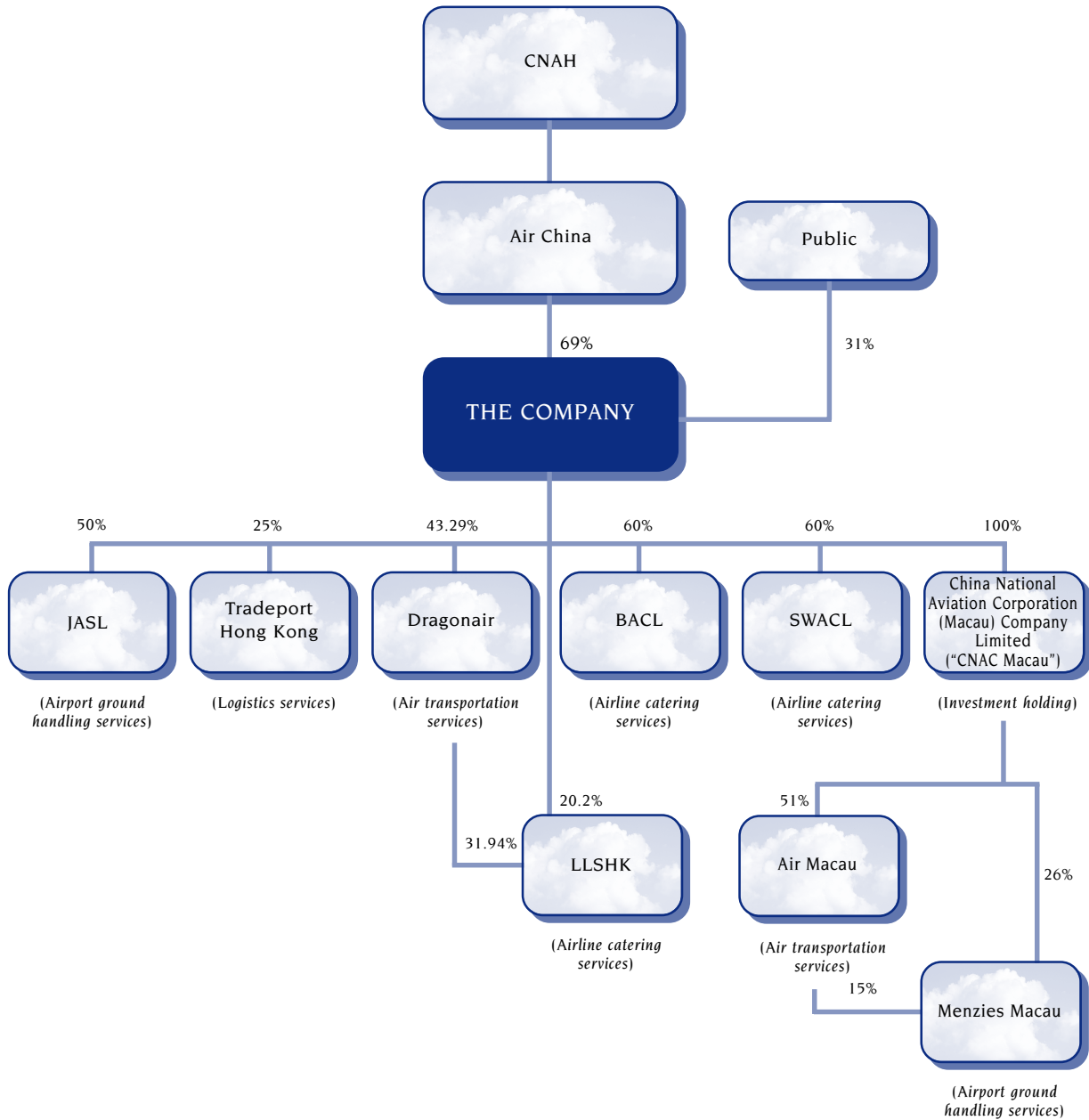




## OPERATIONS REVIEW

### CORPORATE STRUCTURE

The following chart sets out the simplified corporate structure of the Company, its holding companies, its principal subsidiaries and its principal associated companies as at 31st December, 2004:





### OPERATIONS REVIEW

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 Group's 43.29 per cent owned associated company;

the provision of **airline catering services** through

- BACL, the Group's 60 per cent owned jointly controlled entity,
- SWACL, the Group's 60 per cent owned jointly controlled entity, and
- LLSHK, the Group's 20.2 per cent directly owned associated company;

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 Hong Kong, the Group'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, 2004, the Group had cash and bank balances of a total amount of approximately HK\$787 million and net current assets of approximately HK\$563 million. The Group consistently maintained a strong working capital during the year under review. As at 31st December, 2004, the current liabilities of the Group was approximately HK\$472 million whilst the Group had no outstanding borrowings.



