



中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1110)

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

The Board of Directors (the “Directors”) of China National Aviation Company Limited (the “Company”) hereby announces the results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2005:

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

		2005	Restated 2004
	Note	HK\$'000	HK\$'000
Turnover	3	2,620,033	1,890,710
Other revenues	3	46,985	12,991
Total revenues		<u>2,667,018</u>	<u>1,903,701</u>
Other gains		<u>39,268</u>	<u>10,047</u>
Staff costs		(388,649)	(249,786)
Passenger catering and service costs		(237,545)	(103,353)
Fuel costs		(654,018)	(387,918)
Route operating costs		(529,051)	(437,812)
Aircraft maintenance costs		(226,553)	(139,719)
Aircraft leases and equipment costs		(444,882)	(355,718)
Depreciation and amortisation costs		(78,221)	(86,160)
Sales and promotion costs		(92,395)	(61,078)
Other operating costs		(107,289)	(75,471)
Total operating expenses		<u>(2,758,603)</u>	<u>(1,897,015)</u>
Operating (loss)/profit	4	(52,317)	16,733
Finance costs		(2,960)	(375)
Share of profits less losses of associates		277,243	390,450
Profit before income tax		221,966	406,808
Income tax expenses	5	(10,042)	(12,344)
Profit for the year		<u>211,924</u>	<u>394,464</u>
Attributable to:			
Equity holders of the Company		225,000	360,969
Minority interests		(13,076)	33,495
		<u>211,924</u>	<u>394,464</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share			
– Basic	6	6.79	10.90
– Diluted	6	6.72	10.81
Dividends	7	59,628	53,003

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	<i>Note</i>	2005 <i>HK\$'000</i>	Restated 2004 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		471,692	495,786
Land use right		2,274	2,355
Intangible assets		529,240	529,249
Interests in associates		1,627,594	1,590,158
Loans to associates		47,097	82,103
Lease and equipment deposits		60,109	68,762
Deferred income tax assets		23,427	21,777
Pledged bank deposits		88,943	67,455
		<u>2,850,376</u>	<u>2,857,645</u>
Current assets			
Loan to an associate		18,060	–
Investment securities		–	18,313
Derivative financial instruments		11,957	–
Inventories		53,273	54,045
Trade and other receivables	8	283,544	258,465
Cash and cash equivalents		999,833	746,793
		<u>1,366,667</u>	<u>1,077,616</u>
Total assets		<u>4,217,043</u>	<u>3,935,261</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		331,268	331,268
Reserves		2,761,442	2,589,813
Proposed final dividend		33,127	33,127
		<u>3,125,837</u>	<u>2,954,208</u>
Minority interests		227,352	282,292
Total equity		<u>3,353,189</u>	<u>3,236,500</u>
LIABILITIES			
Non-current liabilities			
Provision for overhaul and major checks		154,904	91,939
Provision for housing allowances		34,126	–
		<u>189,030</u>	<u>91,939</u>
Current liabilities			
Trade and other payables	9	514,623	416,572
Sales in advance of carriage		132,394	118,061
Current income tax liabilities		2,436	2,972
Short-term bank loans – unsecured		25,371	69,217
		<u>674,824</u>	<u>606,822</u>
Total liabilities		<u>863,854</u>	<u>698,761</u>
Total equity and liabilities		<u>4,217,043</u>	<u>3,935,261</u>
Net current assets		<u>691,843</u>	<u>470,794</u>
Total assets less current liabilities		<u>3,542,219</u>	<u>3,328,439</u>

Notes:

1. Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and Hong Kong Accounting Standards (“HKAS”) and interpretations (“HKAS-Int”) (collectively the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The financial statements have been prepared under the historical cost convention except available-for-sale investment and derivative financial instruments are carried at fair value.

2. Change in accounting policies

In 2005, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 12 (Amendment)	Scope of HKAS-Int 12 Consolidation – Special Purpose Entities
HKAS-Int 15	Operating losses – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The following is a summary of material changes in principal accounting policies or presentation of financial statements as a result of the adoption of the new HKFRSs:

(i) *HKAS 1*

The adoption of HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

(ii) *HKAS 16*

The adoption of revised HKAS 16 has resulted in a change in the accounting policy relating to the capitalisation of costs of regular overhaul and major checks of owned aircraft and engines as a separate component of property, plant and equipment and subject to depreciation over the maintenance cycle. In prior years, costs of regular overhaul and major checks are expensed as and when incurred.

