

## POST BALANCE SHEET EVENT

On 8th February 2002, the Group entered into an acquisition agreement with CNAC Group in relation to the acquisition of the entire equity interest in, and the shareholder's loan of approximately Macau Patacas ("MOP") 134.3 million (about HK\$130.4 million) due from, CNAC Macau for an aggregate consideration of HK\$665.0 million ("Acquisition"). Upon completion of the CNAC Macau reorganisation and the payment of a final dividend in respect of the financial year ended 31st December 2001, the assets of CNAC Macau consists of (i) a 51 per cent interest in Air Macau, a Macau-based airline; (ii) a 26 per cent direct interest in MASC Ogden, a ground handling service company which operates at the Macau International Airport; and (iii) a 20 per cent direct interest in MARCCO, a recently formed company with an intention to provide aircraft conversion and maintenance services at the Macau International Airport.

Under the acquisition agreement and as part of the consideration for the acquisition, the Group procure the restructuring, that is (i) procure that Sinobest undergoes a capital restructuring so that the entire effective interest in the share capital of Sinobest is vested in CNAC Group; and (ii) assign the shareholders' loans owing from Sinobest and Prosperoad in the amounts of approximately HK\$303.8 million and approximately HK\$3.3 million respectively to CNAC Group ("Restructuring"). The Sinobest and its subsidiary, Prosperoad ("Sinobest Group") hold the entire investment property portfolio of the Group.

The consideration payable to CNAC Group for the Acquisition of HK\$665.0 million will be partially offset by the consideration of HK\$600.0 million payable for the Restructuring. The balance of HK\$65.0 million will be satisfied by a cash payment which is funded by the Group's internal resources.

The Acquisition and the restructuring have been completed on 25th March 2002, CNAC Macau became a wholly owned subsidiary of the Company and the financial results of CNAC Macau and Air Macau will be consolidated while the financial results of MASC Ogden and MARCCO will be equity accounted for in the consolidated results of the Group in 2002.

The unaudited pro forma information of the Group prepared as if the group structure as set out above had been in existence throughout the two years ended 31st December 2001 and 2000, which is set out for information purposes only, is as follows:

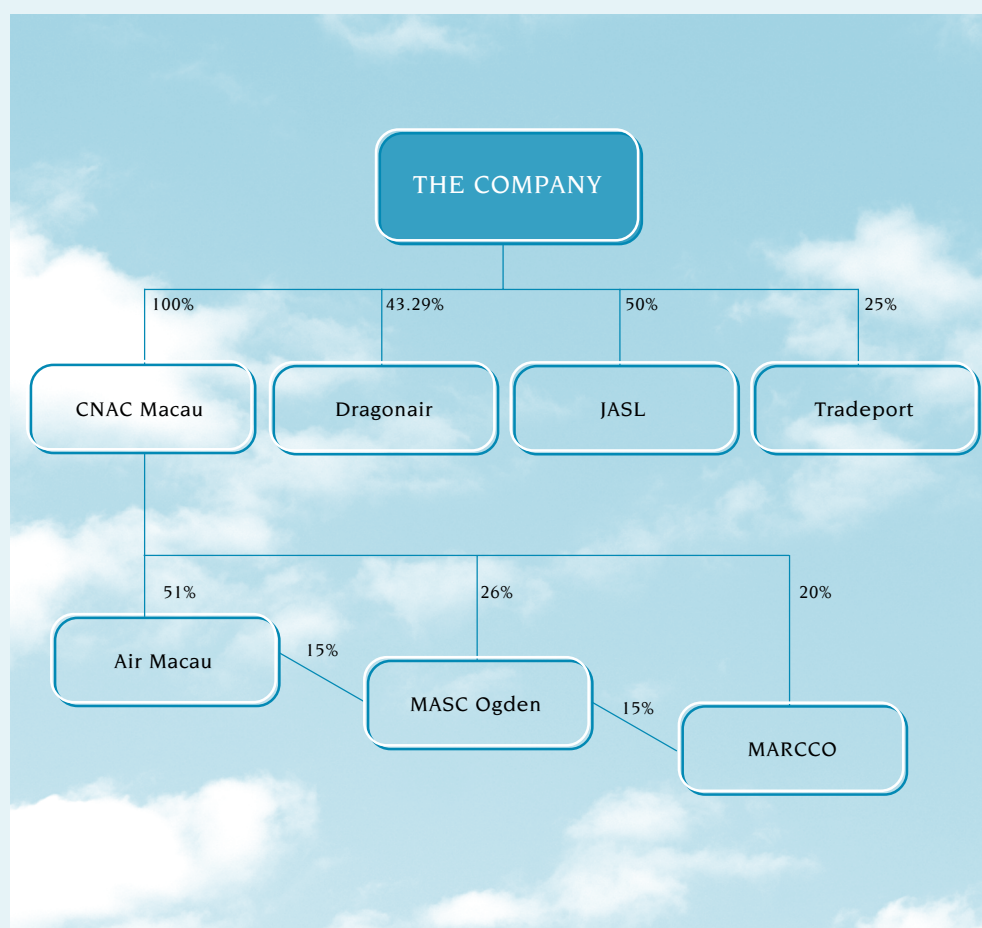
	<b>Year ended 31st December</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Audited profit attributable to shareholders of the Group	<b>215,646</b>	311,200
Unaudited consolidated profit after taxation of Sinobest Group	<b>(19,689)</b>	(23,645)
Unaudited pro forma combined net profit of CNAC Macau	<b>77,383</b>	90,997
Unaudited amortisation of goodwill arising from the Acquisition	<b>(15,000)</b>	(15,000)
Unaudited pro forma profit attributable to shareholders of the Group	<b>258,340</b>	363,552
Unaudited pro forma basic earnings per share	<b>HK7.99 cents</b>	HK11.24 cents



