## NOTES TO THE FINANCIAL STATEMENTS

*(Prepared in accordance with International Accounting Standards)*
*Year ended 31 December 2000*

### 1. Basis of Preparation

China Eastern Airlines Corporation Limited (the "Company"), incorporated in the People's Republic of China ("PRC") as a joint stock company limited by shares, is majority owned by Eastern Air Group Company ("EA Group"), a state-owned enterprise which is under the supervision and control of the Civil Aviation Administration of China ("CAAC").

The financial statements have been prepared in accordance with International Accounting Standards ("IAS") and the disclosure requirements of the Hong Kong Companies Ordinance. This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory accounts in the PRC. The statutory accounts of the Group have been prepared in accordance with the accounting principles and the relevant regulations applicable to PRC joint stock limited companies ("PRC Accounting Regulations"). In preparing these financial statements, appropriate restatements have been made to the Group's statutory accounts to conform with IAS. Differences arising from the restatements are not incorporated in the accounting records of the companies comprising the Group.

The consolidated financial statements have been prepared under historical cost convention except for fixed assets which are stated at valuation less accumulated depreciation.

The consolidated financial statements comprise the consolidated financial statements of the Company and all its subsidiaries as at 31 December 2000 and of the results for the year then ended. All significant transactions and balances between the Company and its subsidiaries are eliminated on consolidation.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors. Interests in subsidiaries in the Company's balance sheet are stated at cost, being the fair value of consideration given plus related acquisition costs, less any provision for permanent diminution in value.

Minority interests represent the interests of outside members in the operating results and net assets of subsidiaries.

### 2. Change in Accounting Policy

With effect from 1 January 2000, the Group changed its accounting policy with respect to the recognition of major overhaul expenses for both owned aircraft and engines, as well as aircraft and engines held under finance leases. In prior years, the cost of major aircraft and engines overhauls were estimated and charged to operating profit over the period between each overhaul using the ratio of actual flying hours/cycles and estimated flying hours/cycles. Differences between the estimated cost and the actual cost of the overhaul were included in the operating profit in the period that the overhaul was carried out.

In 1998, the International Accounting Standards Committee issued a new accounting standard IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”, which is effective for accounting periods beginning on or after 1 July 1999. Following the adoption of this new standard, major overhaul expenses for owned assets and assets held under finance leases are charged against the operating profit as and when incurred. This new accounting policy has been applied retrospectively to these financial statements.

The effect of the above change in accounting policy is a decrease in aircraft maintenance expenses of RMB190,967,000 (1999: increase of RMB99,013,000) with a corresponding decrease (1999: increase) in accrued aircraft overhaul expenses, and an increase in the consolidated profit attributable to shareholders of RMB127,948,000 for the year ended 31 December 2000 (1999: RMB66,339,000 decrease in consolidated profit). The retained profits as at 1 January 2000 and 1999 have been increased by RMB437,497,000 and RMB503,836,000 which represent the cumulative effect of change in accounting policy in respect of periods prior to 2000 and 1999 respectively.

## 3. Principal Accounting Policies

### (a) Revenue recognition and sales in advance of carriage

Passenger, cargo and mail revenues are recognised as traffic revenues when the transportation services are provided. The value of sold but unused tickets is included in the current liabilities as sales in advance of carriage.

Revenues from other operating businesses include income derived from the provision of ground services, commission income and rental income, are recognised when services are rendered. Commission income includes amounts earned from other carriers in respect of sales made by the Group’s agents. The related commission payable to such agents are included as commission expenses in the profit and loss account. Rental income from leasing office premises and cargo warehouses is recognised on a straight line basis over the lease term.

Revenues are presented net of sales tax and civil aviation infrastructure levies.

Interest income is recognised on a time-proportion basis.

Rental income from subleases is determined in accordance with Note 3(i).

### (b) Segmental reporting

The Group operates in one business segment, which is to provide the common carriage of passengers, cargo and mail over various routes authorised by CAAC.

The analysis of turnover and operating profit by geographical segments is based on the following criteria:

(i) Traffic revenue from domestic services within the PRC (excluding Hong Kong Special Administrative Region ("Hong Kong")) is attributed to the domestic operation. Traffic revenue from inbound and outbound services between the PRC and Hong Kong or overseas markets is attributed to the geographical area in which the relevant overseas origin/destination lies.

(ii) Other operating revenues from ticket handling services, airport ground services and other miscellaneous services is attributed on the basis of where the services are performed.

**(c) Retirement benefits**

The Group participates in defined contribution retirement schemes organised by the municipal governments of respective provinces. The contributions to the schemes are charged to the profit and loss account as and when incurred.

In addition, the Group provides retirees with post-retirement benefits including medical benefits, transportation subsidies, social function activity subsidies as well as other welfare. The cost of providing the aforementioned post-retirement benefits under the Group's defined benefit plan is actuarially determined and recognised over the employees' service period by using the projected unit credit method. Post-retirement benefit expenses recognised in the profit and loss account include, if applicable, current service cost, interest cost, the expected return on plan assets, amortised actuarial gains and losses, the effect of any curtailment or settlement and past service cost.

**(d) Maintenance and overhaul costs**

In respect of aircraft and engines under operating leases, the Group has the responsibility to fulfill the return conditions under the relevant leases. In order to fulfill these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, estimated costs of major overhauls for aircraft and engines under operating leases are accrued and charged to operating profits over the estimated period between overhauls using the ratios of actual flying hours/cycles and estimated flying hours/cycles between overhauls. The costs of major overhaul comprise mainly labour and materials. Differences between the estimated cost and the actual cost of the overhaul are included in the operating profit in the period of overhaul.

In respect of aircraft and engines owned by the Group or held under finance leases, costs of major overhauls are charged to the operating profits as and when incurred.

All other routine repairs and maintenance costs are charged to the operating profits as incurred.

In respect of other fixed assets, major costs incurred in restoring such fixed assets to their normal working condition are charged to the profit and loss account as incurred.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

**(e) Taxation**

The Group provides for taxation on the basis of the results for the year as adjusted for items which are not assessable or deductible for income tax purposes. Taxation of the Group is determined in accordance with the relevant tax rules and regulations applicable in the jurisdictions where the Group operates.

Deferred taxation is provided, using the liability method, for all significant temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used to determine deferred taxation. A valuation allowance is provided against deferred tax assets/liabilities which are not expected to be realised in the foreseeable future.

**(f) Goodwill**

Goodwill representing the excess of purchase consideration over the aggregate fair value ascribed to the Group's share of the separable net tangible assets of the acquired subsidiary or associated company at the date of acquisition is recognised as an asset and amortised by equal annual instalments over its estimated useful economic life up to a maximum of 20 years.

Where an indication of an impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

**(g) Fixed assets and depreciation**

(i) Fixed assets are recognised initially at cost which comprises purchase price, costs transferred from construction in progress and any directly attributable costs of bringing the assets to the condition for their intended use.

Subsequent to the initial recognition, fixed assets are stated at valuation less accumulated depreciation. Independent valuations, on a market value basis or depreciated replacement cost basis when there is no evidence of market value for such an item, are performed at least every five years or sooner if considered necessary by the Directors. In the intervening years, the Directors review the carrying values of the fixed assets and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation of fixed assets are first offset against increases from earlier valuations in respect of the same asset and are thereafter charged to operating profit. Any subsequent increases are credited to operating profit up to the amount previously charged. Upon the disposal of the fixed assets, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to retained earnings and is shown as a movement in reserves.

(ii) Depreciation of fixed assets is calculated to write off their cost on a straight line basis over their expected useful lives to residual values. The annual depreciation charges are calculated as follows:-

| | |
|---|---|
| Aircraft | over 20 years to residual value of 5% of cost |
| Flight equipment | |
| - Engines | over 20 years to nil residual values |
| - Other flight equipment | over the expected useful lives to residual value of 5% of cost |
| Land use rights | over the land use right period of 50 years |
| Buildings | over the expected useful lives of 15 to 35 years |
| Other fixed assets and equipment | over 5 to 20 years to residual value of 3% of cost |

(iii) The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(iv) The carrying amounts of assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Recoverable amount is the amount which the Group expects to recover from future use of the asset, including its residual value on disposal. When a decline in value has occurred, their carrying amount is reduced to their recoverable amount. The recoverable amount is determined by discounting expected future cash flows to its present value. The amount of reduction to recoverable amount is charged to the profit and loss account.

**(h) Leased assets**

Fixed assets held under finance leases, where substantially all the risks and rewards of ownership, other than legal title, are transferred to the Group are treated as if they had been purchased. At the inception of the leases, leased assets are stated at the lower of the present value of minimum lease payments and fair market value at the inception of the lease. The corresponding lease commitments are shown as obligations under finance leases. Payments to the lessor are treated as consisting of capital and interest elements. The interest element is charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease term.

Leased assets are depreciated using the straight-line method over their expected useful lives to residual values.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are charged to operating profit on a straight line basis over the period of the respective leases.

**(i) Subleases**

When assets are subleased out under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable, representing the unearned finance income, is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets subleased out under operating leases are included in fixed assets in the balance sheet and are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised on a straight line basis over the lease term.

**(j) Construction in progress**

Construction in progress represents office buildings, various infrastructure projects under construction and plant and equipment pending installation. This includes the costs of construction and acquisition and interest capitalised. No depreciation is provided on construction in progress until the asset is completed and put into use.

**(k) Borrowing costs**

Interest attributable to funds used to finance the acquisition of new aircraft and construction of major ground facilities is capitalised as an additional cost of the related asset. Interest is capitalised at the Group's weighted average interest rate on borrowings or, where applicable, the interest rate related to specific borrowings. Capitalisation of interest ceases when the related fixed asset is placed in service.

All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

**(l) Advances on aircraft and flight equipment**

Advanced contract payments to aircraft manufacturers to secure deliveries of aircraft and flight equipment in future years are capitalised along with attributable interests, and transferred to fixed assets upon delivery of the aircraft.

**(m) Flight equipment spare parts**

Flight equipment spare parts are carried at weighted average cost less allowance for obsolescence and are expensed when used in operations. Allowance for obsolescence is provided for expendable spare parts at rates which depreciate costs, less an estimated residual value, over the estimated useful lives of the related aircraft.

**(n) Zero coupon bonds**

Zero coupon bonds purchased to secure and to settle future lease obligations are stated at acquisition cost plus discount amortised to date and are classified as held-to-maturity securities. The discount thereon is amortised over the period to maturity and included as interest income in the profit and loss account.

**(o) Trade receivables**

Trade receivables are carried at anticipated realisable value. Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of this provision.

**(p) Cash and cash equivalents**

Cash and short-term highly liquid investments, which are readily convertible into cash and have original maturities of three months or less at the date of acquisition, are classified as cash and cash equivalents. Cash equivalents are stated at cost, which approximates fair value because of the short-term maturity of these instruments.

**(q) Foreign currency translation**

The Group maintains its books and records in Renminbi ("RMB"). Transactions in foreign currencies are translated at the applicable rates of exchange prevailing at the dates of the transactions, quoted by the People's Bank of China. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the rates prevailing at the balance sheet date as quoted by the People's Bank of China. Exchange differences arising are included in the profit and loss account.

**(r) Financial assets and financial liabilities**

Investments, trade receivables, sublease receivables and obligations under finance leases are all stated at their carrying amounts determined in accordance with their respective accounting policies set out above. Other financial assets and liabilities are stated at historical value.

**(s) New IAS and comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

The Group adopted the following new IAS in 2000:

| | |
|---|---|
| IAS 36 | Impairment of Assets |
| IAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| IAS 38 | Intangible assets |

The Group also adopted the following new IAS in 2000, in advance of its effective date:

| | |
|---|---|
| IAS 39 | Financial Instruments: Recognition and Measurement |

The adoption of these new IAS did not result in any change in the Group's accounting policies affecting the results or financial position of the Group, except for the adoption of IAS 37. Please refer to Note 2 for a discussion of the effects of IAS 37 on the financial statements.

## 4. Revenues and Turnover

| | Note | Group 2000 RMB'000 | 1999 RMB'000 |
|---|---|---|---|
| Gross turnover | | **11,859,445** | 10,758,066 |
| Less:Sales tax | (a) | **(271,661)** | (260,846) |
| Civil aviation infrastructure levies | (b) | **(367,721)** | (333,949) |
| Turnover | | **11,220,063** | 10,163,271 |
| Interest income | 6 | **166,741** | 202,763 |
| Rental income from operating subleases of aircraft | 7 | **111,029** | 101,192 |
| Total revenues | | **11,497,833** | 10,467,226 |

**(a)** The Group is required to pay PRC sales tax, pursuant to various PRC sales tax rules and regulations. Except for traffic revenues derived from inbound international and regional flights which are not subject to PRC sales tax, the Group's traffic revenues, commission income and ground service income are subject to PRC sales tax levied at rates ranging from 3% to 5%.

**(b)** The civil aviation infrastructure levies (the "levies") are paid to CAAC, at rates of 5% and 2% respectively for domestic and international traffic revenues.

## 5. Wages, Salaries and Benefits

| | Group 2000 RMB'000 | 1999 RMB'000 |
|---|---|---|
| Wages, salaries and allowances | **648,224** | 573,559 |
| Pension cost (Note 33(a)) | **25,232** | 21,597 |
| Post-retirement benefits (Note 33(b)(iii)) | **124,138** | 128,522 |
| | **797,594** | 723,678 |

## 6. Interest Expense, Net

| | Group 2000 RMB'000 | 1999 RMB'000 |
|---|---|---|
| Interest charged on obligations under finance leases | **725,218** | 816,739 |
| Interest on bank loans | | |
| - wholly repayable within five years | **35,562** | 57,246 |
| - not wholly repayable within five years | **274,911** | 325,511 |
| | **310,473** | 382,757 |
| Interest on loans from a related company | **6,154** | 15,851 |
| Less:amounts capitalised into fixed assets and advances on aircraft and flight equipment | **(60,618)** | (46,752) |
| | **981,227** | 1,168,595 |
| Interest income | **(166,741)** | (202,763) |
| Net interest expense | **814,486** | 965,832 |

The capitalisation rates range between 6.00% and 6.21% per annum (1999: 6.21% and 8.00% per annum).

## 7. Other Income, Net

| | Note | Group 2000 RMB'000 | 1999 RMB'000 |
|---|---|---|---|
| Net exchange gain/(loss) | | **119,935** | (110,788) |
| Gain on disposal of aircraft and engines | (a) | **112,076** | 192,954 |
| Rental income from operating subleases of aircraft | | **111,029** | 101,192 |
| Other, net | | **(2,398)** | (11,252) |
| | | **340,642** | 172,106 |

**(a)** During the year, the Group had disposed of four (1999: nine) MD82 aircraft and two (1999: two) MD82 engines. The gain on disposal represented the difference between the sales proceeds and the net book values of the assets.

## 8. Profit before Taxation

| | Group 2000 RMB'000 | 1999 RMB'000 |
|---|---|---|
| **The profit before taxation is stated after charging:-** | | |
| Depreciation of fixed assets | | |
| - owned assets | **991,604** | 1,003,023 |
| - leased assets held under finance leases | **584,814** | 558,259 |
| - leased assets subleased out under operating leases | **59,910** | 59,910 |
| Operating lease rentals | | |
| - aircraft | **768,586** | 666,496 |
| - land and buildings | **83,417** | 65,622 |
| Loss on disposal of other fixed assets | **6,045** | 13,668 |
| Amortisation of goodwill | **5,655** | 5,655 |
| Contributions to defined contribution retirement scheme | **25,232** | 21,597 |
| Cost of post-retirement benefits | **124,138** | 128,522 |
| Auditors' remuneration | **6,896** | 5,630 |
| Provision for sale of staff quarters | **76,000** | 30,000 |
| Provision for staff quarter allowance | **80,179** | – |
| Exchange losses, net | **–** | 110,788 |
| **and after crediting:-** | | |
| Exchange gains, net | **119,935** | – |
| Rental income from operating subleases of aircraft | **111,029** | 101,192 |
| Gain on disposal of aircraft and engines | **112,076** | 192,954 |

## 9. Emoluments of Directors, Supervisors and Senior Management

**(a)** Directors' and supervisors' emoluments comprise the following:-

| | Group 2000 RMB'000 | 1999 RMB'000 |
|---|---|---|
| Fees for non-executive directors | **30** | 30 |
| Emoluments for executive directors | | |
| Salaries, allowances and benefits in kind | **438** | 315 |
| Retirement benefits | **13** | 15 |
| Bonuses | **39** | 25 |
| Emoluments for supervisors | | |
| Salaries, allowances and benefits in kind | **113** | 204 |
| Retirement benefits | **9** | 11 |
| Bonuses | **2** | 34 |
| | **644** | 634 |

During the years ended 31 December 2000 and 1999, no directors and supervisors waived their emoluments.

**(b)** The five highest paid individuals of the Group are as follows:-

| | Number of individuals | |
|---|---|---|
| | **2000** | 1999 |
| Directors | **1** | 1 |
| Supervisors | **–** | – |
| Non-directors and non-supervisors | **4** | 4 |
| | **5** | 5 |

**(c)** The emoluments of the five highest paid individuals:-

One of the Group's five highest paid individuals in 2000 (1999: one) is an executive director whose remunerations are included in the directors' and supervisors' emoluments above. Details of the remuneration of the remaining four (1999: four) highest paid individuals are as follows:-

| | Group | |
|---|---|---|
| | **2000** | 1999 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **541** | 661 |
| Retirement benefits | **16** | 14 |
| Bonuses | **72** | – |
| | **629** | 675 |

None of the directors and non-directors received remuneration in excess of RMB1 million.

During the years ended 31 December 2000 and 1999, no emoluments were paid by the Group to the Directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office.

**10. Taxation**

**(a)** Tax provision in the consolidated profit and loss account represents:-

| | Group | |
|---|---|---|
| | | As restated |
| | **2000** | 1999 |
| | **RMB'000** | RMB'000 |
| Provision for PRC income tax - current year | **22,908** | 64 |
| Deferred taxation (Note 30) | **76,729** | 27,181 |
| | **99,637** | 27,245 |

Pursuant to the Circular (2000) No. 52 jointly issued by the Shanghai Municipal Financial Bureau and Shanghai Municipal State Tax Bureau, a subsidiary was exempt from and subject to a reduced income tax rate of 15% for the years ended 31 December 1999 and 2000 respectively. Except for that subsidiary, PRC income tax is calculated at the tax rate of 33% (1999: 33%) on the assessable profits of the companies comprising the Group, as determined in accordance with the relevant PRC income tax rules and regulations.

