

1. BASIS OF PRESENTATION OF ACCOUNTS

The consolidated profit and loss account of the Group for the year ended 31 December 1998 includes the results of the Company and its subsidiaries in Guangdong province (i.e. Guangdong Mobile Communication Company Limited ("Guangdong Mobile")) and in Zhejiang province (i.e. Zhejiang Mobile Communication Company Limited ("Zhejiang Mobile")) for the year ended 31 December 1998. Pursuant to the ordinary resolution passed by the Company's shareholders on 3 June 1998, the Company acquired the entire issued share capital of China Telecom Jiangsu Mobile (BVI) Limited ("Jiangsu Mobile BVI") from China Telecom Hong Kong (BVI) Limited. The only asset of Jiangsu Mobile BVI is its interest in the entire equity of Jiangsu Mobile Communication Company Limited ("Jiangsu Mobile"). As such, the consolidated profit and loss account of the Group for the year ended 31 December 1998 also includes the results of Jiangsu Mobile for the period from 4 June 1998 to 31 December 1998.

The consolidated profit and loss account for the period ended 31 December 1997 includes the results of the Company for the period from 3 September 1997 to 31 December 1997 and the post-acquisition results of Guangdong Mobile and Zhejiang Mobile for the period from 27 September 1997 to 31 December 1997. The consolidated cash flow statement for the period ended 31 December 1997 is prepared based on the consolidated balance sheet at 31 December 1997 and the proforma combined balance sheet (i.e. the combination of the balance sheets of Guangdong Mobile and Zhejiang Mobile) at 31 December 1996. A separate note is included in the notes to the consolidated cash flow statement which shows the increase in the amount of cash and cash equivalents for the period from 3 September 1997 to 31 December 1997.

2. PRINCIPAL ACCOUNTING POLICIES

These accounts have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

(a) Basis of consolidation

- (i) The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 31 December 1998. The results of subsidiaries acquired during the year are included in the consolidated profit and loss account from the date of their acquisition. All material intercompany transactions and balances are eliminated on consolidation.
- (ii) Goodwill arising on the acquisition of subsidiaries, 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. The excess of the Group's share of the fair value of the separable net assets of subsidiaries acquired over the cost of investments in these companies is credited to capital reserve.

(b) Interest in subsidiaries

Interest in subsidiaries in the Company's balance sheet is stated at cost less any provisions for permanent diminution in value, if necessary, as determined by the directors.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which the Group's interest is for the long term and the Group is in a position to exercise significant influence over the company in which the investment is made.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(c) Associated companies (Cont'd)**

The Group's share of the post-acquisition results of its associated companies for the year is not considered material and therefore is not included in the consolidated profit and loss account. In the consolidated balance sheet, interest in associated companies is stated at cost less any provisions for permanent diminution in value, if necessary, as determined by the directors.

(d) Fixed assets and depreciation

- (i) Fixed assets are stated at cost/revalued amount less accumulated depreciation. The circumstances and basis under which the revalued amount is arrived at are set out in details in Note 12 to the accounts.
- (ii) The cost of fixed assets comprises the purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed asset has been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.
- (iii) Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the profit and loss account on the date of retirement or disposal.
- (iv) The carrying amount of fixed assets carried at depreciated cost is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

A subsequent increase in the recoverable amount of an asset carried at depreciated cost is written back to the profit and loss account when the circumstances and events that led to the write-down or write-off cease to exist. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

- (v) Depreciation is calculated to write off the cost, or revalued amount where appropriate, of fixed assets on a straight-line basis over their estimated useful lives, to residual values, as follows:

	Depreciable life	Residual value
Land use rights	Over the period of grant	—
Buildings	8 – 35 years	3%
Telecommunications transceivers, switching centres and other network equipment	7 years	3%
Office equipment, furniture and fixtures and others	4 – 18 years	3%

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(e) Construction in progress**

Construction in progress is stated at cost. Cost comprises direct costs of construction as well as interest expense and exchange differences capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(f) Inventories

Inventories, which consist primarily of handsets, SIM cards and accessories, are stated at the lower of cost and net realisable value. Cost represents purchase cost of goods calculated using the weighted average cost method. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management's estimates based on prevailing market conditions.

When inventories are sold, the carrying amount of those inventories is recognised as a deduction of other income due to its insignificance. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(g) Deferred revenue

Deferred revenue from assignment of rights to income from subscribers with distributors of telecommunications services is stated in the balance sheet at the amount of consideration received according to the relevant assignment contracts less income recognised in the profit and loss account up to the balance sheet date.

Income is deferred and recognised on a straight-line basis over the relevant assignment period. For assignment contracts which the distributors surrender for early cancellation, the balance of the Group's deferred revenue in respect of those contracts is recognised as non-operating income in the profit and loss account when the assignment contracts are cancelled.

(h) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that such costs are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(i) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will accrue to the Group and when the revenue can be measured reliably on the following bases:

- (i) usage fees are recognised as revenue when the service is rendered;
- (ii) monthly fees are recognised as revenue in the month during which the service is rendered;
- (iii) connection fees are recognised as revenue when received;
- (iv) deferred revenue from assignment of rights to income from subscribers is recognised on a straight-line basis over the duration of the assignment period;
- (v) interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable; and
- (vi) sales of handsets and SIM cards are recognised on delivery of goods to the buyer. Such revenue, net of cost of goods sold, is included in other income due to its insignificance.

(j) Allowance for doubtful accounts

An allowance for doubtful accounts is provided based upon evaluation of the recoverability of the receivables at the balance sheet date.