(iii) *HKAS 17*

The adoption of revised HKAS 17 has resulted in a change in the reclassification of land use right from property, plant and equipment. The up-front prepayments made for the land use right are expensed in the income statement on a straight-line basis over the term of the land use right or where there is impairment, the impairment is expensed in the income statement.

(iv) *HKAS 24*

The adoption of HKAS 24 has affected the identification of related parties and some other related-party disclosures. Related parties include China National Aviation Holding Company (“CNAH”) and its related parties, other state-owned enterprises and their subsidiaries directly or indirectly owned by the central government of the Peoples’ Republic of China, other entities and corporations in which the Company is able to control or exercise significant influence, key management personnel of the Company and CNAH Group as well as their close family members.

(v) *HKAS 31*

The Group adopted the proportionate consolidation under HKAS 31 to account for its interests in jointly controlled entities. In prior years, the Group’s interests in jointly controlled entities were accounted for by using the equity method. The adoption of the proportionate consolidation approach under HKAS 31 represents a change in accounting policy.

(vi) *HKASs 32 and 39*

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets. It has also resulted in the recognition of financial instruments at fair value and the change in the recognition and measurement of hedging activities.

(vii) *HKFRS 2*

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 January 2005, the fair value of the employee services received in the exchange for the grant of the options is recognised as an expense.

(viii) *HKFRS 3, HKAS 36 and HKAS 38*

The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight line basis over its estimated useful lives of not more than 20 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and
- From 1 January 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, whenever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice (“SSAP”) 24 “Accounting for investments in securities” to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.
- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and
- HKFRS 3 – prospectively after the adoption date.

The following is a summary of effects of adopting the new HKFRSs on the financial statements:

(a) Consolidated income statement

For the year ended 31 December 2005

	Increase/(decrease) Effect of adopting					Total
	HKAS 1	HKAS 16	HKAS 31	HKASs 32 & 39	HKFRS 3	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	–	–	268,649	–	–	268,649
Other revenues	–	–	–	–	–	–
Total revenues	–	–	268,649	–	–	268,649
Other gains	–	–	365	11,957	–	12,322
Staff costs	–	–	114,946	–	–	114,946
Passenger catering and service costs	–	–	129,151	–	–	129,151
Depreciation and amortisation costs	–	–	11,516	–	(33,974)	(22,458)
Sales and promotion costs	–	–	1,407	–	–	1,407
Other operating costs	–	–	9,840	–	–	9,840
Total operating expenses	–	–	266,860	–	(33,974)	232,886
Operating loss	–	–	2,154	11,957	33,974	48,085
Finance costs	–	–	(2,960)	–	–	(2,960)
Share of profit less losses of associates	(29,437)	1,069	–	(1,033)	3,056	(26,345)
Share of profit less losses of jointly controlled entities	–	–	940	–	–	940
Profit before income tax	(29,437)	1,069	134	10,924	37,030	19,720
Income tax expenses	29,437	–	(134)	–	–	29,303
Profit for the year	–	1,069	–	10,924	37,030	49,023
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share						
– Basic	–	0.03	–	0.33	1.12	1.48
– Diluted	–	0.03	–	0.32	1.11	1.46

For the year ended 31 December 2004

	Increase/(decrease) Effect of adopting			Total
	HKAS 1	HKAS 16	HKAS 31	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	–	–	18,947	18,947
Other revenues	–	–	–	–
Total revenues	–	–	18,947	18,947
Other gains	–	–	78	78
Staff costs	–	–	5,648	5,648
Passenger catering and service costs	–	–	9,671	9,671
Depreciation and amortisation costs	–	–	2,537	2,537
Sales and promotion costs	–	–	122	122
Other operating costs	–	–	166	166
Total operating expenses	–	–	18,144	18,144
Operating profit	–	–	881	881
Finance costs	–	–	(375)	(375)
Share of profit less losses of associates	(83,293)	(6,501)	–	(89,794)
Share of profit less losses of jointly controlled entities	–	–	(506)	(506)
Profit before income tax	(83,293)	(6,501)	–	(89,794)
Income tax expenses	83,293	–	–	83,293
Profit for the year	–	(6,501)	–	(6,501)
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings per share				
– Basic	–	(0.20)	–	(0.20)
– Diluted	–	(0.19)	–	(0.19)

