

Open Dialogue with the Company's Senior Management

The Company announced its 2004 annual results on 11 March 2005. 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:

Q1. The full year's dividend per share of the Company for 2004 increased by 83.3%. What is the Company's future dividend policy?

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

The Company has always held in the highest regard the interests of its shareholders and the returns achieved for its shareholders, especially minority shareholders. The Board recommends the payment of a final dividend of HK\$0.46 per share for the financial year ended 31 December 2004. This, together with the interim dividend of HK\$0.20 per share, amounts to an aggregate dividend payment of HK\$0.66 per share for the full financial year, representing an increase of 83.3 per cent. over the full year's dividend for the financial year 2003, and a dividend payout ratio of 32.7 per cent. in 2004, representing an increase of 11.7 percentage points over 2003. We are of the view that the Company's strong free cash flow will be capable of supporting the investments required for growth and to generate a good cash return to shareholders. The

Company will decide on its future dividend payout considering factors such as its financial position, cash flow position, requirements to ensure the sustainable growth of the Company's business and upon approval by the Board. The Company will endeavour to achieve a long-term sustainable, steadily increasing dividend, with a view to generating the best possible return for shareholders.

Q2. The Company completed its acquisition of the 10 mobile telecommunications companies in 2004. How did these newly acquired companies perform?

Mr. XUE Taohai, Executive Director, Vice President and Chief Financial Officer of the Company:

The Company successfully completed its acquisition of ten mobile telecommunications companies in Mainland China last year. During the process of acquisition and integration, we have further enhanced the management standard and operational efficiency of the newly acquired subsidiaries. These subsidiaries have achieved excellent performance in 2004. As at the end of 2004, the subscriber base reached 28.95 million, representing an increase of 18.2 per cent. from the end of 2003. The total revenue, EBITDA, and net profit reached RMB24,615 million, RMB12,051 million and RMB3,788 million, respectively, representing increases of 19.2 per cent., 28.4 per cent., and 79.4 per cent. from the same period of 2003, respectively. At the same time, EBITDA margin reached 49.0 per cent., representing an increase of 3.5 percentage points. The subscriber base, EBITDA and net profit have surpassed estimated targets set at the time of the acquisition.



Q3. CAPEX of the Company in 2004 is slightly higher than the CAPEX plan previously announced, what is the reason for this? Can you provide a breakdown of CAPEX in 2004?

Mr. LI Yue, Executive Director and Vice President of the Company:

CAPEX in 2004 was approximately US\$7.8 billion, which represents an increase of approximately US\$100 million from the previously announced plan. Due to the continuing increase in demand for mobile

telecommunications in 2004, while revenue of the Company maintained steady growth, total usage volume also had a notable increase. As a result, the Company appropriately increased its network investments to meet market demand. Overall, the proportion of CAPEX to revenue has shown a decline from 33.2 per cent. in 2003 to 31.7 per cent. in 2004. CAPEX in 2004 was mainly used for the construction of GSM networks (57 per cent.), development of new technologies and new businesses (7 per cent.), transmission facilities (16 per cent.), and for the construction of support systems (8 per cent.) and structural facilities.

Q4. Would the Company comment on the development of its new businesses?

Mr. LU Xiangdong, Executive Director and Vice President of the Company:

In 2004, the Company's new businesses continued to maintain a good growth rate. Revenue derived from new businesses reached RMB31.65 billion, representing an increase of 76.5 per cent. from the previous year, and the proportion of the total revenue derived from new businesses increased by 5.5 percentage points when compared to that of 2003, reaching 15.5 per cent. In particular, data businesses, which mainly comprise of SMS, WAP and "Color Ring" have experienced rapid development and the proportion of the total revenue derived from such businesses increased from 7.7 per cent. in 2003 to 11.3 per cent. in 2004. The Company will maintain its pre-determined success strategy, strengthen research and development, market and promote new businesses, continuously increase the number of users and usage, to maintain the revenue growth of new businesses.

Q5. Can the Company elaborate on its CAPEX plan for 2005–2007?

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

The Company's newly budgeted capital expenditure from 2005 to 2007 is US\$19.8 billion. The budgeted capital expenditure for each of the three years is US\$7.8 billion, US\$6.5 billion and US\$5.5 billion, respectively. The new capital expenditure budget is higher than the amounts previously budgeted, primarily as a result of increased subscribers and traffic volume, and the need to set a solid foundation for future development. The capital expenditure earmarked for the next three years will be used mainly for the construction of GSM networks (60 per cent.), development of new technologies and new businesses (11 per cent.), for the construction of support systems (10 per cent.), transmission and structural facilities. Such CAPEX plan does not include investment of 3G construction.