

29 Commitments (cont'd)(b) **Operating lease commitments**

As at 31 December, 2000, commitments under non-cancellable aircraft and flight equipment operating leases were as follows:

	The Group		The Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Payments due				
Within one year	1,443,673	1,226,358	1,242,697	1,037,795
In the second to fifth year, inclusive	4,026,992	3,669,370	3,480,275	3,010,721
After the fifth year	535,466	780,968	386,700	531,919
	6,006,131	5,676,696	5,109,672	4,580,435

(c) **Investing commitments**

As at 31 December, 2000, the Company was committed to make a capital contribution of approximately RMB261 million (1999: Nil) to a new joint venture company proposed to be established in the PRC for the provision of repairs and maintenance services to aircraft engines. Shareholding in the joint venture company is proposed to be equally shared between the Company and an independent third party.

30 Contingent liabilities

(a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the businesses assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by the SA Group prior to the Reorganisation, except for certain loans from PRC banks which were fully repaid by the SA Group. There are not, however, any definitive PRC regulations or other pronouncements confirming such conclusion.

(b) The Group leases from the SA Group certain land in Guangzhou and certain land and buildings in Wuhan, Haikou and Zhengzhou. The Group has a significant investment in buildings and other leasehold improvements located on such land. However, such land in Guangzhou and such land and buildings in Wuhan, Haikou and Zhengzhou lack adequate documentation evidencing the SA Group's rights thereto.

With respect to the facilities in Guangzhou, the SA Group has received written assurance from the CAAC to the effect that the SA Group is entitled to continued use and occupancy of the land in Guangzhou. The Company understands that the CAAC is basing its conclusion on an agreement among certain government authorities relating to such land. Such assurance does not constitute formal evidence of the SA Group's right to transfer, mortgage or lease such real property interests. The Group cannot predict the magnitude of the effect on its financial condition or results of operations to the extent that its use of one or more of these parcels of land or the related facilities were successfully challenged. The SA Group has agreed to indemnify the Group against any loss or damage caused by any challenge or interference with the Group's use of any of its land and buildings.

(c) As at 31 December, 1999, guarantees given by the Group and the Company to banks in respect of banking facilities granted to the related companies were RMB246,450,000.

31 Fair value of financial instruments and concentration of risk

Financial assets of the Group include cash and cash equivalents, investments, trade receivables and other receivables. Financial liabilities of the Group include bank and other loans, accounts payable and obligations under finance leases.

Business risk

The Group conducts its principal operations in the PRC and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of the United States of America and Western European companies. These include risks associated with, among others, the political, economic and legal environment, influence of the CAAC over many aspects of its operations, and competition, in the passenger, cargo and mail airlines services industry.

Interest rate risk

The interest rates and terms of repayment of the bank loans and other loans of the Group are disclosed in Note 21 and finance lease obligations of the Group are disclosed in Note 22.

Foreign currency risk

The Group has significant exposure to foreign currency as substantially all of the Group's lease obligations and loans are denominated in foreign currencies, principally US dollars, and to a lesser extent, Japanese Yen. Depreciation or appreciation of the Renminbi against foreign currencies affects the Group's results significantly because the Group's foreign currency payments generally exceed its foreign currency receipts. The Group is not able to hedge its foreign currency exposure effectively other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange, or subject to certain restrictive conditions, entering into forward foreign exchange contracts with authorised PRC banks.

Credit risks

Substantially all of the Group's cash and cash equivalents are deposited with PRC financial institutions.

A significant portion of the Group's air tickets are sold by agents participating in the Billing and Settlement Plan ("BSP"), a clearing scheme between airlines and sales agents organised by International Air Transportation Association. As of 31 December, 2000, the balance due from BSP amounted to RMB495,285,000 (1999: RMB160,174,000).

Liquidity risk

As at 31 December, 2000, the Group's net current liabilities amounted to RMB1,216,058,000 (1999: RMB390,205,000). For the year ended 31 December, 2000, the Group recorded a net cash inflow from operating activities of RMB2,355,086,000 (1999: RMB3,198,325,000), a net cash outflow from investing activities and financing activities of RMB2,745,984,000 (1999: RMB2,713,662,000) and a decrease in cash and cash equivalents of RMB390,898,000 (1999: RMB484,663,000 increase).

With regard to 2001 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due and, on its ability to obtain adequate external finance to meet its committed future capital expenditures. With regard to the future capital commitments, the Group has obtained firm commitments from several PRC banks to provide loan finance up to an approximate amount of RMB2,620,000,000 and, the Group is in negotiation with several PRC banks to provide additional loan finance up to an approximate amount of RMB3,162,000,000. The directors of the Company believe that such financing will be available to the Group.

