



NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

These condensed interim accounts should be read in conjunction with the 2000 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2000 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

(i) *SSAP 9 (revised): Events after balance sheet date*

In accordance with the SSAP 9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

The opening retained earnings at 1st January 2000 and 2001 have increased respectively by the same amount of HK\$19,411,000 which is the reversal of the proposed dividend previously recorded as a liability as at 31st December 1999 and 2000 respectively. This adjustment has no effect on current liabilities at 30th June 2001. The current liabilities at 31st December 2000 were decreased by HK\$19,411,000 accordingly.

*(ii) SSAP 26: Segment reporting*

In note 2 to these condensed interim accounts, the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and geographical as the secondary reporting format.

(iii) SSAP 30: Business combinations

Goodwill on acquisition occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful lives. Goodwill arising on acquisitions that occurred prior to 1st January 2001 was taken to reserves. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalized and amortised. However, any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of assets".

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. For acquisitions prior to 1st January 2001, negative goodwill was taken to capital reserve directly. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill has not been restated.

2. Segment information

The Group is principally engaged in investment holding and property holding.

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

	Turnover		Operating profit	
	Unaudited Six months ended 30th June		Unaudited Six months ended 30th June	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Rental income from property holding	12,316	16,320	9,507	14,242
Interest income	—	—	16,454	19,731
Others	—	—	(7,443)	(7,281)
	<u>12,316</u>	<u>16,320</u>	<u>18,518</u>	<u>26,692</u>



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

Segment revenue and results of the Group are all derived from property holding in Hong Kong, details of which are disclosed in the analysis above.

3. Operating profit

Operating profit is stated after charging outgoings in respect of investment properties of HK\$2,809,000 (six months ended 30th June 2000: HK\$2,078,000).

4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (six months ended 30th June 2000: 16%) on the estimated assessable profit for the period. 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 condensed consolidated profit and loss account represents:

	Unaudited	
	Six months ended	
	30th June	
	2001	2000
	HK\$'000	HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	<u>795</u>	<u>2,294</u>
Associated companies:		
Hong Kong profits tax	16,213	13,279
Overseas taxation	3,391	3,327
Deferred taxation	<u>4,110</u>	<u>6,404</u>
	<u>23,714</u>	<u>23,010</u>
	<u>24,509</u>	<u>25,304</u>



5. Dividends

	Unaudited Six months ended 30th June	
	2001 HK\$'000	2000 HK\$'000
2000 Final dividend, paid, of HK0.6 cent (1999 Final dividend paid: HK0.6 cent) per ordinary share (<i>note i</i>)	19,411	19,411
2001 Interim dividend, proposed on 7th September 2001, of HK0.6 cent (2000 Interim dividend proposed: HK0.6 cent) per ordinary share (<i>note ii</i>)	19,411	19,411
	<u>38,822</u>	<u>38,822</u>

Notes:

- (i) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the years ended 31st December 1999 and 2000 respectively were the same amount of HK\$19,411,000. Under the Group's new accounting policy as described in note 1(i), these have been adjusted to opening retained earnings as at 1st January 2000 and 2001 in note 9 and are now charged in the period in which they were proposed.
- (ii) At a meeting held on 7th September 2001, the directors declared an interim dividend of HK0.6 cent per share. This proposed dividend is not reflected as a dividend payable in these condensed interim accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2001.

6. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$128,898,000 (six months ended 30th June 2000: HK\$138,431,000).

The basic earnings per share is based on 3,235,182,000 (six months ended 30th June 2000: 3,235,182,000) ordinary shares in issue during the period. The diluted earnings per share is based on 3,278,618,570 (six months ended 30th June 2000: 3,266,159,255) ordinary shares which is the number of ordinary shares in issue during the period plus the weighted average of 43,436,570 (six months ended 30th June 2000: 30,977,255) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

**7. Investments in associated companies**

	Unaudited 30th June 2001 HK\$'000	31st December 2000 HK\$'000
Hong Kong Dragon Airlines Limited	943,397	847,968
Jardine Airport Services Limited ("JASL")	60,718	63,175
Tradeport Hong Kong Limited ("Tradeport")	2,414	—
	<u>1,006,529</u>	<u>911,143</u>

The amount of investments in the above associated companies include loans to JASL and Tradeport of HK\$55,060,000 (31st December 2000: HK\$55,060,000) and HK\$2,645,000 (31st December 2000: Nil) respectively.

8. Trade and other receivables

Included in trade and other receivables are rental receivables of HK\$431,000 (31st December 2000: HK\$58,000). The Group does not grant any credit terms to the tenants. At 30th June 2001 and 31st December 2000, all rental receivables were aged within one month.

**9. Reserves**

	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 2000				
as previously reported	1,355,480	21,564	221,163	1,598,207
Effect of adopting SSAP 9 (revised)	—	—	19,411	19,411
At 1st January 2000 as restated	1,355,480	21,564	240,574	1,617,618
1999 final dividend paid	—	—	(19,411)	(19,411)
Profit for the year	—	—	311,200	311,200
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)
2000 interim dividend paid	—	—	(19,411)	(19,411)
At 31st December 2000	<u>1,355,480</u>	<u>6,893</u>	<u>478,374</u>	<u>1,840,747</u>
Representing:				
Reserves	1,355,480	6,893	458,963	1,821,336
2000 final dividend proposed	—	—	19,411	19,411
	<u>1,355,480</u>	<u>6,893</u>	<u>478,374</u>	<u>1,840,747</u>



	Share premium HK\$'000	Investments revaluation HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2001				
as previously reported	1,355,480	6,893	458,963	1,821,336
Effect of adopting SSAP 9 (revised)	—	—	19,411	19,411
At 1st January 2001 as restated	1,355,480	6,893	478,374	1,840,747
2000 final dividend paid	—	—	(19,411)	(19,411)
Profit for the period	—	—	128,898	128,898
Share of exchange differences of an associated company	—	—	(1,121)	(1,121)
Share of surplus on revaluation of investments in securities of an associated company	—	187	—	187
At 30th June 2001	1,355,480	7,080	586,740	1,949,300
Representing:				
Reserves	1,355,480	7,080	567,329	1,929,889
2001 interim dividend proposed (note 5)	—	—	19,411	19,411
	1,355,480	7,080	586,740	1,949,300

10. Commitments

- (i) 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 30th June 2001, no investment was contributed by the Group to the JV.
- (ii) 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 a guarantee to the Airport Authority in respect of their obligations to provide sufficient funding for the Project. 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\$649,350,000.

11. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business 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 four were terminated between December 2000 and May 2001. 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.

	Unaudited	
	Six months ended	
	30th June	
	2001	2000
	HK\$'000	HK\$'000
Rental income from immediate holding company and fellow subsidiaries:		
CNAC Group	3,073	3,073
CNAC HK	2,704	6,471
CNAC (H.K.) Travel Service Company Limited	174	233
	<u>5,951</u>	<u>9,777</u>

- (b) Pursuant to a management services agreement dated 20th January 2000 entered into with CNAC Group (the "Management Services Agreement"), CNAC Group agreed to provide secretarial, personnel, accounting and general office administrative services (the "Services") to the Group for a period of two year from 1st January 2000 to 31st December 2001 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 (the "CNAC Group Expenses"), in respect of CNAC Group's office at 34th Floor, United Centre, No. 95 Queensway, Hong Kong (the "Old Office") provided that the total fee payable by the Company to CNAC Group under the Management Services Agreement shall not exceed HK\$18,000,000.

The Company and CNAC Group moved out from the Old Office in March 2001 and relocated to the new office at 5th Floor, CNAC House, No. 12 Tung Fai Road, Hong Kong International Airport, Lantau, Hong Kong (the "New Office").

On 9th April 2001, the Company and CNAC Group entered into a supplemental agreement (the "Supplemental Agreement"). Pursuant to the Supplemental Agreement, with effect from 1st March 2001, the monthly fee in connection with the utilities expenses including electricity, water and other incidental expenses would be based on one-fifth of the aggregate expenses incurred by CNAC Group in respect of the New Office on a



month by month basis. The Management Services Agreement and the Supplemental Agreement were terminated on 30th June 2001.

On 3rd August 2001, the Company and CNAC Group entered into a new management services agreement pursuant to which CNAC Group agreed to provide the Services to the Group for a period of two years from 1st July 2001 to 30th June 2003 and CNAC Group would be paid by the Company in respect of the Services a monthly fee of HK\$500,000 in respect of the CNAC Group Expenses of the New Office.

Unaudited	
Six months ended	
30th June	
2001	2000
HK\$'000	HK\$'000

Management fee to immediate holding company:

CNAC Group	<u>3,060</u>	<u>2,880</u>
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- (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 period (six months ended 30th June 2000: Nil).