

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 ("US GAAP"). The nature of differences which have a significant effect on the Group's net profit and shareholders' equity are set out below. The US GAAP reconciliation presented below is included as supplemental information and is not required as part of the basic interim financial statements and has not been subject to independent audit or review.

(a) REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

In connection with the Restructuring, the property, plant and equipment of the Company's predecessor operations were revalued as at 31 December 2001. The net revaluation deficit has been reflected in the consolidated financial statements as at 31 December 2001. Such revaluation resulted in an increase directly to shareholders' equity of RMB4,154 million with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases, and a charge to income of RMB11,930 million with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

In connection with the First Acquisition, the property, plant and equipment of the First Acquired Group were revalued as at 31 December 2002. The net revaluation deficit has been reflected in the consolidated financial statements as at 31 December 2002. Such revaluation resulted in an increase directly to shareholders' equity of RMB760 million with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases, and a charge to income of RMB14,690 million with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

In connection with the Second Acquisition, the property, plant and equipment of the Second Acquired Group were revalued as at 31 December 2003. The net revaluation deficit has been reflected in the consolidated financial statements as at 31 December 2003. Such revaluation resulted in an increase directly to shareholders' equity of RMB1,537 million with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases, and a charge to income of RMB14,832 million with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation unless an impairment loss has been recorded. An impairment loss on property, plant and equipment is recorded under US GAAP if the carrying amount of such asset exceeds its future undiscounted cash flows resulting from the use of the asset and its eventual disposition. The future undiscounted cash flows of the Group's property, plant and equipment, whose carrying amount was reduced in connection with the Restructuring, the First Acquisition and the Second Acquisition, exceed the historical cost carrying amount of such property, plant and equipment and, therefore, impairment of such assets is not appropriate under US GAAP. Accordingly, the revaluation reserve recorded directly to shareholders' equity and the charge to income recorded under IFRS as a result of the Restructuring, the First Acquisition and the Second Acquisition, are reversed for US GAAP purposes.

However, as a result of the tax deductibility of the net revaluation deficit, a deferred tax liability related to the net revaluation deficit is created under US GAAP with a corresponding decrease in shareholders' equity.

(b) DISPOSAL OF REVALUED PROPERTY, PLANT AND EQUIPMENT

Under IFRS, on disposal of a revalued asset, the gain and loss on disposal of the asset is determined with reference to the asset's revalued amount less subsequent depreciation, and any related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset's historical cost carrying amount and included in current earnings.

(c) EFFECT OF CHANGE IN TAX RATE

Under IFRS, the effect of a change in tax rate that results in a change in the carrying amounts of deferred tax assets and liabilities is charged or credited directly to equity, to the extent that such deferred tax assets and liabilities are previously charged or credited to equity. Under US GAAP, the effect of a change in tax rate for all items of deferred tax assets and liabilities is recorded in the income statement.

RECONCILIATION OF NET PROFIT AND SHAREHOLDERS' EQUITY UNDER IFRS TO US GAAP

The effect on net profit of significant differences between IFRS and US GAAP for the six-month period ended 30 June 2004 and 2003 is as follows:

	Six-month periods ended 30 June		
	2004 US\$ millions (Note)	2004 RMB millions	2003 RMB millions
Net profit under IFRS	1,777	14,708	13,058
US GAAP adjustments:			
Depreciation on revalued property, plant and equipment	(426)	(3,530)	(2,037)
Disposal of revalued property, plant and equipment	(3)	(24)	(23)
Effect of change in tax rate on deferred tax assets arising from revaluation of land use rights	(20)	(166)	—
Effect of change in tax rate on deferred tax liabilities arising from revaluation of property, plant and equipment	251	2,079	—
Deferred tax effect of US GAAP adjustments	113	934	679
Net profit under US GAAP	1,692	14,001	11,677
Basic earnings per share under US GAAP	US\$0.02	RMB0.18	RMB0.15
Basic earnings per ADS* under US GAAP	US\$2.20	RMB18.25	RMB15.44

* Basic earnings per ADS is calculated on the basis that one ADS is equivalent to 100 H shares.

The effect on shareholders' equity of significant differences between IFRS and US GAAP as at 30 June 2004 and 31 December 2003 is as follows:

	30 June 2004 US\$ millions (Note)	30 June 2004 RMB millions	31 December 2003 RMB millions
Shareholders' equity under IFRS	17,533	145,114	150,794
US GAAP adjustments:			
Revaluation of property, plant and equipment, net of minority interests	3,112	25,758	29,312
Deferred tax effect of US GAAP adjustment	(779)	(6,452)	(9,465)
Shareholders' equity under US GAAP	19,866	164,420	170,641

Note:

Solely for the convenience of the reader, the amounts as at and for the six-month period ended 30 June 2004 have been translated into United States dollars at the noon buying rate in New York City on 30 June 2004 for cable transfers in RMB as certified for custom purposes by the Federal Reserve Bank of New York of US\$1.00=RMB8.2766. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate or at any other certain rate on 30 June 2004, or at any other date.