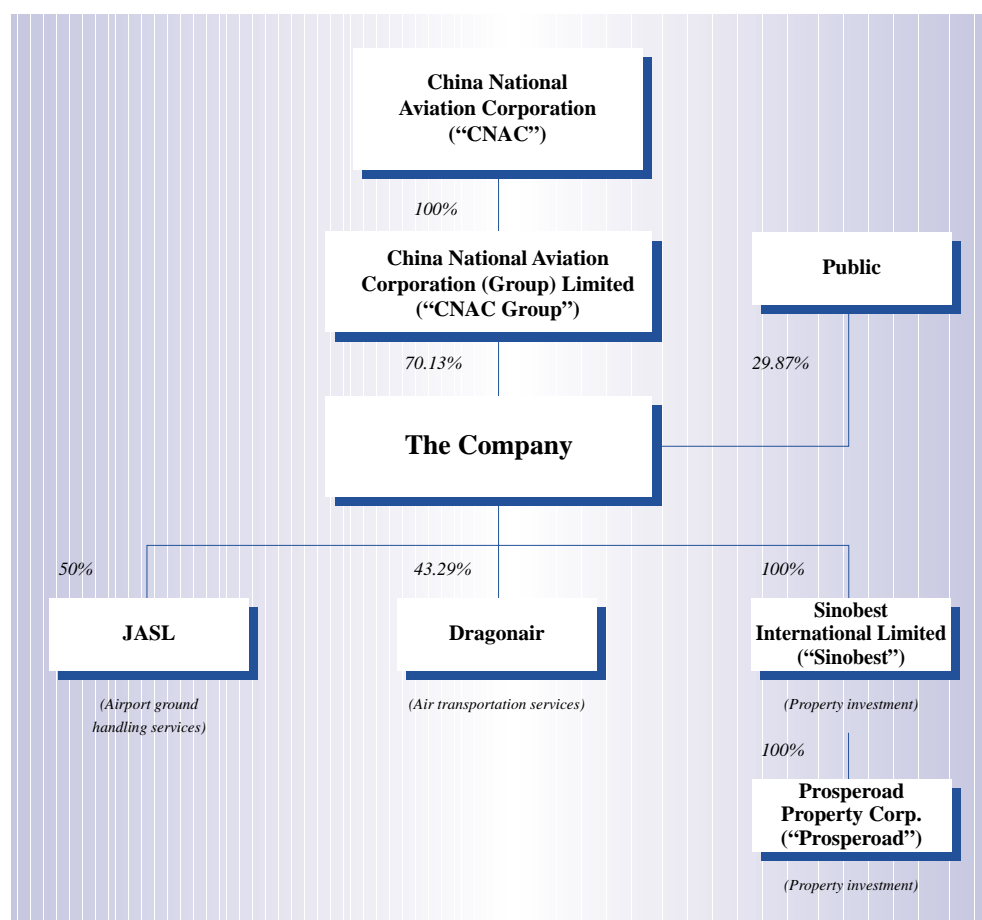


Operations Review

CORPORATE STRUCTURE

The following chart sets out the simplified corporate structure of the Company, its parent companies, its associated companies and its principal subsidiaries as at 31st December 2000:



BUSINESS OF THE GROUP

The Group is engaged in the provision of air transportation services through Dragonair, the Company's 43.29 per cent owned associated company, in the provision of airport ground handling services through JASL, the Company's 50 per cent owned associated company, and in property investments through the Company's wholly-owned subsidiaries, Sinobest and Prosperoad.



Operations Review (cont'd)

BUSINESS OF THE GROUP (cont'd)

The following table sets out the contribution of the Group's operating profit before other operating expenses, which is derived from the Group's interest income and rental activities through Sinobest and Prosperoad, and the Group's share of profits from its associated companies, each as a percentage of the Group's profit before other operating expenses and taxation for the year ended 31st December 2000 and 1999:

	Year ended 31st December		
	2000 %	1999 %	Change % point
Operating profit before other operating expenses	14.5	25.0	-10.5
Share of profits from associated companies:			
Dragonair	75.9	69.7	+6.2
JASL	9.6	5.3	+4.3
Total	100.0	100.0	

There is no change to the application of proceeds from that originally disclosed in the prospectus dated 8th December 1997. Balance of net proceeds raised from the listing exercise in December 1997 have been placed with various banks as bank deposits. The Group had no bank borrowings as at 31st December 2000.

