1. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost.

(c) Basis of consolidation

(i) The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 31 December 1999. 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 of investments in these companies 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 is credited to capital reserve.

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(d) Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) Associates

An associate is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The Group's share of the post-acquisition results of its associates 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 associates is stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each associate individually. Any such provisions are recognised as an expense in the profit and loss account.

(f) Fixed assets and depreciation

(i) Fixed assets are stated at cost less accumulated depreciation. The circumstances and basis under which the cost is arrived at are set out in details in Note 15 to the accounts.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Fixed assets and depreciation (Cont'd)

(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 they are 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 estimated net disposal proceeds and the carrying amount of the asset and are recognised 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 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%

(g) Leased assets

Where assets are acquired under finance leases, the amounts representing the outright purchase price, which approximate the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance lease. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the shorter of the period of the leases or the estimated useful lives of the assets as set out in note 1(f) above. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) 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.

(i) 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.

(j) 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.

(k) Fixed rate notes

Fixed rate notes are stated on the balance sheet at face value, less unamortised discount arising on issue of notes. The discount is amortised on a straight-line basis over the period from the date of issue to the date of maturity.

(l) Deferred expenses

Deferred expenses comprise incidental costs incurred in relation to the issue of the Company's fixed rate notes and are amortised on a straight-line basis over the period from the date of issue to the date of maturity. In the event that the notes are redeemed prior to the maturity date, the unamortised expenses are charged immediately to the profit and loss account.

(m) 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.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) **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) sale of SIM cards and handsets 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.

(o) **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.

(p) **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.

(q) **Deferred taxation**

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

(r) **Retirement benefits**

The employees of the subsidiaries participate in defined benefit retirement plans managed by the local government authorities whereby the subsidiaries are required to contribute to the schemes at fixed rates 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.

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Operating leases

Rental payable under operating lease are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

(t) 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.

(u) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

2. TURNOVER

The principal activities of the Group are the provision of cellular telephone and related services in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan provinces of the People's Republic of China. The principal activity of the Company is investment holding.

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 to 3.65 per cent of the corresponding revenue and central irrigation construction levy was charged at approximately 3 per cent of certain connection and surcharge revenue.

Other operating revenue mainly represents telephone number selection fees, charges for value added services, interconnection revenue and roaming in fees. Roaming in fees are received from China Mobile Communications Corporation ("China Mobile") or the MII in respect of calls made by non-subscribers using the Group's cellular telecommunications networks.

3. OTHER OPERATING EXPENSES

Other operating expenses primarily represents selling and promotion expenses, provision for doubtful accounts, operating lease charges, maintenance charges, debt collection fees, spectrum charges and other miscellaneous expenses.

4. WRITE-DOWN AND WRITE-OFF OF TACS NETWORK EQUIPMENT

	1999 RMB million	1998 RMB million
Write-down of TACS network equipment (a)	**6,720**	282
Write-off of TACS network equipment (b)	**1,522**	—
	8,242	282

TACS represents Total Assess Communication System, a European standard for analog mobile telephone transmissions in the 800 and 900 MHz frequency bands.

(a) In light of the gradual opening of the telecommunications market in the PRC and the rapid change of technology, the Group has reviewed the carrying value of all TACS network and related equipment at 31 December 1999. Based on the estimated recoverable value of these assets, a write-down of RMB6,720 million has been made in the current year.

(b) This represents the write-off of certain TACS network equipment which have been removed from service.

5. OTHER INCOME

Other income primarily consists of the gross margin from sales of cellular telephone SIM cards and handsets.

	1999 RMB million	1998 RMB million
Sales of SIM cards and handsets	**1,242**	1,134
Cost of SIM cards and handsets	**(690)**	(798)
	552	336

6. NON-OPERATING INCOME/(EXPENSES)

	1999 RMB million	1998 RMB million
Exchange (loss)/gain	**(9)**	19
Loss on disposal of fixed assets	**(1)**	(59)
Penalty income on overdue accounts	**72**	64
Others	**8**	(75)
	70	(51)

7. INTEREST INCOME

Interest income earned by the Group amounted to RMB767,000,000 (1998: RMB1,609,000,000), of which RMB410,000,000 (1998: RMB1,426,000,000) relates to the interest income earned by the Company. Interest income was classified as an exceptional item in the accounts for the year ended 31 December 1998.

8. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

(a) Finance costs

	1999 RMB million	1998 RMB million
Interest on bank advances and other borrowings repayable within five years	**395**	125
Interest on other loans	**90**	182
Finance charges on obligations under finance lease	**1**	—
Total borrowings costs	**486**	307
Less: Amount capitalised as construction in progress *(Note)*	**(143)**	(147)
	343	160

Note: Borrowing costs have been capitalised at a rate of 5.58 per cent to 7.56 per cent (1998: 5.81 per cent to 9.50 per cent) per annum for construction in progress.

