

(D) SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

The Group's accounting policies conform with IAS which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Differences which have a significant effect on profit attributable to shareholders and shareholders' funds are set out below.

(a) Foreign exchange gains and losses

In accordance with IAS, foreign exchange differences on funds borrowed for construction are capitalised as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. Under US GAAP, all foreign exchange gains and losses on foreign currency debts are included in current earnings.

(b) Capitalisation of property, plant and equipment

In years prior to those presented herein, certain adjustments arose between IAS and US GAAP with regard to the capitalisation of interest and pre-production results under IAS, that were reversed and expensed under US GAAP. For the years presented herein, there were no adjustments related to the capitalisation of interest and pre-production results. Accordingly, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above.

(c) Revaluation of property, plant and equipment

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Group were revalued at 30 September 1999. In addition, the property, plant and equipment of Sinopec National Star were revalued at 31 December 2000 in connection with the Acquisition. Under IAS, such revaluations result in an increase in shareholders' funds with respect to the increase in carrying amount of certain property, plant and equipment above their historical bases.

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation. However, as a result of the tax deductibility of the revaluation surplus, a deferred tax asset related to the reversal of the revaluation surplus is created under US GAAP with a corresponding increase in shareholders' funds.

In addition, under IAS, on disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset's historical carrying amount and included in current earnings.

(d) Impairment of long-lived assets

Under IAS, impairment charges are recognised when a long-lived asset's carrying amount exceeds the higher of an asset's net selling price and value in use, which incorporates discounting the asset's estimated future cash flows.

Under US GAAP, determination of the recoverability of a long-lived asset is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognised. Measurement of an impairment loss for a long-lived asset is based on the fair value of the asset.

In addition, under IAS, a subsequent increase in the recoverable amount of an asset is reversed to the consolidated income statement to the extent that an impairment loss on the same asset was previously recognised as an expense when the circumstances and events that led to the write-down or write-off cease to exist. The reversal is reduced by the amount that would have been recognised as depreciation had the write-off not occurred. Under US GAAP, an impairment loss establishes a new cost basis for the impaired asset and the new cost basis should not be adjusted subsequently other than for further impairment losses.

For the year ended 31 December 2001, the US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IAS.

(e) Employee reduction expenses

As described in Note 7 to the financial statements, certain employees of the Group were transferred to Sinopec Group Company. During the year ended 31 December 2001, Sinopec Group Company paid RMB 2,885 million to employees that were transferred to Sinopec Group Company and were subsequently terminated. Under IAS, the payment made to these employees by Sinopec Group Company is not recorded in current earnings. Under US GAAP, with reference to Interpretation No. 1 to Accounting Principles Board Opinion ("APB") No. 25, such payment made by Sinopec Group Company is charged to current earnings with a corresponding increase in shareholders' funds.

(f) Capitalised interest on investments in associates

Under IAS, investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalised. Under US GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is capitalised.

(D) SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (CONTINUED)

(g) Companies included in consolidation

Under IAS, the Group consolidates less than majority owned entities in which the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. However, US GAAP requires that any entity of which the Group owns 20% to 50% of total outstanding voting stock not be consolidated, but rather be accounted for under the equity method. Accordingly, Sinopec Fujian Petrochemical Company Limited, Sinopec Wuhan Phoenix Company Limited, and Sinopec Yizheng Chemical Fibre Company Limited of which the Group owns 50%, 40.72%, and 42%, respectively of the outstanding voting stock, are excluded from consolidation under US GAAP and accounted for under the equity method. This exclusion does not affect the profit attributable to shareholders or shareholders' funds reconciliations between IAS and US GAAP. Presented below is summarised financial information of Sinopec Fujian Petrochemical Company Limited, Sinopec Wuhan Phoenix Company Limited, and Sinopec Yizheng Chemical Fibre Company Limited for the year ended 31 December 2001.

	Years ended 31 December	
	2001	2000
	RMB millions	RMB millions
Revenues	15,809	17,666
Profit before taxation	531	1,233
Net profit	329	1,029

	At 31 December	
	2001	2000
	RMB millions	RMB millions
Current assets	4,556	5,584
Total assets	15,564	16,273
Current liabilities	3,267	3,998
Total liabilities	3,823	4,449
Total equity	11,741	11,824

(h) Related party transactions

Under IAS, transactions of state-controlled enterprises with other state-controlled enterprises are not required to be disclosed as related party transactions. Furthermore, government departments and agencies are deemed not to be related parties to the extent that such dealings are in the normal course of business. Therefore, related party transactions as disclosed in Note 32 to the financial statements only refers to transactions with enterprises over which Sinopec Group Company is able to exercise significant influence.

Under US GAAP, there are no similar exemptions. Although the majority of the Group's activities are with PRC government authorities and affiliates and other PRC state-owned enterprises, the Group believes that it has provided meaningful disclosure of related party transactions in Note 32 to the financial statements.

