



## NOTES TO THE ACCOUNTS

### I 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, 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (revised)	:	Employee benefits

The adoption of these new or revised accounting standards did not have material impact to the accounts for the year ended 31st December, 2002 except for the reclassification of cash flows presented in the consolidated cash flow statement into operating, investing and financing activities and the presentation of consolidated statement of changes in equity.

#### (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.



### I PRINCIPAL ACCOUNTING POLICIES (CONT'D)

#### (b) Consolidation (cont'd)

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.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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 loss. The results of associated companies are accounted for by the Company on the basis of dividend income.

#### (d) Jointly controlled operations

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The assets that the Group controls and liabilities that it incurs in relation to jointly controlled operations joint ventures are recognised in the consolidated balance sheet on an accrual basis and classified according to the nature of the item. The expenses that the Group incurs and its share of income that it earns from services rendered by these joint ventures are included in the consolidated profit and loss account.



## NOTES TO THE ACCOUNTS

### I PRINCIPAL ACCOUNTING POLICIES (CONT'D)

#### (e) Intangible assets

(i) *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 of not more than 20 years. Goodwill on acquisitions that occurred prior to 1st January, 2001 was taken to reserves.

(ii) *Trademark*

Expenditure on trademark is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis at an annual rate of 16.66%.

(iii) *Deferred expenditure*

Transaction fees and transportation charges in relation to placing the leased aircraft into operation are deferred and amortised over the terms of the related leases.

(iv) *Impairment of intangible assets*

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

#### (f) Fixed assets

(i) *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 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.



### I PRINCIPAL ACCOUNTING POLICIES (CONT'D)

#### (f) Fixed assets (cont'd)

##### (i) Investment properties (cont'd)

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.

##### (ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, aircraft and engines, flight equipment and rotatable spares and machinery, other equipment, furniture and motor vehicles, are stated at cost less accumulated depreciation and impairment losses.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values. The estimated useful lives are as follows:

Leasehold improvements	6 years
Aircraft and engines	10 to 20 years
Flight equipment and rotatable spares	7 to 20 years
Machinery, other equipment, furniture and motor vehicles	3 to 10 years

Expenditure incurred to replace a component of an item of fixed assets that is accounted for separately, including major inspection and overhaul expenditure, is capitalised (note q). Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of fixed assets. All other expenditure is expensed as incurred.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the assets to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.



## NOTES TO THE ACCOUNTS

### I PRINCIPAL ACCOUNTING POLICIES (CONT'D)

#### (g) Inventories

Inventories comprise expendable spare parts and supplies, are stated at the lower of cost and net realisable value, and are expensed when used in operations. Cost is calculated on the average cost basis except for aircraft spare parts, cost of which is calculated on the first-in-first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (h) 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.

#### (i) 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 the weighted average rate during the year. Exchange differences are dealt with as a movement in reserves.

#### (j) 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.

#### (k) Manufacturers' credits

Manufacturers' credits received in connection with leasing of aircraft, which the Group can apply those credits to reduce future costs of acquiring aircraft spares or rental payments, are either deferred and amortised as income or as a reduction of rental expenses for aircraft over relevant leases.

#### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.



### I PRINCIPAL ACCOUNTING POLICIES (CONT'D)

#### (m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### (n) Employee benefits

##### (i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

##### (ii) *Retirement benefit costs*

The Group operates defined contribution schemes in Hong Kong and Macau. Contributions to the defined contribution schemes are expensed as incurred.

##### (iii) *Equity compensation benefits*

Share options are granted to Directors and continuous contract employees. No compensation cost is recognised in the consolidated profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

#### (o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.



## NOTES TO THE ACCOUNTS

### I PRINCIPAL ACCOUNTING POLICIES (CONT'D)

#### (o) **Contingent liabilities and contingent assets** (cont'd)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

#### (p) **Revenue recognition**

##### (i) *Traffic revenue*

Passenger, cargo and mail revenues are recognised when the transportation is provided. Ticket sales for transportation not yet provided are included in current liabilities as sales in advance of carriage.

##### (ii) *Inflight sales commission*

Inflight sales commission is recognised when services are rendered.

##### (iii) *Rental income*

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

##### (iv) *Interest income*

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

##### (v) *Dividend income*

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

#### (q) **Maintenance and overhaul costs**

Costs of major checks and overhauls performed on owned aircraft to replace a component of an item of fixed assets are capitalised and amortised over a period of 3 years. Other maintenance and major overhaul costs incurred for owned aircraft are expensed as and when incurred.

In respect of aircraft under operating leases, a provision is made for the estimated costs of major checks and overhauls required to be conducted to fulfill the requirements under the relevant leases based on the maintenance cycle of each aircraft.



### I PRINCIPAL ACCOUNTING POLICIES (CONT'D)

#### (r) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (s) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments.

Unallocated costs represent corporate expenses and amortisation of unallocated goodwill. Segment assets consist primarily of intangible assets, fixed assets, lease and equipment deposits, inventories, trade and other receivables and operating cash and mainly exclude unallocated goodwill, investments in associated companies, tax recoverable and non-operating bank balances and cash. Segment liabilities comprise operating liabilities and mainly exclude taxation payable. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, segment revenues and segment results are based on the following criteria:

- (i) Traffic revenue from inbound and outbound services between Macau and overseas markets is attributed to the geographical area in which the relevant overseas origin/destination lies.
- (ii) Revenues from gross rental income from investment properties and other aviation related services are attributed on the basis of where the services are performed.

Total assets and capital expenditure are where the assets are located.





## NOTES TO THE ACCOUNTS

### 2 ACQUISITION OF CNAC MACAU AND DISCONTINUING OPERATION OF PROPERTY HOLDING BUSINESS

On 8th February, 2002, the Group entered into an agreement (“Acquisition Agreement”) with China National Aviation Corporation (Group) Limited (“CNACG”) for the acquisition of the entire equity interest in, and the shareholder’s loan of approximately MOP134,300,000 (approximately HK\$130,391,000) due from, China National Aviation Corporation (Macau) Company Limited (“CNAC Macau”), at an aggregate consideration of HK\$665,000,000 (the “Acquisition”). CNAC Macau’s assets consist of (i) a 51% interest in Air Macau Company Limited (“Air Macau”), a Macau-based airline; (ii) a 26% direct interest in Menzies Macau Airport Services Limited (“Menzies Macau”), a ground handling service company which operates at the Macau Airport; and (iii) a 20% direct interest in Macau Aircraft Repair and Conversion Company Limited, a company with an intention to engage in the provision of aircraft conversion and maintenance services at the Macau Airport.