(b) Consolidated balance sheet
As at 31 December 2005

	HKAS 16 HK\$'000	HKAS 17 HK\$'000	Increase/(decrease) Effect of adopting		HKFRS 3 HK\$'000	Total HK\$'000
			HKAS 31 HK\$'000	HKASs 32 & 39 HK\$'000		
Property, plant and equipment	-	(2,274)	123,892	-	-	121,618
Land use right	-	2,274	-	-	-	2,274
Intangible assets	-	-	241,937	-	33,974	275,911
Interests in associates	(12,359)	-	-	5,263	3,056	(4,040)
Interests in jointly controlled entities	-	-	(368,617)	-	-	(368,617)
Deferred income tax assets	-	-	13,346	-	-	13,346
Derivative financial instruments	-	-	-	11,957	-	11,957
Inventories	-	-	6,478	-	-	6,478
Trade and other receivables	-	-	58,103	-	-	58,103
Cash and cash equivalents	-	-	47,625	-	-	47,625
Pledged bank deposits	-	-	9	-	-	9
Total assets	(12,359)	-	122,773	17,220	37,030	164,664
Trade and other payables	-	-	61,019	-	-	61,019
Current income tax liabilities	-	-	2,257	-	-	2,257
Short-term bank loans – unsecured	-	-	25,371	-	-	25,371
Provision for housing allowances	-	-	34,126	-	-	34,126
Total liabilities	-	-	122,773	-	-	122,773
Total equity	(12,359)	-	-	17,220	37,030	41,891

As at 31 December 2004

	Increase/(decrease) Effect of adopting			Total HK\$'000
	HKAS 16 HK\$'000	HKAS 17 HK\$'000	HKAS 31 HK\$'000	
Property, plant and equipment	–	(2,355)	126,308	123,953
Land use right	–	2,355	–	2,355
Intangible assets	–	–	241,937	241,937
Interests in associates	(13,428)	–	–	(13,428)
Interests in jointly controlled entities	–	–	(345,532)	(345,532)
Deferred income tax assets	–	–	2,483	2,483
Investment securities	–	–	18,313	18,313
Inventories	–	–	7,574	7,574
Trade and other receivables	–	–	55,867	55,867
Cash and cash equivalents	–	–	21,201	21,201
Pledged bank deposits	–	–	6,235	6,235
Total assets	<u>(13,428)</u>	<u>–</u>	<u>134,386</u>	<u>120,958</u>
Trade and other payables	–	–	62,833	62,833
Current income tax liabilities	–	–	2,336	2,336
Short-term bank loans – unsecured	–	–	69,217	69,217
Total liabilities	<u>–</u>	<u>–</u>	<u>134,386</u>	<u>134,386</u>
Total equity	<u>(13,428)</u>	<u>–</u>	<u>–</u>	<u>(13,428)</u>

The adoption of HKASs 32 and 39 has resulted in a decrease in opening reserves and interests in associates at 1 January 2005 by the same amount of approximately HK\$19,023,000.

3. Revenues and segment information

The Group is principally engaged in the provision of aviation related services. Revenues recognised during the year are as follows:

	2005 HK\$'000	Restated 2004 HK\$'000
Turnover		
Traffic revenues		
– Passenger services	1,544,125	1,355,391
– Cargo and mail services	807,259	516,372
Airline catering revenue	268,649	18,947
	<u>2,620,033</u>	<u>1,890,710</u>
Other revenues		
Inflight sales commission	5,453	3,136
Rental from sub-lease of aircraft	41,532	9,855
	<u>46,985</u>	<u>12,991</u>
Total revenues	<u>2,667,018</u>	<u>1,903,701</u>

Primary reporting format – Business segments

The Group, its jointly controlled entities and its associates organised into four main business segments including airline operation, airport ground handling, airline catering, logistics and other businesses.

