C. Differences between Financial Statements prepared under PRC Accounting Rules and Regulations and IFRS

The below figures are extracted from the interim financial statements prepared in accordance with PRC Accounting Rules and Regulations and IFRS, both of which have not been audited.

The Company also prepares a set of financial statements which complies with PRC Accounting Rules and Regulations. A reconciliation of the Group's net profit and shareholders' equity prepared under PRC Accounting Rules and Regulations and IFRS is presented below.

Other than the differences in classification of certain financial statements assertions and the accounting treatment of the items described below, there are no material differences between the Group's financial statements prepared in accordance with PRC Accounting Rules and Regulations and IFRS. The major differences are:

(i) Capitalisation of general borrowing costs

Under IFRS, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs should be capitalised as part of the cost of that asset. Under PRC Accounting Rules and Regulations, only borrowing costs on funds that are specially borrowed for construction are eligible for capitalisation as fixed assets.

(ii) Valuation surplus

Under PRC Accounting Rules and Regulations, the excess of fair value over the carrying value of assets given up in part exchange for investments should be credited to capital reserve fund. Under IFRS, it is inappropriate to recognise such excess as a gain as its realisation is uncertain.

(iii) Government grants

Under PRC Accounting Rules and Regulations, government grants should be credited to capital reserve. Under IFRS, such grants for the purchase of equipment used for technology improvements are offset against the cost of asset to which the grants related. Upon transfer to property, plant and equipment, the grant is recognised as income over the useful life of the property, plant and equipment by way of a reduced depreciation charge.

(iv) Revaluation of land use rights

Under IFRS, land use rights are carried at historical cost less accumulated amortisation. Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amount less accumulated amortisation.

C. Differences between Financial Statements prepared under PRC Accounting Rules and IFRS *(continued)*

(v) Pre-operating expenditure

Under IFRS, expenditure on start-up activities should be recognised as expenses when it is incurred. Under PRC Accounting Rules and Regulations, all expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to the income statement in the month of commencement of operations.

(vi) Goodwill and negative goodwill amortization

Under PRC Accounting rules and regulations, goodwill and negative goodwill are amortized on a systematic basis over their useful lives.

Under IFRS, with reference to IFRS 3, "Business combination", the Group no longer amortises positive goodwill effective 1 January 2005. Such goodwill is tested annually for impairment. Also in accordance with the transitional arrangements under IFRS 3, previous recognised negative goodwill was derecognised at the beginning of that period, with a corresponding adjustment to the opening balance of retained earnings.

C. Differences between Financial Statements prepared under PRC Accounting Rules and IFRS *(continued)*

Effects on the Group's net profit and shareholders' equity of significant differences between PRC Accounting Rules and Regulations and IFRS are summarised below:

	Note	Six-month periods ended 30 June 2005 RMB'000	2004 RMB'000
Net profit under PRC Accounting Rules and Regulations		**1,650,520**	1,531,200
Adjustments:			
Capitalisation of borrowing costs, net of depreciation effect	(i)	**13,119**	(2,386)
Reduced depreciation on government grants	(iii)	**13,380**	13,380
Amortisation of revaluation of land use rights	(iv)	**1,749**	1,749
Write off of pre-operating expenditure	(v)	**-**	(23,314)
Reversal of pre-operating expenditure previously written-off	(v)	**80,605**	-
Goodwill and negative goodwill amortisation	(vi)	**6,299**	-
Deferred tax effect of the above adjustments		**(2,230)**	96
Profit attributable to shareholders under IFRS		**1,763,442**	1,520,725

	Note	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000
Shareholders' equity under PRC Accounting Rules and Regulations		**19,112,801**	18,902,281
Adjustments:			
Capitalisation of borrowing costs	(i)	**96,144**	83,025
Valuation surplus	(ii)	**(44,887)**	(44,887)
Government grants	(iii)	**(304,059)**	(317,439)
Revaluation of land use rights	(iv)	**(131,112)**	(132,861)
Write off of pre-operating expenditure	(v)	**-**	(80,605)
Cumulative effect on negative goodwill of adopting IFRS 3	(vi)	**2,549**	-
Goodwill and negative goodwill amortisation	(vi)	**6,299**	-
Deferred tax effect of the above adjustments		**5,245**	7,475
Shareholders' equity under IFRS		**18,742,980**	18,416,989