Pursuant to the Acquisition Agreement, Sinobest International Limited (“Sinobest”) and Prosperoad Property Corp. (collectively “Sinobest Group”), wholly owned subsidiaries of the Company, underwent a capital restructuring so that the entire effective interest in the share capital of Sinobest was vested in CNACG and the shareholder’s loans owing from Sinobest Group totaled approximately HK\$307,117,000 were assigned to CNACG (the “Restructuring”). The Sinobest Group 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 CNACG 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.

#### (i) Acquisition of CNAC Macau

The net assets of CNAC Macau and its subsidiary at the date of acquisition was HK\$200,101,000. The resulting goodwill of HK\$339,111,000 is amortised on a straight-line basis over 18 years, being the unexpired period of Air Macau’s exclusive rights to operate as Macau’s home based carrier (note 13). The acquired business contributed revenues of HK\$1,348,100,000 and operating profit of HK\$77,065,000 to the Group for the period from 25th March, 2002 to 31st December, 2002.

The assets and liabilities arising from the Acquisition at the date of acquisition are set out in note 23(d).



## NOTES TO THE ACCOUNTS

### 2 ACQUISITION OF CNAC MACAU AND DISCONTINUING OPERATION OF PROPERTY HOLDING BUSINESS (CONT'D)

#### (ii) Discontinuing operation of property holding business

The entire property holding business segment of the Group was vested in CNACG on 25th March, 2002. Sinobest Group comprising the property holding business segment was sold and is reported in the accounts as a discontinuing operation. The turnover, results, cash flows and net assets of the property holding business segment were as follows:

	<b>From 1st January, 2002 to 25th March, 2002 HK\$'000</b>	<b>Year ended 31st December, 2001 HK\$'000</b>
Turnover	5,644	28,321
Other revenue	10	128
Administrative expenses	(1,334)	(5,238)
	<hr/>	<hr/>
Profit before taxation	4,320	23,211
Taxation	(379)	(1,955)
	<hr/>	<hr/>
Profit after taxation	3,941	21,256
	<hr/> <hr/>	<hr/> <hr/>
Operating cash inflow	4,667	893
	<hr/> <hr/>	<hr/> <hr/>
	<b>25th March, 2002 HK\$'000</b>	<b>31st December, 2001 HK\$'000</b>
Investment properties	600,000	600,000
Current assets	17,264	12,211
	<hr/>	<hr/>
Total assets	617,264	612,211
Total liabilities	(324,381)	(313,364)
	<hr/>	<hr/>
Net assets	292,883	298,847
	<hr/> <hr/>	<hr/> <hr/>

The loss on discontinuing operation is insignificant to the accounts for the year ended 31st December, 2002 (note 23 (c)).



## NOTES TO THE ACCOUNTS

### 3 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in provision of aviation related services. Revenues recognised during the year are as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Turnover		
Traffic revenues		
– Passenger services	<b>1,171,504</b>	–
– Cargo and mail services	<b>152,278</b>	–
Gross rental income from investment properties	<b>5,644</b>	28,320
	<b>1,329,426</b>	28,320
Other revenues		
Inflight sales commission	<b>1,887</b>	–
Interest income	<b>13,546</b>	26,691
	<b>15,433</b>	26,691
Total revenues	<b>1,344,859</b>	55,011

The Group is organised into four main business segments including airline operation, airport ground handling, logistic and other businesses and property holding.

On 25th March, 2002, the property holding business of the Group was vested in CNACG (note 2).

There are no sales or other transactions between the business segments.



## NOTES TO THE ACCOUNTS

### 3 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONT'D)

#### Primary reporting format – business segments

	Airline operation HK\$'000	Airport ground handling HK\$'000	Logistics and other businesses HK\$'000	Property holding HK\$'000	Group HK\$'000
<b>Year ended 31st December, 2002</b>					
Segment revenues	<u>1,325,669</u>	<u>–</u>	<u>–</u>	<u>5,644</u>	<u>1,331,313</u>
Segment results	<u>77,783</u>	<u>–</u>	<u>–</u>	<u>4,719</u>	<u>82,502</u>
Interest income					13,546
Unallocated costs					<u>(34,212)</u>
Operating profit					61,836
Finance costs					(8,426)
Share of profits less losses of associated companies	291,535	107,490	(4,145)	–	<u>394,880</u>
Profit before taxation					448,290
Taxation					<u>(89,343)</u>
Profit after taxation					358,947
Minority interests					<u>(41,530)</u>
Profit attributable to shareholders					<u>317,417</u>
Segment assets	1,102,291	–	–	–	1,102,291
Investments in associated companies	1,096,208	117,472	34,066	–	1,247,746
Unallocated assets					<u>1,160,395</u>
Total assets					<u>3,510,432</u>
Segment liabilities	466,877	–	–	–	466,877
Unallocated liabilities					<u>20,849</u>
Total liabilities					<u>487,726</u>
Capital expenditure	491,905	–	–	–	491,905
Depreciation	49,843	–	–	–	49,843
Amortisation	288	–	–	–	288
Other non-cash expenses	<u>620</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>620</u>

Capital expenditure and amortisation charge by business segments did not include goodwill arising from acquisitions of CNAC Macau of HK\$339,111,000 and related amortisation of HK\$14,130,000 as the Directors consider that there is no meaningful basis for allocation of such goodwill between airline operation and airport ground handling businesses.