(b) Other items

	1999 RMB million	1998 RMB million
Depreciation		
— owned assets	**7,400**	4,598
— assets held under finance leases	**11**	—
Amortisation of deferred expenses	**2**	—
Operating lease charges in respect of		
— properties	**373**	261
— others	**163**	40
Contribution to retirement scheme	**251**	209
Provision for doubtful accounts	**771**	558
Provision for obsolete inventories	**4**	8
Auditors' remuneration	**16**	13
Amortisation of deferred revenue from assignment of rights to income from subscribers	**(313)**	(285)

9. DIRECTORS' REMUNERATION

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

	1999	1998
	RMB million	RMB million
Fees	**2**	2
Salaries, allowances and benefits in kind	**9**	10
	11	12

Included in the directors' remuneration were fees of RMB384,000 (1998: RMB385,000) paid to the independent non-executive directors during the year.

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:

	1999	1998
HK$ equivalent		
Nil to 1,000,000	**15**	8
2,000,001 to 2,500,000	**3**	4

10. FIVE HIGHEST PAID INDIVIDUALS

Of the five highest paid individuals in this year, three (1998: four) are directors of the Company and their remuneration has been included in Note 9 above. The remuneration of each of the remaining two highest paid individuals falls within the band from HK$1,000,000 up to HK$1,500,000 and their aggregate remuneration is as follows:

	1999	1998
	RMB million	RMB million
Salaries, allowances and benefits in kind	**3**	1

During the year, 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.

11. INCOME TAX

(a) Income tax in the consolidated profit and loss account represents:

	1999	1998
	RMB million	RMB million
Provision for Hong Kong profits tax for the year	**—**	3
Over-provision in respect of Hong Kong profits tax for prior year	**(2)**	—
	(2)	3
Under-provision in respect of PRC income tax for prior year	**24**	—
Provision for PRC income tax on the estimated taxable profits for the year	**3,776**	2,609
	3,798	2,612
Deferred tax assets *(Note 19(a))*	**(2,151)**	(126)
	1,647	2,486

(i) No provision has been made for Hong Kong profits tax as there was no estimated assessable profits for the year ended 31 December 1999.

(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 1999, except Hainan Mobile Communication Company Limited ("Hainan Mobile") at a tax rate of 15 per cent. 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 an income tax rate of 33 per cent with effect from 1 January 2000 for Fujian Mobile Communication Company Limited ("Fujian Mobile") and 27 January 2000 for Henan Mobile Communication Company Limited ("Henan Mobile") and 15 per cent with effect from 19 January 2000 for Hainan Mobile.

(b) Taxation in the balance sheets represents:

	The Group		The Company	
	1999	1998	**1999**	1998
	RMB million	RMB million	**RMB million**	RMB million
Provision for Hong Kong profits tax for the year	**—**	3	**—**	3
Provision for PRC income tax for the year	**3,776**	2,609	**—**	—
Balance of PRC income tax payable relating to prior year	**556**	43	**—**	—
Hong Kong provisional profits tax paid	**—**	(2)	**—**	(2)
PRC income tax paid	**(1,464)**	(1,354)	**—**	—
	2,868	1,299	**—**	1

(Expressed in Renminbi)

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders includes a profit of RMB1,234,000,000 (1998: RMB1,365,000,000) which has been dealt with in the accounts of the Company.

13. DIVIDENDS

The board of directors of the Company does not recommend the payment of any dividends for the year ended 31 December 1999 (1998: RMB Nil).

14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year is based on the profit attributable to shareholders of RMB4,797,000,000 (1998: RMB6,900,000,000) and the weighted average number of 12,069,107,688 shares (1998: 11,780,788,000 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the profit attributable to shareholders of RMB4,797,000,000 (1998: RMB6,900,000,000) and the weighted average number of 12,072,382,655 shares (1998: 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.

(c) Reconciliations

	1999 Number of shares	1998 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**12,069,107,688**	11,780,788,000
Deemed issue of ordinary shares for no consideration	**3,274,967**	1,732,775
Weighted average number of ordinary shares used in calculating diluted earnings per share	**12,072,382,655**	11,782,520,775

15. FIXED ASSETS

	Land use rights and buildings RMB million	Telecommunications transceivers, switching centres and other network equipment RMB million	Office equipment, furniture and fixtures and others RMB million	Total RMB million
(a) The Group				
Cost:				
At 1 January 1999	1,761	38,320	843	40,924
Acquired on acquisition of subsidiaries	162	11,553	245	11,960
Additions	297	1,166	252	1,715
Transferred from construction in progress	1,320	10,325	530	12,175
Disposals	(662)	(47)	(73)	(782)
Assets written-off	—	(3,144)	—	(3,144)
At 31 December 1999	2,878	58,173	1,797	62,848
Accumulated depreciation:				
At 1 January 1999	68	6,694	176	6,938
Acquired on acquisition of subsidiaries	2	749	23	774
Charge for the year	99	6,992	320	7,411
Additional provision	—	6,720	—	6,720
Written back on disposals	(22)	(47)	(3)	(72)
Assets written-off	—	(1,622)	—	(1,622)
At 31 December 1999	147	19,486	516	20,149
Net book value:				
At 31 December 1999	2,731	38,687	1,281	42,699
At 31 December 1998	1,693	31,626	667	33,986

15. FIXED ASSETS (Cont'd)

(b) The Company

	Office equipment, furniture and fixtures and others RMB million
Cost:	
At 1 January 1999	6
Additions	6
At 31 December 1999	12
Accumulated depreciation:	
At 1 January 1999	1
Charge for the year	3
At 31 December 1999	4
Net book value:	
At 31 December 1999	8
At 31 December 1998	5

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

	The Group	
	1999 RMB million	1998 RMB million
Long leases	**81**	56
Medium-term leases	**2,650**	1,637
	2,731	1,693

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

15. FIXED ASSETS (Cont'd)

(d) The net book value of fixed assets of the Group includes an amount of RMB431,000,000 (1998: Nil) in respect of assets held under finance lease.

