

# OPEN DIALOGUE WITH SENIOR MANAGEMENT



## The customer base of the Group continued to be solid in 2009, can you further elaborate?

In 2009, the Group's customer base continued to be solid. As at the end of 2009, its total customer base reached 522.283 million, and the number of net additional customers for the year was 65.033 million, translating into an average increase in net additional customers of 5.42 million per month. The rural market, which continues to serve as a key growth driver, contributed to nearly half of the customer growth in the year.

The increased mobile penetration rate in Mainland China, the further intensified market competition after the telecommunications industry restructuring and the issuance of 3G licenses as well as the effect of the global financial crisis on the country's economy have led to a decrease in the Group's customer growth. The Group still maintained 60.5% of market share for net customer additions. As at the end of 2009, the Group's total customer market share was approximately 70.6%.

In 2009, the Group continued to pursue the rural market development strategy of "Lower ARPU, Lower MOU, Lower cost". The Group has taken full advantage of the State policies to reduce development costs for the rural market and enhanced the influence. The Group has first-mover advantage in rural markets. Whilst urbanization in rural areas progresses, the rural telecommunications market presents significant potential and the rural market will continue to be the key growth driver for the Group.

In 2009, the Group saw steady growth in its corporate customer base, which has become an increasingly important contributor to the Group. The Group made significant efforts in retaining and developing corporate customers. The Group endeavored to achieve breakthroughs in the application of machine-to-machine (M2M) and Mobile e-Commerce business in the corporate arena. As at the end of 2009, corporate customer base reached 2.78 million accounts and the number of individual customers served under corporate accounts reached 35.4% of the total customer base. Revenue from corporate informatization exceeded RMB10 billion.

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**The Group launched its 3G business in 2009, can you further elaborate on its overall development?**

In 2009, the Group commenced operations of 3G network by leasing wireless network capacity from its parent company and actively pushed forward the development of 3G business. In December 2009, the number of customers who used our 3G network service was 3.408 million. The Group coordinated with its parent company to complete Phases Two and Three of 3G network construction. The total number of 3G base stations in operation exceeded 80,000, covering 238 cities across the country (representing more than 70% coverage of prefecture-level cities). The Group was committed to enhancing network quality and resolving major technical problems. The 3G network quality is comparable to that of the Group's 2G network, which is of world leading quality.

In 2009, the parent company established a RMB650 million R&D incentive fund to be used for joint research and development of TD-SCDMA terminals and chipsets with manufacturers. This initiative has boosted confidence in the industry chain and encouraged more capable manufacturers to participate. As at the end of 2009, there were 266 different models of TD-SCDMA terminals, and the TD-SCDMA terminal industry chain gradually matures.

In 2009, the Group fully leveraged on the new 3G business and products, to target individuals, families, corporations and industry informatization markets. It actively promoted G3 applications through voice, broadband data and value-added businesses. It launched applications such as video calling, video messaging, video conferencing and video-on-demand IVVR services. The Group has also introduced G3 wireless desktop phone and pilot-launched Push To Talk and video surveillance products.

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**Value-added business made a prominent boost to the Group's revenue growth in 2009, can you elaborate on its overall development?**

In 2009, value-added business enjoyed favorable growth and has prominently boosted Group revenue, taking up an increasing proportion of the Group's operating revenue. In 2009, revenue from value-added business amounted to RMB131.434 billion, representing an increase of 16.0% from 2008, reaching 29.1% of operating revenue, which is an increase from that of 2008. Mature businesses, such as SMS sustained growth despite having reached optimal scale. Non-SMS data business continued to grow rapidly and revenue from Handset Internet Access and MMS businesses in 2009 reached RMB18.338 billion and RMB3.306 billion, respectively. Other businesses such as Wireless Music, Mobile Paper, "Fetion", 12580 Integrated Information Service Line and "139 Mailbox" have also grown rapidly. The Group will continue to tap the growth potential of SMS, Handset Internet Access, "Color Ring" and MMS and increase the revenue contribution of these mature businesses. The Group will further expand the business scale of Wireless Music, Mobile Paper, "Fetion" and 12580 Integrated Information Service Line, as well as refine the functions and optimize the products of Mobile Gaming and Music Download. The Group will realize the nationwide offering of new businesses such as Mobile Wallet, Mobile Reading and Mobile Video. It will push forward the operation of Mobile Market, "139 Community" and Internet Data Center (IDC), and promote the use of corporate email box. The Group will push forward the application and development of the "Internet of Things", using Machine-to-Machine (M2M) business as a key development area in that space.

**Can the Group provide a breakdown of CAPEX in 2009 and a breakdown of CAPEX plan in 2010, respectively?**

CAPEX in 2009 was RMB129.4 billion. It effectively satisfied the needs of rapid development of customers, voice usage and value-added business as well as the 2G/3G network integration and ensured stable growth of revenue and net profits.

To satisfy growth in market demand, foster the continuous development of value-added business, sustain leading network advantages and promote the 2G/3G network integration, the Group has set the CAPEX budget for 2010 at RMB123.0 billion.

CAPEX for 2009 was mainly used for the construction of mobile communications networks (43%), development of new technologies and new businesses (12%), construction of transmission facilities (23%), support systems (8%) and structural facilities.

CAPEX budget for 2010 will primarily be used for the construction of mobile communications networks (38%), development of new technologies and new businesses (13%), construction of transmission facilities (24%), support systems (10%) and structural facilities.



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**How much did the Company pay in terms of dividend per share for 2009? 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 for minority shareholders. In view of the Company's good profitability of 2009 and taking into consideration its long-term future development, the Board recommends payment of a final dividend of HK\$1.458 per share for the financial year ended 31 December 2009 in accordance with the dividend payout ratio of 43% planned for the full financial year of 2009. This, together with the interim dividend of HK\$1.346 per share that was paid in 2009, amounts to an aggregate dividend payment of HK\$2.804 per share for the full financial year of 2009. The dividend payout ratio for the year of 2009 was 43%.

In 2010, taking into consideration various factors such as the Company's overall financial condition, cash flow generating capability and the need for future sustainable development, the Company plans the dividend payout ratio for the full year of 2010 to be 43%.

The Board is of the view that the Company's good profitability and strong cash flow generating capability will continue to support the future sustainable development of the Company, while providing shareholders with a favorable return.

