



中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

INTERIM RESULTS 2002

The Board of Directors (the “Directors”) of the China National Aviation Company Limited (the “Company”) are pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the “Group”) for the six months ended 30th June 2002 as set out below:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30TH JUNE 2002

	<i>Note</i>	Unaudited Six months ended 30th June	
		2002 HK\$'000	2001 HK\$'000
Turnover	1	486,186	12,316
Other revenues		18,006	16,454
Total revenues		504,192	28,770
Staff costs	2	69,992	3,316
Passenger catering and service costs		31,576	–
Fuel costs		46,566	–
Route operating costs		99,117	–
Aircraft maintenance costs		49,390	–
Aircraft equipment costs		94,483	–
Other operating costs		67,538	6,936
Total operating expenses		458,662	10,252
Operating profit	3	45,530	18,518
Finance costs		(914)	–
Share of profits less losses of associated companies		153,535	134,889
Profit before taxation		198,151	153,407
Taxation	4	(36,733)	(24,509)
Profit after taxation		161,418	128,898
Minority interests		(24,189)	–
Profit attributable to shareholders		137,229	128,898
Proposed interim dividends	5	19,916	19,411
Basic earnings per share	6	HK4.21 cents	HK3.98 cents
Diluted earnings per share	6	HK4.14 cents	HK3.93 cents

Notes:

1. Segment information

The Group is principally engaged in the provision of aviation related services.

An analysis of the Group's revenues and results for the period by business segments is as follows:

	Property holding (note) HK\$'000	Unaudited Six months ended 30th June 2002			
		Airline operation HK\$'000	Airport ground handling HK\$'000	Logistics and other businesses HK\$'000	Group HK\$'000
Segment revenues	5,644	491,875	–	–	497,519
Segment results	4,719	48,681	–	–	53,400
Interest income					6,673
Unallocated costs					(14,543)
Operating profit					45,530
Finance costs					(914)
Share of profits less losses of associated companies	–	109,908	45,311	(1,684)	153,535
Profit before taxation					198,151
Taxation					(36,733)
Profit after taxation					161,418
Minority interests					(24,189)
Profit attributable to shareholders					137,229

	Property holding (note) HK\$'000	Unaudited Six months ended 30th June 2001			
		Airline operation HK\$'000	Airport ground handling HK\$'000	Logistics and other businesses HK\$'000	Group HK\$'000
Segment revenues	12,316	–	–	–	12,316
Segment results	9,507	–	–	–	9,507
Interest income					16,454
Unallocated costs					(7,443)
Operating profit					18,518
Share of profits less losses of associated companies	–	114,301	20,819	(231)	134,889
Profit before taxation					153,407
Taxation					(24,509)
Profit attributable to shareholders					128,898

Note: The property holding business of the Group was vested in China National Aviation Corporation (Group) Limited (“CNAC Group”) on 25th March 2002.

An analysis of the Group's turnover and contribution to operating profit for the period by geographical segments is as follows:

	Unaudited Six months ended 30th June			
	Turnover 2002 HK\$'000	2001 HK\$'000	Operating profit 2002 HK\$'000	2001 HK\$'000
China mainland	191,690	–	(4,240)	–
Taiwan	261,934	–	52,121	–
Hong Kong	5,644	12,316	(2,832)	18,518
Others (note)	26,918	–	481	–
Total	486,186	12,316	45,530	18,518

Note: Others mainly include Macau, Thailand and Philippines.

2. Staff costs

	Unaudited Six months ended 30th June	
	2002 HK\$'000	2001 HK\$'000
Wages, salaries and directors' emoluments	67,645	3,310
Pension costs – defined contribution plan	2,347	6
	69,992	3,316

3. Operating profit

Operating profit is stated after charging the following:

	Unaudited Six months ended 30th June	
	2002 HK\$'000	2001 HK\$'000
Amortisation of intangible assets		
– Goodwill	4,709	–
– Trademarks	11	–
– Deferred expenditure	114	–
Cost of inventories expensed	7,987	–
Depreciation of fixed assets	16,534	–
Operating lease rentals		
– Aircraft and related equipments	83,254	–
– Land and buildings	5,064	–
Outgoings in respect of investment properties	925	2,809

