

Chairman's Statement

Opportunities from industry-wide restructuring being closely explored to gain economies of scale

Dear Shareholders:

I am pleased to report to you the Group's financial and operating results for 2001. During the year, the airline industry was adversely affected by a significant slowdown in the global economy. Although there was intense competition caused by over-supply in the domestic and international aviation markets, the Group benefited from the PRC Government's policy of enhancing continued economic growth by promoting domestic demand. In 2001, passenger revenue increased to RMB15,056 million from RMB13,255 million in 2000, representing a growth rate of 13.6%. Net profit attributable to shareholders was RMB340 million in 2001.

During the year, in line with the policy of the Civil Aviation Administration of China (the "CAAC"), the airline industry had been actively going through a process of merger and restructuring. The proposed restructuring among our parent company, Southern Airlines (Group) (the "SA Group"), China Northern Airlines and Xinjiang Airlines was approved by the PRC government in January 2002. The Group intends to work in line with the SA Group's proposed merger and restructuring and will continue to explore business opportunities arising from merger and restructuring in pursuit of economies of scale.

In June 2001, the SA Group reached an agreement with the State Post Bureau of China for business cooperation with respect to postal transportation, ticketing agency, freight agency and delivery services and cargo transportation. The Group intends to make use of the agreement to deploy postal resources of the state for the enhancement of its aircraft load factors and to expand the sales network for its passenger and cargo transportation services.



Yan Zhi Qing
Chairman of the Board of Directors

During the year, the Group's management took active measures in monitoring its traffic capacity and balancing timely the demands in various routes, thus raising the Group's aircraft utilisation rates by 4.6% to an average of 9.1 hours per day. As such, the traffic capacity of the Group was adequately enhanced without substantially increasing the number of aircraft, warranting an increase in traffic revenue. In addition, although the Group faced tremendous pressure from high fuel prices for the past two years, the operating cost per unit of available tonne kilometre remained unchanged during last year and decreased by 0.7% this year, which demonstrated that the Group managed to improve its management quality and thus achieved its target of cost control. However, in the wake of the September 11 terrorist attack on the United States of America, an additional insurance premium of RMB24.91 million was incurred to the Group.

Flying safety always forms the basis of the Group's normal course of operation. In 2001, the Group continued to rank first in terms of flying hours and number of landing and take-offs among the PRC airlines. This year was named as the first safety year in the New Millennium. The Group won the top Safety Aviation Award, the Golden Roc Cup, for the second time. In July 2001, the Company successfully completed a trial flight via the North Pole and became the first Asian airline using twin-engine aircraft completing a trial flight via North Pole. Such a successful trial flight laid down a foundation for the Group to open up the North America market in future and increased its potential for developing the international routes network.



The Group adheres to the operation principles of striving for continued innovation on our management and services. In 2001, as part of our efforts to continue developing our computerised management information systems and to enhance resources sharing and management efficiency, the Group practised online internet service for Seat Reservation System, Aircraft Maintenance System, Financial Management System, Yield Management System and Frequent-Flyer Management System. In addition, the Group launched a series of service programmes for the delivery of better quality services. In response to the 2002 FIFA World Cup to be held in South Korea and Japan in 2002, the Company has increased its flights to and from these two countries to satisfy passengers' needs and market demands. In the meantime, coping with the demands from the international airfreight market, the Company entered into SPA coordinative agreements with various cargo forwarding companies such as Asiana Airlines, EVA Airways Corp, India and TAMPA of South America to facilitate the on-route service for re-export of export goods. Having regard to the PRC's entry into the World Trade Organisation, the Group will, in the second half of 2002, take delivery of two new Boeing 747-400 freighters to cope with the increased aviation logistics resulting from the growth of international trade. The business opportunities for the Company will thus be enhanced.

Recently, the Board of Directors proposed at a shareholders' meeting to consider and approve the issue of A shares in the PRC. It is intended that through financing in the capital market, operation risks can be reduced and the Group's overall competitiveness can be strengthened to meet the challenge brought by economic globalisation.

On behalf of the Board of Directors, I would like to take this opportunity to express our gratitude to our hardworking management and staff, and to our shareholders for their support to the Group.

Yan Zhi Qing

Chairman of the Board of Directors

Guangzhou, the PRC
12 April, 2002

