

Review of Operations

AVIATION DIVISION

The Aviation Division comprises significant investments in associated companies, including the Cathay Pacific group, the Hong Kong Aircraft Engineering group, Hong Kong Air Cargo Terminals, Dragonair and AHK Air Hong Kong ("AHK"). In addition Cathay Pacific has established an important strategic partnership with Air China by taking a 10% stake in the Mainland carrier at its initial public offering. Cathay Pacific and HAECO are listed on the Hong Kong Stock Exchange. Dragonair provides passenger and freighter services to Mainland China and other regions whilst AHK focuses on regional all-cargo services. Other companies provide aviation-related services including flight catering, ramp and cargo handling and laundry services.

	2004 HK\$M	2003 HK\$M
Share of profits before taxation		
associated companies		
Cathay Pacific Group*	2,088	696
Hong Kong Aircraft Engineering Group	226	186
Hong Kong Dragon Airlines	126	11
Hong Kong Air Cargo Terminals	354	283
	2,794	1,176
Attributable profit	2,393	844

* These figures do not include Cathay Pacific Airways' share of profits from the Hong Kong Aircraft Engineering group, Hong Kong Dragon Airlines and Hong Kong Air Cargo Terminals, which have been included in the attributable figures for those companies.

Swire Pacific's Aviation Division includes the following associated companies:

	Shareholding of group companies			Swire Pacific effective interest
	Direct or by Swire Aviation**	By Cathay Pacific Group	Total	
Cathay Pacific Airways Ltd	46.5%	–	46.5%	46.5%
Hong Kong Dragon Airlines Ltd	7.7%	21.6%	29.3%	17.7%
AHK Air Hong Kong Ltd	–	60.0%	60.0%	27.9%
Hong Kong Aircraft Engineering Co Ltd	32.3%	27.4%	59.7%	45.0%
Hong Kong Air Cargo Terminals Ltd	30.0% **	10.0%	40.0%	24.7%

** Swire Aviation is a 66.7% held subsidiary company of Swire Pacific.

Cathay Pacific Airways

Key Operating Highlights

		2004	2003	Growth
Available tonne kilometres ("ATK")	Million	15,794	13,355	+ 18.3%
Available seat kilometres ("ASK")	Million	74,062	59,280	+ 24.9%
Revenue passenger kilometres ("RPK")	Million	57,283	42,774	+ 33.9%
Revenue passengers carried	'000	13,664	10,059	+ 35.8%
Passenger load factor	%	77.3	72.2	+ 5.1% pts
Passenger yield	HK cents	45.8	43.3	+ 5.8%
Cargo carried	'000 tonnes	972	875	+ 11.1%
Cargo and mail load factor	%	68.7	68.7	–
Cargo and mail yield	HK\$	1.76	1.78	- 1.1%
Cost per ATK	HK\$	2.07	2.00	+ 3.5%
Cost per ATK without fuel	HK\$	1.58	1.61	- 1.9%
Aircraft utilisation	Hours per day	12.0	11.4	+ 5.3%
On-time performance	%	90.3	91.0	- 0.7% pts
Breakeven load factor	%	65.5	67.4	- 1.9% pts

Review of Operations – AVIATION DIVISION

2004 OVERVIEW

The Aviation Division has rebounded strongly in 2004 benefiting from broad based growth across all businesses. Strong passenger and cargo demand led to improved loads and yields which were further enhanced by currency gains resulting from the weaker US dollar. The benefits from revenue growth, however, have been partially offset by a sharp increase in fuel cost.

Cathay Pacific Airways

The Cathay Pacific group made a consolidated profit of HK\$4,417 million in 2004, compared to a profit of HK\$1,303 million in 2003.

The airline achieved good profit growth which reflects an improving Hong Kong economy and a strong rebound in traffic demand. The benefits of the revenue gains were tempered by high fuel costs which rose 38% compared to the prior year.

Passenger Services

The year saw new records set for both passenger numbers and passenger revenue as capacity increased 24.9% over 2003. Demand from both business and leisure travellers remained strong throughout the year. The average load factor was 77.3%. Passenger yield increased 5.8% to HK¢45.8.

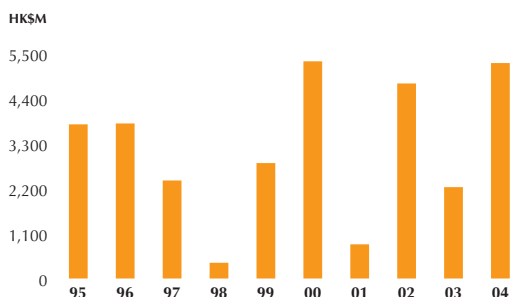
Services to North Asia, South East Asia and North America performed well although competition placed further pressure on yields. The performance of European routes improved with sustained demand and stronger currencies.

Cargo

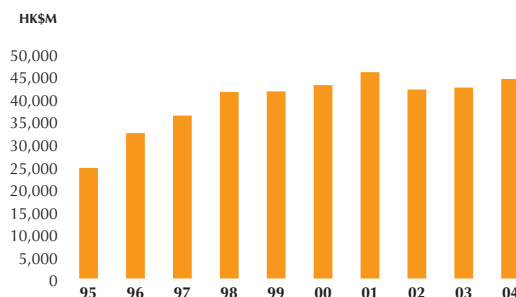
2004 was also a record year for cargo tonnage and revenue aided by Hong Kong's continuing and important role as the gateway to the Pearl River Delta. Demand for trunk services to Europe, Japan and the United States remained strong. The recent launch of freighter services to Shanghai is another positive step forward in the extension of the company's cargo network.

Cathay Pacific Group

Operating profit before non-recurring items



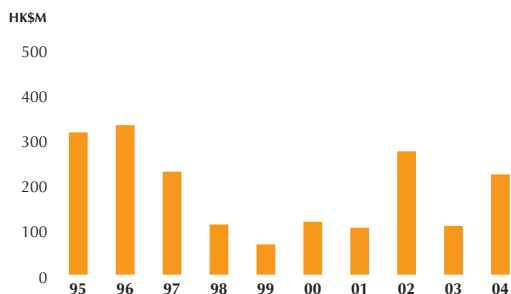
Net assets employed*



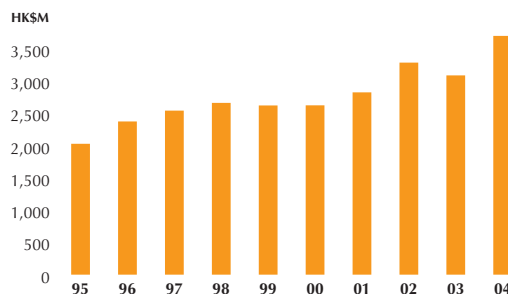
* Net assets employed comprise shareholders' funds, minority interests and net external borrowings of the Cathay Pacific group.

HAECO Group

Operating profit before non-recurring item



Net assets employed*



* Net assets employed comprise shareholders' funds, minority interests and external long-term borrowings of the HAECO group.

During 2004, 972,416 tonnes of freight were carried. With cargo capacity increasing by 13.4%, load factor for the year remained at 68.7%.

Network, Product and Fleet

During the year, additional frequencies were added to a number of key routes. New codeshare services were added to Barcelona, Madrid and Moscow. The company commenced a daily service to Beijing and in early 2005 launched a three times per week service to Xiamen. A third daily service to Sydney was added to the schedule. Cathay Pacific is the only airline to operate twice daily to New York from Hong Kong, with a one stop service via Vancouver and a new non-stop service launched in July.

Cathay Pacific has won a number of major service awards during the year. These include the "Best of the Best" in luxury travel brands from the *Robb Report's* annual survey among travel writers, and first place in the "Quality – Products and Services" and "Delivering on its Promises" categories in the 2004 Hong Kong Brand Admiration Survey. The Hong Kong lounges were voted the world's best in the global Skytrax poll. *Business Traveller* and Wine International awarded the company their "Best Business Class Cellar" and "First Class Most Original Wine List" titles.

Cathay Pacific took delivery of one new Boeing B777-300 in February 2004 whilst one of its B747-200 freighters previously leased to AHK was returned. At the end of the year it had a fleet of 89 aircraft, consisting of 77 passenger aircraft and 12 freighters. In February 2005 the company took delivery of a new B747-400 freighter. Over the next three years Cathay Pacific will take delivery of eight used B747-400s which will be reconfigured before joining the passenger and freighter fleets. Cathay Pacific will be the first airline to participate in Boeing's new B747-400 passenger-to-freighter conversion programme. Six new Airbus A330-300s and two B777-300 aircraft have been ordered and will be delivered by 2007. This acquisition plan will increase Cathay Pacific's fleet to 104, comprising 85 passenger aircraft and 19 freighters, including six passenger aircraft for conversion to freighter by the end of 2007.

AHK Air Hong Kong (AHK)

AHK recorded a higher profit in 2004 as compared to 2003, benefiting from a significant increase in capacity and higher load factors.

During the year, the company expanded its express cargo network to Osaka, Penang and Taipei. Together with Bangkok, Singapore, Tokyo and Seoul which commenced operations in February 2005, the company now serves seven cities in Asia.

AHK took delivery of four A300-600 freighters, replacing the previously wet-leased aircraft whilst one B747-200 freighter was returned to Cathay Pacific in October. A further two A300-600 freighters will be delivered in 2006. AHK's fleet will comprise eight A300-600 freighters by 2006.