4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (six months ended 30th June 2001: 16%) on the estimated assessable profit for the period. Macau Complementary Tax has been provided at the rate of 15.75% (six months ended 30th June 2001: Nil) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Unaudited Six months ended 30th June	
	2002 HK\$'000	2001 HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	379	795
Macau Complementary Tax	6,203	–
Overseas taxation	209	–
Deferred taxation	2,757	–
	9,548	795
Share of taxation attributable to associated companies	27,185	23,714
	36,733	24,509

5. Proposed interim dividends

	Unaudited Six months ended 30th June	
	2002 HK\$'000	2001 HK\$'000
Interim, proposed, of HK0.6 cent (2001: HK0.6 cent) per ordinary share	19,916	19,411

6. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$137,229,000 (six months ended 30th June 2001: HK\$128,898,000).

The basic earnings per share is based on the weighted average of 3,261,674,714 (six months ended 30th June 2001: 3,235,182,000) ordinary shares in issue during the period. The diluted earnings per share is based on 3,318,075,642 (six months ended 30th June 2001: 3,278,618,570) ordinary shares which is the number of ordinary shares in issue during the period plus the weighted average of 56,400,928 (six months ended 30th June 2001: 43,436,570) ordinary shares which would be issued at no consideration on the exercise of all dilutive options.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations and Prospects

For the six months ended 30th June 2002, the Group recorded a profit attributable to shareholders of HK\$137.2 million, an increase of approximately 6.5 percent over the corresponding period in 2001.

In March 2002, the Group has completed the acquisition of the entire equity interest in China National Aviation Corporation (Macau) Company Limited (“CNAC Macau”) which consists of (i) a 51 percent interest in Air Macau Company Limited (“Air Macau”); (ii) a 26 percent direct interest in Menzies Macau Airport Services Limited (“Menzies Macau”); and (iii) a 20 percent direct interest in Macau Aircraft Repair and Conversion Company Limited (“MARCCO”). As such CNAC Macau became a wholly owned subsidiary of the Company and the financial results of CNAC Macau and Air Macau were consolidated into the Group’s accounts, while the financial results of Menzies Macau and MARCCO were equity accounted for in the Group’s accounts. Under the acquisition agreement and as part of the consideration for the acquisition, the Group has also vested the entire effective interest in the share capital of Sinobest International Limited in CNAC Group. As a result, the turnover and operating profit of the Group for the period under review were HK\$486.2 million and HK\$45.5 million compared to HK\$12.3 million and HK\$18.5 million respectively of the corresponding period in 2001.

In the first two months of 2002, the performance of the aviation businesses of the Group was adversely affected mainly by the aftermath of the 911 catastrophe and the late Chinese New Year this year as compared to the same period of 2001. Since March 2002, the aviation industry within the region has experienced healthy recovery with a slight growth as compared to the same period of last year.

Air Macau Company Limited

Air Macau was established in Macau in 1994 as the home based carrier in Macau and commenced commercial operation in November 1995 under a concession agreement, with an exclusive right for a 25-year period until the year 2020. Air Macau currently has sales offices and agents in 21 cities with a workforce of approximately 700 staff.

In the first six months of 2002, Air Macau operated more than 170 flights per week between Macau and 13 destinations in Asia, namely Beijing, Guilin, Haikou, Kunming, Nanjing, Ningbo, Shanghai, Xiamen, Chengdu, Bangkok, Manila, Taipei and Kaohsiung.

For the first six months ended 30th June 2002, Air Macau recorded a slight decline of 0.8 percent and 0.9 percent in revenue and total number of passengers carried respectively over the same period of 2001. The available seat kilometre and revenue passenger kilometre increased by 11.3 percent and 4.3 percent respectively as compared to the same period of last year. As a result of increase in scheduled operation and capacity, the average passenger load factor was reduced by 4.8 percentage points to 71.2 percent as compared to the same period of last year. Yield per passenger for the first six months of 2002 reduced slightly by 3.7 percent as compared to the same period of 2001.

Cargo revenue and tonnage carried increased by 26.7 percent and 27.8 percent respectively over the same period of last year. Cargo load factor also increased by 8.9 percentage points to 61.2 percent. Due to the increase in scheduled operation and capacity, the average cargo yield per cargo tonne kilometre reduced by 13.7 percent as compared to the same period of 2001.

Air Macau took delivery of its first and second A319 in June and August 2002 respectively. This put the fleet in service to two A319s, three A320s, five A321s and one wet-leased B757. All aircraft are under operating leases, except for one A321 owned aircraft and one B757 aircraft under wet lease. With the two new A319s and more new aircraft coming online, Air Macau plans to increase weekly frequency to Kunming, Beijing, Kaohsiung and Taipei, together with the development of new regional routes. Air Macau has commenced its passenger service to Singapore in August 2002.

Hong Kong Dragon Airlines Limited (“Dragonair”)

Dragonair recorded a 15.4 percent increase in revenue and a 3.8 percent decrease in profit before taxation for the period. The available seat kilometre and total number of passengers carried increased by 20.5 percent and 14.1 percent respectively over that of the corresponding period last year. The passenger load factor and yield decreased by 3.9 percentage points and 6.7 percent respectively over the same period of 2001 mainly due to the increase of additional capacity, less front-end traffic, market competition and cancellation of fuel surcharge during the period under review.

With the introduction of the two purchased freighters late last year to replace the wet-leased freighter, cargo revenue and tonnage carried surged by 55.7 percent and 63.6 percent respectively over the same period of last year. Cargo load factor also increased by 6.3 percentage points to 76.1 percent. Whilst cargo yield for passenger aircraft decreased by 9.3 percent mainly due to the withdrawal of cargo fuel surcharge in January 2002, and more transshipment at lower sector prorates, the effect was partly offset by the re-introduction of a minimal cargo fuel surcharge from late April 2002 onwards. Cargo yield for freighter increased by 14.2 percent mainly due to higher yield of the Osaka and Shanghai freighter services, and a stronger European market as well.

Dragonair took deliveries of one A320 and one A321 in March 2002 under operating lease, and one purchased A330 in late June 2002. The fleet in service of Dragonair became eight A320s, four A321s, seven A330s and two B747-300 freighters at the end of June 2002. Dragonair has purchased one B747-300 combi aircraft which is undergoing modification in Xiamen for conversion into full freighter and is targeted to put into service by November 2002. Dragonair also scheduled to take delivery of one purchased A330 in December 2002 to further expand its passenger service.

During the period, Dragonair operates passenger services to 27 destinations in Asia, of which 18 are in China mainland, the frequencies to Beijing and Shanghai have increased to 42 and 56 per week respectively from March 2002 onwards. Weekly frequencies to Chengdu, Chongqing, Dalian, Hangzhou, Kunming, Nanjing, Ningbo and Xiamen have also increased during the period. Dragonair has also extended the Shanghai freighter service to co-terminate with Xiamen effective from mid-May 2002 onwards.

The air traffic arrangement between Hong Kong and Taiwan was completed at the end of June 2002 under which Dragonair was authorised to operate 22 passenger flights a week to Taipei, and to convert the daily extra services to Kaohsiung into scheduled services from July 2002 onwards. Dragonair was also authorised to operate twice weekly freighter services to Taipei. These passenger and freighter services to Taipei commenced on 22nd and 23rd July 2002 respectively. The further relaxation of entry permit requirement for Hong Kong residents to enter into Taiwan and for Taiwan residents to enter into Hong Kong would stimulate the air traffic demand between the two cities.

In line with the strong economic growth of China as a result of accession to the World Trade Organisation and the relaxation of the entry quota system for China mainlander’s short-term visit to Hong Kong, it is expected that the demand for air services between Hong Kong and China mainland will continue to increase. The management remains optimistic about the outlook of the airline and expects better result for the second half of this year.

Jardine Airport Services Limited (“JASL”)

In the six months period, the consolidated turnover of JASL decreased by 5.8 percent. JASL handled 24,448 aircraft movements, a decrease of 3.7 percent over that of 2001, and maintained approximately 40 percent of the third party market at the Hong Kong International Airport (“HK Airport”). Jardine Air Terminal Services Limited (“JATS”) handled 34,844 aircraft movements, a decrease of 9.1 percent, representing an approximately 60 percent share of the third party market at the HK Airport.

The service contracts of Jardine Skyporters Limited (“JSL”), a wholly owned subsidiary company of JATS, with the Hong Kong Airport Authority expired in July 2002. Whilst JSL was awarded a 3-year service contract by the Airport Authority to provide airside baggage trolley management at the HK Airport, this contract will not replace the earnings from those recently expired. JSL is now looking for other business opportunities beyond the HK Airport.