## POST BALANCE SHEET EVENT (CONT'D)

These transactions transformed the Group into a pure aviation concern and established a unique presence for the Group in the two major international traffic hubs of Southern China.

The following chart set out the simplified corporate structure of the Company, its associated companies and its principal subsidiaries upon completion of the transactions on 25th March 2002.



**CHINA NATIONAL AVIATION CORPORATION (MACAU) COMPANY LIMITED**

CNAC Macau was incorporated with limited liability in Macau in 1993 as an investment holding company with a focus on aviation and aviation-related businesses in Macau. CNAC Macau's assets consist of (i) a 51 per cent interest in Air Macau, a Macau-based airline; (ii) a 26 per cent direct interest in MASC Ogden, a ground handling service company which operates at the Macau International Airport; and (iii) a 20 per cent direct interest in MARCCO, a recently formed company with an intention to engage in the provision of aircraft conversion and maintenance services at the Macau International Airport.

The table below sets out the unaudited pro forma combined profit before and after taxation for CNAC Macau, prepared in accordance with International Accounting Standards ("IAS"), for the two years ended 31st December 2001 and 2000. The unaudited pro forma financial information has been prepared as if the group structure of CNAC Macau as set out above had been in existence throughout the two years ended 31st December 2001 and 2000:

	<b>Year ended 31st December</b>	
	<b>2001</b>	2000
	<b>(unaudited)</b>	(unaudited)
Pro forma combined profit before taxation		
– (MOP million)	<b>141.2</b>	163.2
– (HK\$ million)	<b>137.1</b>	158.4
Pro forma combined profit after taxation		
– (MOP million)	<b>115.9</b>	148.8
– (HK\$ million)	<b>112.5</b>	144.5
Pro forma combined minority interest		
– (MOP million)	<b>36.2</b>	55.1
– (HK\$ million)	<b>35.1</b>	53.5
Pro forma combined net profit		
– (MOP million)	<b>79.7</b>	93.7
– (HK\$ million)	<b>77.4</b>	91.0

As at 31st December 2001, the unaudited pro forma combined net asset value of CNAC Macau was approximately MOP 273.1 million (approximately HK\$265.1 million).



## POST BALANCE SHEET EVENT (CONT'D)

### AIR MACAU COMPANY LIMITED

Air Macau was established in Macau with limited liability in 1994 and commenced commercial operation in November 1995 under a concession agreement, for a 25-year exclusive right which expires in 2020 as the home based carrier in Macau, entered into between Air Macau and the Macau Government in 1995. CNAC Macau is responsible for the day to day management of Air Macau. There are currently ten members on Air Macau's board of directors of which six are representatives from CNAC Macau. Air Macau has sales offices and agents in 21 countries and territories with a workforce of approximately 680 staff at the end of 2001.

The main activity of Air Macau is the operation of international air services and programme charter services. In addition to its flight services, Air Macau also has a 15 per cent interest in MASC Ogden. The interest in MASC Ogden is held as a long-term investment.

### Operation

- Air Macau's passenger and cargo services currently operate more than 150 flights (including charter flights) per week flying regularly between Macau and 13 destinations in Asia, which are Beijing, Guilin, Haikou, Kunming, Nanjing, Ningbo, Shanghai, Xiamen, Bangkok, Manila, Seoul, Taipei and Kaohsiung.

The following table sets out Air Macau's services distribution by geographical area, expressed as a percentage of the total number of round trips operated:

Distribution of services		
Year ended		
31st December		
Route	2001	2000
	%	%
China mainland scheduled services	34	34
China mainland programme charters	2	3
Taiwan region	59	56
Other destinations in Southeast Asia	5	6
Ad hoc charters	—	1
Total	<b>100</b>	<b>100</b>

Air Macau is planning to expand its flight services to Chongqing, Zhangjiajie, Xian, and Singapore in the near future, bringing Air Macau's total destination cities to 17 by the end of 2002.



## AIR MACAU COMPANY LIMITED (CONT'D)

## Operation (cont'd)

Air Macau plans to commence all-cargo flight services in 2002.

- The following table sets out Air Macau's traffic summary for the years ended 31st December 2001 and 2000 by geographical area, expressed as a percentage of the total number of revenue passengers and cargo carried:

Routes	Passenger Services		Cargo Services	
	Year ended		Year ended	
	31st December		31st December	
	2001	2000	2001	2000
	%	%	%	%
China mainland scheduled services	32	31	25	29
China mainland programme charters	2	3	—	—
Taiwan region	61	60	70	65
Other destinations in Southeast Asia	5	5	5	6
Ad hoc charters	—	1	—	—
Total	100	100	100	100

- At the end of years 2001 and 2000, Air Macau's fleet was as follows:

Aircraft type	Number of aircraft as at 31st December	
	2001	2000
A320	3	2
A321	5	5
B757	1	—
Fleet total	9#	7#

# All aircraft are under operating leases, except for one A321 (2000: one A321) aircraft, which is under finance lease.



## POST BALANCE SHEET EVENT (CONT'D)

### AIR MACAU COMPANY LIMITED (CONT'D)

#### Operation (cont'd)

- Fleet expansion plan:

Year	Operating Lease	Return to Lessor
2002	2 A321 2 A319	1 A321
2003	3 A319	1 A321 2 A320

Air Macau will take delivery of two new Airbus A319s passenger aircraft in June and August 2002 respectively and another three Airbus A319s passenger aircraft in early 2003. There will be two new Airbus A321s scheduled for delivery by the end of 2002 to replace two Airbus A321s which will be returned to the lessors (one in end of 2002 and the other in early 2003). The acquisitions of new aircraft are expected to be financed by operating leases.

