

## Chairman's Statement

With Asia's continuous economic growth in 2005, the opening of Hong Kong Disneyland, and the robust development of the gambling and entertainment business in Macau, aviation and aviation-related industries within the region developed rapidly. The Group successfully rode on these trends to drive strong growth in both passenger volume and cargo volume for its airlines. The aviation-related businesses also saw healthy growth. However, consistently high international fuel prices offset revenue growth for the Group's airlines. Volatility in oil prices and fears of Avian Flu epidemic also created challenges for the aviation industry as a whole.

Thanks to the increase in passenger traffic, the airline-catering businesses newly acquired by the Group in 2004 have become new driving forces for the Group's growth in 2005 and made a contribution of 10 percent to the Group's total turnover. The success of the airline-catering businesses vividly demonstrated the Group's successful strategies and flexibility in addressing ever-changing market conditions and volatile business environment.

For the year ended 31st December 2005, the Group recorded a turnover of HK\$2,620 million (2004: HK\$1,891 million), a 38.6 percent increase over the preceding year. Profit attributable to the equity holders of the Company amounted to HK\$225 million, representing a 37.7 percent decrease compared to HK\$361 million last year. Basic earnings per share were HK6.79 cents (2004: HK10.90 cents).

### BUSINESS REVIEW

**Air Macau Company Limited** ("Air Macau") reported a 16.3 percent increase in turnover for 2005, of which passenger revenue increased by 8.9 percent whereas cargo related revenue increased by 35.2 percent. Air Macau implemented a series of timely measures to enhance its efficiency and lower the cost. However, consistently high oil price led to a 68.6 percent rise in fuel cost compared to last year and resulted in a loss of the airline.

Air Macau carried more than 2 million passengers in 2005, an increase of more than 13.9 percent from 2004. The available seat kilometers ("ASK") increased by 11.6 percent, while the passenger load factor increased by 2 percentage points to 72 percent. Passenger yield was the same as that of 2004. The yield improvement was constrained by competitive market dynamics and the depreciation of the Taiwan currency.



Kong Dong Chairman

## Chairman's Statement (Cont'd)

### BUSINESS REVIEW (Cont'd)

Air Macau expanded the market share of its cargo business in 2005 by adding more frequencies. The freight tonne kilometers of Air Macau increased by 74.8 percent, while the total tonnage uplift on freighters increased by 58.5 percent. However, the freighter load factor saw a slight decrease of 0.8 percentage points against 2004, at 71.3 percent.

Air Macau's passenger and freighter services operated a total of 23,770 flights (including charter flights) in 2005 between Macau and 26 destinations across China mainland and Asia Pacific. As at the end of 2005, Air Macau's fleet was comprised of 18 aircraft, including seven A321s, one A320, five A319s and five A300B4 freighters.

**Hong Kong Dragon Airlines Limited** ("Dragonair") reported a 18.5 percent increase in turnover for 2005, of which passenger revenue increased by 9.6 percent whereas cargo revenue increased by 19.6 percent. Fuel costs for Dragonair in 2005 increased by 69.8 percent, accounting for 24 percent of the total operating costs, and significantly impacted the profit of Dragonair. The share of Dragonair's total profit before tax from the airline operations decreased from 91.2 percent in 2004 to 75.9 percent in 2005. In order to alleviate cost pressures brought about by high fuel prices, Dragonair implemented a series of fuel hedging arrangements and imposed passenger and cargo fuel surcharges, together with stringent cost controls.

During the year, Dragonair added more frequencies to a number of routes connecting China mainland, so as to meet the increasing passenger demand. Dragonair carried 5.3 million passengers in 2005, an increase of 9.8 percent compared to 2004. Owing to the increased number of flights, the ASK of Dragonair rose by 9.7 percent.

In 2005, the available tonne kilometer ("ATK") of Dragonair freighters rose by 44.5 percent, while the total tonnage uplift on freighters increased by 21.7 percent. This was mainly attributable to the full-year impact of the launch of cargo services in June 2004 to Osaka, Shanghai and Nanjing, and the launch of cargo service to Frankfurt in July 2004. In addition, Dragonair has introduced a wet-leased B747-400 freighter service in April 2005 to provide a three times weekly trans-pacific cargo services to New York.

Dragonair operated a total of 20,093 round trips in 2005 to 36 destinations, 22 of which are in China mainland. As at the end of 2005, Dragonair's fleet comprised of thirty-four aircraft, including ten A320s, six A321s, twelve A330s, one A300B4 freighter, one B747-200 freighter, three B747-300 special freighters and one B747-400 freighter. To capture the business opportunities arising out of the continuous development of air cargo industry in the region, Dragonair has agreed to purchase five B747-400 converted freighters, which will be delivered from 2006 to 2008.