(k) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange differences attributable to the translation of borrowings denominated in foreign currencies and used for financing the construction of fixed assets, are included in the cost of the related construction in progress. Exchange differences capitalised to construction in progress are immaterial for the periods presented. Other exchange gains and losses are recognised in the profit and loss account.

(l) Deferred taxation

Deferred taxation is provided in respect of the tax effect arising from all significant timing differences which are expected with reasonable probability to crystallise in the foreseeable future and is calculated under the liability method. Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(m) Retirement benefits**

The employees of the subsidiaries participate in a defined benefit retirement plan managed by the MII whereby the subsidiaries are required to contribute to the scheme at a fixed rate of 19.1 per cent of the employees' salary costs. The subsidiaries have no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(n) Operating leases

Operating lease payments are charged to the profit and loss account on a straight-line basis over the periods of the respective leases.

(o) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

3. TURNOVER

Turnover primarily represents usage fees, monthly fees and connection fees for the use of the Group's cellular telephone networks, net of PRC business tax and government surcharges and central irrigation construction levy. Business tax and government surcharges are charged at approximately 3.3 per cent of the corresponding revenue and central irrigation construction levy was charged at approximately 3 per cent of certain connection and surcharge revenue. Turnover is analysed as follows:

	1998	Period from 3 September 1997 (date of incorporation) to 31 December 1997
	RMB'000	RMB'000
Usage fees	16,345,713	2,760,412
Monthly fees	4,347,218	771,414
Connection fees	3,323,191	851,057
Others	2,329,271	313,450
	<u>26,345,393</u>	<u>4,696,333</u>

Others mainly represent telephone number selection fees, charges for value added services, interconnection revenue and roaming in fees. Roaming in fees are received from the MII and other operators in respect of calls made by non-subscribers using the Group's cellular telecommunications networks.

4. EXCEPTIONAL ITEM

Exceptional item represents interest income earned by the Group, of which RMB1,425,635,000 (1997: RMB570,606,000) relates to the interest income earned by the Company from the proceeds received on the issue of new shares in 1997.

5. PROFIT BEFORE TAX AND MINORITY INTERESTS

Profit before tax and minority interests is arrived at

	1998	Period from
	RMB'000	3 September 1997
		(date of
		incorporation) to
		31 December 1997
		RMB'000
after crediting:		
Amortisation of deferred revenue from assignment of rights to income from subscribers	284,733	49,710
Penalty income on overdue accounts	64,594	23,738
Exchange gain, net	19,283	—
and after charging:		
Interest on bank advances and other borrowings repayable within five years	125,272	11,834
Interest on other loans	181,640	81,715
Less: Amount capitalised as construction in progress (<i>Note</i>)	(147,161)	(55,176)
Interest expense	159,751	38,373
Depreciation	4,598,151	854,268
Operating lease charges in respect of		
— properties	260,926	60,735
— leased lines	3,917,362	791,512
— others	40,375	6,061
Exchange loss, net	—	57,877
Loss on disposal of fixed assets	59,320	12,476
Provision for diminution in value of fixed assets	281,560	—
Contribution to retirement scheme	209,391	26,916
Provision for doubtful accounts	558,090	139,662
Provision for obsolete inventories	8,346	3,086
Auditors' remuneration		
— current year / period	14,748	10,703
— prior period	1,069	—

Note: The borrowing costs have been capitalised at a rate of 5.81 per cent to 9.50 per cent (1997: 7.50 per cent to 11.03 per cent) per annum for construction in progress.

6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Companies Ordinance is as follows:

	1998	Period from 3 September 1997 (date of incorporation) to 31 December 1997
	RMB'000	RMB'000
Fees	2,371	642
Salaries, allowances and benefits in kind	9,501	2,829
Retirement benefits	106	33
Bonuses	78	30
	<u>12,056</u>	<u>3,534</u>

Included in the directors' remuneration were fees of RMB385,000 (1997: RMB129,000) paid to the independent non-executive directors during the year/period.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' rights to acquire shares" in the report of the directors.

The number of directors whose remuneration from the Group falls within the following bands is set out below:

HK\$ equivalent	1998	Period from 3 September 1997 (date of incorporation) to 31 December 1997
Nil to 1,000,000	8	10
2,000,001 to 2,500,000	4	—

7. FIVE HIGHEST PAID INDIVIDUALS

Of the five highest paid individuals in this year, four (1997: four) are directors of the Company and their remuneration has been included in Note 6 above. The remuneration of the remaining highest paid individual is as follows:

	1998	Period from 3 September 1997 (date of incorporation) to 31 December 1997
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	<u><u>1,118</u></u>	<u><u>231</u></u>

During the year/period, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

8. INCOME TAX**(a) Income tax in the consolidated profit and loss account represents:**

	1998	Period from 3 September 1997 (date of incorporation) to 31 December 1997
	RMB'000	RMB'000
Provision for Hong Kong profits tax for the year/period	3,564	8,161
Over-provision in respect of Hong Kong profits tax for prior period	<u>(144)</u>	<u>—</u>
	3,420	8,161
Provision for PRC income tax on the estimated taxable profits for the year/period	2,608,609	421,684
Deferred tax assets (<i>Note 17(a)</i>)	<u>(126,079)</u>	<u>(2,009)</u>
	<u><u>2,485,950</u></u>	<u><u>427,836</u></u>

- (i) The provision for Hong Kong profits tax is calculated at 16 per cent (1997: 16.5 per cent) of the estimated assessable profits for the year.
- (ii) Pursuant to the income tax rules and regulations of the PRC, the Group's subsidiaries in the PRC are subject to the statutory income tax rate of 33 per cent for the year ended 31 December 1998. According to notices from the PRC Ministry of Finance, connection fees and certain surcharges, which were previously not subject to income tax, are subject to income tax rate of 33 per cent with effect from 23 October 1997 for Guangdong Mobile and Zhejiang Mobile and 26 August 1998 for Jiangsu Mobile.

