SUPPLEMENTARY FINANCIAL INFORMATION

(A) Significant differences between International Accounting Standards ("IAS") and PRC Accounting Regulations

The Group's accounting policies, which conform with IAS, differ in certain respects from PRC Accounting Regulations. Differences between IAS and PRC Accounting Regulations which have significant effects on the consolidated profit attributable to shareholders and consolidated net assets of the Group are summarised as follows:-

Consolidated profit attributable to shareholders	Note	**2000** **RMB'000**	As restated 1999 RMB'000
As stated in accordance with PRC audited statutory accounts		**20,082**	208,102
Impact of IAS and other adjustments:			
Allowance for obsolescence of flight equipment spare parts	(a)	**19,742**	187
Difference in depreciation charges of flight equipment due to different useful lives	(b)	**62,274**	18,387
Difference in depreciation charges of aircraft due to different useful lives	(c)	**547,305**	498,497
Gain on disposal of aircraft and engines	(d)	**(128,755)**	(407,440)
Provision for overhaul expenses	(e)	**(76,107)**	(79,777)
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	(f)	**9,848**	28,049
Accrual of net interest income on subleases	(g)	**232**	24,878
Provision for post-retirement benefits	(h)	**(110,059)**	(109,022)
Provision for sale of staff quarters	(j)	**(69,400)**	(30,000)
Provision for staff quarter allowance	(k)	**(80,179)**	–
Amortisation of goodwill	(l)	**(5,655)**	(5,655)
Other		**65,999**	(34,672)
Tax adjustments	(n)	**(79,798)**	(27,245)
As stated in accordance with IAS		**175,529**	84,289

(A) Significant differences between International Accounting Standards ("IAS") and PRC Accounting Regulations (Cont'd)

Consolidated net assets	Note	As restated **2000** **RMB'000**	1999 RMB'000
As stated in accordance with PRC audited statutory accounts		**6,606,548**	6,682,548
Impact of IAS and other adjustments:			
Allowance for obsolescence of flight equipment spare parts	(a)	**(19,722)**	(39,464)
Difference in depreciation charges of flight equipment due to different useful lives	(b)	**429,090**	366,816
Difference in depreciation charges of aircraft due to different useful lives	(c)	**2,107,394**	1,560,089
Gain on disposal of aircraft and engines	(d)	**(536,195)**	(407,440)
Provision for overhaul expenses	(e)	**(527,426)**	(451,319)
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	(f)	**(71,004)**	(80,852)
Accrual of net interest income on subleases	(g)	**472**	240
Provision for post-retirement benefits	(h)	**(538,085)**	(428,026)
Disposition charge of Fokker flight equipment	(i)	**(38,750)**	(38,750)
Provision for sale of staff quarters	(j)	**(352,400)**	(283,000)
Provision for staff quarter allowance	(k)	**(80,179)**	–
Goodwill	(l)	**101,795**	107,450
Timing differences in the recognition of dividends	(m)	**97,339**	–
Other		**155,616**	90,874
Tax adjustments	(n)	**(145,469)**	(65,671)
As stated in accordance with IAS		**7,189,024**	7,013,495

Note:-

(a) Under IAS, allowance for obsolescence is provided for expendable flight equipment spare parts at rates which depreciate costs, less an estimated residual value of 5%, over the estimated useful lives of the related aircraft of 20 years. Under the PRC Accounting Regulations, allowance for obsolescence is calculated at cost, less an estimated residual value of 55%, over the estimated useful lives of the related aircraft of 10 to 15 years.

(b) Under IAS, other flight equipment are accounted for as fixed assets and depreciation charges are calculated over the expected useful lives of 20 years to residual value of 5% of cost/revalued amount. Under PRC Accounting Regulations, such flight equipment are classified as current assets and the costs are amortised on a straight line basis over a period of 5 years.

(c) Under IAS, depreciation of aircraft is calculated to write off their cost/revalued amount on a straight line basis over their expected useful lives of 20 years to residual values of 5%. Under PRC Accounting Regulations, depreciation of aircraft is calculated to write off their cost/revalued amount on a straight line basis over their expected useful lives of 10 to 15 years to residual values of 3%.