Hong Kong Aircraft Engineering Company (HAECO)

HAECO provides line and heavy maintenance services at Hong Kong International Airport. Its principal subsidiary and jointly controlled companies are:

- Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO), which became a subsidiary in October 2004 following the purchase of a 5% shareholding from SIA Engineering Company Pte. Limited. The company provides heavy maintenance from three double-bay hangars in Xiamen, with a fourth hangar scheduled to open before the end of 2005. TAECO was granted a licence to convert B747-400 passenger aircraft to freighter aircraft by The Boeing Company during the year. TAECO also provides line maintenance services at Xiamen, Beijing and Shanghai.
- Hong Kong Aero Engine Services Limited (HAESL), a jointly controlled company, is the major Rolls-Royce aero engine overhaul facility in the region.

Attributable profit of the HAECO group comprised:

	2004 HK\$M	2003 HK\$M	Change %
HAECO	167	82	+104
TAECO	91	81	+12
HAESL	157	158	-1
Other jointly controlled companies	23	24	-4
	438	345	+27

These results reflect high utilisation of the facilities at all three principal companies, consistent with the rebound in traffic demand.



Cathay Pacific Network

- | | | | | | | | |
|-----------|------------|------------------|--------------|-------------|----------------|---------------|-----------------|
| Aberdeen | Brisbane | Detroit | Hong Kong | Manila | Orlando | San Diego | Sydney |
| Adelaide | Brussels | Dubai | Houston | Melbourne | Osaka | San Francisco | Taipei |
| Amsterdam | Cairns | Dusseldorf | Jakarta | Miami | Paris | San Jose | Tampa |
| Atlanta | Cebu | Edinburgh | Johannesburg | Milan | Penang | San Juan | Tokyo |
| Auckland | Chicago | Fort Lauderdale | Karachi | Moscow | Perth | Sapporo | Toronto |
| Austin | Cologne | Frankfurt | Kuala Lumpur | Mumbai | Philadelphia | Seoul | Vancouver |
| Bahrain | Colombo | Fukuoka | Las Vegas | Munich | Pittsburgh | Shanghai | Washington DC / |
| Bangkok | Copenhagen | Glasgow | Lisbon | Nagoya | Prague | Sharjah | Baltimore |
| Barcelona | Dallas | Hamburg | London | Nashville | Raleigh Durham | Singapore | Xiamen |
| Beijing | Delhi | Hanoi | Los Angeles | New Orleans | Riyadh | Stockholm | |
| Berlin | Denpasar | Helsinki | Madrid | New York | Rome | Stuttgart | |
| Boston | Denver | Ho Chi Minh City | Manchester | Newcastle | St. Louis | Surabaya | |

Prospects for the HAECO group in 2005 are good, with increasing traffic at Hong Kong International Airport and expected high utilisation of the heavy maintenance facilities. Increased heavy maintenance capacity is expected to come on-line in Xiamen at the end of the year, and a second hangar is to be built in Hong Kong that will open in early 2007. HAECO's franchise to provide line and base maintenance services at Hong Kong International Airport has been extended from July 2018 to July 2031.

Hong Kong Air Cargo Terminals (Hactl)

Hactl recorded its highest yearly throughput in 2004 – a total of 2.26 million tonnes, representing a 12.5% increase over 2003. Exports from the Pearl River Delta to Europe and the US were the key factor in this growth.

Whilst Hactl expects growth to continue in 2005, competition from regional airports is mounting. In response, Hactl is continuing to invest in efficiency enhancements and is expanding cross boundary intermodal services and logistics support.

Hong Kong Dragon Airlines (Dragonair)

Dragonair reported an improved profit in 2004 due to a strong recovery in passenger traffic supported by the launch of new passenger and cargo routes.

Passenger revenue increased 51.3% in 2004, whilst passenger numbers and load factor increased by 49.2% and 5.5 percentage points respectively. Yield decreased by 2.3%. The company carried 342,413 tonnes of cargo in 2004, 26.8% higher than 2003. Cargo revenue increased by 33.8% with the addition of a fourth freighter in July 2004. Cargo load factor decreased by 4.2 percentage points to 76.2%, while cargo yield increased by 5.8%.

Passenger services to Shanghai and most other Mainland China destinations were increased.

Dragonair took delivery of one A330, two A320s and one B747-200F during the year, increasing the fleet size to 30 at the end of 2004.

With the relaxation of the Individual Travel Scheme allowing visitors from more provinces in Mainland China and the implementation of the Closer Economic Partnership



Arrangement (“CEPA”), there is an expectation of strong growth in demand for air travel between Hong Kong and Mainland China.

Airline Catering

The Cathay Pacific Catering Services group operates six inflight catering facilities in Asia and North America. The company recorded a satisfactory profit in 2004 despite lower meal prices and higher costs as a result of strong currencies.

Hong Kong Airport Services (HAS)

HAS is the largest franchised ramp handling company at Hong Kong International Airport and provides services including aircraft loading, passenger steps and air-bridge operation, baggage handling, passenger and staff buses, aircraft load control, cargo and mail delivery.

HAS handled a record number of flights in 2004. As a result of the improving business environment and the continuation of stringent cost controls, the company achieved a record profit in 2004.