

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

for the six-month period ended 30 June 2004
(Amounts in millions)

| | | Share capital | Capital reserve | Share premium | Revaluation reserve | Surplus reserves | Statutory common welfare fund | Other reserves | Retained earnings | Total shareholders' equity |
|---|------|------------------|--------------------|------------------|------------------------|---------------------|--|-------------------|----------------------|----------------------------------|
| | Note | RMB | RMB | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| Balance as at 1 January 2003, as previously reported | | 75,614 | 20,955 | 3,362 | 4,904 | 8,121 | 1,624 | 31,064 | 7,204 | 152,848 |
| Adjusted for the Second Acquisition | 1 | — | — | — | — | — | — | 34,177 | — | 34,177 |
| Balance as at 1 January 2003, as adjusted | | 75,614 | 20,955 | 3,362 | 4,904 | 8,121 | 1,624 | 65,241 | 7,204 | 187,025 |
| Net profit for the six-month period ended 30 June 2003 | | — | — | — | — | — | — | — | 13,058 | 13,058 |
| Contributions from China Telecom | | — | — | — | — | — | — | — | 215 | 215 |
| Distributions to China Telecom | | — | — | — | — | — | — | — | (214) | (214) |
| Transfer from retained earnings to other reserves | | — | — | — | — | — | — | 3,823 | (3,823) | — |
| Dividends | 15 | — | — | — | — | — | — | — | (673) | (673) |
| Revaluation surplus realised | | — | — | — | (4) | — | — | — | 4 | — |
| Deferred tax on land use rights realised | | — | — | — | — | — | — | (76) | 76 | — |
| Balance as at 30 June 2003 | | 75,614 | 20,955 | 3,362 | 4,900 | 8,121 | 1,624 | 68,988 | 15,847 | 199,411 |
| Net profit for the six-month period ended 31 December 2003 | | — | — | — | — | — | — | — | 824 | 824 |
| Contributions from China Telecom | | — | — | — | — | — | — | — | 4,094 | 4,094 |
| Distributions to China Telecom | | — | — | — | — | — | — | — | (1,020) | (1,020) |
| Assets distributed to China Telecom in connection with the Second Acquisition | 1 | — | — | — | — | — | — | — | (10,762) | (10,762) |
| Recognition of deferred tax assets | | — | — | — | — | — | — | 2,209 | — | 2,209 |
| Transfer from retained earnings to other reserves | | — | — | — | — | — | — | (15,635) | 15,635 | — |
| Consideration for the acquisition of the First Acquired Group | 1 | — | — | — | — | — | — | (45,649) | — | (45,649) |
| Appropriations | | — | — | — | — | 7,340 | 1,748 | — | (9,088) | — |
| Transfer from other reserves to capital reserve | | — | (14,388) | — | — | — | — | 14,388 | — | — |
| Revaluation surplus | | — | — | — | 1,537 | — | — | — | — | 1,537 |
| Eliminations of deferred tax liabilities | | — | — | — | — | — | — | — | 150 | 150 |
| Revaluation surplus realised | | — | — | — | (13) | — | — | — | 13 | — |
| Deferred tax on land use rights realised | | — | — | — | — | — | — | (55) | 55 | — |
| Balance as at 31 December 2003 | | 75,614 | 6,567 | 3,362 | 6,424 | 15,461 | 3,372 | 24,246 | 15,748 | 150,794 |
| Issue of shares, net of issuing expenses of RMB294 million | | 5,318 | — | 7,384 | — | — | — | — | — | 12,702 |
| Net profit for the six-month period ended 30 June 2004 | | — | — | — | — | — | — | — | 14,708 | 14,708 |
| Contributions from China Telecom | | — | — | — | — | — | — | — | 100 | 100 |
| Transfer from retained earnings to other reserves | | — | — | — | — | — | — | 2,653 | (2,653) | — |
| Consideration for the acquisition of the Second Acquired Group | 1 | — | — | — | — | — | — | (27,800) | — | (27,800) |
| Transfer from other reserves to capital reserve | | — | (9,371) | — | — | — | — | 9,371 | — | — |
| Dividends | 15 | — | — | — | — | — | — | — | (5,224) | (5,224) |
| Revaluation surplus realised | | — | — | — | (8) | — | — | — | 8 | — |
| Effect of change in tax rate | 9 | — | — | — | — | — | — | (166) | — | (166) |
| Deferred tax on land use rights realised | | — | — | — | — | — | — | (74) | 74 | — |
| Balance as at 30 June 2004 | | 80,932 | (2,804) | 10,746 | 6,416 | 15,461 | 3,372 | 8,230 | 22,761 | 145,114 |

The notes on pages 15 to 30 form part of these interim financial statements.