



中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

Hong Kong stock code: 1110

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2003

The Board of Directors (the “Directors”) of the China National Aviation Company Limited (the “Company”) hereby announces the audited results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2003:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	1	1,227,031	1,329,426
Other revenues	1	25,493	15,433
Total revenues		<u>1,252,524</u>	<u>1,344,859</u>
Staff costs		(215,410)	(188,414)
Passenger catering and service costs		(79,223)	(86,107)
Fuel costs		(191,125)	(149,060)
Route operating costs		(309,515)	(276,626)
Aircraft maintenance costs		(153,868)	(142,973)
Aircraft leases and equipment costs		(324,903)	(241,187)
Depreciation and amortisation costs		(87,497)	(64,261)
Sales and promotion costs		(50,328)	(67,171)
Other operating costs		(64,238)	(67,224)
Total operating expenses		<u>(1,476,107)</u>	<u>(1,283,023)</u>
Operating (loss)/profit	2	(223,583)	61,836
Finance costs		–	(8,426)
Share of profits less losses of associated companies		121,482	394,880
(Loss)/profit before taxation		(102,101)	448,290
Taxation credit/(charge)	3	13,944	(89,343)
(Loss)/profit after taxation		(88,157)	358,947
Minority interests		69,410	(41,530)
(Loss)/profit attributable to shareholders		<u>(18,747)</u>	<u>317,417</u>
Dividends	4	<u>29,761</u>	<u>46,975</u>
(Loss)/earnings per share	5		
Basic		<u>HK(0.57) cent</u>	<u>HK9.65 cents</u>
Diluted		<u>N/A</u>	<u>HK9.48 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:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Traffic revenues		
– Passenger services	984,211	1,171,504
– Cargo and mail services	242,820	152,278
Gross rental income from investment properties	–	5,644
	<u>1,227,031</u>	<u>1,329,426</u>
Other revenues		
Inflight sales commission	1,861	1,887
Interest income	9,172	13,546
Rental income from sub-lease of aircraft	14,460	–
	<u>25,493</u>	<u>15,433</u>
Total revenues	<u>1,252,524</u>	<u>1,344,859</u>

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

Year ended 31 December 2003

	Airline operation <i>HK\$'000</i>	Airport ground handling <i>HK\$'000</i>	Logistics and other businesses <i>HK\$'000</i>	Property holding <i>HK\$'000</i>	Group <i>HK\$'000</i>
Segment revenues	<u>1,243,352</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,243,352</u>
Segment results	<u>(193,390)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(193,390)</u>
Interest income					9,172
Unallocated costs					<u>(39,365)</u>
Operating loss					(223,583)
Share of profits less losses of associated companies	29,796	101,280	(9,594)	–	<u>121,482</u>
Loss before taxation					(102,101)
Taxation credit					<u>13,944</u>
Loss after taxation					(88,157)
Minority interests					<u>69,410</u>
Loss attributable to shareholders					<u>(18,747)</u>

Year ended 31 December 2002

	Airline operation HK\$'000	Airport ground handling HK\$'000	Logistics and other businesses HK\$'000	Property holding HK\$'000	Group HK\$'000
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>	82,502
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 charge					<u>(89,343)</u>
Profit after taxation					358,947
Minority interests					<u>(41,530)</u>
Profit attributable to shareholders					<u>317,417</u>

An analysis of the Group's revenues and contribution to operating results for the year by geographical segments is as follows:

	Segment revenues		Segment results	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
China mainland	489,377	539,489	(106,745)	(28,145)
Taiwan	651,251	702,899	(9,838)	133,449
Hong Kong	–	5,644	–	4,719
Others regions	<u>102,724</u>	<u>83,281</u>	<u>(76,807)</u>	<u>(27,521)</u>
Total	<u>1,243,352</u>	<u>1,331,313</u>	(193,390)	82,502
Interest income			9,172	13,546
Unallocated costs			<u>(39,365)</u>	<u>(34,212)</u>
Operating (loss)/profit			<u>(223,583)</u>	<u>61,836</u>

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

2. Operating (loss)/profit

Operating (loss)/profit is stated after charging the following:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Amortisation of intangible assets		
– Goodwill	18,840	14,130
– Trademarks	–	18
– Deferred expenditure	138	270
Cost of inventories expensed	43,560	31,487
Depreciation of fixed assets	68,519	49,843
Outgoings in respect of investment properties	–	925
	<u> </u>	<u> </u>

3. Taxation credit/(charge)

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. Macau Complementary Tax has been provided at the rate of 15.75% (2002: 15.75%) 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 credited/(charged) to the consolidated profit and loss account represents:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Company and subsidiaries:		
Hong Kong profits tax	–	(379)
Macau Complementary tax	–	(9,153)
Taxation outside Hong Kong and Macau	(613)	(609)
Over provisions in prior years	468	–
Deferred taxation	30,333	–
	<u> </u>	<u> </u>
	30,188	(10,141)
Associated companies	(16,244)	(79,202)
	<u> </u>	<u> </u>
	13,944	(89,343)
	<u> </u>	<u> </u>

