The Group's accounting policies conform with IFRS which differ in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Differences which have a significant effect on net profit and shareholders' equity are set out below.

Notes:

(a) Foreign exchange gains and losses

Foreign exchange differences on funds borrowed for construction are capitalised as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. In the years ended December 31, 2001 and 2002, no foreign exchange differences were capitalised to property, plant and equipment. Under U.S. GAAP, all foreign exchange gains and losses on foreign currency debt are included in current earnings. In 2001 and 2002, the U.S. GAAP adjustments represent the effect of amortisation of amounts previously capitalised.

(b) Capitalisation of property, plant and equipment

In years prior of those presented herein, certain adjustments arose between IFRS and U.S. GAAP with regard to the capitalisation of interest and pre-production results under IFRS, that were reversed and expensed under U.S. GAAP. For the years presented herein, no adjustments related to the capitalisation of construction costs, including capitalised interest, are necessary. Accordingly, the U.S. GAAP adjustments for 2001 and 2002 represent the amortisation effect of such originating adjustments described above.

(c) Revaluation of property, plant and equipment

In the periods prior to those presented herein, the property, plant and equipment of the Company were revalued to reflect the then current fair value resulting in a revaluation surplus recorded in the Company's financial statements. Additional depreciation charges have been taken in the years ended December 31, 2001 and 2002 on the revaluation surplus of RMB1,576,330,000.

Under U.S. GAAP, property, plant and equipment are stated at historical cost less accumulated depreciation. However, as a result of the tax deductibility of the revaluation, a deferred tax asset related to the reversal of the revaluation surplus is created under U.S. GAAP with a corresponding increase in shareholders' equity.

Under IFRS, effective January 1, 2002, land use rights, which were previously carried at revalued amount, are carried at historical cost base. The effect of this change resulted in a decrease of shareholders' equity of RMB 121,852,000 as of January 1, 2002. This change under IFRS eliminated the U.S. GAAP difference relating to the valuation of land use rights.

Notes: (continued)

(d) Capitalised interest on investment in associates

Under IFRS, investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalised. Under U.S. GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is capitalised.

(e) Goodwill and negative goodwill amortisation

Under IFRS, goodwill and negative goodwill are amortised on a systematic basis over their useful lives.

Under U.S. GAAP, with reference to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill is no longer amortised beginning January 1, 2002, the date that SFAS No. 142 was adopted. Instead, goodwill will be reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter. In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Group performed an assessment of whether there is an indication that goodwill was impaired as of the date of adoption. To accomplish this, the Group identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill, to those reporting units as of the date of adoption. The Group's reporting units are consistent with the Group's operating segments identified in note 31 to the annual financial statements prepared under IFRS. Based on a comparison between the fair value and carrying amount of the reporting units that the goodwill was assigned to, no indication exists that the goodwill was impaired and accordingly no transitional impairment losses were recorded at the date of adoption. In addition, under U.S. GAAP, negative goodwill of RMB19,828,000 that existed at the date of adoption of SFAS No. 142 was written off effective January 1, 2002 as a cumulative effect of a change in accounting principle.

(f) Basic earnings per share

The calculation of basic earnings per share is based on the net proft under U.S. GAAP of RMB1,124,623,000 (2001: RMB 300,130,000) and the number of shares in issue during the year of 7,200,000,000 (2001: 7,200,000,000). Basic earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both years.

Notes (continued):

(g) Recently issued accounting standards

SFAS No. 143

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the Group to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Group is also required to record a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Group is required to adopt SFAS No. 143 on January 1, 2003. The Group does not expect the adoption of SFAS No.143 to have a material impact on its consolidated financial statements.

SFAS No. 145

In April 2002, the FASB issued SFAS No.145, which rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". SFAS No.145 also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers". SFAS No.145 amends SFAS No.13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No.145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions.

The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 shall be applied in fiscal years beginning after May 15, 2002. The provisions in paragraphs 8 and 9(c) of SFAS No. 145 related to Statement 13 shall be effective for transactions occurring after May 15, 2002. All other provisions of SFAS No. 145 shall be effective for financial statements issued on or after May 15, 2002. The Group does not expect the adoption of SFAS No. 145 to have a material impact on its consolidated financial statements.

SFAS No. 146

In July 2002, the FASB issued SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities" which applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. SFAS No.146 requires an entity to record a liability for costs associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. Commitment to an exit plan or a plan of disposal expresses only management's intended future actions and does not meet the requirement for recognising a liability and the related expense. An entity is required to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit or disposal activity is initiated and in any subsequent period until the activity is completed. The Group is required to adopt SFAS No.146 on January 1, 2003. The provisions of SFAS No.146 are required to be applied prospectively after the adoption date to newly exit or disposal activities. The Group does not expect the adoption of SFAS No.146 to have a material impact on its consolidated financial statements.

