

Significant Differences between IFRS and US GAAP

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 IFRS and US GAAP on net profit and shareholders' equity is summarised below:

Net profit

	Notes	Year ended December 31,		
		2004 RMB	2003 RMB	2004 US\$
Net profit under IFRS		2,544,510	427,609	307,438
US GAAP adjustments:				
– Depreciation charge on fixed asset revaluation surplus on Restructuring and at February 28, 1995	(i)	11,223	11,223	1,356
– Impairment of fixed assets	(i)	–	(42,700)	–
– Depreciation charge on writedown in carrying amount (net of minority interests) of fixed assets, net of impairment	(i)	(25,445)	(27,954)	(3,074)
– Difference in loss on write-off of fixed assets due to writedown in carrying amount of fixed assets	(i)	(25,094)	–	(3,032)
– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets	(ii)	1,531	1,531	185
– Tax effect	(iv)	(20,317)	–	(2,455)
Net profit under US GAAP		<u>2,486,408</u>	<u>369,709</u>	<u>300,418</u>
Basic and diluted net profit per share		<u>RMB0.70</u>	<u>RMB0.10</u>	<u>US\$0.08</u>

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Shareholders' equity

	Notes	December 31, 2004 RMB	December 31, 2003 RMB	December 31, 2004 US\$
Shareholders' equity as reported under IFRS		5,055,066	2,510,556	610,773
US GAAP adjustments:				
– Fixed asset revaluation on Restructuring and at February 28, 1995	(i)	(744,007)	(744,007)	(89,894)
– Depreciation charge on fixed assets due to revaluation on Restructuring and at February 28, 1995	(i)	676,684	665,461	81,760
– Reduction in loss on write-off of fixed assets	(i)	11,532	11,532	1,393
– Reversal of writedown in carrying amount (net of minority interests) of fixed assets, net of impairment of fixed assets	(i)	254,446	279,540	30,743
– Depreciation charge on writedown in carrying amount (net of minority interests) of fixed assets, net of impairment	(i)	(53,399)	(27,954)	(6,452)
– Foreign currency translation difference on interest components capitalised in fixed assets	(ii)	(30,616)	(30,616)	(3,699)
– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets	(ii)	12,248	10,717	1,480
– Gain on transfer of fixed assets to Jilian	(iii)	(65,320)	(65,320)	(7,892)
– Tax effect	(iv)	(20,317)	–	(2,455)
Shareholders' equity as reported under US GAAP		5,096,317	2,609,909	615,757

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Changes in shareholders' equity under US GAAP for the years ended December 31, 2004 and 2003 are as follows:

	Year ended December 31,		
	2004 RMB	2003 RMB	2004 US\$
Shareholders' equity as reported under US GAAP at beginning of the year	2,609,909	2,240,200	315,339
Net profit for the year	2,486,408	369,709	300,418
Shareholders' equity as reported under US GAAP at end of the year	5,096,317	2,609,909	615,757

(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, 2004 was RMB9,771 (2003: RMB9,771), 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.

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. The depreciation charge on the revaluation surplus for the year ended December 31, 2004 was RMB1,452 (2003: RMB1,452). For purposes of reconciling to the US GAAP financial data, the revaluation surplus, the related depreciation charge are reversed.

In prior years, certain fixed assets with a net book value of RMB11,532 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. For purposes of reconciling to the US GAAP financial data, the write-down adjustment is reversed since the related undiscounted cash flows adequately recover the carrying value of these assets despite a decrease in fair value. As at December 31, 2003, the discounted cash flows of certain fixed assets among the above write-down fixed assets were lower than their carrying value by RMB42,700 and was charged to the income statement for the reconciliation to US GAAP.

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In 2004, certain fixed assets of which the carrying amount under IFRS is lower than that under US GAAP by RMB25,094 due to the above write-down adjustment of RMB322,240 at December 31, 2002 were written off. For purposes of reconciling to the US GAAP financial data, the additional loss on fixed assets write-down, amounting to RMB25,094 is charged to the income statement.

The net impact of the above write-down adjustment of RMB254,446 (2003: RMB279,540) is reversed as at December 31, 2004. The related depreciation of above write-down adjustment in 2004 of RMB25,445 (2003: RMB27,954) is charged to the 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 recognized 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, 2004 was RMB7,630 (2003: 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.

(iv) Income tax effect

Adjustment to reflect deferred tax effect of US GAAP reconciliation items (i) through (iii) above. In prior years, a full valuation allowance was established under US GAAP to reduce net deferred tax assets to zero. In current year, no valuation allowance is needed as it is more likely than not that such deferred tax assets would be realised.

(v) Amounts in RMB have been converted into United States dollars at the respective rates of US\$1.00: RMB8.2765 announced by the People's Bank of China as at December 31, 2004. No representation is made that the RMB amounts could have been or could be converted into US dollars at that rate.

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Recent US accounting pronouncements

On November 24, 2004, the FASB issued Statement No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 (FAS 151). FAS 151 requires that abnormal amounts of idle capacity and spoilage costs be excluded from the cost of inventory and expensed when incurred. The provisions of FAS 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005.

On December 15, 2004, the FASB issued Statement No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29 (FAS 153). FAS 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. FAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.

The Group does not expect the adoption of above accounting pronouncements will have a material impact on its financial position or results of operations