

## 1. NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

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 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.

## 2. TURNOVER

Turnover comprises revenue from transportation services, airline catering and other services provided to third parties.

### (a) Primary reporting by geographical segment

	<b>2004</b>	2003
	<b>HK\$M</b>	HK\$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	<b>14,854</b>	12,022
– Japan, Korea and Taiwan	<b>6,961</b>	5,208
South West Pacific and South Africa	<b>3,010</b>	2,125
Europe	<b>4,770</b>	3,551
South East Asia and Middle East	<b>4,452</b>	3,395
North America	<b>5,018</b>	3,277
	<b>39,065</b>	29,578

South West Pacific and South Africa includes Australia, New Zealand and Southern Africa. Europe includes Continental Europe, United Kingdom, Scandinavia, Russia, Baltic and Turkey. South East Asia and Middle East includes Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam, Indian sub-continent and Middle East. North America includes U.S.A., Canada and Latin America.

Analysis of turnover and profit by geographical segment:

The analysis of turnover by origin of sale is derived by allocating revenue to the area in which the sale was made. Management considers that it is not meaningful to allocate cost on this basis and accordingly segment results are not disclosed.

Analysis of net assets by geographical segment:

The major revenue earning asset is the aircraft fleet which is registered in Hong Kong and is employed across its worldwide route network. Management considers that there is no suitable basis for allocating such assets and related liabilities to geographical segments. Accordingly, segment assets, segment liabilities and other segment information is not disclosed.

### (b) Secondary reporting by business segment

	<b>2004</b>	2003
	<b>HK\$M</b>	HK\$M
Revenue – external sales		
– Passenger services	<b>26,407</b>	18,663
– Cargo services	<b>11,395</b>	9,913
	<b>37,802</b>	28,576
Unallocated revenue		
– Catering and other services	<b>1,263</b>	1,002
	<b>39,065</b>	29,578

**2. TURNOVER** *(continued)*

The Group is engaged in two main business segments: in passenger business through the Company and in freight traffic through the Company and a subsidiary. Catering services and other airline supporting services which supplement the Group's main operating business are included in unallocated revenue.

Analysis of net assets by business segment:

The major revenue earning asset is the aircraft fleet which is jointly used by the passenger services and cargo services segments. Management considers it is not appropriate to allocate such assets between the two segments as there is no suitable basis for so doing. Accordingly, analysis of net assets by business segment is not disclosed.

**3. OPERATING PROFIT**

	<b>2004</b>	2003
	<b>HK\$M</b>	HK\$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– Leased	<b>1,855</b>	1,930
– Owned	<b>1,946</b>	1,815
Amortisation of intangible assets	<b>84</b>	110
Operating lease rentals		
– Land and buildings	<b>326</b>	324
– Aircraft and related equipment	<b>948</b>	675
– Others	<b>34</b>	19
Operating lease income		
– Aircraft and related equipment	<b>(23)</b>	(13)
Cost of stock expensed	<b>1,224</b>	933
Exchange differences	<b>(199)</b>	(244)
Auditors' remuneration	<b>6</b>	6
Income from unlisted investments	<b>(103)</b>	(267)
Income from listed investments	<b>(3)</b>	(6)

**4. NET FINANCE CHARGES**

	<b>2004</b>	2003
	<b>HK\$M</b>	HK\$M
Net interest charges comprise:		
– Obligations under finance leases	<b>1,522</b>	1,678
– Interest income on related security deposits, notes and bonds	<b>(837)</b>	(966)
	<b>685</b>	712
– Bank loans and overdrafts	<b>92</b>	112
– Interest income on related security deposits	<b>–</b>	(4)
	<b>92</b>	108
– Other loans wholly repayable within five years	<b>8</b>	3
– Other loans not wholly repayable within five years	<b>6</b>	14
	<b>791</b>	837
Income from liquid funds:		
– Funds with investment managers	<b>(97)</b>	(106)
– Bank deposits and investments	<b>(111)</b>	(111)
	<b>(208)</b>	(217)
	<b>583</b>	620

Finance income and charges relating to defeasance arrangements have been netted off in the above figures.

**5. TAXATION**

	<b>2004</b>	2003
	<b>HK\$M</b>	HK\$M
The Company and its subsidiary companies:		
Current tax expenses		
– Hong Kong profits tax	<b>55</b>	50
– Overseas tax	<b>276</b>	248
– Under provisions for prior years	<b>24</b>	84
Deferred tax		
– Origination and reversal of temporary differences	<b>91</b>	(62)
– Increase in tax rate	<b>–</b>	64
	<b>446</b>	384
Associated companies:		
– Hong Kong profits tax	<b>40</b>	16
– Overseas tax	<b>18</b>	9
	<b>504</b>	409

Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries to which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations.

A reconciliation between tax charge and accounting profit at applicable tax rates is as follows:

	<b>2004</b>	2003
	<b>HK\$M</b>	HK\$M
Consolidated profit before tax	<b>5,020</b>	1,756
Notional tax calculated at Hong Kong profits tax rate of 17.5% (2003: 17.5%)	<b>(879)</b>	(307)
Expenses not deductible for tax purposes	<b>(156)</b>	(143)
Tax provisions under provided in prior years	<b>(24)</b>	(84)
Unused tax losses not recognised	<b>–</b>	(137)
Effect on opening deferred tax balances resulting from a change in tax rate	<b>–</b>	(64)
Effect of different tax rates in overseas jurisdictions	<b>418</b>	246
Tax losses recognised	<b>63</b>	–
Income not subject to tax	<b>74</b>	80
Tax charge	<b>(504)</b>	(409)

Further information on deferred tax is shown in note 16 to the accounts.

