

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"). Information relating to the nature and effect of such differences is presented below. The U.S. GAAP reconciliation presented below is included as supplemental information and is not required as part of the basic annual financial statements. Such information has not been subjected to independent audit or review.

Notes:

(a) Foreign exchange gains and losses

Under IFRS, 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 31 December 2003 and 2004, 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 2003 and 2004, the U.S. GAAP adjustments represent the effect of amortisation of amounts previously capitalised. Accordingly, the balances of cost and accumulated depreciation of property, plant and equipment under IFRS were higher than the balances under US GAAP by RMB 365,258,000 and RMB 365,258,000 respectively (31 December 2003: RMB 365,258,000 and RMB 362,785,000 respectively.)

(b) Capitalisation of property, plant and equipment

In years prior of those presented herein, certain adjustments arose between IFRS and the 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 2003 and 2004 represent the amortisation effect of such originating adjustments described above.

(c) Revaluation of property, plant and equipment

In the years 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 31 December 2003 and 2004 on the revaluation surplus of RMB 1,576,330,000.

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.

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 1 January 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 addition, under U.S. GAAP, negative goodwill that existed at the date of adoption of SFAS No. 142 was written off effective 1 January 2002 as a cumulative effect of a change in accounting principle. Accordingly, the goodwill balance as at 31 December 2004 under IFRS was lower than the balance under US GAAP by RMB 40,344,000 (31 December 2003: RMB 26,896,000). At 31 December 2004, the negative goodwill balance included in deferred income under IFRS amounted to RMB 2,549,000 (31 December 2003: RMB 3,398,000) as opposed to a nil balance under US GAAP as at both 31 December 2003 and 2004.

(f) Basic earnings per share

The calculation of basic earnings per share is based on the net profit under U.S. GAAP of RMB 4,146,065,000 (2003: RMB 1,568,439,000) and the number of shares in issue during the year of 7,200,000,000 (2003: 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. 123R

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-based payment". SFAS No. 123R addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R requires an entity to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the income statement. The revised statement generally requires that an entity account for those transactions using the fair-value-based method, and eliminates an entity's ability to account for share-based compensation transactions using the intrinsic value method of accounting, which was permitted under Statement 123, as originally issued. For the Group, SFAS No. 123R is effective for fiscal years beginning after 15 June 2005. Currently, the Group does not expect the application of this statement will have a material impact on its consolidated financial statements.

SFAS No. 151

In November 2004, the FASB issued SFAS No. 151, "Inventory costs". SFAS No. 151 clarifies accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The statement requires that those items be recognised as current period charges. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion based on normal capacity of the production facilities. For the Group, SFAS No. 151 is effective for fiscal years beginning after 15 June 2005. Currently, the Group does not expect the application of this statement will have a material impact on its consolidated financial statements.

Notes (continued):

(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 8.277 being the average of the buying and selling rates quoted by the People's Bank of China on 31 December 2004. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate.

The effects on the profit attributable to shareholders of significant differences between IFRS and U.S. GAAP is as follows:

	Note	Years ended 31 December		
		2004	2004	2003
		US\$'000	RMB'000	RMB'000
Profit attributable to shareholders under IFRS		479,805	3,971,103	1,401,690
U.S. GAAP adjustments:				
Foreign exchange gains and losses	(a)	299	2,473	37,054
Capitalisation of property, plant and equipment	(b)	2,623	21,707	21,703
Depreciation charge on revalued property, plant and equipment	(c)	15,707	129,995	129,995
Capitalised interest on investment in associates, net of amortisation effect	(d)	4,451	36,841	7,045
Goodwill amortisation	(e)	1,625	13,448	13,448
Negative goodwill amortisation	(e)	(103)	(849)	(13,126)
Deferred tax effect of the above adjustments		(3,462)	(28,653)	(29,370)
Net profit under U.S. GAAP		500,945	4,146,065	1,568,439
Basic earnings per share under U.S. GAAP	(f)	US\$0.070	RMB0.576	RMB0.218
Basic earnings per ADS under U.S. GAAP	(f)	US\$6.958	RMB57.584	RMB21.784

D. Supplementary Information for North American Shareholders (continued)

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

	Note	As at 31 December		
		2004	2004	2003
		US\$'000	RMB'000	RMB'000
Shareholders' equity under IFRS		2,225,215	18,416,989	15,021,886
U.S. GAAP adjustments:				
Foreign exchange gains and losses	(a)	-	-	(2,473)
Capitalisation of property, plant and equipment	(b)	-	-	(21,707)
Revaluation of property, plant and equipment	(c)	(7,675)	(63,521)	(193,516)
Capitalised interest on investment in associates	(d)	10,777	89,200	52,359
Goodwill	(e)	4,875	40,344	26,896
Negative goodwill	(e)	308	2,549	3,398
Deferred tax effect of the above adjustments		(465)	(3,852)	24,801
Shareholders' equity under U.S. GAAP		2,233,035	18,481,709	14,911,644

The "Deferred tax effect of the above adjustments" as of 31 December 2003 and 2004 and for the years then ended is based on the 15% tax rate applicable to the Company through 2004. The Company has not received notice from the MOF that the 15% tax rate will continue to be applicable to the Company in 2005. As such, it is possible that the Company's tax rate will increase in 2005.