

The Group's accounting policies conform with generally accepted accounting principles in Hong Kong ("HK GAAP") which differ in certain material respects from those applicable generally accepted accounting principles in the United States of America ("US GAAP").

The significant differences relate principally to the following items and the adjustments considered necessary to present the net profit and shareholders' equity in accordance with US GAAP are shown in the tables set out below:

(a) Effect of combination of entities under common control

Under HK GAAP, the Group adopted the acquisition method to account for the purchase of Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile. Under the acquisition method, the acquired results are included in the results of operations from the date of their acquisition. Goodwill arising on the acquisition, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, was eliminated against reserves immediately on acquisition.

As a result of the Group, Jiangsu Mobile, Fujian Mobile, Henan Mobile, Hainan Mobile, Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile being under common control prior to the acquisition, such acquisitions under US GAAP are considered "combinations of entities under common control". Under US GAAP, combinations of entities under common control are accounted for under the "as if pooling-of-interests" method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination generally are restated on a combined basis. The cash consideration paid by the Group has been treated as an equity transaction in the year of acquisition for US GAAP purposes.

(b) Capitalisation of interest

Under HK GAAP, the Group capitalises interest costs to the extent that the related borrowings are directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

Under US GAAP, interest costs capitalised are determined based on specific borrowings related to the acquisition or construction of an asset, if an entity's financing plans associate a specific new borrowing with a qualifying asset. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with an asset, additional interest costs capitalised are based on the weighted average interest rate applicable to other borrowings of the entity.

(c) Revaluation and impairment of fixed assets

For certain periods prior to 31 May 1997, the fixed assets of the subsidiaries were revalued in compliance with PRC rules and regulations, resulting in an increase in shareholders' equity.

Additionally, the fixed assets of Guangdong Mobile and Zhejiang Mobile were revalued as of 31 May 1997 as a result of the Restructuring occurred in 1997. The fixed assets of Jiangsu Mobile were revalued as of 31 December 1997 upon its acquisition by the Group on 3 June 1998. The fixed assets of Fujian Mobile, Henan Mobile and Hainan Mobile were revalued as of 30 June 1999 upon their acquisitions by the Group on 11 November 1999. The fixed assets of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile were revalued as of 30 June 2000 upon their acquisitions by the Group on 10 November 2000. These fixed asset revaluations result in an increase in shareholders' equity with respect to the increase in carrying amount of certain fixed assets above their historical cost bases.

The carrying amount of fixed assets under HK GAAP is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline occurs, the carrying amount is reduced to the recoverable amount based on the expected future cash flows generated by the fixed assets, discounted to their present values. A subsequent increase in the recoverable amount is written back to results of operations when circumstances and events that led to the write-down or write-off cease to exist.

Under US GAAP, fixed assets are stated at their historical cost, less accumulated depreciation. However, as a result of the tax deductibility of the revaluation reserve, a deferred tax asset related to the reversal of the revaluation reserve is created under US GAAP with a corresponding increase in shareholders' equity.

Under US GAAP, fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(d) Employee housing scheme

The Group provides staff quarters under its employee housing schemes at below market prices. Under HK GAAP, employee housing scheme costs borne by the corresponding PTAs and not charged to the subsidiaries are not recognised by the subsidiaries.

Under US GAAP, employee housing scheme costs borne by the corresponding PTAs and not charged to the subsidiaries are reflected as an expense in the statement of income and a corresponding capital contribution. Additionally, under US GAAP, the costs to be borne by the subsidiaries are accrued over the term of the program.

(e) Deferred taxation

Under HK GAAP, the Group provides for deferred tax liabilities only to the extent that there is a reasonable probability that such deferred tax liabilities will become payable in the foreseeable future. Deferred tax assets are not recognised unless their realisation is assured beyond reasonable doubt.

Under US GAAP, provisions are made for all deferred taxes as they arise, except a valuation allowance is provided against deferred tax assets when realisation of such amounts does not meet the criterion of "more likely than not".