8. INCOME TAX (Cont'd)**(b) Taxation in the balance sheet represents:**

	The Group		The Company	
	1998	1997	1998	1997
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for Hong Kong profits tax for the year/period	3,564	8,161	3,564	8,161
Provision for PRC income tax for the year	2,608,609	984,867	—	—
Balance of PRC income tax payable/ (recoverable) relating to prior year	43,609	(174,372)	—	—
Hong Kong provisional profits tax paid	(2,763)	—	(2,763)	—
PRC income tax paid	(1,354,031)	(546,216)	—	—
	<u>1,298,988</u>	<u>272,440</u>	<u>801</u>	<u>8,161</u>

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders includes a profit of RMB1,365,421,000 (1997: RMB483,086,000) which has been dealt with in the accounts of the Company.

10. DIVIDENDS

The board of directors of the Company does not recommend the payment of any dividends for the year ended 31 December 1998 (1997: RMB Nil).

11. EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share for the year/period is based on the profit attributable to shareholders of RMB6,899,842,000 (1997: RMB1,513,723,000) and the weighted average number of 11,780,788,000 shares (1997: 8,802,944,500 shares) in issue during the year/period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the profit attributable to shareholders of RMB6,899,842,000 and the weighted average number of 11,782,520,775 shares after adjusting for the effects of all dilutive potential ordinary shares. All dilutive potential ordinary shares arise from the share options granted to the directors under the share option scheme which, if converted to ordinary shares, would decrease profit attributable to shareholders per share. There were no dilutive potential ordinary shares in existence during 1997.

11. EARNINGS PER SHARE (Cont'd)**(c) Reconciliations**

	1998	1997
	Number of	Number of
	shares	shares
Weighted average number of ordinary shares used in calculating basic earnings per share	11,780,788,000	<u>8,802,944,500</u>
Deemed issue of ordinary shares for no consideration	<u>1,732,775</u>	
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>11,782,520,775</u>	

12. FIXED ASSETS

	Land use	Telecommuni-	Office	Total
	rights and	cations	equipment,	
	buildings	transceivers,	furniture	
	and	switching	and fixtures	
	other network	centres and	and others	
	equipment	equipment	and others	
	RMB'000	RMB'000	RMB'000	RMB'000
(a) The Group				
Cost:				
At 1 January 1998	775,889	19,083,349	583,860	20,443,098
Acquired on acquisition of subsidiaries	37,020	7,950,022	13,609	8,000,651
Additions	446,618	224,223	154,741	825,582
Transferred from construction in progress	537,998	11,427,123	93,406	12,058,527
Disposals	(36,329)	(83,568)	(1,622)	(121,519)
Provision for diminution in value of fixed assets	—	(281,560)	—	(281,560)
At 31 December 1998	<u>1,761,196</u>	<u>38,319,589</u>	<u>843,994</u>	<u>40,924,779</u>
Accumulated depreciation:				
At 1 January 1998	13,481	1,738,353	57,027	1,808,861
Acquired on acquisition of subsidiaries	429	552,196	4,791	557,416
Charge for the year	54,953	4,427,467	115,731	4,598,151
Written back on disposals	(702)	(24,457)	(816)	(25,975)
At 31 December 1998	<u>68,161</u>	<u>6,693,559</u>	<u>176,733</u>	<u>6,938,453</u>
Net book value:				
At 31 December 1998	<u>1,693,035</u>	<u>31,626,030</u>	<u>667,261</u>	<u>33,986,326</u>
At 31 December 1997	<u>762,408</u>	<u>17,344,996</u>	<u>526,833</u>	<u>18,634,237</u>

12. FIXED ASSETS (Cont'd)**Office equipment, furniture
and fixtures and others**
RMB'000**(b) The Company****Cost:**

At 1 January 1998	2,350
Additions	<u>3,743</u>
At 31 December 1998	-----6,093

Accumulated depreciation:

At 1 January 1998	301
Charge for the year	<u>845</u>
At 31 December 1998	-----1,146

Net book value:

At 31 December 1998	<u><u>4,947</u></u>
At 31 December 1997	<u><u>2,049</u></u>

(c) The analysis of net book value of land use rights is as follows:

	The Group	
	1998	1997
	RMB'000	RMB'000
Long leases	248,294	85,691
Medium-term leases	<u>1,098,960</u>	<u>77,950</u>
	<u><u>1,347,254</u></u>	<u><u>163,641</u></u>

All of the Group's buildings are located outside Hong Kong.

As part of the Group restructuring in 1997, the cellular telephone businesses of Guangdong Mobile and Zhejiang Mobile together with the relevant assets and liabilities were transferred to the Company. Pursuant to the ordinary resolution passed by the Company's shareholders on 3 June 1998, the Company acquired the cellular telephone business of Jiangsu Mobile together with its relevant assets and liabilities.

12. FIXED ASSETS (Cont'd)

As required by the relevant PRC rules and regulations, a valuation of the assets and liabilities of Guangdong Mobile and Zhejiang Mobile to be injected into the Group was carried out at 31 May 1997 and a valuation of the assets and liabilities of Jiangsu Mobile to be acquired by the Group was carried out at 31 December 1997. These valuations were approved by the State-owned Assets Administration Bureau on 5 September 1997 and 7 April 1998 respectively and the injected/acquired assets and liabilities were reflected in the accounts on this basis. These valuations were each regarded as one-off exercises which established the deemed cost of the fixed assets acquired by the Group.

