



## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Operations and Prospects

For the six months ended 30th June 2001, the Group recorded a turnover of HK\$12.3 million and a net profit attributable to shareholders of HK\$128.9 million, representing decreases of approximately 24.5 percent and approximately 6.9 percent respectively over the corresponding period in 2000. The decline in turnover was mainly due to investment property vacancies whilst concluding new tenancies with new tenants during the period under review. Administrative expenses increased by 9.5 percent were mainly because of agency commissions for obtaining new tenancies.

Profit before taxation of the Group during the period amounted to HK\$153.4 million, of which HK\$18.5 million or 12 percent was derived from the Group's interest income, and rental income from its investment properties. The Group's share of profits less losses from associated companies was HK\$134.9 million, which accounted for 88 percent of the Group's profit before taxation for the period.

### *Hong Kong Dragon Airlines Limited ("Dragonair")*

Despite the relative slow down in the Hong Kong economic recovery, Dragonair recorded an increase of 27.6 percent and 18.2 percent in revenue and total number of passengers carried respectively. The available seat kilometre increased by 15.5 percent over that of the corresponding period last year. Passenger load factor and yield also increased by 4.2 percentage points and 0.4 percent respectively over the same period of last year. However, mainly due to the higher operating cost, preliminary expenses incurred in preparation for freighter operation and depreciation of the headquarter building, profit before taxation of Dragonair has declined by 4.7 percent over the corresponding period in 2000.

The introduction of freighter services since July 2000 gave increases in cargo revenue and tonnage by 49.5 percent and 31.5 percent respectively over the same period of last year. Cargo yield for passenger aircraft however declined by 2.6 percent comparing with the same period last year, whereas cargo yield for freighter aircraft was lower than that of the passenger aircraft because of the nature of long-haul traffic. Slowdown in worldwide air cargo traffic has also impaired both tonnage growth and yields.

Dragonair took deliveries of one purchased A330 in May and leased one A330 in June, whilst one A320 was returned from the operating lessee in March. This put the fleet in service of seven A320s, three A321s, seven A330s and one wet-leased B747 at the end of the period. Two purchased B747s aircraft, after conversion to freighter aircraft, will be put to service by September and October 2001.



Dragonair operates passenger services to 27 destinations in Asia, of which 17 are in China mainland, the frequency to Beijing and Shanghai has increased to 37 and 48 per week respectively from June 2001 onwards. Whilst, nine weekly frequencies to Fuzhou, eight weekly frequencies to Nanjing and five weekly frequencies to Qingdao have also commenced during the summer schedule from March to October. Besides a twice weekly service to Kathmandu was added to the winter schedule until the end of March 2001, the fourth daily flight to Kaohsiung was added with effect from March, and a twice-weekly B747 freighter service to Osaka was also launched in May.

Whilst the macro economic picture presents some challenges for the aviation industry, with the impending China's accession to World Trade Organisation and the expected increasing commercial activities thus resulting in the increasing demand for air services of Hong Kong with China mainland and other regions, Dragonair's management remains confident about the future.

#### ***Jardine Airport Services Limited ("JASL")***

JASL, the fifty percent owned ground handling agent maintaining approximately 40 percent of the third party market at the Hong Kong International Airport (the "Airport"), handled 25,390 aircraft movements for the first half of the year, representing a 12.9 percent increase over that of the corresponding period last year. Its seventy percent owned ramp handling agent subsidiary, Jardine Air Terminal Services Limited, handled 38,324 aircraft movements during the same period, an increase of 16.9 percent comparing with the same period last year, approximately 60 percent of the third party market at the Airport.

Given the strong support and business connections of its shareholders, JASL continued to explore new business opportunities both in China mainland and other Asian Pacific regions.

#### ***Tradeport Hong Kong Limited ("Tradeport")***

The Group has participated in the twenty five percent owned joint venture with reputable international partners in the logistics business consortium Tradeport. Tradeport holds a development contract with the Hong Kong Airport Authority to design, construct, operate and manage an international logistics centre at a 1.38 hectares site in the south commercial district of the Hong Kong International Airport. Major building contractors were appointed for the project, ground preparation and piling have commenced since July, the construction work is scheduled to complete in early 2003. The management is optimistic with this new line of business, which is expected to contribute steady income to the Group in the future.

Earlier this year, the ultimate holding company of the Group through consultations has agreed to merge with Air China and China Southwest Airlines, and also successfully added China Civil Aviation Development Corporation as its subsidiary. This should create more opportunities for the Group in future acquisitions of aviation and aviation related businesses in China mainland.



The Group's balance sheet remained healthy and can support its business growth and focused investment. Both Dragonair and JASL continue to perform well, coupled with the Group's continued focus on value-creating businesses, the management is confident that the financial strength will be used wisely and with discretion.

### **Liquidity and Financial Resources**

The Group generally financed its operations with internally generated cash flow. As at 30th June 2001, the Group had cash and bank balances of a total amount of approximately HK\$683 million and net current assets of approximately HK\$666 million. The Group has consistently maintained a strong working capital during the period under review. As at 30th June 2001, the Group had no outstanding borrowings. As a whole, the Group's financial status is very healthy, which provides a strong base for the Group's future development.

### **Contingent Liabilities**

As at 30th June 2001, the Group had no significant contingent liabilities except in February 2001, the Group together with the logistics centre consortium partners had jointly given a guarantee to the Hong Kong Airport Authority in respect of their obligations to provide sufficient funding for the development of the logistics centre. 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\$131 million, would have been approximately HK\$780 million.

### **Human Resources**

The bulk of human resources and their remuneration, amongst others, are covered by a management services agreement concluded with the Company's immediate holding company under normal commercial terms and conditions.