

Net Assets and Net Profit Reconciliation Between PRC GAAP and IFRS

The consolidated financial statements, which are prepared the Company and its subsidiaries in conformity with PRC GAAP, differ in certain respects from IFRS. Major differences between PRC GAAP and IFRS, which affect the net assets and net profit of the Company and its subsidiaries, are summarised as follow:

	Net assets	
	31 December 2006 RMB'000	31 December 2005 RMB'000
Net assets under PRC GAAP	22,683,605	17,964,059
Impact of IFRS adjustments:		
Minority interests*	3,282,691	2,470,093
Difference in the recognition policy on housing benefits to the employees (1)	74,693	112,039
Difference in accounting treatment on long-term deferred expenses (2)	(65,791)	(177,080)
Difference in accounting treatment on interest rate swap (3)	(77,828)	(108,998)
Difference in capitalisation of borrowing costs (4)	428,171	304,338
Difference in the commencement of depreciation of fixed assets (5)	(106,466)	(106,466)
Difference in accounting treatment on convertible bonds (6)	91,742	145,341
Difference in accounting treatment on monetary housing benefits (7)	225,539	76,428
Difference in accounting treatment of performance payroll accrual (8)	–	100,000
Difference in accounting treatment of the investment of Daqin Railway company Ltd (“Daqin Railway”) (9)	974,317	–
Including: Such difference from associates	114,291	–
Others	(31,241)	(17,622)
Applicable deferred tax impact of the above GAAP differences (10)	(278,714)	(33,195)
Net assets under IFRS	27,200,718	20,728,937

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	Net profit	
	Year 2006 RMB'000	Year 2005 RMB'000
Net profit under PRC GAAP	2,707,291	2,360,740
Impact of IFRS adjustments:		
Minority interests *	778,267	674,547
Difference in the recognition policy on housing benefits to the employees (1)	(37,346)	(37,346)
Difference in accounting treatment on long-term deferred expenses (2)	111,289	(83,856)
Difference in accounting treatment on interest rate swap (3)	31,170	58,706
Difference in capitalisation of borrowing costs (4)	123,833	47,644
Difference in the commencement of depreciation of fixed assets (5)	–	(51,310)
Difference in accounting treatment on convertible bonds (6)	(53,599)	(52,544)
Difference in accounting treatment on monetary housing benefits (7)	(31,009)	(19,272)
Difference in accounting treatment of performance payroll accrual (8)	(100,000)	100,000
Others	14,167	3,757
Applicable deferred tax impact of the above GAAP differences (10)	38,290	48,564
Net profit under IFRS	<u>3,582,353</u>	<u>3,049,630</u>

Note 1: Consistent with the disclosure requirements of revised IAS1—Presentation of Financial Statements, minority interests in the consolidated net assets and net profit under IFRS should be included as a portion of total equity and total profit attributable to shareholders respectively.

(1) Difference in the recognition policy on housing benefits to the employees

The Company provided housing to its employees at a discount price. The price difference between the selling price and the cost of housing is considered as housing benefit and is borne by the Company.

For PRC statutory reporting purposes, in accordance with the relevant regulations issued by the Ministry of Finance of the PRC, the total housing benefits provided by the Company before 6 September 2000 should be directly deducted from the statutory public welfare fund and those provided after 6 September 2000 are charged to non-operating expenses as incurred. Under IFRS, the housing benefits provided by the Company are recognised on a straight-line basis over the estimated remaining average service lives of the employees.

(2) Difference in accounting treatment on long-term deferred expenses

Under PRC GAAP, expenses that are incurred during the construction stage but cannot be capitalised are accumulated in long-term deferred expenses and charged into the profit and loss account upon the commencement of commercial operations of the company. Under IFRS, such expenses are charged to profit and loss accounts when incurred.

(3) Difference in accounting treatment on interest rate swap

To hedge the interest risk derived from the long-term borrowings denominated in US dollars, an interest rate swap contract was entered into between Tuoketuo Power Company, a subsidiary of the Company, and a financial institution. Pursuant to this interest rate swap contract, Tuokekuo Power Company has swapped a floating interest rate borrowing for a fixed interest rate borrowing with the same notional principal amount. Under PRC GAAP, the interest rate swap contract is disclosed as an off balance sheet item. Under IFRS, derivatives are recognised in the balance sheet at fair value as assets or liabilities, based on the market condition at each balance sheet date. Due to the fact that the interest rate swap contract does not qualify for hedge accounting in according with IAS 39, the changes in its value are included in the profit and loss accounts.

(4) Difference in capitalisation of borrowing costs

Under PRC GAAP, the capitalisation of interest on loans is limited to borrowings in respect of specific fixed assets named in the loan contract. No interest can be capitalised on general borrowings.

In accordance with IAS 23, a company capitalises interest on general borrowings used for the purpose of purchasing or constructing qualified fixed assets in addition to the capitalisation of interest on loans in respect of specific fixed assets.

The GAAP difference arising from capitalised interests on general borrowings also leads to a different depreciation expense for the relevant fixed assets.

(5) Difference in the commencement of depreciation of fixed assets

Under PRC GAAP, depreciation of fixed assets commences from one month after the relevant assets are completed and ready for its intended use. Under IFRS, depreciation commences immediately when the relevant assets are ready for its intended use.

(6) Difference in accounting treatment on convertible bonds

Under PRC GAAP, convertible bonds are presented base on the principal amount together with interest payable.

Under IFRS, the proceeds received on the issue of convertible bonds are allocated into liability and equity components. Upon initial recognition, the liability component represents the present value, at the issuance date, of the contractually determined stream of cash flows discounted at the market interest rate for instruments of comparable credit status providing substantially the same cash flows, on the same terms but without the conversion option. The equity component is then determined by deducting the liability component from the proceeds received on the issue of the bonds. Relating interest expenses are recognised using the effective interest rate.

(7) Difference in accounting treatment on monetary housing benefits

Under PRC GAAP, the monetary housing benefits provided to employees who started work before 31 December 1998 were directly deducted from the statutory public welfare fund after approved by the general meeting of the Company.

Under IFRS, these benefits are recorded as deferred assets and amortised on a straight-line basis over the estimated service lives of relevant employees.

(8) Difference in accounting treatment of performance payroll accrual

Performance payroll accrued under PRC GAAP, in accordance with relevant government policies, but not paid out at the end of the year does not meet all the criteria of recognising liabilities under IFRS. Therefore these unpaid balances were reversed under IFRS.

(9) Difference in accounting treatment of the investment of Daqin Railway

Under PRC GAAP, the Company and its subsidiaries' long-term investment in Daqin Railway is accounted for using cost method. The carrying amount of this long-term investment remains unchanged except for additions or withdrawal of investment.

After Daqin Railway's shareholding structure reform during the year 2006, the legal person shares in Daqin Railway held by the Company and its subsidiaries were allowed to be traded on the open market. In accordance with IAS 39, given that the shares held by the Company and its Subsidiaries can now be freely traded, they have been revalued at year end based on the closing market rate. A gain or loss on the available-for-sale investment shall be recognized directly in equity, except for impairment losses and foreign exchange gains and losses, until the investment is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss.

(10) Applicable deferred tax impact of the above GAAP differences

This represents the deferred tax effect on the above GAAP difference where applicable.