

HAINAN AIRLINES COMPANY LIMITED

2002 ANNUAL REPORT

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.

Mr. Chen Feng, Chairman of HNA, Mr. Zhu Yimin, CEO & CFO of HNA (in charge of accountancy), Mr. Zhang Yi, General manager of Plan and Financial Department of HNA (in charge of accounting division) declare here that: they guarantee the accuracy and completeness of the financial report in this annual report.

CONTENTS

- I. Company Profile**
- II. Key Fiscal and Business Data**
- III. Changes of Share Capital and Shareholders**
- IV. Introduction to the Directors, Supervisors and Senior Management Officers**
- V. Management Structure**
- VI. Brief Introduction to the General Meetings**
- VII. Report of the Board of Directors**
- VIII. Report of the Board of Supervisors**
- IX. Important Events**
- X. Financial Accounting Report**
- XI. Documents for Reference**

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)

2. Legal Representative: Chen Feng

3. Information of the Secretary to the Board and the Security Representative

Secretary to BoD: Zhang Shanghui

E-mail: sh_zhang@hnair.com

BoD representative of security affairs: Lv Guangwei

E-mail: gw_lv@hnair.com

Office Address: Haihang Development Building, 29 Haixiu Road, Haikou, Hainan, China.

Tel: 0898-66739961

Fax: 0898-66739960

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

Office Address: Haihang Development Building No.29 Haixiu Road Haikou

Zip Code: 570206

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

Email: webmaster@hnair.com

5. Designated Newspapers to Publish HNA's Information:

China Securities News, Shanghai Securities News, Wen Wei Po (Hong Kong)

Website Publishing the Report: <http://www.sse.com.cn>

Annual Report Available at: Securities Department of HNA

6. Stock Listed at: Shanghai Stock Exchange

Stock Name: Hainan Airlines

Stock Code: 600221

Stock Name: HNA B share

Stock Code: 900945

7. Miscellaneous

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

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

Registered number of taxation certificate: 1150805791

Address of the Accounting Firm:

Domestic Accounting Firm: Shine Wing Certified Accountants

Office address: 6 Xin Yuan Nan Lu, Chaoyang District, Beijing

Overseas Accounting Firm: Price Water House Coopers Public Accounting Firm

Office address: 22nd Floor Prince's Building, Central, Hong Kong

II. Key Fiscal and Business Data

I. Key Fiscal and Business Data of this year:

Total amount of Profit (RMB):	219,103, 206
Net Profit (RMB):	181,150, 923
Net profit after non-recurring profit and loss (RMB):	177, 751, 695
Profit from principal business (RMB):	1,273,950, 062
Profit from other operations (RMB):	41, 911, 833.
Operating profit (RMB):	201, 443, 317
Income from investment (RMB):	12,191, 970
Subsidy Income (RMB):	6,970,692
Net Non-operating Income (RMB):	-1, 502, 772
Net cash flow from operating activity (RMB):	1,061,924,972
Net cash increase (RMB):	678,267,545
Net profit (according to the International Accounting Regulation)	128, 133,000

Note: (1) The item of non-recurring profit and loss deducted indicates:

Subsidy Income: RMB 4,902,000 Yuan

Non-operating income: RMB 1,236,193 Yuan

Non-operating expenses: RMB -2,738,966 Yuan

Total: RMB 3,399,228 Yuan

(2) Adjustments to premium profit to the consolidated shareholders with statutory accounts in China in accordance with international accounting standards (IAS)

Dec. 31st 2002

Monetary Unit: RMB 1,000 Yuan

	Net Profit	Net Value of Assets
As per domestic audited accounts	181,151	2,382,946
As per IAS and other adjustments		
Amortization of Long-term deferred Expenses	65,416	202,795
Increase in interest of finance lease	53,563	200,967
Depreciation Adjustment	23,094	91,800
Capitalized maintenance expenses written off	32,050	84,972
Adjustment to the business credit	4,604	44,858
Income form selling of the stock equity of the subsidiaries of the joint companies	61,605	
Influence of deferred tax	6,882	24,191
Distribution dividends of the report year announced after the date of the balance sheet of 2002 written off		43,815
Other	1,826	4,436
After IAS and other adjustments	128,133	2,013,596

II. Key Fiscal and Business Data of the Previous Three Years As of the end of the Fiscal Year

No.	Items	Unit	2002	2001	2000	
					Before Adjustment	After Adjustment
1	Profit from principal business	(RMB)	5,028,281,733	3,254,753,740	2,296,484,304	2,296,484,304
2	Net profit	(RMB)	181,150,923	100,302,701	163,515,837	164,783,514
3	Total assets	(RMB)	19,400,958,098	15,004,326,205	10,183,648,745	10,140,898,439

4	Shareholder's equity (excluding minority interest)	(RMB)	2,382,945,724	2,184,004,969	2,145,357,553	2,127,517,437
5	Income per share	(RMB /Share)	0.25	0.14	0.22	0.23
6	Income per share after non-recurring profit and loss	(RMB /Share)	0.24	0.14	0.17	0.17
7	Net assets per share	(RMB /Share)	3.36	2.99	2.94	2.91
8	Net assets per share after adjustment	(RMB /Share)	2.31	2.28	2.44	2.41
9	Net cash flow from operating activity per share	(RMB /Share)	1.45	1.86	0.31	0.31
10	Equity ratio	(%)	7.60	4.59	7.62	7.75
11	Weighted average Yield of net assets	(%)	7.96	4.61	7.83	7.89

Addendum to Income Statement prepared in accordance with the *Regulation on Information*

Disclosure of Companies Issuing Public Securities (No. 9) promulgated by SRSC:

(Unit : RMB Yuan)

Item	Profit in Report Period	Rate of Return on Equity (%)		Income per Share (RMB)	
		Overall Diluted	Weighted Average	Overall Diluted	Weighted Average
Profit from principal	1,273,950,062	53.46	56.01	1.74	1.74

business					
Operating profit	201,443,317	8.45	8.86	0.28	0.28
Net profit	181,150,023	7.60	7.96	0.25	0.25
Net profit after non-recurring profit & loss	177,751,695	7.46	7.81	0.24	0.24

III. Changes in Shareholder's Equity

Item	Period Beginning	Increase	Period End
Share Capital	730,252,801		730,252,801
Capital Reserve	976,800,919	61,605,000	1,038,405,919
Surplus Reserve	145,907,438	27,172,637	173,080,075
Statutory Public Welfare Fund	45,364,674	9,057,546	54,422,220
Undistributed Profit	331,043,811	110,163,118	441,206,929
Total Shareholders' Equity	2,184,004,969	198,940,755	2,382,945,724

III. Changes in Share Capital and Major Shareholders

I. Changes in Share Capital

1. Share Changes

Unit: Share

	Period-beginning	Bonus Share Distributed					Period-end
1. Unlisted Share							
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							

Domestic legal person share	124,493,045						-85,757,765	38,735,280
Foreign legal person share	108,043,201						-108,043,201	
3) Employee share	64,800,000						-64,800,000	
Total Unlisted Share	432,172,801						-258,600,966	173,571,835
2. Listed Share								
1)RMB Ordinary share	221,400,000						+150,557,765	371,957,765
2)Foreign share listed at home (B share)	76,680,000						+108,043,201	184,723,201
Total Listed Share	298,080,000						+258,600,966	556,680,966
3. Total share	730,252,801							730,252,801

2. Share Issuing and Listing

- 1) According to the approval Zheng Jian Wei Fa [1999] No. 129 issued by CSRC, with the arrange of SSE, 85,757,765 domestic legal person shares of the Company and 64,800,000 employee shares have been listed on the market on Nov 25, 2002.
- 2) Following the approval Zheng Jian Gong Si Zi [2003] No. 2 issued by CSRC, approved the unregistered foreign capital share held by American Aviation LDC changed to be B Share, since Jan 16, 2003, one year later, listed on the Shanghai Stock Exchange.

II. Shareholders

1. By the end of the fiscal year, the total number of shareholders is 109,544.
2. Top 10 Shareholders

	Shareholder	Shares held (In share)	(%)
1	American Aviation LDC (foreign shareholder of unlisted share)	108,043,201	14.80
2	HNA Group Company Ltd.	53,412,696	7.31
3	Hainan Qixing Industrial Investment Co., Ltd.	53,130,708	7.28
4	China Everbright Group Limited	33,207,818	4.55
5	State Property Administration Bureau of Hainan	17,289,355	2.37
6	China International Travel Agency (head office)	6,480,000	0.89
7	Bank of Communications, Hainan Branch	6,480,000	0.89

8	Beijing Fieldtrade Corporation	4,230,000	0.59
9	Hainan Branch of China Industrial Trust & Investment Company	3,240,000	0.44
10	China Education Trust Investment Company	2,970,000	0.41

Note 1. No related party relationship exists among the top 10 shareholders of HNA.

Note 2. Note 2. Except that Hainan Qixing Industrial Investment Co., Ltd decreased the holding amount of the Company's share for 3,337,439 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.

Note 3: The shares held by the top 10 shareholders mostly are unlisted shares, except for the former 6,704,618 domestic legal person shares held by China Everbright Group Limited have been listed on the market on Nov. 25, 2002.

3. Introduction to the main shareholder

American Aviation LDC (holding 14.8% equity interest)

Legal representative: Ronald O. Drake

Date of establishment: July 7th 1995

Registration capital: 50,000 common stock and USD 1 per share

Share Structure: American Aviation LTD 25,000 shares
Quantum Industrial Partners, LDC 25,000 shares

Main business and products: 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.

HNA Group Company Limited (holding 7.31% equity interest)

Legal representative: Chen Feng

Date of establishment: Apr. 16th 1998

Registration Capital: RMB 100,800,000

Share Structure: Hainan Communication Administration Holding Co., Ltd holds 70%,

Guangzhou Construction Investment Co., Ltd holds 30%.

Main business and products: Airlines transport, investment and management in airport and hotel golf court; information technology service; investment and development in real estate; import and export trade of airplane and related materials (operating according to the license); investment in energy, transport, new technology and new material.

There is no change of the holding status during the report term.

V. Directors, Supervisors, Senior Managers and Staff

I. Current directors, supervisors, senior managers and staff

Name	Gender	Age	Term period	Balance of stockholding	Position
Chen Feng	Male	50	2000—2003	4.14	Board Chairman
Wang Jian	Male	42	2000—2003	3.62	Vice Chairman
Chen Wenli	Male	40	2000—2003	3.56	Director
Tan Xiangdong	Male	36	2000—2003	2.59	Director
Li Qing	Male	46	2000—2003	3.75	Director
Ke Deming	Male	68	2001—2003	— —	Independent Director
Yang Hui	Male	66	2001—2003	— —	Independent Director
Ronald O. Drake	Male		2001—2003	— —	Director
Iain Aitken	Male	49	2000—2003	— —	Director
Tian Xiaoxuan	Male	27	2001—2003	— —	Supervisor
Chen Ping	Male	27	2001—2003	— —	Supervisor
Qian Daoyun	Male	51	2000—2003	— —	Supervisor
Zhao Zongtao	Male	50	2000—2003	— —	Supervisor
Zhu Yimin	Male	42	2002—2005	— —	CEO
Zhao Zhongying	Male	55	2002—2005	— —	Executive President

Shu Weidong	Male	38	2002—2005	--	Vice Executive President
Du Xiaoping	Male	41	2001—2004	--	Vice Executive President
Qin Jianmin	Male	51	2001—2004	--	Vice Executive President
Zhang Shanghui	Male	32	2000—2003	--	Secretary to the Board

Note: 1.Chairman of the Board (Chen Feng) and Vice Chairman of the board (Wang Jian) are also the Chairman and Vice Chairman of the Board of HNA Group Co., Ltd.,

2.Within the report period, the holding shareholder of HNA does not change.

II. Annual Reward

The reward of directors, supervisors and senior managers: the reward of directors is distributed according to the Stipulation on HNA President Fund passed through on 14th Session of 3rd Meeting of BoD and the General Meeting of Shareholders 2001, the reward of senior managements was distributed according to the items on annual evaluation of the management and their performance during the year.

The total amount of the reward of the current directors, supervisors and senior managers is RMB 1,741,200 Yuan, among which the reward of the top 3 directors is RMB 566,400 Yuan and that of the top 3 senior managers is RMB 463,600 Yuan.

The allowance of the Independent directors of this Company and other treatment::

The Independent directors enjoy the allowance according to the allowance standard of the current directors of HNA, which is RMB 50,000 Yuan per year, and it is distributed on the General Meeting of Shareholders of the year.

Yearly income for over RMB 200,000 Yuan: 1 person; Yearly income for RMB 100,000-200,000 Yuan: 5 persons; Yearly income for RMB 50,000-100,000 Yuan: 5 person; Yearly income under RMB 50,000 Yuan: 8 persons.

III. Directors and, supervisors and senior managements resigned during the report period and the reason

1. Employment and unemployment of Manager, Deputy Manager, CFO and Secretary to BoD.

Mr. Tian Nong, Mr. Michael C. Neus, directors of HNA, resigned because of their position adjustment and

they are too busy to attend the regular meetings of BoD. It has been approved on the General Meeting of Shareholders 2001 and the First Temporary General Meeting of Shareholders.

It was considered and approved on the 9th Session of the 3rd Meeting of the Board of Supervisors that Mr. Shu Weidong would quit their job as supervisors.

Mr. Li Weijian, vice executive president, resigned because of private reason, it has been approved on the 20th Session of the 3rd Board Meeting; Mr. Li Xiaoming and Mr. Wang Zhen resigned because of the position adjustment, it has been approved by the 21st Session of the 3rd Board Meeting.

Note 1: During the year of 2002, Mr. Iain Aitken was elected to be the director on the General Meeting of Shareholders; Mr. Yang Hui was elected to be the Independent Director on the First Temporary General Meeting of Shareholders 2002. In the report period, the Secretary to the BoD does not change.

Note 2: It was considered and approved on the 21st Session of the 3rd Meeting of the Board of Directors that Mr. Zhu Yiming took the position of Chief Executive President; Mr. Zhao Zhongying took the position of executive Officer; Mr. Shu Weidong took the position of vice executive president, Mr. Wang Zhen would not take the position of vice executive president.

2. Staff

By the end of the report period, HNA has 6113 staffs in total, including 1121 pilots, 859 flight stewardess, 1133 maintenance personnel, 267 technical personnel, and the other is 3233. Among these employees, 59 people have the post graduate degrees, accounting for 1% of the total employees; 1821 people have undergraduate degrees, 32% of the total; 1869 people were graduated from junior colleges, 32.8% of the total, and 1945 people received professional education, 34.2% of the total. There were 37 retired employees.

V. Administration Structure of HNA

I. Current Structure

Ever since its listing, HNA has been perfecting the legal representatives administration structure, regulating its operation, and enhancing the information release, strictly in accordance with the requirement of *the Company Law*, *the Security Law*, the related regulations by CSRC and *Listing Regulation of SSE*. At present HNA is revising the Constitution and perfecting the regulations concerning the Shareholder's Meeting, the Boards of Directors and Supervisors according to the requirements of The Rules of the Listed Company issued by CSRC and State

Economic & Trade Council on Jan. 7 of 2002. And here is the brief of the current administration construction:

1. Shareholders and Meeting of Shareholders: HNA ensures that all shareholders, especially the small and medium ones, enjoy the same status and rights equally as the major ones. The company website has been established to keep efficient communications with shareholders and make them aware of the operating situation of the Company. Regulation on shareholders meeting was formulated, and the General Meetings of Shareholders were held strictly according to *The Rules of the General Meeting of Shareholders* issued by CSRC while the shareholders were encourage to participate in the meetings and to vote as much as possible and lawyers are employed to present as witnesses. The pricing of the related business cooperation is fair, and the independent financial consultants submitted independent financial reports so that all the related business cooperation is legal and effective by strictly following the procedures of BoD and Board of Supervisors as stipulated by *Listing Regulation of SSE*.

2. Holding Shareholders and HNA: The holding shareholders exert their rights through General Meetings of Shareholders, and are not directly involved in the policy-making and operation and management of HNA. HNA is independent with the holding shareholders in staff, assets, finance, constructing and business, and the BoD, Board of Supervisors and the interior departments can run independently.

