

The Company'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"). Information relating to the nature and effect of such differences are set out below. The US GAAP reconciliation presented below is unaudited and included as supplemental information, is not required as part of the financial statements and does not include differences related to classification, display or disclosure.

(a) 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 Company were revalued in 1997. Under IFRS, such revaluations result in an increase in shareholders' equity with respect to the increase in carrying amount of certain property, plant and equipment above their historical bases. In addition, a deferred tax liability related to the non-tax deductibility of certain revaluation surplus has been recorded under IFRS.

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation.

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 or loss on disposal of an asset is determined with reference to the asset's historical carrying amount and included in current earnings.

(b) Depreciation for facilities under renovation

In years prior to those presented herein, the Company's butyl rubber plant was suspended for production for a renovation project. Under US GAAP, temporarily idle facilities should continue to be depreciated.

(c) Others

Others mainly represented certain expenses of the Company that were borne by Sinopec Group. Under US GAAP, such payment made by Sinopec Group was charged to current earnings with a corresponding increase in shareholders' equity.

(d) 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 22 to the financial statements only refer to transactions with enterprises over which Sinopec Group and Sinopec are able to exercise significant influence.

Under US GAAP, there are no similar exemptions. Although the majority of the Company's activities are with PRC government authorities and affiliates and other PRC state-owned enterprises, the Company believes that it has provided meaningful disclosure of related party transactions in Note 22 to the financial statements.

(e) Recently issued accounting standards

SFAS No. 150

In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It also includes required disclosures for financial instruments within its scope. For the Company, SFAS No. 150 was effective for instruments entered into or modified after 31 May 2003 and otherwise will be effective at the beginning of the first financial year beginning after 15 June 2003. FASB Staff Provision No. FAS150-3 deferred certain provisions of SFAS No. 150 for certain mandatorily redeemable non-controlling interests. The Company currently does not have any financial instruments that are within the scope of SFAS No. 150.

FIN No. 46R

In December 2003, the FASB issued Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46R), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities", which was issued in January 2003. The Company will be required to apply FIN 46R to variable interests in Variable Interest Entities ("VIEs") created after 31 December 2003. For variable interests in VIEs created before 1 January 2004, the Interpretation will be applied beginning on 1 January 2005. For any VIEs that must be consolidated under FIN 46R that were created before 1 January 2004, the assets, liabilities and non-controlling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognised interest being recognised as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. The Company does not expect the application of this Interpretation will have a material impact on its financial statements.

SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

Reconciliation to US GAAP

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

	Note	Profit attributable to shareholders for the years ended 31 December			Shareholders' equity at 31 December		
		2003 US\$'000	2003 RMB'000	2002 RMB'000	2003 US\$'000	2003 RMB'000	2002 RMB'000
As reported under IFRS		76,587	633,885	209,099	683,344	5,655,832	5,021,947
<i>US GAAP adjustments:</i>							
Revaluation of property, plant and equipment	(a)	-	-	-	(119,477)	(988,872)	(988,872)
Depreciation on revalued property, plant and equipment	(a)	5,741	47,519	49,615	63,250	523,502	475,983
Disposal of revalued property, plant and equipment	(a)	4,204	34,793	4,190	21,233	175,738	140,945
Depreciation for facilities under renovation	(b)	-	-	-	(15,012)	(124,252)	(124,252)
Others	(c)	(605)	(5,008)	(5,254)	-	-	3,664
Effect of the above adjustments on taxation		(4,587)	(37,966)	(27,786)	18,012	149,083	187,493
As reported under US GAAP		<u>81,340</u>	<u>673,223</u>	<u>229,864</u>	<u>651,350</u>	<u>5,391,031</u>	<u>4,716,908</u>
Basic and diluted earnings per share under US GAAP		<u>US\$0.02</u>	<u>RMB0.20</u>	<u>RMB0.07</u>			
Basic and diluted earnings per ADS under US GAAP (Note 1)		<u>US\$1.21</u>	<u>RMB9.98</u>	<u>RMB3.41</u>			

Note 1: Basic and diluted earnings per ADS is calculated on the basis that one ADS is equivalent to 50 shares.

Note 2: United States dollar equivalents

For the convenience of readers, amounts in Renminbi have been translated into United States dollars at the rate of US\$1.00 = RMB 8.2767 being the PBOC rate on 31 December 2003. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate.