

**HAINAN AIRLINES COMPANY LIMITED**

**2001 ANNUAL REPORT**

April 2002

**Important Notice**

The Board of Directors of HNA guarantees that there is no significant omission, fictitious description or serious misleading of information and take both individual and joint responsibilities for the truthfulness, accuracy and completeness of the content.

This report is provided in both the English and Chinese languages. If there is any discrepancy between these two versions, the Chinese version shall prevail.

Board of Directors of HNA  
April 2002

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## I. Company Profile:

1. Registered Chinese name: 海南航空股份有限公司

Registered English name: Hainan Airlines Co., Ltd. (Shortened as HNA, hereinafter called “the Company”)

2. Legal representative: Chen Feng

3. Secretary of Board of Directors: Zhang Shanghui

E-mail: sh\_zhang@hnair.com

Representative of the Board of Directors on security affairs: Bai Yan

E-mail: baiyan@hnair.com

Office address: Haihang Development Mansion, 29 Haixiu Road, Haikou, Hainan, China.

Tel: 0898-6673 9961

Fax: 0898-6673 9960

4. Registered address: 168 Airport West Road, Haikou, Hainan, China

Office address: Haihang Development Mansion, 29 Haixiu Road, Haikou, Hainan, China.

Zip code: 570206

Website: <http://www.hnair.com>

E-mail: [webmaster@hnair.com](mailto:webmaster@hnair.com)

5. Designated newspapers to disclose the information of the Company:

China Securities News, Shanghai Securities News and Hong Kong’s Wen Wei Po

Website publishing the Annual Report of the Company: <http://www.sse.com.cn>

Annual Report available at: Securities Department of the Company

6. Stock listed at: Shanghai Stock Exchange

Stock name: 海南航空

Stock code: 600221

Stock name: HHA B share

Stock code: 900945

7. Miscellaneous:

Date and place of the first incorporation registration or amendment: October 1989 in Haikou

Registered number of business operation certificate: Qi Gu Qiong Zong Zi No. 008368

Registered number of taxation certificate: 1150805791

Name and address of the accounting firms:

Domestic accounting firm: Shine Wing Certified Accountants in 6 XinYuan Nan Lu, Chaoyang District, Beijing.

Foreign accounting firm: PricewaterhouseCoopers Public Accounting Firm in 10 Hysan Avenue, Causeway Bay, Hongkong.

## II. Key Fiscal and Business Data

### 1. Fiscal and Business Data of the Report Year:

Monetary Unit: RMB Yuan

Item	Amount
Total profit	140,084,757
Net profit	100,302,701
Net profit after non-recurring profit and loss	99,565,780
Profit from principal business	937,944,027
Profit from other operations	48,344,476
Operating profit	137,690,827
Investment income	-72,227
Income from subsidies	2,110,889

<b>Net non-operating income and expenses</b>	355,268
<b>Net cash flow from operating activities</b>	1,356,186,417
<b>Net increase in cash and cash equivalent</b>	410,967,689
<b>Net profit as per IAS</b>	57,286,000

Note:

1) The non-recurring profit and loss:

**Monetary Unit: RMB Yuan**

<b>Item</b>	<b>Amount</b>
<b>Income from non-operating activities</b>	-1,904,548
<b>Expenses on non-operating activities</b>	1,549,280
<b>Income from equity transfer (Haihang Aircraft Maintenance Co., Ltd.)</b>	-483,000
<b>Influence of income tax</b>	101,347
<b>Total</b>	<b>-736,921</b>

2) The difference of net profit as per the IAS (International Accounting Standards):

Adjustments to the premium profit of consolidated shareholders with statutory accounts in China as per IAS and influences of IAS and other adjustments on the statutory financial statements of China: As at 31 December of 2001

**Mon**

**etary Unit: RMB 1,000 Yuan**

<b>Item</b>	<b>Net Profit</b>	<b>Net Value of Assets</b>
<b>As per the statutory financial statements of China</b>	<b>100,302</b>	<b>2,184,005</b>
<b>As per IAS and other adjustments</b>		
Long-term deferred charge written off	(32,655)	(137,379)
Increase in the interests of finance lease	(5,018)	(146,891)
Increase in the depreciation expenses of fixed assets	(6,597)	(42,557)
Amortization charge on high price spare parts written off	235	126,163
Capitalized maintenance expenses written off	(2,145)	(92,270)
Expenses on major repair of aircraft unnecessary to accrue	4,112	24,448
Provisions for decrement of construction in progress	(12,000)	-
Adjustment to the business credit	1,714	(49,462)
Decrease in capitalized interests of fixed assets	3,750	(513)
Increase in assets of deferred income tax	4,421	17,309
Distributable dividends of the report year announced after the date of the balance sheet of 2001 written off	-	43,815
Others	1,167	2,610
<b>After IAS and other adjustments</b>	<b>57,286</b>	<b>1,929,278</b>

**2. Key Fiscal and Business Data of Prior Three Years:**

<b>Item</b>	<b>Unit</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
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			Before Adjustment	After Adjustment	Before Adjustment	After Adjustment
Profit from principal business	RMB Yuan	3,254,753,740	2,296,484,304	2,296,484,304	1,807,166,637	1,807,166,637
Net profit	RMB Yuan	100,302,701	163,515,837	164,783,514	135,698,892	136,634,064
Total Assets	RMB Yuan	15,004,326,205	10,183,648,745	10,140,898,439	6,472,369,102	6,450,490,833
Shareholder's equity (excluding minority interests)	RMB Yuan	2,184,004,969	2,145,357,553	2,127,517,437	2,025,656,884	2,006,254,596
Income per share	RMB Yuan per share	0.14	0.22	0.23	0.20	0.20
Income per share after non-recurring profit & loss	RMB Yuan per share	0.14	0.17	0.17	0.17	0.17
Net assets per share	RMB Yuan per share	2.99	2.94	2.91	3.00	2.96
Net assets per share after adjustment	RMB Yuan per share	2.28	2.44	2.41	2.44	2.44
Net cash flow per share from operating activities	RMB Yuan per share	1.86	0.31	0.31	-0.14	-0.14
Rate of return on equity	%	4.59	7.62	7.75	6.70	6.82
Weighted average rate of return on equity	%	4.61	7.83	7.89	10.9	11.00

Addendum to the Income Statement: calculated according to the Regulation on the Information Disclosure of Enterprises Issuing Public Securities (No. 9) promulgated by CSRC:

**Monetary Unit: RMB Yuan**

Item	Profit in the Report Period	Rate of Return on Equity		Income per Share	
		Overall Diluted Average	Weighted Average	Overall Diluted Average	Weighted Average
Profit from principal business	937,944,027	42.95%	43.07%	1.28	1.28
Operating profit	137,690,827	6.30%	6.32%	0.19	0.19
Net profit	100,302,701	4.59%	4.61%	0.14	0.14
Net profit after non-recurring profit & loss	99,565,780	4.56%	4.57%	0.14	0.14

Note: The key fiscal and business data after the annual adjustment stipulates the calculation results adjusted retroactively to the fiscal and business data of previous years on account of changes in the accounting policy, accounting estimates and correction of accounting mistakes.

### 3. Changes in Shareholder's Equity in the Report Period

Unit: Share

Item	Period Beginning	Increase	Decrease	Period End	Causes of Change
Share capital	730,252,801			730,252,801	
Capital reserve	976,800,919			976,800,919	
Surplus reserve	130,862,034	15,045,404		145,907,438	Withdrawn in the report period
Incl.: Statutory public welfare fund	40,349,539	5,015,135		45,364,674	Withdrawn in the report period
Undistributed profit	289,601,683	41,442,128		331,043,811	Increase in profit of the report period
<b>Total shareholders' equity</b>	<b>2,127,517,437</b>	<b>56,487,532</b>		<b>2,184,004,969</b>	Increase in profit of the report period

### III. Changes in Share Capital and Shareholders:

#### 1. Changes in Share Capital:

##### 1. Changes in Share:

Unit: Share

Item	Period-beginning	Period-end
<b>I. Unlisted Share</b>		
1. Founders' share		
Incl. : State share	17,289,355	17,289,355
Domestic legal person share	117,547,200	117,547,200
2. Collection legal person share		
Incl. : Domestic legal person share	124,493,045	124,493,045
Foreign legal person share	108,043,201	108,043,201
3. Employee share	64,800,000	64,800,000
<b>Total Unlisted Share</b>	<b>432,172,801</b>	<b>432,172,801</b>
<b>II. Listed Share</b>		
1. RMB ordinary share	221,400,000	221,400,000
2. B-share listed at home	76,680,000	76,680,000
<b>Total Listed Share</b>	<b>298,080,000</b>	<b>298,080,000</b>
<b>III. Total Share</b>	<b>730,252,801</b>	<b>730,252,801</b>

##### 2. Share Issuing and Listing:

1) On Oct. 11 of 1999, the 205,000,000 A-shares of the Company were issued, including 57,635,669 shares placed to the legal person shareholders on the STAQ system at the ratio of 10:5, 41,000,000 shares to the fund investors and others issued through the trading network.

On Nov. 25 of 1999, the 164,000,000 A-shares of the Company were listed at Shanghai Stock Exchange with the shortened name as “海南航空”. According to the relative regulations, the 41,000,000 shares placed to the fund investors were frozen until Jan. 25 of 2000.

2) Since there's no share distribution, ration, new-issuance or transferring into share capital occurred in the report period, the structure and total amount of the Company's shares kept unchanged.

3) Issuing date of the employee shares: September of 1992

Issuing price of the employee shares: RMB1.00 Yuan per share

Issuing amount of the employee shares: 50,000,000 shares.

Current amount of the employee shares: 64,800,000 shares.

## 2. Shareholders' Information:

1. By the end of the report period, the total number of the Company's shareholders is 118,230.

2. Top 10 shareholders:

No.	Shareholder	Shares Held (In share)	Equity Percentage
1	<b>American Aviation LTD (foreign shareholder of unlisted share)</b>	108,043,201	14.80%
2	<b>Hainan Qixing Industrial Investment Co., Ltd.</b>	56,468,147	7.73%
3	<b>HNA Group Co., Ltd.</b>	53,412,696	7.31%
4	<b>China Everbright Group Limited</b>	33,207,818	4.55%
5	<b>Hainan Jincheng State Property Administration Co., Ltd (on behalf of the nation)</b>	17,289,355	2.37%
6	<b>China International Travel Agency (head office)</b>	6,480,000	0.89%
7	<b>Bank of Communication, Hainan Branch</b>	6,480,000	0.89%
8	<b>Beijing Tianye Commerce and Trade Company (head office)</b>	4,230,000	0.59%
9	<b>China Industrial Trust &amp; Investment Company, Hainan Office</b>	3,240,000	0.44%
10	<b>China Education Trust &amp; Investment Co., Ltd.</b>	2,970,000	0.41%

Note:

1) No connected relationship exists among the top 10 shareholders.

2) Except that Hainan Qixing Industrial Investment Co., Ltd increased the holding amount of the Company's shares for 130,400 listed A-shares, the share holding amount of the other shareholders who holds more than 5% of the Company's total issued shares were not changed, impawned or frozen in the report period

3) Most shares held by the top 10 shareholders are unlisted shares, except for the 3,337,439 listed A-shares held by Hainan Qixing Industrial Investment Co., Ltd.

### 3. Brief Introduction to the Controlling Shareholder, **HNA Group Co., Ltd.:**

Legal representative: Chen Feng

Date of establishment: April 16th 1998

Registered capital: RMB 100,800,000 Yuan

Structure of stock right: Hainan Traffic Administration Holding Co., Ltd and Guangzhou Jianyun Investment Co., Ltd. hold 70% and 30% of its stock right respectively.

It mainly deals with investment and management of air transportation and airport, hotel, golf course, information and technology service; investment and development of real estate, imp. & exp. of aircraft and aviation materials (by license); investment and stock right operation in the field of energy, communications, new technology and materials.

In the report period, the controlling shareholder of the Company did not change.

### 4. Brief Introduction to the Legal Person Shareholder, American Aviation LTD, Who Holds more than 10% of the Company's Issued Shares:

Legal representative: Ronald O. Drake

Date of establishment: July 7th 1995

Registered capital: 50,000 ordinary shares at US\$1 dollar per share.

Structure of stock right: American Aviation LTD and Quantum Industrial Partners, LDC holds 25,000 shares of it

respectively.

It mainly deals with investment, obtaining and holding, on behalf of the company itself or any designated person, stocks, bonds, loan stock, bills and other securities issued or guaranteed by any government, sovereign ruler, consignor, public institution or highest authority, independent governing authority, municipal or local government across the world.

#### IV. Introduction to the Directors, Supervisors and Senior Management Officers:

##### 1. Basic Information of the Current Directors, Supervisors and Senior Management Officers:

Name	Sex	Age	Service Term	Shares Held at the Beginning and End of the Year (In 1,000 shares)	Position
Chen Feng	Male	49	2000-2003	41.4	Chairman
Wang Jian	Male	41	2000-2003	36.2	Vice Chairman
Li Qing	Male	45	2000-2003	37.5	Director
Chen Wenli	Male	39	2000-2003	35.6	Director
Tan Xiangdong	Male	35	2000-2003	25.9	Director
Ke Deming	Male	67	2001-2004		Independent Director
Tian Nong	Male	46	2001-2004		Director
Michael C. Neus	Male	41	2001-2004		Director
Ronald O. Drake	Male		2000-2003		Director
Shu Weidong	Male	37	2000-2003		Organizer of the Board of Supervisors
Tian Xiaoxuan	Male	27	2001-2004		Supervisor
Chen Ping	Male	27	2001-2004		Supervisor
Qian Daoyun	Male	51	2000-2003		Supervisor
Zhao Zongtao	Male	50	2000-2003		Supervisor
Li Weijian	Male	41	2000-2003		CEO
Li Xiaoming	Male	40	2000-2003		Executive Vice-president
Zhu Yimin	Male	41	2001-2004		Executive Vice-president & CFO
Wang Zhen	Male	39	2000-2003		Executive Vice-president
Du Xiaoping	Male	41	2001-2004		Executive Vice-president
Qin Jianmin	Male	51	2001-2004		Executive Vice-president
Zhang Shanghui	Male	30	2000-2003		Secretary of the Board of Directors

Note:

1. Mr. Chen Feng and Wang Jian also acts as the chairman and vice chairman of HNA Group Company Ltd respectively.
2. In the report period, there's no change in amount of the Company's shares held by the directors, supervisors and senior management officers.

##### 2. Yearly Remuneration:

The decision-making procedure of the remuneration of the current directors, supervisors and senior management officers:

1. The payment to the directors is carried out in accordance with the regulations of the Measures on the Chairman Funds of the Company passed by the 1<sup>st</sup> session of the second board of directors and the annual shareholders' general



meeting of 1996.

2. The payments to the supervisors and the secretary of the board of directors is carried out in accordance with the regulations of the Measures on Work Subsidies to Supervisors and Secretary of the Board of Directors of the Company passed by the 3<sup>rd</sup> session of the second board of directors and the annual shareholders' general meeting of 1998.

3. The payment to the senior management officers is carried out in accordance with the regulations of the Measures on Year-end Task Assessment on the Management Officers, which specifies the assessment principles in details.

4. The yearly remuneration of the current directors, supervisors and senior management officers accounts for RMB 1,962,200 Yuan, which includes payment of RMB 566,400 Yuan to three directors and RMB 410,600 Yuan to three senior management officers with highest remuneration.

5. Allowances and Other Benefits of the Independent Director:

The allowances of the independent director will be carried out in accordance with the standard of the current director allowances, RMB 50,000 per person and RMB 30,000 Yuan per year for liability insurance premium, which will be paid at the annual shareholders general meeting. The travel expenses occurred during the performance of his duty will be accounted and reimbursed according to his actual expenses. This plan will be submitted to the shareholders' general meeting for approval.

6. Income Statistics:

1) Yearly remuneration accounts for more than RMB 200,000 Yuan: 1 person

2) Yearly remuneration accounts for RMB 100,000-200,000 Yuan: 7 persons

3) Yearly remuneration accounts for RMB 50,000-100,000 Yuan: 9 persons

4) Yearly remuneration accounts for less than RMB 50,000 Yuan: 4 persons.

### **3. Names of Directors, Supervisors and Senior Management Officers Left their Posts and Reasons for Leaving:**

1. Employment and Dismissal of the Senior Management Officers, such as the Manager, Vice Manager, Finance Manager, Secretary of the Board of Directors, etc:

Mr. Qin Subin, Bharat Bhise and Li Luan, directors of the Company, applied for resignation since they were unable to attend the meeting of the board of directors owing to changes in positions and busy working schedule. Their resignation was approved by the annual shareholders' general meeting of 2000.

Mr. Du Xiaoping, organizer of the board of supervisors, and Wang Zhen, supervisor, had left their posts owing to changes in their positions. Their resignation was passed by the 3<sup>rd</sup> session of the 3<sup>rd</sup> board of supervisors.

Note:

1) In the year of 2001, the 2000 annual shareholders' general meeting of the Company elected Mr. Ke Deming as the independent director. The board of supervisors elected Mr. Shu Weidong as the organizer of it. The workers congress elected Mr. Tian Xiaoxuan and Chen Ping as the supervisors of the Company. The secretary of the board of directors did not change.

2) It was deliberated and passed by the 8<sup>th</sup> session of the 3<sup>rd</sup> board of directors that Mr. Huang Qiu would replace Mr. Li Xiao Ming as the CFO of the Company.

3) It was considered and passed by the 13<sup>th</sup> session of the 3<sup>rd</sup> board of directors that Mr. Zhu Yiming would take the post of the executive vice-president and CFO for a service term of three (3) years, while Mr. Huang Qiu was removed from the post of CFO. Mr. Qin Jianmin and Du Xiaoping would take the post of executive vice-president for a service term of three (3) years.

2. Employees:

By the end of the report period, the Company has 3,046 staffs in total, including 1,966 production personnel, 356 sales personnel, 403 technical personnel, 202 financial personnel and 119 administrative personnel, of whom, 37 persons had obtained the post graduate degree at least, 1% of the total employees; 952 persons obtained undergraduate degrees, 31% of the total; 1,041 persons graduated from the junior college, 35% of the total and 1,016 persons received professional education, 33% of the total. By the end of the report period, the number of the Company's retired employees is five.

## **V. Management Structure:**

### **1. Current Structure of Management:**

Since the listing of shares, the Company has been taking continuous efforts to perfect the legal person management structure, regularization of operation and information disclosure in accordance with regulations of the Company Law,

Security Law, the Regulations on the Listing Enterprises at SSE and other regulations issued by the CSRC. Presently, the Company is amending the Articles of Association and perfecting the procedural rules of the shareholders' general meeting, board of directors and board of supervisors. The current structure of management of the Company is as follows:

1. Shareholders and Shareholders' General Meeting:

The Company could guarantee the equal status and rights of the shareholders, particularly that of the small and medium shareholders. It establishes company web-site to keep efficient communication with the shareholders. The visiting and mail or telephone inquiry of shareholders are received seriously to let them fully understand the operations status of the Company. It formulated the procedural rules of the shareholders' general meeting and convened the meeting in strict accordance with the regulations of the Opinions on Regularization of Shareholders' General Meeting promulgated by the CSRC. It selected the place of the shareholders' general meeting convenient for maximum shareholders to attend and exercise voting rights. It engaged lawyers to attend and witness the meeting. The price of the Company's connected transactions is fair and reasonable. It engaged the independent financial consultant to issue the independent opinion on the transactions. In order to guarantee the validity and legality of the connected transactions it carried out the procedural rules of the board of directors and board of supervisors in accordance with the Regulations on the Listing Enterprises at SSE.

2. Relationship between the Controlling Shareholder and the Company:

The controlling shareholder of the Company exercised the right of the capital contributor through the shareholders' general meeting in accordance with the regulations of the laws. It did not interfere with the production activities and decision-making of the Company directly. The Company keeps the independence of the staff and finance and assets integrity from the controlling shareholder. The board of directors and board of supervisors and the internal institutions are able to operate independently.

3. Directors and Board of Directors:

The Company elected and appointed the directors in strictly accordance with the regulations of the Articles of Association. The number of directors and structure of the board of directors is in conformity with the regulations of the PRC laws, administrative rules and Articles of Association. The directors could attend the meeting of the board of directors and general meeting of shareholders carefully, conscientiously and diligently. They are familiar with the relative laws and rules and understand their rights and obligations as directors. In 2001, the Company engaged one independent director, who performed important positive functions in the decision-making of important operating matters. In 2002, it will engage one more professional in accounting to act as the independent director.

4. Supervisors and the Board of Supervisors:

The number and structure of the board of supervisors is in conformity with the PRC laws, rules and Articles of Association. The procedural rules of the board of supervisors were formulated and would be regularized and perfected in the practice. The supervisors exercised their duty diligently. In the spirit of being responsible to the shareholders, they supervised and monitored the legality of the performance of the directors, managers and other senior management officers and the financial works of the Company.

5. Task Assessment and Inspiration System:

The Company starts to establish fair and transparent systems of task assessment and inspiration for the directors, supervisors and managers. The engagement of the managers is public, transparent and conforms to the regulations of the law.

6. Party Interested:

The Company fully respects and maintains the legal right and interests of the creditors and other parties interested, such as banks, legal persons, employees, customers, consumers, etc. It works together with the party interested to promote continuous and healthy development.

7. Disclosure and Transparency of the Information:

The Company appoints the secretary of the board of directors to be in charge of the disclosure of the information, reception of the shareholders and their inquiries, so as to fully communicate with the shareholders of the Company. It could disclose the relevant information in accordance with the regulations of the laws and rules and Articles of Association timely, truly, exactly and completely. It ensures the equal opportunity of the shareholders to obtain the information. It timely discloses the detailed information of the major shareholders or the actual controller of the Company and changes in the stock equity.

**2. Performance of the Independent Director:**

At the general meeting of shareholders of 2000 held on May 28 of 2001, Mr. Ke Deming was engaged as the

independent director of the Company. In the report period, he attended the 9<sup>th</sup> to 13<sup>th</sup> sessions of the 3rd board of directors, the annual shareholders' general meeting of 2000, the 4<sup>th</sup> temporary general meeting of shareholders of 2001, the 5<sup>th</sup> temporary general meeting of shareholders of 2001. From Dec. 26 to 29 of 2001, he had visited and inspected the financial status and operation of the Company. Mr. Ke Deming, the independent director, exercises his duty diligently and conscientiously.

### **3. Independence of the Staff, Assets, Finance, Business and Institutions of the Company from the HNA Group Company Ltd.:**

The principal business of the Company is air transportation of passengers and cargo. The production and operation of it is independent from HNA Group Co., Ltd. It owns independent producing, supplying and sales systems. It carries out production and operation activities independently without dependence on its shareholder unit and other related parties. Its business is independent from the shareholder unit and other related parties.

1. The Company established healthy legal person management structure. Except that the post of chairman is held by the legal representative of HNA Group Co., Ltd., the general manager, vice general manager and financial personnel do not take any other posts in the shareholder unit and related companies. It also established independent administrative management institutions, including labor, personnel and salary management departments. It formulated a complete set of administrative regulations and rules. The personnel of the Company are independent from its controlling shareholder.

2. The Company owns independent flying system, assisting flying system, supporting equipment, real estate and registered trademark. The industrial property right and non-patented technology of the Company are clearly defined from that of its controlling shareholder. The unavoidable connected transactions were traded in conformity with regular business principles. The connected shareholders had abstained from voting during the general meeting in strict accordance with the Articles of Association. The assets of the Company are complete and independent.

3. The Company established the flying, operation and sales departments, etc., which owns independent flying, operation and sales systems. The purchase of the major aviation materials and sales of the transportation are carried out independently.

4. The Company set independent office of the president, secretary office of the board of directors, production and operation center, planning and financial department, labor and personnel department, production assisting department, marketing department, flying department, maintenance and engineering department. The location of the Company's administrative institutions and production are separate from its controlling shareholder.

5. The financial department and the accounting personnel of the Company are independent. The Company set independent accounting and managing systems and opened segregated bank accounts with independent account number. It has independent registered tax number and turns in tax independently. In the respect of finance, the Company is independent from its controlling shareholder.

### **4. Establishment and Performance of the Task Assessment & Inspiration Systems for Senior Management Officers:**

The yearly remuneration of the senior management officer is paid monthly in accordance with the relative regulations of the Company. The personnel department formulated the payroll regulations in consideration of the development and operation conditions of the Company, which would be submitted to the board of directors and the general meeting for approval.

The task assessment system for senior management officers mainly includes the year-end task assessment plan, year-end task assessment plan to be carried out by the chairman, the rewards and penalty regulations and the task assessment plan for the entire personnel.

Except for the above plans, the Company engaged professional institution to formulate assessment plans, such as the stock option plan, employee shareholding plan, remuneration plan, etc.

## **VI. Brief Introduction to the General Meetings:**

In 2001, the Company convened six shareholders' general meetings, including one annual shareholders' general meeting and five temporary shareholders' general meetings.

### **1. The First Temporary General Meeting of Shareholders of 2001:**

On Jan. 6 of 2001, the announcement of convening the 1<sup>st</sup> temporary general meeting of shareholders of HNA of 2001 was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po. On Feb. 8 of 2001, it was held at the conference hall on 4<sup>th</sup> floor of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan. Shareholders and proxies attended the Meeting were 9, representing 236,944,391 shares, 32.45% of the total shares (incl. 2 B-shareholders representing 9,092,270 shares). The related shareholder had abstained from the voting, which

conformed to the regulations of the Company Law and the Articles of Association of the Company. The meeting was presided over by Mr. Li Qing, director of the Company. During the meeting, the Report on Transfer 10 Dornier-328 Jets was considered and passed through.

Mr. Liu Wei and Shi Nianqing, lawyers of the Grandall Legal Group (Shanghai), had attended the meeting and issued the Legal Opinion.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Feb. 9 of 2001.

## **2. The Second Temporary General Meeting of Shareholders of 2001:**

On Feb. 15 of 2001, the announcement of convening the 2<sup>nd</sup> temporary general meeting of shareholders of HNA of 2001 was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po. On Mar. 18 of 2001, it was held at the conference hall on 4<sup>th</sup> floor of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan. Shareholders and proxies attended the Meeting were 9, representing 175,871,386 shares, 24.08% of the total shares (incl. 2 B-shareholders representing 9,092,070 shares). The related shareholder had abstained from the voting, which conformed to the regulations of the Company Law and the Articles of Association of the Company. The meeting was presided over by Mr. Wang Jian, vice chairman of the Company. During the meeting, the Report on Application for Transferring the Directional Collection Foreign Legal Person Shares into B-shares and then Listing at SSE was considered and passed.

Mr. Liu Wei and Shi Nianqing, lawyers of the Grandall Legal Group (Shanghai), had attended the meeting and issued the Legal Opinion.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Mar. 19 of 2001.

## **3. The Third Temporary General Meeting of Shareholders of 2001:**

On Mar. 2 of 2001, the announcement of convening the 3<sup>rd</sup> temporary general meeting of shareholders of HNA of 2001 was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po. On Apr. 3 of 2001, it was held at the conference hall on 4<sup>th</sup> floor of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan. Shareholders and proxies attended the meeting were 8, representing 282,732,427 shares, 38.72% of the total shares (incl. 1 B-shareholder representing 7,561,610 shares), which conformed to the regulations of the Company Law and the Articles of Association of the Company. The meeting was presided over by Mr. Li Qing, director of the Company. During the meeting, the Report on Establishing China Xinhua Airlines Company was considered and passed.

Mr. Liu Wei and Shi Nianqing, lawyers of the Grandall Legal Group (Shanghai), had attended the meeting and issued the Legal Opinion.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Apr. 4 of 2001.

## **4. The Annual General Meeting of Shareholders of 2000:**

On Apr. 17 of 2001, the announcement of convening the annual general meeting of shareholders of HNA of 2000 was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po. On May 28 of 2001, it was held at the conference room of the Meilan Base of the Company. Shareholders and proxies attended the Meeting were 38, representing 291,797,551 shares with valid voting power, 39.96% of the total shares (incl. 2 B-shareholders representing 5,129,870 shares), which conformed to the regulations of the Company Law and the Articles of Association of the Company. During the meeting, the following proposals were considered and passed:

1. Work Review of 2000 & Work Plan for 2001 of HNA
2. 2000 Annual Report and 2000 Annual Report Summary of HNA.
3. 2000 Financial Report and 2001 Financial Plan of HNA
4. Report on Employing Independent Director
5. Report on Re-election of Certain Members of the Board of Directors:

Mr. Qin Subin and Mr. Bharat Bhise left their posts as the directors of the Company owing to the changes in their positions. Mr. Li Luan resigned the post of the director of the Company owing to his busy working schedule. Mr. Tian Nong and Mr. Michael C. Neus would replace them as the directors. Mr. Ke Deming would take the post of the independent director of the Company.

6. Report on Revision of the Articles of Association of HNA
7. Report on Employment of the Auditing Firms

8. Report on Proposed Profit Distribution Plan in Year 2000
9. Report on Importation of Dornier328 Jets
10. Report on Importation of B767-300ER Liners
11. 2000 Work Report of the Board of Supervisors of HNA

Mr. Liu Wei and Shi Nianqing, lawyers of the Grandall Legal Group (Shanghai), had attended the meeting and issued the Legal Opinion.

The resolutions of the meeting were published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of May 29 of 2001.

#### **5. The Fourth Temporary General Meeting of Shareholders of 2001:**

On Jul. 19 of 2001, the announcement of convening the 4<sup>th</sup> temporary general meeting of shareholders of HNA of 2001 was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po. On Aug. 19 of 2001, the meeting was held at the conference hall of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan. Shareholders and proxies attended the Meeting were 8, representing 235,142,359 shares, 32.20% of the total shares (incl. 1 B-shareholder representing 360 shares), which conformed to the regulations of the Company Law and the Articles of Association of the Company. The meeting was presided over by Mr. Chen Wenli, director of the Company. Mr. Ke Deming, the independent director, attended the meeting. During the meeting, the following proposals were considered and passed:

1. The Self-inspection Report on Issuing Additional A-share in 2001.
2. Report on the Application for the Additional Issuance of A-share in 2001
3. Report on the Amount and Utility of the Equity Financing through the Additional Issuance of A-share in 2001.
4. Report on Feasibility of the Projects Financed by the Raised Capital from the Additional Issuance of A-share.
5. The Self-inspection Report on the Additional Issuance of B-share in 2001
6. Report on the Application for the Additional Issuance of B-share in 2001
7. Report on the Amount and Utility of the Equity Financing through the Additional Issuance of B-share in 2001.
8. Report on the Feasibility of the Projects Financed by the Raised Capital from the Additional Issuance of B-share.
9. Report on the Utility and Benefit of the Raised Capital through the Latest Equity Financing.
10. Report on the Term of Validity of the Additional Issuance of A & B Shares.
11. Report on the Application to the General Meeting for Authorization on the Board of Directors to Deal with the Specific Matters Concerning the Additional Issuance.
12. Report on Co-sharing the Accumulated Undistributed Profit after the Additional Issuance.

Mr. Liu Wei and Shi Nianqing, lawyers of the Grandall Legal Group (Shanghai), had attended the meeting and issued the Legal Opinion.

The resolutions of the meeting were published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Aug. 21 of 2001.

#### **6. The Fifth Temporary General Meeting of Shareholders of 2001:**

On Sept. 29 of 2001, the announcement of convening the 5<sup>th</sup> temporary general meeting of shareholders of HNA of 2001 was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po. On Oct. 30 of 2001, the meeting was held at the conference hall of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan. It was presided over by Mr. Wang Jian, vice chairman of the Company. Mr. Ke Deming, the independent director, attended the meeting. During the meeting, the following proposals were considered and passed:

1. Report on Acceptance of the Certain Capital Contribution Transfer of HNA Group
2. Report on Revision of the Articles of Association of HNA

Mr. Liu Wei and Shi Nianqing, lawyers of Grandall Legal Group (Shanghai), had attended the meeting and issued the Legal Opinion.

The resolutions of the meeting were published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Oct. 31 of 2001.

### **VII. Report of the Board of Directors:**

#### **1. Operation Status:**

1. Scope of the Principal Business and its Operation Status:

1) In the fiscal year of 2001, the income from principal business of the Company reached RMB 3,255 million Yuan, which included the income from passenger transportation for RMB 3,023 million Yuan, 93% of the income from principal business; the income from cargo transportation and surcharge on overweight baggage for RMB 150 million Yuan, 5% of the income from principal business; the income from aircraft charter for RMB 82 million Yuan, 2% of the income from principal business. The profit from principal business of the Company reached RMB 938 million Yuan in 2001.

2) In the year of 2001, the volume of passenger transportation reached 5.85 million person-times, up 57.2% over that of the previous year; cargo and mail air transportation reached 67,400 tons, up 11.5% over that of the previous year; the transportation turnover reached 739 million ton kilometers, up 92% over that of the previous year

3) In the report period, the Company imported nine aircraft, including one B737-800 liner, seven Dornier328 Jets and one Dash-8 aircraft. The aircraft fleet on the regional air-routes had kept expanding.

In the report period, there's no significant change in the scope of the Company's principal business.

2. Operation Status and Achievements of the Major Wholly Owned or Controlled Subsidiaries:

Monetary Unit: RMB 1,000 Yuan

Company	Registered Capital	Equity Percentage (%)	Principal Business	Income from Sales	Scale of Assets	Net Profit in the report Period
Hainan Golden-deer Aviation Sales Co., Ltd.	RMB 8,000,000 Yuan	95%	Agency service for ticket sales, air cargo transportation and aircraft charter	584,500	318,020	40
Hainan Airlines VIP Flight Service Co. Ltd.	USD 1,020,408	51%	Agency service for aircraft charter	0	15,910	0
Hainan Air Catering Co., Ltd	RMB 31,000,000 Yuan	51%	Production of air catering and souvenirs	39,090	83,040	7,170
Xinhua Airlines Co., Ltd.	RMB 1,830,000,000 Yuan	51%	Approved air passenger and cargo transportation	509,410	3,465,990	51,300
Changan Airlines Co., Ltd.	RMB 754,390,000 Yuan	73.51%	Air passenger and cargo transportation in Shan'xi province and its surrounding provinces	47,780	1,087,350	270

Note: The September to December financials of Xinhua Airlines Co., Ltd were accounted upon consolidation. The November to December financials of the Changan Airlines Co., Ltd were accounted upon consolidation.

3. Major Suppliers and Customers:

In the fiscal year of 2001, the purchase amount from the top 5 suppliers of the Company took 12.8% of the total purchase amount of it, which were mainly aviation fuels, materials, food and other applications. The sales turnover of the top 5 distributors of the Company took 5.9% of the sales turnover of it.

4. Problems and Strategies:

1) As one of the long-term tasks, the Company will enhance the work of safety management, which is the guarantee for the continuous and healthy development of the Company. It will establish scientific safety monitoring system, strictly exercise the rules of safety management, improve the awareness of safety management, explore and perfect new method of safety management.

2) With continuous expanding of the assets scale of the Company, the financial expenses of it increase correspondingly, which reduces the income level of the Company. Whereas in 2002, the Company will take efforts to eliminate the influences caused by the excessive increase in the asset-liabilities ratio through strengthening the internal management,

making full play of its priority in scale and competitiveness, improving the financial structure and overall economic efficiency.

3) The business flow of the Company needs to be optimized, while the learning ability, creativity of management and the management ability needs to be improved.

4) The Company will strengthen its ability in exploiting the international market and improve the sales organization and operation of the international air routes.

5) The limit on the business scope of the Company has become an obstacle in the way of its development. The Company is in urgent demand of enlarging its business scope in order to ensure the smooth development.

6) In order to promote the development in full wing, the Company needs to improve the ability of utilizing the core resources, such as the human recourses, air routes, flight number, flying schedule.

## 2. Investments:

### 1. Investments in the Report Period:

As of Dec. 31 of 2001, the balance of long-term investments of the Company accounted for RMB 710.5 million Yuan, up 7.7% over that of the previous year.

#### 1) Increase/decrease in long-term equity investments:

**Monetary Unit: RMB 1,000 Yuan**

01/01/2001	Increase	Decrease	31/12/2001
659,420	148,370	19,760	788,030

Cause of the increase in long-term equity investments: Since the financial statements of Xinhua Airlines Company and Changan Airlines Company Limited were accounted upon consolidation, the long-term investments of the two companies were added to the consolidated financial statements of the Company.

Causes of the decrease in long-term investments: The transferred 27% stock equity of Haihang Aircraft Maintenance Company Limited accounting for RMB 20 million Yuan by the Company and influences of the adoption of accrual basis accounting method on long-term investments contributed to the decrease in long-term investments, which totaled for RMB 19.76 million Yuan.

#### 2) Detailed long-term equity investments:

**Monetary Unit: RMB 1,000 Yuan**

Company	2001	2000	Investment Percentage	Provision for Decrement
<b>1. Investments in associated companies</b>				
Haikou Meilan Airport Co., Ltd.	407,704	404,013	30%	0
Hainan Haihang Aircraft Maintenance Co., Ltd.	29,114	48,873	48%	0
Golden Deer VIP Flight Co., Ltd.	90,315	90,505	30%	0
Hainan Haihang Aviation Imp & Exp Co., Ltd.	7,114	5,993	30%	0
Hainan Suncity International Golf Co., Ltd.	34,000	34,000	34%	0
Xinda International Transportation Agency	2,311	0	49%	0
Shenzhen Aviation Grand Hotel	3,235	0	25%	0
<b>Subtotal of investment in associated companies</b>	<b>573,793</b>	<b>583,384</b>		<b>0</b>
<b>2. Other Equity Investments</b>				
Hainan Aviation Tourism	3,274	3,273	3.3%	0

Development Share Co., Ltd.				
Hainan Meilan Airport Shareholding Co., Ltd.	6,906	6,906	2.2%	0
China Airline Info-network Co., Ltd.	29,860	17,000	3.52%	0
Hainan Development Bank	5,000	5,000	0.3%	5,000
Shanxi Airlines Co., Ltd.	20,000	0		0
HNA Hotel Group Co., Ltd.	58,161	46,077	19%	0
Shenhua Financial Co., Ltd.	5,000	0	1%	0
Beijing Yanjing Hotel Co., Ltd.	11,269	0	2%	0
Other investments	1,737	275		0
<b>Subtotal of other Equity Investments</b>	<b>141,207</b>	<b>78,531</b>		<b>5,000</b>
<b>Total of Long-term Equity Investments</b>	<b>715,000</b>	<b>661,915</b>		<b>5,000</b>

2. In the report period, there's no utility or continuous utility of the collected capitals.

3. Progress of Important Project Invested by Using the Non-collected Capital and Income from it:

1) In 2001, the Company contributed RMB 125.6 million Yuan in cash and operational assets evaluated for RMB 807.7 million Yuan to establish Xinhua Airlines Co., Ltd. The contribution of the Company takes 51% of the registered capital of Xinhua Airlines Co., Ltd. Since September of 2001, the financials of it was accounted upon consolidation. From September to December of 2001, Xinhua Airlines Co., Ltd had realized income from sales for RMB 509.41 million Yuan and profit for RMB 51.3 million Yuan.

2) On Jul. 6 of 2001, the Company contributed RMB 5 million Yuan in cash and operational assets evaluated for RMB 280 million Yuan to establish Shanxi Airlines Company Limited. The contribution of the Company takes 89.06% of the registered capital of Shanxi Airlines Company Limited. Since the project is still under registration, the 2001 financials of it was not accounted upon consolidation.

3) It's considered and passed by the 12<sup>th</sup> session of the 3<sup>rd</sup> board of directors held on Sept. 28 of 2001 and the 5<sup>th</sup> temporary general meeting of shareholders held on Oct. 30 of 2001 that the Company would accept the HNA Group' transfer of certain capital contribution to Changan Airlines Company Ltd at the price of RMB 354,563,300 Yuan. As of 31 December of 2001, the Company holds 73.51% capital contribution to the Changan Airlines Company Ltd. Since November of 2001, the financials of it was accounted upon consolidation. From November to December of 2001, Changan Airlines Company Ltd had realized income from sales for RMB 47.78 million Yuan and profit for RMB 0.27 million Yuan.

