

## Significant Differences between PRC Accounting Standards and International Accounting Standards (“IAS”)

(Amounts in thousands unless otherwise stated)

The statutory financial statements prepared in accordance with PRC accounting standards (“PRC GAAP”) and the financial statements prepared in accordance with IAS differ in certain respects. Such differences involve methods for measuring the amounts shown in the financial statements as well as disclosures.

Effect on net loss of significant differences between PRC GAAP and IAS is summarised below:

	<i>Notes</i>	<b>2001</b> <b>RMB</b>	2000 <i>RMB</i>
Net loss as reported under PRC GAAP		<b>(1,803,022)</b>	(878,767)
Adjustments to conform with IAS:			
– Depreciation expense due to revaluation of fixed assets at February 28, 1995	(i)	<b>(1,452)</b>	(1,452)
– Additional loss on write-off of fixed assets	(ii)	–	(4,626)
– Depreciation expense on fixed assets due to differences in exchange gains capitalised	(iii)	<b>(7,311)</b>	(7,310)
– Interest expense capitalised in construction in progress	(iv)	<b>(17,917)</b>	4,013
– Interest income from share proceeds	(v)	<b>(520)</b>	(520)
– Appropriation to staff bonus and welfare fund	(vi)	<b>(1,959)</b>	(230)
– Amortisation of housing subsidy cost	(vii)	<b>(9,319)</b>	(4,203)
– Reversal of amortisation of land use rights	(viii)	<b>20,739</b>	–
– Tax adjustment	(ix)	<b>3,392</b>	57,105
		<hr/>	<hr/>
Net loss as reported under IAS		<b>(1,817,369)</b>	(835,990)
		<hr/> <hr/>	<hr/> <hr/>

(Amounts in thousands unless otherwise stated)

Effect on shareholders’ equity of significant differences between PRC GAAP and IAS is summarised below.

	<i>Notes</i>	<b>December 31, 2001 RMB</b>	December 31, 2000 RMB
Shareholders’ equity as reported under PRC GAAP		<b>3,881,744</b>	5,687,245
Adjustments to conform with IAS:			
– Depreciation expense due to revaluation of fixed assets at February 28, 1995	<i>(i)</i>	<b>(9,921)</b>	(8,469)
– Surplus on revaluation of fixed assets at February 28, 1995	<i>(i)</i>	<b>29,033</b>	29,033
– Deferred tax effect on revaluation surplus	<i>(i)</i>	<b>(9,580)</b>	(9,580)
– Difference in loss on disposal of fixed assets due to revaluation at February 28, 1995	<i>(ii)</i>	<b>(4,626)</b>	(4,626)
– Exchange gains in respect of funds borrowed for fixed assets	<i>(iii)</i>	<b>112,471</b>	112,471
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	<i>(iii)</i>	<b>(35,073)</b>	(27,762)
– Interest expense capitalised in construction in progress	<i>(iv)</i>	–	17,917
– Housing subsidy cost	<i>(vii)</i>	<b>62,159</b>	71,478
– Deferred tax effect on housing subsidy cost	<i>(vii)</i>	<b>(23,587)</b>	(23,587)
– Adjustment of land use rights at January 1, 2001	<i>(viii)</i>	<b>(929,741)</b>	–
– Tax adjustment	<i>(ix)</i>	<b>33,167</b>	29,775
		<b><u>3,100,040</u></b>	<b><u>5,873,895</u></b>
Shareholders’ equity as reported under IAS			

- (i) Depreciation expense under IAS includes the effect of revaluation of fixed assets at February 28, 1995 in connection with the listing of the Company’s shares on the Hong Kong Stock Exchange. Under PRC GAAP, this revaluation, which was not officially approved as part of the 1994 Restructuring, was not recognised. Accordingly, depreciation charge calculated under PRC GAAP is lower than that under IAS.
- (ii) In 2000, certain fixed assets including those revalued at February 28, 1995 were written off in connection with the shut down of manufacturing assets. As the effect of the February 28, 1995 has not been recognised under PRC GAAP, additional loss on write-off of fixed assets relating to the surplus arising from the February 28, 1995 revaluation was recorded in the IAS financial statements.

**(Amounts in thousands unless otherwise stated)**

- (iii) Under IAS, foreign currency translation differences relating to borrowings to the extent that they are adjustments to the interest costs of funds used to finance the construction of fixed assets are capitalised. Under PRC GAAP, all foreign currency translation differences relating to funds borrowed to finance the construction of fixed assets are capitalised during the construction period. Accordingly, the cost of the underlying fixed assets as reported in the IAS financial statements is greater than that as determined under PRC GAAP, and thus resulted in additional depreciation charge.
- (iv) Under IAS, interest expense relating to funds borrowed generally and used for the construction of fixed assets are capitalised by applying a weighted average rate applicable to the borrowings that are outstanding during the period. Under PRC GAAP, only interest expense incurred on funds borrowed specifically for the construction of fixed assets are capitalised.
- (v) According to the relevant rules and regulations of the China Securities Regulatory Commission, for those new shares issued in 1996, the corresponding interest income generated during the allotment period should be included as part of the share premium. Interest income relating to the unsuccessful applicants is released to the profit and loss account over a period of five years starting from 1997. Under IAS, such income, when received, was recorded in the profit and loss account.
- (vi) In 2000 and 2001, two subsidiaries of the Company, which are Sino-foreign joint ventures, made an appropriation from retained earnings to the staff and workers' bonus and welfare fund in accordance with the relevant rules and regulations of the PRC. Under IAS, such appropriation is charged to the profit and loss account.
- (vii) As a result of the reorganisation of CNPC and PetroChina, PetroChina agreed to bear the cost of housing subsidy and accordingly the relevant amount payable of RMB84.09 million to JCGC, after netting off deferred tax of RMB23.59 million, was credited to capital reserve under IAS. Under PRC GAAP, the payable amount of RMB84.09 million was offset against housing subsidy cost brought forward of RMB75.68 million and the balance RMB8.41 million was credited to capital reserve. Consequently, there is no amortisation of housing subsidiary cost under PRC GAAP.
- (viii) Under PRC GAAP, land use rights are recognised and amortised over 50 years. With effect from January 1, 2001, the Company has applied IAS 17 “Leases”, as clarified by IAS 40 “Investment Property”, to the accounting for land use rights. The Company has therefore reclassified land use rights as operating leases and is now reflecting the carrying value of land use rights at RMB nil. Consequently, there is no amortisation of land use rights under IAS in 2001.
- (ix) As there is uncertainty as to whether the deferred tax asset established in (i) and (vii) above can be recovered, the deferred tax asset is not recognised.