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

Differences between IFRS and PRC Accounting Regulations which have significant effects on the consolidated profit /(loss) attributable to shareholders and consolidated net assets of the Group are summarised as follows:–

	Note	2004 RMB'000	2003 RMB'000
Consolidated profit/(loss) attributable to shareholders			
As stated in accordance with PRC audited statutory accounts		**536,342**	(825,972)
Impact of IFRS and other adjustments:			
Difference in depreciation charges for other flight equipment due to different depreciation lives	(a)	**145,938**	329,492
Difference in depreciation charges for aircraft due to different depreciation lives and revaluation	(b)	**(200,630)**	(237,931)
(Loss)/gain on disposal of aircraft and engines	(c)	**(19,716)**	2,411
Provision for overhaul expenses	(d)	**(18,734)**	51,181
Reversal of additional charges for flight equipment spare parts arising from the revaluation surplus of such assets	(e)	**7,933**	9,221
Provision for post-retirement benefits	(f)	**(24,611)**	(20,844)
Staff housing benefits	(g)	**5,259**	(227,613)
Interest accrued on instalments payable for acquisition of an airlines business	(h)	**(8,344)**	(9,610)
Amortisation of goodwill	(i)	**(5,656)**	(5,656)
Amortisation of negative goodwill	(j)	**3,454**	3,454
Reversal of revalued amount for land use rights	(k)	**8,498**	8,420
Other	(o)	**40,488**	(75,086)
Tax adjustments	(p)	**43,854**	48,717
As stated in accordance with IFRS		**514,075**	(949,816)

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

	Note	2004 RMB'000	2003 RMB'000
Consolidated net assets			
As stated in accordance with PRC audited statutory accounts		**5,798,174**	5,226,914
Impact of IFRS and other adjustments:			
Difference in depreciation charges for other flight equipment due to different depreciation lives	(a)	**1,361,373**	1,215,435
Difference in depreciation charges for aircraft due to different depreciation lives	(b)	**2,023,390**	2,224,020
Loss on disposal of aircraft and engines	(c)	**(505,699)**	(485,983)
Provision for overhaul expenses	(d)	**(801,034)**	(782,300)
Reversal of additional charges for flight equipment spare parts arising from the revaluation surplus of such assets	(e)	**(34,810)**	(42,743)
Provision for post-retirement benefits	(f)	**(588,394)**	(563,783)
Provision for staff housing benefits	(g)	**25,986**	20,727
Time value on instalments payable for acquisition of an airlines business	(h)	**19,796**	28,140
Goodwill	(i)	**79,172**	84,828
Negative goodwill	(j)	**(42,869)**	(46,323)
Reversal of revalued amount for land use right	(k)	**(357,771)**	(366,269)
Revaluation deficit of fixed assets	(l)	**(68,367)**	(68,367)
Loss on sale of staff quarters	(m)	**24,373**	24,373
Unrealised losses on cash flow hedges	(n)	**(91,861)**	(77,879)
Others	(o)	**116,613**	111,043
Tax adjustments	(p)	**(75,828)**	(119,682)
As stated in accordance with IFRS		**6,882,244**	6,382,151

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

(a) Under IFRS, other flight equipment are accounted for as fixed assets and depreciation charges are calculated over the depreciation lives of 20 years to residual value. 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.

(b) Under IFRS, depreciation of aircraft is calculated to write off their costs or revalued amounts on a straight-line basis over their depreciation lives of 20 years to their residual values. Under PRC Accounting Regulations, on or before 30 June 2001, depreciation of aircraft was calculated to write off their costs on a straight-line basis over their expected useful lives of 10 to 15 years to their residual values. With effect from 1 July 2001, depreciation of aircraft under PRC Accounting Regulations is calculated to write off their costs on a straight-line basis over their expected useful lives of 20 years to their residual values. Prospective adjustment was made to the aircraft acquired before 1 July 2001 over their revised remaining useful lives.

(c) This represents the difference on loss on disposals arising from different depreciation lives adopted for aircraft and engines resulted in different carrying net book value 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 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 income statement as incurred. Routine repairs and maintenance costs (including repair costs on other flight equipment) are charged to the income statement as incurred. Under PRC Accounting Regulations, prior to 2003, major overhauls costs for all aircraft were provided at specific rates applicable to the related models of aircraft. Effective from January 2003, the major overhaul costs of aircraft under operating leases are provided at specific rates applicable to the related models of aircraft, no additional provision is made for overhaul costs of owned aircraft and aircraft under finance leases, major overhaul costs for these aircraft are first offset against the provision brought forward and then charged to the income statement as incurred after the provision is fully utilised.

(e) Under IFRS, the flight equipment spare parts are carried at weighted average cost and are expensed when consumed in operations. Under PRC Accounting Regulations, the flight equipment spare parts at the time of listing are carried at 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.

(g) Under IFRS, the present value of additional provision of staff housing allowance as a result of the new staff housing policies announced and implemented by the Company in 2003 was charged to the income statement for the years ended 31 December 2003 and 2004. Under PRC Accounting Regulations, such staff housing allowance provision relating to services rendered prior to 2003 is charged directly to reserves. Current year's provision is made without taking into account of the time value on future instalment payments.

(h) Under IFRS, the consideration payable for the acquisition of an airlines 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.

(i) 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 an airlines business has been recognised and accounted for in the fair value of the identifiable net assets acquired. As a result, goodwill has been recognised and 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.

(j) Under IFRS, the consideration payable for the acquisition of an airlines 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.

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

(k) 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.

(l) 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 of the Group's fixed assets was carried out and difference between the valuation and carrying amount was recognised. Under PRC Accounting Regulations, fixed assets are recorded at cost less accumulated depreciation and impairment.

(m) 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 or under provision is recognised at the time of sale. Under PRC Accounting Regulations, the loss on disposals of staff quarters is charged directly to the reserves.

(n) Under IFRS, the Group's derivative financial instruments qualified 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.

(o) In addition to the above, the application of IFRS differs in certain other respects from PRC Accounting Regulations.

(p) These represent the corresponding deferred tax effects of the items above and tax losses.

(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 profit/(loss) attributable to shareholders and consolidated net assets of the Group are summarised as follows:–

	Note	2004 RMB'000	2003 RMB'000
Consolidated profit/(loss) attributable to shareholders			
As stated under IFRS		**514,075**	(949,816)
U.S. GAAP adjustments:			
Reversal of difference in depreciation charges arising from revaluation of fixed assets	(a)	**57,568**	63,895
Profit/(loss) on disposals of aircraft and related assets	(b)	**7,099**	(10,083)
Rescission of related party lease arrangements	(c)	**(133,029)**	–
Others	(d)	**(1,518)**	6,860
Deferred tax effect on U.S. GAAP adjustments	(e)	**10,482**	(9,101)
As stated under U.S. GAAP		**454,677**	(898,245)
Basic and fully diluted earnings/(loss) per share under U.S. GAAP		**RMB 0.093**	(RMB 0.185)
Basic and fully diluted earnings/(loss) per American Depository Share ("ADS") under U.S. GAAP		**RMB 9.34**	(RMB 18.46)

	Note	2004 RMB'000	2003 RMB'000
Consolidated net assets			
As stated under IFRS		**6,882,244**	6,382,151
U.S. GAAP adjustments:			
Reversal of net revaluation surplus of fixed assets	(a)	**(908,873)**	(908,873)
Reversal of difference in depreciation charges and accumulated depreciation and loss on disposals arising from the revaluation of fixed assets	(a),(b)	**755,902**	691,235
Others	(d)	**34,453**	35,971
Deferred tax effect on U.S. GAAP adjustments	(e)	**(247)**	9,225
As stated under U.S. GAAP		**6,763,479**	6,209,709

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

(b) Disposals of aircraft and related assets

This represents the loss on disposal of aircraft and related assets during the year. Under U.S. GAAP, fixed assets are required to be stated at revalued amounts. Under IFRS, fixed assets are stated at cost or revalued amounts. Accordingly, the accumulated depreciation and the gain or loss on disposals of aircraft is different under IFRS and U.S. GAAP and is attributable to the surplus or deficit arising on the valuation of the assets that are disposed.

(c) Rescission of related party lease arrangements

The Company entered into certain lease arrangements with CEA Northwest and Nanjing Airlines to lease three A310 aircraft and three Bae146 aircraft in 2004 that were subsequently terminated and retroactively rescinded (note 38(c)(ii)). The impact of the retroactive rescission of the lease arrangements with CEA Northwest was an aggregate settlement by CEA Northwest and Nanjing Airlines in the amount of RMB133 million (the "Settlement Amount"), which represents the operating losses incurred on the operation of the CEA Northwest Leased Aircraft during 2004, to the Group through the reduction of the Group's inter-company payable accounts with CEA Northwest or Nanjing Airlines, as applicable.

Under IFRS, the Settlement Amount was recognised as non-operating income for the year ended 31 December 2004 and was in effect an extinguishment of a financial liability through a reduction of the Group's inter-company payable accounts with CEA Northwest or Nanjing Airlines, as applicable.

Under U.S. GAAP, the Settlement Amount, through reduction of the Group's intercompany payable account of CEA Holding's wholly owned subsidiary, was deemed as the principal shareholder incurring costs on behalf of the Company and was recognised as a capital contribution in accordance with Staff Accounting Bulletin Topic 5-T ("SAB Topic 5-T"). Any cost incurred by the principal shareholder on behalf of its subsidiary are required to be reflected in the subsidiary's financial statements as an expense and a corresponding capital unless the principal shareholders actions are completely unrelated to its position as a shareholder under SAB Topic 5-T.

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

(d) 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 US GAAP: i) recognition of gain on sale and leaseback transactions is deferred and amortised, ii) transitional obligations for post retirement benefits are amortised over the average remaining service period of active plan participants, and iii) goodwill is reviewed for impairment and is not amortised.

(e) Deferred tax effect

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

(f) 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)

(f) Segmental disclosures (Cont'd)

	Note	Unaudited management operational information under PRC Accounting Regulations for the year ended 31 December 2004 RMB'000	2003 RMB'000
Traffic revenues	(i),(ii)		
Domestic			
Passenger		**8,122,783**	5,854,542
Cargo		**273,431**	256,661
Subtotal		**8,396,214**	6,111,203
Hong Kong			
Passenger		**2,208,271**	1,622,538
Cargo		**611,471**	394,246
Subtotal		**2,819,742**	2,016,784
International	(iii)		
Passenger		**4,929,866**	3,036,214
Cargo		**3,749,739**	2,561,529
Subtotal		**8,679,605**	5,597,743
Total	(iv)	**19,895,561**	13,725,730

(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 the supplementary financial information.

(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.

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

(f) Segmental disclosures (Cont'd)

(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 RMB2,113,251,000 and RMB1,565,971,000 from its Japan routes in 2004 and 2003 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.