



Cao Jianxiong, President
曹建雄，總經理

Review of Operations and Management's Discussion and Analysis

業務回顧及管理層的討論與分析

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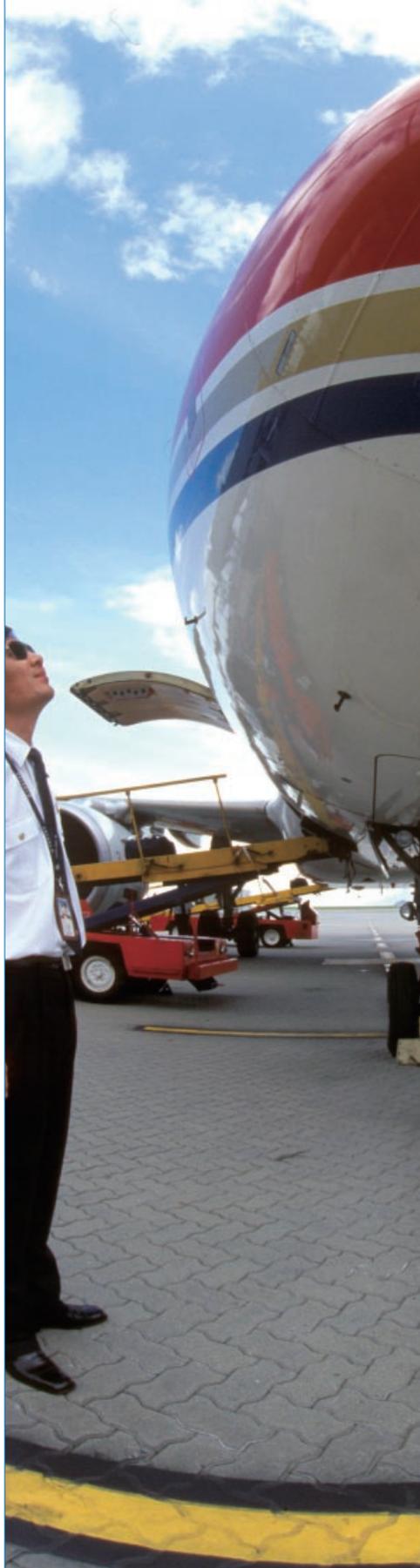


In 2006, we operated a total of 423 routes, of which 299 were domestic routes, 19 were Hong Kong routes (including 1 cargo route) and 105 were international routes (including 31 international cargo routes). We operated approximately 5,650 scheduled flights per week, serving a total of 136 foreign and domestic cities. In 2006, the Group added 27 aircraft to its fleet, including the finance lease of three A319 aircraft, two A321 aircraft, six B737-700 aircraft, one B747F freighter and four EMB145 aircraft, and the operating lease of one B737-700 aircraft, three A330-200 aircraft and seven A330-300 aircraft. As at 31 December 2006, the Group operated a fleet of 205 aircraft, including 182 passenger jets each with a seating capacity of over 100 seats and 11 jet freighters.

二零零六年，本集團共經營航線423條，其中國內航線299條，香港航線19條(包括1條貨運航線)，國際航線105條(包括31條國際貨運航線)；每周定期航班約5,650班次，服務於國內外共136個城市。二零零六年內，本集團共新增27架飛機，包括融資租賃3架A319型飛機、2架A321型飛機、6架B737-700型飛機、1架B747F型貨機、4架EMB145型飛機，經營租賃1架B737-700型飛機，3架A330-200型飛機、7架A330-300型飛機。截至二零零六年十二月三十一日，本集團共運營205架飛機，包括182架100座以上的噴氣式客機和11架噴氣式貨機。

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業務回顧及管理層的討論與分析



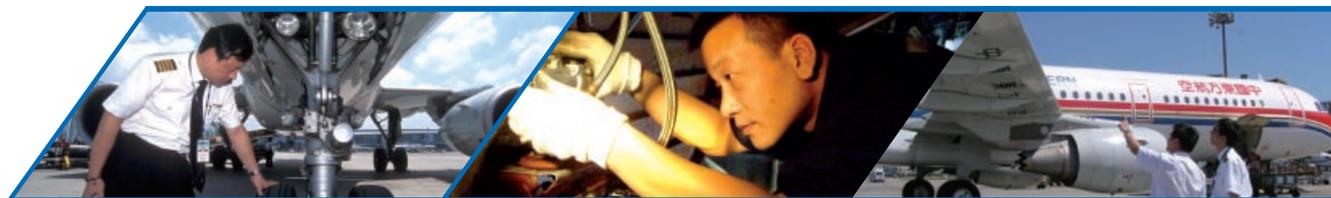
The following table sets forth details of our operating fleet as of 31 December 2006:

下表列出了截至二零零六年十二月三十一日本集團機隊的詳細資料：

| As of 31 December 2006 截至二零零六年十二月三十一日機隊數目 | | | | | | |
|--|---|--|--------------------------|--------------------|-----------|-----------|
| 機型 | Number of Aircraft | | Total Number of Aircraft | Planned Additions* | | |
| | Owned and under Finance Leases 購買及融資租賃 | Number of Aircraft under Operating Leases 經營性租賃 | | 2007 | 2008 | |
| A340-600 | 5 | — | 5 | — | — | |
| A340-300 | 5 | — | 5 | — | — | |
| A330-300 | — | 7 | 7 | 5 | 3 | |
| A330-200 | — | 3 | 3 | 1 | 1 | |
| A300-600 | 9 | — | 9 | — | — | |
| A310 | — | — | — | — | — | |
| A321 | 6 | — | 6 | 4 | 5 | |
| A320 | 37 | 26 | 63 | 2 | 8 | |
| A319 | 3 | 10 | 13 | 2 | 2 | |
| MD-90 | 9 | — | 9 | — | — | |
| MD-82 | — | — | — | — | — | |
| B737NG | — | — | — | — | — | |
| B737-800 | — | 7 | 7 | — | 1 | |
| B737-700 | 14 | 15 | 29 | 2 | 1 | |
| B737-300 | 13 | 10 | 23 | — | — | |
| B767-300 | 3 | — | 3 | — | — | |
| B787 | — | — | — | — | 4 | |
| EMB145 | 7 | — | 7 | 3 | — | |
| CRJ-200 | 5 | — | 5 | — | — | |
| A300F | 1 | 1 | 2 | — | — | |
| B747F | 1 | 2 | 3 | 1 | — | |
| MD-11F | 6 | — | 6 | — | — | |
| Total | 總數 | 124 | 81 | 205 | 20 | 25 |

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REVIEW OF OPERATING RESULTS

The following discussion and analysis should be read together with our audited financial statements and the accompanying notes prepared in accordance with IFRS that are included elsewhere in this Annual Report. The financial data presented in this section are derived from our audited financial statements prepared in accordance with IFRS.

