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 amortized to the consolidated income statement on a straight-line basis over 20 years. With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group adopted a new accounting policy for goodwill. The Group no longer amortizes positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment.

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 amortization of goodwill which are recognized under HK GAAP have been reversed for US GAAP purposes.

(b) CAPITALIZATION OF INTEREST

Under HK GAAP, interest costs are only capitalized to the extent that funds are borrowed and used for the purpose of obtaining qualifying assets which necessarily takes a substantial period of time to get ready for its intended use.

Under US GAAP, interest costs capitalized 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 capitalized are based on the weighted average interest rate applicable to other borrowings of the entity.

(c) REVALUATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND LAND LEASE PREPAYMENTS

For certain periods prior to 31 May 1997, the property, plant and equipment and land lease prepayments of the subsidiaries were revalued in compliance with PRC rules and regulations, resulting in an increase in shareholders' equity.

Additionally, the property, plant and equipment and land lease prepayments of the subsidiaries were revalued as a result of the restructuring that occurred in 1997 and the subsequent acquisitions. These property, plant and equipment and land lease prepayments revaluations result in an increase in shareholders' equity with respect to the increase in carrying amount of certain property, plant and equipment and land lease prepayments above their historical cost bases, except for the acquisitions in 2002 and 2004.

In connection with the acquisitions in 2002 and 2004, the property, plant and equipment and land lease prepayments of the subsidiaries acquired were revalued at 31 December 2001 and 31 December 2003 respectively. Such revaluations resulted in an increase directly to those shareholders' equity with respect to the increase in carrying amount of certain property, plant and equipment and land lease prepayments above their historical cost bases, and a charge to the income statement with respect to the decrease in carrying amount of certain property, plant and equipment and land lease prepayments below their historical cost bases.

(c) REVALUATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND LAND LEASE PREPAYMENTS (CONT'D)

The carrying amount of property, plant and equipment and land lease prepayments 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 property, plant and equipment and land lease prepayments, 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, property, plant and equipment are stated at their historical cost, less accumulated depreciation. Land lease prepayments are stated at their historical cost, amortized on a straight line basis over the period of the lease term. Accordingly, the revaluation reserve recorded directly to shareholders' equity and the charge to the income statement under HK GAAP as a result of the revaluation of property, plant and equipment and land lease prepayments are reversed for US GAAP purposes. Additionally, as a result of the tax deductibility of the revaluation reserve, a deferred tax asset related to the reversal of the revaluation is created under US GAAP with a corresponding increase in shareholders' equity.

Under US GAAP, property, plant and equipment and land lease prepayments 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 recognized 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 and amortization which are recognized 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 recognized 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 recognized 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 HKICPA, 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 utilized. 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.

(e) DEFERRED TAXATION (CONT'D)

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 criteria of ''more likely than not''. For the years presented, there were no differences related to the recognition of deferred tax under HK GAAP and US GAAP. The US GAAP difference as shown in the reconciliation represents the deferred tax effects of US GAAP adjustments.

(f) SHARE OPTION SCHEME

The Company granted share options to directors and employees. Under HK GAAP and prior to January 1, 2005, the proceeds received are recognized as an increase to capital upon the exercise of the share options. The Company does not account for the issuance of stock options until they are exercised. With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognizes the fair value of such share options as an expense in the consolidated income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognized in a capital reserve within equity.

Under US GAAP, and prior to 1 January 2006, the Group follows Accounting Principles Board Opinion 25, ''Accounting for Stock Issued to Employees'', and determines compensation expenses based on the excess, if any, of the quoted market price of the shares on the date of grant over the exercise price of the stock options. Such amount is charged to the consolidated income statement over the vesting period of the options. As a result, any expenses recognized based on the fair value of share options under HK GAAP is reversed under US GAAP. With effect from 1 January 2006, in order to comply with Statement of Financial Accounting Standards No. 123 (revised 2004), ''Share-Based Payment'', the Group recognizes compensation expense for all unvested share-based payment at fair value. The Group adopts the modified-prospective transition method in which effective from 1 January 2006, the compensation expense is recognized at fair value for (i) share options granted after 1 January 2006; and (ii) all share options granted prior to 1 January 2006 that remain unvested at that date. No restatement for prior periods is required. As a result, the US GAAP difference as shown in the net profit reconciliation for the year ended 31 December 2006 represented additional compensation expense recognized under US GAAP using fair value approach for unvested share options granted to employees and directors before 7 November 2002 of which no measurement was made to such share options under HK GAAP as the Group has adopted the transitional provisions set out in paragraph 53 of HKFRS 2.

