中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1110)

2006 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Directors") of China National Aviation Company Limited (the "Company") is pleased to present the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June, 2006 as set out below:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
		2006	2005
	Note	***HK$'000***	*HK$'000*
Turnover	*2*	**1,431,170**	1,199,150
Other revenues		**3,785**	27,235
Total revenues		**1,434,955**	1,226,385
Other gains		**52,262**	23,329
Staff costs		**(193,236)**	(155,140)
Passenger catering and service costs		**(123,999)**	(114,971)
Fuel costs		**(408,193)**	(277,603)
Route operating costs		**(280,785)**	(247,039)
Aircraft maintenance costs		**(110,640)**	(109,725)
Aircraft leases and equipment costs		**(235,493)**	(206,701)
Depreciation and amortisation costs		**(38,698)**	(37,530)
Sales and promotion costs		**(37,630)**	(38,336)
Other operating costs		**(59,465)**	(43,899)
Total operating expenses		**(1,488,139)**	(1,230,944)
Operating (loss)/profit	*3*	**(922)**	18,770
Finance costs	*4*	**(504)**	(1,802)
Share of profits less losses of associates		**50,080**	120,498
Profit before income tax		**48,654**	137,466
Income tax	*5*	**(9,384)**	(5,812)
Profit for the period		**39,270**	131,654
Attributable to:			
Equity holders of the Company		**43,484**	122,910
Minority interests		**(4,214)**	8,744
		39,270	131,654
Interim dividend	*6*	**–**	26,501
		HK cents	*HK cents*
Earnings per share	*7*		
– Basic		**1.31**	3.71
– Diluted		**1.29**	3.67

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30th June, 2006** *HK$'000*	Restated 31st December, 2005 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**450,997**	471,692
Land use right		**2,233**	2,274
Intangible assets		**529,240**	529,240
Interests in associates		**313,655**	1,652,454
Loans to associates		**64,219**	47,097
Lease and equipment deposits		**62,723**	60,109
Deferred income tax assets		**20,709**	23,427
Pledged bank deposits		**101,220**	88,943
		1,544,996	2,875,236
Current assets			
Inventories		**54,205**	53,273
Trade and other receivables	*8*	**306,939**	283,544
Loan to an associate		**–**	18,060
Derivative financial instruments		**39,215**	11,957
Assets classified as held for sale		**1,369,264**	–
Cash and cash equivalents		**1,030,930**	999,833
		2,800,553	1,366,667
Total assets		**4,345,549**	4,241,903
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**331,268**	331,268
Reserves		**2,852,355**	2,786,302
Proposed dividend		**–**	33,127
		3,183,623	3,150,697
Minority interests		**223,138**	227,352
Total equity		**3,406,761**	3,378,049
LIABILITIES			
Non-current liabilities			
Provision for overhaul and major checks		**188,390**	154,904
Provision for housing allowances		**31,508**	34,126
		219,898	189,030
Current liabilities			
Trade and other payables	*9*	**545,253**	514,623
Sales in advance of carriage		**150,957**	132,394
Current income tax liabilities		**2,356**	2,436
Short-term bank loans – unsecured		**20,324**	25,371
		718,890	674,824
Total liabilities		**938,788**	863,854
Total equity and liabilities		**4,345,549**	4,241,903
Net current assets		**2,081,663**	691,843
Total assets less current liabilities		**3,626,659**	3,567,079

Notes:

1. **Basis of preparation and accounting policies**

This unaudited condensed consolidated financial information for the six months ended 30th June, 2006 ("Interim Financial Information") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The Interim Financial Information should be read in conjunction with the annual financial statements for the year ended 31st December, 2005.

The principal accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December, 2005, except that as described in the annual financial statements for the year ended 31st December, 2005, the following new standards, amendments to standards and interpretations are mandatory for financial year ending 31st December, 2006.

HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease"
Amendments to HKAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures"
Amendments to HKAS 39 "Financial Instruments: Recognition and Measurement":

– Cash Flow Hedge Accounting of Forecast Intragroup Transactions
– The Fair Value Option

Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:

– HKAS 1 "Presentation of Financial Statements"
– HKAS 27 "Consolidated and Separate Financial Statements"
– HKFRS 3 "Business Combinations"

Amendments to HKAS 39 "Financial Instruments: Recognition and Measurement" and HKFRS 4 "Insurance Contracts" – "Financial Guarantee Contracts"

The adoption of HKAS 19 (Amendment) has resulted in a change in accounting policy in which the actuarial gains and losses for defined benefit pension plans are recognised in full in the year in which they occur, outside the income statement, in the statement of recognised income and expense. In prior years, actuarial gains and losses are recognised by amortising the amount by which cumulative unrecognised gains and losses exceed 10% of the greater of the assets of plan and the defined benefit obligations over the average expected future working lifetime of the active members of the plan. The following is a summary of effect of adopting the HKAS 19 (Amendment) to the Interim Financial Information:

	30th June, 2006 *HK$'000*	31st December, 2005 *HK$'000*
Increase in interests in associates	**24,860**	24,860
Increase in retained profits	**24,860**	24,860

Other than above, there is no material change in principal accounting policies or presentation of financial statements and there is no material impact as a result of the adoption of the remaining new standards, amendments to standards and interpretations on the Interim Financial Information.

The following new standards, amendments to standards and interpretations, which will be relevant to the Group, have been issued but are not effective for 2006 and have not been early adopted:

	Effective for accounting periods beginning on or after
HK(IFRIC)-Int 7 "Applying the Restatement Approach under HKAS 29"	1st March, 2006
HK(IFRIC)-Int 8 "Scope of HKFRS 2"	1st May, 2006
HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives"	1st June, 2006
HKFRS 7 "Financial Instruments: Disclosures"	1st January, 2007
Amendments to HKAS 1 "Presentation of Financial Statements: Capital Disclosures"	1st January, 2007

The Group has not early adopted the above standards, interpretations and amendments in the Interim Financial Information. The Group has already commenced an assessment of the related impact to the Group but is not yet in a position to state whether substantial changes to the Group's principal accounting policies and presentation of the financial statements will be resulted.

2. Turnover and segment information

Turnover

	Six months ended 30th June, 2006 HK$'000	2005 HK$'000
Traffic revenues		
– Passenger services	**868,954**	736,672
– Cargo and mail services	**418,281**	343,111
Airline catering revenue	**143,935**	119,367
	1,431,170	1,199,150

Primary reporting format – Business segments

The Group, its jointly controlled entities and its associates are 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, results, assets and liabilities by business segments is as follows:

	Six months ended 30th June, 2006				
	Airline operation *HK$'000*	**Airport ground handling** *HK$'000*	**Airline catering** *HK$'000*	**Logistics and other businesses** *HK$'000*	**Total** *HK$'000*
Segment revenues	**1,291,020**	**–**	**143,935**	**–**	**1,434,955**
Segment results	**(21,659)**	**–**	**26,163**	**–**	**4,504**
Interest income					**15,831**
Unallocated costs					**(21,257)**
Operating loss					**(922)**
Finance costs					**(504)**
Share of profits less losses of associates	**(18,760)**	**65,134**	**6,175**	**(2,469)**	**50,080**
Profit before income tax					**48,654**
Income tax					**(9,384)**
Profit for the period					**39,270**
Capital expenditure	**16,603**	**–**	**2,816**	**–**	**19,419**
Depreciation	**32,750**	**–**	**5,907**	**–**	**38,657**
Amortisation	**–**	**–**	**41**	**–**	**41**
Reversal of provision for impairment of trade receivables	**(623)**	**–**	**–**	**–**	**(623)**

	At 30th June, 2006				
	Airline operation *HK$'000*	**Airport ground handling** *HK$'000*	**Airline catering** *HK$'000*	**Logistics and other businesses** *HK$'000*	**Total** *HK$'000*
Segment assets	**1,238,411**	**–**	**490,043**	**–**	**1,728,454**
Interests in associates	**–**	**213,443**	**129,851**	**(29,639)**	**313,655**
Assets classified as held for sale	**1,369,264**	**–**	**–**	**–**	**1,369,264**
Loans to associates	**–**	**–**	**–**	**64,219**	**64,219**
Unallocated assets					**869,957**
Total assets					**4,345,549**
Segment liabilities	**817,300**	**–**	**107,794**	**–**	**925,094**
Unallocated liabilities					**13,694**
Total liabilities					**938,788**