The effect of the above valuations on the fixed assets of Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile is to increase the depreciation charges reflected in the consolidated profit and loss account for the year ended 31 December 1998 by approximately RMB925,693,000.

13. CONSTRUCTION IN PROGRESS

Construction in progress comprises expenditure incurred on the network expansion projects, construction of office buildings and construction of staff quarters not yet completed at 31 December 1998.

14. INTEREST IN SUBSIDIARIES

	1998	1997
	RMB'000	RMB'000
Unlisted equity investments, at cost	42,454,479	18,333,765
Amounts due from subsidiaries	3,752,214	—
	<u>46,206,693</u>	<u>18,333,765</u>

Details of the subsidiaries are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Attributable interest held by the Group		Principal activities
			Held by the Company	Held by subsidiary	
Guangdong Mobile	PRC	RMB5,594,840,700	100%	—	Cellular telephone operator
Zhejiang Mobile	PRC	RMB2,117,790,000	99.63%	—	Cellular telephone operator
Jiangsu Mobile BVI	BVI	1 share at HK\$1	100%	—	Investment holding company
Jiangsu Mobile	PRC	RMB2,800,000,000	—	100%	Cellular telephone operator

15. INTEREST IN ASSOCIATED COMPANIES

	The Group	
	1998	1997
	RMB'000	RMB'000
Unlisted shares, at cost	21,430	21,430
Capital contributions, at cost	9,000	9,000
	<u>30,430</u>	<u>30,430</u>

Details of the associated companies are as follows:

Name of company	Place of incorporation	Attributable interest held by the Group	Principal activities
China Motion United Telecom Limited	Hong Kong	30%	Provision of telecommunication services
Shenzhen China Motion Telecom United Limited	PRC	30%	Provision of telecommunication services

16. AMOUNTS DUE FROM RELATED PARTIES

Amounts due from related parties are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business.

17. DEFERRED TAXATION

(a) **Movements on deferred taxation comprise:**

	The Group	
	1998	1997
	RMB'000	RMB'000
Balance at 1 January	24,140	—
Acquired on acquisition of subsidiaries	1,391	22,131
Transfer from the profit and loss account (<i>Note 8(a)</i>)	126,079	2,009
Balance at 31 December	<u>151,610</u>	<u>24,140</u>

17. DEFERRED TAXATION (Cont'd)**(b) Deferred tax assets of the Group provided for are as follows:**

	The Group	
	1998	1997
	RMB'000	RMB'000
Provision for obsolete inventories	26,276	24,140
Provision for diminution in value of fixed assets	43,415	—
Amortisation of deferred revenue	81,919	—
	<u>151,610</u>	<u>24,140</u>

(c) Deferred tax asset of the Group not provided for is as follows:

	The Group	
	1998	1997
	RMB'000	RMB'000
Provision for doubtful accounts	<u>283,293</u>	<u>228,082</u>

18. BANK AND OTHER LOANS**(a) Short-term**

	The Group	
	1998	1997
	RMB'000	RMB'000
Bank loans	4,112,500	600,000
Loans from related parties	<u>—</u>	<u>227,000</u>
	4,112,500	827,000
Current portion of long-term bank and other loans (<i>Note 18(b)</i>)	<u>1,224,868</u>	<u>1,320,558</u>
	<u>5,337,368</u>	<u>2,147,558</u>

All of the above short-term loans are unsecured.

18. BANK AND OTHER LOANS (Cont'd)**(b) Long-term**

	The Group	
	1998	1997
	RMB'000	RMB'000
Bank loans	344,580	413,990
Loans from related parties	800,000	800,000
Loan from ultimate holding company	—	1,382,395
Other loans	1,071,458	1,594,499
	2,216,038	4,190,884
Less: Current portion (<i>Note 18(a)</i>)	(1,224,868)	(1,320,558)
	991,170	2,870,326

All of the above long-term loans are unsecured. Loans from related parties represent long-term loans from Zhejiang Posts and Telecommunications Administrations ("Zhejiang PTA"), bearing interest at 10.98 per cent per annum with maturities in 1999. Other loans bear interest at various rates between 6.4 per cent to 7.5 per cent per annum with maturities in 1999 to 2004.

(c) The Group's long-term bank and other loans were repayable as follows:

At 31 December 1998:

	The Group		
	Bank loans	Other loans	Total
	RMB'000	RMB'000	RMB'000
On demand or within one year	137,498	1,087,370	1,224,868
After one year but within two years	103,541	181,304	284,845
After two years but within five years	103,541	520,101	623,642
After five years	—	82,683	82,683
	207,082	784,088	991,170
	344,580	1,871,458	2,216,038

18. BANK AND OTHER LOANS (Cont'd)**(c) The Group's long-term bank and other loans were repayable as follows (Cont'd):**

At 31 December 1997:

	The Group		Total
	Bank loans	Other loans	
	RMB'000	RMB'000	RMB'000
On demand or within one year	103,498	1,217,060	1,320,558
After one year but within two years	103,498	1,248,236	1,351,734
After two years but within five years	206,994	997,005	1,203,999
After five years	—	314,593	314,593
	<u>310,492</u>	<u>2,559,834</u>	<u>2,870,326</u>
	<u>413,990</u>	<u>3,776,894</u>	<u>4,190,884</u>

19. DEFERRED REVENUE

Deferred revenue from assignment of rights to income from subscribers represents the unamortised portion of proceeds received by Guangdong Mobile from certain distributors of telecommunications services pursuant to agreements under which Guangdong Mobile sold certain mobile phone numbers to these distributors at RMB9,167 each, in return for assigning to such distributors the rights to certain revenue such as usage fees, monthly fees, connection fees, telephone number selection fees and 50 per cent value-added services fees from those subscribers over a period of seven years. The distributors have no recourse to the Group under the relevant agreements and the Group maintains no credit risk from such subscribers during the seven-year period. The proceeds received by Guangdong Mobile have been accounted for as deferred revenue and are amortised over a period of seven years. After the expiration of the relevant agreements, the rights to income from these subscribers will revert to the Group.

	The Group	
	1998	1997
	RMB'000	RMB'000
Balance at 1 January	1,352,863	—
Acquired on acquisition of subsidiaries	—	1,174,573
Additions	688,596	228,000
Recognised in profit and loss account	(284,733)	(49,710)
Balance at 31 December	<u>1,756,726</u>	<u>1,352,863</u>

20. SHARE CAPITAL

	1998	1997
	HK\$'000	HK\$'000
Authorised:		
16,000,000,000 ordinary shares of HK\$0.1 each	<u>1,600,000</u>	<u>1,600,000</u>
	1998	1997
	HK\$'000	HK\$'000
Issued and fully paid:		
11,780,788,000 ordinary shares of HK\$0.1 each	<u>1,178,079</u>	<u>1,178,079</u>
RMB'000 equivalent	<u>1,261,419</u>	<u>1,261,419</u>

21. SHARE OPTION SCHEME

On 8 October 1997, the Company adopted a share option scheme pursuant to which the directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares up to a maximum aggregate number of shares equal to 10 per cent of the total issued share capital of the Company. According to the share option scheme, the consideration payable by a participant for the grant of an option under the share option scheme will be HK\$1.00. The price of a share payable by a participant upon the exercise of an option will be determined by the directors of the Company at their discretion, except that such price may not be set below a minimum price which is the higher of:

- (i) the nominal value of a share; and
- (ii) 80 per cent of the average of the closing prices of shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option.

The period during which an option may be exercised will be determined by the directors at their discretion, except that no option may be exercised later than 10 years after the adoption date of the scheme.

On 9 March 1998, share options for a total of 12,000,000 shares at an exercise price of HK\$11.1 per share (which can be exercised during the period from 9 March 1998 to 8 March 2006) were granted under the share option scheme to certain directors of the Company.

At 31 December 1998, the outstanding options were:

Date options granted	Period during which options exercisable	Exercise price	Number of options outstanding at the year end
9 March 1998	9 March 1998 to 8 March 2006	HK\$11.1	12,000,000

21. SHARE OPTION SCHEME (Cont'd)

On 20 April 1999, 5,500,000 share options were exercised to subscribe for 5,500,000 ordinary shares in the Company at a consideration of HK\$61,050,000, of which HK\$550,000 was credited to share capital and the balance of HK\$60,500,000 was credited to the share premium account. These ordinary shares were issued by the Company on 23 April 1999.

22. RESERVES

	Share premium	Capital reserve/ (goodwill)	General reserve	PRC statutory reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group						
At 1 January 1998	50,642,577	1,131,950	72,463	110,946	1,330,314	53,288,250
Goodwill arising on acquisition of subsidiaries	—	(15,621,760)	—	—	—	(15,621,760)
Net profit for the year	—	—	—	—	6,899,842	6,899,842
Transfer to PRC statutory reserves, net of minority interests' share	—	—	—	2,091,944	(2,091,944)	—
At 31 December 1998	<u>50,642,577</u>	<u>(14,489,810)</u>	<u>72,463</u>	<u>2,202,890</u>	<u>6,138,212</u>	<u>44,566,332</u>
The Company						
At 1 January 1998	50,642,577	—	72,463	—	410,623	51,125,663
Net profit for the year (Note 9)	—	—	—	—	1,365,421	1,365,421
At 31 December 1998	<u>50,642,577</u>	<u>—</u>	<u>72,463</u>	<u>—</u>	<u>1,776,044</u>	<u>52,491,084</u>

At 31 December 1998, the amount of distributable reserves of the Company amounted to RMB1,848,507,000 (1997: RMB483,086,000).

PRC statutory reserves

In accordance with the Articles of Association and Regulations on Posts and Telecommunications Enterprises, for the period ended 31 December 1997, Guangdong Mobile and Zhejiang Mobile are required to transfer a certain percentage of the profit after taxation to the statutory surplus reserve and statutory public welfare reserve as determined by accounting principles generally accepted in the PRC ("PRC GAAP"). As Guangdong Mobile and Jiangsu Mobile were wholly-owned foreign enterprises at 31 December 1998 and Zhejiang Mobile was a sino-foreign joint venture company at 31 December 1998, they are not required to make the above transfers for the year ended 31 December 1998. At 31 December 1998, the balances of statutory surplus reserve and statutory public welfare reserve were RMB73,964,000 (1997: RMB73,964,000) and RMB36,982,000 (1997: RMB36,982,000) respectively.

22. RESERVES (Cont'd)**PRC statutory reserves (Cont'd)**

Statutory surplus reserve can be used to make good previous years' losses, provided that the balance after such offset is not less than 25 per cent of the registered capital. Statutory public welfare reserve can only be utilised on capital items for the collective benefits of the employees such as the construction of staff quarters and other staff welfare facilities. This reserve is non-distributable other than in liquidation.

In accordance with the Regulations on Enterprises with Foreign Investment, Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile are required to transfer a certain percentage of profit after taxation, as determined under PRC GAAP, to the general reserve fund and the enterprise expansion fund. In case of Guangdong Mobile and Jiangsu Mobile, since they are wholly-owned foreign enterprises, at least 10 per cent of their profit after taxation determined under the PRC GAAP should be transferred to the general reserve fund until the balance of the general reserve fund is equal to 50 per cent of the registered capital. During the year, appropriations were made to the general reserve fund and the enterprise expansion fund by Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile at 10 per cent and 30 per cent respectively of the profit after taxation determined under PRC GAAP. At 31 December 1998, the balances of the general reserve fund and the enterprise expansion fund were RMB522,986,000 (1997: RMB Nil) and RMB1,568,958,000 (1997: RMB Nil) respectively.

