



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 2004

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 2004:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	<i>1</i>	1,871,763	1,227,031
Other revenues	<i>1</i>	17,804	25,493
Total revenues		<u>1,889,567</u>	<u>1,252,524</u>
Staff costs		(244,138)	(215,410)
Passenger catering and service costs		(93,682)	(79,223)
Fuel costs		(387,918)	(191,125)
Route operating costs		(437,812)	(309,515)
Aircraft maintenance costs		(139,719)	(153,868)
Aircraft leases and equipment costs		(355,718)	(324,903)
Depreciation and amortisation costs		(83,625)	(87,497)
Sales and promotion costs		(60,956)	(50,328)
Other operating costs		(70,147)	(64,238)
Total operating expenses		<u>(1,873,715)</u>	<u>(1,476,107)</u>
Operating profit/(loss)	<i>2</i>	15,852	(223,583)
Share of profits less losses of			
– Associated companies		480,244	121,482
– Jointly controlled entities		506	–
Profit/(loss) before taxation		496,602	(102,101)
Taxation (charge)/credit	<i>3</i>	(95,637)	13,944
Profit/(loss) after taxation		400,965	(88,157)
Minority interests		(33,495)	69,410
Profit/(loss) attributable to shareholders		<u>367,470</u>	<u>(18,747)</u>
Dividends	<i>4</i>	<u>53,003</u>	<u>29,761</u>

Earnings/(loss) per share	5	<i>HK cents</i>	<i>HK cents</i>
Basic		11.09	(0.57)
Diluted		11.00	N/A

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:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Traffic revenues		
– Passenger services	1,355,391	984,211
– Cargo and mail services	516,372	242,820
	<u>1,871,763</u>	<u>1,227,031</u>
Other revenues		
Inflight sales commission	3,136	1,861
Interest income	4,813	9,172
Rental income from sub-lease of aircraft	9,855	14,460
	<u>17,804</u>	<u>25,493</u>
Total revenues	<u>1,889,567</u>	<u>1,252,524</u>

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

Year ended 31 December 2004

	Airline operation	Airport ground handling	Catering services	Logistics and other businesses	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenues	<u>1,884,754</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,884,754</u>
Segment results	<u>52,791</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>52,791</u>
Interest income					4,813
Unallocated costs					(41,752)
Operating profit					15,852
Share of profits less losses of					
– Associated companies	341,821	146,312	167	(8,056)	480,244
– Jointly controlled entities	–	–	506	–	506
Profit before taxation					496,602
Taxation charge					(95,637)
Profit after taxation					400,965
Minority interests					(33,495)
Profit attributable to shareholders					<u>367,470</u>

Year ended 31 December 2003

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

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	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
China mainland	753,909	489,377	(26,947)	(106,745)
Taiwan	1,025,639	651,251	134,486	(9,838)
Other regions	105,206	102,724	(54,748)	(76,807)
Total	1,884,754	1,243,352	52,791	(193,390)
Interest income			4,813	9,172
Unallocated costs			(41,752)	(39,365)
Operating profit/(loss)			15,852	(223,583)

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

2. Operating profit/(loss)

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Amortisation of intangible assets		
– Goodwill	18,840	18,840
– Deferred expenditure	45	138
Cost of inventories expensed	38,681	43,560
Depreciation of fixed assets	64,740	68,519

3. Taxation (charge)/credit

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. Macau Complementary Tax has been provided at the rate of 15.75% (2003: 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 of operations.

The amount of taxation (charged)/credited to the consolidated profit and loss account represents:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Company and subsidiaries:		
Taxation outside Hong Kong and Macau	(1,063)	(613)
Over provisions in prior years	5	468
Deferred taxation	(11,039)	30,333
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	(12,097)	30,188
Associated companies	(83,293)	(16,244)
Jointly controlled entities	(247)	–
	<hr/>	<hr/>
	(95,637)	13,944
	<hr/>	<hr/>

4. Dividends

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interim dividend, paid, of HK0.6 cent (2003: HK0.3 cent) per share	19,876	9,938
Final dividend, proposed, of HK1.0 cent (2003: HK0.6 cent) per share	33,127	19,876
Adjustment on 2002 final dividend due to repurchase of shares	–	(53)
	<hr/>	<hr/>
	53,003	29,761
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5. Earnings/(loss) per share

The calculations of basic and diluted earnings/(loss) per share are based on the Group's profit attributable to shareholders of HK\$367,470,000 (2003: loss of HK\$18,747,000).

The basic earnings/(loss) per share is based on the weighted average of 3,312,680,000 (2003: 3,314,824,000) shares in issue during the year. The diluted earnings per share for the year ended 31 December 2004 was based on 3,340,747,828 shares representing the weighted average of 3,312,680,000 shares in issue during the year plus the weighted average of 28,067,828 shares which would be issued at no consideration on the exercise of all dilutive options. No diluted loss per share for the year ended 31 December 2003 was presented as the exercise of options was anti-dilutive.

