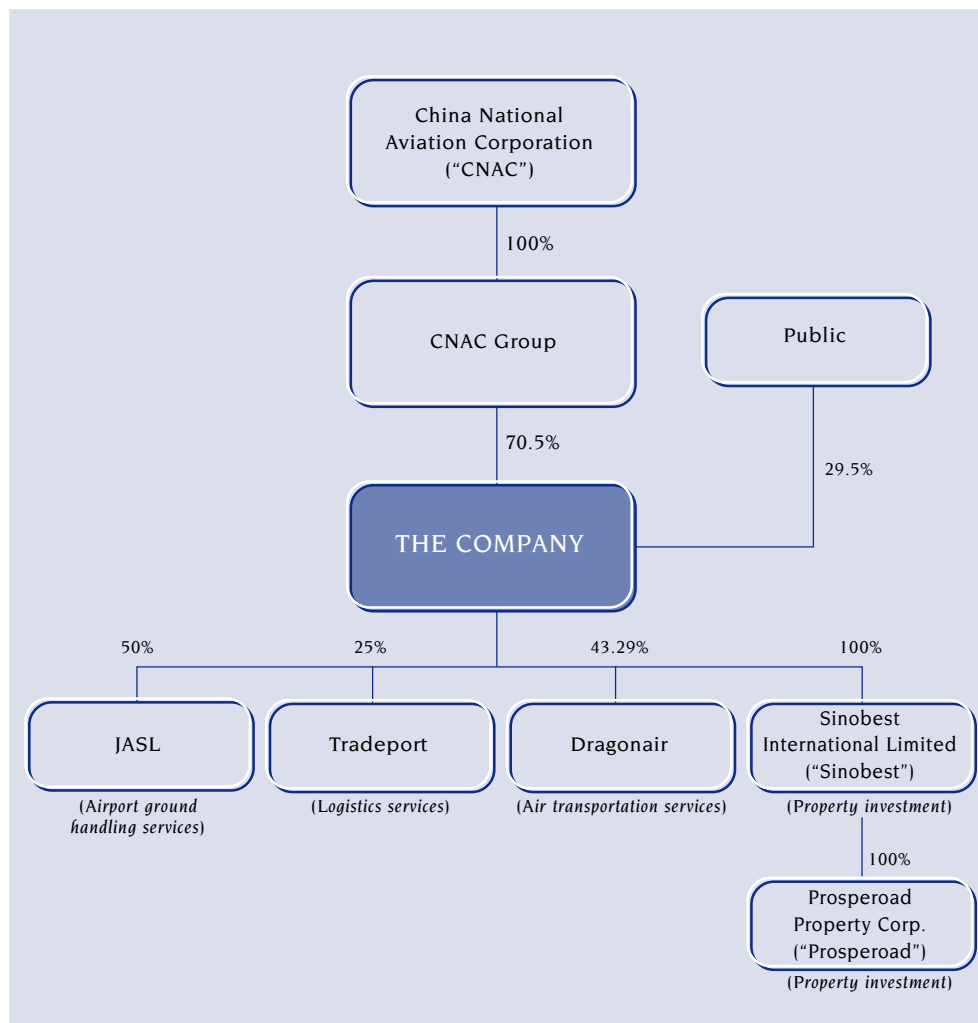


CORPORATE STRUCTURE

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 2001:



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, and in the provision of airport ground handling services through JASL, the Company's 50 per cent owned associated company. During the year under review, the Group was also engaged 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, which was derived from the Group's interest income and rental activities through Sinobest and Prosperoad, and the Group's share of profits/(loss) from its associated companies, each as a percentage of the Group's profit before taxation for the year ended 31st December 2001 and 2000:

	Year ended 31st December		
	2001 %	2000 %	Change % point
Operating profit	13.6	14.5	-0.9
Share of profits/(loss) from associated companies:			
Dragonair	69.2	75.9	-6.7
JASL	17.6	9.6	+8.0
Tradeport	(0.4)	—	N/A
Total	<u>100.0</u>	<u>100.0</u>	

There has been 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 has been placed with various banks as bank deposits. The Group had no bank borrowings as at 31st December 2001.

Liquidity and Financial Resources

The Group generally financed its operations with internally generated cash flow. As at 31st December 2001, the Group had cash and bank balances of a total amount of approximately HK\$678 million and net current assets of approximately HK\$667 million. The Group consistently maintained a strong working capital during the year under review. As at 31st December 2001, the Group had no outstanding borrowings. As a whole, the Group's financial position remains very healthy, and provides a strong base for the Group's future development.



BUSINESS OF THE GROUP (CONT'D)

Contingent Liabilities and Commitments

As at 31st December 2001, the Group had no significant contingent liabilities.

In February 2001, the Group together with the logistics centre consortium partners jointly gave 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, should the Group be 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, is covered by a management services agreement concluded with the Company's immediate holding company under normal commercial terms and conditions.

HONG KONG DRAGON AIRLINES LIMITED

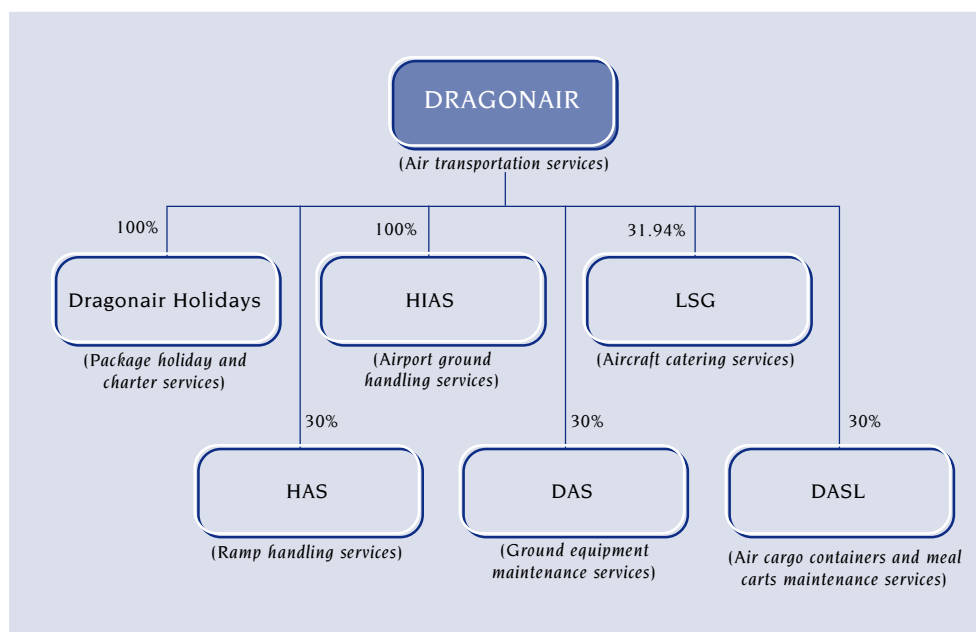
The Group owns a 43.29 per cent interest in Dragonair and is its single largest shareholder. The principal activities of Dragonair are: the operation of an airline; the provision of airport ground handling services through Hong Kong International Airport Services Limited ("HIAS"), its wholly-owned subsidiary; 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 support equipment and vehicles maintenance and repair services through Dah Chong Hong – Dragonair Airport GSE Service Limited ("DAS"), a 30 per cent owned associated company; the provision of maintenance service for air cargo containers and meal carts, and sale 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.

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. The following table sets out the composition of the profit before taxation of Dragonair for the years ended 31st December 2001 and 2000 derived from its major business operations expressed as percentages of the total profit before taxation of Dragonair:

	Year ended 31st December		
	2001 %	2000 %	Change % point
Airline operations	88.3	95.5	-7.2
HIAS	4.0	2.8	+1.2
LSG	3.4	0.2	+3.2
DAS	0.3	0.1	+0.2
HAS	3.8	1.4	+2.4
DASL	0.2	0.0	+0.2
Total	100.0	100.0	



HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

During the year, the profit before taxation from the airline operations declined mainly due to the preliminary expenses for the introduction of Dragonair's freighter operations, the delay in talks on Hong Kong - Taiwan traffic arrangement, the depreciation charges for the headquarters building and the devaluation of the New Taiwan Dollars. As a result, its share of the total profit before taxation of Dragonair's airline operations had reduced from 95.5 per cent in 2000 to 88.3 per cent in 2001.

AIR TRANSPORTATION

Route Profile:

- At the end of years 2001 and 2000, the number of destinations serviced by Dragonair analysed by China mainland and non-China mainland destinations are as follows:

	Licensed		Number in service as at	
	Passenger and cargo	All cargo	31st December 2001	2000
Destinations:				
China mainland	48	–	18	17
Non-China mainland	36	23	13	13
Total	<u>84</u>	<u>23</u>	<u>31</u>	<u>30</u>

- In 2001, Dragonair operated scheduled services to 31 destinations internationally, 18 of which are in China mainland. Dragonair performed 10,635 round trips in total for the year. Shanghai route remained the most profitable route for 2001.

Fleet Profile:

- At the end of year 2001, Dragonair's aircraft fleet comprised 19 aircraft, including two freighter acquired during the year for the expansion of the airline's all-cargo services.

OPERATIONS REVIEW (CONT'D)



HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

AIR TRANSPORTATION (CONT'D)

- At the end of years 2001 and 2000, Dragonair's fleet was as follows:

Aircraft type	Number of aircraft as at 31st December	
	2001	2000
A320	7	7
A321	3	3
A330	7	5
B747F	2	1
Fleet total	19#	16#

Twelve aircraft are under operating leases, while two A320s (2000: two A320s), three A330s (2000: two A330s) and two B747F (2000: none) aircraft are under finance leases.

- One A330 was purchased in May 2001 and one A330 was leased in June 2001.
- Two purchased B747 freighter aircraft completed their freighter conversion work in September and November 2001 respectively to replace the wet-leased B747 freighter in 2001.

Fleet Expansion Plan:

Year	Purchase	Operating Lease
2002	2 A330 1 B747F	1 A320 1 A321
2003	2 A321	—
2004	2 A320	—
2005	1 A320	—

- To prepare for the opportunities ahead, Dragonair has confirmed the purchase option of one A330 and the order of one B747 freighter aircraft, which are scheduled for delivery in the year 2002.
- In total two A330s, one A320, one A321 and one B747 freighter aircraft will be put into service in the year 2002.



HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

AIR TRANSPORTATION (CONT'D)

Operating Summary:

		Year ended 31st December		
		2001	2000	Change %
Overall operation:				
Available tonne kilometre (ATK)				
– Passenger aircraft	('000)	741,772	608,102	+22.0
– Freighter	('000)	364,159	145,877	+149.6
Revenue load factor	(%)	70.5	70.6	-0.1% pt.
Aircraft utilisation				
– A320	(hr/day)	8.2	8.0	+2.5
– A321	(hr/day)	8.4	8.3	+1.2
– A330	(hr/day)	8.5	8.3	+2.4
– B747F	(hr/day)	10.3	13.2	-22.0
Passenger services:				
Available seat kilometre (ASK)	('000)	5,576,401	4,884,907	+14.2
Total passengers carried		3,036,733	2,696,783	+12.6
Revenue passenger kilometre (RPK)	('000)	3,720,269	3,231,382	+15.1
Passenger yield per RPK	(HK cents)	101.4	102.0	-0.6
Passenger load factor	(%)	66.71	66.15	+0.56% pt.
Cargo services:				
Cargo tonne kilometre (CTK)				
– Passenger aircraft	('000)	99,778	97,175	+2.7
– Freighter	('000)	292,939	125,904	+132.7
Total cargo tonnes carried				
– Passenger aircraft	(tonnes)	82,650	80,145	+3.1
– Freighter	(tonnes)	38,564	13,593	+183.7
Cargo yield per CTK				
– Passenger aircraft	(HK cents)	581	610	-4.8
– Freighter	(HK cents)	153	159	-3.8
Cargo load factor				
– Passenger aircraft	(%)	53.1	65.4	-12.3% pt.
– Freighter	(%)	80.4	87.3	-6.9% pt.



HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

AIR TRANSPORTATION (CONT'D)

- Dragonair carried 3.0 million passengers in 2001, an increase of 12.6 per cent from 2000. Capacity of passenger services as measured by ASK was increased by 14.2 per cent in 2001 from 2000, mainly due to increased frequencies to Beijing and Shanghai and the resumption of passenger services to Ningbo since September 2001.
- Despite the sluggish demand for passenger transportation in the world market during the year, the passenger yield reported only a marginal decrease of 0.6 per cent from that of 2000, assisted by the reduction in agency commission and the levy of fuel surcharge on passengers during the year.
- In 2001, capacity of the freighter services as measured by ATK raised by 149.6 per cent. The increase was largely attributable to the increase in long-haul cargo services upon the commencement of operation of two purchased B747 freighter during the second half of 2001, resulting in a substantial growth of 29.3 per cent in the cargo uplift during the year.
- Cargo yield from passenger aircraft and freighter fell by 4.8 per cent and 3.8 per cent respectively from those of 2000. The decline in cargo yield partly reflected a glut of capacity in the international air cargo market before the 911 events. Thereafter, there has been a general cutback in demand in the air cargo market.
- In 2001, Dragonair's freighter aircraft utilisation rate and cargo load factor for freighter dropped by about 22.0 per cent and 6.9 percentage points from those of 2000 respectively. The lower aircraft utilisation was due to both technical and crew constraints during the initial introduction of the new freighter operations in the second half of 2001. Whilst the lower cargo load factors was the direct impact of the sluggish air cargo market both before and after the September 11 catastrophe.

HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

AIR TRANSPORTATION (CONT'D)

Traffic Profile:

- The following table sets out Dragonair's traffic summary for the years ended 31st December 2001 and 2000 by geographical area, expressed as a percentage of the total number of passengers and cargo carried:

Routes	Passenger Services		Cargo Services	
	Year ended		Year ended	
	31st December		31st December	
	2001	2000	2001	2000
	%	%	%	%
China mainland scheduled services	74.3	68.8	47.4	52.9
China mainland programme charters	—	2.2	1.5	2.3
Taiwan region	17.1	20.0	18.9	26.1
Japan	2.4	2.8	6.3	0.7
Europe and Middle East	—	—	21.4	12.1
Other destinations	5.6	5.9	4.4	5.8
Ad hoc charters	0.6	0.3	0.1	0.1
Total	100.0	100.0	100.0	100.0

- The flight frequency to Beijing and Shanghai was increased to 37 and 48 per week respectively since June 2001.
- The fifth flight to Qingdao, the eighth flight to Nanjing, the eighth and ninth flights to Fuzhou, the eighth and ninth flights to Hangzhou, the third flight to Changsha, and the third flight to Chongqing commenced operations during summer schedule from March to October 2001. Dragonair had cut back the additional frequencies in its winter schedule with effect from 28th October 2001 to 30th March 2002 in reaction to the seasonal downturn in demand during these months.
- Dragonair had operated twice weekly service to Kathmandu in last winter schedule until the end of March 2001. The fourth daily flight to Kaohsiung was also added with effect from March 2001.



HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

AIR TRANSPORTATION (CONT'D)

- Freighter service to Europe via Middle East was increased from three times a week to five times a week from October 2001 onwards. Dragonair has also operated twice weekly freighter services to Osaka and Shanghai since May 2001 and September 2001 respectively.

Cost Profile:

- The following table sets out Dragonair's cost summary for the years ended 31st December 2001 and 2000:

Expenditure	Year ended 31st December		
	2001 HK\$'000	2000 HK\$'000	Change %
Staff costs	865,148	708,553	+22.1
Passenger catering and service costs	242,700	191,756	+26.6
Fuel costs	517,504	400,322	+29.3
Route operating costs	912,518	741,567	+23.1
Aircraft maintenance costs	604,500	425,310	+42.1
Aircraft equipment costs	816,595	634,696	+28.7
Other operating costs	461,495	414,187	+11.4
Total	<u>4,420,460</u>	<u>3,516,391</u>	+25.7

- Dragonair's staff costs during the year increased in tandem with the increase in both the number of aircraft and capacity for passenger and cargo services.
- Passenger catering and service costs had increased in line with the increase in overall passenger number and business class passengers after the A330 fleet cabin re-configuration since December 2000.
- Although systemwide fuel price has decreased from 2000's level, fuel costs had been higher than that of 2000. This was mainly attributable to higher fuel consumption for aircraft resulting from expanded overall operation and the full year impact of enlarged long-haul freighter operations.

HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

AIR TRANSPORTATION (CONT'D)

- Route operating costs which include costs, such as landing and parking charges and ground handling charges, had increased primarily due to increased operation for passenger aircraft and long-haul freighter services.
- During the year, aircraft maintenance costs had increased significantly from 2000's level. The cost was escalated due to the increase in the number of aircraft, higher engine overhaul cost for A330s, and two purchased freighter had been put in service since September and November 2001 respectively. In particular, the A330 engines overhaul, which basically depends on the age and condition of the engines, had significantly increased Dragonair's share of the engine maintenance total cost under a pooling arrangement.
- In 2001, aircraft equipment costs increased mainly due to an expanded fleet, with two additional A330s and two purchased freighter.
- The increase in operating costs was less than the increase in capacity as cost cutting measures introduced in past year has taken effect. Increase in other operating costs was mainly due to Asia Miles frequent flyer programme, sales incentive programme, additional headcount recruited to cope with Dragonair's capacity expansion and full year impact of depreciation charges for Dragonair House.

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 airport ground handling services to other airlines.
- Number of third party aircraft movements serviced in 2001 was 3,960, an increase of 7.9 per cent from 2000's 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 increase in profit attributable from LSG was mainly due to the termination of its loss-making restaurant operations at the Airport by the end of 2001, as well as increases in flight frequencies of airlines and additional airline customers during the year.

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 in Hong Kong, accounting for over 53 per cent of the market in the Airport. Approximately 4,400 flights are handled monthly.
- Increase in net profit for the year as compared to that of 2000 was mainly attributable to considerable traffic growth and cost saving in 2001.

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 and vehicles maintenance and repair services.
- During the year, substantial growth in traffic had led to an increase in DAS net profit from that of the previous year.

