group was 65.55 million. In addition, the Group effectively launched its marketing efforts in relation to voice usage, driving the growth potential of voice usage volume and realizing a stable growth in the voice business. The total minutes of usage reached 3,887.2 billion minutes, representing an increase of 12.3% compared to the previous year.

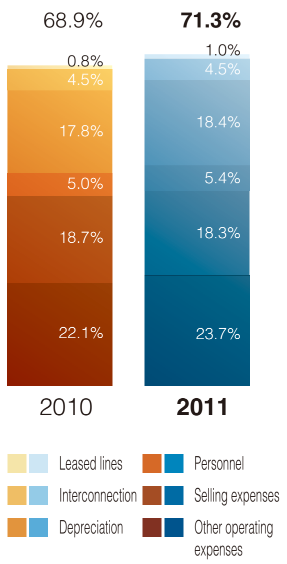
The Group enhanced its innovation in business applications and promoted the development of new business areas. Data businesses, in particular wireless data traffic business, have shown promising development momentum and made increasing contributions to revenue growth. In 2011, data services revenue reached RMB139.3 billion, representing an increase of 15.4% compared to the previous year, and data services revenue as a percentage of operating revenue has increased to 26.4%. The components of data services revenue were further optimized. Revenue generated from the SMS and MMS maintained a sizeable scale and its usage volume still recorded stable growth. In 2011, the revenue from the SMS and MMS reached RMB46.5 billion, representing 33.3% of the data services revenue. Revenue generated from the SMS and MMS has potential for further growth in view of the expansion of the business relating to the "Internet of Things" and corporate customers. Benefiting from the positive development of the 3G business and the increasing popularity of smartphones, wireless data traffic business continued to grow rapidly. In 2011, wireless data traffic increased by 152.1% and its revenue reached RMB44.4 billion, representing an increase of 45.0% compared to the previous year and constituting 31.9% of the data services revenue. Businesses on a larger scale such as Wireless Music and Incoming Caller Alert grew steadily, while emerging businesses such as Mobile Market, Mobile Reading and Mobile Video recorded a rapid growth. In 2011, revenue from applications and information services reached RMB48.4 billion, representing 34.8% of the data services revenue.

DATA SERVICES REVENUE

(RMB million)



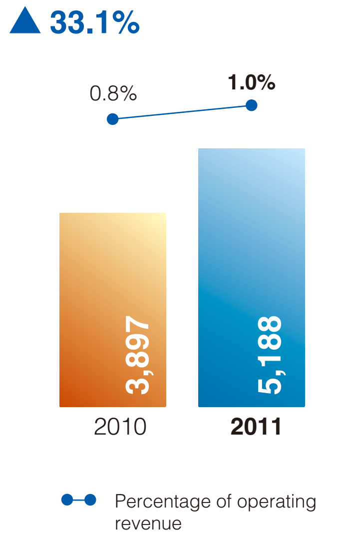
OPERATING EXPENSES STRUCTURE



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

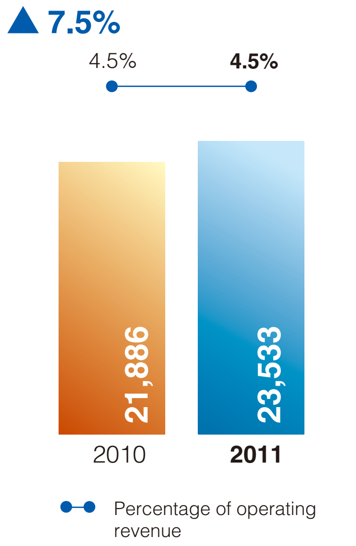
LEASED LINES

(RMB million)



INTERCONNECTION

(RMB million)



Operating Expenses

In order to strengthen the leading position of the Group in the mobile telecommunications industry and enhance its future competitiveness, the Group consistently upheld the principles of rational investment, effective resource allocation, forward-looking planning and refined management with respect to its cost-resource allocation. The Group propagated the transformation of its management towards centralization, standardization, informationalization, professionalization and integration, and made efforts to enhance its core capabilities. The Group thereby enhanced management efficiency and achieved a low-cost, highly efficient operation. In 2011, the operating expenses increased 12.6% compared to the previous year to approximately RMB376.7 billion, representing 71.3% of total operating revenue. The Group is committed to continuously enhancing its refined management, implementing benchmark management and continuously optimizing the cost structure to enhance the efficiency and effectiveness of cost investment and achieve optimal returns.