## NOTES TO THE ACCOUNTS

### 3 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONT'D)

#### Primary reporting format – business segments (cont'd)

	Airline operation HK\$'000	Airport ground handling HK\$'000	Logistics and other businesses HK\$'000	Property holding HK\$'000	Group HK\$'000
Year ended 31st December, 2001					
Segment revenues	–	–	–	28,320	28,320
Segment results	–	–	–	23,589	23,589
Interest income					26,691
Unallocated costs					(14,946)
Operating profit					35,334
Share of profits less losses of associated companies	180,081	45,889	(977)	–	224,993
Profit before taxation					260,327
Taxation					(44,681)
Profit attributable to shareholders					215,646
Segment assets	–	–	–	606,014	606,014
Investments in associated companies	994,096	58,397	19,209	–	1,071,702
Unallocated assets					679,917
Total assets					2,357,633
Segment liabilities	–	–	–	6,256	6,256
Unallocated liabilities					12,183
Total liabilities					18,439
Capital expenditure	–	–	–	–	–
Depreciation	–	–	–	–	–
Amortisation	–	–	–	–	–
Other non-cash expenses	–	–	–	–	–



## NOTES TO THE ACCOUNTS

### 3 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONT'D)

#### Secondary reporting format – geographical segments

The Group operates in four main geographical areas including China mainland, Taiwan, Hong Kong and other regions (mainly Macau, Thailand and Philippines). Except for Hong Kong where the Group's property holding business operated, all other geographical areas are attributed to the Group's airline operation business. There are no sales between the geographical segments.

	Segment revenues		Segment results	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
China mainland	539,489	–	(28,145)	–
Taiwan	702,899	–	133,449	–
Hong Kong	5,644	28,320	4,719	23,589
Other regions	83,281	–	(27,521)	–
Total	<u>1,331,313</u>	<u>28,320</u>	<u>82,502</u>	<u>23,589</u>
Interest income			13,546	26,691
Unallocated costs			(34,212)	(14,946)
Operating profit			<u>61,836</u>	<u>35,334</u>

The major revenue-earning assets of the Group are its aircraft fleet, all of which are registered in Macau. Since the Group's aircraft fleet is deployed flexibly across its route network, the Directors consider that there is no meaningful basis to allocating such assets to geographical segments.

The Group's assets, other than its aircraft fleet as mentioned in the above, and capital expenditure are mainly located in Macau.

### 4 STAFF COSTS

	2002 HK\$'000	2001 HK\$'000
Wages and salaries (including Directors' emoluments)	184,697	6,650
Retirement benefit costs	3,717	12
	<u>188,414</u>	<u>6,662</u>

The Company contributes to the mandatory provident fund scheme ("MPF Scheme") established under the Hong Kong Mandatory Provident Fund Scheme Ordinance which is available to eligible employees in Hong Kong.



## NOTES TO THE ACCOUNTS

### 4 STAFF COSTS (CONT'D)

The subsidiary in Macau operates defined contribution pension plans which are available to eligible employees. The assets of the plans are held separately from the subsidiary in independently administered funds. Monthly contributions made by the subsidiary are calculated based on certain percentages of the applicable payroll costs or fixed sums as stipulated under the relevant requirements, as appropriate.

The retirement benefit costs represent gross contributions paid and payable to the MPF Scheme in Hong Kong and the defined contribution pension plans in Macau (collectively the "Retirement Schemes"). Contributions totalling HK\$2,878,000 payable to the Retirement Schemes as at 31st December, 2002 are included in trade and other payables. Forfeited contribution totalling HK\$334,000 were utilised during the year leaving HK\$10,000 available at the year end to reduce future contributions.

### 5 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2002 HK\$'000	2001 HK\$'000
<b>Crediting</b>		
Amortisation of manufacturers' credits	<u>7,523</u>	<u>–</u>
<b>Charging</b>		
Amortisation of intangible assets		
– Goodwill	14,130	–
– Trademarks	18	–
– Deferred expenditure	270	–
Auditors' remuneration	1,302	560
Cost of inventories expenses	31,487	–
Depreciation of fixed assets	49,843	–
Loss on disposal of fixed assets	444	–
Net exchange losses	2,367	–
Operating lease rentals		
– Aircraft and related equipments	248,424	–
– Land and buildings	14,995	–
Outgoings in respect of investment properties	925	4,731
Provision for overhaul and major check costs (note 21)	<u>91,941</u>	<u>–</u>



## NOTES TO THE ACCOUNTS

### 6 FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest expense on bank loan	648	–
Other incidental borrowing costs	7,778	–
	<u>8,426</u>	<u>–</u>

### 7 TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year. Macau complementary tax has been provided at the rate of 15.75% (2001: Not applicable) on the estimated assessable profit for the year. Taxation outside Hong Kong and Macau has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions in which the Group operates.

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

	2002 HK\$'000	2001 HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	379	1,964
Macau complementary tax	9,153	–
Taxation outside Hong Kong and Macau	609	–
Overprovision in prior years	–	(8)
	<u>10,141</u>	<u>1,956</u>
Share of taxation attributable to associated companies	79,202	42,725
	<u>89,343</u>	<u>44,681</u>

There was no material unprovided deferred taxation of the Group for the year (2001: Nil).

### 8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$479,279,000 (2001: HK\$53,990,000).





## NOTES TO THE ACCOUNTS

### 9 DIVIDENDS

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Interim dividend, paid, of HK0.6 cent (2001: HK0.6 cent) per share	<b>19,916</b>	19,411
Final dividend, proposed, of HK0.8 cent (2001: HK0.6 cent) per share	<b>26,554</b>	19,411
Additional 2001 final dividend paid on shares issued before the closure of the register of members	<b>505</b>	—
	<b>46,975</b>	38,822

At a meeting held on 28th March, 2003, the Directors proposed a final dividend of HK0.8 cent per 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, 2003.

### 10 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$317,417,000 (2001: HK\$215,646,000).

The basic earnings per share is based on the weighted average of 3,290,728,000 (2001: 3,235,182,000) shares in issue during the year. The diluted earnings per share is based on 3,346,872,000 (2001: 3,275,076,000) shares representing the weighted average of 3,290,728,000 (2001: 3,235,182,000) shares in issue during the year plus the weighted average of 56,144,000 (2001: 39,894,000) shares which would be issued at no consideration on the exercise of all dilutive options.



## NOTES TO THE ACCOUNTS

### 11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

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

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Fees	<b>80</b>	80
Salaries and allowances	<b>6,015</b>	5,960
	<b>6,095</b>	6,040

Directors' emoluments above include fees of HK\$80,000 (2001: HK\$80,000) to independent non-executive Directors.

During the year, no share options (2001: 231,185,800) have been granted to any Directors of the Company under the share options schemes of the Company.