**6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

Of the profit attributable to the shareholders, a profit of HK\$3,781 million (2003: HK\$818 million) has been dealt with in the accounts of the Company.

**7. DIVIDENDS**

	<b>2004</b>	2003
	<b>HK\$M</b>	HK\$M
2004 interim dividend paid on 4th October 2004 of HK¢20 per share (2003: HK¢3 per share)	<b>674</b>	100
2004 final dividend proposed on 9th March 2005 of HK¢45 per share (2003: HK¢17 per share)	<b>1,517</b>	572
2003 special dividend paid on 2nd June 2004 of HK¢28 per share	<b>–</b>	943
	<b>2,191</b>	1,615

**8. EARNINGS PER SHARE**

Basic earnings per share and diluted earnings per share are calculated by dividing the profit attributable to shareholders of HK\$4,417 million (2003: HK\$1,303 million) by the daily weighted average number of shares in issue throughout the year of 3,362 million (2003: 3,338 million) shares and 3,379 million (2003: 3,357 million) shares respectively with the latter adjusted for the effects of the share options.

	<b>2004</b>	2003
	<b>Million</b>	Million
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>3,362</b>	3,338
Deemed issue of ordinary shares for no consideration	<b>17</b>	19
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>3,379</b>	3,357

**9. FIXED ASSETS**

	Aircraft and related equipment		Other equipment		Properties	Total HK\$M
	Owned HK\$M	Leased HK\$M	Owned HK\$M	Leased HK\$M	Owned HK\$M	
<b>Group</b>						
Cost						
At 1st January 2004	<b>24,760</b>	<b>44,109</b>	<b>2,328</b>	<b>547</b>	<b>6,292</b>	<b>78,036</b>
Exchange differences	<b>2</b>	<b>–</b>	<b>3</b>	<b>–</b>	<b>5</b>	<b>10</b>
Additions	<b>3,798</b>	<b>446</b>	<b>84</b>	<b>–</b>	<b>1</b>	<b>4,329</b>
Disposals	<b>(377)</b>	<b>–</b>	<b>(111)</b>	<b>–</b>	<b>(9)</b>	<b>(497)</b>
Transfers	<b>1,374</b>	<b>(1,374)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
At 31st December 2004	<b>29,557</b>	<b>43,181</b>	<b>2,304</b>	<b>547</b>	<b>6,289</b>	<b>81,878</b>
Accumulated depreciation						
At 1st January 2004	<b>11,591</b>	<b>12,055</b>	<b>1,517</b>	<b>234</b>	<b>1,282</b>	<b>26,679</b>
Exchange differences	<b>–</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>2</b>	<b>4</b>
Charge for the year	<b>1,600</b>	<b>1,831</b>	<b>147</b>	<b>24</b>	<b>199</b>	<b>3,801</b>
Disposals	<b>(302)</b>	<b>–</b>	<b>(110)</b>	<b>–</b>	<b>(2)</b>	<b>(414)</b>
Transfers	<b>944</b>	<b>(944)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
At 31st December 2004	<b>13,833</b>	<b>12,942</b>	<b>1,556</b>	<b>258</b>	<b>1,481</b>	<b>30,070</b>
Net book value						
At 31st December 2004	<b>15,724</b>	<b>30,239</b>	<b>748</b>	<b>289</b>	<b>4,808</b>	<b>51,808</b>
At 1st January 2004	<b>13,169</b>	<b>32,054</b>	<b>811</b>	<b>313</b>	<b>5,010</b>	<b>51,357</b>
<b>Company</b>						
Cost						
At 1st January 2004	<b>19,054</b>	<b>46,007</b>	<b>850</b>	<b>547</b>	<b>408</b>	<b>66,866</b>
Additions	<b>1,641</b>	<b>–</b>	<b>45</b>	<b>–</b>	<b>–</b>	<b>1,686</b>
Disposals	<b>(224)</b>	<b>–</b>	<b>(108)</b>	<b>–</b>	<b>(9)</b>	<b>(341)</b>
Transfers	<b>1,769</b>	<b>(1,769)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
At 31st December 2004	<b>22,240</b>	<b>44,238</b>	<b>787</b>	<b>547</b>	<b>399</b>	<b>68,211</b>
Accumulated depreciation						
At 1st January 2004	<b>9,232</b>	<b>12,774</b>	<b>718</b>	<b>234</b>	<b>320</b>	<b>23,278</b>
Charge for the year	<b>1,468</b>	<b>1,918</b>	<b>57</b>	<b>24</b>	<b>23</b>	<b>3,490</b>
Disposals	<b>(149)</b>	<b>–</b>	<b>(107)</b>	<b>–</b>	<b>(2)</b>	<b>(258)</b>
Transfers	<b>944</b>	<b>(944)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
At 31st December 2004	<b>11,495</b>	<b>13,748</b>	<b>668</b>	<b>258</b>	<b>341</b>	<b>26,510</b>
Net book value						
At 31st December 2004	<b>10,745</b>	<b>30,490</b>	<b>119</b>	<b>289</b>	<b>58</b>	<b>41,701</b>
At 1st January 2004	<b>9,822</b>	<b>33,233</b>	<b>132</b>	<b>313</b>	<b>88</b>	<b>43,588</b>

**9. FIXED ASSETS** *(continued)*

## (a) Finance leased assets

Certain aircraft are subject to leases with purchase options to be exercised at the end of the respective leases. The remaining lease terms range from 1 to 13 years. Some of the rent payments are on a floating basis which are generally linked to market rates of interest. All leases permit subleasing rights subject to appropriate consent from lessors. Early repayment penalties would be payable on some of the leases should they be terminated prior to their specified expiry dates.