The difference between the actual taxation charge in the consolidated profit and loss account and the amounts which would result from applying the applicable tax rate to profit/loss before taxation can be reconciled as follows:-

| | **Group** | |
|---|---|---|
| | | As restated |
| | **2000** | 1999 |
| | **RMB'000** | RMB'000 |
| Profit before taxation | **304,408** | 128,216 |
| Tax calculated at a tax rate of 33% (1999: 33%) | **100,455** | 42,312 |
| Effect attributable to a subsidiary charged at reduced tax rate of 15% (1999: exempt) | **(21,264)** | (17,586) |
| Adjustments:- | | |
| Utilisation of valuation allowance against tax losses of subsidiaries | **(2,639)** | (2,901) |
| Potential deferred tax asset arising from provision against staff quarters not recognised (Note (i)) | **23,820** | 9,900 |
| Other | **(735)** | (4,480) |
| Tax provision | **99,637** | 27,245 |

(i) For the year ended 31 December 2000, the Group made a provision of RMB76 million (1999: RMB30 million) for the sale of staff quarters (see Note 34(a)). Under the current PRC income tax rules and regulations, the deductibility of loss on sale of staff quarters from assessable profits is uncertain. Accordingly, the corresponding potential deferred tax asset of RMB23.8 million (1999: RMB9.9 million) arising in the current year and the cumulative balance of RMB126.1 million as at 31 December 2000 (1999: RMB102.3 million) have not been recognised, effected by a valuation allowance provided against the deferred tax assets.

**(b)** Tax recoverable in the balance sheet represents the amount of PRC income tax prepaid during the year.

**(c)** The Group operates international flights to certain overseas destinations. There was no material overseas taxation for the year as there exists double tax reliefs between PRC and the corresponding jurisdictions (including Hong Kong).

**(d)** In accordance with the relevant PRC tax regulations, the operating lease rentals and the interest element of finance leases and bank loans paid/payable to foreign enterprises by the Group is subject to Foreign Enterprise Income Tax of PRC. This tax should be withheld by the Group at the time of payment and paid on behalf of the lessors/lenders. Pursuant to the Circular (2000) No. 251 issued by the State Tax Bureau, lease payments made by aviation companies to foreign enterprises in respect of lease arrangements entered into prior to 1 September

1999 are exempt from the payment of any withholding tax. Majority of the Group's finance and operating lease arrangements were executed prior to 1 September 1999 and hence are fully exempt from PRC withholding tax. As at 31 December 2000, the Group had no material withholding tax payable in respect of its finance leases and operating leases.

**11. Profit Attributable to Shareholders**

Included in the profit of RMB175,529,000 (1999: RMB84,289,000 as restated) attributable to the shareholders is RMB99,510,000 (1999: RMB36,524,000 as restated), which is dealt with in the financial statements of the Company.

**12. Basic Earnings per Share**

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB175,529,000 (1999: RMB84,289,000 as restated) and 4,866,950,000 (1999: 4,866,950,000) shares in issue during the year. The company has no dilutive potential ordinary shares.

**13. Goodwill**

| | Group and Company | |
|---|---|---|
| | **2000** | 1999 |
| | **RMB'000** | RMB'000 |
| Cost | | |
| At 1 January | **113,105** | – |
| Additions | **–** | 113,105 |
| At 31 December | **113,105** | 113,105 |
| Accumulated amortisation | | |
| At 1 January | **5,655** | – |
| Amortisation for the year | **5,655** | 5,655 |
| At 31 December | **11,310** | 5,655 |
| Net book value at 31 December | **101,795** | 107,450 |

The above goodwill, arising from the acquisition of a passenger carriage business from EA Group in 1999, has been amortised on a straight line basis over a period of 20 years since 1999.

## 14. Fixed Assets

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Aircraft and flight equipment | | | | | |
| | Owned RMB'000 | Held under finance leases RMB'000 | Land use rights RMB'000 | Buildings RMB'000 | Other fixed assets and equipment RMB'000 | Total RMB'000 |
| **Valuation** | | | | | | |
| At 1 January 2000 | 9,622,265 | 11,447,082 | 499,011 | 878,880 | 1,198,697 | 23,645,935 |
| Additions | 623,721 | 1,379,318 | 393,049 | 53,254 | 120,669 | 2,570,011 |
| Transferred from construction in progress, net of provision (Note 15) | – | – | – | 633,320 | 296,515 | 929,835 |
| Disposals | (366,621) | – | – | (53,603) | (46,081) | (466,305) |
| At 31 December 2000 | 9,879,365 | 12,826,400 | 892,060 | 1,511,851 | 1,569,800 | 26,679,476 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2000 | 1,919,691 | 1,977,917 | 34,205 | 88,937 | 394,792 | 4,415,542 |
| Charge for the year | 754,229 | 644,724 | 17,243 | 51,332 | 168,800 | 1,636,328 |
| Disposals | (133,456) | – | – | (7,854) | (33,378) | (174,688) |
| At 31 December 2000 | 2,540,464 | 2,622,641 | 51,448 | 132,415 | 530,214 | 5,877,182 |
| **Net book value at 31 December 2000** | 7,338,901 | 10,203,759 | 840,612 | 1,379,436 | 1,039,586 | 20,802,294 |
| Net book value at 31 December 1999 | 7,702,574 | 9,469,165 | 464,806 | 789,943 | 803,905 | 19,230,393 |
| | **Company** | | | | | |
| **Valuation** | | | | | | |
| At 1 January 2000 | 9,380,709 | 11,447,082 | 402,904 | 712,983 | 719,807 | 22,663,485 |
| Additions | 611,155 | 1,379,318 | – | 28,873 | 36,740 | 2,056,086 |
| Transferred from construction in progress, net of provision (Note 15) | – | – | – | 379,494 | 210,607 | 590,101 |
| Disposals | (366,621) | – | – | (30,494) | (44,457) | (441,572) |
| At 31 December 2000 | 9,625,243 | 12,826,400 | 402,904 | 1,090,856 | 922,697 | 24,868,100 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2000 | 1,772,343 | 1,977,917 | 33,042 | 61,012 | 209,376 | 4,053,690 |
| Charge for the year | 738,713 | 644,724 | 9,509 | 37,111 | 130,124 | 1,560,181 |
| Disposals | (133,456) | – | – | (6,526) | (31,333) | (171,315) |
| At 31 December 2000 | 2,377,600 | 2,622,641 | 42,551 | 91,597 | 308,167 | 5,442,556 |
| **Net book value at 31 December 2000** | 7,247,643 | 10,203,759 | 360,353 | 999,259 | 614,530 | 19,425,544 |
| Net book value at 31 December 1999 | 7,608,366 | 9,469,165 | 369,862 | 651,971 | 510,431 | 18,609,795 |

**(a)** The Group's and the Company's land use rights are located in the PRC with a period of 50 years from the date of grant. As at 31 December 2000, these land use rights had a remaining terms ranging from 10 to 50 years.

The last independent valuation on the Group's fixed assets was performed in 1996. As at 30 June 1996, the Group's fixed assets were revalued by Shanghai Zhonghua Huyin Certified Public Accountants ("SZHCPA", formerly known as Shanghai Zhonghua SASS Certified Public Accountants), an independent valuer registered in PRC, on a replacement cost basis as required by the PRC rules and regulations for the purpose of listing. As at 31 October 1996, the Group's fixed assets were again revalued separately by Chesterton Petty Limited, independent qualified valuers in Hong Kong, on an open market value basis. The values arrived at by Chesterton Petty Limited were not materially different from that arrived at by SZHCPA as at 30 June 1996. The revaluation had been incorporated in the financial statement of the Group during the year ended 31 December 1996.

The Directors of the Company have reviewed the carrying value of the Group's fixed assets as at 31 December 2000 and are of the opinion that the fair value is not materially different from the carrying amount.

Had the Group's fixed assets been stated at cost less accumulated depreciation, the carrying amount of aircraft and equipment, land use rights, buildings and other fixed assets and equipment as at 31 December 2000 would have been RMB17,117,008,000, RMB457,503,000, RMB1,379,426,000 and RMB1,039,586,000 (1999: RMB16,615,207,000, RMB73,277,000, RMB777,688,000 and RMB784,837,000) respectively.

**(b)** Certain aircraft of the Group and the Company with an aggregate carrying value of approximately RMB3,487,348,000 and RMB3,694,926,000 as at 31 December 2000 and 1999 respectively were pledged as collateral under certain loan agreements (see Note 26).

**(c)** Included in the additions of fixed assets of the Group and the Company were capitalisation of interests of RMB70,370,000 transferred from construction in progress and advances on aircraft and flight equipment, of which RMB42,229,000 were capitalised during the year ended 31 December 2000.

## 15. Construction in Progress

| | Group RMB'000 | Company RMB'000 |
|---|---|---|
| **Cost** | | |
| At 1 January 2000 | 1,159,808 | 1,062,172 |
| Additions | 520,909 | 133,837 |
| Interest capitalised | 19,369 | 19,369 |
| Transferred to fixed assets (Note 14) | (1,223,835) | (807,101) |
| At 31 December 2000 | 476,251 | 408,277 |
| **Provision for sale of staff quarters** (Note 34(a)) | | |
| At 1 January 2000 | 218,000 | 158,000 |
| Additions | 76,000 | 59,000 |
| Transferred to fixed assets (Note 14) | (294,000) | (217,000) |
| At 31 December 2000 | – | – |
| **Net book value at 31 December 2000** | 476,251 | 408,277 |
| Net book value at 31 December 1999 | 941,808 | 904,172 |

## 16. Investments in Subsidiaries

| | Company | |
|---|---|---|
| | **2000 RMB'000** | 1999 RMB'000 |
| Unlisted shares, at cost | **1,062,900** | 760,287 |
| Amounts due from subsidiaries | **114,014** | 664,365 |
| | **1,176,914** | 1,424,652 |

Particulars of the principal subsidiaries, all of which are limited companies established and operating in the PRC, are as follows:-

| Company | Place and date of establishment | Paid-up capital RMB'000 | Attributable equity interest 2000 | 1999 | Principal activities |
|---|---|---|---|---|---|
| China Eastern Airlines Jiangsu Co. Ltd. | PRC 3 May 1993 | 236,579 | **55%** | 55% | Provision of airline services |
| China Cargo Airlines Ltd. | PRC 22 July 1998 | 500,000 | **70%** | 70% | Provision of cargo carriage services |
| Shanghai Eastern Flight Training Co., Ltd. | PRC 18 December 1995 | 358,000 | **95%** | 80% | Provision of flight training services |
| Eastern Airlines Industrial Co., Ltd. (formerly known as "Beijing Commercial Co., Ltd.") | PRC 18 March 1998 | 49,500 | **80%** | 80% | Trading of goods |

## 17. Long-Term Loan to Ultimate Holding Company

As at 31 December 2000, the Group's and the Company's long-term loan to EA Group, the ultimate holding company, was interest bearing at 6.21% per annum (1999: 6.21% per annum) and was repayable by 31 May 2002.