3. Directors and BoD: HNA employs the directors strictly according to the Articles of Association of HNA. The number and organization of directors agree with the laws, stipulation and the Articles of Association of HNA. The directors of HNA attend the meetings of BoD and meetings of shareholders seriously, and are familiar with the related laws and stipulation, and aware of their rights, obligation and responsibility as a director. In 2000, HNA already employed two Independent Directors, who have played as an important role in major decision making of the Company. One more will be employed to be an Independent Director in 2003.

4. Supervisors and the Board of Supervisor: The number and organization of Board of Supervisor agree with the laws, stipulations and the Articles of Association of HNA. *Rules on Process of Board of Supervisors* has been formulated, and perfected during practice. Supervisors of the HNA perform their responsibility seriously and supervise the performance of directors, managers and other senior management personnel.

5. Evaluation, encourage and restriction mechanism: HNA is actively formulating a just and transparent evaluation criterion and encouraging and restriction mechanism of directors, supervisors and managers. The employments of managers are exoteric and transparent, and comply with the related laws and stipulations.

6. Related beneficiary: HNA safeguards the legal rights and interests of the Banks, legal representatives, customers and other interest-related parties so as to maintain the sustainable and healthy development of HNA.

7. Information release and transparency: The secretary to the BoD is appointed to be in charge of the information release, reception and consultation, and enhance the communication with shareholders. HNA releases the true and complete information in time according to the related laws, stipulations and constitutions of HNA so that all the shareholders enjoy the equal opportunity to get the information. HNA releases in time the detailed information and the changes of major shareholders or the actual controlling party of the Company in accordance with related regulations.

II. Performance of the Independent directors

By now, the Company has two independent directors. In the report period, Mr. Key Deming and Mr. Yang Hui voted on 14th–21st Sessions of 3rd Meeting of BoD, attended the General Meeting of Shareholders 2001, the 1st, 2nd and 3rd temporary General Meeting of Shareholders of 2002. Mr. Ke and Mr. Yang have fulfilled his obligation as an independent director.

III. Independence of the Company with HNA Group in Staff, Assets, Finance, Operation and Organization:

HNA mainly deals with air passenger and cargo transportation. The production system, assisting production system and the sale system were independent from HNA Group Co., Ltd. HNA is independent from any shareholder company or related ones.

1. The Company has established the complete legal representative construction according to *The Company Law*. The general manager, deputy general manager and finance staffs do not hold any positions in the shareholders' companies or related companies, with the only exception that the Chairman of the BoD is also the Chairman of the HNA Group Co., Ltd. And in the Company the independent and complete management system and constitution were established. The Company is independent in staff from the holding shareholders.

2. The Company has its own independent flight system, auxiliary flight system, corresponding facilities and equipment, real estate and trademark, and the delimitation in industrial property rights and non-patent technology is clear. The unavoidable relating dealings are completed according to the normal commercial stipulations, and the related directors fulfill the avoiding process according to the Constitution of HNA during voting on the General Meeting of Shareholders. The Company maintains relative assets integrity from the

controlling shareholders.

3. The Company has its own flight, operating, sales and other departments with independent and complete flight, operation and sales systems. The purchasing of major spare parts and the sales of both passenger and cargo air transportation are operated independently.

4. The Company has independent President Administration Office, Office of Secretary to BoD, Operation Center, Planning & Financing Department, Human Resource Department, Operation Supporting Department, Marketing & Sale Department, Flight Operations Department, and Maintenance & Engineering Department. The administration offices and operation locations are completely separated and independent.

5. The Company has an independent financial department and has established independent accounting & managing system and separate bank accounts. HNA has its own tax registration number and it is independent in finance from the controlling shareholders.

IV. Evaluation, Encouragement and Reward Mechanism to Senior Management

The annual rewards of the senior managers are monthly distributed according to the related stipulation of salary control formulated by the Company. The Human Resource Department formulated the salary system according to the operation of the Company, and submits to BoD and General Meeting of shareholders to be considered.

The senior management evaluation system consists of the schema of organizer evaluation, the performance survey of other staff by the President of BoD, the routine reward stipulation of the Company and the evaluation schema of the general staff.

Moreover, the Company is employing a professional agency to formulate the evaluation and reward schema such as promissory shares, staff shareholder schema and annual salary system, etc.

VI. Brief Introduction to the General Meetings

In 2002, the Company convened four shareholders' general meetings, including one annual shareholders' general meeting and three temporary shareholders' general meetings.

1. The General Meeting of Shareholders of 2002

On March 21 of 2002, the announcement of convening the general meeting of shareholders of HNA of 2002 was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po. On April 22 of

2002, it was held at the conference hall on 4th floor of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan province. Shareholders and proxies attended the Meeting were 17, representing 246,878,992 shares, 33.81% of the total shares (no B-shareholders representing), which conformed to the regulations of the Company Law and the Articles of Association of the Company. The meeting was presided over by Chairman Chen Feng. During the meeting, the Report on Performance of the Board of Directors, Report on Plan of Annual Salary of Directors, Supervisors and Management Personnel, Report on Changing Some Members of the Board of Directors, Report on Review and Approval of the Rules of Procedures of the General Meeting of Shareholders, Report on Amendment of the Articles of Association of HNA, Report On Aircraft Delivery Plan in 2002, Financial Report of 2001 & Financial Plan of 2002, Report on Renewal of Employment of Accounting Firm, Report on Proposed Profit Distribution Plan for 2001 & Profit Distribution Policy for 2002, Report on Submittal to the General Meeting of Shareholders for Change of the Investment Decision-making Authority of the Board of Directors and the Chairman 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 April 23 of 2002.

2. The First Temporary General Meeting of Shareholders of 2002

On May 30 of 2002, the announcement of convening the 1st temporary general meeting of shareholders of HNA of 2002 was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po. On Jun 30 of 2002, it was held at the conference hall on 4th floor of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan province. Shareholders and proxies attended the Meeting were 7, representing 265,115,478 shares, 36.30% of the total shares (no B-shareholders representing), 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. During the meeting, the Report on Re-election of Members of the Board of Directors 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 Jul 2 of 2002.

3. The Second Temporary General Meeting of Shareholders of 2002

On Aug 15 of 2002, the announcement of convening the 2nd temporary general meeting of shareholders of HNA of 2002 was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po. On Sep 17 of 2002, it was held at the conference hall on 4th floor of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan province. Shareholders and proxies attended the Meeting were 9, representing 231,950,576 shares, 31.76% of the total shares (incl. B-shareholders 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 Feng, chairman of the Company. During the meeting, the Report on Plan of Liner Importation, the

Report on the Changan Airlines Co., Ltd.'s Acceptance of 85% Capital Contribution Transfer of HNA Group Company Limited in Yangtze River Express Company and the Report on Share Allotment Plan of HNA of 2002 were 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 Sep 18 of 2002.

3. The Third Temporary General Meeting of Shareholders of 2002

On Nov 27 of 2002, the announcement of convening the 3rd temporary general meeting of shareholders of HNA of 2002 was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po. On Dec 28 of 2002, it was held at the conference hall on 4th floor of Haihang Development Mansion, 29 Haixiu Rd., Haikou, Hainan province. Shareholders and proxies attended the Meeting were 5, representing 231,882,360 shares, 31.75% of the total shares (no B-shareholders representing), 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 Feng, chairman of the Company. During the meeting, the Report on the Approval of Assets Replacement with HNA group 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 Dec 30 of 2002.

VII. Report of Board of Directors

I. Business Review

In 2002, with the support of all shareholders in the Board of Directors and the effort of all the staff, we conscientiously carried out and implemented 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", emphasized on the Safety, Conformity and Efficiency, maintained a quick, healthy and concerted development of Company's principal business.

1. Scope and Operation of the Principle Business

1) In 2002, the income from the principal business of the Company reached RMB 5.028 billion, in which the total income from passenger transportation is RMB 4.647 billion Yuan, making up 92% of the total income from principal business, and the income from cargo transportation and surcharge on overweight baggage is RMB

0.192 billion Yuan, accounting for 3.8% of the total income from principal business, and the rest income are from charter aircraft business, totaling RMB 0.171 million Yuan, 3.4% of the total income from the principle business.

The profit from principal business reached RMB 1.274 billion Yuan in the fiscal year.

2) In the year of 2002, the total passenger transportation volume reached 6.75 million person times, up 15.38% over the previous year; the total cargo and mail transportation volume reached 85,000 tons, 26% more than that of the previous year; the total transport turnover reached 910,000,000 TKM, an increase by 23.14% over that previous year.

3) In 2002, 8 aircrafts were imported, including 6 Boeing 737-800, 2 Boeing 767-300. There is no significant change made in the principal business during the report period.

2. Operation Results of the Major Subsidiaries

Name	Registered Capital	Equity Percentage	Principal Business	Sales Income RMB 10,000 Yuan)	Business Scope (RMB 10,000 Yuan)	Net Profit (RMB 10,000 Yuan)
Hainan Golden-deer Aviation Sales Co., Ltd.	RMB 8,000,000	95%	Ticket sales, air cargo transportation and chartered flight agency services	0	53,364	0
Hainan Aviation VIP Flight Service Co. Ltd.	USD 1,020,408	60%	Chartered flights agency	0	1,591	0
Hainan Air Catering Co., Ltd.	RMB 31,000,000	51%	Food and souvenirs for passengers	3,831	9,414	630
China Xinhua Airlines Co., Ltd.	RMB 1.83 billion	51%		156,640	439,917	8,083
Chang'an Airlines Co., Ltd.	RMB754, 390,000	73.51%		24,518	130,965	-5,742
Shan Xi Airlines Co.,	RMB 320,000,000	92.51%		2,623	43,379	-1,260

Ltd						
------------	--	--	--	--	--	--

3. Major Suppliers and Customers:

The purchase amount from the top 5 suppliers of the Company takes 29 % of the total purchase amount of it, which are mainly aviation fuels, materials, food and other applications. The sales turnover of the top 5 distributors of the Company takes 5.3 % of the sales turnover of it.

4. Problems and Strategies:

(1) To introduce the Modern Management Concept and improve the management level

Use international enterprises' advanced management experiences for reference, introduce into CEO Management System and rebuild the Company's management frame to make it more practicable through adjustment. The application of Six Sigma has entered the essential operational phase. There are 22 staffs in 3 groups and 140 in 7 groups respectively underwent trainings on Black Belt and Green Belt in the whole year.

(2) We are required to pay enough attention to the serious situation of aviation safety

“4.15” and “5.7” Air Disasters make the domestic situation of aviation safety in the civil aviation industry more serious. 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.

(3) To carry out the overall budget management continuously and enhance the work of financial auditing and supervision

By establishing the overall budget indexes of “quota, fixed quantity and pricing”, we successfully accomplished the essential works of overall budget design and implementation and basically established the system of overall budget management in 2002. The implementation of a series of financial systems including approval and management of capital budgeting, taxation administration, external audit and accounting promotes the Company's assets management and audit supervision effectively.

(4) The level of resource sharing requires improving. The scale effect of joint operation has not been exerted completely

The joint operation was carried out between HNA and its airlines companies in 2002. But the deeper resource concordance has not been implemented and the scale effect needs further exertion. 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 resources, air routes, flight number and flying schedule.

(5) Both the level of management and operation efficiency requires improving

There are great differences between the management frame and simple efficient operation. The Company has introduced into advanced CEO managerial system for further reformation of the Company's system and personnel system. According to the principle of "combination of individual and group, specific division of labor, fulfillment of individual responsibility and active cooperation", it will establish and perfect the frame of organization, operation and management after joint operation.

II. Investment During the Report Period

1. Investment

As of Dec. 31 of 2002, the balance of long-term investment of the Company accounted for RMB 982,620,000 Yuan, up 24.69% over the previous year.

1) Changes in Long-term Equity Investment: (Unit: RMB 10,000 Yuan)

2002.1.1	Increase	Decrease	2002.12.31
78,803	29,834	9,477	99,190

Causes of the change:

- A. Haikou Meilan Airport Co., Ltd. (Haikou Meilan), a subsidiary of Hainan Meilan Airport Co., Ltd. (Hainan Meilan), issued H share in December 2002. Premium of share capital incurred in connection with the issue is included in the capital surplus account of Haikou Meilan. Capital surplus account of Hainan Meilan is increased using the equity method. The Company owns an interest of 30% share capital of Hainan Meilan and the capital surplus account of the Company is increased by RMB 61,605 thousand accordingly.
- B. The Company and HNA Group Co., Ltd. entered into an interest transfer agreement dated in December 2002. Pursuant to which the Company agreed to acquire a 9% equity interests of Xinhua Airlines from HNA Group Co., Ltd. by an exchange of parts of Construction In Progress owned by the Company and by 30% equity interests of Deer Jet Company Limited. The Company has no investment in Deer Jet Company Limited thereafter.

- C. The Company and Xinhua Airlines, a subsidiary of the Company, contributed RMB 22,000 thousand to participate in the establishment of Lucky International Travel Services Co., Ltd. to own an interest of 44% share capital on 23 February 2002.
- D. Xinhua Airlines, a subsidiary of The Company, Beijing Tourism Co., Ltd and Hainan Airlines Hotel (Group) Co., Ltd. entered into a contribution agreement in September 2001, pursuant to which Xinhua Airline contributed RMB 11,269 thousand to own an interest of 10% registered capital of Beijing Yanjing Hotel Co., Ltd. The registered capital of Beijing Yanjing Hotel Co., Ltd. is RMB 112,689 thousand.

The tripartition entered into an interest transfer agreement in November 2001. Pursuant to which Xinhua Airline and Hainan Airlines Hotel (Group) Co., Ltd accepted the Beijing Tourism Co., Ltd's transfer of 30% interest to Beijing Yanjing Hotel Co., Ltd. respectively. Xinhua Airlines owned an interest of 40% registered capital of Beijing Yanjing Hotel Co., Ltd. thereafter.

- E. Xinhua Airlines, a subsidiary of the Company, contributed RMB 3,000 thousand to participate in the establishment of Beijing Vision Advertising Co., Ltd. to own an interest of 30% share capital on 4 June 2002.

- F. Xinhua Airlines, a subsidiary of the Company, contributed RMB 5,800 thousand to participate in the establishment of Beijing Hengshi Real Estate Development Limited to own an interest of 20% share capital in 2002.

- G. On 21 June 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.

- H. The Company, Hainan Airlines Hotel (Group) Co., Ltd. and Shanghai Airport (Group) Co., Ltd. established Yangtze River Express Co., Ltd. The registered capital of Yangtze River Express Co., Ltd. is 200,000 thousand. The Company contributed RMB 10,000 thousand to own an interest of 5% share capital. Hainan Airlines Hotel (Group) Co., Ltd contributed RMB 170,000 thousand to own an interest of 85% share capital. Shanghai Airport (Group) Co., Ltd contributed RMB 20,000 thousand to own an interest of 10% share capital.

The Company and Shanghai airport entered into an interest transfer agreement, pursuant to which the Company accepted the Shanghai airport's transfer of 10% interest to Yangtze River Express Co., Ltd. The Company owns an interest of 15% share capital of Yangtze River Express Co., Ltd. thereafter.

According to the resolution of the 18th session of the 3rd board of directors on 15 August 2002, Chang'an Airlines proposed to acquire a 85% equity interests of Yangtze River Express Co., Ltd., the book value of which is RMB170,000 thousand, from HNA Group Co., Ltd. By the end of year 2002, the transfer has not been finished. The Company owns an interest of 15% share capital of Yangtze River Express Co., Ltd. by the year ended 2002.

- I. Shanxi Airlines Co., Ltd. was contributed and established by the Company, Shanxi Aviation Industrial Co., Ltd. and Chang'an Airlines Co., Ltd. The registered capital of recombined Shanxi Airlines Co., Ltd. is RMB320 million. The Company contributed RMB 285 million to own an interest of 89.06% share capital. Shaxi Aviation Industrial Company contributed the original net assets equivalent to RMB 20 million to own an interest of 6.25% share capital. Chang'an Airlines contributed RMB 15 million to own an interest of 4.69% share capital. All sides have already fully contributed their portions of the registered capital on 30 September 2002, which was validated by Taiyuan Zhongyuan CPA Firm. Shanxi Airlines was registered on 10 October 2002 at Shanxi Industrial & Commercial Administration Bureau. Accordingly, Shanxi Airlines is consolidated from 1 November 2002.

