

Significant Differences between IFRS and US GAAP

For the year ended December 31, 2003

(Amounts in thousands unless otherwise stated)

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

Net profit/(loss)

	Notes	Year ended December 31,			
		2003 RMB	2002 RMB	2003 US\$	2002 US\$
Net profit/(loss) under IFRS		427,609	(1,023,099)	51,664	(123,612)
US GAAP adjustments:					
– Depreciation charge on fixed asset revaluation surplus on Restructuring and at February 28, 1995	(i)	11,223	3,593	1,356	434
– Reduction in loss on write-off of fixed assets	(i)	–	2,526	–	305
– Reversal of writedown in carrying amount (net of minority interests) of fixed assets and provision for fixed assets impairment	(i)	(42,700)	322,240	(5,159)	38,933
– Depreciation charge on writedown in carrying amount (net of minority interests) of fixed assets and provision for fixed assets impairment	(i)	(27,954)	–	(3,377)	–
– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets	(ii)	1,531	1,531	185	185
– Depreciation charge on fixed assets revaluation surplus of Jilian	(iii)	–	7,630	–	922
Net profit/(loss) under US GAAP		<u>369,709</u>	<u>(685,579)</u>	<u>44,669</u>	<u>(82,833)</u>
Basic and diluted net profit/(loss) per share		<u>RMB0.10</u>	<u>(RMB0.19)</u>	<u>US\$0.01</u>	<u>(US\$0.02)</u>

Significant Differences between IFRS and US GAAP

For the year ended December 31, 2003
(Amounts in thousands unless otherwise stated)

Shareholders' equity

	Notes	December 31, 2003 RMB	December 31, 2002 RMB	December 31, 2003 US\$	December 31, 2002 US\$
Shareholders' equity as reported under IFRS		2,510,556	2,082,947	303,328	251,664
US GAAP adjustments:					
– Fixed asset revaluation on Restructuring and at February 28, 1995	(i)	(744,007)	(744,007)	(89,892)	(89,892)
– Deferred tax asset on fixed asset revaluation surplus on Restructuring	(i)	235,941	235,941	28,507	28,507
– Depreciation charge on fixed assets due to revaluation on Restructuring and at February 28, 1995	(i)	665,461	591,426	80,402	71,457
– Reversal of deferred tax liability on fixed asset revaluation surplus at February 28, 1995	(i)	9,580	9,580	1,157	1,157
– Reduction in loss on write-off of fixed assets	(i)	11,532	11,532	1,393	1,393
– Reversal of writedown in carrying amount (net of minority interests) of fixed assets and provision for fixed assets impairment	(i)	279,540	322,240	33,774	38,933
– Depreciation on writedown in carrying amount (net of minority interests) of fixed assets and provision for fixed assets impairment	(i)	(27,954)	–	(3,377)	–
– Foreign currency translation difference on interest components capitalised in fixed assets	(ii)	(30,616)	(30,616)	(3,699)	(3,699)
– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets	(ii)	10,717	9,186	1,295	1,110
– Gain on transfer of fixed assets to Jilian	(iii)	(65,320)	(65,320)	(7,892)	(7,892)
– Depreciation charge on fixed asset revaluation surplus of Jilian	(iii)	–	62,812	–	7,589
– Tax adjustment	(iv)	(245,521)	(245,521)	(29,664)	(29,664)
Shareholders' equity as reported under US GAAP		2,609,909	2,240,200	315,332	270,663

Significant Differences between IFRS and US GAAP

For the year ended December 31, 2003

(Amounts in thousands unless otherwise stated)

(i) Revaluation of fixed assets

On September 30, 1994, the fixed assets transferred to the Company by Jilin Chemical Industrial Corporation as part of the Restructuring were appraised, as required by the relevant PRC regulations, by a firm of independent valuers registered in the PRC. The revaluation of the fixed assets transferred resulted in RMB714,974 in excess of the prior carrying value and was recorded in share capital and capital reserve and not as a revaluation reserve. The depreciation charge on the revaluation surplus for the year ended December 31, 2003 was RMB9,771 (2002: RMB2,141), including the depreciation charge of RMB7,630 on the revaluation surplus of Jilian (previously a jointly controlled entity of the Company) reclassified since 2003 as a result of the Company's acquisition of the remaining 35% equity interest in Jilian in December 2002. For purposes of reconciling to the US GAAP financial data, the effect of the revaluation and the related depreciation charge is reversed. A deferred tax asset of RMB235,941 (2002: RMB235,941) relating to the reversal of the revaluation effect was established, together with a corresponding increase in shareholders' equity.

