

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"). Information relating to the nature and effect of such differences are set out below. The US GAAP reconciliation presented below is included as supplemental information, is not required as part of the basic financial statements and does not include differences related to classification, display or disclosures.

(a) Foreign exchange gains and losses

In accordance with IFRS, foreign exchange differences on funds borrowed for construction are capitalised as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. Under US GAAP, all foreign exchange gains and losses on foreign currency debts are included in current earnings.

(b) Capitalisation of property, plant and equipment

In the years prior to those presented herein, certain adjustments arose between IFRS and US GAAP with regard to the capitalisation of interest and pre-production results under IFRS that were reversed and expensed under US GAAP. For the years presented herein, there were no adjustments related to the capitalisation of interest and pre-production results. Accordingly, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above.

(c) Revaluation of property, plant and equipment

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Group were revalued at 30 September 1999. In addition, the property, plant and equipment of Sinopec National Star, Sinopec Maoming and Refining Assets were revalued at 31 December 2000, 30 June 2003 and 31 October 2003 respectively in connection with the Acquisitions. Under IFRS, such revaluations result in an increase in shareholders' funds with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases and a charge to income 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, including land use rights, are stated at their historical cost less accumulated depreciation. However, as a result of the tax deductibility of the net revaluation surplus, a deferred tax asset related to the reversal of the revaluation surplus is created under US GAAP with a corresponding increase in shareholders' funds.

Under IFRS, effective 1 January 2002, land use rights, which were previously carried at revalued amount, are carried at cost under IFRS. The effect of this change resulted in a decrease to revaluation reserve net of minority interests of RMB 840 million as of 1 January 2002. This revaluation reserve was previously included as part of the revaluation reserve of property, plant and equipment. This change under IFRS eliminated the US GAAP difference relating to the revaluation of land use rights. However, as a result of the tax deductibility of the revalued land use rights, the reversal of the revaluation reserve resulted in a deferred tax asset.

In addition, 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.

(d) Exchange of assets

During 2002, the Company and Sinopec Group Company entered into an asset swap transaction. Under IFRS, the cost of property, plant and equipment acquired in an exchange for a dissimilar item of property, plant and equipment is measured at fair value. Under US GAAP, as the exchange of assets was between entities under common control, the assets received from Sinopec Group Company are measured at historical cost. The difference between the historical cost of the net assets transferred and the net assets received is accounted for as an equity transaction.

(e) Impairment of long-lived assets

Under IFRS, impairment charges are recognised when a long-lived asset's carrying amount exceeds the higher of an asset's net selling price and value in use, which incorporates discounting the asset's estimated future cash flows.

Under US GAAP, determination of the recoverability of a long-lived asset is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognised. Measurement of an impairment loss for a long-lived asset is based on the fair value of the asset.

In addition, under IFRS, a subsequent increase in the recoverable amount of an asset is reversed to the consolidated income statement to the extent that an impairment loss on the same asset was previously recognised as an expense when the circumstances and events that led to the write-down or write-off cease to exist. The reversal is reduced by the amount that would have been recognised as depreciation had the write-off not occurred. Under US GAAP, an impairment loss establishes a new cost basis for the impaired asset and the new cost basis should not be adjusted subsequently other than for further impairment losses.

The US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS.

(f) Capitalised interest on investment in associates

Under IFRS, investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalised. Under US GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is capitalised.

(g) Goodwill amortisation

Under IFRS, goodwill and negative goodwill are amortised on a systematic basis over their useful lives.

Under US GAAP, with reference to Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets" ("SFAS No.142"), goodwill is no longer amortised beginning 1 January 2002, the date that SFAS No. 142 was adopted. Instead, goodwill is reviewed for impairment upon adoption of SFAS No.142 and annually thereafter. In connection with SFAS No.142's transitional goodwill impairment evaluation, the Group determined that no goodwill impairment existed as of the date of adoption. In addition, under US GAAP, negative goodwill of RMB 11 million, net of minority interests, that existed at the date of adoption of SFAS No.142 was written off as a cumulative effect of a change in accounting principle.

(h) Companies included in consolidation

Under IFRS, the Group consolidates less than majority owned entities in which the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and proportionately consolidates jointly controlled entities in which the Group has joint control with other venturers. However, US GAAP requires that any entity of which the Group owns 20% to 50% of total outstanding voting stock not be consolidated nor proportionately consolidated, but rather be accounted for under the equity method. Accordingly, certain of the Group's subsidiaries, of which the Group owns between 40.72% to 50% of the outstanding voting stock, and the Group's jointly controlled entities are not consolidated nor proportionately consolidated under US GAAP and instead accounted for under the equity method. This exclusion does not affect the profit attributable to shareholders or shareholders' funds reconciliations between IFRS and US GAAP.