During the year, the Group has acquired an additional 10 per cent of the issued shares of JASL. The Group's shareholding in JASL has increased from 40 per cent to 50 per cent.

The Company has incorporated a Hong Kong based wholly-owned subsidiary, China National Aviation Technology Company Limited, which has entered into a Memorandum of Understanding in May, 2000 with Internet Applications Limited, a subsidiary of Pacific Century CyberWorks Limited, for the establishment of a joint venture company to provide aviation related internet based services. Due to the adverse change in the internet environment, the Company has not commenced investment in this area and the joint venture has been put on hold.



Operations Review (cont'd)

BUSINESS OF THE GROUP (cont'd)

During the second half of the year, the Group participated in a logistics business consortium under the name of Tradeport Hong Kong Limited. The Group holds a 25 per cent interest in the consortium with Hongkong Land Holdings Limited and Jardine Logistics Services (HKG) Limited as one party, and Schiphol group and Frankfurt Airport Services Worldwide the other, 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 Hong Kong International 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.

HONG KONG DRAGON AIRLINES LIMITED

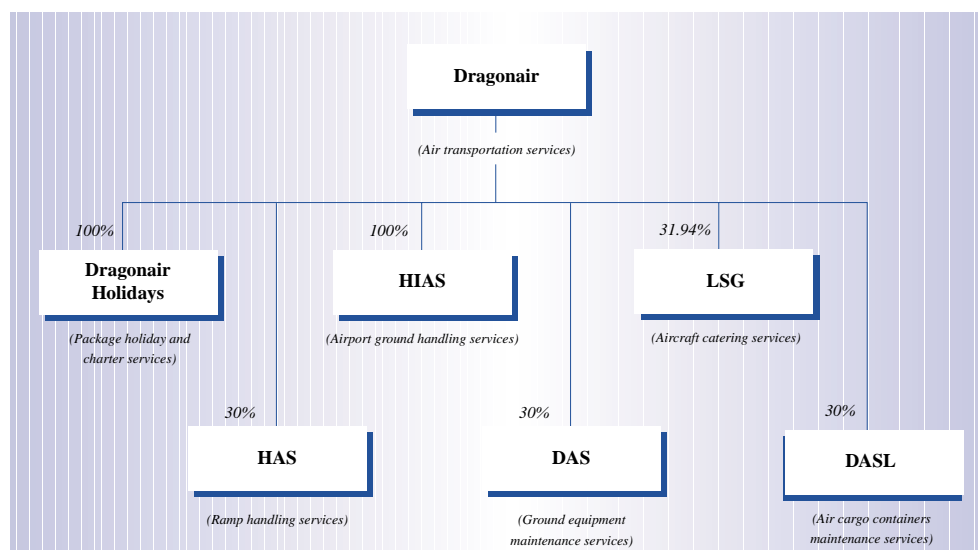
The Group owns 43.29 per cent in Dragonair and is its single largest shareholder. The principal activities of Dragonair are: the operation of an airline; the provision of airport ground handling services through Hong Kong International Airport Services Limited ("HIAS"), its wholly-owned subsidiary; the provision of aircraft catering services through LSG Lufthansa Service Hong Kong Limited ("LSG"), a 31.94 per cent owned associated company; the provision of ramp handling services through Hong Kong Airport Services Limited ("HAS"), a 30 per cent owned associated company; the provision of ground service equipment maintenance and repair services through Dah Chong Hong – Dragonair Airport GSE Service Limited ("DAS"), a 30 per cent owned associated company; the provision for maintenance service for air cargo containers and sales of related spare parts through DAS Aviation Support Limited ("DASL"), a 30 per cent owned associated company and the provision of holiday packages and charter services through Dragonair Holidays Limited ("Dragonair Holidays"), a wholly-owned subsidiary of Dragonair.

