1 Background of the Company

China Southern Airlines Company Limited (the "Company") and its subsidiary companies (the "Group") are principally engaged in the provision of domestic, Hong Kong regional and international passenger, cargo and mail airline services, with flights operating primarily from the Guangzhou Baiyun International Airport, which is both the main hub of the Group's route network and the location of its corporate headquarters.

The Company was established in the People's Republic of China (the "PRC", "China" or the "State") on 25 March, 1995 as a joint stock limited company as part of the reorganisation (the "Reorganisation") of Southern Airlines (Group) (the "SA Group"), a state-owned enterprise which is under the supervision of the Civil Aviation Administration of China (the "CAAC"), a ministry-level enterprise under the direct supervision of the State Council of the PRC responsible for the administration and development of the airline industry in the PRC. Pursuant to the Reorganisation, the Company assumed, as from the effective date on 1 January, 1995, the airline and airline-related businesses together with the relevant assets and liabilities from the SA Group in consideration of which 2,200,000,000 domestic shares with a par value of RMB1.00 each were allocated by the Company on 25 March, 1995 to the SA Group. On the same date, the SA Group became the holding company of the Company.

In July 1997, the Company successfully listed its H Shares and American Depositary Shares ("ADS") (each ADS representing 50 H Shares) on the Stock Exchange of Hong Kong Limited and the New York Stock Exchange, respectively.

2 Principal accounting policies

(a) Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with International Accounting Standards ("IAS") adopted by the International Accounting Standards Board ("IASB"), interpretations issued by the Standing Interpretations Committee of the IASB and the disclosure requirements of the Hong Kong Companies Ordinance.

(b) Basis of preparation

The financial statements of the Group and the Company are prepared on the historical cost basis as modified by the revaluation of certain fixed assets. The accounting policies have been consistently applied by the Group and the Company and they are consistent with those used in the previous year.

(c) Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and all of its subsidiaries made up to 31 December each year. Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The results of subsidiaries are included in the consolidated profit and loss account and the share attributable to minority shareholders is deducted from or added to the consolidated profit after taxation. Losses attributable to minority shareholders of partly owned subsidiaries are accounted for based on the respective equity owned by the minority shareholders up to the amount of the capital contribution and reserves attributable to the minority shareholders. Thereafter, all further losses are assumed by the Company.

All significant intercompany balances and transactions have been eliminated on consolidation.

2 Principal accounting policies (cont'd)

(d) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

(e) Investments

(i) *Investments in subsidiaries*

Investments in subsidiaries in the Company's balance sheet are stated at cost, less impairment losses (refer to accounting policy m).

(ii) *Investments in associated companies and jointly controlled entities*

An associated company is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participating in the financial and operating policy decisions.

A jointly controlled entity is an entity over whose activities the Group or the Company has joint control, established by contractual agreement.

The consolidated profit and loss account includes the Group's share of the results of its associated companies and jointly controlled entities for the year. In the consolidated balance sheet, the investments in associated companies and jointly controlled entities are stated at the Group's attributable share of net assets. When the Group's share of losses exceeds the carrying amount of the associated company or jointly controlled entity, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associated company or jointly controlled entity.

The results of associated companies and jointly controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable, providing such dividends are in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before 31 December each year. In the Company's balance sheet, investments in associated companies and jointly controlled entities are stated at cost, less impairment losses (refer to accounting policy m).

(iii) *Other investments*

Other investments are stated at cost less impairment losses (refer to accounting policy m). Other investments represent unquoted available-for-sale equity securities of companies established in the PRC. There is no quoted market price for such equity securities and accordingly a reasonable estimate of the fair value could not be made without incurring excessive costs.

