



Kong Dong Chairman

Amidst a sluggish global economy in 2002, the aviation industry within the Asian region has been experiencing a modest recovery since the second quarter of 2002. Significant growth was seen during the year both in passenger and cargo air traffic. Generally the aviation business within the region has been performing well, with a slight offset due to surge in fuel price in the last quarter of 2002.

At the same time, the Group has gone through internal development and acquisition. In March 2002, the Group successfully completed the acquisition of the entire equity interest in China National Aviation Corporation (Macau) Company Limited ("CNAC Macau") (the "Acquisition") which consists of:

- (i) a 51 per cent interest in Air Macau Company Limited ("Air Macau");
- (ii) a 26 per cent direct interest in Menzies Macau Airport Services Limited ("Menzies Macau"); and
- (iii) a 20 per cent direct interest in Macau Aircraft Repair and Conversion Company Limited ("MARCCO").

As such CNAC Macau becomes a wholly owned subsidiary of the Company. As part of the consideration for the Acquisition, the Group has also vested the entire effective interest in Sinobest International Limited in its holding company, China National Aviation Corporation (Group) Limited ("CNAAG").

Subsequent to this transaction the Group has transformed into pure aviation businesses and extends its investment into another important traffic hub of the Pearl River Delta.

On 11th October, 2002, the ultimate holding company of the Company successfully merged with Air China and China Southwest Airlines, forming China National Aviation Holding Company ("CNAH").



CHAIRMAN'S STATEMENT

BUSINESS REVIEW

For the year ended 31st December, 2002, the Group recorded a profit attributable to shareholders of HK\$317.4 million, representing a year-on-year increase of 47.2 per cent. The Group's turnover for the year amounted to HK\$1,329.4 million as compared to HK\$28.3 million for 2001. The increase was primarily a result of the turnover contribution from Air Macau after the Acquisition. Basic earnings per share was HK9.65 cents (2001: HK6.67 cents).

During the year under review the Group's aviation-related associated companies have performed well in general as a result of significant growth in traffic and contributed to the Group an aggregated profit for the year of HK\$394.9 million, representing a 75.5 per cent increase comparing with 2001.

Air Macau reported increases of 4.6 per cent and 8.7 per cent in turnover and revenue passenger kilometres respectively from the previous year. The available seat kilometres increased by 8.6 per cent while maintaining a passenger load factor at around 71 per cent. Passenger yield declined by 9.1 per cent due to market competition. Profit after taxation for the year marginally decreased by 2.6 per cent from that of the year 2001.

During 2002, *Air Macau* inaugurated operations to Singapore in August, Kuala Lumpur and Kota Kinabalu in November. Flight frequencies to Shanghai and Kunming have increased since June 2002. Freighter services between Taipei and Shenzhen using a wet leased B727 freighter have started operation since October 2002.

During the year, *Air Macau* received two new A319s in June and in August respectively, and a A321 aircraft was replaced by a brand new one in December. As at the end of the year, the passenger fleet comprised five A321s, three A320s, two A319s, and one B757 aircraft.

Hong Kong Dragon Airlines Limited ("Dragonair") reported increases of 21.6 per cent and 16.9 per cent in turnover and revenue passenger kilometres respectively as compared to a year earlier. The available seat kilometres has also increased by 19.4 per cent year-on-year. Passenger load factor on the other hand has decreased by 1.4 percentage point over previous year. Passenger yield declined by 4.8 per cent as compared to that of the previous year mainly due to cancellation of passenger fuel surcharge, depreciation of regional currencies, more back-end travel and intense market competition.

Dragonair's profit before taxation for the year significantly increased by 61.9 per cent. This was mainly attributed to favourable market conditions for both passenger and freight services and considerable increase in total market share.

Dragonair introduced its own freighter operations from late 2001 onwards. The full year contribution from the acquired freighter operations has resulted in increases of 60.2 per cent and 59.6 per cent in cargo revenue and uplift tonnage respectively. The cargo yield of passenger aircraft has declined by 3.4 per cent but on the other hand, the cargo yield of freighter has increased by 13.7 per cent mainly due to the operation of short haul freighter services with higher cargo yield during the year.



CHAIRMAN'S STATEMENT

BUSINESS REVIEW (CONT'D)

During the year, Dragonair took deliveries of one leased A320 and one leased A321 in March. Two purchased A330s were delivered in June and December respectively, and one purchased B747 freighter was delivered in November. As at the end of the year, the fleet comprised eight A320s, four A321s, nine A330s, and three B747 freighter aircraft.

Jardine Airport Services Limited ("JASL"), the 50 per cent-owned ground service provider at the Hong Kong International Airport ("the HK Airport"), reported a 5.3 per cent reduction of consolidated profit before taxation (and before exceptional item) from the previous year, the consolidated turnover of JASL and its subsidiaries also decreased by 7.7 per cent.

During the year, JASL handled 50,954 aircraft movements, representing a 1.1 per cent decrease from that of 2001. JASL maintained an approximately 40 per cent share of the third party ground handling market at the HK Airport. *Jardine Air Terminal Services Limited* ("JATS"), a subsidiary of JASL, handled 71,736 aircraft movements, representing an approximately 60 per cent share of the third party ramp handling market at the HK Airport.

Whilst the first service contract of *Jardine Skyporters Limited* ("JSL"), a wholly owned subsidiary company of JATS, with the Airport Authority expired in July 2002, it was then awarded a three-year service contract by the Airport Authority to provide airside baggage trolley management at the Airport. This contract however could not replace the earnings from that of the expired one.

In September 2002, JASL together with its partner sold their entire share holding in *Jardine Airport Services Australia Pty. Ltd.* ("JASA") to a third party.

Menzies Macau, the Macau airport ground handler, under a nineteen-year concession since 1994, handled 17,250 aircraft movements in 2002, an increase of 18 per cent from those in the previous year. The amount of cargo handled in 2002 was 97,180 tonnes, up by 27 per cent from that in 2001.

Tradeport Hong Kong Limited ("Tradeport"), in which the Group holds a 25 per cent interest, has completed on schedule the construction and fitting work of its logistics centre, located at the southern commercial area in the HK Airport. The centre has commenced operations since mid March 2003.

OUTLOOK

Following the merger of the Group's ultimate holding company with Air China and China Southwest Airlines, the Group with its extensive experience in operating international flights and airport-related services for multi-national carriers, is well poised to ride on the much enhanced parent group background and expansionary plan.

It is expected that the market environment will remain challenging for the aviation industry, the strong economic growth of China after its accession to the World Trade Organisation and the continuous support to the logistics industry from the Government of Hong Kong Special Administrative Region will likely foster healthy future demand for cross-border air transportation services, as well as air traffic between Hong Kong and other regions.



CHAIRMAN'S STATEMENT

OUTLOOK (CONT'D)

Dragonair filed an objection to the Air Transportation Licensing Authority in August 2002 against Cathay Pacific's application for route licences to Beijing, Shanghai and Xiamen of China mainland. The Group considers that should Cathay Pacific be successful in its application, it would have a severe impact on Dragonair.

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

APPRECIATION

On behalf of the Board and the management, I would like to take this opportunity to express my sincere gratitude to all of our staff for their valuable dedication, hard-work and contribution made during the year. I would also like to thank our cooperative business partners and the shareholders for their continuous support throughout the year.

Kong Dong

Chairman

Hong Kong, 28th March, 2003