

**Consolidated Cash Flow Statement**for the year ended 31 December 1998  
(Expressed in Renminbi)

China Telecom (Hong Kong) Limited

Annual Report 1998

	Note	1998 RMB'000	1997 RMB'000
<b>Net cash inflows from operating activities</b>	(a)	<u>13,566,801</u>	<u>8,825,543</u>
<b>Returns on investments and servicing of finance</b>			
Interest received		1,814,895	413,958
Interest paid		(352,178)	(268,424)
Distributions		—	(221,812)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		<u>1,462,717</u>	<u>(76,278)</u>
<b>Taxation</b>			
Hong Kong profits tax paid		(10,780)	—
PRC income tax paid		(1,574,701)	(546,216)
<b>Tax paid</b>		<u>(1,585,481)</u>	<u>(546,216)</u>
<b>Investing activities</b>			
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)	(d) and (e)	(24,114,617)	—
Capital expenditures		(11,040,277)	(5,806,798)
Investment in associated companies		—	(30,430)
Proceeds from disposal of fixed assets		36,224	12,591
Decrease in amounts due from related parties		72,546	497,551
Increase in deposits with banks		(1,310,863)	—
<b>Net cash outflow from investing activities</b>		<u>(36,356,987)</u>	<u>(5,327,086)</u>
<b>Net cash (outflow)/inflow before financing activities</b>		<u>(22,912,950)</u>	<u>2,875,963</u>
<b>Financing activities</b>			
Proceeds from issue of shares, net of expenses		—	33,570,231
Proceeds from bank and other loans	(f)	3,752,500	710,139
Repayments of bank and other loans	(f)	(3,206,922)	(523,853)
(Decrease)/increase in amounts due to related parties	(f)	(221,786)	216,237
Proceeds from capital contribution		—	245,700
<b>Net cash inflow from financing activities</b>		<u>323,792</u>	<u>34,218,454</u>
<b>(Decrease)/increase in cash and cash equivalents</b>	(b)	<u>(22,589,158)</u>	<u>37,094,417</u>
<b>Cash and cash equivalents at beginning of year</b>		<u>40,070,657</u>	<u>2,976,240</u>
<b>Cash and cash equivalents at end of year</b>	(c)	<u>17,481,499</u>	<u>40,070,657</u>

**Notes to the Consolidated Cash Flow Statement****(a) Reconciliation of profit before tax and minority interests to net cash inflows from operating activities**

	1998 RMB'000	1997 RMB'000
Profit before tax and minority interests	9,386,520	5,953,325
Depreciation of fixed assets	4,598,151	2,680,538
Provision for diminution in value of fixed assets	281,560	—
Provision for doubtful accounts	558,090	449,124
Loss on disposal of fixed assets	59,320	12,668
Exceptional item	(1,609,419)	(656,607)
Interest expense	159,751	175,335
Unrealised exchange loss/(gain), net	931	(1,497)
Decrease in inventories	48,788	157,309
Increase in amounts due from related parties	(54,685)	—
Increase in accounts receivable	(1,080,191)	(953,693)
Decrease/(increase) in other receivables	392,047	(29,161)
Increase in prepaid expenses and other current assets	(931,668)	(85,992)
(Decrease)/increase in amounts due to intermediate holding company	(30,588)	31,613
Increase in amounts due to related parties	579,486	—
Decrease in accounts payable	(117,130)	(7,175)
Increase/(decrease) in accrued expenses and other payables	921,975	(54,500)
Increase in deferred revenue	403,863	1,154,256
	<u>13,566,801</u>	<u>8,825,543</u>
Net cash inflows from operating activities	<u>13,566,801</u>	<u>8,825,543</u>

**(b) Increase in cash and cash equivalents**

Increase in cash and cash equivalents of RMB37,094,417,000 for the year ended 31 December 1997 includes RMB34,656,469,000 which relates to the increase in cash and cash equivalents for the period from 3 September 1997 to 31 December 1997.

**(c) Analysis of the balances of cash and cash equivalents**

	1998 RMB'000	1997 RMB'000
Deposits with banks maturing within three months	7,538,459	33,912,852
Cash and bank balances	9,943,040	6,157,805
	<u>17,481,499</u>	<u>40,070,657</u>

### Notes to the Consolidated Cash Flow Statement (Cont'd)

#### (d) Acquisition of subsidiaries

	RMB'000
<b>Net assets acquired:</b>	
Fixed assets	7,443,235
Construction in progress	1,488,261
Deferred tax assets	1,391
Inventories	72,946
Amounts due from related parties	232,579
Accounts receivable	367,684
Other receivables	137,141
Prepaid expenses and other current assets	9,235
Cash and bank balances	6,097
Bank and other loans	(683,500)
Amounts due to related parties	(3,994)
Accounts payable	(333,466)
Accrued expenses and other payables	(158,010)
Long-term bank and other loans	(80,645)
	<u>8,498,954</u>
Goodwill arising on acquisition	<u>15,621,760</u>
	<u><u>24,120,714</u></u>
Satisfied by: Cash paid	<u><u>24,120,714</u></u>

The subsidiaries acquired during the year ended 31 December 1998 contributed RMB1,339,562,000 to the Group's net operating cash flows, paid RMB44,492,000 in respect of the net returns on investments and servicing of finance, utilised RMB2,533,394,000 for investing activities and contributed RMB2,207,796,000 for financing activities.

#### (e) Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	RMB'000
Cash consideration	24,120,714
Cash and bank balances acquired	<u>(6,097)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u><u>24,114,617</u></u>

**Notes to the Consolidated Cash Flow Statement (Cont'd)****(f) Analysis of changes in financing during the year**

	<b>Bank and other loans RMB'000</b>	<b>Amounts due to related parties RMB'000</b>
Balance at 1 January 1998	5,017,884	221,786
Acquired on acquisition of subsidiaries	<u>764,145</u>	<u>3,994</u>
	5,782,029	225,780
<b>Changes in financing:</b>		
Cash flows from financing	3,752,500	(221,786)
Repayments of loans	<u>(3,206,922)</u>	<u>—</u>
	6,327,607	3,994
<b>Operating activities:</b>		
Payables for additions of construction in progress	—	12,675
Increase in amounts due to related parties included under operating activities	—	579,486
Effect of changes in foreign exchange rates	<u>931</u>	<u>—</u>
Balance at 31 December 1998	<u><u>6,328,538</u></u>	<u><u>596,155</u></u>

**(g) Significant non-cash transactions**

The Group incurred payables of RMB3,977,222,000 and RMB12,675,000 from equipment suppliers and related parties respectively for additions of construction in progress during the year ended 31 December 1998.

In addition, the Group incurred payables of RMB1,529,934,000 from equipment suppliers and a loan of RMB1,382,395,000 from its ultimate holding company for additions of construction in progress during the year ended 31 December 1997.