

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 income statement 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 are restated on a combined basis. The consideration paid and payable by the Group has been treated as distribution to owner in the year of acquisition. Goodwill arising on consolidation and the amortisation of goodwill which are recognised under HK GAAP has been reversed for US GAAP purposes.

(b) Capitalisation of interest

Under HK GAAP, interest costs are only capitalised to the extent that funds are borrowed and used for the purpose of obtaining qualifying 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, except for the acquisitions in 2002 and 2004.

In connection with the acquisitions in 2002 and 2004, the fixed assets of the subsidiaries acquired were revalued at 31 December 2001 and 31 December 2003 respectively. Such revaluations resulted in an increase directly to those shareholders' equity with respect to the increase in carrying amount of certain fixed assets above their historical cost bases, and a charge to income statement with respect to the decrease in carrying amount of certain fixed assets below 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 using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. 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. Accordingly, the revaluation reserve recorded directly to shareholders' equity and the charge to income statement under HK GAAP as a result of the revaluation of fixed assets are reversed for US GAAP purposes. Additionally, as a result of the tax deductibility of the revaluation reserve, a deferred tax asset related to the reversal of the revaluation 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. Any subsequent increase in the recoverable amount written back to results of operations when circumstances and events that led to the write-down or write-off cease to exist under HK GAAP is reversed for US GAAP purposes.

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

For the years presented, there were no differences related to impairment charges under HK GAAP and US GAAP. The US GAAP difference as shown in the reconciliation represents the reversal of revaluation reserves and the related depreciation which are recognised under HK GAAP.

(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

Until 31 December 2002, 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.

With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the HKICPA, the Group adopted a new accounting policy for deferred tax. Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available. The new accounting policy has been adopted retrospectively.

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 criteria of "more likely than not". For the years presented, there were no differences related to the recognition of deferred tax under HK GAAP and US GAAP. The US GAAP difference as shown in the reconciliation represents the deferred tax effects of US GAAP adjustments.

(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 fees revenue and telephone number selection fees were recognised as received. Under US GAAP, effective 1 July 1999, net connection fees and telephone number selection fees received in excess of direct costs were deferred and recognised over the estimated customer usage period of approximately 48 months.

Under US GAAP, effective 1 January 2000, the Group adopted provisions of Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB101"). In December 2003, Staff Accounting Bulletin No.104, "Revenue Recognition" ("SAB104") updates the guidance in SAB101 and Emerging Issues Task Force Issue 00-21 "Revenue Arrangement with Multiple Deliverable" ("EITF 00-21"). EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which the vendor will perform multiple revenue generating activities. Under SAB104, connection fees and telephone number selection fees received and incremental direct costs up to, but not exceeding such fees, were deferred and amortised over the estimated customer usage period for the related service. The cumulative effect from the adoption of SAB104 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.

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

	2004 US\$ million (except per share data)	2004 RMB million (except per share data)	2003 RMB million (except per share data)	2002 RMB million (except per share data)
Net profit under HK GAAP	5,075	42,004	35,556	32,601
Adjustments:				
Effect of combination of entities under common control	192	1,587	(1,358)	5,088
Capitalised interest	(14)	(116)	(96)	(100)
Revaluation of fixed assets	(46)	(380)	3,984	672
Share option scheme	(10)	(86)	(192)	(331)
Amortisation of net connection fees and telephone number selection fees	13	109	659	853
Amortisation of net savings from interconnection, roaming and leased line agreements	10	86	86	85
Reversal of goodwill	233	1,930	1,850	936
Deferred tax effects of US GAAP adjustments	(9)	(73)	(969)	(388)
Net profit under US GAAP	5,444	45,061	39,520	39,416
Basic net profit per share in accordance with US GAAP	US\$0.28	RMB2.29	RMB2.01	RMB2.01
Diluted net profit per share in accordance with US GAAP	US\$0.28	RMB2.29	RMB2.01	RMB2.01
Basic net profit per ADS in accordance with US GAAP*	US\$1.38	RMB11.45	RMB10.05	RMB10.07
Diluted net profit per ADS in accordance with US GAAP*	US\$1.38	RMB11.43	RMB10.03	RMB10.06

* 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:

	2004 US\$ million	2004 RMB million	2003 RMB million
Shareholders' equity under HK GAAP	28,171	233,161	198,803
Adjustments:			
Effect of combination of entities under common control	—	—	25,766
Capitalised interest	32	264	380
Revaluation of fixed assets			
— cost	(942)	(7,796)	(7,796)
— accumulated depreciation and other	975	8,071	8,451
Deferred tax adjustments on revaluations	(7)	(57)	21
Employee housing scheme	(202)	(1,674)	(1,674)
Deemed capital contribution for employee housing scheme	202	1,674	1,674
Deferral of net connection fees and telephone number selection fees	(1)	(6)	(115)
Deferral of net savings from interconnection, roaming and leased line agreements	(24)	(200)	(286)
Reversal of goodwill	(4,265)	(35,300)	(34,373)
Deferred tax effects of US GAAP adjustments	(2)	(18)	(23)
Shareholders' equity under US GAAP	23,937	198,119	190,828

Solely for the convenience of the reader, the 31 December 2004 tables above and following information have been translated into United States dollars at the rate of US\$1.00 = RMB8.2765 quoted by the Federal Reserve Bank of New York on 31 December 2004. 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 2004, or any other certain date.

