
Audit

Comparison between PRC GAAP and IFRS.

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Development of Accounting Regulations in China

With China's accession to the WTO, business activities with and within China have been expanding at enormous speed. China fully understands that a sound financial reporting system plays a key role in the process of economic development. The Chinese Ministry of Finance (MOF), who has the responsibility for regulating accounting matters in China, has set itself the objectives of fostering investors' confidence in financial information, increase transparency of financial reporting, and harmonize with International Financial Reporting Standards (IFRS). The development of the Chinese accounting standards is an important element in meeting this objective and an area where the MOF and has made significant progress.

In 1993, with funding from the World Bank, the MOF began a project to develop about 30 accounting standards which would be appropriate to China's developing socialist market economy and aimed at harmonising the accounting and financial reporting practices in China with international practice. Deloitte Touche Tohmatsu was engaged as the consultant on the project. Exposure drafts on 30 standards were published between 1994 and 1996. In 2000, DTT was reappointed as the consultant for the second phase of the project to develop approximately 17 additional standards dealing with issues addressed by IASC (now known as "IASB") as well as a number of industry-specific standards. To date, 16 standards (the "Accounting Standards") have been issued as final standards and others remain under development.

PRC Accounting Standards

| | Accounting Standard | Effective Date | Applicability |
|-----|--|----------------|--|
| 1. | Disclosure of Related Party Relationships and Transactions | 1 January 1997 | Listed enterprises |
| 2. | Cash Flow Statements (minor revision in 2001) | 1 January 2001 | All enterprises |
| 3. | Events Occurring After the Balance Sheet Date (revised 2003) | 1 July 2003 | Enterprises who adopt the ASBE |
| 4. | Debt Restructuring (revised significantly in 2001) | 1 January 2001 | All enterprises |
| 5. | Revenue | 1 January 1999 | Listed enterprises |
| 6. | Investments (minor revision in 2001) | 1 January 2001 | Joint Stock Limited Enterprises (prior to 1 January 2001 listed enterprises only) |
| 7. | Construction Contracts | 1 January 1999 | Listed enterprises |
| 8. | Changes in Accounting Policies and Estimates and Corrections of Accounting Errors (minor revision in 2001) | 1 January 2001 | All enterprises (prior to 1 January 2001 listed enterprises only) |
| 9. | Non-monetary Transactions (revised significantly in 2001) | 1 January 2001 | All enterprises |
| 10. | Contingencies | 1 July 2000 | All enterprises |
| 11. | Intangible Assets | 1 January 2001 | Joint Stock Limited Enterprises |
| 12. | Borrowing Costs | 1 January 2001 | All enterprises |
| 13. | Leases | 1 January 2001 | All enterprises |
| 14. | Interim Financial Reporting | 1 January 2002 | Listed enterprises |
| 15. | Inventories | 1 January 2002 | Enterprises who adopt the ASBE |
| 16. | Fixed Assets | 1 January 2002 | Enterprises who adopt the ASBE |

Besides the development of Accounting Standards, the MOF announced a new *Accounting System for Business Enterprises* (the “ASBE”) at the end of 2000. Starting from 1 January, 2001, all joint stock limited enterprises were required to follow the ASBE. The implementation of the ASBE improved significantly the comparability between China and international accounting practice. In particular, the recognition of impairment losses for impaired assets was one of the most significant changes. With effect from 1 January, 2002, foreign investment enterprises in the PRC were required to apply the ASBE. In March 2003, the MOF further extended the applicability of the ASBE to all enterprises (other than small enterprises and financial institutions) newly established on or after 1 January, 2003. In the long term, the MOF intends to apply the ASBE to all large and medium sized enterprises, including state-owned enterprises, and to unify the different accounting treatments adopted by different industries and different enterprises in order to improve the comparability of financial information.

In addition, with due consideration of the specific characteristics of financial institutions and small enterprises, the MOF has issued a new *Accounting System for Financial Institutions* (the “ASFI”) and a new *Accounting System for Small Business Enterprises* (the “ASSBE”). The ASFI applies to all listed financial institutions and foreign financial institutions from 1 January, 2002 onwards. From 1 January, 2004, the applicability of the ASFI was extended to unlisted non-foreign invested security companies. The ASSE will apply to qualified small enterprises with effect from 1 January, 2005.

For enterprises other than small enterprises and financial institutions, the Accounting Standards, the ASBE and other related accounting pronouncements such as circulars issued by the MOF (known as “Caikuai”) form the fundamental regulations of PRC GAAP. When there are conflicts between pronouncements, the rules in the most recent pronouncement should be followed, unless otherwise specified. Although the general principles for accounting treatments addressed in individual specific Accounting Standards (other than the Standard, *Interim Financial Reporting*) are also included in the ASBE, there are more detailed interpretations and guidance in the individual specific Accounting Standards.

At present, there are still differences between PRC GAAP and International Financial Reporting Standards (the “IFRS”). The following comparison (updated to March 2005) describes some of the major differences. Readers should be aware that the comparison focuses on enterprises who follow the ASBE, and only includes major accounting differences. It should not be construed as exhaustive and no attempt has been made to identify differences arising in relation to disclosure requirements. It is also not prepared for the purpose of special industries (including banks, insurance enterprises) or small enterprises.