### 3. Financial Status and Operation Achievements in the Report Period:

1. Major Financial Indexes:

Monetary Unit: RMB Yuan

Item	20001	2000	Increase/Decrease
<b>Total assets</b>	15,004,326,205	10,140,898,439	48%
<b>Long-term liability</b>	7,460,373,671	5,459,425,744	36.6%
<b>Shareholders' equity</b>	2,184,004,969	2,127,517,437	2.65%
<b>Profit from principal business</b>	937,944,027	609,818,314	53.8%
<b>Net profit</b>	100,302,701	164,783,514	-39%

2. Causes of Increase/Decrease:

Item	Increase/Decrease	Causes
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<b>Total assets</b>	48%	Increase of RMB 3 billion Yuan caused by the merger of Xinhua Airlines and Changan Airlines and other increases caused by importation of aircraft and aviation materials
<b>Long-term liabilities</b>	36.6%	Increase of RMB 480 million Yuan caused by the merger of Xinhua Airlines and Changan Airlines and other increases caused by importation of aircraft and aviation materials
<b>Shareholders' equity</b>	2.65%	Increase in profit and profit distribution
<b>Profit from principal business</b>	53.8%	Expanding of the aircraft fleet through the merger of Xinhua Airlines and Changan Airlines caused the increase in income from principal business
<b>Net profit</b>	-39%	Decrease of RMB 43.5 million Yuan in non-recurring income (incl. income from investment transfer and non-operating income) and Increase in financial expenses

3. In the report period, the structure of the Company's profit did not change.

#### **4. Influences of the Laws & Regulations, Macro Policy and Production Environment:**

##### 1. Influences of the Entry to the WTO:

In recent years, the policy of Opening-up to the Outside World exercised for more than twenty years had significantly improved the opening-up degree in the field of aircraft maintenance, computer booking system, etc. Therefore, the entry to the WTO would not influence the civil aviation industry prominently in the near future. In addition, the relatively low labor cost in our country may improve the competitive power of the domestic aircraft maintenance enterprises. If we take efforts to improve the service quality, it will be possible for us to occupy a space at the international market.

Since China had entered the WTO, the related contracted parties of it may request to open up the computer booking system and the sales and marketing of the air transportation services to foreign companies. To a certain degree, there's a gap of international competitiveness between domestic airlines companies and foreign airlines companies. If the civil aviation open-up the above stated fields, the international air routes operation of domestic airlines companies will be impacted by foreign companies. It's possible that the market share of domestic airlines companies will reduce more. However, in the long view, the domestic airlines companies could use the booking system of foreign companies to sell their international flights. It will be helpful to explore and develop the international market. Meanwhile, the opening-up of the civil aviation industry would also form pressure on the foreign companies, since the domestic airlines companies may speed up their structural adjustment and establishment of modern enterprise systems, improve the internal management and operation, enhance international cooperation and improve the competitiveness.

##### 2. Influences of Reorganization of the Domestic Airlines Companies:

In the year of 2001, the domestic airlines companies started reorganization in accordance with the reorganization plan formulated by the CAAC, which centered on establishing three aviation transportation group companies on the bases of the Air China, China Eastern Airlines Corporation Ltd and China Southern Airlines Company. The establishment of the three aviation groups changed the structure of China's aviation industry profoundly. The Company seized the opportunity to join the upsurge of merger and reorganization among the domestic airlines companies, so to realize the plan of scale operation. After successful reorganization of the Changan Airlines Co., Ltd in 2000, the Company continued to reorganize the Xinhua Airlines Company Limited, Shanxi Airlines Company Limited and increased its capital contribution in Changan Airlines Company Limited in 2001, which laid a sound foundation for the Company to meet the challenges coming together with entering to the WTO and the competition with the domestic airlines companies.

#### **5. Working Plan in 2002:**

##### 1. Operation Principles:

The year of 2002 was defined as the "Year of Safety, Conformity and Efficiency". In 2002, the Company will stick to the guideline of "To Face the Challenge of the Entering to the WTO, To Introduce the Modern Management Concept, To Improve the Core Competitive Power and Fulfill the First Phase Goal of the Development Strategy".

##### 2. Production Indexes Set for 2002:

Comparing with the achievement in 2001, the Company formulates the 2002 production indexes as follows: The increase in the transportation of passengers shall reach 37.5%, the increase in the cargo and mail transportation 83.64%, increase in the transportation turnover 30.7% and the increase in the income from principal business 75%-80%. The

increase in the production cost shall not exceed 55%-60% under the precondition of continuous increase in transportation capacity. The market share of the Company shall keep fast increasing speed.

### 3. Production and Operation Measures:

#### 1) Measures on ensuring the safety, service quality and flight on-time performance rate:

The Company will continue its efforts on strengthening the safety. It will carry out the measures of safety management and monitoring. Winning of the “Gold Roc Cup” for aviation safety and the first prize of “Service Commenting on CAAC” and first prize in the appraisal of flight on-time performance rate once more will be the aim of the Company.

2) The Company will take the advantage of the scale of its operation to improve the safety management, integral management of air routes & flight network resources, technology support to the affiliated companies and subsidies, control over the market and increase its market share. It will enhance the income management and market development to increase the income level per unit. Meanwhile, it will optimize the allocation of the resources, establish overall budget management system and integral planning and strictly control the operation, particularly the expenses of management and establish overall plan, task analysis and task assessment systems to make definite the right and responsibility and inspire the enthusiasm and creativity of all members of the Company.

3) In order to keep up with the advanced international management system, the Company cooperated with the General Electric (GE) to promote the project “Six Sigma”. The application of “Six Sigma” improved the core competence and maximized the economic benefits of the Company, while it lowered the cost on operation and promoted the efficiency and satisfaction of the customers.

The Company will also adjust the functions and complete the transmission and joint of the functions and harmonize the business relations of its subsidiaries and affiliated companies, reorganize and merge the existing institutions, clear and reform the flow of the core businesses, enhance the internal management innovations; carry out the management measures; improve the management level; to speed up the reorganization and merger of the resources of air transportation, to create profit and efficiency from management.

#### 4) Other important works:

a. The Company will expand the business scope and increase its operation right of air routes and develop international market.

b. The Company will import B767 liners and the relative marketing and operation security materials.

c. The Company will establish the operation monitoring department and flight operation center to realize the integral control on the routine operation.

d. The Company will make efforts to guarantee the introduction of special employees to meet the demands of the improvement of the transportation capacity and expanding of the operation scale.

e. The Company will improve quality and qualification of the maintenance service. It will increase “6C” inspection of B737 aircraft.

f. The Company will make full use of the outside resources and strengthen the exchanges with the other domestic and foreign airlines companies.

g. The Company will make efforts on establishing and improving the CI and advertising works of it.

### 6. Routine Work of Board of Directors:

#### 1. Meetings and Resolutions of the Board of Directors:

1) On Jan. 3 of 2001, the 4<sup>th</sup> session of the 3<sup>rd</sup> board of directors was held. During the meeting, the Report on the Transfer of 10 Dornier328 Jets was considered and passed. The resolution of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong’s Wen Wei of Jan. 6 of 2001.

2) On Feb. 13 of 2001, the 5<sup>th</sup> session of the 3<sup>rd</sup> board of directors was held. During the meeting, the Report on Application for Transferring the Directional Collection Foreign Legal Person Shares into B-shares and then Listing at SSE and the Report on Liability Transfer of RMB 1,028,506,900 Yuan from HNA to the HNA Group Company Ltd were considered and passed. The resolutions of the meeting were published on the China Securities News, Shanghai Securities News and Hong Kong’s Wen Wei of Feb. 15 of 2001

3) On Feb. 28 of 2001, the 6<sup>th</sup> session of the 3<sup>rd</sup> board of directors was held. During the meeting, the Report on Establishing Xinhua Airlines Company Ltd and the Report on Convening the 3<sup>rd</sup> Temporary General Meeting of shareholders of 2001 were considered and passed.

The resolutions of the meeting were published on the China Securities News, Shanghai Securities News and Hong Kong’s Wen Wei of Mar. 2 of 2001.

4) On Mar. 12 of 2001, the 7<sup>th</sup> session of the 3<sup>rd</sup> board of directors was held. During the meeting, the Report on Canceling the Liability Transfer of RMB 1,028,506,900 Yuan from HNA to the HNA Group Company Ltd was considered and passed.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Mar. 13 of 2001.

5) On Apr. 16 of 2001, the 8<sup>th</sup> session of the 3<sup>rd</sup> board of directors was held. During the meeting, the following proposals were considered and passed:

- a. 2000 Work Summary and 2001 Work Plan of the Company;
- b. 2000 Annual Report and 2000 Annual Report Summary of the Company;
- c. 2000 Financial Report and 2001 Financial Plan of the Company;
- d. Report on Employing Independent Director;
- e. Report on Re-election of Certain Members of the Board of Directors;
- f. Report on Authorization to the Chairman with the Decision-making Power over the Investment No Higher than 5% of Net Assets at the End of Prior Year
- g. Report on Revision of the Articles of Association of the Company;
- h. Report on Employing the Auditing Firms;
- i. Report on Employment of Chief Financial Officer;
- j. Report on 2000 Profit Sharing Plan and 2001 Profit Sharing Policy of the Company;
- k. Report on Importation of Dornier328 Jets;
- l. Report on Importation of B767-300ER Liners
- m. Report on Holding the 2000 Annual General Meeting of Shareholders of the Company.

The resolutions of the meeting were published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Apr. 17 of 2001.

6) On Jul. 3 of 2001, the 9<sup>th</sup> session of the 3<sup>rd</sup> board of directors was held. During the meeting, the Report on Co-establishing the Shanxi Airlines Company Limited was considered and passed.

The resolution of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Jul. 5 of 2001.

7) On Jul. 18 of 2001, the 10<sup>th</sup> session of the 3<sup>rd</sup> board of directors was held. During the meeting, the following proposals were considered and passed:

- a. The Self-investigation Report on the Additional Issuance of A-share in 2001.
- b. Report on the Application for the Additional Issuance of A-share in 2001
- c. Report on the Amount and Utility of the Equity Financing through the Additional Issuance of A-share in 2001.
- d. Report on the Feasibility of the Projects Financed by the Raised Capital from the Additional Issuance of A-share.
- e. The Self-investigation Report on the Additional Issuance of B-share in 2001
- f. Report on the Application for the Additional Issuance of B-share in 2001
- g. Report on the Amount and Utility of the Equity Financing through the Additional Issuance of B-share in 2001.
- h. Report on the Feasibility of the Projects Financed by the Raised Capital from the Additional Issuance of B-share.
- i. Report on the Utility and Benefit of the Raised Capital through the Latest Equity Financing.
- j. Report on the Term of Validity of the Additional Issuance of A & B Shares.
- k. Report on Proposing at the Shareholders' General Meeting of Authorizing the Board of Directors to Deal with the Specific Matters of the Additional Issuance.
- l. Report on Co-sharing the Accumulated Undistributed Profit after the Additional Issuance.
- m. Report on Holding the 2001 Fourth Temporary Shareholders' General Meeting of the Company.

The resolutions of the meeting were published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of July 19 of 2001.

8) On Aug. 28 of 2001, the 11<sup>th</sup> session of the 3<sup>rd</sup> board of directors was held. During the meeting, the Report on the Interim Report and the Summary of 2001, the Report on the Preplan of the Interim Profit Sharing of 2001 and Report on the Internal Control on the Changes and Influences of the Alteration to the Accounting Policy were considered and passed.

The resolutions of the meeting were published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Aug. 30 of 2001.

9) On Sept. 28 of 2001, the 12<sup>th</sup> session of the 3<sup>rd</sup> board of directors was held. During the meeting, the Report on Acceptance of the Certain Capital Contribution Transfer of HNA Group Company Limited, the Report on Revision of the Articles of Association of HNA and the Announcement of Holding the Fifth Temporary General Meeting of Shareholders of 2001 were considered and passed.

The resolutions of the meeting were published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Sept. 29 of 2001.

10) On Dec. 29 of 2001, the 13<sup>th</sup> session of the 3<sup>rd</sup> board of directors was held. During the meeting, the Report on Consolidation upon the Routine Inspection, the Report on Settlement of the Accounts Receivable from the Related Parties and the Report on Engaging of the Executive Vice-president and Chief Financial Officer were considered and passed.

The resolutions of the meeting were published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Dec. 31 of 2001.

## 2. Performance of the Resolutions of the General Meeting:

1) The 1<sup>st</sup> Temporary General Meeting of Shareholders of 2001 passed the Report on the Transfer of 10 Dornier328 Jets. The above stated report has not been carried out since the Bank of Agriculture (head office) has not approved it.

2) The 2<sup>nd</sup> Temporary General Meeting of Shareholders of 2001 passed Report on Application for Transferring the Directional Collection Foreign Legal Person Shares into B-shares and then Listing at SSE. The above stated report has not been carried out due to some policy reasons.

3) The 3<sup>rd</sup> Temporary General Meeting of Shareholders of 2001 passed Report on Establishing Xinhua Airlines Company Ltd. The board of directors had completed the establishing works in accordance with the resolutions of the general meeting.

4) The Annual General Meeting of Shareholders of HNA of 2000 passed the Report on 2000 Profit Sharing Plan and 2001 Profit Sharing Policy of HNA. The board of directors had completed the profit sharing works in accordance with the resolutions of the general meeting. The resolutions of the general meeting were strictly carried out in accordance within the authorized decision-making power on any investment no higher than 15% of the net assets of the Company. The resolution procedure was legal. No power excess occurred

5) The 4<sup>th</sup> Temporary General Meeting of Shareholders of 2001 passed the Reports on Application for New-share Issuance. The board of directors are preparing for the Additional issuance.

6) The 5<sup>th</sup> Temporary General Meeting of Shareholders of 2001 passed the Report on Acceptance of the Certain Capital Contribution Transfer of HNA Group in Changan Airlines Co., Ltd and the Report on Revision of the Articles of Association of HNA. The board of directors had completed the revision to the Articles of Association and the acceptance of the capital contribution transfer.

## 3. Profit Sharing Preplan / Preplan for Capitalization of the Capital Reserves:

In the fiscal year of 2001, the profit after tax of the Company audited by the domestic accounting firm is for RMB 100,303,000 Yuan, while the figure audited by the foreign accounting firm is for RMB 57,286,000 Yuan. Since the accumulated undistributed profit of the Company audited by the foreign accounting firm of RMB 91,363,000 Yuan is lower than RMB 389,900,000 Yuan audited by the domestic accounting firm, the former will be taken as the basic value of 2001 profit distribution in accordance with the "Lower Principle" of profit-sharing followed by the enterprise with both listed A & B shares. According to the regulations of the Company Law and Articles of Association, 10% and 5% of the Company's profit after tax in 2001 shall be withdrawn and accounted into the statutory surplus reserve and statutory public welfare fund respectively before the profit sharing. The withdrawn amount totals for RMB 15,045,000 Yuan. Therefore, the actual distributable profit accounts for RMB 76,318,000 Yuan.

In the Annual Report of 2000, the board of directors estimated that no less than 40 % of the net profit realized in 2001 and 10% of the undistributed profit of 2000 would be accounted into the distributable dividends of the fiscal year of 2001. In the fiscal year of 2001, the cash dividends of RMB 43,815,000 Yuan will be distributed on the basis of 730,252,800 total shares at the period end. Therefore, the cash dividend of RMB 0.6 Yuan (tax included) per ten shares will be distributed to shareholders of the Company. The undistributed profit for RMB 32,503,000 Yuan will be carried

forward to the next fiscal year. The above stated profit sharing preplan keeps consistent with the profit sharing policy forecast in the annual report of 2000. In the fiscal year of 2001, the capital reserve will not be transferred into share capital.

The above stated preplan will be submitted to the annual shareholders' general meeting of 2001 for approval and then carried out accordingly.

#### 4. 2002 Profit-sharing Policy Forecast:

- 1) In 2002, the profit sharing of the Company will be carried out once.
- 2) No less than 40% of the net profit realized in the fiscal year of 2002 and no less than 10% of the undistributed profit of the fiscal year of 2001 will be drawn for profit distribution of the fiscal year of 2002.
- 3) The profit will be distributed in cash.
- 4) The detailed profit sharing preplan will be drawn by the board of directors according to the actual net profit and submitted to the annual shareholders' general meeting for approval.

5. In the report period, the Company did not change the information disclosing newspapers.

### **VIII. Report of the Board of Supervisors:**

#### **1. Works of the Board of Supervisors:**

The board of supervisors convened four meetings in the report period:

1) On Apr. 16 of 2001, the 3<sup>rd</sup> session of the 3<sup>rd</sup> board of supervisors was held. During the meeting, the Working Report of the Board of Supervisors of 2000 and the Report on Re-election of Certain Members of the Board of Supervisors were considered.

The announcement of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Apr. 17 of 2001.

2) On May 28 of 2001, the 4<sup>th</sup> session of the 3<sup>rd</sup> board of supervisors was held. During the meeting, the Report on Appointing Mr. Shu Weidong as the Organizer of the 3<sup>rd</sup> Board of Supervisors was considered.

The announcement of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of May 29 of 2001.

3) On Aug. 28 of 2001, the 5<sup>th</sup> session of the 3<sup>rd</sup> board of supervisors was held. During the meeting, the Report on the Interim Report and the Interim Report Summary of 2001, the Report on the Preplan of the Interim Profit Sharing of 2001 and Report on the Internal Control over the Changes and Influences of the Alteration to the Accounting Policy were considered.

The announcement of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Aug. 30 of 2001.

4) On Dec. 29 of 2001, the 6<sup>th</sup> session of the 3<sup>rd</sup> board of supervisors was held. During the meeting, the Report on the Consolidation upon the Routine Inspection was considered.

The announcement of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Dec. 31 of 2001.

#### **2. Comments of the Board of Supervisors on the Legality of the Company's Operation:**

##### 1. Legality of the Operation:

The decision-making procedure of the Company is in strict compliance with the Company Law, Security Law, Listing Regulations of SSE and other related regulations. The Company had established and perfected the internal control system. No activities violating the laws, rules and Articles of the Association or the interests of the Company of the directors and managers occurred.

##### 2. Status of the Finance:

The accounting firms engaged in the report period issued the auditing reports without reservation. The board of supervisors considered that the auditing reports had expressed the views truly on the actual operation achievements and financial status of the Company in the report period.

3. The latest fund-raising was completed in 1999. The investment orientation adjustments to certain collected capital were carried out according to the legal procedure, the details of which had been published in the related announcement and the annual report of 2000.

4. In 2001, the price of buying and selling assets carried out by the Company was reasonable. Both the assets and

shareholders' equity of the Company were not harmed or lost. No insider dealing occurred.

5. The connected transactions reached in the report period conform to the principles of "Equality, Fairness and Publicity". No activities against the interests of the Company occurred.

#### **IX. Important Events:**

1. In the report period, no significant lawsuit or arbitration occurred.

**2. Mergers and Assets Buying & Selling:** (Please refer to paragraphs of Progress of Important Project Invested by Using the Non-collected Capital and Income from it, VII Report of Board of Directors)

#### **3. Important Connected Transactions:**

It's considered and passed by the 12<sup>th</sup> session of the 3<sup>rd</sup> board of directors held on Sept. 28 of 2001 and the 5<sup>th</sup> temporary general meeting of shareholders held on Oct. 30 of 2001 that the Company would accept the HNA Group' transfer of certain capital contribution to Changan Airlines Company Ltd at the price of RMB 354,563,300 Yuan. As of 31 December of 2001, the Company holds 73.51% capital contribution to the Changan Airlines Company Ltd; and it would add its investment in the HNA Hotel Group Company Ltd for RMB 12 million Yuan. After the capital increase of HNA Hotel Group Company Ltd, the capital contribution percentage of the Company in it took 19% of the total contributed capital of HNA Hotel Group Co., Ltd.

#### **4. Important Agreements and Performance:**

On Oct. 29 of 2001, the Company signed the Agreement with Pratt & Whitney, Which specified that the Company would import 6 B767-300 aircraft engines. The 6 aircraft engines were the supporting aviation materials and would be delivered in 2002. The importation had been approved by the 2000 annual shareholders' general meeting.

In the report period, no important entrusted financing or guarantee occurred.

#### **5. Promises of the Company or its Shareholders Holding more than 5% of the Company's Total Amount of Shares and Execution of the Promises:**

On Feb. 15 of 2001, the Company had signed the Repayment Agreement with HNA Group Co., Ltd, which specified that HNA Group Co., Ltd would pay off the arrearage as at Dec. 31 of 2000 in installments before Dec. 31 of 2001. As of Dec. 31 of 2001, the connected balance between HNA Group Co., Ltd and the Company was for RMB 47.57 million Yuan.

#### **6. Remuneration and Engagement & Dismissal of the Accounting Firms:**

In the report period, the Company continued to engage the Shine Wing Certified Accountants and Water House Coopers Public Accounting Firm to audit the financial statements of it. The auditing fee paid to them account for RMB 350 thousand Yuan and HK\$ 1.2 million respectively.

#### **7. The Routine Inspection of the Haikou Office of the CSRC:**

The Haikou Office of the CSRC performed the routine inspection on the Company from Nov. 12 to 19 of 2001. On Dec. 3 of 2001, the Company received the Notice on Consolidation within the Specified Time regarding to the Problems Found during the Routine Inspection on HNA (QiongZhengJianFa [2001] No. 174) issued by the Haikou Office of the CSRC. In accordance with the regulations of the Notice, the Company carried out serious self-inspection upon receipt of the Notice. The Notice and the Report on the Consolidation Measures had been passed by the 13<sup>th</sup> session of the 3<sup>rd</sup> board of directors. The Report on the Consolidation Measures was published on the designated information disclosing newspapers of Dec. 31 of 2001.

#### **8. Other Important Events:**

1. On Feb. 28 of 2001, the ceremony for signing the agreement of reorganization of the Xinhua Airlines Company by the Shenhua Group, HNA Group and the Company was celebrated at the Grand Hotel of China in Beijing. The Company's capital contribution takes 51% of the equity of the Xinhua Airlines Company, thus it controls the operation of the Xinhua Airlines Company.

2. On May 31 of 2001, the Company was granted with the operation right of the air route from Sanya to Seoul, which symbolized that the Company grew into an international airlines company. It was an important progress of its development strategy.

3. On July 6 of 2001, the ceremony for signing the agreement of reorganization of the Shanxi Airlines Company Limited by the Shanxi Airlines, Changan Airlines Company Limited and the Company was celebrated at the conference room of the TaiYuan Yingze Hotel. The Company's capital contribution will take 89.06% of the equity of the Shanxi Airlines Company Limited. Thus it will control the operation of the Shanxi Airlines Company Limited.

4. On July 18 of 2001, the cooperation between the "Six Sigma" Project Negotiation Team of General Electronics (GE) and the Company commenced, which indicates that the Company successfully introduced another advanced technology of management after the registration of certification of ISO 9000 quality standard.

5. On Nov. 28 of 2001, the awarding ceremony of the 2001 Annual Passenger Commenting on Civil Aviation & 1 Press Conference of the Service Year of Civil Aviation convened by the Customer Committee of the Civil Aviation Association was held in Beijing. The Company was awarded with the medal for winning the first place in the category of the annual passenger traffic volume of 2-3.5 million person-times and the cup for winning three continuous championships in the Annual Passengers Commenting on Civil Aviation.

## **X. Financial Accounting Report**

### **1. Auditor's Report:**

TO THE SHAREHOLDERS OF HAINAN AIRLINES COMPANY LIMITED

We have audited the accompanying financial statements of Hainan Airlines Company Limited (the Company) and consolidated company comprising the balance sheets as at 31 December of 2001, profit and loss statements, profit distribution and cash flow statements for the year then ended. These financial statements are the responsibility of the Company and our responsibility is to express an audit opinion on these statements. We conducted our audit in accordance with Standards for Independent Audits of PRC Certified Public Accountants. We have examined, on a test basis, the accounting records and supporting evidences, and have carried out such audit procedures as we considered necessary.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at 31 December of 2001, the results of its operations and cash flows for the year then ended, in conformity with Accounting Standards for Enterprises and Accounting Regulations for Listing Enterprises of PRC, and on a consistent basis.

Certified Public Accountant: Zhang Ke

Certified Public Accountant: Luo Yucheng

Shine Wing Certified Public Accountants

March 19, 2002

### **2. Financial Statements: (Please refer to the Attachments)**

**3. Notes to the Financial Statements:** From 1 January to 31 December of 2001

**(The currency is in RMB 1,000 Yuan except otherwise indicated)**

1. General:

1) Hainan Airlines Company Limited (hereinafter referred to as "the Company") is a joint stock limited company reorganized from the former State owned Hainan Airlines (hereinafter referred to as "the State Owned Company") pursuant to the Qiong Gu Ban Zi [1992] No. 18 issued by the Hainan Provincial Office for Joint Stock Limited Companies in September 1992. The net assets of the State owned company was revalued by Hainan Consultative & Investing Company and approved by the Finance Bureau of Hainan Province (the reference of the approval is Qiong Cai Shui [1992] GuoZi No.639) as RMB 13,340,552 Yuan was determined as the State capital of the Company. The Company was established by way of promotion and the promoters were 24 legal enterprises including the state-owned company, China Everbright International Trust and Investment Co., Bank of Communication Hainan Branch, Hainan Aviation Import & Export Co., etc. The Company was registered on 8 January of 1993 at Hainan Industrial & Commercial Administration Bureau. The registered share capital was for RMB 250,100,000 Yuan, and total amount of shares was 250,100,000.

2) The profit sharing plan of 1993 was approved by the resolution of the 2<sup>nd</sup> shareholders' general meeting of the Company in March 1994. 50,020,000 bonus shares were distributed and the total capital had increased to RMB 300,120,000 Yuan.

3) In May 1993, with the approval of the Gu Ban Zi [1993] No. 17 issued by Hainan Provincial Office for Joint Stock Limited Companies, 96,059,448 corporation shares of the Company were listed in STAQ system. The number of corporation shares listed in STAQ system is 115,271,337 after the above-stated scrip dividend.

4) On 2 November of 1995, pursuant to the approval of the Ministry of Foreign Trade and Economic Co-operation of PRC (Reference Wai Jing Mao Yi Han Zi No. 615), the Company issued 100,040,001 shares to American Aviation LDC at a price of USD 0.25 per share. The par value of the Company's shares is RMB 1 Yuan per share. The company changed into a Sino-foreign joint stock limited company after the issuance of shares and raised a fund of USD 25,000,000 (equivalent to RMB 207,905,000 Yuan). After deducting the related issuing expenses, RMB 100,040,001 Yuan of the amount was stated as share capital and the remaining amount of RMB 70,177,849.79 Yuan was stated as capital reserve. The Company obtained a new business license in November 1996 after increasing its share capital stated above. Also its

name has been altered to Hainan Airlines Company Limited and the registered capital accounted for RMB 400,160,001 Yuan.

5) Following the approval Zheng Wei Fa [1997] No. 24 issued by the Securities Commission of the State Council, the Company had issued 71,000 thousand B Shares at an issue price of USD 0.47 per share and the fund raised was USD 33,370,000 (equivalent to RMB 276,690,000 Yuan). After deducting the related issuing expenses, RMB 71,000,000 Yuan was stated as share capital and the remaining amount of RMB 186,822,000 Yuan was stated as capital reserves.

6) According to the approval of Zheng Jian Fa Xing Zi [1999] No.129 issued by CSRC, the Company issued 205 million RMB Ordinary Shares (A Shares) at an issue price of RMB 4.6 Yuan per share and the fund raised was RMB 943,000,000 Yuan. After deducting the related issuing expenses, RMB 205,000,000 Yuan was stated as share capital and the remaining amount of RMB 708,745,226 Yuan was stated as capital reserves.

7) After the above A shares issuance, the Company's registered capital increased to RMB 676,160,001 Yuan.

8) In accordance with a resolution for the report on 1999 profit sharing preplan passed by the shareholders' general meeting on 18 May 2000, the Company distributed stock dividend at 0.8 shares per ten shares (on the basis of total number of shares 676,160,000) and cash dividend RMB 1.00 Yuan (tax included) to all shareholders with total amount of 54,092,800 bonus shares and RMB 67,616,000 Yuan respectively. The share capital of the Company increased to RMB 730,252,801 Yuan thereafter.

## **2. Principal Accounting Policies, Accounting Estimates and Consolidation Methods:**

### 1) Accounting policy:

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises of PRC.

### 2) Accounting period:

The accounting period of the Company is from 1 January to 31 December.

### 3) Reporting currency:

The Company uses the Renminbi (RMB) as its reporting currency.

### 4) Basis of preparation and cost principle:

The financial statements are prepared on accrual-basis accounting principles. Assets and liabilities are initially recorded at their approved appraised value upon contribution to the Company, otherwise are initially recorded at cost.

### 5) Foreign currency transactions:

Transactions denominated in foreign currencies are translated into RMB at the exchange rates stipulated by the People's Bank of China prevailing at the transaction dates. . Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the exchange rates stipulated by the People's Bank of China at the balance sheet date. Exchange differences arising from these translations are taken to the profit and loss account.

### 6) Cash equivalents:

Cash equivalents are short-term (normally less than three months from date of purchase to due date), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 7) Short-term investments:

Short-term investments price and revenue recognition method: The initial investments are recorded at cost. Revenue is recognized when actually received.

Provision for decrement on short-term investment is provided on the basis of the lower of the cost and the market price at the period end.

### 8) Bad-debt provision:

The company records bad debts upon the death or insolvency of debtors, or proved by sufficient evidences that the outstanding in the receivables are irrecoverable. Bad debts are recognized and charged to income statement as an expense in the year in which they arise.

The Company accounts for bad debts using provision methods. Aging analysis method of the provision for bad debts is adopted. The following ratios of bad debts provision are used, after taking considerations of debtor's financial positions, except for the receivable amounts for the related parties or the amounts that are approved receivable by sufficient evidences:



<b>Age</b>	<b>Withdrawing Percentage</b>
Within one year	0%
1-2 years	5%
2-3 years	10%
3-4 years	30%
4-5 years	50%
5-6 years	80%
More than 6 years	100%

9) Inventory:

Inventories are mainly included high value spare parts, consumption aviation materials, aircraft supplies and low-value consumables. According to the Provision for the Aviation Transportation Enterprises Charge the High Value Spare Parts into Cost in the Form of Amortization issued by the Civil Aviation Administration of China, the board of directors determined that high value spare parts and consumption aviation parts are recorded at standard cost, the difference between the weighted average cost and standard cost is recorded in the cost variances of inventories. In addition, high value spare parts purchased are amortized from the second year after purchase on a straight-line basis for a period of six years. Consumption aviation materials are expensed when used and the cost variances of materials are allocated at the end of each month. High value spare parts, aircraft supplies are recorded at cost and recognized as expenses in the period used at the end of the year. The provision of consumption aviation materials and aircraft supplies is provided for on the basis of the lower of the cost and the market price at the end of the year.

Low-value consumables are expensed when consumed.

10) Long-term investments:

Long-term investments represent long-term equity investments and bonds investments.

Long-term investments are recorded at cost (included tax).

Long-term investments in an enterprise under 20% of the total capital carrying voting rights are accounted for using the cost method.

Long-term investments in an enterprise exceeding 20%, but lower than 50% of the total capital carrying voting rights are accounted for using the equity accounting method.

Investments in an enterprise exceeding 50% of the total share capital of the invested enterprise with voting rights are accounted for using the equity method and consolidated financial statements are prepared.

The acquisition difference between equity investment and possessed equity interest are amortized using the straight-line method within 10 years.

If the market or recoverable value of an investment is lower than the book value due to the bad operating performances or the marketing price influences, and such a reduction couldn't be recovered in the foreseeable future, the provision for that permanent dimension on the long-term investment is prepared accordingly.

11) Fixed Assets:

Fixed assets are significant equipment whose using-year are more than one year, including aircraft and engines, plant and building, equipment and vehicles, and insignificant equipment whose unit price exceeds RMB 2,000 Yuan and using-year more than two years.

Fixed assets, which are purchased or constructed by the Company, are initially recorded at actual cost. Assets held under finance leases are recorded at the lowest lease contract price.

Depreciation of fixed assets is calculated on the straight-line basis over the estimated useful lives, after taking into account their residual value, which is 5% of cost:

<b>Item</b>	<b>Depreciation Term</b>
Plant and buildings	40 years
Aircraft and engines	10 to 20 years
Vehicles	10 years

After fixed assets decreased in value because of over-function, impairment or loss, decrease of revaluation price and low coverage of the cost of the fixed assets, a provision has been made based on the excess of the original cost of the fixed assets over its net realizable value. The following fixed assets are made provision in full amount:

- a. Permanently withdrawn from use and no future economic benefit is expected and being recognized no income during transaction.
- b. No future economic benefit is expected for technical reasons.
- c. Damaged fixed assets without any values and use.

12) Construction in progress:

Construction in progress represents capital assets under construction or being installed and prepayment for purchase of airplane and is stated at cost. Cost comprises original cost of plant and equipment, installation, construction and other direct costs which includes interest accrued on loans financing the capital assets and related foreign currency exchange gains or losses, prior to the date of reaching their expected usable condition.

Construction in progress is transferred to the fixed assets account when they have been substantially completed or reached their expected usable condition, and made accumulated depreciation from next month.

At the end of each year, the company reevaluates the construction in progress. Provision is made for the loss of construction in progress in the following situation:

- a. Stopped project that is not expected to reopen in two years.
- b. Obsolescent project in performance and technology and uncertain future economic benefit that is expected for technical reasons.
- c. Decrease in value has been incurred with satisfaction proves.

13) Borrowing costs:

Borrowing costs are including interest incurred, amortization of discounts or premiums, ancillary costs incurred, and exchange differences in connection with the foreign currency borrowings. Specific borrowings represent the borrowing for acquisition of fixed assets.

Borrowing costs on specific borrowings are capitalized if they meet the following three criteria:

- a. Ancillary costs incurred.
- b. Interest incurred.
- c. The constructions in progress have reached their expected usable conditions.

The capitalization of borrowing costs is ceased when the construction in progress has reached their expected usable conditions. Borrowing costs incurred thereafter are recognized as expenses in the periods in which they are incurred.

14) Intangible assets:

- a. Purchased land use rights are accounted for at actual cost (included relevant taxes). Invested land use rights are accounted for at evaluation cost.
- b. Land use rights are amortized over their transfer years on a straight-line basis.

15) Long-term deferred expenses:

Long-term deferred expenses mainly represent expenses incurred in improvement and major overhaul of fixed assets, expenses incurred in connection with the arrangement of finance and operating leased aircraft, pilot training expenses. These expenses are amortized over a period from 3 to 7 years.

16) Sales:

Passenger, charter flight and cargo revenues are recognized when the relevant sales and costs could be measured reliably and relevant economic benefits could flow into the Company. The transportation service is recognized when the completion stage of it could be measured reliably.

17) Income tax:

The Company accounts for corporate income tax using the Tax Payable method.

18) Profit distribution:

According to the relevant regulations for Joint Stock Limited Company and the Company's Articles of Association, the after-tax profit is appropriated in the following order:

- a. To cover accumulated losses of prior years;
- b. Appropriation of 10% statutory surplus reserve; (It has not to accrue the statutory surplus reserve when accumulated reserve is more than 50% of the registered capital of the Company)
- c. Appropriation of 5-10% statutory welfare reserve;
- d. Appropriation of discretionary surplus reserve;
- e. Payment of dividends. According to relevant CSRC regulations, profit distributable to shareholders is the lower of the retained profits after appropriation of reserves as mentioned above, as shown in the PRC statutory accounts and the accounts prepared under the International Accounting Standards.

If the differences exist from the profit appropriation approved by the Shareholder Meetings and Board of Directors, the related opening balance items should be adjusted accordingly.

#### 19) The change explanation in principal accounting policy and accounting estimate

The Company implemented Accounting Standards for Corporate Limited Company in the preceding period. According to the Cai Zheng Bu Kuai[25] in relation to the Notice of Implementing the Accounting Standards for Business Enterprises, Cai Zheng Bu Cai Kuai [2001] No.17 in relation to “The Stipulation for Connection Problem during Implementing the Accounting Standards for Business Enterprises”) and other related regulations, the Company make accounting policy changes passed by the board of directors since 1 January 2001 as follows:

- a. According to the Accounting Standards for Business Enterprise – Leases, the Company changed the base from the NPV of the lowest price for the financial lease to the lowest price for the financial lease for the fixed assets and long term payable accounts on 1 January 2001. This change of the accounting policy is not adjusted retroactively
- b. The Company reevaluated the fixed assets and made provision for the loss of the fixed assets which book value is less than market value on 1 January of 2001
- c. The Company reevaluated the Construction In Progress (CIP) and makes provision for the loss of the CIP which book value is less than market value on 1 January of 2001
- d. The Company changes the amortization police of the pre-operation expense from 5 years to write off directly in the first month of practice.

The change of the accounting policy except item 1 has been adjusted retroactively and adjusted the retain earnings and opening balance of related accounts. The account of the profit and loss sheet and statement of profit distribution have been changed as above. For the above reasons, it reduces the undistributed profit of RMB 14,890 thousand and net profit of RMB11,394 thousand for 1998, and increases net profit of RMB 1,929 thousand for 1999 and RMB 1,514 thousand for 2000. So that the undistributed profit at the beginning of 2001 reduces for amount of RMB 22,841 thousand, including RMB 12,000 thousand for the provision of loss on construction in progress which reduces the net profit of 1998. Other years' undistributed profit at the beginning of the year and net profit adjustment are all for the changes in accounting policy of the pre-operating expense , the total impact is RMB 10,841 thousand.

#### 20) Basis of consolidation:

According to the Interim Provisions for Consolidated Financial Statements of Ministry of Finance (“MOF”), the Company prepared the consolidated financial statements of 2001. The consolidated financial statements comprise the consolidation of financial statements of the Company and its subsidiaries, in which the Company directly or indirectly has an interest of more than 51% capital or total share capital as on 31 December 2001 and of the results for the year ended. All inter-company transactions, balances and unrealized surpluses and deficits on transactions between companies have been eliminated.

### 3. Taxation

#### 1) Income tax:

##### A. Parent Company income tax:

- a. According to Qiong Di Shui Fa [1999] No.426 approved by Hainan local Tax Bureau in relation to Preferential Policy of Income Tax of Hainan Airline Co., Ltd. , income tax rate for year ended 1999 is reduced to 10%, since the Company is qualified as an advanced technology enterprise.
- b. According to Qiong Di Shui Fa [2000] No.247 approved by Hainan local Tax Bureau in relation to Preferential Policy of Income Tax of Hainan Airline Co., Ltd. income tax rate for year ended 2000 is reduced to 10%, as the result of successively qualified as an advanced technology enterprise.
- c. According to Qiong Di Shui Fu [1998] No.27 approved by Hainan Government, income tax rate of the Company is 15%.

According to Qiong Di Shui Fa [2001] No.360 approved by Hainan local Tax Bureau in relation to Preferential Policy of Income Tax of Hainan Airline Co., Ltd., 38.8% of taxable income for year ended 2001 is entitled to 50% tax reduction, namely, tax rate of the entitled part is 7.5%.

**B. Subsidiaries income tax:**

a. Hainan Golden-Deer Aviation Sales Co., Ltd. ("Golden Deer") is entitled to full exemption from PRC income tax (current tax rate was 15%) for the first profit-making year, followed by a 50% reduction in tax rate for the next year. The first profit – making year of Golden Deer is 1996 and hence the effective income tax rate for Golden Deer for 2001 is 15%.

b. Hainan Airlines VIP Flight Services Co., Ltd. ("VIP Flight Services") is entitled to full exemption from PRC income tax for the first profit-making year, followed by a 50% reduction in tax rate for the next year. VIP Flight Services has entered into its first profit-making year on 31 December 2001, and no income tax is accrued.

c. Hainan Airlines Catering Co., Ltd. ("Catering company") is entitled to full exemption from PRC income tax (current tax rate was 15%) for the first two profit-making years, followed by a 50% reduction in tax rate for the next three years. The first profit – making year for Hainan Airlines Catering Co., Ltd. is 1997 and hence the effective income tax rate for 2001 is 7.5%.

d. Xinhua Airlines Co. Ltd., ("Xinhua Airlines") is appreciable 33% income tax rate, however, according to Chao [1999] No.013 approved by Beijing Chaoyang District National Tax Bureau reduce the taxed income, and net profit for 2001 is less than the accumulated loss (The accumulated loss is 229,655 thousand from 1996 to 1998). So no income tax is accrued.

e. Changan Airlines Co. Ltd. ("Changan Airlines") is appreciable 33% income tax rate, According to Shanxi Di Shui Han [2002] No.55 approved by Shanxi Local Tax Bureau in relation to Preferential Policy of income tax of Changan Airlines Co., Ltd. No income tax is accrued in 2001 and 2002.

