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

	Note	**2005 RMB'000**	2004 RMB'000
Consolidated (loss)/ profit attributable to equity holders of the Company			
As stated in accordance with PRC Accounting Regulations		**60,474**	536,342
Impact of IFRS and other adjustments:			
Difference in depreciation charges for flight equipment due to different depreciation lives	(a)	**115,086**	145,938
Difference in depreciation charges for aircraft due to different depreciation lives and revaluation	(b)	**(356,196)**	(478,636)
Provision for overhaul expenses	(c)	**(255,172)**	(18,734)
Provision for post-retirement benefits	(d)	**(133,417)**	(24,611)
Time value on provision for staff housing benefits	(e)	**11,563**	5,259
Unrealised gains on financial instruments	(f)	**27,779**	–
Interest accrued on instalments payable for acquisition of an airlines business	(g)	**(6,999)**	(8,344)
Reversal of revaluation surplus relating to land use rights	(h)	**8,420**	8,498
Amortisation of goodwill and negative goodwill	(i)	**–**	(2,202)
Others	(j)	**(87,095)**	62,848
Tax adjustments	(k)	**148,250**	94,333
As stated in accordance with IFRS		**(467,307)**	320,691

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

	Note	**2005 RMB'000**	2004 RMB'000
Consolidated net assets			
As stated in accordance with PRC Accounting Regulations		**6,679,397**	6,512,988
Impact of IFRS and other adjustments:			
Difference in depreciation charges for flight equipment due to different depreciation lives	(a)	**1,297,160**	1,361,373
Difference in depreciation charges for aircraft due to different depreciation lives and revaluation	(b)	**881,956**	983,264
Provision for overhaul expenses	(c)	**(1,202,967)**	(801,034)
Provision for post-retirement benefits	(d)	**(1,240,376)**	(588,394)
Time value on provision for staff housing benefits	(e)	**37,549**	25,986
Unrealised gains/(losses) on financial instruments	(f)	**72,505**	(91,861)
Time value on instalments payable for acquisition of an airlines business	(g)	**12,797**	19,796
Reversal of revaluation surplus relating to land use rights	(h)	**(349,351)**	(357,771)
Goodwill and negative goodwill	(i)	**688,311**	36,303
Others	(j)	**(95,928)**	212,197
Tax adjustments	(k)	**137,489**	(10,761)
As stated in accordance with IFRS		**6,918,542**	7,302,086

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

(a) Under IFRS, flight equipment is accounted for as property, plant and equipment and is depreciated over an expected useful life of 20 years to its residual value. Under PRC Accounting Regulations, 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 or revalued amounts on a straight-line basis over their expected useful lives 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 of 3%. 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 of 5% of costs or revalued amounts and the change is applied prospectively.

(c) Under IFRS, for aircraft under operating leases, the present value of estimated costs of major overhauls are provided at each balance sheet date. The provision in each period is estimated using historical major overhaul costs incurred during each overhaul and the estimated period between overhauls. Under IFRS, for owned aircraft and aircraft under finance leases, costs of overhaul are capitalised as a component of property, plant and equipment and are depreciated over the estimated period between overhauls, on a straight-line basis. Routine repairs and maintenance costs (including repair costs on flight equipment) are charged to the income statement as incurred.

Under PRC Accounting Regulations, prior to 2003, major overhaul 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. Overhaul costs for these aircraft are first offset against the provision brought forward as incurred. Effective from January 2005, part of the unutilised provision brought forward is written back and offset against overhaul costs in the income statement and overhaul costs are charged to the income statement as incurred.

(d) Under IFRS, employees' post-retirement benefits under defined benefit schemes are required to be recognised over the employees' service period. Under PRC Accounting Regulations, such benefits are recognised upon payment.

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

(e) Under IFRS, provision for staff housing allowance is recorded based on the present value (after taking into account the time value of the instalment payments) of the anticipated payment. Under PRC Accounting Regulations, the provision for staff housing allowance is recorded in the income statement at an amount equal to the anticipated payment without taking into account the time value of future instalment payments.

(f) Under IFRS, change in fair value of the derivative financial instruments is recorded in reserve when the derivative financial instruments qualify for hedging accounting and such a change in fair value of the derivative financial instruments is recognised in the income statement if the derivative financial instruments did not qualify for hedging accounting. Under PRC Accounting Regulations, the gains and losses on derivative financial instruments are recognised in the income statement upon their maturity.

(g) Under IFRS, the consideration payable for acquisitions is recorded based on the present value (after taking into account the time value) of the scheduled future payments. The difference in time value between the acquisition cost payable and its present value is periodically recognised as interest expense in the income statement over the period of payments. Under PRC Accounting Regulations, such difference is not recognised.

(h) Under IFRS, land use rights are recorded as prepaid operating leases at historical cost which is nil at the time of listing. Under PRC Accounting Regulations, land use rights are stated at valuation less accumulated amortisation.

(i) The basis of recognising the value of the consideration payable for acquisitions and the underlying assets and liabilities is different under IFRS and PRC Accounting Regulations. Accordingly the amount of goodwill and negative goodwill is different. Moreover, under PRC Accounting Regulations, goodwill and negative goodwill are not presented as separate items but are allocated among the carrying value of assets and liabilities acquired. Accordingly part of the adjustments under goodwill and negative goodwill in the Net Asset analysis are offset by difference of the same amounts in other categories of assets or liabilities presented in the analysis.

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

(k) These represent the corresponding deferred tax effects related to items above.