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

	Year ended and as at 31 December 2005				Total HK\$'000
	Airline operation HK\$'000	Airport ground handling HK\$'000	Airline catering HK\$'000	Logistics and other businesses HK\$'000	
Segment revenues	<u>2,398,369</u>	<u>–</u>	<u>268,649</u>	<u>–</u>	<u>2,667,018</u>
Segment results	<u>(51,954)</u>	<u>–</u>	<u>1,789</u>	<u>–</u>	<u>(50,165)</u>
Interest income					20,159
Unallocated costs					<u>(22,311)</u>
Operating loss					<u>(52,317)</u>
Finance costs					<u>(2,960)</u>
Share of profits less losses of associates	130,062	139,591	11,097	(3,507)	<u>277,243</u>
Profit before income tax					221,966
Income tax expenses					<u>(10,042)</u>
Profit for the year					<u>211,924</u>
Segment assets	1,168,150	–	488,620	–	1,656,770
Interests in associates	1,365,917	165,445	122,178	(25,946)	1,627,594
Loans to associates	–	18,060	–	47,097	65,157
Unallocated assets					<u>867,522</u>
Total assets					<u>4,217,043</u>
Segment liabilities	741,313	–	115,658	–	856,971
Unallocated liabilities					<u>6,883</u>
Total liabilities					<u>863,854</u>
Capital expenditure	45,145	–	9,155	–	54,300
Depreciation	66,696	–	11,435	–	78,131
Amortisation	9	–	81	–	90
Provision for/(reversal of) impairment of trade receivables	<u>3,599</u>	<u>–</u>	<u>(147)</u>	<u>–</u>	<u>3,452</u>

Year ended and as at 31 December 2004 (Restated)

	Airline operation HK\$'000	Airport ground handling HK\$'000	Airline catering HK\$'000	Logistics and other businesses HK\$'000	Total HK\$'000
Segment revenues	1,884,754	–	18,947	–	1,903,701
Segment results	52,791	–	803	–	53,594
Interest income					4,891
Unallocated costs					(41,752)
Operating profit					16,733
Finance costs					(375)
Share of profits less losses of associates	275,547	122,915	44	(8,056)	390,450
Profit before income tax					406,808
Income tax expenses					(12,344)
Profit for the year					394,464
Segment assets	1,093,645	–	479,918	–	1,573,563
Interests in associates	1,391,299	106,722	115,114	(22,977)	1,590,158
Loans to associates	–	34,560	–	47,543	82,103
Unallocated assets					689,437
Total assets					3,935,261
Segment liabilities	559,319	–	134,386	–	693,705
Unallocated liabilities					5,056
Total liabilities					698,761
Capital expenditure	38,251	–	127,584	–	165,835
Depreciation	64,740	–	1,266	–	66,006
Amortisation	18,883	–	1,271	–	20,154
Provision for impairment of trade receivables	1,175	–	235	–	1,410

Secondary reporting format – Geographical segments

The Group and its jointly controlled entities operate in three main geographical areas including China mainland, Taiwan and other regions (mainly Macau, Thailand and Philippines). The airline operation business is mainly operated in places in China mainland, Taiwan and other regions. The airline catering business is operated in China mainland.

	Segment revenues		Segment results	
	2005	Restated 2004	2005	Restated 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
China mainland	1,223,674	772,856	(112,269)	(26,144)
Taiwan	1,301,998	1,025,639	140,221	134,486
Other regions	141,346	105,206	(78,117)	(54,748)
Total	<u>2,667,018</u>	<u>1,903,701</u>	(50,165)	53,594
Interest income			20,159	4,891
Unallocated costs			<u>(22,311)</u>	<u>(41,752)</u>
Operating (loss)/profit			<u>(52,317)</u>	<u>16,733</u>

The major revenue-earning assets of the Group are its aircraft fleet, all of which are registered in Macau. Since the Group's aircraft fleet is deployed flexibly across its route network, the Directors consider that there is no meaningful basis to allocating such assets to geographical segments.

The assets and capital expenditure of jointly controlled entities in respect of airline catering business are located in China mainland.

The assets and capital expenditure of the Group, other than those of jointly controlled entities and its aircraft fleet as mentioned in the above, are mainly located in Macau.

4. Operating (loss)/profit

The following items have been included in arriving at operating (loss)/profit:

	2005	Restated 2004
	HK\$'000	HK\$'000
Crediting		
Gain on disposal of an available-for-sale investment	1,207	–
Amortisation of manufacturers' credits	<u>1,388</u>	<u>1,393</u>
Charging		
Amortisation of intangible assets	9	20,144
Amortisation of land use right	81	10
Cost of inventories expensed	147,206	38,681
Depreciation of property, plant and equipment	<u>78,131</u>	<u>66,006</u>

5. Income tax expenses

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. On 7 July 2005, the Macau Legislative Assembly approved Law No. 4/2005 to reduce the Macau Complementary Tax rate from 15.75% to 12%, accordingly the Macau complementary tax has been provided at the rate of 12% (2004: 15.75%) on the estimated assessable profit for the year.