Notes (continued):

(g) Recently issued accounting standards *(continued)*

FIN No. 45

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34". This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognise, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002. The Group does not expect the application of this Interpretation to have a material effect on its consolidated financial statements.

FIN No. 46

In January 2003, the FASB issued Interpretation No.46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Group will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The Group does not expect the application of this Interpretation to have a material impact on its consolidated financial statements.

(h) United States dollar equivalents

For the convenience of the reader, amounts in Renminbi ("RMB") have been translated into United States dollars at the rate of US$1.000 = RMB 8.2773 being the average of the buying and selling rates quoted by the People's Bank of China on December 31, 2002. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate.

Effects on the net profit and on shareholders' equity of significant differences between IFRS and U.S. GAAP are summarised below:

	Note	For the years ended December 31 2002 US$'000	2002 RMB'000	2001 RMB'000
Net profit under IFRS		**110,708**	**916,365**	116,049
U.S. GAAP adjustments:				
Foreign exchange gains and losses	(a)	**4,476**	**37,054**	37,054
Capitalisation of property, plant and equipment	(b)	**2,622**	**21,703**	21,703
Depreciation charge on revalued property, plant and equipment	(c)	**15,705**	**129,995**	133,491
Capitalised interest on investment in associates	(d)	**2,538**	**20,996**	24,318
Goodwill and negative goodwill amortisation	(e)	**1,225**	**10,144**	-
Cumulative effect of adopting SFAS No. 142	(e)	**2,395**	**19,828**	-
Tax effect of the above adjustments		**(3,801)**	**(31,462)**	(32,485)
Net profit under U.S. GAAP		**135,868**	**1,124,623**	300,130
Basic earnings per share under U.S. GAAP	(f)	**US$0.019**	**RMB0.156**	RMB0.042
Basic earnings per ADS under U.S. GAAP	(f)	**US$1.887**	**RMB15.620**	RMB4.168

In accordance with SFAS No. 142's disclosure requirements, a reconciliation of reported net profit under U.S. GAAP to adjusted net profit under U.S. GAAP is presented below.

	For the years ended December 31 2002 US$'000	2002 RMB'000	2001 RMB'000
Reported net profit under U.S. GAAP	**135,868**	**1,124,623**	300,130
Add : Goodwill amortisation	**-**	**-**	13,448
Less: Amortisation of negative goodwill	**-**	**-**	(3,304)
Adjusted net profit under U.S. GAAP	**135,868**	**1,124,623**	310,274
Adjusted basic earnings per share under U.S. GAAP	**US$0.019**	**RMB0.156**	RMB0.043
Adjusted basic earnings per ADS under U.S. GAAP	**US$1.887**	**RMB15.620**	RMB4.309
Adjusted net profit before cumulative effect of change in accounting principle under U.S. GAAP	**133,473**	**1,104,795**	310,274

The effect on shareholders' equity of significant differences between IFRS and U.S. GAAP is as follows:

		As at December 31		
	Note	**2002**	**2002**	2001
		US$'000	**RMB'000**	RMB'000
Shareholders' equity under IFRS, as previously reported				13,185,683
Adjustment to land use rights	(c)			(121,852)
Shareholders' equity under IFRS, as reclassified		**1,688,980**	**13,980,196**	13,063,831
U.S. GAAP adjustments:				
Foreign exchange gains and losses	(a)	**(4,775)**	**(39,527)**	(76,581)
Capitalisation of property, plant and equipment	(b)	**(5,244)**	**(43,410)**	(65,113)
Revaluation of property, plant and equipment	(c)	**(39,084)**	**(323,511)**	(453,506)
Capitalised interest on investment in associates	(d)	**5,474**	**45,314**	24,318
Goodwill and negative goodwill	(e)	**3,621**	**29,972**	-
Tax effect of the above adjustments		**6,544**	**54,171**	85,633
Shareholders' equity under U.S. GAAP		**1,655,516**	**13,703,205**	12,578,582

The "Tax effect of the above adjustments" as of December 31, 2001 and 2002 and for the years then ended is based on the 15% tax rate applicable to the Company through 2002. The Company has not received notice from the Ministry of Finance that the 15% tax rate will continue to be applicable to the Company in 2003. As such, it is possible that the Company's tax rate will increase in 2003.