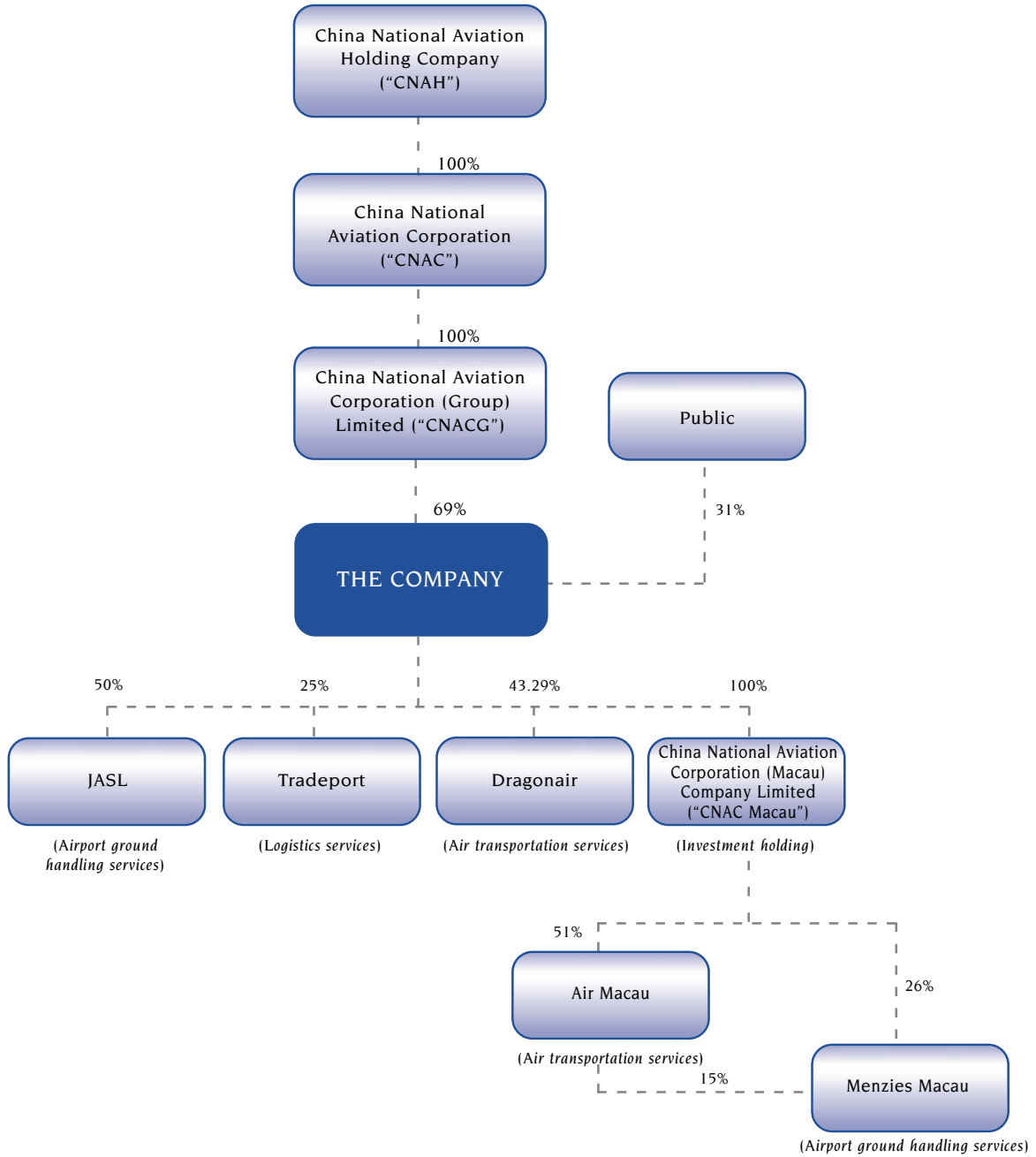




## CORPORATE STRUCTURE

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, 2003:





## 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 services** through

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

## Liquidity and Financial Resources

The Group generally financed its operations with cash flow generated internally. As at 31st December, 2003, the Group had cash and bank balances of a total amount of approximately HK\$1,063 million and net current assets of approximately HK\$850 million. The Group consistently maintained a strong working capital during the year under review. As at 31st December, 2003, the current liabilities of the Group was approximately HK\$417.4 million whilst the Group had no outstanding borrowings.