The Group has two jointly controlled entities in China mainland, namely Beijing Air Catering Co., Ltd. ("BACL") and Southwest Air Catering Company Limited ("SWACL"). Pursuant to the Circular (2001) No. 202 issued by the Ministry of Finance, State Administration of Taxation and General Administration of Customs, SWACL is subject to a reduced income tax rate of 15% for the years from 2001 to 2010. BACL is subject to the income tax rate of 27%.

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 countries in which the Group operates.

	2005 <i>HK\$'000</i>	Restated 2004 <i>HK\$'000</i>
Current income tax		
– Taxation outside Hong Kong and Macau	11,700	1,308
– Over provisions in prior years	(8)	(5)
Deferred income tax	(1,650)	11,041
	<u>10,042</u>	<u>12,344</u>

Share of taxation of associates amounting to HK\$29,437,000 (2004: HK\$79,202,000) is included in the consolidated income statement as share of profits less losses of associates.

6. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year.

	2005 <i>HK\$'000</i>	Restated 2004 <i>HK\$'000</i>
Profit attributable to equity holders of the Company	<u>225,000</u>	<u>360,969</u>
Weighted average number of shares in issue (thousands)	<u>3,312,680</u>	<u>3,312,680</u>
Basic earnings per share (HK cents per share)	<u>6.79</u>	<u>10.90</u>

Diluted

Diluted earnings per share is calculated based on the profit attributable to the equity holders of the Company and the weighted average number of shares in issue during the year, after adjusting for the number of dilutive potential shares deemed to be issued at no considerations as if all outstanding share options granted by the Company had been exercised.

	2005 <i>HK\$'000</i>	Restated 2004 <i>HK\$'000</i>
Profit attributable to the equity holders of the Company	225,000	360,969
Weighted average number of shares in issue (thousands)	3,312,680	3,312,680
Adjustment for assumed conversion of share options (thousands)	35,844	28,068
Weighted average number of shares for diluted earnings per share (thousands)	<u>3,348,524</u>	<u>3,340,748</u>
Diluted earnings per share (HK cents per share)	<u>6.72</u>	<u>10.81</u>

7. Dividends

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim dividend, paid, of HK0.8 cent (2004: HK0.6 cent) per share	26,501	19,876
Final dividend, proposed, of HK1.0 cent (2004: HK1.0 cent) per share	33,127	33,127
	<u>59,628</u>	<u>53,003</u>

8. Trade and other receivables

Trade and other receivables include trade receivables from third parties, the immediate holding company, an associate, a fellow subsidiary and related companies. The credit terms granted to sales agents and other trade customers are ranging from 15 to 90 days. The age analysis of trade receivables is as follows:

	2005	Restated
	<i>HK\$'000</i>	<i>2004</i>
		<i>HK\$'000</i>
Within 31 days	194,210	180,828
31-60 days	20,414	19,433
61-90 days	8,882	8,661
Over 90 days	9,752	12,360
	<u>233,258</u>	<u>221,282</u>

9. Trade and other payables

Trade and other payables include trade payables to third parties, an associate, a fellow subsidiary and related companies. The age analysis of trade payables is as follows:

	2005	Restated
	<i>HK\$'000</i>	<i>2004</i>
		<i>HK\$'000</i>
Within 31 days	191,664	103,314
31-60 days	47,243	39,569
61-90 days	17,038	12,393
Over 90 days	9,674	9,040
	<u>265,619</u>	<u>164,316</u>

The financial figures above in respect of the announcement of results for the year ended 31 December 2005 ("Announcement") have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2005. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the Announcement.

FINAL DIVIDEND

The Directors had resolved to recommend to the shareholders the payment of a final dividend of HK1.0 cent per share (2004: HK1.0 cent). Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 25 May 2006, this final dividend will be paid to the shareholders whose names appear on the Register of Members at the close of business on Thursday, 25 May 2006. The dividend warrants will be sent to the shareholders on or about 29 June 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 22 May 2006 to Thursday, 25 May 2006 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, 19 May 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

With Asia's continuous economic growth in 2005, the opening of Hong Kong Disneyland, and the robust development of the gambling and entertainment business in Macau, aviation and aviation-related industries within the region developed rapidly. The Group successfully rode on these trends to drive strong growth in both passenger volume and cargo volume for its airlines. The aviation-related businesses also saw healthy growth. However, consistently high international fuel prices offset revenue growth for the Group airlines. Volatility in oil prices and fears of an Avian Flu epidemic also created challenges for the aviation industry as a whole.