**2) Sales tax and surcharges:**

<b>Tax</b>	<b>Basis of Computation</b>	<b>Tax Rate</b>
Value added tax	Catering revenues	6%
Sales tax	Traffic revenues and handling charges	3%
City construction tax	Sales tax payable	7%
Education surcharge	Sales tax payable	3%

**3) Individual income tax:**

The Company withholds individual income tax from employees to the tax authorities.

**4. Controlled Subsidiaries and Joint Ventures:**

The financial statements of the Company represent the consolidated financial statements of the Company itself and its consolidated subsidiaries for the year ended on 31 December of 2001. All significant transactions among its consolidated entities are eliminated upon consolidation.

The followings are the information of the major subsidiaries as of 31 December of 2001:

	<b>Company Name</b>	<b>Registered Capital</b>	<b>Amount Investment</b>	<b>Owned Interest</b>	<b>Principal Business</b>
A	Hainan Golden-Deer Aviation Sales Co., Ltd.	RMB 8,000,000	RMB 7,600,000	95%	Provision of transportation and chartered flight agency services
B	Hainan Airlines VIP Flight Service Co., Ltd.	USD 1,020,408	USD 502,408	51%	Chartered flights agency
C	Hainan Airlines Catering Co., Ltd.	RMB 31,000,000	RMB15,810,000	51%	Food and souvenirs for passengers
D	Xinhua Airlines Co. Ltd.	RMB 1,830,000,000	RMB 933,300,000	51%	Approved air transportation services
E	Changan Airlines Co. Ltd.	RMB 754,390,000	RMB 554,563,300	73.51%	Provision of transportation services around Shan'xi Province

A. Hainan Golden-Deer Aviation Sales Co., Ltd. ("Golden Deer") is a limited liability company in which the Company and Hainan Aviation Import & Export Trading Company ("HAIETC") hold 95% and 5% equity interests respectively. According to the authorization letter signed by Hainan Aviation Import & Export Company on 10 May of 1995, all the risks and benefits in relation to HAIETC's 5% interest have been assigned to the Company. Accordingly, Golden Deer's financials have been 100% accounted for in the Company's consolidated financial statements.

B. Hainan Airlines VIP Flight Service Co., Ltd ("VIP Flight Service") is a Sino-foreign joint venture established by the Company and Swiss Mid-Europe Airline Development Co., Ltd., withhold 51% and 49% equity interest respectively. Both sides have already fully contributed their portion of the registered capital.

C. Hainan Airlines Catering Co., Ltd. ("Catering Company") is a Sino-foreign joint venture established by the Company and Hong Kong Hainan Airlines Catering Co., Ltd. on 28 March of 1994, withholding 30% and 70% equity interest respectively. The originally registered capital of Hainan Airlines Catering Co., Ltd. is RMB 8,675,400 Yuan. Hainan Airlines Catering Co., Ltd. increased their capital contribution to RMB 31,000,000 Yuan in 1999, and the holding equity interest is changed to 51% and 49% respectively. Both sides have already fully contributed the required registered capital as of 10 February of 1999, which was verified by Hainan Zhenhua Certified Public Accountants.

D. Xinhua Airlines Co. Ltd., ("Xinhua Airlines") is a limited liability Company that was recombined by the Company, Shenhua Group Co. Ltd., and Hainan Airlines Group. Registered capital of Xinhua Airlines is RMB 1.83 billion. The Company invested cash in amount of RMB 125.6 million and aircraft and aviation materials appraised as RMB 807.7 million to hold 51% of total equity interest. According to validation by Hainan Weixin CPA Firm, all sides have already fully contributed their portion of the registered capital up to 31 August 2001. Corporation business license had been changed on 31 August of 2001. Accordingly, Xinhua Airlines is consolidated since 1 September of 2001.

E. Changan Airlines Co. Ltd., (Changan Airlines") is a limited liability company invested by the company, the Changan Aviation Industrial Company and HNA Group Co. Ltd. The registered capital of Changan Airlines is RMB 754,390,000 Yuan, in which the Company contributes aircraft and aviation materials and equipment with value of RMB 200 million and 26.51% of registered capital. According to Shan Xing Yan Zi [2001] No.230 Capital Verification Report validated by Shan'xi Xinghua CPA Firm, all sides have already fully contributed its portion of the registered capital on 30 October of 2001. The company signed equity transfer agreement with HNA Group Co. Ltd., according to which acquiring equity investment RMB 354,563,300 Yuan from HNA Group Airlines Group Co. Ltd., Holding share of the Company is changed to 73.51% as control holder, Changan Aviation Industrial Company is 13.84% and HNA Group is 12.65%. Accordingly, Changan Airlines is consolidated since 1 November of 2001.

In addition, Hainan Haihang Aircraft Maintenance Co., Ltd. ("AMC") is a Sino-foreign joint venture established by the Company and Hong Kong Hai Xin Investment Co., Ltd. (Hai Xin Company), withhold 75% and 25% equity interest respectively. As of 31 December of 1999, the Company had contributed RMB 50,000,000 Yuan that constitutes 40% of its required capital. Hai Xin Company contributed USD 1,500,000 that constitutes 30% of its required capital. The Company signed equity transfer agreement with Haikou Hi-tech Risk Investment Company on September 16<sup>th</sup>, 2001, in which transferred RMB 20,000,000 Yuan of interest investment to Haikou Hi-tech Risk Investment Company. The Company holds 48% equity interest of AMC after transfer. Accordingly, AMC's financials have been not accounted for in the consolidation statements. The beginning balances of the consolidated statements were adjusted accordingly by elimination accounts of the company.

#### 5. Notes to the Consolidated Financial Statements:

##### 1) Cash:

Item	2001	2000
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Cash on hand	1,196	917
Cash in bank	709,539	308,342
Other monetary assets	12,038	2,546
<b>Total</b>	<b>722,773</b>	<b>311,805</b>

Following are foreign currencies at 31 December 2001:

Currency	Amount	Exchange Rate	2001
USD	9,370	8.2766	77,552
HKD	3,980	1.063	4,231
AUD	21	4.2322	89
<b>Total</b>			<b>81,872</b>

2) Receivable (Including account receivable and other receivables)

a. Account receivable aging analysis:

Item	2001			2000		
	Amount	Percentage	Provision for bad debts	Amounts	Percentage	Provision for bad debts
Within one year	383,623	95%	0	174,016	71%	0
1-2 years	4,223	1%	956	41,284	17%	287
2-3 years	1,582	0%	146	25,776	11%	1,221
More than 3 years	39,879	4%	29,673	2,444	1%	1,431
<b>Total</b>	<b>429,307</b>	<b>100%</b>	<b>30,775</b>	<b>243,520</b>	<b>100%</b>	<b>2,939</b>

Account receivables of the top-five companies amount to RMB 189,086 thousand with 44.04% of total amount.

The increase in account receivables are mainly caused by the increased amount receivable from air-tickets agent and foreign airline companies caused by increase in sales revenues of the Company.

There is no receivable due from shareholders with over 5% interest.

b) Other receivables aging analysis:

Item	2001			2000		
	Amounts	Percentage	Provision for bad debts	Amounts	Percentage	Provision for bad debts
Within 1 year	646,310	52%	0	1,730,973	77%	0
1-2 years	484,024	37%	404	461,483	20%	1,365
2-3 years	72,286	5%	903	33,096	2%	1,089
More than 3 years *	76,488	6%	48,976	27,355	1%	1,038
<b>Total</b>	<b>1,279,108</b>	<b>100%</b>	<b>50,283</b>	<b>2,252,907</b>	<b>100%</b>	<b>3,492</b>

Other receivables of the top five companies amount to RMB 456,210 thousand, 35.67% of the total other accounts receivable.

Other receivables mainly represent receivables due from related parties, down payments for aircraft and security deposits paid by the Company. No provision for bad debts is prepared for balances in relation to down payment and security deposits for leasing aircraft. No bad debts provision is provided for related party receivables according to the opinions of the board of directors of the Company. Aging analysis method is adopted on the rest of other receivables.

Decreases of other receivables are mainly due to decrease in receivables from related parties by the way of receiving cash, transfer of long-term investment and so on.

Payments due to the shareholders holding over 5% (including 5%) issued shares of the Company as follows:

Shareholder	Amount	Reasons
HNA Group Co., Ltd.	20,559	Down payment

3) Advance to suppliers:

Item	2001		2000	
	Amount	Percentage	Amount	Percentage
Within 1 year	742,353	92.8%	141,909	78.5%
1—2 years	51,219	6.4%	24,318	13.4%
2—3 years	2,737	0.3%	3,766	2.0%
More than 3 years	3,461	0.5%	11,004	6.1%
<b>Total</b>	<b>799,770</b>	<b>100%</b>	<b>180,997</b>	<b>100%</b>

Advance to suppliers whose aging are more than one year mainly represents prepaid for purchasing aviation material and construction expenses on account of project' period is more than one year.

The increase in advance to suppliers is mainly caused by the prepayment for purchasing complementary aviation material of imported aircraft and the consolidation of Xinhua Airlines and Changan Airlines. Payment due to HNA Group Co., Ltd amount to RMB 280,000 thousand prepaid for purchasing aviation material.

4) Inventories and provision for decrement of inventory

Item	2001		2000	
	Amount	Provision for decrement of inventory	Amount	Provision for decrement of inventory
High-value spare parts	889,701	20,034	536,372	19,992
Aviation materials	110,367	1,818	73,657	671
Catering supplies	12,306	83	14,293	53
Low cost consumables	7,015	0	0	0
Others	7,381	0	1,545	0
<b>Total</b>	<b>1,026,770</b>	<b>21,935</b>	<b>625,867</b>	<b>20,716</b>

The following are major causes for increases in inventory:

- a. One 737-800 aircraft seven Dornier aircraft and one Dash 8 aircraft have been purchased in year 2001, which causes increased demands of high-value spare parts and aviation materials.
- b. The increase in aviation bases stationed abroad causes the increased demands of high-value spare parts and aviation materials.
- c. Imported aircraft in previous years causes the increased demands of high-value spare parts and aviation materials.
- d. Consolidation of Xinhua Airlines and Changan Airlines causes increases in inventory.

5) Deferred and prepaid expenses

Item	2001	2000	Reason for Balance
<b>Aircraft lease rental</b>	47,986	32,229	Regular balance
<b>Insurance premium on aircraft</b>	4,081	1,239	Regular balance
<b>Other</b>	9,839	7,408	Regular balance
<b>Total</b>	<b>61,906</b>	<b>40,876</b>	

6) Long-term equity investments

a. Long-term equity investment:

Item	2001	2000
<b>Investment in associated enterprise</b>	573,793	583,384
<b>Other equity investment</b>	141,207	78,531
<b>Total</b>	<b>715,000</b>	<b>661,915</b>
<b>Acquisition difference between investment of Xinhua Airlines</b>	68,314	0
<b>Acquisition difference between investment of Changan Airlines</b>	9,713	0
<b>Less: Provision for loss on long-term investment</b>	5,000	2,500
<b>Long-term investment-net value</b>	<b>788,027</b>	<b>659,415</b>

b. Detail information of long-term equity investment:

Item	2001	2000	Shareholding	Provision for Decrement	Notes
<b>Investment in associated company</b>					
Haikou Meilan Airport Co., Ltd	407,704	404,013	30%	0	
Hainan Haihang Aircraft Maintenance Co., Ltd	29,114	48,873	48%	0	A
Golden Deer VIP Flight Company Limited	90,315	90,505	30%	0	
Hainan Haihang Aviation Import & Export Co., Ltd.	7,114	5,993	30%	0	
Hainan Suncity International Golf Club Ltd.	34,000	34,000	34%	0	



Xinda International Transportation Agency	2,311	0	49%	0	
Shenzhen Aviation Hotel	3,235	0	25%	0	
<b>Sub-total for investment in associated company</b>	<b>573,793</b>	<b>583,384</b>			
<b>Other equity investments</b>					
HNA Hotel (Group) Co., Ltd.	58,161	46,077	19%	0	B
Hainan Aviation Tourism Development Share Co. Ltd.	3,274	3,273	3.3%	0	
Hainan Meilan Airport Shareholding Co., Ltd.	6,906	6,906	2.2%	0	
China Airline Info-Network Co. Ltd.,	29,860	17,000	3.52%	0	
Hainan Development Bank	5,000	5,000	0.3%	5,000	C
Shanxi Airlines Co, Ltd.	20,000	0		0	D
Shenhua Financial Co., Ltd.	5,000	0	1%	0	
Beijing Yanjing Hotel Co., Ltd.	11,269	0	2%	0	
Other investment	1,737	275		0	
<b>Subtotal of other equity investments</b>	<b>141,207</b>	<b>78,531</b>		<b>5,000</b>	
<b>Total long term equity investments</b>	<b>715,000</b>	<b>661,915</b>		<b>5,000</b>	

A. By transferring holding interest of Hainan Haihang Aircraft Maintenance Co., Ltd to Haikou Hi-tech Risk Investment Company at a price of RMB 20,000 thousand, the holding interest of the Company is decreased from 75% in 2000 to current 48%. Please refer to Notes IV for detail.

B. The Company signed agreement in relation to Capital Increase and Debt Modification of HNA Hotel (Group) Co., Ltd. in 2001. Registered capital of HNA Hotel (Group) Co., Ltd. is changed from RMB 150 million to RMB 300 million, in which investment of HNA Group Co., Ltd. is increased from RMB 105 million to RMB 243 million with 81% of registered capital. The investment of the Company is increased from RMB 45 million to RMB 57 million with 19% of registered capital. Hai Chang Yan Zi [2001] No.012014 Capital Verification Report validated by Hainan Haichang CPA Firm concerning above modification.

C. On June 21 of 1998, the People's Bank of China announced that Hainan Development Bank liquidated. For protecting the rest interest of creditors, assets and liabilities of Hainan Development Bank were entrusted to Industrial and Commercial Bank of China (ICBC). A provision for decrement of the investment was accrued at 100% of total investment.

D. The Company signed 'Shanxi Airlines Co., Ltd. Contribution Agreement' with Shanxi Airlines Industrial Company and Changan Airlines Co., Ltd. The registered capital of the reorganized company, Shanxi Airlines Co., Ltd, is 320 million. The Company invested aircraft and aviation materials, appraised as RMB 280 million, and cash in amount of RMB 5 million to hold 89.06% of total equity interest. Shangxi Airlines Industrial Company invested RMB 20 million through converting net assets into equity to hold 6.25% of total equity interest. Changan Airlines Co., Ltd invested cash in amount of RMB 15 million to hold 4.69% of total equity interest. Related capital injection was almost finished except for the investment in kind by the Company. The Shanxi Airlines is not consolidated, because the establish procedure of it is still in process. The report only represents RMB 20 million long-term equity investments of Shanxi Airlines in the consolidated statements (including RMB 5 million of the parent company and RMB 15 million of Changan Airlines Co., Ltd).

Following are acquisition difference between long-term equity investments:

Items	2000	Addition	Amortization	2001	Notes
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<b>Acquisition difference between investment of Xinhua</b>	0	70,670	2,356	68,314	A
<b>Acquisition difference between investment of Changan</b>	0	9,878	165	9,713	B
<b>Total</b>	<b>0</b>	<b>80,548</b>	<b>2,521</b>	<b>78,027</b>	

A. Xinhua Airlines Co. Ltd., ("Xinhua Airlines") was reorganized by the Company, Shenhua Group Co. Ltd., and HNA Group Co., Ltd on 28 February of 2001 with the registered capital for RMB 1.83 billion. The Company invested cash in amount of RMB 125,600 thousand and aircraft and aviation materials appraised as RMB 807,707 thousand to hold 51% of total equity interest. All sides have already fully contributed their portion of the registered capital as well as corporation business license has been changed on 31 August 2001. Total assets and equity of Xinhua Airlines were RMB 3,281,059 thousand and RMB 1,691,446 thousand respectively on 31 August 2001. The Company holds 51% of equity with RMB 862,637 thousand; however, investment cost of the Company is RMB 933,307 thousand. The acquisition difference of long-term investment RMB 70,669 thousand is come into being, which has been amortized evenly by 10 years since 1 September 2001.

B. Changan Airlines Co. Ltd., (Changan Airlines") invested by the Company, the Changan Aviation Industrial Company and HNA Group Co. Ltd. Registered capital of Changan Airlines is RMB 754,390,000 Yuan, in which the Company contributes aircraft and aviation materials and equipment with value of RMB 200 million and 26.51% of registered capital. The company signed equity transfer agreement with HNA Group Co. Ltd .on 30 October 2001, acquiring equity investment RMB 354,563,300 Yuan with 47% of registered capital from Hainan Airlines Group Co. Ltd, Holding share of the Company is changed to 73.51% with RMB 554,563 thousand as control holder. Total assets and equity of Changan Airlines were RMB 1,121,373 thousand and RMB 740,968 thousand respectively. The Company holds 73.51% of equity with RMB 544,685 thousand; however, the investment cost of the Company is RMB 554,563 thousand. The acquisition difference of RMB 9,878 thousand has been amortized for a term of 10 years since 1 November of 2001.

7) Fixed assets and depreciation:

<b>Item</b>	<b>Plant &amp; Building</b>	<b>Finance Leased Aircraft &amp; Engines</b>	<b>Purchased Aircraft &amp; Engines</b>	<b>Vehicles</b>	<b>Machinery &amp; Equipment</b>	<b>Total</b>
<b>Cost</b>						
1 January of 2001	493,344	730,846	3,264,688	86,977	88,012	4,663,867
Additions of Subsidiaries	75,146	1,575,402	990,874	49,152	32,617	2,723,191
Additions*	707,450	253,689	1,343,774	7,323	15,557	2,327,793
Including: Construction in progress	693,254	0	1,010,439	1,960	2,010	1,707,663
Disposals	2,374	0	0	236	1,205	3,815
31 December 2001	<b>1,273,566</b>	<b>2,559,937</b>	<b>5,599,336</b>	<b>143,216</b>	<b>134,981</b>	<b>9,711,036</b>
<b>Accumulated depreciation:</b>						
1 January of 2001	43,221	327,676	126,406	26,776	26,698	550,777
Additions of Subsidiaries by purchase	13,506	611,700	269,288	16,789	9,330	920,613
Charge for the year	20,128	53,824	209,841	9,772	10,616	304,181
Disposals	255	0	0	59	459	773
31 December 2001	<b>76,600</b>	<b>993,200</b>	<b>605,535</b>	<b>53,278</b>	<b>46,185</b>	<b>1,774,798</b>

**Net book value:**

31 December 2001	<b>1,196,966</b>	<b>1,566,737</b>	<b>4,993,801</b>	<b>89,938</b>	<b>88,796</b>	<b>7,936,238</b>
1 January 2001	<b>450,123</b>	<b>403,170</b>	<b>3,138,282</b>	<b>60,201</b>	<b>61,314</b>	<b>4,113,090</b>

A. Increases in plant & building for RMB 707,450 thousand are mainly transferred from construction in progress including Meilan base, Hainan Aviation Town House, Hainan Aviation Development Building B and Beijing Base of Xinhua Airlines. The Company has not got the project completion report and certification of property rights although they have been finished and in use. The Company estimated the value of these fix assets and accrued depreciation, which will be adjusted after getting the project completion report.

B. Increase in finance lease of aircraft and engines for RMB 253,689 thousand is mainly due to the interest elements of two b737-300 aircraft and one B737-400 engine in amount of RMB 90,476 thousand treated as the cost of fixed assets and long-term payable from 1 January 2001 according the new accounting regulations and one finance lease of Dash 8 in amount of RMB 150 million from Xinjiang Leasing Co., Ltd.