2) Long-term Equity Investment: (Unit: RMB 1,000 Yuan)

Items	2002	2001	Shareholding	Provision for Loss	Notes
Associated undertakings company investment					
Haikou Meilan Airport Co., Ltd.	501,023	407,704	30%		A
Hainan Haihang Aircraft Maintenance Co., Ltd.	28,951	29,114	48%		
Deer Jet Company Limited	0	90,315	30%		B
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	7,436	7,114	30%		
Hainan Sunshine City International Golf Club Co., Ltd.	34,000	34,000	34%		
Lucky International Travel Services Limited	21,854	0	44%		C
Beijing Yanjing Hotel Co., Ltd.	69,998	11,269	40%		D
Beijing Vision Advertising Co., Ltd.	3,001	0	30%		E
Xinda International Transportation Substitute Company	2,323	2,311	49%		
Beijing Hengshi Real Estate Development Limited	5,800	0	20%		F
Beijing Tianchen Exhibition Company	1,038	0	20%		
Shenzhen Aviation Hotel	1,145	3,235	25%		
Sub-total for associated undertaking company investment	<u>676,569</u>	<u>585,062</u>			
Other Investment					
Hainan Aviation Hotel (Group) Co., Ltd.	58,161	58,161	19%		
Hainan Xinguo Hotel Limited	15,000	0	15%		
Hainan Airlines Tourism Development Co. Ltd.,	3,274	3,274	3.30%		
Hainan Meilan Airport Co., Ltd.	6,906	6,906	2.20%		
China Civil Aviation Information Network Co. Ltd.,	29,860	29,860	3.39%		
Hainan Development Bank	5,000	5,000	0.30%	5,000	G
Yangtze River Express Co., Ltd.	30,000	0	15%		H
Shenhua Finance Co., Ltd.	5,000	5,000	1%		
Shanxi Airlines Co, Ltd.	0	20,000			I
Other investment	2,337	1,737			
Subtotal of other investment	<u>155,538</u>	<u>129,938</u>		<u>5,000</u>	
Total long term equity investment	<u>832,107</u>	<u>715,000</u>		<u>5,000</u>	

2. No utility or deferred utility of raised capital occurred in the report period.

3. Key Projects and the Revenue under the Investment of Non-collecting Capital

(1) On Feb 24 of 2002, the Company signed the agreement with Cambodian State Government and Cambodian CTG Company Limited, founded Air Cambodian Ltd with the registered capital of 10 million USD, among it, the Company would contribute 4.9 million US, holding 49% of the total interest. Because the agreement can not get the approval of the government, the two parties have decided to terminate the investment.

(2) On August of 2002, Chang'an Airlines Co., Ltd, the subsidiary of the Company, accepted the transfer of 85% contribution of Yangtze River Express Co., Ltd by HNA Group. The investment has been completed.

(3) On Nov of 2002, the Company exchanged 30% holding interests of Deer Jet Company Limited with 9% holding interests of Xinhua Airlines by HNA Group. The exchange has been completed.

III. Financial Status:

1. Major Financial Index:

Item	2002 (RMB)	2001 (RMB)	+/- (%)
Total assets	19,400,958,098	15,004,326,205	29.30%
Long-term Liability	11,132,795,131	7,460,373,671	49.23%
Shareholders' equity	2,382,945,724	2,184,004,969	9.11%
Profit from principal business	1,273,950,062	875,808,408	45.46%
Net profit	181,150,923	100,302,701	80.60%

2. Causes for change

Item	Increase/Decrease	Causes for change
Total assets	29.30%	Increase in the fixed assets caused by merger of the subsidiaries and increase in operation aircraft
Long-term Liability	49.23%	Increase in finance leased assets caused by merger of the subsidiaries and increase in operation aircraft
Shareholders' equity	9.11%	Increase in the merger of the subsidiaries and net profit

Profit from principal business	45.46%	Increase in income form principal business
Net profit	80.60%	Increase in profit form principal business

IV. Influences of the Laws & Regulations, Macro Policy and Production Environment:

1. Influences of Reorganization of the Domestic Airlines Companies:

In Feb. 2002, CAAC published the reorganization plan of China's aviation industry officially. CAAC reorganized its nine airlines company jointly, and consequently three aviation groups and three aviation logistics enterprises are established. The establishment of three aviation groups will enhance the capability of China aviation enterprises to face the challenge of the entering to the WTO, improve the overall operation and management level, and strengthen the China aviation enterprises to compete with overseas air liners companies. Meanwhile, the establishment of three aviation groups will bring pressure to bear on other domestic airlines companies. 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. In recent years the Company successfully reorganized the Xinhua Airlines Company Limited, the Changan Airlines Co., Ltd, Shanxi Airlines Company Limited, established a joint venture company--- Yangtze River Express Company and took the lead in realizing joint operation of its air liners companies. Now the Company is the fourth biggest airlines company group In China. The Company's assets scale and operation level grow rapidly, and its core competitive power rose to a higher level, 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.

2. Joint operation will exert huge potency for the integration of the Company's aviation resource

Under the new situation of deepening the system reform of China aviation industry and establishment of three aviation groups, in October 27, HNA's joint operation was carried into execution officially with CAAC's approval. Guided by the general strategy of "Joint operation facilitates resource sharing; Resource sharing realizes collaborative development", the Company built a uniform safe operation management platform featuring resource sharing and international standard, introduced the advanced management technologies such as FOC and QAR, set up the security monitor and control system preliminarily, realized the joint operation successfully, improved the operation and management level, expanded the room for the structure transformation of aviation transport resource

and configuration optimization, and provided practical experiences for the joint operation of the China's aviation transportation enterprises.

V. Working Plan in 2003:

1. Operation guideline

Year 2003, it is the ten anniversary of the foundation of HNA. It is the first year to carry through Company's 2nd phase goal of "3,7,9" development strategy. It is the "year of transfer" of transferring from extensive operation and management to intensive ones. Therefore, the work of 2003 is of great significance. Company's guideline in 2003 is "To face new opportunities and challenges, To Improve the Core Competitive Power and create a world famous brand, to settle the solid base for the Company's second breakthrough."

2. Production Set for 2003:

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.

3. Production and Operation Measures

(1) Carrying out the transformation of the Company's management and improving overall profit and efficiency level.

(2) Seizing the opportunity of joint operation and reorganization & integration of three aviation groups to create and strengthen our brand as a best China aviation transportation service.

(3) Raising the operational training level for all personnel, heightening managerial staff's makings and creating a scientific and normative human resource reserve system.

(4) Perfecting the construction of management regulations and laying the stress of education on the management regulations.

VI. Routine Work of Board of Directors

1. Meetings of Board of Directors

1) On Apr. 13 of 2001, the 14th Session of the 3rd Meeting of BoD of the Company was held and the

following proposals were considered and approved:

- A. Work Summary of 2001 & Work Plan for 2002 of the Company;*
- B. 2001 Annual Report of the Company and its Summary;*
- C. 2001 Financial Report and 2001 Financial Plan of the Company;*
- D. Report on Performance of the Board of Directors;*
- E. Report on Plan of Annual Salary of Directors, Supervisors and Management Personnel*
- F. Report on Changing Some Members of the Board of Directors*
- G. Report on Review and Approval of the Rules of Procedures of the Board of Directors;*
- H. Report on Review and Approval of the Rules of Procedures of the General Meeting of Shareholders;*
- I. Report on Amendment of the Articles of Association of HNA;*
- J. Report On Aircraft Delivery Plan in 2002;*
- K. Report on Establishment of Level- I ADR;*
- L. Report on Continued Application of Listing in Shanghai Stock Exchange by Changing into B Shares to Original Foreign Corporate Shares through Directional Collection;*
- M. Financial Report of 2001 & Financial Plan of 2002.*
- N. Report on Renewal of Employment of Accounting Firm*
- O. Report on Proposed Profit Distribution Plan for 2001 & Profit Distribution Policy for 2002*
- P. Report on Submittal to the General Meeting of Shareholders for Change of the Investment Decision-making Authority of the Board of Directors and the Chairman*
- R. Report on Appointing the Board Representative of the Securities Affairs*
- S. Report on Holding the General Meeting of Shareholders of 2001*

The related information was published on *China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po* of Apr. 21 of 2002.

2) On April 24 of 2002, the 15th Session of the 3rd Meeting of BoD of the Company was held and passed through the *First Quarter Report of 2002 and Report on Establishment of Yangtze River Express Company Limited.*

The resolution of the meeting was published on *China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po* of April 26 of 2001.

3) On May. 29 of 2002, the 16th Session of the 3rd Meeting of BoD of the Company was held and the passed through the *Report on Changing Some Members of the Board of Directors, Report on Aircraft Delivery Plan and Report on Holding the First Temporary General Meeting of Shareholders of 2002.*

The resolution of the meeting was published on *China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po* of May 30 of 2002.

4) On June 30 of 2002, the 17th Session of the 3rd Board Meeting was held and passed through the *Report on Self-examination on Establishing the Modern Management System.*

The resolution of the meeting was published on *China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po* of July 2 of 2002.

5) On August 15 of 2002, the 18th Session of the 3rd Board Meeting was held and passed through the *Report on HNA Group Transfer the 85% Capital Contribution of Yangtze River Express to Changan Airlines, Report on Application of Placing in 2002, Report on Aircraft Delivery Plan, The Interim Report of HNA of 2002 and Report of Holding the Second Temporary General Meeting of Shareholders of 2002.*

The resolution of the meeting was published on *China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po* of August 16 of 2002.

6). On Oct 25 of 2002, the 19th Session of the 3rd Board Meeting was held and passed through the *Third Quarter Report of 2002.*

The resolution of the meeting was published on *China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po* of Oct 25 of 2002.

7). On Nov 26 of 2002, the 20th Session of the 3rd Board Meeting was held and passed through *The Report on Asset Swap with HNA Group, Report on Changing the Vice Executive President and Report on Holding the Third Temporary General Meeting of Shareholders of 2002.*

The resolution of the meeting was published on *China Securities News, Shanghai Securities News and Hong Kong's Wen Wei Po* of Nov 27 of 2002.

8). On Dec 4 of 2002, the 21st Session of the 3rd Board Meeting was held and passed through the *Report on Changing Some Senior Management Member.*

The resolution of the meeting was published on *China Securities News, Shanghai Securities News and Hong*

Kong's Wen Wei Po of Dec 5 of 2002.

2. Subsequent Events on Resolution of the Meetings of Shareholders

1) The 1st Temporary Meeting of Shareholders in 2002 considered and passed through the *Report on Changing Some Members of the Board of Directors*, the proposal has been carried into execution.

2) The 2nd Temporary General Meeting of Shareholders of 2002 considered and passed through the *Report on HNA Group Transfer the 85% Capital Contribution of Yangtze River Express to Changan Airlines, Report on Application of Placing in 2002 and Report on Aircraft Delivery Plan*.

3) The 3rd Temporary General Meeting of Shareholders of 2002 considered and passed through the *Report on Asset Swap with HNA Group*. The proposal has been carried into execution

3. Profit Distribution Preplan / Preplan for Capitalization of Capital Reserve in 2002

As of the end of the fiscal year, the profit after tax of the Company audited by the domestic accounting firm was for RMB 181,151,000 Yuan, while that audited by the foreign accounting firm accounted for RMB 128,133,000 Yuan. Since the accumulated undistributed profit of RMB 160,636,000 Yuan audited by the foreign accounting firm was lower than that of RMB 512,195,000 Yuan audited by the domestic accounting firm, the former shall be taken as the basic amount for 2002 profit sharing subject to the “Lower Principle” of profit-sharing abided by companies with both listed A & B shares.

According to regulations of the *Company Law* and the *Articles of Association*, the statutory surplus reserve accounted for 10% of the profit after tax of HNA in 2002 and statutory public welfare fund accounted for 5% of that shall be withdrawn from the profit after tax before the profit distribution, which totaled for RMB 27,173,000 Yuan. Thus the actual profit to be distributed is for RMB 133,463,000 Yuan.

Therefore, a cash dividend of RMB 0.6 Yuan (tax included) per ten shares, totaling for RMB 43,815,000 Yuan, shall be distributed on the basis of 730,252,801 total shares at the period end, and the undistributed profit for RMB 89,648,000 Yuan will be carried forward to the next fiscal year. In 2002, the capital reserve will not be transferred into share capital.

The preplan will be carried out after submitting to the Annual General Meeting of Shareholders of 2002 for approval.

4. In the report period, HNA did not change the newspapers selected for information release.

VIII. Report of the Board of Supervisors

1. Works of the Board of Supervisors:

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

1). On Mar 19 of 2002, the 7th session of the 3rd board of supervisors was held. During the meeting, the Working Report of the Board of Supervisors of 2001, the Report on the Annual Report and the Annual Report Summary of 2001 and the Rules of Procedure of the board of supervisors were considered and passed.

The announcement of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Mar 21 of 2002.

2). On Aug 15 of 2002, the 8th session of the 3rd board of supervisors was held. During the meeting, the Biannual Report of 2002 was considered and passed.

The announcement of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Aug 16 of 2002.

3). On Dec 4 of 2002, the 9th session of the 3rd board of supervisors was held. During the meeting, the Report on Mr. Du Xiaoping, organizer of the board of supervisors and supervisor's leaving his post was considered and passed.

The announcement of the meeting was published on the China Securities News, Shanghai Securities News and Hong Kong's Wen Wei of Dec 5 of 2002.

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 2002, 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 in the report period.

3. Important Connected Transactions:

It's considered and passed by the 18th session of the 3rd board of directors held on Aug 15, 2002 and the 2nd temporary general meeting of shareholders held on Sep 17, 2001 that the Company's subsidiary company--- Changan Airlines Company Ltd. would accept 85% capital contribution transfer of HNA Group in Yangtze River Express Company at the price of RMB 170,000,000 Yuan.

It's considered and passed by the 20th session of the 3rd board of directors held on Nov 26, 2002 and the 3rd temporary general meeting of shareholders held on Dec 28, 2002 that the Company would replace 30% share interests in Deer Jet Company and several construction investments with 9% shares of HNA group in China Xinhua Airlines. After the replacement the Company will hold 60% share interests in the China Xinhua Airlines.

4. Important Agreements and Performance:

In the report period, no important agreements and performance occurred except the paragraphs of progress of important project invested by using the Non-collected capital and income from it and important connected transactions.

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:

In the report period, no promises of the Company or its shareholders holding more than 5% of the Company's total amount of shares and execution of the promises occurred.

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 580 thousand Yuan and HK\$ 1.3 million respectively.

7. Other Important Events:

- 1). In May, 2002, HNA won the title of 50 Top Enterprises Listed in Shanghai Stock Exchange and Shenzhen Stock Exchange in the appraisal through comparison sponsored by *Listed Companies* of Shanghai Stock Exchange. On Aug 21, 2002, HNA won the title of 500 Top Domestic Enterprise in the appraisal through comparison sponsored by China Enterprise Confederation & China Enterprise Directors Association.
- 2). On May 17,2002, the department concerned of Spain government approved the program of HNA's importing of flight simulators using loan from Spain government. USD 28,000,000 of the loan are Spain government loan with the term of loan 33 years and loan rate 0.2%. The rest USD16, 000,000 are buyer's credit.
- 3). On Oct 27,2002, HNA carried out the joint operation formally with CAAC's approval. Hainan Airlines Company Limited, Xinhua Airlines Company Limited, Changan Airlines Co., Ltd and Shanxi Airlines Company Limited began to use the same flight number: HU, and unified plane logo and safety responsibilities. These indicated the periodic achievement of the joint operation after HNA's reorganization.
- 4). On Nov 18,2002, H-shares of the Hainan Meilan Airport Shareholding Co., Ltd. were listed at Stock Exchange Of HongKong. The Company holds 30% capital contribution in the Hainan Meilan Airport Shareholding's parent company--- Haikou Meilan Airport Co., Ltd.
- 5). On Nov 25,2002, the Company's 85,757,765 corporation shares listed in STAQ system and 64,800,000 employee shares were listed at Shanghai Stock Exchange.
- 6). It's considered and passed by the 21st session of the 3rd board of directors held on Dec 4 of 2002 that the Company will introduce advanced CEO managerial system from foreign countries.
- 7). Up to Dec 31,2002, HNA's cumulative flight on-time performance rate was 82.7%, thus HNA won the first prize in the appraisal of flight on-time performance rate for the three continuous years. In Sep, 2002, HNA was awarded with the title of "National Customer Satisfied Service" by China Quality Association and won the first prize of this appraisal again, thus HNA won the triple crown of this prize.