As part of the Group restructuring in 1997, the cellular telephone businesses of Guangdong Mobile Communication Company Limited ("Guangdong Mobile") and Zhejiang Mobile Communication Company Limited ("Zhejiang Mobile") together with the relevant assets and liabilities were injected into the Group. Pursuant to the ordinary resolutions passed by the Company's shareholders on 3 June 1998 and 11 November 1999, the Group acquired the cellular telephone businesses of Jiangsu Mobile Communication Company Limited ("Jiangsu Mobile"), Fujian Mobile, Henan Mobile and Hainan Mobile, together with their relevant assets and liabilities, respectively.

As required by the relevant PRC rules and regulations, a valuation of the assets and liabilities of Guangdong Mobile and Zhejiang Mobile injected into the Group was carried out at 31 May 1997 and valuations of the assets and liabilities of Jiangsu Mobile, and Henan Mobile, Fujian Mobile and Hainan Mobile acquired by the Group were carried out at 31 December 1997 and 30 June 1999, respectively. These valuations were approved by the Ministry of Finance on 5 September 1997, 7 April 1998 and 27 September 1999, respectively and the injected/acquired assets and liabilities were reflected in the accounts on this basis. These valuations were each regarded as an one-off exercise which established the deemed cost of the fixed assets injected into/acquired by the Group.

The effect of the above valuations on the fixed assets is to increase the depreciation charges reflected in the consolidated profit and loss account for the year ended 31 December 1999 by approximately RMB1,014,000,000 (1998: approximately RMB926,000,000).

16. 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 1999.

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	1999	1998
	RMB million	RMB million
Unlisted equity investments, at cost	**95,423**	42,455
Amounts due from subsidiaries	**6,481**	3,752
	101,904	46,207

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 11 November 1999, the Company acquired the entire issued share capital of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI from CTHK (BVI). The only assets of each of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI are their interests in the entire equity of Fujian Mobile, Henan Mobile and Hainan Mobile, respectively.

The Company acquired the remaining 0.37 per cent interest in Zhejiang Mobile during 1999.

(Expressed in Renminbi)

17. INVESTMENTS IN SUBSIDIARIES (Cont'd)

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: Held by the Company	Attributable interest held by the Group: Held by subsidiary	Principal activity
Guangdong Mobile	PRC	RMB5,594,840,700	100%	—	Cellular telephone operator
Zhejiang Mobile	PRC	RMB2,117,790,000	100%	—	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
Fujian Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Fujian Mobile	PRC	RMB5,247,488,000	—	100%	Cellular telephone operator
Henan Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Henan Mobile	PRC	RMB4,367,733,000	—	100%	Cellular telephone operator
Hainan Mobile BVI	BVI	1 share at HK$1	100%	—	Investment holding company
Hainan Mobile	PRC	RMB643,000,000	—	100%	Cellular telephone operator

18. INTEREST IN ASSOCIATES

	The Group	
	1999	1998
	RMB million	RMB million
Unlisted shares, at cost	**37**	21
Capital contributions, at cost	**9**	9
	46	30

Details of the associates, all of which are unlisted corporate entities, are as follows:

Name of associate	Place of incorporation and operation	Attributable interest held by the Group	Principal activity
China Motion United Telecom Limited	Hong Kong	30%	Provision of telecommunication services
Shenzhen China Motion Telecom United Limited	PRC	30%	Provision of telecommunication services
Fujian Nokia Mobile Communication Technology Company Limited	PRC	50%	Network planning and optimising construction-testing and supervising, technology support, development and training of Nokia GSM 900/1800 Mobile Communication System

19. DEFERRED TAX ASSETS

(a) Movements on deferred taxation comprise:

	The Group	
	1999	1998
	RMB million	RMB million
Balance at 1 January	**152**	24
Acquired on acquisition of subsidiaries	**3**	2
Transfer from the profit and loss account *(Note 11(a))*	**2,151**	126
Balance at 31 December	**2,306**	152

19. DEFERRED TAX ASSETS (Cont'd)

(b) **Deferred tax assets of the Group provided for are as follows:**

	The Group	
	1999	1998
	RMB million	RMB million
Provision for obsolete inventories	**51**	26
Write-down of fixed assets relating to TACS network	**2,182**	44
Amortisation of deferred revenue	**73**	82
	2,306	152

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

	The Group	
	1999	1998
	RMB million	RMB million
Provision for doubtful accounts	**402**	283

20. DEFERRED EXPENSES

	The Group and the Company	
	1999	1998
	RMB million	RMB million
Additions during the year	**53**	—
Less: Amortisation for the year	**(2)**	—
Balance at 31 December 1999	**51**	—

21. AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY

Amounts due from/to ultimate holding company are unsecured, non-interest bearing, repayable on demand and arose in the ordinary course of business.

