

We submit our report and the audited accounts for the year ended 31st December 2004 which are on pages 33 to 65.

ACTIVITIES

The Cathay Pacific Group (the "Group") is predominantly managed and controlled in Hong Kong. As well as operating scheduled airline services, the Group is engaged in other related areas including airline catering, aircraft handling and aircraft engineering. The airline operations are principally to and from Hong Kong, which is where most of the Group's other activities are also carried out. Details are set out in note 2 to the accounts.

Details of principal subsidiary companies, their main areas of operation and particulars of their issued capital, and details of principal associated companies are listed on pages 64 and 65.

ACCOUNTS

The profit of the Group for the year ended 31st December 2004 and the state of affairs of the Group and the Company at that date are set out in the accounts on pages 38 to 65.

DIVIDENDS

We recommend the payment of a final dividend of HK\$45 per share for the year ended 31st December 2004. Together with the interim dividend of HK\$20 per share paid on 4th October 2004, this makes a total dividend for the year of HK\$65 per share. This represents a total distribution for the year of HK\$2,191 million. Subject to shareholders' approval of the final dividend at the Annual General Meeting on 11th May 2005, payment of the final dividend will be made on 2nd June 2005 to shareholders registered on 11th May 2005. The shareholders' register will be closed from 6th May 2005 to 11th May 2005, both dates inclusive.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the statement of changes in equity on pages 42 and 43.

ACCOUNTING POLICIES

The principal accounting policies are set out on pages 33 to 37. A statement of the reasons for a departure from the standard financial reporting practices laid down by the Hong Kong Institute of Certified Public Accountants ("HKICPA") is set out in principal accounting policy 4.

DONATIONS

During the year, the Company and its subsidiary companies made charitable donations amounting to HK\$6 million in direct payments and a further HK\$8 million in the form of discounts on airline travel.

FIXED ASSETS

Movements of fixed assets are shown in note 9 to the accounts. Details of aircraft acquisitions are set out on pages 5 and 6.

BANK AND OTHER BORROWINGS

The net bank loans, overdrafts and other borrowings, including obligations under finance leases, of the Group and the Company are shown in notes 14 and 19 to the accounts.

SHARE CAPITAL

During the year under review, the Group did not purchase or redeem any shares in the Company. At 31st December 2004, 3,370,215,348 shares were in issue (31st December 2003: 3,343,515,048 shares).

The Company adopted a share option scheme on 10th March 1999. During the year, 26,700,300 shares were issued under the scheme. Details of the scheme can be found in note 20 to the accounts.

COMMITMENTS AND CONTINGENCIES

The details of capital commitments and contingent liabilities of the Group and the Company as at 31st December 2004 are set out in note 28 to the accounts.

AGREEMENT FOR SERVICES

The Company had an agreement for services ("Old Agreement") with John Swire & Sons (H.K.) Limited ("JSSHK"). Pursuant to the Old Agreement, JSSHK provided advice and expertise of the directors and senior officers of the John Swire & Sons Limited ("Swire") group, full or part time services of members of the staff of the Swire group, other administrative and similar services and such other services as may have been agreed from time to time.

In return for these services, JSSHK received annual service fees calculated as 2.5% of the Company's consolidated profit before taxation and minority interests after certain adjustments. The fees for each year were payable in cash in arrears in two instalments, an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment. The Company also reimbursed the Swire group for all the expenses incurred in the provision of the services at cost.

The Old Agreement was terminated on 31st December 2004 and replaced by a new agreement ("New Agreement") signed on 1st December 2004 also with JSSHK.

The New Agreement took effect from 1st January 2005 and will terminate on 31st December 2007. However it is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

The terms of the New Agreement are substantially the same as those of the Old Agreement. The Directors estimate that the maximum aggregate

annual amount of the service fee and the costs reimbursed to the Swire group under the New Agreement (excluding those in respect of shared administrative services) will not exceed HK\$279 million in the period up to 31st December 2007.

Swire is the holding company of Swire Pacific Limited which owns approximately 46% of the issued capital of the Company and JSSHK, a wholly owned subsidiary of Swire, is therefore a connected person of the Company under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The transactions under the New Agreement are continuing connected transactions under the Listing Rules, in respect of which an announcement dated 1st December 2004 was published by the Company.

As directors and employees of the Swire group, Robert Atkinson, Philip Chen, Martin Cubbon, James Hughes-Hallett, David Turnbull, Tony Tyler and Raymond Yuen are interested in both the Old Agreement and the New Agreement. Sir Adrian Swire was interested as shareholder, director and employee of the Swire group but has ceased to be director and employee at the end of December 2004.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2004 are given in note 26 to the accounts.

SIGNIFICANT CONTRACTS

Contracts between the Company and Hong Kong Aircraft Engineering Company Limited ("HAECO") for the maintenance and overhaul of aircraft and related equipment accounted for approximately 3% of the airline's operating costs in 2004.

Like the Company, HAECO is an associated company of Swire Pacific Limited; all contracts have been concluded on normal commercial terms in the ordinary course of the business of both parties.