Revenues. Our revenues increased by 36.55% from RMB27,454 million in 2005 to RMB37,489 million in 2006 (net of the applicable PRC business tax). This increase was primarily due to an increase in our capacity resulting from our acquisition of the assets and liabilities relating to the aviation business of CEA Northwest and CEA Yunnan and our acquisition of other aircraft.

Traffic revenues increased by 39.68% from RMB25,820 million in 2005 to RMB36,065 million in 2006. Our average daily aircraft utilization rate was 9.4 hours in 2006, which was the same as in 2005.

Passenger revenues, which accounted for 84.40% of our total traffic revenues in 2006, increased by 45.97% from RMB20,853 million in 2005 to RMB30,440 million in 2006, primarily due to an increase in the number of passengers carried and the passenger yield rate.

業績回顧

閱讀以下討論與分析時請參考本年報中包括的本集團按照國際會計準則編製的、經審核的財務報表及註釋。本章中所有財務數據均摘自本集團按照國際會計準則編製的、經審核的財務報表。

收入。本集團的收入增加了36.55%，由二零零五年的人民幣274.54億元增加至二零零六年的人民幣374.89億元。該等收入不含營業稅。增加的主要原因是通過收購東航西北及東航雲南航空業務相關資產及負債以及其他新增飛機帶來的運力的增加。

運輸收入增加了39.68%，從二零零五年的人民幣258.20億元增加至二零零六年的人民幣360.65億元。二零零六年的平均飛機日利用率為9.4小時，與二零零五年相同。

二零零六年的客運總收入佔本集團運輸總收入的84.40%，由二零零五年的人民幣208.53億元增加至二零零六年的人民幣304.40億元，增加了45.97%。增加的主要原因是載客數目及客運收益率上升。

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Our domestic passenger revenues (excluding Hong Kong passenger revenues), which accounted for 62.24% of our total passenger revenues in 2006, increased by 65.64% from RMB11,439 million in 2005 to RMB18,947 million in 2006. This increase was primarily driven by our domestic passenger transportation business. Compared to 2005, our domestic passenger traffic increased (as measured in revenue passenger-kilometers, or RPKs) by 54.22% in 2006. Our domestic passenger load factor decreased from 73.82% in 2005 to 73.26% in 2006. Our domestic passenger yield increased from RMB0.56 in 2005 to RMB0.61 in 2006 per passenger-kilometer primarily as a result of the rise in average air fares.

Hong Kong passenger revenues, which accounted for 8.20% of our total passenger revenues in 2006, increased by 0.12% from RMB2,495 million in 2005 to RMB2,498 million in 2006. Hong Kong passenger traffic (as measured in RPKs) increased by 7.22% in 2006, compared to 2005. We increased the passenger capacity on our Hong Kong routes by 7.68% in 2006. Our Hong Kong passenger load factor increased from 62.10% in 2005 to 63.39% in 2006. Our Hong Kong passenger yield decreased from RMB0.76 in 2005 to RMB0.71 in 2006 per passenger-kilometer, reflecting decreases in air fares. International passenger revenues, which accounted for 29.55% of our total passenger revenues in 2006, increased by 30.00% from RMB6,920 million in 2005 to RMB8,995 million in 2006. This increase was primarily due to an increase in our international passenger traffic resulting from increases in our capacity and in our international passenger load factor. An increase in our international passenger yield also contributed to the increase of our international passenger revenues. Our international passenger traffic (as measured in RPKs) increased by 20.75% in 2006, compared to 2005. Our international passenger capacity increased by 12.99% in 2006, compared to 2005. Our international passenger load factor increased from 65.16% in 2005 to 69.64% in 2006. Our international passenger yield increased from RMB0.54 in 2005 to RMB0.58 in 2006 per passenger-kilometer, reflecting increases in air fares.

本集團的國內客運收入(不含香港客運收入)二零零六年佔客運總收入的62.24%，由二零零五年的人民幣114.39億元增加至二零零六年的人人民幣189.47億元，增加了65.64%。收入增加主要由國內客運業務帶動。與二零零五年相比，二零零六年本集團的國內客運量(以客運人公里計算)上升了54.22%。本集團國內航線客座率由二零零五年的73.82%下降至二零零六年73.26%。本集團客運收益率由二零零五年的人人民幣0.56元上升至二零零六年的人人民幣0.61元，主要是由於平均票價上升所致。

香港客運收入二零零六年佔本集團客運總收入的8.20%，由二零零五年的人人民幣24.95億元增加至二零零六年的人人民幣24.98億元，增加了0.12%。二零零六年香港航線客運量(以客運人公里計算)比二零零五年增加7.22%。二零零六年香港航線的客運能力上升7.68%。香港航線客座率從二零零五年的62.10%上升至二零零六年63.39%。香港航線客運收益率由二零零五年的人人民幣0.76元下降至二零零六年的人人民幣0.71元，反映了票價水平下降。國際客運收入二零零六年佔本集團客運總收入的29.55%，由二零零五年的人人民幣69.20億元增加至二零零六年的人人民幣89.95億元，增加了30.00%。國際客運收入的增加主要是因為客運量隨著客運能力的增加及客座率的提升而上升。國際客運收益率的提高也有助於國際客運總收入的增加。二零零六年國際客運量(以客運人公里計算)比二零零五年上升了20.75%。本集團的國際航線客運能力比二零零五年上升了12.99%。國際航線客座率由二零零五年的65.16%上升至二零零六年69.64%。國際客運收益率由二零零五年的人人民幣0.54元上升至二零零六年的人人民幣0.58元，反映了票價水平上升。

Review of Operations and Management's Discussion and Analysis

業務回顧及管理層的討論與分析

We generate cargo and mail revenues from the transportation of cargo and mail on our designated cargo aircraft as well as from the carriage of cargo and mail on our passenger aircraft. Revenues from cargo and mail operations, which accounted for 15.60% of our total traffic revenues in 2006, increased by 13.26% from RMB4,967 million in 2005 to RMB5,625 million in 2006. Our cargo and mail traffic (as measured in revenue freight tonne-kilometers, or RFTKs) increased by 13.57% from 2,152 million RFTKs in 2005 to 2,444 million RFTKs in 2006. Our cargo and mail capacity (as measured in available freight tonne-kilometers, or AFTKs) increased by 17.11% from 4,033 million AFTKs in 2005 to 4,723 million AFTKs in 2006. Cargo yield decreased from RMB2.31 in 2005 to RMB2.30 in 2006 per cargo tonne-kilometer primarily due to fare decreases resulting from intensified market competition.

