The Group's accounting policies conform with IFRS which differ in certain significant respects from US GAAP. Differences which have a significant effect on net profit and shareholders' equity are set out below.

(a) Revaluation of property, plant and equipment

In connection with the Restructuring, the property, plant and equipment of the Predecessor Operations were revalued as at 31 December 2001 (see Note 3 on the financial statements). The net revaluation deficit has been reflected in the consolidated financial statements as at 31 December 2001. Such revaluation resulted in an increase directly to shareholders' equity of RMB4,154 million with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases, and a charge to income of RMB11,930 million with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

In connection with the First Acquisition, the property, plant and equipment of the First Acquired Group were revalued as at 31 December 2002 (see Note 3 on the financial statements). The net revaluation deficit has been reflected in the consolidated financial statements as at 31 December 2002. Such revaluation resulted in an increase directly to shareholders' equity of RMB760 million with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases, and a charge to income of RMB14,690 million with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

In connection with the Second Acquisition, the property, plant and equipment of the Second Acquired Group were revalued as at 31 December 2003 (see Note 3 on the financial statements). The net revaluation deficit has been reflected in the consolidated financial statements as at 31 December 2003. Such revaluation resulted in an increase directly to shareholders' equity of RMB1,537 million with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases, and a charge to income of RMB14,832 million with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

In accordance with Group's accounting policy, the property, plant and equipment of the Group were revalued as at 31 December 2004 (see Note 3 on the financial statements). The net revaluation deficit has been reflected in the consolidated financial statements as at 31 December 2004. Such revaluation resulted in an increase directly to shareholders' equity of RMB1,233 million with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases, and a charge to income of RMB1,262 million with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

(a) Revaluation of property, plant and equipment *(continued)*

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation unless an impairment loss has been recorded. An impairment loss on property, plant and equipment is recorded under US GAAP if the carrying amount of such asset exceeds its future undiscounted cash flows resulting from the use of the asset and its eventual disposition. The future undiscounted cash flows of the Group's property, plant and equipment, whose carrying amount was reduced as a result of the above revaluations, exceed the historical cost carrying amount of such property, plant and equipment and, therefore, impairment of such assets is not appropriate under US GAAP. Accordingly, the revaluation reserves recorded directly to shareholders' equity and the charges to income recorded under IFRS as a result of the above revaluations are reversed for US GAAP purposes.

However, as a result of the tax deductibility of the net revaluation deficit, a deferred tax liability related to the net revaluation deficit is created under US GAAP with a corresponding decrease in shareholders' equity.

(b) Disposal of revalued property, plant and equipment

Under IFRS, on disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset's historical cost carrying amount and included in current earnings.

(c) Effect of change in tax rate

Under IFRS, the effect of a change in tax rate that results in a change in the carrying amounts of deferred tax assets and liabilities is charged or credited directly to equity, to the extent that such deferred tax assets and liabilities are previously charged or credited to equity. Under US GAAP, the effect of a change in tax rate for all items of deferred tax assets and liabilities is recorded in the income statement.

(d) Related party transactions

Under IFRS, transactions with state-controlled enterprises other than China Telecom and its affiliates are not required to be disclosed as related party transactions. Furthermore, government departments and agencies are deemed not to be related parties to the extent that such transactions are in the normal course of business. Therefore, related party transactions as disclosed in Note 32 on the financial statements only refer to transactions with China Telecom Group.

(d) Related party transactions *(continued)*

Under US GAAP, there are no similar exemptions. The Group's principal transactions with state-controlled telecommunications operators in the PRC were as follows:

	2004	2003
	RMB millions	RMB millions
Interconnection revenues	**8,964**	6,931
Interconnection charges	**2,190**	1,154
Leased line revenues	**2,701**	3,476

The amounts set out above represent the historical costs incurred by the related parties in carrying out such transactions.

(e) Recently issued accounting standards

SFAS No. 123R

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-based payment" (SFAS No. 123R). SFAS No. 123R addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R requires an entity to recognise the grant-date fair-value of stock options and other equity-based compensation issued to employees in the income statement. SFAS No. 123R generally requires that an entity account for those transactions using the fair-value-based method, and eliminates an entity's ability to account for share-based compensation transactions using the intrinsic value method of accounting, which was permitted under Statement 123, as originally issued. For the Group, SFAS No. 123R is effective at the beginning of the reporting period that begins after 15 June 2005. Currently, the Group does not expect the application of SFAS No. 123R will have a material impact on its consolidated financial statements.

(e) Recently issued accounting standards *(continued)*

SFAS No. 151

In November 2004, the FASB issued SFAS No. 151, "Inventory costs". SFAS No. 151 clarifies accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognised as current period charges. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion based on normal capacity of the production facilities. For the Group, SFAS No. 151 is effective for fiscal years beginning after 15 June 2005. Currently, the Group does not expect the application of SFAS No. 151 will have a material impact on its consolidated financial statements.