### CONTINGENT LIABILITIES AND COMMITMENTS

As at 31st December, 2004, the Group had given a guarantee of HK\$15 million to a bank for the banking facilities provided to an associated company.

In February 2001, the Group together with the Tradeport Logistics Centre consortium partners jointly gave a guarantee to the Airport Authority Hong Kong in respect of their obligations to provide sufficient funding for the development of the Tradeport Logistics Centre. On 17th March, 2004, the Airport Authority Hong Kong agreed to reduce the maximum liability limit from approximately HK\$780 million to approximately HK\$312 million. 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\$78 million, would have been approximately HK\$312 million.

### CHARGE ON ASSETS

The shares of Tradeport Hong Kong held by the Group were pledged as securities for a banking facility granted to Tradeport Hong Kong.

### 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 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 830 staff (2003: about 770), of which about 178 (2003: 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.



## OPERATIONS REVIEW

### AIR MACAU COMPANY LIMITED

The Group owns a 51 per cent shareholding in 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, granting the airline an exclusive right to operate as Macau's home based carrier for a 25-year period until the year 2020.

Principal activities of Air Macau include:

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

Route Profile:

- At the end of 2004 and 2003, the number of destinations served by Air Macau categorized by China mainland and non-China mainland destinations are summarised as follow:

	<b>Licensed Passenger and Cargo</b>	<b>Number in service as at 31st December,</b>	
		<b>2004</b>	<b>2003</b>
Destinations:			
China mainland	31	<b>8</b>	10
Non-China mainland	38	<b>5</b>	5
	<hr/>	<hr/>	<hr/>
Total	69	<b>13</b>	15
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

- Air Macau's passenger and freighter services operated a total of 21,222 flights (including charter flights) in 2004 between Macau and 16 destinations in Asia, encompassing Beijing, Chengdu, Haikou, Kunming, Guilin, Ningbo, Nanjing, Shanghai, Xiamen, Shenzhen, Taipei, Kaohsiung, Bangkok, Manila, Singapore and Seoul. However, two of these cities, Ningbo and Singapore were suspended during 2004.



## OPERATIONS REVIEW

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

#### Fleet Profile:

- As at the end of 2004, Air Macau's fleet comprised of 15 aircraft. One A319 was leased out in return for one A321 being leased-in as a process of phasing out the A319 aircraft. Three wide body freighters were acquired in April, May and December 2004 respectively.
- At the end of 2004 and 2003, Air Macau's fleet was as follows:

Aircraft Type	Number of aircraft as at 31st December,	
	2004	2003
A319	4	5
A320	1	1
A321	6	5
B727 freighter	1	1
A300B4 freighter	3	0
Fleet total	<b>15<sup>#</sup></b>	<b>12<sup>#</sup></b>

# Ten (2003: ten) aircraft were under operating leases, while one B727 freighter (2003: one B727 freighter) and three A300B4 freighter (2003: nil) were under wet lease, and one A321 (2003: one A321) was owned by Air Macau.

- The process of replacing A319 with bigger aircraft will continue in 2005 in a bid to increase the flight capacity. Subject to the availability of the replacement aircraft, the management plans to phase out all the A319 aircraft by 2006. Two additional wide body aircraft have also been planned to operate high-density routes like Taipei, Shanghai and also be used to operate other new long haul routes.
- The management also plans to acquire one B747 freighter and to replace three A300B4 freighters by three A300-600R freighters in 2006 in order to expand the capacity of the freighter business.



## OPERATIONS REVIEW

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

Operating Summary:

		Year ended 31st December,		Change %
		2004	2003	
Overall operating:				
Available tonne kilometre (ATK)				
– Passenger aircraft	(million)	<b>349.20</b>	267.64	+30.5
– Freighter	(million)	<b>117.14</b>	30.56	+283.3
Aircraft utilisation				
– A319	(hr/day)	<b>5.5</b>	4.5	+22.2
– A320	(hr/day)	<b>6.1</b>	5.3	+15.1
– A321	(hr/day)	<b>7.0</b>	5.8	+20.7
– B727 freighter	(hr/day)	<b>4.6</b>	4.9	–6.1
– B300B4 freighter	(hr/day)	<b>5.3</b>	–	N/A
Passenger services:				
Available seat kilometre (ASK)	(million)	<b>3,068.2</b>	2,371.4	+29.4
Total passengers carried	('000)	<b>1,808.0</b>	1,220.4	+48.1
Revenue passenger kilometre (RPK)	(million)	<b>2,145.6</b>	1,538.2	+39.5
Passenger yield per RPK	(avos)	<b>65</b>	65	–
Passenger load factor	(%)	<b>70</b>	65	+5 pt
Cargo services:				
Cargo tonne kilometre (CTK)				
– Passenger aircraft	(million)	<b>23.2</b>	22.4	+3.6
– Freighter	(million)	<b>84.4</b>	23.6	+257.6
Total cargo tonnes carried				
– Passenger aircraft	(tonnes)	<b>19,601</b>	18,351	+6.8
– Freighter	(tonnes)	<b>83,683</b>	37,242	+124.7
Cargo yield per CTK				
– Passenger aircraft	(avos)	<b>497</b>	477	+4.2
– Freighter	(avos)	<b>488</b>	557	–12.4
Cargo load factor				
– Passenger aircraft	(%)	<b>55</b>	74	–19 pt
– Freighter	(%)	<b>72</b>	77	–5 pt

- Air Macau carried more than 1.8 million passengers in 2004, an increase of 48.1 per cent from 2003 mainly due to post SARS recovery as well as implementation of aggressive marketing and sales plans. Capacity of passenger services as measured by ASK increased 29.4 per cent, while passenger loading as measured by RPK increased 39.5 per cent. The higher rate of increase in RPK to ASK rendered a 5 percentage points increase in passenger load factor to 70 per cent.



## OPERATIONS REVIEW

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

- Passenger yield of 2004 remained at 65 cents per RPK, same as that of 2003. This was due to the exercise of aggressive price promotion tactic, as the airline needed to consolidate strategic position, in its major markets – Taiwan, Shanghai and Macau.
- The expansion of cargo business in 2004 was demonstrated by the 257.6 per cent increase in freighter's CTK. Such increase in capacity brought downward pressure in yield, which was diluted by 12.4 per cent as compared with 2003. Tonnage for freighter increased 124.7 per cent, yet freighter load factor declined by 5 percentage points to 72 per cent when compared with the 2003 level.

#### Traffic Profile:

- The following table sets out Air Macau's traffic summary for the years ended 31st December, 2004 and 2003 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,	
	2004	2003	2004	2003
	%	%	%	%
China mainland	41	40	40	43
Taiwan region	52	51	59	55
Other destinations in Asia	6	8	1	2
Ad hoc charters	1	1	–	–
	<b>100</b>	100	<b>100</b>	100

- In 2004, Air Macau inaugurated twice daily passenger services between Shenzhen and Taipei via Macau for the convenience of the PRC-stationed Taiwanese businessmen who shuttle between work place and home now hassle free.
- The carrier also faced challenges posed by the low cost carriers, which have commenced their services in the region during the year. Meanwhile, with Air Macau's expanding fleet size, high service quality and wide destination coverage, the management is confident in maintaining the leading edge in the industry.
- The Cargo Department was set up in May 2004 to cater for increased freighter business and to implement aggressive cargo development plans.



## OPERATIONS REVIEW

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

#### Cost Profile:

- The overall operating expenditure increased by 27.8 per cent due to the enhancement of operating activities.
- The following table sets out Air Macau's cost summary for the years ended 31st December, 2004 and 2003:

Expenditure	Year ended 31st December,		Change % point
	2004 %	2003 %	
Staff costs	13	15	-2
Passenger catering and service costs	5	6	-1
Fuel costs	21	13	+8
Route operating costs	24	22	+2
Aircraft maintenance costs	8	11	-3
Aircraft equipment costs	19	22	-3
Depreciation and amortisation costs	4	5	-1
Sales and promotion costs	3	3	-
Other operating costs	3	3	-
Total	<b>100</b>	<b>100</b>	

- Operating costs, such as staff costs, passenger catering and service, sales and promotion, that directly linked with level of operating activities increased in line with the overall flight increase.
- The increase in the percentage of fuel costs was mainly due to expensive fuel price as a result of social turbulence in Iraq and global fuel shortage.
- The decrease in aircraft maintenance costs was mainly due to the price reduction on maintenance package.
- The increase in aircraft equipment costs was due to the fleet expansion.
- The decrease in the depreciation and amortisation costs was a result of strict control on asset purchased.