2 Principal accounting policies (cont'd)

(f) Fixed assets and depreciation

Fixed assets are stated at cost or revalued amount less accumulated depreciation and impairment losses (refer to accounting policy m). Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Depreciation is provided to write off the cost, or revalued amount where appropriate, of the fixed assets over their estimated useful lives on a straight line basis, after taking into account their estimated residual values, as follows:

	Depreciable life	**Residual value**
Buildings	15 to 40 years	Nil
Owned and leased aircraft	8 to 15 years	28.75%
Other flight equipment		
Jet engines	8 to 15 years	3%
Others, including rotable spares	8 to 15 years	Nil
Machinery and equipment	5 to 10 years	3%
Vehicles	6 years	3%

Land use rights are amortised on a straight line basis over the period of grant or 50 years, whichever is shorter.

No depreciation is provided in respect of construction in progress.

(g) Leased assets

Flight equipment under finance leases is stated at an amount equal to lower of its fair value and the present value of minimum lease payments at inception of the lease, and is amortised on a straight line basis over the shorter of the lease term or estimated useful life of the asset to residual value. In cases where title to the asset will be acquired by the Group at the end of the lease, the asset is amortised on a straight line basis over the estimated useful life of the asset to its residual value.

Amounts payable in respect of finance leases are apportioned between interest charges and reductions of obligations based on the interest rates implicit in the leases. Interest charges are included in the profit and loss account to provide a constant periodic rate of charge over the lease term.

Gains on aircraft sale and leaseback transactions which result in finance leases are deferred and amortised over the terms of the related leases. Gains on other aircraft sale and leaseback transactions are recognised as income immediately if the transactions are established at fair value. Any excess of the sales price over fair value is deferred and amortised over the period the assets are expected to be used.

Operating lease payments are charged to the profit and loss account on a straight line basis over the terms of the related leases.

(h) Construction in progress

Construction in progress represents office buildings, various infrastructure projects under construction and equipment pending installation, and is stated at cost. Cost comprises direct costs of construction as well as interest charges during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant PRC authorities.

2 Principal accounting policies (cont'd)

(i) Inventories

Inventories, which consist primarily of expendable spare parts and supplies, are stated at cost less any applicable provision for obsolescence, and are expensed when used in operations. Cost represents the average unit cost. Inventories held for disposal is stated at the lower of cost and net realisable value. Net realisable value represents estimated resale price.

(j) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses. Impairment losses are established based on evaluation of the recoverability of these accounts at the balance sheet date.

(k) Deferred expenditure

Custom duties and other direct costs in relation to modifying, introducing and certifying certain operating leased aircraft are deferred and amortised over the terms of the related leases.

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks and other financial institutions with an original maturity within three months. For the purpose of the consolidated cash flow statement, cash and cash equivalents are presented net of bank overdrafts, if any.

(m) Impairment loss

The carrying amounts of the Group's and the Company's assets, other than inventories (refer to accounting policy i) and deferred tax assets (refer to accounting policy t) are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognised as an expense in the profit and loss account.

The Group and the Company assess at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(n) Deferred credits

In connection with the acquisition or operating lease of certain aircraft and engines, the Group receives various credits. Such credits are deferred until the aircraft and engines are delivered, at which time they are either applied as a reduction of the cost of acquiring the aircraft and engines, resulting in a reduction of future depreciation, or amortised as a reduction of rental expense for aircraft and engines under operating leases.

2 Principal accounting policies (cont'd)

(o) Revenue recognition

Passenger, cargo and mail revenues are recognised when the transportation is provided. Ticket sales for transportation not yet provided are included in current liabilities as sales in advance of carriage. Revenues from airline-related business are recognised when services are rendered. Revenue is stated net of sales tax and contributions to the CAAC Infrastructure Development Fund.

Interest income is recognised as it accrues unless collectibility is in doubt. Dividend income is recognised when the Group's right to receive the dividend is established.

Operating lease income is recognised on a straight line basis over the terms of the respective leases.

(p) Traffic commissions

Traffic commissions are expensed when the transportation is provided and the related revenue is recognised. Traffic commissions for transportation not yet provided are recorded on the balance sheet as a prepaid expense.

