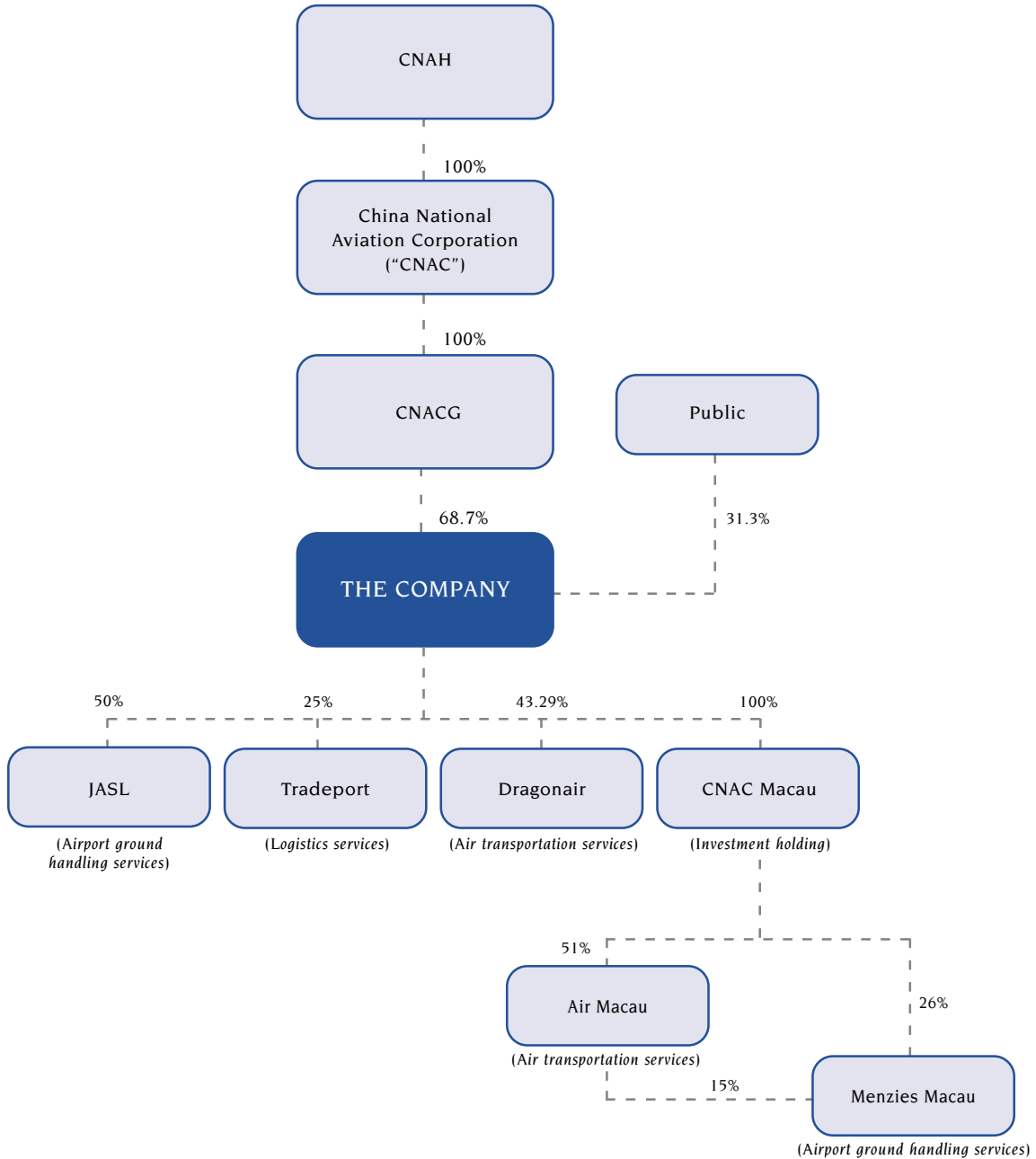




## OPERATIONS REVIEW

### CORPORATE STRUCTURE

The following chart sets out the simplified corporate structure of the Company, its parent companies, its principal subsidiaries and its principal associated companies as at 31st December, 2002:





## BUSINESS OF THE GROUP

The Group is engaged in the provision of **air transportation services** through

- Air Macau, CNAC Macau's 51 per cent owned subsidiary, and
- 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, and
- Menzies Macau, CNAC Macau's 26 per cent directly owned associated company;

and in **logistics service** through

- Tradeport, the Company's 25 per cent owned associated company.

The following table sets out the profit before taxation contributed by business segments after deduction of minority interests of the Group for the years ended 31st December, 2002 and 2001:

	Year ended	
	31st December,	2001
	2002	2001
	%	%
Airline operation	82	69
Airport ground handling	24	18
Logistics and other businesses	(1)	–
Property holding	1	9
Others	(6)	4
	<hr/>	<hr/>
Total	<b>100</b>	100
	<hr/> <hr/>	<hr/> <hr/>

Note: Others being interest income less amortisation of goodwill and other unallocated costs.



## OPERATIONS REVIEW

### BUSINESS OF THE GROUP (CONT'D)

#### Liquidity and Financial Resources

The Group generally financed its operations with cash flows generated internally. As at 31st December, 2002, the Group had cash and bank balances of a total amount of approximately HK\$1.17 billion and net current assets of approximately HK\$974 million. As at 31st December, 2002, the current liabilities of the Group was approximately HK\$434 million whilst the Group had no outstanding borrowings. The Group has consistently maintained a strong working capital which provides a good foundation in the Group's future business development.

#### Contingent Liabilities and Commitments

As at 31st December, 2002, the Group had given a guarantee of HK\$75 million to a bank for the banking facilities provided to an associated company, and 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, 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.

#### Foreign Exchange and Currency Risks

The Group generates a portion of its revenue from ticket sales in certain foreign jurisdictions giving rise to exposures to fluctuation in foreign exchange rates. The Group continuously monitors its foreign currency positions and does not consider that it has a significant exposure to foreign exchange risk from any currency.

#### Human Resources

The bulk of human resources of the Company and their remuneration, amongst others, are covered by a management services agreement concluded with the Company's immediate holding company, CNACG. Likewise CNAC Macau also concluded a management services agreement with CNAC (Macau) Aviation Limited ("CNAC (Macau) Aviation"). Both agreements were negotiated under normal commercial terms and conditions.

Air Macau, a 51 per cent held subsidiary, employs about 800 staff (2001: about 700), of which about 147 are based outside Macau. Employees remuneration packages are designed and structured based on the foregoing market conditions, relevant laws and regulations, industry practices and standards, work performance, education or professional training background and past working experience.



## OPERATIONS REVIEW

### AIR MACAU COMPANY LIMITED

The Group owns 51 per cent in shares of Air Macau through its wholly owned subsidiary CNAC Macau. Air Macau was established in Macau in 1994 as the home based carrier in Macau and commenced commercial operation in November 1995 under a concession agreement with the Macau government that gives the airline an exclusive right to operate as Macau's home based carrier for a 25-year period until the year 2020.

The principal activities of Air Macau are:

- the operation of airline; and
- the provision of airport ground handling services through Menzies Macau, a 15 per cent owned associated company.

### AIR TRANSPORTATION

Route Profile:

- At the end of years 2002 and 2001, the number of destinations served by Air Macau categorised by China mainland and non-China mainland destinations are summarised as follows:

	Licensed Passenger and cargo	Number in service as at 31st December,	
		2002	2001
Destinations:			
China mainland	31	9	8
Non-China mainland	38	7	4
Total	69	16	12

- Air Macau's passenger and freighter services operated a total of 15,448 flights (including charter flights) in the year 2002 between Macau and 16 destinations in Asia, which are Beijing, Guilin, Haikou, Kunming, Nanjing, Ningbo, Shanghai, Xiamen, Shenzhen, Taipei, Kaohsiung, Manila, Bangkok, Singapore, Kuala Lumpur and Kota Kinabalu.

Fleet Profile:

- As at the end of 2002, Air Macau's fleet comprised 12 aircraft, including two A319s passenger aircraft received in June and August 2002 respectively, one wet leased B727 freighter acquired in October 2002, and also one rejuvenated A321 passenger aircraft at the end of 2002.



