



The Company announced its 2006 annual results on 21 March 2007. 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:

### **1. IN 2006, THE COMPANY ACHIEVED A REVENUE GROWTH OF 21.5%, WHAT WERE THE MAJOR DRIVING FORCES?**

In 2006, by seizing favorable market development opportunities, the Company further expanded its subscriber base, value-added business and voice usage volume and built a low-cost and effective business model in the rural areas. These have greatly enhanced the Company's operating results and led to a rapid, sustainable, steady and harmonious development of the Company's business.

On the basis of maintaining its existing customers and stimulating customer usage volume, the Company actively explored market opportunities, developed new customers and placed particular effort in the development of the rural mobile telecommunications market. The Company's subscriber base continued to grow rapidly, and the net additional subscribers reached 53.22 million. In addition, benefiting from the favorable price elasticity of our services, our voice usage volume recorded a notable increase of 38.6%. Simultaneously, the Company actively launched new products and business promotion and as a result, the value added-business revenue grew 38.1% over 2005. The proportion of value added business revenue to total operating revenue further increased to 23.5%. These factors were the main attributes for the strong revenue growth.



## 2. CAN THE COMPANY PROVIDE A BREAKDOWN OF CAPEX IN 2006 AND A BREAKDOWN OF CAPEX PLAN IN 2007, RESPECTIVELY?

The Company's capital expenditure in 2006 was approximately RMB87.0 billion, which was mainly used for the development of GSM networks, the addition of equipment such as base stations, the expansion of coverage and capacity, the refinement of networks for value-added business, the reinforcement of the support system capacity, therefore, effectively satisfying the rapid growth in customers, voice usage volume and value-added business, securing steady increase in revenue and profits.

CAPEX for 2006 was mainly used for the construction of GSM networks (59 per cent.), development of new businesses and new technologies (7 per cent.), construction of transmission facilities (17 per cent.), support systems (7 per cent.), and structural facilities.

CAPEX plan for 2007 will mainly be used for the construction of GSM networks (56 per cent.), development of new businesses and new technologies (9 per cent.), construction of transmission facilities (15 per cent.), support systems (9 per cent.), and structural facilities.

In view of the rapid growth momentum of the Chinese economy in the future, the citizen's increasing spending power, and the nation's development of "informationalization" and in order to satisfy the vibrant market demand, promote the continuous development of value-added business, maintain the leading position and competitive advantages of the network and meet the new tide of technological evolution, the Company's capital expenditure budget newly set for 2007 is RMB99.8 billion, which will be used mainly for the construction of GSM networks, support systems and transmission facilities, and for the development of new technologies and new businesses, after taking into account the continuous evolution of new generation technologies. The required funding will be sourced largely from cash generated from the Company's operating activities.

### **3. HOW MUCH DID THE COMPANY PAY IN TERMS OF DIVIDEND PER SHARE FOR 2006? WHAT IS THE DIVIDEND POLICY IN THE FUTURE?**

The ordinary final dividend for 2006 is HK\$0.763 per share. This, together with the ordinary interim dividend of HK\$0.62 per share paid during 2006, amounts to an aggregate ordinary dividend payment of HK\$1.383 per share for the full financial year of 2006. The dividend payout ratio for the year 2006 was 42 per cent..

In addition, the Board, having taken into full account the interests of its shareholders and the effect of the Company's revised depreciation policy on the profits attributable to shareholders, recommended payment of a special final dividend of HK\$0.069 per share in 2006. This, together with the special interim dividend of HK\$0.09 per share paid during 2006, amounts to an aggregate special dividend payment of HK\$0.159 per share for the full financial year of 2006.

Having taken into account various factors such as business operation, financial and cash flow positions, the Company proposed a dividend payout ratio of 43% for the full year of 2007. In addition, the Company will consider distributing a special dividend for the year of 2007 for the effect on the profit attributable to shareholders based on the planned revision of depreciation policy in 2007.

The Company believes that its strong free cash flow will be capable of supporting the investment required to sustain its steady growth, while also providing shareholders with a favorable cash return. The Company will endeavor to achieve a sustainable, steadily increasing dividend over the longer term, with a view to generating the best possible return for shareholders.

### **4. WHAT IS THE CURRENT DEVELOPMENT OF THE RURAL MARKET? WHAT STRATEGIES DID THE COMPANY HAVE WHEN DEVELOPING MARKET IN RURAL AREAS?**

The new national rural policy effectively fosters economic development in rural areas. Continuous growth of per capita net income further strengthens consumption power. Huge rural population with low mobile penetration rate indicates huge growth potential in rural market.

By strictly adhering to the strategy of low cost, the Company has increased its efforts in developing the mobile telecommunications in rural areas in 2006. The network coverage in rural areas was further improved and the low-cost marketing and sales service system has taken shape. Through the offering of "Shenzhouxing Village-only Card", ultra low-price handsets, over-the-air recharging and implementing marketing and sales strategies that fit in with the special characteristics of rural areas, the Company achieved significant result. Almost half of the subscriber growth came from rural market.

The Agricultural Information Service was launched to specifically address the needs of the market in rural areas and its business has shown rapid growth, and it has met the information needs in relation to the production, supply and sale of agricultural products, management of rural administrative affairs and matters concerning peasants' livelihood. Rural market exhibits strong growth and huge potential.

## **5. CAN THE COMPANY ELABORATE ON THE STRONG DEVELOPMENT OF ITS VALUE-ADDED BUSINESS IN 2006?**

The Company has proactively pursued product innovation and business promotion, and as a result the proportion of revenue from value-added business has further increased and the structure of revenue from value-added business has been further optimized. In 2006, revenue from value-added business reached RMB69.3 billion, representing an increase of 38.1 per cent. from 2005. Revenue from value-added business accounted for 23.5 per cent. of the Company's operating revenue, representing a further increase from 2005. The SMS business continued to grow. In 2006, revenue from SMS reached RMB32.2 billion and SMS usage volume reached 353.4 billion messages with an average daily usage volume of nearly 1 billion messages.

Non-SMS data businesses grew rapidly, in which "Color Ring", WAP and MMS showed strong growth. In 2006, revenues from "Color Ring", WAP, and MMS reached RMB6.75 billion, RMB6.88 billion and RMB0.98 billion, respectively. Their respective growth rates were 97%, 93% and 170%.

In 2006, the launching and development of products such as Mobile Music and Mobile Paper have strongly promoted the evolution of mobile multimedia and mobile news media. Through cooperation with traditional media, Mobile Paper has become a new form of media based on mobile handsets. In addition, the IM business provided by "Fetion" has enriched the general public's ways to communicate with each other. Mobile Mailbox, Mobile Blog and Mobile Search have enabled subscribers to access the world of Internet through mobile phone. It has become apparent that mobile phones have become so important that they cannot be dispensed with in our daily lives. The Company will leverage its own competitive advantages and seize the future opportunities, to continuously nurture a large number of value-added business with growth potential.