

# Open Dialogue with Senior Management



The Company announced its 2007 annual results on 19 March 2008. In addition to the publication of a press release and the posting of the annual results on its website, on the same day the Company also conducted an investment analyst conference, a press conference, an investor telephone conference and had discussions with various investors to explain the results to investors and the general public in Hong Kong and overseas, and to 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 2007, the Group achieved a revenue growth of 20.9%, what were the major driving forces?

During 2007, the Group enjoyed continuous strong growth in the areas of new customers, new business and new voice usage, which provided driving forces for our performance. Our subscriber base continued to expand, reaching 369.339 million. The total net additional subscribers was 68.107 million and the average monthly net additional subscribers exceeded 5.67 million, nearly half of the subscriber growth was contributed by the rural market. Benefiting from the successful sales and marketing strategies as well as favorable price elasticity, voice business continues to grow. Total voice usage volume reached 1,818.89 billion minutes and average minutes of usage per user per month (MOU) was 455 minutes. The value-added business has developed vigorously, its contribution to operating revenue has continuously increased to 25.7 per cent.. The development of corporate customers further boosts the Group's revenue.

## 2. Can the Company provide a breakdown of CAPEX in 2007 and a breakdown of CAPEX plan in 2008, respectively?

Capital expenditure in 2007 was approximately RMB105.1 billion, effectively satisfying the rapid growth in subscribers, voice usage volume and value-added business, thereby securing steady increase in revenue and profits. 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, capital expenditure budget newly set for 2008 is RMB127.2 billion.

CAPEX for 2007 was mainly used for the construction of GSM networks (60 per cent.), development of new technologies and new businesses (7 per cent.), construction of transmission facilities (16 per cent.), support systems (7 per cent.) and structural facilities.

CAPEX plan for 2008 will mainly be used for the construction of GSM networks (55 per cent.),

development of new technologies and new businesses (9 per cent.), construction of transmission facilities (16 per cent.), support systems (8 per cent.), and structural facilities.

### 3. How much did the Company pay in terms of dividend per share for 2007? What is the dividend policy in the future?

The ordinary final dividend for 2007 is HK\$1.160 per share. This, together with the ordinary interim dividend of HK\$0.837 per share that were paid in 2007, amounts to an aggregate ordinary dividend payment of HK\$1.997 per share for the full financial year of 2007. Dividend payout ratio for the year 2007 was 43 per cent..

In addition, the Board, having taken into account the interest of the Company's shareholders, recommends payment of a special final dividend in 2007 of HK\$0.016 per share for the effect on the profit attributable to shareholders resulting from the revision of depreciation policy in 2007. This, together with the special interim dividend of HK\$0.085 per share that were paid in 2007, amounts to a special dividend payment of HK\$0.101 per share for the full financial year of 2007.

Having taken into account various relevant factors such as the overall financial condition, cash flow generating capabilities and future development, the Company plans the dividend payout ratio for the full year of 2008 to be 43 per cent..

The Board is of the view that the Company's outstanding operating results and strong cash flow generating capability will provide sufficient support to the future development of the Company, while providing shareholders with a favorable return. The Company will endeavor to achieve a longer term sustainable, steadily increasing dividend, with a view to generating the best possible return for our shareholders.

### 4. Can the Group elaborate more on the significant result achieved in the rural market expansion?

In 2007, the Group continued to strictly adhere to its rural-specific marketing strategies to drive

market growth, thereby realizing economies of scale. The Group's application of low-cost and effective marketing means that fit in with the special characteristics of rural areas, such as wall advertising and banners, promotion of the "Shenzhouxing Village-only Card", as well as utilization of low-price handsets and over-the-air recharging methods, had contributed to the rapid growth in rural subscribers. The network coverage in rural areas further improved, so did the widespread network of low-cost sales and marketing channels. After continuous development, an operating analysis system targeted at the rural market was enhanced. Meanwhile, the Group further promoted the provision of rural information services through its unified information service platform, providing a variety of information, which enhanced attractiveness to rural subscribers and their loyalty. The rural market has become the key source of the additional subscribers and a significant driving force for revenue growth.

Rural mobile penetration is relatively low, and it indicates enormous potential. Against the backdrop of favorable state policy, faster urbanization, larger migratory population, together with higher rural living standards, lower handset prices and the development of informatization in the rural market, the rapid growth momentum of rural market will sustain.

### 5. Can the Group elaborate on the strong development of its value-added business in 2007?

The Group has vigorously developed its value-added business and as a result, its contribution to revenue has further increased. In 2007, value-added business increased by 32.2 per cent. to RMB91.609 billion and its contribution to the operating revenue has further increased to 25.7 per cent..

Significant contribution was noted from a variety of value-added businesses. The SMS business continued to grow. In 2007, revenue from SMS reached RMB41.935 billion and SMS usage volume reached 502.74 billion messages with an average daily usage volume of 1.4 billion messages. Non-SMS data businesses grew rapidly, in which revenue from "Color Ring", WAP and MMS continued to increase, reaching RMB11.794 billion, RMB9.094 billion and RMB1.567 billion, respectively. In addition, the scale of key products such as Mobile Music, Mobile Paper and "Fetion" businesses reached a new level.

Throughout the year, “Color Ring” subscribers downloaded the ring-back tone by approximately 0.78 billion times. The number of senior members of Wireless Music Club reached 35.46 million. The number of paying subscribers of Mobile Paper reached 23.55 million and the number of active subscribers of “Fetion” reached 12.81 million.

The Group has strengthened research and development of new products, conducted customer demand study and formulated product design standard. Significant efforts were spent to increase our discourse right in the international standard setting process. The Group ceaselessly develops new mechanism for product promotion. Product pilot-tests are conducted at provincial subsidiaries and once proven successful, large-scale promotion will be launched to push the products nationwide. This mechanism helps speed up the product promotion while effectively reduces risk and cost. On top of the existing value-added businesses being offered, the Group has strengthened its reserves of new products and applications, such as Full Track Download, Mobile TV, Mobile Search, Mobile Mailbox and Mobile Map, as well as proactively explored new business areas, such as Mobile Advertising and Mobile Payment. The Group also actively fosters stronger partnership with all kinds of partners, with a view to achieving win-win situation in the value-chain. A stratified data product mix has been formed composing reserve products, growth products, key products and mature products.

### 6. Can the Group elaborate on the development of its corporate customers in 2007?

In 2007, the Group devoted its efforts in establishing and refining its corporate customer operation system, unifying with other cooperation partners within the value chain, as well as intensively promoting corporate informatization and industry-specific application solutions using mobile terminals as the media. Sales and marketing services to multinational and multi-provincial corporate customers have been steadily advanced. This is achieved by enhancing the efforts in researching the needs of the corporate customers and by strengthening the operational capability in system integration design.

The Group has further strengthened and broadened the scope of industry-specific applications, such as the Agricultural Information Service, Campus Information Service, Banking Information Service, Police Information Service and Municipal Information Service. At the same time, the Group has penetrated into new areas with new industry-specific applications, such as the Trade & Business Express, the Supply and Sales Information Service and the Financial Information Express. The Group also achieved large-scale expansion of the Machine-to-Machine business in sectors such as power, transportation, environmental and petroleum.

As at the end of 2007, the total number of corporate customers reached 2.12 million, and individual subscribers served under corporate accounts amounted to 29.2 per cent. of the total subscriber base.