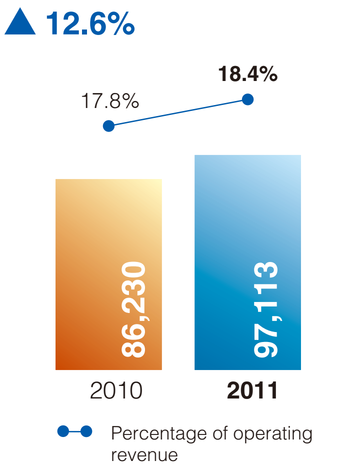
Leased Lines

Since the Group's self-constructed and jointly-constructed lines had already reached a sizeable scale, the scale of leasing fees for transmission lines had been relatively small. Following the rapid growth of the 3G customer base and the 3G business, the Group's TD wireless network capacity leasing fees, which are payable to its parent company according to actual TD network usage, increased to RMB1.1 billion in 2011, and the leasing fees for Internet ports also increased as a result of the development of Mobile Internet business. In 2011, leased line expenses as a percentage of total operating revenue was 1.0%, showing an increase from the previous year.

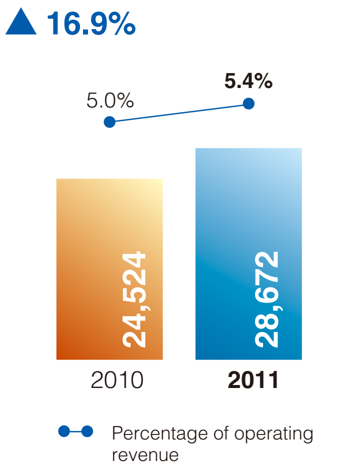
Interconnection

Due to the growth of interconnection voice usage volume, interconnection expenses in 2011 increased to RMB23.5 billion, representing an increase of RMB1.6 billion from the previous year. Interconnection expenses as a percentage of total operating revenue remained stable as compared with the previous year.

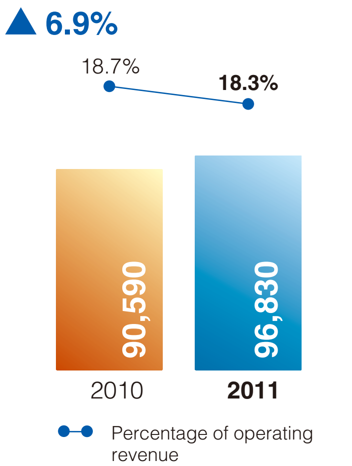
DEPRECIATION
(RMB million)



PERSONNEL
(RMB million)



SELLING EXPENSES
(RMB million)



Depreciation

In order to maintain the leading position and competitive advantages of its network capability and quality, support the growth in customer base and voice usage volume and promote the rapid development of the Mobile Internet business, the Group continued to invest in network construction and optimization, which led to a corresponding increase in depreciation expenses in 2011 by approximately RMB10.9 billion compared to the previous year. The Group's high quality network enhanced customer loyalty and supported the sustainable development of its new businesses as well as its favorable financial results. In addition, the Group is committed to rational investment, ongoing optimization of capital expenditure structure and enhancing centralized construction. The Group carefully considered the cost-effectiveness of its capital expenditure investments, effectively realized the advantages of economies scale and ensured favorable returns on its investments.

Personnel

The Group continued to enhance effective personnel management and incentive mechanisms and promoted the vitality and creativity of its staff. The Group implemented a comprehensive budget management system and performance-based evaluation system, which helped to maintain its competitive advantage in terms of human resources while appropriately controlling personnel expenses. In 2011, in order to support its healthy business development, the Group further strengthened its personnel capabilities in various aspects and recruited more employees. As at 31 December 2011, the Group had a total of 175,336 employees. Personnel expenses for 2011 were RMB28.7 billion. The ratio of personnel expenses to operating revenue increased compared with the previous year.

Selling Expenses

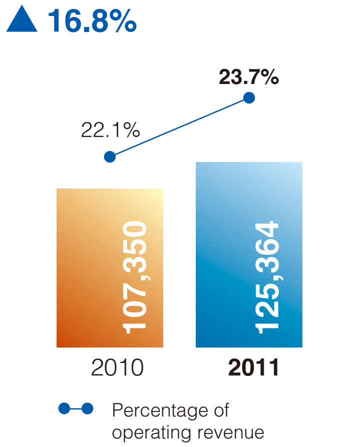
In order to effectively respond to market competition, enhance the Group's future competitiveness, continuously improve the service quality and customer satisfaction, and strengthen the relationship with existing customers and solidify the competitiveness in expanding new customer base, the Group continued to increase the investment in sales channels, customer service, etc. Selling expenses increased by RMB6.2 billion from the previous year, demonstrating a slowing growth rate. Meanwhile, the Group adopted measures to optimize the utilization of available sales and marketing resources and endeavored to achieve a low-cost, highly efficient model through electronic channels and centralized management of customer services, and was able to control selling expenses as a percentage of the Group's revenue. In 2011, selling expenses as a percentage of total operating revenue was 18.3% which was lower compared to the previous year. In 2011, the average selling expenses per customer per month were RMB13.1, representing a further decrease from 2010, reflecting favorable cost efficiencies.

