

CHAIRMAN'S STATEMENT



The world's aviation industry encountered immense pressure during the year 2001, which was characterised by a general economic slowdown, and significant decline in air traffic resulting from the September 11 catastrophe. Performance of the Group's aviation-related associated companies was thus adversely affected. Turnover derived from the Group's property investment subsidiaries was also lower due to renewal of tenancy agreements.

The Group capitalised on its cash position and the market consolidation to carry out its plans of strengthening its earning base and position as an aviation conglomerate in the region. Such plans have been realised after book close, and are expected to provide a solid platform for the Group's future development.

BUSINESS REVIEW

For the year ended 31st December 2001, the Group recorded a total revenue of HK\$55.0 million and a net profit attributable to shareholders of HK\$215.6 million, representing decreases of 23.2 per cent and 30.7 per cent respectively from those of 2000. Basic earnings per share was HK6.67 cents (2000: HK9.62 cents).

The Group's turnover for the year amounted to HK\$28.3 million, representing a downturn of 11.3 per cent as compared with that of the preceding year. The decline was mainly attributed to investment property vacancies during the first half of the year, whilst the Group's property subsidiaries finalised lease agreements with new tenants. The securing of new tenancies had also led to a slightly higher administration expenses, due to payment of commission to real estates agents.



BUSINESS REVIEW (CONT'D)

During one of the most difficult years for the aviation industry, the Group's aviation-related associated companies effectively mitigated the adverse impact, and reported an aggregated profit contribution of HK\$225.0 million, which was 26.8 per cent less than that of the year 2000.

Hong Kong Dragon Airlines Limited ("Dragonair"). Despite the adverse environment for air travel during the year, Dragonair reported increases of 17.6 per cent and 15.1 per cent in turnover and revenue passenger kilometres respectively. The available seat kilometre and passenger load factor also increased by 14.2 per cent and 0.6 percentage point respectively when compared with those of the previous year. Passenger yield remained stable with a slight decline of 0.6 per cent as compared to that of the previous year.

Profit before taxation of Dragonair declined by 34.1 per cent from that of the year 2000. This was mainly attributed to the delay in the renewal of the Hong Kong – Taiwan air transportation arrangements, preliminary expenses incurred in preparation for the freighter operations, depreciation charges for the headquarters building and the devaluation of the New Taiwan Dollars.

Dragonair introduced its own freighter operations through the deployment of two purchased B747 freighter aircraft, which completed their freighter conversion work in September and November 2001 respectively. The commencement of these freighter services in the fourth quarter of the year gave rise to cargo revenue and uplift tonnage by 29.8 per cent and 29.3 per cent respectively from those of the year 2000. However, the air-cargo market was weakened by the general slowdown of global economies. The cargo yields of passenger aircraft and freighter have declined by 4.8 per cent and 3.8 per cent respectively during the year 2001.

During the year under review, Dragonair took deliveries of one purchased A330 in May and one leased A330 in June, while one A320 was returned from a lessee upon expiry of operating lease in March. As at the end of the year, the Dragonair fleet comprised seven A320s, three A321s, seven A330s, and two B747 freighter aircraft.

Dragonair operates passenger services to 27 destinations in Asia, of which 18 are in China mainland. The airline's scheduled flights to Beijing and Shanghai have been increased to 37 and 48 per week respectively since June 2001. Dragonair provided the eighth and the ninth weekly flights to Fuzhou, the eighth weekly flights to Nanjing and the fifth weekly flights to Qingdao during its summer schedule from March to October 2001. Besides, a twice weekly service to Kathmandu was added to the winter schedule until the end of March 2001, and the fourth daily flight to Kaohsiung was added with effect from March 2001 onwards. Freight service to Europe via Middle East has been increased from three times to five times a week since October 2001. Twice weekly freighter services to Osaka and Shanghai were launched in May and September 2001 respectively.

Although market environment remains challenging for the aviation industry, China's accession to the World Trade Organisation and the relaxation of the entry quota system for China mainlanders' short-term visit to Hong Kong in January 2002 are expected to increase demand for cross-border air transportation services, as well as air traffic between Hong Kong and other regions.

