Certain Financial Information and Operating Data by Geographic Region

The following table sets forth certain financial information and operating data by geographic region for the years ended 31 December, 1999 and 2000:

	For the year ended 31 December, 2000	1999	2000 vs 1999 % Increase/ (Decrease)
Traffic			
Revenue passenger kilometres (RPK) (million)			
- Domestic	**16,704**	14,511	**15.1**
- Hong Kong regional	**1,066**	1,106	**(3.6)**
- International	**3,883**	3,068	**26.6**
Total	**21,653**	18,685	**15.9**
Revenue tonne kilometres (RTK) (million)			
- Domestic	**1,744**	1,518	**14.9**
- Hong Kong regional	**101**	106	**(4.7)**
- International	**608**	379	**60.4**
Total	**2,453**	2,003	**22.5**
Passengers carried (thousand)			
- Domestic	**14,287**	12,769	**11.9**
- Hong Kong regional	**1,400**	1,434	**(2.4)**
- International	**1,082**	909	**19.0**
Total	**16,769**	15,112	**11.0**
Cargo and mail carried (thousand tonnes)			
- Domestic	**366**	327	**11.9**
- Hong Kong regional	**29**	29	**—**
- International	**48**	35	**37.1**
Total	**443**	391	**13.3**

	For the year ended 31 December, 2000	1999	2000 vs 1999 % Increase/ (Decrease)
Capacity			
Available seat kilometres (ASK) (million)			
- Domestic	**27,797**	24,900	**11.6**
- Hong Kong regional	**1,731**	1,791	**(3.4)**
- International	**6,303**	5,155	**22.3**
Total	**35,831**	31,846	**12.5**
Available tonne kilometres (ATK) (million)			
- Domestic	**3,247**	2,865	**13.3**
- Hong Kong regional	**197**	214	**(7.9)**
- International	**1,163**	683	**70.3**
Total	**4,607**	3,762	**22.5**
Load Factors			
Passenger load factor (RPK/ASK) (%)			
- Domestic	**60.1**	58.3	**3.1**
- Hong Kong regional	**61.6**	61.8	**(0.3)**
- International	**61.6**	59.5	**3.5**
Total	**60.4**	58.7	**2.9**
Overall load factor (RTK/ATK) (%)			
- Domestic	**53.7**	53.0	**1.3**
- Hong Kong regional	**51.5**	49.5	**4.0**
- International	**52.3**	55.5	**(5.8)**
Total	**53.3**	53.2	**0.2**
Yield			
Yield per RPK (RMB)			
- Domestic	**0.63**	0.65	**(3.1)**
- Hong Kong regional	**1.06**	1.00	**6.0**
- International	**0.42**	0.42	**—**
Total	**0.61**	0.63	**(3.2)**
Yield per RTK (RMB)			
- Domestic	**6.53**	6.69	**(2.4)**
- Hong Kong regional	**11.75**	11.00	**6.8**
- International	**3.50**	3.96	**(11.6)**
Total	**6.00**	6.40	**(6.3)**

2000 Compared with 1999

The Group recorded a net profit of RMB502 million for 2000, as compared to a net profit of RMB82 million for 1999. The Group's operating revenue increased by RMB1,878 million or 14.1% from RMB13,300 million in 1999 to RMB15,178 million in 2000. Passenger load factor increased by 1.7 percentage point from 58.7% in 1999 to 60.4% in 2000. Passenger yield (in passenger revenue per RPK) decreased by 3.2% from RMB0.63 in 1999 to RMB0.61 in 2000. Average yield (in traffic revenue per RTK) decreased by 6.3% from RMB6.40 in 1999 to RMB6.00 in 2000. Operating expenses increased by RMB2,546 million or 22.2% from RMB11,450 million in 1999 to RMB13,996 million in 2000. Of the increase in operating expenses, an approximate amount of RMB807 million was attributable to the increase in fuel prices and the remaining amount of approximately RMB1,739 million was primarily due to operational growth. As operating expenses increased more than operating revenue, operating profit decreased by 36.1% from RMB1,850 million in 1999 to RMB1,182 million in 2000. The Group's net non-operating expenses decreased by 83.1%, from RMB1,481 million in 1999 to RMB251 million in 2000, mainly reflecting a profit on sale of aircraft of RMB378 million and an exchange gain of RMB319 million. Overall, the Group's net profit increased by 509.0%, from RMB82 million in 1999 to RMB502 million in 2000.

Operating Revenue

Substantially all of the Group's operating revenue is attributable to airline operations. Traffic revenue in 2000 and 1999 accounted for 96.9% and 96.4% of total operating revenue, respectively. Passenger traffic and cargo and mail traffic accounted for 90.1% and 9.9% of total traffic revenue in 2000, respectively. The balance of the Group's operating revenue is derived from commission income, income from general aviation operations, fees charged for ground services rendered to other Chinese airlines that operate flights in and out of airports in Southern China, including the airports in Guangzhou, Shenzhen, Xiamen and Wuhan, air catering services and aircraft lease income.

Operating revenue increased by 14.1% from RMB13,300 million in 1999 to RMB15,178 million in 2000. This increase was primarily due to a 12.1% rise in passenger revenue from RMB11,819 million in 1999 to RMB13,255 million in 2000, as a result of higher traffic volume. The total number of passengers carried increased by 11.0% to 16.77 million passengers in 2000. RPKs increased by 15.9% from 18,685 million in 1999 to 21,653 million in 2000 primarily as a result of an increase in ASKs. However, the yield per RPK decreased by 3.2% from RMB0.63 in 1999 to RMB0.61 in 2000 as a result of increased competition among PRC airlines.

Domestic passenger revenue, which accounted for 79.2% of total passenger revenue in 2000, increased by 11.2% from RMB9,433 million in 1999 to RMB10,494 million in 2000. For the Group's domestic routes, passenger traffic in RPKs increased by 15.1%, while passenger capacity in ASKs increased by 11.6%, resulting in a 1.8 percentage point increase in passenger load factor, or an increase of 3.1% from 1999. Passenger yield decreased by 3.1% from RMB0.65 in 1999 to RMB0.63 in 2000, principally as a result of increased competition on domestic market.

Hong Kong passenger revenue, which accounted for 8.5% of total passenger revenue, increased by 2.0% from RMB1,111 million in 1999 to RMB1,133 million in 2000. For Hong Kong flights, passenger traffic in RPKs decreased by 3.6%, while passenger capacity in ASKs decreased by 3.4% resulting in a 0.2 percentage point reduction in passenger load factor, or a decrease of 0.3% from 1999. Passenger yield increased by 6.0% from RMB1.00 in 1999 to RMB1.06 in 2000, principally as a result of an increase in effective airfares on the Group's Hong Kong flights.

International passenger revenue, which accounted for 12.3% of total passenger revenue, increased by 27.7% from RMB1,275 million in 1999 to RMB1,628 million in 2000. For international flights, passenger traffic in RPKs increased by 26.6%, while passenger capacity in ASKs increased by 22.3%, resulting in a 2.1 percentage point gain in passenger load factor, or an increase of 3.5% from 1999. Passenger yield remains unchanged at RMB0.42.

Cargo and mail revenue, which accounted for 9.9% of the Group's total traffic revenue and 9.6% of total operating revenue, increased by 44.3% from RMB1,006 million in 1999 to RMB1,451 million in 2000. This was primarily due to an increase in cargo and mail traffic volume in RTKs of 37.2% from 616 million in 1999 to 845 million in 2000 as a result of a new international cargo route opened in April 2000.

Other operating revenue decreased marginally by 0.5% from RMB475 million in 1999 to RMB472 million in 2000. This was due to general fluctuations in various ancillary operations.

Operating Expenses

Substantially all of the Group's operating expenses result from its airline operations. The vast majority of such expenses relate directly to flight operations, aircraft and traffic servicing, aircraft repairs and maintenance and to deprecation and amortization in respect of aircraft and flight equipment. Expenses associated directly with the Group's flight operations (collectively, "flight operations expenses") include fuel costs, operating lease payments, catering expenses, aircraft insurance, flight personnel payroll and welfare and training expenses. Expenses associated directly with repairs and maintenance in respect of the Group's aircraft (collectively, "repairs and maintenance expenses") include repairs and maintenance and overhaul charges, the costs of consumables and other maintenance materials and labour costs for maintenance personnel. Expenses associated directly with the Group's aircraft and traffic servicing operations (collectively "aircraft and traffic servicing expenses") include landing and navigation fees, rental payments and charges in respect of terminal and other ground facilities and labour costs for ground personnel. The balance of the Group's operating expenses result from promotional and marketing activities (collectively, "promotional and marketing expenses") such as sales commissions, fees for use of the CAAC's reservation system, ticket-printing and sales office expenses, advertising and promotional expenses, and from general and administrative expenses, such as administrative salaries and welfare and other personnel benefits and office expenses.

Total operating expenses in 2000 amounted to RMB13,996 million, representing an increase of 22.2% or RMB2,546 million over 1999, primarily due to the combined effect of the expansion in operations, effect of increased fuel prices and repair and maintenance expenses. Total operating expenses as a percentage of total operating revenue increased from 86.1% in 1999 to 92.2% in 2000 as the increase in operating expenses exceeded the increase in operating revenue.

Flight operation expenses, which accounted for 43.6% of total operating expenses, increased by 38.4% from RMB4,413 million in 1999 to RMB6,109 million in 2000, primarily as a result of an increase in operating lease payments, fuel costs and catering expenses. Fuel costs, which accounted for 53.0% of flight operations expenses, increased by 52.8% from RMB2,121 million in 1999 to RMB3,240 million in 2000 due to a larger extent the effect of inflated fuel prices and to a smaller extent an expansion in flight capacity. A substantial portion of the Group's fuel consumption is sourced domestically. The average domestic and international prices borne by the Group increased by about 30.7% and 54.0%, respectively as compared to 1999. Operating lease payments increased by 38.5% from RMB1,167 million in 1999 to RMB1,616 million in 2000, due primarily to new leases of aircraft during the year including two Boeing 737-37K and three Boeing 737-300 aircraft wet leased from Zhongyuan Airlines and one Boeing 747-400 freighter. Catering expenses increased by 14.7% from RMB422 million in 1999 to RMB484 million in 2000, reflecting primarily an increase in number of passengers carried. Aircraft insurance costs decreased by 3.4% from RMB88 million in 1999 to RMB85 million in 2000, due largely to a reduction in aircraft insurance premiums levied on PRC airlines by the People's Insurance (Property) Company of China. Labour costs for flight personnel increased by 16.6% from RMB494 million in 1999 to RMB576 million in 2000, due largely to an increase in flight hours as well as an increase in bonuses for flight personnel.