

Consolidated Cash Flow Statement

for the Year ended 31 December 2004 (Expressed in Renminbi)

Note	2004 RMB million	2003 RMB million
Operating activities		
Profit from ordinary activities before taxation	61,206	52,959
Adjustments for:		
— Depreciation of fixed assets	44,320	36,611
— Amortisation of goodwill	1,930	1,850
— Loss on disposal of fixed assets	535	795
— Write off of fixed assets	5,900	669
— Provision for doubtful accounts	2,273	2,006
— Amortisation of deferred expenses	47	47
— Interest income	(1,014)	(807)
— Interest expense	1,679	2,099
— Dividend income	(84)	(48)
— Unrealised exchange loss, net	24	47
Operating profit before changes in working capital	116,816	96,228
Increase in inventories	(106)	(464)
Decrease in amount due from fellow subsidiaries	896	—
Decrease in amount due from ultimate holding company	662	520
Increase in accounts receivable	(2,082)	(1,968)
Decrease/(increase) in other receivables	377	(259)
Increase in prepayments and other current assets	(555)	(69)
Decrease in amount due to fellow subsidiaries	(4,661)	—
(Decrease)/increase in amount due to ultimate holding company	(1,257)	135
Decrease in amount due to immediate holding company	—	(355)
Increase in accounts payable	2,707	940
Increase in accrued expenses and other payables	6,365	6,246
Increase in deferred revenue	2,724	2,535
Cash generated from operations	121,886	103,489
Tax paid		
— PRC income tax paid	(18,107)	(17,955)
Net cash from operating activities carried forward	103,779	85,534

The notes on pages 85 to 140 form part of these financial statements.

Consolidated Cash Flow Statement

	Note	2004 RMB million	2003 RMB million
Net cash from operating activities brought forward		103,779	85,534
Investing activities			
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)	(b)	(12,238)	—
Payment of amount due to immediate holding company in respect of acquisition of subsidiaries		—	(5,200)
Capital expenditure		(59,143)	(43,871)
Proceeds from disposal of fixed assets		93	233
Increase in deposits with banks		(3,037)	(6,158)
Interest received		939	656
Dividends received		84	48
Net cash used in investing activities		(73,302)	(54,292)
Financing activities			
Proceeds from issue of shares under share option scheme		703	—
Redemption of fixed rate notes		(4,978)	—
Proceeds from bank and other loans		—	760
Repayments of bank and other loans		(9,783)	(12,790)
Capital elements of finance leases rentals paid		(10)	—
Interest paid		(2,040)	(2,640)
Dividends paid		(8,349)	(10,018)
Net cash used in financing activities		(24,457)	(24,688)
Net increase in cash and cash equivalents		6,020	6,554
Cash and cash equivalents at beginning of year		39,129	32,575
Cash and cash equivalents at end of year	25	45,149	39,129

The notes on pages 85 to 140 form part of these financial statements.

Notes to the consolidated cash flow statement

(a) Acquisition of subsidiaries

	2004 RMB million
Net assets acquired:	
Fixed assets	34,678
Construction in progress	3,922
Deferred tax assets	193
Inventories	343
Amount due from ultimate holding company	256
Amount due from fellow subsidiaries	896
Accounts receivable	589
Other receivables	417
Prepayments and other current assets	291
Cash and cash equivalents	4,315
Bank loans and other interest-bearing borrowings	(3,460)
Bills payable	(31)
Amount due to ultimate holding company	(364)
Amount due to fellow subsidiaries	(4,661)
Accounts payable	(4,272)
Obligations under finance leases	(10)
Accrued expenses and other payables	(4,263)
Tax payable	(490)
Deferred revenue	(992)
Deferred tax liabilities	(4)
	27,353
Goodwill arising on acquisition	2,857
	30,210
Satisfied by: Cash consideration	30,210

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

	2004 RMB million
Cash consideration	30,210
Cash and bank balances acquired	(4,315)
Amount due to immediate holding company	(13,657)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	12,238

Notes to the consolidated cash flow statement (cont'd)

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

The Group incurred payables of RMB23,584,000,000 (2003: RMB17,235,000,000) and RMB1,660,000,000 (2003: RMB2,059,000,000) to equipment suppliers and banks respectively for additions of construction in progress during the year ended 31 December 2004.