On February 28, 1995, the Group's fixed assets were further revalued by a firm of independent valuers registered in Hong Kong to satisfy the Hong Kong Stock Exchange listing requirements. This revaluation, which resulted in an additional revaluation surplus of RMB29,033, was not recognised by the PRC authorities and was therefore not recorded in the statutory accounting books. A deferred tax liability of RMB9,580 was created under IFRS with a corresponding decrease in revaluation surplus. The depreciation charge on the revaluation surplus for the year ended December 31, 2003 was RMB1,452 (2002: RMB1,452). For purposes of reconciling to the US GAAP financial data, the revaluation surplus, the related depreciation charge and the tax effect are reversed.

In prior years, certain fixed assets with a net book value of RMB283,418 (RMB2,526 related to revaluation surplus recorded in share capital and capital reserve) were written off as a charge to the income statement in connection with the shut down of manufacturing assets. For purposes of reconciling to the US GAAP financial data, the effect of the revaluation relating to the write-off of fixed assets is reversed.

As at December 31, 2002, the directors of the Company compared the carrying amount of the Group's property, plant and equipment to their estimate of its fair value, and on the basis of this review, made an adjustment to reduce the carrying amount by RMB323,844. Under IFRS, the adjustment arising from the comparison, net of minority interests of RMB1,604, amounting to RMB322,240 was charged to the income statement. As at December 31, 2003, the related undiscounted cash flows of above assets are lower than their carrying value by RMB42,700 (2002: Nil). For purposes of reconciling to the US GAAP financial data, the write-down adjustment of RMB279,540 (2002: 322,240) is reversed as at December 31, 2003. The related depreciation of above write-down adjustment in 2003 of RMB27,954 (2002: Nil) is charged to income statement.

(ii) Foreign exchange losses

Under US GAAP, foreign exchange losses are expensed in the period in which they occur.

Under IFRS, the Group capitalised foreign currency translation difference relating to borrowings to the extent that these are adjustments to the interest costs of funds used to finance the construction of fixed assets during the period of construction. For purposes of reconciling to the US GAAP financial data, the effect of the capitalised foreign currency translation difference and the related depreciation charge is reversed.

(iii) Fixed assets transferred to Jilian

During the period ended December 31, 1994, certain fixed assets of the Company were appraised and transferred to Jilian, which was 65% owned and jointly controlled by the Company prior to December 2002 when the Company acquired the 35% minority interest. At the time of the 1994 transfer, the Company retained 65% of revaluation surplus arising from the appraisal of these assets which amounted to RMB121,309 within the revaluation reserve and recognised a gain of RMB65,320, representing 35% of revaluation surplus, from the transfer to the other joint venture partner of a 35% interest in the fixed assets. The depreciation charge on the revaluation surplus related to these assets for the year ended December 31, 2003 was RMB7,630 (2002: RMB7,630). For purposes of reconciling to the US GAAP financial data, the effect of the revaluation, the related depreciation charge and the gain on the transfer is reversed. In addition, as the Company acquired the remaining 35% equity interest in Jilian in December 2002, Jilian has become a branch of the Company. Therefore, since 2003, the reversed depreciation charge on the revaluation surplus for Jilian's fixed assets has been included in the Company's depreciation charge on fixed assets due to revaluation on Restructuring and at February 28, 1995 for the reconciliation to US GAAP.

Significant Differences between IFRS and US GAAP

*For the year ended December 31, 2003
(Amounts in thousands unless otherwise stated)*

(iv) Tax adjustment

As there is uncertainty as to whether the deferred tax asset established in (i) above can be fully realised, a valuation allowance for the deferred tax asset is made.

- (v)** Amounts in RMB have been converted into United States dollars at the respective rates of US\$1.00: RMB8.2767 announced by the People's Bank of China as at December 31, 2003. No representation is made that the RMB amounts could have been or could be converted into US dollars at that rate.

Recent US accounting pronouncements

Issued in January 2003 and revised in December 2003, FIN 46-R, "Consolidation of Variable Interest Entities", provides guidance on the identification of and financial reporting for entities over which control is achieved through means other than voting rights. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It is effective no later than the end of the first reporting period ending after March 15, 2004 for variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Group does not believe the adoption of the provisions of FIN 46-R will have a material effect on its consolidated financial statements.