

## C. Differences between financial statements prepared under PRC Accounting Rules and Regulations and IFRS

The Company also prepares a set of financial statements which complies with PRC Accounting Rules and Regulations. A reconciliation of the Group's net profit and shareholders' equity prepared under PRC Accounting Rules and Regulations and IFRS is presented below.

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

- (i) Capitalisation of general borrowing costs  
Under IFRS, 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 specially borrowed for construction are eligible for capitalisation as fixed assets.
- (ii) Valuation surplus  
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 IFRS, it is inappropriate to recognise such excess as a gain as its realisation is uncertain.
- (iii) Government grants  
Under PRC Accounting Rules and Regulations, government grants should be credited to capital reserve. Under IFRS, 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.
- (iv) Revaluation of land use rights  
Effective from 1 January 2002, land use rights are carried at historical cost less amortisation under IFRS. Accordingly, the surplus on the revaluation of land use rights was reversed to shareholders' equity. Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amount.
- (v) Pre-operating expenditure  
Under IFRS, expenditure on start-up activities should be recognised as expenses when it is incurred. Under PRC Accounting Rules and Regulations, all expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to the income statement in the month of commencement of operations.
- (vi) Dividend  
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 IFRS, dividends are recognised as a liability at its declaration date.

## C. Differences between financial statements prepared under PRC Accounting Rules and Regulations and IFRS (continued)

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

	Note	Years ended 31 December	
		2002 RMB'000	2001 RMB'000
Net profit under PRC Accounting Rules and Regulations		<b>908,965</b>	71,604
Adjustments:			
Capitalisation of borrowing costs, net of depreciation effect	(i)	<b>5,833</b>	52,288
Reversal of depreciation on government grants	(iii)	<b>15,411</b>	-
Amortisation of revaluation of land use rights	(iv)	<b>3,498</b>	-
Write off of pre-operating expenditure	(v)	<b>(15,942)</b>	-
Tax effects of the above adjustments		<b>(1,400)</b>	(7,843)
Net profit under IFRS*		<b>916,365</b>	116,049

  

	Note	As at 31 December	
		2002 RMB'000	2001 RMB'000
Shareholders' equity under PRC Accounting Rules and Regulations		<b>14,121,460</b>	13,572,495
Adjustments:			
Capitalisation of borrowing costs	(i)	<b>58,121</b>	52,288
Valuation surplus	(ii)	<b>(44,887)</b>	(44,887)
Government grants	(iii)	<b>(370,959)</b>	(386,370)
Revaluation of land use rights	(iv)	<b>(139,857)</b>	(143,355)
Write off of pre-operating expenditure	(v)	<b>(15,942)</b>	-
Dividend		<b>360,000</b>	-
Tax effects of the above adjustments		<b>12,260</b>	13,660
Shareholders' equity under IFRS*		<b>13,980,196</b>	13,063,831

\* The above figures are extracted from the financial statements prepared in accordance with IFRS which have been audited by KPMG.