SUPPLEMENTARY INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

(Expressed in Renminbi)

Effects on the consolidated (loss)/profit attributable to shareholders and shareholders' equity of significant differences between IFRS and accounting principles generally accepted in the United States of America ("U.S. GAAP") are summarised below.

	Notes	2003 RMB'000	2002 RMB'000
Consolidated (loss)/profit attributable to shareholders under IFRS		(358,267)	575,761
U.S. GAAP adjustments:			
Sale and leaseback accounting	(a)	114,635	(100,664)
Lease arrangements	(b)	(64,140)	(49,960)
Capitalised interest	(c)	(32,961)	(31,473)
Reversal of additional depreciation arising from the revaluation of fixed assets	(d)	33,000	33,000
Investments in associated company and jointly controlled entity	(e)	7,044	(541)
Deferred tax effects		(58,948)	47,849
Consolidated (loss)/profit attributable to shareholders under U.S. GAAP		(359,637)	473,972
Basic (loss)/earnings per share under U.S. GAAP		RMB(0.09)	RMB0.14
Basic (loss)/earnings per ADS under U.S. GAAP*		RMB(4.69)	RMB7.02

* Basic (loss)/earnings per American Depositary Share ("ADS") is calculated on the basis that one ADS is equivalent to 50 H shares.

	Notes	2003 RMB'000	2002 RMB'000
Shareholders' equity under IFRS		11,895,707	9,613,207
U.S. GAAP adjustments:			
Sale and leaseback accounting	(a)	(472,354)	(586,989)
Lease arrangements	(b)	(114,100)	(49,960)
Lease obligations	(b)	(2,409,252)	(1,322,843)
Lease deposits	(b)	2,409,252	1,322,843
Capitalised interest	(c)	348,060	381,021
Revaluation of fixed assets, net of depreciation	(d)	(13,120)	(46,120)
Investments in associated company and jointly controlled entity	(e)	(110,959)	(118,003)
Deferred tax effects		35,227	94,175
Shareholders' equity under U.S. GAAP		11,568,461	9,287,331

SUPPLEMENTARY INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (Cont'd)

(Expressed in Renminbi)

NOTES:

(a) SALE AND LEASEBACK ACCOUNTING

Under IFRS, gains 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.

(b) LEASE ARRANGEMENTS

As disclosed in Note 10 to the consolidated financial statements, during 2002 and 2003, the Group entered into two separate arrangements with certain independent third parties under which the Group sold aircraft and then immediately leased back the aircraft for a pre-determined period. As a result of the arrangements, the Group received a net cash benefit of RMB51,682,000 and RMB69,121,000 in 2002 and 2003 respectively which has been recognised as income under IFRS. Under U.S. GAAP, such benefits are deferred and amortised over the minimum lease period.

In addition, under the lease arrangements, the commitments by the Group to make long-term lease payments have been defeased by the placement of security deposits. As such, under IFRS, such commitments and deposits are not recognised on the consolidated balance sheet. Under U.S. GAAP, such commitments and deposits would be recognised on the consolidated balance sheet, as such commitments are not deemed as extinguished by the placement of security deposits.

(C) CAPITALISED INTEREST

Under IFRS, the Group capitalises interest costs to the extent the related borrowings are directly attributable to the acquisition or construction of an asset.

Under U.S. GAAP, interest costs capitalised are determined based on specific borrowings related to the acquisition or construction of an asset, if an entity's financing plans associate a specific new borrowing with a qualifying asset. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings associated with the asset, additional interest costs capitalised are based on the weighted average interest rate applicable to other borrowings of the entity.

(d) REVALUATION OF FIXED ASSETS

In connection with the Reorganisation in 1996, the fixed assets of the Group were revalued as of 31 December, 1996. Such fixed asset revaluation resulted in an increase in shareholders' equity with respect to the increase in carrying amount of certain fixed assets above their historical cost bases, while an exceptional charge to profit and loss account was recorded with respect to the reduction in carrying amount of certain fixed assets below their historical cost bases. In addition, the revalued fixed asset amounts serve as the tax bases of fixed assets for years beginning in 1997. Accordingly, the fixed asset revaluation eliminated certain of the temporary differences which gave rise to a deferred tax asset as at 31 December, 1996. Such deferred tax asset was offset against the revaluation surplus.