4. Dividends

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interim dividend, paid, of HK0.3 cent (2002: HK0.6 cent) per share	9,938	19,916
Final dividend, proposed, of HK0.6 cent (2002: HK0.8 cent) per share	19,876	26,554
Additional 2001 final dividend paid on shares issued under share options	–	505
Adjustment on 2002 final dividend due to repurchase of shares	(53)	–
	<u> </u>	<u> </u>
	29,761	46,975
	<u> </u>	<u> </u>

5. (Loss)/earnings per share

The calculations of basic and diluted (loss)/earnings per share are based on the Group's loss attributable to shareholders of HK\$ 18,747,000 (2002: profit of HK\$317,417,000).

The basic (loss)/earnings per share is based on the weighted average of 3,314,824,000 (2002: 3,290,728,000) shares in issue during the year. No diluted loss per share for the year ended 31st December 2003 is presented as the exercise of options is anti-dilutive. The diluted earnings per share for the year ended 31 December 2002 was based on 3,346,872,000 shares representing the weighted average of 3,290,728,000 shares in issue during the year plus the weighted average of 56,144,000 shares which would be issued at no consideration on the exercise of all dilutive options.

MANAGEMENT DISCUSSION AND ANALYSIS

The outbreak of Severe Acute Respiratory Syndrome (“SARS”) in China mainland, Hong Kong and Taiwan region in the second quarter of 2003 stagnated the travelling activities largely in the Asia-Pacific region and posed an ever severe challenging situation to the Group and its associated companies. Loss of substantial passenger traffic wreaked havoc on airlines revenues, and cancellation of flight movements also affected aviation related businesses. In the third quarter, as SARS abated, airline operations resumed gradually with reduced air fares to lure back passengers and tourists, resulting in recovery of load factor before yields. Situation was more promising towards the end of the year as the number of tourists and business travellers picked up under a better global economic climate, particularly with a big jump in the number of mainland travellers when China's Central Government began to allow individual visitors to Hong Kong and Macau from several mainland cities.

Review of Operations

For the year ended 31 December 2003, the Group recorded a loss of HK\$18.7 million, compared to a profit of HK\$317.4 million in 2002. The Group's turnover for the year amounted to HK\$1,227.0 million as compared to HK\$1,329.4 million for 2002, representing a decrease of 7.7 per cent, which did not fully reflect the brunt of SARS as the turnover contribution from Air Macau Company Limited (“Air Macau”) in 2002 was not for the full year. Basic loss per share was HK0.57 cent (2002: earnings per share HK9.65 cents).

During the year under review, the Group's aviation and aviation-related associated companies achieved better performance than the Group in general as a result of significant growth in cargo services and contributed an aggregated profit for the year of HK\$121.5 million to the Group. This however represents a 69.2 per cent decrease as compared with 2002.

Air Macau reported decreases of 24.3 per cent and 26.0 per cent in turnover and revenue passenger kilometres respectively from the previous year. The available seat kilometres decreased by 18.9 per cent while passenger load factor dropped to around 64.9 per cent. Passenger yield declined by 7.1 per cent due to fares cut in the second half of the year.

Although the freighter operations remained profitable, the overall results of Air Macau recorded a loss for 2003.

The operation of the carrier was seriously affected by SARS, which started causing grave impact from March until the latter half of June 2003. Operations to many tourist destinations in China mainland were cancelled in May and June. Although Air Macau was able to maintain operations to Shanghai, Xiamen, Taipei, Kaohsiung, Bangkok and Manila, frequencies were reduced. The impact on freighter services between Taipei and Shenzhen using a wet leased B727-200F was minimal.

During the year, Air Macau received three new A319s in January, February and July, and a A321 aircraft was replaced by a brand-new one in February. As at the end of the year, the passenger fleet comprises of five A321s, one A320, and five A319s.

Hong Kong Dragon Airlines Limited (“Dragonair”) reported a 1.3 per cent decrease in turnover of which passenger revenue dropped by 19.1 per cent whereas cargo related revenue increased by 44.6 per cent. Revenue passenger and revenue passenger kilometres decreased by 11.1 per cent and 11.5 per cent respectively. The available seat kilometres also decreased by 2.6 per cent and passenger load factor decreased by 6.0 percentage point. Passenger yield declined by 8.6 per cent due to a series of special sales promotional activities launched to stimulate passenger traffic after SARS.

Profit before taxation of Dragonair significantly decreased by 89.8 per cent from that of the year 2002. This was mainly due to the impact of SARS from April to June but was partly offset by the strong market demand of cargo services.

The full year contribution from the third purchased freighter operations had increased cargo revenue and uplift tonnage by 44.6 per cent and 39.5 per cent respectively from those of the year 2002. The cargo yield of passenger aircraft had increased by 1.6 per cent and the cargo yield of freighter had increased by 21.8 per cent during the year 2003.

