OPEN DIALOGUE WITH THE COMPANY'S SENIOR MANAGEMENT

The Company announced its 2003 annual results on 18 March 2004. In addition to the publication of a press release and the posting of the annual results on its Internet web-site, on the same day the Company also conducted an investment analyst conference, a press conference, an investor telephone conference and discussions with various investors to explain the results to investors and the general public in Hong Kong and overseas, and address their questions.

The following is a summary of certain key questions raised by some of the leading investment analysts, and the replies given by the Company's senior management:

What were the major considerations underlying the full year's dividend payout of HK$0.36 per share for the financial year 2003?

(Mr. Mark SHUPER, Co-head of Asia Pacific telecommunications research at Morgan Stanley)

Mr. WANG Xiaochu, Chairman and Chief Executive Officer of the Company:

The Company holds in the highest regard the interests of its shareholders and the returns achieved for its shareholders, especially minority shareholders. Having taken into account such factors as the Company's financial position, cash flow position and requirements to ensure the sustainable future growth of the Company's business, particularly the proposed acquisition of the mobile telecommunications companies in 10 provinces and autonomous regions in Mainland China, the Board recommends the payment of a final dividend of HK$0.20 per share for the financial year ended 31 December 2003. This, together with the interim dividend of HK$0.16 per share already paid during 2003, amounts to an aggregate dividend payment of HK$0.36 per share for the full financial year, representing an increase of 12.5 per cent. over the full year's dividend of HK$0.32 per share for the financial year 2002 and a dividend payout ratio of 21 per cent. The Board is of the view that the Company's strong free cash flow will be capable of supporting the investments required for sustained and steady growth and to generate a good cash return to shareholders. The Company will endeavour to achieve a long-term sustainable, steadily increasing dividend, with a view to generating the best possible return for shareholders.

What is the Company's strategy in relation to the intensifying market competition?

(Mr. Edison LEE, head of Asia Pacific telecommunications research at CSFB)

Mr. WANG Xiaochu, Chairman and Chief Executive Officer of the Company:

To meet this intensifying market competition, the Group will continue to fully leverage its network advantages, integrate its brands and enhance its customer service, roll out marketing plans, such as tariff packages and point accumulation reward programs that suit the needs and consumption characteristics of different customer segments, and aggressively promote voice usage volume, in order to enhance customer loyalty and increase business revenue, as well as to develop new businesses. In light of the new adds market being characteristically comprised of users with low-usage and low ARPU, the Group will increase its efforts in promoting the "Shenzhouxing" sub-brand regional services in order to better satisfy the needs of new users, further expand the Company's user base, further consolidate the Company's position as the market leader and realize economies of scale. Concurrently, the Company will endeavour to control the related operating costs for these sub-brand regional services, such that the Company can realize satisfactory results despite a low ARPU level.

Would the Company comment on the development of its new businesses?

(Mr. Tim STOREY, head of Asia Pacific telecommunications research at Goldman Sachs)

Mr. LU Xiangdong, Executive Director and Vice President of the Company:
In 2003, the Group's new businesses continued to drive rapid growth, and the proportion of the Group's operating revenue derived from new businesses increased by 4.1 percentage points when compared to that of 2002, reaching a double-digit figure of 10.2 per cent. for the first time ever. In particular, SMS grew rapidly, doubling in both usage volume and revenue when compared to 2002. SMS continued to be the main source of revenue growth for new businesses. In accordance with principles of "fairness, openness and 'win-win' co-operation", the Group's "Monternet" entered into broad co-operation arrangements with third-party service providers, with outstanding results, and has more than 880 SMS service providers offering more than 70,000 types of services, with a subscriber base exceeding 62.42 million. Concurrently, non-SMS data services such as WAP, MMS, wireless Internet access and certain new applications have been well received in the market and will gradually become drivers of new business growth.

SG&A expenses in 2003 increased by 35.9% over the pro-forma combined SG&A expenses in 2002. The increase was substantially higher than the increase in the pro-forma combined revenue (10.3%). What were the main reasons?

(Mr. Alistair SCOTT, head of Asia Pacific telecommunications research at Merrill Lynch)

Mr. XUE Taohai, Executive Director and Chief Financial Officer of the Company:
SG&A expenses (consisting primarily of sales and marketing expenses, maintenance, and administration and other general expenses) increased by 35.9 per cent. over the pro-forma combined SG&A expenses in 2002 to RMB43.3 billion, primarily because the Group increased its promotion and marketing activities, and redoubled its efforts to retain customers in response to the current competitive market environment. Sales and marketing expenses (including advertising, promotion, marketing, sale commissions, the customer point reward program and associated mobile handset costs), were RMB21.1 billion, representing an increase of RMB7.3 billion compared with the pro-forma combined figure in 2002. Investments in sales and marketing initiatives have improved customer satisfaction and loyalty and have expanded the subscriber base, thereby enabling the Group to record favorable growth in revenue and ensure long-term profitability. As competition intensifies and more new businesses are



launched in the future, sales and marketing expenses are expected to face increasing pressures. However, the Group will continue to further refine its management processes to effectively control costs, in particular, to better control costs related to low-end subscribers, with a view to ensuring the continued steady growth of the Company's business.

Can the Company elaborate on its CAPEX plan for the coming 3 years?

(Mr. Francis CHEUNG, head of Asia Pacific telecommunications research at CLSA)

Mr. HE Ning, Executive Director and Vice President of the Company:
In order to ensure the Group's long-term development and maintain its leading position in the market, the Group has endeavoured to optimize and enhance the cost effectiveness of its capital expenditure. The Group's newly budgeted capital expenditure from 2004 to 2006 is US$14.0 billion. The budgeted capital expenditure for each of the three years is US$5.8 billion, US$4.3 billion and US$3.9 billion, respectively. The new capital expenditure budget for 2004 is larger than the amounts previously budgeted, primarily as a result of increased traffic volume and the need to consolidate the Company's overall competitive position to ensure its future development. The capital expenditure earmarked for the next three years will be used mainly for the construction of GSM networks (45 per cent.), the development of new technologies and new businesses (18 per cent.), and for the construction of support systems (15 per cent.) and transmission and structural facilities. The required funding will be sourced largely from cash generated from the Group's operating activities.