

CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)

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

	<i>Note</i>	Six-month periods	
		ended 30 June	
		2004	2003
		RMB	RMB
Net cash from operating activities	<i>(a)</i>	35,517	29,558
Cash flows from investing activities			
Capital expenditure		(26,023)	(24,161)
Purchase of investments		(42)	(73)
Lease prepayments		(125)	(28)
Proceeds from disposal of property, plant and equipment		136	49
Increase in time deposits with maturity over three months		(45)	(294)
Maturity of time deposits with maturity over three months		168	1,262
Net cash used in investing activities		(25,931)	(23,245)
Cash flows from financing activities			
Capital element of finance lease payments		(30)	(35)
Proceeds from issue of shares, net of issuing expenses		12,702	—
Proceeds from bank and other loans		41,129	48,119
Repayments of bank and other loans		(42,083)	(52,424)
Payment of dividends		(4,833)	—
Cash contributions from minority interests		68	18
Cash payment for the acquisition of the Second Acquired Group		(12,650)	—
Cash contributions from China Telecom		100	292
Cash distributions to China Telecom		—	(224)
Net cash used in financing activities		(5,597)	(4,254)
Net increase in cash and cash equivalents		3,989	2,059
Cash and cash equivalents at 1 January		12,721	22,743
Cash and cash equivalents at 30 June		16,710	24,802

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

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

(a) Reconciliation of profit before taxation and minority interests to net cash from operating activities

	Six-month periods	
	ended 30 June	
	2004	2003
	RMB	RMB
Profit before taxation and minority interests	18,401	16,415
Adjustments for:		
Depreciation and amortisation	23,255	22,666
Provision for doubtful accounts	679	733
Investment loss	—	85
Share of profit from associates	(6)	—
Interest income	(109)	(151)
Interest expense	2,522	1,820
Unrealised foreign exchange (gains)/losses	(56)	41
Loss on retirement and disposal of property, plant and equipment	65	967
Increase in accounts receivable	(2,914)	(3,702)
Decrease/(increase) in inventories	26	(271)
Decrease/(increase) in prepayments and other current assets	16	(108)
Decrease/(increase) in other non-current assets	169	(2)
Increase/(decrease) in accounts payable	878	(456)
Increase in accrued expenses and other payables	3,770	3,311
Decrease in deferred revenues	(4,726)	(4,862)
Cash generated from operations	41,970	36,486
Interest received	109	151
Interest paid	(3,125)	(2,572)
Investment income received	30	13
Income tax paid	(3,467)	(4,520)
Net cash from operating activities	35,517	29,558

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