

## SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

The consolidated financial statements of the Group appearing on pages 70 to 120 have been prepared in accordance with International Financial Reporting Standards (IFRS), which 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,	
	2004	2003
	RMB	RMB
Net income under IFRS	102,927	69,614
US GAAP adjustments:		
Reversal of revaluation loss of property, plant and equipment	-	391
Depreciation charges on property, plant and equipment revaluation gain	8,170	8,053
Depreciation charges on property, plant and equipment revaluation loss	(830)	(144)
Loss on disposal of revalued property, plant and equipment	523	451
Income tax effect	(2,595)	(2,886)
Minority interests	(60)	(60)
Net income under US GAAP	108,135	75,419
Basic and diluted net income per share under US GAAP (RMB)	0.62	0.43

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

	As of December 31,	
	2004	2003
	RMB	RMB
Shareholders' equity under IFRS	425,212	356,613
US GAAP adjustments:		
Reversal of property, plant and equipment revaluation gain	(80,555)	(80,555)
Depreciation charges on property, plant and equipment revaluation gain	45,443	37,273
Reversal of property, plant and equipment revaluation loss	1,513	1,513
Depreciation charges on property, plant and equipment revaluation loss	(1,310)	(480)
Loss on disposal of revalued property, plant and equipment	1,314	791
Deferred tax assets on revaluation	11,091	13,686
Minority interests	304	364
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	403,012	329,205



Changes in shareholders' equity under US GAAP for each of the years ended December 31, 2004 and 2003 are as follows:

	Year Ended December 31,	
	2004	2003
	RMB	RMB
Balance at beginning of year	329,205	283,464
Net profit for the year	108,135	75,419
Final dividend for year 2002	-	(12,299)
Interim dividend for year 2003	-	(17,379)
Final dividend for year 2003	(13,947)	-
Interim dividend for year 2004	(20,381)	-
Balance at end of year	403,012	329,205

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 may 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 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, 2004 to December 31, 2004 was RMB 8,170, and from January 1, 2003 to December 31, 2003 was RMB 8,053.

The depreciation charge, which includes impairment charge, on the revaluation loss from January 1, 2004 to December 31, 2004 was RMB 830, and from January 1, 2003 to December 31, 2003 was RMB 144.

The loss on disposal of revalued property, plant and equipment, which includes shut down of manufacturing assets, from January 1, 2004 to December 31, 2004 was RMB 523, and from January 1, 2003 to December 31, 2003 was RMB 451.

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 115, transactions with significant customers and in Notes 21, 22, 26, 27 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 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 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. There were no significant changes in this estimate during 2003 and 2004.

**(d) Recent US accounting pronouncements**

In December 2004, the FASB revised FAS No. 123 (FAS 123 (R)). FAS 123 (R), "Share-based Payment", requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Pro forma disclosure is no longer an alternative to financial statement recognition. FAS 123 (R) is effective for interim periods beginning after June 15, 2005. The Group is evaluating the transition provisions allowed by FAS 123 (R). The Group does not expect the adoption of FAS 123(R) to have a material impact on the Group's financial position or operational results.

On November 24, 2004, the FASB issued Statement No. 151, "Inventory Costs", an amendment of ARB No. 43, Chapter 4 (FAS 151). FAS 151 requires that abnormal amounts of idle capacity and spoilage costs be excluded from the cost of inventory and expensed when incurred. The provisions of FAS 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005. The Group does not expect the adoption of FAS 151 to have a material impact on the Group's financial position or results of operation.

On December 15, 2004, the FASB issued Statement No. 153, "Exchanges of Nonmonetary Assets", an amendment of APB Opinion No. 29 (FAS 153). FAS 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. FAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Group does not expect the adoption of FAS 153 to have a material impact on the Group's financial position or results of operation.