(q) Maintenance and overhaul costs

Routine maintenance and repairs, and overhauls in respect of owned aircraft and aircraft held under finance leases are expensed in the profit and loss account as and when incurred. In respect of aircraft held under operating leases, a provision is made over the lease term for the estimated cost of scheduled overhauls required to be performed on the related aircraft prior to their return to the lessors.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the applicable rates of exchange prevailing on the transaction dates.

Foreign currency monetary balances at the balance sheet date are translated into Renminbi at the exchange rates quoted by the People's Bank of China ruling at that date. Exchange differences are dealt with in the profit and loss account.

(s) Borrowing costs

Borrowing costs are expensed in the profit and loss account as and when incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(t) Deferred taxation

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit/loss.

The tax value of losses expected to be available for utilisation against future taxable income is recognised as a deferred tax asset and offset against the deferred tax liability attributable to the same legal tax unit and jurisdiction. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2 Principal accounting policies (cont'd)

(u) Retirement benefits

Contributions to retirement schemes and additional retirement benefits paid to retired employees are charged to the profit and loss account as and when incurred.

(v) Frequent flyer award programmes

The Group maintains two frequent flyer award programmes, namely, the China Southern Airlines Sky Pearl Club and the Egret Mileage Plus, which provide travel awards to members based on accumulated mileage. The estimated incremental cost to provide free travel is recognised as an expense and accrued as a current liability as members accumulate mileage. As members redeem awards or their entitlements expire, the incremental cost liability is reduced accordingly to reflect the acquittal of the outstanding obligations.

Revenue from mileage sales under the frequent flyer award programmes is recognised when the related transportation services are provided.

(w) Provisions

A provision is recognised in the balance sheet when the Group or the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligations. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(x) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

(y) Segmental reporting

The Group operates principally as a single business segment for the provision of air transportation services. The analysis of turnover and operating profit by geographical segment is based on the following criteria:

(i) Traffic revenue from domestic services within the PRC (excluding Hong Kong) is attributed to the domestic operation. Traffic revenue from inbound/outbound services between the PRC and Hong Kong, and the PRC and overseas destinations is attributed to the Hong Kong regional operation and international operation respectively.

(ii) Other revenue from ticket selling, general aviation and ground services, air catering and other miscellaneous services is attributed on the basis of where the services are performed.

(z) Use of estimates

The preparation of the financial statements of the Group and the Company in accordance with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3 Turnover

Turnover comprises revenues from airline and airline-related business and is stated net of sales tax and contributions to the CAAC Infrastructure Development Fund. An analysis of turnover is as follows:

	2001	2000
	RMB'000	RMB'000
Traffic revenue		
Passenger	**15,055,496**	13,254,714
Cargo and mail	**1,406,036**	1,451,445
	16,461,532	14,706,159
Other revenue		
Commission income	**129,157**	134,252
General aviation income	**61,292**	53,161
Ground services income	**55,388**	63,111
Air catering income	**29,523**	23,654
Aircraft lease income	**65,486**	110,635
Others	**77,280**	87,346
	418,126	472,159
	16,879,658	15,178,318

Pursuant to various sales tax rules and regulations, the Group is required to pay sales tax to national and local tax authorities at the following rates:

Types of revenue	**Applicable sales tax rates**
Traffic revenue	3% (2000: 3%) of traffic revenue. All inbound international and Hong Kong regional flights are exempted from sales tax.
Other revenue	3% (2000: 3%) of commission income, general aviation income and ground services income, and 3% to 5% (2000: 3% to 5%) of other revenue.

Sales tax incurred during the year ended 31 December, 2001, netted off against revenue, amounted to RMB568,407,000 (2000: RMB510,460,000).

In addition, the Group is required to pay contributions to the CAAC Infrastructure Development Fund which are calculated at the rates of 5% and 2%, respectively (2000: 5% and 2%, respectively) of the domestic and international/Hong Kong regional traffic revenue. Contributions to the CAAC Infrastructure Development Fund payable by the Group for the year ended 31 December, 2001 totalled RMB759,385,000 (2000: RMB666,982,000).