## (b) Operating leased assets

Certain aircraft, properties and other equipment are under operating leases.

Under the operating lease arrangements for aircraft, the lease rentals are fixed and subleasing is not allowed. At 31st December 2004, three B747-400s (2003: two), four A340-300s (2003: four) and three A340-600s (2003: three), all with purchase options, held under operating leases were not capitalised. The estimated capitalised value of these leases being the present value of the aggregate future lease payments is HK\$1,315 million (2003: HK\$1,585 million).

Operating leases for properties and other equipment are normally set with fixed rental payments with options to renew the leases upon expiry at new terms.

The future minimum lease payments payable under operating leases committed as at 31st December 2004 for each of the following periods are as follows:

	<b>2004</b>	2003
	<b>HK\$M</b>	HK\$M
Aircraft and related equipment:		
– within one year	<b>1,144</b>	740
– after one year but within five years	<b>1,883</b>	1,460
– after five years	<b>389</b>	–
	<b>3,416</b>	2,200
Properties and other equipment:		
– within one year	<b>261</b>	255
– after one year but within five years	<b>418</b>	470
– after five years	<b>175</b>	204
	<b>854</b>	929
	<b>4,270</b>	3,129

## (c) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years.

Advance payments included in owned aircraft and related equipment amounted to HK\$2,698 million (2003: HK\$1,813 million) for the Group and HK\$197 million (2003: HK\$136 million) for the Company. No depreciation is provided on these advance payments.

## (d) Security, including charges over the assets concerned and relevant insurance policies, is provided to the leasing companies or other parties that provide the underlying finance.

## (e) Properties held at 31st December 2004 included land held under medium-term leases in Hong Kong with a net book value of HK\$1,549 million (2003: HK\$1,586 million).

**10. INTANGIBLE ASSETS**

	Group			Company
	Goodwill HK\$M	Computer systems HK\$M	Total HK\$M	Computer systems HK\$M
Cost				
At 1st January 2004	<b>362</b>	<b>665</b>	<b>1,027</b>	<b>642</b>
Additions	<b>–</b>	<b>27</b>	<b>27</b>	<b>27</b>
Disposals	<b>(4)</b>	<b>(52)</b>	<b>(56)</b>	<b>(52)</b>
At 31st December 2004	<b>358</b>	<b>640</b>	<b>998</b>	<b>617</b>
Accumulated amortisation				
At 1st January 2004	<b>169</b>	<b>453</b>	<b>622</b>	<b>431</b>
Charge for the year	<b>17</b>	<b>67</b>	<b>84</b>	<b>66</b>
Disposals	<b>(4)</b>	<b>(52)</b>	<b>(56)</b>	<b>(52)</b>
At 31st December 2004	<b>182</b>	<b>468</b>	<b>650</b>	<b>445</b>
Net book value				
At 31st December 2004	<b>176</b>	<b>172</b>	<b>348</b>	<b>172</b>
At 1st January 2004	<b>193</b>	<b>212</b>	<b>405</b>	<b>211</b>

**11. SUBSIDIARY COMPANIES**

	Company	
	2004 HK\$M	2003 HK\$M
Unlisted shares at cost	<b>214</b>	214
Net amounts due (to)/from subsidiary companies		
– Loan accounts	<b>(6,318)</b>	(10,679)
– Current accounts	<b>530</b>	2,176
Other investments	<b>18,682</b>	22,055
	<b>13,108</b>	13,766

Principal subsidiary companies are listed on page 64.

**12. ASSOCIATED COMPANIES**

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Hong Kong listed shares at cost (Market value: HK\$1,913 million, 2003: HK\$2,100 million)	-	-	52	52
Unlisted shares at cost	-	-	26	38
Share of net assets				
– listed in Hong Kong	863	829	-	-
– unlisted	773	726	-	-
	<b>1,636</b>	1,555	<b>78</b>	90
Less: Provision	-	-	(17)	(17)
Loans to associated companies	107	106	-	3
	<b>1,743</b>	1,661	<b>61</b>	76
Share of profits of associated companies				
– listed	140	113	-	-
– unlisted	216	38	-	-
	<b>356</b>	151	-	-
Dividends received and receivable from associated companies	122	187	97	157

Principal associated companies are listed on page 65.

**13. OTHER LONG-TERM RECEIVABLES AND INVESTMENTS**

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Staff housing loans and other receivables	403	443	395	433
Investments at fair value				
– listed in Hong Kong	2,891	157	2,715	-
– listed outside Hong Kong	51	51	49	49
– unlisted	731	612	731	612
	<b>4,076</b>	1,263	<b>3,890</b>	1,094

**14. LONG-TERM LIABILITIES**

	Note	2004		2003	
		Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
<b>Group</b>					
Long-term loans	(a)	1,229	2,765	1,983	4,387
Obligations under finance leases	(b)	3,740	14,897	2,896	17,031
		<b>4,969</b>	<b>17,662</b>	4,879	21,418
<b>Company</b>					
Long-term loans	(a)	478	1,514	2,052	3,115
Obligations under finance leases	(b)	5,080	20,951	3,721	24,427
		<b>5,558</b>	<b>22,465</b>	5,773	27,542