Our other operating revenues are primarily generated from airport ground services and ticket handling services. Airport ground services include loading and unloading of aircraft, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft flying to or from Hongqiao Airport and Pudong International Airport. We are currently the principal provider of airport ground services at both Hongqiao Airport and Pudong International Airport. Our other operating revenues decreased by 12.85% from RMB1,634 million in 2005 to RMB1,424 million in 2006. The main reason for the decrease was that in 2005, the Group received rental income of RMB183 million from operating subleases of aircraft, while the Group did not receive rental income in 2006.

Operating Expenses. Our total operating expenses increased by 47.75% from RMB27,685 million in 2005 to RMB40,905 million in 2006 primarily due to our business expansion and a significant increase in aviation fuel expenses resulting from increased fuel prices. Our total operating expenses as a percentage of our revenues increased from 100.84% in 2005 to 109.11% in 2006.

本集團的貨郵運收入主要來自利用特定貨機及集團的客機中的貨艙來運載貨物及郵件。貨郵運業務二零零六年佔本集團運輸總收入的15.60%，由二零零五年的人民幣49.67億元增加至二零零六年的人民幣56.25億元，增加了13.25%。在二零零六年，本集團貨郵運量(以貨物噸公里計算)由二零零五年的21.52億噸公里增加至二零零六年的24.44億噸公里，升幅為13.57%。貨郵運力(以可用貨郵噸公里計算)由二零零五年的40.33億噸公里增加至二零零六年的47.23億噸公里，增加了17.11%。貨運收益率由二零零五年的人民幣2.31元下降至二零零六年的人民幣2.30元。下降的主要原因是市場競爭加劇壓低價格。

本集團的其他業務收入主要來自地面服務和代售機票服務。地面服務包括載卸貨、航機清洗及為航班提供來往於虹橋機場以及浦東國際機場的運送貨物及乘客行李的地面運輸服務。本集團目前是虹橋機場以及浦東國際機場主要的地面服務商。其他業務收入降幅為12.85%，由二零零五年的人民幣16.34億元下降至二零零六年的人民幣14.24億元。下降的主要原因是本集團二零零五年有1.83億的飛機經營性分租收入，但二零零六年沒有此項收入。

營業支出。本集團的營業支出總額較二零零五年上升47.75%，由人民幣276.85億元增加至二零零六年的人民幣409.05億元。營業支出總額增加的主要原因是本集團經營規模擴大及飛機燃料支出因航油價格上漲而顯著上升。營業支出總額佔收入的比例從二零零五年的100.84%上升至二零零六年的109.11%。

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Aviation fuel expenses increased by 53.10% from RMB8,889 million in 2005 to RMB13,609 million in 2006. This increase was primarily a result of rising fuel prices and our business expansion in 2006. In 2006, we consumed a total of 2,346,400 tonnes of aviation fuel, representing an increase of 23.91% compared to 2005. Compared to 2005, the weighted average fuel prices paid by the Group in 2006 rose to RMB5,780 per tonne and increased by approximately 33.56%. Aviation fuel expense accounted for 33.27% of our total operating expenses in 2006, as compared to 32.11% in 2005.

Aircraft depreciation and operating lease expenses increased by 32.71% from RMB5,255 million in 2005 to RMB6,974 million in 2006. The increase was mainly due to the introduction of additional aircraft which were primarily financed by way of finance or operating leases, resulting in a larger increase in depreciation and operating lease expenses. The number of the aircraft operated by us increased from 180 as of 31 December 2005 to 205 as of 31 December 2006. Other depreciation, amortization and operating lease expenses increased by 17.42% from RMB666 million in 2005 to RMB782 million in 2006 primarily due to the addition of operating premises and ancillary facilities resulting from the expansion of our operations and an increase in the number of our branches.

Wages, salaries and benefits increased by 47.35% from RMB2,359 million in 2005 to RMB3,476 million in 2006, primarily due to a significant increase in the number of our employees following the expansion of our core business operations. The total number of our employees increased by 31.03% from 29,301 as of 31 December 31 2005 to 38,392 as of 31 December 2006.

Take-off and landing charges, which accounted for 12.20% of our total operating expenses in 2006, increased by 34.15% from RMB3,719 million in 2005 to RMB4,989 million in 2006 primarily due to the expansion of our business and the increase in the number of our flights, while partially offset by a decrease in the average take-off and landing charges resulting from an increase in the number of domestic flights. The number of our flights increased from approximately 211 thousand in 2005 to approximately 340 thousand in 2006.

飛機燃料支出升幅為53.10%，由二零零五年的人民幣88.89億元增加至二零零六年的人民幣136.09億元。增加的主要原因是二零零六年航油價格上漲，同時本集團營運規模擴大。二零零六年，本集團共計消耗航油量234.64萬噸，比二零零五年增加了23.91%。本集團支付的加權平均航油價格上升至每噸人民幣5,780元，升幅約為33.56%。二零零六年，飛機燃料支出佔營業支出總額的33.27%，而二零零五年為32.11%。

飛機折舊及經營性租賃支出升幅為32.71%，由二零零五年的人民幣52.55億元上升至二零零六年的人民幣69.74億元。增加的主要原因是由於新增飛機較多且多採用融資租賃或經營租賃方式引進，造成該項費用增長較快。本集團運營的飛機數目由二零零五年十二月三十一日的180架上升到二零零六年十二月三十一日的205架。其他固定資產折舊、攤銷及經營性租賃支出由二零零五年的人民幣6.66億元上升至二零零六年的人民幣7.82億元，升幅為17.42%，主要原因是本集團擴展業務及分公司數目上升，導致營運地點及配套設施增加。

工資、薪金及福利支出從二零零五年的人民幣23.59億元增加至二零零六年的人民幣34.76億元，增加了47.35%。增加的主要原因是本集團員工人數隨本集團擴大核心業務而顯著增加。本集團員工人數由二零零五年十二月三十一日的29,301人增加到二零零六年十二月三十一日的38,392人，增幅為31.03%。

飛機起降費升幅為34.15%，由二零零五年的人民幣37.19億元上升至二零零六年的人民幣49.89億元，佔本集團營業支出總額的12.20%。上升的主要原因是本集團擴展業務及航班飛行架次增加，但為國內航班增加導致的平均飛機起降費的下降部分抵銷。本集團的航班由二零零五年的約21.1萬架次上升到二零零六年的約34萬架次。

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Aircraft maintenance expenses increased by 91.26% from RMB1,384 million in 2005 to RMB2,647 million in 2006. The main reason for the increase was that more aircraft were delivered for repair as a result of the continuous expansion in the Group's fleet size.