In late 2003 to early 2004, the IASB issued several new IFRSs and revised several existing International Accounting Standards (the “IAS”). Other than IFRS 3, IAS 36 (revised) and IAS 38 (revised)(see Note 3), the newly issued or revised standards will be effective for the annual accounting periods beginning on or after January 1, 2005. To help readers to understand the newly issued or revised standards and get prepared in advance, we have included not only a comparison to the standards before the revisions (under the column “IFRS (before revision)”), but also a comparison to the newly issued and revised standards (under the column “IFRS (revised)”). Where the requirements under the newly issued and revised standards are consistent with the content set out under the column “IFRS (before revision)” or the related standard has not been revised, this is indicated by the phrase “consistent with IFRS before revision”.

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|---|--|--|---|
| General | | | |
| Definitions of assets and liabilities | <p>An asset is a resource that is owned or controlled by the entity as a result of past events and transactions and from which future economic benefits are expected to flow to the entity.</p> <p>A liability is a present obligation of the entity as a result of past events and transactions, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.</p> <p>In general, items which do not satisfy the definition of an asset, a liability or equity should not be recognised on the balance sheet.</p> | <p>Definitions of assets and liabilities under IFRS are the same as PRC GAAP.</p> <p>Items which do not satisfy the definition of an asset, a liability or equity should not be recognised on the balance sheet.</p> | Consistent with IFRS before revision. |
| General recognition and measurement principles | <p>Record at the amount to be paid or received.</p> <p>Generally do not consider the effect of discounting on deferred payment (present value).</p> | <p>Record at the amount to be paid or received or at fair value, as appropriate.</p> <p>Consider the effect of discounting on deferred payment (present value).</p> | Consistent with IFRS before revision. |
| Non-current Tangible Assets / Properties | | | |
| Property, plant and equipment - measurement | <p>Refer to “fixed assets”.</p> <p>Carried at cost less depreciation. Reduced to recoverable amount if an impairment occurred.</p> | Both the cost model (same as PRC GAAP) and the revaluation model are allowed. | Generally consistent with IFRS before revision. |
| Property, plant and equipment - depreciation | <p>Allows an entity to determine the useful life and the estimated net residual value of a fixed asset according to the nature and pattern of use of the fixed asset and select a reasonable depreciation method according to the pattern in which the asset’s future economic benefits are expected to be consumed. Depreciation methods allowed include the straight-line method, the unit of production method, the sum-of-years’-digits method and the double-declining-balance method.</p> | Similar to PRC GAAP. | Clarifies that each significant component of an item of property, plant and equipment should be depreciated separately, i.e. component depreciation method should be adopted. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|---|--|---|---|
| | In accordance with Caikuai [2004] No. 3 issued by the MOF, a change of depreciation method is accounted for as a change in accounting estimate. | | |
| Investment properties | <p>Accounted for as fixed assets in most cases.</p> <p>However, properties developed by property developers to earn rental income are accounted for as “properties held for rent” and are amortised over their useful lives. “Properties held for rent” should be presented as other long-term assets in the balance sheet in accordance with Caikuai [2004] No. 3.</p> | <ul style="list-style-type: none"> • May choose the fair value model or cost model. • Cost model: measured at cost less accumulated depreciation and impairment losses. Fair value is required to be disclosed. • Fair value model: changes in fair value are recognised in the income statement. | Similar to IFRS before revision, however, a property interest held by a lessee under an operating lease may be classified and accounted for as an investment property provided that certain criteria are met. |
| Construction in progress (i.e. fixed assets under construction) - impairment | When an entity’s construction in progress is assessed to be impaired, for instance, where construction work has been suspended for a long period of time and it is not expected to re-commence within 3 years, a provision for impairment loss should be recognised. | Similar to PRC GAAP, but there is no specific rules regarding the length of suspension period as an indication of impairment. | Consistent with IFRS before revision. |
| <i>Intangible assets</i> | | | |
| Internally-generated intangible assets | <ul style="list-style-type: none"> • All research and development costs are expensed when incurred, capitalisation is not allowed. • Costs incurred for legal application of obtaining the asset, such as registration fees and legal fees, can be capitalised. • No additional intangible asset should be recognised under a business combination. | <ul style="list-style-type: none"> • Research expenditure is expensed when incurred. • Development costs are capitalised as intangible assets when certain criteria are met (such as technical feasibility, the availability of adequate resources to complete the development, and it is probable that the intangible asset will generate future economic benefits). • Recognise the in-process research and development project of an acquiree at fair value, if the project meets the definition of an intangible asset under a business combination. | Consistent with IFRS before revision. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|-------------------------------------|--|---|--|
| Intangible assets - amortisation | <ul style="list-style-type: none"> The cost of an intangible asset should be amortised evenly over its expected useful life starting in the month in which it is obtained. If the expected useful life exceeds the beneficial period stipulated in the contract or the effective period stipulated by law, the amortisation period should be the shorter of the above. If the relevant contract and the law do not stipulate the beneficial period, the amortisation period should not exceed 10 years. | Amortise over its estimated useful life, with a rebuttable presumption that the useful life will not exceed 20 years. | 20 years rebuttable presumption is removed. In addition, an intangible asset with an indefinite useful life (when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity) should not be amortised, but subject to impairment test annually or more frequently whenever there is an indication that the intangible asset may be impaired. |

