

C. Differences between accounts prepared under IAS and PRC Accounting Rules and Regulations

Other than the differences in classification of certain accounts assertions and the accounting treatment of the items described below, there are no material differences between the Group's accounts prepared in accordance with IAS and PRC Accounting Rules and Regulations. The major differences are:

- (i) Under IAS, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs should be capitalised as part of the cost of that asset. Under PRC Accounting Rules and Regulations, only borrowing costs on funds that are specifically borrowed for construction are eligible for capitalisation as fixed assets. The deferred tax effect of the above is recognised in the IAS accounts.
- (ii) Under PRC Accounting Rules and Regulations, the excess of fair value over the carrying value of assets given up in part exchange for investments should be credited to capital reserve fund. Under IAS, it is inappropriate to recognise such excess as its realisation is uncertain.
- (iii) Under IAS, the building use rights of staff dormitories are considered to be of no value and written off to the profit and loss account once the employees have acquired the legal titles, Under PRC Accounting Rules and Regulations, the amount of such rights written off was to be carried forward in a Housing Revolving Fund pursuant to the notice "Cai Kuai Zi(1995) No.14" issued by the Ministry of Finance ("MOF") on 3 March 1995. Pursuant to the notices "Cai Qi(2000) No. 295" and "Cai Kuai (2001) No. 5" issued by MOF on 6 September 2000 and 7 January 2001 respectively, the balance of Housing Revolving Fund as at 31 December 2000 was offset against the opening balance of retained earnings at 1 January 2001.
- (iv) Under PRC Accounting Rules and Regulations, government grants should be credited to capital reserve. Under IAS, such grants for the purchase of equipment used for technology improvements are offset against the cost of asset to which the grants related. Upon transfer to property, plant and equipment, the grant is recognised as income over the useful life of the property, plant and equipment by way of a reduced depreciation charge.
- (v) Under the PRC Accounting Rules and Regulations, dividends relating to an accounting period declared after the period end date are recognised as a liability in that accounting period. Under IAS, dividends are recognised as a liability at its declaration date.

Effects on the Group's profit attributable to shareholders and shareholders' equity of significant differences between IAS and PRC Accounting Rules and Regulations are summarised below:

		Six-month periods ended 30 June	
		2001	2000
		RMB'000	RMB'000
	Note		
Profit attributable to shareholders under IAS		159,809	414,303
Adjustments:			
Capitalisation of borrowing cost	(i)	(22,605)	-
Deferred tax effect	(i)	3,391	-
Profit attributable to shareholders under PRC Accounting Rules and Regulations		<u>140,595</u>	<u>414,303</u>
		At 30 June	At 31 December
		2001	2000
		RMB'000	RMB'000
	Note		
Shareholders' equity under IAS		13,229,443	13,501,634
Adjustments:			
Capitalisation of borrowing cost	(i)	(22,605)	-
Deferred tax effect	(i)	3,391	-
Valuation surplus	(ii)	44,887	44,887
Building use rights of staff dormitories written off	(iii)	-	316,147
Government grants	(iv)	386,370	386,370
Dividend declared post balance sheet date	(v)	-	(432,000)
Shareholders' equity under PRC Accounting Rules and Regulations		<u>13,641,486</u>	<u>13,817,038</u>