Commission expenses increased by 35.77% from RMB970 million in 2005 to RMB1,317 million in 2006 primarily due to the increase in the number of tickets sold by agents as a result of the Group's market expansion.

Food and beverage expenses increased by 21.60% from RMB977 million in 2005 to RMB1,188 million in 2006. This increase was primarily due to a 44.26% increase in the number of passengers carried from approximately 24.29 million in 2005 to approximately 35.04 million in 2006.

Office, administration and other expenses increased by 41.12% from RMB2,444 million in 2005 to RMB3,449 million in 2006 primarily due to the Group's business expansion, resulting in increases in flight training expenses and branch office expenses.

SITA ticket reservation system charges increased by 43.15% from RMB292 million in 2005 to RMB418 million in 2006 primarily due to an increase in the price of overseas distribution systems and an increase in the number of passengers the Group carried.

Insurance costs increased by 8.05% from RMB149 million in 2005 to RMB161 million in 2006.

Ground services and other charges increased by 39.66% from RMB116 million in 2005 to RMB162 million in 2006 primarily due to an increase in our flights.

Civil aviation infrastructure levies increased by 49.36% from RMB466 million in 2005 to RMB696 million in 2006.

Valuation deficit represents the deficit of RMB1,035 million arising on the revaluation relating to certain aircraft and related equipment. No such valuation deficit arose in 2005.

飛機維修費用升幅為91.26%，由二零零五年的人民幣13.84億元上升至二零零六年的人民幣26.47億元。上升的主要原因是由於本集團機隊規模持續擴大，本期送修飛機增加。

佣金支出增加了35.77%，由二零零五年的人民幣9.70億元增加至二零零六年的人民幣13.17億元。增加的主要原因是本集團拓展市場而導致代理出售的機票數目增加。

航空餐食供應支出上升了21.60%，由二零零五年的人民幣9.77億元上升至二零零六年的人民幣11.88億元。上升的主要原因是載客量的增加，由二零零五年的約2,429萬人次上升到二零零六年的約3,504萬人次，升幅為44.26%。

辦公、管理及其他費用支出上升了41.12%，由二零零五年的人民幣24.44億元上升至二零零六年的人民幣34.49億元。上升的主要原因是本集團擴展業務，導致飛行訓練費用及分公司辦公費用上升。

電腦訂座費支出上升了43.15%，由二零零五年的人民幣2.92億元上升到二零零六年的人民幣4.18億元，主要是因為海外分銷系統價格上升及本集團的載客數目增加所致。

保險成本增加了8.05%，由二零零五年的人民幣1.49億元增加至二零零六年的人民幣1.61億元。

地面服務及其他支出上升了39.66%，由二零零五年的人民幣1.16億元增加到二零零六年的人民幣1.62億元，是由於本集團的航班增加。

民航基礎設施建設基金增加了49.36%，由二零零五年的人民幣4.66億元增加到二零零六年的人民幣6.96億元。

評估減值損失為評估某些飛機及相關設備所引起的損失，共人民幣10.35億元。二零零五年並無評估減值損失。

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Other Operating Income. The Group's other operating income was primarily generated from government subsidies and fair value gains on financial instruments held by us. The net amount of our other operating income increased from RMB245 million in 2005 to RMB424 million in 2006 primarily due to an increase in government subsidies from RMB193 million in 2005 to RMB462 million in 2006. See Note 6 to our audited consolidated financial statements.

Finance Costs. The Group's finance costs increased by 24.19% from RMB707 million in 2005 to RMB878 million in 2006 primarily due to increased finance lease obligations from RMB325 million in 2005 to RMB544 million in 2006, representing an increase of 67.38%, and interest expenses of RMB1,646 million on loans from banks and other financial institutions, representing an increase of 52.83% from RMB1,077 million in 2005. However, the above amounts were partly offset by the recognition of a net carrying exchange gain of RMB888 million arising on the retranslation of US dollar liabilities.

Net Loss. As a result of the foregoing operating results, the net loss attributable to shareholders was RMB3,313 million in 2006, as compared to a net loss of RMB467 million in 2005.

Property, Plant and Equipment. The Group had approximately RMB40,050 million of fixed assets as of 31 December 2006, including aircraft, engines and flight equipment with a value of approximately RMB35,793 million. Property, plant and equipment are initially recognized at cost and are subsequently stated at revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation.

Valuation of property, plant and equipment is affected by market conditions and global economic factors that are not within our control.

The determination of fair value requires significant judgment, including judgment on valuations by our management and/or by independent professional appraisers. Our Directors have reviewed the carrying value of our property, plant and equipment as of 31 December 2006 based on the valuations conducted by independent valuation. A valuation deficit of RMB1,035 million for certain aircraft and related equipment was resulted from the revaluations. Except for the asset with the valuation deficit, the revalued amounts of the other assets are not materially different for the carrying amounts.

其他營業收益。本集團的其他營業收益主要為政府補貼及本集團所持有的金融衍生工具的公允價值溢利。其他營業收益淨額由二零零五年的人民幣2.45億元增加至二零零六年的人民幣4.24億元。增加的主要原因是政府補貼收入由二零零五年的人民幣1.93億元增加到二零零六年的人民幣4.62億元。請參閱本集團經審計的合併財務報表註釋6。

利息支出。本集團二零零六年度利息支出為人民幣8.78億元，較二零零五年的人民幣7.07億元增加24.19%，主要是由於融資租賃負債利息為人民幣5.44億元（較二零零五年的人民幣3.25億元增加67.38%）以及銀行和其他財務機構的貸款的利息費用人民幣16.46億元（較二零零五年的人民幣10.77億元增加52.83%）。然而，上述金額被重新換算的美元負債所產生的人民幣8.88億元匯兌帳面收益而部份抵銷。

淨虧損。綜合上述經營業績後，本集團二零零六年度股東應佔淨虧損額為人民幣33.13億元，而二零零五年的股東應佔淨虧損額為人民幣4.67億元。

物業、機器及設備。二零零六年十二月三十一日，本集團物業、機器及設備賬面值約為人民幣400.50億元，其中飛機、發動機及飛行設備約佔人民幣357.93億元。物業、機器及設備最初以成本值列賬，隨後根據重估以其重估日的公允價值扣除累計折舊列賬。

