(A) Significant differences between International Financial Reporting Standards ("IFRS") and PRC Accounting Regulations

The Group's accounting policies, which conform with IFRS, differ in certain respects from PRC Accounting Regulations. Differences between IFRS 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:–

	Note	**2002 RMB'000**	2001 RMB'000
Consolidated profit attributable to shareholders			
As stated in accordance with PRC audited statutory accounts		**124,259**	97,001
Impact of IFRS and other adjustments:			
Difference in depreciation charges of flight equipment due to different useful lives	(a)	**315,712**	150,794
Difference in depreciation charges of aircraft due to different useful lives	(b)	**(180,490)**	185,047
Gain/(loss) on disposal of aircraft and engines	(c)	**61,097**	(13,296)
Provision for overhaul expenses	(d)	**(122,564)**	(145,107)
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	(e)	**9,859**	9,181
Provision for post-retirement benefits	(f)	**(23,614)**	(78,953)
Curtailment of medical benefit previously included in post-retirement benefit obligations	(f)	**–**	95,975
Loss on sale of staff quarters	(g)	**(9,768)**	(4,033)
Interest accrued on instalments payable for acquisition of a passenger carriage business	(i)	**(10,802)**	(6,693)
Amortisation of goodwill	(j)	**(5,656)**	(5,655)
Amortisation of negative goodwill	(k)	**3,454**	2,014
Revaluation deficit of fixed assets	(n)	**(171,753)**	–
Reversal of revalued amount for land use rights	(o)	**8,420**	–
Tax adjustments	(p)	**15,374**	287,925
Other	(q)	**72,841**	(32,487)
As stated in accordance with IFRS		**86,369**	541,713

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

	Note	2002 RMB'000	As restated 2001 RMB'000
Consolidated net assets			
As stated in accordance with PRC audited statutory accounts		**6,284,066**	6,256,659
Impact of IFRS and other adjustments:			
Difference in depreciation charges of flight equipment due to different useful lives	(a)	**885,943**	579,884
Difference in depreciation charges of aircraft due to different useful lives	(b)	**2,461,951**	2,642,441
Gain on disposal of aircraft and engines	(c)	**(488,394)**	(549,491)
Provision for overhaul expenses	(d)	**(833,481)**	(672,533)
Reversal of additional charges of flight equipment spare parts arising from the revaluation surplus of such assets	(e)	**(51,964)**	(61,823)
Provision for post-retirement benefits	(f)	**(542,939)**	(521,063)
Loss on sale of staff quarters	(g)	**24,373**	34,141
Provision for staff quarter allowance	(h)	**(80,179)**	(80,179)
Time value on instalments payable for acquisition of a passenger carriage business	(i)	**37,750**	48,552
Goodwill	(j)	**90,484**	96,140
Negative goodwill	(k)	**(49,777)**	(53,231)
Unrealised (losses)/gains on cash flow hedges	(l)	**(28,225)**	5,396
Timing difference in recognition of dividends	(m)	**97,339**	97,339
Revaluation deficit of fixed assets	(n)	**(68,367)**	–
Reversal of revalued amount for land use rights	(o)	**(374,689)**	(374,689)
Tax adjustments	(p)	**(170,917)**	(172,895)
Other	(q)	**186,129**	45,660
As stated in accordance with IFRS		**7,379,103**	7,320,308

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

Pursuant to the PRC audited statutory accounts for the year ended 31 December 2002, a prior year adjustment amounting to RMB15,286,000 was put through to the Group's retained earnings brought forward from 2001 which resulted in an increase in the consolidated net asset value from RMB6,241,373,000 to RMB6,256,659,000 as at 31 December 2001. This prior year adjustment has been incorporated into the comparative figures of 2001 as set out in the table above.

(a) Under IFRS, 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 IFRS, 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 PRC Accounting Policy has been applied perspectively.

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

(d) Under IFRS, the costs of major overhauls for aircraft and engines under operating leases are estimated and charged to the income statement 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 income statement as incurred. Routine repairs and maintenance costs are charged to the income statement 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 IFRS, 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.

(f) The post-retirement benefits for employees are required to be recognised over the employees' service period under IFRS 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 benefit brought forward from 31 December 2000 had been written back under IFRS in 2001.

(g) This represents the difference in the recognition of loss on sale of the Group's staff quarters to eligible staff. Under IFRS, 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.

(h) Under IFRS, 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.

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

(i) Under IFRS, 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 income statement over the period of payments. Under PRC Accounting Regulations, such difference is not recognised.

(j) 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 IFRS, 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.

(k) Under IFRS, 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.

(l) Under IFRS, the Group's derivative financial instrument qualify for hedging accounting and the unrealised gains and losses on these instruments are recognised as the Group's hedging reserve in the shareholders' equity. Under PRC Accounting Regulations, the gains and losses on the financial instruments are recognised in the income statement upon their maturity.