The general reserve fund can be used to make good losses and to increase the capital of the subsidiaries while the enterprise expansion fund can be used to increase the capital of the subsidiaries.

23. CONNECTED AND RELATED PARTY TRANSACTIONS

- (a) The Group's operations are subject to extensive regulation by the PRC government. The MII, pursuant to the authority delegated to it by the PRC State Council, directly or indirectly regulates licensing, competition, interconnection, technology and equipment standards, and other aspects of the PRC telecommunications industry. The MII, together with other PRC government entities, also regulates tariff policy, foreign investment and spectrum allocation and spectrum usage fees. Specifically, the Group's tariffs are subject to the regulation by various Government authorities, including the State Planning Commission ("SPC"), the MII, the PTAs and the relevant Provincial Price Bureaus ("PPBs"). The connection fees charged by the Group are based on a guidance price range set jointly by the MII and SPC, with each actual fee determined by the relevant PTA in consultation with the relevant PPB. In general, the Group's base usage charges and domestic roaming usage charges are set by the MII and SPC. International roaming charges are set by the MII pursuant to agreements between the DGT and other cellular operators. The principal connected and related party transactions, which were entered into with the MII and other entities under the control of MII, are as follows:

	Note	1998 RMB'000
Interconnection revenue	(i)	752,054
Interconnection charges	(ii)	3,924,748
Leased line charges	(iii)	3,917,362
Roaming revenue	(iv)	1,053,042
Roaming expenses	(v)	827,591
Spectrum fees	(vi)	12,431
Operating lease charges	(vii)	226,670
Sales commission	(viii)	263,859
Debt collection service fees	(viii)	133,270
Billing service fees	(viii)	1,723
Interest paid/payable	(ix)	83,253

23. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)*Notes:*

- (i) Interconnection revenue represents the amounts received or receivable from the Guangdong PTA, the Zhejiang PTA and the Jiangsu PTA in respect of calls made between the Total Access Communication Systems ("TACS")/Global System for Mobile Communications ("GSM") networks and the Public Switched Telephone Network ("PSTN") in Guangdong, Zhejiang and Jiangsu respectively.
- (ii) Interconnection charges represent the amounts paid or payable to the Guangdong PTA, the Zhejiang PTA and the Jiangsu PTA in respect of calls made between the TACS/GSM networks and the PSTN in Guangdong, Zhejiang and Jiangsu respectively.
- (iii) Leased line charges represent expenses paid or payable to the Guangdong PTA/Posts and Telecommunications Bureaus ("PTBs"), the Zhejiang PTA/PTBs and the Jiangsu PTA/PTBs for the use of leased lines between the base transceiver stations, base station controllers, base stations, fixed line network connectors, long distance network connectors and main switches.
- (iv) A cellular telephone user using roaming services is charged at the respective roaming usage rate for roaming in calls, in addition to applicable long distance charges. Roaming revenue represents domestic and international roaming in usage charges from non-subscribers received or receivable from the relevant PTAs and international cellular telephone operators through MII.
- (v) A cellular telephone user using roaming services is charged at the respective roaming usage rate for roaming out calls, in addition to applicable long distance charges. Roaming expenses represent the amount of domestic and international roaming out charges received or receivable from subscribers which is to be remitted to the relevant PTAs and international cellular telephone operators for their share of the roaming revenue through MII.
- (vi) Spectrum fees represent the spectrum usage fees paid or payable to DGT for the usage of the frequency bands allocated to Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile.
- (vii) Operating lease charges represent the rental paid or payable to the Guangdong PTA/PTBs, the Zhejiang PTA/PTBs, the Jiangsu PTA/PTBs and Telpo for operating leases in respect of land and buildings and others.
- (viii) With effect from 20 October 1997 for Guangdong PTA and Zhejiang PTA, and 1 January 1998 for Jiangsu PTA, the Group entered into certain services agreements in respect of marketing services with authorised dealers, debt collection services and billing services.

Sales commission represents the amounts paid or payable to the Guangdong PTA/PTBs, the Zhejiang PTA/PTBs and the Jiangsu PTA/PTBs for their marketing of the cellular services in Guangdong, Zhejiang and Jiangsu respectively.

Debt collection service fees represent the amounts paid or payable to the Guangdong PTA/PTBs, the Zhejiang PTA/PTBs and the Jiangsu PTA/PTBs for their provision of debt collection services to Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile respectively.

Billing service fees represent the amounts paid or payable to the Zhejiang PTA/PTBs for their provision of the billing services to Zhejiang Mobile.

- (ix) Interest paid/payable represents the interest incurred on loans borrowed from Zhejiang PTA and Telpo.

23. CONNECTED AND RELATED PARTY TRANSACTIONS (Cont'd)

Advantage has been taken of the transitional provisions set out in paragraph 28 of Statement of Standard Accounting Practice 20 "Related Party Disclosures" issued by the Hong Kong Society of Accountants which provides exemption from the need to present comparative information for prior periods when this Statement is first adopted and such information is not available.

- (b) Pursuant to the ordinary resolution passed by the Company's shareholders on 3 June 1998, the Company acquired the entire issued share capital of Jiangsu Mobile BVI from China Telecom Hong Kong (BVI) Limited, the immediate holding company of the Company, by a total cash consideration of HK\$22,475,000,000. The only asset of Jiangsu Mobile BVI is its interest in the entire equity of Jiangsu Mobile.

