

Report of the Directors

The Group continues to strive for maximizing value for Shareholders

The Board of Directors of the Company hereby presents this report and the audited consolidated financial statements of the Group for the year ended 31 December, 2000.

Principal Activities, Operating Results and Financial Position

In addition to conducting airline operations, the Group is also engaged in other airline related activities including aircraft maintenance and air catering operations. The Group is one of the largest airlines in China. In 2000, the Group ranked first among all Chinese airlines in terms of passenger traffic volume, number of scheduled flights per week, number of hours flown, number of routes and size of aircraft fleet. The Group has prepared the results of operations for the year ended 31 December, 2000, and the financial position of the Company and the Group as of that date in accordance with IAS. See pages 33 to 82 of this Annual Report.

Five Year Summary

A summary of the results and the assets and liabilities of the Group for the five-year period ended 31 December, 2000 are set out on pages 85 and 86 of this Annual Report.

Dividends

The Company will not declare a dividend for 2000.

Bank Loans and Other Borrowings

Details of the bank loans and other borrowings of the Company and the Group are set out in notes 21 and 22 to the consolidated financial statements.

Interest Capitalization

For the year ended 31 December, 2000, no interest (1999: Nil) was capitalized as the cost of work in progress and fixed asset.

Fixed Assets

Fixed assets of the Company and the Group and movements of fixed assets during the year ended 31 December, 2000 are set out in note 10 to the consolidated financial statements.

Major Customers and Suppliers

The Group's five largest customers in the aggregate did not exceed 30% of the Group's total operating revenue (i.e., turnover) for the year ended 31 December, 2000.

The largest supplier and the aggregate of the five largest suppliers represented approximately 60% and 72%, respectively, of the Group's total purchases (not including purchases of items which are of a capital nature) for the year ended 31 December, 2000.

At no time during the year ended 31 December, 2000 have any Directors, associates of Directors or shareholders of the Company owning, to the knowledge of the Directors, more than 5% of the Company's share capital had any interest in the Group's five largest customers or suppliers.

Taxation

Details of taxation of the Company and the Group are set out in note 7 to the consolidated financial statements.

Reserves

Movements in the reserves of the Company and the Group during the year are set out in note 26 to the consolidated financial statements.

Employees and Employees' Pension Scheme

As at 31 December, 2000, the Group had an aggregate of 15,837 employees (1999: 14,578). Details of the employees' pension schemes and other welfare are set out in note 28 to the consolidated financial statements.

Subsidiaries

Details of the principal subsidiaries of the Company are set out in note 35 to the consolidated financial statements.

Share Capital Structure

As at 31 December, 2000, the total share capital of the Company was 3,374,178,000 shares, of which approximately 65.2% (2,200,000,000 domestic shares) is held by the SA Group and approximately 34.8% (1,174,178,000 H shares) is held by Hong Kong and overseas shareholders.

Substantial Shareholders

As at 31 December, 2000, the following shareholders had an interest of 10% or more in the Company's shares:

Name	Number of Shares	Approximate Percentage of the Total Number of Shares
SA Group	2,200,000,000	65.20%
HKSCC Nominees Limited	1,142,135,999	33.85%

The following persons have informed the Company that the Company's H shares held by them as at 31 December, 2000 in CCASS's stock accounts of HKSCC Nominees Limited were more than 10% of the total number of H shares issued by the Company.

Name	Number of H Shares	Approximate Percentage of the Total Number of H Shares
The Hongkong and Shanghai Banking Corporation Limited	381,377,055	32.48%
CEF Brokerage Ltd	194,605,000	16.57%
Standard Chartered Bank	169,559,482	14.44%

Save for the information disclosed above, as at 31 December, 2000, the Company is not aware of any interests which are required to be reported pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance").

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any shares of the Company during 2000.

Use of Proceeds

As stated in the 1999 Annual Report of the Company, as of 31 December, 1999, the Company had RMB1,419 million remaining from the proceeds of the Company's initial public offering. During the year ended 31 December, 2000, RMB890 million of the remaining proceeds were used for the following purposes:

1. Approximately RMB768 million for the exercise of purchase options on four Boeing 757 aircraft;
2. Approximately RMB20 million for various projects, including the development of the computerised accounting system and computerised flight operations control system;
3. Approximately RMB102 million for the repayment of loans.

Consistent with the disclosure in the Prospectus of the Company dated July 1997, the Company intends to use the remaining proceeds of RMB529 million (held, as at 31 December, 2000, as short-term deposits with domestic branches of the Bank of China, the Commercial and Industrial Bank of China and Southern Airlines Group Finance Company Limited, a PRC authorised financial institution and an associated company of the Group) for the following purposes:

1. Approximately RMB486 million for the exercise of purchase options on three Boeing 757 aircraft;
2. Approximately RMB43 million for various projects including the development of the computerised accounting system.