SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

The consolidated financial statements of the Group appearing on pages 67 to 124 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,	
	2003	**2002**
	RMB	**RMB**
Net income under IFRS	69,614	46,910
US GAAP adjustments:		
Reversal of revaluation loss of property, plant and equipment	391	-
Depreciation charges on property, plant and equipment revaluation gain	8,053	8,157
Depreciation charges on property, plant and equipment revaluation loss	(144)	(112)
Loss on disposal of property, plant and equipment	451	224
Income tax effect	(2,886)	(2,729)
Minority interests	(60)	(60)
One-time remedial payments for staff housing	-	(2,553)
Net income under US GAAP	75,419	49,837
Basic and diluted net income per share under US GAAP (RMB)	0.43	0.28

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

	Year Ended December 31,	
	2003	**2002**
	RMB	**RMB**
Shareholders' equity under IFRS	356,613	316,676
US GAAP adjustments:		
Reversal of property, plant and equipment revaluation gain	(80,555)	(80,549)
Depreciation charges on property, plant and equipment revaluation gain	37,273	29,220
Reversal of property, plant and equipment revaluation loss	1,513	1,122
Depreciation charges on property, plant and equipment revaluation loss	(480)	(336)
Loss on disposal of property, plant and equipment	791	340
Deferred tax assets on revaluation	13,686	16,567
Minority interests	364	424
Effect on the retained earnings from the one-time remedial payments for staff housing borne by the state shareholder of the Company	(2,553)	(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	2,553
Shareholders' equity under US GAAP	329,205	283,464

Changes in shareholders' equity under US GAAP for each of the years ended December 31, 2003 and 2002 are as follows:

	Year Ended December 31,	
	2003	**2002**
	RMB	**RMB**
Balance at beginning of year	283,464	251,914
Net profit for the year	75,419	49,837
Final dividend for year 2001	-	(8,839)
Interim dividend for year 2002	-	(8,811)
Final dividend for year 2002	(12,299)	-
Interim dividend for year 2003	(17,379)	-
Contribution from CNPC to marketing enterprises	-	10
Payment to CNPC for acquisition of marketing enterprises	-	(3,200)
Contribution from CNPC for one-time remedial staff housing	-	2,553
Balance at end of year	329,205	283,464

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 property, plant and equipment

As described in Note 14 to the consolidated financial statements on pages 87 to 92, the property, plant and equipment, 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. As at September 30, 2003, a revaluation of the Group's refining and chemical production equipment was undertaken by a firm of independent valuers registered in the PRC, China United Assets Appraiser Co., Ltd, on a depreciated replacement cost basis.

The June 1999 revaluation resulted in RMB 80,549 in excess of the prior carrying value and a revaluation loss of RMB 1,122 on certain property, plant and equipment.

The September 2003 revaluation resulted in a RMB 872 in excess of the carrying value of certain property, plant and equipment immediately prior to the revaluation and a revaluation loss of RMB 1,257.

With respect to the RMB 872 revaluation gain resulting from the 2003 revaluation, RMB 98 were related to property, plant and equipment that in 1999 experienced revaluation loss, and were credited to the profit and loss account. The remaining RMB 774 was credited to the revaluation reserve in the shareholders' equity.

With respect to the RMB 1,257 revaluation loss resulting from the 2003 revaluation, RMB 768 were related to property, plant and equipment that in 1999 experienced revaluation gain. The remaining RMB 489 were charged to the profit and loss account.

The depreciation charge, which includes impairment charge, on the revaluation surplus from January 1, 2003 to December 31, 2003 was RMB 8,053, and from January 1, 2002 to December 31, 2002 was RMB 8,157.

The depreciation charge on the revaluation loss from January 1, 2003 to December 31, 2003 was RMB 144, and from January 1, 2002 to December 31, 2002 was RMB 112.

The loss on disposal of property, plant and equipment, which includes shut down of manufacturing assets, from January 1, 2003 to December 31, 2003 was RMB 451, and from January 1, 2002 to December 31, 2002 was RMB 224.

For purposes of reconciling to the US GAAP financial data, the effect of the revaluation, the related depreciation charges and loss on disposal is reversed. A deferred tax asset relating to the reversal of the effect of revaluation in 1999 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 in 1999 is available as additional depreciation base for purposes of determining taxable income.

(b) Related party transactions

The Group has disclosed in Note 36 to the consolidated financial statements on page 117, transactions with significant customers and in Notes 20, 21, 25, 26 and 37 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 36 and the transactions with the CNPC Group disclosed in Note 37. Although the majority of the Group's activities are conducted with the PRC government and its 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

The Ministry of Finance of the PRC issued several public notices and regulations during the year ended December 31, 2000 and in January 2001 with respect to the one-time remedial payments for staff housing payable to certain employees who joined the workforce prior to December 31, 1998 and have housing conditions below local standards as determined in accordance with government regulations and guidelines. These Ministry of Finance notices and regulations also provided that the portion of remedial payments attributable to the periods prior to a restructuring of the employer enterprise from a wholly state-owned status to a less than wholly state-owned status is to be borne by the state shareholder of the enterprise.

The restructuring that resulted in the formation of the Group took place in November 1999. As such, the one-time remedial housing payments payable to the eligible employees of the Group are to be borne by the state shareholder of the Group.

Under IFRS, such direct payments to employees or reimbursements will not be recorded through the consolidated profit and loss account 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 profit and loss account. In the last quarter of year 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, was 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

Issued in January 2003 and revised in December 2003, FIN 46-R, "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 is effective no later than the end of the first reporting period ending after March 15, 2004 for variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of the provisions of FIN 46-R is not expected to have a material effect on the consolidated financial statements of the Group.