24. COMMITMENTS**(a) Capital commitments**

Capital commitments outstanding at 31 December 1998 not provided for in the accounts were as follows:

	The Group		The Company	
	1998	1997	1998	1997
	RMB'000	RMB'000	RMB'000	RMB'000
Commitments in respect of land and buildings				
— authorised and contracted for	77,340	298,226	—	—
— authorised but not contracted for	919,046	865,987	—	—
	<u>996,386</u>	<u>1,164,213</u>	<u>—</u>	<u>—</u>
Commitments in respect of telecommunications equipment				
— authorised and contracted for	3,088,654	6,788,040	1,240,240	2,893,128
— authorised but not contracted for	14,598,708	9,919,129	—	—
	<u>17,687,362</u>	<u>16,707,169</u>	<u>1,240,240</u>	<u>2,893,128</u>
Total commitments				
— authorised and contracted for	3,165,994	7,086,266	1,240,240	2,893,128
— authorised but not contracted for	15,517,754	10,785,116	—	—
	<u>18,683,748</u>	<u>17,871,382</u>	<u>1,240,240</u>	<u>2,893,128</u>

24. COMMITMENTS (Cont'd)**(b) Operating lease commitments**

At 31 December 1998, the Group and the Company had commitments under operating leases to make payments in the next year as follows:

At 31 December 1998:

	The Group			Total RMB'000	The Company
	Land and buildings RMB'000	Leased lines RMB'000	Others RMB'000		Land and buildings RMB'000
Leases expiring:					
Within one year	4,385	—	—	4,385	1,858
After one year but within five years	30,711	1,047,873	—	1,078,584	2,781
After five years	192,502	3,088,246	39,094	3,319,842	—
	<u>227,598</u>	<u>4,136,119</u>	<u>39,094</u>	<u>4,402,811</u>	<u>4,639</u>

At 31 December 1997:

	The Group			Total RMB'000	The Company
	Land and buildings RMB'000	Leased lines RMB'000	Others RMB'000		Land and buildings RMB'000
Leases expiring:					
Within one year	5,392	—	—	5,392	—
After one year but within five years	30,172	830,318	—	860,490	4,730
After five years	107,282	1,592,195	17,116	1,716,593	—
	<u>142,846</u>	<u>2,422,513</u>	<u>17,116</u>	<u>2,582,475</u>	<u>4,730</u>

25. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, in connection with the exercise of share options, the Company issued 5,500,000 ordinary shares of HK\$0.1 each at HK\$11.1 per share.

26. COMPARATIVE FIGURES

Certain comparative figures in the accounts have been reclassified to conform with the current year's presentation.

27. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 1998 to be Telpo Communications (Group) Limited, incorporated in Hong Kong.

The Group's accounts are prepared in accordance with the generally accepted accounting principles applicable in Hong Kong ("HK GAAP"), which differ in certain significant respects from those applicable in the United States ("US GAAP"). The significant differences relate principally to the following items and the adjustments considered necessary to present 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 Jiangsu Mobile. Under the acquisition method, the acquired results are included in the results of operations from the date of their acquisition. 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.

As a result of both the Group and Jiangsu Mobile being under common control prior to the acquisition, such acquisition under US GAAP is considered a "combination 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 accounts of previously separate companies for periods prior to the combination generally are restated on a combined basis. The cash consideration paid by the Group in excess of the historical carrying amounts of the net assets acquired has been treated as an equity transaction in the year of acquisition for US GAAP purposes.

(b) Capitalisation of interest

Under HK GAAP, the Group capitalises interest costs to the extent that the related borrowings are directly attributable to the acquisition or construction of an 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 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, in connection with the Group restructuring in 1997, the fixed assets of Guangdong Mobile and Zhejiang Mobile were revalued as of 31 May 1997. Upon the acquisition of Jiangsu Mobile in 1998, the fixed assets of Jiangsu Mobile were revalued as of 31 December 1997. 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.

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.

(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 PTA and not charged to the subsidiaries are not recognised by the subsidiaries.

Under US GAAP, employee housing scheme costs borne by the corresponding PTA and not charged to the subsidiaries are reflected as an expense in the profit and loss account 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

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.

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 criterion of "more likely than not".

(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 over the exercise price of the options on the date of grant and amortises this amount over the vesting period of the option concerned.

Effect on net profit of significant differences between HK GAAP and US GAAP is as follows:

	1998 US\$'000	1998 RMB'000	1997 RMB'000	1996 RMB'000
		(except per share data)		
Net profit under HK GAAP	833,445	6,899,842	4,955,381	4,509,158
Adjustments:				
Effect of combination of entities under common control	59,156	489,733	1,244,812	944,609
Capitalised interest	6,947	57,514	58,688	133,938
Revaluation of fixed assets	151,006	1,250,141	411,587	31,711
Employee housing scheme	3,384	28,018	(147,411)	(111,471)
Deferred taxation	2,079	17,209	(43,000)	(186,368)
Share option scheme	(3,869)	(32,034)	—	—
Deferred tax effects of US GAAP adjustments	(52,125)	(431,526)	(155,191)	(54,664)
Net profit under US GAAP	<u>1,000,023</u>	<u>8,278,897</u>	<u>6,324,866</u>	<u>5,266,913</u>
Basic and diluted net profit per share in accordance with US GAAP	<u>0.09</u>	<u>0.70</u>	<u>0.65</u>	<u>0.58</u>
Basic and diluted net profit per ADS in accordance with US GAAP*	<u>1.70</u>	<u>14.05</u>	<u>13.27</u>	<u>11.69</u>

* Based on a ratio of 20 ordinary shares to one ADS.