MANAGEMENT DISCUSSION AND ANALYSIS

As demand for airline and related services staged a sharp rebound from the level of the Severe Acute Respiratory Syndrome (“SARS”) affected 2003, the Group and its associated companies benefited from a strong improvement in earnings performance across all core businesses in 2004. However, contribution from these positive factors was partly overshadowed by the unprecedented rise in international fuel price in 2004 as well as heightened competition among regional airline operators. Still, with positive factors outweighing the negative ones, the Group managed to report a substantial recovery in 2004 profit.

For the year ended 31 December 2004, the Group recorded a turnover of HK\$1,871.8 million (2003: HK\$1,227.0 million), a 52.5 per cent increase over the preceding year. Profit attributable to shareholders amounted to HK\$367.5 million compared to a loss of HK\$18.7 million last year. Basic earnings per share was HK11.09 cents, a sharp contrast to a basic loss per share of HK0.57 cent for 2003.

As a part of the corporate restructuring of China National Aviation Holding Company (“CNAH”), the Company has become a directly-owned subsidiary of Air China Limited (“Air China”), with the immediate 69 per cent controlling interest of the Company being transferred from China National Aviation Corporation (Group) Limited (“CNACG”) to Air China in September 2004. Air China was then successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited in December 2004.

Leveraging on the closer relationship with Air China, the Group acquired 60 per cent equity interests in two China mainland aviation-catering businesses from Air China, namely **Beijing Air Catering Co. Ltd.** (“BACL”) and **Southwest Air Catering Company Limited** (“SWACL”), in 2004. The acquisition of BACL and SWACL well demonstrated Air China’s strong support to the Group. Meanwhile, as the evidence of continuing support from CNACG, the Group successfully acquired an approximately 20.2 per cent equity interest of **LSG Lufthansa Service Hong Kong Limited** (“LLSHK”) collectively from CNACG and another existing shareholder of LLSHK.

The synergies gained from this important corporate restructuring and the enhanced shareholding structure would be conducive to the long-term development of the Group.

Business Review

Among major contributors to Group earnings, **Air Macau Company Limited** (“Air Macau”) managed to register strong recovery in 2004, despite keen competition caused by the introduction of low-cost carriers to the SAR. Air Macau reported a 52.5 per cent increase in turnover of which passenger revenue increased by 37.7 per cent whereas cargo related revenue increased by 112.7 per cent.

The available seat kilometres increased by 29.4 per cent and passenger load factor increased by five percentage points. Passenger yield per revenue passenger kilometre remained the same as that of 2003, this was mainly due to the aggressive price promotions in its major markets – Taiwan, Shanghai and Macau. In March 2004, Air Macau inaugurated daily passenger services between Shenzhen and Taipei via Macau to capitalize on the niche for convenient and hassle free services between Taiwan region and the Pearl River Delta.

Air Macau demonstrated significant growth in cargo business in 2004. The freighter’s cargo tonne kilometres and total cargo tonnes carried increased by 257.6 per cent and 124.7 per cent respectively. The Cargo Department was set up in May 2004 to cater for increased freighter business and to implement aggressive cargo development plans.

Air Macau leased out one A319 aircraft in return for one A321 aircraft being leased-in. This was intended to expand the fleet size and enhance service quality by phasing out the A319 aircraft. Air Macau’s operating fleet as at the end of the year comprised of 15 aircraft including four A319s, one A320, six A321s and four freighter aircraft. As at 31 December 2004, Air Macau operated passenger services up to thirteen regional destinations, of which eight were in the China mainland, and offered freighter services to Shanghai, Xiamen, Shenzhen and Taipei.

Hong Kong Dragon Airlines Limited (“Dragonair”) experienced a sharp improvement in 2004. It reported a 43.8 per cent increase in turnover of which passenger revenue increased by 51.1 per cent whereas cargo related revenue increased by 33.7 per cent. Revenue passenger and revenue passenger kilometres increased by 49.2 per cent and 54.7 per cent respectively. The available seat kilometres also increased by 41.5 per cent and the passenger load factor increased by 5.5 percentage points. Passenger yield per revenue passenger kilometre declined by 2.3 per cent due to the increase in longer-haul services to Bangkok and Tokyo this year with lower yield per kilometre basis.

Dragonair’s profit before taxation surged significantly in 2004, up by 10 times that of 2003. This represented a strong recovery of passenger traffic from the SARS-inflicted 2003.

Cargo revenue and uplift tonnage increased by 33.7 per cent and 26.8 per cent respectively from those of the preceding year due to the higher tonnage carried by the company’s new passenger route to Tokyo, wet lease freighter service to Osaka, Shanghai and Nanjing and new freighter service to Frankfurt and London Stansted. The cargo yield of passenger aircraft decreased by 1.9 per cent due to more longer-haul services with lower yield per kilometre basis. Despite this, the cargo yield of freighter increased by 8.5 per cent during the year due to favourable currency movements and improving yield of regional freighter services offered in Asia.

During the review year, Dragonair took delivery of one A330 under operating lease in March 2004, one A300B4F under wet lease in June 2004, two A320s under finance lease and one purchased B747-200F in July 2004 respectively. At year-end, the Dragonair fleet comprised ten A320s, six A321s, ten A330s and five freighter aircraft.