## 18. Other Long-Term Receivables and Investments

| | Group | | Company | |
|---|---|---|---|---|
| | **2000 RMB'000** | 1999 RMB'000 | **2000 RMB'000** | 1999 RMB'000 |
| Long-term bank deposits (Note 25(a)) | **1,444,282** | 1,706,693 | **1,444,282** | 1,706,693 |
| US Treasury zero coupon bonds (Note 25(a)) | **464,454** | 429,940 | **464,454** | 429,940 |
| Deposits for aircraft under operating leases | **88,529** | 87,485 | **73,544** | 73,520 |
| Prepaid customs duty and value added tax | **79,172** | 95,003 | **79,172** | 95,003 |
| Receivables under subleases (Note 25(b)(i)) | **–** | 84,258 | **–** | 84,258 |
| Prepayments and other receivables | **95,865** | 123,863 | **68,514** | 94,234 |
| | **2,172,302** | 2,527,242 | **2,129,966** | 2,483,648 |

## 19. Trade Receivables Less Allowance for Doubtful Accounts

The credit terms given to trade customers are determined on an individual basis, with the credit period ranging from two weeks to three months.

As at 31 December 2000, the aging analysis of the trade receivables were as follows:-

| | Group | | Company | |
|---|---|---|---|---|
| | **2000 RMB'000** | 1999 RMB'000 | **2000 RMB'000** | 1999 RMB'000 |
| Current | **588,953** | 649,725 | **345,607** | 443,148 |
| 30 to 60 days | **320,395** | 145,250 | **175,320** | 14,515 |
| 60 to 90 days | **253,369** | 131,029 | **240,679** | 84,274 |
| Over 90 days | **84,109** | 140,462 | **78,450** | 105,531 |
| | **1,246,826** | 1,066,466 | **840,056** | 647,468 |

## 20. Balances with Related Companies

### (a) Amounts due from/to related companies

Amounts due from/to related companies arising from trading activities are unsecured, interest free and with no fixed terms of repayment. The relationship of the following parties to the Group are set out under Notes 1 and 37. As at 31 December 2000, such balances mainly included the following:-

*CAAC*
Balances with CAAC comprised civil aviation infrastructure levies payable to CAAC.

*EA Group*
Balances with EA Group comprised operating expenses paid on behalf of EA Group.

*Eastern Aviation Import and Export Company ("EAIEC")*
Balances with EAIEC comprised prepayments as well as purchases of flight equipment and flight equipment spare parts payable to EAIEC.

*Shanghai Eastern Air Catering Co. Ltd. ("SEAC")*
Balances with SEAC comprised payments for construction projects on behalf of SEAC.

**(b) Short-term deposits with related companies**

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2000** | 1999 | **2000** | 1999 |
| | | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Eastern Air Group Finance Co. Ltd. | (i) | **188,302** | 276,511 | **130,699** | 162,728 |
| COSCO Finance Co. Ltd. | (ii) | **–** | 87,655 | **–** | – |
| | | **188,302** | 364,166 | **130,699** | 162,728 |

(i) Eastern Air Group Finance Co. Ltd. ("EAGF") is a related company which is a non-bank financial institution approved by the People's Bank of China. The short-term deposits yield interest at an average rate of 1.04% per annum (1999: 1.1025% per annum).

(ii) COSCO Finance Co. Ltd. ("COSCOF") is a non-bank financial institution approved by the People's Bank of China. COSCOF is a wholly owned subsidiary of China Ocean Shipping (Group) Company which is a minority shareholder of a principal subsidiary of the Group.

**(c) Loans from a related company**
As at 31 December 2000, the Group had repaid all the short-term loans from EAGF (1999: RMB190,000,000). The maximum amount borrowed during the year amounted to RMB290,000,000 (1999: RMB590,000,000) and the interest rates were between 5.30% to 5.58% per annum (1999: 5.58% to 6.12% per annum).

## 21. Prepayments and Other Receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2000** | 1999 | **2000** | 1999 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Discounts receivable on aircraft acquisitions | **190,840** | 172,317 | **190,840** | 172,317 |
| Receivable on provision of ground services | **130,755** | 108,184 | **99,621** | 83,643 |
| Sales proceeds receivable on disposal of aircraft | **71,719** | 109,244 | **71,719** | 109,244 |
| Prepaid aircraft operating lease rentals | **71,082** | 40,970 | **52,231** | 21,906 |
| Aircraft lease interest income receivable | **3,519** | 44,328 | **3,519** | 44,328 |
| Deposits for acquisition of land use rights | **–** | 86,024 | **–** | – |
| Other | **251,518** | 329,679 | **257,439** | 300,624 |
| | **719,433** | 890,746 | **675,369** | 732,062 |

## 22. Trade Payables

As at 31 December, 2000 and 1999, all trade payables were current balances and aged under 30 days.

## 23. Other Payables and Accrued Expenses

| | Group | | Company | |
|---|---|---|---|---|
| | | As restated | | As restated |
| | **2000** | 1999 | **2000** | 1999 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Accrued operating expenses | **907,288** | 770,406 | **709,188** | 698,930 |
| Payable arising from acquisition of land use rights | **115,123** | – | **–** | – |
| Current portion of accrued aircraft overhaul expenses (Note 24) | **114,102** | 162,814 | **114,102** | 150,389 |
| Duties and levies payable | **86,433** | 59,508 | **84,011** | 51,839 |
| Provision for staff housing cash allowance (Note 34(b)) | **80,179** | – | **78,198** | – |
| Accrued salaries, wages and benefits | **50,233** | 49,553 | **35,744** | 48,886 |
| Current portion of post-retirement benefits obligation (Note 33(b)(i)) | **15,550** | 21,450 | **12,515** | 21,450 |
| Other | **296,953** | 273,560 | **228,340** | 232,902 |
| | **1,665,861** | 1,337,291 | **1,262,098** | 1,204,396 |

## 24. Accrued Aircraft Overhaul Expenses

| | Group | | Company | |
|---|---|---|---|---|
| | | As restated | | As restated |
| | **2000** | 1999 | **2000** | 1999 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Total accrued aircraft overhaul expenses | **338,407** | 276,102 | **252,850** | 220,476 |
| Less: current portion (Note 23) | **(114,102)** | (162,814) | **(114,102)** | (150,389) |
| Long-term portion | **224,305** | 113,288 | **138,748** | 70,087 |

## 25. Lease Obligations and Sublease Arrangements

### (a) Finance leases

As at 31 December 2000, the Group and the Company had 24 aircraft (1999: 23 aircraft) under finance leases. Under the terms of the leases, the Group and the Company has the option to purchase, at or near the end of the lease term, certain aircraft at fair market value and others at either fair market value or a percentage of the respective lessor's defined cost of the aircraft.

The future minimum lease payments, interest and present value of minimum lease payments which are principally denominated in foreign currencies, under these finance leases as at 31 December 2000 were as follows:-

| | Group and Company | | | | | |
|---|---|---|---|---|---|---|
| | **2000** | | | 1999 | | |
| | **Minimum lease payments RMB'000** | **Interest RMB'000** | **Present value of minimum lease payments RMB'000** | Minimum lease payments RMB'000 | Interest RMB'000 | Present value of minimum lease payments RMB'000 |
| Within one year | **1,812,500** | **694,917** | **1,117,583** | 1,831,998 | 726,263 | 1,105,735 |
| In the second year | **2,637,580** | **601,151** | **2,036,429** | 1,700,875 | 646,423 | 1,054,452 |
| In the third to fifth year inclusive | **5,106,511** | **1,028,174** | **4,078,337** | 6,152,697 | 1,241,595 | 4,911,102 |
| After the fifth year | **4,419,270** | **343,437** | **4,075,833** | 4,919,325 | 433,343 | 4,485,982 |
| Total | **13,975,861** | **2,667,679** | **11,308,182** | 14,604,895 | 3,047,624 | 11,557,271 |
| Less: amount repayable within one year | **(1,812,500)** | **(694,917)** | **(1,117,583)** | (1,831,998) | (726,263) | (1,105,735) |
| Long-term portion | **12,163,361** | **1,972,762** | **10,190,599** | 12,772,897 | 2,321,361 | 10,451,536 |

As at 31 December 2000, the Group and the Company had U.S. Treasury zero coupon bonds and long-term bank deposits totalling RMB1,908,736,000 (1999: RMB2,136,633,000) pledged as securities under certain finance lease arrangements (see Note 18). Part of these bank deposits and the U.S. Treasury zero coupon bonds totalling RMB1,827,469,000 (1998: RMB1,918,122,000) will be used to meet future lease obligations as they fall due. The U.S. Treasury zero coupon bonds will mature in February 2004.

In addition, the Group's finance lease obligations are secured by the related aircraft, the relevant insurance policies and bank guarantees.

**(b) Subleases**

The Group and the Company sublease three (1999: five) of the above leased aircraft to other third parties. One (1999:three) of the subleases is a finance lease and the remaining two (1999:two) are operating leases.