Investments

| | | | |
|-------------------------------------|---|---|--|
| Passive investments - in general | <p>Only addresses the accounting requirements of equity and debt investments.</p> <p>Equity and debt investments are classified as short-term investments or long-term investments.</p> <p><u>Short-term investments</u></p> <ul style="list-style-type: none"> Carried at lower of cost and market value, on an aggregate portfolio basis (in total or by category of investment) or an individual basis. (However, an investment representing 10 percent or more of the whole portfolio must be assessed individually.) <p><u>Long-term investments</u></p> <ul style="list-style-type: none"> Equity investments: cost method Debt investments: cost \pm amortisation of premium/discount Write down to recoverable amount if an impairment loss is identified. | <p>Financial assets are classified as either loans and receivables originated by the entity, held-to-maturity investments, investments held for trading, or available-for-sale investments.</p> <ul style="list-style-type: none"> Loans and receivables originated by the entity <ul style="list-style-type: none"> cost \pm amortisation of premium/discount - impairment Held-to-maturity investments (refers to financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intent and ability to hold to maturity) <ul style="list-style-type: none"> cost \pm amortisation of premium/discount - impairment | <p>Under the revised IAS 39, financial assets are classified as either loans and receivables, held-to-maturity investments, investments at fair value through profit or loss or available-for-sale investments.</p> <ul style="list-style-type: none"> Loans and receivables <ul style="list-style-type: none"> includes also loans and receivables that are not originated by the entity and not quoted in an active market measured at amortised cost Held-to-maturity investments <ul style="list-style-type: none"> no change in the definition or the measurement requirements |
|-------------------------------------|---|---|--|

