



Business Review

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The following table sets out key operating data for 2007, 2008 and 2009.

	Unit	2007	2008	2009	Rates of change (2009 over 2008)
Wireline access lines in service	Million	220.64	208.35	188.56	(9.5%)
Wireline local voice usage	Million pulses	407,445	372,477	320,585	(13.9%)
Wireline caller ID service subscribers	Million	146.88	146.74	128.45	(12.5%)
Wireline Color Ring Tone subscribers	Million	63.21	79.25	74.07	(6.5%)
Wireline broadband subscribers	Million	35.74	44.27	53.46	20.8%
Mobile subscribers	Million	—	27.91	56.09	101.0%
Mobile voice usage	Million minutes	—	26,375	155,410	489.2%
Mobile SMS usage	Million messages	—	2,028	15,136	646.4%
Mobile Color Ring Tone subscribers	Million	—	8.64	32.63	277.7%
“One Home” subscribers	Million	10.61	23.93	36.36	51.9%
“BizNavigator” subscribers	Million	—	2.53	4.36	72.3%

Note: As the Company commenced its mobile service from the fourth quarter of 2008, data related to the Company's mobile operation in 2008 only included those in the fourth quarter.

In 2009, amid the global financial crisis and increasingly intensified market competition, the Company captured the opportunities and leveraged its comprehensive edges to strengthen the integrated operation of wireline, mobile and Internet services. The Company focused on the development of its “e surfing” brand and expanded its mobile subscriber base rapidly. At the same time, we reinforced the development of the transformation services and maintained stable development of the wireline services, successfully realising a good start for the full services operation.



Mr. Wang Xiaochu, Chairman and Mr. Yang Xiaowei, Executive Vice President, jointly hosted the official launch of e surfing 3G service



Mr. Shang Bing, President, hosted the opening ceremony of the launch of e surfing 189 prefix number mobile service



Business Review (continued)

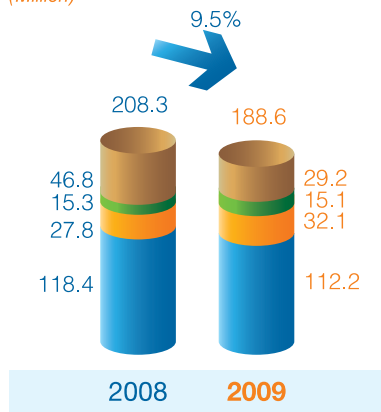
Key Operating Performance

In 2009, total operating revenues were RMB209,370 million. Excluding the amortisation of the upfront connection fees, the operating revenues were RMB208,219 million, representing an annual growth rate of 12.9%. The Company's overall business structure has been optimised and its strategic transformation has achieved new development.

Mobile services experienced rapid development. In 2009, the Company fully utilised its customer and network resources, and marketing capabilities to rapidly expand the mobile subscriber base to 56.09 million, successfully doubling the number with an increase rate of 101.0% from the beginning of the year. Revenue from mobile services was RMB30,003 million with stable MOU and ARPU.

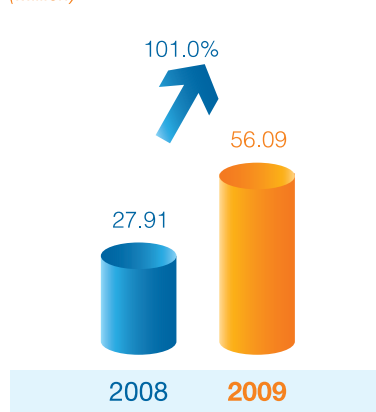
Overall development of wireline services was relatively stable. The Company persisted in strengthening the branding and development of broadband services. In 2009, the net addition of wireline broadband subscribers was 9.19 million with a subscriber base of 53.46 million. Revenue from wireline broadband access service was RMB47,061 million, an increase of 17.1%. The wireline value-added and integrated information services registered significant growth in 2009. Revenue from wireline non-voice services was RMB94,167 million, an increase of 14.7% year on year, accounting for 54.6% of the wireline services revenue excluding the upfront connection fees. Revenue from wireline voice services was RMB78,432 million, accounting for 37.7% of the operating revenues excluding the upfront connection fees. The operating risk of the Company's wireline services has been progressively alleviated.