(m) Under IFRS, 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 IFRS, fixed assets of the Group are recorded at cost and are subsequently restatement of revalued amount less accumulated depreciation. 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. As at 31 December 2002, a revaluation of the Group's fixed assets was carried out and the difference between the valuation and carrying amount was recognised. Under PRC Accounting Regulations, fixed assets are recorded at cost less accumulated depreciation and impairment.

(o) As part of the Company's restructuring in 1996, land use rights were recorded at valuation as a non-monetary assets which formed part of share capital of the Company. Under IFRS, the Company has reclassified land use rights as operating leases and the land use rights at the time of the listing are stated at historical cost which is nil. Under PRC Accounting Regulations, land use rights are stated at valuation less accumulated amortisation.

(p) Under IFRS, tax adjustments are made in respect of the deferred tax effects for the items above and provision has been respectively 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 IFRS and PRC Accounting Regulations.

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

Differences between IFRS and US Generally Accepted Accounting Principles ("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:-

	Note	2002 RMB'000	2001 RMB'000
Consolidated profit attributable to shareholders			
As stated under IFRS		**86,369**	541,713
U.S. GAAP adjustments:			
Reversal of revaluation deficit of fixed assets	(a)	**171,753**	–
Reversal of difference in depreciation charges arising from revaluation of fixed assets	(a)	**20,370**	94,140
Gain on disposal of aircraft and related assets	(b)	**(26,046)**	5,791
Others	(c)	**23,767**	(11,295)
Deferred tax effect on U.S. GAAP adjustments	(d)	**(28,477)**	(155,877)
As stated under U.S. GAAP		**247,736**	474,472
Basic and fully diluted earnings per share under U.S. GAAP		**RMB0.051**	RMB0.097
Basic and fully diluted earnings per American Depository Share ("ADS") under U.S. GAAP		**RMB5.09**	RMB9.75

	Note	2002 RMB'000	As restated 2001 RMB'000
Consolidated net assets			
As stated under IFRS		**7,379,103**	7,320,308
U.S. GAAP adjustments:			
Reversal of net revaluation surplus of fixed assets	(a)	**(908,873)**	(977,240)
Reversal of difference in depreciation charges and accumulated depreciation and gain/loss on disposal arising from the revaluation of fixed assets	(a),(b)	**637,423**	643,099
Others	(c)	**29,111**	5,344
Deferred tax effect on U.S. GAAP adjustments	(d)	**20,844**	49,321
As stated under U.S. GAAP		**7,157,608**	7,040,832

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

(a) Revaluation of fixed assets

Under IFRS, fixed assets of the Group are initially recorded at cost and are subsequently restated at revalued amounts less accumulated depreciation. 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. As at 31 December 2002, a revaluation on the Group's fixed assets was carried out and difference between the valuation and carrying amount was recognised.

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

(b) 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 IFRS and U.S. GAAP, which is attributable to the surplus/deficit upon valuation associated with the assets disposed of.

(c) Other U.S. GAAP adjustments

The application of U.S. GAAP differs in certain other respects from IFRS, mainly relating to sale and leaseback transactions, post retirement benefits and goodwill. Under U.S. GAAP: i) recognition of gain on sale and leaseback transactions is deferred and amortised, ii) transitional obligation for post retirement benefit is amortised over the average remaining service period of active plan participants, and iii) goodwill is reviewed for impairment and is not amortised.

(d) Deferred tax effect

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

(e) 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 geographical 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.

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

(e) Segmental disclosures (Cont'd)

	Note	Unaudited management operational information under PRC Accounting Regulations for the year ended 31 December 2002 RMB'000	2001 RMB'000
Traffic revenues	(i), (ii)		
Domestic			
Passenger		**5,288,611**	5,513,591
Cargo and mail		**235,470**	234,658
Subtotal		**5,524,081**	5,748,249
Hong Kong			
Passenger		**1,937,313**	2,024,214
Cargo and mail		**268,944**	233,149
Subtotal		**2,206,257**	2,257,363
International	(iii)		
Passenger		**3,526,852**	3,079,730
Cargo and mail		**2,014,785**	1,708,194
Subtotal		**5,541,637**	4,787,924
Total	(iv)	**13,271,975**	12,793,536

(i) The Group operates in one business segment which is the common carriage of passenger, cargo and mail over various routes. In the PRC management accounts, revenue is split between passenger and cargo for management review purpose. The directors consider it is appropriate to report such information in these financial statements.

(ii) Traffic revenues by routes are attributed to each geographical segment 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 geographical segment based on the final destination / origin of the route.

(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 IFRS, of RMB1,814,998,000 and RMB1,574,971,000 from its Japan routes in 2002 and 2001 respectively).

(iv) The traffic revenue figures as stated above are different from the Group's audited PRC statutory accounts and the Group's audited IFRS 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.