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 2002, 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 2002, 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

April 12, 2003

Hainan Airlines Company Limited

Balance Sheet

As at 31 December 2002

Monetary unit: RMB Yuan

Assets	Notes	2002		2001	
		CONSOLIDATED	HOLDING COMPANY	CONSOLIDATED	HOLDING COMPANY
CURRENT ASSETS					
Cash in bank & on hand	V、1	1,401,040,101	818,755,914	722,772,556	472,335,729
Short investment		-	-		
Notes receivable		-	-		
Dividend receivable		-	2,253,208		
Interest receivable		-	-		
Accounts receivable	V、2	412,831,320	11,115,313	398,532,875	198,362,573
Other receivables	V、2	958,393,638	764,340,093	1,228,824,964	954,555,091
Advances to suppliers	V、3	455,880,910	325,831,957	799,770,513	418,330,713
Subsidy receivable		-	-		
Inventories	V、4	1,308,563,989	1,040,508,355	1,004,834,505	752,826,539
Deferred and prepaid expenses	V、5	55,966,438	37,012,874	61,905,703	44,281,860
Long term investment maturing within one year		-			
Other current assets		-			
Total current assets		4,592,676,396	2,999,817,714	4,216,641,116	2,840,692,505
LONG-TERM INVESTMENTS					
Long term equity investment	V、6	991,903,099	2,790,152,796	788,027,008	2,310,566,725
Long term bond investment		-	-		
Long-term investments-net value		991,903,099	2,790,152,796	788,027,008	2,310,566,725
Incl. consolidation difference	V、6	164,796,397		78,026,492	
FIXED ASSETS					
Fixed assets - cost		14,382,792,724	9,790,075,391	9,711,035,664	5,620,056,289
Less: Accumulated depreciation		2,286,944,012	701,072,563	1,774,798,132	418,886,604
Fixed assets - net book value	V、7	12,095,848,712	9,089,002,828	7,936,237,532	5,201,169,685
Less: Provision for decrement of fixed assets		-	-		
Fixed assets - net book value		12,095,848,712	9,089,002,828	7,936,237,532	5,201,169,685
Engineering materials		-	-		
Construction in progress	V8	817,244,036	437,622,371	1,639,157,702	1,578,088,881
Disposal of fixed assets					
Total fixed assets		12,913,092,748	9,526,625,199	9,575,395,234	6,779,258,566
INTANGIBLE ASSETS					
Intangible assets	V、9	20,004,945	-	4,716,666	
Long-term deferred assets	V、10	560,942,021	330,393,027	419,546,181	344,109,387
Other long-term assets	V、11	322,338,889	322,338,889		
Total intangible & other assets		903,285,855	652,731,916	424,262,847	344,109,387

TOTAL ASSETS		19,400,958,098	15,969,327,625	15,004,326,205	12,274,627,183
The accompanying notes form an integral part of these financial statements					
Hainan Airlines Company Limited					
Balance Sheet (continued)					
		CONSOLIDATED	HOLDING COMPANY	CONSOLIDATED	HOLDING COMPANY
CURRENT LIABILITIES					
Short term loans	V、12	2,157,869,647	895,869,647	2,237,801,777	1,502,020,440
Notes payable	V、13	266,541,012	161,477,989	35,000,000	-
Accounts payable	V、14	393,783,867	478,051,213	456,077,153	548,144,009
Advances from customers		54,292,647	21,416,990	39,363,433	32,700,230
Accrued payroll		214,725	-1,269	311,741	82,611
Staff and workers' bonus and welfare fund		12,441,579	-	7,726,588	-
Dividends payable	V、15	69,420,970	67,768,850	63,365,038	63,365,038
Taxes payable	V、16	137,384,560	127,849,479	7,576,867	10,680,684
Other payables to government	V、17	62,118,596	1,287,339	85,713,270	
Other payables	V、18	432,151,222	485,517,050	132,092,838	31,630,410
Accrued expenses	V、19	311,401,202	186,068,754	347,067,879	201,412,326
Sales in advance of carriage-domestic	V、20	54,711,071	2,603,558	14,613,509	2,393,910
Sales in advance of carriage-international		4,048,174	-	-18,463	
Liability estimation		-	-		
Long-term liability maturing within one year		979,880,624	821,482,624	866,843,015	730,650,962
Other current liabilities		-	-		
Total current liabilities		4,936,259,896	3,249,392,224	4,293,534,645	3,123,080,620
LONG TERM LIABILITIES					
Long term loans	V、21	7,559,632,904	7,233,796,078	6,467,751,241	6,413,285,793
Bonds payable		-	-		
Long term payable	V、22	3,089,050,910	2,625,035,325	992,622,430	540,208,844
Special accounts payable	V、23	20,000,000	-		
Other long-term liability	V、24	464,111,317	464,111,317		
Total long term liabilities		11,132,795,131	10,322,942,720	7,460,373,671	6,953,494,637
Deferred tax					
Deferred tax credits		-			
TOTAL LIABILITIES		16,069,055,027	13,572,334,944	11,753,908,316	10,076,575,257
Minority interest					
Minority interest	V、25	948,957,347		1,066,412,920	
OWNERS' EQUITY					
Paid-in capital	V、26	730,252,801	730,252,801	730,252,801	730,252,801
Capital surplus	V、27	1,038,405,919	1,038,405,919	976,800,919	976,800,919

Reserve fund	V、28	173,080,075	173,080,075	145,907,438	145,907,438
Inclu.:Public welfare fund		54,422,220	54,422,220	45,364,674	45,364,674
Undistributed profits / (accumulated losses)	V、29	441,206,929	455,253,886	331,043,811	345,090,768
Total owners' equity		2,382,945,724	2,396,992,681	2,184,004,969	2,198,051,926
TOTAL LIABILITIES AND OWNERS' EQUITY		19,400,958,098	15,969,327,625	15,004,326,205	12,274,627,183

Hainan Airlines Company Limited

Profit and Loss Account

For the Year 2002

Monetary unit: RMB Yuan

ITEMS	Notes	2002		2001	
		CONSOLIDATED	HOLDING COMPANY	CONSOLIDATED	HOLDING COMPANY
1. Sales revenue	V、30	5,028,281,733	3,185,324,902	3,254,753,740	2,690,599,477
Less: Civil aviation infrastructure levies		91,190,797		27,839,893	
Cost of sales		3,497,917,983	2,116,783,008	2,244,524,923	1,868,724,190
Sales tax and surtax	V、31	165,222,891	107,739,462	106,580,515	88,935,261
2.GROSS PROFIT ON SALES		1,273,950,062	960,802,432	875,808,409	732,940,026
Add: Income from other Operations	V、32	41,911,833	32,292,397	48,344,476	44,905,528
Less: Selling expenses		286,065,650	178,126,103	183,977,275	147,190,822
General and administrative expenses		272,722,762	170,231,711	149,210,371	115,731,471
Financial expenses/(income)	V、33	555,630,166	460,513,631	453,274,412	425,858,576
3.OPERATING PROFIT / (LOSS)		201,443,317	184,223,384	137,690,827	89,064,685
Add:Income from investments	V、34	12,191,970	8,466,768	-72,227	22,414,980
Subsidies Income	V、35	6,970,692	-	2,110,889	-
Non-operating income	V、36	1,236,193	877,937	1,904,548	359,768
Less: Non-operating expenses	V、36	2,738,966	1,705,500	1,549,280	825,066
4.TOTAL PROFIT / (LOSS)		219,103,206	191,862,589	140,084,757	111,014,367
Less: Income tax		11,848,709	10,711,666	11,188,846	10,711,666
Minority interest		26,103,574	-	28,593,210	
5.NET PROFIT/(LOSS) AFTER TAX		181,150,923	181,150,923	100,302,701	100,302,701
Add: Undistributed profit at beginning of the year		331,043,811	345,090,768	289,601,683	303,648,640
Transferred in from surplus reserve					
6. Profit Available for Dividends		512,194,734	526,241,691	389,904,384	403,951,341
Less: Statutory surplus reserve		18,115,091	18,115,091	10,030,270	10,030,270
Statutory public welfare fund		9,057,546	9,057,546	5,015,136	5,015,135
7. Profit Available for Dividends to Shareholders		485,022,097	499,069,054	374,858,978	388,905,936
Less: Preference dividends payable					
Voluntary earnings surplus drawn					
Common stock dividends payable		43,815,168	43,815,168	43,815,167	43,815,168
Dividends being transferred to share capital					
8. Undistributed Profit		441,206,929	455,253,886	331,043,811	345,090,768

Hainan Airlines Company Limited
Cash Flow Statement
For the Year 2002

	Notes	CONSOLIDATED	HOLDING COMPANY
1. Cash Flows From Operating Activities			
Cash received from sales of goods or rendering of services		5,183,000,626	3,407,358,276
Refund of tax		4,449,825	-
Other cash received relating to operating activities		163,290,697	538,730,292
Sub-total of cash inflows		5,350,741,148	3,946,088,568
Cash paid for goods and services		2,909,738,326	1,812,471,510
Cash paid to and on behalf of employees		216,516,921	98,287,411
Income tax paid		326,150,151	148,750,653
Other cash paid relating to operating activities		836,410,778	493,066,196
Sub-total of cash outflows		4,288,816,176	2,552,575,770
Net cash from operating activities		1,061,924,972	1,393,512,798
2. Cash Flows from Investing Activities:			
Cash received from return of investments		-	-
Cash received from distribution of dividends or profits		6,559,308	5,158,903
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		115,093,237	15,215
Other cash received relating to investing activities		-	-
Sub-total of cash inflows		121,652,545	5,174,118
Cash paid to acquire fixed assets, intangible assets and other long-term assets		1,179,828,625	1,047,941,368
Cash paid to acquire equity investments		145,026,407	19,000,000
Other cash paid relating to investing activities		1,038,046	-
Sub-total of cash outflows		1,325,893,078	1,066,941,368
Net cash from investing activities		-1,204,240,533	-1,061,767,250
3. Cash Flows from Financing Activities			
Proceeds from issuing shares		14,695,100	-
Proceeds from investment		3,534,170,372	2,322,170,372
Other proceeds relating to financing activities		639,988,265	434,046,808
Sub-total of cash inflows		4,188,853,737	2,756,217,180
Cash repayments of amounts borrowed		2,386,652,905	1,956,127,108
Cash payments for distribution of dividends or profits and interest expenses		585,620,775	527,678,239
Other cash payments relating to financing activities		400,873,780	257,737,196
Sub-total of cash outflows		3,373,147,460	2,741,542,543
Net cash from financing activities		815,706,277	14,674,637
4. Additions of subsidiary by purchase			
		4,876,829	
5. Effect of Foreign Exchange Rate Changes on Cash			
		-	
6. Net Increase in Cash and Cash Equivalents			
		678,267,545	346,420,185

Hainan Airlines Company Limited

Cash Flow Statement

For the Year 2002

A.

Monetary unit: RMB Yuan

	Notes	CONSOLIDATED	HOLDING COMPANY
1. Reconciliation of Net Profit to Cash Flows from the rating Activities			
Net profit		181,150,923	181,150,923
Add: Minority interest		26,103,575	-
Add: Provision for bad debt or bad debt written off		-7,998,908	-5,298,272
Depreciation of fixed assets		559,431,296	339,437,093
Amortization of intangible assets and other long-term assets		7,370,000	7,103,000
Amortization of long-term deferred assets		133,065,971	83,786,548
Decrease in deferred and prepaid expenses (or deduct: increase)		5,939,265	7,268,985
Increase in accrued expenses (or deduct: decrease)		-35,666,677	-15,343,572
Losses on disposal of fixed assets, intangible assets and other long-term assets (or deduct: gains)		1,235,544	1,116,833
Losses on scrapping of fixed assets		97,655	-
Financial expenses		555,630,166	460,513,631
Losses arising from investments (or deduct: gains)		-12,191,969	-8,466,768
Deferred tax credit (or deduct: debit)		-	-
Decrease in inventories (or deduct: increase)		-290,620,339	-316,991,017
Decrease in operating receivables (or deduct: decrease)		579,995,047	-41,580,395
Increase in operating payables (or deduct: decrease)		-641,577,153	700,815,809
Others		-39,424	-
Net cash from operating activities		1,061,924,972	1,393,512,798
2. Investing and Financing Activities that do not Involve in Cash Receipts and Payments			
Transferred-in capital by debt			
Negotiable bond due in one year			
Capital leasing of fixed assets			
3. Net Increase in Cash and Cash Equivalents			
Cash at the end of the period		1,401,040,101	818,755,914
Less: cash at the beginning of the period		722,772,556	472,335,729
Plus: cash equivalents at the end of the period		-	-
Less: cash equivalents at the beginning of the period		-	-
Net increase in cash and cash equivalents		678,267,545	346,420,185

Hainan Airlines Company Limited

Statement of Provision

For the Year 2002

Monetary unit: RMB Yuan

Consolidated

Items	2001.12.31	Addition	Write-off	2002.12.31
1. Provision for bad debts	81,058,900	7,324,746	11,667,821	76,715,825
Including: Account Receivable	30,774,538	815,479		31,590,017
Other Receivable	50,284,362	6,509,267	11,667,821	45,125,808
2. Provision for loss on short-term investments				
Including: Investment in stock				
Investment in bonds				
3. Provision for loss on realization of inventories	21,935,070		3,655,833	18,279,237
Including: high value spare parts	20,033,560		3,655,833	16,377,727
Consumption aviation materials	1,818,174			1,818,174
Aircraft supplies	83,336			83,336
4. Provision for loss on long-term investment	5,000,000			5,000,000
Including: Investment in equity	5,000,000			5,000,000
Investment in bonds				
5. Provision for loss of fixed assets				
Including: Plant & building				
Equipment				
6. Provision for loss of intangible assets				
Including: Patents				
Proprietary technology				
Provision for loss of construction in progress	12,000,000			12,000,000
8. Provision for loans of authority				

Holding Company

Items	2001.12.31	Addition	Write-off	2002.12.31
1. Provision for bad debts	11,416,626	-1,642,439		9,774,187
Including: Account Receivable	4,072,885	308,697		4,381,582
Other Receivable	7,343,741	-1,951,136		5,392,605
2. Provision for loss on short-term investments				
Including: Investment in stock				
Investment in bonds				
3. Provision for loss on realization of inventories	21,935,070		3,655,833	18,279,237
Including: high value spare parts	20,033,560		3,655,833	16,377,727
Consumption aviation materials	1,818,174			1,818,174

Aircraft supplies	83,336			83,336
4. Provision for loss on long-term investment	5,000,000			5,000,000
Including: Investment in equity	5,000,000			5,000,000
Investment in bonds				
5. Provision for loss of fixed assets				
Including: Plant & building				
Equipment				
6. Provision for loss of intangible assets				
Including: Patents				
Proprietary technology				
Provision for loss of construction in progress	12,000,000			12,000,000
8. Provision for loans of authority				

HAINAN AIRLINES COMPANY LIMITED

(English translation for reference only)

3. NOTES TO FINANCIAL STATEMENTS - 1 January to 31 December 2002

(The currency is in RMB thousand Yuan except otherwise indicated)

1. General

1. Hainan Airlines Company Limited (hereinafter referred as “the Company”) is a joint stock limited company reorganized from the former state owned Hainan Airlines (hereinafter referred 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 1993 at Hainan Industrial & Commercial Administration Bureau. The registered share capital was RMB 250,100,000 Yuan, and the total amount of shares was RMB 250,100,000 Yuan.
2. The scrip dividend for 1993 was approved by the resolution of the 2nd shareholders meeting of the Company in March 1994. 50,020,000 shares were distributed and the total capital had increased to RMB300,120,000 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 shares were listed in STAQ system. The number of legal person shares listed in STAQ system is 115,271,337 after the scrip dividend.
4. On 2 November 1995, pursuant to the approval of the Wai Jing Mao Yi Han Zi [1995] No. 615 issued by the

Ministry of Foreign Trade and Economic Co-operation of PRC, 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. The Company 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 surplus. The Company obtained a new business license in November 1996 after increasing its share capital stated above. Also its name has been changed to Hainan Airlines Company Limited and the registered capital was RMB 400,160,001 Yuan.

