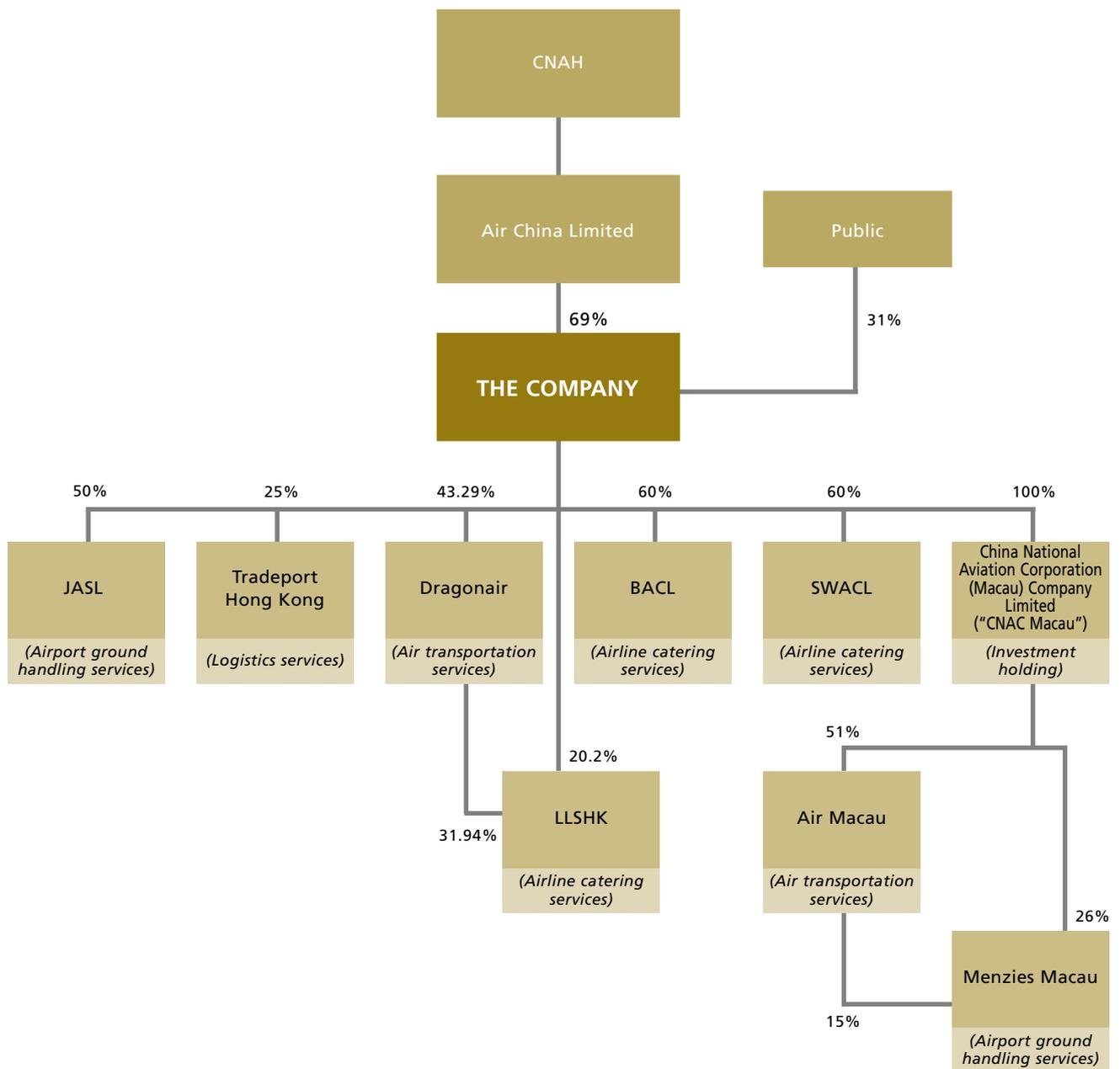


Operations Review

CORPORATE STRUCTURE

The following chart sets out the simplified corporate structure of the Company, its holding companies, its principal subsidiaries, its jointly controlled entities and its principal associates as at 31st December 2005:



Operations Review (Cont'd)

OPERATIONS REVIEW

The Group is engaged in the provision of **air transportation services** through

- Air Macau, CNAC Macau's 51 percent owned subsidiary, and
- Dragonair, the Group's 43.29 percent owned associate;

The provision of **airline catering services** through

- BACL, the Group's 60 percent owned jointly controlled entity,
- SWACL, the Group's 60 percent owned jointly controlled entity, and
- LLSHK, the Group's 20.2 percent directly owned and 34.03 percent effectively owned associate;

The provision of **airport ground handling services** through

- JASL, the Group's 50 percent owned associate, and
- Menzies Macau, CNAC Macau's 26 percent directly owned and 33.65 percent effectively owned associate;

and in **logistics services** through

- Tradeport Hong Kong, the Group's 25 percent owned associate.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations with cash flow generated internally. As at 31st 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 31st December 2005, the current liabilities of the Group was approximately HK\$675 million.

CONTINGENT LIABILITIES AND COMMITMENTS

As at 31st 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 31st 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 drawn down by the jointly controlled entity as at 31st 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 31st December 2005 (2004: Nil).

CONTINGENT LIABILITIES AND COMMITMENTS (Cont'd)

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.

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 HK\$'000	2004 HK\$'000
Property, plant and equipment	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, CNAC (Macau) Aviation Limited also concluded a management services agreement with CNAC Macau. Both agreements were negotiated under normal commercial terms and conditions.

Air Macau, a 51 percent 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 31st December 2005, BACL has 1,095 staff and SWACL has 685 staff.

Operations Review (Cont'd)

AIR MACAU COMPANY LIMITED

The Group owns a 51 percent shareholding in Air Macau through its wholly owned subsidiary CNAC Macau. The airline was established in Macau in 1994 as a home based carrier and commenced commercial operation in November 1995 under a concession agreement with the Macau government, granting the airline the exclusive right to operate as Macau's home based carrier for a 25-year period, until the year 2020.

Principal activities of Air Macau include:

- the operation of an airline; and
- the provision of airport ground handling services through Menzies Macau, a 15 percent owned associate.

Route Profile:

- At the end of 2005 and 2004, the number of destinations served by Air Macau categorised by China mainland and non-China mainland destinations are summarised as follows:

	Licensed Passenger and Cargo	Number in service as at 31st December 2005	2004
Destinations:			
China mainland	37	10	8
Non-China mainland	46	5	5
Total	83	15	13

- Air Macau's passenger and freighter services operated a total of 23,770 flights (including charter flights) in 2005 between Macau and 26 destinations in Asia, encompassing Beijing, Chengdu, Haikou, Kunming, Guilin, Nanjing, Shanghai, Xiamen, Shenzhen, Nanning, Sanya, Zhengzhou, Taipei, Kaohsiung, Bangkok, Manila, Seoul, Busan, Gwangju, Siem Reap, Takamatsu, Okayama, Tokyo, Darwin, Phnom Penh, and Dhaka.

AIR MACAU COMPANY LIMITED (Cont'd)

Fleet Profile:

- As at the end of 2005, Air Macau's fleet comprised of 18 aircraft (2004: 15). At the end of 2005 and 2004, Air Macau's fleet was as follows:

Aircraft Type	Number of aircraft as at 31st December	
	2005	2004
A319	5	4
A320	1	1
A321	7	6
B727 Freighter	0	1
A300B4 Freighter	5	3
Fleet total	18[#]	15

- # Twelve (2004: ten) aircraft were under operating leases, while five A300B4 freighter (2004: one B727 freighter and three A300B4 freighters) were under wet lease, and one A321 (2004: one A321) was owned by Air Macau.

Operations Review (Cont'd)

AIR MACAU COMPANY LIMITED (Cont'd)

Operating Summary:

		Year ended 31st December		
		2005	2004	Change %
Overall operating:				
Available tonne-kilometre (ATK)				
– Passenger aircraft	(million)	392.44	349.20	+12.38
– Freighter	(million)	206.92	117.14	+76.64
Aircraft utilisation				
– A319	(hr/day)	5.3	5.5	–3.64
– A320	(hr/day)	5.8	6.1	–4.92
– A321	(hr/day)	7.3	7.0	+4.29
– B757	(hr/day)	5.48	5.68	–3.52
– B727 freighter	(hr/day)	4.0	4.6	–13.04
– A300B4 freighter	(hr/day)	4.6	5.3	–13.21
Passenger services:				
Available seat kilometer (ASK)	(million)	3,425.4	3,068.2	+11.64
Total passengers carried	('000)	2,059.6	1,808.0	+13.92
Revenue passenger kilometer (RPK)	(million)	2,449.8	2,145.6	+14.18
Passenger yield per RPK	(avos)	65	65	–
Passenger load factor	(%)	72	70	+2 pt
Cargo services:				
Cargo tonne kilometre (CTK)				
– Passenger aircraft	(million)	22.5	23.2	–3.02
– Freighter	(million)	147.5	84.4	+74.76
Total cargo tonnes carried				
– Passenger aircraft	(tonnes)	19,251	19,601	–1.79
– Freighter	(tonnes)	132,662	83,683	+58.53
Cargo yield per CTK				
– Passenger aircraft	(avos)	505	497	+161
– Freighter	(avos)	485	488	–0.61
Cargo load factor				
– Passenger aircraft	(%)	45.1	54.8	–9.7 pt
– Freighter	(%)	71.3	72.1	–0.8 pt

AIR MACAU COMPANY LIMITED (Cont'd)

- Air Macau carried more than 2 million passengers in 2005, an increase of more than 13.91 percent from 2004. Capacity of passenger services as measured by ASK increased by 11.64 percent, while passenger loading as measured by RPK rose by 14.18 percent. The higher rate of increase in RPK to ASK created a 2 percentage point increase in passenger load factor, to 72 percent.
- Passenger yield of 2005 was 65 cents per RPK, the same as that of 2004. Yield improvement was constrained as a result of competitive market dynamics and the depreciation of the Taiwan currency.
- Further expansion of the cargo business in 2005 was demonstrated by the 74.76 percent increase in freighter FTK. Tonnage uplift on freighters increased 58.53 percent, but the freighter load factor was 71.3 percent, 1.07 percentage points lower compared to 2004.

Traffic Profile:

- The following table sets out Air Macau's traffic summary for the years ended 31st December 2005 and 2004 by geographical area, expressed as a percentage of the total volume of revenue passengers and cargo carried:

Routes	Passenger Services		Cargo Services	
	Year ended		Year ended	
	31st December		31st December	
	2005	2004	2005	2004
	%	%	%	%
China mainland	43	41	41	40
Taiwan region	50	52	58	59
Other destinations in Asia	6	6	1	1
Ad-hoc charters	1	1	–	–
Total	100	100	100	100

- In 2005, Air Macau increased its passenger services to Seoul, Korea by increasing the frequency from seven flights weekly to nine flights weekly. It operated a total of 194 segments on ad-hoc charter flights to destinations including Guilin, Zhengzhou and Nanning in China mainland, Siem Reap in Cambodia, Busan and Kwangju in Korea, Takamatsu, Okayama and Tokyo in Japan, Bangkok in Thailand, and Darwin in Australia. In February 2005, Air Macau launched its own frequent flyer program – “Privileges” – which has proved popular, with its membership as of 31st December 2005 reaching 52,000.
- During the year, Air Macau faced increased competition from low cost carriers. Moreover, the persistent high fuel costs and the depreciation of the Taiwan currency also added pressure to the carrier. In view of these challenges, the management took decisive and timely measures to improve efficiency and enhance productivity.
- The Cargo Department, set up in May 2004, increased frequencies and strengthened market share in Shenzhen, Shanghai, Xiamen and Taipei in 2005. At the same time, it launched a regular service to Phnom Penh, Cambodia and operated charter services to Dhaka, Bangladesh.

Operations Review (Cont'd)

AIR MACAU COMPANY LIMITED (Cont'd)

Cost Profile:

- The overall operating expenditure increased by 34.42 percent mainly due to high fuel prices.
- The following table sets out Air Macau's cost summary for the years ended 31st December 2005 and 2004:

Expenditure	Year ended 31st December		
	2005 %	2004 %	Change % point
Staff costs	11	13	-2
Passenger catering and service costs	4	5	-1
Fuel costs	27	21	+6
Route operating costs	21	24	-3
Aircraft maintenance costs	9	8	+1
Aircraft equipment costs	18	19	-1
Depreciation and amortisation costs	3	4	-1
Sales and promotion costs	4	3	+1
Other operating costs	3	3	-
Total	100	100	

- The increase in the fuel cost was mainly due to high fuel prices globally.
- The decrease in route operating cost and passenger catering and service costs was mainly due to price negotiation which reduced the contract rates, and a better incentive program.
- The increase in sales and promotion was in line with the development of the operation.
- The increase in aircraft equipment and maintenance costs was mainly caused by the increase in flight operations.
- The decrease in the depreciation and amortisation costs was the result of continuous stringent control measures on assets purchased.

HONG KONG DRAGON AIRLINES LIMITED

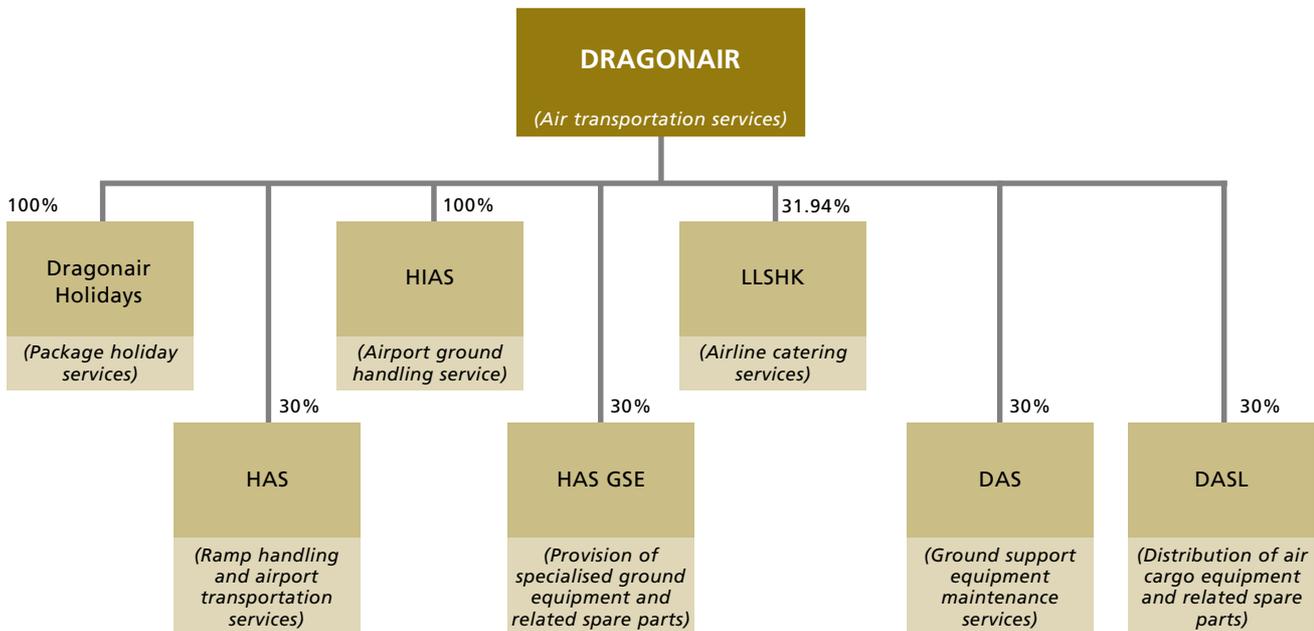
The Group owns a 43.29 percent interest in Dragonair and remains its single largest shareholder. The principal activities of Dragonair are:

- the operation of an airline;
- the provision of holiday packages through Dragonair Holidays Limited (“Dragonair Holidays”), a wholly-owned subsidiary of Dragonair;
- the provision of airport ground handling services through Hong Kong International Airport Services Limited (“HIAS”), its wholly-owned subsidiary;
- the provision of airline catering services through LSG Lufthansa Service Hong Kong Limited (“LLSHK”), its 31.94 percent owned associate;
- the provision of ramp handling and airport transportation services through Hong Kong Airport Services Limited (“HAS”), its 30 percent owned associate;
- the provision of specialised ground equipment and related spare parts through HAS GSE Solutions Limited (“HAS GSE”), its 30 percent owned associate;
- the provision of ground support equipment maintenance services through Dah Chong Hong – Dragonair Airport GSE Service Limited (“DAS”), its 30 percent owned associate;
- distribution of air cargo equipment and related spare parts through DAS Aviation Support Limited (“DASL”), its 30 percent owned associate.

Operations Review (Cont'd)

HONG KONG DRAGON AIRLINES LIMITED (Cont'd)

The following chart sets out the current simplified corporate structure of Dragonair, its principal operating subsidiaries and associates and their respective activities:



The majority of the income of Dragonair is derived from the provision of passenger and cargo air transportation services. The following table sets out the composition of the profit before tax of Dragonair for the years ended 31st December 2005 and 2004, derived from its major business operations expressed as percentages of the total profit before tax of Dragonair:

	Year ended 31st December		
	2005 %	2004 %	Change % point
Airline operations	75.9	91.2	-15.3
HIAS	10.2	4.0	+6.2
LLSHK	6.5	2.1	+4.4
HAS	6.8	2.5	+4.3
HAS GSE	0.1	0.1	-
DAS	0.2	-	+0.2
DASL	0.3	0.1	+0.2
Total	100.0	100.0	

Profit before tax from airline operations was significantly affected by high fuel price in 2005. Fuel cost increased by 69.8 percent and represented 24 percent of total operating costs. As a result, Dragonair's share of its total profit before tax from the airline operations decreased from 91.2 percent in 2004 to 75.9 percent in 2005.

HONG KONG DRAGON AIRLINES LIMITED (Cont'd)**AIR TRANSPORTATION**

Route Profile:

At the end of 2005 and 2004, the number of destinations serviced by Dragonair was as follows:

	Licensed		Number in service as at 31st December	
	Passenger and cargo	All cargo	2005	2004
Destinations:				
China mainland	50	–	22	21
Non-China mainland	42	23	14	15
Total	92	23	36	36

In 2005, Dragonair operated scheduled services to 36 destinations, 22 of which are in China mainland. Dragonair conducted a total of 20,093 round trips during 2005. The Shanghai route remained the most profitable route in 2005. Dragonair launched its trans-Pacific freighter services to New York in April 2005 using a wet-leased B747-400 freighter.

Fleet Profile:

During 2005, five aircraft were delivered including:

- Three A330s under operating lease, each in March, May and November 2005
- One A320 purchased in April 2005
- One B747-400 freighter under wet lease in April 2005

To better utilise the capacity originally intended for passenger service to Seoul, Dragonair has wet leased one A320 and one A330 to Air China from September 2005 onwards for two years. Dragonair's fleet at the end of 2005 comprised of 36 aircraft, as follows:

Aircraft type	Number of aircraft as at 31st December	
	2005	2004
A320	11	10
A321	6	6
A330	13	10
A300B4F	1	1
B747-200F	1	1
B747-300SF	3	3
B747-400F	1	0
Fleet Total	36 [#]	31

Eighteen aircraft are under operating leases (2004: fifteen), of which one A320 and one A330 were wet leased to Air China, five (2004: five) are under finance leases and seven are owned by Dragonair (2004: six). Four freighters were owned by Dragonair (2004: four) and two freighters were under wet lease (2004: one).

Operations Review (Cont'd)**HONG KONG DRAGON AIRLINES LIMITED (Cont'd)**

Fleet Expansion Plan:

Year	Purchase	Operating Lease
2006	2 B747-400 converted freighters	3 A330s
2007	2 B747-400 converted freighters	
2008	1 B747-400 converted 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. However, the deferral of launching Sydney passenger service has resulted in additional surplus capacity. In this respect, one more A330 has been wet leased to Air China since February 2006 and another A330 from April 2006 for a period of 1.5 year and 2 years respectively.

HONG KONG DRAGON AIRLINES LIMITED (Cont'd)

Operating Summary:

		Year ended 31st December		
		2005	2004	Change %
Overall operation:				
Available tonne kilometer (ATK)				
– Passenger aircraft	('000)	1,439,841	1,330,721	+8.2
– Freighter	('000)	1,588,580	1,099,467	+44.5
Revenue load factor	(%)	69.8	71.3	–1.5 pt
Aircraft utilisation				
– A320	(hr/day)	8.5	7.9	+7.6
– A321	(hr/day)	9.5	9.5	–
– A330	(hr/day)	9.1	9.3	–2.2
– A300B4F	(hr/day)	7.9	6.0	+31.7
– B747-200F	(hr/day)	11.9	13.1	–9.2
– B747-300SF	(hr/day)	12.9	12.5	+3.2
– B747-400F	(hr/day)	14.8	–	N/A
Passenger services:				
Available seat kilometers (ASK)	('000)	10,064,986	9,175,702	+9.7
Total passengers carried		5,260,923	4,793,099	+9.8
Revenue passenger kilometre (RPK)	('000)	6,484,849	5,954,669	+8.9
Passenger yield per RPK	(HK cents)	88.7	86.2	+2.9
Passenger load factor	(%)	64.4	64.9	–0.5 pt
Cargo services:				
Cargo tonne kilometers (CTK)				
– Passenger aircraft	('000)	217,718	211,092	+3.1
– Freighter	('000)	1,191,012	875,562	+36.0
Total cargo tonnes carried				
– Passenger aircraft	(tonnes)	161,650	158,617	+1.9
– Freighter	(tonnes)	223,689	183,796	+21.7
Cargo yield per CTK				
– Passenger aircraft	(HK cents)	580	559	+3.6
– Freighter	(HK cents)	240	230	+4.3
Cargo load factor				
– Passenger aircraft	(%)	61.5	64.7	–3.2 pt
– Freighter	(%)	75.0	79.6	–4.6 pt

Operations Review (Cont'd)

HONG KONG DRAGON AIRLINES LIMITED (Cont'd)

Dragonair carried 5.3 million passengers in 2005, an increase of 9.8 percent compared to 2004. The capacity of passenger services as measured by ASK rose by 9.7 percent, mainly due to an increase in the number of flights.

Passenger yield reported an increase of 2.9 percent over that of 2004 because of higher passenger fuel surcharges imposed in 2005.

In 2005, the capacity of freighter services as measured by ATK rose by 44.5 percent due to the full year impact of the introduction of a wet leased A300B4 freighter services to Osaka, Shanghai and Nanjing beginning in June 2004 and our freighter service to Frankfurt beginning in late July 2004. In addition, Dragonair has operated freighter services to New York a three times weekly since April 2005 using a B747-400 freighter under a wet lease agreement.

Cargo yield for passenger aircraft and cargo yield for freighters increased by 3.6 percent and 4.3 percent respectively from 2004. These increases were helped by the higher yield of more short-haul freighter services operated and the imposition of a higher cargo fuel surcharge in 2005.

In 2005, Dragonair's freighter aircraft utilisation rate increased by 3.4 percent whereas the cargo load factor for freighters dropped by 4.6 percentage points from those of 2004.

Traffic Profile:

The following table sets out Dragonair's traffic summary for the years ended 31st December 2005 and 2004 by geographical area, expressed as a percentage of the total number of passengers and tonnage of cargo carried:

Routes	Passenger Services		Cargo Services	
	Year ended		Year ended	
	31st December		31st December	
	2005	2004	2005	2004
	%	%	%	%
China mainland scheduled services	68.0	67.6	40.1	44.1
Taiwan region	22.6	22.0	21.2	21.9
Japan	2.9	2.2	9.6	8.8
Europe and Middle East	–	–	21.5	21.5
U.S.A	–	–	4.3	–
Other destinations	6.0	7.9	3.2	3.3
Ad-hoc charters	0.5	0.3	0.1	0.4
Total	100	100	100	100

Dragonair operates passenger services to 30 destinations in Asia, of which 22 are in China mainland. The airline's scheduled flights to Shanghai have increased to 108 per week during the 2005 winter schedule. Dragonair also provided additional flights to most China mainland routes to cope with growing traffic demand in 2005. However, Bangkok passenger services were reduced from two flights daily to seven flights a week, and narrow body aircraft was used since the end of March 2005.

Dragonair has suspended scheduled services to Phuket from January 2005 as the demand for air traffic to Phuket has remained low after the Tsunami in South Asia.

HONG KONG DRAGON AIRLINES LIMITED (Cont'd)

Cost Profile:

The following table sets out Dragonair's cost summary for the years ended 31st December 2005 and 2004:

Expenditure	Year ended 31st December		
	2005 HK\$'000	2004 HK\$'000	Change %
Staff costs	1,506,356	1,345,048	+12.0
Passenger catering and service costs	403,720	355,049	+13.7
Fuel costs	2,506,011	1,475,523	+69.8
Route operating costs	2,256,695	1,874,035	+20.4
Aircraft maintenance costs	1,262,476	1,146,098	+10.2
Aircraft lease charges	909,582	610,012	+49.1
Depreciation and amortisation costs	543,832	506,491	+7.4
Other operating costs	1,083,826	952,789	+13.8
Total	10,472,498	8,265,045	+26.7

Dragonair's staff costs increased by 12.0 percent mainly due to an increase in staff and crew numbers for the expanded operations in 2005.

Passenger catering and service costs increased by 13.7 percent, mainly attributable to a rising number of total passengers although this increase was partly offset by changes in catering standards for some short-haul routes.

Fuel costs rose significantly, mainly because of soaring fuel prices and higher fuel consumption resulting from more long-haul freighter services.

Route operating costs, which include landing, parking and ground handling charges, rose primarily due to an increased number of flights for passenger and freighter services.

During the year, aircraft maintenance costs increased by 10.2 percent over 2004. This was mainly due to the increase in the number of aircraft and higher aircraft utilisation in 2005. However, the increase was partly offset by the adoption of revised HKAS16 "Property, Plant and Equipment" ("PPE") which resulted in a change in accounting policy for major checks and overhauls of owned aircraft from "expense as and when incurred" in aircraft maintenance costs to "capitalise as PPE and depreciate over the maintenance cycle".

Aircraft lease charges increased mainly due to the increase in the number of aircraft leased in 2005.

Depreciation and amortisation costs increased due to the purchase of one A320 aircraft and the adoption of revised HKAS16.

The increase in other operating costs was mainly due to expanded operations. However, stringent cost control measures have been implemented to minimise the impact.

Operations Review (Cont'd)

HONG KONG DRAGON AIRLINES LIMITED (Cont'd)

Dragonair Holidays Limited

Dragonair Holidays, a wholly-owned subsidiary of Dragonair, mainly provides packaged holidays services for Dragonair.

Hong Kong International Airport Services Limited

HIAS, a wholly-owned subsidiary of Dragonair, provides airport ground handling services in Hong Kong to Dragonair and other airlines.

Total number of third party aircraft movements serviced in 2005 was 9,344, an increase of 43.3 percent compared to 2004.

LSG Lufthansa Service Hong Kong Limited

LLSHK is a 31.94 per cent owned associate of Dragonair. Its main business is to provide catering services to airline customers in Hong Kong.

The substantial increase in profit attributable from LLSHK was mainly due to increasing passenger traffic compared to 2004 and continuous implementation of cost control measures.

Hong Kong Airport Services Limited

HAS, a 30 per cent owned associate of Dragonair, provides aircraft ramp handling operations and passenger and staff busing services at the Hong Kong International Airport.

HAS is the largest ramp handling operator in Hong Kong, accounting for over 52 percent of the market in the Hong Kong International Airport. Approximately 6,200 flights are handled monthly.

HAS recorded a satisfactory profit in 2005 attributable to considerable traffic growth.

HAS GSE Solutions Limited

HAS GSE is a 30 percent owned associate of Dragonair. Its main business is to provide spare parts for specialised ground equipment.

A rise in net profit for the year compared to that of 2004 was due to an increase in ground support equipment and vehicles maintenance activities.

DAH Chong Hong – Dragonair Airport GSE Service Limited

DAS, a 30 percent owned associate of Dragonair, provides ground support equipment and vehicles maintenance and repair services at the Hong Kong International Airport.

DAS reported a profit for the year as compared to a loss in 2004 mainly due to an increase in maintenance activities from major customers.

DAS Aviation Support Limited

DASL, a 30 percent owned associate of Dragonair, is mainly engaged in the distribution of air cargo equipment and related spare parts.

A decrease in net profit for the year as compared to 2004 was mainly due to a decrease in maintenance activities from major customers.

BEIJING AIR CATERING CO., LTD

BACL, the largest airline caterer in Beijing Capital International Airport with an approximately 77 percent market share, is a 60 percent owned jointly controlled entity of the Group. It is principally engaged in the provision of in-flight catering services and other related in-flight food and beverage services.

In 2005, BACL provided in-flight catering services for 101,724 flights, an increase of 10.5 percent over 2004. The total number of in-flight meals served increased 10 percent over 2004 to approximately 13.94 million, about 38,200 in-flight meals each day.

Construction of a catering building in Beijing Capital International Airport is expected to commence in the middle of 2006. The building, upon completion at the end of 2007, will occupy 80 acres with a building area of 37,500 square meters. The daily production capacity of the catering building is expected to reach 45,000 meals upon its commencement of operation.

SOUTHWEST AIR CATERING COMPANY LIMITED

SWACL, the largest airline caterer in Chengdu Shuangliu International Airport, is a 60 percent owned jointly controlled entity of the Group. It is principally engaged in the production of food, beverages and in-flight services products, the provision of other related services and the sale of its own products.

In 2005, the total number of in-flight meals served by SWACL reached 4 million, an increase of 12.04 percent against 2004. The number of flights catered for rose approximately 37.05 percent to 27,616 flights.

The turnover of SWACL increased 23.06 percent to RMB90.41 million. In-flight catering and other business accounted for 76.54 percent and 23.46 percent of the turnover respectively.

The new catering building has strengthened production capacity of SWACL. Dragonair began using SWACL's in-flight catering services in August 2005. In October 2005, shareholders injected RMB50 million into SWACL.

Riding on the opportunities created by commencement of operations of new airlines in Chengdu, as well as the expansion of existing airlines, SWACL expects further business growth in 2006.

LSG LUFTHANSA SERVICE HONG KONG LIMITED

LLSHK is a 34.03 percent effectively owned associate of the Group through direct shareholding of 20.2 percent and indirect shareholding of 13.83 percent via Dragonair. Its main business is to provide catering services in Hong Kong to Dragonair and other airline customers.

Aided by the rising traffic volume of existing customers, the number of meals served and the number of flights catered by LLSHK increased by 10.8 percent and 14.1 percent respectively during 2005.

Operations Review (Cont'd)

LSG LUFTHANSA SERVICE HONG KONG LIMITED (Cont'd)

Turnover and profit before tax for the year ended 31st December 2005 soared by 13.4 percent and 26.8 percent respectively compared to the same period in 2004. This growth was attributable to a boom in the airline catering business and complementary business, as well as the continuous implementation of cost saving measures.