(Expressed in Renminbi)

3 Turnover (cont'd)

Pursuant to approval documents issued by the CAAC, the Group imposes a fuel surcharge on passengers carried by its domestic and Hong Kong regional flights at the following prescribed rates:

Applicable flights and periods	**Rates of fuel surcharge**
Domestic flights	
From 1 November, 2000 to 5 February, 2001	Not more than 20% of published fare or RMB150 per passenger, whichever is lower
From 6 February, 2001 to 31 December, 2001	Not more than 14% of published fare or RMB150 per passenger, whichever is lower
From 1 January, 2002 onward	Not more than 8% of published fare
Hong Kong regional flights	
From 16 November, 2000 onward	RMB64 to RMB70 per passenger

The fuel surcharge forms part of the traffic revenue of the Group. For the year ended 31 December, 2001, the fuel surcharge revenue of the Group totalled approximately RMB1,001 million (2000: RMB149 million).

4 Profit before taxation and minority interests

	2001 RMB'000	2000 RMB'000
Profit before taxation and minority interests is arrived at after charging:		
Operating expenses		
Jet fuel	**3,548,860**	3,240,129
Aircraft maintenance	**1,844,836**	1,602,235
Routes	**4,104,870**	3,659,312
Depreciation		
owned assets	**1,260,020**	1,238,465
assets held under finance leases	**542,442**	606,814
Amortisation of deferred expenditure	**12,512**	18,510
Operating lease charges		
aircraft and flight equipment	**1,912,832**	1,615,574
land and buildings	**91,857**	97,551
Staff costs		
salaries, wages and welfare	**1,272,249**	1,139,808
contributions to retirement schemes	**77,833**	68,829
Office and administration	**472,613**	426,771
Auditors' remuneration	**7,400**	7,400
Other	**330,661**	274,819
	15,478,985	13,996,217
Interest expense		
Interest on bank and other loans wholly repayable within five years	**148,554**	82,675
Interest on other loans	**169,703**	245,994
Finance charges on obligations under finance leases	**620,687**	745,567
Less: borrowing costs capitalised	**(5,227)**	—
Net interest expense	**933,717**	1,074,236
and after crediting:		
Amortisation of gains on sale and leaseback transactions	**15,379**	23,065
Dividend income from unlisted investments	**2,704**	3,359

The profit attributable to shareholders for the year ended 31 December, 2001 includes a profit of RMB112,134,000 (2000: RMB380,434,000) which has been dealt with in the financial statements of the Company.

5 (Loss)/gain on sale of fixed assets

(Loss)/gain on sale of fixed assets represents:

	2001 RMB'000	2000 RMB'000
Aircraft (Note)	**59,855**	377,817
Staff quarters (Note 28)	**(110,723)**	—
Flight equipment and others	**(5,021)**	(5,221)
	(55,889)	372,596

Note:

Pursuant to certain sale and leaseback arrangements, the Group sold two Airbus 320-200 aircraft and four Boeing 757-200 aircraft respectively during 2001 and 2000 to independent third parties and then entered into operating leases with such parties to lease back the aircraft for a period of seven to eight years. For the year ended 31 December, 2001, the Group recognised a profit of RMB59,855,000 (2000: RMB377,817,000), being the excess of the sale proceeds which approximated the aircraft's fair value on the date of disposal, over the aircraft's net book value and related disposal costs.

6 Emoluments of directors, supervisors and senior management

(a) Directors' and supervisors' emoluments

	2001 RMB'000	2000 RMB'000
Fees	**106**	—
Salaries, allowances and benefits in kind	**848**	906
Retirement benefits	**53**	69
Bonuses	**293**	381
	1,300	1,356

Included in the above were fees of RMB106,000 (2000:Nil) paid to non-executive independent directors during the year.

