

(D) SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED)

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 profit attributable to shareholders and shareholders' funds 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. Such information have not been subject to independent audit or review.

(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 periods 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 periods 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 were revalued at 31 December 2000 in connection with the Acquisition. 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 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 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 RMB840 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 under IFRS.

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) 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.

For the six-month period ended 30 June 2002, the US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS.

(e) Capitalised interest on investments 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.

(f) 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 will be 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 RMB11 million that existed at the date of adoption of SFAS No. 142 was written off as a cumulative effect of a change in accounting principle.

(D) SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (UNAUDITED) (CONTINUED)

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

	Reference in note above	Six-month periods ended 30 June		
		2002 US\$ millions	2002 RMB millions	2001 RMB millions
Profit attributable to shareholders under IFRS		656	5,433	9,975
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	5	38	38
Capitalisation of property, plant and equipment	(b)	1	6	6
Depreciation on revalued property, plant and equipment	(c)	252	2,085	2,099
Disposal of property, plant and equipment	(c)	20	166	30
Reversal of impairment of long-lived assets, net of depreciation effect	(d)	4	30	32
Capitalised interest on investments in associates	(e)	7	63	—
Goodwill amortisation for the period	(f)	—	3	—
Cumulative effect of adopting SFAS No. 142	(f)	2	11	—
Deferred tax effects of US GAAP adjustments		(88)	(730)	(668)
Profit attributable to shareholders under US GAAP		859	7,105	11,512
Basic and diluted earnings per share under US GAAP		US\$0.01	RMB0.08	RMB0.14
Basic and diluted earnings per ADS under US GAAP*		US\$0.99	RMB8.19	RMB13.72

In accordance with SFAS No. 142's transitional disclosures requirements, a reconciliation of reported net income under US GAAP to adjusted net income under US GAAP is presented below.

	Six-month periods ended 30 June		
	2002 US\$ millions	2002 RMB millions	2001 RMB millions
Net income under US GAAP	859	7,105	11,512
Add: Goodwill amortisation	—	—	4
Less: Amortisation of negative goodwill	—	—	(1)
Adjusted net income under US GAAP	859	7,105	11,515
Basic and diluted earnings per share under US GAAP	US\$0.01	RMB0.08	RMB0.14
Basic and diluted earnings per ADS under US GAAP*	US\$0.99	RMB8.19	RMB13.72
Adjusted income before cumulative effect of a change in accounting principle	857	7,094	11,515

* 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 30 June 2002		At 31 December 2001
		US\$ millions	RMB millions	RMB millions
Shareholders' funds under IFRS		17,587	145,572	147,669
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	(56)	(466)	(504)
Capitalisation of property, plant and equipment	(b)	(4)	(30)	(36)
Revaluation of property, plant and equipment	(c)	(2,506)	(20,746)	(23,837)
Deferred tax adjustments on revaluations	(c)	770	6,371	7,309
Reversal of impairment of long-lived assets	(d)	(77)	(637)	(667)
Capitalised interest on investments in associates	(e)	16	133	70
Goodwill	(f)	2	14	—
Deferred tax effects of US GAAP adjustments		40	329	367
Shareholders' funds under US GAAP		15,772	130,540	130,371

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 = RMB8.2771 being the noon buying rate in New York City on 28 June 2002 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.