5. Following the approval of 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 surplus.
6. According to the approval of Zheng Jian Fa Xing Zi [1999] No.129 issued by CSRC, the Company issued 205 million 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 surplus.
7. In accordance with a profit appropriation resolution for report of the year 1999 passed by the shareholders' meeting in 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 Yuan (tax included) to all shareholders with total amount of RMB 54,092,800 Yuan and RMB 67,616,000 Yuan respectively. The share capital of the Company is increased to RMB 730,252,801 Yuan thereafter.
8. The Company is attribute to airport industry. It mainly deals with approved international and domestic air passenger and cargo transportation and other related transportation service.

2. Principal Accounting Policies

1. Accounting Policy

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the Accounting Regulations of the People's Republic of China for Business Enterprises.

2. Accounting Period

The Company's accounting year starts on 1 January and ends on 31 December.

3. Reporting Currency of the Company

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 value upon contributed to the Company, otherwise are initially recorded at their acquired costs.

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 into the profit and loss account.

6. Cash equivalents

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

7. 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 and cash flow performances, except for the receivable amounts for the related parties or the amounts that are approved receivable by sufficient evidences.

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%

In addition, specific provisions are set against balances that have been assessed to be uncollectible in the case of unfavorable operating position, insolvency or suspended business.

8. Inventory

Inventories mainly include high value spare parts, aviation consumption materials, Catering supplies and low cost

consumables. According to the Trial Regulations 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 aviation consumption materials are recorded at standard cost, and the difference between the weighted average cost and standard cost is recorded in the cost variances of materials account. In addition, high value spare parts 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, Catering 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 Catering supplies is provided for on the basis of the lower of the cost and the market price.

Low cost consumables are expensed when consumed.

9. Long-term Investments

(1) Long-term equity investments

- A. Long-term equity investment price and revenue recognized method: Long-term equity investments are recorded at the initial cost of acquisition. When the Company owns an interest of 20% or less of the voting rights or otherwise does not have the ability to exercise significant influence over the financial and operational decisions, then these investments are accounted for using the cost method of accounting. When the Company owns an interest of 20% or more of the voting rights or otherwise has the ability to exercise significant influence over the financial and operational decisions, then these investments are accounted for using the equity method of accounting.
- B. Equity investment difference amortized method and years: When the equity investments are accounted for using the equity method of accounting, the difference between the initial costs on acquisition and the proportionate share of the net assets of the investor is accounted for as an “equity investment difference” and are amortized on a straight-line basis over a certain period of years. If the investment period is stipulated in the contract, then the amortization should be taken over this period. If there is no time limit, then any debit balance should be amortized over 10 years. However, any credit balances should be amortized over 10 years.

- (2) Provision for impairment of long-term investments recognized method: At the end of period, provisions are set against balances in the case of continuous dip in market price or unfavorable operating position and the dip in price is expected irrecoverable in the future. Provision for impairment of long-term investments is made based on the excess of the original cost of the share investment over its market price.

10. Fixed Assets

Fixed assets refer to aircraft and engines, plant and building, equipment, vehicles and other equipment related to the operation of the Company with useful lives of over one year. Fixed assets also include equipment other than the main production equipment with individual values of over RMB 2,000 and useful lives in excess of 2 years.

Fixed assets purchased or constructed by the Company are initially recorded at historical cost. Assets held under

finance leases are recorded at the lowest contract price.

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

Plant and buildings	40 years
Aircraft and engines	10 to 20 years
Vehicles	10 years
Machinery and equipment	8 to 14 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 was 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:

- (1) Permanently withdraw from use and no future economic benefit is expected and being recognized no income during transactions.
- (2) No future economic benefit is expected for technical reasons.
- (3) Damaged fixed assets without any value and use.

11. Construction in progress

Construction in progress represents capital assets under construction or being installed and prepayment for purchase of airplane and aviation materials, which is stated at cost. Cost comprises original cost of aircraft, 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 the 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 under the following situation:

- (1) Stopped project that is not expected to reopen in two years.
- (2) Obsolescent project in performance and technology and is unable to bring future economic benefit.
- (3) Decrease in value has incurred with satisfied proof.

12. Borrowing costs

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

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

- (1) Ancillary costs incurred.
- (2) Interest incurred.
- (3) The constructions in progress have reached their expected usable conditions.

The capitalization of borrowing costs is ceased when the constructions in progress have reached their expected usable conditions. Borrowing costs incurred thereafter are recognized as financial expense in the periods in which they are incurred.

13. Intangible assets

- (1) Purchased land use rights are accounted for at actual cost (including relevant taxes). Invested land use rights are accounted for at evaluation cost.
- (2) Land use rights are amortized over their transfer years on a straight-line basis.
- (3) Intangible assets are accounted on the basis of the lower of the cost and the recoverable value. At the end of period, a provision for the intangible assets is made based on the excess of the book value of the investment over its recoverable value.

14. Long-term deferred assets

Long-term deferred expenses include overhaul expenses for fixed assets, leasehold improvements in connection with the finance and operating leases and pilot training expenses that should be amortized for more than 1 year. These expenses are amortized over a period from 3 to 7 years on a straight-line basis.

15. Leases

When significant risks and rewards of ownership of the assets are transferred to the leases pursuant to the contract, these leases are classified as finance leases. At the inception of a lease, lessees usually should record the leased asset and the long-term liability at an amount equal to the total minimum lease payments. Other leases are classified as operating lease. The costs are amortized using the straight-line method over the lease period.

16. Sales

Passenger, charter flight and cargo revenues are recognized when the relevant sales and costs could be measured reliably, relevant economic benefits could flow into the Company, and the completion stage of transportation services provided 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;
- (b) Appropriation of 10% statutory surplus reserve; (The Statutory Surplus Reserve Fund can cease to accrue until the fund balance reaches 50% of the registered share capital.)
- (c) Appropriation of 5-10% statutory welfare reserve;
- (d) Appropriation of discretionary surplus reserve;
- (e) Payment of dividends. According to relevant CSRC regulations, profit distribute 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 International Accounting Standards.

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

19. 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 2002. The consolidated financial statements comprise the consolidation of financial statements of the Company and its subsidiaries, which are those companies in which the Group, directly or indirectly, has an interest of more than 51% the capital or total share capital as on 31 December 2002 and of the results for the year ended. According to the Interim Provisions for consolidated financial statements, all intercompany transactions, balances and unrealized surpluses and deficits on transactions between Group companies have been eliminated.

3. Taxation

1. Income tax

Parent Company income tax

- (a) According to Qiong Di Shui Fa [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 entitled part is 7.5%.

- (b) According to Qiong Di Shui Fa [1998] No.27 approved by Hainan Government, income tax rate of the Company is 15%. According to Qiong Di Shui Fa [2002] No.374 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 2002 is entitled to 50% tax reduction, namely, tax rate of entitled part is 7.5%.

In addition, according to Qiong Di Shui Fa[2001] No.307 and Qiong Di Shui Fa[2002] No.227 approved by Hainan local Tax Bureau, 40% of the domestic equipment purchases are income tax deductible each year for a maximum amount equal to the purchases in excess of prior years purchases from 1999 to 2001. The deductible amount can be carried forward from 1999 to 2001 in amount of RMB 13,047.73 thousand.

Subsidiaries income tax:

- (a). Hainan Golden-Deer Aviation Sales Co., Ltd. (“Golden Deer”) is entitled to one year exemption from PRC income tax followed by one year of a 50% reduction, commencing from the first profit – making year. The first profit-making year of Golden Deer is 1996 and hence the income tax rate for Golden Deer from 1999 to 2002 is 15%.
- (b). Hainan Airlines VIP Flight Services Co., Ltd. (“VIP Flight Services”) is entitled to one year exemption from PRC income tax followed by one year of a 50% reduction, commencing from the first profit – making year. The first profit-making year of VIP Flight Services is 2001, and no income tax is accrued in 2001. The income tax rate for VIP Flight Services for 2002 is 7.5%.
- (c). Hainan Airlines Catering Co., Ltd. (“Catering company”) is entitled to two years’ exemption from income taxes followed by three years of a 50% tax reduction, commencing from the first profit-making year. The first profit – making year for Hainan Airlines Catering Co., Ltd. is 1997 and hence the income tax rate from 1999 to 2001 is 7.5%. The income tax for Catering Company for 2002 is 15%.
- (d). The applicable tax rate for China Xinhua Airlines Co., Ltd. (“Xinhua Airlines”) is 33%. However, according to Chao Zi [1999] No.013 approved by Beijing Chaoyang District National Tax Bureau, the Company would not be subject to local income tax prior to the cumulative profit-making year net of losses carried forward from year 1996 to 1998 amounting to RMB 229,655 thousand. So no income tax is accrued in 2001 and 2002.
- (e). The applicable tax rate for Chang'an Airlines Co. Ltd, (“Chang'an Airlines”) is 33%. However, according to Shanxi Di Shui Han [2002] No.55 approved by Shanxi Local Tax Bureau in relation to Preferential Policy of income tax, Chang’an Airlines Co., Ltd. is entitled to exemption from income taxes in 2001 and 2002.
- (f). The applicable tax rate for Shanxi Airlines Co. Ltd (“Shanxi Airlines”) is 33%.

(3). Sales Tax and surcharges

Tax	Basis of computation	Tax rate
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. Group accounting

The financial statements of the Company represent the consolidated financial statements of the Company itself and its consolidated subsidiaries for the year ended 31 December 2002. All significant transactions among its consolidated entities are eliminated upon consolidation.

The followings are the information of the major subsidiaries as of 31 December 2002:

Company Name	Registered Capital	Amount Investment	Owned interest	Principal activities
A Hainan Golden-Deer Aviation Sales Co., Ltd.	RMB 8,000,000	RMB 7,600,000	95%	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 services
C Hainan Airlines Catering Co., Ltd.	RMB 31,000,000	RMB15,810,000	51%	Production of food and present for passengers
D China Xinhua Airlines Co., Ltd.	RMB 1,830,000,000	RMB 933,300,000	60%	Approved air passenger and cargo transportation

E	Chang'an Airlines Co.,Ltd.	RMB 754,390,000	RMB 554,563,300	73.51%	Air passenger and cargo transportation in Shanxi province and its surrounding provinces
F	Shanxi Airlines Co., Ltd.	RMB 320,000,000	RMB 285,000,000	92.51%	Air passenger and cargo branch line transportation in Shanxi province and its surrounding provinces
G	Beijing Xinhua Air Catering Co., Ltd.	RMB 29,990,000	RMB 15,294,900	51%	Production and sale of pastry, food and beverage

A. Hainan Golden-Deer Aviation Sales Co., Ltd. ("Golden Deer") is a limited 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 with Hainan Aviation Import & Export Company on 10 May 1995, all the risks and benefits in relation to HAIETC's 5% interest have been assigned to the Company.

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 portions 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 1994, withhold 30% and 70% equity interest respectively. The registered capital of Catering company was 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 1999, which was verified by Hainan Zhenhua Certified Public Accountants.

D. China Xinhua Airlines Co., Ltd. ("Xinhua Airlines") is a limited Company that was recombined by the Company, Shenhua Group Co., Ltd. and Hainan Airlines Group. The registered capital of China Xinhua Airlines is RMB 1.83 billion. The Company contributed RMB 933.3 million to hold 51% of total equity interest. According to validation by Hainan Weixin CPA Firm, all sides have already fully contributed their portions of the registered capital up to 31 August 2002. Accordingly, China Xinhua Airlines is consolidated from 1 September 2001. The Company and Hainan Airlines Group Co. Ltd entered into a capital transfer agreement in December 2002. Pursuant to which the Company accepted the Hainan Airlines Group Co. Ltd's transfer of the interest of 9% share capital to the Xinhua Airlines. As of 31 December 2002, the Company holds 60% of total equity interest.

E. Chang'an Airlines Co. Ltd. ("Chang'an Airlines") was contributed and established by the Company, Chang'an Aviation Industrial Company and Hainan Airline Group Co. Ltd. The registered capital of Chang'an Airlines is RMB 754,390,000 Yuan, in which the Company contributes RMB 200,000 thousand to hold 26.51% of registered capital. All sides have already fully contributed their portions of the registered capital on 30 October 2001, which was validated by Shan'xi Xinghua CPA Firm,. The Company signed equity transfer agreement with Hainan Airlines Group Co., Ltd., according to which acquiring equity investment RMB 354,563 thousand from Hainan Airlines Group Co., Ltd. The holding share of the Company is changed to 73.51% as control holder,

Chang'an Aviation Industrial Company is 13.84% and Hainan Airlines Group is 12.65%. Accordingly, Chang'an Airlines is consolidated from 1 November 2001.

- F. Shanxi Airlines Co., Ltd. was contributed and established by the Company, Shanxi Aviation Industrial Co., Ltd. and Chang'an Airlines Co., Ltd. The registered capital of recombined Shanxi Airlines Co., Ltd. is RMB320 million. The Company contributed RMB 285 million to own an interest of 89.06% share capital. Shanxi Aviation Industrial Company contributed the original net assets equivalent to RMB 20 million to own an interest of 6.25% share capital. Chang'an Airlines contributed RMB 15 million to own an interest of 4.69% share capital. All sides have already fully contributed their portions of the registered capital on 30 September 2002, which was validated by TaiYuan ZhongYuan CPA Firm. Shanxi Airlines was registered on 10 October 2002 at Shanxi Industrial & Commercial Administration Bureau. Accordingly, Shanxi Airlines is consolidated from 1 November 2002.
- G. China Xinhua Airlines Co., Ltd. ("Xinhua Airlines"), a subsidiary of the Company, and Beijing Air Fushi International Investment Co., Ltd. ("Air Fushi") entered into a contribution agreement to establish the Beijing Xinhua Air Catering Co., Ltd. ("Xinhua Catering") in September 2002. The register capital of Xinhua Catering is RMB 29,990 thousand. Xinhua Airlines contributed RMB 15,294.9 thousand in cash to own an interest of 51% registered capital. All sides have already fully contributed their portions of the registered capital on 29 November 2002, which was validated by Beijing Yongtuo CPA Firm.

5. Notes to the consolidated financial statements

1. Cash

	2002	2001
Cash on hand	30,828	1,196
Cash in bank	1,331,559	709,539
Other monetary assets	38,653	12,038
Total	<u>1,401,040</u>	<u>722,773</u>

Following are foreign currencies at 31 December 2002

Currency	Amount	Exchange Rate	2002
USD	2,714	8.2773	22,465
HKD	419	1.0611	445
Others			121
Total			<u>23,031</u>

2. Receivable (Including Account Receivable and Other Receivable)

(1) Account receivable aging analysis:

Aging	2002			2001		
	Amounts	Percentage	Provision for bad debts	Amounts	Percentage	Provision for bad debts
Within one year	397,289	89	0	383,624	89	0
1-2 years	6,434	1	1,576	4,223	1	956
2-3 years	2,058	1	689	1,582	0	146
More than 3 years	38,640	9	29,325	39,879	10	29,673
Total	<u>444,421</u>	<u>100</u>	<u>31,590</u>	<u>429,308</u>	<u>100</u>	<u>30,775</u>

Account receivables of the top five companies amounting to RMB 161, 528 thousand cover 36. 3% of the accounts.

There are no account receivables due from shareholders with over 5% interest.

(2). Other Receivables

Other receivable aging analysis:

Aging	2002			2001		
	Amounts	Percentage	Provision for bad debts	Amounts	Percentage	Provision for bad debts
Within 1 year	701,013	70	0	646,310	52	0
1-2 years	135,559	13	12,312	484,024	37	404
2-3 years	70,748	7	12,164	72,286	5	903
More than 3 years	96,200	10	20,650	76,488	6	48,976
Total	<u>1,003,520</u>	<u>100</u>	<u>45,126</u>	<u>1,279,108</u>	<u>100</u>	<u>50,283</u>

Other receivables of the top five companies amounting to RMB 550,370 thousand cover 54% of the accounts.

The balance of other receivable mainly includes receivable amount due from deposits for operating aircraft leases and customs duty and related parties etc. (See Note VII). According to the opinion of the board of directors of the Company there is no recovery risk for receivables due from related parties and no bad debts provision should be provided for the related party receivables. No provision for bad debts is prepared for balance in relation to down payment and security deposits for leasing aircraft. Aging analysis method is adopted on the rest of other receivables.

Other receivables due from shareholders holding over 5% (including 5%) interest of the Company include Hainan Airlines Group Co., Ltd in amount of RMB 3, 182 thousand.

