CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2006 (Expressed in Renminbi)

Note 2006 RMB million 2005 RMB million Operating activities Profit before taxation Adjustmants for - Depreciation of property, plant and equipment 64.574 66.388 - Amortization of and beap prepayments 1 64.574 66.388 - Amortization of and beap prepayments 203 - - Loss on disposal of property, plant and equipment 2.63 - - Wite-off of property, plant and equipment 2.857 5.645 - Impairment loss for doubtul accounts 3.882 2.968 - Interest excense 1.510 1.346 - Dividend income (2.604) (1.513) - Unrealized exchange loss, net 2.12 108 Operating profit before changes in working capital 169.959 145,166 Increase in acounts receivables (3.31) 134 Increase in acounts dore current assets (1.00) (6.00) Increase in acounts depended other current assets (3.03) 11 Increase in acounts depended other payable 6.03 7.670 Decrease in amount due torn utimate holding company (4.410) 109 Increase in				
Profit beföre taxation 96,908 78,264 Adjustments for: 0 64,574 56,888 - Amorization of land lease prepayments 176 169 - Amorization of ort property, plant and equipment 2,857 5,645 - Interest income (2,604) (1,615) - Interest expense 1,510 1,346 - Interest income (2,604) (1,615) - Interest income (2,204) (3,9) - Univealized acchange loss, net 212 108 Operating profit before changes in working capital (169,959) 145,166 (Increase) decrease) in inventories (313) 134 Increase in accounts receivables (313) 134 Increase in accounts receivables (313) 134 Increase in accounts queries and other current assets (1,090) (600) Increase in accounts queries and other payable (6,633) 7,670 Decase profit care and other current assets (1,090) (1,000) Cash generated from operations 180,339 156,294 Increase in account query payable (6,033) 7,670 Decase in amount due to utimate holding company (1,40) (1,90) Cash generated from operations 180,339 156,294 <t< th=""><th></th><th>Note</th><th></th><th></th></t<>		Note		
- Depreciation of property, plant and equipment 64.574 56.888 - Amortization of land lease prepayments 176 169 - Loss on disposal of property, plant and equipment 46 411 - Wite-oid of property, plant and equipment 2,657 5,645 - Impairment loss for doubtful accounts 3,852 2,968 - Interast income (2,604) (1,615) - Interast income (39) (61) - Dividend income (39) (61) - Dividend income (39) (145,168 (Increase)/decrease in inventiones (2,64) (1,613) - Unrealized exchange loss, net 212 108 Ourselized exchange loss, net (2,310) (3,037) (Increase)/decrease in inventiones (313) 134 (Increase)/decrease in another receivables (1,030) (600) (Increase)/decrease in another receivables (30,37) (140) (190) (Increase)/decrease in another receivables (30,37) (140) (190) (Decrease)/nocrease in oblig payable (6,56 2,303 7,670 Decrease in anount due to ultimate holding company <	Profit before taxation		96,908	78,264
- Loss on disposal of property, plant and equipment 46 411 - Write-off property, plant and equipment 2,857 5,645 - Impairment loss for doubtful accounts 3,852 2,968 - Interest income (2,604) (1,615) - Interest expense 1,510 1,346 - Dividend income (39) (61) - Equity-settled share-based payment expenses 2,264 1,553 - Unrealized exchange loss, net 212 108 Operating profit before changes in working capital (increase)/decrease in inventories (620) 134 Increase in accounts receivables (4,310) (3,037) (increase)/decrease in account receivables (1,030) (609) (increase)/decrease in account payable 6,556 2,903 (Decrease)/increase in account payable 6,633 7,670 Decrease in amount due from ultimate holding company (140) (109) Increase in accound expanses and other payables 6,033 7,670 Decrease in amount due to ultimate holding company (140) (140) Increase in decred revenue (4,455	- Depreciation of property, plant and equipment			
- Inpairment loss for doubtful accounts 3.852 2.968 - Interest income (2,604) (1,615) - Dividend income (39) (61) - Equity-settled share-based payment expenses 2.264 1,553 - Unrealized exchange loss, net 212 108 Operating profit before changes in working capital 169,959 145,166 (Increase) (Accrease in intervolties (313) 134 Increase in accounts receivable (4,310) (3.037) (Increase) (Accrease in other receivables (1,030) (609) (Increase) (Increase) (Increase) (Increase) in deferred revenue (4,455 2,933 (Increase) in accounts payable (6,556 2,033 (Increase) in accruad expenses and other payables (6,033) 7,670 Increase in accruad expenses and other payables 6,033 7,670 Decrease in amount due to ultimate holding company (140) (190) Cash generated from operating activities 140,339 156,294 Tax paid (30,972) (24,585) Net cash generated from operating activities (637)	 Loss on disposal of property, plant and equipment 		46	
