



Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.



Notes to the Accounts (cont'd)

1. **PRINCIPAL ACCOUNTING POLICIES** *(cont'd)*

(c) Associated companies *(cont'd)*

In the Company's balance sheet the investments in associated companies are stated at cost less provision for permanent diminution in value. The results of associated companies are accounted for by the Company on the basis of dividend income.

(d) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired and is taken to reserves in the year of acquisition.

(e) Revenue recognition

Rental income is recognised on a straight line basis over the terms of the leases.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(f) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties carried at valuations by independent valuers on an open market value basis related to individual properties and separate values are not attributed to land and buildings. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are charged to operating profit. Any subsequent increases are credited to operating profit up to the amount previously charged.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.



Notes to the Accounts (cont'd)

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(g) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(h) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in investment holding and property holding. Revenue recognised during the year is as follows:

	2000 HK\$'000	1999 HK\$'000
Turnover		
Gross rental income from investment properties	31,921	48,266
Other revenue		
Interest income	39,707	39,203
Total revenue	71,628	87,469

Notes to the Accounts (cont'd)

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities is as follows:

	Turnover		Operating profit	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Rental income	31,921	48,266	28,649	44,213
Interest income	–	–	39,707	39,203
Deficit on revaluation of investment properties	–	–	–	(8,000)
Others	–	–	(15,992)	(16,690)
	31,921	48,266	52,364	58,726

The Group's turnover and operating profit are all derived from operations based in Hong Kong.

3. OPERATING PROFIT

Operating profit is stated after charging the following:

	2000 HK\$'000	1999 HK\$'000
Deficit on revaluation of investment properties	–	8,000
Outgoings in respect of investment properties	3,272	4,053
Auditors' remuneration	508	476
Staff costs (note)	7,171	6,961

Note: Staff costs disclosed above include emoluments paid to Executive Directors of HK\$5,960,000 (1999: HK\$5,960,000).

Notes to the Accounts (cont'd)

4. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year. Overseas taxation is calculated at rates of taxation applicable in countries in which associated companies are assessable for tax.

The amount of taxation charged to the consolidated profit and loss account represents:

	2000	1999
	HK\$'000	HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	2,695	5,005
10% 1997/98 Hong Kong profits tax rebate	–	(351)
Overprovision in prior years	(555)	(796)
	2,140	3,858
Associated companies:		
Hong Kong profits tax	48,732	28,279
Overseas taxation	7,398	6,370
Deferred taxation	(9,535)	8,727
	46,595	43,376
	48,735	47,234

There was no material unprovided deferred taxation of the Group for the current year. In 1999, the unprovided deferred tax credit in respect of tax losses of the Group for the year amounted to HK\$1,968,000.

The revaluation surplus and deficit of the investment properties does not constitute a timing difference for deferred taxation purpose.

5. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$61,792,000 (1999: HK\$51,594,000).

Notes to the Accounts (cont'd)

6. DIVIDENDS

	2000	1999
	HK\$'000	HK\$'000
Interim, paid, of HK0.6 cent (1999: HK0.6 cent) per ordinary share	19,411	19,411
Final, proposed, of HK0.6 cent (1999: HK0.6 cent) per ordinary share	19,411	19,411
	38,822	38,822

7. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$311,200,000 (1999: HK\$211,975,000).

The basic earnings per share is based on 3,235,182,000 (1999: 3,235,182,000) ordinary shares in issue during the year. The diluted earnings per share for the year ended 31st December 2000 is not applicable as there was no outstanding options at 31st December 2000. The diluted earnings per share for the year ended 31st December 1999 was based on 3,242,838,803 ordinary shares which was the number of ordinary shares in issue during that year plus the weighted average of 7,656,803 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

The aggregate amounts of emoluments payable to Directors of the Company during the year are as follows:

	2000	1999
	HK\$'000	HK\$'000
Fees	40	40
Salaries and housing allowances	5,960	5,960
	6,000	6,000

Notes to the Accounts (cont'd)

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

(a) Directors' remuneration (cont'd)

Directors' emoluments disclosed above include HK\$40,000 (1999: HK\$40,000) paid to independent Non-Executive Directors.

The emoluments of the Directors fell within the following bands:

	Number of directors	
	2000	1999
HK\$ nil – HK\$1,000,000	6	6
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
	9	9

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four directors (1999: four) whose emoluments are set out in (a) above. The emoluments payable to the remaining one (1999: one) individual during the year are as follows:

	2000	1999
	HK\$'000	HK\$'000
Salaries	986	1,001
Compensation for loss of office	179	–
	1,165	1,001

Notes to the Accounts (cont'd)

9. INVESTMENT PROPERTIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Valuation		
At 1st January	600,000	608,000
Deficit on revaluation	–	(8,000)
At 31st December	600,000	600,000

The investment properties are all located in Hong Kong and are held on leases of over 50 years. The investment properties were revalued at 31st December 2000 and 1999 on an open market value basis by DTZ Debenham Tie Leung Limited, an independent qualified valuer.

10. INVESTMENTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	803,666	803,666
Amounts due from subsidiaries	320,023	340,792
	1,123,689	1,144,458

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Notes to the Accounts (cont'd)

10. INVESTMENTS IN SUBSIDIARIES (cont'd)

The following is a list of the subsidiaries at 31st December 2000 and 1999:

Name	Place of incorporation	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest 2000	1999
# Sinobest International Limited	Hong Kong	Hong Kong	Property holding	100,000 non-voting class "B" shares of HK\$1 each and 10 voting class "A" shares of HK\$1 each	100%	100%
* Prosperoad Property Corp.	British Virgin Islands	Hong Kong	Property holding	501 non-voting preference shares of US\$1 each and 30 ordinary shares of US\$1 each	100%	100%
Kingston International Limited	British Virgin Islands	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%	100%
Wington Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
Serfil Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
Queenston International Limited	British Virgin Islands	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%	100%
Skyrise Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
China National Aviation Technology Company Limited	Hong Kong	Hong Kong	Investment holding	2 ordinary shares of HK\$10 each	100%	–
* China National Aviation CyberWorks Limited	Bermuda	Hong Kong	Dormant	1,000,000 ordinary shares of HK\$0.1 each	100%	–
China National Aviation Logistics Company Limited	Hong Kong	Hong Kong	Dormant	2 ordinary shares of HK\$10 each	100%	–

* Shares held indirectly by the Company.

Subsidiary not audited by PricewaterhouseCoopers.



Notes to the Accounts (cont'd)

10. INVESTMENTS IN SUBSIDIARIES (cont'd)

The aggregate net assets, turnover and profit before taxation of the subsidiary not audited by PricewaterhouseCoopers amounted to approximately 7% (1999: 7%), 81% (1999: 81%) and 6% (1999: 12%) of the Group's net assets, turnover and profit before taxation respectively.

11. INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	51,789	15,389
Share of net assets	856,083	642,956	–	–
Loan to an associated company	55,060	36,800	55,060	36,800
	911,143	679,756	106,849	52,189

The loan to an associated company is unsecured, interest free and has no fixed terms of repayment.

The following is a list of the associated companies at 31st December 2000 and 1999:

Name	Place of incorporation and business	Principal activities	Particulars of issued share capital	Group equity interest	
				2000	1999
* Hong Kong Dragon Airlines Limited ("Dragonair")	Hong Kong	Airline operator	500,000,000 ordinary shares of HK\$1 each	43.29%	43.29%
** Jardine Airport Services Limited	Hong Kong	Provision of airport ground handling services	1,000 ordinary shares of HK\$10 each	50%	40%

* 1.47% of the Group's equity interest in Dragonair is held directly by the Company, while the remaining 41.82% is held indirectly through subsidiaries.

** Shares held directly by the Company.

Notes to the Accounts (cont'd)

11. INVESTMENTS IN ASSOCIATED COMPANIES (cont'd)

A summary of the audited financial information of Dragonair, a significant associated company of the Group, is set out as follows:

	2000	1999
	HK\$'000	HK\$'000
Results for the year ended 31st December		
Turnover	4,153,418	3,266,300
Operating profit after finance costs	619,938	420,457
Share of profits of associated companies	10,934	9,794
Profit before taxation	630,872	430,251
Taxation	(91,826)	(90,137)
Profit after taxation	539,046	340,114
Depreciation charge dealt with in operating profit	150,226	114,234
Group's share of profit before taxation	273,104	186,256
Net assets as at 31st December		
Fixed assets	3,084,399	2,605,691
Advance payments	482,888	188,965
Security deposits	262,533	201,178
Investments in securities	30,465	64,356
Investments in associated companies	157,450	169,392
Current assets	1,272,808	1,404,403
Current liabilities	(1,172,885)	(930,525)
Deferred income	(246,276)	(242,042)
Deferred taxation	(517,903)	(536,109)
Provision for overhaul and major checks	(90,789)	(121,041)
Obligations under finance leases	(1,303,882)	(1,350,615)
	1,958,808	1,453,653
Group's share of net assets	847,968	629,286

Notes to the Accounts (cont'd)

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental receivables	58	289	–	–
Prepayments, deposits and other receivables	5,178	7,768	4,118	6,662
	5,236	8,057	4,118	6,662

The Group does not grant any credit terms to the tenants. At 31st December 2000, the age analysis of the rental receivables is as follows:

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Below 90 days	58	100	–	–
Over 90 days	–	189	–	–
	58	289	–	–

13. TRADE AND OTHER PAYABLES

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due to:				
Immediate holding company	240	1,140	240	1,140
A fellow subsidiary	244	–	209	–
Tenants' deposits	6,937	6,622	–	–
Other payables and accruals	11,505	11,169	11,338	10,594
	18,926	18,931	11,787	11,734

The amounts due to immediate holding company and a fellow subsidiary are unsecured, interest free and have no fixed terms of repayment.



Notes to the Accounts (cont'd)

14. SHARE CAPITAL

	2000	1999
	HK\$'000	HK\$'000
<i>Authorised:</i>		
4,000,000,000 ordinary shares of HK\$0.10 each	400,000	400,000
<i>Issued and fully paid:</i>		
3,235,182,000 ordinary shares of HK\$0.10 each	323,518	323,518

On 22nd October 1997, a share option scheme (the "Scheme") was approved by the shareholders of the Company under which the Board of Directors may grant options to the employees, including Executive Directors of the Company, to subscribe for shares in the Company. The subscription price will be determined by the Board of Directors and will not be less than 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is the higher. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time. An option may be exercised in accordance with the terms of the Scheme at any time during a period of two years commencing six months after the date on which the option is accepted and expiring on the last day of such period or 21st October 2007, whichever is the earlier.

On 19th January 1998, the Board of Directors offered to grant share options to Executive Directors to subscribe for 168,238,000 ordinary shares of HK\$0.10 each in the Company at a subscription price of HK\$0.88 per share. All Executive Directors accepted the options on 14th February 1998 except one who accepted the option on 16th February 1998. None of these options were exercised and they expired in August 2000.

On 4th January 2001, the Board of Directors offered to grant new share options to Executive Directors to subscribe for 198,834,000 ordinary shares of HK\$0.10 each in the Company at a subscription price of HK\$1.04 per share. All Executive Directors accepted the options on 11th January 2001.

Notes to the Accounts (cont'd)

15. RESERVES

Group

	Share premium <i>HK\$'000</i>	Investments revaluation <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 1999	1,355,480	–	48,010	1,403,490
Share of surplus on revaluation of investments in securities of an associated company	–	21,564	–	21,564
Profit for the year retained	–	–	173,153	173,153
At 31st December 1999	1,355,480	21,564	221,163	1,598,207
Retained by:				
Company and subsidiaries	1,355,480	–	(2,999)	1,352,481
Associated companies	–	21,564	224,162	245,726
At 31st December 1999	1,355,480	21,564	221,163	1,598,207
At 1st January 2000	1,355,480	21,564	221,163	1,598,207
Share of exchange differences of an associated company	–	–	(1,595)	(1,595)
Share of deficit on revaluation of investments in securities of an associated company	–	(14,671)	–	(14,671)
Goodwill arising from acquisition of additional interests in an associated company	–	–	(32,983)	(32,983)
Profit for the year retained	–	–	272,378	272,378
At 31st December 2000	1,355,480	6,893	458,963	1,821,336
Retained by:				
Company and subsidiaries	1,355,480	–	10,420	1,365,900
Associated companies	–	6,893	448,543	455,436
At 31st December 2000	1,355,480	6,893	458,963	1,821,336

Notes to the Accounts (cont'd)

15. RESERVES (cont'd)

Company

	Share premium <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 1999	1,355,480	150,873	1,506,353
Profit for the year retained	–	12,772	12,772
At 31st December 1999	1,355,480	163,645	1,519,125
Profit for the year retained	–	22,970	22,970
At 31st December 2000	1,355,480	186,615	1,542,095

16. DEFERRED TAXATION

The potential deferred taxation asset in respect of unutilised tax losses of the Group and the Company as at 31st December 2000 which has not been recognised in the accounts amounted to HK\$1,968,000 (1999: HK\$1,968,000).

17. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of operating profit to net cash inflow from operating activities**

	2000	1999
	HK\$'000	HK\$'000
Operating profit	52,364	58,726
Deficit on revaluation of investment properties	–	8,000
Interest income	(39,707)	(39,203)
Decrease/(increase) in trade and other receivables	271	(871)
Decrease in amount due to immediate holding company	(900)	(420)
Increase in amount due to a fellow subsidiary	244	–
Increase/(decrease) in tenants' deposits	315	(3,636)
(Decrease)/increase in other payables and accruals	(443)	911
Net cash inflow from operating activities	12,144	23,507

(b) Major non-cash transaction

During the year, the Group received a dividend income of HK\$35,000,000 (1999: HK\$24,800,000) from an associated company, out of which HK\$18,260,000 (1999: HK\$24,800,000) was settled as a loan to the associated company.

18. COMMITMENTS

On 15th May 2000, the Group entered into a memorandum of understanding with a third party for the establishment of a joint venture company (the "JV"), of which the Group will own 55% equity interest, to provide aviation related internet based services. The initial investment of the Group in the JV amounts to approximately HK\$42,900,000. As at 31st December 2000, no investment was contributed by the Group to the JV.

Notes to the Accounts (cont'd)

19. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business in addition to those disclosed elsewhere in the accounts, are as follows:

- (a) On 8th December 1999, the Group entered into eight lease agreements (the "Lease Agreements") with China National Aviation Corporation (Group) Limited ("CNAC Group") and two of its wholly owned subsidiaries, China National Aviation Corporation (Hong Kong) Limited ("CNAC HK") and CNAC (H.K.) Travel Service Company Limited respectively, pursuant to which the Group agreed to lease certain of its properties to those companies. The Lease Agreements were entered into on normal commercial terms and the rent of each lease is determined on the basis of a valuation report dated 1st November 1999 prepared by DTZ Debenham Tie Leung Limited.

Seven of the Lease Agreements are for a two-year period from 18th October 1999 to 17th October 2001, of which one was terminated on 17th December 2000. The remaining Lease Agreement is for a three-month period from 18th October 1999 to 17th January 2000 with an option to renew the tenancy for three months from 18th January 2000 to 17th April 2000. The tenant, CNAC HK, exercised the option for renewal and the agreement expired on 17th April 2000 (the "Expired Lease"). Since the Group had already on 30th March 2000 committed to lease the premises to an unrelated third party (which lease would commence pending government approvals for the renovation plan), the Group could only continue to lease the premises to CNAC HK on a monthly basis at the same monthly rent as the Expired Lease from 18th April 2000, and the arrangement was terminated on 17th January 2001.

	2000	1999
	HK\$'000	HK\$'000
Rental income from immediate holding company and fellow subsidiaries:		
CNAC Group	6,146	9,085
CNAC HK	12,863	22,570
CNAC (H.K.) Travel Service Company Limited	467	722
	19,476	32,377

Notes to the Accounts (cont'd)

19. RELATED PARTY TRANSACTIONS (cont'd)

- (b) Pursuant to a management services agreement dated 8th December 1999 entered into with CNAC Group (the "1999 Agreement"), CNAC Group agreed to provide secretarial, personnel, accounting and general office administrative services (the "Services") to the Group for a period of one year from 1st January 1999 to 31st December 1999 and CNAC Group would be paid by the Company in respect of the Services a monthly fee equivalent to one-fifth of the aggregate expenses incurred by CNAC Group in connection with the employment of staff, provision of facilities and payment of rent and utilities in respect of CNAC Group's office at 34th Floor, United Centre, No. 95 Queensway, Hong Kong (the "CNAC Group Expenses"), provided that the total fee payable by the Company to CNAC Group under the 1999 Agreement shall not exceed HK\$9,000,000. The 1999 Agreement expired on 31st December 1999.

On 20th January 2000, the Company and CNAC Group entered into a new management services agreement (the "New Agreement") with substantially the same terms as the 1999 Agreement for a period of two years from 1st January 2000 to 31st December 2001. The total fee payable by the Company to CNAC Group shall not exceed HK\$18,000,000. The New Agreement can be terminated by either party giving three months' notice of termination to the other.

	2000	1999
	HK\$'000	HK\$'000
Management fee to immediate holding company:		
CNAC Group	6,000	6,900

- (c) On 18th October 1997, the Company entered into a license agreement with China National Aviation Corporation ("CNAC") pursuant to which CNAC agreed to grant a license to the Company, free of royalty, for the use of certain trade marks in Hong Kong, the Taiwan region and Macau so long as the Company is a subsidiary of CNAC Group. No royalty charge was levied in respect of the use of these trade marks during the year (1999: Nil).



Notes to the Accounts (cont'd)

20. SUBSEQUENT EVENT

On 16th February 2001, the Group entered into an agreement with third parties (the "Consortium Partners") for the joint development and operation of the logistics centre at the South Commercial District of the Hong Kong International Airport (the "Project"). The Group has 25% interest in the Project. The Directors estimate that the Group's attributable share of capital commitments in respect of the Project is approximately HK\$130,650,000.

In the event of default of any of the Consortium Partners, the Group will be required to provide additional funds for the Project. The Group and the Consortium Partners have jointly given an unlimited guarantee to the Airport Authority in respect of their obligations to provide sufficient funding for the Project. The Directors are of the opinion that, had the Group been required to perform its obligations under the guarantee in the event of default of all of the Consortium Partners, the maximum amount of the additional liabilities assumed, in addition to the Group's estimated share of capital commitments as disclosed above, would have been approximately HK\$727,350,000.

21. ULTIMATE HOLDING COMPANY

The Directors regard China National Aviation Corporation, a state-owned enterprise established in the People's Republic of China, as being the ultimate holding company.

22. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 6th April 2001.