

Significant Differences between PRC GAAP and IFRS

For the year ended December 31, 2004
(Amounts in thousands unless otherwise stated)

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

Net profit

	Notes	Year ended December 31,	
		2004 RMB	2003 RMB
Net profit as reported under PRC GAAP		2,573,760	423,995
Adjustments to conform with IFRS:			
– Depreciation expense due to revaluation of fixed assets at February 28, 1995	(i)	(1,452)	(1,452)
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	(iii)	(7,311)	(7,311)
– Amortisation of housing subsidy cost	(iv)	(9,319)	(9,319)
– Reversal of amortisation of land use rights	(v)	21,211	21,696
– Tax adjustment	(vi)	(32,379)	–
Net profit as reported under IFRS		<u>2,544,510</u>	<u>427,609</u>

Shareholders' equity

	Notes	December 31,	December 31,
		2004 RMB	2003 RMB
Shareholders' equity as reported under PRC GAAP		5,853,624	3,279,864
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)	(14,277)	(12,825)
– 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)	(57,006)	(49,695)
– Housing subsidy cost	(iv)	34,202	43,521
– Deferred tax effect on housing subsidy cost	(iv)	(23,587)	(23,587)
– Adjustment of land use rights at January 1, 2001	(v)	(864,293)	(885,504)
– Tax adjustment	(vi)	788	33,167
Shareholders' equity as reported under IFRS		<u>5,055,066</u>	<u>2,510,556</u>

Significant Differences between PRC GAAP and IFRS

For the year ended December 31, 2004

(Amounts in thousands unless otherwise stated)

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

- (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) 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.
- (v) 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.
- (vi) Adjustment of deferred tax effect in (i) and (iv) above. In addition, in prior years, deferred tax assets of RMB32,379 arising from tax losses were recognised under IFRS to the extent that deferred tax liabilities were recognised. Under PRC GAAP, no such deferred tax assets were recognised in the prior years until 2004, thus resulting in higher deferred tax assets recognised under PRC GAAP in 2004.