物業、機器及設備的評估值受市場及全球經濟情況等不受本集團控制因素的影響。

在釐訂公允價值時，有很多地方需要做出重大判斷，包括管理層及／或獨立專業評估師的判斷。本集團董事會已經根據獨立評估報告審核了本集團於二零零六年十二月三十一日物業、機器及設備的賬面值。根據評估，某些飛機及相關設備產生了人民幣10.35億元評估減值損失。除卻該些出現評估減值的資產外，其它資產的公允值與賬面值並沒有出現重大差異。

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LIQUIDITY AND CAPITAL RESOURCES

We typically finance our working capital requirements through a combination of funds generated from operations and both short and longer term bank loans. As a result, our liquidity could be adversely affected to the extent there is a significant decrease in demand for our services or if there is any delay in obtaining bank loans. As of 31 December 2005 and 2006, we had cash and cash equivalents of RMB1,864 million and RMB1,987 million, respectively. In 2005 and 2006, our net cash inflows generated from operating activities were RMB1,952 million and RMB1,339 million, respectively, while our net cash outflows used in investment activities were RMB10,369 million and RMB1,679 million, respectively. In the past two years, our primary cash requirements for investment activities were related to our acquisitions and upgrades of aircraft and flight equipment, and debt repayments.

In 2005 and 2006, payment of advances on aircraft and flight equipment were RMB9,073 million and RMB7,669 million, respectively, while additions of aircraft and flight equipment were RMB7,751 million and RMB4,561 million, respectively. We financed the additions to our aircraft fleet and flight equipment primarily through lease arrangements, bank loans and funds generated from operations. Funds generated from disposal of older aircraft and flight equipment and other fixed assets and equipment (including by way of exchange) totaled RMB33 million and RMB328 million in 2005 and 2006, respectively. Our net cash inflow generated from financing activities was RMB421 million in 2006, primarily from proceeds from bank loans.

Pursuant to certain of our finance or operating leases, we are required to indemnify the lessors against any withholding or similar taxes that may be imposed on the lessors by taxing authorities in China with regard to payments made under such leases. Pursuant to a regulation issued in 2000 by the State Tax Bureau of China, lease payments made by Chinese airlines to foreign enterprises in respect of lease arrangements entered into prior to 1 September 1999 are exempt from the payment of any withholding tax. Withholding tax payable in respect of the lease arrangements entered into on or after 1 September 1999 are charged to our income statement as incurred.

流動資金與資金來源

本集團通常通過營運業務及短期及長期銀行貸款所得的資金來滿足其營運資金的需求。因此，如果本集團服務的市場需求大量減少，或本集團未能及時獲得銀行貸款，本集團的流動資金均可能受到不利影響。截至二零零五年和二零零六年十二月三十一日，本集團的現金及現金等值的總額分別為人民幣18.64億元和人民幣19.87億元。二零零五年和二零零六年本集團營運所得現金淨額分別為人民幣19.52億元和人民幣13.39億元，而本集團同期投資流出現金淨額分別為人民幣103.69億元和人民幣16.79億元。在過去兩年中，本集團投資活動的基本現金需求是購買及改良飛機及飛行設備以及支付有關債項的用款。

二零零五年及二零零六年本集團就飛機和飛行設備預付的款項分別為人民幣90.73億元和人民幣76.69億元，而引進飛機和飛行設備的款項則分別為人民幣77.51億元和人民幣45.61億元。本集團用於引進飛機及飛行設備的款項主要來源於租賃安排、銀行貸款及營運資金。二零零五年及二零零六年賣出(包括置換出)飛機和飛行設備及其他固定資產和設施等得到款項分別為人民幣0.33億元和人民幣3.28億元。二零零六年本集團通過融資活動流入的現金淨額為人民幣4.21億元，主要為銀行貸款。

根據本集團的融資性租賃和經營性租賃協議，本集團應向出租方補償中國稅務機關就上述租賃協議項下出租方的租賃收入徵收的預提稅或其他類似稅項。根據國家稅務總局二零零零年發布的規定，中國註冊成立的航空公司根據一九九九年九月一日以前達成的租賃協議向外國企業支付的租賃費用可免納預提稅。與一九九九年九月一日以後簽訂的租賃協議相關的預提稅支出在其發生時於損益表內列賬。

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We generally operate with a working capital deficit. As of 31 December 2006, our current liabilities exceeded our current assets by RMB24,792 million. In comparison, our current liabilities exceeded our current assets by RMB25,572 million as of 31 December 2005. The increase in our current liabilities in 2006 was primarily due to an increase in borrowings for payment of advances on aircraft and flight equipment. Short-term loans outstanding totaled RMB13,711 million and RMB13,176 million as of 31 December 2005 and 2006, respectively. Long-term bank loans outstanding totaling RMB12,659 million and RMB14,932 million as of 31 December 2005 and 2006, respectively. Long-term loans payable within two years, from three to five years and beyond five years were RMB5,894 million, RMB7,560 million and RMB1,478 million, respectively, as of 31 December 2006, as compared to RMB5,533 million, RMB5,517 million and RMB1,609 million, respectively, as of 31 December 2005. Total lease obligations outstanding under our finance leases as of 31 December 2005 and 2006 were RMB10,588 million and RMB11,853 million, respectively. Our lease obligations payable within two years, from three to five years and beyond five years were RMB4,745 million, RMB2,602 million and RMB4,506 million, respectively, as of 31 December 2006, as compared to RMB4,998 million, RMB3,014 million and RMB2,575 million, respectively, as of 31 December 2005.

