SIGNIFICANT DIFFERENCES BETWEEN IAS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("U.S. GAAP")

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

(a) Revaluation of assets

On 1 October 1994, the Company revalued its fixed assets as part of its restructuring. The revalued fixed assets, which became the revised tax base of the assets, have been accounted for in these financial statements since IAS permits the revaluation of fixed assets. Under U.S. GAAP, the revaluation is reversed since fixed assets are required to be stated at cost. However, a deferred tax asset related to the reversal of the revaluation surplus of RMB508,005,000 is created under U.S. GAAP with a corresponding increase in shareholders' equity as this revaluation arose from a reorganisation of entities under common control. This asset will be realised in the future to the extent that the tax base under PRC tax rules is utilised and will be charged to income.

On 28 February 1995, the fixed assets were further revalued by the Hong Kong external valuers to satisfy the Hong Kong Stock Exchange listing requirements. This revaluation, which resulted in a revaluation surplus of RMB29,033,000, was not recognised by the PRC tax authorities and hence did not result in a change in the tax base of the assets. A deferred tax liability was created under IAS with a corresponding decrease in revaluation surplus. However, since the revaluation is not recognised under U.S. GAAP, both the revaluation and the related tax effect are reversed.

Certain fixed assets written off during the year as a result of cessation of production of certain products were revaluated in 1994 and in 1995 as noted above. The net book value of these fixed assets under U.S. GAAP in much less than that under IAS.

(b) Foreign exchange losses and the related tax effects

Under U.S. GAAP, foreign exchange losses are expensed in the period in which they occur.

Under IAS, foreign exchange losses relating to borrowed funds to the extent that they are adjustments to the interest costs of funds used to finance the construction of fixed assets are capitalised during the period of construction before the commissioning of the plant. Therefore, this creates a step-up in the depreciable tax base and thus a deferred tax asset under U.S. GAAP. After the commissioning of the plant, the U.S. GAAP depreciation charge on such fixed assets is reduced as a result of a lower cost base in respect of these assets. The related deferred tax asset will also be realised in the future to the extent that the tax base under the PRC tax rules is utilised.

SIGNIFICANT DIFFERENCES BETWEEN IAS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("U.S. GAAP") *(Continued)*

(c) Tax adjustments

During the period ended 31 December 1994, certain fixed assets of the Company were transferred to Jilian, in which the Company has a 65% equity interest. Jilian was entitled to full exemption from joint venture income tax for the first two years starting from the first profitable year of operation, which was 1995, followed by a 50% reduction in the full tax rate (33%) from the third to sixth years. The deferred tax asset attributable to the Company's 65% interest in Jilian was recalculated using the applicable future tax rates of the joint venture company. The original deferred tax asset relating to the exchange losses included in the fixed assets transferred to the joint venture was adjusted to reflect the Company's reduced interest in those assets and the tax rates expected at the time of reversal. The reduction in depreciation charges on fixed assets under U.S. GAAP in 1999 and 2000 would not have a related tax effect as Jilian was not subject to tax in 1999 and 2000 (see note 5 to the financial statements).

A summary of the above tax charges applicable to 1999 and 2000 is as follows:

	2000	1999
	RMB'000	*RMB'000*
Realisation of deferred tax asset as tax base under PRC tax rules is utilised.	**123,254**	23,323

(d) Expenses of JCGC not previously allocated

Pursuant to an agreement entered into between the Company and JCGC on 30 September 1998, all the outstanding foreign currency loans in connection with the Ethylene Project will be repaid by the Company in Renminbi using the exchange rates quoted by the People's Bank of China on 30 September 1998. As a result of the aforesaid agreement, the exposure associated with foreign currency loans was passed on to JCGC. Under the requirement of Staff Accounting Bulletin (SAB) Topic 1:B of the Securities and Exchange Commission, the Company should reflect in its income statement all of its costs of doing business. It is further required by SAB Topic 5:J that the net costs associated with such foreign currency loans should be taken up by the Company. Accordingly, the net foreign exchange difference that should have otherwise been incurred by the Company, had such an agreement with JCGC not been entered into, was adjusted according to the SAB requirement.

Pursuant to an agreement with JCGC in late 2000, the outstanding loans were reconverted to foreign currency loans effective from 1 January 2000. All the exchange was borne by JCGC during the period from 1 October 1998 through 31 December 1999. All the exchange risks differences subsequent to 31 December 1999 are borne by the Group. Accordingly, there is no difference in the income statement between IAS and US GAAP in this respect effective from 1 January 2000.

SIGNIFICANT DIFFERENCES BETWEEN IAS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("U.S. GAAP") *(Continued)*

(e) Additional U.S. GAAP information – Recent accounting pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is effective for all fiscal quarters of all fiscal years beginning after 15 June 1999. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair values. Changes in the fair values of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. The Company does not expect that the adoption of SFAS No.133 will have a material impact on its consolidated financial statements.

Effect on net profit of significant differences between IAS and U.S. GAAP:

	Notes	**2000**	1999
		RMB'000	*RMB'000*
Net profit/(loss) under IAS		**(835,990)**	148,800
Adjustments:			
Reduction in depreciation charge on fixed assets			
– due to revaluation on restructuring	*(a)*	**57,030**	67,693
– due to revaluation on 28 February 1995	*(a)*	**1,452**	1,452
– due to foreign exchange losses on interest components capitalised in fixed assets	*(b)*	**1,531**	1,531
– due to revaluation of fixed assets of Jilian	*(c)*	**7,630**	7,630
Net foreign exchange difference not allocated to the Company, net of tax of RMB Nil (1999: RMB18,787,000)		**–**	(38,142)
Reduction in loss on write off of fixed assets	*(a)*	**313,484**	–
Tax adjustments	*(c)*	**(123,254)**	(23,323)
Approximate net profit/(loss), adjusted for U.S. GAAP		**(578,117)**	165,641
Approximate basic and diluted earnings/(loss) per share under U.S. GAAP after adjustment for net foreign exchange difference of JCGC not allocated to the Company		**(RMB0.16)**	RMB0.05
Approximate basic and diluted earnings/(loss) per ADS under U.S. GAAP after adjustment for net foreign exchange difference of JCGC not allocated to the Company		**(RMB16.2)**	RMB4.81

SIGNIFICANT DIFFERENCES BETWEEN IAS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("U.S. GAAP") *(Continued)*

Effect on shareholders' equity of significant differences between IAS and U.S. GAAP

	2000	1999
	RMB'000	*RMB'000*
		(Restated)
Shareholders' equity under IAS, as restated	**5,873,895**	6,199,476
Adjustments:		
Foreign exchange losses on interest component	**(30,616)**	(30,616)
Reduction in depreciation charge on fixed assets		
– due to revaluation of fixed assets of the Group	**578,062**	519,580
– due to revaluation of fixed assets of Jilian	**47,552**	39,922
– due to foreign exchange losses on interest components capitalised in fixed assets	**6,124**	4,593
Revaluation of fixed assets on restructuring	**(1,665,454)**	(1,665,454)
Deferred tax asset on the revaluation surplus created on restructuring	**508,005**	508,005
Revaluation of fixed assets on 28 February 1995, net of tax effect	**(19,453)**	(19,453)
Gain on transfer of fixed assets to Jilian	**(65,320)**	(65,320)
Tax benefits arising from tax allocation from JCGC due to utilisation of tax losses of other divisions of JCGC	**24,838**	24,838
Reduction in loss on disposal of fixed assets	**313,484**	–
Tax adjustments	**(280,665)**	(157,411)
Approximate shareholders' equity, in accordance with U.S. GAAP	**5,290,452**	5,358,160