



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 31 DECEMBER 2002

The Board of Directors (the “Directors”) of the China National Aviation Company Limited (the “Company”) are pleased to present the audited results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2002 as follows:

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	<i>Note</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Turnover	1	1,329,426	28,320
Other revenues	1	15,433	26,691
Total revenues		<u>1,344,859</u>	<u>55,011</u>
Staff costs	2	(188,414)	(6,662)
Passenger catering and service costs		(86,107)	–
Fuel costs		(149,060)	–
Route operating costs		(276,626)	–
Aircraft maintenance costs		(142,973)	–
Aircraft leases and equipment costs		(241,187)	–
Depreciation and amortisation costs		(50,131)	–
Sales and promotion costs		(67,171)	–
Other operating costs		(81,354)	(13,015)
Total operating expenses		<u>(1,283,023)</u>	<u>(19,677)</u>
Operating profit	3	61,836	35,334
Finance costs		(8,426)	–
Share of profits less losses of associated companies		394,880	224,993
Profit before taxation		448,290	260,327
Taxation	4	(89,343)	(44,681)
Profit after taxation		358,947	215,646
Minority interests		(41,530)	–
Profit attributable to shareholders		<u>317,417</u>	<u>215,646</u>
Dividends	5	<u>46,975</u>	<u>38,822</u>
Earnings per share			
Basic	6	<u>HK9.65 cents</u>	<u>HK6.67 cents</u>
Diluted	6	<u>HK9.48 cents</u>	<u>HK6.58 cents</u>

#### Notes:

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

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

#### Year ended 31 December 2002

	<b>Airline operation</b> <i>HK\$'000</i>	<b>Airport ground handling</b> <i>HK\$'000</i>	<b>Logistics and other businesses</b> <i>HK\$'000</i>	<b>Property holding</b> <i>(note)</i> <i>HK\$'000</i>	<b>Group</b> <i>HK\$'000</i>
Segment revenues	1,325,669	–	–	5,644	1,331,313
Segment results	77,783	–	–	4,719	82,502
Interest income					13,546
Unallocated costs					(34,212)
Operating profit					61,836
Finance costs					(8,426)
Share of profits less losses of associated companies	291,535	107,490	(4,145)	–	394,880
Profit before taxation					448,290
Taxation					(89,343)
Profit after taxation					358,947
Minority interests					(41,530)
Profit attributable to shareholders					<u>317,417</u>

#### Year ended 31 December 2001

	<b>Airline operation</b> <i>HK\$'000</i>	<b>Airport ground handling</b> <i>HK\$'000</i>	<b>Logistics and other businesses</b> <i>HK\$'000</i>	<b>Property holding</b> <i>(note)</i> <i>HK\$'000</i>	<b>Group</b> <i>HK\$'000</i>
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					<u>215,646</u>

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

An analysis of the Group's segment revenues and segment results by geographical segments is as follows:

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

*Note:* Other regions mainly include Macau, Thailand and Philippines.

#### 2. Staff costs

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

#### 3. Operating profit

Operating profit is stated after crediting and charging the following:

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
<i>Crediting</i>		
Amortisation of manufacturers' credits	<u>7,523</u>	–
<i>Charging</i>		
Amortisation of intangible assets		
– Goodwill	14,130	–
– Trademarks	18	–
– Deferred expenditure	270	–
Cost of inventories expenses	31,487	–
Depreciation of fixed assets	49,843	–
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 checks costs	<u>91,941</u>	–

#### 4. 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: Nil) 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:

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
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).

#### 5. Dividends

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

#### 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\$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.

MANAGEMENT DISCUSSION AND ANALYSIS

Amidst a sluggish global economy in 2002, the aviation industry within the Asian region has been experiencing a modest recovery since the second quarter of 2002. Significant growth was seen during the year both in passenger and cargo air traffic. Generally the aviation business within the region has been performing well, with a slight offset due to surge in fuel price in the last quarter of 2002.

At the same time, the Group has gone through internal development and acquisition. In March 2002, the Group successfully completed the acquisition of the entire equity interest in China National Aviation Corporation (Macau) Company Limited (“CNAC Macau”) (the “Acquisition”) which consists of:

- (i) a 51 per cent interest in Air Macau Company Limited (“Air Macau”);
- (ii) a 26 per cent direct interest in Menzies Macau Airport Services Limited (“Menzies Macau”); and
- (iii) a 20 per cent direct interest in Macau Aircraft Repair and Conversion Company Limited.

