



## Supplementary Information for PRC Shareholders

(Expressed in Renminbi)

Effects of significant differences between PRC Accounting Rules and Regulations and IFRS on net results are analysed as follows:

	Note	2004 RMB million	2003 RMB million
Net profit under PRC Accounting Rules and Regulations		103	15
Adjustments:			
Gains on aircraft sale and leaseback transactions	(a)	(31)	(31)
Losses on staff housing allocations	(b)	(111)	(111)
Adjustment for revaluation of land use rights	(c)	4	4
Adjustment for investment in associates	(d)	(26)	–
Interest capitalisation	(e)	11	–
Effect of the above adjustments on taxation		2	4
Effect of change in income tax rate on deferred taxation	(e)	–	(122)
Adjustment for unrealised deferred tax assets	(f)	–	(117)
Net loss under IFRS		(48)	(358)

Effects of significant differences between PRC Accounting Rules and Regulations and IFRS on shareholders' equity are analysed as follows:

	Note	2004 RMB million	2003 RMB million
Shareholders' equity under PRC Accounting Rules and Regulations		11,653	11,550
Adjustments:			
Gains on aircraft sale and leaseback transactions	(a)	180	211
Losses on staff housing allocation	(b)	197	308
Adjustment for revaluation of land use rights	(c)	(162)	(166)
Adjustment for investment in associates	(d)	(26)	–
Interest capitalisation	(e)	11	–
Effect of the above adjustments on taxation	(f)	(5)	(7)
Shareholders' equity under IFRS		11,848	11,896

## Supplementary Information for PRC Shareholders (Cont'd)

(Expressed in Renminbi)

### Notes:

- (a) In accordance with PRC accounting rules and regulations, gains on aircraft sale and leaseback transactions are recorded as deferred credits and amortised over the lease terms on a straight line basis. 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 lease term.
- (b) In accordance with PRC accounting rules and regulations, losses on staff housing allocation executed by CSAHC on the Company's behalf are charged to retained profits as and when incurred. In addition, lump sum housing benefits are charged to retained profits as of 1 January, 2001 pursuant to the relevant regulations. Under IFRS, losses on staff housing allocations and lump sum housing benefits are charged to the income statement in the obligatory periods stipulated by the relevant contracts.
- (c) In accordance with PRC accounting rules and regulations, land use rights are carried at revalued amounts. Under IFRS, land use rights are carried at cost with effect from 1 January, 2002. Accordingly, the unamortised surplus on revaluation of the land use rights was reversed against shareholders' equity.
- (d) In the PRC GAAP financial statements, the investment in an associate has been equity accounted for based on the PRC GAAP financial statements of such associate. The accounting policies of such associate differ in certain aspects from those of the Group. In the IFRS financial statements, the differences arising from the different accounting policies of the associate have been adjusted to conform to the accounting policies of the Group.
- (e) In the PRC GAAP financial statements, interest incurred on specific borrowings obtained for the construction of fixed assets is capitalised. In the IFRS financial statements, interest incurred on specific and other borrowings which are directly attributable to the construction of fixed assets is capitalised.
- (f) In the financial statements prepared under IFRS, an adjustment has been made to reverse certain unrealised deferred tax assets upon the annual assessment performed by the Group for the year. Such items were adjusted for in the financial statements of the Group prepared under PRC accounting rules and regulations in respect of the prior years.
- (g) The Group's consolidated financial statements prepared under IFRS for the two years ended 31 December, 2003 and 2004 were audited by KPMG, a firm of certified public accountants in Hong Kong.