



Kong Dong
Chairman

The outbreak of Severe Acute Respiratory Syndrome (“SARS”) in China mainland, Hong Kong and Taiwan region in the second quarter of 2003 stagnated the travelling activities largely in the Asia-Pacific region and posed an ever severe challenging situation to the Company and its subsidiaries (collectively the “Group”) and its associated companies. Loss of substantial passenger traffic wreaked havoc on airlines revenues, and cancellation of flight movements also affected aviation related businesses. In the third quarter, as SARS abated, airline operations resumed gradually with reduced air fares to lure back passengers and tourists, resulting in recovery of load factor before yields. Situation was more promising towards the end of the year as the number of tourists and business travellers picked up under a better global economic climate, particularly with a big jump in the number of mainland travellers when China’s Central Government began to allow individual visitors to Hong Kong and Macau from several mainland cities.

BUSINESS REVIEW

For the year ended 31st December, 2003, the Group recorded a loss of HK\$18.7 million, compared to a profit of HK\$317.4 million in 2002. The Group’s turnover for the year amounted to HK\$1,227.0 million as compared to HK\$1,329.4 million for 2002, representing a decrease of 7.7 per cent, which did not fully reflect the brunt of SARS as the turnover contribution from Air Macau Company Limited (“Air Macau”) in 2002 were not for the full year. Basic loss per share was HK0.57 cent (2002: earnings per share HK9.65 cents).

During the year under review, the Group’s aviation and aviation-related associated companies achieved better performance than the Group in general as a result of significant growth in cargo services and contributed an aggregated profit for the year of HK\$121.5 million to the Group. This however represents a 69.2 per cent decrease as compared with 2002.



BUSINESS REVIEW (CONT'D)

Air Macau reported decreases of 24.3 per cent and 26.0 per cent in turnover and revenue passenger kilometres respectively from the previous year. The available seat kilometres decreased by 18.9 per cent while passenger load factor dropped to around 64.9 per cent. Passenger yield declined by 7.1 per cent due to fares cut in the second half of the year.

Although the freighter operations remained profitable, the overall results of *Air Macau* recorded a loss for 2003.

The operation of the carrier was seriously affected by SARS, which started causing grave impact from March until the latter half of June 2003. Operations to many tourist destinations in China mainland were cancelled in May and June. Although *Air Macau* was able to maintain operations to Shanghai, Xiamen, Taipei, Kaohsiung, Bangkok and Manila, frequencies were reduced. The impact on freighter services between Taipei and Shenzhen using a wet leased B727-200F was minimal.

During the year, *Air Macau* received three new A319s in January, February and July, and a A321 aircraft was replaced by a brand-new one in February. As at the end of the year, the passenger fleet comprises of five A321s, one A320, and five A319s.

Hong Kong Dragon Airlines Limited ("Dragonair") reported a 1.3 per cent decrease in turnover of which passenger revenue dropped by 19.1 per cent whereas cargo related revenue increased by 44.6 per cent. Revenue passenger and revenue passenger kilometres decreased by 11.1 per cent and 11.5 per cent respectively. The available seat kilometres also decreased by 2.6 per cent and passenger load factor decreased by 6.0 percentage point. Passenger yield declined by 8.6 per cent due to a series of special sales promotional activities launched to stimulate passenger traffic after SARS.

Profit before taxation of Dragonair significantly decreased by 89.8 per cent from that of the year 2002. This was mainly due to the impact of SARS from April to June but was partly offset by the strong market demand of cargo services.

The full year contribution from the third purchased freighter operations had increased cargo revenue and uplift tonnage by 44.6 per cent and 39.5 per cent respectively from those of the year 2002. The cargo yield of passenger aircraft had increased by 1.6 per cent and the cargo yield of freighter had increased by 21.8 per cent during the year 2003.

During the year under review, Dragonair took deliveries of two purchased A321s in September and October respectively. As at the end of the year, the Dragonair fleet size was twenty-six including eight A320s, six A321s, nine A330s, and three B747 freighter aircraft.

Although Dragonair's result was seriously affected by the SARS outbreak, post-SARS recovery was faster than expected with passenger numbers climbing back to pre-SARS level from July onwards. Dragonair returned to profitability since July onwards to offset loss incurred in the first half of 2003.



BUSINESS REVIEW (CONT'D)

Jardine Airport Services Limited ("JASL"), the 50 per cent owned ground service provider at the Hong Kong International Airport ("HK Airport"), reported a 29.1 per cent reduction in its consolidated profit before taxation (and before exceptional item). The consolidated turnover of JASL and its subsidiaries decreased by 20.5 per cent comparing to that of the preceding year.

During the year in 2003, JASL handled 44,550 aircraft movements, representing a 12.6 per cent decrease from that of 2002. 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 63,144 aircraft movements, representing approximately 60 per cent share of the third party ramp handling market at the HK Airport.

In May 2003, JATS sold its entire shareholding in *Jardine Skyporters Limited*.

Menzies Macau Airport Services Limited ("Menzies Macau"), the Macau airport ground handler under a nineteen-year concession since 1994, handled 14,587 aircraft movements in 2003, a decrease of 15.4 per cent from those in the previous year. The amount of cargo handled in 2003 was 107,800 tonnes, up by 10.9 per cent from that in 2002.

During the SARS period which occurred in the second quarter of 2003, *Menzies Macau* experienced an average of 60 per cent of scheduled flights being cancelled. Although passenger flight activities recovered and there was growth in cargo movements in the latter part of 2003, *Menzies Macau* recorded decreases both in revenue and operating profit for the year 2003 as compared with those of the previous year.

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

Tradeport had been crippled last year as their operations had to commence right in the midst of the SARS outbreak period in 2003. The management of Tradeport is focusing on building up its client base to catch up with the projected yields.



OUTLOOK

Given an increased inflow of visitors from China mainland and the anticipated recovery of the Hong Kong's economic climate, the management is confident that the passenger airline operations of the Group and the associated companies would be able to achieve significant improvement in 2004 even though the air transportation market is becoming more competitive. Riding on an extensive Greater China network, the Group and its associated companies would place more emphasis in the development of new routes and markets. It is anticipated that the Group's freight operations would remain strong in 2004 with the Group and its associated companies expanding their cargo services with increased capacity to explore new routes and to further participate in the anticipated growth in the China mainland cargo market.

All of the Group's aviation related businesses are expected to resume normal operations in 2004. Furthermore the Company has been actively seeking for valued investments and joint venture opportunities in aviation related businesses in China mainland.

Given a progressive momentum in the recovery of the Hong Kong economy, the Group is expecting a positive growth in 2004.

APPRECIATION

On behalf of the Board, I would like to thank you for the support of our business partners and shareholders and for the hard work of our management team and fellow staff who had gone through this remarkable year 2003.

Kong Dong

Chairman

Hong Kong, 26th March, 2004