

SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

The consolidated financial statements of the Group appearing on pages 94 to 163 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 consolidated 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 | |
|--|------------------------|---------|
| | 2006 | 2005 |
| | RMB | RMB |
| Profit for the year under IFRS | 149,397 | 139,642 |
| US GAAP adjustments: | | |
| Share of profit of jointly controlled entities | 2,735 | 2 |
| Depreciation charges on property, plant and equipment revaluation gain | 3,828 | 6,528 |
| Depreciation charges on property, plant and equipment revaluation loss | - | (149) |
| Loss on disposal of revalued property, plant and equipment | 287 | 432 |
| Income tax effect | (1,358) | (2,248) |
| Minority interest | (8,600) | (6,341) |
| Depreciation charges on property, plant and equipment arising from purchase from minority interest of subsidiaries | (202) | - |
| Net income under US GAAP | 146,087 | 137,866 |
| Basic and diluted net income per share under US GAAP (RMB) | 0.82 | 0.78 |

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

| | December 31, 2006 | December 31, 2005 |
|--|----------------------|----------------------|
| | RMB | RMB |
| Equity under IFRS | 617,591 | 543,667 |
| US GAAP adjustments: | | |
| Acquisition of PetroKazakhstan Inc. | 22,129 | 22,129 |
| Share of profit of jointly controlled entities | 2,737 | 2 |
| Deemed distribution to CNPC International Limited | (3,044) | - |
| Payment for the acquisition of PetroKazakhstan Inc. | (21,376) | - |
| Reversal of property, plant and equipment revaluation gain | (80,555) | (80,555) |
| Depreciation charges on property, plant and equipment revaluation gain | 55,799 | 51,971 |
| Reversal of property, plant and equipment revaluation loss | 1,513 | 1,513 |
| Depreciation charges on property, plant and equipment revaluation loss | (1,459) | (1,459) |
| Loss on disposal of revalued property, plant and equipment | 2,033 | 1,746 |
| Deferred tax assets on revaluation | 7,485 | 8,843 |
| Minority interest | (30,953) | (39,100) |
| 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 interest of subsidiaries (Note 18 to the consolidated financial statements) | 3,594 | 1,438 |
| Depreciation charges on property, plant and equipment arising from purchase from minority interest of subsidiaries | (202) | - |
| Currency translation differences | (822) | (54) |
| Shareholders' equity under US GAAP | 574,470 | 510,141 |

Changes in shareholders' equity under US GAAP for each of the years ended December 31, 2006 and 2005 are as follows:

| | Year Ended December 31 | |
|---|------------------------|----------|
| | 2006 | 2005 |
| | RMB | RMB |
| Balance at beginning of year | 510,141 | 405,573 |
| Net income for the year | 146,087 | 137,866 |
| Acquisition of PetroKazakhstan Inc. | - | 11,064 |
| Deemed distribution to CNPC International Limited | (1,522) | - |
| Payment for the acquisition of PetroKazakhstan Inc. | (10,688) | - |
| Final dividends for year 2004 | - | (25,936) |
| Interim dividends for year 2005 | - | (27,731) |
| Final dividends for year 2005 | (32,282) | - |
| Interim dividends for year 2006 | (36,307) | - |
| Payment to CNPC for acquisition of refinery and petrochemical businesses (Note 2 to the consolidated financial statements) | - | (9) |
| Issue of H shares (Notes 29 and 30 to the consolidated financial statements) | - | 19,692 |
| Capital contribution to CNPC Exploration and Development Company Limited (Note 2 to the consolidated financial statements) | - | (10,056) |
| Currency translation differences | (959) | (322) |
| Balance at end of year | 574,470 | 510,141 |

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 consolidated 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) Acquisition of PetroKazakhstan Inc.

As described in Note 16 to the consolidated financial statements of the Group, the Group acquired a 67% equity interest in PetroKazakhstan Inc. from CNPC International Limited (CNPCI), a subsidiary of CNPC, effective on December 28, 2006 for RMB 21,376. As both CNPCI and the Group are under common control by CNPC, the acquisition of the 67% equity interest in PetroKazakhstan Inc. has been accounted for in a manner similar to pooling of interest under US GAAP accounting and the US GAAP financial data reflects the acquisition of the 67% equity

interest in PetroKazakhstan Inc. since PetroKazakhstan Inc. was first acquired by CNPCI on October 26, 2005.

On December 15, 2006, PetroKazakhstan Inc. paid to CNPCI a dividend amount to RMB 3,044 and this was recorded as a deemed distribution to CNPCI.

The purchase consideration for the acquisition of the 67% equity interest in PetroKazakhstan Inc. was paid by the Group to CNPCI on December 28, 2006.

(b) Revaluation of property, plant and equipment

As described in Note 15 to the consolidated financial statements on pages 117 to 122, the property, plant and equipment, excluding oil and gas reserves, transferred to the Company by CNPC were appraised during 1999 by a firm of independent valuers on a depreciated replacement cost basis. The 1999 revaluation resulted in RMB 80,549 in excess of the carrying value immediately prior to the revaluation and a revaluation loss of RMB 1,122 on certain property, plant and equipment.

