SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

The consolidated financial statements of the Group appearing on pages 73 to 138 have been prepared in accordance with International Financial Reporting Standards (IFRS), which may differ in certain material respects from the accounting principles generally accepted in the United States of America (US GAAP). Such differences involve methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP.

Effect on net income of significant differences between IFRS and US GAAP is as follows:

	Year Ended December 31, 2002	2001
	RMB	RMB
Net income under IFRS	46,910	45,469
US GAAP adjustments:		
Depreciation charges on fixed assets revaluation gain	8,157	8,305
Depreciation charges on fixed assets revaluation loss	(112)	(112)
Loss on disposal of fixed assets	224	53
Income tax effect	(2,729)	(2,721)
Minority interests	(60)	(60)
One time remedial payments for staff housing ..	(2,553)	-
Net income under US GAAP	49,837	50,934
Basic and diluted net income per share	0.28	0.29

Effect on shareholders' equity of significant differences between IFRS and US GAAP is as follows:

	Year Ended December 31, 2002	2001
	RMB	RMB
Shareholders' equity under IFRS	316,676	290,606
US GAAP adjustments:		
Reversal of fixed assets revaluation gain	(80,549)	(80,549)
Depreciation charges on fixed assets revaluation gain	29,220	21,063
Reversal of fixed assets revaluation loss	1,122	1,122
Depreciation charges on fixed assets revaluation loss	(336)	(224)
Loss on disposal of fixed assets	340	116
Deferred tax assets on revaluation	16,567	19,296
Minority interests	424	484
Effect on the retained earnings from the one time remedial payments for staff housing borne by the state shareholder of the Company	(2,553)	-
Effect on the other reserves of the shareholders' equity from the one time remedial payments for staff housing borne by the state shareholder of the Company	2,553	-
Shareholders' equity under US GAAP	283,464	251,914

In preparing the summary of differences between IFRS and US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the estimates of revenues and expenses. Accounting estimates have been employed in these financial statements to determine reported amounts, including realisability, useful lives of tangible and intangible assets, income taxes and other areas. Actual results could differ from those estimates.

A summary of the principal differences and additional disclosures applicable to the Group is set out below:

(a) Revaluation of fixed assets

As described in Note 14 to the consolidated financial statements on pages 95 to 99, the fixed assets, excluding oil and gas reserves, transferred to the Company by CNPC were appraised as of June 30, 1999, as required by the relevant PRC regulations, by a firm of independent valuers registered in the PRC, China Enterprise Appraisal. The revaluation of the fixed assets transferred resulted in RMB 80,549 in excess of the prior carrying value and a revaluation loss of RMB 1,122 on certain fixed asset items. The depreciation charge on the revaluation surplus from January 1, 2001 to December 31, 2001 was 8,305, and from January 1, 2002 to December 31, 2002 was RMB 8,157.

For purposes of reconciling to the US GAAP financial data, the effect of the revaluation and the related depreciation charges is reversed. A deferred tax asset relating to the reversal of the revaluation effect is established, together with a corresponding increase in the shareholders' equity. Under a special approval granted by the Ministry of Finance, the effect of the revaluation is available as additional depreciation base for purposes of determining taxable income.

(b) Related party transactions

The Group has disclosed in Note 35 to the consolidated financial statements on page 125, transactions with significant customers and in Notes 19, 20, 24, 25 and 36 transactions and balances with its immediate parent, CNPC, and related companies. CNPC is owned by the PRC government, which also owns a significant portion of the productive assets in the PRC. IFRS exempts state controlled enterprises from disclosing transactions with other state controlled enterprises. IFRS also excludes from related parties government departments and agencies to the extent that such dealings are in the normal course of business. US GAAP contains no similar exemptions but requires disclosure of material related party transactions. The Group believes that it has provided meaningful disclosures of related party transactions through the major customer disclosures in Note 35 and the transactions with the CNPC Group disclosed in Note 36. Although the majority of the Group's activities are with PRC government authorities and affiliates and other state controlled enterprises, none individually constitutes a major customer or supplier other than those disclosed.

(c) One-time remedial payments for staff housing

As disclosed in Note 6 to the consolidated financial statements on pages 89 to 90, certain employees of the Group who joined the workforce prior to December 31, 1998 and have housing conditions below local standards are to be reimbursed for such differentials. These one-time remedial payments are to be borne by the state-owner of the Company, CNPC. Under IFRS, such direct payments to employees or reimbursements will not be recorded through the consolidated income statement of the Group. US GAAP contains no such exemption but requires this principal shareholder’s action on behalf of the Company to be recorded in the consolidated income statement. During the year ended December 31, 2002, the Group and CNPC completed the process of estimating the amount that are payable to qualified employees of the Group. This amount, RMB 2,553, has been reflected in determining net income of the Group for the year ended December 31, 2002, under US GAAP. Since this amount is borne by CNPC, a corresponding amount has been included as an addition to the other reserves in the shareholders’ equity of the Group.

(d) Recent US accounting pronouncements

In August 2001, FASB issued Statement of Financial Accounting Standards No. 143 (FAS 143), "Accounting for Asset Retirement Obligations". FAS 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. FAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Group is evaluating the effect of adoption of FAS 143.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (FAS 146). This Standard requires companies to recognise costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operations, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, "Liability Recognition for Certain Costs, Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) ". SFAS No. 146 replaces EITF 94-3 and is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Group will comply with FAS 146 beginning in 2003.

FASB issued Interpretation (FIN) 45, "Guarantor - Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", in November 2002. FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognise, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions under FIN 45 are applicable prospectively to guarantees issued or modified after December 31, 2002. The adoption of disclosure requirements that are effective for the year ended December 31, 2002, did not have a material effect on the consolidated financial statements of the Group.

Issued in January 2003, FIN 46, “Consolidation of Variable Interest Entities”, provides guidance on the identification of and financial reporting for entities over which control is achieved through means other than voting rights. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company has not yet completed its assessment of the accounting effects from this new accounting interpretation upon adoption.