Effect on shareholders' equity of significant differences between HK GAAP and US GAAP is as follows:

	1998	1998	1997
	US\$'000	RMB'000	RMB'000
Shareholders' equity under HK GAAP	5,535,622	45,827,751	54,549,669
Adjustments:			
Effect of combination of entities under common control	—	—	8,009,221
Capitalised interest	35,458	293,551	236,037
Revaluation of fixed assets			
— Cost	(748,275)	(6,194,744)	(6,194,744)
— Accumulated depreciation and other	208,376	1,725,086	474,945
Deferred tax adjustments on revaluations	183,965	1,522,995	1,887,528
Employee housing scheme	(43,491)	(360,049)	(388,067)
Deemed capital contribution for employee housing scheme	30,131	249,448	247,511
Recognition of deferred taxes	34,220	283,293	266,084
Deferred tax effects of US GAAP adjustments	(17,500)	(144,881)	(77,893)
Shareholders' equity under US GAAP	<u>5,218,506</u>	<u>43,202,450</u>	<u>59,010,291</u>

Solely for the convenience of the reader, the 31 December 1998 accounts have been translated into United States dollars at the rate of US\$1.00 = RMB8.2787 quoted by the People's Bank of China on 31 December 1998. 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 1998, or any other certain date.

Consolidated Statements of Income prepared under US GAAP

	1998 US\$'000	1998 RMB'000	1997 RMB'000	1996 RMB'000
		(except per share data)		
Turnover				
Usage fees	2,133,933	17,666,191	10,656,277	6,612,800
Monthly fees	554,498	4,590,524	3,102,763	1,873,238
Connection fees	449,724	3,723,132	4,279,946	3,438,923
Others	307,766	2,547,900	1,083,362	589,878
	<u>3,445,921</u>	<u>28,527,747</u>	<u>19,122,348</u>	<u>12,514,839</u>
Operating expenses				
Leased lines	523,321	4,332,417	4,029,737	2,711,172
Interconnection	617,367	5,110,996	1,337,651	255,651
Depreciation	489,316	4,050,904	2,976,757	1,750,526
Personnel	168,063	1,391,339	980,432	584,788
Selling, general and administrative and others	519,295	4,299,086	2,846,793	1,396,977
	<u>2,317,362</u>	<u>19,184,742</u>	<u>12,171,370</u>	<u>6,699,114</u>
Operating profit	1,128,559	9,343,005	6,950,978	5,815,725
Other income	40,304	333,669	57,452	60,971
Non-operating income	194,214	1,607,840	629,063	95,790
Interest expense	(12,486)	(103,369)	(118,753)	(33,323)
Profit before tax and minority interests	1,350,591	11,181,145	7,518,740	5,939,163
Income tax	(350,480)	(2,901,520)	(1,186,949)	(668,192)
Profit before minority interests	1,000,111	8,279,625	6,331,791	5,270,971
Minority interests	(88)	(728)	(6,925)	(4,058)
Net profit	<u>1,000,023</u>	<u>8,278,897</u>	<u>6,324,866</u>	<u>5,266,913</u>
Basic and diluted net profit per share	<u>0.09</u>	<u>0.70</u>	<u>0.65</u>	<u>0.58</u>
Basic and diluted net profit per ADS*	<u>1.70</u>	<u>14.05</u>	<u>13.27</u>	<u>11.69</u>

* Based on a ratio of 20 ordinary shares to one ADS.

Consolidated Balance Sheets prepared under US GAAP

	1998 US\$'000	1998 RMB'000	1997 RMB'000
Assets			
Current assets			
Cash and cash equivalents	2,111,623	17,481,499	40,085,307
Deposits with banks	158,342	1,310,863	—
Accounts receivable	299,770	2,481,704	1,948,508
Other receivables	39,386	326,067	858,961
Inventories	12,236	101,296	140,226
Prepaid expenses and other current assets	126,327	1,045,826	109,284
Amounts due from related parties	34,699	287,264	109,551
	<hr/>	<hr/>	<hr/>
Total current assets	2,782,383	23,034,519	43,251,837
Fixed assets			
Construction in progress	921,968	7,632,703	4,033,357
Interest in associated companies	3,676	30,430	30,430
Amounts due from related parties	—	—	72,546
Deferred tax assets	218,998	1,813,017	2,102,503
	<hr/>	<hr/>	<hr/>
Total assets	<u>7,492,400</u>	<u>62,027,337</u>	<u>70,284,192</u>
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	720,245	5,962,692	2,085,770
Bank and other loans	644,711	5,337,368	2,246,058
Taxes payable	156,907	1,298,988	272,440
Amounts due to related parties	72,135	597,180	301,702
Accrued expenses and other payables	346,159	2,865,752	1,977,416
	<hr/>	<hr/>	<hr/>
Total current liabilities	1,940,157	16,061,980	6,883,386
Bank and other loans	119,726	991,170	3,023,369
Deferred revenue	212,198	1,756,726	1,352,863
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>2,272,081</u>	<u>18,809,876</u>	<u>11,259,618</u>
Minority interests	1,813	15,011	14,283
Shareholders' equity	<u>5,218,506</u>	<u>43,202,450</u>	<u>59,010,291</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and shareholders' equity	<u>7,492,400</u>	<u>62,027,337</u>	<u>70,284,192</u>

Note: The above "Consolidated Balance Sheets" and "Consolidated Statements of Income" as at 31 December 1997 and 1998 and for each of the three years ended 31 December 1996, 1997 and 1998 include the results of the Company and its subsidiaries, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile BVI and Jiangsu Mobile, prepared under US GAAP as if the current Group structure had been in place throughout the relevant periods.