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

As at March 31, 2006, a revaluation of the Group's oil and gas properties was undertaken by independent valuers, China United Assets Appraiser Co., Ltd and China Enterprise Appraisals, on a depreciated replacement cost basis. The revaluation did not result in significant difference from their carrying value.

The depreciation charge, which includes impairment charge, on the revaluation surplus from January 1, 2006 to December 31, 2006 was RMB 3,828 and from January 1, 2005 to December 31, 2005 was RMB 6,528, respectively.

The depreciation charge, which includes impairment charge, on the revaluation loss from January 1, 2006 to December 31, 2006 was Nil, and from January 1, 2005 to December 31, 2005 was RMB 149.

The loss on disposal of revalued property, plant and equipment from January 1, 2006 to December 31, 2006 was RMB 287, and from January 1, 2005 to December 31, 2005 was RMB 432 which includes shut down of manufacturing assets.

For purposes of reconciling to the US GAAP financial data, the effect of the revaluation, the related depreciation charges and loss on disposal was reversed. A deferred tax asset relating to the reversal of the effect of revaluation in 1999 was established, together with a corresponding increase in the 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.

(c) 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 Company.

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 does not contain such exemption and 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 was borne by CNPC, a corresponding amount was included as an addition to the other reserves in the equity of the Group. There were no significant changes in this estimate during 2005 and 2006.

(d) Minority interest

In accordance with the revised IFRS 1 "Presentation of Financial Statements" and IAS 27 "Consolidated and Separate Financial Statements", minority interest becomes part of the profit for the year and total equity of the Group, respectively, whereas under US GAAP, it is respectively excluded from the net income and equity of the Group.

This reconciling item 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 and the impact of minority interest arising from the acquisition of the 67% equity interest in PetroKazakhstan Inc. by a non-wholly owned subsidiary of the Group to net income and equity under US GAAP.

(e) Purchase from minority interest of subsidiaries

As described in Note 18 to the consolidated financial statements on pages 124 to 125, the Company acquired certain outstanding A shares from the minority interest of Jinzhou Petrochemical Company Limited ("JPCL") and Liaohe Jinma Oilfield Company Limited ("LJOCL") and A shares and H shares (including ADS) from the minority interest of Jilin Chemical Industrial Company Limited ("JCIC"). Under IFRS, the Company applies a policy of treating transactions with minority interest as transactions with equity participants of the Group. Therefore, the assets and liabilities of JPCL, LJOCL and JCIC additionally acquired by the Company from minority interest were recorded by the Company at cost. The difference between the Company's purchase cost and the book value of the interests in JPCL, LJOCL and JCIC acquired by the Company from minority interest 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 interest acquired and identified intangible assets was recorded as goodwill. Additional depreciation charges were provided for the assets which were restated to fair value.

(f) Recent US accounting pronouncements

In September 2005, the Emerging Issues Task Force ("EITF") reached consensus on Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty" ("EITF 04-13") which requires two or more inventory purchases and sales transactions with the same counterparty that are entered into in contemplation of one another should be combined for purposes of applying Opinion 29, "Accounting for Nonmonetary Transactions". The Task Force also agreed that an entity should disclose the amount of revenue and costs (or gains and losses) associated with inventory exchanges recognised at fair value. This Issue should be applied to new arrangements entered into, or modifications or renegotiations of existing arrangements, beginning in the first interim or annual reporting period beginning after March 15, 2006 and early application is permitted in periods for which financial statements have not been issued. The Group did not early adopt EITF 04-13 and does not expect the adoption of EITF 04-13 to have a material impact on the Group's financial position or results of operations.

In June 2006, EITF issued No. 06-3, "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" ("EITF 06-3"). EITF 06-3 requires disclosure of the presentation of taxes on either a gross or a net basis as an accounting policy decision. The provisions of EITF 06-3 are effective for interim and annual reporting periods beginning after December 15, 2006, and early application is permitted. The Group did not early adopt EITF 06-3 and does not expect the adoption of EITF 06-3 to have a material impact on the presentation of the Group's financial statements.

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a comprehensive model for recognising, measuring, presenting and disclosing in the financial statements uncertain tax positions that the Group has taken or expects to take in its tax returns. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of an enterprise's fiscal year, provided the enterprise has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. The cumulative effect of applying the provisions of this Interpretation should be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Group is currently evaluating the impact of adopting FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards No.157, “Fair Value Measurements” (“FAS157”), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. FAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. FAS 157 will be effective for fiscal years beginning after November 15, 2007, and all interim periods within those fiscal years. Earlier application is permitted if the entity has not issued interim or annual financial statements for that fiscal year. The Group is currently evaluating the impact of adopting FAS 157 but does not expect to have a material effect on the Group’s consolidated financial position and results of operations.

In September 2006, the U.S. Securities and Exchange Commission (“SEC”) released SAB No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (“SAB 108”). SAB 108 provides interpretive guidance on the SEC’s views on the consideration of effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year’s financial statements are materially misstated. The provisions of SAB 108 are effective for fiscal years ending after November 15, 2006. The application of SAB 108 did not have any material effect on the Group’s consolidated financial position and results of operations.