Thanks to the increase in passenger traffic, the airline-catering businesses newly acquired by the Group in 2004 have become new driving forces for the Group's growth in 2005 and made a contribution of 10 percent to the Group's total turnover. The success of the airline-catering businesses vividly demonstrated the Group's successful strategies and flexibility in addressing ever-changing market conditions and volatile business environment.

For the year ended 31 December 2005, the Group recorded a turnover of HK\$2,620 million (2004: HK\$1,891 million), a 38.6 percent increase over the preceding year. Profit attributable to the equity holders of the Company amounted to HK\$225 million, representing a 37.7 percent decrease compared to HK\$361 million last year. Basic earnings per share were HK6.79 cents (2004: HK10.90 cents).

Business Review

Air Macau Company Limited ("Air Macau") reported a 16.3 percent increase in turnover for 2005, of which passenger revenue increased by 8.9 percent whereas cargo related revenue increased by 35.2 percent. Air Macau implemented a series of timely measures to enhance its efficiency and lower the cost. However, consistently high oil price led to a 68.6 percent rise in fuel cost compared to last year and resulted in a loss of the airline.

Air Macau carried more than 2 million passengers in 2005, an increase of more than 13.9 percent from 2004. The available seat kilometers ("ASK") increased by 11.6 percent, while the passenger load factor increased by 2 percentage points to 72 percent. Passenger yield was the same as that of 2004. The yield improvement was constrained by competitive market dynamics and the depreciation of the Taiwan currency.

Air Macau expanded the market share of its cargo business in 2005 by adding more frequencies. The freight tonne kilometers of Air Macau increased by 74.8 percent, while the total tonnage uplift on freighters increased by 58.5 percent. However, the freighter load factor saw a slight decrease of 0.8 percentage points against 2004, at 71.3 percent.

Air Macau's passenger and freighter services operated a total of 23,770 flights (including charter flights) in 2005 between Macau and 26 destinations across China mainland and Asia Pacific. As at the end of 2005, Air Macau's fleet was comprised of 18 aircraft, including seven A321s, one A320, five A319s and five A300B4 freighters.

Hong Kong Dragon Airlines Limited ("Dragonair") reported a 18.5 percent increase in turnover for 2005, of which passenger revenue increased by 9.6 percent whereas cargo revenue increased by 19.6 percent. Fuel costs for Dragonair in 2005 increased by 69.8 percent, accounting for 24 percent of the total operating costs, and significantly impacted the profit of Dragonair. The share of Dragonair's total profit before tax from the airline operations decreased from 91.2 percent in 2004 to 75.9 percent in 2005. In order to alleviate cost pressures brought about by high fuel prices, Dragonair implemented a series of fuel hedging arrangements and imposed passenger and cargo fuel surcharges, together with stringent cost controls.

During the year, Dragonair added more frequencies to a number of routes connecting China mainland, so as to meet the increasing passenger demand. Dragonair carried 5.3 million passengers in 2005, an increase of 9.8 percent compared to 2004. Owing to the increased number of flights, the ASK of Dragonair rose by 9.7 percent.

In 2005, the available tonne kilometer ("ATK") of Dragonair freighters rose by 44.5 percent, while the total tonnage uplift on freighters increased by 21.7 percent. This was mainly attributable to the full-year impact of the launch of cargo services in June 2004 to Osaka, Shanghai and Nanjing, and the launch of cargo service to Frankfurt in July 2004. In addition, Dragonair has introduced a wet-leased B747-400 freighter service in April 2005 to provide a three times weekly trans-pacific cargo services to New York.

Dragonair operated a total of 20,093 round trips in 2005 to 36 destinations, 22 of which are in China mainland. As at the end of 2005, Dragonair's fleet comprised of thirty-four aircraft, including ten A320s, six A321s, twelve A330s, one A300B4 freighter, one B747-200 freighter, three B747-300 special freighters and one B747-400 freighter. To capture the business opportunities arising out of the continuous development of air cargo industry in the region, Dragonair has agreed to purchase five B747-400 converted freighters, which will be delivered from 2006 to 2008.

Beijing Air Catering Co. Ltd. (“BACL”) recorded a 10.5 percent and a 10 percent rise, respectively, in the number of flights catered and the total number of in-flight meals served over 2004. BACL remained the largest airline caterer at Beijing Capital International Airport, with a market share of approximately 77 percent. The new catering building of BACL, that will be sited at Beijing Capital International Airport, is expected to commence construction in the middle of 2006. The building, upon completion at the end of 2007, will offer a production capacity of 45,000 meals per day.