本集團通常是在流動資金短缺的條件下營運。截至二零零六年十二月三十一日，本集團的流動負債超過流動資產人民幣247.92億元，而二零零五年十二月三十一日本集團流動負債超過流動資產的數額為人民幣255.72億元。本集團在二零零六年流動負債增加的原因主要是為支付購買飛機和飛行設備的預付款而導致的借款的增加。截至二零零五年及二零零六年十二月三十一日，本集團的短期貸款分別是人民幣137.11億元和人民幣131.76億元，同期的長期貸款分別是人民幣126.59億元和人民幣149.32億元。截至二零零六年十二月三十一日，本集團兩年之內到期、三到五年到期以及五年以上到期的長期貸款分別為人民幣58.94億元、人民幣75.60億元以及人民幣14.78億元，而截至二零零五年十二月三十一日的這些長期貸款分別為人民幣55.33億元、人民幣55.17億元以及人民幣16.09億元。截至二零零五年和二零零六年十二月三十一日，本集團的租賃債務分別為人民幣105.88億元和人民幣118.53億元。截至二零零六年十二月三十一日，本集團兩年之內到期、三到五年到期以及五年以上到期的租賃債務分別為人民幣47.45億元、人民幣26.02億元以及人民幣45.06億元，而截至二零零五年十二月三十一日的這些租賃債務分別為人民幣49.98億元、人民幣30.14億元以及人民幣25.75億元。

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We have, and in the future may continue to have, substantial debts. As of 31 December 2005 and 2006, our long-term debt to equity ratio was 3.4 and 7.7, respectively. The interest expenses associated with these debts might impair our future profitability. We expect that cash from operations and bank borrowings will be sufficient to meet our operating cash flow requirements, although events that materially affect our operating results can also have a negative impact on liquidity. We have entered into credit facility agreements with certain Chinese banks to meet our future working capital needs. We have arranged, and we believe that we will continue to be able to arrange, short-term bank loans with domestic and foreign-funded banks in China as necessary to meet our working capital requirements. However, our ability to obtain financing may be affected by our financial position and leverage and credit ratings, as well as by prevailing economic conditions and the cost of financing generally. If we are unable to obtain financing for a significant portion of our capital requirements, our ability to acquire new aircraft and to expand our operations may be adversely affected.

CAPITAL EXPENDITURES

Our aircraft orders as of 31 December 2006 included commitments to acquire 45 aircraft to be delivered in 2007 and 2008. We expect our capital expenditures for aircraft and related equipment, including deposits, through 2010 to be in aggregate approximately RMB61,764 million, including RMB14,894 million in 2007 and RMB18,845 million in 2008, in each case subject to contractually stipulated increases or any increase relating to inflation. We generally finance our purchase of aircraft through finance leases and bank loans secured by our assets. As of 31 December 2006, the total value of our mortgaged assets increased by 6.13%, from RMB9,074 million as of 31 December 2005 to RMB9,630 million as of 31 December 2006. Construction of our facilities at the Pudong International Airport and the purchase of maintenance equipment and other property and equipment

本集團負有並可能在將來持續負有大筆債務。截至二零零五年和二零零六年十二月三十一日，本集團的長期債務對股東權益的比率分別為3.4和7.7。這些債務所產生的利息支出會影響本集團未來的利潤。本集團預期營運所得的現金以及短期的銀行貸款足以滿足流動資金的需求，儘管嚴重影響本集團業務的事件會對資金周轉產生負面影響。本集團已經與某些國內銀行簽訂了授信協議以滿足日後對流動資金的需求。本集團以往曾經從國內和外資銀行獲得必要的短期貸款以滿足流動資金需求。本集團相信未來將能夠繼續獲得銀行短期貸款。但是，本集團取得融資的能力取決於其財務狀況、負債比率、信用評級以及當時的經濟環境和一般融資代價。如果本集團無法就其資本需求的某一重要部分取得融資，其添置新飛機和擴大經營的能力將可能受到不利影響。

資本開支

截至二零零六年十二月三十一日，本集團的飛機訂單包括將在二零零七年和二零零八年交付的45架飛機。直至二零一零年，公司預計的飛機及飛行設備的資本開支，包括訂金，預計為總數大約人民幣617.64億元，其中預計二零零七年為人民幣148.94億元，二零零八年為人民幣188.45億元。上述各款項均可能因合同規定或物價指數的變化而上調。本集團一般通過融資租賃或以本集團資產抵押獲得的銀行貸款來滿足購買飛機的資金需求。截至二零零六年十二月三十一日，本集團抵押資產金額為人民幣96.30億元，與截至二零零五年十二月三十一日的金額人民幣90.74億元相比增加

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will continue to require additional capital expenditures in 2007. We plan to finance our other capital commitments through a combination of funds generated from operations, existing credit facilities, bank loans, leasing arrangements and other external financing arrangements.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions.

Our audited consolidated financial statements have been prepared in accordance with IFRS. Our principal accounting policies are set forth in Note 2 to our audited consolidated financial statements. IFRS requires that we adopt the accounting policies and make estimates that our Directors believe are most appropriate in the circumstances for the purposes of giving a true and fair view of our results and financial position. However, different policies, estimates and assumptions in critical areas could lead to materially different results. The critical accounting policies adopted and estimates made in the preparation of these financial statements are identified as follows:

Estimated impairment of goodwill – We test annually whether goodwill has been impaired in accordance with the accounting policy stated in Note 2(l) to our audited consolidated financial statements. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (see Note 14 to our audited consolidated financial statements). In 2006, after reviewing the business environment as well as our objectives and past performance, management concluded that there was no material impairment of goodwill.

Estimated impairment of property, plant and equipment – We have made substantial investments in tangible long-lived assets. We conduct impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

了6.13%。本集團將在二零零七年繼續興建在浦東國際機場的基地，購置維修設備和其他產業設施，也需使用一定資金。本集團計劃通過營運收入、現有銀行信貸額度、銀行貸款、租賃安排及其他外部融資方式來滿足上述其他資金要求。

主要會計政策

主要會計政策界定為反映重大判斷和不確定性，以及在不同假定和條件下可能導致重大不同結果的會計政策。

本集團的經審核綜合財務報表按國際財務報告準則編製。本集團的主要會計政策列示於經審核綜合財務報表註釋2。國際財務報告準則要求本集團採用本公司董事認為適合的、能真實公正地反映本集團業績及財務狀況的情況的會計政策並作出有關評估。然而，各重要範疇不同的政策、評估和假定可能導致相差甚遠的結果。編製該等財務報表時採用的重要會計政策及所作的評估如下：

商譽減值評估 – 本集團根據經審核綜合財務報表註釋2(1)所述的會計政策，每年檢測商譽是否有減值。現金產生單位的可收回數額按使用價值計算方法釐定，而作出計算時須要運用評估（參閱本集團的經審核綜合財務報表註釋14）。於二零零六年，回顧業務環境以及本集團的目標和以往表現後，管理認為並無重大的商譽減值虧損。

物業、機器及設備減值評估 – 本集團對有形的長年期資產作出重大投資。當某些事件或情況轉變顯示賬面值可能無法收回時，本集團會檢查該等資產是否須減值。

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Determining whether an asset is impaired requires significant judgment, including our estimates of the future cash flows attributable to the asset and the appropriate discount rate. If different judgments or estimates had been utilized, material differences could have resulted in the amount and timing of the impairment charge, if any.