C. Increase in purchased Aircraft & engines includes the purchase of One 737-800 aircraft for RMB 456,544 thousand, seven Dornier 328 aircraft for RMB 778,473 thousand and B737-800 engine for RMB 53,394 thousand.

D. Fix assets of the Company were mortgaged for borrowing up to 31 December 2001: Net value of plant and building is RMB 296,036 thousand. Net value of purchased Aircraft and engine is RMB 4,333,105 thousand.

E. The Company has not obtained property rights for certain buildings of it. The Company confirmed that the acquisition of property rights is in process. According to opinion verified by Hainan Wanli Legal Firm, the Company will get property rights without any legal barriers.

## 8) Construction in progress:

## a. Construction in progress includes:

	<b>2001</b>	<b>2000</b>
<b>Advance to supplier of Engine</b>	1,024,014	592,096
<b>Construction Projects</b>	627,144	804,781
<b>Total</b>	<b>1,651,158</b>	<b>1,396,877</b>
<b>Provision for loss of Construction in Progress</b>	<b>12,000</b>	<b>12,000</b>
<b>Construction in progress net value</b>	<b>1,639,158</b>	<b>1,384,877</b>

## b. Movements of advance to suppliers of aircraft &amp; engines

<b>Item</b>	<b>2000</b>	<b>Additions</b>	<b>Transfer to Fix Assets</b>	<b>Other Disposal</b>	<b>2001</b>	<b>Capitalization</b>
<b>B737-800 aircraft</b>	526,568	131,771	144,328	0	514,011	34,907
<b>D-328 aircraft</b>	55,863	812,830	866,111	0	2,582	4,968
<b>B737-300 Engine</b>	2,298	0	0	0	2,298	0
<b>B737-800 Engine</b>	7,367	0	0	0	7,367	0
<b>B767 aircraft</b>	0	484,308	0	0	484,308	13,725
<b>Havilland Dash 8 Aircraft (A)</b>	0	167,656	0	167,656	0	543

<b>Others</b>	0	13,829	0	381	13,448	267
<b>Total</b>	<b>592,096</b>	<b>1,610,394</b>	<b>1,010,439</b>	<b>168,037</b>	<b>1,024,014</b>	<b>54,410</b>

c. Detailed movements of construction projects:

Projects	2000	Additions of Subsidiary by purchase	Additions	Transfer to Fix Assets	Other Disposal s	2001	Interest Capitalized	Source of Fund	Stage of completion
Meilan Basis (B)	437,598		62,446	400,000	0	100,044	7,202	Bank loans	In progress
Mapo single apartments	12,126		205	12,331	0	0	205	Bank loans	Completed
Holiday Beach (C)	72,752		36,117	80,000	0	28,869	6,330	Bank loans	In progress
Hainan Aviation Development Building_B (C)	34,108		20,296	50,000	0	4,404	2,973	Bank loans	In progress
Mapo D2 Building	24,787		2,009	26,796	0	0	553	Bank loans	Completed
Qionghai Aviation Training Base	39,659		15,958	0	0	55,617	3,411	Bank loans	In progress
No.1 Maintenance Project (D)	0		142,467	0	0	142,467	1,356	Bank loans	In progress
Taojin Apartment Building	20,807		1,084	0	0	21,891	1,009	Bank loans	In progress
Sea Shore Hotel Project	35,980		37	0	0	36,017	0	Bank loans	In progress
Changxiu Development Area	18,950		1	0	0	18,951	0	Bank loans	In progress
Jin Ya Vacation villa	10,026		0	0	0	10,026	0	Bank loans	In progress
Land in Xing Guo Road of Shanghai	65,849		11,999	0	0	77,848	0	Owned	In progress
Guanzhou Xiangjin Golden	8,503		475	8,978	0	0	368	Bank loans	Completed
Townhouse 2 <sup>nd</sup> Stage	0		26,757	0	0	26,757	155		In progress
Others	23,636	7,415	21,882	2,746	2,176	48,011	183	Owned	
Beijing Basis		109,733	6,640	116,373	-	-		Owned	Completed

Dali Garden	19,500	-	-	-	19,500	Owned	In progress
Jinsong Office Towner Improvement	4,360	58	-	4,418	-	Owned	Completed
Xianyang Aircraft Parking Area	29,370	2,764			32,134	Owned	In progress
Basis Power Distribution House	1,086	-			1,086	Owned	In progress
Basis Power Circuit	1,600	9			1,609	Owned	In progress
Residential Building	1,533	380			1,913	Owned	In progress
<b>Total</b>	<b>804,781</b>	<b>174,597</b>	<b>351,584</b>	<b>697,224</b>	<b>6,594 627,144</b>		<b>23,745</b>

A. Other disposal of RMB 167,656 thousand represents transferring Dash 8 aircraft into Changan Airlines Company as investment.

B. For developing the aviation base, the Company purchased 478 mu lands at Meilan airport and paid construction expenses for relative projects. The project is partial finished and in use. The Company estimated the value as RMB 400 million and transferred into fixed asset in 2001 without project completion report.

C. The 1<sup>st</sup> stage of Holiday Beach (Hainan Aviation Town House) and Hainan Aviation Development Building B have been finished and in use. However, the Company has not got property rights. The Company estimated the value of Holiday Beach as RMB 80 million and Hainan Aviation Development Building B as RMB 50 million and transferred into fixed assets without project completion report. It will be adjusted after making the project completion report.

D. No.1 Maintenance Warehouse located in Meilan Base, which is occupied 18,600 square meters, comes into construction on February 2001. The budget for the project is 168 million. It is expected to be completed and in use on March 2002.

E. Accumulated capitalization interests represented capitalization amount including in balance in each project.

d. Provision of decrement of construction in progress:

Project	2000	Additions	Disposals	2001
Land in Xingguo Road in Shanghai	12,000	0	0	12,000
<b>Total</b>	<b>12,000</b>	<b>0</b>	<b>0</b>	<b>12,000</b>

The land in Xingguo Road in Shanghai is planned to be disposal. According to the Accounting Systems for Business Enterprises, the provision of decrement of construction in progress in amount of RMB 12,000 thousand is made in case of the disposal loss.

9) Intangible assets:

Item	Land Use Right
Acquisition method	Purchase

<b>Cost</b>	5,000
<b>31 December of 2000</b>	4,917
<b>Additions</b>	0
<b>Transfer</b>	0
<b>Amortization</b>	200
<b>Accumulated amortization</b>	283
<b>31 December of 2001</b>	4,717
<b>Remaining amortization years</b>	23.6 years

10) Long-term deferred expenses:

<b>Item</b>	<b>2000</b>	<b>Additions of Subsidiary by purchase</b>	<b>Additions</b>	<b>Amortization</b>	<b>2001</b>	<b>Cost Value</b>	<b>Remaining Amortization Years</b>	<b>Accumulated Amortization</b>
Improvement of fixed assets by operating lease	83,917	3,338	5,937	23,193	69,999	134,607	1-7 years	64,608
Supervision for reforming aircraft	115,529	0	4,671	25,267	94,933	204,099	1-7 years	109,166
Pilot training fee	67,525	25,501	57,915	16,239	134,702	179,069	1-7 years	44,367
Agency fee for specific loan	1,796	0	0	1,796	0	29,747	0 year	29,747
Rentals for Tianzhu Base	0	19,912	943	266	20,589	26,444	26 years	5,855
User charge for Tianjin Aircraft Parking Area	0	9,601	0	127	9,474	9,760	24 years	286
Others	81,008	4,273	14,936	10,368	89,849	296,071	1-7 years	206,222
<b>Total</b>	<b>349,775</b>	<b>62,625</b>	<b>84,402</b>	<b>77,256</b>	<b>419,546</b>	<b>879,797</b>		<b>460,251</b>

11) Short-term loans:

<b>Loan Category</b>	<b>2001</b>	<b>2000</b>	<b>Interest Rate per Annum</b>
<b>Bank loans</b>			
Unsecured loans	316,742	1,069,952	5.37-7.88%
Mortgaged loans	864,214	140,000	6.435-8.1875%
Guaranteed loans	1,051,781	50,000	5.85-7.605%
Hypothecation loans	0	0	
<b>Loans from other enterprises</b>			
Unsecured loans	5,064	60,789	10%
Mortgaged loans	0	28,977	Libor+1%
Guaranteed loans	0	0	
Hypothecation loans	0	0	
<b>Total</b>	<b>2,237,801</b>	<b>1,349,718</b>	

Increases in short -term loans are mainly caused by the followings:

a. According to an agreement of credit quota signed by the Company and Bank of China, the Company obtained a credit with limitation of RMB 1.8126 billion, which will be used for paying deposits for purchasing aircraft.

b. The overall increase is attributed to the consolidation of Xinhua Airline Co., Ltd and Changan Airline Co., Ltd amount to RMB 735,781 thousand.

12) Accounts payable:

a. Accounts payable:

Accounts payable RMB 456,077 thousand as at 31 December of 2001 (RMB186, 444 thousand for 2000) mainly represent payables to suppliers for purchasing aviation materials and payables of selling tickets for other airline companies. There is no payable due to shareholders with over 5% (including 5%) interest.

Increase in payables is mainly caused by the followings:

a) Purchase of one B737-800 airplane and seven Dornier aircraft and increasing demands for aviation materials and high value spare parts due to the ages of existing airplanes grown.

b) Consolidation of China Xinhua Airline Co., Ltd and Changan Airline Co., Ltd.

b. Other payables

The balance of other payable is RMB 132,093 thousand at the end of year 2001 (RMB 35,412 thousand for 2000). The increase is mainly due to the consolidation of Xinhua Airline Co., Ltd and Changan Airline Co., Ltd. There is no payable due from shareholders with over 5% interest (including 5%).

13) Dividend Payable:

Item	2001	2000	Reason
Legal person shares	35,120	42,011	Normal arrear of pay
Individual shares	21,773	17,172	Normal arrear of pay
Others	6,472	7,105	Normal arrear of pay
<b>Total</b>	<b>63,365</b>	<b>66,288</b>	

14) Taxes payable:

Taxation	2001	2000
VAT payable	20	0
Business tax payable	5,860	10,487
City construction tax payable	1,497	1,730
Income tax payable	(718)	10,438
Others	918	828
<b>Total</b>	<b>7,577</b>	<b>23,483</b>

\* For details of the tax rate of the company and the subsidiary companies, please see the Notes 3 Taxation.

15) Civil aviation infrastructure levies payable:

The total levies of the Company for the year ended 31 December 2001 was RMB 85,563 thousand, which was levies payables of Xinhua Airlines Company and Changan Airlines Company, 5% of domestic and 2% of international traffic revenues. As mentioned on notes 11, the parent company of the Company does not accrue levies payable.

16) Accrued expenses:

Item	2001	Reasons of Balance	2000
Take-off and fuel expenses	157,925	Accepted service without payment	59,641
Catering	37,545	Accepted service without payment	18,834
Loan interest	55,566	Accepted service without payment	0
Provision for D inspection of aircraft	73,631	Accepted service without payment	54,213
Fee of computer reservation	13,667	Accepted service without payment	316
Payment for catering franchise right	4,080	Accepted service without payment	0
Others	4,654	Accepted service without payment	2,376
<b>Total</b>	<b>347,068</b>		<b>135,380</b>

Increase of accrued expenses is attributable to:

- The company accrued more Take-off, fuel and catering expenses for increase in flight routes and flying hours.
- The company accrued more loan interest for the increasing loans.
- The consolidation of Xinhua Airline Co., Ltd and Changan Airline Co., Ltd lead to the overall increase in the accrued expenses.

17) Sales in advance of carriage-internal:

The balance of sales in advance of carriage-internal represents the amount of sold but unused tickets.

18) Long-term liabilities matured within one year:

Item		2001	2000
Long-term loans	(a)	676,673	642,527
Long-term accounts payable	(b)	190,170	87,244
<b>Total</b>		<b>866,843</b>	<b>729,771</b>

a. Long-term loans:

Loan Category	2001	2000
<b>Bank loans</b>		
Unsecured loans	619,478	330,895
Mortgaged loans	25,000	91,391
Guaranteed loans	30,000	54,000
<b>Subtotal</b>	<b>674,478</b>	<b>476,286</b>
<b>Loans from other financial institutions</b>		



Unsecured loans	2,195	108,294
Mortgaged loans	0	57,947
<b>Subtotal</b>	<b>2,195</b>	<b>166,241</b>
<b>Total</b>	<b>676,673</b>	<b>642,527</b>

b. Long-term account payable:

<b>Lender</b>	<b>Loan Period</b>	<b>Original Amount</b>	<b>Accumulated Interest</b>	<b>2001</b>	<b>Note</b>
Baron Aviation Corporation	12 years	155,542	10,284	31,227	Finance leasing aircraft
Advance Aviation Corporation	12 years	155,542	10,284	31,227	Finance leasing aircraft
Raytheon Aircraft	11.5 years	81,516	4,631	5,628	Finance leasing aircraft
Xinjiang Leasing Co., Ltd	10 years	147,662	15,120	9,980	Finance leasing aircraft
Hainan American Co., Ltd.	4 years	13,805	1,208	8,111	Finance leasing aircraft
Structured Trade Finance Group	11-13 years	1,176,864	43,353	103,997	Finance leasing aircraft
<b>Total</b>		<b>1,730,931</b>	<b>84,880</b>	<b>190,170</b>	

19) Long-term loans:

<b>Loan Category</b>	<b>2001</b>	<b>2000</b>
<b>Bank loans</b>		
Unsecured loans	42,530	442,354
Mortgaged loans	3,080,000	3,005,000
Guaranteed loans	64,260	199,942
Hypothecation loans	1,032,682	0
<b>Subtotal</b>	<b>4,219,472</b>	<b>3,647,296</b>
<b>Loans from other enterprises</b>		
Unsecured loans	2,248,279	1,407,938
Guaranteed loans	0	4,898
<b>Subtotal</b>	<b>2,248,279</b>	<b>1,412,836</b>
<b>Total</b>	<b>6,467,751</b>	<b>5,060,132</b>

20) Long-term payables:

<b>Lender</b>	<b>Loan period</b>	<b>Original amount</b>	<b>Accumulated Interest</b>	<b>2001</b>
Baron Aviation Corporation	12 years	155,542	25,705	160,839

Advance Aviation Corporation	12 years	155,542	25,705	160,839
Raytheon Aircraft	11.5 years	81,516	24,138	75,436
Xinjiang Leasing Co., Ltd	10 years	147,662	66,745	137,682
Hainan American Co., Ltd.	4 years	13,805	518	5,413
Structured Trade Finance Group	11-13 years	1,176,864	85,097	452,413
<b>Total</b>		<b>1,730,931</b>	<b>227,908</b>	<b>992,622</b>

Long-term payables represent payments for finance-leased aircraft.

21) Minority interests:

Subsidiary Company	Owners Equity	Proportion of Minorities	Minority Interests
Xinhua Airlines Co., Ltd.	1,742,750	49%	853,948
Changan Airlines Co., Ltd.	741,238	26.49%	196,354
Other *			16,111
<b>Total</b>			<b>1,066,413</b>

\* Others are minority interests of Hainan Airlines Catering Co., Ltd and Hainan Airlines VIP Flight Services Co., Ltd.

22) Share capital:

Share capital of the company is for RMB 1 Yuan per share. Following is the structure of share capital:

Item	2000	Issue of Shares	Others	2001
<b>I. Unlisted shares</b>				
1. Founders' shares	134,837	0	0	134,837
Incl.: State shares	17,289	0	0	17,289
2. Domestic legal person shares	124,493	0	0	124,493
3. Foreign legal person shares	108,043	0	0	108,043
4. Issue of shares	0	0	0	0
5. Employee shares	64,800	0	0	64,800
<b>Subtotal</b>	<b>432,173</b>	<b>0</b>	<b>0</b>	<b>432,173</b>
<b>II. Listed shares</b>				
1. Domestic investment shares-A shares	221,400	0	0	221,400
2. Foreign investment shares-B shares	76,680	0	0	76,680
<b>Subtotal</b>	<b>298,080</b>	<b>0</b>	<b>0</b>	<b>298,080</b>
<b>Total</b>	<b>730,253</b>	<b>0</b>	<b>0</b>	<b>730,253</b>

23) Capital reserve:

Item	2000	Increase	Decrease	2001
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Share premium	965,745	0	0	965,745
Donated aviation materials	11,056	0	0	11,056
<b>Total</b>	<b>976,801</b>	<b>0</b>	<b>0</b>	<b>976,801</b>

24) Surplus reserve:

Item	2000	Increase	Decrease	2001
Statutory surplus reserve	90,512	10,030	0	100,542
Statutory Employee Welfare Reserve	40,350	5,015	0	45,365
General surplus reserve	0	0	0	0
<b>Total</b>	<b>130,862</b>	<b>15,045</b>	<b>0</b>	<b>145,907</b>

25) Undistributed profit:

Item	2001	2000
Beginning balance	289,602	247,254
Add: Current year profit	100,303	164,784
Less: Appropriation to statutory surplus reserve	10,030	16,352
Appropriation to voluntary surplus reserve	0	0
Appropriation to statutory welfare reserve	5,015	8,176
Dividends being transferred to share capital	0	54,093
Dividends declared	43,816	43,815
<b>Ending balance</b>	<b>331,044</b>	<b>289,602</b>

According to the resolution of the 14<sup>th</sup> session of the 3<sup>rd</sup> board of directors of the Company on 19 March of 2002, the 2001 profit sharing preplan is as following: statutory surplus reserve and statutory employee welfare reserve are provided at 10% and 5% respectively against net profit after tax, which account for RMB 15,045 thousand Yuan. Also, cash dividend at RMB 0.6 Yuan per 10 shares (tax included) are declared to all shareholders with amount of RMB 43,815 thousand Yuan respectively.

As the item 19) of note 2, the beginning balance of undistributed profit and related items are adjusted to the fiscal and business data of previous years in accordance with changes in accounting policy. The data of previous year in profit and loss account indicates the calculation results after adjustment. The accumulated effect of above changes in accounting policy is RMB 22,841 thousand, including provision for loss on Construction in progress amounting to RMB 12,000 thousand and the change in amortization of pre-opening expenses amounting to RMB 10,841 thousand.

26) Sales:

Item	2001	2000
Passenger revenue	2,959,113	2,092,348
Rental revenue	63,700	0
Cargo and Excessive weight of luggage revenue	150,248	146,027

Charter flight revenue	72,495	51,826
Others	9,198	6,283
<b>Total</b>	<b>3,254,754</b>	<b>2,296,484</b>

27) Sales tax and surtax:

<b>Item</b>	<b>2001</b>	<b>2000</b>
<b>Business tax</b>	96,923	68,634
<b>City construction tax</b>	6,758	4,831
<b>Education surcharge</b>	2,900	2,072
<b>Total</b>	<b>106,581</b>	<b>75,537</b>

28) Income from other operations:

<b>Item</b>	<b>2001</b>	<b>2000</b>
<b>Ticket refund charges</b>	13,403	7,339
<b>Agent handling fees</b>	8,170	4,223
<b>Cargo Service Fee</b>	19,469	12,550
<b>Others</b>	7,302	3,520
<b>Total</b>	<b>48,344</b>	<b>27,632</b>

29) Financial expenses:

<b>Item</b>	<b>2001</b>	<b>2000</b>
<b>Interest expenses</b>	509,262	287,263
<b>Less: Interest income</b>	(1,735)	(2,932)
<b>Exchange loss</b>	2,611	0
<b>Less: Exchange gain</b>	0	(1,431)
<b>Others</b>	(56,863)	(31,280)
<b>Total</b>	<b>453,275</b>	<b>251,620</b>

30) Investment income:

<b>Item</b>	<b>Note</b>	<b>2001</b>	<b>2000</b>
<b>Golden Deer VIP Flight Co., Ltd.</b>	A	-189	504
<b>Hainan Haihang Aviation Import &amp; Export Co., Ltd.</b>	A	1,121	2,993
<b>Haikou Meilan Airport Co., Ltd</b>	A	3,691	263
<b>HNA Hotel (Group) Co., Ltd.</b>	A	85	1,077
<b>Hainan Development Bank</b>	B	-2,500	0

<b>Hainan Haihang Aircraft Maintenance Co.</b>	A	-243	-243
<b>Amortization of Acquisition Difference between equity investment</b>	C	-2,520	0
<b>Income for equity transfer</b>	D	483	20,709
<b>Others</b>		0	-274
<b>Total</b>		<b>-72</b>	<b>25,029</b>

A. Long-term investment is accounted for by using equity method.

B. Provision for loss on long-term investment for RMB 2,500 thousand is provided for the Hainan Development Bank

C. Long-term investment balance of the China Xinhua Airline Co., Ltd and Changan Airlines Co., Ltd are amortized in this year.