- Operating Summary:

		Year ended 31st December	
		2001	2000
Overall operating:			
Number of trips		14,175	11,811
Flying hours		20,975	17,953
Available tonne kilometre (ATK)	(million)	311	270
Aircraft utilisation			
– A320	(hr/day)	6.75	6.48
– A321	(hr/day)	6.92	7.15
– B757	(hr/day)	6.30	–
Passenger services:			
Available seat kilometre (ASK)	(million)	2,693	2,333
Total passengers carried	('000)	1,708	1,548
Revenue passenger kilometre (RPK)	(million)	1,911	1,749
Passenger yield per RPK	(MOP cents)	77	75
Passenger load factor	(%)	71	75
Cargo services:			
Cargo tonne kilometre (CTK)	(million)	41.3	36.2
Total cargo tonnes carried	(tonnes)	20,753	19,480
Cargo yield per CTK	(MOP cents)	526	506
Cargo load factor	(%)	55	61



## AIR MACAU COMPANY LIMITED (CONT'D)

**Operation** (cont'd)

- The following table sets out Air Macau's cost distribution for the years ended 31st December 2001 and 2000:

	Year ended 31st December	
	2001	2000
	%	%
Staff costs	13	13
Passenger catering and service costs	7	7
Fuel costs	11	13
Route operating costs	22	23
Aircraft maintenance costs	12	11
Aircraft equipment costs	21	18
Other operating costs	14	15
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Total	<b>100</b>	100
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**Financial information**

The table below sets out the audited results of Air Macau, prepared in accordance with the IAS, for each of the two years ended 31st December 2001 and 2000:

	Year ended 31st December	
	2001	2000
Operating revenue		
– (MOP million)	1,667.5	1,496.0
– (HK\$ million)	1,619.0	1,452.5
Profit before taxation		
– (MOP million)	86.2	108.8
– (HK\$ million)	83.7	105.6
Profit attributable to shareholders		
– (MOP million)	76.0	105.6
– (HK\$ million)	73.8	102.5

As at 31st December 2001, the audited net asset value of Air Macau was approximately MOP 571.2 million (approximately HK\$554.6 million).



### MASC/OGDEN-AVIATION SERVICES (MACAU), LIMITED

MASC Ogden was incorporated with limited liability in Macau in 1994 to provide ground handling services for passengers, ramp, cargo handling and aircraft line maintenance at the Macau International Airport. MASC Ogden commenced operations upon the start of aircraft movements in November 1995. CNAC Macau and Air Macau are interested in 26 per cent and 15 per cent of the issued share capital of MASC Ogden respectively.

Furthermore, MASC Ogden has a 15 per cent equity interest in MARCCO, which is being held as long-term investment. The details of MARCCO are described below.

MASC Ogden entered into three sub-concession agreements with Macau International Airport Company in 1994 under which MASC Ogden has the rights to provide aircraft maintenance, cargo, mail and ground handling services at the Macau International Airport for a period of 19 years (of which the first 16 years will be on an exclusive basis) upon signing of the sub-concession agreements.

As at 31st December 2001, MASC Ogden has entered into service agreements with airlines (for scheduled flights) from 14 different countries/regions for the provision of maintenance services to 17 different types of aircraft.

### Financial information

The table below sets out the audited profit before and after taxation for MASC Ogden, prepared in accordance with IAS, for the two years ended 31st December 2001 and 2000:

	Year ended 31st December	
	2001	2000
Profit before taxation		
– (MOP million)	<b>198.8</b>	167.2
– (HK\$ million)	<b>193.0</b>	162.3
Profit after taxation		
– (MOP million)	<b>161.8</b>	140.0
– (HK\$ million)	<b>157.1</b>	135.9

As at 31st December 2001, MASC Ogden had an audited net asset value of approximately MOP 160.9 million (approximately HK\$156.2 million).



#### **MACAU AIRCRAFT REPAIR AND CONVERSION COMPANY LIMITED**

MARCCO was incorporated with limited liability in Macau in July 2001. CNAC Macau and MASC Ogden respectively hold a 20 per cent and 15 per cent equity interest in MARCCO. MARCCO was formed with an intention to provide aircraft conversion and maintenance services at the Macau International Airport. The operation of MARCCO has yet to commence and the company is still at a preliminary stage of developing its operating plan.

#### **Financial information**

As at 31st December 2001, MARCCO had a registered capital of MOP 0.1 million and unaudited net liabilities of approximately MOP 0.5 million (approximately HK\$0.4 million).

*Note: In this report, except as otherwise indicated, MOP has been translated into HK\$ at the rate of HK\$1.00 = MOP 1.03 for reference purpose only.*