中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2001

The Board of Directors of the Company announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2001 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2001

	Note	**2001** *HK$'000*	**2000** *HK$'000*
Turnover	1	28,320	31,921
Other revenue	1	26,691	39,707
Total revenue		55,011	71,628
Administrative expenses		(19,677)	(19,264)
Operating profit	2	35,334	52,364
Share of profits less losses of associated companies		224,993	307,571
Profit before taxation		260,327	359,935
Taxation	3	(44,681)	(48,735)
Profit attributable to shareholders		215,646	311,200
Dividends	4	38,822	38,822
Earnings per share			
Basic	5	HK6.67 cents	HK9.62 cents
Diluted	5	HK6.58 cents	N/A

Notes:

1. **Turnover and revenue**

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 revenue	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

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

2. **Operating profit**

Operating profit is stated after charging outgoings in respect of investment properties of HK$4,731,000 (2000: HK$3,272,000).

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

4. **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

5. **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.

BUSINESS REVIEW AND OUTLOOK

The world's aviation industry encountered immense pressure during the year 2001, which was characterised by a general economic slowdown, and significant decline in air traffic resulting from the September 11 catastrophe. Performance of the Group's aviation-related associated companies was thus adversely affected. Turnover derived from the Group's property investment subsidiaries was also lower due to renewal of tenancy agreements.

The Group capitalised on its cash position and the market consolidation to carry out its plans of strengthening its earning base and position as an aviation conglomerate in the region. Such plans have been realised after book close, and are expected to provide a solid platform for the Group's continued development.

Business Review

For the year ended 31st December, 2001, the Group recorded a total revenue of HK$55.0 million and a net profit attributable to shareholders of HK$215.6 million, representing decreases of 23.2 per cent and 30.7 per cent respectively from those of 2000. Basic earnings per share was HK6.67 cents (2000: HK9.62 cents).

The Group's turnover for the year amounted to HK$28.3 million, representing a downturn of 11.3 per cent as compared with that of the preceding year. The decline was mainly attributed to investment property vacancies during the first half of the year, whilst the Group's property subsidiaries finalised lease agreements with new tenants. The securing of new tenancies had also led to a slightly higher administration expenses, due to payment of commission to real estates agents.

During one of the most difficult years for the aviation industry, the Group's aviation-related associated companies effectively mitigated the adverse impact, and reported an aggregated profit contribution of HK$225.0 million, which was 26.8 per cent less than that of the year 2000.

Hong Kong Dragon Airlines Limited ("Dragonair"). Despite the adversed environment for air travel during the year, Dragonair reported increases of 17.6 per cent and 15.1 per cent in turnover and revenue passenger kilometers respectively. The available seat kilometre and passenger load factor also increased by 14.2 per cent and 0.6 percentage points respectively when compared with those of the previous year. Passenger yield remained stable with a slight decline of 0.6 per cent as compared to that of the previous year.

Profit before taxation of Dragonair declined by 34.1 per cent from that of the year 2000. This was mainly attributed to the delay in the renewal of the Hong Kong – Taiwan air transportation arrangements, preliminary expenses incurred in preparation for the freighter operations, depreciation charges for the headquarters building and the devaluation of the New Taiwan Dollars.

Dragonair introduced its own freighter operations through the deployment of two purchased B747 freighter aircraft, which completed their freighter conversion work in September and November 2001 respectively. The commencement of these freighter services in the fourth quarter of the year gave rise to cargo revenue and uplift tonnage by 29.8 per cent and 29.3 per cent respectively from those of the year 2000. However, the air-cargo market was weakened by the general slowdown of global economies. The cargo yields of passenger aircraft and freighter have declined by 4.8 per cent and 3.8 per cent respectively during the year 2001.

During the year under review, Dragonair took deliveries of one purchased A330 in May and one leased A330 in June, while one A320 was returned upon expiry of operating lease in March. As at the end of the year, the Dragonair fleet comprised seven A320s, three A321s, seven A330s, and two B747 freighter aircraft.

