

“ Largest ever order placed for new aircraft provides firm base for future growth. ”



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. Cathay Pacific and HAECO are listed on the Hong Kong Stock Exchange. Dragonair provides passenger and freighter services to destinations in Mainland China and elsewhere whilst AHK focuses on regional all-cargo services. Other companies provide aviation-related services including flight catering, ramp and cargo handling and laundry services.

Aviation Division

Share of post-tax profits from associated companies

	2005 HK\$M	2004 HK\$M
Cathay Pacific Group*	1,418	1,923
Hong Kong Aircraft Engineering Group	279	196
Hong Kong Dragon Airlines	43	104
Hong Kong Air Cargo Terminals	283	255
	2,023	2,478
	1,928	2,393

Attributable profit

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

Turnover of these associated companies at 100% company level is provided below:

	Turnover (100%)	
	2005 HK\$M	2004 HK\$M
Cathay Pacific Group	50,909	42,761
Hong Kong Aircraft Engineering Group	3,121	2,134
Hong Kong Dragon Airlines	10,652	8,989
Hong Kong Air Cargo Terminals	2,939	2,750

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	46.3%	–	46.3%	46.3%
AHK Air Hong Kong	–	60.0%	60.0%	27.8%
Hong Kong Aircraft Engineering Co	32.4%	27.5%	59.9%	45.1%
Hong Kong Dragon Airlines	7.7%	21.6%	29.3%	17.7%
Hong Kong Air Cargo Terminals	30.0%**	10.0%	40.0%	24.6%

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

Review of Operations

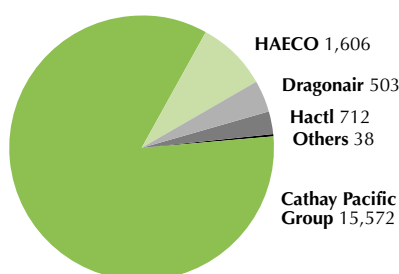
Aviation Division

Cathay Pacific Airways

Key Operating Highlights

		2005	2004	Growth
Available tonne kilometres ("ATK")	Million	17,751	15,794	+ 12.4%
Available seat kilometres ("ASK")	Million	82,766	74,062	+ 11.8%
Revenue passenger kilometres ("RPK")	Million	65,110	57,283	+ 13.7%
Revenue passengers carried	'000	15,438	13,664	+ 13.0%
Passenger load factor	%	78.7	77.3	+ 1.4% pts
Passenger yield	HK cents	46.3	45.8	+ 1.1%
Cargo carried	'000 tonnes	1,118	972	+ 15.0%
Cargo and mail load factor	%	67.0	68.7	- 1.7% pts
Cargo and mail yield	HK\$	1.75	1.76	- 0.6%
Cost per ATK	HK\$	2.19	2.07	+ 5.8%
Cost per ATK without fuel	HK\$	1.55	1.58	- 1.9%
Aircraft utilisation	Hours per day	12.6	12.0	+ 5.0%
On-time performance	%	86.1	90.3	- 4.2% pts
Breakeven load factor	%	69.3	65.5	+ 3.8% pts

Aviation Division net assets



All figures in HK\$ million
Cathay Pacific Group also includes AHK Air Hong Kong, Airline Catering and Hong Kong Airport Services.

2005 OVERVIEW

Although demand for both passenger and cargo traffic was strong throughout the year, higher revenues were not sufficient to fully offset increases in fuel costs which led to a marked decline in earnings from airline operations. Aviation maintenance and ground handling operations benefited from increased traffic and enjoyed generally excellent results.

A number of important strategic developments were undertaken during the year including a major order for new long haul aircraft, the construction of additional aircraft maintenance capacity and the successful completion of the first B747-400 passenger to cargo aircraft conversion.

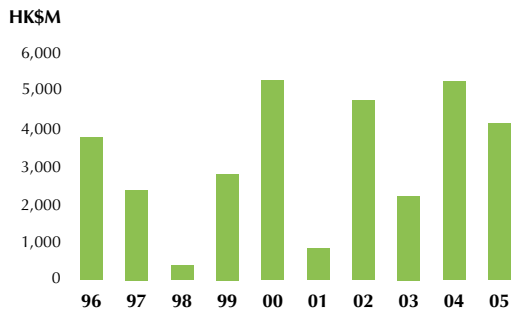
Cathay Pacific Airways

The Cathay Pacific group made a consolidated profit attributable to shareholders of HK\$3,298 million in 2005, compared to a profit of HK\$4,417 million in 2004.