- Interest expense 1,510 1,346 - Dividend income (39) (51) - Equity-settled share-based payment expenses 2,264 1,553 - Unrealized exchange loss, net 212 108 Operating profit before changes in working capital (Increase)/decrease in inventories (626) 134 Increase in accounts receivable (4,310) (3,037) (Increase)/decrease in other receivables (1,030) (609) (Increase)/decrease in other receivables (1,030) (609) (Increase)/decrease in other receivable (4,310) (3,037) (Increase)/increase in accounts payable (5,65 (4,419) (Increase)/increase in accounts payable (3) 11 Increase in accounts payable (3) 11 Increase in accounts payable (3) 11 Increase in amount due to utilimate holding company (140) (190) Cash generated from operations 180,339 156,294 Tax paid (2) - - - Hong Kong profits tax paid (2) - - Proceads from operating activities 193,346 131,709	 Impairment loss for doubtful accounts 		3,852	2,968
- Equity-settled share-based payment expenses2,2e41,553- Unrealized exchange loss, net212108Operating profit before changes in working capital169,959145,166(Increase)/decrease in inventories(4,310)(3,037)(Increase)/decrease in chare receivable(4,310)(3,037)(Increase)/decrease in other receivables(1,300)(609)(Increase)/decrease in anount due from ultimate holding company(242)293(Increase)/increase in anount due from ultimate holding company(242)293(Increase)/increase in anount due from ultimate holding company(140)(190)Lorease in accrued expenses and other payables6,0337,670Decrease in anount due to ultimate holding company(140)(190)Cash generated from operations180,339156,294Tax paid(21) PRC enterprise income tax paid(20) Hong Kong profits tax paid(21) PRC enterprise income tax paid(19,972)(1,079)Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)(6,57)(1,079)Land lease preparyments(45)Proceeds from disposal of property, plant and equipment Increase in deposits with banks(40,369)132Increase in dativities(118,841)(87,116)-Proceeds from disposal of shares under share option scheme-(5,611)Proceeds from disposal of shares under share option scheme <td< td=""><td>- Interest expense</td><td></td><td>1,510</td><td>1,346</td></td<>	- Interest expense		1,510	1,346
(Increase)/decrease in inventories(626)134Increase in accounts receivables(313)134Increase in prepayments and other current assets(1,030)(609)(Increase)/decrease in amount due from ultimate holding company(242)293Increase in accounts payable(3)11Increase in deferred revenue4,4554,419Increase in accrued expenses and other payables6,0337,670Decrease in amount due to ultimate holding company(140)(190)Cash generated from operations180,339156,294Tax paid(21) PRC enterprise income tax paid(30,972)(24,585)Net cash generated from operating activities149,346131,709Investing activities(49,346)131,709Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)(b)(3,410)- PRC enterprise income tax paid(597)(1,079)Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)(b)(3,410)- Proceeds from disporal of property, plant and equipment80132Increase in deposits with banks(40,369)(21,661)Interest neceived2,4301,468Net cash used in investing activities(118,841)(87,116)Financing activities(21,661)-(5,611)Repayments of bank and other loans(104)(2,455)Increase in deposits with banks(40,369)3,422Recemption of convertible notes- <t< td=""><td> Equity-settled share-based payment expenses </td><td></td><td>2,264</td><td>1,553</td></t<>	 Equity-settled share-based payment expenses 		2,264	1,553
Increase in accounts receivable(4,310)(3,037)(Increase)/decrease in other receivables(313)134Increase in prepayments and other current assets(1,030)(609)(Increase)/increase in amount due from ultimate holding company(242)293Increase in accounts payable(3)11Increase in accrued expenses and other payables(3)11Increase in accrued expenses and other payables6,0337,670Decrease in amount due to ultimate holding company(140)(190)Cash generated from operations180,339156,294Tax paid(21) PRC enterprise income tax paid(21) PRC enterprise income tax paid(21)-Investing activities149,346131,709Investing activities(597)(1,079)Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)(597)(1,079)(66,027)(24,565)Interest received2,4301,468Dividends received2,4301,468Dividends received2,4301,468Dividends received2,4301,468Dividends received110,4933,422Proceeds from disposal of property, plant and equipment to acquise with banks(104)(2,455)Interest received2,4301,468Dividends received3,4223,422Proceeds from disposal of property, plant and equipment to acquise with banks(104)(2,455)Interest			· · · · ·	