(d) This represents the difference on gain on disposal arising from different useful lives adopted on depreciation under IAS and PRC Accounting Regulations (see Note (c) above).

(e) Under IAS, the costs of major aircraft overhauls of aircraft under operating leases are estimated and charged to operating profit over the period between overhauls using the ratio of actual flying hours and estimated flying hours between overhauls, while the costs of major overhauls of owned aircraft and aircraft held under finance leases are charged to the operating profit as incurred. Routine repairs and maintenance costs are charged to the operating profit as incurred. Under PRC Accounting Regulations, the overhauls and routine maintenance costs are provided at specific rates applicable to the related models of aircraft.

(f) Under IAS, flight equipment spare parts are carried at weighted average cost and are expensed when consumed in operations. Under PRC Accounting Regulations, such flight equipment spare parts are carried at cost/revalued amount and are expensed when consumed in operations.

(g) Under IAS, interest income and expense, lease obligations and the related rental receivables in respect of sublease arrangements for aircraft are accounted for and reflected in the financial statements. Under PRC Accounting Regulations, such aircraft sublease arrangements are not reflected in the Group's PRC statutory accounts.

(h) The post-retirement benefits for employees are required to be recognised over the employees' service period under IAS whereas such benefits are recognised on a pay-as-you-go basis under the PRC Accounting Regulations.

(i) This represents the fleet disposition charge of impairment of fixed assets in respect of Fokker flight equipment after accounting for the effect of minority interests. Under IAS, provision for impairment of long-lived fixed assets is made where a decision has been made by management to dispose of such assets. Under PRC Accounting Regulations, loss on disposal is only recognised upon disposal of the assets.

(j) This represents the provision for the loss on intended sale of the Group's staff quarters to eligible staff after accounting for the effect of minority interests. Under IAS, provision for anticipated loss is made for any construction / acquisition cost in excess of the expected selling price. Under PRC Accounting Regulations, the loss on disposal of staff quarter is deferred and recognised in the balance sheet.

(k) Under IAS, the housing allowance provision made is charged to other operating expenses following the adoption of the state policy stipulated in a circular issued by the State Council of the PRC with reference to the detailed procedures promulgated by certain provincial governments in 2000. Under PRC Accounting Regulations, such housing allowance is to be paid after 31 December 2000 and charged against retained earnings at the time of payment.

(l) Under IAS, any excess of the cost of acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired is recognised as goodwill. Under IAS, the obligation of post-retirement benefits for employees inherited by the Group through the acquisition of a passenger carriage business has been recognised and accounted for in the fair value of the identifiable net assets acquired. As a result, a goodwill has been recognised which is amortised over 20 years. Under PRC Accounting Regulations, the post-retirement benefits are recognised on a pay-as-you-go basis and the corresponding obligation is not accounted for in the fair value of the net assets acquired. Accordingly, no goodwill or amortisation is recognised.

(m) Under IAS, dividends proposed or declared after the balance sheet date are not recognised in the current year's financial statements. Accordingly, no liability regarding the dividend payable is reflected in the balance sheet. Under PRC Accounting Regulations, proposed or declared dividends after the balance sheet date are reflected in the current year's financial statements.

(n) Under IAS, tax adjustments are made in respect of the deferred tax effects for all items above and a valuation allowance has been respectively provided against deferred tax assets and liabilities not expected to be realised in the foreseeable future.

(o) In addition, there are other classification differences in balance sheet items due to different requirements under IAS and PRC Accounting Regulations.

