

10 Fixed assets (cont'd)

All of the Group's buildings are located in the PRC. The Group was formally granted the rights to use the nineteen parcels of land in Guangzhou, Shenzhen, Zhuhai, Beihai, Changsha, Shantou, Haikou, Zhengzhou and Guiyang, with an aggregate net book value of RMB363,396,000 at 31 December, 2000 (1999: RMB289,323,000), by the relevant PRC authorities for a period of 30 to 70 years, which expire between 2020 and 2068. For other land in the PRC on which the Group's buildings are erected, the Group was formally granted the rights to use such land for periods of one to five years commencing in the second quarter of 1997 pursuant to various lease agreements between the Company and the SA Group. The leases with initial one-year term are automatically renewable for another one-year period unless either party gives appropriate notice of termination. In this connection, rental payments totalling RMB15,224,000 (1999: RMB15,224,000) were paid to the SA Group during 2000 in respect of these leases.

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

In accordance with IAS 16 "Property, plant and equipment", subsequent to the 1996 revaluation, which was based on replacement costs, the fixed asset of the Group are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. In accordance with the revaluation performed by the directors in respect of fixed assets held by the Group as at 31 December, 2000, the carrying amounts of fixed assets did not differ materially from their respective fair value. For aircraft and related flight equipment operated collectively by the Group as a single cash-generating unit, the directors' valuation was based on discounted cash flows determined on a value in use basis. For other fixed assets, the directors' valuation was determined on the depreciated replacement cost basis.

The effect of the above revaluations was to increase future annual depreciation charges by approximately RMB68,000,000 for future years. Had the fixed assets of the Group been stated at cost, that is, the effect of the revaluation was excluded, the net book values of fixed assets of the Group and the Company as at 31 December, 2000 would have been approximately RMB23,326,601,000 and RMB17,004,862,000 respectively (1999: RMB24,114,262,000 and RMB18,305,282,000, respectively), made up as follows:

	The Group		The Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Land use rights and buildings	2,780,413	2,527,341	956,814	795,562
Aircraft				
- owned	9,118,273	8,494,154	5,293,169	5,293,169
- held under finance leases	12,644,189	13,649,949	12,644,189	13,596,516
Flight equipment and other	7,638,700	7,000,259	4,707,880	4,353,703
	32,181,575	31,671,703	23,602,052	24,038,950
Less: Accumulated depreciation	8,854,974	7,557,441	6,597,190	5,733,668
	23,326,601	24,114,262	17,004,862	18,305,282

10 Fixed assets (cont'd)

As at 31 December, 2000, certain aircraft of the Group and the Company with an aggregate carrying value of approximately RMB15,615,561,000 and RMB13,299,274,000, respectively (1999: RMB17,109,161,000 and RMB14,630,676,000, respectively) were pledged as collateral under certain loan and lease agreements (see Notes 21 and 22).

During the year, the Group entered into arrangements to lease several of its aircraft to independent third parties. The terms of such leases generally range from one to two months. Depreciation of the relevant aircraft recognised during the period from the date of commencement of the leases to 31 December, 2000 or the expiry date of the leases, whichever is earlier, totalled RMB19,027,000 (1999: RMB22,375,000).

11 Construction in progress

Construction in progress comprises expenditure incurred on the construction of buildings, staff quarters and other operating facilities not yet substantially completed at 31 December, 2000, details as follows:

	2000	1999
	RMB'000	RMB'000
The Company		
Guangzhou ticket sales office	30,386	20,326
Haikou new airport facilities	26,394	20,090
Zhengzhou training centre	22,289	21,823
Guangzhou new airport base	19,550	—
Computerised maintenance information system	18,040	15,321
Zhuhai flight training facilities	4,962	53,985
Beijing complex buildings	—	126,858
Computerised flight operation control system	—	119,971
Computerised accounting system	—	13,272
Other	30,327	33,511
	151,948	425,157
Subsidiaries		
Office building in Guilin	50,264	22,940
Guizhou airport facilities	46,137	39,804
Xiamen flight training facilities	34,418	—
Zhuhai helicopter facilities	16,153	13,850
Staff quarters in Guizhou	8,603	20,044
Fuzhou Chang Le airport facilities	7,728	8,602
Staff quarters in Zhuhai	7,285	11,974
Staff quarters in Xiamen	—	24,765
Guangxi airport facilities	—	13,066
Xiamen complex buildings	—	3,187
Other	14,358	9,320
	184,946	167,552
	336,894	592,709

12 Interest in subsidiaries

	The Company	
	2000 RMB'000	1999 RMB'000
Unlisted shares/capital contributions:		
- at directors' valuation	855,713	856,290
- at cost	100,633	100,633
Amounts due from subsidiaries	956,346	956,923
	1,431,469	1,286,418
	2,387,815	2,243,341

Details of the Company's subsidiaries are set out in Note 35.

The directors' valuation was determined by the directors of the Company after taking into account the valuation report dated 28 March, 1997 prepared by GAAC in respect of the investments in subsidiaries at 31 December, 1996.

13 Interest in associated companies

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Share of attributable net assets, other than goodwill	348,272	373,411	—	—
Capital contributions:				
- at directors' valuation	—	—	150,511	150,511
- at cost	—	—	69,432	69,432
Provision for permanent diminution in value of investment in an associated company	—	—	(28,197)	(28,197)
	348,272	373,411	191,746	191,746

Details of the Group's associated companies are set out in Note 36.