3. Advance to Suppliers

Aging	2002		2001	
	Amount	Percentage	Amount	Percentage
Within 1 year	278,439	61	742,354	93

1—2 years	168,928	37	51,219	6
2—3 years	6,014	1	2,737	0
More than 3 years	2,500	1	3,461	1
Total	<u>455,881</u>	<u>100</u>	<u>799,771</u>	<u>100.00</u>

There is no Advance to suppliers due from shareholders holding over 5% (including 5%) interest of the Company.

4. Inventories and provision for loss on realization of inventory

	2002		2001	
	Amount	Provision for loss on realization of inventory	Amount	Provision for loss on realization of inventory
High-value spare parts	1,184,136	16,378	889,701	20,034
Aviation materials	115,274	1,818	110,367	1,818
Catering supplies	7,686	83	12,306	83
Low cost consumables	9,315	0	7,015	0
Others	10,432	0	7,381	0
Total	<u>1,326,843</u>	<u>18,279</u>	<u>1,026,770</u>	<u>21,935</u>

The main reason for increases in inventory from 2001 to 2002 is due to the purchases of three B737-800 aircraft, two B767 aircraft and aviation materials, and the consolidation of Shanxi Airlines:

5. Deferred and Prepaid Expenses

Items	2002	2001	The reason of balance
Aircraft operating lease rental	54,049	47,986	Regular balance
Insurance premium on aircraft	0	4,081	Regular balance
Others	1,917	9,839	Regular balance
Total	<u>55,966</u>	<u>61,906</u>	

6. Long-term Equity Investments

(1). Long-term equity investment:

Items	2002	2001
Associated company investment	676,569	585,062
Other equity investment	155,538	129,938
Total	<u>832,107</u>	<u>715,000</u>
The acquisition difference between investment of Xinhua	58,687	68,314
The acquisition difference between investment of Chang'an	8,726	9,713
The acquisition difference between investment of Shanxi	97,383	0

Less: Provision for loss on long-term investment	5,000	5,000
Long-term investment-net value	991,903	788,027

(2). Detail information of long-term equity investment:

Items	2002	2001	Shareholding	Provision for Loss	Notes
Associated undertakings company investment					
Haikou Meilan Airport Co., Ltd.	501,023	407,704	30%		A
Hainan Haihang Aircraft Maintenance Co., Ltd.	28,951	29,114	48%		
Deer Jet Company Limited	0	90,315	30%		B
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	7,436	7,114	30%		
Hainan Sunshine City International Golf Club Co., Ltd.	34,000	34,000	34%		
Lucky International Travel Services Limited	21,854	0	44%		C
Beijing Yanjing Hotel Co., Ltd.	69,998	11,269	40%		D
Beijing Vision Advertising Co., Ltd.	3,001	0	30%		E
Xinda International Transportation Substitute Company	2,323	2,311	49%		
Beijing Hengshi Real Estate Development Limited	5,800	0	20%		F
Beijing Tianchen Exhibition Company	1,038	0	20%		
Shenzhen Aviation Hotel	1,145	3,235	25%		
Sub-total for associated undertaking company investment	<u>676,569</u>	<u>585,062</u>			
Other Investment					
Hainan Aviation Hotel (Group) Co., Ltd.	58,161	58,161	19%		
Hainan Xinguo Hotel Limited	15,000	0	15%		
Hainan Airlines Tourism Development Co. Ltd.,	3,274	3,274	3.30%		
Hainan Meilan Airport Co., Ltd.	6,906	6,906	2.20%		
China Civil Aviation Information Network Co. Ltd.,	29,860	29,860	3.39%		
Hainan Development Bank	5,000	5,000	0.30%	5,000	G
Yangtze River Express Co., Ltd.	30,000	0	15%		H
Shenhua Finance Co., Ltd.	5,000	5,000	1%		
Shanxi Airlines Co, Ltd.	0	20,000			I
Other investment	2,337	1,737			
Subtotal of other investment	<u>155,538</u>	<u>129,938</u>		5,000	
Total long term equity investment	<u>832,107</u>	<u>715,000</u>		<u>5,000</u>	

J. Haikou Meilan Airport Co., Ltd. (Haikou Meilan), a subsidiary of Hainan Meilan Airport Co., Ltd. (Hainan Meilan), issued H share in December 2002. Premium of share capital incurred in connection with the issue is included in the capital surplus account of Haikou Meilan. Capital surplus account of Hainan Meilan is increased using the equity method. The Company owns an interest of 30% share capital of Hainan Meilan and the capital surplus account of the Company is increased by RMB 61,605 thousand accordingly.

K. The Company and HNA Group Co., Ltd. entered into an interest transfer agreement dated in December 2002. Pursuant to which the Company agreed to acquire a 9% equity interests of Xinhua Airlines from HNA Group Co., Ltd. by an exchange of parts of Construction In Progress owned by the Company and by 30% equity interests of Deer Jet Company Limited. The Company has no investment in Deer Jet Company Limited thereafter.

L. The Company and Xinhua Airlines, a subsidiary of the Company, contributed RMB 22,000 thousand to participate in the establishment of Lucky International Travel Services Co., Ltd. to own an interest of 44% share capital on 23 February 2002.

M. Xinhua Airlines, a subsidiary of The Company, Beijing Tourism Co., Ltd and Hainan Airlines Hotel (Group) Co., Ltd. entered into a contribution agreement in September 2001, pursuant to which Xinhua Airline contributed RMB 11,269 thousand to own an interest of 10% registered capital of Beijing Yanjing Hotel Co., Ltd. The registered capital of Beijing Yanjing Hotel Co., Ltd. is RMB 112,689 thousand.

The tripartion entered into an interest transfer agreement in November 2001. Pursuant to which Xinhua Airline and Hainan Airlines Hotel (Group) Co., Ltd accepted the Beijing Tourism Co., Ltd's transfer of 30% interest to Beijing Yanjing Hotel Co., Ltd. respectively. Xinhua Airlines owned an interest of 40% registered capital of Beijing Yanjing Hotel Co., Ltd. thereafter.

N. Xinhua Airlines, a subsidiary of the Company, contributed RMB 3,000 thousand to participate in the establishment of Beijing Vision Advertising Co., Ltd. to own an interest of 30% share capital on 4 June 2002.

O. Xinhua Airlines, a subsidiary of the Company, contributed RMB 5,800 thousand to participate in the establishment of Beijing Hengshi Real Estate Development Limited to own an interest of 20% share capital in 2002.

P. On 21 June 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.

Q. The Company, Hainan Airlines Hotel (Group) Co., Ltd. and Shanghai Airport (Group) Co., Ltd. established Yangtze River Express Co., Ltd. The registered capital of Yangtze River Express Co., Ltd. is 200,000 thousand. The Company contributed RMB 10,000 thousand to own an interest of 5% share capital. Hainan Airlines Hotel (Group) Co., Ltd contributed RMB 170,000 thousand to own an interest of 85% share capital. Shanghai Airport (Group) Co., Ltd contributed RMB 20,000 thousand to own an interest of 10% share capital.

The Company and Shanghai airport entered into an interest transfer agreement, pursuant to which the Company accepted the Shanghai airport's transfer of 10% interest to Yangtze River Express Co., Ltd. The Company owns an interest of 15% share capital of Yangtze River Express Co., Ltd. thereafter.

According to the resolution of the 18th session of the 3rd board of directors on 15 August 2002, Chang'an Airlines proposed to acquire a 85% equity interests of Yangtze River Express Co., Ltd., the book value of which is RMB170,000 thousand, from HNA Group Co., Ltd. By the end of year 2002, the transfer has not been finished. The Company owns an interest of 15% share capital of Yangtze River Express Co., Ltd. by the year ended 2002.

R. Shanxi Airlines Co., Ltd. was contributed and established by the Company, Shanxi Aviation Industrial Co., Ltd. and Chang'an Airlines Co., Ltd. The registered capital of recombined Shanxi Airlines Co., Ltd. is RMB320 million. The Company contributed RMB 285 million to own an interest of 89.06% share capital. Shanxi Aviation Industrial Company contributed the original net assets equivalent to RMB 20 million to own an interest of 6.25% share capital. Chang'an Airlines contributed RMB 15 million to own an interest of 4.69% share capital. All sides have already fully contributed their portions of the registered capital on 30 September 2002, which was validated by TaiYuan ZhongYuan CPA Firm. Shanxi Airlines was registered on 10 October 2002 at Shanxi Industrial & Commercial Administration Bureau. Accordingly, Shanxi Airlines is consolidated from 1 November 2002.

(3). Detail information of long-term equity investment:

	Initial investment	Addition in investment	Investment income	Increase/Decrease	31/12/2002
Haikou Meilan Airport Co., Ltd.	198,520	205,230	97,273	302,503	501,023
Hainan Haihang Aircraft Maintenance Co., Ltd	50,000	-19,517	-1,532	-21,049	28,951
Deer Jet Co., Ltd.	285,000	-275,560	-9,440	-285,000	0
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	3,000	0	4,436	4,436	7,436
Hainan Sunshine City International Golf Club Co., Ltd.	34,000	0	0	0	34,000
Lucky International Travel Services Limited	22,000	0	-146	-146	21,854
Beijing Yanjing Hotel Co., Ltd.	11,269	62,120	-3,391	58,729	69,998
Beijing Vision Advertising Co., Ltd.	3,000	0	1	1	3,001
Xinda International Transportation Substitute Company	3,312	0	-989	-989	2,323
Beijing Hengshi Real Estate Development Limited	5,800	0	0	0	5,800
Beijing Tianchen Exhibition Company	1,038	0	0	0	1,038
Shenzhen Aviation Hotel	5,082	0	-3,937	-3,937	1,145
Total	622,021	-27,727	82,275	54,548	676,569

Follows are acquisition difference between investment:

Items	Initial Difference	2001	Addition	Amortization	2002	Notes
Acquisition difference between investment of Xinhua	70,669	68,314	-2,560	7,067	58,687	A
Acquisition difference between	9,878	9,713	0	987	8,726	

investment of Chang'an

Acquisition difference between

investment of Shanxi	99,033	0	99,033	1,650	97,383	B
Total	<u>179,580</u>	<u>78,027</u>	<u>96,473</u>	<u>9,704</u>	<u>164,796</u>	

A. The Company and Hainan Airlines Group Co. Ltd entered into a capital transfer agreement in December 2002. Pursuant to which the Company accepted the Hainan Airlines Group Co. Ltd's transfer of the interest of 9% share capital to the Xinhua Airlines at the price determined by the audited balance of net assets on 31 July 2002. Investment income in 2002 is recognized at 51% net profit of Xinhua Airlines. The 9% of net profit of Xinhua Airlines from August 2002 to December 2002, in amount of RMB -2,560 thousand, is recognized as the acquisition difference of long-term investment by the Company.

B. The Company, Shanxi Aviation Industrial Co., Ltd. and Chang'an Airlines Co., Ltd. entered into a contribution agreement to establish the Shanxi Airlines. The registered capital of Shanxi Airlines is RMB 320,000 thousand. The Company contributed cash in amount of RMB 5,000 thousand and aircraft and aviation materials in amount of RMB 280,000 thousand, totally RMB285,000 thousand, to own an interest of 89.06% of registered capital. All sides have already fully contributed their portions of the registered capital on 31 October 2002. Shanxi Airlines was registered on 31 October 2002. As of the register date, the total assets of Shanxi Airlines is RMB 422,284 thousand and the net assets is RMB 208,810 thousand. The Company owns an interest of 89.06% share capital for an aggregate consideration of RMB 185,966 thousand net assets. The acquisition difference of the RMB 285,000 thousand investment in RMB 99,033 thousand has been amortized by 10 years since 1 November 2002.

7. Fixed Assets

	Plant & Building	Finance Leased Aircraft & Engines	Purchased Aircraft & Engines	Vehicles	Machinery & Equipment	Total
Cost						
1 January 2002	1,273,566	2,559,937	5,599,336	143,216	134,981	9,711,036
Additions of Subsidiaries	1,153		286,748	5,201	5,867	298,969
Additions*	479,946	3,316,598	1,845,450	20,414	98,631	5,761,039
Including: Construction in progress	474,966	358,489	915,121		31,327	1,779,903
Disposals	43,190	454,415	873,455	11,431	5,760	1,388,252
31 December 2002	<u>1,711,475</u>	<u>5,422,120</u>	<u>6,858,079</u>	<u>157,400</u>	<u>233,719</u>	<u>14,382,793</u>
Accumulated depreciation:						
1 January 2002	76,600	993,200	605,535	53,278	46,185	1,774,798
Additions of Subsidiaries by purchase	259		39,727	898	2,225	43,109
Charge for the year	34,226	256,649	236,551	14,710	17,295	559,431
Disposals	78	19,459	62,731	5,513	2,613	90,394
31 December 2002	<u>111,007</u>	<u>1,230,390</u>	<u>819,082</u>	<u>63,373</u>	<u>63,092</u>	<u>2,286,944</u>

Net book value:

31 December 2002	1, 196, 966	1, 566, 737	4, 993, 801	89, 938	88, 796	7, 936, 238
1 January 2002	1, 600, 468	4, 191, 730	6, 038, 997	94, 027	170, 627	12, 095, 849

- A. Increases in plant & building for RMB 479,946 thousand are mainly transferred from construction in progress including Maintenance Project, Meilan base, Hainan Aviation Town House, Qionghai Aviation Training Base and Hainan Aviation Development Building B. The Company has not got parts of project completion reports 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. It will be adjusted after getting the project completion report.
- B. Increase in finance lease of aircraft and engines for RMB 3, 316, 598 thousand is mainly due to finance leases of one B767 aircraft, three B737-800 aircraft and five Dornier aircraft engines, and sales and leaseback transactions for four B737-400 engines and one B737-300 aircraft purchased formerly.
- C. Decrease in finance lease of aircraft and engines for RMB 454,415 thousand is mainly due to the purchase of one finance leased aircraft.
- D. Increase in purchased Aircraft & engines for RMB 1,845,450 thousand is mainly due to the purchase of one finance leased B737-300 aircraft and customs duty and Value Added Tax for purchasing one B767-300 aircraft.
- E. Decrease in purchased Aircraft & engines for RMB 873,455 thousand is mainly due to the sales and leaseback transactions for four B737-400 engines and one B737-800 aircraft and two Dornier aircraft were contributed to the Shanxi Airlines.
- F. Fix assets of the Company mortgaged for borrowing up to 31 December 2002: Cost of plant and building is RMB 252,790 thousand, net value RMB 233,755 thousand; Cost of purchased Aircraft and engine is RMB 3,483,419 thousand, net value RMB 3,396,169 thousand.
- G. The Company has not obtained property rights for part of buildings, the net book value of which is RMB 226,425 thousand. The Company confirmed that the acquisition of property rights is in process. According to opinion verified by Guohao Legal Firm, the Company will get property rights without any legal barriers.

8. Construction in Progress

- (1). Construction in Progress includes:

<u>Items</u>	2002	2001
Advance to supplier of Engine	534,031	1,024,014
Construction Projects	295,213	627,144
Total	829,244	1,651,158
Provision for loss of Construction in Progress	12,000	12,000
Construction in progress net value	817,244	1,639,158

(2). Movements of advance to suppliers of aircraft and engines

Items	2001	Additions	Transfer to Fix Assets	Other Disposal	2002
B737-800 aircraft	514,011	18,115	358,489	173,637	0
D-328 aircraft	2,582	55,704	0	0	58,286
B737-300 Engine	2,298	0	0	2,298	0
B737-800 Engine	7,367	0	0	7,367	0
B767 aircraft	484,308	1,347,711	915,121	441,219	475,679
Others	13,448	536	0	13,918	66
Total	1,024,014	1,422,066	1,273,610	638,439	534,031

Decrease in advance to suppliers of aircraft and engines is mainly due to the sales and operating leaseback transactions for two B737-800 aircraft and one B767 before they were transferred to fixed assets.