During the year under review, Dragonair took deliveries of two purchased A321s in September and October respectively. As at the end of the year, the Dragonair fleet size was twenty-six including eight A320s, six A321s, nine A330s, and three B747 freighter aircraft.

Although Dragonair’s result was seriously affected by the SARS outbreak, post-SARS recovery was faster than expected with passenger numbers climbing back to pre-SARS level from July onwards. Dragonair returned to profitability since July onwards to offset loss incurred in the first half of 2003.

Jardine Airport Services Limited (“JASL”), the 50 per cent-owned ground service provider at the Hong Kong International Airport (“HK Airport”), reported a 29.1 per cent reduction in its consolidated profit before taxation (and before exceptional item). The consolidated turnover of JASL and its subsidiaries decreased by 20.5 per cent comparing to that of the preceding year.

During the year in 2003, JASL handled 44,550 aircraft movements, representing a 12.6 per cent decrease from that of 2002. 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 63,144 aircraft movements, representing approximately 60 per cent share of the third party ramp handling market at the HK Airport.

In May 2003, JATS sold its entire shareholding in Jardine Skyporters Limited.

Menzies Macau Airport Services Limited (“Menzies Macau”), the Macau airport ground handler under a nineteen-year concession since 1994, handled 14,587 aircraft movements in 2003, a decrease of 15.4 per cent from those in the previous year. The amount of cargo handled in 2003 was 107,800 tonnes, up by 10.9 per cent from that in 2002.

During the SARS period which occurred in the second quarter of 2003, Menzies Macau experienced an average of 60 per cent of scheduled flights being cancelled. Although passenger flight activities recovered and there was growth in cargo movements in the latter part of 2003, Menzies Macau recorded decreases both in revenue and operating profit for the year 2003 as compared with those of the previous year.

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

Tradeport had been crippled last year as their operations had to commence right in the midst of the SARS outbreak period in 2003. The management of Tradeport is focusing on building up its client base to catch up with the projected yields.

Outlook

Given an increased inflow of visitors from China mainland and the anticipated recovery of the Hong Kong’s economic climate, the management is confident that the passenger airline operations of the Group and the associated companies would be able to achieve significant improvement in 2004 even though the air transportation market is becoming more competitive. Riding on an extensive Greater China network, the Group and its associated companies would place more emphasis in the development of new routes and markets. It is anticipated that the Group’s freight operations would remain strong in 2004 with the Group and its associated companies expanding their cargo services with increased capacity to explore new routes and to further participate in the anticipated growth in the China mainland cargo market.

All of the Group’s aviation related businesses are expected to resume normal operations in 2004. Furthermore the Company has been actively seeking for valued investments and joint venture opportunities in aviation related businesses in China mainland.

Given a progressive momentum in the recovery of the Hong Kong economy, the Group is expecting a positive growth in 2004.

Liquidity and Financial Resources

The Group generally financed its operations with cash flow generated internally. As at 31 December 2003, the Group had cash and bank balances of a total amount of approximately HK\$1,063 million and net current assets of approximately HK\$850 million. The Group consistently maintained a strong working capital during the year under review. As at 31 December 2003, the current liabilities of the Group was approximately HK\$417.4 million whilst the Group had no outstanding borrowings.

Repurchase, Sale or Redemption of Shares

During the year under review, the Company repurchased a total of 6,628,000 ordinary shares of the Company of HK\$0.1 each at an aggregate consideration of HK\$5,325,000. The highest and lowest prices per share paid were HK\$0.83 and HK\$0.77 respectively. All of the shares repurchased were subsequently cancelled.

At 31 December 2003, 3,312,680,000 shares were in issue (31 December 2002: 3,319,308,000 shares).

Contingent Liabilities and Commitments

As at 31 December 2003, the Group had given a guarantee of HK\$75 million to a bank for the banking facilities provided to an associated company.

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.

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, China National Aviation Corporation (Group) Limited. Likewise China National Aviation Corporation (Macau) Company Limited also concluded a management services agreement with CNAC (Macau) Aviation Limited. Both agreements were negotiated under normal commercial terms and conditions.

Air Macau, a 51 per cent held subsidiary, employs about 770 staff (2002: about 800), of which about 147 (2002: 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 2003, 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 had held three meetings to review and consider the Group’s interim and annual results for the year.

FINAL DIVIDEND

The Directors had resolved to recommend to shareholders the payment of a final dividend of HK0.6 cent per share (2002: HK0.8 cent), which together with the interim dividend of HK0.3 cent per share (2002: HK0.6 cent) makes a total dividend of HK0.9 cent per share (2002: HK1.4 cents) for the year ended 31 December 2003.

Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Monday, 31 May 2004, 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 Monday, 31 May 2004. The dividend warrants will be sent to the shareholders by ordinary mail on or about Tuesday, 29 June 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 25 May 2004 to Monday, 31 May 2004 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 Monday, 24 May 2004.

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.

Kong Dong
Chairman

Hong Kong, 26 March 2004

“Please also refer to the published version of this announcement in The Standard”.