The directors' valuation was determined by the directors of the Company after taking into account the valuation report dated 28 March, 1997 prepared by GAAC in respect of the investments in associated companies at 31 December, 1996.

At 31 December, 2000, the Company was committed to make an additional capital contribution of approximately RMB103 million (1999: RMB103 million) to an associated company.

14 Long term receivables and other investments

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Unlisted investments, at cost	193,964	61,845	101,208	—
Long term bank deposits	—	24,629	—	—
Others	10,746	7,408	—	—
	204,710	93,882	101,208	—
Current portion included in other receivables	—	(24,629)	—	—
	204,710	69,253	101,208	—

Long term bank deposits represented amounts placed with a bank which provided an equivalent amount of funds to a limited leasing partnership, which leased an aircraft to the Group. These deposits whose terms substantially coincided with the terms of the related lease, were refunded to the Group upon the expiry of the deposit terms during the year.

15 Deferred expenditure

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

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Custom duties and other costs	258,515	258,515	172,588	172,588
Less: Accumulated amortisation	196,814	158,737	126,335	96,629
	61,701	99,778	46,253	75,959

*(Expressed in Renminbi)***16 Deferred taxation**

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

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Balance at 1 January	23,411	64,563	168,349	181,551
Transferred from profit and loss account (Note 7)	(267,586)	(41,152)	(232,181)	(13,202)
Balance at 31 December	(244,175)	23,411	(63,832)	168,349

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

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Deferred tax assets:				
Tax losses	369,501	413,246	369,501	413,246
Provision for major overhauls	65,877	75,904	71,366	81,393
Repair charges capitalised	213,792	148,993	151,939	103,696
Accrued expenses	261,803	255,510	261,803	255,510
Other	102,965	134,328	154,619	131,753
Total deferred tax assets	1,013,938	1,027,981	1,009,228	985,598
Deferred tax liabilities:				
Undistributed profits of subsidiaries	190,560	158,906	190,561	158,906
Provision for major overhauls	66,827	55,248	—	—
Depreciation of fixed assets	980,705	767,909	882,499	651,898
Other	20,021	22,507	—	6,445
Total deferred tax liabilities	1,258,113	1,004,570	1,073,060	817,249
Net deferred tax (liabilities)/assets	(244,175)	23,411	(63,832)	168,349

17 Inventories

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Expendable spare parts and maintenance materials	424,356	464,744	169,405	211,677
Other supplies	40,629	41,923	24,966	20,829
	464,985	506,667	194,371	232,506

None of the above inventories was carried at net realisable value at 31 December, 1999 and 2000.

18 Trade receivables

Credit terms granted by the Group to sales agents and other customers generally range from one to three months. The aging analysis of trade receivables, net of provisions for bad and doubtful accounts, is as follows:

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Within 1 month	748,893	661,828	425,363	412,660
More than 1 month but less than 3 months	27,659	75,873	19,015	45,612
More than 3 months but less than 12 months	12,218	24,705	3,614	7,718
	788,770	762,406	447,992	465,990

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

19 Amounts due to related companies

Amounts due to related companies, which represent balances with the Company's holding company, fellow subsidiaries and with the CAAC and its affiliates, are unsecured, interest free and repayable on demand.

20 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and deposits with Southern Airlines Group Finance Company Limited ("SA Finance"), a PRC authorised financial institution controlled by the SA Group and an associated company of the Group. In accordance with the financial agreement dated 22 May, 1997 between the Company and SA Finance, all the Group's deposits accepted by SA Finance at 31 December, 2000 were simultaneously placed with several designated major PRC banks by SA Finance. As at 31 December, 2000, the Group's and the Company's deposits with SA Finance amounted to RMB1,961,890,000 and RMB1,910,001,000 respectively (1999: RMB1,986,757,000 and RMB1,917,337,000, respectively).

(Expressed in Renminbi)

21 Bank and other loans

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Bank loans due:				
Within one year	783,115	613,297	392,567	367,079
In the second year	758,844	651,087	405,392	385,866
In the third to fifth year, inclusive	1,827,429	2,073,359	1,122,719	1,253,770
After the fifth year	1,196,425	1,693,757	564,885	848,170
	4,565,813	5,031,500	2,485,563	2,854,885
Other loans due:				
In the second year	6,000	—	—	—
In the third to fifth year, inclusive	—	6,000	—	—
	4,571,813	5,037,500	2,485,563	2,854,885
Portion classified as current liabilities	(783,115)	(613,297)	(392,567)	(367,079)
	3,788,698	4,424,203	2,092,996	2,487,806

Bank loans totalling RMB4,395,458,000 and RMB2,485,563,000 of the Group and the Company, respectively, at 31 December, 2000 (1999: RMB5,008,075,000 and RMB2,853,002,000 respectively) were secured by mortgages over certain of the Group's and the Company's aircraft. Certain bank loans at 31 December, 2000 were guaranteed by the following parties:

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Export-Import Bank of the United States	3,154,743	3,574,390	1,691,449	1,952,456
The Bank of China	1,108,068	1,275,436	661,467	742,297
China Construction Bank	132,647	158,249	132,647	158,249
	4,395,458	5,008,075	2,485,563	2,853,002