(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	**2001 RMB'000**	2000 RMB'000
As stated in accordance with PRC audited statutory accounts		**132,919**	20,082
Impact of IAS and other adjustments:			
Difference in depreciation charges of flight equipment due to different useful lives	(a)	**150,794**	62,274
Difference in depreciation charges of aircraft due to different useful lives	(b)	**185,047**	547,305
Gain on disposal of aircraft and engines	(c)	**(13,296)**	(128,755)
Provision for overhaul expenses	(d)	**(145,107)**	(76,107)
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	(e)	**9,181**	9,848
Accrual of net interest income on subleases	(f)	**(472)**	232
Provision for post-retirement benefits	(g)	**(78,953)**	(110,059)
Curtailment of medical benefit previously included in post-retirement benefit obligations	(g)	**95,975**	–
Loss on sale of staff quarters	(i)	**(4,033)**	(69,400)
Provision for staff quarter allowance	(j)	**–**	(80,179)
Interest accrued on instalments payable for acquisition of a passenger carriage business	(k)	**(6,693)**	–
Amortisation of goodwill	(l)	**(5,655)**	(5,655)
Amortisation of negative goodwill	(m)	**2,014**	–
Other		**(46,379)**	85,741
Tax adjustments	(p)	**266,371**	(79,798)
As stated in accordance with IAS		**541,713**	175,529

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

Consolidated net assets	Note	**2001 RMB'000**	2000 RMB'000
As stated in accordance with PRC audited statutory accounts		**6,241,373**	6,596,548
Impact of IAS and other adjustments:			
Difference in depreciation charges of flight equipment due to different useful lives	(a)	**579,884**	429,090
Difference in depreciation charges of aircraft due to different useful lives	(b)	**2,642,441**	2,457,394
Gain on disposal of aircraft and engines	(c)	**(549,491)**	(536,195)
Provision for overhaul expenses	(d)	**(672,533)**	(527,426)
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	(e)	**(61,823)**	(71,004)
Accrual of net interest income on subleases	(f)	**–**	472
Provision for post-retirement benefits	(g)	**(521,063)**	(538,085)
Disposition charge of Fokker flight equipment	(h)	**(38,750)**	(38,750)
Loss on sale of staff quarters	(i)	**34,141**	(352,400)
Provision for staff quarter allowance	(j)	**(80,179)**	(80,179)
Time value on instalments payable for acquisition of a passenger carriage business	(k)	**48,552**	–
Goodwill	(l)	**96,140**	101,795
Negative goodwill	(m)	**(53,231)**	–
Unrealised gain on foreign currency forwards under hedging accounting	(n)	**5,396**	–
Timing difference in recognition of dividends	(o)	**97,339**	97,339
Other		**99,696**	145,894
Tax adjustments	(p)	**(229,098)**	(495,469)
As stated in accordance with IAS		**7,638,794**	7,189,024

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

Note:–

Pursuant to the PRC audited statutory accounts for the year ended 31 December 2001, a prior year adjustment amounting to RMB10,000,000 was put through to the Group's retained earnings brought forward from 2000 which resulted in a decrease in the consolidated net asset value from RMB6,606,548,000 to RMB6,596,548,000 as at 31 December 2000. This prior year adjustment has been incorporated into the comparative figures of 2000 as set out in the table above.

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

(b) Under IAS, depreciation of aircraft is calculated to write off their costs/revalued amounts on a straight-line basis over their expected useful lives of 20 years to their residual values of 5%. Under PRC Accounting Regulations, on or before 30 June 2001, depreciation of aircraft is calculated to write off their costs/revalued amounts on a straight-line basis over their expected useful lives of 10 to 15 years to their residual values of 3%. With effect from 1 July 2001, depreciation of aircraft under PRC Accounting Regulations is calculated to write off their costs/revalued amounts on a straight-line basis over their expected useful lives of 20 years to their residual values of 5%. This change in accounting estimates under PRC Accounting Regulations has been accounted for prospectively.

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

(d) 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 profits as incurred. Under PRC Accounting Regulations, the overhauls and routine maintenance costs are provided at specific rates applicable to the related models of aircraft.

(e) 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 costs/revalued amounts and are expensed when consumed in operations.

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

(f) 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.

(g) 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.

Following the joining of the municipal medical insurance scheme, other than annual contribution, the Group is no longer required to pay for the medical benefits of the employees. As a result, the post-retirement benefit obligation attributable to medical benefits brought forward from 31 December 2000 has been written back under IAS during the year.

(h) 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.

(i) This represents the difference in the recognition of loss on sale of the Group's staff quarters to eligible staff. Under IAS, provision for anticipated loss is made for any construction cost in excess of the expected selling price during construction, and any over/under-provision is recognised at the time of sale. Under PRC Accounting Regulations, the loss on disposal of staff quarter is recognised directly in the reserves.

(j) 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 will be recognised at the time of payment.