**Beijing Air Catering Co. Ltd.** ("BACL") recorded a 10.5 percent and a 10 percent rise, respectively, in the number of flights catered and the total number of in-flight meals served over 2004. BACL remained the largest airline caterer at Beijing Capital International Airport, with a market share of approximately 77 percent. The new catering building of BACL, that will be sited at Beijing Capital International Airport, is expected to commence construction in the middle of 2006. The building, upon completion at the end of 2007, will offer a production capacity of 45,000 meals per day.

**Southwest Air Catering Company Limited** ("SWACL") also showed encouraging performance. With enhanced production capacity contributed by the new catering building, SWACL was able to provide catering services for an increased number of airline customers, leading to an increase of 12.1 percent and 37.1 percent in the total number of in-flight meals served and the number of flights catered, respectively. SWACL remained the largest airline caterer at Chengdu Shuangliu International Airport, with a market share of approximately 70 percent. In October 2005, the shareholders have injected RMB50 million into SWACL.

## BUSINESS REVIEW (Cont'd)

**LSG Lufthansa Service Hong Kong Limited** (“LLSHK”), recorded 10.8 percent and 14.1 percent increase in the number of meals served and the number of flights catered respectively during 2005, thanks to rising traffic volume of its airline customers. Continuous cost control measures implemented by LLSHK also contributed to a significant profit increase.

**Jardine Airport Services Limited** (“JASL”) reported growth in its consolidated turnover and consolidated profit before tax, mainly attributable to the steady increase in the number of flights handled.

In 2005, JASL handled 68,650 aircraft movements, an increase of 16.4 percent compared to 2004, and maintained an approximately 49 percent share of the third party ground handling market at the Hong Kong International Airport. **Jardine Air Terminal Services Limited** (“JATS”), a subsidiary of JASL, handled 91,950 aircraft movements during the year, which accounted for an approximately 60 percent share of the third party ramp handling market at the Hong Kong International Airport.

**Menzies Macau Airport Services Limited** (“Menzies Macau”) handled a total of 21,575 aircraft movements in 2005, an increase of 11.8 percent compared to 2004, as driven by the commencement of flight services by a foreign LCC from Singapore to Macau in the first quarter of 2005. However, cargo tonnage fell 6.2 percent due to keen competition from the surrounding airports. In addition, 50 percent of the cargo volume that Menzies Macau handled was transfer cargo, with much lower handling charges than that of cargo terminating in Macau. As a result, the total revenue of Menzies Macau for the year was affected.

**Tradeport Hong Kong Limited** (“Tradeport Hong Kong”), showed considerable growth in both the utilisation of the Logistics Centre and revenue per pallet throughout the year, resulting in a 53 percent increase in consolidated revenue. The utilisation of the Logistics Centre reached 73 percent by the end of 2005.

## OUTLOOK

The rapid economic growth in China and the increasing income of the China mainlanders are expected to boost the number of Chinese travellers to overseas destinations. In addition, both the Hong Kong SAR Government and the Macau SAR Government are committed to promote the cities into major travel locations in Asia. These factors are expected to drive the traffic volume to and from Hong Kong and Macau and thus boost the growth of the regional aviation industry. However, consistently high fuel prices will remain a significant challenge for airlines, and industry competition is also expected to intensify following the establishment of more airlines.

In order to cope with the changing demand of Asian travellers with regard to aviation services, the Group and Shun Tak Holdings Limited co-launched Macau Asia Express, a low cost carrier based in Macau, in January 2006. The Group currently holds a 43.7 percent effective interest in the company. Macau Asia Express will complement Air Macau's service and focus on new destinations in Greater China and Asia. The company will integrate the expertise and resources of the Group and Shun Tak Holdings Limited in aviation services, aviation management, and in the gambling, entertainment and travel businesses in Macau, to provide travellers with affordable flight services and travel packages. With the airline expected to undertake its first commercial flight in the fourth quarter of 2006, the Group is confident that it will become another reliable profit source.

In addition, the Group will continue to streamline its business operations and strengthen its cost control measures. The existing networks and resources of the Group in Greater China will also be utilised to further diversify the Group's aviation-related business. The Group will also strive to capture business opportunities arising from the robust growth of the regional aviation and travel industries, with an aim to expand its income sources and maximize its profit. Having ensured a relatively stable position in the airline-catering industry, the Group will allocate further resources for the expansion of its airline-catering and other aviation-related businesses.

## Chairman's Statement (Cont'd)

### OUTLOOK (Cont'd)

Looking forward, Asian aviation industry will face a challenging yet prospering business environment. In view of uncertainties arisen from fuel costs, the Group will overcome the negative effects through fuel hedging program, fuel surcharge and more stringent cost control measures. The Group is confident that it can achieve better results in 2006 by optimising its businesses' efficiency and leveraging its diversified business portfolio.

### APPRECIATION

On behalf of the Board, I would like to express our heartfelt gratitude for the support of our business partners and shareholders and for the contribution of our management team and my fellow staff in 2005.

**Kong Dong**

*Chairman*

Hong Kong, 24th March 2006