D. Investment yields are attributable to transferring its holding share interests of Hainan Haihang Aircraft Maintenance Co. Ltd in 2001

Above investment income will be received without restriction.

31) Subsidiary income:

<b>Item</b>	<b>2001</b>	<b>2000</b>
VAT refund	2,111	1,908
<b>Total</b>	<b>2,111</b>	<b>1,908</b>

The income from subsidiaries of the Company mainly represents the Value Added Tax refund of Hainan Airlines Catering Co., Ltd. for the sales in Hainan province. According to Item 17 of Guo Fa (1998) No.26 ("Stipulation of State Council for promoting the investment to develop Hainan"), the products produced in Hainan province, are exempted from VAT tax, exclusive of mineral oil, cigarette, wine and other minority products which are entitled 50% reduction in VAT tax rate.

32) Non-operating income and expenses:

a. Non-operating income:

<b>Item</b>	<b>2001</b>	<b>2000</b>
<b>Rental of house</b>	295	0
<b>Penalty income</b>	1,137	0
<b>Net gain from disposal of fixed assets and others</b>	8	20,652
<b>Others</b>	465	0
<b>Total</b>	<b>1,905</b>	<b>20,652</b>

b. Non-operating expenses:

<b>Item</b>	<b>2001</b>	<b>2000</b>
<b>Net loss on disposal of fixed assets</b>	838	128
<b>Donation</b>	180	0
<b>Others</b>	532	2,667

<b>Total</b>	<b>1,550</b>	<b>2,795</b>
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6. Disclosures of Significant Matters in Relation to the Financial Statements of the Parent Company:

1) Long-term equity investment:

Item	2001	2000
<b>Subsidiary</b>	1,663,899	142,830
<b>Associated enterprises</b>	556,052	584,287
<b>Others</b>	95,616	78,538
<b>Total</b>	<b>2,315,567</b>	<b>805,655</b>
<b>Less: Provision for loss on long-term investments</b>	<b>5,000</b>	<b>2,500</b>
<b>Long-term investment –Net value</b>	<b>2,310,567</b>	<b>803,155</b>

2) Long-term stock investments:

Item	2001	2000	Owned Interests
<b>1. Subsidiary</b>			
Hainan Golden-Deer Aviation Sales Co., Ltd.	121,431	120,965	95%
Hainan Airlines Catering Co., Ltd.	25,387	21,865	51%
Hainan Airlines VIP Flight Services Co., Ltd	4,330	0	51%
Xinhua Airlines Co., Ltd	958,154	0	51%
Changan Airlines Co., Ltd	554,597	0	74%
<b>Subtotal</b>	<b>1,663,899</b>	<b>142,830</b>	
<b>2. Associated Enterprises</b>			
Haikou Meilan Airport Co., Ltd	407,704	404,013	30%
Hainan Haihang Aircraft Maintenance Co. Ltd	29,114	49,776	48%
Golden Deer VIP Flight Co., Ltd.	78,120	90,505	30%
Hainan Haihang Aviation Import & Export Co., Ltd.	7,114	5,993	30%
Hainan Suncity International Golf Club Ltd.	34,000	34,000	34%
<b>Subtotal</b>	<b>556,052</b>	<b>584,287</b>	
<b>3. Others</b>			
HNA Hotel (Group) Co., Ltd.	58,161	46,084	19%
Hainan Aviation Tourism Development Co., Ltd	3,274	3,273	3.3%
Haikou Meilan Airport Stock Co., Ltd.	6,906	6,906	2.2%
China Airline Info-network Co., Ltd.	17,000	17,000	1.93%
Hainan Development Bank	5,000	5,000	0.3%
Shanxi Airlines Co., Ltd	5,000	0	
Airline Kaiya Co., Ltd.	275	275	
<b>Subtotal</b>	<b>95,616</b>	<b>78,538</b>	

<b>Total</b>	<b>2,315,567</b>	<b>805,655</b>
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2) Undistributed profit:

<b>Item</b>	<b>2001</b>	<b>2000</b>
Beginning balance	303,649	261,382
Plus: Profit available for the year	100,303	164,703
Less: Appropriation to statutory surplus reserve	10,030	16,352
Appropriation to surplus reserve	0	0
Appropriation of statutory employees welfare reserve	5,015	8,176
Dividends being transferred to share capital	0	54,093
Dividend declared	43,816	43,815
<b>Ending balance</b>	<b>345,091</b>	<b>303,649</b>

\* There is a difference of undistributed profit amounting to RMB 14,047 thousand between the amount RMB 331,044 thousand in the consolidated statement at the year ended 2001 and the amount RMB 345,091 thousand in the parent company's statement at year ended 2001. The reason for it is that accumulated loss of Hainan Airlines VIP Flight Services Co., Ltd. had already exceeded to its paid-in capital, and no investment loss has been recognized in the Financial Statement of the parent company against the portion of loss that is exceeded to its paid-in capital, since the cost of investment has already been reduced to zero previously.

7. Connected Transactions and Relationships of the Party Interested:

1) Related parties with controlling interest:

<b>Company Name</b>	<b>Registered Place</b>	<b>Principal Business</b>	<b>Relationship</b>	<b>Business Character</b>	<b>Legal Representative</b>
Hainan Golden-deer Aviation Sales Co., Ltd.	Haikou	Provision of transportation and chartered flight agency services	Subsidiary	Limited Company	Chen Feng
Hainan Airlines VIP Flight Service Co. Ltd.	Haikou	Chartered flights agency	Subsidiary	Associated Company	Chen Feng
Hainan Airlines Catering Co., Ltd	Haikou	Food and present for passengers	Subsidiary	Joint Venture	Chen Feng
Xinhua Airlines Co., Ltd	Beijing	Provision of transportation	Subsidiary	Limited Company	Liu Jiaxu
Changan Airlines Co., Ltd	Xi'an	Provision of transportation	Subsidiary	Limited Company	She Yining

2) Change of owned interests and registered capital for the related parties with controlling interests:

<b>Company</b>	<b>Registered Capital</b>		<b>Owned Interest</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
Hainan Golden-Deer Aviation Sales Co., Ltd.	RMB 8,000,000 Yuan	RMB 8,000,000 Yuan	95%	95%
Hainan Airlines VIP Flight Service Co., Ltd.	USD 1,020,408	USD 1,020,408	51%	51%

Hainan Airlines Catering Co., Ltd.	RMB 31,000,000 Yuan	RMB 31,000,000 Yuan	51%	51%
Xinhua Airlines Co., Ltd	RMB 1,830,000,000 Yuan		51%	
Changan Airlines Co., Ltd	RMB 754,390,000 Yuan		73.51%	

3) Pricing policy: Market prices were adopted for all significant related party transactions.

4) Related parties without controlled relationship: (Only included significant transactions of related parties)

<b>Company</b>	<b>Relationship</b>
HNA Group Co., Ltd.	Shareholder
Haikou Meilan Airport Co., Ltd.	Associated Company
HNA Hotel (Group) Co., Ltd.	Associated Company
Hainan Haihang Aviation Import & Export Co., Ltd.	Associated Company
Hainan Suncity International Golf Club Ltd.	Associated Company
Golden Deer VIP Flight Co., Ltd.	Associated Company
Shanxi Airlines Co., Ltd	Associated Company
Hainan Aeronautic Rental Co., Ltd.	The same important management officer

5) The Company has the following related parties and significant transactions.

a. Connected transactions:



<b>Related Party</b>	<b>Relationship</b>	<b>Description</b>	<b>2001</b>	<b>2000</b>
HNA Group Co., Ltd	Shareholder	Interest received for down payments	51,223	25,045
		Equity investments acquisition (See Note 4., item D)	354,563	336,750
		Assets transfer		62,275
		Debts Ceded		60,000
		Down payment		46,361
Haikou Meilan Airport Co. Ltd	Associated company	Payment for catering franchise right, take-off expense and counter rent	90,760	
		Assets transfer		82,499
HNA Hotel (Group) Co., Ltd.	Associated company	Interest received for down payments	6,994	16,928
Golden Deer VIP Flight Co., Ltd.	Associated company	Interests received for lending	3,840	
		Interest received for down payments		220,000
Hainan Aviation Leasing Co., Ltd.	The same important management officer	Payment for Agency fees	397	20,286
		Aviation materials sales		14,500
		Guarantees paid for imported airplanes		50,337
		Down payment		20,594
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	Associated company	Handling fee in related to purchases of airplanes, aviation materials	1,035	
Shanxi Airlines Co., Ltd.	Associated company	Rental revenue of Airplanes	63,700	

b. Accounts receivable and payable of the related parties:

<b>Item</b>	<b>Related Party</b>	<b>Note</b>	<b>2001</b>	<b>2000</b>
<b>Account receivable</b>	HNA Hotel (Group) Co., Ltd.		147	549
<b>Other receivable</b>	HNA Hotel (Group) Co., Ltd.	A	45,390	201,062
<b>Other receivable</b>	HNA Group Co., Ltd.	B	20,559	975,792
<b>Account receivable</b>	Golden Deer VIP Flight Co., Ltd.	C	76,576	220,040
<b>Other receivable</b>	Haikou Meilan Airport Co., Ltd.		9,165	85,332
<b>Other payable</b>	Haikou Meilan Airport Co., Ltd.		10,992	
<b>Advance to Suppliers</b>	Haikou Meilan Airport Co., Ltd.		5,590	
<b>Other receivable</b>	Hainan Aviation Leasing Co., Ltd.		1,011	105,786
<b>Other receivable</b>	Hainan Haihang Aviation Import & Export Co., Ltd.		123,279	4,898
<b>Advance to Suppliers</b>	Hainan Haihang Aviation Import & Export Co., Ltd.		497	
<b>Account receivable</b>	Shanxi Airlines Co., Ltd		80,634	

A. The other receivables due from HNA Hotel (Group) Co., Ltd., amounting to RMB 45,390 thousand for year ended 31 December of 2001, was received back for RMB 45,000 thousand in March 2002.

B. The other receivables due from HNA Group Co., Ltd., amounting to RMB 20,559 thousand for year ended 31 December of 2001, was received back in March 2002.

C. The other receivables due from Golden Deer VIP Flight Co., Ltd. amounting to RMB 76,576 thousand for year ended 31 December of 2001, was received back for RMB 75,000 thousand in March 2002.

8. Contingency: There is no material contingency existed at balance sheet date.

9. Commitment:

1) Capital and financial commitments:

As of 31 December of 2001, the Company had capital and financial commitments in respect of the construction of Qionghai training base, No.1 maintenance garage, purchase of aircraft, long term investments, etc, with total amount of RMB 8,285,575 thousand Yuan.

2) Obligation under operating leases:

As of 31 December of 2001, the Company had obligation under irrevocable operating leases of aircraft in the respective periods as follows:

Item	2001	2000
Within one year	463,193	348,336
In the second to fifth years inclusive	999,435	920,869
After five years	88,892	48,323
<b>Total</b>	<b>1,551,520</b>	<b>1,317,528</b>

10. Subsequent events

1) A Joint Venture agreement for the establishment of Air Cambodia Ltd. is signed among the Royal Government of Cambodia, Hainan Airlines Co., Ltd and Cambodia CTG Ltd. on 24<sup>th</sup> February of 2002. According to the agreement, the registered capital of Air Cambodia Ltd. is US\$10 million. The Company is committed to contribute cash in the amount of US\$4,900,000 to hold 49% equal to US\$4.9 million of the total issued share capital of Air Cambodia Ltd. Royal Government of Cambodia is committed to contribute market and property rights to enable Air Cambodia Ltd. To conduct the business specified by the agreement as capital to hold 41% equal to US\$4.1 million of the total issued share capital of Air Cambodia Ltd. Cambodia CTG Ltd. is committed to contribute consult and other services to hold 10% equal to US\$1 million of the total issued share capital of Air Cambodia Ltd. The investment is ready to be approved by related government sector.

2) The receivables due from Hainan Haihang Aviation Import & Export Co., Ltd. (the Import & Export Co., Ltd.) are mainly prepayment for purchasing aviation materials, aircraft and aircraft engine and deposit of customs duty prepaid for the Import & Export Co., Ltd. According to the repayment agreement with the Import & Export Co., Ltd. on 7 March of 2002, the Import & Export Co., Ltd. committed to return the tariff bills and settle the balance before 31 December of 2002.

11. Other Important Matters:

1) According to the relevant regulations issued by the Ministry of Finance and the Civil Aviation Administration of China, PRC airlines companies are required to pay civil aviation infrastructure levies equal to 10% of domestic traffic revenues. In addition, according to Cai Zong Zi [1999] No. 11 "Notification of reduction civil aviation infrastructure levies" approved by the Ministry of Finance and the National Developing and Planning Committee, civil aviation infrastructure levies was reduced to 8% of domestic traffic revenues since 1, January 1998, and 5% of domestic and 2% of international traffic revenues were levied since 1, January 1999. In this regard, the total levies for the year ended 31 December 2001 was RMB 134,314,000. As of 31 December 2000, the Company had accumulated total

levies liabilities of RMB 741,886,000. In November 1994, the Hainan Provincial Government applied in Qiong Fu Han [1994] No. 77 to the Ministry of Finance for exemption of the payment of the levies or granting the levies by the Company so paid as infrastructure investment in the Company. As at the date of this report, such application has not yet been approved by the Ministry of Finance.

A circular Qiong Cai Shui (1996) No. 132 was issued by the Hainan Provincial Finance and Tax Bureau on 18 October 1996, pursuant to which the Finance and Tax Bureau agreed to assist in relation to the application for exemption of payment of levies with the Ministry of Finance and the Civil Aviation Administration of China and to undertake to resolve the matter through other means if the application is rejected. Hainan WanLi Law Office has independently issued an opinion that under the PRC law and on the strength of the said circular, the Company will have entirely been relieved of its liability and obligation to make any payment or provision in its financial statements in respect of the contributions to the civil aviation infrastructure levies. On this basis no provision for payment of such levies has been made in this report.

2) Following Investment Transfer Agreement signed by the Company and Haikou Meilan Airport Co., Ltd. on October 2000, 51% share interests of Hainan Airlines Catering Co., Ltd. owned by the Company were transferred to Haikou Meilan Airport Co., Ltd. at appraised price of RMB 84,140,000 Yuan. The resolution of Investment Transfer Agreement approved by the board of directors and the 2000 2nd provisional shareholders' meeting, an announcement of the resolution was published. Since the Company has not received the payment and can not recognize the investment transfer income, the financials of Hainan Airlines Catering Co., Ltd. is still included in the consolidated financial statement of the Company.

3) The company was approved by Bank of China Hainan Branch for applying for a credit limitation of RMB 2.43 billion. The credit limitation is in review process by the head office of Bank of China

#### **XI. Documents for Reference:**

The complete set of documents is available at the office of the Company for the reference of the China Securities Regulatory Committee, Shanghai Stock Exchange, Hainan Provincial Securities Administration Office as well as relevant authorities and shareholders:

1. The accounting statement bearing signatures and stamps of the legal representative, chief financial officer and chief of the accounting institution.
2. The original copy of the auditing report bearing the stamp of the accounting firm and signature & stamp of the certified accountant.
3. The original copies of documents and notices published on Shanghai Securities News, China Securities News and Hong Kong's Wen Wei Po in the report period.

Hainan Airlines Company Limited

Chairman:

Date: April 22, 2002

#### **ATTACHMENTS:**

**Hainan Airlines Company Limited**

**Consolidated Balance Sheet**

As at 31 December of 2001

Monetary Unit: RMB Yuan

Assets	31/12/2001	31/12/2000
<b>Current Assets</b>		
Cash in bank & on hand	722,772,556	311,804,867
Short-term investment		
Notes receivable		
Dividend receivable		
Interest receivable		
Accounts receivable	398,532,875	240,581,215
Other receivables	1,228,824,964	2,249,415,093
Advances to suppliers	799,770,513	180,996,706
Subsidy receivable		
Inventories	1,004,834,505	605,151,267
Deferred and prepaid expenses	61,905,703	40,876,257
Long-term bond investment maturing within one year		
Other current assets		
<b>Total current assets</b>	<b>4,216,641,116</b>	<b>3,628,825,405</b>
<b>Long-term investments</b>		
Long-term equity investment	788,027,008	659,415,314
Long-term bond investment		
<b>Total long-term investment</b>	<b>788,027,008</b>	<b>659,415,314</b>
Incl. consolidation difference	78,026,492	
<b>Fixed Assets</b>		
Original cost of fixed assets	9,711,035,664	4,663,866,658
Less: Accumulated depreciation	1,774,798,132	550,777,420
Fixed assets-net book value	7,936,237,532	4,113,089,238
Less: Provision for decrement of fixed assets		
Fixed assets-net book value	7,936,237,532	4,113,089,238
Engineering materials		
Construction in progress	1,639,157,702	1,384,876,965
Disposal of fixed assets		
<b>Total fixed assets</b>	<b>9,575,395,234</b>	<b>5,497,966,203</b>
<b>Intangible and other Assets</b>		
Intangible assets	4,716,666	4,916,667
Long-term deferred assets	419,546,181	349,774,850
Other long-term assets	-	-

<b>Total intangible &amp; other assets</b>	<b>424,262,847</b>	<b>354,691,517</b>
<b>Total Assets</b>	<b>15,004,326,205</b>	<b>10,140,898,439</b>
<b>Liability &amp; Owners' Equity</b>		
<b>Current Liability</b>		
Short-term loans	2,237,801,777	1,349,717,596
Notes payable	35,000,000	-
Accounts payable	456,077,153	186,443,905
Advance from customers	39,363,433	3,085,256
Accrued payroll	311,741	527,756
Staff and workers' bonus and welfare fund	7,726,588	219,692
Dividends payable	63,365,038	66,287,736
Taxes payable	7,576,867	23,482,801
Civil aviation infrastructure levies payable	85,563,444	
Other payables to government	149,826	483
Other payables	132,092,838	35,412,264
Accrued expenses	347,067,879	135,379,965
Sales in advance of carriage-internal	14,613,509	10,928,217
Sales in advance of carriage-international	-18,463	-30,439
Liability estimation		
Long-term liability maturing within one year	866,843,015	729,771,197
Other current liabilities	-	
<b>Total current liabilities</b>	<b>4,293,534,645</b>	<b>2,541,226,429</b>
<b>Long-term Liabilities</b>		
Long-term loans	6,467,751,241	5,060,131,731
Bonds payable		
Long-term payable	992,622,430	399,294,013
Special accounts payable		
Other long-term liabilities		
<b>Total long-term liabilities</b>	<b>7,460,373,671</b>	<b>5,459,425,744</b>
<b>Deferred tax</b>		
Deferred tax credit		
<b>Total Liabilities</b>	<b>11,753,908,316</b>	<b>8,000,652,173</b>
<b>Minority interests</b>		
Minority interests	1,066,412,920	12,728,829
<b>Owners' Equity</b>		
Paid-in capital	730,252,801	730,252,801
Capital surplus	976,800,919	976,800,919
Reserve fund	145,907,438	130,862,034
Incl.: Public welfare fund	45,364,674	40,349,539

Undistributed profits	331,043,811	289,601,683
<b>Total owners' equity</b>	<b>2,184,004,969</b>	<b>2,127,517,437</b>
<b>Total Liabilities &amp; Owners' Equity</b>	<b>15,004,326,205</b>	<b>10,140,898,439</b>

**Hainan Airlines Company Limited**  
**Consolidated Profit And Loss Account**  
**As at 31 December of 2001**  
**Monetary Unit: RMB Yuan**