Other Operating Expenses

In 2011, other operating expenses (consisting primarily of network maintenance expenses, operating lease charges, labor service expenses, water, electricity and heating expenses, bad debts, asset write-offs, administration and others) increased by RMB18.0 billion compared to the previous year. In order to effectively support its favorable business growth, the Group reasonably increased its investments in network optimization, system support, research and development, etc. In addition, with the continuous expansion of assets scale and the increase in rents and energy prices, the corresponding expenses such as network maintenance expenses, operating lease charges, and water, electricity and heating expenses increased accordingly. The number of labor sourced by third parties reached 323,506 as at 31 December 2011 and the related expenses were RMB20.0 billion. In view of the Group's efforts in monitoring customer credits and stringent control over defaults in payment by its customers, the Group maintained its bad debt ratio at a favorable level of 0.67% in 2011. With its refined management, the Group further enhanced cost effectiveness and efficiency, stringently controlled the increase in administrative costs, made great efforts to promote the cost consciousness of all the employees and endeavored to establish a low-cost, highly efficient operating system.

OTHER OPERATING EXPENSES

(RMB million)

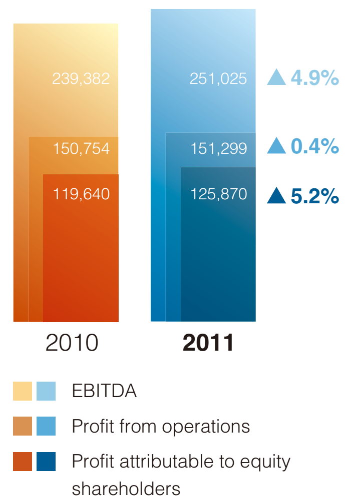


EBITDA, Profit from Operations and Profit Attributable to Equity Shareholders

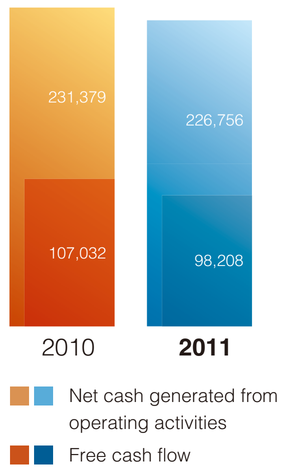
The Group continued to maintain a relatively high level of profitability in the industry. The margin of profit attributable to equity shareholders and EBITDA margin in 2011 reached 23.8% and 47.5%, respectively. The profit from operations was RMB151.3 billion. EBITDA, profit attributable to equity shareholders and basic EPS were approximately RMB251.0 billion, RMB125.9 billion and RMB6.27, respectively. Despite various challenges, on the foundation of steady revenue growth, the Group continued to optimize the allocation of operating expenses and enhance its refined management, and effectively realized the advantages of economies of scale. The Group is committed to improving its overall operational effectiveness and profitability as well as continuously creating value for its shareholders.

EBITDA, PROFIT FROM OPERATIONS AND PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

(RMB million)



CASH FLOW
(RMB million)



FUND MANAGEMENT, CASH FLOW, CAPITAL STRUCTURE AND CREDIT RATINGS

Fund Management and Cash Flow

The Group consistently upheld prudent financial principles and strict fund management policies. In order to strengthen the safe custody of its cash, enhance efficiency of fund usage and reduce the costs of capital, the Group continued to reinforce its centralized fund management function and make appropriate allocations of funds, thereby enhancing the Group's ability to deploy internal funds effectively. The Group ensured the safety and integrity of its funds through highly centralized management of the Group's investments and financing and strict control over its investments.