(f) Share option scheme

The Group grants share options to directors and employees. Under HK GAAP, the proceeds received are recognised as an increase to capital upon the exercise of the share options.

Under US GAAP, the Group determines compensation expenses based upon the excess, if any, of the quoted market price of the shares on the date of grant over the exercise price of the options and amortises this amount over the vesting period of the option concerned.

(g) Revenue recognition

Until 30 June 1999, under both HK GAAP and US GAAP, connection fee revenue and telephone number selection fee were recognised as received. Under US GAAP, effective 1 July 1999, net connection fees and telephone number selection fees received in excess of direct costs are deferred and recognised over the estimated customer usage period for the related service.

Under US GAAP, effective 1 January 2000, the Group adopted provisions of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB101"). Under SAB101, connection fees and telephone number selection fees received and incremental direct costs up to, but not exceeding such fees, are deferred and amortised over the estimated customer usage period for the related service. The cumulative effect from the adoption of SAB101 was not material.

(h) Interconnection, roaming and leased line agreements

In May 2000, the Group entered into new agreements with China Mobile for inter-provincial interconnection and domestic and international roaming services, and inter-provincial long distance transmission leased line arrangement with retrospective effect from 1 October 1999 for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile and from 1 April 1999 for Fujian Mobile, Henan Mobile and Hainan Mobile. Under HK GAAP, the net savings refunded to the Group as a result of the two agreements taking retrospective effect were recorded in operations for the year ended 31 December 2000. Under US GAAP, such net savings are deferred and amortised on a straight-line basis over seven years.

Effect on net profit of significant differences between HK GAAP and US GAAP is as follows:

	2001 US\$ million	2001 RMB million (except per share data)	2000 RMB million	1999 RMB million
Net profit under HK GAAP	3,385	28,015	18,027	4,797
Adjustments:				
Effect of combination of entities under common control	—	—	7,139	4,886
Capitalised interest	10	85	17	96
Revaluation of fixed assets	133	1,098	603	3,781
Employee housing scheme	—	—	2	(227)
Deferred taxation	(6)	(46)	(395)	352
Share option scheme	(33)	(277)	(99)	(22)
Amortisation of net connection fees and telephone number selection fees	80	661	(542)	(1,511)
Amortisation of net savings from interconnection, roaming and leased line agreements	10	86	(543)	—
Deferred tax effects of US GAAP adjustments	(66)	(547)	71	(1,159)
Net profit under US GAAP	3,513	29,075	24,280	10,993
Basic and diluted net profit per share in accordance with US GAAP	US\$0.19	RMB1.56	RMB1.37	RMB0.65
Basic and diluted net profit per ADS in accordance with US GAAP*	US\$0.94	RMB7.81	RMB6.87	RMB3.24

* Based on a ratio of 5 ordinary shares to one ADS.

Effect on shareholders' equity of significant differences between HK GAAP and US GAAP is as follows:

	2001 US\$ million	2001 RMB million	2000 RMB million
Shareholders' equity under HK GAAP	13,505	111,779	83,760
Adjustments:			
Capitalised interest	70	576	491
Revaluation of fixed assets			
– cost	(1,379)	(11,410)	(11,410)
– accumulated depreciation and other	878	7,265	6,167
Deferred tax adjustments on revaluations	156	1,295	1,697
Employee housing scheme	(144)	(1,193)	(1,193)
Deemed capital contribution for employee housing scheme	144	1,193	1,193
Deferral of net connection fees and telephone number selection fees	(168)	(1,393)	(2,054)
Deferral of net savings from interconnection, roaming and leased line agreements	(55)	(457)	(543)
Recognition of deferred taxes	146	1,204	1,264
Deferred tax effects of US GAAP adjustments	19	157	288
Shareholders' equity under US GAAP	13,172	109,016	79,660

Solely for the convenience of the reader, the 31 December 2001 tables above and following information have been translated into United States dollars at the rate of US\$1.00 = RMB8.2766 quoted by the People's Bank of China on 31 December 2001. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate or at any other certain rate on 31 December 2001, or any other certain date.

