

Open Dialogue with Senior Management



1. Can the Group elaborate on the subscriber growth in 2008 and the outlook of 2009?

In 2008, the Group sustained its rapid subscriber growth. As at 31 December 2008, its total subscriber base reached 457.250 million, and the number of net additional subscribers for the year was 87.911 million, translating into an average increase in net additional subscribers of over 7.3 million per month. The rural market, which continues to serve as a key growth driver, contributed to nearly half of the subscriber growth in the year.

Substantial changes in the macro-economic environment arising from the international financial crisis have had adverse effects on the telecommunications industry. With slower economic growth in certain regions, the demand for telecommunications services has somewhat reduced. The mobile penetration rate in Mainland China has reached 48.5 per cent., and the market in certain large cities began to show signs of becoming mature. The restructuring of the telecommunications industry

has also changed the competitive landscape and competition is increasingly intensified. Due to the impact of these factors, the Group's subscriber growth showed signs of slowing down.

The Group believes that a series of State policies targeted at expanding domestic demands and maintaining a stable yet speedy growth of the economy will stimulate demand for telecommunications services. Despite a higher mobile penetration rate as compared to that in the last few years, there remains considerable growth potential in Mainland China's mobile telecommunications market. The rural areas became a key market for the telecommunications industry with great growth potential. Furthermore, new business and new applications in mobile communications and informatization continued to develop. For example, the needs of new communications, such as handset-to-machine and machine-to-machine, etc, will create enormous demand. These factors together provide prime conditions for the growth of the telecommunications industry and the Group's subscriber base.



2. Can the Group elaborate on its value-added business development in 2008?

Accounting for an increasingly higher proportion of the Group's operating revenue, value-added business has shown a more prominent pulling effect on revenue in 2008. Revenue from value-added business amounted to RMB113.444 billion, representing an increase of 23.8 per cent. from 2007. Revenue from value-added business in 2008 contributed to a higher percentage of operating revenue than in 2007, reaching 27.5 per cent. of operating revenue. Mature businesses, such as SMS, sustained growth even already reaching a sizeable mass. In 2008, revenue from SMS business reached RMB50.384 billion and SMS usage volume was 607.13 billion messages, averaging 1.66 billion messages a day. In 2008, non-SMS data business grew rapidly and revenue from "Color Ring", WAP and MMS businesses increased further to RMB14.380 billion, RMB12.991

billion and RMB2.878 billion, respectively. "Color Ring" and WAP became businesses that generated a monthly revenue of over RMB1 billion. Other products such as Wireless Music, Mobile Paper, "Fetion" and 139 Mailbox have also grown rapidly as a result of continual innovation and development driven by customer needs. Furthermore, the Group strengthened the nurturing and promotion of other value-added business such as Mobile Gaming, Mobile Video, Mobile Map and Mobile e-Commerce. The arrival of 3G will create more favorable conditions for the further development of the Group's value-added business.

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3. Can the Group elaborate on its 3G development strategy?

At the beginning of 2009, the Group commenced operations of TD-SCDMA 3G network using 3G network capacity leased from the parent company. The Group will coordinate with the parent company to construct 3G network, and 3G coverage is planned for 238 cities, or more than 70 per cent. of all prefecture-level cities, by the end of 2009. According to the plan, there will be 160,000 3G base stations providing network coverage to 100 per cent. of all prefecture-level cities by the end of 2011.

The Group will continue to comprehensively promote the integration of 2G/3G networks and a smooth transition. Through the integration of core components of the networks, network solution, business platforms and support systems, customers can experience 3G services without changing their SIM cards or mobile numbers or requiring re-registration. Customers will be able to use 3G services in an economical and convenient way, and this will expedite the introduction of 3G services to customers.

The Group will fully leverage its existing competitive advantages. Based on the principle of mixed business development, it will integrate strategies on branding, tariff, services, channels and marketing resources and fully promote dual-mode handsets in voice, broadband data and value-added businesses. Meanwhile, the Group will earnestly develop dual-mode data cards, netbooks and notebook computers equipped with data modules, home Internet access gateways and information terminals. It will also

comprehensively introduce application of 3G technology to individuals, families, corporations and those who need industry informatization products, so as to vigorously market 3G special features in an innovative manner.

The Group will take part in pushing forward the development of the TD-SCDMA industry chain and evolution of TD-SCDMA technology by actively facilitating various elements of the value chain to enhance the overall level of technology and quality of products, including coordinating efforts in various components such as systems, terminals, chipsets and instruments. It will actively encourage suppliers to invest in their research and development to supply more dual-mode handsets and various types of dual-mode terminals, with special functions and features, of high quality at reasonable prices. The Group will further research into post-TD-SCDMA technologies and promote the synchronised development and convergence of TD-LTE and FDD-LTE technologies.

4. Can the Group provide a breakdown of CAPEX in 2008 and a breakdown of CAPEX plan in 2009, respectively?

CAPEX in 2008 was RMB136.3 billion. It effectively satisfied the needs of rapid development of subscribers, voice usage and value-added business as well as the unusual needs of post-disaster reconstruction after snowstorm and earthquake, and ensured stable growth of revenue and net profits.



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To satisfy growth in market demand, foster the continuous development of value added business, sustain leading network advantages, realize the 2G/3G integrated network layout and ensure post-disaster reconstruction, the Group has set the CAPEX budget for 2009 at RMB133.9 billion.

CAPEX for 2008 was mainly used for the construction of mobile communications networks (58 per cent.), development of new technologies and new businesses (6 per cent.), construction of transmission facilities (18 per cent.), support systems (7 per cent.) and structural facilities.

24 per cent. of CAPEX plan for 2009 will be used for the construction of 2G wireless networks (of which 70 per cent. will be applied to network construction in the rural areas). The remaining investment will be used in the areas for 2G/3G integration, including core networks (24 per cent.), development of new technologies and new businesses (9 per cent.), construction of transmission facilities (21 per cent.), support systems (9 per cent.), structural facilities and others.

5. How much did the Company pay in terms of dividend per share for 2008? What is the dividend policy in the future?

The Company determines and commits to hold in the highest regard the interests of its shareholders and the returns achieved for them, especially the minority

shareholders. In the view of the Company's favorable operating results of 2008 and having taken into consideration its long-term future development, the Board recommends payment of a final dividend of HK\$1.404 per share for the financial year ended 31 December 2008 in accordance with the dividend payout planned for the full year of 2008. This, together with the interim dividend of HK\$1.339 per share that was paid in 2008, amounts to an aggregate dividend payment of HK\$2.743 per share for the full financial year of 2008. Dividend payout ratio for the year 2008 was 43 per cent..

In 2009, having taken into consideration various relevant factors such as the Company's overall financial condition, cash flow generating capability and the needs of future sustainable development, the Company plans the dividend payout ratio for the full year of 2009 to be 43 per cent..

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