With the strong support and business connections of its shareholders, JASL is actively pursuing new business ventures in China mainland and is confident of successfully securing these opportunities.

Menzies Macau Airport Services Limited

MASC/Ogden-Aviation Services (Macau), Limited, CNAC Macau’s 26 percent directly owned ground handling services provider at the Macau International Airport (“Macau Airport”), has changed its name to Menzies Macau Airport Services Limited on 1st August 2002.

For the six months period, Menzies Macau provided ground services to 7,983 passenger aircraft, an increase of 17.0 percent compared to same period of last year.

Menzies Macau was accredited the quality measurement and control standards of ISO9001:2000 for ramp services, ISO9002:1994 for cargo services and AHS1000 for passenger services for its high quality of service. Menzies Macau will continue to strive for service excellence and provide outstanding ground handling services in the region.

Tradeport Hong Kong Limited (“Tradeport”)

The construction of the logistics centre has been progressing on schedule. Topping out of the building was performed by the end of August 2002 and is expected to become operational in early 2003.

During the period under review, a strong management team was formed and marketing campaigns have rolled out. A number of multi-national customers have already shown keen interest in the business model of Tradeport and negotiations are in progress.

OUTLOOK

Given the expanded operations of the airline segment of the Group and traditionally a stronger demand in the industry in the months ahead, the Group anticipates a better result for the second half of 2002.

The PRC State Government has in early 2002 approved the merger of the Group’s ultimate holding company with Air China and China Southwest Airlines. The Group with its strong balance sheet is well-poised to capture new investment and acquisition opportunities that may arise in aviation or aviation-related businesses.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2002, the Group had cash and bank balances of a total amount of approximately HK\$1,001 million and net current assets of approximately HK\$785 million. The Group has consistently maintained a strong working capital base during the period under review. As at 30th June 2002, the current liabilities of the Group was approximately HK\$417 million whilst the Group had no outstanding borrowings.

SHARE CAPITAL

During the period under review, the Group did not purchase or redeem any shares in the Company. At 30th June 2002, 3,319,308,000 shares were in issue (31st December 2001: 3,235,182,000 shares).

The share option scheme that was adopted by the Company on 22nd October 1997 was replaced by a new share option scheme (the “Scheme”), which was approved and adopted by the Company’s annual general meeting held on 29th May 2002. The subscription price for shares of the Company under the Scheme will be the higher of the closing price of the shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the date of grant and the average closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant.

During the period under review, the Company has not granted any options under the Scheme, 84,126,000 new shares were issued at an aggregate price of HK\$87,491,040 for the share options exercised.

CONTINGENT LIABILITIES

As at 30th June 2002, the Group had given a guarantee of HK\$75 million to a bank for banking facilities to an associated company, and 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 of the Company and their remuneration, amongst others, are covered by a management services agreement concluded with the Company’s immediate holding company, CNAC Group. Likewise CNAC Macau also concluded a management services agreement with CNAC (Macau) Aviation Limited. Both agreements were negotiated under normal commercial terms and conditions.

Air Macau employs about 700 staff, of which about 84 are based outside Macau. The employees are remunerated in accordance with the current legislation, industry practices, market environment, work performance and professional experiences.

CORPORATE GOVERNANCE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is or was not for any part of the six months under review in compliance with the Code of Best Practice (the “Code”) as set out in Appendix 14 to the Listing Rules, except that the independent 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 Articles of Association of the Company.

In compliance of the Code, 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 reviewed with management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including a review of the unaudited condensed interim results for the six months ended 30th June 2002.

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK0.6 cent per share for the six months ended 30th June 2002 (six months ended 30th June 2001: HK0.6 cent per share) payable to the shareholders whose names appear on the Register of Members of the Company on Friday, 20th September 2002. Dividend warrants will be despatched to the shareholders of the Company on or about Thursday, 3rd October 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 17th September 2002 to Friday, 20th September 2002 both days inclusive, during which period no transfers of shares will be registered. In order to qualify for the interim dividend, all transfer documents together with the relevant share certificates must be lodged with the Company’s Share Registrars, Computershare Hong Kong Investor Services Limited, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:00 p.m. on Monday, 16th September 2002.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE’S WEBSITE

A detailed Interim Results Announcement containing all the information in respect of the Company required by paragraphs 46(1) to (6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange’s website in due course.

On behalf of the Board
KONG DONG
Chairman