Property, plant and equipment – We had approximately RMB40,050 million of fixed assets as of 31 December 2006, including aircraft, engines and flight equipment with a value of approximately RMB35,793 million. As discussed in Note 2(k) to our audited consolidated financial statements, property, plant and equipment is initially recognized at cost and is subsequently stated at revalued amount less accumulated depreciation. Independent valuations are conducted at least every five years or sooner if considered necessary by our Directors. In the intervening years, our Directors review the carrying value of property, plant and equipment from time to time and make adjustments if the carrying value is materially different from fair value. Their recorded value is impacted by management judgment, including valuations performed by the management and/or independent professional valuers, estimates of useful lives, residual value and impairment charges. If different judgments or estimates had been utilized, material differences could have resulted in carrying values and related depreciation charges. Our directors reviewed the carrying value of our Company's fixed assets as of 31 December 2006 and are of the opinion that, except for the asset with the valuation deficit, the carrying amount of the fixed assets is not materially different from the estimated fair value.

Fair value estimation – The carrying amounts of our current financial assets, including cash and cash equivalents, trade receivables, prepayments, other receivables, amounts due from related companies and current financial liabilities including trade payables and note payables, other payables and accrued expenses and amounts due to related companies, approximate their fair values due to their short maturities.

當釐定資產是否須減值時，需要作出重大的判斷，包括評估資產應占的未來現金流量和適當的折現率。如果運用不同的判斷或評估，減值支出(如有)的金額及時間可能會有重大分別。

物業、機器及設備—截至二零零六年十二月三十一日，本集團有大約人民幣400.50億元的固定資產，其中包括價值約人民幣357.93億元的飛機、發動機和飛行設備。按經審核綜合財務報表註釋2(k)所述，物業、機器及設備最初按成本確認，其後按重估值減累計折舊列賬。本公司董事最少每五年或於認為有必要時對固定資產進行獨立估值。於期間的年度，董事不時檢討物業、機器及設備的賬面值，如果賬面值與公允值有重大差異，則會作出調整。所記錄的價值受到管理層的判斷所影響，包括管理層及／或獨立專業估值師所作的估值、對可使用年期的估計、剩餘價值及減值支出。如果運用不同的判斷或評估，則重估的金額及有關的折舊支出可能有重大分別。本公司董事於二零零六年十二月三十一日重估本公司的固定資產的賬面值，認為除某些出現評估減值的資產外，固定資產的賬面值與估計的公允值並無重大差異。

公允值評估—本集團現時的金融資產包括現金及現金等值、貿易應收款、預付款、其他應收款及應收有關聯公司款項，而金融負債包括貿易應付款及應付票據、其他應付款、累計開支及應付有關聯公司款項。由於在短期內到期，該等金融資產及金融負債的賬面值與公允值相若。

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Revenue recognition – As discussed in Note 2(e), passenger, cargo and mail revenues are recognized as traffic revenues when the transportation services are provided. The value of unused passenger tickets is included in current liabilities as sales in advance of carriage. Unused tickets are recognized in traffic revenues based on current estimates. Management periodically evaluates the balance of the sales in advance of carriage account and records any adjustments, which can be material, in the period the evaluation is completed. These adjustments result from differences between the estimates of certain revenue transactions, the timing of recognizing revenue for any unused air tickets and the related sales price, and are impacted by various factors, including a complex pricing structure and interline agreements throughout the industry, which affect the timing of revenue recognition.

Maintenance and overhaul costs – In respect of aircraft under operating leases, we have the responsibility to fulfill certain return conditions under relevant leases. In order to fulfill these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, the present value of estimated costs of major overhauls for aircraft under operating leases 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 using the ratios of actual flying hours/cycles and estimated flying hours/cycles between overhauls. Differences between the estimated cost and the actual cost of the overhaul are included in the income statement in the period of overhaul.

In respect of aircraft and engines owned by our Company or held under finance leases, costs of overhaul are capitalized as a component of property, plant and equipment and are depreciated over the appropriate maintenance cycles. When each overhaul is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment and is depreciated over the estimated period between overhauls, on a straight-line basis. Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognized and charged to the income statement.

收入確認－按註釋2(e)所述，客運、貨運與郵運收入於提供運輸服務時確認為運輸收入。未使用客票的價值作為預售機位列入流動負債。未使用客票根據現有的估算確認為客運收入。管理層定期對預售機位的結餘進行評估，並於完成評估的期間內記錄任何可能重大的調整。此等調整是由於對若干收入交易的估算、未被使用的客票確認為收入的時間及相關銷售價格的估計不同而產生不同的判斷結果，這受各種因素的影響，包括複雜的價格結構及承運人之間的互運協議，均會影響收入的確認時間。

保養及大修費用－對於根據經營性租賃持有的飛機，本集團有責任達到有關租賃所規定的退還狀況。為了達到此等退還狀況，須定期進行大修。因此，於每個結算日均就經營性租賃的飛機的大修按預計費用的現值計提準備。每個期間的準備金額均按以往每次大修時的主要大修費用以及每次大修之間的估計期間，使用每次大修之間的實際飛行小時／周期與預計飛行小時／周期的比率作估算。大修的估計費用與實際費用之間的差額於大修的期間內計入損益表。

對於本公司本身擁有或根據融資租賃持有的飛機及發動機，大修費用撥充資本，作為物業、機器及設備的一部分，並於適當的保養周期內折舊。當每次大修時，有關費用於物業、機器及設備項目內確認，並於每次大修之間的估計期間內以直線法折舊。於完成大修時，以往大修費用的餘下賬面值終止確認並從損益表中扣除。

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Retirement benefits – We participate in defined contribution retirement schemes organized by the municipal governments of respective provinces. We also operate and maintain defined retirement benefit plans which provides retirees with benefits including transportation subsidies, social activity subsidies as well as other welfare. As discussed in Note 2(h) to our audited consolidated financial statements, the cost of providing the aforementioned benefits in the defined retirement benefit plans is actuarially determined and recognized over the employees' service period by utilizing various actuarial assumptions and using the projected unit credit method. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and employee turnover rate. The discount rate is based on management's review of local high quality corporate bonds. The annual rate of increase of benefit payment is based on the general local economic conditions. The employee turnover rate is based on historical trends in our Company. See Note 32 to our audited consolidated financial statements for additional information regarding the retirement benefit plans.

Deferred taxation – While deferred tax liabilities are provided in full on all taxable temporary differences, deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. In assessing the amount of deferred tax assets that need to be recognized, we consider future taxable income and ongoing prudent and feasible tax planning strategies. In the event that our estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of our ability to utilize the tax benefits of net operating loss carried forward in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense are made.