### HONG KONG DRAGON AIRLINES LIMITED

The Group owns a 43.29 per cent interest in Dragonair and remains as its single largest shareholder. The principal activities of Dragonair are:

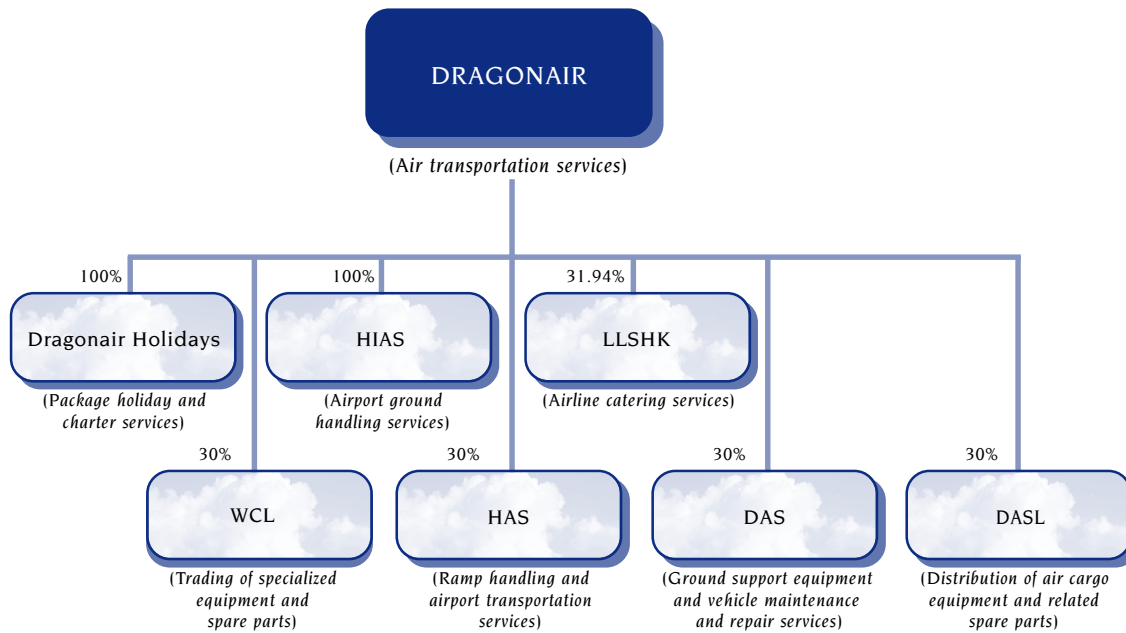
- the operation of airline;
- the provision of airport ground handling services through its wholly-owned subsidiary Hong Kong International Airport Services Limited (“HIAS”);
- the provision of airline catering services through its 31.94 per cent owned associated company LLSHK;
- the provision of holiday packages and charter services through its wholly-owned subsidiary Dragonair Holidays Limited (“Dragonair Holidays”);
- the provision of ramp handling and airport transportation 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 distribution of air cargo equipments and 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”).



## OPERATIONS REVIEW

### 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, 2004 and 2003 derived from its major business operations expressed as percentages of the total profit before taxation of Dragonair:

	Year ended 31st December,		
	2004 %	2003 %	Change % point
Airline operations	91.2	43.7	+47.5
HIAS	4.0	32.7	-28.7
LLSHK	2.1	7.2	-5.1
DAS	—	—	—
HAS	2.5	14.2	-11.7
DASL	0.1	1.8	-1.7
WCL	0.1	0.4	-0.3
Total	<b>100.0</b>	<b>100.0</b>	



## OPERATIONS REVIEW

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

During the year, the profit before taxation from the airline operations increased significantly due to strong recovery of passenger traffic after the outbreak of SARS in 2003. As a result, its share of the total profit before taxation of Dragonair's airline operations had returned to a normal level of 91.2 per cent in 2004 versus 43.7 per cent in 2003.

### AIR TRANSPORTATION

Route Profile:

- At the end of years 2004 and 2003, 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 31st December,	
	Passenger and cargo	All cargo	2004	2003
Destinations:				
China mainland	48	–	21	19
Non-China mainland	47	23	15	12
Total	95	23	36	31

- In 2004, Dragonair operated scheduled services to 36 destinations of which 21 of them in China mainland. Dragonair performed 17,854 round trips in total for the year. Shanghai route remained the most profitable route for 2004. Dragonair would start up the freighter services to New York three times a week from April 2005 using a wet-leased B747-400 freighter.