As such CNAC Macau becomes a wholly owned subsidiary of the Company. As part of the consideration for the Acquisition, the Group has also vested the entire effective interest in Sinobest International Limited in its holding company, China National Aviation Corporation (Group) Limited (“CNAC Group”).

Subsequent to this transaction the Group has transformed into pure aviation businesses and extends its investment into another important traffic hub of the Pearl River Delta.

On 11 October 2002, the ultimate holding company of the Company successfully merged with Air China and China Southwest Airlines, forming China National Aviation Holding Company.

Review of Operations

For the year ended 31 December 2002, the Group recorded a profit attributable to shareholders of HK\$317.4 million, representing a year-on-year increase of 47.2 per cent. The Group’s turnover for the year amounted to HK\$1,329.4 million as compared to HK\$28.3 million for 2001. The increase was primarily as a result of the turnover contribution from Air Macau after the Acquisition. Basic earnings per share was HK9.65 cents (2001: HK6.67 cents).

During the year under review the Group’s aviation-related associated companies have performed well in general as a result of significant growth in traffic and contributed to the Group an aggregated profit for the year of HK\$394.9 million, representing a 75.5 per cent increase comparing with 2001.

**Air Macau** reported increases of 4.6 per cent and 8.7 per cent in turnover and revenue passenger kilometres respectively from the previous year. The available seat kilometres increased by 8.6 per cent while maintaining a passenger load factor at around 71 per cent. Passenger yield declined by 9.1 per cent due to market competition.

Profit after taxation for the year marginally decreased by 2.6 per cent from that of the year 2001.

During 2002, Air Macau inaugurated operations to Singapore in August, Kuala Lumpur and Kota Kinabalu in November. Flight frequencies to Shanghai and Kunming have increased since June 2002. Freight services between Taipei and Shenzhen using a wet leased B727 freighter have started operation since October 2002.

During the year, Air Macau received two new A319s in June and in August respectively, and a A321 aircraft was replaced by a brand new one in December. As at the end of the year, the passenger fleet comprised five A321s, three A320s, two A319s, and one B757.

**Hong Kong Dragon Airlines Limited** (“Dragonair”) reported increases of 21.6 per cent and 16.9 per cent in turnover and revenue passenger kilometres respectively compared to a year earlier. The available seat kilometres has also increased by 19.4 per cent year-on-year. Passenger load factor on the other hand has decreased by 1.4 percentage point over the same period last year. Passenger yield declined by 4.8 per cent as compared to that of the previous year mainly due to cancellation of passenger fuel surcharge, depreciation of regional currencies, more back-end travel and intense market competition.

Profit before taxation for the year significantly increased by 61.9 per cent. This was mainly attributed to favourable market conditions for both passenger and freight services and considerable increase in total market share.

Dragonair introduced its own freighter operations from late 2001 onwards. The full year contribution from the acquired freighter operations has resulted in increases of 60.2 per cent and 59.6 per cent in cargo revenue and uplift tonnage respectively. The cargo yield of passenger aircraft has declined by 3.4 per cent but on the other hand, the cargo yield of freighter has increased by 13.7 per cent mainly due to the operation of short haul freighter services with higher cargo yield during the year.

During the year, Dragonair took deliveries of one leased A320 and one leased A321 in March. Two purchased A330s were delivered in June and December respectively, and one purchased B747 freighter was delivered in November. As at the end of the year, the fleet comprised eight A320s, four A321s, nine A330s, and three B747 freighter aircraft.

**Jardine Airport Services Limited** (“JASL”), the 50 per cent-owned ground service provider at the Hong Kong International Airport (“the HK Airport”), reported a 5.3 per cent reduction of consolidated profit before taxation (and before exceptional item) from the previous year, the consolidated turnover of JASL and its subsidiaries also decreased by 7.7 per cent.