Wireline Access Lines in Service
(Million)

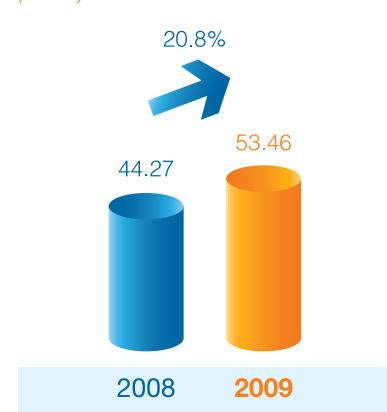


- PHS
- Public Telephone
- Government & Enterprise
- Household

Mobile Subscribers
(Million)



Wireline Broadband Subscribers
(Million)



Business Review (continued)

Business Operating Strategies

In 2009, the Company seized the opportunities to continuously enhance its capabilities in integrated operation, brand building, new product development, sales channel optimisation and extension of industry value chain, focusing on the implementation of five major operating strategies:



Firstly, we insisted on integrated operation and our differentiated competitive edges gradually emerged. We further promoted the in-depth integration of our voice services with our broadband, value-added and integrated information services. This has not only satisfied the diverse needs of our customers, but also increased their stickiness through enhanced marketing initiatives such as upgrade of broadband bandwidth, brand marketing and Internet applications. Customer and revenue growths were effectively stimulated. As of the end of 2009, integrated service penetration rate within the mobile subscribers reached 50.0%, representing an increase of 15 percentage points from the end of 2008. “One Home” service package customers accounted for 32.4% of our total household customers, an increase of 12 percentage points from the end of 2008. The penetration rate of “BizNavigator” services amongst small and medium-sized enterprises reached 43.0%, an increase of 22 percentage points from the end of 2008.

e surfing – diversified entertainment contents and information application services



Business Review (continued)



BizNavigator – total solutions of communications and information services for government and enterprises customers

Secondly, we strengthened our brand building with a focus on promoting our “e surfing” brand. In 2009, we reinforced the promotion of “3G Internet handsets” and effectively enhanced the market influences of our “e surfing” brand. According to a third-party independent market survey in 2009, our “e surfing” brand ranked the top in brand awareness among all 3G brands, at least 10 percentage points ahead of all other competing brands and became a leading brand in the 3G market. Meanwhile, the Company continued to strengthen the brand building of “BizNavigator” and “One Home” by adding mobile elements to enrich their embedded values and thus effectively accelerated the expansion of our brand customer base. As of the end of 2009, the number of subscribers for “BizNavigator” and “One Home” reached 4.36 million and 36.36 million respectively, establishing a new corporate image for the Company as a full services operator.

Thirdly, we continued to improve the perception of product functions and enhanced our core competitiveness. In 2009, in order to seize the leading positions in mobile products, the Company innovated its product development system by setting up a product development centre at our headquarters and 8 product R&D bases and improved its network-wide coordination efficiency through strengthened coordination and centralised development of key products. We further increased our efforts in developing public information products which are based on mobile Internet applications such as “iMusic”, wireless broadband, “189 mailbox”, “e surfing LIVE”, “Mobile Global Mega-Eye”, “e surfing Video”, “e surfing Push-to-Talk” to gain market share through differentiation. We enhanced the synergy of our ICT companies and our marketing channels for the government and enterprise customers to strengthen the service support for the key industry-specific application products. We introduced integrated and differentiated industry applications such as “Digital City Management” and “e-Commerce and Industry Administration” to effectively expand our mid-to-high-end customer base comprising government and enterprise. In the meantime, we paid more attention to the cooperation with external partners of information content especially with scarce information content providers and core industry integrated application providers. By leveraging the strengths of our external partners in their specialised businesses, core functions and customer segments, we continuously improved our customer perception and satisfaction, and gradually formulated the Company’s differentiated and long-lasting competitiveness in full services operation.



One Home — Integrated communications and information services for households

Business Review (continued)

Fourthly, we reinforced the sharing of sales channel resources and comprehensively enhanced the sales channels' service capabilities. We made full efforts in the promotion of open channel establishment and the number of the open sales channels increased by nearly four times in 2009. We proactively promoted the establishment of open channels through partnering with electrical appliance stores and mobile phone specialty stores to attain more mobile customers. The proportion of new mobile customers developed through open channels increased every month and reached nearly 50% at the end of 2009. We improved the basic service offered through electronic channels and enhanced self-service capabilities to allow our customers to use more user-friendly means such as mobile handsets and Internet to satisfy their service needs. In addition, we expanded the size of our chief account manager team and provided more comprehensive customer service to enhance the service-provision capabilities of our key services and effectively realised differentiated services.