An analysis of directors' and supervisors' emoluments by number of individuals and emolument ranges is as follows:

	2001 Number	2000 Number
Nil to HK$1,000,000 (RMB1,060,600 equivalent)	**14**	16

6 Emoluments of directors, supervisors and senior management (cont'd)

(b) Senior management's emoluments

Details of emoluments paid to the five highest paid individuals (including directors and supervisors) of the Group during the year are as follows:

	2001 RMB'000	2000 RMB'000
Salaries, allowances and benefits in kind	1,070	923
Retirement benefits	17	12
	1,087	935

An analysis of emoluments paid to the five highest paid individuals (including directors and supervisors) by number of individuals and emolument ranges is as follows:

	2001 Number	2000 Number
Directors and supervisors	1	1
Employees	4	4
	5	5
Nil to HK$1,000,000 (RMB1,060,600 equivalent)	5	5

7 Taxation

Taxation in the consolidated profit and loss account comprises:

	2001 RMB'000	2000 RMB'000
PRC income tax	37,032	59,297
Share of taxation of associated companies and jointly controlled entity	8,085	12,024
	45,117	71,321
Deferred taxation expense (Note 16)	275,402	267,586
	320,519	338,907

Pursuant to the income tax rules and regulations of the PRC, the Group is liable to PRC income tax at a rate of 33%.

In respect of the Group's overseas airline activities, the Group has either obtained exemptions from overseas taxation pursuant to the bilateral aviation agreements between the overseas governments and PRC government, or has sustained tax losses in these overseas jurisdictions. Accordingly, no provision for overseas tax has been made for the year.

7 Taxation (cont'd)

Actual taxation expense in the consolidated profit and loss account differed from the amount computed by applying the PRC income tax rate of 33% to consolidated profit before taxation and minority interests as a result of the following:

	2001 RMB'000	2000 RMB'000
Consolidated profit before taxation and minority interests	**795,256**	931,230
Expected PRC income tax at 33%	**262,434**	307,306
Adjustments:		
Gains on sale and leaseback transactions and their amortisation	**(5,075)**	(7,612)
Rate differential on subsidiaries taxed at 15%	**(51,245)**	(40,745)
Non-deductible expenses	**154,152**	70,512
Other, net	**(39,747)**	9,446
	320,519	338,907

In accordance with relevant PRC tax regulations, a PRC lessee is liable to pay PRC withholding tax in respect of any lease payments regularly made to an overseas lessor. Depending on the circumstances, this tax is generally imposed at a fixed rate ranging from 10% to 20% of the lease payments, or in certain cases, the interest components of such payments. Pursuant to an approval document from the State Taxation Bureau, aircraft lessors are exempted from PRC withholding tax in respect of lease arrangements executed prior to 1 September, 1999.

For the year ended 31 December, 2001, the PRC withholding tax payable by the Group in respect of the leases executed on or after 1 September, 1999 of RMB11,962,000 (2000: RMB5,020,000) has been included as part of the operating lease charges for the year.

8 Dividends

No interim dividend was paid during the year ended 31 December, 2001 (2000: Nil).

Pursuant to a resolution passed at a directors' meeting on 12 April, 2002, a final dividend of RMB0.02 (2000: Nil) per share totalling RMB67,484,000 (2000: Nil) was proposed for shareholders' approval at the forthcoming annual general meeting. This final dividend proposed after 31 December, 2001 has not been recognised as a liability at that date.

9 Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of RMB340,225,000 (2000: RMB501,771,000) and the weighted average number of shares in issue during the year of 3,374,178,000 (2000: 3,374,178,000).

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both years.