During the year, JASL handled 50,954 aircraft movements, representing a 1.1 per cent decrease from that of 2001. JASL maintained an approximately 40 per cent share of the third party ground handling market at the HK Airport. Jardine Air Terminal Services Limited (“JATS”), a subsidiary of JASL, handled 71,736 aircraft movements, representing an approximately 60 per cent share of the third party ramp handling market at the HK Airport.

Whilst the first service contract of Jardine Skyporters Limited, a wholly owned subsidiary company of JATS, with the Airport Authority expired in July 2002, it was then awarded a three-year service contract by the Airport Authority to provide airside baggage trolley management at the Airport. This contract however could not replace the earnings from that of the expired one.

In September 2002, JASL together with its partner sold their entire share holding in Jardine Airport Services Australia Pty Ltd. to a third party.

**Menzies Macau**, the Macau airport ground handler, under a nineteen-year concession since 1994, handled 17,250 aircraft movements in 2002, an increase of 18 per cent from those in the previous year. The amount of cargo handled in 2002 was 97,180 tonnes, up by 27 per cent from that in 2001.

**Tradeport Hong Kong Limited** (“Tradeport”), in which the Group holds a 25 per cent interest, has completed on schedule the construction and fitting work of its logistics centre, located at the southern commercial area in the HK Airport. The centre has commenced operations since mid March 2003.

Outlook

Following the merger of the Group’s ultimate holding company with Air China and China Southwest Airlines, the Group with its extensive experience in operating international flights and airport-related services for multi-national carriers, is well poised to ride on the much enhanced parent group background and expansionary plan.

It is expected that the market environment will remain to be challenging for the aviation industry, the strong economic growth of China after its accession to the World Trade Organisation and the continuous support to the logistics industry given by the Hong Kong Special Administrative Region government will likely foster healthy future demand for cross-border air transportation services, as well as air traffic between Hong Kong and other regions.

Dragonair filed an objection to the Air Transportation Licensing Authority in August 2002 to object Cathay Pacific’s application for route licences to Beijing, Shanghai and Xiamen of China mainland. The Group considers that should Cathay Pacific be successful in its application, it would have a severe impact on Dragonair.

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

Liquidity and Financial Resources

The Group generally financed its operations with cash flows generated internally. As at 31 December 2002, the Group had cash and bank balances of a total amount of approximately HK\$1.17 billion and net current assets of approximately HK\$974 million. As at 31 December 2002, the current liabilities of the Group was approximately HK\$432 million whilst the Group had no outstanding borrowings. The Group has consistently maintained a strong working capital which provides a good foundation in the Group’s future business development.

Share Capital

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

The share option scheme that was adopted by the Company on 22 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 29 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. The Scheme will remain in force for ten years commencing on the adoption date.

During the year 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 and Commitments

As at 31 December 2002, the Group had given a guarantee of HK\$75 million to a bank for the banking facilities provided to an associated company, and in February 2001, the Group together with the logistics centre consortium partners jointly gave 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.

Foreign Exchange and Currency Risks

The Group generates a portion of its revenue from ticket sales in certain foreign jurisdictions giving rise to exposures to fluctuation in foreign exchange rates. The Group continuously monitors its foreign currency positions and does not consider that it has a significant exposure to foreign exchange risk from any currency.

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, 51 per cent held subsidiary, employs about 800 staff (2001: about 700), of which about 147 are based outside Macau. Employees remunerated packages are designed and structured based on the foregoing market conditions, relevant laws and regulations, industry practices and standard, work performance, education or professional training background and past working experience.

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 31 December 2002, in compliance with the Code of Best Practice as set out in the Rules Governing the Listing of Securities of the Stock Exchange (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.

FINAL DIVIDEND

The Directors have resolved to recommend to shareholders the payment of a final dividend of HK0.8 cent per share (2001: HK0.6 cent), which together with the interim dividend of HK0.6 cent per share (2001: HK0.6 cent) makes a total dividend of HK1.4 cents per share (2001: HK1.2 cents) for the year ended 31 December 2002.

Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 30 May 2003, 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, 30 May 2003. The dividend warrants will be sent to the shareholders by ordinary mail on or about Friday, 27 June 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 26 May 2003 to Friday, 30 May 2003 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, 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 Friday, 23 May 2003.

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

A detailed Results Announcement containing all the information in respect of the Company required by paragraphs 45(1) to (3) 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*

Hong Kong, 28 March 2003