Southwest Air Catering Company Limited (“SWACL”) also showed encouraging performance. With enhanced production capacity contributed by the new catering building, SWACL was able to provide catering services for an increased number of airline customers, leading to an increase of 12.1 percent and 37.1 percent in the total number of in-flight meals served and the number of flights catered, respectively. SWACL remained the largest airline caterer at Chengdu Shuangliu International Airport, with a market share of approximately 70 percent. In October 2005, the shareholders have injected RMB50 million into SWACL.

LSG Lufthansa Service Hong Kong Limited (“LLSHK”) aided by rising traffic volume of its airline customers, the number of meals served and the number of flights catered increased by 10.8 percent and 14.1 percent respectively during 2005. Continuous cost control measures implemented by LLSHK also contributed to a significant profit increase.

Jardine Airport Services Limited (“JASL”) reported growth in its consolidated turnover and consolidated profit before tax, mainly attributable to the steady increase in the number of flights handled.

In 2005, JASL handled 68,650 aircraft movements, an increase of 16.4 percent compared to 2004, and maintained an approximately 49 percent share of the third party ground handling market at the Hong Kong International Airport. **Jardine Air Terminal Services Limited** (“JATS”), a subsidiary of JASL, handled 91,950 aircraft movements during the year, which accounted for an approximately 60 percent share of the third party ramp handling market at the Hong Kong International Airport.

Menzies Macau Airport Services Limited (“Menzies Macau”) handled a total of 21,575 aircraft movements in 2005, an increase of 11.8 percent compared to 2004, as driven by the commencement of flight services by a foreign LCC from Singapore to Macau in the first quarter of 2005. However, cargo tonnage fell 6.2 percent due to keen competition from the surrounding airports. In addition, 50 percent of the cargo volume that Menzies Macau handled was transfer cargo, with much lower handling charges than that of cargo terminating in Macau. As a result, the total revenue of Menzies Macau for the year was affected.

Tradeport Hong Kong Limited (“Tradeport Hong Kong”), both the utilisation of the Logistics Centre and revenue per pallet showed considerable growth throughout the year, resulting in a 53 percent increase in consolidated revenue. The utilisation of the Logistics Centre reached 73 percent by the end of 2005.

Outlook

The rapid economic growth in China and the increasing income of the China mainlanders are expected to boost the number of Chinese travellers to overseas destinations. In addition, both the Hong Kong SAR Government and the Macau SAR Government are committed to promote the cities into major travel locations in Asia. These factors are expected to drive the traffic volume to and from Hong Kong and Macau and thus boost the growth of the regional aviation industry. However, consistently high fuel prices will remain a significant challenge for airlines, and industry competition is also expected to intensify following the establishment of more airlines.

In order to cope with the changing demands of Asian travellers with regard to aviation services, the Group and Shun Tak Holdings Limited co-launched Macau Asia Express, a low cost carrier based in Macau, in January 2006. The Group currently holds a 43.7 percent effective interest in the company. Macau Asia Express will complement Air Macau’s service and focus on new destinations in Greater China and Asia. The company will integrate the expertise and resources of the Group and Shun Tak Holdings Limited in aviation services, aviation management, and in the gambling, entertainment and travel businesses in Macau, to provide travellers with affordable flight services and travel packages. With the airline expected to undertake its first commercial flight in the fourth quarter of 2006, the Group is confident that it will become another reliable profit source.

In addition, the Group will continue to streamline its business operations and strengthen its cost control measures. The existing networks and resources of the Group in Greater China will also be utilised to further diversify the Group's aviation-related business. The Group will also strive to capture business opportunities arising from the robust growth of the regional aviation and travel industries, with an aim to expand its income sources and maximize its profit. Having ensured a relatively stable position in the airline-catering industry, the Group will allocate further resources for the expansion of its airline-catering and other aviation-related businesses.

Looking forward, Asian aviation industry will face a challenging yet prospering business environment. In view of uncertainties arisen from fuel costs, the Group will overcome the negative effects through fuel hedging program, fuel surcharge and more stringent cost control measures. The Group is confident that it can achieve better results in 2006 by optimising its businesses' efficiency and leveraging its diversified business portfolio.