	Six months ended 30th June, 2005				
	Airline operation *HK$'000*	Airport ground handling *HK$'000*	Airline catering *HK$'000*	Logistics and other businesses *HK$'000*	Total *HK$'000*
Segment revenues	1,107,017	–	119,368	–	1,226,385
Segment results	5,477	–	16,354	–	21,831
Interest income					6,783
Unallocated costs					(9,844)
Operating profit					18,770
Finance costs					(1,802)
Share of profits less losses of associates	54,337	62,761	4,998	(1,598)	120,498
Profit before income tax					137,466
Income tax					(5,812)
Profit for the period					131,654
Capital expenditure	9,069	–	2,106	–	11,175
Depreciation	31,887	–	5,594	–	37,481
Amortisation	9	–	40	–	49
Reversal of provision for impairment of trade receivables	(790)	–	–	–	(790)

	At 31st December, 2005 (Restated)				
Segment assets	1,168,150	–	488,620	–	1,656,770
Interests in associates	1,365,917	188,807	123,676	(25,946)	1,652,454
Loans to associates	–	18,060	–	47,097	65,157
Unallocated assets					867,522
Total assets					4,241,903
Segment liabilities	741,313	–	115,658	–	856,971
Unallocated liabilities					6,883
Total liabilities					863,854

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**	
	Six months ended 30th June,		**Six months ended 30th June,**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
China mainland	**648,442**	551,830	**21,890**	(22,056)
Taiwan	**665,503**	607,474	**(3,875)**	77,695
Other regions	**121,010**	67,081	**(13,511)**	(33,808)
	1,434,955	1,226,385	**4,504**	21,831
Interest income			**15,831**	6,783
Unallocated cost			**(21,257)**	(9,844)
Operating (loss)/profit			**(922)**	18,770

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.

3. **Operating (loss)/profit**

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

	Six months ended 30th June,	
	2006	2005
	HK$'000	*HK$'000*
Crediting		
Reversal of provision for impairment of trade receivables	**623**	790
Fair value gains on derivative financial instruments	**36,430**	16,546
Charging		
Amortisation of intangible assets	**–**	9
Amortisation of land use right	**41**	40
Cost of inventories expensed	**74,093**	67,361
Depreciation of property, plant and equipment	**38,657**	37,481

4. **Finance costs**

	Six months ended 30th June,	
	2006	2005
	HK$'000	*HK$'000*
Interest expenses on short-term bank loans	**504**	1,802

5. **Income tax**

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30th June, 2005: 17.5%) on the estimated assessable profit. Macau Complementary Tax has been provided at the rate of 12% (six months ended 30th June, 2005: 15.75%) on the estimated assessable profit for the period.

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 (2006) No. 40 issued by the Sichuan State Tax Bureau, the income tax rate of SWACL has increased from 15% to 18% with effect from 1st January, 2006 (six months ended 30th June, 2005: 15%). BACL is subject to the income tax rate of 27% (six months ended 30th June, 2005: 27%).

Taxation outside Hong Kong and Macau has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30th June,	
	2006	2005
	HK$'000	*HK$'000*
Current income tax		
– Taxation outside Hong Kong and Macau	**6,677**	4,409
– Over provisions in prior years	**(11)**	(66)
Deferred income tax	**2,718**	1,469
Income tax	**9,384**	5,812

6. **Interim dividend**

	Six months ended 30th June,	
	2006	2005
	HK$'000	*HK$'000*
Interim dividend proposed of nil (six months ended 30th June, 2005: HK0.8 cent) per share	**–**	26,501

7. **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 period.

	Six months ended 30th June,	
	2006	2005
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company	**43,484**	122,910
Weighted average number of shares in issue (thousands)	**3,312,680**	3,312,680
Basic earnings per share (HK cents per share)	**1.31**	3.71

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 period, 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.