(i) Subleases in the form of finance lease

The finance sublease is effective from February 1990 to May 2001 with rental income of US$445,000 per month receivable semi-annually in arrears and a residual value of US$8,190,000 receivable at the end of the lease term. The future minimum rentals receivable, interest and present value of minimum rentals receivable under the non-cancellable finance sublease as at 31 December 2000 were as follows:-

| | Group and Company | | | | | |
|---|---|---|---|---|---|---|
| | **2000** | | | 1999 | | |
| | **Minimum future rentals receivable RMB'000** | **Interest RMB'000** | **Present value of minimum rentals receivable RMB'000** | Minimum future rentals receivable RMB'000 | Interest RMB'000 | Present value of minimum lease receivable RMB'000 |
| Within one year | **89,900** | **5,654** | **84,246** | 223,889 | 28,000 | 195,889 |
| In the second year (Note 18) | **–** | **–** | **–** | 89,913 | 5,655 | 84,258 |
| Total | **89,900** | **5,654** | **84,246** | 313,802 | 33,655 | 280,147 |

(ii) Subleases in the form of operating lease

In respect of the two operating subleases, one is effective from April 1994 to July 2002 with rental income of US$504,000 per month receivable semi-annually in arrears and the other is effective from May 1994 to August 2002 with rental income of US$514,000 per month receivable semi-annually in arrears. The future minimum rentals receivable under these non-cancellable operating subleases as at 31 December 2000 were as follows:-

| | Group and Company | |
|---|---|---|
| | **2000 RMB'000** | 1999 RMB'000 |
| Within one year | **101,191** | 101,206 |
| In the second year | **101,191** | 101,206 |
| In the third to fifth year inclusive | **–** | 101,206 |
| Total minimum future rentals receivable | **202,382** | 303,618 |

The cost and carrying amounts of these two aircraft included in Note 14 as at 31 December 2000 were as follows:-

| | Group and Company | |
|---|---|---|
| | **2000 RMB'000** | 1999 RMB'000 |
| Valuation | **386,238** | 386,238 |
| Less: accumulated depreciation | **(269,590)** | (209,682) |
| Carrying amounts | **116,648** | 176,556 |

(iii) All subleases will be automatically terminated when the leases with the original lessor are terminated. Total future minimum sublease rentals receivable under non-cancellable subleases for the above as at 31 December 2000 totalled RMB292,282,000 (1999: RMB617,420,000). Total future minimum lease rentals payable under the corresponding non-cancellable head leases as at 31 December 2000 totalled RMB425,009,000 (1999: RMB736,168,000).

## 26. Long-term Bank Loans

### Group and Company

| | 2000 RMB'000 | 1999 RMB'000 |
|---|---|---|
| Bank loans | | |
| -secured | **2,704,195** | 3,406,166 |
| -unsecured | **2,100,000** | 1,300,000 |
| Total | **4,804,195** | 4,706,166 |
| Less: amount repayable within one year | **(422,788)** | (489,484) |
| Long-term portion | **4,381,407** | 4,216,682 |
| Total bank loans is repayable as follows:- | | |
| Within one year | **422,788** | 489,484 |
| In the second year | **443,988** | 504,783 |
| In the third to fifth year inclusive | **2,047,519** | 1,659,973 |
| After the fifth year | **1,889,900** | 2,051,926 |
| Total | **4,804,195** | 4,706,166 |

The terms of long-term bank loans can be summarised as follows:-

| | Interest rate and final maturities | Group and Company 2000 RMB'000 | 1999 RMB'000 |
|---|---|---|---|
| Renminbi denominated bank loans: | | | |
| Loans for construction projects | Fixed interest rate of 6.21% per annumas at 31 December 2000; 7 to 13-year loan with final maturities through to 2012 | **1,700,000** | 1,300,000 |
| Loans for the purchases of aircraft | Fixed interest rate of 5.61% per annum as at 31 December 2000; 3- year loan with final maturity in 2003 | **400,000** | – |
| | | **2,100,000** | 1,300,000 |
| U.S. dollar denominated bank loans: | | | |
| Loans for the purchases of aircraft | Fixed interest rates ranging from 6.13% to 8.45% per annum as at 31 December 2000; 10 to 12-year loans with final maturities through to 2008 | **2,704,195** | 3,406,166 |
| Total long-term bank loans | | **4,804,195** | 4,706,166 |

Bank loans totalling RMB2,704,195,000 at 31 December 2000 (1999: RMB3,406,166,000) of the Group and the Company for the purchases of aircraft were secured by the related aircraft (see Note 14(b)).

Bank loans were guaranteed by the following parties:-

| | Group and Company | |
|---|---|---|
| | **2000** | 1999 |
| | **RMB'000** | RMB'000 |
| Renminbi denominated bank loans guaranteed by ultimate holding company: | | |
| EA Group | **2,100,000** | 1,300,000 |
| U.S. dollar denominated bank loans guaranteed by third parties: | | |
| Export-Import Bank of the United States | **2,379,097** | 2,968,962 |
| Bank of China | **–** | 69,107 |
| China Industrial and Commercial Bank | **199,287** | 230,189 |
| China Construction Bank | **125,811** | 137,908 |
| | **4,804,195** | 4,706,166 |

**27. Short-term Bank Loans**

Short-term bank loans of the Group and the Company are generally repayable within one year with interest charged at the prevailing market rates based on the rates quoted by the People's Bank of China. The interest rates related to such loans were between 5.02% and 6.16% per annum (1999: 5.58% and 6.30% per annum). During the year ended 31 December 2000, the weighted average interest rate on short-term bank loans was 5.69% per annum (1999: 5.78% per annum).

As at 31 December 2000, the Company had given guarantee to a bank in respect of a short-term bank loan amounting to RMB200 million drawn down by China Cargo Airlines Ltd.

**28. Share Capital**

| | **2000** | 1999 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Registered, issued and fully paid of RMB1.00 each | | |
| A shares | | |
| State-owned shares held by EA Group | **3,000,000** | 3,000,000 |
| Shares held by public (listed) | **300,000** | 300,000 |
| | **3,300,000** | 3,300,000 |
| Overseas listed foreign H shares | **1,566,950** | 1,566,950 |
| | **4,866,950** | 4,866,950 |

Pursuant to articles 49 and 50 of the Company's Articles of Association, the A shares held by EA Group, employees, the public and H shares are all registered ordinary shares, carrying equal rights.

## 29. Reserves

| | Share premium RMB'000 | Revaluation reserve RMB'000 | Statutory common reserve fund RMB'000 (Note (a)) | Statutory common welfare fund RMB'000 (Note (b)) | Discretionary common reserve RMB'000 (Note (c)) | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | |
| **At 1 January 2000** | | | | | | | |
| **As previously reported** | **1,006,455** | **–** | **83,390** | **83,390** | **27,908** | **507,905** | **1,709,048** |
| **Effect of adopting IAS 37 (Note 2)** | **–** | **–** | **–** | **–** | **–** | **437,497** | **437,497** |
| **As adjusted** | **1,006,455** | **–** | **83,390** | **83,390** | **27,908** | **945,402** | **2,146,545** |
| **Consolidated profit attributable to shareholders** | **–** | **–** | **–** | **–** | **–** | **175,529** | **175,529** |
| **Transfer from retained profits to reserves (Note (d))** | **–** | **–** | **11,042** | **11,042** | **–** | **(22,084)** | **–** |
| **At 31 December 2000** | **1,006,455** | **–** | **94,432** | **94,432** | **27,908** | **1,098,847** | **2,322,074** |
| **Company** | | | | | | | |
| **At 1 January 2000** | | | | | | | |
| **As previously reported** | **1,006,455** | **42,881** | **77,214** | **77,214** | **27,908** | **616,484** | **1,848,156** |
| **Effect of adopting IAS 37 (Note 2)** | **–** | **–** | **–** | **–** | **–** | **437,497** | **437,497** |
| **As adjusted** | **1,006,455** | **42,881** | **77,214** | **77,214** | **27,908** | **1,053,981** | **2,285,653** |
| **Profit attributable to shareholders** | **–** | **–** | **–** | **–** | **–** | **99,510** | **99,510** |
| **At 31 December 2000** | **1,006,455** | **42,881** | **77,214** | **77,214** | **27,908** | **1,153,491** | **2,385,163** |
| **Group** | | | | | | | |
| At 1 January 1999 | | | | | | | |
| As previously reported | 1,006,455 | – | 80,968 | 80,968 | 29,786 | 360,243 | 1,558,420 |
| Effect of adopting IAS 37 (Note 2) | – | – | – | – | – | 503,836 | 503,836 |
| As adjusted | 1,006,455 | – | 80,968 | 80,968 | 29,786 | 864,079 | 2,062,256 |
| Transfer from reserves to retained profits | – | – | (3,754) | (3,754) | (1,878) | 9,386 | – |
| Consolidated profit attributable to shareholders | – | – | – | – | – | 84,289 | 84,289 |
| Transfer from retained profits to reserves (Note (d)) | – | – | 6,176 | 6,176 | – | (12,352) | – |
| At 31 December 1999 | 1,006,455 | – | 83,390 | 83,390 | 27,908 | 945,402 | 2,146,545 |
| **Company** | | | | | | | |
| At 1 January 1999 | | | | | | | |
| As previously reported | 1,006,455 | 42,881 | 80,968 | 80,968 | 29,786 | 504,235 | 1,745,293 |
| Effect of adopting IAS 37 (Note 2) | – | – | – | – | – | 503,836 | 503,836 |
| As adjusted | 1,006,455 | 42,881 | 80,968 | 80,968 | 29,786 | 1,008,071 | 2,249,129 |
| Transfer from reserves to retained profits | – | – | (3,754) | (3,754) | (1,878) | 9,386 | – |
| Profit attributable to shareholders | – | – | – | – | – | 36,524 | 36,524 |
| At 31 December 1999 | 1,006,455 | 42,881 | 77,214 | 77,214 | 27,908 | 1,053,981 | 2,285,653 |

**(a)** Pursuant to PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its profit attributable to shareholders, as determined under the PRC Accounting Regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory common reserve fund can be used to make good previous years' losses, if any, and to issue new shares to shareholders in proportion to their existing shareholdings or to increase the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

**(b)** Pursuant to PRC regulations and the Company's Articles of Association, the Company is required to transfer 5% to 10% of its profit attributable to shareholders, as determined under the PRC Accounting Regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employees. This fund is non-distributable other than in liquidation.