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|--|--|--|--|
| | | <ul style="list-style-type: none"> Investments held for trading <ul style="list-style-type: none"> carried at fair value, changes in fair value are recognised in net profit or loss Available-for-sale investments <ul style="list-style-type: none"> carried at fair value, changes in fair value are recognised as a matter of accounting policy either in net profit or loss or equity | <ul style="list-style-type: none"> Investments at fair value through profit or loss <ul style="list-style-type: none"> includes investments held for trading and other financial assets designated upon initial recognition (Allows designation upon initial recognition for the purposes to reduce accounting mismatch and ease the burden of hedge accounting and the accounting requirements of embedded derivatives.) Available-for-sale investments <ul style="list-style-type: none"> carried at fair value, changes in fair value are required to be recognised in equity and not in net profit or loss |
| Accounting for subsidiaries, associates and jointly controlled entities - in the parent's separate financial statements | Equity method. (Generally, if an investor holds 20% or more of the voting power of the investee, it is presumed that the investor has significant influence.) | <ul style="list-style-type: none"> Subsidiaries and associates: either carried at cost, accounted for using the equity method or as available-for-sale financial assets as a matter of accounting policy Jointly controlled entities: not specified | Except for investments classified as held for sale in accordance with IFRS 5 (see below), other investments (in subsidiaries, associates and jointly controlled entities) are accounted for either at cost or in accordance with IAS 39. |
| Accounting for subsidiaries, associates and jointly controlled entities - in the consolidated financial statements | <ul style="list-style-type: none"> Associates: equity method Jointly controlled entities: proportionate consolidation Subsidiaries: consolidate | <ul style="list-style-type: none"> Associates: equity method Jointly controlled entities: proportionate consolidation or equity method Subsidiaries: consolidate | <ul style="list-style-type: none"> Consistent with IFRS before revision except for the following. The exclusions allowed under the previous standard (i.e. temporary control and severe long term restriction) are removed. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|--|--|--|---|
| | | <ul style="list-style-type: none"> A subsidiary is excluded from consolidation if: <ul style="list-style-type: none"> control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future; or it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent. | <ul style="list-style-type: none"> However, for subsidiaries, associates and jointly controlled entities that are classified as held for sale under IFRS 5, they should be accounted for in accordance with IFRS 5. In addition, if the reporting entity does not prepare consolidated financial statements because it has no subsidiaries, its associates and jointly controlled entities should still be accounted for in the same way as in the consolidated financial statements. |
| Investments in convertible bonds | Accounted for as debt investments, the convertible component is not accounted for separately. | The convertible component is accounted for separately as an embedded derivative. | Consistent with IFRS before revision. |
| Equity investment difference/ goodwill (discount on acquisition /negative goodwill | <p>Equity investment difference: the difference between the cost of the investment and the acquirer's share of the <u>book values</u> of the net assets of the investee (appraisal amounts are used if all shares of the investee are acquired [see below business combinations: accounting treatments by the acquiree]).</p> <p>Debit balance:</p> <ul style="list-style-type: none"> Amortise over the investment period, if any, as stipulated in the investment contract. Amortised over a period of not more than 10 years if there is no specific investment period. | <p>Goodwill / negative goodwill: the difference between the cost of the acquisition and the acquirer's share in the <u>fair values</u> of the identifiable assets and liabilities acquired.</p> <ul style="list-style-type: none"> Goodwill: Amortised on a systematic basis over its useful life. Rebuttable presumption that the amortisation period will not exceed 20 years. Negative goodwill: <ul style="list-style-type: none"> To the extent that negative goodwill relates to expected future losses and expenses <ul style="list-style-type: none"> recognised as income when the future losses and expenses are recognised. | <p>Goodwill: not amortised, carried at cost less impairment loss.</p> <p>Discount on acquisition (negative goodwill): recognised in net profit or loss immediately.</p> |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|----------------------------------|---|--|--|
| | <p>Credit balance:</p> <ul style="list-style-type: none"> In accordance with Caikuai [2003] No. 10, any credit equity investment difference arising after 17 March, 2003 should be credited to capital reserve. Any credit equity investment difference which arose before 17 March, 2003 is amortised over the investment period, if any, as stipulated in the investment contract or otherwise, amortised over a period of not less than 10 years. <p>In addition, in accordance with Caikuai [2004] No. 3, debit and credit equity investment differences arising in a step acquisition may be offset under certain scenarios.</p> | <ul style="list-style-type: none"> Negative goodwill not related to future losses and expenses <ul style="list-style-type: none"> the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets (FV) should be recognised as income over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets; the amount of negative goodwill in excess of FV is recognised as income immediately. <p>Goodwill and negative goodwill cannot be offset.</p> | <p>Same as IFRS before revision.</p> |
| <i>Other assets</i> | | | |
| Non-current assets held for sale | No specific requirement. | No specific requirement, but impairment should be considered. | <p>Non-current asset and disposal group (a group of assets and associated liabilities to be disposed of together as a group, by sale in a single transaction or otherwise) held for sale should be accounted for as follows in accordance with IFRS 5:</p> <ul style="list-style-type: none"> Carried at the lower of its carrying amount and fair value less costs to sell. Depreciation not permitted. Present separately in the balance sheet. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|--|--|--|---------------------------------------|
| Receivables - bad debts | An entity should analyse the recoverability of all accounts receivable at each period end, and make provisions for any potential bad debt losses. Not required to consider the effect of discounting. | The amount of bad debts is determined according to the recoverable amount of the receivables. Consider the effect of discounting (including interest component). | Consistent with IFRS before revision. |
| Inventories | Measured at the lower of cost and net realisable value. | Same as PRC GAAP. | Consistent with IFRS before revision. |
| Designated loans | Classified as investments and measured at cost. Write down to recoverable amount if an impairment loss is identified. | Accounted for in accordance with IAS 39. | Consistent with IFRS before revision. |
| Agriculture | <ul style="list-style-type: none"> Biological assets are stated at cost less amortisation and impairment losses. Agricultural produce is stated at lower of cost and net realisable value. | <ul style="list-style-type: none"> Biological assets are carried at fair value less estimated point-of-sale costs on initial recognition and subsequent balance sheet dates. Cost model is allowed if fair value cannot be reliably determined. Agricultural produce is measured at fair value at the point of harvest and that value is the cost when applying IAS 2. | Same as IFRS before revision. |
| Liabilities | | | |
| Convertible bonds - issuer | Classified as liabilities. | Split into the liability and equity component. | Consistent with IFRS before revision. |
