

(C) DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS

Other than the differences in the classifications of certain financial statements captions and the accounting for the items described below, there are no material differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS. The major differences are:

(i) Disposal of oil and gas properties

Under the PRC Accounting Rules and Regulations, gains and losses arising from the retirement or disposal of an individual item of oil and gas properties are recognised as income or expense in the income statement and are measured as the difference between the estimated net disposal proceeds and the carrying amount of the asset.

Under IFRS, gains and losses on the retirement or disposal of an individual item of proved oil and gas properties are not recognised unless the retirement or disposal encompasses an entire property. The costs of the asset abandoned or retired are charged to accumulated depreciation with the proceeds received on disposals credited to the carrying amounts of oil and gas properties.

(ii) Acquisitions of Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants

Under the PRC Accounting Rules and Regulations, the acquisitions of Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants (the "Acquisitions") are accounted for by the acquisition method. Under the acquisition method, the income of an acquiring enterprise includes the operations of the acquired enterprise subsequent to the acquisition. The difference between the cost of acquiring Sinopec National Star and the fair value of the net assets acquired is capitalised as an exploration and production right, which is amortised over 27 years. The costs of acquiring Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants approximated the fair value of the net assets acquired.

Under IFRS, as the Group, Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants are under the common control of Sinopec Group Company, the Acquisitions are considered "combination of entities under common control" which are accounted in a manner similar to a pooling-of-interests ("as-if pooling-of-interests accounting"). Accordingly, the assets and liabilities of Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants acquired have been accounted for at historical cost and the financial statements of the Group for periods prior to the Acquisitions have been restated to include the financial condition and results of operations of Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants on a combined basis. The considerations paid by the Group are treated as equity transactions.

(iii) Depreciation of oil and gas properties

Under the PRC Accounting Rules and Regulations, oil and gas properties are depreciated on a straight-line basis. Under IFRS, oil and gas properties are depreciated on the unit of production method.

(iv) Impairment losses on revalued assets

Under the PRC Accounting Rules and Regulations, impairment losses on property, plant and equipment are recognised as expense in the income statement. Under IFRS, impairment loss on a revalued asset is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

(v) Capitalisation of general borrowing costs

Under the PRC Accounting Rules and Regulations, only borrowing costs on funds that are specifically borrowed for construction are capitalised as part of the cost of property, plant and equipment. Under IFRS, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs should be capitalised as part of the cost of that asset.

(vi) Revaluation of land use rights

Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount. Under IFRS, land use rights are carried at historical cost less amortisation. Accordingly, the surplus on the revaluation of land use rights, credited to revaluation reserve, was eliminated.

(vii) Government grants

Under the PRC Accounting Rules and Regulations, government grants should be credited to capital reserve. Under IFRS, government grants relating to the purchase of equipment used for technology improvements are initially recorded as long term liabilities and are offset against the cost of assets to which the grants related when construction commences. Upon transfer to property, plant and equipment, the grants are recognised as an income over the useful life of the property, plant and equipment by way of reduced depreciation charge.

(viii) Unrecognised losses of subsidiaries

Under the PRC Accounting Rules and Regulations, the results of subsidiaries are included in the Group's consolidated income statement to the extent that the subsidiaries' accumulated losses do not result in their carrying amount being reduced below zero, without the effect of minority interests. Further losses are debited to a separate reserve in the shareholders' funds.

Under IFRS, the results of subsidiaries are included in the Group's consolidated income statement from the date that control effectively commences until the date that control effectively ceases.

(ix) Pre-operating expenditures

Under the PRC Accounting Rules and Regulations, expenditures incurred during the start-up period are aggregated in long-term deferred expenses and charged to the income statement when operations commence. Under IFRS, expenditures on start-up activities are recognised as an expense when they are incurred.

(x) Gain from issuance of shares by a subsidiary

Under the PRC Accounting Rules and Regulations, the increase in the Company's share of net assets of a subsidiary after the sale of additional shares by the subsidiary is credited to capital reserve. Under IFRS, such increase is recognised as income.

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(xi) Gain from debt restructuring

Under the PRC Accounting Rules and Regulations, gain from debt restructuring resulting from the difference between the carrying amount of liabilities extinguished or assumed by other parties and the amount paid is credited to capital reserve. Under IFRS, the gain resulting from such difference is recognised as income.

(xii) Impairment losses on long-lived assets

Under the PRC Accounting Rules and Regulations and IFRS, impairment charges are recognised when the carrying value of long-lived assets exceeds the higher of their net selling price and the value in use which incorporates discounting the asset's estimated future cash flows. Due to the difference in the depreciation method of oil and gas properties discussed in (iii) above, the provision for impairment losses and reversal of impairment loss under the PRC Accounting Rules and Regulations are measured differently from the amounts recorded under IFRS.

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on net profit are analysed as follows:

	Note	2004 RMB millions	2003 RMB millions
Net profit under the PRC Accounting Rules and Regulations		32,275	19,011
Adjustments:			
Disposal of oil and gas properties, net of depreciation effect	(i)	2,110	1,260
Acquisitions of Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	(ii)	1,499	1,157
Acquisition of Sinopec National Star	(ii)	117	117
Depreciation of oil and gas properties	(iii)	761	1,784
Impairment losses on revalued assets	(iv)	709	—
Capitalisation of general borrowing costs	(v)	480	389
Revaluation of land use rights	(vi)	19	18
Government grants	(vii)	3	—
Unrecognised losses of subsidiaries	(viii)	(531)	(182)
Pre-operating expenditures	(ix)	(288)	(169)
Gain from issuance of shares by a subsidiary	(x)	—	136
Gain from debt restructuring	(xi)	—	82
Effects of the above adjustments on taxation		(1,135)	(1,179)
Net profit under IFRS*		36,019	22,424

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on shareholders' funds are analysed as follows:

	Note	2004 RMB millions	2003 RMB millions
Shareholders' funds under the PRC Accounting Rules and Regulations		186,350	162,946
Adjustments:			
Disposal of oil and gas properties	(i)	3,370	1,260
Acquisitions of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	(ii)	—	3,616
Acquisition of Sinopec National Star	(ii)	(2,695)	(2,812)
Depreciation of oil and gas properties	(iii)	11,646	10,885
Capitalisation of general borrowing costs	(v)	1,605	1,125
Revaluation of land use rights	(vi)	(851)	(870)
Government grants	(vii)	(592)	(326)
Effect of minority interests on unrecognised losses of subsidiaries	(viii)	—	61
Pre-operating expenditures	(ix)	(457)	(169)
Impairment losses on long-lived assets	(xii)	(113)	(113)
Effects of the above adjustments on taxation		(5,223)	(4,088)
Shareholders' funds under IFRS *		193,040	171,515

* The above figure is extracted from the financial statements prepared in accordance with IFRS which have been audited by KPMG.