Current tax – We make provision for current tax based on the estimated income tax liabilities. The estimated income tax liabilities are primarily computed based on the tax filings as prepared by our Company and based on management's interpretation of relevant tax rulings.

退休福利—本集團參與各省份市政府管轄的定額供款退休計劃。此外，本集團亦設有定額退休福利計劃，向退休僱員提供的福利包括交通津貼、社交活動津貼以及其他福利。按經審核綜合財務報表註釋2(h)所述，上述根據定額退休福利計劃提供福利的成本是經精算釐定，並利用多項精算假設和使用預計單位給付成本法按僱員服務期間確認。此等假設包括(但不限於)選用折現率、人均福利付款的年增長率及僱員的流失率。折現率是根據管理層對本地優質公司債券的評估而估計。福利付款的年增長率是基於本地整體經濟狀況而估計。僱員流失率則基於本公司以往的趨勢而估計。有關退休福利計劃的其他資料，請參閱經審核綜合財務報表註釋32。

遞延稅項—遞延稅項負債按所有應課稅臨時差額全數計提準備，而遞延稅項資產僅在日後可能產生應課稅溢利讓臨時差額用作抵銷時予以確認。在評估須予確認的遞延稅項資產金額時，本集團會考慮未來應課稅收入及現行審慎及可行的稅務策略。倘本集團有關預測未來應課稅收入及現有稅務策略所帶來的利益的估計出現任何變動，或修訂現行稅務法規並會影響本集團日後動用結轉經營虧損淨額的稅務利益的時間或能力範疇，將會對錄得的遞延稅項資產淨值及稅項開支作出調整。

即期稅項—本集團根據估計所得稅負債作出即期稅項撥備。所得稅負債估計金額主要依據本公司編製的稅務資料和管理層對相關稅務規例的詮釋而釐定。

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FOREIGN CURRENCY TRANSACTIONS

We have debts denominated in U.S. dollars, Japanese yen or Euro in addition to our debts denominated in Renminbi. We generate a significant amount of foreign currency revenues, including U.S. dollar, Japanese yen, Euro, Korean won, Hong Kong dollar, Singapore dollar, Australian dollar, and Thai Baht, from ticket sales made in overseas offices. Pursuant to current foreign exchange regulations in China, we may retain our foreign currency earnings subject to the approval of SAFE. We have also designated certain personnel to manage the foreign currency risks through derivative financial products such as forward foreign exchange contracts and interest rate swaps. We use interest rate swaps to reduce risks related to changes in market interest rates. As of 31 December 2006, the notional amount of the outstanding interest rate swap agreements was approximately US\$631 million, compared to US\$661 million as of 31 December 2005. These interest rate swap agreements will expire between 2007 and 2016. In addition, we use currency forward contracts to reduce risks related to changes in currency exchange rates in respect of ticket sales and expenses denominated in foreign currencies. As of 31 December 2006, the notional amount of the outstanding currency forward contracts was approximately US\$33 million, compared to US\$92 million as of 31 December 2005. This decrease in the notional amount of the outstanding currency forward contracts was primarily due to the cancellation or early termination of certain currency forward contracts in 2006.

Pursuant to IFRS, our monetary assets and liabilities denominated in foreign currencies are required to be translated into Renminbi at the year end at exchange rates announced by the People's Bank of China. The net exchange gains or losses are recognized and reflected in the income statement for the relevant year. Any fluctuation of the exchange rates between Renminbi and foreign currencies may materially adversely affect our financial condition and results of operations. Primarily due to an appreciation of Renminbi against certain foreign currencies including the U.S. dollar, Japanese yen and Euro following the measures introduced by the PRC government in July 2005 to reform the Renminbi exchange rate regime, we recognized a net exchange gain of RMB888 million in 2006, compared to a net exchange loss of RMB415 million in 2005.

外幣交易

本集團的債務除人民幣債務外，還有美元、日元或歐元債務。同時，本集團從境外的機票銷售中能獲得包括美元、日元、歐元、韓元、港幣、新加坡元、澳大利亞元、泰銖等在內的相當金額的外幣收入。根據中國目前的外匯監管法規，本集團經國家外匯管理局批准，可以保留外匯收入。本集團有專門的人員負責進行外匯風險的管理工作，主要是通過遠期外匯合同及利率掉期等金融衍生產品對外匯的風險進行管理。本集團利用利率掉期來降低與市場利率波動相關的風險。截至二零零六年十二月三十一日，本集團利率掉期合同項下的金額為大約6.31億美元，而截至二零零五年十二月三十一日的利率掉期合同項下金額為6.61億美元。上述利率掉期合同將在二零零七年至二零一六年到期。此外，本集團還通過貨幣遠期合同來降低與機票銷售外匯收入和須以外幣支付的相關費用有關的匯率波動風險。截至二零零六年十二月三十一日，本集團貨幣遠期合同項下的金額為大約0.33億美元，而截至二零零五年十二月三十一日的貨幣遠期合同項下金額為0.92億美元。本集團貨幣遠期合同項下的金額減少的主要原因是二零零六年本集團取消或提前終止了某些貨幣遠期合同。

根據國際財務報告準則，本公司的外幣資產和外幣負債均需在年終時根據中國人民銀行公布的外幣兌人民幣匯率換算為人民幣，匯兌損益於有關年度的損益表內確認和反映。因此，本集團的財政狀況及經營業績可能受到人民幣兌外幣的匯率波動的的重大不利影響。在中國政府於二零零五年七月改革人民幣匯率形成機制後，人民幣對包括美元、日元及歐元在內的若干外幣升值。因此，二零零六年本集團的外匯兌換淨收益為人民幣8.88億元，而二零零五年本集團的外匯兌換淨損失為人民幣4.15億元。

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TAXATION

We are subject to income tax at the rate of 15%. Our effective tax rate, however, may be higher than the rate of 15% because some of our subsidiaries were incorporated in jurisdictions where the applicable income tax rate is 33% rather than 15%. We had carried forward tax losses of approximately RMB3,011 million and RMB5,782 million as of 31 December 2005 and 2006, which can be used to set off against future taxable income before 2010 and 2011, respectively.

稅項

本集團按15%的稅率繳付所得稅。然而，由於部分附屬公司註冊成立所在的司法權區的適用所得稅率為33%而非15%，因此本集團的實際稅率或會高於15%。截至二零零五年及二零零六年十二月三十一日，本集團有結轉稅項虧損約人民幣30.11億元及人民幣57.82億元，可用作抵銷二零一零年及二零一一年前的未來應課稅收入。