| Post-employment benefit - defined benefit plans | No specific requirements. Common practice is to recognise an expense when the benefits are paid. | Recognise as defined benefit liability and expense throughout the expected service period of the related staff. | Consistent with IFRS before revision. |
| Revenue | | | |
| Revenue - general recognition criteria | Revenue is recognised when the significant risks and rewards of the ownership of the goods has been transferred and the inflow of economic benefits is probable. | Same as PRC GAAP. | Consistent with IFRS before revision. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|--|---|---|---------------------------------------|
| Revenue from construction contracts | When the outcome of a construction contract can be estimated reliably (including the stage of completion can be determined reliably), contract revenue should be recognised by reference to the percentage of completion method. | Same as PRC GAAP. | Consistent with IFRS before revision. |
| Cash dividend income (exclude dividend receivable included in investment cost) | <p><u>Short-term investments</u></p> <ul style="list-style-type: none"> Dividends received should reduce the carrying amount of the investment cost. <p><u>Long-term investments</u> (cost method)</p> <ul style="list-style-type: none"> Dividends received from the investee out of post-acquisition accumulated net profits is recognised as investment income when the dividends are declared. Any amount of dividends received in excess of investee's post-acquisition accumulated net profits is used to reduce the carrying value of investments. | Recognised as income when the right to receive dividends has been established. However, if the dividends relate to pre-acquisition profits of the investee, the amount should reduce the investment cost. If it is difficult to determine whether the dividends relate to pre-acquisition profits or not, they should be recognised as income, unless they clearly represent a recovery of part of the investment cost. | Consistent with IFRS before revision. |
| <i>Other income statement items</i> | | | |
| Pre-operating expenses | Accounted for as long-term deferred expenses on the balance sheet initially and recognised as expenses in the month in which the entity commences operation. | Expensed in the period when incurred. | Consistent with IFRS before revision. |
| Borrowing costs | <ul style="list-style-type: none"> Borrowing costs incurred in connection with <u>specific borrowings</u> for the purchase or construction of <u>fixed assets</u> should be capitalised when the conditions for capitalisation are met and up to the date the assets are ready for their intended use. | <ul style="list-style-type: none"> Benchmark treatment: expensed all borrowing costs when incurred. Allowed alternative: capitalisation is limited to the borrowing costs incurred to purchase and construct <u>qualifying assets</u> (such as plant - including expenditure for the land use right, inventories that require a substantial period of time to get ready for their intended use or sale, construction contracts etc.) | Consistent with IFRS before revision. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|--|---|--|----------------|
| | <ul style="list-style-type: none"> • Other borrowing costs should be recognised as expenses when incurred. • Capitalisation amount: <ul style="list-style-type: none"> - Interest and amortisation of premium and discount: the weighted average of accumulated expenditure X the weighted average interest rate of specific borrowings - Ancillary costs and exchange differences: full amount (If the amount is immaterial, recognise as finance costs directly.) - Temporary investment income: cannot reduce the capitalisation amount. • The above does not apply to property developers. A property developer should capitalise borrowing costs (e.g. interests and others) incurred on all borrowings to finance property development as cost of the property to the extent that they are incurred before the development is completed. Borrowing costs incurred after the completion of the development are recognised directly as finance costs in the period in which they are incurred. • Borrowing costs are not included in the costs of construction contracts. | <ul style="list-style-type: none"> • Capitalisation amount: <ul style="list-style-type: none"> - Specific borrowings <ul style="list-style-type: none"> ▪ all borrowing costs ▪ deduct temporary investment income from the capitalisation amount - Other borrowings <ul style="list-style-type: none"> ▪ the weighted average of accumulated expenditure less specific borrowings X the weighted average interest rate of other borrowings | |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|-------------------|--|--|---------------------------------------|
| Government grants | <ul style="list-style-type: none"> • Recognition: cash basis • For funds granted by the State for technology improvement and research projects, the amount is credited to capital reserve upon completion of the projects and the relevant assets have been constructed. • Subsidies determined according to volume of sales or work performed in accordance with amounts specified under State regulations and paid to the entity periodically should be recognised as subsidy income at the amounts receivable at period end. • Other form of subsidy under the State's financial subvention plan should be recognised as subsidy income when received. <p>[In October, 2002, the MOF issued an Exposure Draft on "Accounting for Government Grants and Government Assistance". In accordance with the exposure draft, government grants should generally be accounted for under the accrual basis. Government grants related to assets should be credited to the capital reserve, while grants related to income should be recognised in income.]</p> | <ul style="list-style-type: none"> • Recognition: accrual basis • Asset-related grants <ul style="list-style-type: none"> - Presented as deferred income, and recognised as income on a systematic and rational basis over the useful life of the asset, or - Deduct the grant from the carrying amount of the asset (i.e. recognise as income over the useful life of the depreciable asset by reducing the depreciation charge) • A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity (no future related costs) should be recognised as income in the period in which it becomes receivable. • Non-monetary government grants are recorded: <ul style="list-style-type: none"> - at fair value, or - at nominal value. • For grants related to biological assets measured at fair value: <ul style="list-style-type: none"> - unconditional grants are recognised as income when becomes receivable - conditional grants are recognised as income when the conditions are met. | Consistent with IFRS before revision. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|--|--|--|---------------------------------------|
| Income tax | <p>Permitted to use tax payable method or tax effect accounting method</p> <ul style="list-style-type: none"> Tax payable method <ul style="list-style-type: none"> Tax expense for the current period is equal to the current tax provision for the period. | <p>Tax effect accounting method</p> <ul style="list-style-type: none"> Recognise the effect of <u>temporary differences</u>. Use the balance sheet liability method. | Consistent with IFRS before revision. |
| | <ul style="list-style-type: none"> Tax effect accounting method <ul style="list-style-type: none"> Recognise the effect of <u>timing differences</u> (deferred tax assets on tax losses should only be recognised if there are sufficient taxable profits in future (normally 3 years)). Deferral method or income statement liability method can be used. | | |
| Tax refunds (excludes export VAT refund, see Note 1) | <ul style="list-style-type: none"> Income tax refunds resulting from re-investment of profit after tax in accordance with regulations, and other refunds of income tax, should reduce the current income tax expenses when the refunds are <u>actually received</u>. A refund of VAT should be recorded as subsidy income when <u>actually received</u>. | A tax refund is recognised in income <u>when the criteria for revenue recognition have been met</u> (i.e. future economic benefits are probable, amount can be measured reliably). | Consistent with IFRS before revision. |
| Staff bonus and welfare fund | As a profit appropriation item, and recorded as a liability item “welfare payable”. | Recognised as an expense in the income statement. | Consistent with IFRS before revision. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|--|---|--|--|
| Leases | | | |
| Finance lease - classification | <p>A finance lease is a lease that transfers in substance all the risks and rewards incident to the ownership of an asset.</p> <p>If the present value of the minimum lease payments amounts to substantially all of the <u>carrying amount of the leased asset originally recorded</u> in the books of the lessor, the lease should be classified as a finance lease.</p> | <p>Similar to PRC GAAP, but the lease should be considered as a finance lease when the present value of the minimum lease payments almost equals the <u>fair value</u> of the leased asset.</p> | <p>Consistent with IFRS before revision.</p> |
| Finance lease - recognition of asset by lessees | <ul style="list-style-type: none"> Finance lease asset is recorded at the lower of the <u>original carrying amount of the leased asset</u> and the present value of the minimum lease payments at the inception of the lease. Unrecognised finance charge (the difference between the minimum lease payments and the recorded amount of the leased asset) should be allocated to each accounting period using the effective interest rate method, the straight-line method or the sum-of-the-years'-digits method. If total amount of leased assets represents 30% or less of the total assets of a lessee, the lessee may record the leased asset and the long term liability at an amount equal to the minimum lease payments. It is not necessary to calculate the unrecognised finance charge. | <ul style="list-style-type: none"> Finance lease asset is recorded at the lower of the <u>fair value of the leased asset</u> and the present value of the minimum lease payments at the inception of the lease. The finance charge should be allocated to each accounting period using the effective interest rate method. | <p>Generally consistent with IFRS before revision, but the revised Standard requires the leases to be recognised at the commencement of the lease term, rather than at the inception of the lease (the date when the lease is classified).</p> |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|---|--|---|---|
| Finance lease - recognition of finance lease income by lessors | <ul style="list-style-type: none"> Lessors should recognise the total minimum lease receipts at the inception of the lease as a finance lease receivable and record the unguaranteed residual value as an asset at the same time. The difference between the aggregate of the minimum lease receipts and the unguaranteed residual value, and the present value of this aggregate amount should be recognised as unrealised finance income (presented as a deduction from the finance lease receivable). Unrealised finance income should be allocated to each accounting period during the lease term using the effective interest rate method. (If the result of using other methods such as the straight-line method and the sum-of-the-years'-digits method does not differ significantly from the effective interest rate method, other methods may be used.) If lease payments have not been received for more than one instalment period, the lessor should stop recognise finance income. Unpaid finance income recognised previously should be reversed. | <ul style="list-style-type: none"> Same as PRC GAAP. Similar to PRC GAAP. Allocate finance income over the lease term on a systematic and rational basis, based on the effective interest rate method. No other alternative method is mentioned in the standard. Finance income will not be recognised only when future inflow of economic benefits is not probable. In addition, when finance income is not recognised, an impairment loss should also be considered in respect of the finance lease receivables. | Generally consistent with IFRS before revision, but the revised Standard requires leases to be recognised at the commencement of the lease term, rather than at the inception of the lease (the date when the lease is classified). |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|---------------------------------|--|--|---|
| Sale and leaseback transactions | <p><u>Finance lease</u></p> <ul style="list-style-type: none"> The difference between sales proceeds and the carrying amount is <ul style="list-style-type: none"> deferred and amortised as an adjustment to depreciation according to the depreciation pattern of the leased asset. <p><u>Operating lease</u></p> <ul style="list-style-type: none"> The difference between sales proceeds and the carrying amount is <ul style="list-style-type: none"> deferred and amortised according to the proportion of the lease payments during the lease term. | <p><u>Finance lease</u></p> <ul style="list-style-type: none"> The excess of sales proceeds over the carrying amount is <ul style="list-style-type: none"> deferred and amortised over the lease term. <p><u>Operating lease</u></p> <ul style="list-style-type: none"> Sale price = fair value: recognise profit immediately. Sale price < fair value: recognise loss immediately but if the loss is compensated by future lease payments at below market price, the loss should be deferred and amortised. Sale price > fair value: defer and amortise the excess amount. | Same as IFRS before revision. |
| Others | | | |
| Non-monetary transactions | <ul style="list-style-type: none"> No distinction between exchanges of similar assets and exchanges of dissimilar assets. Only when boot is received should a gain be recognised. <p>Gain to be recognised = Boot received – [(Boot received/Fair value of the asset surrendered) x Carrying amount of the asset surrendered]</p> Recording the amount of asset received <ul style="list-style-type: none"> When no boot is paid or received: = Carrying amount of the asset surrendered + related tax payments | <ul style="list-style-type: none"> Exchanges of similar assets <ul style="list-style-type: none"> Carrying amount of the asset received = Carrying amount of the asset surrendered No gains or losses are recognised Exchanges of dissimilar assets <ul style="list-style-type: none"> Carrying amount of the asset received = Fair value of the asset received Gain or loss to be recognised = Fair value of the asset received - Carrying amount of the asset surrendered Similar assets are assets have a similar use in the same line of business and have similar fair values. | <ul style="list-style-type: none"> No distinction between exchanges of similar assets and exchanges of dissimilar assets. When an exchange transaction has commercial substance <ul style="list-style-type: none"> Measured at fair value unless the fair value is not reliably measurable Gains or losses are recognised When an exchange transaction lacks commercial substance or the fair value is not reliably measurable <ul style="list-style-type: none"> Measured at carrying amount of the asset surrendered No gains or losses are recognised |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|---|---|---|--|
| | <ul style="list-style-type: none"> - When boot is paid: = Carrying amount of the asset surrendered + boot paid + related tax payments - When boot is received: = Carrying amount of the asset surrendered – [(Boot received/Fair value of the asset surrendered) x Carrying amount of the asset surrendered]+ related tax payments | | <ul style="list-style-type: none"> • Guidance has been provided on whether an exchange transaction has commercial substance. |
| Gain from debt restructuring - general recognition | Credit to capital reserve. | Credit to income. | Consistent with IFRS before revision. |
| Financial instruments - derivatives | <p>No specific requirements. Generally required to be disclosed as off balance sheet items.</p> <p>[In July 2004, the MOF issued an Exposure Draft on “Derivative and Hedge Accounting for Financial Institutions”. The accounting principles are generally similar to IAS 39 except that the concept of embedded derivatives is not addressed in this exposure draft.]</p> | <p>Detailed guidance is provided.</p> <p>Derivative instruments should be measured at fair value. Changes in fair value are recognised in net profit or loss except for derivatives which are designated as hedging instruments under cash flow hedges and hedges of the net investment in a foreign operation.</p> | Generally consistent with IFRS before revision. |
| Financial instruments - hedge accounting | <p>No specific requirement.</p> <p>[In July 2004, the MOF issued an Exposure Draft on “Derivative and Hedge Accounting for Financial Institutions”. The accounting principles are generally similar to IAS 39.]</p> | <p>Hedges are classified as fair value hedges, cash flow hedges, and hedges of the net investment in a foreign operation.</p> <p>Different accounting treatments apply to different kinds of hedges. Hedges of firm commitments are classified as cash flow hedges.</p> | Generally consistent with IFRS before revision, with some revisions on certain classifications and accounting treatments. Hedges of firm commitments are now treated as fair value hedges rather than cash flow hedges, except for a hedge of the foreign currency risk of a firm commitment which can be treated as either a cash flow hedge or a fair value hedge. In addition, further guidance on macro hedge is provided. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|----------------------------|---|--|---|
| Share-based payment | No specific requirements. Generally required to be disclosed as off balance sheet items. | Disclosure is required, but there is no specific requirement on recognition and measurement. | Recognised as an expense. The amount charged as an expense should be measured at the fair value of the goods or services received. If the fair value of goods and services cannot be estimated reliably, the fair value of the equity instruments on the grant date should be used. |
| Related party transactions | <ul style="list-style-type: none"> • Determination of related party relationship: If a party has the power to, directly or indirectly, control, jointly control or exercise significant influence over the financial and operating policy decisions of another party, or two or more parties are subject to control from the same party, they are regarded as related parties. • State-owned enterprises are not regarded as related parties simply because they are owned by the government. • Disclosure requirements: Control relationships, related party relationships, nature of transactions, pricing policies, etc. <p>Note: Some special requirements are introduced by the MOF on accounting for related party transactions carried out by listed companies, see Note 2.</p> | <ul style="list-style-type: none"> • Determination of related party relationship: Similar to PRC GAAP. • No disclosure is required for transactions between state-controlled enterprises. • Disclosure requirements: Similar to PRC GAAP. | <ul style="list-style-type: none"> • Determination of related party relationship: Similar to IFRS before revision. • No exemption for state-controlled profit-oriented enterprises. • Disclosure requirements: Similar to IFRS before revision, with certain additional disclosure requirements. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|-------------------------------------|--|---|--|
| Cash flow statements | <ul style="list-style-type: none"> Cash flows are classified as cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities. Cash flows from operating activities should use both direct method and indirect method. | <ul style="list-style-type: none"> Classifications of cash flows are the same as PRC GAAP. Cash flows from operating activities should use either direct method or indirect method. | Consistent with IFRS before revision. |
| <i>Business combinations</i> | | | |
| Consolidated financial statements | <ul style="list-style-type: none"> An entity is required to prepare consolidated financial statements if it holds more than 50% of another entity's capital, or it holds less than 50% of another entity's capital but it controls the entity and it belongs to one of the following types of entities. Only the following four types of entities are required to prepare consolidated financial statements (specified by Caikuai [2003] No. 10): <ul style="list-style-type: none"> Authorized management enterprises of State owned assets Listed enterprises Certain foreign trading companies that are required to prepare consolidated financial statements Others if specifically required <p>In addition, an enterprise may prepare consolidated financial statements voluntarily for management purposes.</p> | <ul style="list-style-type: none"> A parent (other than a parent that is a wholly owned subsidiary, or is virtually wholly owned and obtains the approval of the owners of the minority interest) should prepare consolidated financial statements. A subsidiary is an entity that is controlled by another entity (known as the parent). Unconsolidated subsidiaries: <ul style="list-style-type: none"> Control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. Operate under severe long-term restrictions that significantly impair the ability to transfer funds to the parent. | <ul style="list-style-type: none"> A parent (other than a parent that is a wholly owned subsidiary, or a partially-owned subsidiary and its other owners have been informed and have not objected, and meets other certain criteria) should prepare consolidated financial statements. Definition of a subsidiary is consistent with IFRS (before revision). Exemptions on unconsolidated subsidiaries have been removed. All the subsidiaries should be consolidated. However, if classified as held for sale under IFRS 5, the assets and liabilities of a subsidiary that constitute a disposal group should be accounted for in accordance with IFRS 5. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|--|---|------------------------|----------------|
| | <ul style="list-style-type: none"> • Unconsolidated subsidiaries include: <ul style="list-style-type: none"> - The parent company intends to dispose of its subsidiary in the near future (disposal intention required to be established at the time of acquisition). - The subsidiary operates under severe long-term restrictions that significantly impair its ability to transfer funds to the parent. - Subsidiaries declared bankrupt or in the process of liquidation, or subsidiaries planned to be closed, whose business is planned to cease, planned to be merged with other enterprises or under the control of the government as a result of government's administrative purpose. - Subsidiaries will not continue in operation and have negative shareholder's equity. - Total assets, sales revenue and profits of the subsidiary are less than 10% of the corresponding amount of the group. (Not applicable for subsidiaries that incurred losses.) - Subsidiaries engaged in special industries (i.e. banking or insurance business). | | |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|--|--|--|--|
| Presentation of minority interests | <ul style="list-style-type: none"> Presented separately from equity and liability on the balance sheet Presented as a deduction item before net profit in the income statement | Same as PRC GAAP. | <ul style="list-style-type: none"> Presented as a separate component within equity on the balance sheet Neither an income nor an expense item in the income statement. Net profit for the period is allocated between amounts attributable to equity holders of the parent and amounts attributable to minority interests. |
| Business combinations - general approach | Use the purchase method in most cases, however, business combinations involving entities under common control may be accounted for using the pooling of interests method or other similar methods in practice. | Use the purchase method or the pooling of interests method, depending on the circumstances. However, business combinations involving entities under common control are out of the scope of IAS 22. | Only the purchase method is permitted. However, business combinations involving entities under common control are still out of the scope of IFRS 3. |
| Business combinations - separate financial statements of the acquiree | <p>In accordance with Caikuaizi [1998] No. 16</p> <ul style="list-style-type: none"> If the acquirer acquires <u>all</u> the equity of another entity, the acquiree's accounting books and records should be adjusted to reflect the appraisal value of assets, no matter whether the acquiree loses or retains its legal person status. If the acquirer acquires part of the equity of another entity, no adjustment is required to the carrying value of the acquiree's assets in the acquiree's accounting records. | No adjustment is required to the carrying value of the acquiree's assets. | Consistent with IFRS before revision. |

| | PRC GAAP | IFRS (before revision) | IFRS (revised) |
|---|---|--|---|
| Business combinations - intangible assets acquired in a business combination | No specific requirements. | Unless there is an active market for an intangible asset acquired in a business combination in which the fair value can be reliably measured, the cost initially recognised for the intangible asset should be limited to an amount that does not create or increase any negative goodwill arising at the date of acquisition. | The requirement in respect of the restrictions on the recognition of intangible assets under IFRS before revision has been removed. |
| Business combinations - subsidiaries with net liabilities | Losses in excess of the equity investments on such subsidiaries will be consolidated. However, in accordance with Caikuaihanzi [1999] No. 10, "Response on the Consolidation Issues of Subsidiaries with Net Liabilities", such losses in excess of the equity investments of the subsidiaries may be credited to "unrecognised investment loss" (an item presented below minority interests in the income statement). A new item "unrecognised investment loss" representing accumulated losses is added within equity on the balance sheet. | Consolidate the losses incurred by subsidiaries. | Consistent with IFRS before revision. |

Note 1: Export VAT refunds are not recognised in income. The accounting entries of export VAT refunds calculated in accordance with PRC regulations are debit "subsidy receivables" and credit "VAT payable".

Note 2: On December 21, 2001, the MOF issued a Caikuai [2001] No. 64, "Provisional Regulations on the Accounting Treatments of Sale of Assets and other Transactions between Related Parties". It prescribes any 'gain' arising as a result of a related party transaction that exceeds the gain that would be measured on the basis of the fair value of the goods or services sold cannot be recognised as income and must be credited directly to equity, unless there is sufficient evidence to support that the transaction price is fair. This rule applies to listed companies and is effective from the issue date of this Caikuai. Please refer to this Caikuai for details.

Note 3: IFRS 3, IAS 36(revised) and IAS 38(revised) are effective for annual periods beginning on or after March 31, 2004, and they apply to the accounting for business combinations for which the agreement date is on or after March 31, 2004. Accordingly, for the year ended December 31, 2004, those business combinations which occurred between April and December 2004 should be accounted for in accordance with IFRS 3, while those which occurred before that date should be accounted for in accordance with IAS 22. In addition, IFRS 3 provides very comprehensive transitional provisions.

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