10 Fixed assets

	Land use rights and buildings	Aircraft: Owned	Aircraft: Held under finance leases	Other flight equipment, including rotable spares	Machinery, equipment and vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(a) The Group						
Cost/valuation:						
At 1 January, 2001	3,193,018	7,828,402	12,184,637	5,332,216	1,396,946	29,935,219
Additions	28,324	514,044	—	530,281	124,117	1,196,766
Transferred from construction in progress	285,761	—	—	—	46,097	331,858
Reclassification on exercise of purchase options	—	730,110	(730,110)	—	—	—
Disposals	(151,832)	(681,431)	—	(3,875)	(27,271)	(864,409)
At 31 December, 2001	3,355,271	8,391,125	11,454,527	5,858,622	1,539,889	30,599,434
Representing:						
Cost	2,528,949	3,055,352	6,117,583	3,617,552	1,131,947	16,451,383
Valuation - 1996	826,322	5,335,773	5,336,944	2,241,070	407,942	14,148,051
	3,355,271	8,391,125	11,454,527	5,858,622	1,539,889	30,599,434
Accumulated depreciation:						
At 1 January, 2001	258,532	1,285,561	1,952,103	1,937,087	856,987	6,290,270
Charge for the year	123,877	367,301	542,442	527,893	240,949	1,802,462
Reclassification on exercise of purchase options	—	256,156	(256,156)	—	—	—
Written back on disposal	(2,099)	(174,793)	—	(791)	(25,452)	(203,135)
At 31 December, 2001	380,310	1,734,225	2,238,389	2,464,189	1,072,484	7,889,597
Net book value :						
At 31 December, 2001	2,974,961	6,656,900	9,216,138	3,394,433	467,405	22,709,837
At 31 December, 2000	2,934,486	6,542,841	10,232,534	3,395,129	539,959	23,644,949

10 Fixed assets (cont'd)

(b) The Company

	Land use rights and buildings	Aircraft: Owned	Aircraft: Held under finance leases	Other flight equipment, including rotable spares	Machinery, equipment and vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost/valuation:						
At 1 January, 2001	1,050,014	4,398,331	12,184,637	3,551,493	784,975	21,969,450
Additions	3,831	—	—	151,603	71,789	227,223
Transferred from construction in progress	22,529	—	—	—	19,873	42,402
Reclassification on exercise of purchase options	—	730,110	(730,110)	—	—	—
Disposals	—	(678,053)	—	(3,875)	(13,510)	(695,438)
At 31 December, 2001	1,076,374	4,450,388	11,454,527	3,699,221	863,127	21,543,637
Representing:						
Cost	862,280	836,474	6,117,583	2,239,104	630,453	10,685,894
Valuation - 1996	214,094	3,613,914	5,336,944	1,460,117	232,674	10,857,743
	1,076,374	4,450,388	11,454,527	3,699,221	863,127	21,543,637
Accumulated depreciation:						
At 1 January, 2001	78,802	811,269	1,952,103	1,394,454	535,565	4,772,193
Charge for the year	33,502	211,080	542,442	370,432	153,369	1,310,825
Reclassification on exercise of purchase options	—	256,156	(256,156)	—	—	—
Written back on disposal	—	(171,739)	—	(791)	(12,800)	(185,330)
At 31 December, 2001	112,304	1,106,766	2,238,389	1,764,095	676,134	5,897,688
Net book value :						
At 31 December, 2001	964,070	3,343,622	9,216,138	1,935,126	186,993	15,645,949
At 31 December, 2000	971,212	3,587,062	10,232,534	2,157,039	249,410	17,197,257

Substantially all of the Group's buildings are located in the PRC. The Group was formally granted the rights to use the twenty parcels of land in Guangzhou, Shenzhen, Zhuhai, Beihai, Changsha, Shantou, Haikou, Zhengzhou, Guiyang and Wuhan by the relevant PRC authorities for a period of 30 to 70 years, which expire between 2020 and 2068. For other land in the PRC on which the Group's buildings are erected, the Group was formally granted the rights to use such land for periods of one to five years commencing in the second quarter of 1997 pursuant to various lease agreements between the Company and the SA Group. The leases with initial one-year term are automatically renewable for another one-year period unless either party gives appropriate notice of termination. In this connection, rental payments totalling RMB15,224,000 (2000: RMB15,224,000) were paid to the SA Group during 2001 in respect of these leases.

