

3 Turnover (cont'd)

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

Types of revenue	Applicable sales tax rates
Traffic revenue	3% (1999: 3%) of traffic revenue. All inbound international and Hong Kong regional flights are exempted from sales tax.
Other operating revenue	3% (1999: 3%) of commission income, general aviation income and ground services fees, and 3% to 5% (1999: 3% to 5%) of other operating revenue.

Sales tax incurred during the year ended 31 December, 2000, netted off against revenue, amounted to RMB510,460,000 (1999: RMB460,058,000).

In addition, the Group is required to pay contributions to the CAAC Infrastructure Development Fund which are calculated at the rates of 5% and 2%, respectively (1999: 5% and 2%, respectively) of the domestic and international/Hong Kong regional traffic revenue. Contributions to the CAAC Infrastructure Development Fund paid by the Group for the year ended 31 December, 2000 totalled RMB666,982,000 (1999: RMB587,867,000).

Pursuant to approval documents issued by the CAAC, beginning in November 2000, the Group imposes a fuel surcharge on passengers carried by its domestic and Hong Kong regional flights at the following prescribed rates:

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

The fuel surcharge forms part of the traffic revenue of the Group. For the year ended 31 December, 2000, the fuel surcharge revenue of the Group totalled RMB149,452,000.

4 Profit/(loss) on sale of fixed assets

Profit/(loss) on sale of fixed assets represents:

	2000	1999
	RMB'000	RMB'000
Aircraft (Note)	377,817	—
Flight equipment and others	(5,221)	85,828
Staff quarters (Note 28)	—	(104,468)
	372,596	(18,640)

4 Profit/(loss) on sale of fixed assets (cont'd)

Note:

Pursuant to certain sale and leaseback arrangements entered into during the year, the Group sold four Boeing 757-200 aircraft to independent third parties and then entered into operating leases with such parties to lease back the aircraft for a period of seven to eight years. The Group recognised a profit of RMB377,817,000, being the excess of the sale proceeds which approximated the aircraft's fair value on the date of disposal, over the aircraft's net book value and related disposal costs.

5 Profit before taxation and minority interests

	2000 RMB'000	1999 RMB'000
Profit before taxation and minority interests is arrived at after charging:		
<i>Operating expenses</i>		
Jet fuel	3,240,129	2,121,057
Aircraft maintenance	1,602,235	1,268,946
Routes	3,659,312	3,213,534
Depreciation		
owned assets	1,238,465	1,180,495
assets held under finance leases	606,814	608,614
Amortisation of deferred expenditure	18,510	18,510
Operating lease charges		
aircraft and flight equipment	1,615,574	1,167,379
land and buildings	97,551	102,436
Staff costs		
Salaries, wages and welfare	1,139,808	1,014,872
Contributions to retirement schemes	68,829	55,144
Office and administration	426,771	400,839
Auditors' remuneration	7,400	7,400
Other	274,819	290,509
	13,996,217	11,449,735
<i>Finance expense</i>		
Interest on bank and other loans wholly repayable within five years	82,675	65,750
Interest on other loans	245,994	300,190
Finance charges on obligations under finance leases	745,567	826,239
Interest expense	1,074,236	1,192,179
and after crediting:		
Aircraft lease income	110,635	119,400
Finance sublease income	—	1,383
Amortisation of gains on sale and leaseback transactions	23,065	23,065
Dividend income from unlisted investments	3,359	834

5 Profit before taxation and minority interests (cont'd)

The profit attributable to shareholders for the year ended 31 December, 2000 includes a profit of RMB380,434,000 (1999: RMB47,438,000) which has been dealt with in the accounts of the Company.

6 Emoluments of directors, supervisors and senior management**(a) Directors' and supervisors' emoluments**

	2000 RMB'000	1999 RMB'000
Fees	—	—
Salaries, allowances and benefits in kind	906	890
Retirement benefits	69	54
Bonuses	381	356
	1,356	1,300

No remuneration has been paid to non-executive directors for the year ended 31 December, 2000 (1999: Nil).

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

	2000 Number	1999 Number
Nil to HK\$1,000,000 (RMB1,060,800 equivalent)	16	16

(b) Senior management's emoluments

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

	2000 RMB'000	1999 RMB'000
Salaries, allowances and benefits in kind	923	1,009
Retirement benefits	12	12
	935	1,021

6 Emoluments of directors, supervisors and senior management (cont'd)**(b) Senior management's emoluments** (cont'd)

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

	2000 Number	1999 Number
Directors and supervisors	1	—
Employees	4	5
	5	5
Nil to HK\$1,000,000 (RMB1,060,800 equivalent)	5	5

7 Taxation

Taxation in the consolidated profit and loss account comprises:

	2000 RMB'000	1999 RMB'000
PRC income tax	59,297	74,862
Share of taxation of associated companies	12,024	12,009
	71,321	86,871
Deferred taxation expense (Note 16)	267,586	41,152
	338,907	128,023