## (a) Long-term loans

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Bank loans				
– secured	2,328	3,304	673	1,931
– unsecured	894	2,784	894	2,784
Other loans				
– secured	425	452	425	452
– unsecured	347	372	–	–
	<b>3,994</b>	6,912	<b>1,992</b>	5,167
Security deposits	–	(542)	–	–
Amount due within one year included under current liabilities	<b>(1,229)</b>	(1,983)	<b>(478)</b>	(2,052)
	<b>2,765</b>	4,387	<b>1,514</b>	3,115
Repayable as follows:				
Bank loans				
– within one year	846	2,465	409	1,992
– after one year but within two years	1,376	893	1,137	510
– after two years but within five years	528	2,474	11	2,199
– after five years	472	256	10	14
	<b>3,222</b>	6,088	<b>1,567</b>	4,715
Other loans				
– within one year	383	60	69	60
– after one year but within two years	74	393	74	64
– after two years but within five years	266	263	233	220
– after five years	49	108	49	108
	<b>772</b>	824	<b>425</b>	452
Security deposits	–	(542)	–	–
Amount due within one year included under current liabilities	<b>(1,229)</b>	(1,983)	<b>(478)</b>	(2,052)
	<b>2,765</b>	4,387	<b>1,514</b>	3,115



**14. LONG-TERM LIABILITIES** (continued)

## (a) Long-term loans (continued)

Borrowings other than bank loans are repayable on various dates up to 2010 at interest rates between 0% and 7% per annum while bank loans are repayable up to 2018.

Long-term loans and other liabilities of the Group and the Company not wholly repayable within five years amounted to HK\$999 million and HK\$279 million respectively (2003: HK\$954 million and HK\$483 million).

As at 31st December 2004, the Group and the Company had long-term liabilities which were defeased by funds and other investments totalling HK\$23,234 million (2003: HK\$28,000 million). Accordingly, these liabilities and the related funds, as well as related expenditure and income, have been netted off in the accounts.

## (b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2005 to 2017. The future payments under these finance leases are as follows:

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Within one year	<b>6,899</b>	5,328	<b>6,826</b>	5,350
After one year but within two years	<b>3,892</b>	6,679	<b>4,212</b>	6,690
After two years but within five years	<b>9,498</b>	10,598	<b>11,162</b>	11,916
After five years	<b>19,015</b>	19,874	<b>19,679</b>	22,315
Total future payments	<b>39,304</b>	42,479	<b>41,879</b>	46,271
Interest charges relating to future periods	<b>(8,504)</b>	(9,615)	<b>(11,504)</b>	(13,308)
Present value of future payments	<b>30,800</b>	32,864	<b>30,375</b>	32,963
Security deposits, notes and zero coupon bonds	<b>(12,163)</b>	(12,937)	<b>(4,344)</b>	(4,815)
Amounts due within one year included under current liabilities	<b>(3,740)</b>	(2,896)	<b>(5,080)</b>	(3,721)
	<b>14,897</b>	17,031	<b>20,951</b>	24,427

The present value of future payments is repayable as follows:

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Within one year	<b>5,867</b>	4,229	<b>5,849</b>	4,285
After one year but within two years	<b>3,054</b>	5,609	<b>3,426</b>	5,688
After two years but within five years	<b>7,405</b>	8,125	<b>9,050</b>	9,359
After five years	<b>14,474</b>	14,901	<b>12,050</b>	13,631
	<b>30,800</b>	32,864	<b>30,375</b>	32,963

As at 31st December 2004, the Group and the Company had obligations under finance leases which were defeased by funds and other investments amounting to HK\$8,735 million and HK\$1,556 million respectively (2003: HK\$8,186 million and HK\$1,554 million). Accordingly these liabilities and the related funds, as well as related expenditure and income, have been netted off in the accounts.

**15. RETIREMENT BENEFITS**

The Group operates various defined benefit and defined contribution retirement schemes for its employees in Hong Kong and in certain overseas locations. The assets of these schemes are held in funds administered by independent trustees. The retirement schemes in Hong Kong are registered under and comply with the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Schemes Ordinance (“MPFSO”). Most of the employees engaged outside Hong Kong are covered by appropriate local arrangements.

The Group operates the following principal schemes:

## (a) Defined benefit retirement schemes

The Swire Group Retirement Benefit Scheme (“SGRBS”) in Hong Kong, in which the Company and Cathay Pacific Catering Services (H.K.) Limited (“CPCS”) are participating employers, provides resignation and retirement benefits to its members, which include the Company’s cabin attendants who joined before September 1996 and other locally engaged employees who joined before June 1997, upon their cessation of service. The Company and CPCS meet the full cost of all benefits due by SGRBS to their employee members who are not required to contribute to the scheme.

Staff employed by the Company in Hong Kong on expatriate terms before April 1993 were eligible to join another scheme, the Cathay Pacific Airways Limited Retirement Scheme (“CPALRS”). Both members and the Company contribute to CPALRS.

The latest actuarial valuation of CPALRS was completed by a qualified actuary, Watson Wyatt Hong Kong Limited (“Wyatt”), as at 31st December 2004 using the projected unit credit method. Wyatt completed their most recent actuarial valuation of the portion of SGRBS funds specifically designated for the Company’s employees as at 31st December 2003. The figures for SGRBS disclosed as at 31st December 2004 were provided by Cannon Trustees Limited, the administration manager. The Group’s obligations are 96% (2003: 96%) covered by the plan assets held by the trustees.