Condensed consolidated statements of income prepared under US GAAP

	Year ended 31 December			
	2004 US\$ million (except per share data)	2004 RMB million	2003 RMB million (except per share data)	2002 RMB million
Operating revenue				
Usage fees	16,538	136,876	125,702	117,392
Monthly fees	3,196	26,458	24,067	22,234
Connection fees	31	252	1,173	1,505
Other operating revenue	4,915	40,678	29,339	21,828
	24,680	204,264	180,281	162,959
Operating expenses				
Cost of services (excluding depreciation of RMB47,133 million, RMB41,936 million, RMB32,801million included below)	(2,580)	(21,357)	(24,757)	(28,103)
Depreciation	(5,695)	(47,133)	(41,936)	(32,801)
Selling, general and administration	(9,003)	(74,513)	(56,909)	(45,087)
	(17,278)	(143,003)	(123,602)	(105,991)
Profit from operations	7,402	61,261	56,679	56,968
Other net income	404	3,343	2,667	2,050
Non-operating net income	115	949	527	739
Interest income	124	1,032	860	788
Finance costs	(210)	(1,738)	(2,213)	(2,141)
Profit from ordinary activities before taxation	7,835	64,847	58,520	58,404
Taxation	(2,388)	(19,764)	(19,009)	(18,986)
Profit from ordinary activities after taxation	5,447	45,083	39,511	39,418
Minority interests	(3)	(22)	9	(2)
Net profit	5,444	45,061	39,520	39,416
Basic net profit per share	US\$0.28	RMB2.29	RMB2.01	RMB2.01
Diluted net profit per share	US\$0.28	RMB2.29	RMB2.01	RMB2.01
Basic net profit per ADS*	US\$1.38	RMB11.45	RMB10.05	RMB10.07
Diluted net profit per ADS*	US\$1.38	RMB11.43	RMB10.03	RMB10.06

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

Condensed consolidated balance sheets prepared under US GAAP

	At 31 December		2003 RMB million
	2004 US\$ million	2004 RMB million	
ASSETS			
Current assets			
Cash and cash equivalents	5,455	45,149	40,300
Deposits with banks	2,448	20,264	17,352
Accounts receivable	779	6,447	6,652
Other receivables	222	1,835	2,091
Tax recoverable	29	235	258
Current portion of deferred tax	222	1,843	2,243
Inventories	302	2,499	2,380
Prepayments and other current assets	359	2,974	2,630
Amount due from ultimate holding company	43	356	1,143
Amounts due from related parties	18	150	170
Total current assets	9,877	81,752	75,219
Fixed assets	26,412	218,602	206,635
Construction in progress	3,775	31,239	33,429
Investment securities	9	77	77
Interest in associates	—	—	16
Deferred tax	270	2,232	1,211
Deferred expenses	12	101	311
Total assets	40,355	334,003	316,898
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	3,988	33,005	27,511
Bills payable	202	1,676	2,083
Bank loans and other interest-bearing borrowings	989	8,180	18,230
Current instalments of obligations under finance leases	8	68	78
Taxation	805	6,664	4,521
Amounts due to related parties	267	2,208	2,305
Accrued expenses and other payables	3,911	32,372	25,480
Amount due to immediate holding company	12	98	47
Amount due to ultimate holding company	55	459	1,595
Amounts due to fellow subsidiaries	—	—	2,830
Current portion of deferred revenue	1,563	12,936	10,188
Total current liabilities	11,800	97,666	94,868

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

	At 31 December		2003 RMB million
	2004 US\$ million	2004 RMB million	
LIABILITIES AND SHAREHOLDERS' EQUITY (cont'd)			
Bank loans and other interest-bearing borrowings	1,571	13,000	19,407
Deferred revenue, excluding current portion	140	1,155	1,422
Deferred taxation	23	187	215
Amount due to immediate holding company	2,855	23,633	9,976
Total liabilities	16,389	135,641	125,888
Minority interests	29	243	182
Shareholders' equity	23,937	198,119	190,828
Total liabilities and shareholders' equity	40,355	334,003	316,898

Note: The above condensed "Consolidated balance sheets" and "Consolidated statements of income" as at 31 December 2003 and 2004 and for each of the three years ended 31 December 2002, 2003 and 2004 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.