The emoluments of the Directors fell within the following bands:

	<b>Number of Directors</b>	
	<b>2002</b>	2001
Emolument bands		
HK\$ nil – HK\$1,000,000	<b>7</b>	7
HK\$1,000,001 – HK\$1,500,000	<b>1</b>	1
HK\$1,500,001 – HK\$2,000,000	<b>1</b>	2
HK\$2,000,001 – HK\$2,500,000	<b>1</b>	–
	<b>10</b>	10



## NOTES TO THE ACCOUNTS

### 11 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 three Directors (2001: four) whose emoluments are set out in the analysis presented above. The emoluments payable to the remaining two (2001: one) individual during the year are as follows:

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Wages, salaries and allowances	–	690
Benefits in kind	<b>43,746</b>	–
Retirement benefit costs	–	12
	<u>43,746</u>	<u>702</u>

On 4th April, 2002, Messrs. Wang Guixiang and Xin Wei, employees of the Group who were former Directors, in aggregate, exercised options for 84,126,000 shares at an exercise price of HK\$1.04 per share. The difference between the aggregate value of the Company's shares issued upon the exercise of these options at the exercise price of HK\$1.04 per share and the market price of the Company's shares on 4th April, 2002 of HK\$1.56 per share amounted to HK\$43,746,000 has been included in the benefits in kind above.

The emoluments of the employees fell within the following bands:

	<b>Number of individuals</b>	
	<b>2002</b>	2001
Emolument bands		
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$19,500,001 – HK\$20,000,000	1	–
HK\$23,500,001 – HK\$24,000,000	1	–
	<u>1</u>	<u>1</u>



## NOTES TO THE ACCOUNTS

### 12 FIXED ASSETS

	Group					Total HK\$'000
	Investment properties	Leasehold improvements	Aircraft and engines	Flight equipment and rotatable spares	Machinery, other equipment, furniture, and motor vehicles	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cost or valuation						
As at 1st January, 2002	600,000	-	-	-	-	600,000
Acquisition of subsidiaries	-	24,659	418,040	212,138	42,327	697,164
Additions	-	4,910	-	18,947	8,888	32,745
Disposals	-	(1,185)	-	(1,020)	(1,261)	(3,466)
Disposal of subsidiaries	(600,000)	-	-	-	-	(600,000)
<b>As at 31st December, 2002</b>	<b>-</b>	<b>28,384</b>	<b>418,040</b>	<b>230,065</b>	<b>49,954</b>	<b>726,443</b>
Accumulated depreciation						
As at 1st January, 2002	-	-	-	-	-	-
Acquisition of subsidiaries	-	20,354	81,298	108,125	28,707	238,484
Charge for the year	-	3,481	23,979	18,151	4,232	49,843
Disposals	-	(911)	-	(896)	(1,211)	(3,018)
<b>As at 31st December, 2002</b>	<b>-</b>	<b>22,924</b>	<b>105,277</b>	<b>125,380</b>	<b>31,728</b>	<b>285,309</b>
Net book value						
<b>As at 31st December, 2002</b>	<b>-</b>	<b>5,460</b>	<b>312,763</b>	<b>104,685</b>	<b>18,226</b>	<b>441,134</b>
As at 31st December, 2001	600,000	-	-	-	-	600,000

The investment properties were all located in Hong Kong and were held on leases of over 50 years. The investment properties were revalued at 31st December, 2001 on an open market value basis by DTZ Debenham Tie Leung Limited. Other fixed assets are stated at cost as at 31st December, 2002.



## NOTES TO THE ACCOUNTS

### 13 INTANGIBLE ASSETS

	Group			Total HK\$'000
	Goodwill HK\$'000	Trademarks HK\$'000	Deferred expenditure HK\$'000	
Cost				
Acquisition of subsidiaries and at 31st December, 2002	339,111	928	2,733	342,772
Accumulated amortisation				
Acquisition of subsidiaries	–	(910)	(2,271)	(3,181)
Charge for the year	(14,130)	(18)	(270)	(14,418)
<b>As at 31st December, 2002</b>	<b>(14,130)</b>	<b>(928)</b>	<b>(2,541)</b>	<b>(17,599)</b>
Net book amount				
<b>As at 31st December, 2002</b>	<b>324,981</b>	<b>–</b>	<b>192</b>	<b>325,173</b>
As at 31st December, 2001	–	–	–	–

### 14 INVESTMENTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	803,666	803,666
Amounts due from subsidiaries	709,293	328,085
Amounts due to subsidiaries	(141)	–
	<b>1,512,818</b>	<b>1,131,751</b>

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



## NOTES TO THE ACCOUNTS

### 14 INVESTMENTS IN SUBSIDIARIES (CONT'D)

The subsidiaries at 31st December, 2002 are set out below:

Name	Place of incorporation	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest	
					2002	2001
# * Air Macau Company Limited	Macau	Macau	Airline operator	4,000,000 ordinary shares of MOP100 each	51%	–
* China National Aviation Corporation (Macau) Company Limited	Macau	Macau	Investment holding	Quota capital of MOP10,000,000	100%	–
Skylink Global Limited	British Virgin Islands	Hong Kong	Investment holding	10 ordinary shares of US\$1 each	100%	–
Kingston International Limited	British Virgin Islands	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%	100%
Queenston International Limited	British Virgin Islands	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%	100%
Serfil Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
Skyrise Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
Wington Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
China National Aviation Logistics Company Limited	Hong Kong	Hong Kong	Investment holding	2 ordinary shares of HK\$10 each	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%



## NOTES TO THE ACCOUNTS

### 14 INVESTMENTS IN SUBSIDIARIES (CONT'D)

Name	Place of incorporation	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest	
					2002	2001
Sinobest International Limited	Hong Kong	Hong Kong	Property holding	100,010 ordinary shares of HK\$1 each	–	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%

# Subsidiary not audited by PricewaterhouseCoopers. The aggregate net assets, turnover and profit before taxation and minority interests of the subsidiary not audited by PricewaterhouseCoopers amounted to approximately 23% (2001: Nil), 99% (2001: Nil) and 20% (2001: Nil) respectively.

\* Shares held indirectly by the Company.

Note: All subsidiaries are limited liability companies.