(g) REVENUE RECOGNITION

Until 30 June 1999, under both HK GAAP and US GAAP, connection fees revenue and telephone number selection fees were recognized 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 recognized 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''). In December 2003, Staff Accounting Bulletin No.104, ''Revenue Recognition'' (''SAB104'') updates the guidance in SAB101 and Emerging Issues Task Force Issue 00-21 ''Revenue Arrangement with Multiple Deliverable'' (''EITF 00-21''). EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which the vendor will perform multiple revenue generating activities. Under SAB104, connection fees and telephone number selection fees received and incremental direct costs up to, but not exceeding such fees, were deferred and amortized over the estimated customer usage period for the related service. The cumulative effect from the adoption of SAB104 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 arrangements 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 amortized on a straight-line basis over seven years.

EFFECT ON NET PROFIT OF SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP IS AS FOLLOWS:

	2006 US$ million (except per share data)	2006 RMB million (except per share data)	2005 RMB million (except per share data)	2004 RMB million (except per share data)
Net profit attributable to equity shareholders under HK GAAP	**8,460**	**66,026**	53,549	41,749
Adjustments:				
Effect of combination of entities under common control	**—**	**—**	—	1,587
Capitalized interest	**(11)**	**(83)**	(106)	(116)
Revaluation of property, plant and equipment	**(146)**	**(1,145)**	(818)	(448)
Revaluation of land lease prepayments	**7**	**55**	98	68
Share option scheme	**(27)**	**(212)**	1,485	169
Amortization of net connection fees and telephone number selection fees	**—**	**—**	6	109
Amortization of net savings from interconnection, roaming and leased line agreements	**11**	**86**	86	86
Reversal of goodwill	**—**	**—**	—	1,930
Deferred tax effects of US GAAP adjustments	**44**	**347**	204	(73)
Net profit under US GAAP	**8,338**	**65,074**	54,504	45,061
Basic net profit per share in accordance with US GAAP	**US$0.42**	**RMB3.27**	RMB2.76	RMB2.29
Diluted net profit per share in accordance with US GAAP	**US$0.42**	**RMB3.24**	RMB2.75	RMB2.29
Basic net profit per ADS in accordance with US GAAP*	**US$2.10**	**RMB16.36**	RMB13.81	RMB11.45
Diluted net profit per ADS in accordance with US GAAP*	**US$2.08**	**RMB16.20**	RMB13.73	RMB11.43

* 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:

	2006 US$ million	2006 RMB million	2005 RMB million
Shareholders' equity under HK GAAP	**40,876**	**319,002**	272,824
Adjustments:			
Capitalized interest	**9**	**75**	158
Revaluation of property, plant and equipment			
— cost	**(688)**	**(5,370)**	(5,370)
— accumulated depreciation and others	**759**	**5,924**	7,069
Revaluation of land lease prepayments	**(268)**	**(2,089)**	(2,144)
Deferred tax adjustments on revaluations	**63**	**490**	142
Employee housing scheme	**(215)**	**(1,674)**	(1,674)
Deemed capital contribution for employee housing scheme	**215**	**1,674**	1,674
Deferral of net savings from interconnection, roaming and leased line agreements	**(3)**	**(28)**	(114)
Reversal of goodwill	**(4,523)**	**(35,300)**	(35,300)
Deferred tax effects of US GAAP adjustments	**(2)**	**(14)**	(13)
Shareholders' equity under US GAAP	**36,223**	**282,690**	237,252

Solely for the convenience of the reader, the 31 December 2006 tables above and following information have been translated into United States dollars at the rate of US$1.00 = RMB7.8041 quoted by the Federal Reserve Bank of New York on 31 December 2006. 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 2006, or any other certain date.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME PREPARED UNDER US GAAP