10 Fixed assets (cont'd)

In compliance with the PRC rules and regulations governing initial public offering of shares by PRC joint stock limited companies, the fixed assets of the Group as at 31 December, 1996 were revalued. This revaluation was conducted by Guangzhou Assets Appraisal Corp., a firm of independent valuers registered in the PRC, on a depreciated replacement cost basis, and approved by the China State-owned Assets Administration Bureau.

In accordance with IAS 16 "Property, plant and equipment", subsequent to the 1996 revaluation, which was based on replacement costs, the fixed assets of the Group, excluding land use rights, are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. In accordance with the revaluation performed by the directors in respect of fixed assets held by the Group as at 31 December, 2000, the carrying amounts of fixed assets did not differ materially from their respective fair value.

The effect of the above revaluation was to increase future annual depreciation charges of the Group by approximately RMB65,000,000. Had the fixed assets of the Group and the Company been stated at cost, that is, the effect of the revaluation was excluded, the net book values of fixed assets of the Group and the Company as at 31 December, 2001 would have been approximately RMB22,457,489,000 and RMB15,531,066,000 respectively (2000: RMB23,326,601,000 and RMB17,004,862,000, respectively), made up as follows:

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Land use rights and buildings	**2,942,666**	2,780,413	**983,174**	956,814
Aircraft				
– owned	**9,660,992**	9,118,273	**5,325,222**	5,293,169
– held under finance leases	**11,934,083**	12,644,189	**11,934,083**	12,644,189
Flight equipment and others	**8,308,997**	7,638,700	**4,933,760**	4,707,880
	32,846,738	32,181,575	**23,176,239**	23,602,052
Less: Accumulated depreciation	**10,389,249**	8,854,974	**7,645,173**	6,597,190
	22,457,489	23,326,601	**15,531,066**	17,004,862

As at 31 December, 2001, certain aircraft of the Group and the Company with an aggregate carrying value of RMB14,295,480,000 and RMB12,104,631,000 respectively (2000: RMB15,615,561,000 and RMB13,299,274,000, respectively) were pledged as collateral under certain loan and lease agreements (see Notes 21 and 22).

During the year, the Group entered into arrangements to lease several of its aircraft to independent third parties. The terms of such leases generally range from one to two months. Depreciation of the relevant aircraft recognised during the period from the date of commencement of the leases to 31 December, 2001 or the expiry date of the leases, whichever is earlier, totalled RMB9,671,000 (2000: RMB19,027,000).

11 Construction in progress

Construction in progress comprises expenditure incurred on the construction of buildings, staff quarters and other operating facilities not yet substantially completed at 31 December, 2001, details as follows:

	2001 RMB'000	2000 RMB'000
The Company		
Guangzhou new airport base	**63,766**	19,550
Haikou new airport facilities	**48,711**	26,394
Guangzhou ticket selling office	**33,345**	30,386
Zhengzhou training centre	**22,289**	22,289
Guangzhou aviation medical centre	**17,661**	—
Material and engineering system	**16,044**	—
Hubei catering building	**14,404**	—
Computerised maintenance information system	**1,557**	18,040
Zhuhai flight training facilities	**—**	4,962
Other	**43,095**	30,327
	260,872	151,948
Subsidiaries		
Xiamen flight training facilities	**32,088**	34,418
Fuzhou Chang Le airport facilities	**9,954**	7,728
Staff quarters in Zhuhai	**5,902**	7,285
Office building in Guilin	**—**	50,264
Guizhou airport facilities	**—**	46,137
Zhuhai helicopter facilities	**—**	16,153
Staff quarters in Guizhou	**—**	8,603
Other	**31,247**	14,358
	79,191	184,946
	340,063	336,894

12 Interest in subsidiaries

	The Company	
	2001	2000
	RMB'000	RMB'000
Unlisted shares/capital contributions, at cost	**948,647**	956,346
Amounts due from subsidiaries	**1,031,811**	1,431,469
	1,980,458	2,387,815

Details of the Company's subsidiaries are set out in Note 36.