Self insurance risk

The Group maintains a limited amount of property insurance in respect of certain personal and real property.

31 Fair value of financial instruments and concentration of risk (cont'd)**Fair value**

The carrying amounts and estimated fair values of significant financial assets and liabilities at 31 December, 1999 and 2000 are set out below:

	2000		1999	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
The Group				
Cash and cash equivalents	4,197,455	4,197,455	4,588,353	4,588,353
Long-term bank and other loans	4,442,058	4,542,601	5,036,454	4,998,044
Short-term bank and other loans	129,755	129,755	1,046	1,046
The Company				
Cash and cash equivalents	3,153,571	3,153,571	3,375,103	3,375,103
Long-term bank and other loans	2,485,563	2,559,535	2,854,885	2,859,649

The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

- (i) *Cash and cash equivalents, and short-term bank and other loans*
The carrying values approximate fair value because of the short maturities of these instruments.
- (ii) *Long-term bank and other loans*
The fair value has been estimated by applying a discounted cash flow approach using interest rates available to the Group for similar indebtedness.

The economic characteristics of the Group's leases vary from lease to lease. It is impractical to compare such leases with those prevailing in the market within the constraints of timeliness and cost for the purpose of estimating the fair value of such leases. Investments are unquoted equity interests in companies established in the PRC. There is no quoted market price for such interests and securities in the PRC and accordingly a reasonable estimate of the fair value could not be made without incurring excessive costs.

Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

*(Expressed in Renminbi)***32 Segmental information**

The Group operates principally as a single business segment for the provision of air transportation services. Geographic information about the Group's turnover and operating profit are as follows:

	Domestic	Hong Kong Regional	International*	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2000				
Traffic revenue	11,388,704	1,187,883	2,129,572	14,706,159
Other revenue	361,524	16,479	94,156	472,159
	11,750,228	1,204,362	2,223,728	15,178,318
Operating profit	886,502	173,341	122,258	1,182,101
1999				
Traffic revenue	10,157,157	1,166,146	1,501,743	12,825,046
Other revenue	355,216	22,273	97,129	474,618
	10,512,373	1,188,419	1,598,872	13,299,664
Operating profit	1,463,053	202,023	184,853	1,849,929

* mainly routes between the PRC and Asian countries, the United States of America and the Netherlands.

The major revenue-earning assets of the Group are its aircraft fleet, most of which are registered in the PRC. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets to geographic segments. Substantially all of the Group's non-aircraft identifiable assets are located in the PRC.

33 Reconciliation and supplementary statement of cash flow information

(a) The reconciliation of profit before taxation and minority interests to cash inflows from operations is as follows:

	2000	1999
	RMB'000	RMB'000
Profit before taxation and minority interests	931,230	368,545
Depreciation and amortisation of fixed assets	1,845,279	1,789,109
Other amortisation	18,510	18,510
Amortisation of deferred credits	(26,160)	(26,160)
Share of associated companies' results	(45,949)	(36,061)
Profit on sale of long term investment	—	(16,804)
(Profit)/loss on sale of fixed assets	(372,596)	18,640
Interest income	(90,283)	(107,385)
Interest expense	1,074,236	1,192,179
Unrealised exchange (gain)/loss, net	(312,592)	413,979
Decrease/(increase) in inventories	41,682	(56,559)
Decrease in amounts due from related companies	—	28,448
(Increase)/decrease in trade receivables	(26,364)	46,806
Decrease in other receivables	8,552	198,815
(Increase)/decrease in prepaid expenses and other assets	(5,579)	52,973
Increase in amounts due to related companies	144,565	93,073
(Decrease)/increase in accounts payable	(137,333)	19,927
Increase in sales in advance of carriage	17,720	23,629
Increase in accrued expenses	393,476	153,363
Increase in other liabilities	95,371	93,910
(Decrease)/increase in provision for major overhauls	(47,333)	7,588
Cash inflows from operations	3,506,432	4,276,525

(b) Disclosure of non-cash investing and financing activities:

(i) *Acquisitions of aircraft*

	2000	1999
	RMB'000	RMB'000
Assets acquired under finance leases	—	1,453,470
Net payments in respect of assets acquired under finance leases	—	(211,175)
Finance lease obligations incurred for the year	—	1,242,295

(ii) *Acquisition of other fixed assets*

As disclosed in Note 27, during 1999, the Group acquired certain other fixed assets from the SA Group at an aggregate consideration of RMB73,264,000. Such consideration was settled by offsetting against part of a purchase deposit of RMB123,140,000 placed with the SA Group at 31 December, 1998.