The relocation to Dragonair House and the commencement of flight simulator and training school facilities in June 2000 has tremendously enhanced Dragonair's ability to cope with its expansion needs.

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 associated companies and their respective activities:



The majority of the income of Dragonair is derived from the provision of passenger and cargo air transportation services, and the contribution from HIAS.

The following table sets out the composition of the profit before taxation of Dragonair for the years ended 31st December 2000 and 1999 derived from its major business operations expressed as percentages of the total profit before taxation of Dragonair:

	Year ended 31st December		
	2000 %	1999 %	Change % point
Airline operations	95.5	92.5	+3.0
HIAS	2.8	5.2	-2.4
LSG	0.2	1.1	-0.9
DAS	0.1	0.2	-0.1
HAS	1.4	1.0	+0.4
DASL	0.0	–	n/a
Total	100.0	100.0	

Operations Review (cont'd)

HONG KONG DRAGON AIRLINES LIMITED (cont'd)

AIR TRANSPORTATION

Route Profile:

- At the end of years 2000 and 1999, the number of destinations served by Dragonair analysed by China mainland and non-China mainland destinations are summarised as follows:

	Licensed		Number in service as at	
	Passenger and cargo	All cargo	31st December 2000	1999
Destinations:				
China mainland	48	–	17	16
Non-China mainland	35	23	13	9
Total	83	23	30	25

- In 2000, Dragonair operated scheduled and chartered services to 30 destinations in Asia, 17 of which are in China mainland. Dragonair performed 8,915 round trips in total for the year. Shanghai route remained the most profitable route for 2000.
- The following table sets out Dragonair's services distribution by geographical area, expressed as a percentage of the total number of round trips operated:

	Distribution of services	
	Year ended	
	31st December	
	2000	1999
	%	%
Route		
China mainland scheduled services	67.8	51.0
China mainland programme charters	3.4	17.7
Taiwan region	12.7	13.9
Japan	3.5	4.0
Europe and Middle East	0.7	–
Other destinations	11.5	11.7
Ad hoc charters	0.4	1.7
Total	100.0	100.0

Operations Review (cont'd)

HONG KONG DRAGON AIRLINES LIMITED (cont'd)

Fleet Profile:

- At the end of years 2000 and 1999, Dragonair's fleet was as follows:

	Number of aircraft as at 31st December	
	2000	1999
Aircraft type		
A320	7	6
A321	3	2
A330	5	5
B747F	1	–
Fleet total	16 [#]	13 [#]

All aircraft are under operating leases, except for two A320 (1999: one) and two A330s (1999: two) aircraft, which are under finance leases.

- One A321 was leased in May 2000 and one A320 was purchased in June 2000.
- One B747 freighter was wet leased in July 2000.
- The configuration of A330 fleet has been changed from a two class configuration to a three class configuration with First, Business and Economy class, in the last quarter of 2000.

Fleet expansion plan:

Year	Purchase	Operating Lease	Purchase Option	Return from Lessee
2001	1 A330 2 B747F	1 A330	–	1 A320
2002	1 A330	1 A320 1 A321	–	–
2003	2 A320	–	1 A330	–
2004	2 A320	–	–	–
2005	1 A320	–	–	–

- To prepare for the opportunities ahead, Dragonair has confirmed the acquisition, together with options, for a further four A330s and seven A320s/A321s and two B747 freighter aircraft which are scheduled for delivery between the year 2001 and 2005.

Operations Review (cont'd)

HONG KONG DRAGON AIRLINES LIMITED (cont'd)

- Two A330s, one A320 and two B747 freighter aircraft will be put in service by 2001.

Operating Summary:

		Year ended 31st December		
		2000	1999	Change %
Overall operating:				
Available tonne kilometre (ATK)				
– Passenger aircraft	(’000)	608,102	554,011	9.8
– Freighter	(’000)	145,877	–	n/a
Revenue load factor	(%)	70.6	65.6	5.0% pt.
Net traffic revenue per ATK	(HK\$)	5.5	5.8	-5.2
Aircraft utilisation				
– A320	(br/day)	8.0	7.3	9.6
– A321	(br/day)	8.3	7.8	6.4
– A330	(br/day)	8.3	7.4	12.2
– B747F	(br/day)	13.2	–	n/a
Passenger services:				
Available seat kilometre (ASK)	(’000)	4,884,907	4,398,018	11.1
Total passengers carried		2,696,783	2,349,455	14.8
Revenue passenger kilometre (RPK)	(’000)	3,231,382	2,747,589	17.6
Passenger load factor	(%)	66.2	62.5	3.7% pt.
Passenger yield per RPK	(HK cents)	102.0	100.4	1.6
Cargo services:				
Cargo tonne kilometre (CTK)				
– Passenger aircraft	(’000)	97,175	77,082	26.1
– Freighter	(’000)	125,904	–	n/a
Total cargo tonnes carried				
– Passenger aircraft	(tonnes)	80,145	65,859	21.7
– Freighter	(tonnes)	13,593	–	n/a
Cargo yield per CTK				
– Passenger aircraft	(HK cents)	610	580	5.2
– Freighter	(HK cents)	159	–	n/a
Cargo load factor				
– Passenger aircraft	(%)	65.4	56.6	8.8% pt.
– Freighter	(%)	87.3	–	n/a

Operations Review (cont'd)

HONG KONG DRAGON AIRLINES LIMITED (cont'd)

- Dragonair carried 2.7 million passengers and uplifted 93,700 tonnes of cargo in 2000, an increase of 14.8 and 42.3 per cent respectively over 1999.
- As a result of increase in airfare, the imposition of fuel surcharge and reduction in agency commission, passenger yield increased by 1.6 per cent from 1999.
- Cargo yield for cargo carried in passenger aircraft also increased by 5.2 per cent from 1999, mainly due to stronger market demand and fuel surcharge.

Traffic Profile:

- The following table sets out Dragonair's traffic summary for the years ended 31st December 2000 and 1999 by geographical area, expressed as a percentage of the total number of revenue passengers and cargo carried:

Routes	Passenger Services		Cargo Services	
	Year ended		Year ended	
	31st December		31st December	
	2000	1999	2000	1999
	%	%	%	%
China mainland scheduled services	68.8	56.5	52.9	61.1
China mainland programme charters	2.2	13.0	2.3	–
Taiwan region	20.0	20.2	26.1	32.9
Japan	2.8	2.9	0.7	1.0
Europe and Middle East	–	–	12.1	–
Other destinations	5.9	6.2	5.8	5.0
Ad hoc charters	0.3	1.2	0.1	–
Total	100.0	100.0	100.0	100.0



Operations Review (cont'd)

HONG KONG DRAGON AIRLINES LIMITED (cont'd)

- The conclusion of the new arrangement on air services between China mainland and Hong Kong in February 2000 provides ample opportunities for Dragonair to operate additional scheduled services. In addition, under the new arrangement, Dragonair converted its existing regular charter services to Guilin, Nanjing, Haikou, Changsha, Wuhan and Ningbo to scheduled services.
- The frequency to Beijing and Shanghai has increased to 27 and 41 per week respectively from July 2000 onwards.
- The fifth and sixth weekly frequency to Chengdu, and the eighth and ninth weekly frequency to Guilin and Hangzhou, has also commenced operation with effect from July 2000.
- To achieve better performance, Haikou daily frequency has been reduced to five per week from July 2000 to end of summer schedule, and extra services has been operated to Kaoshiung instead.
- Dragonair commenced a thrice weekly freighter service to Amsterdam and Manchester via Dubai with effect from 28th July 2000, and weekly freighter service to Shanghai, with effect from 11th August 2000, with the use of a wet leased B747 freighter.

Operations Review (cont'd)

HONG KONG DRAGON AIRLINES LIMITED (cont'd)

Cost Profile:

- The following table sets out Dragonair's cost summary for the years ended 31st December 2000 and 1999:

Expenditure	Year ended 31st December		
	2000 HK\$'000	1999 HK\$'000	Change %
Staff costs	708,553	578,628	22.5
Passenger catering and service costs	191,756	169,257	13.3
Fuel costs	400,322	204,876	95.4
Route operating costs	741,567	636,079	16.6
Aircraft maintenance costs	425,310	388,286	9.5
Aircraft equipment costs	634,696	546,372	16.2
Other operating costs	414,187	279,160	48.4
Total	3,516,391	2,802,658	25.5

- Passenger catering and service costs have increased in line with passenger growth.
- Fuel costs has increased due to higher fuel consumption for passenger aircraft owing to increased operation and launch of freighter services with effect from July 2000. Systemwide fuel price has increased significantly from 1999 level.
- Route operating costs which include costs, such as landing and parking charges and ground handling charges, have increased primarily due to increased operation for passenger aircraft and launch of freighter services in 2000.
- Aircraft maintenance costs have increased over 1999 level. The cost increase was in line with the increase in aircraft number, service requirement and spares consumption upon the expiry of warranty period for A330 fleet.
- Aircraft equipment costs have increased mainly due to wet lease of one B747 for freighter services, while in 1999 one A330 was returned to operating lessor.
- Increase in other operating costs was mainly due to Asia Miles frequent flyer programme, sales incentive programme and provision for depreciation charge for Dragonair House.



Operations Review (cont'd)

HONG KONG INTERNATIONAL AIRPORT SERVICES LIMITED

- HIAS, a wholly-owned subsidiary of Dragonair, provides airport ground handling services in Hong Kong.
- Besides providing airport ground handling services to all flight movements for Dragonair, HIAS also provides third party airport ground handling services to other airlines.
- Number of third party aircraft movements serviced in 2000 was 3,671, an increase of 10.3% over 1999 level.

LSG LUFTHANSA SERVICE HONG KONG LIMITED

- LSG is a 31.94 per cent owned associated company of Dragonair. Its main business is to provide catering services to airline customers in Hong Kong.
- The decrease in profit attributable from LSG was mainly due to closure of the loss-making airport restaurant in 2000.

DRAGONAIR HOLIDAYS LIMITED

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

HONG KONG AIRPORT SERVICES LIMITED

- HAS, a 30 per cent owned associated company of Dragonair, provides aircraft ramp handling operations and passenger and staff busing services at the Airport.
- HAS is the largest ramp handling operator accounting for over 50 per cent of the market in the Airport. Approximately 4,000 flight are handled monthly.
- Increase in net profit over 1999 was mainly attributable to considerable traffic growth in 2000.



Operations Review (cont'd)

DAH CHONG HONG – DRAGONAIR AIRPORT GSE SERVICE LIMITED

- DAS, a 30 per cent owned associated company of Dragonair, has commenced its business at the Airport. It provides ground support equipment maintenance and repair services.
- DAS net profit was similar to that of 1999.

DAS AVIATION SUPPORT LIMITED

- DASL, a 30 per cent owned associated company of Dragonair, provides maintenance services for air cargo containers and sales of related spare parts.
- DASL generated a small profit in its first year of operation.