## Contingent Liabilities and Commitments

As at 31st December, 2003, the Group had given a guarantee of HK\$75 million to a bank for the banking facilities provided to an associated company.

In February 2001, the Group together with the logistics centre consortium partners had jointly given 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.



## BUSINESS OF THE GROUP (CONT'D)

### 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 770 staff (2002: about 800), of which about 147 (2002: about 147) are based outside Macau. Employees remunerated packages are designed and structured based on the foregoing market conditions, relevant laws and regulations, industry practices and standard, work performance, education or professional training background and past working experience.

### 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 2003 and 2002, the number of destinations served by Air Macau categorised by China mainland and non-China mainland destinations are summarised as follows:

	<b>Licensed Passenger and cargo</b>	<b>Number in service as at 31st December,</b>	
		<b>2003</b>	<b>2002</b>
Destinations:			
China mainland	31	<b>10</b>	9
Non-China mainland	38	<b>5</b>	7
Total	<u>69</u>	<u><b>15</b></u>	<u>16</u>

- Air Macau's passenger and freighter services operated a total of 14,431 flights (including charter flights) in 2003 between Macau and 15 destinations in Asia, which were Beijing, Guilin, Haikou, Kunming, Nanjing, Ningbo, Shanghai, Xiamen, Chengdu, Shenzhen, Taipei, Kaohsiung, Manila, Bangkok, and Singapore. Operations to Kota Kinabalu and Kuala Lumpur were suspended in 2003.



## AIR MACAU COMPANY LIMITED (CONT'D)

### AIR TRANSPORTATION (CONT'D)

#### Fleet Profile:

- As at the end of 2003, Air Macau's fleet was comprised of 12 aircraft, including the three brand new A319s passenger aircraft received in January, February and July and one A321 passenger aircraft was replaced by a brand new one in February 2003. All of these new aircraft were under operating leases.
- At the end of 2003 and 2002, Air Macau's fleet was as follows:

Aircraft type	Number of aircraft as at 31st December	
	2003	2002
A319	5	2
A320	1	3
A321	5	5
B757	–	1
B727 freighter	1	1
Fleet total	<u>12<sup>#</sup></u>	<u>12<sup>#</sup></u>

<sup>#</sup> Ten (2002: nine) aircraft were under operating leases, while one B727 freighter (2002: one B757 and one B727 freighter) was under wet lease, and one A321 (2002: one A321) was owned by Air Macau.

#### Fleet expansion plan:

Year	Wet Lease	Return to Lessor
2004	2 A300 freighter	1 B727 freighter
2005	–	1 A320

- Due to further expansion in freighter operation, Air Macau will acquire two A300 freighter to replace the existing wet-leased B727 freighter in 2004. All these new aircraft will be under wet leases.



## AIR MACAU COMPANY LIMITED (CONT'D)

### AIR TRANSPORTATION (CONT'D)

Operating Summary:

		Year ended 31st December,		
		2003	2002	Change %
Overall operating:				
Available tonne kilometre (ATK)				
– Passenger aircraft	(million)	<b>267.64</b>	334.9	-20.1
– Freighter	(million)	<b>30.56</b>	7.5	+307.5
Aircraft utilisation				
– A319	(hr/day)	<b>4.5</b>	6.5	-30.8
– A320	(hr/day)	<b>5.3</b>	6.5	-18.5
– A321	(hr/day)	<b>5.8</b>	7.2	-19.4
– B757	(hr/day)	–	5.0	N/A
– B727 freighter	(hr/day)	<b>4.9</b>	5.3	-7.5
Passenger services:				
Available seat kilometre (ASK)	(million)	<b>2,371.4</b>	2,925.4	-18.9
Total passengers carried	('000)	<b>1,220.4</b>	1,736.4	-29.7
Revenue passenger kilometre (RPK)	(million)	<b>1,538.2</b>	2,078.1	-25.9
Passenger yield per RPK	(avos)	<b>65</b>	70	-7.1
Passenger load factor	(%)	<b>65</b>	71	-6% pt.
Cargo services:				
Cargo tonne kilometre (CTK)				
– Passenger aircraft	(million)	<b>22.4</b>	26.7	-16.1
– Freighter	(million)	<b>23.6</b>	3.8	+521.1
Total cargo tonnes carried				
– Passenger aircraft	(tonnes)	<b>18,351</b>	23,006	-20.2
– Freighter	(tonnes)	<b>37,242</b>	6,250	+495.9
Cargo yield per CTK				
– Passenger aircraft	(avos)	<b>477</b>	478	-0.2
– Freighter	(avos)	<b>557</b>	779	-28.5
Cargo load factor				
– Passenger aircraft	(%)	<b>74</b>	63	+11% pt.
– Freighter	(%)	<b>77</b>	51	+26% pt.