	2004		2003	
	SGRBS	CPALRS	SGRBS	CPALRS
The principal actuarial assumptions are:				
Discount rate used	<b>3.75%</b>	<b>2.75%</b>	5%	4%
Expected return on plan assets	<b>6%</b>	<b>6%</b>	6%	6%
Future salary increases	<b>2-5%</b>	<b>2-5%</b>	2-5%	2-5%

  

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Net liability recognised in the balance sheet:				
Present value of funded obligations	<b>7,227</b>	6,326	<b>6,825</b>	5,938
Fair value of plan assets	<b>(6,933)</b>	(6,061)	<b>(6,415)</b>	(5,609)
	<b>294</b>	265	<b>410</b>	329
Net unrecognised actuarial losses	<b>(192)</b>	(84)	<b>(244)</b>	(105)
	<b>102</b>	181	<b>166</b>	224

**15. RETIREMENT BENEFITS** (continued)

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Movements in net retirement benefit liability comprise:				
At 1st January	181	346	224	368
Movements for the year				
– Net expenses recognised in the profit and loss account	380	450	373	432
– Contributions paid	(459)	(615)	(431)	(576)
At 31st December	102	181	166	224

	2004 HK\$M	2003 HK\$M
Net expenses recognised in the Group profit and loss account:		
Current service cost	454	409
Interest on obligations	287	272
Expected return on plan assets	(361)	(273)
Actuarial loss recognised	–	42
Total included in staff costs	380	450
Actual return on plan assets	845	1,257

The difference between the fair value of the schemes' assets and the present value of the accrued past services liabilities at the date of an actuarial valuation is taken into consideration when determining future funding levels in order to ensure that the schemes will be able to meet liabilities as they become due. The contributions are calculated based upon funding recommendations arising from actuarial valuations.

## (b) Defined contribution retirement schemes

Staff employed by the Company in Hong Kong on expatriate terms are eligible to join a defined contribution retirement scheme, the CPA Provident Fund 1993. All staff employed in Hong Kong are eligible to join the CPA Provident Fund.

Under the terms of these schemes, other than the Company contribution, staff may elect to contribute from 0% to 10% of the monthly salary. During the year, the benefits forfeited in accordance with the schemes' rules amounted to HK\$11 million (2003: HK\$9 million) which have been applied towards the contributions payable by the Company.

A mandatory provident fund ("MPF") scheme was established under the MPFSO in December 2000. Where staff elect to join the MPF scheme, both the Company and staff are required to contribute 5% of the employees' relevant income (capped at HK\$20,000). Staff may elect to contribute more than the minimum as a voluntary contribution.

Contributions to defined contribution retirement schemes charged to the Group profit and loss account are HK\$351 million (2003: HK\$320 million).

**16. DEFERRED TAXATION**

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Deferred tax assets:				
– Retirement benefits	(23)	(45)	(34)	(45)
– Provisions	(15)	(8)	(14)	(12)
– Tax losses	(125)	–	(43)	–
– Cash flow hedges	(158)	(90)	(158)	(90)
Deferred tax liabilities on accelerated tax depreciation	949	748	710	607
Provision in respect of certain lease arrangements	6,652	7,157	6,652	7,157
	<b>7,280</b>	<b>7,762</b>	<b>7,113</b>	<b>7,617</b>

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Movements in deferred taxation comprise:				
At 1st January	7,762	7,614	7,617	7,484
Movements for the year				
– transfer from profit and loss account				
– deferred tax expenses (note 5)	91	2	69	(13)
– operating expenses	163	551	163	551
– transferred to cash flow hedge reserve	(68)	(90)	(68)	(90)
– accelerated transfer to current taxation	–	(223)	–	(223)
– initial cash benefit from lease arrangements	–	503	–	503
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	(668)	(595)	(668)	(595)
At 31st December	<b>7,280</b>	<b>7,762</b>	<b>7,113</b>	<b>7,617</b>

The Group has certain tax losses which do not expire under current tax legislation, a deferred tax asset has been recognised to the extent that recoverability is considered probable.

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2006 to 2014 (2003: 2005 to 2014) as follows:

	2004 HK\$M	2003 HK\$M
After one year but within five years	4,548	4,381
After five years but within ten years	2,104	2,312
After ten years	–	464
	<b>6,652</b>	<b>7,157</b>

**17. TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Trade debtors	3,151	2,861	2,999	2,728
Other receivables and prepayments	2,149	1,882	2,039	1,804
Due from associated companies	11	10	–	–
	<b>5,311</b>	<b>4,753</b>	<b>5,038</b>	<b>4,532</b>

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Analysis of trade debtors by age:				
Current	3,108	2,737	2,979	2,627
One to three months overdue	37	64	20	45
More than three months overdue	6	60	–	56
	<b>3,151</b>	<b>2,861</b>	<b>2,999</b>	<b>2,728</b>

The Group normally grants a credit term of 30 days to customers or follows the local industry standard with the debt in certain circumstances being partially protected by bank guarantee or other monetary collateral.