### 15 INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	–	–	51,789	51,789
Share of net assets	1,170,893	996,456	–	–
Loans to associated companies	76,853	75,246	37,560	55,060
	<u>1,247,746</u>	<u>1,071,702</u>	<u>89,349</u>	<u>106,849</u>

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



## NOTES TO THE ACCOUNTS

### 15 INVESTMENTS IN ASSOCIATED COMPANIES (CONT'D)

The following is a list of principal associated companies at 31st December, 2002:

Name	Place of incorporation and business	Principal activities	Particulars of issued shares capital	Group equity interest	
				2002	2001
* Hong Kong Dragon Airlines Limited ("Dragonair")	Hong Kong	Airline operator	500,000,000 ordinary shares of HK\$1 each	<b>43.29%</b>	43.29%
Jardine Airport Services Limited	Hong Kong	Provision of airport ground handling services	1,000 ordinary shares of HK\$10 each	<b>50.00%</b>	50.00%
** Tradeport Hong Kong Limited	Hong Kong	Development and operation of a logistic center	400 ordinary shares of HK\$1 each	<b>25.00%</b>	25.00%
# ** Menzies Macau Airport Services Limited (formerly known as MASC/Ogden – Aviation Services (Macau) Limited)	Macau	Provision of airport ground handling services	Quota capital of MOP10,000,000	<b>33.65%</b>	–
# ** Macau Aircraft Repair and Conversion Company Limited	Macau	Provision of aircraft repair and conversion	Quota capital of MOP100,000	<b>25.05%</b>	–

\* 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.

# Associated companies not audited by PricewaterhouseCoopers.





## NOTES TO THE ACCOUNTS

### 15 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:

	2002 HK\$'000	2001 HK\$'000
<b>Results</b>		
Turnover	<u>5,942,475</u>	<u>4,885,215</u>
Operating profit after finance costs	<u>635,259</u>	383,395
Share of profits of associated companies	<u>38,187</u>	32,593
Profit before taxation	<u>673,446</u>	415,988
Taxation	<u>(132,618)</u>	(77,119)
Profit after taxation	<u>540,828</u>	<u>338,869</u>
Depreciation charge dealt with in operating profit	<u>315,637</u>	<u>223,932</u>
Group's share of profit before taxation	<u>291,535</u>	<u>180,081</u>
	<b>2002 HK\$'000</b>	<b>2001 HK\$'000</b>
<b>Net assets</b>		
Fixed assets	<u>6,211,323</u>	4,393,529
Advance payments	<u>378,910</u>	545,490
Security deposits	<u>232,225</u>	243,229
Investments in securities	<u>24,197</u>	29,151
Investments in associated companies	<u>159,264</u>	153,386
Current assets	<u>2,715,748</u>	2,070,356
Current liabilities	<u>(1,822,015)</u>	(1,497,672)
Deferred income	<u>(403,885)</u>	(321,545)
Deferred taxation	<u>(862,848)</u>	(699,897)
Provision for overhaul and major checks	<u>(77,200)</u>	(53,113)
Obligations under finance leases	<u>(4,023,482)</u>	<u>(2,566,551)</u>
	<u>2,532,237</u>	<u>2,296,363</u>
Group's share of net assets	<u>1,096,206</u>	<u>994,096</u>



## NOTES TO THE ACCOUNTS

### 16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Due from:				
Fellow subsidiaries (notes a and c)	316	–	–	–
A related company (notes a and c)	162	–	–	–
Trade receivables (notes b and c)	121,000	212	–	–
Prepayments, deposits and other receivables	64,313	7,073	2,437	1,271
	<b>185,791</b>	<b>7,285</b>	<b>2,437</b>	<b>1,271</b>

- (a) The amounts due from fellow subsidiaries and a related company are unsecured, interest free and have normal commercial terms of settlement.
- (b) The credit terms granted to sales agents and other trade customers are generally half month.
- (c) The age analysis of the trade receivable balances with third parties, fellow subsidiaries and a related company is as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within 31 days	112,690	100	–	–
31 – 60 days	8,499	100	–	–
61 – 90 days	289	–	–	–
Over 90 days	–	12	–	–
	<b>121,478</b>	<b>212</b>	<b>–</b>	<b>–</b>

### 17 BANK BALANCES AND CASH

Bank balances and cash of the Group include a deposit of HK\$13,155,000 (2001:Nil), which has been pledged to banks for banking facilities and guarantees granted to/obtained by the Group.



## NOTES TO THE ACCOUNTS

### 18 TRADE AND OTHER PAYABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Due to:				
Associated companies (notes a and b)	18,255	–	42	–
Fellow subsidiaries (notes a and b)	15,905	–	32	–
Immediate holding company (notes a and b)	181	–	62	–
Related companies (notes a and b)	1,004	–	–	–
Trade payables (note b)	134,607	–	–	–
Tenants' deposits	–	5,676	–	–
Other payables and accruals	147,441	12,763	8,439	12,128
	<b>317,393</b>	<b>18,439</b>	<b>8,575</b>	<b>12,128</b>

- (a) The amounts due to associated companies, fellow subsidiaries, immediate holding company and related companies are unsecured and interest free. Except for the amount due to immediate holding company which has no fixed terms of repayment, other balances have the credit terms generally ranging from 40 to 45 days.
- (b) The age analysis of trade payable balances with third parties, associated companies, fellow subsidiaries, immediate holding company and related companies is as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within 31 days	96,116	–	104	–
31 – 60 days	30,121	–	–	–
61 – 90 days	25,404	–	–	–
Over 90 days	18,311	–	32	–
	<b>169,952</b>	<b>–</b>	<b>136</b>	<b>–</b>



## NOTES TO THE ACCOUNTS

### 19 SHARE CAPITAL

	<b>Ordinary shares of HK\$0.10 each</b>	
	<b>Number of shares</b>	<b>HK\$'000</b>
Authorised:		
At 1st January, 2001, 2002 and 31st December, 2002	4,000,000,000	400,000
Issued and fully paid:		
At 1st January, 2001 and 2002	3,235,182,000	323,518
Exercise of share options	84,126,000	8,413
<b>At 31st December, 2002</b>	<b>3,319,308,000</b>	<b>331,931</b>

At an Annual General Meeting of the Company held on 29th May, 2002, a new share option scheme ("New Share Option Scheme") was approved and adopted to replace the old share option scheme which was approved by the shareholders of the Company on 22nd October, 1997.

