

# Report of the Independent International Auditors



**To the members of China Eastern Airlines Corporation Limited**

*(established in the People's Republic of China with limited liability)*

We have audited the accompanying balance sheets of China Eastern Airlines Corporation Limited (the "Company") and its subsidiaries (the "Group") as at 31 December 2001, and the consolidated profit and loss account and cash flow statement for the year then ended. These financial statements set out on pages 47 to 104 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2001, and of the results of the Group's operations and cash flows for the year then ended in accordance with International Accounting Standards, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 8 April 2002

# Consolidated Profit and Loss Account

(Prepared in accordance with International Accounting Standards)

Year ended 31 December 2001

	Note	2001 RMB'000	2000 RMB'000
Traffic revenues			
Passenger		<b>9,586,941</b>	8,644,260
Cargo and mail		<b>2,091,669</b>	2,124,228
Other operating revenues		<b>474,198</b>	451,575
Turnover	3	<b>12,152,808</b>	11,220,063
Operating expenses			
Wages, salaries and benefits	4	<b>772,896</b>	797,594
Take-off and landing charges		<b>1,702,899</b>	1,572,216
Aircraft fuel		<b>2,613,187</b>	2,327,388
Food and beverages		<b>567,168</b>	498,640
Aircraft depreciation and operating leases		<b>2,403,752</b>	2,167,539
Other depreciation, amortisation and operating leases		<b>358,120</b>	320,792
Aircraft maintenance		<b>966,750</b>	820,405
Commissions		<b>487,009</b>	645,482
Office and administration		<b>849,217</b>	724,046
Other		<b>557,139</b>	567,709
Total operating expenses		<b>11,278,137</b>	10,441,811
Operating profit		<b>874,671</b>	778,252
Interest expense, net	5	<b>(814,375)</b>	(814,486)
Other income, net	6	<b>248,741</b>	340,642
Share of profit of an associated company	17	<b>4,546</b>	–
Profit before taxation	7	<b>313,583</b>	304,408
Taxation	9(a)	<b>261,454</b>	(99,637)
Profit after taxation		<b>575,037</b>	204,771
Minority interests	32	<b>(33,324)</b>	(29,242)
Profit attributable to shareholders		<b>541,713</b>	175,529
Basic earnings per share	10	<b>RMB0.111</b>	RMB0.036

# Consolidated Balance Sheet

(Prepared in accordance with International Accounting Standards)

As at 31 December 2001

	Note	2001 RMB'000	2000 RMB'000
Goodwill and negative goodwill	12	42,909	101,795
Land use rights	13	1,231,505	840,612
Fixed assets	14	20,222,680	19,961,682
Construction in progress	15	347,406	476,251
Investment in an associated company	17	109,527	—
Advances on aircraft and flight equipment		1,141,576	551,823
Long-term loan to ultimate holding company		—	44,402
Derivative assets	39(e)	5,396	—
Other long-term receivables and investments	18	1,985,554	2,172,302
Deferred tax assets	30	489,375	895,078
Current assets			
Flight equipment spare parts less allowance for obsolescence (2001: RMB314,174,000; 2000: RMB293,022,000)		464,833	376,003
Trade receivables less allowance for doubtful accounts (2001: RMB59,828,000; 2000: RMB39,273,000)	19	785,834	1,246,826
Amounts due from related companies	20(a)	35,544	76,151
Prepayments and other receivables	21	742,511	719,433
Current portion of receivable under subleases		—	84,246
Short-term deposits with an associated company	20(b)	281,362	188,302
Tax recoverable		—	7,861
Cash and bank balances		1,099,630	1,284,373
		3,409,714	3,983,195
Current liabilities			
Trade payables	22	48,117	76,978
Sales in advance of carriage		645,626	697,260
Amounts due to related companies	20(a)	369,226	261,043
Other payables and accrued expenses	23	1,918,154	1,665,861
Current portion of obligations under finance leases	25(a)	1,935,672	1,117,583
Current portion of long-term bank loans	26	361,236	422,788
Tax payable		6,949	—
Short-term bank loans	27	1,287,642	600,000
		6,572,622	4,841,513
Net current liabilities		(3,162,908)	(858,318)
Total assets less current liabilities		22,413,020	24,185,627

## Consolidated Balance Sheet

(Prepared in accordance with International Accounting Standards)

As at 31 December 2001

	Note	2001 RMB'000	2000 RMB'000
Share capital	28	4,866,950	4,866,950
Reserves	29	2,771,844	2,322,074
Total capital and reserves		7,638,794	7,189,024
Minority interests	32	257,205	223,881
Deferred tax liabilities	30	780,419	1,453,876
Accrued aircraft overhaul expenses	24	193,003	224,305
Post-retirement benefit obligations	33(b)	507,141	522,535
Obligations under finance leases	25(a)	7,935,679	10,190,599
Long-term portion of other payable	31	161,448	–
Long-term bank loans	26	4,939,331	4,381,407
		<b>22,413,020</b>	24,185,627

**Ye Yigan**

Director

**Liu Shaoyong**

Director

# Balance Sheet

(Prepared in accordance with International Accounting Standards)  
As at 31 December 2001

	Note	2001 RMB'000	2000 RMB'000
Goodwill and negative goodwill	12	42,909	101,795
Land use rights	13	769,072	360,353
Fixed assets	14	19,373,619	19,065,191
Construction in progress	15	190,394	408,277
Investments in subsidiaries	16	1,193,174	1,176,914
Investment in an associated company	17	106,364	–
Advances on aircraft and flight equipment		1,141,576	551,823
Long-term loan to ultimate holding company		–	44,402
Derivative assets	39(e)	5,396	–
Other long-term receivables and investments	18	1,944,976	2,129,966
Deferred tax assets	30	470,385	892,103
Current assets			
Flight equipment spare parts less allowance for obsolescence (2001: RMB305,382,000; 2000: RMB283,337,000)		416,276	330,633
Trade receivables less allowance for doubtful accounts (2001: RMB58,875,000; 2000: RMB37,277,000)	19	532,516	840,056
Amounts due from related companies	20(a)	30,454	69,849
Prepayments and other receivables	21	652,374	675,369
Current portion of receivable under subleases		–	84,246
Short-term deposits with an associated company	20(b)	266,741	130,699
Tax recoverable		–	89
Short-term deposits and bank balances		723,397	909,409
		2,621,758	3,040,350
Current liabilities			
Trade payables	22	48,068	76,474
Sales in advance of carriage		606,676	645,915
Amounts due to related companies	20(a)	312,821	164,731
Other payables and accrued expenses	23	1,640,185	1,262,098
Current portion of obligations under finance leases	25(a)	1,935,672	1,117,583
Current portion of long-term bank loans	26	361,236	422,788
Tax payable		1,755	–
Short-term bank loans	27	982,642	200,000
		5,889,055	3,889,589
Net current liabilities		(3,267,297)	(849,239)
Total assets less current liabilities		21,970,568	23,881,585

## Balance Sheet

(Prepared in accordance with International Accounting Standards)  
As at 31 December 2001

	Note	2001 RMB'000	2000 RMB'000
Share capital	28	<b>4,866,950</b>	4,866,950
Reserves	29	<b>2,763,648</b>	2,385,163
Total capital and reserves		<b>7,630,598</b>	7,252,113
Deferred tax liabilities	30	<b>765,251</b>	1,453,876
Accrued aircraft overhaul expenses	24	<b>102,403</b>	138,748
Post-retirement benefit obligations	33(b)	<b>435,858</b>	464,842
Obligations under finance leases	25(a)	<b>7,935,679</b>	10,190,599
Long-term portion of other payable	31	<b>161,448</b>	–
Long-term bank loans	26	<b>4,939,331</b>	4,381,407
		<b>21,970,568</b>	23,881,585

**Ye Yigan**  
Director

**Liu Shaoyong**  
Director

# Consolidated Cash Flow Statement

(Prepared in accordance with International Accounting Standards)

Year ended 31 December 2001

	2001 RMB'000	2000 RMB'000
<b>Cash flows from operating activities</b>		
Profit attributable to shareholders	541,713	175,529
<b>Adjustments to reconcile net profit to net cash provided by operating activities:</b>		
Amortisation of goodwill and negative goodwill	3,641	5,655
Amortisation of land use rights	26,615	17,243
Depreciation of fixed assets	1,719,777	1,619,085
Interest accrued on a long-term payable	6,693	–
Amortisation of value added tax	15,832	15,831
Amortisation of bond discount	(37,355)	(34,578)
Share of profits after tax of an associated company	(3,163)	–
Write back of provision for post-retirement benefits upon curtailment of medical benefits	(95,975)	–
Provision for post-retirement benefits	78,953	110,059
Provision for sale of staff quarters	–	76,000
Provision for doubtful debts	51,180	7,191
Allowance for obsolescence of flight equipment spare parts	21,152	932
Foreign exchange gains	(122,614)	(145,808)
Gains on disposals of aircraft and flight equipment	(1,866)	(112,076)
Losses on disposals of other fixed assets	10,643	6,130
Minority interests	33,324	29,242
(Write back)/provision for deferred taxation	(267,754)	76,729
<b>Movements in:</b>		
Long-term portion of accrued aircraft overhaul expenses	(31,302)	111,017
Trade receivables	468,554	(187,551)
Flight equipment spare parts	(86,938)	44,851
Amounts due from related companies	40,607	13,379
Prepayments and other receivables	(41,667)	159,195
Trade payables	(83,784)	2,561
Amounts due to related companies	108,183	(236,246)
Sales in advance of carriage	(90,927)	159,954
Tax recoverable/payable	14,810	(4,011)
Other payables and accrued expenses	123,085	219,347
	<b>1,859,704</b>	<b>1,954,131</b>
<b>Net cash inflow from operating activities</b>	<b>2,401,417</b>	<b>2,129,660</b>

## Consolidated Cash Flow Statement

(Prepared in accordance with International Accounting Standards)

As at 31 December 2001

	Note	2001 RMB'000	2000 RMB'000
<b>Cash flows from investing activities:</b>			
Acquisition of land use rights		(64,673)	(277,926)
Additions of aircraft and flight equipment		(1,024,205)	(236,642)
Acquisition of a passenger carriage business	35(b)	24,008	–
Proceeds on disposals of aircraft, flight equipment, other fixed assets and equipment		73,358	325,844
Additions of buildings, other fixed assets and equipment		(229,703)	(173,923)
Additions of construction in progress		(370,647)	(540,278)
Investment in an associated company		(106,364)	–
Advances on aircraft and flight equipment		(991,800)	(630,241)
Repayments of advances on aircraft and flight equipment		61,514	275,759
Net increase in short-term deposits with original maturities over three months		(228)	(42,936)
Decrease in long-term bank deposits		74,358	128,425
Repayment of loan to ultimate holding company		–	15,617
<b>Net cash outflow from investing activities</b>		<b>(2,554,382)</b>	<b>(1,156,301)</b>
<b>Cash flows from financing activities:</b>			
Repayment of amount due to ultimate holding company		(15,598)	–
Short-term bank loans		2,037,642	1,250,000
Repayments of short-term bank loans		(1,350,000)	(1,065,586)
Long-term bank loans		1,305,643	1,100,000
Repayments of long-term bank loans		(824,284)	(1,001,486)
Principal repayments of finance lease obligations		(1,157,179)	(1,152,459)
Receipts of amounts due under subleases		84,246	195,901
Loans from an associated company		50,000	340,000
Repayments of loans from an associated company		(50,000)	(530,000)
Capital injection from a minority shareholder		–	17,900
<b>Net cash inflow / (outflow) from financing activities</b>		<b>80,470</b>	<b>(845,730)</b>
<b>Net cash (outflow) / inflow</b>		<b>(72,495)</b>	<b>127,629</b>
<b>Cash and cash equivalents at 1 January</b>		<b>1,422,891</b>	<b>1,315,172</b>
<b>Exchange adjustment</b>		<b>(19,416)</b>	<b>(19,910)</b>
<b>Cash and cash equivalents at 31 December</b>	35(a)	<b>1,330,980</b>	<b>1,422,891</b>



# Statement of Changes in Shareholder's Equity

(Prepared in accordance with International Accounting Standards)

Year ended 31 December 2001

	Share capital (note 28) RMB'000	Reserves (note 29) RMB'000	Retained profits (note 29) RMB'000	Total RMB'000
<b>Group</b>				
At 1 January 2001	4,866,950	1,223,227	1,098,847	7,189,024
Consolidated profit attributable to shareholders	–	–	541,713	541,713
Unrealised gain on foreign currency forward contracts (note 39(e))	–	5,396	–	5,396
Total recognised gains	–	5,396	541,713	547,109
Dividends (note 11)	–	–	(97,339)	(97,339)
Transfer from retained profits to reserves	–	3,362	(3,362)	–
<b>At 31 December 2001</b>	<b>4,866,950</b>	<b>1,231,985</b>	<b>1,539,859</b>	<b>7,638,794</b>
<b>Company</b>				
At 1 January 2001	4,866,950	1,231,672	1,153,491	7,252,113
Profit attributable to shareholders	–	–	470,428	470,428
Unrealised gain on foreign currency forward contracts (note 39(e))	–	5,396	–	5,396
Total recognised gains	–	5,396	470,428	475,824
Dividends (note 11)	–	–	(97,339)	(97,339)
<b>At 31 December 2001</b>	<b>4,866,950</b>	<b>1,237,068</b>	<b>1,526,580</b>	<b>7,630,598</b>
<b>Group</b>				
At 1 January 2000	4,866,950	1,201,143	945,402	7,013,495
Consolidated profit attributable to shareholders	–	–	175,529	175,529
Transfer from retained profits to reserves	–	22,084	(22,084)	–
<b>At 31 December 2000</b>	<b>4,866,950</b>	<b>1,223,227</b>	<b>1,098,847</b>	<b>7,189,024</b>
<b>Company</b>				
At 1 January 2000	4,866,950	1,231,672	1,053,981	7,152,603
Profit attributable to shareholders	–	–	99,510	99,510
<b>At 31 December 2000</b>	<b>4,866,950</b>	<b>1,231,672</b>	<b>1,153,491</b>	<b>7,252,113</b>

# Notes to the Financial Statements

*(Prepared in accordance with International Accounting Standards)*

*Year ended 31 December 2001*

## 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 and derivative assets which are stated at fair market values.

The consolidated financial statements comprise the consolidated financial statements of the Company and all its subsidiaries as at 31 December 2001 and of the results for the year then ended. All significant transactions between and among 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.

An associate is a company, not being a subsidiary, in which the Company generally has between 20% and 50% of the voting rights, or over which the Company has significant influence, but which it does not control. The consolidated profit and loss account includes the Group’s share of the results of associated companies for the year, and the consolidated balance sheet includes the Group’s share of the net assets of the associated companies. In the Company’s balance sheet the investments in associated companies are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)  
Year ended 31 December 2001

### 2. 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, including 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 2(j).

#### **(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 are attributed on the basis of where the services are performed.

#### **(c) Retirement benefits**

The Group participates in defined contribution retirement schemes regarding pension and medical benefit for employees 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.

## 2. Principal Accounting Policies (Cont'd)

### *(c) Retirement benefits (Cont'd)*

In addition, the Group provides retirees with post-retirement benefits including 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 incurred in restoring such fixed assets to their normal working condition are charged to the operating profits 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 which are not expected to be realised in the foreseeable future.

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)  
Year ended 31 December 2001

### 2. Principal Accounting Policies (Cont'd)

#### (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.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the acquired subsidiary or associated company over the cost of acquisition. Negative goodwill is presented in the same balance sheet classifications as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets up to a maximum of 20 years; negative goodwill in excess of the fair values of those assets is recognised in the profit and loss account immediately.

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

#### (g) Land use rights

Land use rights are stated at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis over the terms of these land use rights. The carrying amounts of the land use rights are reviewed regularly and adjusted for permanent impairment where it is considered necessary.

#### (h) Fixed assets

- (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.

## 2. Principal Accounting Policies (Cont'd)

### (h) Fixed assets (Cont'd)

(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
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.

### (i) 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.

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)  
Year ended 31 December 2001

### 2. Principal Accounting Policies (Cont'd)

#### **(j) 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.

#### **(k) 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.

#### **(l) 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.

#### **(m) 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.

#### **(n) Flight equipment spare parts**

Flight equipment spare parts are carried at weighted average cost less allowance for obsolescence and are expensed when consumed 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.

## 2. Principal Accounting Policies (Cont'd)

### **(o) 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 under the effective interest method and included as interest income in the profit and loss account.

### **(p) 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.

### **(q) 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.

### **(r) Frequent flyer programme**

The Group estimates the incremental cost of providing free travel awards entitled by members under a frequent flyer program when free travel award levels are achieved based on accumulated mileage. The estimated incremental cost is recognised as an expense in the profit and loss account and accrued as a liability in the balance sheet.

As members redeem awards or their entitlements expire, the incremental cost liability is reduced accordingly to reflect the acquittal of the outstanding obligations.

### **(s) Foreign currency forward contracts**

The Group uses foreign currency forwards to hedge its currency risks associated with forecast ticket sales received in foreign currencies. Foreign currencies forwards, being derivative financial instruments, are initially stated at cost and are stated at fair value subsequent to initial recognition.

Derivative financial instrument that does not qualify for hedge accounting is accounted for as trading instrument and any unrealised gain or loss, being changes in fair value of the derivative, is recognised in the profit and loss account immediately.



## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)  
Year ended 31 December 2001

### 2. Principal Accounting Policies (Cont'd)

#### (s) Foreign currency forward contracts (Cont'd)

Derivative financial instrument that qualifies for hedge accounting and is designated as a specific hedge of the variability in cash flows of a highly probable forecast transaction, is accounted for as follows:–

- (i) the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The cumulative gain or loss on the derivative financial instrument is removed from equity and recognised in the profit and loss account in the same period during which the hedged forecast transaction affects net profit or loss.
- (ii) the ineffective part of any gain or loss is recognised in the profit and loss account immediately.

#### (t) 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.

#### (u) Financial assets and financial liabilities

Investments, trade receivables, sublease receivables, obligations under finance leases and derivative assets/(liabilities) under foreign currency forward contracts 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.

### 3. Revenues and Turnover

	Note	Group	
		2001 RMB'000	2000 RMB'000
Gross turnover		<b>12,879,786</b>	11,859,445
Less: Sales tax	(a)	<b>(298,587)</b>	(271,661)
Civil aviation infrastructure levies	(b)	<b>(428,391)</b>	(367,721)
Turnover		<b>12,152,808</b>	11,220,063
Interest income	5	<b>124,419</b>	166,741
Rental income from operating subleases of aircraft	6	<b>125,742</b>	111,029
Total revenues		<b>12,402,969</b>	11,497,833

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)

Year ended 31 December 2001

### 3. Revenues and Turnover (Cont'd)

- (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 are paid to CAAC, at rates of 5% and 2% respectively for domestic and international traffic revenues.

### 4. Wages, Salaries and Benefits

	Group	
	2001 RMB'000	2000 RMB'000
Wages, salaries and allowances	<b>729,996</b>	648,224
Contribution under defined contribution retirement schemes (note 33(a))	<b>46,471</b>	25,232
Post-retirement benefits (note 33(b)(iii))	<b>92,404</b>	124,138
Curtailement of medical benefit previously included in post-retirement benefit obligations (note 33(b)(ii))	<b>(95,975)</b>	–
	<b>772,896</b>	797,594

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)  
Year ended 31 December 2001

### 5. Interest Expense, Net

	Group	
	2001 RMB'000	2000 RMB'000
Interest charged on obligations under finance leases	<b>646,288</b>	725,218
Interest on bank loans		
– wholly repayable within five years	<b>76,121</b>	35,562
– not wholly repayable within five years	<b>268,234</b>	274,911
	<b>344,355</b>	310,473
Interest accrued on a long-term payable (note 31)	<b>6,693</b>	–
Interest on loans from an associated company	<b>1,268</b>	6,154
Less: amounts capitalised into fixed assets and advances on aircraft and flight equipment	<b>(59,810)</b>	(60,618)
	<b>938,794</b>	981,227
Interest income	<b>(124,419)</b>	(166,741)
Net interest expense	<b>814,375</b>	814,486

The capitalisation rates range between 6.00% and 6.21% per annum (2000: 6.00% and 6.21% per annum).

### 6. Other Income, Net

	Group	
	2001 RMB'000	2000 RMB'000
Net exchange gains	<b>126,313</b>	119,935
Gain on disposal of aircraft and engines (note (a))	<b>1,866</b>	112,076
Rental income from operating subleases of aircraft	<b>125,742</b>	111,029
Other, net	<b>(5,180)</b>	(2,398)
	<b>248,741</b>	340,642

(a) During the year, the Group disposed of two MD82 engines (2000: four MD82 aircraft and two MD82 engines) to an unrelated third party.

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)

Year ended 31 December 2001

### 7. Profit before Taxation

	Group	
	2001 RMB'000	2000 RMB'000
The profit before taxation is stated after charging:–		
Depreciation of fixed assets		
– owned assets	<b>1,012,847</b>	974,361
– assets held under finance leases for own use	<b>647,020</b>	584,814
– assets held under finance leases and subleased out under operating leases	<b>59,910</b>	59,910
Amortisation of land use rights	<b>26,615</b>	17,243
Operating lease rentals		
– aircraft	<b>925,122</b>	768,586
– land and buildings	<b>90,358</b>	83,417
Losses on disposals of other fixed assets	<b>10,643</b>	6,045
Amortisation of goodwill and negative goodwill	<b>3,641</b>	5,655
Contributions to defined contribution retirement schemes	<b>46,471</b>	25,232
Cost of post-retirement benefits	<b>92,404</b>	124,138
Auditors' remuneration	<b>7,187</b>	6,896
Provision for staff housing benefits	–	156,179
and after crediting:–		
Net exchange gains	<b>126,313</b>	119,935
Curtailement of medical expenses previously included in post-retirement benefit obligations	<b>95,975</b>	–
Rental income from operating subleases of aircraft	<b>125,742</b>	111,029
Gain on disposal of aircraft and engines	<b>1,866</b>	112,076

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)  
Year ended 31 December 2001

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

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

	Group	
	2001 RMB'000	2000 RMB'000
Fees for non-executive directors	–	30
Emoluments for executive directors		
– Salaries, allowances and benefits in kind	408	438
– Retirement benefits	17	13
– Bonuses	112	39
Emoluments for supervisors		
– Salaries, allowances and benefits in kind	37	113
– Retirement benefits	–	9
– Bonuses	8	2
	<b>582</b>	644

During the years ended 31 December 2001 and 2000, no directors or supervisors waived their emoluments.

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

	Number of individuals	
	2001	2000
Directors	2	1
Supervisors	–	–
Non-directors and non-supervisors	3	4
	<b>5</b>	5

## 8. Emoluments of Directors, Supervisors and Senior Management (Cont'd)

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

Two (2000: one) of the Group's five highest paid individuals in 2001 are executive directors whose remunerations are included in the directors' emoluments above. Details of the remuneration of the remaining three (2000: four) highest paid individuals are as follows:–

	Group	
	2001 RMB'000	2000 RMB'000
Salaries, allowances and benefits in kind	491	541
Retirement benefits	9	16
Bonuses	74	72
	<b>574</b>	<b>629</b>

None of the individuals received remuneration in excess of RMB1 million.

During the years ended 31 December 2001 and 2000, 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.

## 9. Taxation

(a) Taxation is credited /(charged) to the consolidated profit and loss account as follows:–

	Group	
	2001 RMB'000	2000 RMB'000
Provision for PRC income tax – current year	(4,917)	(22,908)
Deferred taxation (note 30(b))		
– current year	(38,668)	(76,729)
– adjustment for change in enacted tax rate (note (i))	306,422	–
	<b>262,837</b>	<b>(99,637)</b>
Share of taxation attributable to an associated company	(1,383)	–
	<b>261,454</b>	<b>(99,637)</b>

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)  
Year ended 31 December 2001

### 9. Taxation (Cont'd)

- (i) As approved by the shareholders at the annual general meeting on 29 June 2001, the Company's legal address has been changed from 2550 Hong Qiao Road, Shanghai, China to 66 Airport Street, Pudong International Airport, Shanghai, China.

Under a preferential tax policy in Pudong, Shanghai, certain qualified enterprises are entitled to a reduced income tax rate of 15%. As a result of the change of the Company's legal address, pursuant to the Circular "Hu Shui Er Cai (2001) No. 104" dated 22 October 2001 granted by the Second Branch Office of the Shanghai Municipal State Tax Bureau, the Company's income tax rate reduced from 33% to 15%.

Due to the reduction of the enacted income tax rate, the deferred tax assets and liabilities of the Company brought forward from 31 December 2000 of RMB892,103,000 and RMB1,453,876,000 respectively have been reduced by RMB486,601,000 and RMB793,023,000 respectively and a net tax credit of RMB306,422,000 was recognised in the profit and loss account for the year ended 31 December 2001 (see note 30(b)).

- (ii) The Company has two major subsidiaries, namely China Cargo Airlines Ltd. ("China Cargo") and China Eastern Airlines Jiangsu Co. Ltd. ("CEA Jiangsu"). Pursuant to the Circular (2000) No. 52 jointly issued by the Shanghai Municipal Financial Bureau and Shanghai Municipal State Tax Bureau, China Cargo, of which the legal address is in Pudong, Shanghai, is entitled to a reduced income tax rate of 15%. CEA Jiangsu is subject to the standard PRC income tax rate of 33%.
- (iii) The difference between the actual taxation credit/(charge) in the consolidated profit and loss account and the amounts which would result from applying the enacted tax rate to profit before taxation can be reconciled as follows:—

	Group	
	2001 RMB'000	2000 RMB'000
Profit before taxation	313,583	304,408
Tax calculated at enacted tax rate of 15% (2000: 33%)	(47,037)	(100,455)
Effect attributable to a subsidiary charged at tax rate of 15%	—	21,264
Effect attributable to a subsidiary charged at tax rate of 33%	(14,751)	—
Adjustments:—		
Effect on deferred taxation brought forward due to the reduction of enacted income tax rate	306,422	—
Utilisation of valuation allowance against tax losses of subsidiaries	20,302	2,639
Potential deferred tax asset arising from provision against staff quarters not recognised	—	(23,820)
Other	(3,482)	735
Tax credit/(charge)	261,454	(99,637)

## 9. Taxation (Cont'd)

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

(c) 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 exempted 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 exempted from PRC withholding tax. As at 31 December 2001, the Group had no material withholding tax payable in respect of its finance leases and operating leases.

## 10. Basic Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB541,713,000 (2000: RMB175,529,000) and 4,866,950,000 (2000: 4,866,950,000) shares in issue during the year. The company has no potential dilutive ordinary shares.

## 11. Dividends

The dividends recognised in the year ended 31 December 2001 represent the final dividend of RMB0.02 per share totalling RMB97,339,000 for the year ended 31 December 2000 proposed by the Board of Directors on 9 April 2001 and approved in the Annual General Meeting on 29 June 2001.

On 8 April 2002, the Board of Directors proposed a final dividend of RMB0.02 per share totalling RMB97,339,000 for the year ended 31 December 2001. These financial statements do not reflect this dividend payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2002.



## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)  
Year ended 31 December 2001

### 12. Goodwill

	Group and Company	
	2001 RMB'000	2000 RMB'000
<b>Cost</b>		
At 1 January	<b>113,105</b>	113,105
Negative goodwill arising from acquisition of a passenger carriage business (note (a))	<b>(55,245)</b>	–
At 31 December	<b>57,860</b>	113,105
<b>Accumulated amortisation</b>		
At 1 January	<b>11,310</b>	5,655
Charge for the year	<b>3,641</b>	5,655
At 31 December	<b>14,951</b>	11,310
Net book value at 31 December	<b>42,909</b>	101,795

- (a) On 9 June 2001, the Group acquired a passenger carriage business from China Civil Aviation Flight College, an affiliate of the CAAC, at a total consideration of RMB270 million. The nominal value of the consideration is payable in cash by nine equal annual instalments of RMB30 million each commencing June 2001. Taking into account the present value of the consideration, a negative goodwill of RMB55,245,000 was resulted from the acquisition, which is amortised on a straight-line basis over a period of 16 years representing the remaining weighted average useful life of the identifiable acquired depreciable assets.

## 13. Land use rights

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
<b>Cost</b>				
At 1 January	892,060	499,011	402,904	402,904
Additions	–	393,049	–	–
Acquisition of a passenger carriage business	56,024	–	56,024	–
Transfer from construction in progress (note 15)	370,181	–	370,181	–
Change in acquisition cost	(8,697)	–	–	–
At 31 December	1,309,568	892,060	829,109	402,904
<b>Accumulated amortisation</b>				
At 1 January	51,448	34,205	42,551	33,042
Charge for the year	26,615	17,243	17,486	9,509
At 31 December	78,063	51,448	60,037	42,551
Net book value as at 31 December	1,231,505	840,612	769,072	360,353

The Group's and the Company's land use rights are located in the PRC and majority of these land use rights have terms of 50 years from the date of grant. As at 31 December 2001, majority of these land use rights had remaining terms ranging from 45 to 49 years (2000: from 46 to 50 years).

Certificates of certain land use rights of the Group with a total net book value of RMB374,689,000 are currently registered under the name of EA Group. The procedures to change the registration of the land use rights certificates with the relevant municipal land bureaux are currently being addressed by EA Group. Until the completion of these transfer procedures, the Group is unable to assign or pledge these land use rights. However, the Group currently has no need to assign and no intention to pledge these land use rights. In addition, the Group is entitled to lawfully and validly occupy and use these lands for its daily operations in spite of the fact that the procedures of changing the registration of these land use rights have not been fully completed. Accordingly, the directors of the Company do not believe this issue has any material impact on the financial position of the Group.

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)  
Year ended 31 December 2001

### 14. Fixed Assets

	Group				
	Aircraft and flight equipment		Buildings RMB'000	Other fixed assets and equipment RMB'000	Total RMB'000
	Owned RMB'000	Held under finance leases RMB'000			
<b>Valuation</b>					
At 1 January 2001	9,879,365	12,826,400	1,511,851	1,569,800	25,787,416
Transfer from construction in progress (note 15)	–	–	144,634	57,098	201,732
Additions	1,374,360	–	33,778	195,925	1,604,063
Acquisition of a passenger carriage business	212,333	–	35,432	9,350	257,115
Disposals	(34,287)	–	(61,765)	(27,881)	(123,933)
At 31 December 2001	11,431,771	12,826,400	1,663,930	1,804,292	27,726,393
<b>Accumulated depreciation</b>					
At 1 January 2001	2,540,464	2,622,641	132,415	530,214	5,825,734
Charge for the year	771,700	706,930	57,762	183,385	1,719,777
Disposals	(11,259)	–	(5,460)	(25,079)	(41,798)
At 31 December 2001	3,300,905	3,329,571	184,717	688,520	7,503,713
<b>Net book value at 31 December 2001</b>	8,130,866	9,496,829	1,479,213	1,115,772	20,222,680
Net book value at 31 December 2000	7,338,901	10,203,759	1,379,436	1,039,586	19,961,682
	Company				
<b>Valuation</b>					
At 1 January 2001	9,625,243	12,826,400	1,090,856	922,697	24,465,196
Transfer from construction in progress (note 15)	–	–	123,654	54,473	178,127
Additions	1,373,826	–	30,781	171,205	1,575,812
Acquisition of a passenger carriage business	212,333	–	35,432	9,350	257,115
Disposals	(34,287)	–	(49,028)	(11,574)	(94,889)
At 31 December 2001	11,177,115	12,826,400	1,231,695	1,146,151	26,381,361
<b>Accumulated depreciation</b>					
At 1 January 2001	2,377,600	2,622,641	91,597	308,167	5,400,005
Charge for the year	755,831	706,930	42,069	137,011	1,641,841
Disposals	(11,259)	–	(5,322)	(17,523)	(34,104)
At 31 December 2001	3,122,172	3,329,571	128,344	427,655	7,007,742
<b>Net book value at 31 December 2001</b>	8,054,943	9,496,829	1,103,351	718,496	19,373,619
Net book value at 31 December 2000	7,247,643	10,203,759	999,259	614,530	19,065,191

## 14. Fixed Assets (Cont'd)

- (a) On 30 June 2001, the fixed assets, other than the MD90 aircraft fleet, were revalued by Shanghai Zhonghua Property Valuation Company Limited, an independent valuer registered in PRC, on a market value or replacement cost basis. The revalued amounts are not materially different from the carrying values of these fixed assets. Accordingly, these fixed assets are stated at their carrying values in the consolidated financial statements as at 31 December 2001.

Regarding the MD90 aircraft, a total of 9 aircraft, there have been no sufficient secondary market transactions and this model of aircraft is no longer produced. Accordingly, neither the open market value nor the replacement cost of the aircraft can be reasonably ascertained. However, the directors of the Company have reviewed the carrying values of MD90 aircraft and are of the opinion that there is no impairment to the carrying amounts of RMB2,599,109,000 as at 31 December 2001.

Had the Group's fixed assets been stated at cost less accumulated depreciation and impairment losses as at 31 December 2001, the carrying amounts of aircraft and flight equipment would have been RMB17,293,554,000 (2000: RMB17,117,008,000), and the carrying amounts of buildings and other fixed assets and equipment would have been the same as those stated in the consolidated balance sheet.

- (b) Certain aircraft of the Group and the Company with an aggregate carrying value of approximately RMB3,459,592,000 and RMB3,487,348,000 as at 31 December 2001 and 2000 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 RMB50,577,000 (2000: RMB70,370,000) transferred from construction in progress and advances on aircraft and flight equipment, of which RMB22,695,000 were capitalised during the year ended 31 December 2001 (2000: RMB42,229,000).

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(Prepared in accordance with International Accounting Standards)  
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### 15. Construction in Progress

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
<b>Cost</b>				
At 1 January	476,251	1,159,808	408,277	1,062,172
Additions	427,648	520,909	315,005	133,837
Acquisition of a passenger carriage business	6,420	–	6,420	–
Interest capitalised	9,000	19,369	9,000	19,369
Transfer to land use rights (note 13)	(370,181)	–	(370,181)	–
Transfer to fixed assets (note 14)	(201,732)	(1,223,835)	(178,127)	(807,101)
At 31 December	347,406	476,251	190,394	408,277
<b>Provision for sale of staff quarters</b>				
At 1 January	–	218,000	–	158,000
Additions	–	76,000	–	59,000
Transfer to fixed assets	–	(294,000)	–	(217,000)
At 31 December	–	–	–	–
<b>Net book value at 31 December</b>	<b>347,406</b>	<b>476,251</b>	<b>190,394</b>	<b>408,277</b>

### 16. Investments in Subsidiaries

	Company	
	2001 RMB'000	2000 RMB'000
Unlisted shares, at cost	1,062,900	1,062,900
Amounts due from subsidiaries	130,274	114,014
	<b>1,193,174</b>	<b>1,176,914</b>

## 16. Investments in Subsidiaries (Cont'd)

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		Principal activities
			2001	2000	
China Cargo Airlines Ltd.	PRC 22 July 1998	500,000	70%	70%	Provision of cargo carriage services
China Eastern Airlines Jiangsu Co. Ltd.	PRC 3 May 1993	236,579	55%	55%	Provision of airline services
Eastern Airlines Industrial Co., Ltd.	PRC 18 March 1998	49,500	80%	80%	Provision of hotel services to crew members
Shanghai Eastern Flight Training Co., Ltd.	PRC 18 December 1995	358,000	95%	95%	Provision of flight training services

## 17. Investment in an associated company

	Group	Company
	2001 RMB'000	2000 RMB'000
Unlisted investment, at cost	—	106,364
Share of net assets	109,527	—
	109,527	106,364

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)  
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### 17. Investment in an associated company (Cont'd)

Movements in investment in an associated company are as follows:—

	<b>Group</b>
	<b>2001</b>
	<b>RMB'000</b>
At 1 January	—
Cost of investment	<b>106,364</b>
Share of profits before tax	<b>4,546</b>
Share of taxation	<b>(1,383)</b>
At 31 December	<b>109,527</b>

<b>Company</b>	<b>Place and date of establishment</b>	<b>Paid-up capital</b>	<b>Attributable equity interest</b>	<b>Principal activities</b>
Eastern Air Group Finance Co., Ltd. ("EAGF")	PRC 6 December 1995	RMB400,000,000	25%	Provision of financial service to companies comprising EA Group

### 18. Other Long-Term Receivables and Investments

	<b>Group</b>		<b>Company</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>	RMB'000
Long-term bank deposits (note 25(a))	<b>1,255,005</b>	1,444,282	<b>1,255,005</b>	1,444,282
US Treasury zero coupon bonds (note 25(a))	<b>501,722</b>	464,454	<b>501,722</b>	464,454
Deposits for aircraft under operating leases	<b>97,370</b>	88,529	<b>78,031</b>	73,544
Prepaid custom duty and value added tax	<b>63,340</b>	79,172	<b>63,340</b>	79,172
Prepayments and other receivables	<b>68,117</b>	95,865	<b>46,878</b>	68,514
	<b>1,985,554</b>	2,172,302	<b>1,944,976</b>	2,129,966

## 19. Trade Receivables Less Allowance for Doubtful Accounts

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

As at 31 December 2001, the aging analysis of the trade receivables is as follows:–

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Less than 31 days	<b>525,006</b>	588,953	<b>363,643</b>	345,607
31 to 60 days	<b>91,531</b>	320,395	<b>28,720</b>	175,320
61 to 90 days	<b>28,384</b>	253,369	<b>13,397</b>	240,679
Over 90 days	<b>140,913</b>	84,109	<b>126,756</b>	78,450
	<b>785,834</b>	1,246,826	<b>532,516</b>	840,056

## 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 38. As at 31 December 2001, such balances mainly included the following:–

#### CAAC

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

#### 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.



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(Prepared in accordance with International Accounting Standards)  
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### 20. Balances with Related Companies (Cont'd)

#### (b) Short-term deposits with an associated company

The Group and the Company has a short-term deposit of RMB281,362,000 and RMB266,741,000 (2000: RMB188,302,000 and RMB130,699,000) respectively placed with EAGF, an associated company. The short-term deposits yield interest at an average rate of 0.99% per annum (2000: 1.04% per annum).

### 21. Prepayments and Other Receivables

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Discounts receivable on aircraft acquisitions	<b>204,550</b>	190,840	<b>204,550</b>	190,840
Receivable on provision of ground services	<b>71,465</b>	130,755	<b>41,140</b>	99,621
Sales proceeds receivable on disposal of aircraft	–	71,719	–	71,719
Prepaid aircraft operating lease rentals	<b>94,538</b>	71,082	<b>75,466</b>	52,231
Aircraft lease interest income receivable	<b>544</b>	3,519	<b>544</b>	3,519
Receivable on aircraft operating lease rentals	<b>33,828</b>	9,360	<b>33,828</b>	9,360
Other	<b>337,586</b>	242,158	<b>296,846</b>	248,079
	<b>742,511</b>	719,433	<b>652,374</b>	675,369

### 22. Trade Payables

As at 31 December 2001 and 2000, all trade payables were current balances and aged under 30 days.

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)

Year ended 31 December 2001

### 23. Other Payables and Accrued Expenses

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Accrued operating expenses	<b>958,641</b>	907,288	<b>835,935</b>	709,188
Payable arising from acquisition of land use rights	<b>107,624</b>	115,123	<b>66,000</b>	–
Current portion of accrued aircraft overhaul expenses (note 24)	<b>266,016</b>	114,102	<b>256,337</b>	114,102
Duties and levies payable	<b>78,727</b>	86,433	<b>70,902</b>	84,011
Current portion of a long-term payable (note 31)	<b>30,000</b>	–	<b>30,000</b>	–
Current portion of post-retirement benefits obligation (note 33(b)(i))	<b>13,922</b>	15,550	<b>13,610</b>	12,515
Provision for staff housing allowance (note 34)	<b>80,179</b>	80,179	<b>78,198</b>	78,198
Accrued salaries, wages and benefits	<b>76,592</b>	50,233	<b>65,743</b>	35,744
Other	<b>306,453</b>	296,953	<b>223,460</b>	228,340
	<b>1,918,154</b>	1,665,861	<b>1,640,185</b>	1,262,098

### 24. Accrued Aircraft Overhaul Expenses

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Total accrued aircraft overhaul expenses	<b>459,019</b>	338,407	<b>358,740</b>	252,850
Less: current portion (note 23)	<b>(266,016)</b>	(114,102)	<b>(256,337)</b>	(114,102)
Long-term portion	<b>193,003</b>	224,305	<b>102,403</b>	138,748

## Notes to the Financial Statements

(Prepared in accordance with International Accounting Standards)  
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### 25. Lease Obligations and Sublease Arrangements

#### (a) Finance leases

As at 31 December 2001, the Group and the Company had 24 aircraft (2000: 24 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 2001 were as follows:—

	Group and Company					
	2001			2000		
	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	2,522,578	586,906	1,935,672	1,812,500	694,917	1,117,583
In the second year	2,710,134	479,504	2,230,630	2,637,580	601,151	2,036,429
In the third to fifth year inclusive	3,800,792	709,564	3,091,228	5,106,511	1,028,174	4,078,337
After the fifth year	2,775,438	161,617	2,613,821	4,419,270	343,437	4,075,833
Total	11,808,942	1,937,591	9,871,351	13,975,861	2,667,679	11,308,182
Less: amount repayable within one year	(2,522,578)	(586,906)	(1,935,672)	(1,812,500)	(694,917)	(1,117,583)
Long-term portion	9,286,364	1,350,685	7,935,679	12,163,361	1,972,762	10,190,599

As at 31 December 2001, the Group and the Company had U.S. Treasury zero coupon bonds and long-term bank deposits totalling RMB1,756,727,000 (2000: RMB1,908,736,000) pledged as securities under certain finance lease arrangements (see note 18). All of these bank deposits and the U.S. Treasury zero coupon bonds totalling RMB1,756,727,000 (2000: RMB1,827,469,000) 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.

## 25. Lease Obligations and Sublease Arrangements (Cont'd)

### (b) Subleases

The Group and the Company sublease two (2000: three) of the leased aircraft to other third parties. Both of them are under operating lease (2000: two under operating lease and one under finance lease).

In respect of these 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 2001 were as follows:–

	Group and Company	
	2001 RMB'000	2000 RMB'000
Within one year	101,173	101,191
In the second year	–	101,191
Total minimum future rentals receivable	101,173	202,382

The cost and carrying amount of these two aircraft included in note 14 as at 31 December 2001 were as follows:–

	Group and Company	
	2001 RMB'000	2000 RMB'000
Valuation	386,238	386,238
Less: accumulated depreciation	(329,500)	(269,590)
Carrying amounts	56,738	116,648

All subleases will be automatically terminated when the leases with the original lessor are terminated. Total future minimum lease rentals payable under the corresponding non-cancellable head leases as at 31 December 2001 totalled RMB237,091,000 (2000: RMB338,326,000).

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### 26. Long-term Bank Loans

	Group and Company	
	2001 RMB'000	2000 RMB'000
Bank loans		
– secured	<b>2,850,567</b>	2,704,195
– unsecured	<b>2,450,000</b>	2,100,000
Total	<b>5,300,567</b>	4,804,195
Less: amount repayable within one year	<b>(361,236)</b>	(422,788)
Long-term portion	<b>4,939,331</b>	4,381,407
Total bank loans is repayable as follows:–		
Within one year	<b>361,236</b>	422,788
In the second year	<b>555,719</b>	443,988
In the third to fifth year inclusive	<b>2,517,957</b>	2,047,519
After the fifth year	<b>1,865,655</b>	1,889,900
Total	<b>5,300,567</b>	4,804,195

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

	Interest rates and final maturities	Group and Company	
		2001 RMB'000	2000 RMB'000
Renminbi denominated bank loans:			
Loans for construction projects	Fixed interest rate of 6.21% per annum as at 31 December 2001; 7 to 13-year loans with final maturities through to 2012	<b>2,000,000</b>	1,700,000
Loans for the purchases of aircraft	Fixed interest rate of 5.61% per annum as at 31 December 2001; 3-year loan with final maturity in 2003	<b>450,000</b>	400,000
		<b>2,450,000</b>	2,100,000
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 2001; 10 to 12-year loans with final maturities through to 2008	<b>2,850,567</b>	2,704,195
Total long-term bank loans		<b>5,300,567</b>	4,804,195

Bank loans totalling RMB2,850,567,000 at 31 December 2001 (2000: RMB2,704,195,000) of the Group and the Company for the purchases of aircraft were secured by the related aircraft (see note 14(b)).

**26. Long-term Bank Loans (Cont'd)**

Bank loans were guaranteed by the following parties:—

	<b>Group and Company</b>	
	<b>2001 RMB'000</b>	2000 RMB'000
Renminbi denominated bank loans guaranteed by EA Group, the ultimate holding company	<b>2,450,000</b>	2,100,000
U.S. dollar denominated bank loans guaranteed by third parties:		
Export-Import Bank of the United States	<b>1,715,004</b>	2,379,097
China Industrial and Commercial Bank	<b>166,393</b>	199,287
China Construction Bank	<b>113,480</b>	125,811
	<b>4,444,877</b>	4,804,195

**27. Short-term Bank Loans**

Short-term bank loans of the Group and the Company are 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 4.58 % and 5.02 % per annum (2000: 5.02% and 6.16% per annum). During the year ended 31 December 2001, the weighted average interest rate on short-term bank loans was 4.91% per annum (2000: 5.69% per annum).

**28. Share Capital**

	<b>2001 RMB'000</b>	2000 RMB'000
Registered, issued and fully paid of RMB1.00 each A shares		
State-owned shares held by EA Group	<b>3,000,000</b>	3,000,000
Shares held by public	<b>300,000</b>	300,000
	<b>3,300,000</b>	3,300,000
Overseas listed foreign H shares	<b>1,566,950</b>	1,566,950
	<b>4,866,950</b>	4,866,950

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

## Notes to the Financial Statements

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### 29. Reserves

	Share premium RMB'000	Statutory common reserve fund (note (a)) RMB'000	Statutory common welfare fund (note (b)) RMB'000	Discretionary common welfare fund (note (c)) RMB'000	Revaluation reserve RMB'000	Hedging reserve (note 39(e)) RMB'000	Retained profits RMB'000	Total RMB'000
<b>Group</b>								
At 1 January 2001	1,006,455	94,432	94,432	27,908	–	–	1,098,847	2,322,074
Dividends (note 11)	–	–	–	–	–	–	(97,339)	(97,339)
Consolidated profit attributable to shareholders	–	–	–	–	–	–	541,713	541,713
Unrealised gain on foreign currency forward contracts	–	–	–	–	–	5,396	–	5,396
Transfer from retained profits to reserves (note (d))	–	1,681	1,681	–	–	–	(3,362)	–
<b>At 31 December 2001</b>	<b>1,006,455</b>	<b>96,113</b>	<b>96,113</b>	<b>27,908</b>	<b>–</b>	<b>5,396</b>	<b>1,539,859</b>	<b>2,771,844</b>
<b>Company</b>								
At 1 January 2001	1,006,455	77,214	77,214	27,908	42,881	–	1,153,491	2,385,163
Dividends (note 11)	–	–	–	–	–	–	(97,339)	(97,339)
Profit attributable to shareholders	–	–	–	–	–	–	470,428	470,428
Unrealised gain on foreign currency forward contracts	–	–	–	–	–	5,396	–	5,396
<b>At 31 December 2001</b>	<b>1,006,455</b>	<b>77,214</b>	<b>77,214</b>	<b>27,908</b>	<b>42,881</b>	<b>5,396</b>	<b>1,526,580</b>	<b>2,763,648</b>

## Notes to the Financial Statements

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### 29. Reserves (Cont'd)

	Share premium RMB'000	Statutory common reserve fund (note (a)) RMB'000	Statutory common welfare fund (note (b)) RMB'000	Discretionary common welfare fund (note (c)) RMB'000	Revaluation Reserve RMB'000	Retained profits RMB'000	Total RMB'000
<b>Group</b>							
At 1 January 2000	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
<b>Company</b>							
At 1 January 2000	1,006,455	77,214	77,214	27,908	42,881	1,053,981	2,285,653
Profit attributable to shareholders	–	–	–	–	–	99,510	99,510
At 31 December 2000	1,006,455	77,214	77,214	27,908	42,881	1,153,491	2,385,163

- (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.



## Notes to the Financial Statements

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### 29. Reserves (Cont'd)

- (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 meetings.
- (d) Pursuant to PRC regulations and the Company's Articles of Association, the Company is required to make appropriation from its profit attributable to shareholders, as determined under the PRC Accounting Regulations, to certain statutory reserves. For the year ended 31 December 2001, under the PRC Accounting Regulations, the Company recorded a profit attributable to shareholders which had been applied to make good previous years' losses. Accordingly, no profit appropriation has been made for the year ended 31 December 2001. A subsidiary of the Group recorded a profit attributable to shareholders in accordance with the PRC Accounting Regulations for the year ended 31 December 2001 and the subsidiary's directors have resolved to transfer 10% of the profit attributable to shareholders to statutory common reserve and statutory common welfare fund respectively.

### 30. Deferred Taxation

(a) As at 31 December 2001, the deferred tax assets/(liabilities) were made up of taxation effects of the followings:–

Group	2001			2000		
	Current RMB'000	Non-current RMB'000	Total RMB'000	Current RMB'000	Non-current RMB'000	Total RMB'000
Deferred tax assets:–						
Tax losses carried forward	–	141,348	141,348	–	205,574	205,574
Provision for obsolete flight equipment and spare parts	–	32,008	32,008	–	69,929	69,929
Repair cost on flight equipment	–	168,877	168,877	–	338,168	338,168
Provision for post-retirement benefits	2,088	77,870	79,958	7,079	167,893	174,972
Provision for staff housing benefits	12,384	–	12,384	26,459	126,120	152,579
Other accrued expenses	93,056	–	93,056	143,949	–	143,949
	<b>107,528</b>	<b>420,103</b>	<b>527,631</b>	177,487	907,684	1,085,171
Less: valuation allowance	–	(38,256)	(38,256)	–	(190,093)	(190,093)
	<b>107,528</b>	<b>381,847</b>	<b>489,375</b>	177,487	717,591	895,078
Deferred tax liabilities:–						
Provision for overhaul	–	(113,161)	(113,161)	–	(234,395)	(234,395)
Depreciation and amortisation	–	(653,538)	(653,538)	–	(1,185,888)	(1,185,888)
Others	–	(13,720)	(13,720)	–	(33,593)	(33,593)
	–	<b>(780,419)</b>	<b>(780,419)</b>	–	(1,453,876)	(1,453,876)
Deferred tax assets/(liabilities), net	<b>107,528</b>	<b>(398,572)</b>	<b>(291,044)</b>	177,487	(736,285)	(558,798)

## 30. Deferred Taxation (Cont'd)

(a) As at 31 December 2001, the deferred tax assets/(liabilities) were made up of taxation effects of the followings (Cont'd):–

Company	2001			2000		
	Current RMB'000	Non-current RMB'000	Total RMB'000	Current RMB'000	Non-current RMB'000	Total RMB'000
Deferred tax assets:–						
Tax losses carried forward	–	119,703	119,703	–	170,466	170,466
Provision for obsolete flight equipment and spare parts	–	37,133	37,133	–	74,493	74,493
Repair cost on flight equipment	–	170,980	170,980	–	340,271	340,271
Provision for post-retirement benefits	2,088	55,460	57,548	7,079	164,066	171,145
Provision for staff housing benefits	11,730	–	11,730	25,805	101,970	127,775
Other accrued expenses	73,291	–	73,291	109,923	–	109,923
	<b>87,109</b>	<b>383,276</b>	<b>470,385</b>	142,807	851,266	994,073
Less: valuation allowance	–	–	–	–	(101,970)	(101,970)
	<b>87,109</b>	<b>383,276</b>	<b>470,385</b>	142,807	749,296	892,103
Deferred tax liabilities:–						
Provision for overhaul	–	(100,485)	(100,485)	–	(234,395)	(234,395)
Depreciation and amortisation	–	(651,046)	(651,046)	–	(1,185,888)	(1,185,888)
Others	–	(13,720)	(13,720)	–	(33,593)	(33,593)
	–	<b>(765,251)</b>	<b>(765,251)</b>	–	(1,453,876)	(1,453,876)
Deferred tax assets/(liabilities), net	<b>87,109</b>	<b>(381,975)</b>	<b>(294,866)</b>	142,807	(704,580)	(561,773)

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### 30. Deferred Taxation (Cont'd)

(b) Movement in net deferred taxation liability is as follows:–

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
At 1 January	<b>558,798</b>	482,069	<b>561,773</b>	484,275
Deferred tax (note 9(a))				
– current year	<b>38,668</b>	76,729	<b>39,515</b>	77,498
– adjustment for change in enacted tax rate	<b>(306,422)</b>	–	<b>(306,422)</b>	–
At 31 December	<b>291,044</b>	558,798	<b>294,866</b>	561,773

As at 31 December 2001, two subsidiaries had net operating losses carried forward totalling RMB115,927,000 (2000: RMB177,448,000) available to setoff against future taxable income, with approximately RMB19,406,000 (2000: RMB99,691,000) expiring between 2002 and 2005. The available tax losses totalling RMB115,927,000 (2000: RMB177,448,000) can only be used by the same subsidiary companies. As at 31 December 2001, the Group had provided valuation allowance of RMB38,256,000 (2000: RMB190,093,000) against the related deferred tax assets arising from the subsidiary's tax losses which were not expected to be realised in the foreseeable future.

### 31. Long-term payable

	2001 RMB'000
Purchase consideration on acquisition of a passenger carriage business (note 12(a))	<b>270,000</b>
Less: Interest element	<b>(55,245)</b>
Net present value at time of acquisition	<b>214,755</b>
Less: first instalment paid in June 2001	<b>(30,000)</b>
	<b>184,755</b>
Interest accrued during the period (note 5)	<b>6,693</b>
Net present value as at 31 December 2001	<b>191,448</b>
Less: Current portion (note 23)	<b>(30,000)</b>
Long-term portion	<b>161,448</b>

**32. Minority Interests**

	<b>Group</b>	
	<b>2001 RMB'000</b>	2000 RMB'000
At 1 January	<b>223,881</b>	176,739
Share of profits of subsidiaries	<b>33,324</b>	29,242
Capital injection from a minority shareholder	–	17,900
At 31 December	<b>257,205</b>	223,881

**33. Retirement Benefit Plans and Post-Retirement Benefits****(a) Defined contribution retirement schemes**

## (i) Pension

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 2001, the Group's pension cost charged to the profit and loss account amounted to RMB28,471,000 (2000: RMB25,232,000).

## (ii) Medical insurance

In 1998, the State Council announced that each municipal government should introduce a medical insurance scheme for employees and retirees of all enterprises, of which the detailed policies and regulations were to be set out by individual municipal government.

In the end of 2000, the Shanghai Municipal Government promulgated the detailed policies and regulations of its medical insurance scheme. In January 2001, the Group joined this scheme under which the Group and its employees contribute approximately 12% and 2% of the employees basic salaries to the scheme respectively. The Group has no other obligation for the payment of medical expense beyond the annual contributions. For the year ended 31 December 2001, the Group's medical insurance contribution charged to the profit and loss account amounted to approximately RMB18,000,000.

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### 33. Retirement Benefit Plans and Post-Retirement Benefits (Cont'd)

#### (b) Post-retirement benefits

In addition to the above retirement schemes, the Group provides retirees with post-retirement benefits including transportation subsidies, social function activities subsidies as well as other welfare. The expected cost of providing these post-retirement benefits is actuarially determined and recognised by using the projected unit credit method, which 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) "Employee Benefits" in 1997 has been recognised on a straight-line basis over a period of five years.

In prior years, these post retirement benefits also included medical benefits. Following the joining of the municipal medical insurance scheme as set out in note 33(a)(ii) above, the Group is no longer required to accrue for medical benefits based on actuarial estimation. As a result of the curtailment of medical benefits, the post-retirement benefit obligation attributable to medical benefits brought forward from 31 December 2000 amounting to RMB95,975,000 has been written back to the profit and loss account and netted off against wages, salaries and benefits for the year ended 31 December 2001.

In addition, the transitional obligation recognised in the year ended 31 December 2001, representing one-fifth of the total transitional obligation arising from the first adoption of IAS 19 (Revised), has been reduced as a result of the exclusion of the portion attributable to the medical benefits. The total transitional obligation has been fully recognised as at 31 December 2001.

(i) As at 31 December 2001, the post-retirement benefit obligations recognised in the balance sheets of the Group and the Company were as follows:–

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Present value of unfunded post-retirement benefit obligations	<b>534,514</b>	613,820	<b>462,434</b>	550,347
Deferred transitional obligation	–	(61,656)	–	(61,656)
	<b>534,514</b>	552,164	<b>462,434</b>	488,691
Payments made in the year	<b>(13,451)</b>	(14,079)	<b>(12,966)</b>	(11,334)
Post-retirement benefit obligations	<b>521,063</b>	538,085	<b>449,468</b>	477,357
Less: current portion (note 23)	<b>(13,922)</b>	(15,550)	<b>(13,610)</b>	(12,515)
Post-retirement benefit obligations – long-term portion	<b>507,141</b>	522,535	<b>435,858</b>	464,842

### 33. Retirement Benefit Plans and Post-Retirement Benefits (Cont'd)

#### (b) Post-retirement benefits (Cont'd)

(ii) Changes in post-retirement benefit obligations are as follows:–

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
At 1 January	538,085	428,026	477,357	428,026
Curtailment of medical benefit (note 4)	(95,975)	–	(82,485)	–
Current service cost	18,445	33,060	15,852	33,060
Interest on obligation	31,129	29,422	26,754	29,422
Transitional obligation recognised in the year	42,830	61,656	42,830	61,656
Payments made in the year	(13,451)	(14,079)	(12,966)	(11,334)
Transfer to subsidiaries	–	–	(17,874)	(63,473)
At 31 December	521,063	538,085	449,468	477,357

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

	Group	
	2001 RMB'000	2000 RMB'000
Current service cost	18,445	33,060
Interest on obligation	31,129	29,422
Transitional obligation recognised in the year	42,830	61,656
Total (note 4)	92,404	124,138

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### 33. Retirement Benefit Plans and Post-Retirement Benefits (Cont'd)

#### (b) Post-retirement benefits (Cont'd)

(iv) The transitional obligation is fully recognised in the current year, representing one-fifth of the total transitional obligation arising from the first adoption of IAS 19 (Revised), which reduced from RMB61,656,000 to RMB42,830,000 as a result of the exclusion of the portion attributable to medical benefit.

(v) Principal actuarial assumptions at the balance sheet date are as follows:—

	2001	2000
Discount rate	7.00%	8.20%
Annual rate of increase of per capita benefit payment	3.50%	3.50%
Employees turnover rate	1.80%	3.50%

### 34. Staff Housing Benefits

The Group constructed staff quarters in previous years. Most of these staff quarters have been disposed of to qualified employees at substantial discounts in the year ended 31 December 2001. Provision representing the foreseeable loss on the disposal had already been provided in previous years and there was no substantial over or under provision. As at 31 December 2001, the construction cost and corresponding provision on the unallocated quarters included in the Group's consolidated balance sheet amounted to approximately RMB84 million (2000: RMB357 million) and RMB73 million (2000: RMB289 million) respectively.

In 1998 and 2000, the State Council of the PRC issued circulars stipulating that distribution of quarters to employees at discounted prices should be withdrawn and cash allowance should be made to employees thereafter. 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 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. Certain provincial governments have already set out the implementation procedures while Shanghai Municipal Government is yet to announce such details. With reference to policies already set out by certain provincial governments, the Company's directors estimated a provision of approximately RMB80,179,000 in the previous year which was included in other payable in the Group's consolidated balance sheet as at 31 December 2001.

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### 35. Notes to the Consolidated Cash Flow Statement

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

	2001 RMB'000	2000 RMB'000
Cash and bank balances	1,099,630	1,284,373
Deposits with an associated company	281,362	188,302
Less: short-term deposits with original maturities over three months	(50,012)	(49,784)
	<b>1,330,980</b>	1,422,891

#### (b) Acquisition of passenger carriage business

	2001 RMB'000
Net assets acquired	
Land use rights	56,024
Fixed assets	257,115
Construction in progress	6,420
Cash and bank balances	54,008
Other net current liabilities	(103,567)
	<b>270,000</b>
Negative goodwill (note 12(a))	(55,245)
	<b>214,755</b>
Satisfied by:–	
Cash	30,000
Instalment payable (note 31)	184,755
	<b>214,755</b>

#### Analysis of the net cash inflow in respect of the acquisition of a passenger carriage business

	2001 RMB'000
Cash and bank balances acquired	54,008
First instalment paid	(30,000)
Net cash inflow in respect of the acquisition of a passenger carriage business	<b>24,008</b>



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### 35. Notes to the Consolidated Cash Flow Statement (Cont'd)

#### (c) Supplementary information

	2001 RMB'000	2000 RMB'000
Interest received, net of amortisation of bond discount	<b>87,064</b>	132,163
Interest paid, net of amount capitalised	<b>936,751</b>	981,227
Income tax paid	<b>9,893</b>	26,919
Investing activities not affecting cash:		
Discounts on aircraft acquisition used for purchases of flight equipment and spare parts	<b>8,872</b>	110,789
Financing activities not affecting cash:		
Finance lease obligations incurred	–	1,202,051
Dividend payable to ultimate holding company set off against loan to ultimate holding company	<b>60,050</b>	–

**36. Commitments and Contingent Liabilities****(a) Capital commitments**

As at 31 December 2001, the Group and the Company had the following capital commitments:–

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Authorised and contracted for:				
– Aircraft and related equipment	<b>9,186,803</b>	10,092,671	<b>9,186,803</b>	10,092,671
– Other	<b>437,820</b>	423,857	<b>87,820</b>	398,097
	<b>9,624,623</b>	10,516,528	<b>9,274,623</b>	10,490,768
Authorised but not contracted for:				
– Other	<b>980,289</b>	1,057,620	<b>1,348,071</b>	1,380,120
	<b>10,604,912</b>	11,574,148	<b>10,622,694</b>	11,870,888

The above commitments mainly include amounts for acquisition of ten B737 and five A-340 aircraft (2000: three A-320 and five A-340 aircraft) for delivery between 2002 and 2004 (2000: 2001 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
	2001 RMB'000
2002	<b>2,199,010</b>
2003	<b>4,927,582</b>
2004	<b>2,060,211</b>
	<b>9,186,803</b>

## Notes to the Financial Statements

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### 36. Commitments and Contingent Liabilities (Cont'd)

#### (b) Operating lease commitments

As at 31 December 2001, the Group and the Company had commitments under operating leases to pay future minimum lease rentals as follows:—

	2001		2000	
	Aircraft and flight equipment RMB'000	Land and buildings RMB'000	Aircraft and flight equipment RMB'000	Land and buildings RMB'000
<b>Group</b>				
Within one year	<b>1,013,629</b>	<b>40,462</b>	916,043	65,845
In the second year	<b>1,373,539</b>	<b>16,756</b>	1,039,057	10,654
In the third to fifth year inclusive	<b>3,430,504</b>	<b>30,638</b>	3,717,879	22,571
After the fifth year	<b>4,890,768</b>	<b>14,090</b>	5,976,513	19,050
	<b>10,708,440</b>	<b>101,946</b>	11,649,492	118,120
<b>Company</b>				
Within one year	<b>819,957</b>	<b>38,206</b>	545,726	64,159
In the second year	<b>1,178,866</b>	<b>16,171</b>	606,649	10,422
In the third to fifth year inclusive	<b>2,849,487</b>	<b>30,339</b>	2,316,117	22,320
After the fifth year	<b>4,032,137</b>	<b>14,090</b>	3,570,624	19,050
	<b>8,880,447</b>	<b>98,806</b>	7,039,116	115,951

#### (c) Investment in GE Engine Services (Xiamen) Co., Ltd.

In May 2001, the Group entered into an agreement with General Electric ("GE"), an unrelated third party, to obtain a 30% interest in GE Engine Services (Xiamen) Co., Ltd. ("GE Xiamen") at a consideration of US\$3.6 million. The Group is not required to settle the consideration immediately and the ownership of the 30% interest in GE Xiamen is conditional upon the Group's fulfilment of a commitment to deliver to GE Xiamen annually a specified percentage of its CFM 56 engines for repair services for a period of 10 years. The Group will be entitled to dividends from GE Xiamen and the dividends received will be used to set off against the consideration payable to GE if this commitment is fulfilled.

### 36. Commitments and Contingent Liabilities (Cont'd)

#### (d) Contingent liabilities

As at 31 December 2001, the Group provided a guarantee to a bank in respect of bank facilities granted to Nanjing Lu Kou International Airport Company, a third party, amounting to RMB150,000,000 (2000: RMB150,000,000).

### 37. 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
<b>2001</b>					
Traffic revenues	4,987,486	2,145,732	1,574,971	2,970,421	11,678,610
Other operating revenues	447,636	—	9,204	17,358	474,198
<b>Turnover</b>	<b>5,435,122</b>	<b>2,145,732</b>	<b>1,584,175</b>	<b>2,987,779</b>	<b>12,152,808</b>
<b>Operating profit/(loss)</b>	<b>75,355</b>	<b>484,817</b>	<b>367,602</b>	<b>(53,103)</b>	<b>874,671</b>
<b>2000</b>					
Traffic revenues	4,184,310	2,104,908	1,586,071	2,893,199	10,768,488
Other operating revenues	451,575	—	—	—	451,575
<b>Turnover</b>	<b>4,635,885</b>	<b>2,104,908</b>	<b>1,586,071</b>	<b>2,893,199</b>	<b>11,220,063</b>
<b>Operating profit/(loss)</b>	<b>88,237</b>	<b>485,001</b>	<b>277,732</b>	<b>(72,718)</b>	<b>778,252</b>

\* include 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.

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### 38. 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 2001:—

Nature of transaction	Related party	Revenue/ (Expenses, payments or purchase consideration)	
		2001 RMB'000	2000 RMB'000
<b>(a) With CAAC and its affiliates :—</b>			
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	<b>9,915</b>	17,495
Take-off and landing fees charged at predetermined scale of rates published by CAAC	PRC airports	<b>(936,594)</b>	(791,087)
Purchase of aircraft fuel at state controlled prices	Civil Aviation Oil Supply Company	<b>(1,739,114)</b>	(1,458,378)
Commission expenses on air tickets sold on behalf of the Group at rates ranging from 3% to 9% of value of tickets sold	– CAAC	<b>(50,229)</b>	(95,343)
	– PRC airlines	<b>(1,758)</b>	(9,646)
Ticket reservation service charges for utilisation of computer reservation system	CAAC	<b>(55,800)</b>	(55,800)
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	<b>(370,284)</b>	(374,196)
Aircraft insurance premium paid through CAAC who entered into the insurance policy on behalf of the Group	CAAC	<b>(82,932)</b>	(57,939)
Acquisition of a passenger carriage business	China Civil Aviation Flight College	<b>(214,755)</b>	—

## Notes to the Financial Statements

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Year ended 31 December 2001

### 38. Related Party Transactions (Cont'd)

Nature of transaction	Related party	Revenue/ (Expenses, payments or purchase consideration)	
		2001 RMB'000	2000 RMB'000
<b>(b) With EA Group or companies directly or indirectly held by EA Group:—</b>			
Interest income on loans and deposits at rates of 0.99% per annum (2000: ranging from 1.04% to 6.21% per annum)	– EAGF – EA Group	<b>2,290</b> –	2,724 3,242
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 – various subsidiaries of EA Group	<b>(10,105)</b> <b>(49,286)</b>	(7,494) (62,259)
Interest expenses on loans at rates ranging from 4.185% to 4.65% per annum (2000: 5.30% to 5.58% per annum)	EAGF	<b>(1,268)</b>	(6,154)
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	<b>(1,137,471)</b>	(1,157,483)
Repairs and maintenance expenses payable for ground service facilities	Shanghai Eastern Air Industrial Corporation (SEAIC)	<b>(24,362)</b>	(26,258)
Source of food and beverages	– Eastern Air (Santou) Economic Development Co. Ltd. – SEAC – SEAIC – Qilu Eastern Air Catering Co. Ltd. – Qingdao Air Service Co. Ltd.	<b>(52,821)</b> <b>(101,160)</b> <b>(10,688)</b> <b>(6,426)</b> <b>(10,926)</b>	(71,350) (96,571) (7,405) (4,982) (7,341)

## Notes to the Financial Statements

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### 38. Related Party Transactions (Cont'd)

Nature of transaction	Related party	Revenue/ (Expenses, payments or purchase consideration)	
		2001 RMB'000	2000 RMB'000
<b>(b) With EA Group or companies directly or indirectly held by EA Group (Cont'd):–</b>			
Advertising expenses	Eastern Aviation Advertising Service Company	<b>(6,985)</b>	(16,762)
Purchase of aviation equipment	Shanghai Eastern Aviation Equipment Manufacturing Corporation	<b>(6,434)</b>	(21,010)
Inflight hygiene and cleaning service expenses	Shanghai Eastern General Corporation	<b>(15,318)</b>	(14,392)
Printing expenses	Shanghai Aviation Printing Co., Ltd.	<b>(3,799)</b>	(6,062)
Rental expenses	– Shanghai Eastern Aviation Equipment Manufacturing Corporation	<b>(4,461)</b>	(5,194)
	– Shanghai Eastern Real Estate Operation Co. Ltd.	<b>(5,794)</b>	(3,033)
Investment in an associated company, being capital injection into EAGF (a company jointly owned by EA Group and its subsidiaries), resulting in 25% interest in the enlarged capital of EAGF.	EA Group	<b>(106,364)</b>	–

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 2001, the Group had balances with related companies, details of which are disclosed in note 20. In addition, guarantees are given by EA Group in respect of the Group's long-term bank loans (see note 26).

### 39. Financial Assets and Financial Liabilities

Financial assets of the Group mainly 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 2(u). 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 worldwide 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 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 an associated company, EAGF. Details of deposits placed with EAGF have been disclosed in note 20(b).
- (ii) Trade receivables  
These are mainly tickets sales receivable from sales agents and receivables related to uplifts by the Company 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 related companies  
These balances are disclosed in note 20(a).
- (v) Receivable due under subleases  
The Group subleases certain aircraft, details of which are disclosed in note 25(b).

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



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### 39. Financial Assets and Financial Liabilities (Cont'd)

#### (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 (which has been replaced by Euro), 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. However, the Group is unable to hedge its foreign currency liability 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 gains recognised by the Group for the years ended 31 December 2001 and 2000.

Certain of the Group's finance lease obligations, including those determined in Japanese Yen, will be fully settled in the next three years. The Group anticipates that more foreign currencies generated from ticket sales will remain in the Group, which will be subject to foreign currency fluctuation after the full settlement of these finance lease obligations from 2004 onwards. Accordingly, the Group has entered into certain foreign currency forward contracts with PRC banks. As at 31 December 2001, the following foreign currency forward contracts are outstanding:—

	Selling of Japanese yen for US dollars US\$'000	Selling of Korean won for US dollar US\$'000	Total US\$'000
Contracts expiring in:			
2002	—	10,000	10,000
2003	—	—	—
2004	12,000	—	12,000
2005	12,000	—	12,000
2006	12,000	—	12,000
<b>Total</b>	<b>36,000</b>	<b>10,000</b>	<b>46,000</b>

These foreign currency forward contracts qualify for hedging accounting and is accounted for as cash flow hedges. As at 31 December 2001, the cumulative gain of these foreign currency forwards amounting to RMB5,396,000 was recognised into the Group's hedging reserve in shareholders' equity (see note 29).

**39. Financial Assets and Financial Liabilities (Cont'd)****(f) Fair Value**

The carrying amounts and estimated fair value of the Group's long term bank loans at 31 December 2001 are set out as follows:—

	<b>Group and Company</b>
	<b>RMB'000</b>
Carrying amounts	5,300,567
Estimated fair value	5,061,182

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

Investments in subsidiaries and an associated company 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.

**40. Ultimate Holding Company**

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

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### 41. Post Balance Sheet Date Events

#### **(a) Disposal of aircraft to a subsidiary**

On 1 January 2002, the Company disposed of two MD11 freighters to China Cargo at a total consideration of RMB1,007,608,000 representing the net book values of the MD11 freighters as at 31 December 2001.

#### **(b) New investment**

On 19 March 2002, the Company announced to establish China Eastern Airlines Wuhan Limited ("CEAWL") with Wuhan Airlines Company in which the Company will have 40% interest. The registered capital of CEAWL is expected to be approximately RMB700,000,000.

#### **(c) Banking Facilities**

Subsequent to the balance sheet date, the Company has obtained general credit facilities of RMB29.6 billion and US\$200 million (equivalent to RMB1.7 billion) in the form of loans from PRC banks, mainly for financing future aircraft acquisitions, investments in domestic aviation businesses and for working capital purposes. The United States dollar facility is currently subject to the approval of State Administration of Exchange Control.

#### **(d) Proposed dividends**

Subsequent to the balance sheet date, the Company proposed a final dividend of RMB0.02 per share totalling RMB97,339,000 for the year ended 31 December 2001 (see note 11).

### 42. Approval of Accounts

The accounts were approved by the Board of Directors on 8 April 2002.