

Supplementary Information for ADS Holders

The Group's accounting policies conform with generally accepted accounting principles in Hong Kong ("HK GAAP") which differ in certain material respects from those applicable generally accepted accounting principles in the United States of America ("US GAAP").

The significant differences relate principally to the following items and the adjustments considered necessary to present the net profit and shareholders' equity in accordance with US GAAP are shown in the tables set out below:

(a) Effect of combination of entities under common control

Under HK GAAP, the Group adopted the acquisition method to account for the purchase of subsidiaries from the holding company. Under the acquisition method, the acquired results are included in the results of operations from the date of their acquisition. For acquisitions before 1 January 2001, goodwill arising on the acquisition, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves immediately on acquisition. For acquisitions on or after 1 January 2001, goodwill arising on the acquisition is amortised to the consolidated profit and loss account on a straight-line basis over 20 years.

As a result of the Group and the acquired subsidiaries, being under common control prior to the acquisition, such acquisitions under US GAAP are considered "combinations of entities under common control". Under US GAAP, combinations of entities under common control are accounted for under the "as if pooling-of-interests" method, whereby assets and liabilities are accounted for at historical cost and the financial statements of previously separate companies for periods prior to the combination 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 the subsidiaries were revalued as a result of the restructuring occurred in 1997 and the subsequent acquisitions. 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 results of operations when circumstances and events that led to the write-down or write-off cease to exist.

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.



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(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 statement of income and a corresponding capital contribution. Additionally, under US GAAP, the costs to be borne by the subsidiaries are accrued over the term of the program.

(e) Deferred taxation

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 recognised as received. Under US GAAP, effective 1 July 1999, net connection fees received in excess of direct costs are deferred and recognised over the estimated customer usage period for the related service.

Under US GAAP, effective 1 January 2000, the Group adopted provisions of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB101"). Under SAB101, connection fees received and incremental direct costs up to, but not exceeding such fees, are deferred and amortised over the estimated customer usage period for the related service. The cumulative effect from the adoption of SAB101 was not material.

(h) Interconnection, roaming and leased line agreements

In May 2000, the Group entered into new agreements with China Mobile for inter-provincial interconnection and domestic and international roaming services, and inter-provincial long distance transmission leased line arrangement with retrospective effect from 1 October 1999 for Guangdong Mobile, Zhejiang Mobile and Jiangsu Mobile and from 1 April 1999 for Fujian Mobile, Henan Mobile and Hainan Mobile. Under HK GAAP, the net savings refunded to the Group as a result of the two agreements taking retrospective effect were recorded in operations for the year ended 31 December 2000. Under US GAAP, such net savings are deferred and amortised on a straight-line basis over seven years.



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

	2002 US\$ million (except per share data)	2002 RMB million	2001 RMB million (except per share data)	2000 RMB million
Net profit under HK GAAP	3,956	32,742	28,015	18,027
Adjustments:				
Effect of combination of entities under common control	341	2,818	3,295	7,757
Capitalised interest	(12)	(100)	85	17
Revaluation of fixed assets	81	672	3,211	603
Employee housing scheme	—	—	—	(180)
Deferred taxation	(13)	(107)	(623)	(937)
Share option scheme	(40)	(331)	(277)	(99)
Amortisation of net connection fees and telephone number selection fees	103	853	764	(526)
Amortisation of net savings from interconnection, roaming and leased line agreements	10	85	86	(543)
Reversal of Goodwill	113	936	—	—
Deferred tax effects of US GAAP adjustments	(44)	(366)	(320)	18
Net profit under US GAAP	4,495	37,202	34,236	24,137
Basic net profit per share in accordance with US GAAP	US\$0.23	RMB1.90	RMB1.76	RMB1.31
Diluted net profit per share in accordance with US GAAP	US\$0.23	RMB1.90	RMB1.76	RMB1.30
Basic net profit per ADS in accordance with US GAAP*	US\$1.15	RMB9.51	RMB8.81	RMB6.53
Diluted net profit per ADS in accordance with US GAAP*	US\$1.15	RMB9.50	RMB8.80	RMB6.52

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



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

	2002 US\$ million	2002 RMB million	2001 RMB million
Shareholders' equity under HK GAAP	20,804	172,202	111,779
Adjustments:			
Effect of combination of entities under common control	—	—	30,663
Capitalised interest	58	476	576
Revaluation of fixed assets			
— cost	(1,278)	(10,577)	(10,577)
— accumulated depreciation and other	959	7,937	7,265
Deferred tax adjustments on revaluations	103	849	1,135
Employee housing scheme	(191)	(1,583)	(1,583)
Deemed capital contribution for employee housing scheme	191	1,583	1,583
Deferral of net connection fees and telephone number selection fees	(94)	(774)	(1,627)
Deferral of net savings from interconnection, roaming and leased line agreements	(45)	(372)	(457)
Recognition of deferred taxes	165	1,362	1,447
Reversal of goodwill	(4,412)	(36,522)	—
Deferred tax effects of US GAAP adjustments	(1)	(6)	96
Shareholders' equity under US GAAP	16,259	134,575	140,300

Solely for the convenience of the reader, the 31 December 2002 tables above and following information have been translated into United States dollars at the rate of US\$1.00 = RMB8.2772 quoted by the People's Bank of China on 31 December 2002. 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 2002, or any other certain date.



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Condensed consolidated statements of income prepared under US GAAP

	Year ended 31 December			
	2002 US\$ million (except per share data)	2002 RMB million	2001 RMB million (except per share data)	2000 RMB million
Operating revenue				
Usage fees	12,610	104,373	92,478	79,218
Monthly fees	2,299	19,032	18,237	18,336
Connection fees	182	1,505	2,091	2,009
Other operating revenue	2,467	20,421	14,943	12,899
	17,558	145,331	127,749	112,462
Operating expenses				
Leased lines	723	5,985	6,422	10,124
Interconnection	1,780	14,733	16,234	16,795
Depreciation	3,437	28,445	22,516	19,129
Personnel	946	7,832	7,129	6,520
Other operating expenses	4,113	34,045	26,297	19,222
Write-down and write-off of analog network equipment	—	—	—	5,499
	10,999	91,040	78,598	77,289
Profit from operations	6,559	54,291	49,151	35,173
Other net income	210	1,739	1,715	1,238
Non-operating net income	76	632	322	230
Interest income	89	732	947	1,112
Finance costs	(239)	(1,976)	(1,941)	(2,287)
Profit from ordinary activities before taxation	6,695	55,418	50,194	35,466
Taxation	(2,200)	(18,214)	(15,959)	(11,328)
Profit from ordinary activities after taxation	4,495	37,204	34,235	24,138
Minority interests	—	(2)	1	(1)
Net profit	4,495	37,202	34,236	24,137
Basic net profit per share	US\$0.23	RMB1.90	RMB1.76	RMB1.31
Diluted net profit per share	US\$0.23	RMB1.90	RMB1.76	RMB1.30
Basic net profit per ADS*	US\$1.15	RMB9.51	RMB8.81	RMB6.53
Diluted net profit per ADS*	US\$1.15	RMB9.50	RMB8.80	RMB6.52

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



Condensed consolidated balance sheets prepared under US GAAP

31 December

	2002 US\$ million	2002 RMB million	2001 RMB million
ASSETS			
Current assets			
Cash and cash equivalents	3,935	32,575	25,181
Deposits with banks	1,337	11,069	14,995
Accounts receivable	713	5,899	7,169
Other receivables	149	1,231	1,292
Current portion of deferred tax	377	3,116	624
Inventories	192	1,586	1,472
Prepayments and other current assets	249	2,059	2,061
Amount due from ultimate holding company	155	1,282	2,997
Amounts due from related parties	48	401	219
Total current assets	7,155	59,218	56,010
Fixed assets	19,721	163,232	141,396
Construction in progress	2,782	23,026	31,004
Investment securities	9	77	77
Interest in associates	2	16	16
Deferred tax	321	2,660	4,164
Deferred expenses	110	912	1,597
Total assets	30,100	249,141	234,264
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	2,062	17,069	15,799
Bills payable	152	1,256	1,785
Bank loans and other interest-bearing borrowings	982	8,132	9,296
Current instalments of obligations under finance leases	8	68	994
Taxation	794	6,568	6,089
Amounts due to related parties	292	2,414	2,700
Accrued expenses and other payables	1,961	16,228	13,741
Amount due to immediate holding company	49	402	—
Amount due to ultimate holding company	147	1,217	659
Current portion of deferred revenue	816	6,760	824
Total current liabilities	7,263	60,114	51,887



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Condensed consolidated balance sheets prepared under US GAAP (cont'd)

	31 December		
	2002 US\$ million	2002 RMB million	2001 RMB million
LIABILITIES AND SHAREHOLDERS' EQUITY (cont'd)			
Bank loans and other interest-bearing borrowings	4,391	36,348	24,513
Deferred revenue, excluding current portion	331	2,737	7,970
Amount due to ultimate holding company	—	—	8,750
Amount due to immediate holding company	1,833	15,176	—
Obligation under finance leases, excluding current instalments	—	—	812
Total liabilities	13,818	114,375	93,932
Minority interests	23	191	32
Shareholders' equity	16,259	134,575	140,300
Total liabilities and shareholders' equity	30,100	249,141	234,264

Note: The above condensed "Consolidated balance sheets" and "Consolidated statements of income" as at 31 December 2001 and 2002 and for each of the three years ended 31 December 2000, 2001 and 2002 include the results of the Company and its subsidiaries prepared under US GAAP as if the current Group structure had been in place throughout the relevant periods.