(B) Significant differences between IAS and U.S. GAAP

The Group's accounting policies, which conform with IAS, differ in certain respects from U.S. GAAP. Differences between IAS and U.S. GAAP which have significant effects on the consolidated profits attributable to shareholders and consolidated net assets of the Group are summarised as follows:-

Consolidated profit attributable to shareholders	Note	**2000 RMB'000**	As restated 1999 RMB'000
As stated under IAS		**175,529**	84,289
U.S. GAAP adjustments:			
Reversal of additional depreciation charges arising from revaluation surplus of fixed assets	(a)	**122,059**	171,982
Reversal of amortisation charge on land use rights	(b)	**8,420**	8,420
Reversal of amortisation charge on goodwill	(c)	**5,655**	5,655
Change in accounting policy for aircraft overhaul expenses	(d)	**652,981**	99,014
Gain on disposal of aircraft and related assets and accelerated depreciation	(e)	**40,144**	53,288
Sales and leaseback of aircraft	(f)	**(37,645)**	(29,322)
Post-retirement benefits	(g)	**42,466**	42,466
Deferred tax effect on U.S. GAAP adjustments	(h)	**(275,246)**	(115,996)
Consolidated profit attributable to shareholders under U.S. GAAP		**734,363**	319,796
Basic and fully diluted earnings per share under U.S. GAAP	(i)	**RMB0.151**	RMB0.066
Basic and fully diluted earnings per American Depository Share ("ADS") under U.S. GAAP	(i)	**RMB15.09**	RMB6.57

Consolidated net assets	Note	**2000 RMB'000**	As restated 1999 RMB'000
As stated under IAS		**7,189,024**	7,013,495
U.S. GAAP adjustments:			
Reversal of revaluation surplus of fixed assets	(a)	**(977,240)**	(977,240)
Reversal of land use right at valuation	(b)	**(420,999)**	(420,999)
Goodwill written off to equity	(c)	**(113,105)**	(113,105)
Reversal of difference in depreciation charges and accumulated depreciation and gain/loss on disposal arising from the revaluation surplus of fixed assets	(a),(e)	**551,588**	389,385
Change in accounting policy for aircraft overhaul expenses	(d)	**–**	(652,981)
Sales and leaseback of aircraft	(f)	**(66,967)**	(29,322)
Reversal of amortisation charge on land use rights	(b)	**37,890**	29,470
Reversal of amortisation charge of goodwill	(c)	**11,310**	5,655
Post-retirement benefits	(g)	**185,401**	142,935
Deferred tax effect on U.S. GAAP adjustments	(h)	**261,401**	536,647
Consolidated net assets under U.S. GAAP		**6,658,303**	5,923,940

(a) Revaluation of fixed assets

Fixed assets of the Group were revalued as at 30 June 1996 as part of the restructuring of the Group (the "Restructuring") for the purpose of listing, which resulted in a revaluation surplus of RMB977,240,000 attributable to the Group. The value of the fixed assets, which became the revised tax base of the assets, have been accounted for in the financial statements under IAS. Additional depreciation charges arising from the revaluation surplus was approximately RMB122,059,000 for the year ended 31 December 2000 (1999: RMB171,982,000).

Under U.S. GAAP, the revaluation surplus and the related additional depreciation are reversed since fixed assets are required to be stated at cost.

(b) Land use rights

As part of the Restructuring in 1996, land use rights at a valuation of RMB420,999,000 were contributed as a non-monetary asset in exchange for share capital of the Company. The valuation of the land use rights and the corresponding amortisation charges have been accounted for in the financial statements under IAS. Amortisation charge arising from the valuation of land use rights was approximately RMB8,420,000 for the year ended 31 December 2000 (1999: RMB8,420,000).

Under U.S. GAAP, such land use rights would be reported at their historic cost which in this case would be nil.

(c) Goodwill

Under IAS, goodwill arising from the excess of purchase consideration over the fair value of the identifiable assets and liabilities acquired is amortised over its economic useful life which, in the Group's case, is 20 years. Under U.S. GAAP, should the identifiable assets and liabilities be acquired from the parent company, the acquisition is considered to be a transaction between entities under common control and is required to be accounted for in a manner similar to a pooling of interest. Under this method the assets acquired are recorded at cost to the vendor and the goodwill is directly set off against owners' equity of the acquirer.

(d) Change in accounting policy for aircraft overhaul expenses

With effect from 1 January 2000, the Group changed its accounting policy with respect to the recognition of major overhaul expenses, see Note 2 to the financial statements for details. Such change was reflected in the financial statements prepared under IAS on a retrospective basis with restatement of the relevant balances for 1999. Under U.S. GAAP, a change in accounting policy is recognised by including the cumulative effect, based on a retrospective computation, in the operating results in the period of change.