	Six months ended 30th June,	
	2006	2005
	HK$'000	*HK$'000*
Profit attributable to the equity holders of the Company	**43,484**	122,910
Weighted average number of shares in issue (thousands)	**3,312,680**	3,312,680
Adjustment for assumed conversion of share options (thousands)	**45,519**	35,741
Weighted average number of shares for diluted earnings per share (thousands)	**3,358,199**	3,348,421
Diluted earnings per share (HK cents per share)	**1.29**	3.67

8. Trade and other receivables

Trade and other receivables include trade receivables from third parties, immediate holding company, an associate 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:

	30th June, 2006	31st December, 2005
	HK$'000	*HK$'000*
Within 31 days	**199,804**	194,210
31 – 60 days	**23,637**	20,414
61 – 90 days	**11,480**	8,882
Over 90 days	**10,377**	9,752
	245,298	233,258

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:

	30th June, 2006	31st December, 2005
	HK$'000	*HK$'000*
Within 31 days	**193,450**	191,664
31 – 60 days	**43,502**	47,243
61 – 90 days	**27,548**	17,038
Over 90 days	**10,647**	9,674
	275,147	265,619

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the first half of 2006, the Group successfully capitalised on the growing demand for business and leisure travel within the region and recorded a continuous increase in both passenger volume and cargo volume for its airlines. However, the record high fuel prices impacted the Group's results significantly.

The Group's aviation-related businesses also posted healthy growth, with airline-catering businesses remaining the major driving forces. This sector contributed to 10 percent of the Group's turnover and 28.7 percent of the profit attributable to equity holders of the Company. The diversified business portfolio has enhanced the Group's resilience in coping with the ever-changing market environment, and is conducive to the future development of the Group.

For the six months ended 30th June, 2006, turnover of the Group increased by 19.4 percent to HK$1,431.2 million. Because of the adverse effects of escalating fuel prices, the Group incurred HK$0.92 million operating loss during this period. Profit attributable to equity holders of the Company amounted to HK$43.5 million, representing a 64.6 percent decrease compared with HK$123 million in same period last year. Basic earnings per share were HK1.31 cents (six months ended 30th June, 2005: HK3.71 cents).

Air Macau Company Limited ("Air Macau")

In the first half of 2006, soaring fuel prices continued to influence the operation of Air Macau as system-wide fuel prices increased by 24.7 percent over the same period last year. Fuel hedging program was used to offset partially the negative impact caused by surging fuel prices. The Air Macau management also employed stringent cost control measures to contain operating costs.

Passenger revenue surged by 17.5 percent over the same period in 2005 to MOP956.5 million (2005: MOP814.2 million). This increase was mainly driven by the 10.7 percent rise in passenger flights operated in the first half of 2006, to 9,993 flights versus 9,027 flights operated during the same period in 2005. Revenue passenger kilometres ("RPK") grew by 23.8 percent from 1,149.5 million in 2005 to 1,423 million in 2006. Total passengers carried in the first half of 2006 reached 1,160,158, a growth of 18.3 percent over the same period of last year. The passenger load factor rose by 5.1 percentage points in the first half of 2006 to 74.2 percent from 69.1 percent in 2005, whereas yield per passenger declined slightly in the first half of 2006 by 0.4 percent to MOP771 from MOP774 in 2005.

Freighter revenue generated in the first half of 2006 was MOP369.3 million, compared with MOP298 million in the same period of 2005, representing a healthy growth of 23.9 percent. The number of freighter flights operated also went up by 13.3 percent from 2,439 in 2005 to 2,764 in 2006. The demand for cargo continued to grow steadily in 2006, leading to a rise of 25.3 percent in cargo tonnage in the first half of 2006. A total of 80,839.1 tonnes were carried in the first half of 2006 compared with 64,524.4 tonnes in the same period of 2005. Cargo tonne kilometres ("CTK") strengthened by 28.6 percent from 110 million in 2005 to 141.5 million in 2006. The cargo load factor dropped by 1.3 percentage points in the first half of 2006 from 65.2 percent in 2005 to 63.9 percent in 2006; cargo yield also fell by 1.8 percent in the first half of 2006 to MOP5.3 from MOP5.4 in 2005.