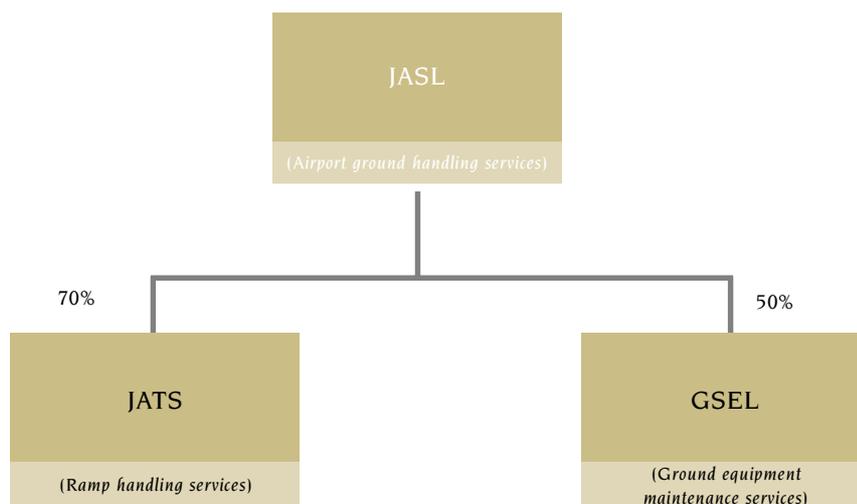
LLSHK expects the performance in 2006 will be benefited from the growing of worldwide aviation traffic.

JARDINE AIRPORT SERVICES LIMITED

The Group owns a 50 percent interest in JASL. The principal activities of JASL are:

- the provision of airport ground handling services; and
- the provision of ramp handling services through its 70 percent owned subsidiary company JATS; and
- the provision of ground support equipment maintenance services through its 50 percent owned jointly controlled entity GSEL.

The following chart sets out the simplified corporate structure of JASL and its subsidiaries as of 31st December 2005:



JASL provides airport ground handling services for 28 international airlines at the Hong Kong International Airport. The principal activities of JASL include the provision of check-in services, passenger reception services, baggage services, ticketing and flight information, management of flight operations, flight control and cargo documentation services.

JATS, a 70 percent owned subsidiary of JASL, has had a 10-year franchise from the Airport Authority Hong Kong to provide ramp handling services at the Hong Kong International Airport since July 1998. The other shareholders of JATS are China Airlines, United Airlines and GlobeGround GmbH.

The consolidated turnover of JASL and its subsidiaries rose 13.7 percent compared to 2004, mainly attributable to the steady increase in the number of flights by existing customers and new clients. JASL's consolidated profit before tax also rose thanks to the increase in flight frequency.

JARDINE AIRPORT SERVICES LIMITED (Cont'd)

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 airport. JATS 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.

Through strong support and business connections of its shareholders, JASL is actively pursuing new business opportunities in China mainland.

MENZIES MACAU AIRPORT SERVICES LIMITED

Menzies Macau is a 33.65 percent effectively owned associate of the Group through direct shareholding of 26 percent and indirect shareholding of 15 percent through Air Macau. It provides Macau International Airport with passenger, ramp handling, cargo and aircraft line maintenance services.

Menzies Macau handled a total of 21,575 aircraft turns, an increase of 11.84 percent compared to 2004 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 6.17 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 for the year ended 31st December 2005 was US\$51 million or 3.61 percent less than 2004.

During the year, the Macau SAR Government reduced the Company Tax rate from 15.75 percent to 12 percent, which contributed to a decrease in tax expenses of the company. Total net profit after tax for the year ended 31st December 2005 was US\$24.5 million, up 10.86 percent against 2004.

As Macau Asia Express and other new foreign airlines plan to commence operations in Macau in the fourth quarter of 2006, Menzies Macau remains confident of its performance in 2006.

TRADEPORT HONG KONG LIMITED

The Group owns a 25 percent interest in Tradeport Hong Kong. Tradeport Hong Kong's Logistics Centre at the Hong Kong International Airport commenced operations in March 2003.

For the year ended 31st December 2005, the consolidated revenue of Tradeport Hong Kong rose by 53 per cent compared to 2004. Both the capacity utilisation and the revenue per pallet of Tradeport Logistics Centre grew significantly during the year. At the end of the year, capacity utilisation of the Logistics Centre stood at 73 percent against 45 percent in 2004.