22. AMOUNTS DUE FROM/TO RELATED PARTIES

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

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	1999	1998	**1999**	1998
	RMB million	RMB million	**RMB million**	RMB million
Deposits with banks	**6,986**	7,538	**6,550**	7,489
Cash at banks and in hand	**12,363**	9,943	**28**	7
	19,349	17,481	**6,578**	7,496

24. BANK AND OTHER LOANS

(a) Short-term

	The Group	
	1999	1998
	RMB million	RMB million
Bank loans	**3,957**	4,112
Current portion of long-term bank and other loans *(Note 24(b) and (c))*	**394**	1,225
	4,351	5,337

Included in the short-term loans is an amount of RMB100,000,000 (1998: Nil) which is secured by cash at bank amounting to RMB100,000,000 (1998: Nil). All other short-term loans are unsecured.

(b) Long-term

	The Group	
	1999	1998
	RMB million	RMB million
Bank loans	**1,836**	345
Loans from related parties	**—**	800
Other loans	**783**	1,071
	2,619	2,216
Less: Current portion *(Note 24(a))*	**(394)**	(1,225)
	2,225	991

All of the above long-term loans are unsecured.

Other loans bear interest at various rates between 5.7 per cent to 7.6 per cent (1998: 6.4 per cent to 7.5 per cent) with maturities in 2000 to 2004.

24. BANK AND OTHER LOANS (Cont'd)

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

At 31 December 1999:

	The Group		
	Bank loans	**Other loans**	**Total**
	RMB million	RMB million	RMB million
On demand or within one year *(Note 24(a))*	213	181	394
After one year but within two years	795	181	976
After two years but within five years	828	421	1,249
	1,623	602	2,225
	1,836	783	2,619

At 31 December 1998:

	The Group		
	Bank loans	**Other loans**	**Total**
	RMB million	RMB million	RMB million
On demand or within one year *(Note 24(a))*	138	1,087	1,225
After one year but within two years	104	181	285
After two years but within five years	103	520	623
After five years	—	83	83
	207	784	991
	345	1,871	2,216

25. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 1999, the Group had obligations under finance lease repayable as follows:

	The Group	
	1999	1998
	RMB million	RMB million
Within one year	**78**	—
In the second year	**73**	—
After two years but within five years	**35**	—
	186	—
Less: Finance charges relating to future periods	**(11)**	—
	175	—
Less: Amount due within one year	**(68)**	—
	107	—

26. 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	
	1999	1998
	RMB million	RMB million
Balance at 1 January	**1,757**	1,353
Additions	**48**	689
Recognised in profit and loss account	**(313)**	(285)
Balance at 31 December	**1,492**	1,757

27. FIXED RATE NOTES

	The Group and the Company	
	1999	1998
	RMB million	RMB million
US dollar 7.875% fixed rate notes due 2004	**4,952**	—

On 2 November 1999, the Company issued unsecured fixed rates notes (the "notes") with a principal amount of US$600,000,000 due on 2 November 2004. The notes bear interest at the rate of 7.875 per cent per annum and such interest is payable semi-annually on 2 May and 2 November of each year, commencing 2 May 2000.

28. SHARE CAPITAL

	1999	1998
	HK$ million	HK$ million
Authorised:		
16,000,000,000 ordinary shares of HK$0.1 each	**1,600**	1,600

Issued and fully paid:

	1999		1998	
	No. of shares	**HK$ million**	No. of shares	HK$ million
At 1 January	**11,780,788,000**	**1,178**	11,780,788,000	1,178
Issue of new shares to the professional and institutional investors	**644,804,000**	**65**	—	—
Issue of consideration shares for acquisition of subsidiaries	**1,273,195,021**	**127**	—	—
Shares issued under share option scheme *(Note 29)*	**7,500,000**	**1**	—	—
At 31 December	**13,706,287,021**	**1,371**	11,780,788,000	1,178
RMB million equivalent		**1,467**		1,261

Pursuant to ordinary resolutions passed at directors' meetings held on 1 November 1999 and 3 November 1999 respectively, the Company issued 560,700,000 and 84,104,000 ordinary shares of HK$0.1 each to professional and institutional investors, at a consideration of HK$24.1 per share, for financing the acquisition of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI.

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 11 November 1999, 1,273,195,021 ordinary shares of HK$0.1 each were issued and credited as fully paid to CTHK(BVI), at a consideration of HK$24.1 per share as part of the consideration for the acquisition of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI.

(Expressed in Renminbi)

29. 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 and 26 November 1999, a total number of share options of 20,200,000 were granted under the share option scheme to certain directors of the Company. During the year, options were exercised to subscribe for 7,500,000 ordinary shares of HK$0.1 each at a consideration of HK$11.1 per share.