CHAIRMAN'S STATEMENT (CONT'D)



BUSINESS REVIEW (CONT'D)

Jardine Airport Services Limited ("JASL"), the Group's 50 per cent-owned ground service provider at the Hong Kong International Airport (the "Airport"), achieved a 39.3 per cent growth in its consolidated profit before taxation. The consolidated turnover of JASL and its subsidiaries surged by 6.6 per cent from that of the preceding year. During the year 2001, JASL handled 51,520 aircraft movements, representing a 9.5 per cent increase from that of 2000. JASL maintained an approximately 40 per cent share of the third party ground handling market at the Airport.

Jardine Air Terminal Services Limited ("JATS"), a subsidiary of JASL, handled 75,830 aircraft movements, representing an approximately 60 per cent share of the third party ramp handling market at the Airport.

Jardine Airport Services Australia Pty. Ltd. ("JASA"), the independent airport ground services handler in Sydney and Melbourne airports in Australia, managed to narrow its deficit during the year, but still fell behind its target schedule in developing its customer base.

Tradeport Hong Kong Limited ("Tradeport"), in which the Group holds a 25 per cent interest, has entered into a contract with the Hong Kong Airport Authority to design, construct, operate and manage a logistics centre at the southern commercial area in the Airport. The construction works of the logistics centre has been progressing well, with the superstructure scheduled for completion at the end of 2002. The logistics centre is expected to become operational in early 2003. During the year under review, Tradeport had commenced marketing activities to promote its services to both domestic and overseas potential customers, and had recorded a small operational loss.

PROSPECTS

After book close, the Group completed a major strategic move to further strengthen its corporate identity of and consolidate its position as an aviation conglomerate in the Asia Pacific region. The Group has recently concluded an agreement with China National Aviation Corporation (Group) Limited ("CNAC Group") in relation to the acquisition of the entire equity interest in, and a shareholder's loan due from, China National Aviation Corporation (Macau) Company Limited ("CNAC Macau") for an aggregate consideration of HK\$665 million. Of the consideration, HK\$600 million was offset by the consideration for the vesting of the Group's entire property interest, and the shareholder's loan owing from property investment subsidiaries, to CNAC Group, with the balance of HK\$65 million being satisfied by the Group's internal resources.

This transaction allows the Group to transform into a pure aviation concern and to establish a unique presence in the two major international traffic hubs of Southern China. Through CNAC Macau, the Group can tap into the enormous opportunities offered by Macau's escalating air traffic and its growing significance as a regional entertainment centre with the liberalisation of its gambling rights. It also has the immediate effect of earnings enhancement for the Group, the unaudited pro forma profit attributable to shareholders of the Group would have increased by approximately 20 per cent and 17 per cent for the years 2001 and 2000 respectively.



PROSPECTS (CONT'D)

The assets of CNAC Macau consist of (i) a 51 per cent interest in Air Macau Company Limited ("Air Macau"), an exclusively franchised Macau-based airline; (ii) a 26 per cent direct interest in MASC/Ogden-Aviation Services (Macau), Limited ("MASC Ogden"), an exclusively franchised ground handling service company which operates at the Macau International Airport; and (iii) a 20 per cent direct interest in Macau Aircraft Repair and Conversion Company Limited ("MARCCO"), a recently formed company with an intention to provide aircraft conversion and maintenance services at the Macau International Airport.

The PRC State Government approved, in early 2002, the merger of the Group's ultimate holding company with Air China and China Southwest Airlines. The merger is part of the PRC aviation industry's restructuring, which involves the regrouping of major domestic airlines into three large aviation groups. Given the Group's unique position as a listed company in an international financial centre, and its extensive experience in operating international flights and airport-related services for multi-national carriers, it is well-poised to contribute to its parent company's future expansion.

Capitalised on its strong balance sheet, the Group will continue to identify investment or acquisition opportunities in aviation or aviation-related business to fuel its expansion in operational scale and market coverage.

The Group will maintain its prudent financial and risk management policies in pursuing its business development, and will emphasise on creating shareholders' value through both organic growth from existing business and seeking capital appreciation through investment in operations with proven track record.

APPRECIATION

Mr. Xin Wei resigned as executive director of the Company as from 27th March 2002. We would like to express our sincere gratitude to the contribution of Mr. Xin during his tenure with the Company. Having weathered a challenging and difficult year, we look forward to the coming year with confidence and aspiration. On behalf of the Board and the management, I take this opportunity to express my sincere gratitude to all of our staff for their dedication and support during the year.

Kong Dong
Chairman

Hong Kong, 27th March 2002