(C) DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IAS

Other than the differences in the classifications of certain items in the financial statements assertions and the accounting treatment of the items described below, there are no material differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IAS. 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 IAS, 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 IAS, 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. The deferred tax effect of the above is recognised in the IAS financial statements.

(iii) Acquisition of Sinopec National Star

Under PRC Accounting Rules and Regulations, 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 IAS, 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 combination 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 has been treated as an equity transaction.

(iv) Allocation of staff quarters

Under PRC Accounting Rules and Regulations, the amount of such rights written off is to be carried forward in a Housing Revolving Fund pursuant to the notice "Cai Kui Zi (1995) No. 14" issued by the Ministry of Finance ("MOF") on 3 March 1995. The deferred tax effects of the above were recognised in the IAS financial statement. Pursuant to the notices "Cai Qi (2000) No. 295" and "Cai Kui Zi (2001) No.5" issued by MOF on 6 September 2000 and 7 January 2001 respectively, the balance of Housing Revolving Fund as at 31 December 2000 net of the amount attributable to minority interest, was offset against the opening balance of retained earnings at 1 January 2001. Under IAS, the building use rights of staff dormitories are considered to be of no value and written off to the income statement once the employees have acquired the legal titles.

(v) Impairment losses of long-lived assets

Under the PRC Accounting Rules and Regulations and IAS, provisions for impairment losses are recognised when the carrying value of long-lived assets exceeds the higher of their net selling price and the value in use. Value in use involves discounting the estimated future cash flows of the assets. 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 IAS.

(vi) 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 IAS, dividends are recognised as liability at its declaration date.

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

	Note	Year ended 31 December **2001** **RMB millions**	2000 RMB millions
Net income under the PRC Accounting Rules and Regulations		14,018	16,154
Adjustments:			
Depreciation of oil and gas properties	(i)	2,429	4,372
Capitalisation of general borrowing costs	(ii)	398	—
Acquisition of Sinopec National Star	(iii)	117	580
Impairment losses on long-lived assets	(v)	—	(113)
Effects of the above adjustments on taxation		(937)	(1,409)
Net income under the IAS*		**16,025**	**19,584**

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

	Note	At 31 December **2001** **RMB millions**	2000 RMB millions
Shareholders' fund under the PRC Accounting Rules and Regulations		139,039	120,793
Adjustments:			
Depreciation of oil and gas properties	(i)	6,801	4,372
Capitalisation of general borrowing costs	(ii)	398	—
Acquisition of Sinopec National Star	(iii)	(3,046)	3,283
Allocation of staff quarters	(iv)	—	(545)
Impairment losses on long-lived assets	(v)	(113)	(113)
Dividends	(vi)	6,936	6,712
Effects of the above adjustments on taxation		(2,346)	(1,348)
Shareholders' fund under IAS*		**147,669**	**133,154**

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