As of 30th June 2006, Air Macau operated a fleet of 19 aircraft, of which 14 were passenger aircraft from the Airbus family comprised of seven A321s; one A320; five A319s and one A300-600R wide-bodied aircraft, which joined the fleet on 15th June 2006. The size of the freighter fleet stood at five, all of which are A300-B4F aircraft.

In March 2006, Air Macau commenced operation into Hangzhou with a service of four weekly flights. Two more destinations, Guiyang and Changsha, were added to the network in April. In June, Air Macau started cargo services on the route of Macau–Pudong–Xiamen–Macau. At present, Air Macau's passenger network covers a total of 17 destinations in Asia, 12 of which are to China mainland. Freighter services include a total of four destinations.

Hong Kong Dragon Airlines Limited ("Dragonair")

Dragonair recorded a loss of HK$43.3 million in the first half of 2006 compared with a profit of HK$95.2 million during the same period last year. Higher fuel prices affected the results of Dragonair significantly, due to a 32 percent increase in fuel prices system-wide over the same period last year.

Fuel costs accounted for 29.0 percent of total operating costs during the review period, up by 5.9 percentage points from the same period last year. Fuel hedging program and the imposition of passenger and cargo fuel surcharge helped to mitigate part of the adverse impact of soaring fuel prices. Dragonair management also took various measures to reduce the dead weight of aircraft and change aircraft operational procedures to cut fuel consumption.

Dragonair continued to exercise tight controls over other operating costs with unit costs before fuel dropping by 8.0 percent to HK$2.3 per ATK.

Passenger revenue rose to HK$2,965.1 million up 8.5 percent over the same period in 2005 due to an increase in passenger service capacity to China mainland. The number of passengers reached 2.6 million, representing a 10.2 percent increase, and the passenger load factor also increased by 0.5 percentage points to 64.6 percent. Passenger yield decreased by 1.5 percent to HK$0.877 per RPK. Dragonair started a new passenger service to Shenyang via Dalian three times a week in March 2006, serviced by A320 aircraft.

Cargo revenue was HK$1,987.5 million, up by 7.5 percent from the same period in 2005. Dragonair carried 188,000 tonnes of cargo in the first half of 2006, representing a growth of 4.6 percent due to increase in passenger services, and the New York freighter service commenced operation in April 2005. Moreover, the cargo load factor increased by 0.4 percentage points to 72.0 percent. However, cargo yield dropped by 6.7 percent to HK$2.8 per CTK, mainly because of intensifying market competition and an increase in long haul freighter service with lowering yields on a per kilometer basis. From April 2006 onwards, Dragonair increased the number of scheduled B747 freighter services to Frankfurt from three times a week to four times a week, to meet growing market demand.

As at 30th June 2006, Dragonair operated scheduled passenger and cargo services to 37 destinations, of which 23 are in China mainland and 14 are in Asia, Europe, United Kingdom and the USA.

Two A330 aircraft under operating leases were delivered, one in January and one in April 2006 respectively. However, the decision not to launch a Sydney passenger service has resulted in surplus capacity. In view of this decision, two more A330s, in addition to one A320 and one A330, were wet leased to Air China in February and April 2006 respectively. Furthermore, one A320 under operating lease was returned to ILFC in June 2006. Dragonair's fleet in service amounted to thirty-three aircraft including nine A320s, six A321s, twelve A330s, one B747-200F, three B747-300SFs and two wet lease freighters as of the end of June 2006. For future expansion in passenger and cargo services, one A330 under operating lease is to be delivered in October 2006, and our first two B747-400 Boeing Converted Freighters will be delivered in October and December 2006.

The Dragonair management is committed to providing good services to its customers and enhancing its position as the airline of choice to the Mainland. The company's effort was recognised with the 'Best Airline – China' award for the fifth consecutive year in 2006, by the renowned international Skytrax passenger survey.

Despite a tough business environment with soaring fuel prices and fierce market competition, as well as the entry of new players into the China market, Dragonair's management remains optimistic about the airline's future. As the market leader for operations between China mainland and Hong Kong, Dragonair operates the largest number of routes between the two places, and in particular the highest daily frequency of services into both Shanghai and Beijing. The airports in both cities are now slot constrained throughout the day. We expect more traffic to be fed into Dragonair from Cathay Pacific's global network, with better schedule integration and competitive pricing arrangements between the two airlines.

Beijing Air Catering Co., Ltd. ("BACL")

During the first half of 2006, the number of flights catered by BACL increased by 15.6 percent while the number of in-flight meals served increased by 14.3 percent. BACL handled 40,639 meals daily on average during the review period. It remains the largest in-flight caterer in Beijing Capital International Airport with an approximately 75.2 percent market share.

Construction of a catering building in Beijing Capital International Airport is expected to commence in November 2006. BACL is well positioned to capture the growing demand for in-flight catering services.

Southwest Air Catering Company Limited ("SWACL")
During the first half of 2006, SWACL provided in-flight catering services for 13,324 flights, an increase of 15 percent from the same period last year. The total number of in-flight meals served increased by 16 percent to over 1.87 million. It remains the largest in-flight caterer in Chengdu Shuangliu International Airport with a market share of approximately 70 percent.

With more new airlines commencing operations in Chengdu, coupled with the expansion of existing airlines, SWACL expects further business growth in the second half of 2006.

LSG Lufthansa Service Hong Kong Limited ("LLSHK")
Compared to the first half of 2005, the number of meals served and the number of flights catered by LLSHK increased by 12.7 percent and 9.6 percent respectively, thanks to strong air traffic demand and new customers in 2006.

Due to contribution from LLSHK's two-pronged approach of price increases on one side and various cost savings measures for containing operating costs on the other, the profit margin in the first half of 2006 slightly improved by 0.4 percent compared to the same period in the previous year.

Continuing revenue and volume growth is expected in the second half of 2006 in the light of growing air traffic demand, and with new airlines commencing operations in Hong Kong.

Jardine Airport Services Limited ("JASL")
In the first half of 2006, the consolidated turnover of JASL increased by 10.8 percent mainly due to increasing flight frequencies handled. JASL handled 35,862 aircraft movements, an increase of 10.9 percent over the same period in 2005, and maintained approximately 49 percent of the third-party ground handling market at Hong Kong International Airport ("HK Airport"). Jardine Air Terminal Services Limited ("JATS") handled 49,438 aircraft movements, an increase of 16 percent compared with the same period of 2005, representing an approximately 62 percent share of the third-party ramp handling market at the HK Airport.

Given the strong support and business connections of its shareholders, JASL will continue to explore new business opportunities in China mainland and is confident to secure these opportunities.

Menzies Macau Airport Services Limited ("Menzies Macau")
For the six months ended 30th June, 2006, Menzies Macau handled 11,799 aircraft turns, representing an increase of 13.6 percent over the same period in 2005.

Cargo volume handled by Menzies Macau increased by 9.2 percent compared with the same period in 2005. However, 53 percent of the cargo volume was transfer cargo with much lower handling charges than those of cargo terminating in Macau. As a result, the total revenue for the first half of 2006 grew slightly by 2.5 percent.

With a new airline starting operations in Macau in the fourth quarter of 2006, Menzies Macau looks forward to sustaining its successful performance in the second half of 2006.

Tradeport Hong Kong Limited ("Tradeport Hong Kong")
Tradeport Hong Kong continued growing during the first half of 2006. At the end of June 2006, capacity utilisation of the Logistics Centre reached 91 percent against 75 percent in June 2005. Consolidated revenue for the first half of 2006 was HK$32.8 million, up 15 percent from the same period last year.

Outlook

In June 2006, the Company announced the entering into of the restructuring agreement for the disposal of all its equity shares in Dragonair, in return for the acquisition of a 7.34 percent shareholding in Cathay Pacific Airways Limited. It will provide the Group with an income source from a listed company with dominant market presence. The transaction will consolidate and optimise resources, align the shareholding structure of Dragonair, facilitate its healthy development in the long term. In addition, the synergies created from the combination of the two airlines will not only be limited to saving costs and leveraging operations, but also further gains from the geographical advantages of its position in the Greater China Region. The Group will continue to be engaged in air transportation services, airline catering services, airport ground handling services and logistics services.

