

## Supplementary Information for PRC Shareholders

(Expressed in Renminbi)

### A. FINANCIAL STATEMENT RECONCILIATION

Effects of significant differences between PRC Accounting Rules and Regulations and International Financial Reporting Statements ("IFRS") on net results are analysed as follows:

	Note	2005 RMB million	2004 RMB million
Net (loss) / profit in the financial statements prepared under PRC Accounting Rules and Regulations		<b>(1,794)</b>	103
Adjustments:			
Gains on aircraft sales and leaseback transactions	(a)	<b>(20)</b>	(31)
Losses on staff housing allocations	(b)	<b>(26)</b>	(111)
Revaluation of land use right	(c)	<b>4</b>	4
Interest in associates	(d)	<b>(68)</b>	(26)
Interest capitalisation	(e)	<b>–</b>	11
Government grant	(f)	<b>53</b>	–
Effect of the above adjustments on taxation		<b>3</b>	2
Net loss attributable to equity shareholders of the Company in financial Statements prepared under IFRS		<b>(1,848)</b>	(48)

Effects of significant differences between PRC Accounting Rules and Regulations and IFRS on shareholders' equity are analysed as follows:

	Note	2005 RMB million	2004 RMB million
Shareholders' equity in financial statements prepared under PRC Accounting Rules and Regulations		<b>9,951</b>	11,653
Adjustment:			
Gains on aircraft sales and leaseback transactions	(a)	<b>160</b>	180
Losses on staff housing allocations	(b)	<b>171</b>	197
Revaluation of land use right	(c)	<b>(158)</b>	(162)
Interest in associates	(d)	<b>(94)</b>	(26)
Interest capitalisation	(e)	<b>11</b>	11
Government grant	(f)	<b>(39)</b>	–
Effect of the above adjustments on taxation		<b>(2)</b>	(5)
Total equity attributable to equity shareholders of the Company in financial statements prepared under IFRS		<b>10,000</b>	11,848

## Supplementary Information for PRC Shareholders (Cont'd)

(Expressed in Renminbi)



### A. FINANCIAL STATEMENT RECONCILIATION (Cont'd)

Notes:

- (a) In accordance with PRC accounting rules and regulations, gains on aircraft sales and leaseback transactions are recorded as deferred credits and amortised over the lease terms on straight line basis. Under IFRS, gains on sales and leaseback transactions where the subsequent lease is an operating lease are recognised as income immediately, if the transactions are established at fair value. Differences between the sale price and fair value are deferred and amortised over the lease term.
- (b) In accordance with PRC accounting rules and regulations, losses on staff housing allocation executed by CSAHC on the Company's behalf and the lump sum housing benefits are charged to retained profits as of 1 January 2001 pursuant to the relevant regulations. Under IFRS, losses on staff housing allocations and lump sum housing benefits are charged to the income statement in the obligatory periods stipulated by the relevant contracts.
- (c) In accordance with PRC accounting rules and regulations, land use rights are carried at revalued amounts. Under IFRS, land use rights are carried at cost with effect from 1 January 2002. Accordingly, the unamortised surplus on revaluation of the land use rights was reversed against shareholders' equity.
- (d) In the PRC GAAP financial statements, the investment in an associate has been equity accounted for based on the PRC GAAP financial statements of such associate. The accounting policies of such associate differ in certain aspects from those of the Group. In the IFRS financial statements, the differences arising from the different accounting policies of the associate have been adjusted to conform to the accounting policies of the Group.
- (e) In the PRC GAAP financial statements, interest incurred on specific borrowings obtained for the construction of fixed assets is capitalised. In the IFRS financial statements, interest incurred on specific and other borrowings which are directly attributable to the construction of fixed assets is capitalised.
- (f) In accordance with PRC accounting rules and regulations, government grants should be credited to capital reserve. Under IFRS, government grants relating to purchase of property, plant and equipment are offset against the cost of assets when utilised; other government grants are charged to the income statement when received.
- (g) The Group's financial statements prepared under IFRS for the years ended 31 December 2004 and 2005 were audited by KPMG, a firm of certified public accountants in Hong Kong.

## Supplementary Information for PRC Shareholders (Cont'd)

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### B. LOSS PER SHARE AND RETURN ON NET ASSETS

	Returned on net assets ratio (%)		Earning per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Operating revenue	36.44	33.57	0.83	0.83
Operating loss	(16.96)	(15.63)	(0.39)	(0.39)
Net loss	(18.03)	(16.61)	(0.41)	(0.41)
Net loss after deduction of extraordinary income and expenses	(18.80)	(17.32)	(0.43)	(0.43)

### C. IMPAIRMENT LOSS

	At 1 January 2005	Provision for the year	Written back	Written off	At 31 December 2005
	RMB million	RMB million	RMB million	RMB million	RMB million
1 Bad debt provision:					
Accounts receivable	95	7	2	48	52
Other receivables	74	-	-	64	10
2 Short-term investments	-	-	-	-	-
3 Inventories provision	46	213	-	-	259
4 Long-term investments	-	-	-	-	-
5 Fixed assets	-	-	-	-	-
6 Intangible assets	-	-	-	-	-
7 Construction in progress	-	-	-	-	-