Dragonair operates passenger services to 27 destinations in Asia, of which 18 are in China mainland. The airliner's scheduled flights to Beijing and Shanghai have been increased to 37 and 48 per week respectively since June 2001. Dragonair provided the ninth weekly flights to Fuzhou, the eighth weekly flights to Nanjing and the fifth weekly flights to Qingdao during its summer schedule from March to October. Besides, a twice weekly service to Kathmandu was added to the winter schedule until the end of March 2001, and the fourth daily flight to Kaohsiung was added with effect from March 2001 onwards. Freighter service to Europe via Middle East has been increased from three times to five times a week since October 2001. Twice weekly freighter services to Osaka and Shanghai were launched in May and September 2001 respectively.

Although market environment remains challenging for the aviation industry, China's accession to the World Trade Organisation and the relaxation of the entry quota system for China mainlanders' short-term visit to Hong Kong in January 2002 are expected to increase demand for cross-border air transportation services, as well as air traffic between Hong Kong and other regions.

Jardine Airport Services Limited ("JASL"), the Group's 50 per cent-owned ground service provider at the Hong Kong International Airport (the "Airport"), achieved a 39.3 per cent growth in its profit before taxation. The consolidated turnover of JASL and its subsidiaries surged by 6.6 per cent from that of the preceding year. During the year 2001, JASL handled 51,520 aircraft movements, representing a 9.5 per cent increase from that of 2000. JASL maintained an approximately 40 per cent share of the third party ground handling market at the Airport.

Jardine Air Terminal Services Limited, a subsidiary of JASL, handled 75,830 aircraft movements, representing an approximately 60 per cent share of the third party ramp handling market at the Airport.

Jardine Airport Services Australia Pty. Ltd., the independent airport ground services handler in Sydney and Melbourne airports in Australia, managed to narrow its deficit during the year, but still fell behind its target schedule in developing its customer base.

Tradeport Hong Kong Limited ("Tradeport"), in which the Group holds a 25 per cent interest, has entered into a contract with the Hong Kong Airport Authority to design, construct, operate and manage a logistics centre at the southern commercial area in the Airport. The construction works of the logistics centre has been progressing well, with the superstructure scheduled for completion at the end of 2002. The logistics centre is expected to become operational in early 2003. During the year under review, Tradeport had commenced marketing activities to promote its services to both domestic and overseas potential customers, and has recorded a small operational loss.

PROSPECTS

After book close, the Group completed a major strategic move to further strengthen its corporate identity of and consolidate its position as an aviation conglomerate in the Asia Pacific region. The Group has recently concluded an agreement with China National Aviation Corporation (Group) Limited ("CNAC Group") in relation to the acquisition of the entire equity interest in, and a shareholder's loan due from, China National Aviation Corporation (Macau) Company Limited ("CNAC Macau") for an aggregate consideration of HK$665 million. Of the consideration, HK$600 million is to be offset by the consideration for the vesting of the Group's entire property interest, and the shareholder's loan owing from property investment subsidiaries, to CNAC Group, with the balance of HK$65 million being satisfied by the Group's internal resources.

This transaction allows the Group to transform into a pure aviation concern and to establish a unique presence in the two major international traffic hubs of Southern China. Through CNAC Macau, the Group can tap into the enormous opportunities offered by Macau's escalating air traffic and its growing significance as a regional entertainment centre with the liberalisation of its gambling rights. It also has the immediate effect of earnings enhancement for the Group, the unaudited pro forma profit attributable to shareholders of the Group would have increased by approximately 20 per cent and 17 per cent for the years 2001 and 2000 respectively.

The assets of CNAC Macau consist of (i) a 51 per cent interest in Air Macau Company Limited ("Air Macau"), an exclusively franchised Macau-based airline; (ii) a 26 per cent direct interest in MASC/Ogden-Aviation Services (Macau), Limited, an exclusively franchised ground handling service company which operates at the Macau International Airport; and (iii) a 20 per cent direct interest in Macau Aircraft Repair and Conversion Company Limited, a recently formed company with an intention to provide aircraft conversion and maintenance services at the Macau International Airport.