**(c)** The Company is allowed to transfer 5% of the profit attributable to shareholders as determined under the PRC Accounting Regulations, to discretionary common reserve. The transfer to this reserve is subject to the approval by shareholders at general meetings.

**(d)** The Company recorded a profit attributable to shareholders for the years ended 31 December 2000 as determined under the PRC Accounting Regulations. Pursuant to PRC regulations, the current year's profit should be used to make good previous years' losses before appropriation to reserve is made. Accordingly, no appropriation of current year's profits to reserves has been made for the year ended 31 December 2000. A subsidiary of the Group recorded a profit attributable to shareholders in accordance with the PRC Accounting Regulations for the year ended 31 December 2000 and the subsidiary's directors have resolved to transfer 10% of the profit attributable to shareholders to statutory common reserve fund and statutory common welfare fund respectively.

### 30. Deferred Taxation

As at 31 December 2000, the deferred tax assets/(liabilities) were made up of the taxation effects of the followings:-

| | 2000 Current RMB'000 | 2000 Non-current RMB'000 | 2000 Total RMB'000 | As restated 1999 Current RMB'000 | As restated 1999 Non-current RMB'000 | As restated 1999 Total RMB'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Deferred tax assets:- | | | | | | |
| Tax losses carried forward | **–** | **205,574** | **205,574** | – | 196,706 | 196,706 |
| Provision for obsolete flight equipment spare parts | **–** | **69,929** | **69,929** | – | 77,819 | 77,819 |
| Capitalised repair cost on flight equipment now expensed | **–** | **338,168** | **338,168** | – | 262,263 | 262,263 |
| Provision for post-retirement benefits | **7,079** | **167,893** | **174,972** | 7,079 | 133,873 | 140,952 |
| Provision for sales of staff quarters | **–** | **126,120** | **126,120** | – | 102,300 | 102,300 |
| Provision for staff housing allowance | **26,459** | **–** | **26,459** | – | – | – |
| Other accrued expenses | **143,949** | **–** | **143,949** | 161,166 | – | 161,166 |
| | **177,487** | **907,684** | **1,085,171** | 168,245 | 772,961 | 941,206 |
| Less: valuation allowance | **–** | **(190,093)** | **(190,093)** | – | (187,641) | (187,641) |
| | **177,487** | **717,591** | **895,078** | 168,245 | 585,320 | 753,565 |
| Deferred tax liabilities:- | | | | | | |
| Provision for overhaul | **–** | **(239,810)** | **(239,810)** | – | (187,362) | (187,362) |
| Depreciation and amortisation | **–** | **(1,185,888)** | **(1,185,888)** | – | (1,034,311) | (1,034,311) |
| Goodwill | **–** | **(33,593)** | **(33,593)** | – | (35,459) | (35,459) |
| | **–** | **(1,459,291)** | **(1,459,291)** | – | (1,257,132) | (1,257,132) |
| Less: valuation allowance | **–** | **5,415** | **5,415** | – | 21,498 | 21,498 |
| | **–** | **(1,453,876)** | **(1,453,876)** | – | (1,235,634) | (1,235,634) |
| Deferred tax assets/(liabilities), net | **177,487** | **(736,285)** | **(558,798)** | 168,245 | (650,314) | (482,069) |
| **Company** | | | | | | |
| Deferred tax assets:- | | | | | | |
| Tax losses carried forward | **–** | **170,466** | **170,466** | – | 141,044 | 141,044 |
| Provision for obsolete flight equipment spare parts | **–** | **74,493** | **74,493** | – | 78,370 | 78,370 |
| Capitalised repair cost on flight equipment now expensed | **–** | **340,271** | **340,271** | – | 264,366 | 264,366 |
| Provision for post-retirement benefits | **7,079** | **164,066** | **171,145** | 7,079 | 133,873 | 140,952 |
| Provision for sales of staff quarters | **–** | **101,970** | **101,970** | – | 82,500 | 82,500 |
| Provision for staff housing allowance | **25,805** | **–** | **25,805** | – | – | – |
| Other accrued expenses | **109,923** | **–** | **109,923** | 126,627 | – | 126,627 |
| | **142,807** | **851,266** | **994,073** | 133,706 | 700,153 | 833,859 |
| Less: valuation allowance | **–** | **(101,970)** | **(101,970)** | – | (82,500) | (82,500) |
| | **142,807** | **749,296** | **892,103** | 133,706 | 617,653 | 751,359 |
| Deferred tax liabilities:- | | | | | | |
| Provision for overhaul | **–** | **(234,395)** | **(234,395)** | – | (165,864) | (165,864) |
| Depreciation and amortisation | **–** | **(1,185,888)** | **(1,185,888)** | – | (1,034,311) | (1,034,311) |
| Goodwill | **–** | **(33,593)** | **(33,593)** | – | (35,459) | (35,459) |
| | **–** | **(1,453,876)** | **(1,453,876)** | – | (1,235,634) | (1,235,634) |
| Deferred tax assets/(liabilities), net | **142,807** | **(704,580)** | **(561,773)** | 133,706 | (617,981) | (484,275) |

Movement in net deferred taxation liability is as follows:-

| | Group | | Company | |
|---|---|---|---|---|
| | | As restated | | As restated |
| | **2000** | 1999 | **2000** | 1999 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **482,069** | 454,888 | **484,275** | 454,888 |
| Deferred tax (Note 10(a)) | **76,729** | 27,181 | **77,498** | 29,387 |
| At 31 December | **558,798** | 482,069 | **561,773** | 484,275 |

As at 31 December 2000, two subsidiaries had net operating losses carried forward totalling RMB177,448,000 (1999: RMB193,466,000) available to setoff against future taxable income, with approximately RMB99,691,000 (1999: RMB96,945,000) expiring between 2001 and 2005. The available tax losses totalling RMB177,448,000 (1999: RMB193,466,000) can only be used by the same subsidiary companies. For the year ended 31 December 2000, the Group provided valuation allowance of RMB190,093,000 (1999: RMB187,641,000) and RMB5,415,000 (1999: RMB21,498,000) respectively against the related deferred tax assets, arising mainly from the tax losses of the subsidiary companies and the timing differences in the recognition of provision for sales of staff quarters, and deferred tax liabilities, arising from the timing differences in the recognition of provision for overhaul, which were not expected to be realised in the foreseeable future.

**31. Minority Interests**

| | Group | |
|---|---|---|
| | **2000** | 1999 |
| | **RMB'000** | RMB'000 |
| At 1 January | **176,739** | 25,057 |
| Share of profits/losses of subsidiaries | **29,242** | 16,682 |
| Capital injection from minority shareholder | **17,900** | 135,000 |
| At 31 December | **223,881** | 176,739 |

**32. Notes to the Consolidated Cash Flow Statements**

**(a) Analysis of the balances of cash and cash equivalents**

| | **2000** | 1999 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Short-term deposits and bank balances | **1,284,373** | 957,854 |
| Deposits with related companies | **188,302** | 364,166 |
| Less: short-term deposits with original maturities over three months | **(49,784)** | (6,848) |
| | **1,422,891** | 1,315,172 |

**(b) Supplementary information**

| | **2000 RMB'000** | 1999 RMB'000 |
|---|---|---|
| Interest received, net of amortisation of bond discount | **132,163** | 170,759 |
| Interest paid, net of amount capitalised | **981,227** | 1,168,595 |
| Income tax paid | **26,919** | 64 |
| Investing activities not affecting cash: | | |
| Discounts on aircraft acquisition used for purchases of flight equipment and spare parts | **110,789** | 14,374 |
| Financing activities not affecting cash: | | |
| Finance lease obligations incepted for purchases of aircraft | **1,202,051** | 1,060,986 |

**33. Retirement Benefit Plans and Post-Retirement Benefits**

**(a) Defined contribution retirement scheme**

Substantially all of the Group's employees are eligible to participate in the Group's retirement schemes. The Group participates in defined contribution retirement schemes organised by the municipal governments of the various provinces in which the Group operates. The Group is required to make annual contributions to the schemes at a rate of 13% of salary costs including certain allowances calculated in the prior year. Employees contribute approximately 6% of their basic salary. The Group has no other material obligation for the payment of retirement benefits beyond the annual contributions under these schemes. For the year ended 31 December 2000, the Group's pension cost charged to the profit and loss account under the schemes amounted to RMB25,232,000 (1999: RMB21,597,000).

**(b) Post retirement benefits**

In addition to the retirement schemes above, the Group provides retirees with post-retirement benefits including medical benefits, transportation subsidies, social function activities subsidies as well as other welfare. The expected cost of providing these post-retirement benefits under the Group's defined benefit plan is actuarially determined and recognised over the employees service period by using the projected unit credit method. The projected unit credit method involves a number of assumptions and estimates including the rate of inflation, discount rate, employees' turnover ratio as well as mortality rate. The transitional obligation arising from the first adoption of IAS 19 (Revised) by the Group in 1997 has been recognised on a straight line basis over a period of five years.

(i) As at 31 December 2000, the post-retirement benefit obligations recognised in the balance sheets of the Group and the Company were as follows:-

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2000 RMB'000** | 1999 RMB'000 | **2000 RMB'000** | 1999 RMB'000 |
| Present value of unfunded post-retirement benefit obligations | | **613,820** | 570,838 | **550,347** | 570,838 |
| Unrecognised transitional obligation | (iv) | **(61,656)** | (123,312) | **(61,656)** | (123,312) |
| | | **552,164** | 447,526 | **488,691** | 447,526 |
| Payments made in the year | | **(14,079)** | (19,500) | **(11,334)** | (19,500) |
| Post-retirement benefit obligations | | **538,085** | 428,026 | **477,357** | 428,026 |
| Less: current portion | 23 | **(15,550)** | (21,450) | **(12,515)** | (21,450) |
| Post-retirement benefit obligations - long- term portion | | **522,535** | 406,576 | **464,842** | 406,576 |

(ii) Changes in post-retirement benefits obligations during the year were as follows:-

| | Group | | Company | |
|---|---|---|---|---|
| | **2000 RMB'000** | 1999 RMB'000 | **2000 RMB'000** | 1999 RMB'000 |
| At 1 January | **428,026** | 205,899 | **428,026** | 205,899 |
| Current service cost | **33,060** | 31,943 | **33,060** | 31,943 |
| Interest on obligation | **29,422** | 34,923 | **29,422** | 34,923 |
| Transitional obligation recognised in the year (Note (iv)) | **61,656** | 61,656 | **61,656** | 61,656 |
| Payment made in the year | **(14,079)** | (19,500) | **(11,334)** | (19,500) |
| Acquisition of passenger carriage business | **–** | 113,105 | **–** | 113,105 |
| Transfer to subsidiaries | **–** | – | **(63,473)** | – |
| At 31 December | **538,085** | 428,026 | **477,357** | 428,026 |

(iii) The costs of post-retirement benefits recognised under wages, salaries and benefits in the consolidated profit and loss account for the year were as follows:-

| | | Group | |
|---|---|---|---|
| | Note | **2000 RMB'000** | 1999 RMB'000 |
| Current service cost | | **33,060** | 31,943 |
| Interest on obligation | | **29,422** | 34,923 |
| Transitional obligation recognised in the year | (iv) | **61,656** | 61,656 |
| Total included in wages, salaries and benefits | 5 | **124,138** | 128,522 |

(iv) The transitional obligation recognised in the year ended 31 December 2000 amounted to RMB61,656,000 (1999: RMB61,656,000) and the remaining unrecognised transitional obligation as at 31 December 2000 represented one-fifth (1999: two-fifth) of the total transitional obligation.

(v) Principal actuarial assumptions at the balance sheet date were as follows:-

| | **2000** | 1999 |
|---|---|---|
| Discount rate | **8.2%** | 8.2% |
| Annual rate of increase of per capita benefit payment | **3.5%** | 3.5% |
| Employees turnover rate | **3.5%** | 4.3% |

**34. Staff Housing Benefits**

**(a) Staff quarters**

In the past, employees who are married and have served the Group for four years or more can apply to acquire staff quarters. The Group has constructed staff quarters in the past few years and started to allocate these quarters to employees at a substantial discount in the year ended 31 December 2000. Provision representing the foreseeable loss on the disposal has already been provided in the previous years. As at 31 December 2000, certain staff quarters were under construction and the accumulated construction cost and corresponding provision on these quarters included in the Group's consolidated balance sheet amounted to approximately RMB357 million (1999: RMB417 million) and RMB289 million (1999: RMB310 million) respectively. For the year ended 31 December 2000, further provision of RMB76 million arising from additional construction cost has been recognised and included in other operating expenses in the consolidated profit and loss account.

**(b) Staff housing cash allowance**

In 1998, the State Council of the PRC issued a circular which stipulated that the distribution of quarters to employees at discounted prices should be withdrawn. In 2000, the State Council further issued a circular stating that cash allowance should be made to the employees following the withdrawal of distribution of staff quarters. In respect of the eligible staff who have not been allocated with any quarters or who have not been allocated with a quarter up to the minimum area as set out by the government, they are entitled to an one-off cash allowance. However, the specific timetable and procedures of implementation of these policies are to be determined by individual provincial or municipal government based on the particular situation of the province or municipality.

As at the date of approval of the financial statements, only certain provincial governments have promulgated the detailed procedures for implementation of the above policies while Shanghai Municipal Government has yet to announce the details. With reference to the procedures already set out by the provincial governments, the one-off cash allowance is calculated based on the number of years of service of the eligible employees. Based on the present information available, the Company's Directors estimated that the required provision for the one-off staff housing cash allowance amounted to approximately RMB80 million which was included in other operating expenses in the consolidated profit and loss account for the year ended 31 December 2000.

## 35. Commitments and Contingent Liabilities

### (a) Capital commitments

As at 31 December 2000, the Group and the Company had the following capital commitments:

| | Group | | Company | |
|---|---|---|---|---|
| | **2000** | 1999 | **2000** | 1999 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Authorised and contracted for: | | | | |
| - Aircraft and related equipment | **10,092,671** | 11,466,474 | **10,092,671** | 11,466,474 |
| - Other | **423,857** | 483,893 | **398,097** | 268,936 |
| | **10,516,528** | 11,950,367 | **10,490,768** | 11,735,410 |
| Authorised but not contracted for: | | | | |
| - Aircraft and related equipment | – | – | – | – |
| - Other | **1,057,620** | 797,538 | **1,380,120** | 787,438 |
| | **1,057,620** | 797,538 | **1,380,120** | 787,438 |
| | **11,574,148** | 12,747,905 | **11,870,888** | 12,522,848 |

The above commitments mainly included amounts for acquisition of three A-320 and five A-340 Airbuses for delivery between 2000 and 2004.

Committed expenditures for the above aircraft and related equipment, including deposits prior to delivery, subject to an inflation increase built in the contracts and any discounts available upon delivery of the aircraft, were expected to be paid as follows:-

| | Group and Company |
|---|---|
| | **2000** |
| | **RMB'000** |
| 2001 | **2,161,120** |
| 2002 | **1,708,458** |
| 2003 | **4,204,975** |
| 2004 | **2,018,118** |
| | **10,092,671** |

**(b) Operating lease commitments**

As at 31 December 2000, the Group and the Company had commitments under operating leases to pay future minimum lease rentals as follows:-

| | **2000** | | 1999 | |
|---|---|---|---|---|
| | **Aircraft and flight equipment RMB'000** | **Land and buildings RMB'000** | Aircraft and flight equipment RMB'000 | Land and buildings RMB'000 |
| **Group** | | | | |
| Within one year | **916,043** | **65,845** | 701,794 | 62,795 |
| In the second year | **1,039,057** | **10,654** | 838,051 | 18,761 |
| In the third to fifth year inclusive | **3,717,879** | **22,571** | 3,536,859 | 28,423 |
| After the fifth year | **5,976,513** | **19,050** | 7,198,146 | 25,058 |
| | **11,649,492** | **118,120** | 12,274,850 | 135,037 |
| **Company** | | | | |
| Within one year | **545,726** | **64,159** | 540,679 | 59,879 |
| In the second year | **606,649** | **10,422** | 676,936 | 16,557 |
| In the third to fifth year inclusive | **2,316,117** | **22,320** | 3,053,513 | 24,218 |
| After the fifth year | **3,570,624** | **19,050** | 6,309,585 | 25,058 |
| | **7,039,116** | **115,951** | 10,580,713 | 125,712 |

**(c) Contingent liabilities**

As at 31 December 2000, the Group had provided a guarantee to a bank in respect of bank facilities granted to Nanjing Lu Kou International Airport Company ("Lu Kou International Airport"), a third party, amounting to RMB150,000,000 (1999: RMB150,000,000). In addition, the Group had provided a guarantee to Citic Securities Co. Ltd. in respect of a 3-year company debenture issued by Jiangsu Aviation Property Group Co. Ltd., the holding company of Lu Kou International Airport, amounting to RMB160,000,000 (1999: RMB160,000,000).

## 36. Segmental Reporting

### (a) Business segments

The Group operates in one business segment which is the common carriage of passengers, cargo and mail over various routes.

### (b) Geographical segments

The Group's turnover and operating profit/loss by geographical segments are analysed as follows:

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | Domestic RMB'000 | Hong Kong RMB'000 | Japan RMB'000 | Other countries* RMB'000 | Total RMB'000 |
| **2000** | | | | | |
| **Traffic revenues** | **4,184,310** | **2,104,908** | **1,586,071** | **2,893,199** | **10,768,488** |
| **Other operating revenues** | **451,575** | **–** | **–** | **–** | **451,575** |
| **Turnover** | **4,635,885** | **2,104,908** | **1,586,071** | **2,893,199** | **11,220,063** |
| **Operating profit/(loss)** | **88,237** | **485,001** | **277,732** | **(72,718)** | **778,252** |
| 1999 (as restated) | | | | | |
| Traffic revenues | 4,278,044 | 1,916,852 | 1,280,537 | 2,286,042 | 9,761,475 |
| Other operating revenues | 401,796 | – | – | – | 401,796 |
| Turnover | 4,679,840 | 1,916,852 | 1,280,537 | 2,286,042 | 10,163,271 |
| Operating profit/(loss) | 267,018 | 518,728 | 283,347 | (147,151) | 921,942 |

* includes U.S., Europe and other Asian countries

The major revenue-earning assets of the Group are its aircraft fleet, all of which are registered in the PRC. Since the Group's aircraft fleet is deployed flexibly across its route network, there is no suitable basis of allocating such assets and the related liabilities to geographical segments.

