

Significant Differences between PRC GAAP and IFRS

For the year ended December 31, 2003

(Amounts in thousands unless otherwise stated)

Effect of significant differences between PRC GAAP and IFRS on net profit/(loss) and shareholders' equity is summarised below.

Net profit/(loss)

	Notes	Year ended December 31,	
		2003 RMB	2002 RMB
Net profit/(loss) as reported under PRC GAAP		423,995	(1,025,733)
Adjustments to conform with IFRS:			
– Depreciation expense due to revaluation of fixed assets at February 28, 1995	(i)	(1,452)	(1,452)
– Difference in loss on write-off of fixed assets due to revaluation of fixed assets at February 28, 1995	(ii)	–	(1,683)
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	(iii)	(7,311)	(7,311)
– Appropriation to staff bonus and welfare fund	(iv)	–	(142)
– Amortisation of housing subsidy cost	(v)	(9,319)	(9,319)
– Reversal of amortisation of land use rights	(vi)	21,696	22,541
		<u>427,609</u>	<u>(1,023,099)</u>

Shareholders' equity

	Notes	December 31,	December 31,
		2003 RMB	2002 RMB
Shareholders' equity as reported under PRC GAAP		3,279,864	2,855,869
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 at February 28, 1995	(i)	(12,825)	(11,373)
– Difference in loss on write-off of fixed assets due to revaluation at February 28, 1995	(ii)	(6,309)	(6,309)
– 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)	(49,695)	(42,384)
– Housing subsidy cost	(v)	43,521	52,840
– Deferred tax effect on housing subsidy cost	(v)	(23,587)	(23,587)
– Adjustment of land use rights at January 1, 2001	(vi)	(885,504)	(907,200)
– Tax adjustment	(vii)	33,167	33,167
		<u>2,510,556</u>	<u>2,082,947</u>

Significant Differences between PRC GAAP and IFRS

For the year ended December 31, 2003

(Amounts in thousands unless otherwise stated)

- (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 prior years, 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 valuation at 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.
- (iii) Under IFRS, foreign currency translation gains 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) In 2002, a subsidiary of the Company (a Sino-foreign joint venture) 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.
- (v) 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 of RMB8,408 was credited to capital reserve. Consequently, there is no amortisation of housing subsidy cost under PRC GAAP.
- (vi) 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.
- (vii) Adjustment of deferred tax effect in (i) and (v) above