- Air Macau carried over 1.22 million passengers in 2003, a decrease of 29.7 per cent from that in 2002. Capacity of passenger services as measured by ASK had decreased by 18.9 per cent in 2003 from 2002, mainly due to cancellation of flights as a result of the outbreak of SARS.



## AIR MACAU COMPANY LIMITED (CONT'D)

### AIR TRANSPORTATION (CONT'D)

- The passenger yield reported a decrease of 7.1 per cent from that of 2002 due to the special promotion campaigns launched after SARS and the keen market competition that Air Macau was facing during 2003.
- Cargo tonnage uplift increased by 90% to 55,593 tonnes in 2003. The year-on-year increase was mainly attributed to the strong market demand for air cargo services as well as the full year contribution from the wet-leased B727 freighter which commenced operation in October 2002 between Shenzhen and Taiwan via Macau.

#### Traffic Profile:

- The following table sets out Air Macau's traffic summary for the years ended 31st December, 2003 and 2002 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,	
	2003	2002	2003	2002
	%	%	%	%
China mainland scheduled services	40	38	48	36
China mainland programme charters	–	2	–	–
Taiwan region	51	53	52	60
Other destinations in Southeast Asia	8	7	–	4
Ad hoc charters	1	–	–	–
Total	<b>100</b>	100	<b>100</b>	100

- The operation of the carrier was seriously affected by the SARS outbreak that started causing grave impact from March until the latter half of June in 2003. Operations to many tourist destinations in China mainland were cancelled in May and June. Although the carrier was able to maintain operations to Shanghai, Xiamen, Taipei, Kaohsiung, Bangkok and Manila, frequencies were reduced. Kota Kinabalu operation was suspended in March.
- After the SARS period, the carrier strategically restructured its operation network and suspended Kuala Lumpur operation and code-shared with Silk Air on Singapore operation. Much resources were placed to enhance services between Taiwan region and Macau.
- All-cargo freighter services commenced in October 2002 was not significantly affected by the SARS outbreak. The carrier was able to maintain profitability from its freighter operation in 2003.



## AIR MACAU COMPANY LIMITED (CONT'D)

### AIR TRANSPORTATION (CONT'D)

Cost Profile:

- The overall operating expenditure was reduced by about 9% due to flight cancellation during the SARS period and Air Macau's continuous implementation of cost reduction measures.
- The following table sets out Air Macau's cost summary for the years ended 31st December, 2003 and 2002:

Expenditure	Year ended 31st December,		
	2003 %	2002 %	Change % point
Staff costs	15	15	-
Passenger catering and service costs	6	7	-1
Fuel costs	13	11	+2
Route operating costs	22	23	-1
Aircraft maintenance costs	11	11	-
Aircraft equipment costs	22	20	+2
Depreciation and amortisation costs	5	4	+1
Sales and promotion costs	3	5	-2
Other operating costs	3	4	-1
Total	<b>100</b>	<b>100</b>	

- Operating costs, such as passenger catering and services, route operating, aircraft maintenance, sales and promotion, that directly linked with level of operating activities were reduced in line with the overall flight reduction.
- The decrease in sales and promotion costs was also due to the booking fee reduction through the computerised reservation system.
- Although the actual fuel consumption was reduced as the result of shrinking operation during the SARS period, the overall percentage of fuel cost had increased due to the higher system-wide fuel price.
- The percentage of fixed costs, such as aircraft equipment costs, depreciation and amortisation costs, had increased since such fixed costs had decreased in lesser proportion as compared with other direct operating costs.
- The increase in aircraft equipment costs percentage was also attributable to the full year cost effect from the wet-leased B727 freighter which commenced operation in October 2002.