SFAS No. 152

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions". SFAS No. 152 amends SFAS No. 66, "Accounting for Sales of Real Estate" to reference accounting and reporting guidance for real estate time-sharing transactions. SFAS No. 152 amends SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects", so that the guidance in SFAS No. 67 about incidental operations and costs incurred to sell real estate projects does not apply to real-estate time-sharing transactions. For the Group, SFAS No. 152 is effective for fiscal years beginning after 15 June 2005. Currently, the Group does not expect the application of SFAS No. 152 will have a material impact on its consolidated financial statements.

SFAS No. 153

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non-monetary Assets". SFAS No. 153 addresses the accounting for non-monetary exchanges of productive assets. SFAS No. 153 requires non-monetary exchanges to be accounted for at fair value, recognising any gains or losses, if the fair value is determinable within reasonable limits and the transaction has commercial substance. For the Group, SFAS No. 153 is effective for fiscal years beginning after 15 June 2005. Currently, the Group does not expect the application of SFAS No. 153 will have a material impact on its consolidated financial statements.

(f) Reconciliation of net profit and shareholders' equity under IFRS to US GAAP

The effect on net profit of significant differences between IFRS and US GAAP for the years ended 31 December 2004 and 2003 is as follows:

	(Note) 2004 US$ millions	2004 RMB millions	2003 RMB millions
Net profit under IFRS	**3,386**	**28,023**	13,882
US GAAP adjustments:			
Reversal of deficit on revaluation of property, plant and equipment	**152**	**1,262**	14,832
Depreciation on revalued property, plant and equipment, net of minority interests	**(817)**	**(6,766)**	(3,940)
Disposal of revalued property, plant and equipment	**(16)**	**(128)**	(60)
Effect of change in tax rate on deferred tax assets arising from revaluation of land use rights	**(29)**	**(244)**	—
Effect of change in tax rate on deferred tax liabilities arising from revaluation of property, plant and equipment	**264**	**2,189**	—
Deferred tax effect of US GAAP adjustments	**167**	**1,379**	(3,262)
Net profit under US GAAP	**3,107**	**25,715**	21,452
Basic earnings per share under US GAAP	**0.04**	**0.33**	0.28
Basic earnings per ADS* under US GAAP	**3.94**	**32.62**	28.37

* Basic earnings per ADS is calculated on the basis that one ADS is equivalent to 100 H shares.

(f) Reconciliation of net profit and shareholders' equity under IFRS to US GAAP *(continued)*

The effect on shareholders' equity of significant differences between IFRS and US GAAP as at 31 December 2004 and 2003 is as follows:

	(Note) 2004 US$ millions	2004 RMB millions	2003 RMB millions
Shareholders' equity under IFRS	**19,236**	**159,206**	150,794
US GAAP adjustments:			
Revaluation of property, plant and equipment, net of minority interests	**2,712**	**22,447**	29,312
Deferred tax effect of US GAAP adjustment	**(667)**	**(5,519)**	(9,465)
Shareholders' equity under US GAAP	**21,281**	**176,134**	170,641

Note: Solely for the convenience of the reader, the amounts for 2004 have been translated into United States dollars at the noon buying rate in New York City on 31 December 2004 for cable transfers in RMB as certified for custom purposes by the Federal Reserve Bank of New York of US$1.00=RMB8.2765. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate or at any other certain rate on 31 December 2004, or at any other date.

Summary of the Significant Ways in Which the Corporate Governance Practices of China Telecom Corporation Limited (the "Company") Differ from Those Followed by Domestic Companies under NYSE Listing Standards

As a company incorporated in the People's Republic of China (the "PRC") and listed on the Stock Exchange of Hong Kong Limited (the "HKSE") and the New York Stock Exchange (the "NYSE"), the Company, as a foreign private issuer, is not required to comply with all of the corporate governance rules of Section 303A of the NYSE Listed Company Manual, but should disclose the significant ways in which the corporate governance practices of the Company differ from those followed by domestic companies under NYSE listing standards.

Under currently applicable PRC or Hong Kong laws and regulations, the Company is not required to have a board with a majority of independent directors. As a company listed in HKSE, the Company is subject to the requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") that at least three members of its board of directors be independent as determined thereunder. The Company currently has three independent directors out of a total of fifteen directors, who satisfies both the requirement regarding "independence" of the Hong Kong Listing Rules and Section 303A.02 of the NYSE Listed Company Manual.

Currently, the Company does not have a nomination/corporate governance committee and is not required to do so under currently applicable PRC or Hong Kong laws and regulations.

All members of the audit committee of the Company have extensive management experience. However, they do not possess direct experience or expertise in respect of the reconciliation of financial statements with U.S. GAAP and the evaluation of reports filed with the U.S. Securities and Exchange Commission ("SEC") by SEC-reporting issuers. Our audit committee is in the process of considering appointing, from time to time, an external financial expert as a consultant.

The Company has not adopted a separate set of corporate governance guidelines and is not required to do so under currently applicable PRC or Hong Kong laws and regulations. However, the Company is in compliance with the Code on Corporate Governance Practices promulgated by the HKSE.