**18. LIQUID FUNDS**

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Short-term deposits and bank balances	2,687	5,663	2,023	5,257
Short-term deposits maturing beyond three months when placed	691	482	676	472
Funds with investment managers				
– debt securities listed outside Hong Kong	6,035	6,665	–	–
– bank deposits	208	275	–	–
Other liquid investments				
– debt securities listed outside Hong Kong	54	256	–	202
– bank deposits	1,799	1,859	545	545
	<b>11,474</b>	<b>15,200</b>	<b>3,244</b>	<b>6,476</b>

Included in other liquid investments are bank deposits of HK\$1,799 million (2003: HK\$1,859 million) and debt securities of HK\$54 million (2003: HK\$256 million) which are pledged as part of long-term financing arrangements. The arrangements provide that these deposits and debt securities must be maintained at specified levels for the duration of the financing.

**19. TRADE AND OTHER PAYABLES**

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Trade creditors	2,447	2,051	2,252	1,926
Other payables	4,308	3,216	4,391	3,438
Due to associated companies	265	197	258	194
Due to other related companies	113	65	113	65
Bank overdrafts – unsecured	30	14	7	11
	<b>7,163</b>	5,543	<b>7,021</b>	5,634

	Group		Company	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Analysis of trade creditors by age:				
Current	1,956	1,582	1,779	1,473
One to three months overdue	396	367	382	362
More than three months overdue	95	102	91	91
	<b>2,447</b>	2,051	<b>2,252</b>	1,926

**20. SHARE CAPITAL**

	2004		2003	
	Number of shares	HK\$M	Number of shares	HK\$M
Authorised (HK\$0.20 each)	3,900,000,000	780	3,900,000,000	780
Issued and fully paid (HK\$0.20 each)				
At 1st January	3,343,515,048	669	3,336,007,848	667
Share options exercised	26,700,300	5	7,507,200	2
At 31st December	<b>3,370,215,348</b>	<b>674</b>	3,343,515,048	669

The Company adopted a share option scheme (the "Scheme") on 10th March 1999 for the purpose of providing flight deck crew with an incentive to contribute towards the Company's results. All participants of the Scheme were flight deck crew who paid HK\$1 each in acceptance of their share options and were granted options to subscribe for shares of the Company at a price not less than the higher of 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant, and the nominal value of the shares. The maximum number of shares available for issue under the Scheme is 10% of the issued share capital of the Company. The entitlement of each participant has not exceeded 0.32% of the maximum aggregate number of shares in respect of which options have been granted under the Scheme.

Options to subscribe for a total of 68,327,000 shares at the exercise price of HK\$7.47 per share were granted under the Scheme on the date of grant 15th March 1999. Other than in limited circumstances, the options in relation to 50% of the shares became exercisable on 15th March 2002, and the balance on 15th March 2004. The options will, except in limited circumstances, be exercisable until 14th March 2009.

Upon exercise of share options, equity is increased by the number of options exercised at the exercise price.

**20. SHARE CAPITAL** (continued)

	<b>2004</b>	2003
	<b>Number of shares</b>	Number of shares
Movements in options outstanding comprise:		
At 1st January	<b>53,194,800</b>	60,883,000
Options exercised	<b>(26,700,300)</b>	(7,507,200)
Options lapsed	–	(181,000)
At 31st December	<b>26,494,500</b>	53,194,800
Options vested at 31st December	<b>26,494,500</b>	24,361,300

No option was granted under the Scheme during the year.

	<b>2004</b>	2003
Details of share options exercised during the year:		
Exercise date	<b>6/1/04-31/12/04</b>	14/1/03-30/12/03
Proceeds received (HK\$)	<b>199,451,241</b>	56,078,784
Weighted average closing share price immediately before the exercise date (HK\$)	<b>15.07</b>	12.95

**21. RESERVES**

	Group		Company	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$M</b>	HK\$M	<b>HK\$M</b>	HK\$M
Retained profit	<b>25,496</b>	23,518	<b>13,123</b>	11,781
Share premium	<b>7,455</b>	7,261	<b>7,455</b>	7,261
Capital redemption reserve	<b>21</b>	21	<b>21</b>	21
Investment revaluation reserve	<b>493</b>	354	<b>469</b>	349
Cash flow hedge reserve	<b>(1,285)</b>	(770)	<b>(1,421)</b>	(813)
Other reserves	<b>1</b>	(1)	–	–
	<b>32,181</b>	30,383	<b>19,647</b>	18,599

Included in retained profit is an amount of HK\$1,319 million (2003: HK\$1,137 million) relating to retained profit attributable to associated companies.

Investment revaluation reserve relates to changes in the fair value of long-term investments.

Cash flow hedge reserve relates to exchange differences on borrowings, lease obligations, currency derivatives and related security deposits which are arranged in foreign currencies such that repayments can be met by anticipated operating cash flows.

Exchange differences recorded in the Group's cash flow hedge reserve are expected to be credited/(charged) to operating profit as noted on page 59 based on exchange rates ruling at 31st December 2004.

**21. RESERVES** (continued)

	1st half HK\$M	2nd half HK\$M	Total HK\$M
2005	37	(277)	(240)
2006	(147)	(137)	(284)
2007	(77)	(79)	(156)
2008	(88)	(64)	(152)
2009	(131)	(42)	(173)
Beyond 2009			(280)
			<b>(1,285)</b>

Had HK SSAP 11 been adopted, there would have been no financial impact on the Group's assets, liabilities and cash flows.