(Increase)/decrease in amount due from ultimate holding company(242)293Increase in accounts payable(3)11Increase in accounts payable(3)11Increase in deferred revenue4,4554,419Increase in accound expenses and other payables6,0337,670Decrease in amount due to ultimate holding company(140)(190)Cash generated from operations180,339156,294Tax paid(21) Hong Kong profits tax paid(21) PRC enterprise income tax paid(30,972)Net cash generated from operating activities149,346131,709Investing activities149,346131,709Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)(b)(3,410)(66,027)Land lease prepayments(657)(1,079)Payment for purchase of other intangible assets(45)-Proceeds from disposal of property, plant and equipment Increase in deposits with banks(40,369)(21,611)Interest received2,4301,46839Dividends received351-Net cash used in investing activities(144)(4,555)Interest paid(104)(2,455)-Interest paid(104)(2,455)-Interest paid(118,841)(87,116)-Financing activities(26,612)Proceeds from issue of shares under share option scheme4,0933,422<				
(Decrease)/increase in bills payable(3)11Increase in deferred revenue4,4554,419Increase in accrued expenses and other payables6,0337,670Decrease in amount due to ultimate holding company(140)(190)Cash generated from operations180,339156,294Tax paid(21) Hong Kong profits tax paid(21) PRC enterprise income tax paid(30,972)(24,585)Net cash generated from operating activities149,346131,709Investing activities149,346131,709Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)(b)(3,410)- Capital expenditure(76,969)(66,027)Land lease prepayments(597)(1,079)Payment for purchase of other intangible assets(45)-Proceeds from disposal of property, plant and equipment801322Increase in deposits with banks(40,369)(21,661)Interest received3951Net cash used in investing activities(118,841)(87,116)Financing activities(21,611)(26,162)Proceeds from issue of shares under share option scheme-(5,611)Repayments of bank and other loans(104)(2,455)Interest paid(164)(1,635)(14,844)Dividends paid(14,414)(1,635)Dividends paid(26,162)(18,844)Net cash used in financing activities(23,587)(25,173)Ne	(Increase)/decrease in amount due from ultimate holding company		(242)	293
Increase in accrued expenses and other payables6.0337,670Decrease in amount due to ultimate holding company(140)(190)Cash generated from operations180,339156,294Tax paid(21) Hong Kong profits tax paid(21) PRC enterprise income tax paid(30,972)(24,585)Net cash generated from operating activities149,346131,709Investing activities149,346131,709Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)(b)(3,410)Capital expenditure(76,969)(66,027)Land lease prepayments(45)-Proceeds from disposal of property, plant and equipment80132Increase in deposits with banks(40,369)(21,661)Interest received2,4301,468Dividends received3951Net cash used in investing activities(118,841)(87,116)Financing activities(104)(2,455)Proceeds from issue of shares under share option scheme4,0933,422Redemption of convertible notes-(5,611)Repayments of bank and other loans(104)(2,455)Dividends paid(1,414)(1,635)Dividends paid(25,162)(18,894)Net cash used in financing activities(23,587)(25,173)Net increase in cash and cash equivalents6,91819,420Cash and cash equivalents at beginning of year64,46145,149Effect of c	(Decrease)/increase in bills payable		(3)	11
Cash generated from operations Tax paid180,339156,294- Hong Kong profits tax paid(21) PRC enterprise income tax paid(21)-(30,972)(24,585)Net cash generated from operating activities149,346131,709Investing activities149,346131,709Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)(b)(3,410)-Capital expenditure(b)(3,410)-Capital expenditure(76,969)(66,027)Land lease prepayments(45)-Proceeds from disposal of property, plant and equipment80Increase in deposits with banks(40,369)(21,661)Interest received3951Net cash used in investing activities(118,841)(87,116)Financing activities(104)(2,455)Interest paid(104)(2,455)Interest paid(14,14)(1,635)Dividends paid(23,587)(25,173)Net cash used in financing activities(23,587)(25,173)Net cash used in financing activities(23,587)(25,173)Net cash used in financing activities(23,587)(25,173)Net increase in cash and cash equivalents6,91819,420Cash and cash equivalents at beginning of year64,46145,149Effect of changes in foreign exchange rate(212)(108)	Increase in accrued expenses and other payables		6,033	7,670
- Hong Kong profits tax paid(21) PRC enterprise income tax paid(30,972)(24,585)Net cash generated from operating activities149,346131,709Investing activities149,346131,709Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)(b)(3,410)-Capital expenditure(76,969)(66,027)Land lease prepayments(45)-Proceeds from disposal of property, plant and equipment80132Increase in deposits with banks(40,369)(21,661)Interest received3951Net cash used in investing activities(118,841)(87,116)Financing activities(104)(2,455)Proceeds from issue of shares under share option scheme4,0933,422Redemption of convertible notes-(5,611)Repayments of bank and other loans(104)(2,455)Interest paid(1,414)(1,635)Dividends paid(26,162)(18,894)Net cash used in financing activities(23,587)(25,173)Net increase in cash and cash equivalents6,91819,420Cash and cash equivalents at beginning of year64,46145,149Effect of changes in foreign exchange rate(212)(108)			180,339	156,294