At 31 December 1999 and 1998, the outstanding options were as follows:

Date options granted	Period during which options exercisable	Exercise price	Number of options outstanding at the period end
At 31 December 1999			
9 March 1998	9 March 1998 to 8 March 2006	HK$11.1	4,500,000
26 November 1999	26 November 1999 to 7 October 2007	HK$33.91	4,100,000
26 November 1999	26 November 2002 to 7 October 2007	HK$33.91	4,100,000
At 31 December 1998			
9 March 1998	9 March 1998 to 8 March 2006	HK$11.1	12,000,000

30. RESERVES

	Share premium RMB million	Capital reserve/ (goodwill) RMB million	General reserve RMB million	PRC statutory reserves RMB million	Retained profits RMB million	Total RMB million
(a) The Group						
At 1 January 1998	50,643	1,132	72	111	1,330	53,288
Goodwill arising on acquisition of subsidiaries	—	(15,622)	—	—	—	(15,622)
Net profit for the year	—	—	—	—	6,900	6,900
Transfer to PRC statutory reserves, net of minority interests' share	—	—	—	2,092	(2,092)	—
At 31 December 1998	50,643	(14,490)	72	2,203	6,138	44,566
At 1 January 1999	50,643	(14,490)	72	2,203	6,138	44,566
Issue of new shares to professional and institutional investors *(Note 28)*	16,484	—	—	—	—	16,484
Issue of consideration shares for acquisition of subsidiaries *(Note 28)*	32,549	—	—	—	—	32,549
Expenses incurred in connection with the issue of new shares to professional and institutional investors *(Note 28)*	(419)	—	—	—	—	(419)
Goodwill arising on acquisition of subsidiaries	—	(42,440)	—	—	—	(42,440)
Shares issued under share option scheme *(Note 29)*	88	—	—	—	—	88
Net profit for the year	—	—	—	—	4,797	4,797
Transfer to PRC statutory reserves	—	—	—	3,524	(3,524)	—
At 31 December 1999	99,345	(56,930)	72	5,727	7,411	55,625

30. RESERVES (Cont'd)

(b) The Company

	Share premium RMB million	Capital reserve/ (goodwill) RMB million	General reserve RMB million	PRC statutory reserves RMB million	Retained profits RMB million	Total RMB million
At 1 January 1998	50,643	—	72	—	411	51,126
Net profit for the year *(Note 12)*	—	—	—	—	1,365	1,365
At 31 December 1998	50,643	—	72	—	1,776	52,491
At 1 January 1999	50,643	—	72	—	1,776	52,491
Issue of new shares to professional and institutional investors *(Note 28)*	16,484	—	—	—	—	16,484
Issue of consideration shares for acquisition of subsidiaries *(Note 28)*	32,549	—	—	—	—	32,549
Expenses incurred in connection with the issue of new shares to professional and institutional investors *(Note 28)*	(419)	—	—	—	—	(419)
Shares issued under share option scheme *(Note 29)*	88	—	—	—	—	88
Net profit for the year *(Note 12)*	—	—	—	—	1,234	1,234
At 31 December 1999	99,345	—	72	—	3,010	102,427

At 31 December 1999, the amount of distributable reserves of the Company amounted to RMB3,082,000,000 (1998: RMB1,848,000,000).

Share premium

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

PRC statutory reserves

PRC statutory reserves include general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund.

30. RESERVES (Cont'd)

PRC statutory reserves (Cont'd)

At 31 December 1999, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile and Fujian Mobile are wholly-foreign owned enterprises. In accordance with Accounting Regulations for PRC Enterprises with Foreign Investment, they are required to transfer at least 10 per cent of their profit after taxation, as determined under accounting principles generally accepted in the PRC ("PRC GAAP") to the general reserve until the balance of the general reserve is equal to 50 per cent of their registered capital. Moreover, they are required to transfer a certain percentage of their profit after taxation, as determined under PRC GAAP, to the enterprise expansion fund. During the year, appropriations were made by each of the above subsidiaries to the general reserve and the enterprise expansion fund at 10 per cent and 30 per cent, respectively, of their profit after taxation determined under PRC GAAP.

The general reserve 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, to acquire fixed assets and to increase current assets.

As Henan Mobile and Hainan Mobile were only registered as wholly-foreign owned enterprises on 27 January 2000 and 19 January 2000, respectively, they are not required to make the above transfers for the year ended 31 December 1999. According to their Articles of Association and Regulations on Posts and Telecommunications Enterprises, Henan Mobile and Hainan Mobile are required to transfer a certain percentage of profit after taxation, as determined under PRC GAAP, to the statutory surplus reserve and statutory public welfare fund. During the year, appropriations were made by Henan Mobile and Hainan Mobile to the statutory surplus reserve and the statutory public welfare fund at 10 per cent and 9 per cent, respectively, of their profit after taxation determined under PRC GAAP.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-up capital, provided that the balance after such conversion is not less than 25 per cent of the registered capital of the subsidiaries. Statutory public welfare fund 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.

At 31 December 1999, the balances of the general reserve, enterprise expansion fund, statutory surplus reserve and statutory public welfare fund were RMB1,400,000,000 (1998: RMB523,000,000), RMB4,198,000,000 (1998: RMB1,569,000,000), RMB83,000,000 (1998: RMB74,000,000) and RMB46,000,000 (1998: RMB37,000,000) respectively.

31. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) The Group's operations are subject to extensive regulation by the PRC government. The Ministry of Information Industry ("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 Development Planning Commission ("SDPC"), the MII, the Provincial Posts and Telecommunications Administrations ("PTAs") and the relevant provincial price regulatory authorities. Connection fees charged by the Group are based on a guidance price range set jointly by the MII and SDPC, with each actual fee determined by the Group in consultation with the relevant provincial price regulatory authorities. In general, the Group's base usage charges and domestic roaming usage charges are set by the MII and SDPC. International roaming charges are determined pursuant to agreements formed between the Directorate General of Telecommunications (the "DGT") or China Mobile 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	**1999**	1998
		RMB million	RMB million
Interconnection revenue	(i)	**1,242**	752
Interconnection charges	(ii)	**5,275**	3,925
Leased line charges	(iii)	**3,723**	3,917
Roaming revenue	(iv)	**1,497**	1,053
Roaming expenses	(v)	**1,178**	827
Spectrum fees	(vi)	**12**	12
Operating lease charges	(vii)	**280**	227
Sales commission	(viii)	**378**	264
Debt collection service fees	(viii)	**143**	133
Billing service fees	(viii)	**2**	1
Equipment maintenance service fees	(ix)	**—**	—
Rental charges of synchronised clock ports	(x)	**2**	—

Notes:

(i) Interconnection revenue represents the amounts received or receivable from the Guangdong PTA, the Zhejiang PTA, the Jiangsu PTA, the Fujian PTA, the Henan PTA and the Hainan PTA ("the relevant PTAs") in respect of calls made between the Group's cellular networks, the fixed line networks in Guangdong, Zhejiang, Jiangsu, Fujian, Henan and Hainan provinces ("the relevant provinces")and other GSM network operators in other provinces in the PRC. Prior to 1 October 1999, no interconnection revenue was received by the Group in respect of inter-provincial outbound calls made from the fixed line networks in the relevant provinces to other GSM networks in other provinces in the PRC. Pursuant to the interconnection agreement dated 8 October 1999 and with effect from 1 October 1999, the Group records the amounts receivable from the relevant PTAs for inter-provincial outbound calls originating from the fixed line networks in the relevant provinces, which terminate on GSM networks in other provinces in the PRC as interconnection revenue.

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

(ii) Interconnection charges represent the amounts paid or payable to China Mobile or the relevant PTAs in respect of calls made between the Group's cellular networks, the fixed line networks in the relevant provinces and other GSM network operators in other provinces in the PRC. Prior to 1 October 1999, no interconnection charges were paid/payable in respect of inter-provincial outbound calls made from the fixed line networks in the relevant provinces to other GSM networks in other provinces in the PRC. Pursuant to the interconnection agreement dated 8 October, 1999 and with effect from 1 October 1999, the Group records the amounts payable to China Mobile for inter-provincial outbound calls originating from the fixed line networks in the relevant provinces, which terminate on other GSM networks in other provinces in the PRC as interconnection charges.

(iii) Leased line charges represent expenses paid or payable to the relevant PTAs 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 domestic and international cellular telephone operators through the MII or China Mobile. With effect from 1 April 1999, all settlements of inter-provincial roaming and corresponding interconnection revenues are made through China Mobile instead of the 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 usage charges received or receivable from subscribers which is to be remitted to the relevant domestic and international cellular telephone operators for their share of the roaming revenue through the MII or China Mobile. With effect from 1 April 1999, all settlements of inter-provincial roaming and corresponding interconnection charges are made through China Mobile instead of the MII.

(vi) Spectrum fees represent the spectrum usage fees paid or payable to the MII through China Mobile for the usage of the frequency bands allocated to the Company's subsidiaries in the PRC.

(vii) Operating lease charges represent the rental paid or payable to the relevant PTAs for operating leases in respect of land and buildings and others.

(viii) With effect from 20 October 1997 for Guangdong Mobile and Zhejiang Mobile, 1 January 1998 for Jiangsu Mobile, 1 April 1999 for Fujian Mobile and Hainan Mobile, and 1 July 1999 for Henan Mobile, each of these subsidiaries entered into certain services agreements in respect of marketing services with authorised dealers, debt collection services and billing services with the relevant PTAs.

Sales commission represents the amounts paid or payable to the relevant PTAs for their marketing of the cellular services in the relevant provinces.

Debt collection service fees represent the amounts paid or payable to the relevant PTAs for their provision of debt collection services to the Company's subsidiaries.

Billing service fees represent the amounts paid or payable to the Fujian PTA and the Henan PTA for their provision of billing services to Fujian Mobile and Henan Mobile.

(ix) Equipment maintenance services fees represent the amount paid or payable to the Fujian PTA for its provision of the maintenance services to Fujian Mobile. No such expenses were incurred for the year ended 31 December 1999.

(x) Rental charges of synchronised clock ports represent expenses paid or payable to the relevant PTAs for leasing of synchronised clock ports by the Company's subsidiaries.

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

(b) Pursuant to an ordinary resolution passed by the Company's shareholders on 11 November 1999, the Company acquired the entire issued share capital of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI from CTHK(BVI), the immediate holding company of the Company, for a total consideration of HK$49,715,000,000 (RMB equivalent 52,953,000,000). The consideration was satisfied by a cash of HK$19,031,000,000 (RMB equivalent 20,268,000,000) and allotment of shares to CTHK(BVI) amounted to HK$30,684,000,000 (RMB equivalent 32,685,000,000). The only assets of each of Fujian Mobile BVI, Henan Mobile BVI and Hainan Mobile BVI are their interests in the entire equity of Fujian Mobile, Henan Mobile and Hainan Mobile, respectively.