DAS AVIATION SUPPORT LIMITED

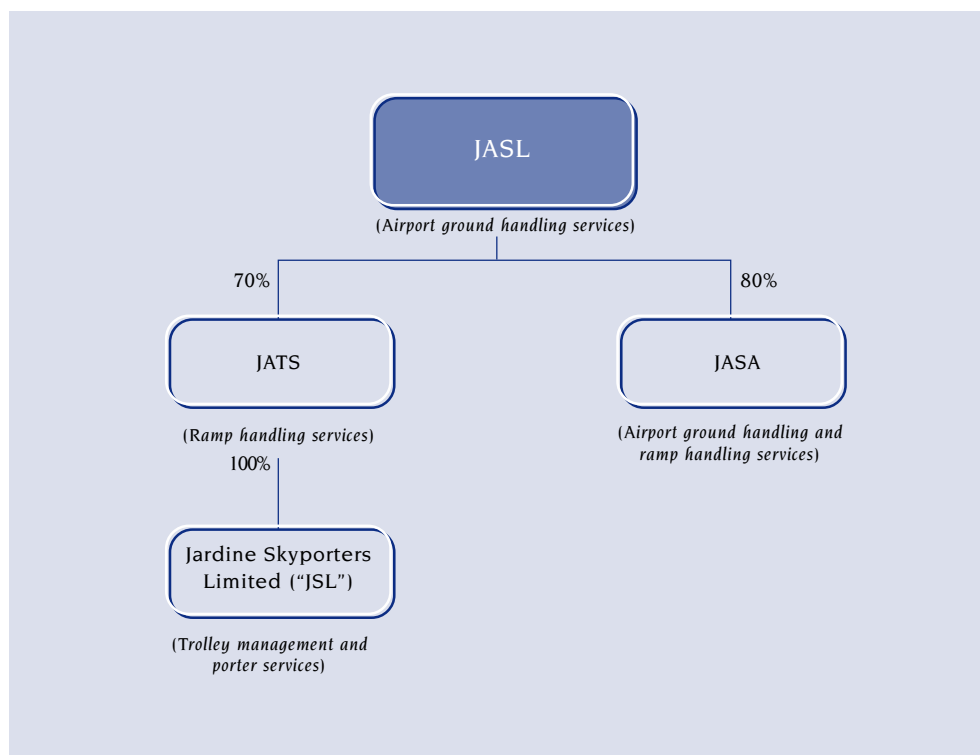
- DASL, a 30 per cent owned associated company of Dragonair, provides maintenance services for air cargo containers and meal carts, and sales of related spare parts.
- The increase in profit attributable from DASL was mainly due to full year operation in 2001 as compared to the half-year operation commenced in July 2000.

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..
- Rental income from the Group's property investments amounted to HK\$28.3 million in 2001. The effective interest of the Group's entire property investments have been vested to its parent company, CNAC Group, after book close.

JARDINE AIRPORT SERVICES LIMITED

- The Group owns 50 per cent of JASL. The following chart sets out the simplified corporate structure of JASL and its subsidiaries as at 31st December 2001:





JARDINE AIRPORT SERVICES LIMITED (CONT'D)

- JASL provides airport ground handling services to 21 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.
- 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, provides 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, provides baggage trolley management, porter services and electric vehicles transportation services at the Airport.

- The consolidated turnover of JASL and its subsidiaries in 2001 achieved an increase of 6.6 per cent from that of the preceding year. Due to the additional flight frequencies handled, cost control measures and profit contribution from the subsidiaries, JASL's consolidated profit before taxation improved by 39.3 per cent from that of the previous year.
- JASL handled 51,520 aircraft movements for the year 2001, representing a 9.5 per cent increase from that of 2000, and maintained an approximate 40 per cent share of the third party ground handling market at the Airport. During the year, JATS handled 75,830 aircraft movements, slightly up from 2000's 69,430 aircraft movements, and represented about 60 per cent share of the third party ramp handling market at the Airport.
- Following the 911 events and the resultant impact on airline customers' load factors and flight frequencies, JASL and JATS have increased their efforts to improve the efficiency of their cost structures.
- JASA, the independent airport ground services handler in Sydney and Melbourne airports in Australia, managed to narrow its deficit. However, JASA still fell behind its target schedule in developing its customer base.

JARDINE AIRPORT SERVICES LIMITED (CONT'D)

- JASL and JATS, both ISO 9000 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 continues to explore new business opportunities both within China mainland and in the Asia Pacific region.

TRADEPORT HONG KONG LIMITED

- In early 2001, Tradeport has been awarded a contract from the Hong Kong Airport Authority to design, construct, operate and manage a logistics centre, area about 1.38 hectares, 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.