Fifthly, we achieved scale development of mobile services and successfully invigorated industry value chain. The Company promoted open channels and strived to encourage the purchase and sales of terminals through open channels in 2009. We accelerated our access to all kinds of mainstream open retail channels and actively promoted sales via electronic and online channels, which boosted the growth in handset sales. In 2009, CDMA handset sales reached over 30 million units, three times more than that of 2008. Adhering to a philosophy of win-win cooperation, we increased our efforts in cooperating with external partners and enlarging the proportion of terminals procured by open channels. We also launched new models of handsets including the flagship CDMA handsets and the 3G handsets pricing around RMB1,000, stimulating the development of the information services industry value chain with a focus on mobile Internet.



Mr. Yang Xiaowei, Executive Vice President, presented a speech at the Annual Conference of CDMA Handset Industry Value Chain



Expanding portfolio of e surfing handset models



Business Review (*continued*)

Network and Operation Support

In 2009, we fully utilised the opportunities brought forth by full services operation to promote broadband bandwidth upgrade, services platform integration, and development of integrated information services and industry specific applications. Our parent company rapidly upgraded the mobile network and established the most comprehensive and first-in-commercial-use 3G mobile network in China, forming an initial unified network structure for our full services operation.

In 2009, capital expenditure was RMB38,042 million, a decline of 21.4% from 2008, which accounted for 18.3% of the operating revenues excluding the upfront connection fees, a decrease of 7.9 percentage points from 2008. Adhering to the principal of effectively allocating resources and supporting key development areas, we further increased investments in broadband, platform integration of value-added services and integrated information services. The investments in broadband as well as value-added and integrated information services accounted for 54.1% and 17.8% respectively of total capital expenditure of the year, an increase of 8.7 percentage points and 1.3 percentage points respectively from 2008. In 2009, capability and quality of the Company's broadband network were comprehensively enhanced with newly-built broadband access ports reaching 15 million. Over 98.0% of broadband access lines in the southern urban areas in China, including counties, have the bandwidth of over 2 Mbps and 94.0% of those lines have the bandwidth of over 4 Mbps, an increase of 15 percentage points from 2008. Promising achievements were also seen in business platforms integration and functions optimisation. The structures for management platforms, capability platforms and application platforms were better defined, and a unified authentication system structure was initially established. We successfully completed the optimisation and upgrade of more than 200 provincial-level capability platforms such as SMS centers, MMS centers and WAP portals, allowing the rapid deployment of our integrated operations. Meanwhile, the Company accelerated the construction of WLAN hotspots. The number of newly-built Wi-Fi hotspots was about 70,000, bringing the total Wi-Fi hotspots to nearly 100,000, helping us to build up a differentiated competitive advantage in an innovative way. In order to effectively support our 3G service and full services integrated operation, we set up the model of IT infrastructure supporting network-wide integrated operations. Our real-time billing and CRM management capabilities were enhanced. The time required for activating new services and trouble shooting were both shortened by nearly 40%. This has significantly enhanced support capabilities of our IT system and improved overall customer perceptions.

Business Review (continued)

Operating Highlights in 2010

In 2010, the Company will continue its operating strategy of “innovative integrated operation with differentiated edges and profitable scale development”. We will continue to optimise our business structure and gradually increase the revenue contribution from mobile, broadband access, and value-added and integrated information services. While accelerating the development of our mobile services, we will promote the expansion of our core 3G products and mid-end handsets to support 3G development. We will also push forward the intensive scale promotion of industry-specific applications and provide commercialised, standardised and in-series application products components to enhance customer values. We will strive to promote the upgrade of broadband bandwidth, enrich Internet applications and integration of our wireline and wireless broadband operations. Furthermore, we will insist on win-win cooperation strategy and adopt flexible partnership models to stimulate the development of mobile-Internet-based information services value chain, enriching the embedded values of our value-added and integrated information services. Through initiatives such as integrated operations, branded packages and service quality improvement, we will gradually alleviate the risk of our wireline voice service decline and achieve a coordinated development of full services. Meanwhile, we will strengthen our network optimisation and maintenance to further perfecting services systems and increase services capabilities. We will also strengthen the synergy between front-end and back-end to establish differentiated and perceivable competitive advantages.



Promoting integrated package service for the campus



A brilliant popular service — iMusic







Change Has Come 





Successful roll-out and fast expansion into mobile market

Mobile subscribers:

56 million (↑ 100%)

Most comprehensive & indepth nationwide 3G mobile network:

342 cities, >2,000 counties,
60% towns & villages

CDMA mobile handset supply in market:

600 models (↑ 500%)



Superior
Expansion