A HK\$1,285 million deficit (2003: HK\$770 million deficit) would have been included in retained profit rather than the cash flow hedge reserve and the effect on profit attributable to shareholders and earnings per share would be:

	2004 HK\$M	2003 HK\$M
Profit attributable to shareholders	4,417	1,303
HK SSAP 11 adjustment	(515)	(1,329)
Adjusted profit/(loss) with adoption of HK SSAP 11	3,902	(26)
Adjusted earnings/(loss) per share with adoption of HK SSAP 11	116.1¢	(0.8)¢
Earnings per share	131.4¢	39.0¢

**22. RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS**

	2004 HK\$M	2003 HK\$M
Operating profit	5,247	2,225
Depreciation	3,801	3,745
Amortisation of intangible assets	84	110
Loss on disposal of fixed assets and intangible assets	29	38
Loss on disposal of associated companies	17	–
Currency adjustments and other items not involving cash flows	420	240
(Increase)/decrease in stock	(126)	32
Increase in trade debtors, other receivables and prepayments	(557)	(460)
Increase/(decrease) in net amounts due to related and associated companies	115	(22)
Increase in trade creditors and other payables	1,488	288
Increase in unearned transportation revenue	783	321
Non-operating movements in debtors and creditors	(706)	(147)
Cash generated from operations	<b>10,595</b>	6,370

**23. ANALYSIS OF CASH AND CASH EQUIVALENTS**

	2004 HK\$M	2003 HK\$M
Short-term deposits and bank balances	2,687	5,663
Bank overdrafts	(30)	(14)
	<b>2,657</b>	5,649



**24. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION**

(a) Directors' remuneration disclosed pursuant to the Listing Rules is as follows:

	Cash			Non-cash			Total HK\$'000
	Basic salary/ Directors' fee* HK\$'000	Bonus HK\$'000	Allowances & benefits HK\$'000	Contributions to retirement schemes HK\$'000	Bonus paid into retirement schemes HK\$'000	Housing benefits HK\$'000	
<b>Non-Executive Directors</b>							
David Turnbull	4,224	3,053	126	1,124	882	1,893	11,302
Martin Cubbon	–	–	–	–	–	–	–
Henry Fan	160*	–	–	–	–	–	160
James Hughes-Hallett	–	–	–	–	–	–	–
Vernon Moore	310*	–	–	–	–	–	310
Sir Adrian Swire	–	–	–	–	–	–	–
Raymond Yuen	780	585	544	83	–	–	1,992
Carl Yung	160*	–	–	–	–	–	160
Zhang Xianlin	160*	–	–	–	–	–	160
<b>Independent Non-Executive Directors</b>							
Peter Lee	360*	–	–	–	–	–	360
Raymond Or	310*	–	–	–	–	–	310
Jack So	310*	–	–	–	–	–	310
Tung Chee Chen	210*	–	–	–	–	–	210
<b>Executive Directors</b>							
Robert Atkinson	1,638	989	320	436	548	1,963	5,894
Philip Chen	3,300	3,288	2,248	350	–	–	9,186
Derek Cridland	1,752	1,368	318	12	–	985	4,435
Tony Tyler	2,400	1,505	294	638	640	2,186	7,663
<b>2004 Total</b>	<b>16,074</b>	<b>10,788</b>	<b>3,850</b>	<b>2,643</b>	<b>2,070</b>	<b>7,027</b>	<b>42,452</b>
2003 Total	12,666	9,295	3,099	3,074	1,871	7,454	37,459

For Directors employed by the Swire group, the remuneration disclosed represents the amount charged to the Company. Bonus is related to services for 2003 but paid and charged to the Company in 2004. Allowances and benefits of Philip Chen and Raymond Yuen include housing allowances of HK\$2,160,000 and HK\$300,000 respectively.

**24. DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION** (continued)

(b) Executive Officers' remuneration disclosed as recommended by the Listing Rules is as follows:

	Cash			Non-cash			Total HK\$'000
	Basic salary HK\$'000	Bonus HK\$'000	Allowances & benefits HK\$'000	Contributions to retirement schemes HK\$'000	Bonus paid into retirement schemes HK\$'000	Housing benefits HK\$'000	
James Barrington	1,246	605	242	331	436	1,281	4,141
William Chau	1,321	1,010	600	238	–	–	3,169
Quince Chong (from July 2004)	612	303	300	61	–	–	1,276
Ronald Mathison (from June 2004)	590	216	141	157	216	554	1,874
Edward Nicol	1,348	911	406	359	545	1,713	5,282
Nick Rhodes	1,310	829	536	349	473	1,341	4,838
Augustus Tang	1,573	1,202	600	283	–	–	3,658
Robert Cutler (up to July 2004)	925	589	377	246	345	1,271	3,753
<b>2004 Total</b>	<b>8,925</b>	<b>5,665</b>	<b>3,202</b>	<b>2,024</b>	<b>2,015</b>	<b>6,160</b>	<b>27,991</b>
2003 Total	7,952	4,912	3,254	2,430	1,852	6,739	27,139

Bonus disclosed is related to services for 2003 and paid in 2004.

**25. EMPLOYEE INFORMATION**

(a) The five highest paid individuals of the Company included four Directors (2003: four) and one Executive Officer (2003: one), whose emoluments are set out in note 24 above.