Pursuant to an 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 CTHK(BVI) for a total cash consideration of HK$22,475,000,000 (RMB equivalent 24,120,000,000). The only asset of Jiangsu Mobile BVI is its interest in the entire equity of Jiangsu Mobile.

32. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 1999 not provided for in the accounts were as follows:

	The Group		The Company	
	1999	1998	**1999**	1998
	RMB million	RMB million	**RMB million**	RMB million
Commitments in respect of land and buildings				
— authorised and contracted for	**161**	77	**—**	—
— authorised but not contracted for	**2,676**	919	**—**	—
	2,837	996	**—**	—
Commitments in respect of telecommunications equipment				
— authorised and contracted for	**7,328**	3,089	**2,557**	1,240
— authorised but not contracted for	**13,312**	14,599	**—**	—
	20,640	17,688	**2,557**	1,240
Total commitments				
— authorised and contracted for	**7,489**	3,166	**2,557**	1,240
— authorised but not contracted for	**15,988**	15,518	**—**	—
	23,477	18,684	**2,557**	1,240

32. COMMITMENTS (Cont'd)

(b) Operating lease commitments

The Group and the Company had commitments under operating leases to make payments in the next year as follows:

At 31 December 1999:

	The Group				The Company
	Land and buildings	Leased lines	Others	Total	Land and buildings
	RMB million	RMB million	RMB million	RMB million	RMB million
Leases expiring:					
Within one year	134	976	1	1,111	2
After one year but within five years	60	901	301	1,262	1
After five years	221	2,010	40	2,271	—
	415	3,887	342	4,644	3

At 31 December 1998:

	The Group				The Company
	Land and buildings	Leased lines	Others	Total	Land and buildings
	RMB million	RMB million	RMB million	RMB million	RMB million
Leases expiring:					
Within one year	4	—	—	4	2
After one year but within five years	31	1,048	—	1,079	3
After five years	193	3,088	39	3,320	—
	228	4,136	39	4,403	5

33. COMPARATIVE FIGURES

The presentation and classification of items in the accounts have been changed due to the adoption of the requirements of SSAP 1 (revised) "Presentation of financial statements". As a result, additional line items have been included on the face of the consolidated profit and loss account and the balance sheets as required by SSAP 1 (revised), such as finance costs and analysis of expenses. Comparative figures have been reclassified to conform with the current year's presentation.

34. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 1999 to be China Mobile Communications Corporation, a company incorporated in the PRC.

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 Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan 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 the Group, Jiangsu Mobile, Fujian Mobile, Henan Mobile and Hainan 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 financial statements of previously separate companies for periods prior to the combination generally are restated on a combined basis. The consideration paid by the Group 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 and impairment 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, the fixed assets of Guangdong Mobile and Zhejiang Mobile were revalued as of 31 May 1997 as a result of the Restructuring occurred in 1997. The fixed assets of Jiangsu Mobile were revalued as of 31 December 1997 upon its acquisition by the Group on 3 June 1998. The fixed assets of Fujian Mobile, Henan Mobile and Hainan Mobile were revalued as of 30 June 1999 upon their acquisitions by the Group on 11 November 1999. 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.

The carrying amount of fixed assets 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 fixed assets, discounted to their present values. A subsequent increase in the recoverable amount is written back to the results of operations when circumstances and events that led to the write-down or write-off cease to exist.

(c) Revaluation and impairment of fixed assets (Cont'd)

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.

Under US GAAP, fixed assets 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 recognised 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.

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

(g) Revenue recognition

Until 30 June 1999, under both HK GAAP and US GAAP, connection fee revenue was recognized as received. Under US GAAP, effective 1 July 1999, net connection fees received in excess of direct costs are deferred and recognized over the estimated customer usage period for the related service.

(h) **Recently issued accounting standards**

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. SFAS 133, as amended, is effective for fiscal years beginning after 15 June 2000. The Company has not yet assessed the impact of the adoption of SFAS 133.

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

	1999	**1999**	1998	1997
	US$ million	**RMB million**	RMB million	RMB million
		(except per share data)		
Net profit under HK GAAP	**579**	**4,797**	6,900	4,955
Adjustments:				
Effect of combination of entities under common control	**266**	**2,204**	2,774	3,219
Capitalised interest	**1**	**7**	58	59
Revaluation of fixed assets	**457**	**3,781**	1,250	411
Employee housing scheme	**(7)**	**(57)**	(45)	(186)
Deferred taxation	**(32)**	**(267)**	(188)	(155)
Share option scheme	**(3)**	**(22)**	(32)	—
Recognition of connection fees	**(146)**	**(1,214)**	—	—
Deferred tax effects of US GAAP adjustments	**(120)**	**(995)**	(432)	(155)
Net profit under US GAAP	**995**	**8,234**	10,285	8,148
Basic and diluted net profit per share in accordance with US GAAP	**0.08**	**0.63**	0.79	0.75
Basic and diluted net profit per ADS in accordance with US GAAP*	**1.51**	**12.51**	15.76	15.08

* 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:

	1999 US$ million	1999 RMB million	1998 RMB million
Shareholders' equity under HK GAAP	**6,896**	**57,092**	45,827
Adjustments:			
Effect of combination of entities under common control	**—**	**—**	8,902
Capitalised interest	**36**	**301**	294
Revaluation of fixed assets			
— Cost	**(796)**	**(6,586)**	(6,195)
— Accumulated depreciation and other	**665**	**5,506**	1,725
Deferred tax adjustments on revaluations	**37**	**304**	1,475
Employee housing scheme	**(74)**	**(610)**	(553)
Deemed capital contribution for employee housing scheme	**63**	**525**	442
Recognition of connection fees	**(146)**	**(1,214)**	—
Recognition of deferred taxes	**49**	**402**	(155)
Deferred tax effects of US GAAP adjustments	**25**	**207**	(97)
Shareholders' equity under US GAAP	**6,755**	**55,927**	51,665

Solely for the convenience of the reader, the 31 December 1999 tables above and following information have been translated into United States dollars at the rate of US$1.00 = RMB8.2793 quoted by the People's Bank of China on 31 December 1999. 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 1999, or any other certain date.

Consolidated Statements of Income prepared under US GAAP

	1999 US$ million	1999 RMB million	1998 RMB million	1997 RMB million
		(except per share data)		
Operating revenue				
Usage fees	3,798	31,441	22,169	13,379
Monthly fees	770	6,371	5,755	3,707
Connection fees	430	3,557	4,753	5,509
Other operating revenue	490	4,057	2,839	1,258
	5,488	45,426	35,516	23,853
Operating expenses				
Leased lines	566	4,690	5,165	4,518
Interconnection	928	7,683	5,511	1,589
Depreciation	985	8,152	5,463	3,783
Personnel	309	2,555	1,844	1,089
Other operating expenses	780	6,457	5,642	3,888
Write-down and write-off of TACS network equipment	636	5,267	136	—
	4,204	34,804	23,761	14,867
Profit from operations	1,284	10,622	11,755	8,986
Other income	75	619	321	52
Non-operating expenses	(17)	(136)	(1)	(12)
Interest income	93	773	1,615	664
Finance costs	(48)	(396)	(142)	(119)
Profit from ordinary activities before taxation	1,387	11,482	13,548	9,571
Income tax	(392)	(3,248)	(3,262)	(1,416)
Profit from ordinary activities after tax	995	8,234	10,286	8,155
Minority interests	—	—	(1)	(7)
Net profit	995	8,234	10,285	8,148
Basic and diluted net profit per share	0.08	0.63	0.79	0.75
Basic and diluted net profit per ADS*	1.51	12.51	15.76	15.08

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

Consolidated Balance Sheets prepared under US GAAP

	1999 US$ million	1999 RMB million	1998 RMB million
Assets			
Current assets			
Cash and cash equivalents	**2,338**	**19,349**	17,683
Deposits with banks	**994**	**8,227**	1,311
Accounts receivable	**599**	**4,957**	3,300
Other receivables	**66**	**549**	408
Inventories	**25**	**207**	199
Prepaid expenses and other current assets	**62**	**517**	1,081
Amount due from ultimate holding companies	**11**	**92**	—
Amounts due from related parties	**205**	**1,700**	1,737
Total current assets	**4,300**	**35,598**	25,719
Fixed assets	**5,027**	**41,618**	39,930
Construction in progress	**850**	**7,036**	8,021
Interest in associates	**5**	**46**	46
Deferred tax assets	**389**	**3,221**	1,382
Deferred expenses	**6**	**51**	—
Total assets	**10,577**	**87,570**	75,098
Liabilities and shareholders' equity			
Current liabilities			
Bills payable	**215**	**1,779**	—
Accounts payable	**728**	**6,026**	6,620
Bank and other loans	**526**	**4,351**	6,724
Obligations under capital lease — current portion	**8**	**68**	63
Taxes payable	**346**	**2,868**	1,299
Amounts due to related parties	**205**	**1,696**	1,143
Accrued expenses and other payables	**507**	**4,200**	3,340
Amount due to ultimate holding company	**80**	**664**	—
Total current liabilities	**2,615**	**21,652**	19,189
Bank and other loans	**269**	**2,226**	2,295
Deferred revenue	**327**	**2,706**	1,757
Obligation under capital lease — long term portion	**13**	**107**	177
Fixed rate notes	**598**	**4,952**	—
Total liabilities	**3,822**	**31,643**	23,418
Minority interests	—	—	15
Shareholders' equity	**6,755**	**55,927**	51,665
Total liabilities and shareholders' equity	**10,577**	**87,570**	75,098

Note: The above "Consolidated Balance Sheets" and "Consolidated Statements of Income" as at 31 December 1998 and 1999 and for each of the three years ended 31 December 1997, 1998 and 1999 include the results of the Company and its subsidiaries, Guangdong Mobile, Zhejiang Mobile, Jiangsu Mobile BVI and Jiangsu Mobile, Fujian Mobile BVI and Fujian Mobile, Henan Mobile BVI and Henan Mobile and Hainan Mobile BVI and Hainan Mobile prepared under US GAAP as if the current Group structure had been in place throughout the relevant periods.