## 37. Related Party Transactions

In the normal course of business, the Group had the following material transactions with its related parties during the year ended 31 December 2000:-

| Nature of transaction | | Related party | Revenue/ (Expenses or payments) 2000 RMB'000 | 1999 RMB'000 |
|---|---|---|---|---|
| (a) | **With CAAC and its affiliates :-** | | | |
| | Commission income on carriage service provided by other airlines with air tickets sold by the Group at fixed rates ranging from 3% to 9% of value of tickets sold | PRC airlines | **17,495** | 23,348 |
| | Take-off and landing fees charged at predetermined scale of rates published by CAAC | PRC airports | **(512,559)** | (571,162) |
| | Purchase of aircraft fuel at state controlled prices | Civil Aviation Oil Supply Company | **(1,458,378)** | (1,062,694) |
| | Commission expenses on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of value of tickets sold | - CAAC<br>- PRC airlines | **(95,343)**<br>**(9,646)** | (65,451)<br>(8,029) |
| | Ticket reservation service charges for utilisation of computer reservation system | CAAC | **(55,800)** | (52,180) |
| | Civil aviation infrastructure levies collected on behalf of CAAC and calculated at the rates of 5% and 2% of the Group's annual gross domestic and international traffic revenues respectively | CAAC | **(374,196)** | (333,949) |
| | Purchase of aircraft, flight equipment, flight equipment spare parts and other fixed assets, and repair of aircraft inclusive of handling charges of 0.026% to 0.15% | Civil Aviation Supply Company | **(1,600)** | (115,123) |
| | Aircraft insurance premium paid through CAAC who entered into the insurance policy on behalf of the Group | CAAC | **(57,939)** | (66,978) |

| Nature of transaction | | Related party | Revenue/ (Expenses or payments) 2000 RMB'000 | 1999 RMB'000 |
|---|---|---|---|---|
| **(b)** | **With EA Group or companies directly or indirectly held by EA Group:-** | | | |
| | Interest income on loans and deposits at rates ranging from 1.04% to 6.21% per annum (1999: 2.6% to 9.36% per annum) | EAGF | **2,724** | 6,065 |
| | | EA Group | **3,242** | 3,290 |
| | Commission expenses on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of value of tickets sold | - Shanghai Tourism Company (Hong Kong) Limited | **(7,494)** | (4,198) |
| | | - various subsidiaries of EA Group | **(62,259)** | (80,650) |
| | Interest expenses on loans at rates ranging from 5.30% to 5.58% per annum (1999: 5.58% to 6.12% per annum) | EAGF | **(6,154)** | (15,851) |
| | Purchase of aircraft, flight equipment,flight equipment spare parts and other fixed assets, and repair of aircraft inclusive of handling charges of 0.1% to 2% | EAIEC | **(1,157,483)** | (1,777,565) |
| | Repairs and maintenance expenses payable for ground service facilities | Shanghai Eastern Air Industrial Corporation ("SEAIC") | **(26,258)** | (19,965) |
| | Source of food and beverages and cabin supplies | - Eastern Air (Santou) Economic Development Co. Ltd. | **(71,350)** | (32,039) |
| | | - SEAC | **(96,571)** | (125,747) |
| | | - SEAIC | **(7,405)** | (51,104) |
| | | - Qilu Eastern Air Catering Co. Ltd. | **(4,982)** | (4,662) |
| | | - Qingdao Air Service Co. Ltd. | **(7,341)** | (4,510) |
| | Advertising expenses | Eastern Aviation Advertising Service Company | **(16,762)** | (5,364) |

| Nature of transaction | | Related party | Revenue/ (Expenses or payments) 2000 RMB'000 | 1999 RMB'000 |
|---|---|---|---|---|
| **(b)** | **With EA Group or companies directly or indirectly held by EA Group:- (Cont'd)** | | | |
| | Purchase of aviation equipment | Shanghai Eastern Aviation Equipment Manufacturing Corporation | **(21,010)** | (17,003) |
| | Inflight hygiene and cleaning service expenses | Shanghai Eastern General Corporation | **(14,392)** | (15,528) |
| | Printing expenses | Shanghai Aviation Printing Co., Ltd. | **(6,062)** | (6,784) |
| | Rental expenses | Shanghai Eastern Aviation Equipment Manufacturing Corporation | **(5,194)** | (4,833) |
| | Leases of aircraft and other fixed assets | EA Group | **–** | (28,499) |
| **(c)** | **With COSCOF: –** | | | |
| | Interest income on deposits at a rate of 1.71% per annum | COSCOF | **500** | 650 |

The Directors of the Company are of the opinion that the above transactions were entered into in the normal course of business and on normal commercial terms or in accordance with the agreements governing such transactions. This has been confirmed by the non-executive directors.

As at 31 December 2000, the Group had balances with related companies, details of which are disclosed in Notes 17 and 20. In addition, guarantees were given by EA Group in respect of the Group's long-term bank loans (see Note 26), and guarantees were given by the Company to a subsidiary of the Group, China Cargo Airlines Ltd., in respect of a short-term bank loan (see Note 27).

Subsequent to the balance sheet date, the Group acquired from EA Group and its subsidiaries shareholding in EAGF, details of which are disclosed in Note 40(a).

## 38. Financial Assets and Financial Liabilities

Financial assets of the Group include short term deposits and bank balances, deposits with and amounts due from related companies, trade receivables, long term loans to ultimate holding company, long term receivables and deposits. Financial liabilities of the Group include bank and other loans, obligations under finance leases, amounts due to related companies, trade payables and other payables. Accounting policies for financial assets and financial liabilities are set out in Note 3(r). The Group does not hold or issue financial instruments for trading purposes.

**(a) Business risk**

The Group conducts its principal operations in the PRC and accordingly is subject to special consideration and significant risks not typically associated with companies in the United States of America and Western Europe. These include risks associated with, among others, the political, economic and legal environment, influence of CAAC over many aspects of the Group's operations, and competition, in the passenger, cargo and mail airlines services industry. The influence of CAAC includes the pricing on air tickets, determination of civil aviation infrastructure levy rates for both international and domestic routes, take-off and landing charges of certain PRC airports, commission rates and the adjustment on fuel prices for the domestic segment.

**(b) Price risk**

The Group's results of operations may be significantly affected by the fluctuation of the fuel prices which is a major expense category. While the international fuel prices are determined by world wide market demand and supply, domestic fuel prices are regulated by CAAC. The Group does not undertake financial instruments to hedge fuel price risk.

**(c) Interest rate risk**

The interest rates and terms of repayment of loans made to and by the Group are disclosed in Notes 17, 20, 25, 26 and 27.

**(d) Credit risk**

(i) Cash and Bank balances

Substantially all the Group's cash and bank balances are placed with a number of international and PRC banks and a related company, EAGF. Details of deposits placed with EAGF has been disclosed in Note 20(b).

(ii) Trade receivables

These are mainly tickets sales receivable from sales agents and receivables related to uplifts by CEA on behalf of other carriers which are spread among numerous third parties.

(iii) Other receivables

These are spread among numerous third parties.

(iv) Amounts due from the holding company and related companies

Separate notes in relation to such balances are disclosed in Notes 17 and 20(a) respectively.

(v) Receivable due under subleases

The Group subleases certain aircraft, details of which are disclosed in Note 25(b).

The carrying amount of financial assets best represent their maximum credit risk exposure at the balance sheet date.

**(e) Foreign currency risk**

The Group's finance lease obligation as well as certain bank and other loans are denominated in US dollars, Japanese yen and Deutsche mark and certain expenses of the Group are denominated in currencies other than Renminbi. The Group generates foreign currency revenues from ticket sales made in overseas offices and would normally generate sufficient foreign currencies after payment of foreign currency expenses, to meet its foreign currency liabilities repayable within one year. The Group is unable to hedge its foreign currency exposure fully other than by retaining those foreign currency earnings and receipts to the extent permitted by the State Administration of Exchange Control.

Renminbi against US dollars had been comparatively stable in the past. However, Renminbi against Japanese yen and Deutsche mark had experienced a significant level of fluctuation over the past two years, particularly the Japanese yen, which is the major reason for the significant exchange gain recognised by the Group for the year ended 31 December 2000.

**(f) Fair Value**

The carrying amounts and estimated fair value of the Group's long term bank loans at 31 December 2000 are set out as follows:-

| | **Group and Company** |
|---|---|
| | **RMB'000** |
| Carrying amounts | **4,804,195** |
| Estimated fair value | **4,678,214** |

The fair value of the long term loans is estimated by applying a discounted cash flow approach using current market interest rates for similar indebtedness. The fair value is not materially different from the carrying amount.

The fair value of cash and bank balances, trade receivables, other receivables, amounts due from and amounts due to related companies and holding company, trade payables, other payables, obligations under finance leases and short term loans are not materially different from their carrying amounts.

Investments in subsidiaries represent unquoted equity interests in companies established in the PRC. There is no quoted market price for such interests and accordingly a reasonable estimate of their fair value could not be made without incurring excessive costs.

Fair value estimates are made at specific point in time and are based on relevant market information. This estimate is subjective in nature and involves uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in valuation methods and assumptions could significantly affect the estimates.

## 39. Ultimate Holding Company

The Directors regard EA Group, a company established in the PRC, as being the ultimate holding company.

## 40. Post Balance Sheet Date Events

### (a) Investment

Subsequent to the balance sheet date, the Company acquired from EA Group 25% of its shareholding in EAGF at a consideration of RMB106,364,000, representing the share of the fair value of the net assets acquired.

### (b) Proposed dividend

Subsequent to the balance sheet date, on 9 April 2001, the Board of Directors proposed a dividend of RMB0.02 per share (1999: Nil) totalling RMB97,339,000. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2001.

## 41. Approval of Accounts

The accounts were approved by the Board of Directors on 9 April 2001.