The recovery of passenger transportation in 2004 also contributed to an increased demand for aviation-catering services. BACL recorded a 31.2 per cent increase in turnover in 2004, with the number of flights catered and number of meals served increasing by 16 per cent and 44.7 per cent respectively. With higher flight frequencies and passenger loads of flights catered, SWACL also registered an improvement. The number of flights catered for and number of meals served by SWACL in 2004 increased by 12.3 per cent and 14.8 per cent respectively as compared with those for 2003, and the turnover increased by 15.2 per cent.

In comparison with 2003, the number of flights catered for and the number of meals served by LLSHK increased by 40.6 per cent and 48.3 per cent respectively mainly because of the post-SARS recuperation in air traffic.

Jardine Airport Services Limited (“JASL”) reported a 28.3 per cent increase in its consolidated turnover when compared to that of the preceding year. The growth was largely attributable to the increase in flight frequencies handled.

JASL handled 60,346 aircraft movements for the year, representing a 35.5 per cent increase from that of 2003. It maintained an approximate 40 per cent share of the third party ground handling market at the Hong Kong International Airport. Jardine Air Terminal Services Limited handled 79,800 aircraft movements for the year, accounting for an approximate 60 per cent share of the third party ramp handling market at the Hong Kong International Airport.

In March 2004, JASL acquired a 50 per cent interest in Ground Support Engineering Limited, a provider of ground support equipment maintenance services.

Menzies Macau Airport Services Limited provided ground services for a total of 19,291 aircraft turns and 171,450 tonnes of cargo in 2004. In comparison with 2003, turnover and operating profit for 2004 have increased by 21 per cent and 26 per cent respectively.

The utilisation of Logistics Centre and revenue per pallet of **Tradeport Hong Kong Limited** (“Tradeport Hong Kong”) showed continued growth throughout the year due to increased services and improved space utilisation through material handling equipment. The business activity of Tradeport Hong Kong grew significantly during the year.

Outlook

The impetus of a thriving tourism industry in Greater China is anticipated to persist with the opening of Hong Kong Disneyland, expected in the fall of 2005, and a prospering gambling and entertainment sector in Macau. These favorable factors are likely to drive further momentum for the passenger airline operations of the Group and its associated companies. In addition, the management continues to eye other Asian regions that have great potential for expansion in both passenger and freight services.

Although the surging fuel price impacted the operating environment of the aviation industry in 2004, the Group and its associated companies managed to maintain a profitable business thanks to effective cost control. The Group continues to follow stringent cost control measures, and identify strategic investments and joint-venture opportunities in the aviation related business in order to broaden its income base.

Having completed a series of significant acquisition projects in 2004, the Group, banking on a diversified business portfolio and a positive macro-environment, is anticipated to achieve healthy growth in 2005.

Liquidity and Financial Resources

The Group generally financed its operations with cash flow generated internally. As at 31 December 2004, the Group had cash and bank balances of a total amount of approximately HK\$787 million and net current assets of approximately HK\$563 million. The Group consistently maintained a strong working capital during the year under review. As at 31 December 2004, the current liabilities of the Group was approximately HK\$472 million whilst the Group had no outstanding borrowings.

Repurchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the year ended 31 December 2004.

At 31 December 2004, 3,312,680,000 shares were in issue (31 December 2003: 3,312,680,000 shares).

Contingent Liabilities and Commitments

As at 31 December 2004, the Group had given a guarantee of HK\$15 million to a bank for the banking facilities provided to an associated company.

In February 2001, the Group together with the Tradeport 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 Tradeport Logistics Centre. On 17 March 2004, Hong Kong Airport Authority agreed to reduce the maximum liability limit from approximately HK\$780 million to approximately HK\$312 million. 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\$78 million, would have been approximately HK\$312 million.

Charge on Assets

The shares of Tradeport Hong Kong held by the Group were pledged as securities for a banking facility granted to Tradeport Hong Kong.

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 CNACG. 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 830 staff (2003: about 770), of which about 178 (2003: 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 2004, 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 two 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 HK1.0 cent per share (2003: HK0.6 cent), which together with the interim dividend of HK0.6 cent per share (2003: HK0.3 cent) makes a total dividend of HK1.6 cent per share (2003: HK0.9 cents) for the year ended 31 December 2004.

Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 27 May 2005, 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, 27 May 2005. The dividend warrants will be sent to the shareholders by ordinary mail on or about Tuesday, 28 June 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 23 May 2005 to Friday, 27 May 2005 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, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 20 May 2005.

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.

BOARD OF DIRECTORS

At the date hereof, the Board of Directors of the Company comprises Mr. Kong Dong as Chairman, Mr. Chuang Shih Ping, Mr. Zhang Xianlin, Mr. Tsang Hing Kwong, Thomas, Mr. Gu Tiefei and Mr. Zhao Xiaohang as Executive Directors and Mr. Lok Kung Nam, Dr. Hu Hung Lick, Henry, Mr. Ho Tsu Kwok, Charles, Mr. Li Kwok Heem, John and Ms. Chan Ching Har, Eliza as Independent Non-Executive Directors.

On behalf of the Board
Kong Dong
Chairman

Hong Kong, 23 March 2005

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