

## Open Dialogue with Senior Management



### 1. HOW DID THE COMPANY DEAL WITH THE PRESSURE BROUGHT UPON THE NETWORK BY THE RAPID GROWTH IN MOBILE INTERNET ACCESS USAGE?

With the proliferation of smart devices and mobile broadband, the explosive growth in mobile data usage has already become a global trend, which presents both challenges and opportunities for the Group. Although the explosive growth in Mobile Internet Access usage brings pressure on the network, its contribution to the Group's revenue continues to increase.

The Group continued to strengthen the operations of data traffic, enhance network quality and optimize structure of data usage and has achieved balanced growth in both usage and revenue. In 2010, the Group's Mobile Internet Access usage (mainly include Handset Internet Access and Data Card Internet Access) increased by 112.3% year-on-year, and generated a revenue of RMB30.5 billion, representing an increase of 49.4% year-on-year.

The Group undertook three measures on the network side to improve network quality. Firstly, carry out co-ordinated development of the four networks namely 2G/3G/WLAN/Future LTE. These four networks have different coverage capabilities, for which coverage will be provided according to business scenarios. They will be developed in a coordinated manner and co-exist in the long run. Secondly, expand the coverage of WLAN, simplify the authentication of WLAN access and enhance WLAN's effectiveness in diverting data traffic. Thirdly, continuously optimize the network and ensure premium network quality.



The Group undertook three measures on the business side to strengthen the operations of data traffic and improve the structure of Mobile Internet Access usage. Firstly, focus on the development of handset-based and high-value data businesses. Secondly, tighten control on tariffs and refrain from offering unlimited usage or ultra-low tariff packages. Thirdly, prioritize traffic by WLAN, Future LTE, 3G, then 2G for businesses and applications.

To adapt to the explosive growth in Mobile Internet Access usage, the Group will increase its CAPEX investment this year as necessary and will control the pace of overall investment, to achieve continuous growth in value while maintaining a specified network utilization rate.



The Group always pays close attention to network quality. It maintains overall leadership in network capability and quality through continuous network optimization. According to monitoring data provided by third parties, the network quality of the Group is still ahead of our competitors, while the utilization rate of our network remains at a reasonable level.

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### 2. CAN YOU ELABORATE ON THE GROUP'S DEVELOPMENT OF THE MOBILE INTERNET AND "INTERNET OF THINGS" BUSINESSES?

For mobile Internet, the Group persists in the strategy of open platform operation, adhering to its open, cooperative and win-win principles. The Group will enhance the capabilities of the "Smart Pipe" and provide value-added services, with an aim to becoming a "Smart Pipe" which provides services and adds value.

Mobile Market is a one-stop platform for downloads and comprehensive sales of the Group's mobile Internet applications. It is also the pivotal platform of the Group's mobile Internet strategy. As at the end of 2010, Mobile Market reached a cumulative total of 1.10 million registered developers and a cumulative total of 35 million registered customers. It offered 50,000 applications and 110 million application downloads. In 2011, the Group will focus on the development of Mobile Market, to build a comprehensive platform for consumers, developers and the industry chain.

For the "Internet of Things", the Group believes that its potential is equally significant, with a scale of more than 1 billion access points. It will be the focus of the Group's development and a business through which the Group could achieve scale. The Group drove the construction of "Wireless City" with local governments, which helped boost the rapid development of "Internet of Things" applications such as city management, intelligent traffic control and industry control.

In 2010, the Group established the base for the "Internet of Things" to provide centralized operational support across the network, and built the product development system of the mobile "Internet of Things". M2M communication terminals have exceeded 6.90 million and covering applications such as production process control, fleet management, intelligent surveying, POS terminal and security and surveillance.

### 3. CAN YOU ELABORATE ON THE DEVELOPMENT OF TD-LTE ?

In 2010, the 3G business of the Group has developed steadily in customers, network, terminals and applications. Meanwhile, the Group continued to assist its parent company in the development of its post-3G technology, TD-LTE and has achieved breakthroughs in technology research and development, network testing, industry advancement and international development.

In October 2010, TD-LTE Advanced was chosen by the ITU to be one of the candidates for the 4G standard. TD-LTE's convergence with LTE FDD has become an industry consensus, and has ascertained compatible conditions for convergence in chipset, platform and scale. TD-LTE has gained overall recognition and support from governments, industry chains, international operators and international standards organizations and has notably expedited the progress of commercialization.

In 2010, the Group assisted its parent company to establish a TD-LTE demonstration network at the Shanghai World Expo and Guangzhou Asia Games, which has attracted extensive attention and earned positive feedback. At the end of 2010, the Group kicked off preparation for large scale TD-LTE trials in six cities, namely Shanghai, Hangzhou, Nanjing, Guangzhou, Shenzhen and Xiamen and construction of a demonstration network in Beijing. The Group will push forward the TD-LTE scale trial in earnest with an aim to achieving commercial trial by the end of 2011.

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### 4. CAN THE GROUP PROVIDE BREAKDOWN OF CAPEX FOR 2010 AND CAPEX PLAN FOR 2011?

CAPEX for 2010 was approximately RMB124.3 billion and was mainly used in the construction of infrastructural networks (44%), development of new technologies and new businesses (13%), construction of transmission facilities (23%), support systems (7%) and plant and civil works. It has effectively satisfied the development needs of the Group and ensured stable growth of revenue and net profits.

To assure investment in new businesses and new areas, sustain overall leading position in network quality, meet the needs of infrastructural network construction, adapt to the explosive growth in the demand of Mobile Internet Access business and satisfy the needs for the construction of infrastructural resources such as plant and office buildings, the Group has set the CAPEX budget for 2011 at RMB132.4 billion.

CAPEX budget for 2011 will primarily be used for the construction of infrastructural networks (53%), development of new technologies and new businesses (14%), construction of transmission facilities (11%), support systems (7%) and plant and civil works.