

## SUPPLEMENTARY INFORMATION FOR ADS HOLDERS

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 subsidiaries from the holding company. Under the acquisition method, the acquired results are included in the results of operations from the date of their acquisition. For acquisitions before 1 January 2001, 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, is eliminated against reserves immediately on acquisition. For acquisitions on or after 1 January 2001, goodwill arising on the acquisition is amortised to the consolidated income statement on a straight-line basis over 20 years.

As a result of the Group and the acquired subsidiaries, 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 are restated on a combined basis. The consideration paid and payable by the Group has been treated as distribution to owner in the year of acquisition. Goodwill arising on consolidation and the amortisation of goodwill which are recognised under HK GAAP has been reversed for US GAAP purposes.

### (b) Capitalisation of interest

Under HK GAAP, interest costs are only capitalised to the extent that funds are borrowed and used for the purpose of obtaining qualifying 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 the subsidiaries were revalued as a result of the restructuring occurred in 1997 and the subsequent acquisitions. 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 using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. 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. Any subsequent increase in the recoverable amount written back to results of operations when circumstances and events that led to the write-down or write-off cease to exist under HK GAAP is reversed for US GAAP purposes.

For the years presented, there were no differences related to impairment charges under HK GAAP and US GAAP. The US GAAP difference as shown in the reconciliation represents the reversal of revaluation reserves and the related depreciation which are recognised under HK GAAP.

**(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**

Until 31 December 2002, 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.

With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group adopted a new accounting policy for deferred tax. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available. The new accounting policy has been adopted retrospectively.

As a result of this, there shall not be any differences regarding the recognition of deferred tax between HK GAAP and US GAAP apart from the deferred tax effects of US GAAP adjustments.

**(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 fees revenue and telephone number selection fees 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 were deferred and recognised over the estimated customer usage period of approximately 48 months.

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, were 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:

	2003 US\$ million (except per share data)	2003 RMB million	2002 RMB million (except per share data)	2001 RMB million
<b>Net profit under HK GAAP (restated)</b>	<b>4,296</b>	<b>35,556</b>	32,601	27,955
<b>Adjustments:</b>				
Effect of combination of entities under common control	—	—	2,874	3,059
Capitalised interest	(12)	(96)	(100)	85
Revaluation of fixed assets	62	514	672	3,211
Deferred taxation	—	—	—	(431)
Share option scheme	(23)	(192)	(331)	(277)
Amortisation of net connection fees and telephone number selection fees	80	659	853	764
Amortisation of net savings from interconnection, roaming and leased line agreements	10	86	85	86
Reversal of goodwill	224	1,850	936	—
Deferred tax effects of US GAAP adjustments	(23)	(189)	(388)	(216)
<b>Net profit under US GAAP</b>	<b>4,614</b>	<b>38,188</b>	37,202	34,236
Basic net profit per share in accordance with US GAAP	<b>US\$0.23</b>	<b>RMB1.94</b>	RMB1.90	RMB1.76
Diluted net profit per share in accordance with US GAAP	<b>US\$0.23</b>	<b>RMB1.94</b>	RMB1.90	RMB1.76
Basic net profit per ADS in accordance with US GAAP*	<b>US\$1.17</b>	<b>RMB9.71</b>	RMB9.51	RMB8.81
Diluted net profit per ADS in accordance with US GAAP*	<b>US\$1.17</b>	<b>RMB9.69</b>	RMB9.50	RMB8.80

\* 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:

	2003 US\$ million	2003 RMB million	2002 RMB million
<b>Shareholders' equity under HK GAAP (restated)</b>	<b>24,019</b>	<b>198,803</b>	173,265
<b>Adjustments:</b>			
Effect of combination of entities under common control	—	—	—
Capitalised interest	46	380	476
Revaluation of fixed assets			
— cost	(1,278)	(10,577)	(10,577)
— accumulated depreciation and other	1,021	8,451	7,937
Deferred tax adjustments on revaluations	82	677	849
Employee housing scheme	(191)	(1,583)	(1,583)
Deemed capital contribution for employee housing scheme	191	1,583	1,583
Deferral of net connection fees and telephone number selection fees	(14)	(115)	(774)
Deferral of net savings from interconnection, roaming and leased line agreements	(34)	(286)	(372)
Reversal of goodwill	(4,153)	(34,373)	(36,223)
Deferred tax effects of US GAAP adjustments	(3)	(23)	(6)
<b>Shareholders' equity under US GAAP</b>	<b>19,686</b>	<b>162,937</b>	134,575

Solely for the convenience of the reader, the 31 December 2003 tables above and following information have been translated into United States dollars at the rate of US\$1.00 = RMB8.2767 quoted by the Federal Reserve Bank of New York on 31 December 2003. 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 2003, or any other certain date.