Fleet Profile:

- At the end of year 2004, Dragonair's aircraft fleet comprised of 31 aircraft. For the expansion of the airline's passenger services and cargo services, there were three passenger aircraft and two freighters delivered in 2004 including:
  - One A330 under operating lease in March 2004
  - One A300B4 freighter under wet lease in June 2004
  - Two A320s under finance lease in July 2004
  - One purchased B747-200 freighter in July 2004.



## OPERATIONS REVIEW

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

#### AIR TRANSPORTATION (CONT'D)

- Dragonair's fleet at the end of years 2004 and 2003 was as follows:

Aircraft type	Number of aircraft as at 31st December,	
	2004	2003
A320	10	8
A321	6	6
A330	10	9
A300B4 freighter	1	—
B747-200 freighter	1	—
B747-300 freighter	3	3
Fleet Total	<b>31<sup>#</sup></b>	<b>26<sup>#</sup></b>

# Fifteen aircraft were under operating leases (2003: fourteen), five aircraft (2003: five) were under finance leases and six aircraft were owned by Dragonair (2003: four). Besides, there were four freighters owned by Dragonair (2003: three) and one freighter was under wet lease (2003: nil).

#### Fleet Expansion Plan:

Year	Purchase	Operating Lease	Wet Lease
2005	1 A320	3 A330	1 B747-400 freighter
2006	2 B747-400 freighter	3 A330	
2007	2 B747-400 freighter		

- Dragonair has confirmed to purchase one additional A320, operating lease three A330s and wet lease one B747-400 freighter in the year 2005, so as to take advantage of the growth opportunities in the airline industry ahead.



## OPERATIONS REVIEW

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

#### AIR TRANSPORTATION (CONT'D)

Operating Summary:

		Year ended 31st December,		Change %
		2004	2003	
Overall operation:				
Available tonne kilometre (ATK)				
– Passenger aircraft	('000)	<b>1,330,721</b>	954,216	+39.5
– Freighter	('000)	<b>1,099,467</b>	824,908	+33.3
Revenue load factor	(%)	<b>71.3</b>	67.6	+3.7 pt
Aircraft utilisation				
–A320	(hr/day)	<b>7.9</b>	5.8	+36.2
–A321	(hr/day)	<b>9.5</b>	6.0	+58.3
–A330	(hr/day)	<b>9.3</b>	8.1	+14.8
–A300B4 freighter	(hr/day)	<b>6.0</b>	–	N/A
–B747-200 freighter	(hr/day)	<b>13.1</b>	–	N/A
–B747-300 freighter	(hr/day)	<b>12.5</b>	11.1	+12.6
Passenger services:				
Available seat kilometre (ASK)	('000)	<b>9,175,702</b>	6,482,984	+41.5
Total passengers carried		<b>4,793,099</b>	3,213,570	+49.2
Revenue passenger kilometre (RPK)	('000)	<b>5,954,669</b>	3,847,942	+54.7
Passenger yield per RPK	(HK cents)	<b>86.2</b>	88.2	–2.3
Passenger load factor	(%)	<b>64.9</b>	59.4	+5.5 pt
Cargo services:				
Cargo tonne kilometre (CTK)				
– Passenger aircraft	('000)	<b>211,092</b>	157,692	+33.9
– Freighter	('000)	<b>875,562</b>	701,888	+24.7
Total cargo tonnes carried				
– Passenger aircraft	(tonnes)	<b>158,617</b>	125,617	+26.3
– Freighter	(tonnes)	<b>183,796</b>	144,363	+27.3
Cargo yield per CTK				
– Passenger aircraft	(HK cents)	<b>559</b>	570	–1.9
– Freighter	(HK cents)	<b>230</b>	212	+8.5
Cargo load factor				
– Passenger aircraft	(%)	<b>64.7</b>	64.6	+0.1 pt
– Freighter	(%)	<b>79.6</b>	85.1	–5.5 pt

- Dragonair carried 4.8 million passengers in 2004, an increase of 49.2 per cent from 2003. Capacity of passenger services as measured by ASK was increased by 41.5 per cent, mainly due to a lower base for comparison. The adverse impact of SARS dampened the demand for passenger services in 2003.



## OPERATIONS REVIEW

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

#### AIR TRANSPORTATION (CONT'D)

- Passenger yield per RPK reported a decrease of 2.3 per cent from 2003 level due to market competition, special offer and lower yield on a per kilometre basis for new services with longer sector length launched in 2004.
- In 2004, capacity of the freighter services as measured by ATK rose by 33.3 per cent due to the wet lease of one A300B4 freighter to operate all-cargo services to Osaka, Shanghai and Nanjing since June 2004 and the freighter service to Frankfurt and London Stansted since late July 2004.
- Cargo yield for passenger aircraft decreased by 1.9 per cent but cargo yield for freighter increased 8.5 per cent from those of 2003. The increase in cargo yield for freighter was helped by the higher yield of more short-haul freighter services provided, and strengthening Euro and Yen against the US dollar in 2004.
- In 2004, Dragonair's passenger load factor increased by 5.5 percentage points. However, cargo load factor for freighter decreased by 5.5 percentage points from that of 2003.

