

SUPPLEMENTARY INFORMATION FOR ADS HOLDERS

The Group's accounting policies conform with IFRS which differ in certain significant respects from US GAAP. Differences which have a significant effect on net profit and shareholders' equity are set out below.

(a) Revaluation of property, plant and equipment

In connection with the Restructuring, the property, plant and equipment of the Group were revalued as at 31 December 2001 (see Note 3 on the financial statements). The net revaluation deficit has been reflected in the consolidated financial statements as at 31 December 2001. Such revaluation resulted in an increase directly to shareholders' equity of RMB4,154 million with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases, and a charge to income of RMB11,930 million with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation unless an impairment loss has been recorded. An impairment loss on property, plant and equipment is recorded under US GAAP if the carrying amount of such asset exceeds its future undiscounted cash flows resulting from the use of the asset and its eventual disposition. The future undiscounted cash flows of the Group's property, plant and equipment, whose carrying amount was reduced in connection with the Restructuring, exceed the historical cost carrying amount of such property, plant and equipment and, therefore, impairment of such assets is not appropriate under US GAAP. Accordingly, the revaluation reserve recorded directly to shareholders' equity and the charge to income recorded under IFRS as a result of the Restructuring are reversed for US GAAP purposes.

However, as a result of the tax deductibility of the net revaluation deficit, a deferred tax liability related to the net revaluation deficit is created under US GAAP with a corresponding decrease in shareholders' equity.

(b) Disposal of revalued property, plant and equipment

Under IFRS, on disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset's historical carrying amount and included in current earnings.

(c) Related party transactions

Under IFRS, transactions with state-controlled enterprises other than China Telecom and its affiliates are not required to be disclosed as related party transactions. Furthermore, government departments and agencies are deemed not to be related parties to the extent that such transactions are in the normal course of business. Therefore, related party transactions as disclosed in Note 32 on the financial statements only refer to transactions with China Telecom Group.

SUPPLEMENTARY INFORMATION FOR ADS HOLDERS (CONTINUED)

Under US GAAP, there are no similar exemptions. The Group's principal transactions with state-controlled telecommunications operators in the PRC were as follows:

	2002 RMB millions	2001 RMB millions
Interconnection revenues	2,409	3,814
Interconnection charges	448	1,290
Leased line revenues	2,727	2,839

The amounts set out above represent the historical costs incurred by the related parties in carrying out such transactions.

(d) Recently issued accounting standards

SFAS No. 143

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the Group to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Group is also required to record a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Group is required to adopt SFAS No. 143 on 1 January 2003. The Group does not expect the adoption of SFAS No. 143 will have a material impact on its consolidated financial statements.

SFAS No. 145

In April 2002, the FASB issued SFAS No. 145, which rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". SFAS No. 145 also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers". SFAS No. 145 amends SFAS No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions.

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The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 shall be applied in fiscal years beginning after 15 May 2002. The provisions in paragraphs 8 and 9(c) of SFAS No. 145 related to Statement 13 shall be effective for transactions occurring after 15 May 2002. All other provisions of SFAS No. 145 shall be effective for financial statements issued on or after 15 May 2002. The Group does not expect the adoption of SFAS No. 145 will have a material impact on its consolidated financial statements.

SFAS No. 146

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. SFAS No. 146 requires an entity to record a liability for cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. Commitment to an exit plan or a plan of disposal expresses only management's intended future actions and does not meet the requirement for recognising a liability and the related expense. An entity is required to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit or disposal activity is initiated and in any subsequent period until the activity is completed. The Group is required to adopt SFAS No. 146 on 1 January 2003. The provisions of SFAS No. 146 are required to be applied prospectively after the adoption date to newly exit or disposal activities. Therefore, management cannot determine the potential effect that the adoption of SFAS No. 146 will have on the Group's consolidated financial statements.

FIN No. 45

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34". This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognise, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after 31 December 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending after 31 December 2002. The Group does not expect the application of this Interpretation will have a material effect on its consolidated financial statements.

FIN No. 46

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after 31 January 2003, and to variable interests

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in variable interest entities obtained after 31 January 2003. The Interpretation requires certain disclosures in financial statements issued after 31 January 2003 if it is reasonably possible that the Group will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The Group does not expect the application of this Interpretation will have a material impact on its consolidated financial statements.

Reconciliation of net profit and shareholders' equity under IFRS to US GAAP

The effect on net profit of significant differences between IFRS and US GAAP for the year ended 31 December 2002 is as follows:

	(Note)		
	2002	2002	2001
	US\$	RMB	RMB
	millions	millions	millions
Net profit under IFRS	2,037	16,864	6,883
US GAAP adjustments:			
Reversal of deficit on revaluation of property, plant and equipment, net of minority interests	—	—	11,838
Depreciation on revalued property, plant and equipment	(186)	(1,542)	—
Disposal of revalued property, plant and equipment	(7)	(55)	—
Deferred tax effect of US GAAP adjustments	64	527	(3,936)
Net profit under US GAAP	1,908	15,794	14,785
Basic earnings per share under US GAAP	0.03	0.23	0.22
Basic earnings per ADS* under US GAAP	2.76	22.81	21.64

* Basic earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

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The effect on shareholders' equity of significant differences between IFRS and US GAAP as at 31 December 2002 is as follows:

	(Note)		
	2002	2002	2001
	US\$	RMB	RMB
	millions	millions	millions
Shareholders' equity under IFRS	15,098	125,008	97,485
US GAAP adjustments:			
Revaluation of property, plant and equipment, net of minority interests	735	6,087	7,684
Deferred tax effect of US GAAP adjustment	(246)	(2,039)	(2,566)
Shareholders' equity under US GAAP	15,587	129,056	102,603

Note:

Solely for the convenience of the reader, the amounts for 2002 have been translated into United States dollars at the noon buying rate in New York City on 31 December 2002 for cable transfers in RMB as certified for custom purposes by the Federal Reserve Bank of New York of US\$1.00=RMB8.2800. No representation is made that the RMB 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 at any other date.