13 Interest in associated companies

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Share of attributable net assets, other than goodwill	**531,055**	348,272	**—**	—
Unlisted capital contributions, at cost	**—**	—	**292,340**	219,943
Impairment loss for investment in associated company	**—**	—	**(61,267)**	(28,197)
	531,055	348,272	**231,073**	191,746

Details of the Group's associated companies are set out in Note 37.

14 Interest in jointly controlled entity

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Share of attributable net assets other than goodwill	**174,338**	—	**—**	—
Unlisted capital contributions, at cost	**—**	—	**178,372**	—
	174,338	—	**178,372**	—

Details of the Company's jointly controlled entity are set out in Note 37.

An analysis of the Group's attributable share of assets, liabilities, revenue and expenses of the jointly controlled entity is set out below:

	2001	2000
	RMB'000	RMB'000
Non-current assets	**64,152**	—
Current assets	**114,033**	—
Current liabilities	**(3,847)**	—
Net assets	**174,338**	—
Revenue	**—**	—
Expenses	**(4,034)**	—
Net loss	**(4,034)**	—

15 Deferred expenditure

Deferred expenditure comprises custom duties and other direct costs incurred in respect of the Group's operating leased aircraft upon the inception of the respective leases:

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Custom duties and other direct costs	**257,509**	258,515	**168,265**	172,588
Less: Accumulated amortisation	**209,326**	196,814	**136,335**	126,335
	48,183	61,701	**31,930**	46,253

16 Deferred taxation

Movements in net deferred tax (liabilities)/assets are as follows:

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Balance at 1 January,	**(244,175)**	23,411	**(63,832)**	168,349
Transferred from profit and loss account (Note 7)	**(275,402)**	(267,586)	**(230,159)**	(232,181)
Balance at 31 December,	**(519,577)**	(244,175)	**(293,991)**	(63,832)

The deferred tax liabilities at 31 December, 2001 were made up of the taxation effects of:

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
Tax losses	**175,926**	369,501	**175,926**	369,501
Repair and maintenance accruals	**171,122**	65,877	**176,611**	71,366
Repair charges capitalised	**265,319**	213,792	**196,131**	151,939
Accrued expenses	**295,597**	261,803	**295,597**	261,803
Other	**122,321**	102,965	**168,300**	154,619
Total deferred tax assets	**1,030,285**	1,013,938	**1,012,565**	1,009,228
Deferred tax liabilities:				
Undistributed profits of subsidiaries	**219,330**	190,560	**219,330**	190,561
Repair and maintenance accruals	**73,851**	66,827	**—**	—
Depreciation of fixed assets	**1,237,532**	980,705	**1,087,226**	882,499
Other	**19,149**	20,021	**—**	—
Total deferred tax liabilities	**1,549,862**	1,258,113	**1,306,556**	1,073,060
Net deferred tax liabilities	**(519,577)**	(244,175)	**(293,991)**	(63,832)

17 Inventories

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Expendable spare parts and maintenance materials	**433,778**	424,356	**129,517**	169,405
Other supplies	**33,240**	40,629	**19,020**	24,966
	467,018	464,985	**148,537**	194,371

None of the above inventories was carried at net realisable value at 31 December, 2000 and 2001.

18 Trade receivables

Credit terms granted by the Group to sales agents and other customers generally range from one to three months. The ageing analysis of trade receivables, net of impairment losses, is as follows:

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 month	**419,765**	748,893	**263,850**	425,363
More than 1 month but less than 3 months	**128,388**	27,659	**82,493**	19,015
More than 3 months but less than 12 months	**8,389**	12,218	**5,467**	3,614
	556,542	788,770	**351,810**	447,992

As at 31 December, 2001, the Group and the Company had an amount due from fellow subsidiary of RMB55,115,000 (2000: RMB53,503,000) which was included in trade receivables.

All of the trade receivables are expected to be recovered within one year.