Liquidity and Financial Resources

The Group generally financed its operations with cash flow generated internally. As at 31 December 2005, the Group had cash and bank balances of a total amount of approximately HK\$1,000 million and net current assets of approximately HK\$692 million. The Group consistently maintained a strong working capital during the year under review. As at 31 December 2005, the current liabilities of the Group was approximately HK\$675 million.

Contingent Liabilities and Commitments

As at 31 December 2005, the Group had given a guarantee to a bank for loan facilities granted to an associate totalling HK\$20,000,000 (2004: HK\$15,000,000).

As at 31 December 2005, the Group had given a guarantee to a bank for loan facilities granted to a jointly controlled entity of RMB115,000,000 (equivalent to approximately HK\$110,545,000). Loans of RMB40,000,000 (equivalent to approximately HK\$38,450,000) were drawdown by the jointly controlled entity as at 31 December 2005 (2004: Nil). The Group's proportionate share of bank loans of HK\$23,070,000 had been included in the consolidated balance sheet as at 31 December 2005 (2004: Nil).

In February 2001, the Group together with the Tradeport Logistics Centre consortium partners jointly gave a guarantee to the Airport Authority Hong Kong in respect of their obligations to provide sufficient funding for the development of the Tradeport Logistics Centre. On 17 March 2004, the Airport Authority Hong Kong 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.

The Group's attributable share of capital expenditure contracted for by the Group's jointly controlled entities at the balance sheet date but not yet incurred is as follows:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	<u>3,966</u>	<u>–</u>

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 the Company's fellow subsidiary, China National Aviation Corporation (Group) Limited. Likewise China National Aviation Corporation (Macau) 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 961 staff (2004: about 830), of which about 206 (2004: about 178) 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.

As at 31 December 2005, BACL has 1,095 staff and SWACL has 685 staff.

SUBSEQUENT EVENT

On 24 January 2006, the Group entered into agreements ("Macau Asia Express Agreement") with Shun Tak Air Transport Limited and its subsidiaries respectively, to establish Macau Asia Express Limited ("Macau Asia Express") to engage in the business activities of operating low cost model air transport services based in Macau. The Group will hold 43.7 percent effective equity interest (including indirect interest) in Macau Asia Express. The aggregate initial investment to Macau Asia Express is up to approximately HK\$234,000,000 and the Group's attributable share of the investment cost will be funded by the Group's internal resources. The completion of the establishment is subject to certain conditions to be fulfilled.

Macau Asia Express is a subsidiary of the Group, as defined by the laws of Macau, but the Group does not have unilateral control over the entity. Accordingly, it will be accounted for as a jointly controlled entity in accordance with HKAS 31 "Investments in joint ventures".

REPURCHASE, SALE OR REDEMPTION OF SHARES

The Group did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2005.

CORPORATE GOVERNANCE

The Board of Directors is committed to ensure that an effective self-regulatory and monitoring mechanism exists and is practised in conducting the business of the Group whenever suitable and appropriate.

The Company has complied with the code provisions set out in Appendix 14 "Code on Corporate Practices" to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited ("Stock Exchange") throughout the year ended 31 December 2005, except that:

- (i) the notice given to regular Board meeting may be less than 14 days because it is challenging to arrange for a meeting that suits all participants whom with tight and busy schedules; and
- (ii) the terms of reference of Audit Committee, Remuneration Committee and Nomination Committee can only be available upon request since no website of the Company was set-up.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the annual results of the Company for the year ended 31 December 2005.

PUBLICATION OF RESULTS ANNOUNCEMENT

All information required by paragraphs 45(1) and 45(8) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website at www.hkex.com.hk in due course.

APPOINTMENT OF GENERAL MANAGER

The Board is pleased to announce that Mr. Zhao Xiaohang, an executive director of the Company, was appointed as the General Manager (equivalent to Chief Executive Officer) of the Company with effect from 24 March 2006.

APPRECIATION

On behalf of the Board, I would like to express our heartfelt gratitude for the support of our business partners and shareholders and for the contribution of our management team and my fellow staff in 2005.

By Order of Board
Kong Dong
Chairman

Hong Kong, 24 March 2006

As at the date of this announcement, the Executive Directors are Messrs. Kong Dong, Chuang Shih Ping, Zhang Xianlin, Zhao Xiaohang, Tsang Hing Kwong, Thomas and Gu Tiefei and the independent Non-Executive Directors are Messrs. Lok Kung Nam, Hu Hung Lick, Henry, Ho Tsu Kwok, Charles, Li Kwok Heem, John and Chan Ching Har, Eliza.

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