

(Amounts in thousands unless otherwise stated)

The consolidated financial statements prepared in accordance with accounting principles generally accepted in the PRC (“PRC GAAP”) and the consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) differ in certain respects. Such differences involve methods for measuring the amounts shown in the consolidated financial statements as well as disclosures.

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

	<i>Notes</i>	2002 RMB	2001 RMB
Net loss as reported under PRC GAAP		(1,025,733)	(1,803,022)
Adjustments to conform with IFRS:			
– Depreciation expense due to revaluation of fixed assets at February 28, 1995	<i>(i)</i>	(1,452)	(1,452)
– Additional loss on write-off of fixed assets	<i>(ii)</i>	(1,683)	–
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	<i>(iii)</i>	(7,311)	(7,311)
– Interest expense capitalised in construction in progress	<i>(iv)</i>	–	(17,917)
– Interest income from share proceeds	<i>(v)</i>	–	(520)
– Appropriation to staff bonus and welfare fund	<i>(vi)</i>	(142)	(1,959)
– Amortisation of housing subsidy cost	<i>(vii)</i>	(9,319)	(9,319)
– Reversal of amortisation of land use rights	<i>(viii)</i>	22,541	20,739
– Tax adjustment	<i>(ix)</i>	–	3,392
		<hr/> (1,023,099) <hr/>	<hr/> (1,817,369) <hr/>
Net loss as reported under IFRS			

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Effect on shareholders' equity of significant differences between PRC GAAP and IFRS is summarised below:

	Notes	At December 31,	
		2002 RMB	2001 RMB
Shareholders' equity as reported under PRC GAAP		2,855,869	3,881,744
Adjustments to conform with IFRS:			
– Surplus on revaluation of fixed assets at February 28, 1995	(i)	29,033	29,033
– Deferred tax effect on revaluation surplus on revaluation of fixed assets at February 28, 1995	(i)	(9,580)	(9,580)
– Depreciation expense due to revaluation of fixed assets at February 28, 1995	(i)	(11,373)	(9,921)
– Difference in loss on write-off of fixed assets due to revaluation at February 28, 1995	(ii)	(6,309)	(4,626)
– Exchange gains in respect of funds borrowed for fixed assets	(iii)	112,471	112,471
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	(iii)	(42,384)	(35,073)
– Housing subsidy cost	(vii)	52,840	62,159
– Deferred tax effect on housing subsidy cost	(vii)	(23,587)	(23,587)
– Adjustment of land use rights at January 1, 2001	(viii)	(907,200)	(929,741)
– Tax adjustment	(ix)	33,167	33,167
Shareholders' equity as reported under IFRS		<u>2,082,947</u>	<u>3,106,046</u>

- (i) In connection with the application for listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company engaged American Appraisal Hong Kong Limited, independent valuers in Hong Kong, to perform a valuation of all of the Group's fixed assets as of February 28, 1995. The valuation resulted in a surplus of RMB29,033. The surplus arising from the valuation was credited to revaluation reserve. Depreciation expense under IFRS includes the effect of revaluation of fixed assets at February 28, 1995. 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 IFRS.
- (ii) In 2002, 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 IFRS financial statements.

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- (iii) Under IFRS, 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 IFRS financial statements is greater than that as determined under PRC GAAP, and thus resulted in additional depreciation charge.
- (iv) Under IFRS, 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 IFRS, such income, when received, was recorded in the profit and loss account.
- (vi) In 2001 and 2002, 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 in the PRC. Under IFRS, 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 payable to JCGC of RMB84,089, after netting off deferred tax of RMB23,587, was credited to capital reserve under IFRS. Under PRC GAAP, the payable of RMB84,089 was offset against housing subsidy cost brought forward of RMB75,681 and the balance RMB8,408 was credited to capital reserve. Consequently, there is no amortisation of housing subsidy cost under PRC GAAP.
- (viii) Under PRC GAAP, land use rights are recognised at the appraised value 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 historical cost of RMB nil. Consequently, there is no amortisation of land use rights under IFRS commencing 2001.
- (ix) Adjustment of deferred tax effect in (i) and (vii) above.