In view of the intensifying competition in China's aviation industry combined with soaring fuel prices, airline companies are facing unprecedented challenges. In the future, we will continue to streamline our business operations and tighten cost-control measures. Macau's booming tourism market will offer enormous development potential for Air Macau and the Group's low-cost carriers. The debut of the commercial flights by Macau Asia Express Limited in mid-2007 will provide travelers with affordable flight services. This also represents a noteworthy step towards growth for the Group in light of the new industry landscape. The Group will also strengthen its position in the airline-catering business and further develop its aviation-related business, with a particular focus in China mainland.

Looking ahead, the Asian aviation industry will continue to face tremendous changes driven by market consolidation and an increasing number of new entrants, while industry prospects remains overshadowed by high fuel costs. Recent changes in our business structure have given us a strong impetus to grow and stay competitive. The Group will strive to capture new business opportunities arising from the fast growing aviation and travel business in the region, and will strive to broaden our income base.

Financial Review

Liquidity and Financial Resources

The Group generally financed its operations with cash flow generated internally. As at 30th June, 2006, the Group had cash and cash equivalents of a total amount of approximately HK$1,031 million and net current assets of approximately HK$2,082 million. The Group consistently maintained a strong working capital during the six months ended 30th June, 2006. As at 30th June, 2006, the current liabilities of the Group was approximately HK$719 million.

Share Capital

There were no options granted or exercised during the period, and 104,378,000 options remained outstanding as at 30th June, 2006.

As at 30th June, 2006, 3,312,680,000 shares were in issue (31st December, 2005: 3,312,680,000 shares).

Contingent Liabilities and Commitments

As at 30th June, 2006, the Group had given a guarantee to a bank for loan facilities granted to an associate totalling HK$20,000,000 (31st December, 2005: HK$20,000,000).

As at 30th June, 2006, the Group had given a guarantee to a bank for loan facilities granted to a jointly controlled entity of RMB32,250,000 (equivalent to approximately HK$31,311,000). Loans of RMB30,000,000 (equivalent to approximately HK$29,126,000) were drawn down by the jointly controlled entity as at 30th June, 2006 (31st December, 2005: HK$38,450,000). The Group's proportionate share of bank loans of HK$17,476,000 had been included in the unaudited condensed consolidated balance sheet as at 30th June, 2006 (31st December, 2005: HK$23,070,000).

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 17th 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.

As at 30th June, 2006, the Group had committed to make additional capital contribution to a jointly controlled entity, Macau Asia Express Limited, with an aggregate amount of up to approximately HK$58,491,000.

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:

	30th June, 2006	31st December, 2005
	HK$'000	*HK$'000*
Property, plant and equipment	**5,667**	3,966

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 percent held subsidiary, employs about 1,001 staff (six months ended 30th June, 2005: 928 staff). 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 30th June, 2006, BACL has 1,086 staff and SWACL has 670 staff.

REPURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's shares during the six months ended 30th June, 2006.

AUDIT COMMITTEE

The Audit Committee of the Company has discussed and reviewed with the Company's management the Interim Financial Information of the Group for the six months ended 30th June, 2006, and has also discussed among themselves matters including internal control and financial reporting.

CORPORATE GOVERNANCE

The Board of Directors is committed to ensure that an effective self-regulatory and monitoring mechanism exists and is practiced 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 Governance Practices" to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited ("Stock Exchange") throughout the six months ended 30th June, 2006, except that 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.

MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied throughout the six months ended 30th June, 2006 with the required standard set out in the Model Code.

INTERIM DIVIDEND

The Directors have resolved not to declare interim dividend for the six months ended 30th June, 2006 (six months ended 30th June, 2005: HK0.8 cent per share).

PUBLICATION OF RESULTS ANNOUNCEMENT

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

APPRECIATION

On behalf of the Board, I would like to express our heartfelt gratitude for the support of our business partners, shareholders and other stakeholders over the past years. Also, our warmest appreciation goes to the contribution and dedication of our management team and staff, which have made the Group to prosper and grow amidst all of these challenges.

By Order of Board
Kong Dong
Chairman

Hong Kong, 29th August, 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 Tiefe 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."