(3). Detailed Movements of Construction Projects

Projects	2001	Additions of Subsidiary	Additions	Transfer to Fix Assets	Other Disposals	2002	Source of Fund	Stage of completion
Oracle Information Systems	30,096	0	1,124	31,220	0	0	Bank loans	Completed
Taojin Apartment Building	21,889	0	5	0	21,894	0	Bank loans	Transferred
Land in Xing Guo Road of Shanghai	77,848	0	0	0	0	77,848	Owned	Suspended
Holiday Beach	28,869	0	8,486	37,355	0	0	Bank loans	Completed
Hainan Aviation Development Building B	4,554	0	12,824	17,378	0	0	Bank loans	Completed
No.1 Maintenance Project	142,467	0	22,682	165,149	0	0	Bank loans	Completed
Hainan Aviation Development Building accessory facilities	16,287	0	5,358	21,645	0	0	Bank loans	Completed
Townhouse 2nd Stage	26,799	0	30,429	57,228	0	0	Bank loans	Completed
Townhouse 3rd Stage	0	0	37,298	0	0	37,298	Bank loans	In progress
Qionghai Base 2nd Stage	0	0	773	0	0	773	Bank loans	In progress
Sea Shore Hotel Project	36,017	0	0	0	36,017	0	Bank loans	Transferred

Meilan Basis	42,561	0	38,074	80,635	0	0	Bank loans	Completed
Qionghai Aviation Training Base	55,617	0	5,251	60,868	0	0	Bank loans	Completed
Changxiu Development Area	18,951	0	0	0	18,951	0	Bank loans	Transferred
Jin Ya Vacation villa	10,026	0	0	0	10,026	0	Bank loans	Transferred
Tianhai Garden	0	0	27,683	0	0	27,683	Bank loans	Completed
Yazhou Garden	0	0	20,842	0	0	20,842	Bank loans	Completed
Beijing Basis	0	0	3,192	1,085	0	2,107	Owned	In progress
Tianzhu Base 2nd Stage	0	0	8,121	0	0	8,121	Owned	In progress
Dali Garden 2nd Stage	19,500	0	0	19,500	0	0	Owned	Completed
Xianyang Aircraft Parking Area	36,745	0	40,406	0	0	77,151	Owned	In progress
Residential Building	1,913	0	14,220	0	0	16,133	Owned	In progress
Residential Building –Bailong	0	14,331	208	0	0	14,539	Owned	In progress
Others	57,005	56	-23,486	14,230	6,627	12,718		
Total	627,144	14,387	253,490	506,293	93,515	295,213		

Other Disposals mainly refer to the project transferred to Hainan Airlines Group Co. Ltd pursuant to a capital transfer agreement signed with Hainan Airlines Group Co. Ltd in December 2002. The transaction has been published. For details, refer to the notes of connect transaction of this report.

As of 31 December 2002, the balance of construction in progress of the Company mortgaged for borrowing is RMB 77,151 thousand

Increase in construction in progress includes capitalized interest in amount of RMB 43,063 thousand at the rate of 6%.

(4) Provision of loss for construction in progress

Project	2001	Additions	Disposals	2002
Land in Xing Guo Road in Shanghai	12,000			12,000
Total	12,000			12,000

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

9. Intangible Assets

Items	Land Use Right
Acquisition method	Purchase
Cost	21,091
31 December 2001	4,717
Additions of Subsidiary	15,545
Additions	10
Amortization	267
Accumulated amortization	1,086
31 December 2002	20,005
Remaining amortization years	22.6-38.5 years

10. Long-term deferred expenses

Items	2001	Additions of Subsidiary	Additions	Amortization	2002	Cost Value	Remaining Amortization Years	Accumulated Amortization
Improvement of fixed assets by operating lease	69,999		74,195	30,309	113,885	208,802	1-7years	94,917
Supervision for Reforming Aircraft	94,933		3,918	29,398	69,453	208,017	1-7years	138,564
Pilot training Fee	134,702	24,309	146,709	37,162	268,558	366,156	1-7years	97,598
Rental for Tianzhu Basis	20,589		121	831	19,879	26,565	26years	6,686
User charge for Tianjin Aircraft Parking Area	9,474		0	381	9,093	9,760	24years	667
Others	89,849	559	24,651	34,985	80,074	321,364	1-7years	241,290
Total	419,546	24,868	249,594	133,066	560,942	1,140,664		579,722

11. Other long-term assets

Items	2001	Additions	Amortization	2002	Cost Value	Remaining Amortization Years	Accumulated Amortization
Operating leasing B737-800 aircraft from Sumisho Aircraft Asset Management B.V	0	65,744	3,427	62,317	65,744	7.5 years	3,427
Operating leasing B737-800 aircraft from	0	65,264			65,264	7.5 years	

Mc. Aviation Financial Services (Europe) B.V			2,719	62,545				2,719
Finance leasing B767 aircraft from North American Aircraft Leasing Company Limited	0	204,466	1,406	203,060	204,466	20 years		1,406
Finance leasing aircraft engines from Jiangsu Leasing Co., Ltd.	0	-1,616	-7	-1,609	-1,616	20 years		-7
Finance leasing aircraft engines from Shenzhen Leasing Co., Ltd.	0	-4,416	-442	-3,974	-4,416	19.5 years		-442
Total	<u>0</u>	<u>329,442</u>	<u>7,103</u>	<u>322,339</u>	<u>329,442</u>			<u>7,103</u>

As of 31 December 2002, the balance of other long-term assets represents the deferred losses or deferred gains arisen from the aircraft and engine sales and leaseback transactions in 2002. Deferred losses or deferred gains arisen from the operating leaseback transactions are amortized using the straight-line method over the lease period. Deferred losses or deferred gains arisen from the finance leaseback transactions are amortized using the straight-line method over the estimated useful lives.

12. Short-term Loans

		2002	2001	Interest rate per annum
Bank loans				
Including:	Unsecured loans	150,000	316,743	5.31-6.039%
	Mortgaged loans	570,855	864,214	4.54-6.435%
	Guaranteed loans	1,432,000	1,051,781	4.43-6.435%
Loans from other enterprises			0	
Including:	Unsecured loans	5,015	5,064	10%
Total		<u>2,157,870</u>	<u>2,237,802</u>	

13. Notes Payable

	2002	2001
Bank Acceptance	212,541	35,000
Commercial Acceptance	<u>54,000</u>	<u>0</u>
Total	<u>266,541</u>	<u>35,000</u>

The balance of notes payable mainly represents payment of fuel, take-off and catering expenses.

14. Payable

(1) Accounts Payable

The balance of accounts payable amounting to RMB 393,784 thousand on 31 December 2002, (RMB 456,077 thousand for 2001) mainly represent payables of selling tickets for other airline companies. There is no account payable due to shareholders holding over 5% (including 5%) interest of the Company.

(2) Other Payables

The balance of other payable is RMB 432, 151 thousand in the end of year 2002 (2001's RMB 132,093 thousand for 2001). There is no other payable due to shareholders holding over 5% (including 5%) interest of the Company.

15. Dividend Payable

Items	2002	2001	Reason
Legal person shares	34, 771	35, 120	Normal arrears to pay
Domestic investment shares-A shares	22, 317	17, 226	Normal arrears to pay
Foreign investment shares-B shares	4, 547	4, 547	Normal arrears to pay
Others	7, 786	6, 472	Normal arrears to pay
Total	<u>69, 421</u>	<u>63, 365</u>	

The balance of dividend payable mainly represents dividend due to minority shareholders of the Company.

16. Taxes Payable

Taxation	2002	2001
VAT payable	114,647	20
Business tax payable	7,974	5,860
City construction tax payable	2,262	1,497
Income tax payable	5,859	(718)
Customs duty	6,478	0
Others	165	918

Total	137,385	7,577
-------	---------	-------

For details of the tax rate of the Company and the subsidiary company see note III. Increase in VAT payable and customs duty is mainly due to tax for importing aircraft

17. Other payable to government

	2002	2001
Civil aviation infrastructure levies payable	60,505	85,562
Education surcharge	1,614	151
Total	<u>62,119</u>	<u>85,713</u>

The balance of Civil aviation infrastructure levies payable for the year ended 31 December 2002 is RMB 60,505 thousand, which was levies payables of China Xinhua Airlines Company and Chang'an Airlines Company, 5% of domestic and 2% of international traffic revenues. As mentioned on notes XI, headquarter of the Company does not accrue levies payable.

18. Accrued Expenses

Items	2002	2001
fuel expenses	68,650	69,368
Take-off expenses	115,387	88,557
Catering expenses	33,412	37,545
Loan interest	43,186	55,566
Provision for aircraft overhaul	25,023	73,631
Fee of computer reservation	13,467	13,667
Payment for catering franchise right	0	4,080
Aircraft insurance premium	8,894	0
Others	3,382	4,654
Total	<u>311,401</u>	<u>347,068</u>

19. Sales in Advance of Carriage

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

20. Current Portion of Long-term Liabilities

		2002	2001
Current portion of long-term loans	(a)	537, 440	676, 673
Current portion of long-term payable	(b)	<u>442, 441</u>	<u>190, 170</u>
Total		<u><u>979, 881</u></u>	<u><u>866, 843</u></u>

(a) Current portion of long-term loans

		2002	2001
Bank loans			
Including:	Unsecured loans	291,111	619,478
	Mortgaged loans	50,000	25,000
	Guaranteed loans	37,000	30,000
	Subtotal	<u>378,111</u>	<u>674,478</u>
Loans from other financial institutions			
Including:	Unsecured loans	159,329	2,195
	Subtotal	<u>159,329</u>	<u>2,195</u>
Total		<u><u>537,440</u></u>	<u><u>676,673</u></u>

(b) Current portion of long-term payables

Current portion of long-term payables of the Company is payables due within one year for finance leasing aircraft and engines.

Name	Period	Cost Value	Interest Payable	2002-12-31
Advance Aviation	12 years	155,542	7,112	25,540
Raytheon	11.5 years	81,516	2,807	6,476
Xinjiang Leasing Co., Ltd	10 years	150,000	8,030	11,070
Shenzhen Finance & Leasing Co. Ltd	5 years	185,860	10,092	40,600
Pacific American Corporation	4.5 years	59,437	3,219	17,602
Sino-America Aviation	11.5 years	1,437,975	27,986	137,546
New Century Finance & Leasing Co. Ltd	5 years	66,772	4,233	24,931
Jiangsu Leasing Co., Ltd.	3 years	37,111	2,537	8,926
NorthAmericanAircraft	12 years	713,974	23,912	41,352

Leasing Company Limited				
Structured Trade Finance Group	11-13 years	1,176,864	31,185	107,209
Far East International Leasing Co., Ltd.	5 years	140,000	9,093	21,189
Total		<u>4,205,051</u>	<u>130,206</u>	<u>442,441</u>

21. Long-term Loans

		2002	2001
Bank loans			
Including:	Unsecured loans	696,629	42,530
	Mortgaged loans	3,474,492	3,080,000
	Guaranteed loans	698,616	64,260
	Hypothecation loans	1,110,000	1,032,682
	Subtotal	<u>5,979,737</u>	<u>4,219,472</u>
Loans from other financial institutions			
Including:	Unsecured loans	1,579,896	2,248,279
	Subtotal	<u>1,579,896</u>	<u>2,248,279</u>
Total		<u>7,559,633</u>	<u>6,467,751</u>

22. Long-term Payables

(1) Detail information of long-term payables by remaining due years:

Items	2002	2001
Minimum Lease Payments	3,089,051	992,622
Including: The second year	433,270	182,220
The third year	452,878	180,917
Following years	2,202,903	629,485
Total	<u>3,089,051</u>	<u>992,622</u>

Long-term payables represent payments for finance leasing aircraft and engines. The long-term payable due in one year is classified as current portion of long-term liabilities

(2) Detail information of long-term payables by clients:

Name	Remaining Amortization Years	Cost Value	Interest Payable	2002-12-31	Nature
Advance Aviation	12 years	155,542	15,950	134,083	Finance leasing aircraft
Raytheon	11.5 years	81,516	7,133	68,651	Finance leasing aircraft
Xinjiang Leasing Co., Ltd	10 years	150,000	35,782	126,612	Finance leasing aircraft
Shenzhen Finance & Leasing Co. Ltd	5 years	185,860	19,035	142,099	Finance leasing aircraft engines
Pacific American Corporation	4.5 years	59,437	4,459	26,335	Finance leasing aircraft engines
Sino-American Aviation	11.5 years	1,437,975	65,999	1,369,068	Finance leasing aircraft
New Century Finance & Leasing Co. Ltd	5 years	66,772	4,865	49,862	Finance leasing aircraft engines
Jiangsu Leasing Co., Ltd.	3 years	37,111	5,142	35,703	Finance leasing aircraft engines
North American Aircraft Leasing Company Limited	12 years	713,974	162,034	672,622	Finance leasing aircraft engines
Structured Trade Finance Group	11-13 years	1,176,864	46,969	345,205	Finance leasing aircraft
Far East International Leasing Co., Ltd.	5 years	140,000	20,320	118,811	Finance leasing aircraft
Total		4,205,051	387,688	3,089,051	

23. Specific Payables

The balance of specific payment for the year ended 31 December 2002 is RMB 20,000 thousand, which is a financial allocation appropriated by the Shanxi Development and Planning Committee to Chang'an Airlines for the project of Xianyang Aircraft Parking Area pursuant to Shan Ji Tou Zi[2001]No.1239.

24. Other Long-term Liabilities

The balance of other long-term liabilities is RMB 464,111 thousand as of 31 December 2002. VAT payables and customs duty for finance lease and purchased aircraft are accounted as the cost of the fixed assets and tax payable. The VAT payables and customs duty due over 1 year are reclassified as other long-term liabilities.

25. Minority Interests

Subsidiary Company	Owners Equity	Proportion of Minority interest	Minority Interests
China Xinhua Airlines Co., Ltd.	1,825,117	40%	730,047
Chang'an Airlines Co., Ltd.	683,822	26.49%	181,144
Shanxi Airlines Co., Ltd.	196,213	6.25%	12,263
Other			25,503

Total

948,957

Others are minority interests of Hainan Airlines Catering Co., Ltd, Hainan Airlines VIP Flight Services Co., Ltd and Beijing Xinhua Airlines Catering Co., Ltd, a subsidiary of Xinhua Airlines.

26. Share Capital

Share capital of the Company is RMB 1 Yuan per share

	2001	Issue of shares	Others	2002
(1) Unlisted shares				
(a) Promoter shares	134,837	0	0	134,837
Including: State shares	17,289	0	0	17,289
(b) PRC legal person shares	124,493	0	-85,758	38,735
(c) Foreign legal person shares	108,043	0	0	108,043
(d) Employee shares	64,800	0	-64,800	0
Subtotal	432,173	0	-150,558	281,615
(2) Listed shares				
(a) Domestic investment shares-A shares	221,400	0	150,558	371,958
(b) Foreign investment shares-B shares	76,680	0	0	76,680
Subtotal	298,080	0	150,558	448,638
Total	730,253	0	0	730,253

The changes in the share capital are mainly due to the issues of legal person shares on the STAQ system and the employee shares on 25 November 2002. In accordance with the approval of Notice on Appraisal of Issuing Shares for HNA Co., Ltd. (Zheng Jian Fa Xin Zi[1999]No.129) issued by the CSRC, legal person shares on the STAQ system and the employee shares could be listed after three years of issuing A share.

27. Capital Surplus

Items	2001	Additions	Disposals	2002
Share premium	965,745	0	0	965,745
Donated aviation materials	11,056	0	0	11,056
Share premium from Associated Company	0	61,605	0	61,605
Closing Balance	976,801	61,605	0	1,038,406

Additions in share premium from associated undertakings are mainly due to one of the Company's associated company, Haikou Meilan Airport Co., Ltd. (Haikou Meilan) which is a subsidiary of Hainan Meilan Airport Co., Ltd. (Hainan Meilan), issued H share in December 2002. Premium of share capital incurred in connection with the issue is included in the capital surplus account of Haikou Meilan. Capital surplus account of Hainan Meilan is increased using the equity method. The Company owns an interest of 30% share capital of Hainan Meilan and the capital surplus account of the Company is increased by RMB 61,605 thousand accordingly.

28. Surplus Reserve

Items	2001	Additions	Disposals	2002
Statutory surplus reserve	100,542	18,115	0	118,657
Statutory Employee Welfare Reserve	45,365	9,058	0	54,423
General surplus reserve	0	0	0	0
Total	145,907	27,173	0	173,080

29. Retained Earning

	2002	2001
Beginning balance	331,044	289,602
Add: Current year profit	181,151	100,303
Less: Appropriation to statutory surplus reserve	18,115	10,030
Appropriation to general surplus reserve		0
Appropriation to statutory welfare reserve	9,058	5,015
Dividends being transferred to share capital		0
Dividends declared	43,815	43,816
Ending balance	441,207	331,044

There is a difference of undistributed profit amounting to RMB14,047 thousand between the amount RMB 441,207 thousand in the consolidated statement at the year ended 2002 and the amount RMB 455,254 thousand in the parent company's statement at the year ended 2002. The reason for it is that the accumulated loss of Hainan Airlines VIP Flight Services Co., Ltd. had already exceeded 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.