Item	2001	2000
<b>1. Sales Revenue</b>	<b>3,254,753,740</b>	<b>2,296,484,304</b>
Less: Civil aviation infrastructure levies payable	27,839,893	
Cost of sales	2,182,389,305	1,611,128,829
Sales tax and surtax	106,580,515	75,537,161
<b>2. Gross Profit on Sales</b>	<b>937,944,027</b>	<b>609,818,314</b>
Add: Income from other operations	48,344,476	27,632,419
Less: Selling expense	183,977,275	110,713,130
General and administrative expense	149,210,370	81,539,297
Financial expense	453,274,413	251,620,618
Airport service expenses	62,135,618	51,133,280
<b>3. Operating Profit</b>	<b>137,690,827</b>	<b>142,444,408</b>
Add: income from investment	-72,227	25,029,079
Income from subsidy	2,110,889	1,908,000
Non-operating income	1,904,548	20,651,926
Less: Non-operating expenses	1,549,280	2,795,106
<b>4. Total Profit</b>	<b>140,084,757</b>	<b>187,238,307</b>
Less: Income tax	11,188,846	18,793,754
Minority interests	28,593,210	<b>3,661,039</b>
<b>5. Net Profit</b>	<b>100,302,701</b>	<b>164,783,514</b>
Add: Undistributed profit at beginning of the year	289,601,683	247,253,513
Transferred-in from surplus reserve		
<b>6. Profit Available for Dividends</b>	<b>389,904,384</b>	<b>412,037,027</b>
Less: Statutory surplus reserve	10,030,270	16,351,584
Statutory public welfare fund	5,015,136	8,175,792
<b>7. Profit Available for Dividends to Shareholders</b>	<b>374,858,978</b>	<b>387,509,651</b>
Less: Preference dividends payable		
Voluntary earnings surplus drawn		

Common stock dividends payable	43,815,167	43,815,168
Dividends being transferred to share capital		54,092,800
<b>8. Undistributed Profit</b>	<b>331,043,811</b>	<b>289,601,683</b>

**Hainan Airlines Company Limited**

**Consolidated Cash Flow Statement**

**As at 31 December of 2001**

**Monetary Unit: RMB Yuan**

<b>Item</b>	<b>2001</b>
<b>1. Cash Flows From Operating Activities</b>	
Cash received from sales of goods or rendering of services	3,310,544,370
Rental received	
Refund of tax	
Other cash received relating to operating activities	1,333,490,885
<b>Subtotal of cash inflows</b>	<b>4,644,035,255</b>
Cash paid for goods and services	2,355,768,716
Cash paid for operating leases	
Cash paid to and on behalf of employees	124,209,738
Value added tax paid	233,529
Income tax paid	21,909,164
Taxes paid other than value added tax and income tax	125,614,577
Other cash paid relating to operating activities	660,113,114
<b>Sub-total of cash outflows</b>	<b>3,287,848,838</b>
<b>Net cash flow from operating activities</b>	<b>1,356,186,417</b>
<b>2. Cash Flows From Investing Activities</b>	
Cash received from return of investments	
Cash received from distributed dividend or profit	
Cash received from bond interest income	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	3,897,062
Other cash received relating to investing activities	11,000,000
<b>Sub-total of cash inflows</b>	<b>14,897,062</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	1,847,063,416
Cash paid to acquire equity investments	176,868,901
Cash paid to acquire debt investments	
Other cash paid relating to investing activities	
<b>Sub-total of cash outflows</b>	<b>2,023,932,317</b>
<b>Net cash flow from investing activities</b>	<b>-2,009,035,255</b>

<b>3. Cash Flows From Financing Activities</b>	
Cash received from equity investment absorption	
Incl.: Cash received by subsidiaries absorbing minority equity investment	
Proceeds from issue of bonds	
Proceeds from borrowings	3,743,288,740
Other proceeds relating to financing activities	
<b>Sub-total of cash inflows</b>	<b>3,743,288,740</b>
Cash repayments of amounts borrowed	2,121,475,427
Cash payments of expenses on any financing activities	
Cash payments for distribution of dividends or profits	46,737,866
Incl.: Cash payments for minority dividend by subsidiaries	
Cash payments for interests expenses	543,934,833
Cash payments for finance leases	45,335,645
Cash payments for reduction of registered capital	
Incl.: Cash payments to minority shareholders by subsidiaries during reduction of register capital	
Other cash payments relating to financing activities	
<b>Sub-total of cash outflows</b>	<b>2,757,483,771</b>
<b>Net cash flow from financing activities</b>	<b>985,804,969</b>
<b>4. Cash Increase Through Purchase of Subsidiary</b>	<b>78,011,558</b>
<b>5. Effect of Foreign Exchange Rate Changes on Cash</b>	
<b>6. Net Increase in Cash and Cash Equivalents</b>	<b>410,967,689</b>

**Consolidated Cash Flow Statement (Footnote)**

**Monetary Unit: RMB Yuan**

Item	2001
<b>1. Investing &amp; Financing Activities That do not Involve in Cash Receipts and Payments</b>	
Repayment of debts by transfer of fixed assets	
Repayment of debts by transfer of investments	
Long-term investments in the form of fixed assets	975,363,829
Repayment of debts by transfer of inventories	
Finance leasing of fixed assets	
<b>2. Reconciliation of Net Profit to Cash Flows From Operating Activities</b>	
Net profit	100,302,701
Add: profit and loss of minorities	28,593,210
Add: Provision for decrement of assets	4,363,914
Depreciation of fixed assets	314,019,923



Amortization of invisible and long-term deferred charges	49,957,237
Loss on disposal of fixed, invisible and other long-term asset (or deduct: gains)	-2,886,267
Loss on retirement of fixed assets	
Financial expenses	452,683,636
Loss on investments (or deduct: gains)	72,227
Deferred tax credit (or deduct: debit)	
Decrease in inventories (or deduct: increase)	-85,547,092
Decrease in operating receivables (or deduct: increase)	458,174,660
Increase in operating payables (or deduct: decrease)	36,452,268
Others	
<b>Net cash flow from operating activities</b>	<b>1,356,186,417</b>
<b>3. Net Increase in Cash and Cash Equivalents</b>	
Monetary fund at the end of the period	722,772,556
Less: Monetary fund at the beginning of the period	311,804,867
Cash equivalents at the end of the period	
Less: Cash equivalents at the beginning of the period	
<b>Net Increase in Cash and Cash Equivalents</b>	<b>410,967,689</b>

**Hainan Airlines Company Limited**

**Consolidated Statement of Provision**

As at 31 December of 2001

Monetary Unit: RMB Yuan

Item	01/01/2000	Addition	Write-off	31/12/2000	Additions of Subsidiary by Purchase	Addition	Write-off	31/12/2001
<b>1. Provision for bad debts</b>	<b>6,036,059</b>	<b>474,000</b>	<b>78,923</b>	<b>6,431,136</b>	<b>71,454,092</b>	<b>4,987,242</b>	<b>1,813,570</b>	<b>81,058,900</b>
Incl.: Account Receivable	2,465,000	474,000		2,939,000	28,513,471	1,135,637	1,813,570	30,774,538
Other Receivable	3,571,059		78,923	3,492,136	42,940,621	3,851,605		50,284,362
<b>2. Provision for decrement of short-term investment</b>								
Incl.: Equity investment								
Bond investment								
<b>3. Provision for decrement of realization</b>	<b>19,825,394</b>	<b>890,602</b>		<b>20,715,996</b>		<b>1,219,074</b>		<b>21,935,070</b>

of inventories								
<b>Incl.: High value spare parts</b>	19,325,912	665,707		19,991,619		41,941		20,033,560
<b>Consumption aviation materials</b>	446,480	224,895		671,375		1,146,799		1,818,174
<b>Aircraft supplies</b>	53,002			53,002		30,334		83,336
<b>4. Provision for decrement of long-term investment</b>	<b>2,500,000</b>			<b>2,500,000</b>		<b>2,500,000</b>		<b>5,000,000</b>
<b>Incl.: Equity investment</b>	2,500,000			2,500,000		2,500,000		5,000,000
<b>Bond investment</b>								
<b>5. Provision for decrement of fixed assets</b>								
<b>Incl.: Plant &amp; building</b>								
<b>Equipment</b>								
<b>6. Provision for decrement of intangible assets</b>								
<b>Incl.: Patents</b>								
<b>Proprietary technology</b>								
<b>7. Provision for decrement of construction in progress</b>	<b>12,000,000</b>			<b>12,000,000</b>				<b>12,000,000</b>
<b>8. Provision for decrement of trust lending</b>								

Hainan Airlines Company Limited

Balance Sheet

As at 31 December of 2001

Monetary Unit: RMB Yuan

Asset	31/12/2001	31/12/2000
<b>Current Assets</b>		
Cash in bank & on hand	472,335,729	221,798,521
Short-term investment	-	-
Notes receivable		-

Dividend receivable		-
Interest receivable		-
Accounts receivable	198,362,573	315,958,743
Other receivables	954,555,091	2,226,972,702
Advances to suppliers	418,330,713	180,996,706
Subsidy receivable		
Inventories	752,826,539	603,742,437
Deferred and prepaid expenses	44,281,860	41,304,426
Long-term bond investment maturing within one year		
Other current assets		
<b>Total current assets</b>	<b>2,840,692,505</b>	<b>3,590,773,535</b>
<b>Long-term investments</b>		
Long-term equity investment	2,310,566,725	803,155,225
Long-term bond investment	-	
<b>Total long-term investment</b>	<b>2,310,566,725</b>	<b>803,155,225</b>
Incl. consolidation difference		
<b>Fixed Assets</b>		
Original cost of fixed assets	5,620,056,289	4,611,780,378
Less: Accumulated depreciation	418,886,604	543,519,209
Fixed assets-net book value	5,201,169,685	4,068,261,169
Less: Provision for decrement of fixed assets	-	
Fixed assets-net book value	5,201,169,685	4,068,261,169
Engineering materials	-	
Construction in progress	1,578,088,881	1,384,876,965
Disposal of fixed assets	-	-
<b>Total fixed assets</b>	<b>6,779,258,566</b>	<b>5,453,138,134</b>
<b>Intangible and other Assets</b>		
Intangible assets	-	-
Long-term deferred charge	344,109,387	351,761,339
Other long-term assets	-	
<b>Total intangible &amp; other assets</b>	<b>344,109,387</b>	<b>351,761,339</b>
<b>Total Assets</b>	<b>12,274,627,183</b>	<b>10,198,828,233</b>
<b>Liability &amp; Owners' Equity</b>		
<b>Current Liability</b>		
Short-term loans	1,502,020,440	1,349,717,596
Notes payable	-	-
Accounts payable	548,144,009	255,226,888
Advance from customers	32,700,230	2,809,246
Accrued expenses	82,611	327,871

Staff and workers' bonus and welfare fund	-	-
Dividends payable	63,365,038	66,287,736
Taxes payable	10,680,684	23,319,932
Civil aviation infrastructure levies payable		
Other payables to government	-	-
Other payables	31,630,410	25,698,651
Accrued expenses	201,412,326	144,176,895
Sales in advance of carriage-internal	2,393,910	29,819,620
Sales in advance of carriage-international	-	-
Liability estimation	-	-
Long-term liability maturing within one year	730,650,962	729,771,197
Other current liabilities		
<b>Total current liabilities</b>	<b>3,123,080,620</b>	<b>2,627,155,632</b>
<b>Long-term Liabilities</b>		
Long-term loans	6,413,285,793	5,030,814,194
Bonds payable		
Long-term payable	540,208,844	399,294,013
Special accounts payable		
Other long-term liabilities		
<b>Total long-term liabilities</b>	<b>6,953,494,637</b>	<b>5,430,108,207</b>
<b>Deferred tax</b>		
Deferred tax credit		
<b>Total Liabilities</b>	<b>10,076,575,257</b>	<b>8,057,263,839</b>
<b>Minority interests</b>		
Minority interests	-	
<b>Owners' Equity</b>		
Paid-in capital	730,252,801	730,252,801
Capital surplus	976,800,919	976,800,919
Reserve fund	145,907,438	130,862,034
Incl.: Public welfare fund	45,364,674	40,349,534
Undistributed profits	345,090,768	303,648,640
<b>Total owners' equity</b>	<b>2,198,051,926</b>	<b>2,141,564,394</b>
<b>Total Liabilities &amp; Owners' Equity</b>	<b>12,274,627,183</b>	<b>10,198,828,233</b>

Hainan Airlines Company Limited

**Profit And Loss Account**

As at 31 December of 2001

Monetary Unit: RMB Yuan

Item	2001	2000
<b>1. Sales Revenue</b>	<b>2,690,599,477</b>	<b>2,290,201,056</b>
Less: Civil aviation infrastructure levies payable		
Cost of sales	1,806,588,572	1,621,055,333
Sales tax and surtax	88,935,261	75,516,286
<b>2. Gross Profit on Sales</b>	<b>795,075,644</b>	<b>593,629,437</b>
Add: Income from other operations	44,905,528	21,834,610
Less: Selling expense	147,190,822	101,154,562
General and administrative expense	115,731,471	77,099,463
Financial expense	425,858,576	250,269,683
Airport service expenses	62,135,618	51,133,280
<b>3. Operating Profit</b>	<b>89,064,685</b>	<b>135,807,059</b>
Add: Income from investments	22,414,980	28,893,243
Income from subsidy	-	-
Non-operating income	359,768	20,620,045
Less: Non-operating expenses	825,066	2,457,351
<b>4. Total Profit</b>	<b>111,014,367</b>	<b>182,862,996</b>
Less: Income tax	10,711,666	18,160,433
Minority interests	-	
<b>5. Net Profit</b>	<b>100,302,701</b>	<b>164,702,563</b>
Add: Undistributed profit at beginning of the year	303,648,640	261,381,421
Transferred-in from surplus reserve		
<b>6. Profit Available for Dividends</b>	<b>403,951,341</b>	<b>426,083,984</b>
Less: Statutory surplus reserve	10,030,270	16,351,584
Statutory public welfare fund	5,015,135	8,175,792
<b>7. Profit Available for Dividends to Shareholders</b>	<b>388,905,936</b>	<b>401,556,608</b>
Less: Preference dividends payable		
Voluntary earnings surplus drawn		
Common stock dividends payable	43,815,168	43,815,168
Dividends being transferred to share capital		54,092,800
<b>8. Undistributed Profit</b>	<b>345,090,768</b>	<b>303,648,640</b>

Hainan Airlines Company Limited

## Cash Flow Statement

As at 31 December of 2001

Monetary Unit: RMB Yuan

Item	2001
<b>1. Cash Flows From Operating Activities</b>	
Cash received from sales of goods or rendering of services	3,070,870,886
Rental received	-
Tax refund received	
Other cash received relating to operating activities	847,214,975
<b>Subtotal of cash inflows</b>	<b>3,918,085,861</b>
Cash paid for goods and services	2,120,567,007
Cash paid for operating leases	
Cash paid to and on behalf of employees	72,168,788
Value added tax paid	
Income tax paid	21,909,164
Taxes paid other than value added tax and income tax	100,560,558
Other cash paid relating to operating activities	174,801,074
<b>Sub-total of cash outflows</b>	<b>2,490,006,591</b>
<b>Net cash flow from operating activities</b>	<b>1,428,079,270</b>
<b>2. Cash Flow From Investing Activities</b>	
Cash received from return of investments	
Cash received from distributed dividend or profit	
Cash received from bond interest income	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	3,190,061
Other cash received from investment related activity	
<b>Sub-total of cash inflows</b>	<b>3,190,061</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	1,834,517,788
Cash paid to acquire equity investments	130,600,000
Cash paid to acquire debt investments	
Other cash paid relating to investing activities	
<b>Sub-total of cash outflows</b>	<b>1,965,117,788</b>
<b>Net cash flow from investing activities</b>	<b>-1,961,927,727</b>
<b>3. Cash Flow From Financing Activities</b>	
Cash received from equity investment absorption	
Incl.: Cash received by subsidiaries absorbing minority equity investment	
Proceeds from issue of bonds	
Proceeds from borrowings	3,343,288,512

Other proceeds relating to financing activities	
<b>Sub-total of cash inflows</b>	3,343,288,512
Cash repayments of amounts borrowed	1,938,818,267
Cash payments of expenses on any financing activities	
Cash payments for distribution of dividends or profits	46,737,866
Incl.: Cash payments for minority dividend by subsidiaries	
Cash payments for interest expenses	528,011,069
Cash payments for finance lease	45,335,645
Cash payments for reduction of registered capital	
Incl.: Cash payments to minority shareholders by subsidiaries during reduction of register capital	
Other cash payments relating to financing activities	
<b>Sub-total of cash outflows</b>	2,558,902,847
<b>Net cash flow from financing activities</b>	784,385,665
<b>4. Effect on Foreign Exchange Rate Changes on Cash</b>	
<b>5. Net Increase in Cash and Cash Equivalents</b>	<b>250,537,208</b>

**Cash Flow Statement (Footnote)**

**Monetary Unit: RMB Yuan**

Item	2001
<b>1. Investing &amp; Financing Activities that do not Involve in Cash Receipts and Payments</b>	
Repayment of debts by transfer of fixed assets	
Repayment of debts by transfer of investments	
Long-term investments in the form of fixed assets	975,363,829
Repayment of debts by transfer of inventories	
Capital leasing of fixed assets	
<b>2. Reconciliation of Net Profit to Cash Flows From Operating Activities</b>	
Net profit	100,302,701
Add: profit and loss of minorities	
Add: Provision for bad debt or bad debt written off	6,190,956
Depreciation of fixed assets	246,493,987
Amortization of intangible assets and long-term deferred charges	48,082,169
Loss on disposal of fixed, intangible and other long-term assets (or deduct: gains)	465,298
Loss on retirement of fixed assets	-
Financial expenses	425,858,576
Loss on investments (or deduct: gains)	-22,082,900
Deferred tax credit (or deduct: debit)	

Decrease in inventories (or deduct: increase)	57,700,020
Decrease in operating receivables (or deduct: increase)	628,345,054
Increase in operating payables (or deduct: decrease)	-63,276,591
Others	
<b>Net cash flow from operating activities</b>	<b>1,428,079,270</b>
<b>3. Net Increase in Cash and Cash Equivalents</b>	
Monetary fund at the end of the period	472,335,729
Less: Monetary fund at the beginning of the period	221,798,521
Cash equivalents at the end of the period	
Less: Cash equivalents at the beginning of the period	
<b>Net increase in cash and cash equivalents</b>	<b>250,537,208</b>

**Hainan Airlines Company Limited**

**Statement of Provision**

As at 31 December of 2001

Monetary Unit: RMB Yuan

Item	01/012000	Addition	Write-off	31/12/2000	Addition	Write-off	31/12/2001
<b>1. Provision for bad debts</b>	<b>6,036,059</b>	<b>474,000</b>	<b>78,923</b>	<b>6,431,136</b>	<b>4,985,490</b>		<b>11,416,626</b>
<b>Incl.: Account Receivable</b>	2,465,000	474,000		2,939,000	1,133,885		4,072,885
<b>Other Receivable</b>	3,571,059		78,923	3,492,136	3,851,605		7,343,741
<b>2. Provision for decrement of short-term investment</b>							
<b>Incl.: Equity investment</b>							
<b>Bond investment</b>							
<b>3. Provision for decrement of realization of inventories</b>	<b>19,825,394</b>	<b>890,602</b>		<b>20,715,996</b>	<b>1,219,074</b>		<b>21,935,070</b>
<b>Incl.: High value spare parts</b>	19,325,912	665,707		19,991,619	41,941		20,033,560
<b>Consumption aviation materials</b>	446,480	224,895		671,375	1,146,799		1,818,174
<b>Aircraft supplies</b>	53,002			53,002	30,334		83,336
<b>4. Provision for decrement of long-term investment</b>	<b>2,500,000</b>			<b>2,500,000</b>	<b>2,500,000</b>		<b>5,000,000</b>
<b>Incl.: Equity investment</b>	2,500,000			2,500,000	2,500,000		5,000,000
<b>Bond investment</b>							
<b>5. Provision for decrement of fixed assets</b>							



<b>Incl.: Plant &amp; building</b>							
<b>Equipment</b>							
<b>6. Provision for decrement of intangible assets</b>							
<b>Incl.: Patents</b>							
<b>Proprietary technology</b>							
<b>7. Provision for decrement of construction in progress</b>	<b>12,000,000</b>			<b>12,000,000</b>			<b>12,000,000</b>
<b>8. Provision for decrement of trust lending</b>							