(i) Recently issued accounting standards

SFAS Nos. 141 and 142

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after 30 June 2001. SFAS No. 141 also specifies the types of acquired intangible assets that are required to be recognised and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS No. 142 will require that goodwill no longer be amortised, but instead tested for impairment at least annually. SFAS No. 142 will also require recognised intangible assets be amortised over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognised intangible asset determined to have an indefinite useful life will not be amortised, but instead tested for impairment in accordance with the Standard until its life is determined to no longer be indefinite.

The provisions of SFAS Nos. 141 and 142 shall be applied for fiscal years beginning after 15 December 2001, to all goodwill and other intangible assets recognised in an entity's statement of financial position at the beginning of that fiscal year, regardless of when those previously recognised assets were initially recognised, with the exception of the immediate requirement to use the purchase method of accounting for all future business combinations completed after 30 June 2001. However, any goodwill and any intangible asset determined to have an indefinite useful life that is acquired in a business combination completed after 30 June 2001 will not be amortised and instead reviewed for impairment in accordance with APB No. 17 or SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", until the date SFAS No. 142 is applied in its entirety.

SFAS No. 141 will require the Group to evaluate its existing intangible assets and goodwill and to make any necessary reclassifications in order to conform to the new separation requirements at the date of adoption. Upon adoption of SFAS No. 142, the Group will be required to reassess the useful lives and residual values of all intangible assets and make any necessary amortisation period adjustments.

In connection with the transitional impairment evaluation, SFAS No. 142 will require the Group to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. The Company believes the adoption of these Statements is not expected to have a material impact on the consolidated financial statements.

SFAS No. 143

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the Group to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Group also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Group is required to adopt SFAS No. 143 on 1 January 2003. The Group has not determined the potential effects on the Group's consolidated financial statements upon adoption of this Statement.

SFAS No. 144

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which supersedes both SFAS No. 121, and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognising and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 141 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142, "Goodwill and Other Intangible Assets".

The Group is required to adopt SFAS No. 144 no later than the fiscal year beginning after 15 December 2001. Management does not expect the adoption of SFAS No. 144 for long-lived assets held for use to have a material impact on the Group's consolidated financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121. The provisions of the Statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS No. 144 will have on the Group's consolidated financial statements.

SFAS No. 133

In June 1998, FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires companies to adopt its provisions for all fiscal quarters of all fiscal years beginning after 15 June 2000, as deferred by SFAS No. 137. Earlier application of all of the provisions of SFAS No. 133 is permitted, but the provisions cannot be applied retroactively to financial statements of prior periods. SFAS No. 133, as amended by SFAS No. 138, standardises the accounting for derivative instrument by requiring that an entity recognise those items as assets or liabilities in the balance sheet and measure at fair value. The adoption of SFAS No. 133 on 1 January 2001 did not have a material impact on the Group's consolidated financial statements. The Group does not hold nor has it entered into any derivative contracts for the periods presented.

The effect on profit attributable to shareholders of significant differences between IAS and US GAAP is as follows:

	Reference in note above	2001 US\$ millions	Years ended 31 December 2001 RMB millions	2000 RMB millions
Profit attributable to shareholders under IAS		1,936	16,025	19,584
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	9	76	76
Capitalisation of property, plant and equipment	(b)	1	12	12
Depreciation on revalued property, plant and equipment	(c)	507	4,196	3,994
Disposal of property, plant and equipment	(c)	28	232	199
Reversal of impairment of long-lived assets, net of depreciation effect	(d)	7	59	(808)
Employee reduction expenses	(e)	(349)	(2,885)	—
Capitalised interest on investments in associates	(f)	9	70	—
Deferred tax effects of US GAAP adjustments		(56)	(470)	(1,046)
Profit attributable to shareholders under US GAAP		2,092	17,315	22,011
Basic and diluted earnings per share under US GAAP		US\$ 0.02	RMB 0.20	RMB 0.31
Basic and diluted earnings per ADS under US GAAP*		US\$ 2.46	RMB 20.33	RMB 30.60

* Basic and diluted earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

The effect on shareholders' funds of significant differences between IAS and US GAAP is as follows:

	Reference in note above	2001 US\$ millions	At 31 December 2001 RMB millions	2000 RMB millions
Shareholders' funds under IAS		17,842	147,669	133,154
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	(61)	(504)	(580)
Capitalisation of property, plant and equipment	(b)	(4)	(36)	(48)
Revaluation of property, plant and equipment	(c)	(2,880)	(23,837)	(28,265)
Deferred tax adjustments on revaluations	(c)	883	7,309	8,671
Reversal of impairment of long-lived assets	(d)	(81)	(667)	(726)
Capitalised interest on investments in associates	(f)	9	70	—
Deferred tax effects of US GAAP adjustments		44	367	427
Shareholders' funds under US GAAP		15,752	130,371	112,633