Under the terms of the New Share Options Scheme, the Directors may, at their discretion, grant to any Director, employee, supplier, customer or other relevant business partners of the Group, share options to subscribe for the Company's shares at the subscription price of the highest of (i) the closing price of the Company's shares as stated in The Stock Exchange of Hong Kong Limited's (the "Stock Exchange") daily quotations sheets on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. A nominal consideration at HK\$1 was paid by the grantees for the acceptance of the grant of share options.

The maximum number of shares may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option scheme of the Group must not exceed 30% of the number of issued shares of the Company from time to time. The total number of shares may be issued upon exercise of all share options to be granted under the New Share Option Scheme must not exceed 331,930,800, representing 10% of the number of issued shares at the date of adoption of the New Share Option Scheme.

An option may be exercised in accordance with the terms of the New Share Option Scheme at any time during a period, in relation to the relevant option, to be notified by the Directors to the grantee, such period not exceeding six years commencing on the date falling three months after the date of grant and expiring on the last day of the said period.

The New Share Option Scheme will remain in force for a period of ten years commencing on the date on which it was adopted.



## NOTES TO THE ACCOUNTS

### 19 SHARE CAPITAL (CONT'D)

Movements in the number of share options outstanding during the year are as follow:

	Number of options	
	2002	2001
At the beginning of the year	231,185,800	–
Granted (note a)	–	231,185,800
Exercised (note b)	<u>(84,126,000)</u>	<u>–</u>
At the end of the year (note c)	<u><u>147,059,800</u></u>	<u><u>231,185,800</u></u>

- (a) Shares options were granted under the old share option scheme on 4th January, 2001 and 24th September, 2001 at exercise price of HK\$1.04 and HK\$0.82 per share, which will expire on 11th July, 2003 and 24th March, 2004 respectively. No share options were granted under the New Share Option Scheme and the old share option scheme during the year.
- (b) Options exercised on 4th April, 2002 resulted in 84,126,000 shares being issued at HK\$1.04 each, yielding a proceed of HK\$87,491,000.

	2002 HK\$'000	2001 HK\$'000
Ordinary share capital – at par	8,413	–
Share premium	<u>79,078</u>	<u>–</u>
Proceed	<u><u>87,491</u></u>	<u><u>–</u></u>

The market price of shares at the exercise date of 4th April, 2002 was HK\$1.56 and their aggregate market value was HK\$131,237,000.

- (c) Share options outstanding at the end of the year have the following terms:

Expiry Date	Exercise price	Number of options		Vested percentages	
		2002	2001	2002	2001
<b>Directors</b>					
11th July, 2003	1.04	114,708,000	114,708,000	100%	100%
24th March, 2004	0.82	<u>32,351,800</u>	<u>32,351,800</u>	100%	–
		<u>147,059,800</u>	147,059,800		
<b>Other employees</b>					
11th July, 2003	1.04	–	84,126,000	–	100%
		<u>147,059,800</u>	<u>231,185,800</u>		

No share options were cancelled during the year (2001: Nil).



## NOTES TO THE ACCOUNTS

### 20 RESERVES

#### Group

	<b>Share premium</b>	<b>Legal reserve</b>	<b>Investments revaluation reserve</b>	<b>Retained earnings</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2001	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 surplus on revaluation of investments in securities of an associated company	–	–	(569)	–	(569)
Dividends	–	–	–	(38,822)	(38,822)
	<u>1,355,480</u>	<u>–</u>	<u>6,324</u>	<u>653,872</u>	<u>2,015,676</u>
At 31st December, 2001	<u>1,355,480</u>	<u>–</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
	<u>1,355,480</u>	<u>–</u>	<u>6,324</u>	<u>653,872</u>	<u>2,015,676</u>
At 31st December, 2001	<u>1,355,480</u>	<u>–</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
	<u>1,355,480</u>	<u>–</u>	<u>6,324</u>	<u>653,872</u>	<u>2,015,676</u>
At 31st December, 2001	<u>1,355,480</u>	<u>–</u>	<u>6,324</u>	<u>653,872</u>	<u>2,015,676</u>



## NOTES TO THE ACCOUNTS

### 20 RESERVES (CONT'D)

#### Group (cont'd)

	Share premium HK\$'000	Legal reserve HK\$'000	Investments revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January, 2002	1,355,480	–	6,324	653,872	2,015,676
Issue of new shares	79,078	–	–	–	79,078
Profit for the year	–	–	–	317,417	317,417
Transfer	–	3,666	–	(3,666)	–
Share of exchange differences of an associated company	–	–	–	2,373	2,373
Share of deficit on revaluation of investments in securities of an associated company	–	–	(2,144)	–	(2,144)
Dividends (note 9)	–	–	–	(39,832)	(39,832)
<b>At 31st December, 2002</b>	<b>1,434,558</b>	<b>3,666</b>	<b>4,180</b>	<b>930,164</b>	<b>2,372,568</b>
Representing:					
Reserves	1,434,558	3,666	4,180	903,610	2,346,014
2002 final dividend proposed	–	–	–	26,554	26,554
<b>At 31st December, 2002</b>	<b>1,434,558</b>	<b>3,666</b>	<b>4,180</b>	<b>930,164</b>	<b>2,372,568</b>
Retained by:					
Company and subsidiaries	1,434,558	3,666	–	226,159	1,664,383
Associated companies	–	–	4,180	704,005	708,185
<b>At 31st December, 2002</b>	<b>1,434,558</b>	<b>3,666</b>	<b>4,180</b>	<b>930,164</b>	<b>2,372,568</b>

A subsidiary in Macau has transferred 10% of its profit to non-distributable legal reserve which is required to be retained in the accounts of the subsidiary in accordance with Article 432 of the Macau Commercial Code.



## NOTES TO THE ACCOUNTS

### 20 RESERVES (CONT'D)

#### Company

	<b>Share premium</b> HK\$'000	<b>Retained earnings</b> HK\$'000	<b>Total</b> HK\$'000
At 1st January, 2001	1,355,480	206,026	1,561,506
Profit for the year	–	53,990	53,990
Dividends	–	(38,822)	(38,822)
	<u>1,355,480</u>	<u>221,194</u>	<u>1,576,674</u>
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
	<u>1,355,480</u>	<u>221,194</u>	<u>1,576,674</u>
At 31st December, 2001	<u>1,355,480</u>	<u>221,194</u>	<u>1,576,674</u>
At 1st January, 2002	1,355,480	221,194	1,576,674
Profit for the year	–	479,279	479,279
Issue of new shares	79,078	–	79,078
Dividends (note 9)	–	(39,832)	(39,832)
	<u>1,434,558</u>	<u>660,641</u>	<u>2,095,199</u>
<b>At 31st December, 2002</b>	<b><u>1,434,558</u></b>	<b><u>660,641</u></b>	<b><u>2,095,199</u></b>
Representing:			
Reserves	1,434,558	634,087	2,068,645
2002 final dividend proposed	–	26,554	26,554
	<u>1,434,558</u>	<u>660,641</u>	<u>2,095,199</u>
<b>At 31st December, 2002</b>	<b><u>1,434,558</u></b>	<b><u>660,641</u></b>	<b><u>2,095,199</u></b>





## NOTES TO THE ACCOUNTS

### 21 PROVISION FOR OVERHAUL AND MAJOR CHECKS

	2002 HK\$'000	Group 2001 HK\$'000
At beginning of year	–	–
Acquisition of subsidiaries (note 23(d))	61,768	–
Charged during the year (note 5)	91,941	–
Utilised during the year	(100,014)	–
	<hr/>	<hr/>
At end of year	<b>53,695</b>	–

### 22 DEFERRED TAXATION

The potential deferred taxation asset in respect of unutilised tax losses of the Group and the Company as at 31st December, 2002 which has not been recognised in the accounts amounted to HK\$6,029,000 (2001: HK\$4,012,000).

### 23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of operating profit to cash generated from operations

	2002 HK\$'000	2001 HK\$'000
Operating profit	61,836	35,334
Depreciation	49,843	–
Amortisation of goodwill	14,130	–
Amortisation of development costs, patents and trademarks	288	–
Loss on disposal of fixed assets	444	–
Interest income	(13,546)	(26,691)
	<hr/>	<hr/>
Operating profit before working capital changes	112,995	8,643
Increase in inventories	(5,697)	–
Increase in lease and equipment deposits	(8,981)	–
Increase in trade and other receivables	(38,799)	(4,526)
Change in balances with fellow subsidiaries	4,286	(244)
Change in balances with related companies	842	–
Increase/(decrease) in amount due to immediate holding company	80	(240)
Increase in amounts due to associated companies	7,093	–
Increase/(decrease) in tenants' deposits	161	(1,261)
Increase in trade and other payables	66,177	476
Decrease in sales in advance of carriage	(9,858)	–
Decrease in provision for overhaul and major checks	(8,073)	–
	<hr/>	<hr/>
Cash generated from operations	<b>120,226</b>	2,848



## NOTES TO THE ACCOUNTS

### 23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

#### (b) Major non-cash transaction

During the year, the Group acquired the entire equity interest in CNAC Macau for an aggregate consideration of HK\$665,000,000. The purchase consideration was partially offset by the consideration payable for the restructuring of the property holding business. Details of the acquisition and the restructuring are set out in note 2 to the accounts.

#### (c) Restructuring of the property holding business

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Investment properties	600,000	–
Trade and other receivables	5,970	–
Tax recoverable	346	–
Bank balances and cash	10,140	–
Trade and other payables	(16,456)	–
Amounts due to holding company	(307,117)	–
	<u>292,883</u>	–
Add: Amounts due from Sinobest Group assigned to the CNACG	307,117	–
	<u>600,000</u>	–
Satisfied by:		
Consideration payable for the acquisition of CNAC Macau	<u>600,000</u>	–
Net cash outflow in respect of restructuring of the property holding business	<u>10,140</u>	–



## NOTES TO THE ACCOUNTS

### 23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

#### (d) Purchase of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Intangible assets	480	-
Fixed assets	458,680	-
Investments in associated companies	62,508	-
Lease and equipment deposits	79,274	-
Inventories	45,467	-
Trade and other receivables	145,583	-
Amount due from a fellow subsidiary	237	-
Pledged deposits	7,923	-
Bank balances and cash	466,041	-
Trade and other payables	(337,505)	-
Amounts due to fellow subsidiaries	(11,540)	-
Amount due to an associated company	(11,162)	-
Amount due to immediate holding company	(101)	-
Sales in advance of carriage	(116,101)	-
Taxation payable	(9,726)	-
Long-term bank loan	(241,512)	-
Provision for overhaul and major checks	(61,768)	-
Minority interests	(276,677)	-
	<u>200,101</u>	-
Add: Shareholder's loan assigned to the Group included in trade and other payables above	<u>130,391</u>	-
	330,492	-
Goodwill (note 13)	<u>339,111</u>	-
	<u><u>669,603</u></u>	-
Satisfied by:		
Consideration for the restructuring of the property holding business	600,000	-
Cash consideration (including direct costs of HK\$4,603,000 relating to the acquisition)	69,603	-
	<u><u>669,603</u></u>	-



## NOTES TO THE ACCOUNTS

### 23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

#### (d) Purchase of subsidiaries (cont'd)

The subsidiaries acquired during the year contributed HK\$110,631,000 to Group's net operating cash flows, paid HK\$270,992,000 in respect of financing activities and contributed HK\$21,233,000 for investing activities.

	2002 HK\$'000	2001 HK\$'000
Cash consideration	(69,603)	–
Bank balances and cash in hand acquired	466,041	–
Net cash inflow in respect of the purchase of subsidiaries	<u>396,438</u>	<u>–</u>

#### (e) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Long-term bank loan	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
As at 1st January	1,678,998	1,678,998	–	–	–	–
Acquisition of subsidiaries	–	–	276,677	–	241,512	–
Cash inflows/(outflows)	87,491	–	–	–	(241,512)	–
Minority interests' share of profits	–	–	41,530	–	–	–
As at 31st December	<u>1,766,489</u>	<u>1,678,998</u>	<u>318,207</u>	<u>–</u>	<u>–</u>	<u>–</u>

### 24 FUTURE MINIMUM LEASE RENTAL RECEIVABLES

The Group's future aggregate minimum lease rental receivables under non-cancellable leases are as follows:

	2002 HK\$'000	2001 HK\$'000
Not later than one year	–	23,662
Later than one year and not later than five years	–	26,341
	<u>–</u>	<u>50,003</u>



## NOTES TO THE ACCOUNTS

### 25 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 (2001: HK\$42,900,000). As at 31st December, 2002, 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 (2001: HK\$130,650,000), of which HK\$38,846,000 (2001: HK\$20,186,000) was advanced to the Project as at 31st December, 2002.