	Year ended 31 December			
	2006 US$ million (except per share data)	2006 RMB million	2005 RMB million (except per share data)	2004 RMB million
Operating revenue				
Usage fees	24,309	189,710	156,710	136,876
Monthly fees	2,771	21,629	25,055	26,458
Value-added services fees	8,881	69,309	50,187	31,651
Connection fees	—	—	7	252
Other operating revenue	2,946	22,988	17,617	15,400
	38,907	303,636	249,576	210,637
Operating expenses				
Cost of services (excluding depreciation of RMB62,779 million, RMB55,422 million, RMB47,050 million included below)	(4,117)	(32,131)	(28,555)	(24,387)
Depreciation	(8,044)	(62,779)	(55,422)	(47,050)
Selling, general and administration	(14,739)	(115,025)	(87,878)	(74,596)
	(26,900)	(209,935)	(171,855)	(146,033)
Profit from operations	12,007	93,701	77,721	64,604
Amortization of other intangible assets	(26)	(203)	-	-
Non-operating net income	36	285	499	949
Interest income	333	2,604	1,615	1,032
Finance costs	(193)	(1,510)	(1,346)	(1,738)
Profit before taxation	12,157	94,877	78,489	64,847
Taxation	(3,808)	(29,715)	(23,945)	(19,764)
Profit after taxation	8,349	65,162	54,544	45,083
Minority interests	(11)	(88)	(40)	(22)
Net profit	8,338	65,074	54,504	45,061
Basic net profit per share	US$0.42	RMB3.27	RMB2.76	RMB2.29
Diluted net profit per share	US$0.42	RMB3.24	RMB2.75	RMB2.29
Basic net profit per ADS*	US$2.10	RMB16.36	RMB13.81	RMB11.45
Diluted net profit per ADS*	US$2.08	RMB16.20	RMB13.73	RMB11.43

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

CONDENSED CONSOLIDATED BALANCE SHEETS PREPARED UNDER US GAAP

	At 31 December		
	2006 US$ million	2006 RMB million	2005 RMB million
ASSETS			
Current assets			
Cash and cash equivalents	9,119	71,167	64,461
Deposits with banks	10,545	82,294	41,925
Accounts receivable	865	6,747	6,446
Other receivables	314	2,454	1,888
Tax recoverable	60	468	165
Current portion of deferred tax	557	4,352	2,660
Inventories	386	3,007	2,365
Prepayments and other current assets	591	4,613	3,583
Amount due from ultimate holding company	39	305	63
Amounts due from related parties	58	452	180
Total current assets	22,534	175,859	123,736
Property, plant and equipment	28,049	218,903	218,362
Construction in progress	6,719	52,436	34,201
Land lease prepayments	715	5,586	5,099
Goodwill	205	1,594	—
Interest in associates	—	—	—
Other intangible assets	90	700	—
Other financial assets	10	77	77
Deferred tax assets	418	3,260	4,143
Total assets	58,740	458,415	385,618
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	7,127	55,626	39,908
Bills payable	283	2,212	1,359
Interest-bearing borrowings	384	2,996	—
Current instalments of obligations under finance leases	9	68	68
Current taxation	1,259	9,823	9,249
Amounts due to related parties	237	1,846	2,172
Accrued expenses and other payables	5,881	45,898	39,858
Amount due to immediate holding company	24	186	96
Amount due to ultimate holding company	17	129	269
Deferred revenue	2,799	21,851	16,975
Total current liabilities	18,020	140,635	109,954
Interest-bearing borrowings	1,274	9,941	12,912
Amount due to immediate holding company	3,028	23,633	23,633
Deferred revenue, excluding current portion	119	930	1,438
Deferred tax liabilities	28	215	146
Total liabilities	22,469	175,354	148,083
Minority interests	48	371	283
Shareholders' equity	36,223	282,690	237,252
Total liabilities and shareholders' equity	58,740	458,415	385,618

Note: The above condensed "Consolidated statements of income" for the year ended 31 December 2004 includes the results of the Company and its subsidiaries prepared under US GAAP as if the current Group structure (excluding Peoples Telephone) had been in place throughout that period.