The PRC State Government approved, in early 2002, the merger of the Group's ultimate holding company with Air China and China Southwest Airlines. The merger is part of the PRC aviation industry's restructuring, which involves the regrouping of major domestic airliners into three large aviation groups. Given the Group's unique position as a listed company in an international financial centre, and its extensive experience in operating international flights and airport-related services for multi-national carriers, it is well-poised to contribute to its parent company's future expansion.

Capitalised on its strong balance sheet, the Group will continue to identify investment or acquisition opportunities in aviation or aviation-related business to fuel its expansion in operation scale and market coverage.

The Group will maintain its prudent financial and risk management policies in pursuing its business development, and will emphasise on creating shareholders' value through both organic growth from existing business and seeking capital appreciation through investment in operations with proven track record.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations with internally generated cash flow. As at 31st December, 2001, the Group had cash and bank balances of a total amount of approximately HK$678 million and net current assets of approximately HK$667 million. The Group has consistently maintained a strong working capital during the year under review. As at 31st December, 2001, the Group had no outstanding borrowings. As a whole, the Group's financial status is very healthy, which provides a strong base for the Group's future development.

CONTINGENT LIABILITIES AND COMMITMENTS

As at 31st December, 2001, the Group had no significant contingent liabilities.

In February 2001, the Group together with the logistics centre consortium partners had jointly given a guarantee to the Hong Kong Airport Authority in respect of their obligations to provide sufficient funding for the development of the logistics centre. The Directors are of the opinion that, had the Group been required to perform its obligation under the guarantee in the event of default of all of the consortium partners, the maximum amount of the contingent liabilities assumed, including the Group's estimated share of capital commitments of approximately HK$131 million, would have been approximately HK$780 million.

HUMAN RESOURCES

The bulk of human resources and their remuneration, amongst others, are covered by a management services agreement concluded with the Company's immediate holding company under normal commercial terms and conditions.

FINAL DIVIDEND

The Directors have resolved to recommend to shareholders the payment of a final dividend of HK0.6 cent per share (2000: HK0.6 cent), which together with the interim dividend of HK0.6 cent per share (2000: HK0.6 cent) makes a total dividend of HK1.2 cents per share (2000: HK1.2 cents) for the year ended 31st December, 2001.

Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Wednesday, 29th May, 2002, this final dividend will be paid in cash to the shareholders whose names appear on the Register of Members at the close of business on Friday, 7th June, 2002. The dividend warrants will be sent to the shareholders by ordinary mail on or about Wednesday, 26th June, 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 3rd June, 2002 to Friday, 7th June, 2002 both days inclusive, during which period no transfers of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents together with the relevant share certificates must be lodged with the Company's Share Registrars, Central Registration Hong Kong Limited, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 31st May, 2002.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year ended 31st December, 2001.

CORPORATE GOVERNANCE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31st December, 2001, in compliance with the Code of Best Practice as set out in the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that the Non-Executive Directors were not appointed for specific terms but appointed to their offices for such terms and subject to retirement by rotation in accordance with Article 98 of the Company's Articles of Association.

In compliance of the Code of Best Practice, the Company has established an audit committee and has adopted the terms of reference governing the authority and duties of the audit committee. The audit committee has held a meeting to review and consider the Group's annual results for the year.

ANNUAL REPORT

The annual report for the year ended 31st December, 2001 containing all the information in respect of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on The Stock Exchange of Hong Kong Limited's web-site (http://www.hkex.com.hk) in due course.

CHANGE OF DIRECTORS

Taking this opportunity, the Board of the Company is pleased to announce that Mr. Gu Tiefei was appointed as an executive director of the Company with immediately effect. Mr. Xin Wei resigned as executive director of the Company as from today.

Mr. Gu, aged 49, is at present general manager of CNAC Macau and Chairman of Air Macau.

The Board thanks the contribution of Mr. Xin during his tenure with the Company and at the same time expresses the sincere welcome to the appointment of Mr. Gu.

On behalf of the Board
Kong Dong
Chairman

Hong Kong, 27th March, 2002