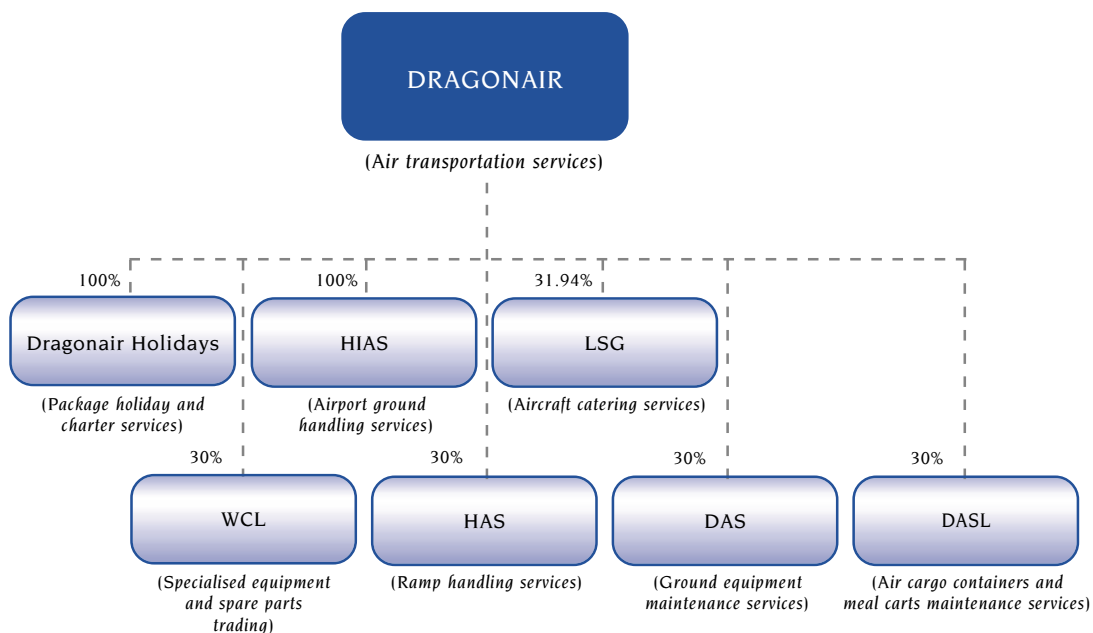


**HONG KONG DRAGON AIRLINES LIMITED**

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 its wholly-owned subsidiary Hong Kong International Airport Services Limited (“HIAS”);
- the provision of aircraft catering services through its 31.94 per cent owned associated company LSG Lufthansa Service Hong Kong Limited (“LSG”);
- the provision of holiday packages and charter services through its wholly-owned subsidiary Dragonair Holidays Limited (“Dragonair Holidays”);
- the provision of ramp handling services through its 30 per cent owned associated company Hong Kong Airport Services Limited (“HAS”);
- the provision of ground support equipment and vehicles maintenance and repair services through its 30 per cent owned associated company Dah Chong Hong – Dragonair Airport GSE Service Limited (“DAS”);
- the provision of maintenance service for air cargo containers and meal carts, and sale of related spare parts through its 30 per cent owned associated company DAS Aviation Support Limited (“DASL”); and
- the trading of specialised equipment and spare parts through its 30 per cent owned associated company Wise Counsel Limited (“WCL”).

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







## 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, 2003 and 2002 derived from its major business operations expressed as percentages of the total profit before taxation of Dragonair:

	Year ended 31st December,		
	2003 %	2002 %	Change % point
Airline operations	<b>43.7</b>	90.2	-46.5
HIAS	<b>32.7</b>	4.2	+28.5
LSG	<b>7.2</b>	2.8	+4.4
DAS	<b>0.0</b>	0.1	-0.1
HAS	<b>14.2</b>	2.5	+11.7
DASL	<b>1.8</b>	0.1	+1.7
WCL	<b>0.4</b>	0.1	+0.3
Total	<b>100.0</b>	100.0	

During the year, the profit before taxation from the airline operations substantially decreased mainly due to the outbreak of SARS from April to June 2003 but was partly offset by the good performance of the freighter operation. Overall, the share of the total profit before taxation of Dragonair's airline operations was decreased from 90.2 per cent in 2002 to 43.7 per cent in 2003.