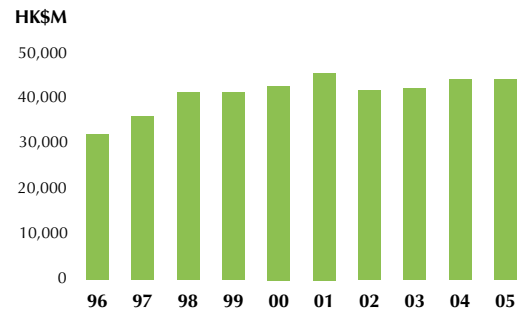
High fuel prices were the main reason for the decline in earnings with their impact only partially offset by fuel surcharges. Rising fuel costs contributed to a reduced profit in the second half of the year, which is traditionally a stronger period. In December, Cathay Pacific announced its biggest ever order for new aircraft, with commitments for 16 B777-300ER long-range aircraft and three A330-300s. These aircraft will be delivered between 2007 and 2010.

Cathay Pacific Group

Operating profit before non-recurring items



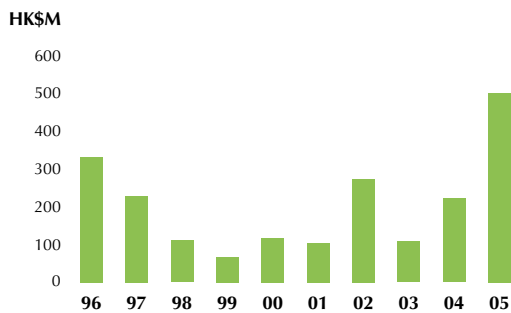
Net assets employed*



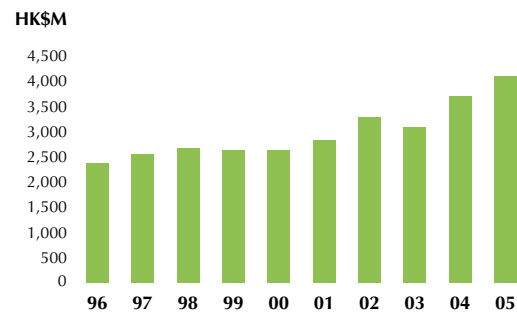
*Net assets employed comprise total equity and net external borrowings of the Cathay Pacific Group.

HAECO Group

Operating profit before non-recurring item



Net assets employed*



*Net assets employed comprise total equity and external long-term borrowings of the HAECO Group.

Passenger Services

Cathay Pacific achieved record passenger revenue and passenger numbers with an average load factor of 78.7%. Passenger yield improved 1.1% to HK¢46.3, driven by buoyant passenger demand and good front-end loads. However, economy class yield remained under steady downward pressure with increased competition.

Overall passenger services performed well with frequencies increased to a number of destinations in various regions. With the addition of a third daily service to Los Angeles, North America has now become the second largest sales area. Overall capacity increased 11.8%.

Cargo

Cathay Pacific set new revenue and tonnage records as Hong Kong remained the primary gateway to the Pearl River Delta. Despite increased competition from new airports in the region, volumes were boosted by increased transshipment cargo to and from Shanghai following the introduction of a daily freighter service in January 2005. With capacity increasing by 12.9% on 2004, yield dipped by 0.6%. High fuel prices also negatively affected the profitability of the company's freighter services.

In November, Cathay Pacific launched a three-times-weekly service to Dallas, continuing on to Atlanta, allowing improved connections with transshipment traffic from South and Central America.

Review of Operations
Aviation Division



Cathay Pacific Network

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

Network, Product & Fleet

Additional frequencies were added to a number of routes during the year. The company now operates 14 flights a week to Beijing, three flights a day to Los Angeles and added a fourth daily flight to London. The introduction of a codeshare service with Air China to Beijing also helped to strengthen Hong Kong's hub connections to the capital.

Cathay Pacific was voted "Airline of the Year 2005" in the UK-based Skytrax Research's global passenger poll, and was also voted "Best Airline in Asia" and "Best First Class". The airline's Hong Kong First and Business Class lounges, The Wing and The Pier, have also been voted world's best in a separate survey conducted by Skytrax Research. Cathay Pacific was also voted "Airline of the Year" and "Best Airline in North Asia" in the regional TTG Travel Awards. The awards were the result of a poll of the leading travel industry magazines' readers, who largely comprise travel trade professionals from around the region. Cathay Pacific was named "Airline of the Year 2006" by Air Transport World magazine, the leading monthly magazine covering the global aviation industry.