## Condensed consolidated statements of income prepared under US GAAP

	Year ended 31 December			
	2003 US\$ million (except per share data)	2003 RMB million	2002 RMB million (except per share data)	2001 RMB million
<b>Operating revenue</b>				
Usage fees	13,414	111,027	104,373	92,478
Monthly fees	2,497	20,666	19,032	18,237
Connection fees	142	1,173	1,505	2,091
Other operating revenue	3,256	26,951	20,421	14,943
	19,309	159,817	145,331	127,749
<b>Operating expenses</b>				
Leased lines	597	4,939	5,985	6,422
Interconnection	1,542	12,761	14,733	16,234
Depreciation	4,376	36,218	28,445	22,516
Personnel	953	7,892	7,832	7,129
Other operating expenses	5,297	43,846	34,045	26,297
	12,765	105,656	91,040	78,598
<b>Profit from operations</b>	6,544	54,161	54,291	49,151
<b>Other net income</b>	298	2,464	1,739	1,715
<b>Non-operating net income</b>	52	434	632	322
<b>Interest income</b>	97	807	732	947
<b>Finance costs</b>	(252)	(2,086)	(1,976)	(1,941)
<b>Profit from ordinary activities before taxation</b>	6,739	55,780	55,418	50,194
<b>Taxation</b>	(2,126)	(17,601)	(18,214)	(15,959)
<b>Profit from ordinary activities after taxation</b>	4,613	38,179	37,204	34,235
<b>Minority interests</b>	1	9	(2)	1
<b>Net profit</b>	4,614	38,188	37,202	34,236
Basic net profit per share	US\$0.23	RMB1.94	RMB1.90	RMB1.76
Diluted net profit per share	US\$0.23	RMB1.94	RMB1.90	RMB1.76
Basic net profit per ADS*	US\$1.17	RMB9.71	RMB9.51	RMB8.81
Diluted net profit per ADS*	US\$1.17	RMB9.69	RMB9.50	RMB8.80

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

## Condensed consolidated balance sheets prepared under US GAAP

	31 December		
	2003 US\$ million	2003 RMB million	2002 RMB million
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4,728	39,129	32,575
Deposits with banks	2,081	17,227	11,069
Accounts receivable	731	6,053	5,899
Other receivables	210	1,734	1,231
Tax recoverable	31	258	—
Current portion of deferred tax	271	2,243	3,116
Inventories	248	2,050	1,586
Prepayments and other current assets	257	2,128	2,059
Amount due from ultimate holding company	92	762	1,282
Amounts due from related parties	14	116	401
<b>Total current assets</b>	<b>8,663</b>	<b>71,700</b>	59,218
Fixed assets	20,522	169,858	163,232
Construction in progress	3,428	28,370	23,026
Investment securities	9	77	77
Interest in associates	2	16	16
Deferred tax	217	1,792	2,660
Deferred expenses	37	311	912
<b>Total assets</b>	<b>32,878</b>	<b>272,124</b>	249,141
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable	2,831	23,429	17,069
Bills payable	249	2,059	1,256
Bank loans and other interest-bearing borrowings	1,581	13,090	8,132
Current instalments of obligations under finance leases	8	68	68
Taxation	546	4,516	6,568
Amounts due to related parties	237	1,967	2,414
Accrued expenses and other payables	2,676	22,146	16,228
Amount due to immediate holding company	6	47	402
Amount due to ultimate holding company	163	1,352	1,217
Current portion of deferred revenue	1,145	9,476	6,760
<b>Total current liabilities</b>	<b>9,442</b>	<b>78,150</b>	60,114

## Condensed consolidated balance sheets prepared under US GAAP (cont'd)

	31 December		
	2003 US\$ million	2003 RMB million	2002 RMB million
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (cont'd)</b>			
Bank loans and other interest-bearing borrowings	2,345	19,407	36,348
Deferred revenue, excluding current portion	152	1,257	2,737
Deferred taxation	26	215	—
Amount due to immediate holding company	1,205	9,976	15,176
<b>Total liabilities</b>	<b>13,170</b>	<b>109,005</b>	114,375
Minority interests	22	182	191
<b>Shareholders' equity</b>	<b>19,686</b>	<b>162,937</b>	134,575
<b>Total liabilities and shareholders' equity</b>	<b>32,878</b>	<b>272,124</b>	249,141

Note: The above condensed "Consolidated balance sheets" and "Consolidated statements of income" as at 31 December 2002 and 2003 and for each of the three years ended 31 December 2001, 2002 and 2003 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.