## AIR TRANSPORTATION

Route Profile:

- At the end of 2003 and 2002, the number of destinations served by Dragonair as analysed by China mainland and non-China mainland destinations are summarised as follows:

Destinations:	Licensed		Number in service as at 31st December,	
	Passenger and cargo	All cargo	2003	2002
China mainland	48	–	<b>19</b>	18
Non-China mainland	41	23	<b>12</b>	14
Total	<b>89</b>	<b>23</b>	<b>31</b>	<b>32</b>

- In 2003, Dragonair operated scheduled services to 31 destinations internationally, 19 of which were in China mainland. Dragonair performed 12,389 round trips in total for the year (2002:12,834). Shanghai route remained to be the most profitable route for 2003.



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

### AIR TRANSPORTATION (CONT'D)

Fleet Profile:

- At the end of 2003, Dragonair's aircraft fleet was comprised of 26 aircraft, including two purchased A321 passenger aircraft acquired during the year for the expansion of the airline's passenger services.
- At the end of 2003 and 2002, Dragonair's fleet was as follows:

	Number of aircraft as at 31st December,	
	2003	2002
Aircraft type		
A320	8	8
A321	6	4
A330	9	9
B747 freighter	3	3
Fleet Total	<b>26<sup>#</sup></b>	<b>24<sup>#</sup></b>

<sup>#</sup> Fourteen aircraft were under operating leases (2002: fourteen), while two A320s (2002: two A320s) and three A330s (2002: three A330s) were under finance leases, two A321s (2002: nil), two A330s (2002: two A330s) and three B747 freighter (2002: three B747 freighter) aircraft were owned by Dragonair.

- Two A321s were purchased in September and October 2003 respectively.

Fleet Expansion Plan:

Year	Purchase	Operating Lease	Wet Lease
2004	2 A320 1 B747 freighter	1 A330	1 A300 freighter
2005	1 A320	3 A330	—
2006	—	3 A330	—

- To prepare for the opportunities ahead, Dragonair had confirmed to purchase two additional A320s, lease one A330, and wet lease one A300 freighter. Dragonair had already purchased one B747 freighter, which was scheduled for delivery in 2004.



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

### AIR TRANSPORTATION (CONT'D)

Operating Summary:

		Year ended 31st December,		
		2003	2002	Change %
Overall operation:				
Available tonne kilometre (ATK)				
– Passenger aircraft	('000)	<b>954,216</b>	943,078	+1.2
– Freighter	('000)	<b>824,908</b>	582,751	+41.6
Revenue load factor	%	<b>67.6</b>	71.2	-3.6 pt
Aircraft utilisation				
– A320	(hr/day)	<b>5.8</b>	7.7	-24.7
– A321	(hr/day)	<b>6.0</b>	8.2	-26.8
– A330	(hr/day)	<b>8.1</b>	8.5	-4.7
– B747 freighter	(hr/day)	<b>11.1</b>	11.4	-2.6
Passenger services:				
Available seat kilometre (ASK)	('000)	<b>6,482,984</b>	6,657,431	-2.6
Total passengers carried		<b>3,213,570</b>	3,620,420	-11.2
Revenue passenger kilometre (RPK)	('000)	<b>3,847,942</b>	4,348,167	-11.5
Passenger yield per RPK	(HK cents)	<b>88.2</b>	96.5	-8.6
Passenger load factor	(%)	<b>59.4</b>	65.3	-5.9 pt
Cargo services:				
Cargo tonne kilometre (CTK)				
– Passenger aircraft	('000)	<b>157,692</b>	136,867	+15.2
– Freighter	('000)	<b>701,888</b>	509,668	+37.7
Total cargo tonnes carried				
– Passenger aircraft	(tonnes)	<b>125,617</b>	113,359	+10.8
– Freighter	(tonnes)	<b>144,363</b>	80,106	+80.2
Cargo yield per CTK				
– Passenger aircraft	(HK cents)	<b>570</b>	561	+1.6
– Freighter	(HK cents)	<b>212</b>	174	+21.8
Cargo load factor				
– Passenger aircraft	(%)	<b>64.6</b>	59.3	+5.3 pt
– Freighter	(%)	<b>85.1</b>	87.5	-2.4 pt