30. Sales

Items	2002	2001
Passenger revenue	4,646,674	2,959,113
Rental revenue	0	63,700
Cargo and Excessive weight of luggage revenue	192,478	150,248
Charter flight revenue	171,160	72,495
Others	17,970	9,198
Total	5,028,282	3,254,754

The increase in sales is mainly due to the change in the basis of consolidation: Xinhua Airlines was consolidated for four months in 2001 and Chang'an Airlines was consolidated for two months, while they are consolidated for twelve months in 2002; Shanxi Airlines is consolidated from December 2002.

31. Sales Tax and Surtax

Items	2002	2001
Business tax	150,047	96,923
City construction tax	10,632	6,758
Education surcharge	4,533	2,900
Regulating Fund for Price Fluctuation	10	0
Total	<u>165,222</u>	<u>106,581</u>

32. Income from other operations

Items	2002	2001
Ticket refund charges	16,054	13,403
Net gain from sales of aviation materials	8,847	0
Agent handling fees	3,108	8,170
Cargo Service Fee	13,237	19,469
Others	666	7,302
Total	<u>41,912</u>	<u>48,344</u>

33. Financial Expenses

Items	2002	2001
Interest expenses	525,027	509,262
Less: Interest income	5,451	1,735
Exchange loss	2,491	2,611
Less: Exchange gain	0	0
Others	33,563	-56,864
Total	<u>555,630</u>	<u>453,274</u>

34. Investment Income

1. Items	2002	2001
----------	-------------	-------------

Haikou Meilan Airport Co., Ltd	A	31,714	3,691
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	A	4,528	1,121
Deer Jet Co., Ltd.	A	-9,755	-189
Hainan Haihang Aircraft Maintenance Co.	A	-163	-243
Lucky International Travel Services Limited	A	-113	0
Shenzhen Aviation Hotel	A	-2,090	0
Hainan Development Bank	B	0	-2,500
Hainan Meilan Airport Co., Ltd	C	952	
Amortization of acquisition difference between investment	D	-13,096	-2,520
Income for transfer holding share		0	483
Others		215	85
Total		12,192	-72

- 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 Received dividend for 2002 declared by Hainan Meilan Airport Company Limited is recognized as investment income using the cost method of accounting.
- D Long-term investment balance of the China Xinhua Airline Co., Ltd., Chang'an Airline Co., Ltd. and Shanxi Airline Co., Ltd. is the amortized acquisition difference in this year including the amortized acquisition difference between investment of Beijing Yanjing Hotel Co., Ltd. in amount of RMB 3,391 thousand accounted by Xinhua Airlines, a subsidiary of the Company.

Above investment income will be received without restriction.

35. Subsidiary Income

Item	2002	2001
Sales tax refund	6,971	2,111
Total	6,971	2,111

The subsidiary income 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.

36. Non-operating Income and non-operating expenses

- (1) Non-operating Income

Items	2002	2001
Rental of house	0	295
Penalty income	337	1,137
Net gain from disposal of fixed assets	495	8
Others	404	465
Total	1,236	1,905

(2) Non-operating expenses

Items	2002	2001
Net loss from disposal of fixed assets	2,043	838
Donation	30	180
Others	666	532
Total	2,739	1,550

VI. Disclosures of significant matters in relation to the holding company

(1). Long-term stock investment

	2002	2001
Subsidiary	2,077,239	1,651,704
Associated undertakings	582,297	568,247
Others	135,616	95,616
Total	2,795,152	2,315,567
Less: Provision for loss on long-term investments	5,000	5,000
Long-term investment –Net value	2,790,152	2,310,567

(2). Detail information of Long-term stock investments

Company	2002	2001	Owned Interests
Subsidiary			
Hainan Golden-Deer Aviation Sales Co., Ltd.	113,566	113,566	95%
Hainan Airlines Catering Co., Ltd.	26,346	25,387	51%
China Xinhua Airlines Co., Ltd	1,153,794	958,154	60%
Chang'an Airlines Co., Ltd	511,403	554,597	73.51%
Shanxi Airlines Co., Ltd	272,130	0	89.06%
Subtotal	2,077,239	1,651,704	
Associated undertakings			
Haikou Meilan Airport Co., Ltd	501,023	407,704	30%
Hainan Haihang Aircraft Maintenance Co. Ltd	28,951	29,114	48%

Deer Jet Co., Ltd.	0	90,315	0%
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	7,436	7,114	30%
Hainan Sunshine city International Golf Club Ltd.	34,000	34,000	34%
Lucky International Travel Services Limited	10,887	0	22%
Subtotal	<u>582,297</u>	<u>568,247</u>	
Others			
Hainan Airlines Hotel (Group) Co., Ltd.	58,161	58,161	19%
Hainan Air Tourism Developing Co.,Ltd	3,274	3,274	3.30%
Hainan Meilan Airport Company Limited	6,906	6,906	2.20%
Hainan Xinguo Hotel Limited	15,000	0	15%
China Airline Infor Network Co., Ltd.	17,000	17,000	1.93%
Hainan Development Bank	5,000	5,000	0.30%
Yangtze River Express Co., Ltd.	30,000	0	15%
Others	275	5,275	
Subtotal	<u>135,616</u>	<u>95,616</u>	
Total	<u>2,795,152</u>	<u>2,315,567</u>	

3) Detail information of Long-term equity investments:

Item	Original Amount	Additions	Accumulated income	Accumulated changes	2002
Hainan Golden-Deer Aviation Sales Co., Ltd.	8,000	0	105,566	105,566	113,566
Hainan Airlines Catering Co., Ltd.	15,810	0	10,536	10,536	26,346
China Xinhua Airlines Co., Ltd	934,343	161,176	58,275	219,451	1,153,794
Chang'an Airlines Co., Ltd	200,000	354,563	-43,160	311,403	511,403
Shanxi Airlines Co., Ltd	285,000	0	-12,870	-12,870	272,130
Haikou Meilan Airport Co., Ltd	198,520	205,230	97,273	302,503	501,023
Hainan Haihang Aircraft Maintenance Co. Ltd	50,000	-19,517	-1,532	-21,049	28,951
Deer Jet Co., Ltd.	285,000	-275,560	-9,440	-285,000	0
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	3,000	0	4,436	4,436	7,436
Hainan Sunshine city International Golf Club Ltd.	34,000	0	0	0	34,000
Lucky International Travel Services Limited	11,000	0	-113	-113	10,887
Total	<u>2,024,673</u>	<u>425,892</u>	<u>208,971</u>	<u>634,863</u>	<u>2,659,536</u>

2、Investment income:

Item	2002	2001
Hainan Golden-Deer Aviation Sales Co., Ltd.	0	-7,865
Hainan Airlines Catering Co., Ltd.	3,213	3,988
Hainan Airlines VIP Flight Service Co. Ltd.	0	0
China Xinhua Airlines Co., Ltd	41,222	26,165
Chang'an Airlines Co., Ltd	-42,207	199
Shanxi Airlines Co., Ltd	-11,220	0
Deer Jet Co., Ltd.	-9,755	-189
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	4,529	1,121
Haikou Meilan Airport Co., Ltd	31,714	3,691
Hainan Airlines Hotel (Group) Co., Ltd.	0	85
Hainan Development Bank	0	-2,500
Hainan Haihang Aircraft Maintenance Co. Ltd	-163	-243
Lucky International Travel Services Limited	-113	0
Amortization of Acquisition Difference between equity investment	-9,705	-2,520
Dividend declared by Hainan Meilan Airport Co., Ltd.	952	
Income for equity transfer	0	483
Total	8,467	22,415

VII Related Party Transactions

(1). Related parties with controlling interest

Company Name	Registered	Principal activities	Relationship	Business Character /Style	Legal representative
Hainan Golden-Deer Sales Co., Ltd.	Aviation Haikou	Provision of transportation and chartered flight agency services	Subsidiary	Limited Company	Feng Chen
Hainan Airlines VIP Flight Service Co. Ltd.	Haikou	Chartered flights agency	Subsidiary	Joint Venture	Feng Chen
Hainan Airlines Catering Co.,Ltd	Haikou	Food and present for passengers	Subsidiary	Joint Venture	Feng Chen
China Xinhua Airlines Co., Ltd	Beijing	approved international and domestic air passenger and cargo transportation	Subsidiary	Limited Company	Jiaxu Liu
Changan Airlines Co., Ltd	Xi'an	Air passenger and cargo transportation in Shanxi province and its surrounding provinces	Subsidiary	Limited Company	Yining She
Shanxi Airlines Co., Ltd	TaiYuan	Air passenger and cargo branch line transportation in Shanxi province and its surrounding provinces	Subsidiary	Limited Company	Jianmin Qin
Beijing Xinhua Air Catering Co., Ltd.	Beijing	Production and sale of pastry, food and beverage	Subsidiary	Limited Company	Zhongying Zhao

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

Company Name	B. Registered Capital		Owned interest	
	2002	2001	2002	2001
	Hainan Golden-Deer Aviation Sales Co., Ltd.	RMB 8,000,000 Yuan	RMB 8,000,000 Yuan	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	RMB 1,830,000,000 Yuan	60%	51%

Changan Airlines Co., Ltd	RMB 754,390,000 Yuan	RMB 754,390,000 Yuan	73.51%	73.51%
Shanxi Airlines Co., Ltd	RMB 320,000,000 Yuan		92.51%	
Beijing Xinhua Air Catering Co., Ltd.	RMB29,990,000 Yuan		51%	

(3). Pricing Policy

Market prices were used for all significant related party transactions.

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

Companies	Relationship
Hainan Aviation Group Co.,Ltd.	Shareholder
Haikou Meilan Airport Co., Ltd.	Associated Undertaking
Hainan Meilan Airport Co., Ltd.	Associated Company
Hainan Airlines Hotel (Group) Co., Ltd.	Associated Undertaking
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	Associated Undertaking
Deer Jet Co., Ltd.	Associated Undertaking
Beijing Yanjing Hotel Co., Ltd.	Associated Company
Lucky International Travel Services Limited	Associated Company
Hainan Meiya Aviation Fuel Co.,Ltd. *	Associated Company

* Hainan Jincheng State-owned Assets management Co., Ltd. and Haikou Meilan Airport Co., Ltd., share holders of Hainan Meiya Aviation Fuel Co.,Ltd., entered into an interest transfer agreement. Pursuant to which Haikou Meilan Airport Co., Ltd. agreed to acquire a 33% equity interests of Hainan Meiya Aviation Fuel Co.,Ltd. from Hainan Jincheng State-owned Assets management Co., Ltd. to own an interest of 67% and become the control holder. The transfer is in process.

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

(a) Transactions of related parties

Related Party	Relationship	Description	2002	2001
Hainan Aviation Group Co., Ltd.	Shareholder	Interest received for down payments	0	51,223
Hainan Aviation Group Co., Ltd. A	Shareholder	Equity investments acquiring and transfer of construction project	167,443	354,563
Hainan Meiya Aviation Fuel Co.,Ltd.	Associated company	Payment for fuel	138,670	0
Haikou Meilan Airport Company Limited Co.,Ltd.	Associated undertaking	Haikou Meilan Airport Company Limited Co.,Ltd.	78,609	90,760
Hainan Airlines Hotel (Group) Co., Ltd.	Associated undertaking	Interest received for down payments	0	6,994
Hainan Haihang Airlines Aviation Import & Export Co., Ltd.	Associated undertaking	Handling fee in related to purchases of airplanes, aviation materials	3,759	1,035
Shanxi Airlines Co., Ltd.	Associated undertaking	Rental revenue of Airplanes	0	63,700

Notes:

- A. The Company accepted the Hainan Airlines Group Co. Ltd's transfer of the interest of 9% share capital to the Xinhua Airlines. The Company and HNA Group Co., Ltd. entered into a capital transfer agreement dated in December 2002. Pursuant to which the Company agreed to acquire a 9% equity interests of Xinhua Airlines appraised by the audited carrying amount on 31 July 2002 as RMB 161,487 thousand from HNA Group Co., Ltd. by an exchange of 30% equity interests of Deer Jet Company Limited and by parts of Construction In Progress, including Sea Shore Hotel Project, Taojin Apartment Building, Changxiu Development Area and Jin Ya Vacation villa owned by the Company in amount of RMB167,443 thousand. The difference between transfer is settled by cash, and there is no impact on the profit and loss account.

(b) Related party balance

Items	Related party	Notes	2002	2001
Account receivable	Shanxi Airlines Co., Ltd		0	80,634
Other receivable	Hainan Airlines Hotel (Group) Co., Ltd.		1,908	45,390
Other receivable	Hainan Aviation Group Co., Ltd.		3,182	20,559
Other receivable	Deer Jet Co., Ltd.		44,744	76,576
Other receivable	Hainan Haihang Airlines Aviation Import & Export Co., Ltd.		0	123,279
Other receivable	Haikou Meilan Airport Co., Ltd.		0	9,165
Advance to Suppliers	Hainan Meilan Airport Co., Ltd.		0	5,590
Advance to Suppliers	Hainan Haihang Airlines Aviation Import & Export Co., Ltd.		102,626	497
Accounts payable	Haikou Meilan Airport Co., Ltd.		15,619	0
Accounts payable	Hainan Meilan Airport Co., Ltd.		20,061	0
Accounts payable	Hainan Meiya Aviation Fuel Co.,Ltd.		16,783	0
Other payable	Lucky International Travel Services Limited		23,318	0
Other payable	Haikou Meilan Airport Co., Ltd.		0	10,992
Other payable	Beijing Yanjing Hotel Co., Ltd.		42,000	0
Other payable	Yangtze River Express Co., Ltd.		24,535	0

VIII Contingency

Except for the Note XI for civil aviation infrastructure levies, there is no material contingency existed at balance sheet date.

IX Commitment

(1) Capital and financial commitments

As of 31 December 2002, the Company had capital and financial commitments in respect of the purchase of aircraft and engines, construction of Townhouse 3rd Stage with total amount of RMB 3,490,980 thousand Yuan.

(2) Obligation under operating leases

As of 31 December 2002, the Company had obligation under non-cancelable operating leases of aircraft in the respective periods as follows:

	2002	2001
Within one year	476, 729	465, 489
The second year	432, 417	369, 967
The third year	319, 906	341, 090
The following years	513, 581	374, 975
Total	1, 742, 633	1, 551, 521

X. Subsequent events

1. Shanxi Airlines Co., Ltd, a subsidiary of the Company, and Gecas Technical Services Inc. entered into a leasing agreement to introduce three B737-700 aircraft by operating lease.
2. In accordance with the approval of Notice on Appraisal of Issuing Unlisted Foreign Investment Shares for HNA Co., Ltd. (Zheng Jian Zi[2003]No.2) issued by the CSRC, the unlisted foreign investment shares of the company was transferred to B shares and could be listed after one year at Shanghai Stock Exchange.

XI Other 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 from 1, January 1998, and 5% of domestic and 2% of international traffic revenues were levied from 1, January 1999. In this regard, the total levies for the year ended 31 December 2002 is RMB 159,255 thousand. As of 31 December 2002, the Company had accumulated total levies liabilities of RMB 901,111 thousand. 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 14 February 2003. On this basis no provision for payment of such levies has been made in this report.

2. According to the resolution of the 18th session of the 3rd board of directors on 15 August 2002, Chang'an Airlines proposed to acquire a 85% equity interests of Yangtze River Express Co., Ltd., the book value of which is RMB170,000 thousand, from HNA Group Co., Ltd. The transfer belongs to a related party transaction. The proposal was passed in the second temporary general meeting. By the end of year 2002, the transfer has not been finished.
3. An investment transfer agreement was signed by the Company and Haikou Meilan Airport Co., Ltd. in October 2000. As Haikou Meilan Airport Co., Ltd. has not contributed the investment yet and the agreement was suspended, the two parties intend to rescind the agreement.
4. 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 24th February 2002. As the investment was not approved by related government sector, the agreement was terminated.
5. Industrial and Commercial Bank of China provided a maximum comprehensive credit limitation in amount of RMB 3,579,000 thousand, including RMB 3,300,000 thousand for the Company, RMB 230,000 thousand for Xinhua Airlines, RMB 49,000 thousand for Chang'an Airlines.

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 12, 2003