

Chairman's Statement



This is my first Statement to shareholders since I assume the responsibility of Chairman in March 2001 following the retirement of my predecessor, Mr. Wang Guixiang. Mr. Wang had been the Chairman of the Company since its public listing in 1997. During the three and a half years of his tenure, Mr. Wang presided over a period of relatively turbulent years throughout the Asian aviation industry. His steady hand and wise leadership, coupled with his personal integrity and concern for shareholders and staff, enabled the Company to enter the twenty-first century in excellent financial condition. We have much to thank him for.

In the year 2000, the Group's total revenue declined by 18.1 per cent to HK\$71.63 million. Profit attributable to shareholders was HK\$311.20 million, compared to HK\$211.98 million in 1999, an increase of 46.8 per cent. The basic earnings per share was HK9.62 cents (1999: HK6.55 cents).

Last year saw the recovery of the Asian economy. Despite a further reduction in rental income from investment properties reflecting the full year effect of lower-rental leases agreement entered into during the second half of 1999, the Board believes that the property activities in Hong Kong will continue to provide a stable base for the Group's overall earnings.

In the year 2000, the Group's aviation and aviation related businesses have made considerable progress contributing its profit. For Hong Kong Dragon Airlines Limited ("Dragonair"), the airline experienced a year of record growth. The new Air Services Arrangement between China mainland and Hong Kong signed in February 2000 gave the opportunity to increase its



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existing total capacity in the coming years. Coupled with this, Dragonair obtained in May 2000 licences to operate scheduled all-cargo services to 23 major international destinations. To prepare for these opportunities ahead, Dragonair has confirmed the acquisition of three A330s, seven A320s/A321s and two B747 freighter aircraft scheduled for delivery between 2001 and 2005. Two A330s, one A320 and two B747 freighter aircraft will be put in service by 2001.

Dragonair achieved an increase of 47.4 per cent in operating profit (after finance costs) from that of the previous year. Turnover increased by 27.2 per cent and Available Seat Kilometres rose by 11.1 per cent. Throughout the year, Dragonair carried 2.7 million passengers and uplifted 93.7 thousand tonnes of cargo, representing a record growth of 14.8 per cent and 42.3 per cent respectively over those of the past year. Passenger revenue also scored a record high of HK\$3,295 million, representing a 19.5 per cent increase. This was matched by a record growth of 77.3 per cent in cargo revenue. Passenger yield increased by 1.6 per cent over that of 1999 mainly due to reduction in agency commission, increase in airfare and imposition of fuel surcharge during the year. For cargo yield, there was an increase of 5.2 per cent for cargo carried in passenger aircraft because of stronger market demand and fuel surcharge, the yield was lower for freighter due to the diminishing margins for long-haul transportation.

One A321 aircraft was leased in May 2000 and one purchased A320 aircraft was delivered in June 2000. One B747 freighter aircraft was wet leased from Atlas Air for cargo operations. At the end of the year Dragonair operated a fleet of six A320s, three A321s, five A330s and one B747 freighter aircraft.

Under the new Air Services Arrangement between China mainland and Hong Kong, all charter routes to China mainland were converted to scheduled routes at the end of March 2000. All Dragonair offices in China mainland thus became eligible for offering full sales and ticketing services for passengers and cargo.

With the expectation of China's accession to the World Trade Organisation, demand for air services between China mainland and Hong Kong is expected to grow significantly. As part of the value-added services, Dragonair established *Elite*, a loyalty club for frequent travellers and valued customers. New uniform has been launched for cabin crew and ground staff during the year. In addition, the configuration of A330 aircraft has been upgraded to include business class. The relocation to Dragonair House and the commencement of flight simulator and training school facilities in June 2000 have tremendously enhanced Dragonair's ability to cope with its expansion needs.



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Considerable progress has been made during 2000 in expanding the Company's ground services, with acquisition of an additional 10 per cent stake in Jardine Airport Services Limited ("JASL"). The consolidated turnover of JASL and its subsidiaries in 2000 increased by 5.5 per cent. JASL handled 47,060 aircraft movements, an increase of 7.2 per cent over that of 1999, and maintained an approximately 40 per cent share of the ground handling third party market at the Hong Kong International Airport (the "Airport").

Jardine Air Terminal Services Limited ("JATS") handled 69,430 aircraft movements, representing an approximately 60 per cent share of the ramp handling third party market at the Airport.

Jardine Airport Services Australia Pty. Ltd. ("JASA"), the independent airport ground services handler in Sydney and Melbourne airports in Australia, was slightly behind its target schedule in acquiring new customers in the market.

Given the strong support and business connections of its shareholders, JASL is confident of successfully exploring new business opportunities both within China mainland and in the Asia Pacific region.

PROSPECTS

The Group is actively pursuing growth opportunities through market expansion and business diversification. During the second half of the year, the Group participated in a logistics business consortium under the name of Tradeport Hong Kong Limited ("Tradeport"). The Group holds a 25 per cent interest in the consortium with experienced and reputable Hong Kong and European partners, each of which holds a 37.5 per cent stake. Tradeport has won a contract to build an approximately HK\$530 million logistics centre at a site of about 1.38 hectares in the south commercial district of the Airport. Tradeport will design, construct, operate and manage the centre. It is expected the centre will generate increased activity at the Airport both in the throughput of cargo and passengers. The project would strengthen the Airport's competitiveness in the Asian region, and enable Hong Kong to become an important hub of Asia-Pacific's distribution network, and eventually a leading logistics centre.

The Group, together with other offices of China National Aviation Corporation, moved into its new headquarters, CNAC House at the Airport in March 2001. The offices relocation and centralisation of operations under one roof marks a significant step of the Group in preparation for a new era of challenge.



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The reform and restructuring plan of the China mainland's aviation industry is still in progress. The Group will act upon this opportunity to rationalise and implement its overall development strategies. The Group is also encouraged by the gradual recovery in the Asian economies over the past year. In the coming year, the Group will continue to streamline and consolidate its operations, while exploring investment opportunities in both aviation and aviation-related businesses.

APPRECIATION

On behalf of the Board, I would like to extend my appreciation to our staff and management team for their dedication and contribution. It was a busy and eventful year and we look forward to the coming year with confidence and enthusiasm.

KONG DONG

Chairman

Hong Kong, 6th April 2001