

In 2004 the Group achieved its second best ever result with an attributable profit for the year of HK\$4,417 million, compared to a profit of HK\$1,303 million in 2003. The result would have been even more impressive had it not been for the sharp rise in the price of fuel. Turnover increased by 32.1% to HK\$39,065 million.

Our passenger capacity increased by 24.9%. This increase, combined with higher load factors and yields which rose 5.8% to HK45.8 cents, contributed to a passenger revenue record of HK\$26,407 million.

The launch of a new non-stop service to New York, new codeshare services to Barcelona, Madrid and Moscow and more frequent services to Bahrain, Brisbane, Colombo, Dubai, Manila, Osaka, Riyadh, Surabaya, Sydney and Taipei further strengthened Hong Kong as a global aviation hub.

We also commenced a daily passenger service to Beijing and in early 2005 launched a thrice weekly service to Xiamen. A second daily service to Beijing will be introduced later this year.

Cathay Pacific Airways achieved a new annual cargo record of 972,416 tonnes and a cargo revenue record of HK\$10,549 million. This resulted from the continued growth in demand from Europe, Japan and the United States for goods manufactured in Mainland China. A new thrice weekly freighter service to Munich strengthened our European operations. Daily freighter services to Shanghai commenced in January 2005.

The full effect of higher fuel prices was tempered by hedging gains and surcharges on both passenger and cargo services. In 2004 fuel accounted for 23.9% of our total operating cost, up from 19.8% in 2003. The high price of fuel remains a cause for concern, not least because most of our hedging gains have now been realised.

In December, we acquired a 10% equity stake in Air China at its initial public offering. Our strategic partnership with this key Mainland carrier establishes a platform for co-operation on a number of commercial and operational fronts and creates the opportunity to strengthen network connections in Hong Kong and Beijing.

Cathay Pacific Airways took delivery of a sixth Boeing 747-400 freighter in February 2005. Our fleet expansion continues with the acquisition of eight used B747-400 aircraft, which will be reconfigured to join our passenger and cargo fleets, and by the introduction of two new Boeing and six new Airbus passenger aircraft. Air Hong Kong now operates its own fleet of five Airbus 300-600 freighters. Within two years, Cathay Pacific Airways and Air Hong Kong will together operate more than 110 wide-bodied aircraft.

Volatile fuel prices and the steady emergence of low cost carriers within the region will place further pressure on us to improve productivity and reduce unit costs. However, we remain optimistic over our future and we will continue to expand the airline, strengthen Hong Kong's position as a premier global aviation hub, and continue to deliver superior service and value to our customers.

David Turnbull

Chairman

9th March 2005