By the end of 2005 Cathay Pacific had 96 aircraft, including 82 passenger aircraft and 14 freighters. The company took delivery of one new B747-400F freighter, one B777-300 and three A330-300s while three second-hand B747-400 passenger aircraft were refitted and introduced into service. The world's first B747-400BCF, a passenger-to-freighter conversion, entered service with the airline in December.

Cathay Pacific made the biggest single order for new aircraft in its history with firm orders for 16 B777-300ERs and purchasing rights for 20 more, plus three A330-300 aircraft.

AHK Air Hong Kong (AHK)

AHK continued to expand its express cargo network with Seoul, joining Bangkok, Osaka, Penang, Singapore, Taipei and Tokyo.

The company took delivery of two new A300-600 freighters, increasing the fleet size to six. Another two A300-600 freighters will be delivered in 2006.

AHK recorded a higher profit in 2005 despite the adverse impact of higher fuel prices.

Hong Kong Aircraft Engineering Company (HAECO)

HAECO provides line and heavy maintenance services at Hong Kong International Airport ("HKIA"). At present, it operates a triple bay widebody hangar at HKIA and is constructing a second hangar which will hold two B747s and one B767 or B787. It expects this second hangar to start operating at the end of 2006. Its principal subsidiary and jointly controlled companies are:

- Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO"), 54.6% owned by HAECO, provides heavy maintenance in Xiamen. Its fourth double bay hangar opened in December 2005 and construction has started on a fifth double bay hangar which is expected to open in mid 2007. TAECO has a contract with The Boeing Company to convert B747-400 passenger aircraft into freighters. The first such converted aircraft was redelivered to Cathay Pacific in December 2005. TAECO also provides line maintenance services at Xiamen, Beijing and Shanghai.
- Hong Kong Aero Engine Services Limited ("HAESL"), a jointly controlled company with Rolls-Royce plc and SIA Engineering Pte. Limited, is the major Rolls-Royce aero engine overhaul facility in the region.

The attributable profit of the HAECO group comprised:

	2005 HK\$M	2004 HK\$M	Change %
HAECO	256	167	+53
Share of:			
TAECO	102	84	+21
HAESL	229	157	+46
Other jointly controlled companies	31	30	+3
	618	438	+41

Aviation Division

These results reflect high utilisation of the facilities at the three principal companies as a result of an increase in aircraft traffic through HKIA and strong market demand for air-frame and engine maintenance work.

Demand for the HAECO group's services remains robust. Line maintenance at HKIA should benefit from additional movements and strong demand for heavy maintenance is expected to continue. However, additional staff training and other costs will be incurred during 2006 in preparation for the opening of the second hangar shortly before the end of the year. TAECO is expected to grow in step with the added capacity. HAESL has strong demand but was operating at full capacity during 2005 and thus has little room to grow. Overall the prospects for 2006 are good but improving on the excellent results achieved in 2005 will be a challenge.

Hong Kong Dragon Airlines (Dragonair)

Dragonair's profit was adversely affected by the high fuel prices and increased competition. System-wide fuel costs increased by 43.4% over 2004 and now account for 26.0% of total operating costs, 6.8 percentage points higher than during 2004.

The company recorded an 18.0% increase in passenger revenue on 2005, driven by an increase in passenger services to Mainland China and the full-year impact of the new passenger service to Tokyo, which commenced in April 2004. Passenger numbers increased by 9.9% while yield increased by 2.9% over 2004.

Dragonair uplifted 385,000 tonnes of cargo in 2005, 12.5% higher than 2004 with cargo revenue increasing by 27.9%. With the substantial increase in cargo capacity in the market, cargo load factor decreased by 3.7 percentage points to 72.5%. Cargo yield remained at the same level as last year.

Dragonair took delivery of three A330s and one A320 during the year, increasing the fleet size to 34 by the end of 2005. One A320 and one A330 were wet leased to Air China from September 2005 onwards.

Hong Kong Air Cargo Terminals (Hactl)

Hactl handled a record 2.43 million tonnes of air cargo in 2005, representing a year-on-year increase of 7.5% over 2004. Strong growth in exports to Mainland China, US and Europe markets contributed to this growth. To stay ahead of the competition, Hactl continues to invest in terminal efficiency and cross-border services to and from the Pearl River Delta.

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 2005. However, the profit margin decreased as customer airlines mounted cost-saving campaigns to compensate for higher fuel prices.

Hong Kong Airport Services (HAS)

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

HAS achieved a record profit in 2005 with good cost control in an improving business environment.

Philip Chen