(b) The table below sets out the number of individuals, including those who have retired or resigned during the year, in each employment category whose total remuneration for the year fell into the following ranges:

HK\$'000	2004			2003		
	Director	Flight staff	Other Staff	Director	Flight Staff	Other staff
0 – 1,000	11	6,719	7,124	13	6,415	7,064
1,001 – 1,500	–	388	185	–	420	189
1,501 – 2,000	1	398	59	–	334	85
2,001 – 2,500	–	130	19	–	120	16
2,501 – 3,000	–	173	9	–	164	11
3,001 – 3,500	–	133	9	–	138	3
3,501 – 4,000	–	36	4	–	44	6
4,001 – 4,500	1	4	3	1	6	2
4,501 – 5,000	–	3	1	–	3	–
5,001 – 5,500	–	–	2	–	–	1
5,501 – 6,000	1	–	–	1	–	–
6,001 – 6,500	–	–	–	–	–	1
7,001 – 7,500	–	–	–	1	–	–
7,501 – 8,000	1	–	–	–	–	–
8,501 – 9,000	–	–	–	1	–	–
9,001 – 9,500	1	–	–	–	–	–
10,501 – 11,000	–	–	–	1	–	–
11,001 – 11,500	1	–	–	–	–	–
	<b>17</b>	<b>7,984</b>	<b>7,415</b>	<b>18</b>	<b>7,644</b>	<b>7,378</b>

**26. RELATED PARTY TRANSACTIONS**

- (a) Material transactions between the Group and associated companies and other related parties which were carried out in the normal course of business on commercial terms are summarised below:

	2004		2003	
	Associated companies HK\$M	Other related parties HK\$M	Associated companies HK\$M	Other related parties HK\$M
Turnover	92	–	70	–
Aircraft maintenance costs	886	–	782	–
Route operating costs	227	–	164	–
Dividends received	(122)	–	(187)	–
Fixed assets purchase	31	–	22	–

- (b) Other transactions with related parties

- (i) The Company had an agreement for services (“Old Agreement”) with JSSHK. Under the Old Agreement, the Company paid fees and reimbursed costs to JSSHK in exchange for services provided. Service fees calculated at 2.5% of the Group’s profit before tax, results of associated companies, minority interests, and any profits and losses on disposal of fixed assets were paid annually. The Old Agreement was terminated on 31st December 2004 and was replaced by the New Agreement which took effect from 1st January 2005. Service fees paid for the year ended 31st December 2004 were HK\$124 million (2003: HK\$42 million) and expenses of HK\$115 million (2003: HK\$105 million) were reimbursed at cost; in addition, HK\$51 million (2003: HK\$50 million) in respect of shared administrative services were reimbursed.

Transactions under the Old Agreement are not connected transactions or continuing connected transactions which gave rise to any disclosure or other obligations under Chapter 14A of the Listing Rules. For definition of terms, please refer to Directors’ Report on page 23.

- (ii) The Company received agency commission and service fees from Dragonair. Service fees were received in respect of computer support, engineering, station and ground services provided to Dragonair. All these transactions were conducted in the ordinary course of business and on normal commercial terms. A total of HK\$180 million was received from Dragonair for these transactions in 2004 (2003: HK\$202 million). Dragonair is also a partner of the Asia Miles frequent-flyer programme.

- (c) Amounts due to and due from associated companies and other related companies at 31st December 2004 are disclosed in notes 17 and 19 to the accounts. These balances arising in the normal course of business are non-interest bearing and have no fixed repayment terms.
- (d) Guarantees given by the Company in respect of bank loan facilities held by an associated company at 31st December 2004 are disclosed in note 28 to the accounts.
- (e) There were no material transactions with Directors and Executive Officers except for those relating to shareholdings (Directors’ Report and Corporate Governance). Remuneration of Directors and Executive Officers is disclosed in note 24 to the accounts.

**27. WAIVER FROM COMPLIANCE WITH LISTING RULES**

The Stock Exchange has granted to the Company a waiver from full compliance with the provisions of Chapter 14 of the Listing Rules, which relates to notifiable transactions, in relation to the acquisition or disposal of aircraft. As a result of the waiver, instead of the normal tests under Chapter 14, the test for the Company will be made by reference to Available Tonne Kilometres (“ATKs”). The test will be a calculation based on ATKs for aircraft being acquired or disposed of compared to the aggregate fleet ATKs. ATKs are calculated for each sector by multiplying the capacity, measured in tonnes available for the carriage of passengers, excess baggage, cargo and mail on that sector, by the sector distance.

	2004	2003
Fleet ATKs (in million tonne kilometres)	15,794	13,355

**28. COMMITMENTS AND CONTINGENCIES**

(a) Outstanding commitments for capital expenditure authorised at the year end but not provided for in the accounts:

	Group		Company	
	<b>2004</b> <b>HK\$M</b>	2003 HK\$M	<b>2004</b> <b>HK\$M</b>	2003 HK\$M
Authorised and contracted for	<b>7,218</b>	3,865	<b>1,193</b>	919
Authorised but not contracted for	<b>9</b>	105	<b>–</b>	–
	<b>7,227</b>	3,970	<b>1,193</b>	919

Operating lease commitments are shown in note 9 to the accounts.

(b) Guarantees in respect of lease obligations, bank loans and other liabilities outstanding at the year end:

	Group		Company	
	<b>2004</b> <b>HK\$M</b>	2003 HK\$M	<b>2004</b> <b>HK\$M</b>	2003 HK\$M
Subsidiary companies	<b>–</b>	–	<b>1,523</b>	916
Associated company	<b>20</b>	19	<b>20</b>	19
Staff	<b>415</b>	420	<b>400</b>	405
	<b>435</b>	439	<b>1,943</b>	1,340

(c) The Company has under certain circumstances undertaken to maintain specified rates of return within the Group's leasing arrangements. The Directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.

(d) The Company files tax returns in many jurisdictions and in certain of these the returns have remained in dispute for a number of years. Provisions have been made to cover the expected outcome of the disputes to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.