## OPERATIONS REVIEW

### AIR MACAU COMPANY LIMITED (CONT'D)

#### AIR TRANSPORTATION (CONT'D)

- At the end of years 2002 and 2001, Air Macau's fleet was as follows:

Aircraft type	Number of aircraft as at 31st December,	
	2002	2001
A319	2	–
A320	3	3
A321	5	5
B757	1	1
B727 freighter	1	–
Fleet total	<b>12#</b>	<b>9#</b>

# Nine (2001: seven) aircraft are under operating leases, while one B757 (2001: one B757) and one B727 freighter (2001: nil) are under wet leases, and one A321 (2001: one A321) is owned by Air Macau.

#### Fleet expansion plan:

Year	Operating Lease	Return to Lessor
2003	3 A319 1 A321	2 A320 1 A321
2004	–	2 A321
2005	–	1 A320

- In 2003, Air Macau will take delivery of three new Airbus A319s passenger aircraft in January, February and May respectively. The airline had also rejuvenated one A321 at the beginning of 2003. All these new aircraft are under operating leases.



## OPERATIONS REVIEW

### AIR MACAU COMPANY LIMITED (CONT'D)

#### AIR TRANSPORTATION (CONT'D)

Operating Summary:

		Year ended 31st December,		
		2002	2001	Change %
Overall operating:				
Available tonne kilometre (ATK)				
– Passenger aircraft	(million)	<b>334.9</b>	310.6	+7.8
– Freighter	(million)	<b>7.5</b>	–	N/A
Aircraft utilisation				
– A319	(hr/day)	<b>6.5</b>	–	N/A
– A320	(hr/day)	<b>6.5</b>	6.8	-4.4
– A321	(hr/day)	<b>7.2</b>	6.9	+4.3
– B757	(hr/day)	<b>5.0</b>	6.3	-20.6
– B727 freighter	(hr/day)	<b>5.3</b>	–	N/A
Passenger services:				
Available seat kilometre (ASK)	(million)	<b>2,925.4</b>	2,692.5	+8.6
Total passengers carried	('000)	<b>1,736.4</b>	1,707.7	+1.7
Revenue passenger kilometre (RPK)	(million)	<b>2,078.1</b>	1,911.3	+8.7
Passenger yield per RPK	(avos)	<b>70</b>	77	-9.1
Passenger load factor	(%)	<b>71</b>	71	–
Cargo services:				
Cargo tonne kilometre (CTK)				
– Passenger aircraft	(million)	<b>26.7</b>	22.6	+18.1
– Freighter	(million)	<b>3.8</b>	–	N/A
Total cargo tonnes carried				
– Passenger aircraft	(tonnes)	<b>23,006</b>	20,753	+10.9
– Freighter	(tonnes)	<b>6,250</b>	–	N/A
Cargo yield per CTK				
– Passenger aircraft	(avos)	<b>478</b>	526	-9.1
– Freighter	(avos)	<b>779</b>	–	N/A
Cargo load factor				
– Passenger aircraft	(%)	<b>63</b>	55	+8% pt.
– Freighter	(%)	<b>51</b>	–	N/A

- Air Macau carried over 1.73 million passengers in 2002, an increase of 1.7 per cent from that in 2001. Capacity of passenger services as measured by ASK has increased by 8.6 per cent in 2002 from 2001, mainly due to additional capacity offered by the new A319 passenger aircraft.



## OPERATIONS REVIEW

### AIR MACAU COMPANY LIMITED (CONT'D)

#### AIR TRANSPORTATION (CONT'D)

- The passenger yield reported a decrease of 9.1 per cent from that of 2001 due to cancellation of fuel surcharge and keen market competition.
- Cargo tonnage uplift increased by 41% to 29,256 tonnes year-on-year for 2002. The increase was mainly attributed to the strong market demand for air cargo services as well as the commencement of Air Macau's all-cargo freighter services between Shenzhen and Taiwan via Macau in October 2002.

#### Traffic Profile:

- The following table sets out Air Macau's traffic summary for the years ended 31st December, 2002 and 2001 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,	
	2002	2001	2002	2001
	%	%	%	%
China mainland scheduled services	38	32	36	25
China mainland programme charters	2	2	–	–
Taiwan region	53	61	60	70
Other destinations in Southeast Asia	7	5	4	5
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

- In June 2002, Air Macau introduced the fourth daily flight to Shanghai and also increased frequencies to Kunming from two to six flights weekly.
- With the additional new A319 aircraft, Air Macau inaugurated services to Singapore in August 2002, operating two flights a week. In November 2002, Air Macau also inaugurated services to Kuala Lumpur and Kota Kinabalu of Malaysia, operating two flights a week to each cities.
- All-cargo freighter services has also commenced operations in October 2002. Air Macau has wet leased a B727 freighter and inaugurated all-cargo freighter services between Shenzhen and Taiwan via Macau, operating twelve round trips a week.



## OPERATIONS REVIEW

### AIR MACAU COMPANY LIMITED (CONT'D)

#### AIR TRANSPORTATION (CONT'D)

Cost Profile:

- The following table sets out Air Macau's cost summary for the years ended 31st December, 2002 and 2001:

Expenditure	Year ended 31st December,		
	2002 %	2001 %	Change % point
Staff costs	15	14	+1
Passenger catering and service costs	7	8	-1
Fuel costs	11	11	-
Route operating costs	23	23	-
Aircraft maintenance costs	11	11	-
Aircraft equipment costs	20	21	-1
Depreciation and amortisation costs	4	4	-
Sales and promotion costs	5	5	-
Other operating costs	4	3	+1
Total	<u>100</u>	<u>100</u>	

- The increase in the overall percentage of staff costs was mainly due to fleet expansion and the increase in total number of staff.
- The reduction of overall passenger catering and service costs percentage from 2001's level was mainly attributed to the volume discount offered by the caterers in Macau and Taipei and the reduction in unit meal cost.
- A series of aircraft retirement and rejuvenation plan will be done in year 2003. Air Macau is expected to benefit from the lower rental cost and better fuel efficiency.

### 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 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;



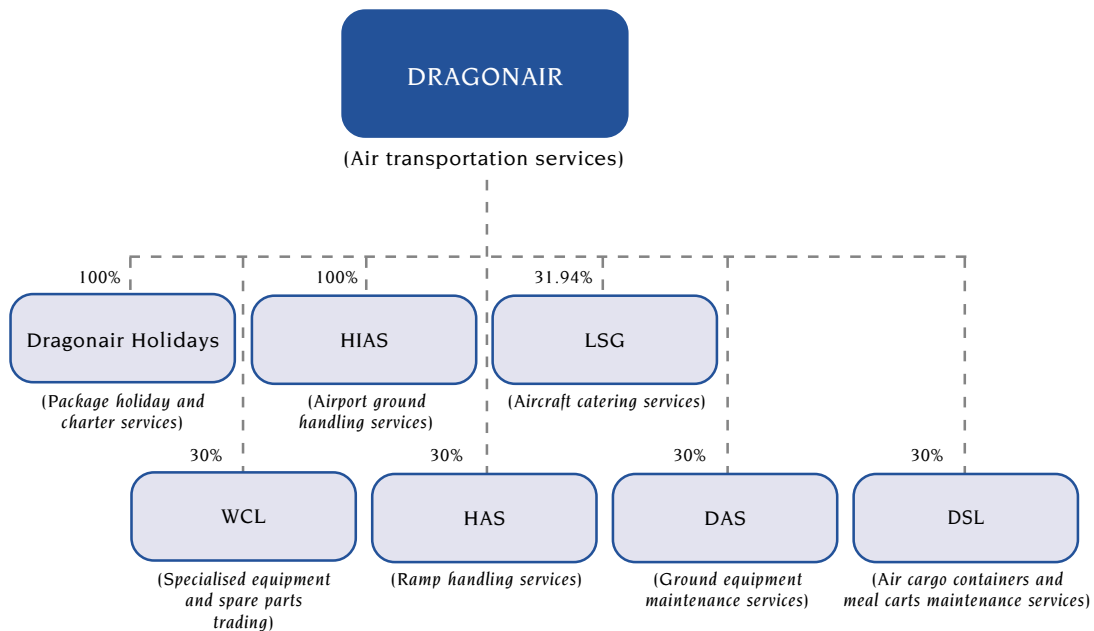


## OPERATIONS REVIEW

### HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

- 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 (“DSL”), a 30 per cent owned associated company;
- the provision of holiday packages and charter services through Dragonair Holidays Limited (“Dragonair Holidays”), a wholly-owned subsidiary of Dragonair;
- the trading of specialised equipment and spare parts through Wise Counsel Limited (“WCL”), a 30 per cent owned associated company.

The following chart sets out the current simplified corporate structure of Dragonair, its principal operating subsidiaries and associated companies and their respective activities:





## OPERATIONS REVIEW

### HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

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, 2002 and 2001 derived from its major business operations expressed as percentages of the total profit before taxation of Dragonair:

	Year ended 31st December,		
	2002 %	2001 %	Change % point
Airline operations	<b>90.2</b>	88.3	+1.9
HIAS	<b>4.2</b>	4.0	+0.2
LSG	<b>2.8</b>	3.4	-0.6
DAS	<b>0.1</b>	0.3	-0.2
HAS	<b>2.5</b>	3.8	-1.3
DSL	<b>0.1</b>	0.2	-0.1
WCL	<b>0.1</b>	–	NA
Total	<b>100.0</b>	100.0	

### AIR TRANSPORTATION

Route Profile:

- At the end of years 2002 and 2001, the number of destinations served by Dragonair analysed by China mainland and non-China mainland destinations are summarised as follows:

Destinations:	Licensed		Number in service as at	
	Passenger and cargo	All cargo	31st December, 2002	2001
China mainland	48	–	<b>18</b>	18
Non-China mainland	36	23	<b>14</b>	13
Total	<b>84</b>	<b>23</b>	<b>32</b>	<b>31</b>

- In 2002, Dragonair operated scheduled services to 32 destinations internationally, 18 of which are in China mainland. Dragonair performed 12,834 round trips in total for the year (2001: 10,635). Shanghai route remained to be the most profitable route for 2002.



## OPERATIONS REVIEW

### HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

#### AIR TRANSPORTATION (CONT'D)

Fleet Profile:

- As at the end of 2002, Dragonair's aircraft fleet comprised 24 aircraft, including two leased passenger aircraft, two purchased passenger aircraft and one freighter acquired during the year for the expansion of the airline's passenger and freighter services. One A330 flight simulator was purchased and commenced operation from July 2002 onwards to provide crew training for passenger aircraft.
- As at the end of 2002 and 2001, Dragonair's fleet was as follows:

Aircraft type	Number of aircraft as at 31st December,	
	2002	2001
A320	8	7
A321	4	3
A330	9	7
B747 freighter	3	2
Fleet total	<b>24#</b>	<b>19#</b>

# Fourteen aircraft are under operating leases, while two A320s (2001: two A320s) and three A330s (2001: two A330s) are under finance leases, and two A330s (2001: one A330) and three B747 freighter (2001: two B747 freighter) are owned by Dragonair.

- Two A330s were purchased in June and December 2002 respectively.
- One purchased B747 freighter completed its freighter conversion work in November 2002 and commenced operation.

Fleet expansion plan:

Year	Purchase	Operating Lease
2003	2 A321	–
2004	2 A320	1 A330
2005	1 A321	–

To capitalise on the opportunities ahead, Dragonair has confirmed to acquire two additional purchased A321s, which are scheduled for delivery in the year 2003.



## OPERATIONS REVIEW

### HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

#### AIR TRANSPORTATION (CONT'D)

Operating Summary:

		Year ended 31st December,		
		2002	2001	Change %
Overall operating results:				
Available tonne kilometre (ATK)				
– Passenger aircraft	('000)	<b>943,078</b>	741,772	+27.1
– Freighter	('000)	<b>582,751</b>	364,159	+60.0
Revenue load factor	(%)	<b>71.2</b>	70.5	+0.7% pt.
Aircraft utilisation				
– A320	(hr/day)	<b>7.7</b>	8.2	-6.1
– A321	(hr/day)	<b>8.2</b>	8.4	-2.4
– A330	(hr/day)	<b>8.5</b>	8.5	–
– B747 freighter	(hr/day)	<b>11.4</b>	10.3	+10.7
Passenger services:				
Available seat kilometre (ASK)	('000)	<b>6,657,431</b>	5,576,401	+19.4
Total passengers carried		<b>3,620,420</b>	3,036,733	+19.2
Revenue passenger kilometre (RPK)	('000)	<b>4,348,167</b>	3,720,269	+16.9
Passenger yield per RPK	(HK cents)	<b>96.5</b>	101.4	-4.8
Passenger load factor	(%)	<b>65.3</b>	66.7	-1.4% pt.
Cargo services:				
Cargo tonne kilometre (CTK)				
– Passenger aircraft	('000)	<b>136,867</b>	99,778	+37.2
– Freighter	('000)	<b>509,668</b>	292,939	+74.0
Total cargo tonnes carried				
– Passenger aircraft	(tonnes)	<b>113,359</b>	82,650	+37.2
– Freighter	(tonnes)	<b>80,106</b>	38,564	+107.7
Cargo yield per CTK				
– Passenger aircraft	(HK cents)	<b>561</b>	581	-3.4
– Freighter	(HK cents)	<b>174</b>	153	+13.7
Cargo load factor				
– Passenger aircraft	(%)	<b>59.3</b>	53.1	+6.2% pt.
– Freighter	(%)	<b>87.5</b>	80.4	+7.1% pt.

- Dragonair carried 3.6 million passengers in 2002, an increase of 19.2 per cent from that in 2001. Capacity of passenger services as measured by ASK was increased by 19.4 per cent in 2002 from 2001, mainly due to increased frequencies to Beijing and Shanghai.
- The passenger yield reported a decrease of 4.8 per cent from that of 2001 due to cancellation of fuel surcharge, market competition and more back-end travel due to the poor economic situation in Hong Kong.
- In 2002, capacity of the freighter services as measured by ATK rose by 60.0 per cent year-on-year due to an increase in long-haul cargo services, resulting in a substantial growth of 59.6 per cent in the cargo uplift during the year.



## OPERATIONS REVIEW

### HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

#### AIR TRANSPORTATION (CONT'D)

- Cargo yield from passenger aircraft for the year fell by 3.4 per cent due to the withdrawal of fuel surcharge. On the other hand, cargo yield from freighter increased by 13.7 per cent from that of 2001 due to the higher yield of more short-haul freighter services operated in 2002.
- In 2002, Dragonair's freighter utilisation rate and cargo load factor for freighter increased by 10.7 per cent and 7.1 percentage points from those of 2001 respectively due to the strong air cargo market demand in 2002.

#### Traffic Profile:

- The following table sets out Dragonair's traffic summary for the years ended 31st December, 2002 and 2001 by geographical area, expressed as a percentage of the total volume of revenue passengers and cargo carried:

Routes	Passenger Services		Cargo Services	
	Year ended		Year ended	
	31st December,		31st December,	
	2002	2001	2002	2001
	%	%	%	%
China mainland scheduled services	72.1	74.3	46.3	47.4
China mainland programme charters	–	–	–	1.5
Taiwan region	20.8	17.1	18.6	18.9
Japan	2.1	2.4	9.2	6.3
Europe and Middle East	–	–	22.7	21.4
Other destinations	4.5	5.6	3.1	4.4
Ad hoc charters	0.5	0.6	0.1	0.1
Total	<b>100.0</b>	100.0	<b>100.0</b>	100.0

- Dragonair operates passenger services to 28 destinations in Asia, of which 18 are in China mainland. The airline's scheduled flights to Beijing and Shanghai have been increased to 42 and 56 per week respectively in the summer schedule in 2002. Dragonair also operated additional flights to Chengdu, Chongqing, Dalian, Hangzhou, Kunming, Nanjing, Ningbo and Xiamen in 2002. In addition, Dragonair started to operate 22 passenger flights a week to Taipei from late July 2002 onwards.
- Freight service to Europe via the Middle East has increased to six flights a week from November 2002 onwards. Freight service to Shanghai co-terminate in Xiamen and service direct to Shanghai have increased to two flights a week from September and October respectively. In addition, Dragonair commenced a twice weekly freighter service to Taipei in July 2002.



## OPERATIONS REVIEW

### HONG KONG DRAGON AIRLINES LIMITED (CONT'D)

#### AIR TRANSPORTATION (CONT'D)

Cost Profile:

- The following table sets out Dragonair's cost summary for the years ended 31st December, 2002 and 2001:

Expenditure	Year ended 31st December,		
	2002 HK\$'000	2001 HK\$'000	Change %
Staff costs	1,024,495	865,148	+18.4
Passenger catering and service costs	238,632	242,700	-1.7
Fuel costs	625,919	517,504	+21.0
Route operating costs	1,120,870	909,333	+23.3
Aircraft maintenance costs	901,200	604,500	+49.1
Aircraft equipment costs	577,636	663,149	-12.9
Depreciation and amortisation costs	315,637	223,932	+41.0
Other operating costs	403,580	394,194	+2.4
Total	<b>5,207,969</b>	<b>4,420,460</b>	+17.8

- The year-on-year increase in Dragonair's staff costs for the year was proportionally lower than the increase in capacity for passenger and cargo services due to tight cost control.
- Passenger catering and service costs decreased by 1.7 per cent from 2001's level. This was mainly attributed to the volume discount offered by the caterers in Hong Kong and reduction in unit meal cost.
- Although systemwide fuel price in 2002 has decreased from 2001's level, Dragonair's fuel costs for the year had been 21 per cent higher than that of 2001. This was mainly attributed to higher fuel consumption by aircraft resulting from the expanded flight operations as a whole, and the full year impact of the expanded long-haul freighter operations.
- The increase in route operating costs, including landing and parking charges and ground handling charges, was primarily due to the increased operations in passenger flights and long-haul freighter services.
- During the year, aircraft maintenance costs had increased significantly from the 2001's level. The escalation in cost was due to the increase in the number of aircraft, the higher engine overhaul cost for A330s, the V2500 engine failures and the full year impact from the operation of the two purchased freighter in 2002.
- In 2002, the decrease in aircraft equipment costs were mainly due to the saving from the rental of two wet leased B747-200 freighter.
- Higher depreciation and amortisation costs were incurred by the additional number of purchased passenger aircraft, freighter and simulator.
- The increase in operating costs was less than the increase in capacity for the year as the benefits from the cost cutting measures introduced in 2001 have started to take effect in 2002.



## OPERATIONS REVIEW

### HONG KONG INTERNATIONAL AIRPORT SERVICES LIMITED

- HIAS, a wholly-owned subsidiary of Dragonair, provides airport ground handling services in Hong Kong to Dragonair for all its flight movements, and to other airlines as well.
- The number of third party aircraft movements served by HIAS in 2002 was 4,752 (2001: 3,960), representing an increase of 9.5 per cent from 2001'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 reduction in cost of sales as well as savings in both operating and finance costs.

### 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 and transportation services at the HK Airport.
- HAS is the leading franchised ramp handling operator at the HK Airport, commanding over 50% of the market. It handled nearly 60,000 flights in 2002.
- The considerable traffic growth in 2002 contributed to a satisfactory profit.

### DAH CHONG HONG – DRAGONAIR AIRPORT GSE SERVICE LIMITED

- DAS, a 30 per cent owned associated company of Dragonair, provides ground support equipment and vehicles maintenance and repair services at the HK Airport.
- The decrease in DAS's net profit for the year as compared to that of 2001 was due to weak market demand in 2002.

### DAS AVIATION SUPPORT LIMITED

- DSL, a 30 per cent owned associated company of Dragonair, provides maintenance services for aviation support including aircraft cargo handling system, air cargo containers, pallets and meal carts, etc. and engages in the sales of related spare parts.
- The decrease in DSL's net profit for the year as compared to that of 2001 was due to weak market demand and an increase in operating expenses in 2002.

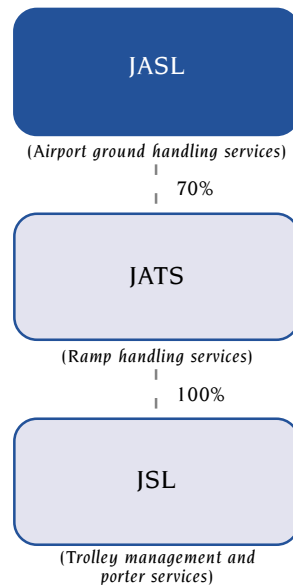


### WISE COUNSEL LIMITED

- WCL, a 30 per cent owned associated company of Dragonair, specialises in airport ground services equipment and spare parts trading.
- During the year, WCL expanded the spare parts portfolio and the increase in ground services equipment demand led to substantial growth in WCL's revenue and net profit.

### 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, 2002:



- JASL provides airport ground handling services to 25 international airlines at the HK 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, has a 10-year franchise by the Airport Authority to provide ramp handling services at the HK Airport from July 1998 onwards. The other shareholders of JATS are China Airlines, United Airlines and GlobeGround GmbH.

JSL, a wholly owned subsidiary company of JATS, has been awarded with a new service contract with the Airport Authority in 2002 to provide airside baggage trolley management at the HK Airport from July 2002 onwards.





## OPERATIONS REVIEW

### JARDINE AIRPORT SERVICES LIMITED (CONT'D)

- The consolidated turnover of JASL and its subsidiaries reported for the year a decrease of 7.7 per cent from that of the preceding year, mainly due to a downsizing of JSL occurring in July 2002 and the disposal of JASA in September 2002. JASL's consolidated profit before taxation and exceptional item reduced by 5.3 per cent from that of the previous year, mainly due to the reduction of the flight frequencies handled.
- JASL handled 50,954 aircraft movements for the year, which represented a 1.1 per cent decrease from that of 2001, and maintained an approximately 40 per cent share of the third party ground handling market at the HK Airport. JATS handled 71,736 aircraft movements for the year, representing an approximately 60 per cent share of the third party ramp handling market at the HK Airport.
- In September 2002, JASL together with United Airlines entered into a contract to sell JASA to a third party. In accordance with the sale and purchase agreement, JASL has made a warranty provision in its own books for potential claims, if any.

### MENZIES MACAU AIRPORT SERVICES LIMITED

- MASC/Ogden-Aviation Services (Macau), Limited, CNAC Macau's 26 per cent directly owned ground handling services provider at the Macau International Airport ("Macau Airport"), has changed its name to Menzies Macau Airport Services Limited on 1st August, 2002. Menzies Macau provides Macau Airport with passenger, ramp handling, cargo and aircraft line maintenance services.
- For 2002, Menzies Macau handled 17,250 aircraft movements, representing an increase of 18 per cent as compared to those for 2001. The amount of cargo handled by Menzies Macau in 2002 was 97,180 tonnes, up by 27 per cent from that in 2001. However, 8 per cent of the cargo handled in 2002 was attributed to the handling of more ad-hoc cargo as a result of the port strike in the West Coast of the United States that occurred during the third quarter of 2002.
- Menzies Macau is accredited with ISO 9001, ISO 9002 and AHS 1000. All of these accreditations are subject to regular audits, ensuring a high standard of management system and quality of customer service at all times.

### TRADEPORT HONG KONG LIMITED

- The construction of the Tradeport Hong Kong Airport Logistics Building was completed on schedule, with a practical completion certificate issued in December, 2002.
- During 2002, Tradeport has been successful in positioning itself as a prime logistics service centre in Hong Kong. Tradeport has been in contract negotiation with a number of potential customers throughout the year.
- All operational permits, certificates and other relevant formalities have been fulfilled. After completion of all fitting work for its contractual customers, Tradeport commenced operations on 17th March, 2003.