

Chairman's Letter

The year 2000 was a major milestone for Cathay Pacific. The Group made an attributable profit of HK\$5,005 million, compared with a profit of HK\$2,180 million in 1999. Turnover rose to HK\$34,523 million, an increase of 20.3 percent over the previous year, and a substantial turn around from two years ago.

This record result was due to the strengthening of our regional economies with the attendant increase in demand for passenger and cargo services. Passenger load factor was higher than we have achieved in the recent past with demand being particularly strong in both our Hong Kong and North Asian markets. During the year we set a new record for the number of passengers carried. However, whilst this strong demand enabled us to increase yields, these still remain below the levels we achieved before the Asian economic crisis.

Cathay Pacific's cargo operation enjoyed strong growth across most routes. Cargo turnover rose by 20.8 percent and now makes up 29.4 percent of our total revenue. The increase in our cargo business was helped by the delivery of a new Boeing 747-400 freighter aircraft and the launch of new cargo destinations.

As demand for air travel continues to grow we are increasing our capacity and during 2001 eleven additional wide-bodied aircraft will join our fleet. These aircraft will enable us to add more frequencies to key regional and long-haul destinations and will assist in the development of Hong Kong International Airport as the leading airport in Asia.

We are continuing to invest in our product and will install our very successful new First Class cabins on our long-haul Airbus fleet. We have also added new attractions at The Wing, our award-winning airport lounge in Hong Kong.

The oneworld global alliance and our travel reward programme, Asia Miles, continue to grow and develop and now provide significant benefits to our passengers.

Our e-Business initiatives are moving forward and include a new flagship website, a cargo website, an online travel exchange and an e-marketplace. We are confident that these and the other e-Business initiatives we have in hand will help us realise our aim of becoming Asia's leading e-Business airline.

I am particularly pleased with the financial result we achieved in the context of a 60 percent increase in the average price of fuel, which increased our total operating cost by over HK\$2 billion.

If we are to repeat or, indeed, improve upon the result in the current year, we will need stable yields and reducing unit costs. There is no doubt 2001 will be a challenging year; nevertheless, we look to the future with confidence.

I would like to end by thanking all our staff for the contribution they have made during the year; without their commitment we would not have been able to report such an excellent result.

James Hughes-Hallett

Chairman

7th March 2001