

Review of Operations

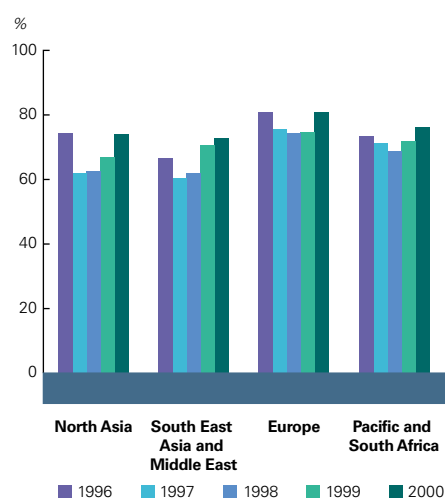
PASSENGER SERVICES

With the recovery of Asian economies, 2000 was an encouraging year. Passenger revenue was helped by both the increase in passenger numbers and the rise in yields. North Asian and North American routes performed strongly. However our European routes were affected by weakening European currencies.

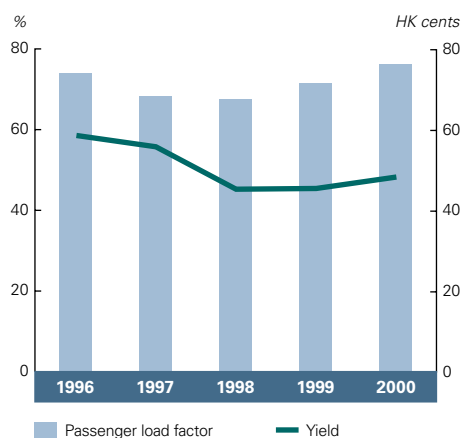
Available seat kilometres (“ASK”), load factor and yield:

	ASK (million)			Load Factor (%)			Yield
	2000	1999	Change	2000	1999	Change	Change
North Asia	9,912	9,475	+4.6%	74.1	67.0	+7.1%pt	+9.5%
South East Asia and Middle East	12,097	11,261	+7.4%	72.6	70.6	+2.0%pt	+5.2%
Europe	14,565	13,905	+4.7%	80.8	74.5	+6.3%pt	+1.4%
Pacific and South Africa	25,335	23,473	+7.9%	76.0	71.8	+4.2%pt	+7.1%
Overall	<u>61,909</u>	<u>58,114</u>	<u>+6.5%</u>	<u>76.2</u>	<u>71.4</u>	<u>+4.8%pt</u>	<u>+6.2%</u>

Load factor by region



Passenger load factor and yield



- Substantial growth was seen in our key markets of Australia, Canada, Hong Kong, Japan, Korea, the Philippines, Taiwan and U.S.A. The number of business-related passengers increased, improving load factors in first and business classes.
- Revenue generated from our oneworld alliance continued to increase with seamless travel now being offered to more offline destinations. The addition of extra frequencies helped to increase market share.

Highlights by sector are as follows:

NORTH ASIA

- The strong yen and an increase in Japanese visitors to Hong Kong led to an improvement in the revenue earned from our Japanese routes.
- Further benefits were seen from the codeshare arrangements with Japan Airlines launched in 1999.
- The Korean market was very strong with growth recorded across all passenger classes. Our Taiwanese routes also performed well during the year.

SOUTH EAST ASIA AND MIDDLE EAST

- South East Asian routes experienced a continuing recovery during 2000, and traffic between the region and the US West Coast grew substantially during the year.
- The performance of our Middle East routes remained satisfactory despite intense competition.
- Successful codeshare arrangements commenced with Malaysian Airlines in September and, in the same month, we introduced three services a week to Karachi.

EUROPE

- Weak European currencies adversely affected yields, although this was partly offset by increased first and business class traffic and by fare increases.
- Load factors on the European routes remained high throughout the year and our traditionally weaker routes produced improved results.
- Codeshare arrangements with Swissair enhanced the performance of the Zurich route.

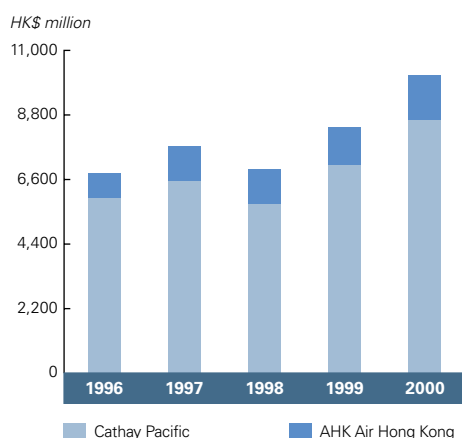
PACIFIC AND SOUTH AFRICA

- The performance of our North American routes was outstanding in terms of both load factors and yields.
- Australian routes performed satisfactorily, although the service to Perth faced intense competition.
- Our codeshare arrangement with South African Airways further strengthened the performance of our Johannesburg route.