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

### AIR TRANSPORTATION (CONT'D)

- Dragonair carried 3.2 million passengers in 2003, a decrease of 11.2 per cent from 2002. Capacity of passenger services as measured by ASK had decreased by 2.6 per cent, mainly due to the decrease in demand of passenger services during the SARS outbreak period in 2003.
- Passenger yield reported a decrease of 8.6 per cent from that of 2002 due to a series of special offers launched to stimulate passenger traffic after SARS.
- In 2003, the capacity of the freighter services as measured by ATK raised by 41.6 per cent due to the increase in long-haul cargo services with the introduction of the third freighter in November 2002, resulting in a substantial growth of 39.5 per cent in cargo uplift during the year.
- The cargo yield for passenger aircraft and freighter increased by 1.6 per cent and 21.8 per cent respectively from those of 2002. The increase in cargo yield for freighter was attributed by the higher yield from more short-haul freighter services operated and the strong Euro in 2003.
- In 2003, Dragonair's freighter aircraft utilisation rate and cargo load factor for freighter had decreased by 2.6 per cent and 2.4 percentage points from those of 2002 respectively. The decrease in utilisation was due to more ground time needed to do more checks in 2003.

#### Traffic Profile:

- The following table sets out Dragonair's traffic summary for the years ended 31st December, 2003 and 2002 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,	
	2003	2002	2003	2002
	%	%	%	%
China mainland	68.1	72.1	44.2	46.3
Taiwan region	23.6	20.8	23.3	18.6
Japan	0.5	2.1	8.4	9.2
Europe and Middle East	–	–	21.4	22.7
Other destinations	6.9	4.5	2.7	3.1
Ad hoc charters	0.9	0.5	–	0.1
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>



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

### AIR TRANSPORTATION (CONT'D)

- Dragonair operated passenger services to 27 destinations in Asia, of which 19 were in China mainland. The airline's scheduled flights to Beijing and Shanghai had been increased to 56 and 74 per week respectively in 2003. Dragonair added flights to most of its China mainland routes to cope with the growing traffic demand in 2003. The twice a day passenger service to Bangkok had started in November 2003. Services to Sendai and Hiroshima had been suspended since the SARS outbreak in April 2003. The joint venture service with Malaysian Airlines to Kuching had been suspended since April 2003.
- Dragonair's freighter operation was less affected by SARS. Dragonair maintained freighter services to seven international and regional destinations throughout the year, namely Dubai, Amsterdam, Manchester, Osaka, Shanghai, Xiamen and Taipei.

#### Cost Profile:

- The following table sets out Dragonair's cost summary for the years ended 31st December, 2003 and 2002:

Expenditure	Year ended 31st December,		
	2003 HK\$'000	2002 HK\$'000	Change %
Staff costs	1,079,521	1,024,495	+5.4
Passenger catering and service costs	224,294	238,632	-6.0
Fuel costs	791,724	625,919	+26.5
Route operating costs	1,212,642	1,120,870	+8.2
Aircraft maintenance costs	941,798	901,200	+4.5
Aircraft equipment costs	592,172	577,636	+2.5
Depreciation and amortisation costs	409,603	315,637	+29.8
Other operating costs	450,038	403,580	+11.5
Total	<b>5,701,792</b>	<b>5,207,969</b>	+9.5

- Dragonair's staff costs during the year had increased from 2002's level due to the increase in staff and crew number for the expanded operation but were partly offset by the tight cost control measures implemented.
- Passenger catering and service costs had decreased from 2002's level mainly attributable to the decrease in number of passengers carried.
- Fuel costs were higher than that of 2002. This was mainly attributable to the higher system-wide fuel price and the higher fuel consumption for aircraft resulting from more long-haul freighter services operated.



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

#### AIR TRANSPORTATION (CONT'D)

- Route operating costs which included landing and parking charges and ground handling charges, had increased primarily due to the expanded operation for freighter services.
- During the year, aircraft maintenance costs had increased from 2002's level. This was mainly due to the increase in the number of aircraft, the increase in the number of major checks done for both Airbus and Boeing fleet, and the full year operational cost incurred by the third purchased freighter in 2003.
- In 2003, aircraft equipment costs had increased mainly due to the increase in aircraft number and the additional rental cost for more V2500 spare engines needed in the first quarter of 2003, but were partly offset by the reduction in operating lease rental cost for five passenger aircraft after renewal of the lease agreement.
- The increase in other operating costs was mainly due to the expanded operation and sales incentive programme launched for cargo services.

### HONG KONG INTERNATIONAL AIRPORT SERVICES LIMITED

- HIAS, a wholly-owned subsidiary of Dragonair, provides airport ground handling services in Hong Kong to Dragonair and other airlines.
- The total number of third party aircraft movements served by HIAS in 2003 was 4,987 (2002: 4,752), an increase of 4.9 per cent from 2002'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 Dragonair and other airline customers in Hong Kong.
- The decrease in profit contribution from LSG was mainly due to reduction in flight frequencies as well as airlines' cost saving measures implemented during the SARS outbreak period.