Presented below is summarised financial information of such subsidiaries and jointly controlled entities.

	Years ended 31 December	
	2003	2002
	RMB millions	RMB millions
Revenues	21,735	16,719
Profit before taxation	1,329	666
Net profit	1,090	468

	At 31 December	
	2003	2002
	RMB millions	RMB millions
Current assets	4,986	5,169
Total assets	27,607	17,463
Current liabilities	5,902	4,612
Total liabilities	9,238	4,992
Total equity	18,369	12,471

(i) Related party transactions

Under IFRS, transactions of state-controlled enterprises with other state-controlled enterprises are not required to be disclosed as related party transactions. Furthermore, government departments and agencies are deemed not to be related parties to the extent that such dealings are in the normal course of business. Therefore, related party transactions as disclosed in Note 33 in the financial statements prepared under IFRS only refers to transactions with enterprises over which Sinopec Group Company is able to exercise significant influence.

Under US GAAP, there are no similar exemptions. Although the majority of the Group's activities are with PRC government authorities and affiliates and other PRC state-owned enterprises, the Group believes that it has provided meaningful disclosure of related party transactions in Note 33 to the financial statements prepared under IFRS.

(j) Recently issued accounting standards**SFAS No.150**

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No.150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It also includes required disclosures for financial instruments within its scope. For the Group, SFAS No.150 was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective at the beginning of the first financial year beginning after June 15, 2003. FASB Staff Provision No. FAS150-3 deferred certain provisions of SFAS No.150 for certain mandatorily redeemable non-controlling interests. The Group currently does not have any financial instruments that are within the scope of SFAS No.150.

FIN No. 46R

In December 2003, the FASB issued Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46R), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities", which was issued in January 2003. The Group will be required to apply FIN 46R to variable interests in Variable Interest Entities ("VIEs") created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and non-controlling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognised interest being recognised as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. The Group does not expect the application of this Interpretation will have a material impact on its consolidated financial statements.

The effect on profit attributable to shareholders of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	Years ended 31 December		
		2003 US\$ millions	2003 RMB millions	2002 RMB millions
Profit attributable to shareholders under IFRS		2,609	21,593	16,315
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	9	76	76
Capitalisation of property, plant and equipment	(b)	1	12	12
Reversal of deficit on revaluation of property, plant and equipment	(c)	10	86	—
Depreciation on revalued property, plant and equipment	(c)	483	3,998	4,126
Disposal of property, plant and equipment	(c)	159	1,316	544
Exchange of assets	(d)	3	23	—
Reversal of impairment of long-lived assets, net of depreciation effect	(e)	6	47	59
Capitalised interest on investments in associates	(f)	17	141	110
Goodwill amortisation for the year	(g)	—	—	6
Cumulative effect of adopting SFAS No. 142	(g)	—	—	11
Deferred tax effect of US GAAP adjustments		(207)	(1,715)	(1,509)
Profit attributable to shareholders under US GAAP		3,090	25,577	19,750
Basic and diluted earnings per share under US GAAP		US\$0.04	RMB0.30	RMB0.23
Basic and diluted earnings per ADS under US GAAP*		US\$3.56	RMB29.50	RMB22.78

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

The effect on shareholders' funds of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	At 31 December		
		2003 US\$ millions	2003 RMB millions	2002 RMB millions
Shareholders' funds under IFRS		20,286	167,899	163,823
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	(43)	(352)	(428)
Capitalisation of property, plant and equipment	(b)	(1)	(12)	(24)
Revaluation of property, plant and equipment	(c)	(1,564)	(12,943)	(18,327)
Deferred tax adjustments on revaluation	(c)	484	4,004	5,628
Exchange of assets	(d)	(67)	(555)	(578)
Reversal of impairment of long-lived assets	(e)	(68)	(561)	(608)
Capitalised interest on investments in associates	(f)	39	321	180
Goodwill	(g)	2	17	17
Deferred tax effect of US GAAP adjustments		48	398	484
Shareholders' funds under US GAAP		19,116	158,216	150,167

Note: United States dollar equivalents

For the convenience of readers, amounts in Renminbi have been translated into United States dollars at the rate of US\$1.00 = RMB 8.2767 being the noon buying rate in New York City on 31 December 2003 for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate.