The Group's accounting policies conform with IFRS 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 IFRS, 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 IFRS and US GAAP with regard to the capitalisation of interest and pre-production results under IFRS, 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 IFRS, 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, including land use rights, 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.

Under IFRS, effective 1 January 2002, land use rights, which were previously carried at revalued amount, are carried at cost under IFRS. The effect of this change resulted in a decrease to revaluation reserve net of minority interests of RMB 840 million as of 1 January 2002. This revaluation reserve was previously included as part of the revaluation reserve of property, plant and equipment. This change under IFRS eliminated the US GAAP difference relating to the revaluation of land use rights. However, as a result of the tax deductibility of the revalued land use rights, the reversal of the revaluation reserve resulted in a deferred tax asset.

In addition, under IFRS, 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) Exchange of assets

As described in Note 31 to the financial statements prepared under IFRS, the Company and Sinopec Group Company entered into an asset swap transaction on 19 December 2002. Under IFRS, the cost of property, plant and equipment acquired in an exchange for a dissimilar item of property, plant and equipment is measured at fair value. Under US GAAP, as the exchange of assets was between entities under common control, the assets received from Sinopec Group Company are measured at historical cost. The difference between the historical cost of the net assets transferred and the net assets received is accounted for as an equity transaction.

(e) Impairment of long-lived assets

Under IFRS, 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 IFRS, 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.

The US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS.

(f) Employee reduction expenses

As described in Note 7 to the financial statements prepared under IFRS, 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 IFRS, 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.

(g) Capitalised interest on investment in associates

Under IFRS, 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.

(h) Goodwill amortisation

Under IFRS, goodwill and negative goodwill are amortised on a systematic basis over their useful lives.

Under US GAAP, with reference to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill is no longer amortised beginning 1 January 2002, the date that SFAS No. 142 was adopted. Instead, goodwill is reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter. In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Group determined that no goodwill impairment existed as of the date of adoption. In addition, under US GAAP, negative goodwill of RMB 11 million, net of minority interests, that existed at the date of adoption of SFAS No. 142 was written off as a cumulative effect of a change in accounting principle.

(i) Companies included in consolidation

Under IFRS, 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 Petroleum Group Company Limited, Sinopec Wuhan Phoenix Company Limited and Sinopec Yizheng Chemical Fibre Company Limited of which the Group owns 50%, 46.25%, 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 IFRS and US GAAP. Presented below is summarised financial information of Sinopec Fujian Petrochemical Company Limited, Sinopec Wuhan Petroleum Group Company Limited, Sinopec Wuhan Phoenix Company Limited and Sinopec Yizheng Chemical Fibre Company Limited.

	Year ended 31 December	
	2002	2001
	RMB millions	RMB millions
Revenues	16,719	15,809
Profit before taxation	666	531
Net profit	468	329

	At 31 December	
	2002	2001
	RMB millions	RMB millions
Current assets	5,169	4,556
Total assets	17,463	15,564
Current liabilities	4,612	3,267
Total liabilities	4,992	3,823
Total equity	12,471	11,741

(j) Related party transactions

Under IFRS, 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 31 in financial statements prepared under IFRS 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 31 to the financial statements prepared under IFRS.

(k) Recently issued accounting standards

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 is also required to record 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 does not expect the adoption of SFAS No.143 will have a material impact on its consolidated financial statements.

SFAS No. 145

In April 2002, the FASB issued SFAS No. 145, which rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". SFAS No. 145 also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers". SFAS No. 145 amends SFAS No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions.

The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 shall be applied in fiscal years beginning after 15 May 2002. The provisions in paragraphs 8 and 9(c) of SFAS No. 145 related to Statement 13 shall be effective for transactions occurring after 15 May 2002. All other provisions of SFAS No. 145 shall be effective for financial statements issued on or after 15 May 2002. The Group does not expect the adoption of SFAS No. 145 will have a material impact on its consolidated financial statements.

SFAS No. 146

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. SFAS No. 146 requires an entity to record a liability for cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. Commitment to an exit plan or a plan of disposal expresses only management's intended future actions and does not meet the requirement for recognising a liability and the related expense. An entity is required to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit or disposal activity is initiated and in any subsequent period until the activity is completed. The Group is required to adopt SFAS No. 146 on 1 January 2003. The provisions of SFAS No. 146 are required to be applied prospectively after the adoption date to newly exit or disposal activities. Therefore, management cannot determine the potential effect that adoption of SFAS No. 146 will have on the Group's consolidated financial statements.

FIN No. 45

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34". This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognise, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after 31 December 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending after 31 December 2002. The Group does not expect the application of this Interpretation will have a material effect on its consolidated financial statements.

FIN No. 46

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after 31 January 2003, and to variable interests in variable interest entities obtained after 31 January 2003. The Interpretation requires certain disclosures in financial statements issued after 31 January 2003 if it is reasonably possible that the Group will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The Group does not expect the application of this Interpretation will have a material impact on its consolidated financial statements.

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

	Reference in note above	Years ended 31 December **2002** **US$ millions**	**2002** **RMB millions**	2001 RMB millions
Profit attributable to shareholders under IFRS		1,942	16,080	16,025
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)	498	4,126	4,196
Disposal of property, plant and equipment	(c)	66	544	232
Reversal of impairment of long-lived assets, net of depreciation effect	(e)	7	59	59
Employee reduction expenses	(f)	—	—	(2,885)
Capitalised interest on investments in associates	(g)	13	110	70
Goodwill amortisation for the year	(h)	1	6	—
Cumulative effect of adopting SFAS No. 142	(h)	1	11	—
Deferred tax effect of US GAAP adjustments		(182)	(1,509)	(470)
Profit attributable to shareholders under US GAAP		**2,356**	**19,515**	**17,315**
Basic and diluted earnings per share under US GAAP		**US$ 0.03**	**RMB 0.23**	**RMB 0.20**
Basic and diluted earnings per ADS under US GAAP*		**US$ 2.72**	**RMB 22.51**	**RMB 20.33**

In accordance with SFAS No. 142's disclosures requirements, a reconciliation of reported net income under US GAAP to adjusted net income under US GAAP is presented below:

	Years ended 31 December **2002** **US$ millions**	**2002** **RMB millions**	2001 RMB millions
Net income under US GAAP	2,356	19,515	17,315
Add: Goodwill amortisation	—	—	8
Less: Amortisation of negative goodwill	—	—	(2)
Adjusted net income under US GAAP	**2,356**	**19,515**	**17,321**
Basic and diluted earnings per share under US GAAP	**US$ 0.03**	**RMB 0.23**	**RMB 0.20**
Basic and diluted earnings per ADS under US GAAP*	**US$ 2.72**	**RMB 22.51**	**RMB 20.33**
Adjusted income before cumulative effect of a change in accounting principle	**2,355**	**19,504**	**17,321**

* 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 IFRS and US GAAP is as follows:

	Reference in note above	At 31 December 2002 US$ millions	2002 RMB millions	2001 RMB millions
Shareholders' funds under IFRS		18,658	154,485	147,669
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	(52)	(428)	(504)
Capitalisation of property, plant and equipment	(b)	(3)	(24)	(36)
Revaluation of property, plant and equipment	(c)	(2,213)	(18,327)	(23,837)
Deferred tax adjustments on revaluation	(c)	680	5,628	7,309
Exchange of assets	(d)	(70)	(578)	—
Reversal of impairment of long-lived assets	(e)	(73)	(608)	(667)
Capitalised interest on investments in associates	(g)	22	180	70
Goodwill	(h)	2	17	—
Deferred tax effect of US GAAP adjustments		58	484	367
Shareholders' funds under US GAAP		**17,009**	**140,829**	**130,371**