### 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 per cent of the market. It handled nearly 54,000 flights in 2003.
- During the year, the substantial decrease in passenger traffic operated by airlines had led to a year-on-year decrease in HAS' net 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.
- DAS reported a decrease in net profit for the year as compared to that of 2002 due to the reduction of maintenance activities from the ground handling companies in 2003.

### DAS AVIATION SUPPORT LIMITED

- DASL, a 30 per cent owned associated company of Dragonair, provides maintenance services for air cargo containers, pallets and meal carts, etc. and engages in the sales of related spare parts.
- The increase in DASL's net profit for the year as compared to that of 2002 was mainly due to cost reduction and increase in other incomes.

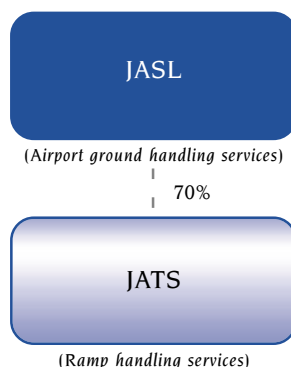
### WISE COUNSEL LIMITED

- WCL, a 30 per cent owned associated company of Dragonair, specialises in airport ground services equipment and spare parts trading.
- The lower net profit for the year as compared to that of 2002 was due to the decrease in ground support equipment and vehicles maintenance activities.



## 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 subsidiary as at 31st December, 2003:



- JASL provides airport ground handling services to 22 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.
- 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 since July 1998. The other shareholders of JATS are China Airlines, United Airlines and GlobeGround GmbH.
- The consolidated turnover of JASL and its subsidiaries reported a decrease of 20.5 per cent from that of the preceding year, mainly due to the negative impact of the SARS outbreak and the disposal of Jardine Airport Services Australia Pty. Ltd in September 2002. JASL's consolidated profit before taxation (and before exceptional item) reduced by 29 per cent from that of the previous year, mainly due to the reduction of the flight frequencies handled.
- JASL handled 44,550 (2002: 50,954) aircraft movements for the year, which represented a 12.6 per cent decrease from that of 2002, and maintained approximately 40 per cent share of the third party ground handling market at the HK Airport. JATS handled 63,144 (2002: 71,736) aircraft movements for the year, which represented 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.
- Through strong support and business connections of its shareholders, JASL is actively pursuing new business opportunities in China mainland.





### MENZIES MACAU AIRPORT SERVICES LIMITED

- Menzies Macau, CNAC Macau's 26 per cent directly owned ground handling services provider at the Macau International Airport ("Macau Airport"), provides Macau Airport with passenger, ramp handling, cargo and aircraft line maintenance services.
- For the first quarter of 2003, Menzies Macau reported an increase of 4 per cent and 2 per cent in turnover and operating profit respectively as compared to the same period of 2002. However, with the outbreak of SARS in April, Menzies Macau began to experience a drastic downturn in operation. There was an average of 60 per cent of scheduled flights being cancelled, resulting in major reduction of revenue, and Menzies Macau suffering a reduction of 69 per cent in operating profit for the second quarter as compared to that of 2002.
- During the third quarter of 2003, the passenger flight activities were slowly recovering and got back closer to a more normal level towards the end of the third quarter. The freighter flight activities had however increased in the last quarter and Menzies Macau reported a cargo revenue increase of 36 per cent as compared to the same period of 2002.
- For 2003, Menzies Macau handled 14,587 (2002: 17,250) aircraft movements, representing a decrease of 15.4 per cent as compared to those for 2002. The amount of cargo handled by Menzies Macau in 2003 was 107,800 (2002: 97,180) tonnes, up by 11.1 per cent from that in 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

- Tradeport's new logistics centre commenced operations in the second quarter of 2003 during the SARS period, as such business take up was below expectations. However, during the third and fourth quarters, several major contracts were signed.
- Contracts signed had predominately been with major multinational companies focusing on accessing to the burgeoning China market while at the same time being able to conveniently reach out to the Asian or global markets.
- At the end of 2003, the building occupancy stood at approximately 40 per cent and Tradeport's marketing plan was being further developed to focus more on various key market sectors such as semi-conductor, data storage and other high-value products.