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 (2001: HK\$649,350,000).

- (c) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of aircraft and related equipment as follows:

	<b>2002</b>	<b>Group</b>
	<b>HK\$'000</b>	2001
		HK\$'000
Not later than one year	<b>388,854</b>	—
Later than one year and not later than five years	<b>1,020,708</b>	—
	<b>1,409,562</b>	—

At 31st December, 2002, the Company did not have any significant commitments (2001: Nil).



## NOTES TO THE ACCOUNTS

### 26 FINANCIAL INSTRUMENTS

#### (a) Foreign currency swap contracts

The Group employed foreign exchange contracts to manage its foreign currency exposure in Taiwan. The notional amount of foreign exchange contracts at 31st December, 2002 was HK\$23,400,000. These instruments are used solely to reduce or eliminate the foreign exchange risk associated with the operation activities and not for trading and speculation purposes.

#### (b) Fuel price forward contact

As at 31st December, 2002, the Group had a forward contract with a third party to purchase fuel at US\$25.45 per barrel for a total notional quantity of 40,000 barrels with a trigger price of US\$30 per barrel. According to the contracts, the Group entitled to receive the difference between the fixed price and the market price if the fuel price is between US\$25.45 and US\$30 per barrel and pay the difference if the fuel price falls below US\$25.45 per barrel.

### 27 CONTINGENT LIABILITIES

	Group and Company	
	2002 HK\$'000	2001 HK\$'000
Guarantee for banking facilities granted by bank to an associated company	<u>75,000</u>	<u>—</u>

### 28 JOINTLY CONTROLLED OPERATION

During the year, the Group has entered into a jointly controlled operation to operate air transportation service between Macau and Taiwan.

The aggregate amounts of turnover and results recognised in the accounts relating to the Group's interest in the jointly controlled operation are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Results for the year		
Turnover	54,581	—
Operating expenses	<u>(1,865)</u>	<u>—</u>
Group's share of profit for the year	<u>52,716</u>	<u>—</u>

There were no assets and liabilities relating to the jointly controlled operation recognised in the accounts as at 31st December, 2002 (2001: Nil).



## NOTES TO THE ACCOUNTS

### 29 RELATED PARTY TRANSACTIONS

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

	2002 HK\$'000	2001 HK\$'000
Management fee paid to:		
– Immediate holding company (note i)	6,000	6,060
– A fellow subsidiary (note ii)	2,768	–
Rental income from:		
– Immediate holding company	–	4,336
– Fellow subsidiaries (note iii)	265	3,532
Landing, loading, parking and other airport charges paid to a fellow subsidiary (note iv)	81,045	–
Ground handling costs paid to an associated company (note v)	87,075	–
Technical and ground handling costs paid to an associated company (note vi)	2,497	–
Inflight meal services expenses paid to a related company (note vii)	43,965	–
Over-riding commission paid to a related company (note viii)	10,123	–
Value of tickets sold to (note ix):		
– Fellow subsidiaries	6,553	–
– Related companies	40,769	–
	<u>40,769</u>	<u>–</u>

- (i) On 3rd August, 2001, the Company and CNACG entered into a management services agreement pursuant to which CNACG has agreed to provide secretarial, personnel, accounting and general office administrative services (the "Services") to the Group for a period of two years from 1st July, 2001 to 30th June, 2003 and CNACG would be paid by the Company in respect of the Services a monthly fee of HK\$500,000.
- (ii) The Group entered into a management services agreement with CNAC (Macau) Aviation Limited pursuant to which CNAC (Macau) Aviation Limited provides general management services including but not limited to secretarial, personnel, accounting and general office administrative services to CNAC Macau at a monthly fee of HK\$300,000.
- (iii) On 30th November, 2001, the Group entered into two lease agreements (the "Lease Agreements") with China National Aviation Corporation (Hong Kong) Limited ("CNAC HK"), pursuant to which the Group leased certain of its properties to CNAC HK. The Lease Agreements were entered into on normal commercial terms and the rent of each lease was determined based on the prevailing market rental values of these leased properties as advised by DTZ Debenham Tie Leung Limited. The aforesaid properties were vested in CNACG on 25th March, 2002.
- (iv) The airport related charges paid to ADA-Administrative Airport Limited ("ADA") were either charged at terms pursuant to the tariff published by the Macau Airport or at terms pursuant to agreements entered into by the Group with ADA or the Macau Airport.



## NOTES TO THE ACCOUNTS

### 29 RELATED PARTY TRANSACTIONS (CONT'D)

- (v) The ground handling services rendered were charged at terms pursuant to agreements entered into by the Group with Menzies Macau.
- (vi) The technical and ground handling services rendered were charged at terms pursuant to agreements entered into by the Group with Dragonair.
- (vii) The inflight meal services rendered were charged at terms pursuant to agreements entered into by the Group with Macau Catering Services Company Limited, a 34.5% owned associated company held by a minority shareholder of Air Macau.
- (viii) Over-riding commission was charged at a fixed rate of 3% on the passenger flown revenue generated in Taiwan area.
- (ix) Air tickets were sold to the related ticket sales agents in accordance with the pricing policy of the Group.

In addition to the above, on 18th October, 1997, the Company entered into a license agreement with China National Aviation Corporation ("CNAC") pursuant to which CNAC has agreed to grant a license to the Company, free of royalty, for the use of certain trademarks in Hong Kong, the Taiwan region and Macau so long as the Company is a subsidiary of CNACG. No royalty charge was levied in respect of the use of these trademarks during the year (2001: Nil).

### 30 ULTIMATE HOLDING COMPANY

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

### 31 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 28th March, 2003.