Investing activities Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)(b)(3,410) (76,969)-Capital expenditure Land lease prepayments(76,969)(66,027)Land lease prepayments(597)(1,079)Payment for purchase of other intangible assets(45)-Proceeds from disposal of property, plant and equipment80132Increase in deposits with banks(40,369)(21,661)Interest received2,4301,468Dividends received3951Net cash used in investing activities(118,841)(87,116)Financing activities-(5611)Repayments of bank and other loans(104)(2,455)Interest paid(114,414)(1,635)Dividends paid(26,162)(18,894)Net cash used in financing activities(23,587)(25,173)Net increase in cash and cash equivalents6,91819,420Cash and cash equivalents at beginning of year64,46145,149Effect of changes in foreign exchange rate(212)(108)	 Hong Kong profits tax paid 			 (24,585)
Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)(b)(3,410)-Capital expenditure(76,969)(66,027)Land lease prepayments(597)(1,079)Payment for purchase of other intangible assets(45)-Proceeds from disposal of property, plant and equipment80132Increase in deposits with banks(40,369)(21,661)Interest received2,4301,468Dividends received3951Net cash used in investing activities(118,841)(87,116)Financing activities-(5,611)Proceeds from issue of shares under share option scheme-(5,611)Redemption of convertible notes-(5,611)Interest paid(1,414)(1,635)Dividends paid(24,55)(14,414)Interest paid(1,414)(1,635)Dividends paid(23,587)(25,173)Net increase in cash and cash equivalents6,91819,420Cash and cash equivalents at beginning of year64,46145,149Effect of changes in foreign exchange rate(212)(108)	Net cash generated from operating activities		149,346	131,709
Financing activities4,0933,422Proceeds from issue of shares under share option scheme4,0933,422Redemption of convertible notes-(5,611)Repayments of bank and other loans(104)(2,455)Interest paid(1,414)(1,635)Dividends paid(26,162)(18,894)Net cash used in financing activities(23,587)(25,173)Net increase in cash and cash equivalents6,91819,420Cash and cash equivalents at beginning of year64,46145,149Effect of changes in foreign exchange rate(212)(108)	Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired) Capital expenditure Land lease prepayments Payment for purchase of other intangible assets Proceeds from disposal of property, plant and equipment Increase in deposits with banks Interest received Dividends received	(b)	(76,969) (597) (45) 80 (40,369) 2,430 39	(1,079) — 132 (21,661) 1,468 51
Proceeds from issue of shares under share option scheme4,0933,422Redemption of convertible notes–(5,611)Repayments of bank and other loans(104)(2,455)Interest paid(1,414)(1,635)Dividends paid(26,162)(18,894)Net cash used in financing activities(23,587)(25,173)Net increase in cash and cash equivalents6,91819,420Cash and cash equivalents at beginning of year64,46145,149Effect of changes in foreign exchange rate(108)(108)	Net cash used in investing activities		(118,841)	(87,116)
Net increase in cash and cash equivalents6,91819,420Cash and cash equivalents at beginning of year64,46145,149Effect of changes in foreign exchange rate(212)(108)	Proceeds from issue of shares under share option scheme Redemption of convertible notes Repayments of bank and other loans Interest paid		(104) (1,414)	(5,611) (2,455) (1,635)
Cash and cash equivalents at beginning of year64,46145,149Effect of changes in foreign exchange rate(212)(108)	Net cash used in financing activities		(23,587)	(25,173)
Cash and cash equivalents at end of year2771,16764,461	Cash and cash equivalents at beginning of year		64,461	45,149
	Cash and cash equivalents at end of year	27	71,167	64,461

for the year ended 31 December 2006 (Expressed in Renminbi)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	2006 RMB million
Net assets acquired	
Property, plant and equipment	1,146
Construction in progress	9
Land lease prepayments	11
Other intangible assets	859
Inventories	17
Accounts receivable	91
Other receivables	103
Cash and cash equivalents	178
Bills payable	(44)
Accounts payable	(96)
Other payables	(96)
Interest-bearing borrowings	(104)
Deferred tax liabilities	(80)
	1,994
Goodwill arising on acquisition	1,594
	3,588
Satisfied by: Cash consideration	3,588

(b) Analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary:

	2006 RMB million
Cash consideration Cash and bank balances acquired	3,588 (178)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	3,410

(c) Significant non-cash transactions

The Group incurred payables of RMB36,851,000,000 (2005: RMB28,176,000,000) and RMB2,143,000,000 (2005: RMB1,332,000,000) to equipment suppliers and banks respectively for additions of construction in progress during the year ended 31 December 2006.