(e) Disposal of aircraft and related assets

This represents the gain/loss on disposal of aircraft and related assets and accelerated depreciation during the year. Under U.S. GAAP, fixed assets are required to be stated at cost. Accordingly, the accumulated depreciation and the gain/loss on disposal of aircraft is different between IAS and U.S. GAAP, which is attributable to the surplus/deficit upon valuation associated with the assets disposed of.

(f) Sales and leaseback of aircraft

Under IAS, gain on sale and lease back 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 period for which the assets are expected to be used. Under U.S. GAAP, such gains are deferred and amortised over the term of the lease.

(g) Post-retirement benefits

Under U.S. GAAP, the Group is required to amortise the transitional obligation of post-retirement benefits over the average remaining service period of the active plan participants which approximates 20 years whereas under IAS the Group has elected to amortise the transitional obligation over a period of 5 years.

(h) Deferred tax effect

These represent the corresponding deferred tax effect as a result of the adjustments stated in (a), (b), (c), (d), (e), (f) and (g) above.

(i) Effect of change in accounting policy on earnings per share

As a result of the adoption of IAS 37, the cumulative effect of the change in accounting policy on the earnings per share and the earnings per American Depository Share ("ADS") of the company for the year ended 31 December 2000 is an increase by RMB0.088 and RMB8.8 respectively.

(j) Segmental disclosures

The Group adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". The Group has a route network designed to transport passengers and cargo between destinations in China, Hong Kong, and selected international destinations in Japan, U.S., Australia, South Korea, Thailand, Singapore and a number of European countries. China, Hong Kong, and International constitute the Group's three reportable segments. SFAS No. 131 requires that segment financial information be disclosed under the management approach that is consistent with how the Group's management internally desegregates financial information for the purpose of making internal operating decisions. The Group evaluates revenue information of its operating segments based on unaudited management operational information prepared under PRC Accounting Regulations.

	Note	**Unaudited management Operational information under PRC Accounting Regulations for the year ended 31 December**	
		2000	1999
		RMB'000	RMB'000
Traffic revenues	(i)		
Domestic			
Passenger		**4,429,411**	3,598,198
Cargo	(ii)	**233,053**	262,377
Subtotal		**4,662,464**	3,860,575
Hong Kong			
Passenger		**1,927,860**	1,709,936
Cargo	(ii)	**239,536**	206,816
Subtotal		**2,167,396**	1,916,752
International	(iii)		
Passenger		**3,110,463**	2,765,133
Cargo	(ii)	**1,719,707**	1,187,412
Subtotal		**4,830,170**	3,952,545
Total	(iv)	**11,660,030**	9,729,872

(i) Traffic revenues by routes are attributed to each reportable segments based on the final destination of each flight route. For international and Hong Kong routes with a domestic segment, revenues for the entire route are attributed to each reportable segment based on the final destination of the route.

(ii) Cargo includes both cargo and mail.

(iii) The Group's international revenues are generated from its international routes to and from countries including Japan, U.S., Australia, South Korea, Thailand, Singapore and selected European countries. Among these countries, the Group generates from Japan routes its largest share of international revenue (Note: the Group generated revenues, under IAS, of RMB1,586,071,000 and RMB1,280,537,000 from its Japan routes in 2000 and 1999 respectively.)

(iv) The traffic revenue figures as stated above are different from the Group's audited PRC statutory accounts and the Group's audited IAS accounts due to the following reasons:-

- The management made use of this operational information before closing of accounts for each accounting period. Accordingly, estimates (which are generally within a discrepancy of 5% on total actual revenues) have been incorporated into this operational information for timely decision making purposes.

- Certain discounts granted to sales agents and customers have not been set-off against revenues under management operational information.

(v) The major revenue-generating assets of the Group are its aircraft fleet, all of which are registered in the PRC. Since the Group's aircraft fleet is deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities to geographical segments.