



Certain statements contained in this Interim Report may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.

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”). Differences which have a significant effect on 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 Group 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.

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, 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 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 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 carrying amount and included in current earnings.



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 2003 is as follows:

	Six-month periods ended 30 June		
	2003 US\$ millions (Note)	2003 RMB millions	2002 RMB millions
Net profit under IFRS	1,119	9,260	8,483
US GAAP adjustments:			
Depreciation on revalued property, plant and equipment	(92)	(767)	(823)
Disposal of revalued property, plant and equipment	(3)	(23)	—
Deferred tax effect of US GAAP adjustments	31	260	271
Net profit under US GAAP	1,055	8,730	7,931
Basic earnings per share under US GAAP	US\$0.014	RMB0.12	RMB0.12
Basic earnings per ADS* under US GAAP	US\$1.39	RMB11.55	RMB11.61

* 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 2003 is as follows:

	30 June 2003 US\$ millions (Note)	30 June 2003 RMB millions	31 December 2002 RMB millions
	Shareholders' equity under IFRS	16,139	133,595
US GAAP adjustments:			
Revaluation of property, plant and equipment, net of minority interests	640	5,297	6,087
Deferred tax effect of US GAAP adjustment	(215)	(1,779)	(2,039)
Shareholders' equity under US GAAP	16,564	137,113	129,056

Note:

Solely for the convenience of the reader, the amounts as at and for the six-month period ended 30 June 2003 have been translated into United States dollars at the noon buying rate in New York City on 30 June 2003 for cable transfers in RMB as certified for custom purposes by the Federal Reserve Bank of New York of US\$1.00=RMB8.2776. 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 2003, or at any other date.