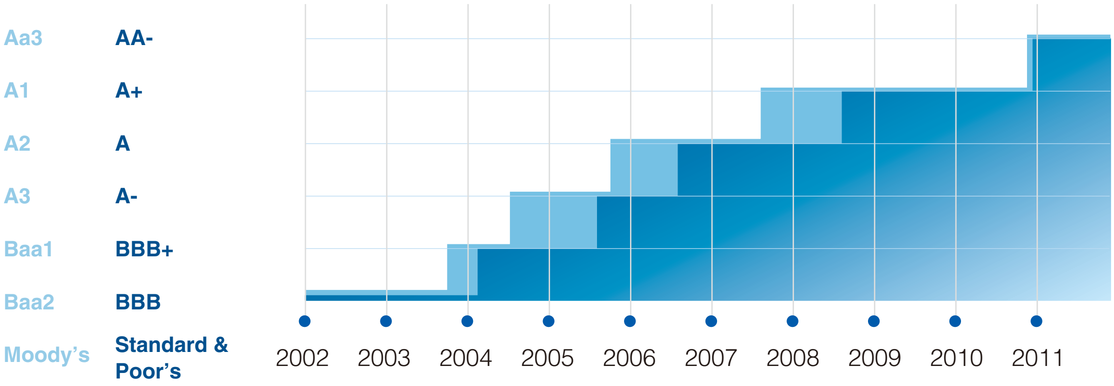
In 2011, the Group continued to generate strong cash flow. The Group's net cash generated from operating activities was approximately RMB226.8 billion and its free cash flow was RMB98.2 billion. As at the end of 2011, the Group's total cash and bank balances were RMB333.1 billion, of which 98.8%, 0.2% and 1.0% were denominated in RMB, U.S. dollars and Hong Kong dollars, respectively. On the premise of ensuring sufficient cash for operations, the Group preserved and increased the value of cash through the provision of trust loans. As at 31 December 2011, the balance of trust loans was RMB14.0 billion. The Company has implemented stringent risk management over trust loans, and these loans were all provided to large state-owned enterprises in Mainland China and consequently are expected to involve minimal risk. The steady fund management and sufficient cash flow further provided a solid foundation for the long-term development of the Group.

Capital Structure

As at the end of 2011, the aggregate sum of the Group's long-term and short-term debt was RMB30.3 billion, and its total debt to total book capitalization ratio was 4.5%, reflecting the fact that the Group's financial position continued to remain at a sound level.

Of the total borrowings, 22.0% was denominated in RMB (consisting primarily of RMB bonds), and 78.0% was denominated in U.S. dollars (consisting primarily of the balances of the deferred consideration for the acquisition of the eight and the ten provincial telecommunications operators). Approximately 78.2% of the Group's borrowings were made at floating interest rates. The effective average interest rate of the borrowings of the Group in 2011 was approximately 1.81%. The effective interest coverage multiple was about 281 times. This reflected the prudent financial risk management principle consistently adopted by the Group, as well as its strong cash flow and sound repayment capabilities.

CREDIT RATINGS



Credit Ratings

The Company currently has a corporate credit rating of Aa3/Outlook Positive from Moody's Investor Service and AA-/Outlook Stable from Standard & Poor's, equivalent to China's sovereign credit rating respectively. These ratings demonstrated that the Company's sound financial strength, favorable business opportunities and solid financial management have led to wider and deeper market recognition.

Dividends

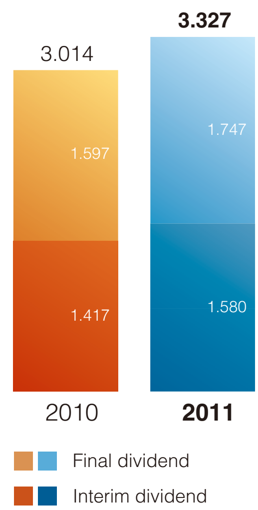
In view of the Group's good profitability in 2011 and taking into consideration its long-term future development, the Board recommends payment of a final dividend of HK$1.747 per share for the financial year ended 31 December 2011 in accordance with the dividend payout ratio of 43% planned for the full financial year of 2011. This, together with the interim dividend of HK$1.580 per share that was paid in 2011, amounts to an aggregate dividend payment of HK$3.327 per share for the full financial year of 2011.

In 2012, taking into consideration various relevant factors such as the Group's overall financial condition, cash flow generating capability and the need for future sustainable development, the Company's planned dividend payout ratio for the full year of 2012 will be 43%.

The Board believes that the Company's good profitability and strong cash flow generating capability will be able to support the future sustainable development, while providing shareholders with a favorable return.

DIVIDENDS

(HK$)



CONCLUSION

The Group will consistently uphold prudent financial principles and strictly monitor and control financial risks in order to strive for stable profitability, robust cash flow generating capability and the ability to preserve and enhance value. In addition, the Group will focus on scientific allocation of resources, maintain a solid capital structure and aim to continuously create value for its shareholders.