(k) Under IAS, the consideration payable for the acquisition of a passenger carriage business is recorded based on the present value of the instalment payments. The difference in time value between the acquisition cost payable and its present value is periodically recognised as interest expenses in the profit and loss account over the period of payments. Under PRC Accounting Regulations, such difference is not recognised.

(A) Significant differences between International Accounting Standards (“IAS”) and PRC Accounting Regulations (Cont’d)

(l) 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, 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, the consideration payable for the acquisition of a passenger carriage business is recorded based on the present value of the instalment payments, giving rise to a negative goodwill which is amortised over the weighted average remaining useful lives of the depreciable non-monetary assets acquired. Under PRC Accounting Regulations, the time value of the consideration payable has not been accounted for and accordingly, no negative goodwill or amortisation is recognised.

(n) Under IAS, the Group’s foreign currency forward contracts qualify for hedging accounting and the unrealised gain on these foreign currency forward contracts is recognised as the Group’s hedging reserve in the shareholders’ equity. Under PRC Accounting Regulations, the gain on the foreign currency forward contracts is recognised in the profit and loss account upon their maturity.

(o) Under IAS, dividends proposed or declared after the balance sheet date is 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.

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

(q) In addition to the above, 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

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	**2001 RMB'000**	2000 RMB'000
As stated under IAS		**541,713**	175,529
U.S. GAAP adjustments:			
Reversal of additional depreciation charges arising from revaluation surplus of fixed assets	(a)	**85,720**	122,059
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		–	652,981
Gain on disposal of aircraft and related assets	(d)	**5,791**	40,144
Sales and leaseback of aircraft	(e)	**26,234**	(37,645)
Post-retirement benefits	(f)	**32,122**	42,466
Curtailment of medical benefits previously included in post-retirement benefit obligations	(f)	**(75,306)**	–
Deferred tax effect on U.S. GAAP adjustments	(g)	**(155,877)**	(275,246)
As stated under U.S. GAAP		**474,472**	734,363
Basic and fully diluted earnings per share under U.S. GAAP		**RMB0.097**	RMB0.151
Basic and fully diluted earnings per American Depository Share ("ADS") under U.S. GAAP		**RMB9.75**	RMB15.09

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

Consolidated net assets	Notes	**2001 RMB'000**	2000 RMB'000
As stated under IAS		**7,638,794**	7,189,024
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),(d)	**643,099**	551,588
Reversal of amortisation of land use rights	(b)	**46,310**	37,890
Reversal of amortisation of goodwill	(c)	**16,965**	11,310
Sales and leaseback of aircraft	(e)	**(40,733)**	(66,967)
Post-retirement benefits	(f)	**142,217**	185,401
Deferred tax effect on U.S. GAAP adjustments	(g)	**105,524**	261,401
As stated under U.S. GAAP		**7,040,832**	6,658,303

(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 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 RMB85,720,000 for the year ended 31 December 2001 (2000: RMB122,059,000).

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

In 1996, land use rights based on a valuation of RMB420,999,000 were assigned by EA Group as a non-monetary asset in exchange for share capital of the Company. The value of the land use rights and the corresponding amortisation charges have been accounted for in the financial statements under IAS.

Under U.S. GAAP, such land use rights would be reported at their historical cost as this transaction was between entities under common control which in this case would be nil.

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

(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) Disposal of aircraft and related assets

This represents the gain/loss on disposal of aircraft and related assets 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.

(e) Sales and leaseback of aircraft

Under IAS, gain on sale 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 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.

(f) Post-retirement benefits

Under U.S. GAAP, the Group is required to amortise the past service cost of post-retirement benefits arising from initial recognition of the obligations over the average remaining service period of the active plan participants which approximates 20 years whereas under IAS, the transitional obligation arising from recognition of the obligations upon initial adoption of IAS 19 "Employee benefits" is amortised over a period of 5 years.

The difference in the recognised portion of the past service cost under U.S. GAAP and that of the transitional obligation under IAS gives rise to a difference in the reversal amount upon the curtailment of medical benefits previously included as part of post-retirement benefit obligations.

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

(g) Deferred tax effect

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

(h) 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.

		Unaudited management operational information under PRC Accounting Regulations for the year ended 31 December	
	Note	**2001 RMB'000**	2000 RMB'000
Traffic revenues	(i)		
Domestic			
Passenger		**5,513,591**	4,429,411
Cargo	(ii)	**234,658**	233,053
Subtotal		**5,748,249**	4,662,464
Hong Kong			
Passenger		**2,024,214**	1,927,860
Cargo	(ii)	**233,149**	239,536
Subtotal		**2,257,363**	2,167,396
International	(iii)		
Passenger		**3,079,730**	3,110,463
Cargo	(ii)	**1,708,194**	1,719,707
Subtotal		**4,787,924**	4,830,170
Total	(iv)	**12,793,536**	11,660,030

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

(h) Segmental disclosures (Cont'd)

(i) Traffic revenues by routes are attributed to each reportable segments based on the final destination / origin 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 / origin 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 traffic revenues, under IAS, of RMB1,574,971,000 and RMB1,586,071,000 from its Japan routes in 2001 and 2000 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.