#### Traffic Profile:

- The following table sets out Dragonair's traffic summary for the years ended 31 December, 2004 and 2003 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,	
	2004	2003	2004	2003
	%	%	%	%
China mainland	67.6	68.1	44.1	44.2
Taiwan region	22.0	23.6	21.9	23.3
Japan	2.2	0.5	8.8	8.4
Europe and Middle East	–	–	21.5	21.4
Other destinations	7.9	6.9	3.3	2.7
Ad hoc charters	0.3	0.9	0.4	–
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

- Dragonair operates passenger services to 30 destinations in Asia, of which 21 are in China mainland. The airline's scheduled flights to Shanghai have been increased to 87 per week in the winter schedule of 2004. Dragonair also provided additional flights to most China mainland routes to cope with growing traffic demand in 2004. In addition, Dragonair signed a code share agreement with Air China in February 2004 covering the routes of Chengdu, Chongqing, Dalian and Tianjin. Except Tianjin, the other three routes are currently operated by Dragonair.



## OPERATIONS REVIEW

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

#### AIR TRANSPORTATION (CONT'D)

- Regarding services outside the Greater China region, Dragonair started the 7 flights a week new passenger service to Tokyo in April 2004.
- The airline has cancelled the scheduled services to Phuket from January 2005 onwards as the demand for air traffic to Phuket has been substantially reduced after the tsunami disasters in South Asia.

#### Cost Profile:

- The following table sets out Dragonair's cost summary for the years ended 31st December, 2004 and 2003:

Expenditure	Year ended 31st December,		Change %
	2004 HK\$'000	2003 HK\$'000	
Staff costs	<b>1,345,048</b>	1,079,521	+24.6
Passenger catering and service costs	<b>323,564</b>	224,294	+44.3
Fuel costs	<b>1,475,523</b>	791,724	+86.4
Route operating costs	<b>1,648,903</b>	1,212,642	+36.0
Aircraft maintenance costs	<b>1,146,098</b>	941,798	+21.7
Aircraft lease and finance charges	<b>610,012</b>	592,172	+3.0
Depreciation and amortisation costs	<b>488,814</b>	409,603	+19.3
Other operating costs	<b>521,168</b>	450,038	+15.8
Total	<b>7,559,130</b>	5,701,792	+32.6

- Dragonair's staff costs during the year rose by 24.6 per cent from 2003's level due to increase in staff and crew number for the expanded operation and no pay leave scheme during SARS in 2003.
- Passenger catering and service costs edged up from 2003's level mainly because of increase in total passengers number. However, this was partly offset by change in catering requirements for some short-haul routes.
- Fuel costs surged significantly from that of 2003. This was mainly attributable to soaring fuel price in the market and rising fuel consumption resulting from more long-haul freighter services operated.
- Route operating costs which included landing, parking and ground handling charges, also moved higher, primarily due to increased number of flights for passenger services and freighter services.



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

#### AIR TRANSPORTATION (CONT'D)

- During the year, aircraft maintenance costs also edged up from 2003's level. This was mainly due to the increase in the number of aircraft and higher aircraft utilisation in 2004.
- Aircraft lease and finance charges rose mainly due to the increase in aircraft number. However, this was partly offset by decrease in operating lease charge after renewal of some lease agreements with lessor and lower finance charge under the low interest rate environment in 2004.
- Depreciation and amortisation costs increased due to the purchase of two passenger aircraft and one freighter as well as cabin reconfiguration programme for A330 aircraft.
- The increase in other operating costs was mainly due to expanded operation and launched expenses for new routes.

### 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.
- Total number of third party aircraft movements serviced in 2004 was 6,521, an increase of 30.8 per cent from 2003's level.

### LSG LUFTHANSA SERVICE HONG KONG LIMITED

- LLSHK 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 substantial increase in profit attributable from LLSHK was mainly due to the increase in passenger traffic compared with 2003 which was dented by SARS.

### DRAGONAIR HOLIDAYS LIMITED

- Dragonair Holidays, a wholly-owned subsidiary of Dragonair, mainly provides packaged holidays and charter services for Dragonair.





## OPERATIONS REVIEW

### 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 Hong Kong International Airport.
- HAS is the largest ramp handling operator in Hong Kong, accounting for over 57.0 per cent of the market in the Hong Kong International Airport. Approximately 5,700 flights are handled monthly.
- The considerable traffic growth in 2004, savings in equipment maintenance costs and staff costs 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 Hong Kong International Airport.
- DAS reported a loss for the year due to reduction in maintenance activities from a major customer.

### DAS AVIATION SUPPORT LIMITED

- DASL, a 30 per cent owned associated company of Dragonair, distributes air cargo equipment and related spare parts.
- A drop in net profit for the year as compared to that of 2003 was due to decrease in maintenance activities from a major customer.

### WISE COUNSEL LIMITED

- WCL is a 30 per cent owned associated company of Dragonair. Its main business is to provide spare parts for specialised equipment.
- Higher net profit for the year as compared to that of 2003 was due to increase in ground support equipment and vehicles maintenance activities by customers.



### BEIJING AIR CATERING CO., LTD.

- BACL, the largest airline caterer in Beijing Capital International Airport, is a newly acquired 60 per cent owned jointly controlled entity of the Group. It is principally engaged in the provision of in-flight catering services and other related in-flight food and beverages services.
- In 2004, there was an increase of demand for airline catering services due to the recovery of the airline industry after the SARS period. The number of flights catered for by BACL was 91,273 flights, representing an increase of 16 per cent when compared to that of 2003. In the year under review, the number of in-flight meals served by BACL increased to approximately 13.23 million meals, up by approximately 44.7 per cent when compared to that of 2003.
- The turnover of BACL in 2004 was RMB346.6 million, representing an increase of 31.2 per cent from 2003. The growth is mainly attributable to higher flight frequencies and passenger loads of the flights catered for by BACL.
- In March 2004, the expansion plan of Beijing Capital International Airport was approved by the National Development and Reform Commission, PRC. There will be a rising demand of airline catering services in Beijing Capital International Airport, which will further enhance the growth potential of BACL.

### SOUTHWEST AIR CATERING COMPANY LIMITED

- SWACL, the largest airline caterer in Chengdu Shuangliu International Airport, is a newly acquired 60 per cent owned jointly controlled entity of the Group. It is principally engaged in the production of food, beverages and in-flight services products, the provision of other related services and the sale of its own products.
- In 2004, the number of in-flight meals served by SWACL increased by approximately 14.79 per cent from approximately 3.11 million meals in 2003 to approximately 3.57 million meals, while the number of flights catered for by SWACL stood at 20,150, representing an increase of 12.25 per cent from 17,951 in 2003.
- The turnover of SWACL in 2004 was RMB73.5 million, representing a increase of 15.2 per cent from RMB63.8 million in 2003. The turnover of SWACL from in-flight meal business and other business accounted for 75.3 per cent and 24.7 per cent respectively.
- During the review period, with the finance charges incurred due to the investment of the new in-flight meals production building, and the depreciation costs and other related operating costs increased due to the commencement of operation of the building in June 2004, the net profit of SWACL decreased by approximately 67.2 per cent from approximately RMB6.7 million in 2003 to approximately RMB2.2 million in 2004.
- The new in-flight meals production building has strengthened the production capacity of SWACL. SWACL is currently capable of handling 30,000 in-flight meals per day. The enlarged production capacity will enable SWACL to capitalise on the increasing business expected to be brought about by the expansion of the Chengdu Shuangliu International Airport in the coming years.