Consolidated Statements of Income prepared under US GAAP

	Year ended 31 December			
	2001 US\$ million	2001 RMB million (except per share data)	2000 RMB million	1999 RMB million
Operating revenue				
Usage fees	8,875	73,458	64,220	47,726
Monthly fees	1,702	14,085	14,364	10,935
Connection fees	223	1,848	1,811	4,479
Other operating revenue	1,460	12,085	10,585	7,463
	12,260	101,476	90,980	70,603
Operating expenses				
Leased lines	608	5,029	7,937	7,999
Interconnection	1,564	12,948	13,773	12,550
Depreciation	2,015	16,675	14,169	12,952
Personnel	677	5,602	4,871	3,271
Other operating expenses	2,299	19,026	14,306	10,136
Write-down and write-off of analog network equipment	—	—	1,547	9,775
	7,163	59,280	56,603	56,683
Profit from operations	5,097	42,196	34,377	13,920
Other net income	193	1,594	1,107	628
Non-operating net income	33	269	223	191
Interest income	104	857	1,070	809
Finance costs	(187)	(1,546)	(1,399)	(938)
Profit from ordinary activities before taxation	5,240	43,370	35,378	14,610
Taxation	(1,727)	(14,296)	(11,097)	(3,617)
Profit from ordinary activities after taxation	3,513	29,074	24,281	10,993
Minority interests	—	1	(1)	—
Net profit	3,513	29,075	24,280	10,993
Basic and diluted net profit per share	US\$0.19	RMB1.56	RMB1.37	RMB0.65
Basic and diluted net profit per ADS*	US\$0.94	RMB7.81	RMB6.87	RMB3.24

* Based on a ratio of 5 ordinary shares to one ADS.

Consolidated Balance Sheets prepared under US GAAP

	31 December		
	2001 US\$ million	2001 RMB million	2000 RMB million
ASSETS			
Current assets			
Cash and cash equivalents	2,636	21,821	27,702
Deposits with banks	1,809	14,970	12,204
Accounts receivable	692	5,728	7,252
Other receivables	131	1,081	1,299
Inventories	124	1,029	828
Prepayments and other current assets	190	1,571	1,289
Amount due from ultimate holding company	61	503	557
Amounts due from related parties	13	108	998
Total current assets	5,656	46,811	52,129
Fixed assets	12,211	101,063	82,223
Construction in progress	2,484	20,557	14,019
Investment securities	9	77	61
Interest in associates	2	16	46
Deferred tax assets	499	4,132	5,031
Deferred expenses	157	1,298	1,765
Total assets	21,018	173,954	155,274
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	1,159	9,592	8,132
Bills payable	176	1,458	1,005
Bank loans and other interest-bearing borrowings	548	4,531	10,471
Current instalments of obligations under finance leases	110	908	1,624
Taxation	725	6,003	5,471
Amounts due to related parties	208	1,725	3,449
Accrued expenses and other payables	1,310	10,840	8,408
Amount due to immediate holding company	—	—	4,136
Amount due to ultimate holding company	29	241	678
Total current liabilities	4,265	35,298	43,374
Bank loans and other interest-bearing borrowings	2,608	21,591	23,134
Deferred revenue	871	7,205	7,854
Obligation under finance leases, excluding current instalments	98	812	1,235
Total liabilities	7,842	64,906	75,597
Minority interests	4	32	17
Shareholders' equity	13,172	109,016	79,660
Total liabilities and shareholders' equity	21,018	173,954	155,274

Note: The above "Consolidated balance sheets" and "Consolidated statements of income" as at 31 December 2000 and 2001 and for each of the three years ended 31 December 1999, 2000 and 2001 include the results of the Company and its subsidiaries prepared under US GAAP as if the current Group structure had been in place throughout the relevant periods. Certain comparative figures have been reclassified to conform with current year's presentation.