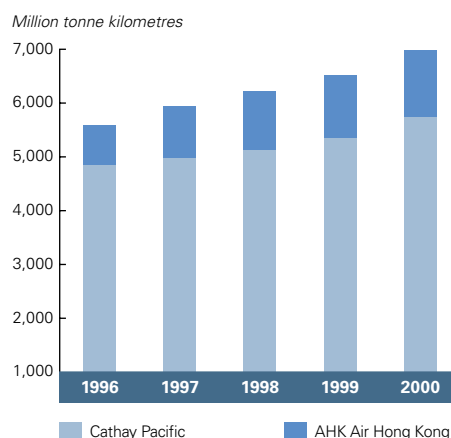
CARGO SERVICES

	Cargo and Mail						
	ATK (million)			Load Factor (%)			Yield
	2000	1999	Change	2000	1999	Change	Change
Cathay Pacific	5,740	5,337	+7.6%	72.5	71.5	+1.0%pt	+11.9%
AHK Air Hong Kong	1,234	1,188	+3.9%	73.9	67.6	+6.3%pt	+1.8%

Turnover



Capacity – cargo and mail ATK



Cathay Pacific Airways Limited

- Cathay Pacific Cargo operates a fleet of three B747-400 freighters and four B747-200 freighters serving 19 destinations worldwide.
- One new B747-400 freighter joined the fleet in September whilst a further two will be delivered in 2001.
- Three new freighter destinations were added: Delhi, Penang and San Francisco.
- The strong global demand for air cargo continued, leading to an excellent performance for Cathay Pacific Cargo. Turnover increased by 21.8% as compared with 1999. Approximately 65.3% of this cargo was carried by passenger aircraft, with the remainder being carried by freighters.
- Cargo available tonne kilometres grew by 5.4% for freighter aircraft and 7.6% for the fleet as a whole, whilst cargo load factors on passenger aircraft averaged 65.7%, and load factors on freighter aircraft averaged 80.1%.
- Yields on cargo shipments from Hong Kong to all major markets continued to improve and fuel surcharges were introduced during the year to help compensate for the impact of rising fuel prices.
- In March, we introduced dedicated overnight services for DHL Worldwide Express between Hong Kong and Osaka, Seoul, Singapore and Taipei. These overnight services enable DHL to offer a superior express freight product in these markets.
- Cathay Pacific Cargo introduced its own website in October. This provides our customers facilities for booking cargo space on-line and tracing the status of their shipments in real-time. Additional features will be added in the months ahead.

- A new courier service for small parcels, RPX, was introduced in November in association with sales agent Linehaul Express.

AHK Air Hong Kong Limited (“AHK”)

- AHK, a 75% owned subsidiary, is an all-cargo carrier with scheduled services to Japan, Europe and the Middle East. Services to Seoul will commence in the second quarter of 2001.
- The company operates a fleet of three B747-200 freighters leased from Cathay Pacific.
- The company reported a good profit despite higher fuel prices and increased competition.
- Capacity increased by 3.9% over 1999, whilst yields and load factors improved by 1.8% and 6.3 percentage points over 1999 respectively.

REVIEW OF AFFILIATED BUSINESSES AND ASSOCIATED COMPANIES

Cathay Pacific Catering Services (H.K.) Limited

- This wholly-owned subsidiary is the largest flight kitchen in Hong Kong. It serves 33 airlines, representing 64% market share in airline catering at Hong Kong International Airport.
- The company achieved an encouraging result with 14.4 million meals produced during the year. Purchasing and pricing opportunities are being explored to improve profit margins.

Hong Kong Airport Services Limited (“HAS”)

- HAS, in which Cathay Pacific holds a 70% interest, is the leading franchised ramp handling company at Hong Kong International Airport providing aircraft loading, passenger steps and air bridge operations, cargo and mail delivery and crew transport services.
- With over 30 customers, it has maintained over 50% of market share in an extremely competitive environment.
- The company is also contracted to operate passenger, staff and other bus services for the Airport Authority.
- The economic upturn generated considerable traffic growth in 2000, which has resulted in a good year for the company.

Hong Kong Dragon Airlines Limited (“Dragonair”)

	ASK/ATK* (million)			Load Factor (%)			Yield
	2000	1999	Change	2000	1999	Change	Change
Passenger services	4,885	4,398	+11.1%	66.2	62.5	+3.7%pt	+1.6%
Cargo services	754	554	+36.1%	76.2	56.6	+19.6%pt	-38.8%

* Capacities of passenger and cargo services are measured in available seat kilometres (“ASK”) and available tonne kilometres (“ATK”) respectively.

- Dragonair, in which Cathay Pacific holds a 19% interest, is a Hong Kong-based airline operating scheduled and charter services to 27 destinations in Asia, 17 of which are in Mainland China.

- With one A321 and one A320 joining the fleet in the second quarter of 2000, Dragonair now operates a fleet of 14 aircraft and an additional two A330s and two B747-300 freighter aircraft will join in 2001.
- In April, the airline commenced a twice weekly service to Sanya. Frequencies to major destinations in Mainland China were also increased in the second half of the year and, to meet seasonal demand, a twice weekly service to Kathmandu was introduced in the Winter Schedule.
- Dragonair carried 2.7 million passengers and achieved a passenger load factor of 66.2%, representing a growth of 3.7 percentage points.
- In the second half of the year, the company operated its first ever all-cargo flights to Shanghai and Europe with a B747-200 freighter wet-leased from Atlas Air. The cargo load factor, including both freighter and passenger aircraft, improved by 19.6 percentage points to 76.2%. The cargo yield reduced by 38.8% as a result of the introduction of long-haul services.
- Fleet profile as at 31st December 2000:

Aircraft type	Number per fleet as at 31st December 2000			Firm orders			Expiry of operating leases					
	Leased		Total	'03 &			'04 &				Options	
	Finance	Operating		'01	'02	beyond	Total	'01	'02	'03		beyond
A320	1	5	6^(a)	1 ^(b)	5	6			4	1		
A321		3	3		1 ^(b)	1					3	
A330	2	3	5	2 ^(b)	1	3	1	1	1			1 ^(c)
B747-300F				2		2						
Total	3	11	14	4	3	5	12	1	1	5	4	1

(a) One A320 has been leased out for the period June 1999 to March 2001 and is not included in the table.

(b) One A330 in 2001, the A320 and A321 in 2002 will be on operating leases.

(c) Option is for aircraft delivery in 2003.

- In March, a new Air Services Agreement between the General Administration of Civil Aviation of China and the Government of Hong Kong Special Administrative Region was finalised. Dragonair's charter routes to Mainland China were upgraded to scheduled services and the representative offices in a number of major cities in Mainland China were granted full sales and ticketing rights for both passenger and cargo services.
- The airline's headquarters was relocated to Chek Lap Kok on completion of Dragonair House in June.
- In October, Dragonair introduced new uniforms for cabin crew and airport staff, and launched its new loyalty club, Elite, to provide more benefits to its valued customers.
- The company reported an improved profit as a result of an increase in passenger numbers and a rise in yields. However, higher fuel prices had a negative effect.
- With the finalisation of the new Air Services Agreement and China joining the World Trade Organisation, demand for air travel and cargo between Hong Kong and Mainland China is expected to increase. Management of Dragonair is optimistic about the future of the airline.

Hong Kong Aircraft Engineering Company Limited (“HAECO”)

- HAECO, in which Cathay Pacific holds a 27% interest, provides aircraft maintenance and overhaul services at Hong Kong International Airport.
- The company achieved a profit after tax of HK\$400 million, 574% higher than in the previous year. This increase was mainly due to profit arising on the sale of properties and interests in joint ventures and effective cost saving initiatives.
- Line maintenance services were under severe competition at Hong Kong International Airport, whilst traffic volumes have started to rise as airlines increase capacity. Airframe maintenance activity at the hangar facility remained high.
- Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO), 42% owned by HAECO and 9% by Cathay Pacific, had a profitable year. In August, TAECO performed its first passenger aircraft to freighter conversion for a B747 aircraft and in November TAECO performed its first C check on an A330.
- Hong Kong Aero Engine Services Limited (HAESL), HAECO’s joint venture with Rolls-Royce plc and SIA Engineering Pte Limited, achieved good results with higher workloads.