

SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

The consolidated financial statements of the Group appearing on pages 87 to 152 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 income of significant differences between IFRS and US GAAP is as follows:

	Year Ended December 31	
	2005	2004
	RMB	RMB
Profit for the year under IFRS	139,642	107,646
US GAAP adjustments:		
Depreciation charges on property, plant and equipment revaluation gain	6,528	8,170
Depreciation charges on property, plant and equipment revaluation loss	(149)	(830)
Loss on disposal of revalued property, plant and equipment	432	523
Income tax effect	(2,248)	(2,595)
Minority interests	(6,340)	(3,863)
Net income under US GAAP	137,865	109,051
Basic and diluted net income per share under US GAAP (RMB)	0.78	0.62

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

	December 31, 2005	December 31, 2004
	RMB	RMB
Equity under IFRS	543,667	442,972
US GAAP adjustments:		
Reversal of property, plant and equipment revaluation gain	(80,555)	(80,555)
Depreciation charges on property, plant and equipment revaluation gain	51,971	45,443
Reversal of property, plant and equipment revaluation loss	1,513	1,513
Depreciation charges on property, plant and equipment revaluation loss	(1,459)	(1,310)
Loss on disposal of revalued property, plant and equipment	1,746	1,314
Deferred tax assets on revaluation	8,843	11,091
Minority interests	(28,034)	(14,895)
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
Purchase from minority interests of listed subsidiaries (Note 18 to the consolidated financial statements)	1,438	-
Shareholders' equity under US GAAP	499,130	405,573

Changes in shareholders' equity under US GAAP for each of the years ended December 31, 2005 and 2004 are as follows:

	Year Ended December 31	
	2005	2004
	RMB	RMB
Balance at beginning of year	405,573	330,520
Net income for the year	137,865	109,051
Final dividend for year 2003	-	(13,947)
Interim dividend for year 2004	-	(20,381)
Final dividend for year 2004	(25,936)	-
Interim dividend for year 2005	(27,731)	-
Payment to CNPC for acquisition of refinery and petrochemical businesses (Note 2 to the consolidated financial statements)	(9)	-
Issue of shares (Note 29 and 30 to the consolidated financial statements)	19,692	-
Capital contribution to Zhong You Kan Tan Kai Fa Company Limited (Note 2 to the consolidated financial statements)	(10,056)	-
Currency translation differences	(268)	330
Balance at end of year	499,130	405,573

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 factors. 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 15 to the consolidated financial statements on pages 110 to 115, 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.

The depreciation charge, which includes impairment charge, on the revaluation surplus from January 1, 2005 to December 31, 2005 was RMB 6,528, and from January 1, 2004 to December 31, 2004 was RMB 8,170.

The depreciation charge, which includes impairment charge, on the revaluation loss from January 1, 2005 to December 31, 2005 was RMB 149, and from January 1, 2004 to December 31, 2004 was RMB 830.

The loss on disposal of revalued property, plant and equipment, which includes shut down of manufacturing assets, from January 1, 2005 to December 31, 2005 was RMB 432, and from January 1, 2004 to December 31, 2004 was RMB 523.

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) One-time remedial payments for staff housing

The Ministry of Finance of the PRC issued several public notices and regulations during the years 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 2004 and 2005.

(c) Minority interest

In accordance with the revised IAS 1 and IAS 27, minority interest becomes part of the profit for the year and total equity of the Group, whereas under US GAAP, it is respectively excluded from the net income and shareholders' equity of the Group. In addition, the reconciling item also includes the impact of minority interest's share of the revaluation gain and loss, on the property, plant and equipment of non-wholly owned subsidiaries, to net income and shareholders' equity under US GAAP.

(d) Purchase from minority interests of listed subsidiaries

As described in note 18 to the consolidated financial statements on pages 117 to 118, the Company acquired certain outstanding A shares from the minority interests of Jinzhou Petrochemical Company Limited ("JPCL") and Liaohe Jinma Oilfield Company Limited ("LJOCL"). Under IFRS, the Company applies a policy of treating transactions with minority interests as transactions with equity participants of the Group. Therefore, the assets and liabilities of JPCL and LJOCL additionally acquired by the company from minority interests were recorded by the Company at cost. The difference between the company's purchase cost and the book value of the interests in JPCL and LJOCL acquired by the Company from minority interests was recorded in equity. Under US GAAP, the acquisition of additional minority interest is accounted for under purchase method. Assets and liabilities additionally acquired were restated to fair value and the difference of purchase cost over fair value of the minority interests acquired and identified intangible assets was recorded as goodwill.

(e) Recent US accounting pronouncements

In December 2004, the FASB revised FAS No. 123 (FAS 123R). FAS 123R, "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 123R is effective for interim periods beginning after June 15, 2005. The Group is evaluating the transition provisions allowed by FAS 123R. The Group does not expect the adoption of FAS 123R 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.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement" (FIN 47), an Interpretation of FASB Statement No. 143. This Interpretation clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated when incurred. This Interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have a material impact on the Group's financial position or operational results.

On March 29, 2005, the U.S. Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107, "Share-Based Payment" (SAB 107). This bulletin provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of FAS 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of FAS 123R, the modification of employee share options prior to adoption of FAS 123R and disclosures in Management's Discussion and Analysis ("MD&A") subsequent to adoption of FAS 123R. SAB 107 will be effective when a registrant adopts FAS 123R. The Group does not expect the adoption of SAB 107 to have a material impact on the Group's financial position or operational results.

In April 2005, the FASB issued Staff Position No. FAS 19-1, "Accounting for Suspended Well Costs". The FASB staff believes that exploratory well costs should continue to be capitalized when the well has found a sufficient quantity of reserves to justify its completion as a producing well and the enterprise is making sufficient progress assessing the reserves and the economic and operating viability of the project. The Board replaces paragraphs 31 to 34 of Statement 19 and requires certain disclosures in the notes to the annual financial statements to provide information for users of financial statements about management's application of judgment in its evaluation of a project's capitalized exploratory well costs. The disclosure required by this FSP should be made in reporting periods beginning after April 4, 2005. The Group has made disclosures which meet the disclosure requirement of this FSP in its consolidated financial statements.

In May 2005, the FASB issued Statement No.154, "Accounting changes and Error Corrections" (FAS 154), which replaces APB Opinions No. 20, "Accounting Changes", and FASB Statement No.3, "Reporting Accounting changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The reporting of a correction of an error by restating previously issued financial statements is also addressed by this Statement. FAS154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Group does not expect the adoption of FAS 154 to have a material impact on the Group's financial position or operational results.