(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) 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.

(ii) Capitalisation of general borrowing costs

Under the PRC Accounting Rules and Regulations, only borrowing costs on funds that are specifically borrowed for construction are eligible for capitalisation as fixed assets. 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.

(iii) Acquisition of Sinopec National Star

Under the PRC Accounting Rules and Regulations, the acquisition of Sinopec National Star (the "Acquisition") is 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.

Under IFRS, as the Group and Sinopec National Star are under the common control of Sinopec Group Company, the Acquisition is considered a "combination of entities under common control" which is 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 acquired have been accounted for at historical cost and the financial statements of the Group for periods prior to the Acquisition have been restated to include the financial statements and results of operations of Sinopec National Star on a combined basis. The consideration paid by the Group is treated as an equity transaction.

(iv) Revaluation of land use rights

Effective 1 January 2002, land use rights are carried at historical cost less amortisation under IFRS. Accordingly, the surplus on the revaluation of land use rights, credited to revaluation reserve previously, was eliminated during the year. Under the PRC Accounting Rules and Regulations, the land use rights are carried at revalued amount.

(v) Impairment losses of 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 (i) above, the provision for impairment losses and reversal of impairment loss under the PRC Accounting Rules and Regulations are different from the amounts recorded under IFRS.

(vi) 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 income over the useful life of the property, plant and equipment by way of reduced depreciation charges.

(vii) Dividends

Under the PRC Accounting Rules and Regulations, dividends relating to an accounting period declared after the period end date are recognised as a liability in that accounting period. Under IFRS, dividends are recognised as a liability at the declaration date.

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

	Note	Year ended 31 December **2002** **RMB millions**	 2001 RMB millions
Net profit under the PRC Accounting Rules and Regulations		14,121	14,018
Adjustments:			
Depreciation of oil and gas properties	(i)	2,311	2,429
Capitalisation of general borrowing costs	(ii)	338	398
Acquisition of Sinopec National Star	(iii)	117	117
Revaluation of land use rights	(iv)	18	—
Effects of the above adjustments on taxation		(825)	(937)
Net profit under IFRS*		**16,080**	**16,025**

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

	Note	At 31 December **2002** **RMB millions**	 2001 RMB millions
Shareholders' fund under the PRC Accounting Rules and Regulations		146,515	139,039
Adjustments:			
Depreciation of oil and gas properties	(i)	9,112	6,801
Capitalisation of general borrowing costs	(ii)	736	398
Acquisition of Sinopec National Star	(iii)	(2,929)	(3,046)
Revaluation of land use rights	(iv)	(822)	—
Impairment losses on long-lived assets	(v)	(113)	(113)
Government grants	(vi)	(291)	—
Dividends	(vii)	5,202	6,936
Effects of the above adjustments on taxation		(2,925)	(2,346)
Shareholders' fund under IFRS*		**154,485**	**147,669**

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