## LSG LUFTHANSA SERVICE HONG KONG LIMITED

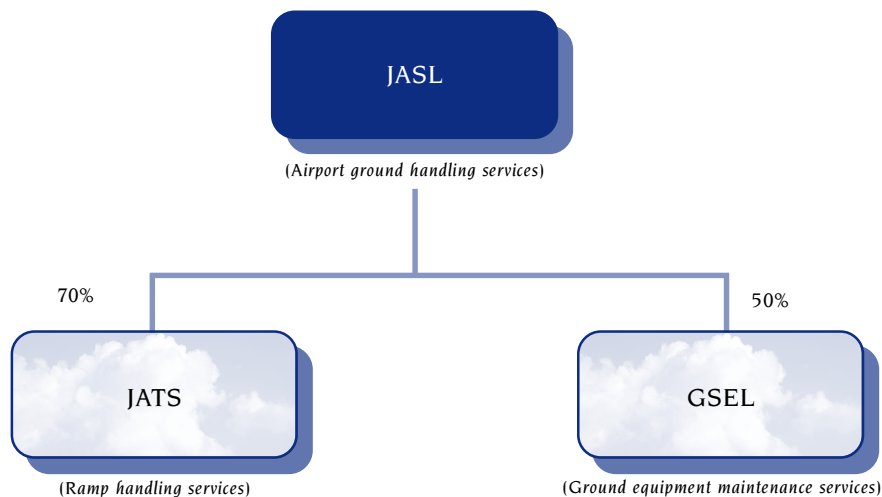
- LLSHK is a 34.03 per cent effectively owned associated company of the Group through direct shareholding of 20.2 per cent and indirect shareholding of 13.83 per cent through Dragonair. Its main business is to provide catering services in Hong Kong to Dragonair and other airline customers.
- Compared with 2003, the number of meals served and the number of flights catered for by LLSHK had increased by 48.3 per cent and 40.6 per cent respectively largely due to the recovery of the airline industry after SARS.
- Turnover and profit before taxation of LLSHK in 2004 had increased by 27.2 per cent and 854.8 per cent respectively compared with 2003, mainly due to strong recovery in air traffic after SARS and various cost saving measures implemented.
- Volume growth is expected in 2005 with the opening of Hong Kong Disneyland and more new routes to be launched by major customers.

## JARDINE AIRPORT SERVICES LIMITED

The Company owns a 50 per cent interest in JASL. The principal activities of JASL are:

- the provision of airport ground handling services; and
- the provision of ramp handling services through its 70 per cent owned subsidiary company JATS; and
- the provision of ground support equipment maintenance services through its 50 per cent owned jointly controlled entity GSEL.

The following chart sets out the simplified corporate structure of JASL and its subsidiaries as at 31st December, 2004:





## OPERATIONS REVIEW

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

- JASL provides airport ground handling services for 25 international airlines at the Hong Kong International 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 Hong Kong to provide ramp handling services at the Hong Kong International 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 increased by 28.3 per cent from that of the preceding year, mainly due to favourable market conditions which have bounced back to the pre-SARS level. JASL's consolidated profit before taxation increased by 95.9 per cent from that of the previous year, mainly due to the increase in flight frequencies handled.
- JASL handled 60,346 aircraft movements for the year, which represented a 35.5 per cent increase from that of 2003, and maintained approximately 40 per cent share of the third party ground handling market at the Hong Kong International Airport. JATS handled 79,800 aircraft movements for the year, which represented an approximately 60 per cent share of the third party ramp handling market at the Hong Kong International Airport.
- In March 2004, JASL acquired a 50 per cent interest of GSEL. The principal activity of the company is the provision of ground support equipment maintenance services. The other shareholder of GSEL is Castor Investments Limited, a wholly owned subsidiary of Cathay Pacific Airways Limited.

### MENZIES MACAU AIRPORT SERVICES LTD

- Menzies Macau is a 33.65 per cent effectively owned associated company of the Group through direct shareholding of 26 per cent and indirect shareholding of 15 per cent through Air Macau. It provides Macau International Airport with passenger, ramp handling, cargo and aircraft line maintenance services.
- For the first quarter 2004, Menzies Macau recorded a slight decline of 8 per cent in aircraft turns handled; but the cargo tonnage volume was increased by 47 per cent as compared to the corresponding period in 2003. With the start of Air Macau and Shanghai Airlines freighter services in the second quarter, Menzies Macau experienced increased growth in the cargo activity. Menzies Macau also handled more passenger flights with added activity from the low cost carrier Air Asia which commenced flights to Macau in July 2004.
- For the year ended 31st December, 2004, Menzies Macau provided ground services for a total of 19,291 aircrafts turns and 171,450 tonnes of cargo. As a result, the turnover and operating profit for 2004 were up by 21 per cent and 26 per cent respectively as compared with those for 2003, which have also exceeded the turnover and operating profit levels in 2002.
- Menzies Macau ended 2004 with a healthy performance and expects to see continued growth in the business and from cargo operations in 2005.



## OPERATIONS REVIEW

### TRADEPORT HONG KONG LIMITED

- The Group owns a 25 per cent interest in Tradeport Hong Kong. Tradeport Hong Kong's Logistics Centre at the Hong Kong International Airport commenced operations in March 2003.
- Tradeport Hong Kong ended the year with a strong note of securing three major long-term customer contracts in semi-conductor, aerospace and retail industries. The business activity of Tradeport Hong Kong has grown significantly during the year. The utilisation of the Logistics Centre and revenue per pallet shown continue growth throughout the year due to increased services and better space utilisation through material handling equipment.