DISCLOSEABLE TRANSACTION

The Company acquired a 10% shareholding in Air China Limited on 15th December 2004 for an aggregate cash consideration of HK\$2,811 million, of which HK\$2,697 million was paid in December 2004 and HK\$114 million in January 2005. This transaction constituted a discloseable transaction under the Listing Rules in respect of which an announcement has been published on 16th December 2004 and a circular sent to shareholders on 30th December 2004.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to an agreement dated 17th October 2002 (the "DHL Services Agreement") with DHL International GmbH (formerly DHL International Limited) ("DHL"), AHK Air Hong Kong Limited ("AHK") has provided to DHL services in respect of the sale of space on certain cargo services operated by AHK in the Asian region for the carriage of DHL's door to door air express materials.

AHK, owned 60% by the Company and 40% by DHL via their respective wholly owned subsidiaries, is a subsidiary of the Company. DHL is therefore a connected person of the Company for the purpose of the Listing Rules and these transactions are continuing connected transactions in respect of which an announcement dated 17th October 2002 was published.

The fees payable by DHL to AHK under the DHL Services Agreement totalled HK\$715 million for the year ended 31st December 2004.

The Stock Exchange has granted the Company a waiver from strict compliance with the disclosure requirements under the Listing Rules in relation to the agreements with DHL subject to certain conditions.

In accordance with these conditions, the independent non-executive Directors have reviewed the transactions and confirmed that they have been

- (i) entered into by the Company and AHK in the usual and ordinary course of the Company's business;
- (ii) conducted either on normal commercial terms or, where there are no sufficient comparables, on terms no more favourable to DHL than terms available to independent third parties; and
- (iii) entered into on terms that are fair and reasonable insofar as the shareholders of the Company are concerned.

Furthermore, the Auditors of the Company have also reviewed these transactions and confirmed to the Board that:

- (i) they have been approved by the Board of the Company;
- (ii) they have been entered into in accordance with the terms of the DHL Services Agreement, as subsequently amended; and
- (iii) the limit of 3% of the net tangible assets of the Group has not been exceeded.

MAJOR CUSTOMERS AND SUPPLIERS

7.3% of sales and 30.6% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 1.6% of sales were made to the Group's largest customer while 8.1% of purchases were made from the Group's largest supplier.

DIRECTORS

All the present Directors of the Company whose names are listed on pages 20 and 21 served throughout the year. The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Listing Rule 3.13 and the Company still considers all its independent non-executive Directors to be independent.

Article 93 of the Company's Articles of Association provides for all the Directors to retire at the third Annual General Meeting following their election by ordinary resolution. In accordance therewith, James Hughes-Hallett, Martin Cubbon and Raymond Yuen retire this year and, being eligible, offer themselves for re-election. Sir Adrian Swire also retires in accordance with Article 93 but does not offer himself for re-election.

No Director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Directors' fees paid to the independent non-executive Directors during the year totalled HK\$1,190,000; they received no other emoluments from the Company or any of its subsidiaries.

DIRECTORS' INTERESTS

At 31st December 2004, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following beneficial interests (all being personal interests) in the shares of Cathay Pacific Airways Limited :

	No. of shares	Percentage of issued capital
Philip Chen	9,000	0.00027
Derek Cridland	17,000	0.00051
Tony Tyler	5,000	0.00015
Raymond Yuen	9,000	0.00027

Other than as stated above, no Director or chief executive of Cathay Pacific Airways Limited had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares (including options) and debentures of Cathay Pacific Airways Limited or any of its associated corporations (within the meaning of Part XV of the SFO).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, Henry Fan, Tony Tyler, Raymond Yuen and Zhang Xianlin have disclosed that they are directors of Hong Kong Dragon Airlines Limited ("Dragonair"), which competes or is likely to compete, either directly or indirectly, with the businesses of the Company as it operates airline services to certain destinations which are also served by the Company.

SUBSTANTIAL SHAREHOLDERS

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 31st December 2004 the Company had been

notified of the following interests in the shares of the Company held by substantial shareholders and other persons, all being beneficial interests:

	No. of shares	Percentage of issued capital	Remarks
1. Swire Pacific Limited	1,540,046,246	46.14	
2. John Swire & Sons Limited	1,540,046,246	46.14)	Duplication of Swire Pacific Limited's holding (Note)
3. CITIC Pacific Limited	859,353,462	25.74	
4. Super Supreme Company Limited	787,753,462	23.60)	Duplication of CITIC Pacific Limited's holding
5. Custain Limited	214,851,154	6.44)	
6. Easerich Investments Inc.	191,922,273	5.75)	
7. Motive Link Holdings Inc.	189,057,762	5.66)	
8. Smooth Tone Investments Ltd.	191,922,273	5.75)	

Note: At 31st December 2004, the Swire group owned directly or indirectly interests in shares of Swire Pacific Limited representing 29.47% of the issued share capital and 52.86% of the voting rights.

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of the Company's total issued share capital are held by the public at all times.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as Auditors to the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

David Turnbull

Chairman

Hong Kong, 9th March 2005