

(E) SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

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

(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 debt are included in current earnings. For the years presented herein, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 195 million (2005: RMB 241 million) as of 31 December 2006.

(b) 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, in connection with the acquisitions of certain entities and related operations from Sinopec Group Company in prior years, the related property, plant and equipment were revalued by independent valuers in accordance with relevant PRC rules and regulations. Under IFRS, such revaluations result in an increase in equity with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases and a charge to income with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost 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 net revaluation surplus, a deferred tax asset related to the reversal of the revaluation surplus is created under US GAAP with a corresponding increase in equity.

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.

Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 441 million (2005: RMB 1,838 million) as of 31 December 2006.

(c) Exchange of assets

During 2002, the Company and Sinopec Group Company entered into an asset swap transaction. 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. For the years presented herein, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 486 million (2005: RMB 509 million) as of 31 December 2006.

(d) Reversal of 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 fair value less costs to sell 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 held for use 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 difference between the asset's carrying value and 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.

For the years presented herein, the US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 418 million (2005: RMB 456 million) as of 31 December 2006.

(e) Capitalised interest on investment in associates

Under IFRS, an 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 initially capitalised and subsequently amortised when the operation of the qualifying assets begin. Accordingly, the carrying amount of the interest in associates under IFRS was lower than the amount under US GAAP by RMB 446 million (2005: RMB 486 million) as of 31 December 2006.

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(f) Goodwill

Under IFRS, with reference to IFRS 3, "Business Combination", goodwill arising from a business combination for which the purchase agreement date is on or after 31 March 2004 is not amortised, or goodwill arising from a business combination for which the purchase agreement date was before 31 March 2004 is no longer amortised from the first annual reporting period beginning on or after 31 March 2004. Instead, goodwill is tested for impairment annually.

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. Instead, goodwill is reviewed for impairment at least annually.

As a result, there is no difference in respect of goodwill amortisation effective 1 January 2005. Accordingly, the carrying amount of the goodwill under IFRS was lower than the amount under US GAAP by RMB 43 million (2005: RMB 43 million) as of 31 December 2006 due to the continued amortisation of goodwill under IFRS until the end of 2004.

(g) Presentation of minority interests

Under IFRS, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the profit for the year between the minority interests and the equity shareholders of the Company. Under US GAAP, minority interests at the balance sheet date are presented in the consolidated balance sheet either as liabilities or separately from liabilities and equity. Minority interests in the results of the Group for the year are also separately presented in the consolidated income statement as a component of net income.

(h) 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, and proportionately consolidates jointly controlled entities in which the Group has joint control with other venturers. However, US GAAP requires that any entity of which the Group owns 20% to 50% of total outstanding voting stock not be consolidated nor proportionately consolidated, but rather be accounted for under the equity method. Accordingly, certain of the Group's subsidiaries, of which the Group owns between 40.72% to 50% of the outstanding voting stock, and the Group's jointly controlled entities are not consolidated nor proportionately consolidated under US GAAP and instead accounted for under the equity method. This exclusion does not affect the profit attributable to equity shareholders of the Company or the total equity attributable to the equity shareholders of the Company reconciliations between IFRS and US GAAP.

Presented below is summarised financial information prepared in accordance with US GAAP of such subsidiaries and jointly controlled entities.

	Years ended 31 December	
	2006	2005
	RMB millions	RMB millions
Revenues	75,184	53,768
Profit before taxation	6,119	286
Net profit/(loss)	5,672	(204)

	At 31 December	
	2006	2005
	RMB millions	RMB millions
Current assets	19,417	12,101
Total assets	68,458	64,560
Current liabilities	12,231	8,901
Total liabilities	31,448	31,727
Total equity	37,010	32,833

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(i) Recently issued accounting standards

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" which defines fair value, provides a framework for measuring fair value, and expands the disclosures required for fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after 15 November 2007. Currently, the Group does not expect the adoption of SFAS No. 157 will have a material impact on its consolidation financial statements.

FIN No. 48

In June 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes – an interpretation of SFAS No. 109" ("FIN48"). FIN 48 requires that the Group recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. FIN 48 will be effective for the first fiscal year beginning after 15 December 2006. Currently, the Group does not expect the adoption of this Interpretation will have a material effect on its consolidated financial statements.

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

	Reference in note above	Years ended 31 December		
		2006 US\$ millions	2006 RMB millions	2005 RMB millions
Profit attributable to equity shareholders of the Company under IFRS		6,908	53,912	41,455
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	6	46	54
Depreciation on revalued property, plant and equipment	(b)	172	1,340	4,016
Disposal of property, plant and equipment	(b)	7	57	1,838
Exchange of assets	(c)	3	23	23
Depreciation effect of reversal of impairment of long-lived assets	(d)	5	38	76
Capitalised interest on investments in associates, net of amortisation effect	(e)	(5)	(40)	(40)
Deferred tax effect of US GAAP adjustments		(54)	(421)	(1,786)
Minority interests	(g)	(12)	(93)	(489)
Profit attributable to equity shareholders of the Company under US GAAP		7,030	54,862	45,147
Basic and diluted earnings per share under US GAAP		USD0.08	RMB0.63	RMB0.52
Basic and diluted earnings per ADS under US GAAP*		USD8.11	RMB63.28	RMB52.07

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

The effect on the total equity attributable to equity shareholders of the Company of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	At 31 December		
		2006 US\$ millions	2006 RMB millions	2005 RMB millions
Total equity attributable to equity shareholders of the Company under IFRS		33,680	262,845	224,301
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	(25)	(195)	(241)
Revaluation of property, plant and equipment	(b)	(57)	(441)	(1,838)
Exchange of assets	(c)	(62)	(486)	(509)
Reversal of impairment of long-lived assets	(d)	(54)	(418)	(456)
Capitalised interest on investments in associates	(e)	57	446	486
Goodwill	(f)	6	43	43
Effect of US GAAP adjustments on deferred tax assets		62	487	921
Effect of US GAAP adjustments on deferred tax liabilities		(15)	(121)	(134)
Minority interests	(g)	18	137	230
Total equity attributable to equity shareholders of the Company under US GAAP		33,610	262,297	222,803

Note: 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 7.8041 being the noon buying rate in New York City on 29 December 2006 for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate.