

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 in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for accounting periods commencing on or after 1st July 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

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. As a result, the retained earnings at 1st January 2000 and 2001 have been increased and the proposed final dividend as included in the current liabilities at 31st December 1999 and 2000 have been decreased respectively by the same amount of HK\$19,411,000.



1. PRINCIPAL ACCOUNTING POLICIES (CONT'D)**(b) Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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 unamortised goodwill, including goodwill taken to reserves and 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 impairment losses. 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.

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



I. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries and associated companies at the date of acquisition.

Goodwill on acquisitions 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 on acquisitions that occurred prior to 1st January 2001 was taken to reserves. Where the fair value of the Group's share of the net assets acquired exceed the cost of acquisition, such differences are taken to reserves directly. This accounting policy has been changed to conform with SSAP 30 "Business combinations" and such change has no effect to the accounts for the year.

The carrying amount of goodwill, including those previously taken directly to reserves, is reviewed annually and provision is only made where, in the opinion of the Directors, there is a long-term impairment in value.

(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.

Dividend income is recognised when the right to receive payment is established.

(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.

1. PRINCIPAL ACCOUNTING POLICIES (CONT'D)**(f) Investment properties (cont'd)**

Investment properties are carried at valuations by independent valuers on an open market value basis 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.

(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 balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts of subsidiaries and associated companies are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.



1. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(j) Segment reporting

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 segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of investment properties and receivables, and mainly exclude investments in associated companies, tax recoverable and bank balances and cash. Segment liabilities comprise tenants' deposit and operating liabilities.

In respect of geographical segment reporting, sales are based on the country in which the company operates. Total assets and capital expenditure are where the assets are located.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2001 HK\$'000	2000 HK\$'000
Turnover		
Gross rental income from investment properties	28,320	31,921
Other revenue		
Interest income	26,691	39,707
Total revenues	55,011	71,628

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

	Turnover		Operating profit	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Rental income	28,320	31,921	23,589	28,649
Interest income	—	—	26,691	39,707
Others	—	—	(14,946)	(15,992)
	28,320	31,921	35,334	52,364

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONT'D)**Primary reporting format – business segments****Year ended 31st December 2001**

	Property holding (note) HK\$'000	Airline operation HK\$'000	Airport ground handling HK\$'000	Logistic business HK\$'000	Group HK\$'000
Turnover	<u>28,320</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>28,320</u>
Segment results	<u>23,589</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>23,589</u>
Interest income					26,691
Unallocated costs					<u>(14,946)</u>
Operating profit					35,334
Share of profits less losses of associated companies	–	180,081	45,889	(977)	<u>224,993</u>
Profit before taxation					260,327
Taxation					<u>(44,681)</u>
Profit attributable to shareholders					<u>215,646</u>
Segment assets	606,014	–	–	–	606,014
Investments in associated companies	–	994,096	58,397	19,209	1,071,702
Unallocated assets					<u>679,917</u>
Total assets					<u>2,357,633</u>
Segment liabilities	6,256	–	–	–	6,256
Unallocated liabilities					<u>12,183</u>
Total liabilities					<u>18,439</u>

Note: The property holding business of the Group was vested to China National Aviation Corporation (Group) Limited ("CNAC Group") subsequent to the year end (note 21).

NOTES TO THE ACCOUNTS (CONT'D)



2. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONT'D)

Primary reporting format – business segments (Cont'd)

Year ended 31st December 2000

	Property holding HK\$'000	Airline operation HK\$'000	Airport ground handling HK\$'000	Logistic business HK\$'000	Group HK\$'000
Turnover	<u>31,921</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>31,921</u>
Segment results	<u>28,649</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>28,649</u>
Interest income					39,707
Unallocated costs					<u>(15,992)</u>
Operating profit					52,364
Share of profits less losses of associated companies	–	273,104	34,467	–	<u>307,571</u>
Profit before taxation					359,935
Taxation					<u>(48,735)</u>
Profit attributable to shareholders					<u>311,200</u>
Segment assets	601,117	–	–	–	601,117
Investments in associated companies	–	847,968	63,175	–	911,143
Unallocated assets					<u>670,931</u>
Total assets					<u>2,183,191</u>
Segment liabilities	7,072	–	–	–	7,072
Unallocated liabilities					<u>11,854</u>
Total liabilities					<u>18,926</u>

Secondary reporting format – geographical segments

All of the Group's operations and assets are located in Hong Kong.



3. OPERATING PROFIT

Operating profit is stated after charging the following:

	2001	2000
	HK\$'000	HK\$'000
Outgoings in respect of investment properties	4,731	3,272
Auditors' remuneration	560	508
Staff costs (<i>note</i>)	6,662	7,171
	<u>11,953</u>	<u>10,951</u>

Note: Staff costs include emoluments to executive Directors of HK\$5,960,000 (2000: HK\$5,960,000).

4. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2000: 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:

	2001	2000
	HK\$'000	HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	1,964	2,695
Overprovision in prior years	(8)	(555)
	<u>1,956</u>	<u>2,140</u>
Associated companies:		
Hong Kong profits tax	32,660	48,732
Overseas taxation	5,548	7,398
Deferred taxation	4,517	(9,535)
	<u>42,725</u>	<u>46,595</u>
	<u>44,681</u>	<u>48,735</u>



4. TAXATION (CONT'D)

In current year, the unprovided deferred tax credit in respect of tax losses of the Group amounted to HK\$2,044,000. In 2000, there was no material unprovided deferred taxation of the Group.

The revaluation surplus and deficit of the investment properties do 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\$53,990,000 (2000: HK\$61,792,000).

6. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim dividend, paid, of HK0.6 cent (2000: HK0.6 cent) per ordinary share	19,411	19,411
Final dividend, proposed, of HK0.6 cent (2000: HK0.6 cent) per ordinary share	19,411	19,411
	38,822	38,822

At a meeting held on 27th March 2002, the directors proposed a final dividend of HK0.6 cent per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2002.

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\$215,646,000 (2000: HK\$311,200,000).

The basic earnings per share is based on 3,235,182,000 (2000: 3,235,182,000) ordinary shares in issue during the year.

The diluted earnings per share for the year ended 31st December 2001 is based on 3,275,075,574 ordinary shares representing 3,235,182,000 ordinary shares in issue during the year plus the weighted average of 39,893,574 ordinary shares which would be issued at no consideration on the exercise of all dilutive options. The diluted earnings per share for the year ended 31st December 2000 was not applicable as there was no outstanding options at 31st December 2000.

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:

	2001	2000
	HK\$'000	HK\$'000
Fees	80	40
Salaries and housing allowances	5,960	5,960
	6,040	6,000

Directors' emoluments disclosed above include HK\$80,000 (2000: HK\$40,000) paid to independent non-executive Directors.

The emoluments of the Directors fell within the following bands:

	Number of directors	
	2001	2000
HK\$ nil – HK\$1,000,000	7	6
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,000,001 – HK\$2,500,000	–	1
	10	9



8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONT'D)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four directors (2000: four) whose emoluments are set out in note 8 (a) above. The emoluments payable to the remaining one (2000: one) individual during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries	702	986
Compensation for loss of office	—	179
	<u>702</u>	<u>1,165</u>

9. INVESTMENT PROPERTIES

	2001 HK\$'000	2000 HK\$'000
Valuation		
At 1st January and 31st December	<u>600,000</u>	<u>600,000</u>

The investment properties are all located in Hong Kong and are held on leases of over 50 years (note 21). The investment properties were revalued at 31st December 2001 and 2000 on an open market value basis by DTZ Debenham Tie Leung Limited, an independent qualified valuer.

10. INVESTMENTS IN SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	803,666	803,666
Amounts due from subsidiaries	<u>328,085</u>	<u>320,023</u>
	<u>1,131,751</u>	<u>1,123,689</u>

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



10. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The subsidiaries at 31st December 2001 are set out below:

Name	Place of incorporation	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest	
					2001	2000
Sinobest International Limited ("Sinobest")	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. ("Prosperoad")	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%	100%
* China National Aviation CyberWorks Limited	Bermuda	Hong Kong	Dormant	1,000,000 ordinary shares of HK\$0.1 each	100%	100%
China National Aviation Logistics Company Limited	Hong Kong	Hong Kong	Investment holding	2 ordinary shares of HK\$10 each	100%	100%

* Shares held indirectly by the Company.



11. INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	—	—	51,789	51,789
Share of net assets	996,456	856,083	—	—
Loans to associated companies	75,246	55,060	55,060	55,060
	1,071,702	911,143	106,849	106,849

The loans to associated companies are unsecured, interest free and have no fixed terms of repayment.

The associated companies at 31st December 2001 are as follows:

Name	Place of incorporation and business	Principal activities	Particulars of issued shares capital	Group equity interest	
				2001	2000
* 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%	50%
** Tradeport Hong Kong Limited	Hong Kong	Development and operation of a logistic center	400 ordinary shares of HK\$1 each	25%	—

* 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 indirectly by the Company.

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:

	2001	2000
	HK\$'000	HK\$'000
Results for the year ended 31st December		
Turnover	4,885,215	4,153,418
Operating profit after finance costs	383,395	619,938
Share of profits of associated companies	32,593	10,934
Profit before taxation	415,988	630,872
Taxation	(77,119)	(91,826)
Profit after taxation	338,869	539,046
Depreciation charge dealt with in operating profit	223,932	150,226
Group's share of profit before taxation	180,081	273,104
	2001	2000
	HK\$'000	HK\$'000
Net assets as at 31st December		
Fixed assets	4,393,529	3,084,399
Advance payments	545,490	482,888
Security deposits	243,229	205,422
Investments in securities	29,151	30,465
Investments in associated companies	153,386	157,450
Current assets	2,070,356	1,272,808
Current liabilities	(1,497,672)	(1,155,741)
Deferred income	(321,545)	(246,276)
Deferred taxation	(699,897)	(517,903)
Provision for overhaul and major checks	(53,113)	(50,822)
Obligations under finance leases	(2,566,551)	(1,303,882)
	2,296,363	1,958,808
Group's share of net assets	994,096	847,968

Note: The comparative figures have been restated to comply with new and revised SSAPs during the year.

NOTES TO THE ACCOUNTS (CONT'D)



12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental receivables	212	58	—	—
Prepayments, deposits and other receivables	7,073	5,178	1,271	4,118
	<u>7,285</u>	<u>5,236</u>	<u>1,271</u>	<u>4,118</u>

The Group does not grant any credit terms to the tenants. At 31st December 2001, the age analysis of the rental receivables is as follows:

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Below 90 days	200	58	—	—
Over 90 days	12	—	—	—
	<u>212</u>	<u>58</u>	<u>—</u>	<u>—</u>

13. TRADE AND OTHER PAYABLES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due to:				
Immediate holding company	—	240	—	240
A fellow subsidiary	—	244	—	209
Tenants' deposits	5,676	6,937	—	—
Other payables and accruals	12,763	11,505	12,128	11,338
	<u>18,439</u>	<u>18,926</u>	<u>12,128</u>	<u>11,787</u>

The amounts due to immediate holding company and a fellow subsidiary in 2000 were unsecured, interest free and had no fixed terms of repayment.



14. SHARE CAPITAL

	2001	2000
	HK\$'000	HK\$'000
Authorised:		
4,000,000,000 ordinary shares of HK\$0.10 each	400,000	400,000
Issued and fully paid:		
3,235,182,000 ordinary shares of HK\$0.10 each	323,518	323,518

On 4th January 2001, the Board of Directors, under a share option scheme approved by the shareholders of the Company on 22nd October 1997, granted 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. On 24th September 2001, the Board of Directors granted share options to an executive Director to subscribe for 32,351,800 ordinary shares of HK\$0.10 each in the Company at a subscription price of HK\$0.82 per share. None of these options were exercised during the year.

NOTES TO THE ACCOUNTS (CONT'D)



15. RESERVES

Group

	Share premium HK\$'000	Investments revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2000				
As previously reported	1,355,480	21,564	221,163	1,598,207
Prior year adjustment (note 1(a))	—	—	19,411	19,411
As restated	1,355,480	21,564	240,574	1,617,618
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)
Dividends	—	—	(38,822)	(38,822)
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
At 31st December 2000	<u>1,355,480</u>	<u>6,893</u>	<u>478,374</u>	<u>1,840,747</u>
Retained by:				
Company and subsidiaries	1,355,480	—	29,831	1,385,311
Associated companies	—	6,893	448,543	455,436
At 31st December 2000	<u>1,355,480</u>	<u>6,893</u>	<u>478,374</u>	<u>1,840,747</u>



15. RESERVES (CONT'D)**Group** (*cont'd*)

	Share premium HK\$'000	Investments revaluation reserve 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
Prior year adjustment (note 1(a))	—	—	19,411	19,411
As restated	1,355,480	6,893	478,374	1,840,747
Profit for the year	—	—	215,646	215,646
Share of exchange differences of an associated company	—	—	(1,326)	(1,326)
Share of deficit on revaluation of investments in securities of an associated company	—	(569)	—	(569)
Dividends	—	—	(38,822)	(38,822)
At 31st December 2001	<u>1,355,480</u>	<u>6,324</u>	<u>653,872</u>	<u>2,015,676</u>
Representing:				
Reserves	1,355,480	6,324	634,461	1,996,265
2001 final dividend proposed	—	—	19,411	19,411
At 31st December 2001	<u>1,355,480</u>	<u>6,324</u>	<u>653,872</u>	<u>2,015,676</u>
Retained by:				
Company and subsidiaries	1,355,480	—	64,387	1,419,867
Associated companies	—	6,324	589,485	595,809
At 31st December 2001	<u>1,355,480</u>	<u>6,324</u>	<u>653,872</u>	<u>2,015,676</u>

NOTES TO THE ACCOUNTS (CONT'D)



15. RESERVES (CONT'D)

Company

	Share premium HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2000			
As previously reported	1,355,480	163,645	1,519,125
Prior year adjustment (note 1(a))	–	19,411	19,411
As restated	1,355,480	183,056	1,538,536
Profit for the year	–	61,792	61,792
Dividends	–	(38,822)	(38,822)
At 31st December 2000	<u>1,355,480</u>	<u>206,026</u>	<u>1,561,506</u>
Representing:			
Reserves	1,355,480	186,615	1,542,095
2000 final dividend proposed	–	19,411	19,411
At 31st December 2000	<u>1,355,480</u>	<u>206,026</u>	<u>1,561,506</u>
At 1st January 2001			
As previously reported	1,355,480	186,615	1,542,095
Prior year adjustment (note 1(a))	–	19,411	19,411
As restated	1,355,480	206,026	1,561,506
Profit for the year	–	53,990	53,990
Dividends	–	(38,822)	(38,822)
At 31st December 2001	<u>1,355,480</u>	<u>221,194</u>	<u>1,576,674</u>
Representing:			
Reserves	1,355,480	201,783	1,557,263
2001 final dividend proposed	–	19,411	19,411
At 31st December 2001	<u>1,355,480</u>	<u>221,194</u>	<u>1,576,674</u>



16. DEFERRED TAXATION

The potential deferred taxation asset in respect of unutilised tax losses of the Group and the Company as at 31st December 2001 which has not been recognised in the accounts amounted to HK\$4,012,000 (2000: HK\$1,968,000).

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

	2001	2000
	HK\$'000	HK\$'000
Operating profit	35,334	52,364
Interest income	(26,691)	(39,707)
(Increase)/decrease in trade and other receivables	(4,526)	271
Decrease in amount due to immediate holding company	(240)	(900)
(Decrease)/increase in amount due to a fellow subsidiary	(244)	244
(Decrease)/increase in tenants' deposits	(1,261)	315
Increase/(decrease) in other payables and accruals	476	(443)
Net cash inflow from operating activities	<u>2,848</u>	<u>12,144</u>

(b) Major non-cash transaction

In 2000, the Group received a dividend income of HK\$35,000,000 from an associated company, out of which HK\$18,260,000 was settled as a loan to the associated company.

**18. FUTURE MINIMUM LEASE RENTAL RECEIVABLES**

At 31st December 2001, the Group's future aggregate minimum lease rental receivables under non-cancellable leases are as follows:

	2001	2000
	HK\$'000	HK\$'000
Not later than one year	23,662	22,088
Later than one year and not later than five years	26,341	5,824
	50,003	27,912

The total future minimum lease rental receivables related to property holding business of the Group which was disposed of to CNAC Group subsequent to the year end (note 21).

19. COMMITMENTS

- (a) 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 2001, no payment has been made by the Group to the JV.
- (b) 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% equity 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, of which HK\$20,186,000 was advanced to the Project as at 31st December 2001.

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 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.

20. 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 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 was determined on the basis of a valuation report dated 1st November 1999 prepared by DTZ Debenham Tie Leung Limited.

Seven of the Lease Agreements were for a two-year period from 18th October 1999 to 17th October 2001, of which five were terminated between December 2000 and September 2001 and the remaining two were expired on 17th October 2001. The remaining Lease Agreement was 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.

On 30th November 2001, the Group entered into two new lease agreements (the "New Lease Agreements") with CNAC HK for renewals of certain Lease Agreements expired on 17th October 2001. The New Lease Agreements are of terms for a two-year period from 18th October 2001 to 17th October 2003 and from 1st November 2001 to 30th October 2003 respectively. The New Lease Agreements were entered into on normal commercial terms and the rent of each lease is determined based on the prevailing market rental values of these leased properties as advised by DTZ Debenham Tie Leung Limited.



20. RELATED PARTY TRANSACTIONS (CONT'D)

	2001 HK\$'000	2000 HK\$'000
Rental income from immediate holding company and fellow subsidiaries:		
CNAC Group	4,336	6,146
CNAC HK	3,358	12,863
CNAC (H.K.) Travel Service Company Limited	174	467
	7,868	19,476

- (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 should 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 was 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.

20. RELATED PARTY TRANSACTIONS (CONT'D)

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.

	2001	2000
	HK\$'000	HK\$'000
Management fee to immediate holding company:		
CNAC Group	6,060	6,000

- (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 (2000: Nil).

21. SUBSEQUENT EVENT

On 8th February 2002, the Group entered into an agreement ("Acquisition Agreement") with CNAC Group for the acquisition of the entire equity interest in, and the shareholder's loan of approximately MOP134,300,000 (approximately HK\$130,400,000) due from, China National Aviation Corporation (Macau) Company Limited, at an aggregate consideration of HK\$665,000,000 (the "Acquisition").

Pursuant to the Acquisition Agreement, Sinobest underwent a capital restructuring so that the entire effective interest in the share capital of Sinobest was vested in CNAC Group and the shareholder's loans owing from Sinobest and Prosperoad amounted to approximately HK\$303,800,000 and approximately HK\$3,300,000 respectively were assigned to CNAC Group (the "Restructuring"). The Sinobest and its subsidiary held the entire investment property portfolio of the Group, which was valued at HK\$600,000,000 as at 31st December 2001. The consideration paid to CNAC Group for the Acquisition of HK\$665,000,000 was partially offset by the consideration of HK\$600,000,000 paid for the Restructuring. The balance of HK\$65,000,000 was satisfied by a cash payment by the Group.

NOTES TO THE ACCOUNTS (CONT'D)



21. SUBSEQUENT EVENT (CONT'D)

The Acquisition and the Restructuring were completed on 25th March 2002 and these transactions will not result in a significant gain or loss to the Group for the year ending 31st December 2002.

22. 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.

23. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 27th March 2002.

