(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 reconciliation presented below is included as supplemental information, is not required as part of the basic financial statements and does not include differences related to classification, display or disclosures. Such information has not been subject to independent audit or review. The major differences are:

(i) Equity investment differences

Under the PRC Accounting Rules and Regulations, equity investment difference, being the excess of the initial investment cost over the investor's share of equity of the investee enterprise, is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or less than 10 years if the investment period is not specified in the agreement.

Under IFRS, goodwill, being the excess of the cost of the business combination over the investor's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstance indicate that it might be impaired.

(ii) Acquisitions of Sinopec National Star, Sinopec Hainan and Oil Production Plants

Under the PRC Accounting Rules and Regulations, the acquisitions of Sinopec National Star Petroleum Company ("Sinopec National Star"), Sinopec Hainan and Oil Production 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 difference between the cost of acquiring Oil Production Plants and the fair value of the net assets acquired is recognised as equity investment differences, which is amortised over 10 years.

Under IFRS, as the Group, Sinopec National Star, Sinopec Hainan and Oil Production 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 Hainan and Oil Production 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 operation of Sinopec National Star, Sinopec Hainan and Oil Production Plants on a combined basis. The considerations paid by the Group are treated as equity transactions.

(iii) 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.

(iv) 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.

(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) 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.

(vii) 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.

(viii) Government grants

Under the PRC Accounting Rules and Regulations, government grants relating to the purchase of equipment used for technology improvements are 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.

(ix) 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 the fair value less costs to sell or 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 (iv) 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.

(x) 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 an 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 retired or disposed are charged to accumulated depreciation with the proceeds received on disposals credited to the carrying amounts of oil and gas properties.

(xi) 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. Further losses are debited to a separate reserve in the shareholders' funds. Any profits earned by the subsidiaries subsequently are firstly credited to this reserve before being included in the Group's consolidated income statement to the extent that the aggregate amounts credited do not exceed the accumulated losses debited to this reserve previously for that same subsidiary.

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.

(xii) Change in fair value of available-for-sale securities

Under the PRC Accounting Rules and Regulations, long-term equity investments in which the Group does not have control, joint control or significant influence on their management are stated at cost less accumulated impairment losses.

Under IFRS, investment in available-for-sale equity securities are carried at fair value with any change in fair value, other than impairment losses, recognised directly in equity. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

(xiii) Minority interests

Under the PRC Accounting Rules and Regulations, minority interests at the balance sheet date are presented in the consolidated balance sheet separately from liabilities and as deduction from the shareholders' funds. Minority interests in the results of the Group for the period are also separately presented in the consolidated income statement as deduction before arriving at the net profit.

Under IFRS, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity shareholders of the Company.

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

	Note	**2006** **RMB millions**	2005 RMB millions
Net profit under the PRC Accounting Rules and Regulations		50,664	39,558
Adjustments:			
Equity investment differences	(i)	1,158	200
Capital injection in Sinopec Hainan and acquisition of Oil Production Plants	(ii)	1,013	535
Capital Acquisition of Sinopec National Star	(ii)	117	117
Pre-operating expenditures	(iii)	703	435
Depreciation of oil and gas properties	(iv)	666	751
Capitalisation of general borrowing costs, net of depreciation effect	(v)	524	507
Gain from debt restructuring	(vi)	486	—
Reduced amortisation on revaluation of land use rights	(vii)	26	24
Reduced depreciation on government grants	(viii)	12	4
Impairment losses on long-lived assets	(ix)	(150)	—
Disposal of oil and gas properties, net of depreciation effect	(x)	(335)	(310)
Unrecognised losses of subsidiaries	(xi)	(627)	119
Effects of the above adjustments on taxation		(345)	(485)
Minority interests	(xiii)	1,496	3,321
Profit for the year under IFRS*		**55,408**	**44,776**

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

	Note	**2006** **RMB millions**	2005 RMB millions
Shareholders' funds under the PRC Accounting Rules and Regulations		254,875	215,623
Adjustments:			
Equity investment differences	(i)	1,358	200
Capital injection in Sinopec Hainan and acquisition of Oil Production Plants	(ii)	(1,628)	745
Acquisition of Sinopec National Star	(ii)	(2,461)	(2,578)
Pre-operating expenditures	(iii)	(64)	(22)
Depreciation of oil and gas properties	(iv)	12,749	12,233
Capitalisation of general borrowing costs	(v)	2,636	2,112
Revaluation of land use rights	(vii)	(927)	(953)
Government grants	(viii)	(576)	(588)
Disposal of oil and gas properties	(x)	2,725	3,060
Change in fair value of available-for-sale securities	(xii)	38	—
Effects of the above adjustments on taxation		(5,880)	(5,531)
Minority interests	(xiii)	21,944	30,679
Total equity under IFRS*		**284,789**	**254,980**

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