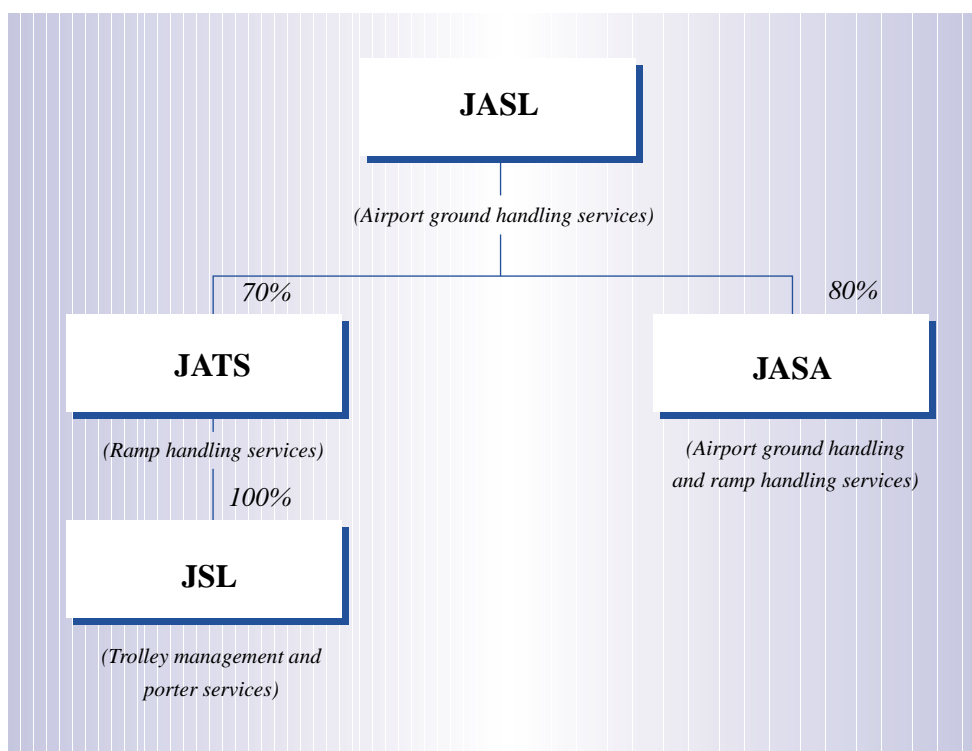
SINOBEST INTERNATIONAL LIMITED

- The Group participates in the property investment business through its wholly-owned subsidiaries, Sinobest and Prosperoad.
- Sinobest and Prosperoad are principally engaged in commercial property investments in Hong Kong. They currently have interests in various commercial properties in Hong Kong with an aggregate rentable floor area of approximately 74,388 sq.ft.. The Group's interests in property investments through Sinobest and Prosperoad will be retained to enable the Group to generate steady rental income.
- As at 31st December 2000, all of the rentable floor area was leased out. Due to the full year impact of reduced rental rates upon renewal of lease agreements in the fourth quarter of 1999, rental income in the year 2000 had decreased by 33.9 per cent compared to 1999.
- Sinobest and Prosperoad have no immediate plan to expand their property investment portfolio in 2001.

Operations Review (cont'd)

JARDINE AIRPORT SERVICES LIMITED

- The Company owns 50 per cent of JASL. The following chart sets out the simplified corporate structure of JASL and its subsidiaries as at 31st December 2000:



- JASL provides airport ground handling services to 20 international airlines at the 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.



Operations Review (cont'd)

JARDINE AIRPORT SERVICES LIMITED (cont'd)

- In addition to the provision of passenger handling service, JASL has two subsidiaries at the Airport.

JATS, a 70 per cent owned subsidiary company of JASL, has a 10 year franchise by the Airport Authority to provide ramp handling services at the Airport. The other shareholders of JATS are China Airlines, United Airlines and GlobeGround GmbH.

JSL, a wholly owned subsidiary company of JATS, has a service contract with the Airport Authority to provide baggage trolley management, porter services and electric vehicles transportation services at the Airport.

- The consolidated turnover of JASL and its subsidiaries increased by 5.5 per cent. Due to the additional flight frequencies handled, cost control measures and profit contribution from the subsidiaries, JASL's consolidated profit attributable to shareholders had improved.
- JASL handled 47,060 aircraft movements for the year, which represented a 7.2 per cent increase over 1999, and maintained approximately 40 per cent share of the ground handling third party market at the Airport. JATS handled 69,430 aircraft movements for the year, which represented an approximately 60 per cent share of the ramp handling third party market at the Airport. JSL performed well and has extended their scope of services, such as wheelchair services, 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.
- JASL and JATS, both ISO 9002 accredited, maintained a high quality of service standards to its airline customers, and continued to implement a total quality management system.
- Through strong support and business connections of its shareholders, JASL continued to explore new business opportunities both within China mainland and in the Asia Pacific region.