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

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

7 Taxation (cont'd)

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

	2000	1999
	RMB'000	RMB'000
Expected PRC taxation expense	307,306	121,620
Adjustments:		
Gains on sales and leaseback transactions and their amortisation	(7,612)	(7,612)
Rate differential on subsidiaries taxed at 15%	(40,745)	(64,161)
Non-deductible expenses	70,512	78,843
Other, net	9,446	(667)
	338,907	128,023

Taxation in the balance sheets represents:

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC income tax for the year	59,297	74,862	4,000	—
Balance of PRC income tax payable in respect of prior years	52,001	69,343	34,142	34,142
Provisional PRC income tax payments	(34,142)	—	—	—
Tax payable	77,156	144,205	38,142	34,142

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

The PRC withholding tax payable in respect of the leases executed after 1 September, 1999 of RMB5,020,000 (1999: RMB116,000) has been included as part of the operating lease charges for the year.

8 Dividends

The board of directors of the Company does not recommend the payment of any dividend in respect of the year ended 31 December, 2000 (1999: Nil).

(Expressed in Renminbi)

9 Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of RMB501,771,000 (1999: RMB82,398,000) and the weighted average number of shares in issue during the year of 3,374,178,000 (1999: 3,374,178,000).

10 Fixed assets

	Land use rights and buildings RMB'000	Aircraft		Other flight equipment, including rotatable spares	Machinery, equipment and vehicles	Total RMB'000
		Owned RMB'000	Held under finance leases RMB'000	RMB'000	RMB'000	
(a) The Group						
Cost or valuation:						
At 1 January, 2000	2,939,946	7,209,936	12,962,882	4,973,478	1,083,200	29,169,442
Additions	37,337	570,687	31,063	373,633	106,037	1,118,757
Transferred from construction in progress	233,260	—	—	64,313	220,503	518,076
Reclassification on exercise of purchase options	—	809,308	(809,308)	—	—	—
Disposals	(17,525)	(761,529)	—	(79,208)	(12,794)	(871,056)
At 31 December, 2000	3,193,018	7,828,402	12,184,637	5,332,216	1,396,946	29,935,219
Representing:						
Cost	2,360,834	3,219,361	6,117,583	3,087,274	961,879	15,746,931
Valuation - 1996	832,184	4,609,041	6,067,054	2,244,942	435,067	14,188,288
	3,193,018	7,828,402	12,184,637	5,332,216	1,396,946	29,935,219
Accumulated depreciation:						
At 1 January, 2000	165,599	909,549	1,556,371	1,404,519	632,794	4,668,832
Charge for the year	93,839	355,410	606,817	555,917	233,296	1,845,279
Reclassification on exercise of purchase options	—	211,085	(211,085)	—	—	—
Written back on disposal	(906)	(190,483)	—	(23,349)	(9,103)	(223,841)
At 31 December, 2000	258,532	1,285,561	1,952,103	1,937,087	856,987	6,290,270
Net book value:						
At 31 December, 2000	2,934,486	6,542,841	10,232,534	3,395,129	539,959	23,644,949
At 31 December, 1999	2,774,347	6,300,387	11,406,511	3,568,959	450,406	24,500,610

10 Fixed assets (cont'd)

	Land use rights and buildings	Aircraft		Other flight equipment, including	Machinery, equipment and vehicles	Total
		Owned	Held under finance leases	rotable spares		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(b) The Company						
Cost or valuation:						
At 1 January, 2000	888,762	4,398,331	12,915,103	3,373,791	548,294	22,124,281
Additions	2,458	—	31,063	192,597	46,356	272,474
Transferred from construction in progress	161,293	—	—	64,313	194,685	420,291
Reclassification on exercise of purchase options	—	761,529	(761,529)	—	—	—
Disposals	(2,499)	(761,529)	—	(79,208)	(4,360)	(847,596)
At 31 December, 2000	1,050,014	4,398,331	12,184,637	3,551,493	784,975	21,969,450
Representing:						
Cost	835,920	1,514,527	6,117,583	2,087,500	538,791	11,094,321
Valuation - 1996	214,094	2,883,804	6,067,054	1,463,993	246,184	10,875,129
At 31 December, 2000	1,050,014	4,398,331	12,184,637	3,551,493	784,975	21,969,450
Accumulated depreciation:						
At 1 January, 2000	47,991	603,195	1,529,407	1,001,170	389,841	3,571,604
Charge for the year	31,009	218,957	602,297	416,633	149,195	1,418,091
Reclassification on exercise of purchase options	—	179,601	(179,601)	—	—	—
Written back on disposal	(198)	(190,484)	—	(23,349)	(3,471)	(217,502)
At 31 December, 2000	78,802	811,269	1,952,103	1,394,454	535,565	4,772,193
Net book value:						
At 31 December, 2000	971,212	3,587,062	10,232,534	2,157,039	249,410	17,197,257
At 31 December, 1999	840,771	3,795,136	11,385,696	2,372,621	158,453	18,552,677