SUPPLEMENTARY INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (Cont'd)

(Expressed in Renminbi)

NOTES: (cont'd)

(d) REVALUATION OF FIXED ASSETS (cont'd)

Under U.S. GAAP, fixed assets are stated at their historical cost unless an impairment loss has been recorded. An impairment loss on fixed assets is recorded under U.S. GAAP if the carrying amount of such asset exceeds its future undiscounted cash flows, excluding finance costs. The future undiscounted cash flows, excluding finance costs, of the Group's fixed assets whose carrying amount was reduced in connection with the Reorganisation, exceed their historical cost carrying amount and, therefore, impairment of such assets is not appropriate under U.S. GAAP. Accordingly, the revaluation reserve recorded directly to shareholders' equity and the exceptional charge recorded under IFRS in 1996 and the additional depreciation charges recorded in the seven years ended 31 December, 2003, as a result of the Reorganisation are reversed for U.S. GAAP purposes. However, as a result of the tax deductibility of the net revaluation reserve, a deferred tax asset related to the reversal of the net revaluation reserve is created under U.S. GAAP with a corresponding increase in shareholders' equity as at 31 December, 1996. Such deferred tax asset will be reversed upon depreciation of the net revaluation surplus included in the fixed assets beginning 1997.

(e) INVESTMENTS IN ASSOCIATED COMPANY AND JOINTLY CONTROLLED ENTITY

During 2002, the Company invested in an affiliated company and a jointly controlled entity, which were PRC state-owned enterprises. Under IFRS, such investments are initially recorded on a fair value basis at the cost of purchases borne by the Company. In the consolidated profit and loss account, the equity share of results of the investees are measured based on the fair value of underlying net assets determined on the date of acquisitions.

Under U.S. GAAP, such transactions would be considered to be "combinations of businesses under common control". Under U.S. GAAP, such investments are initially recorded at the Company's equity share of net assets of the investees determined on a historical cost basis. The differences between such amounts and the cost of purchases are reflected as movements in the shareholders' equity. In the consolidated profit and loss account, the equity share of results of the investees are measured based on the historical cost basis.

(f) FINANCIAL STATEMENTS PRESENTATION AND DISCLOSURES

In the consolidated profit and loss account presented under IFRS, (loss)/gain on sale of fixed assets is classified under "Non-operating income/(expenses)". Under U.S. GAAP, such (loss)/gain would be classified under "Operating income/(expenses) – General and administrative".

As disclosed in note 16 to the consolidated financial statements, deferred tax assets are presented on a net basis under IFRS. Under U.S. GAAP, the gross amount of such deferred tax assets and any applicable valuation allowance would be separately disclosed.

SUPPLEMENTARY INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (Cont'd)

(Expressed in Renminbi)

NOTES: (cont'd)

(g) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

FIN 46R

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003) "Consolidation of Variable Interest Entities" which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" which was issued in January 2003. The Company will be required to apply FIN 46R to variable interests in VIEs created after 31 December, 2003. For variable interests in VIEs created before 1 January, 2004, the Interpretation will be applied beginning on 1 January, 2005. For any VIEs that must be consolidated under FIN 46R that were created before 1 January, 2004, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognised interest being recognised as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIE. The Company is evaluating the impact of applying FIN 46R to existing VIEs in which it has variable interests and has not yet completed this evaluation.

FASB No. 150

FASB Statement No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" was issued in May 2003. This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. For the Company, the Statement was effective for instruments entered into or modified after 31 May, 2003 and otherwise will be effective as of 1 January, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, the Statement will be effective for the Company on 1 January, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of this Statement.