



ANNUAL REPORT 2001



- CATHAY PACIFIC
 - DRAGONAIR
 - AIR HONG KONG
- † Freighter services only
* Codeshare services

- Aberdeen*
- Adelaide
- Amsterdam
- Auckland
- Bahrain
- Bangkok
- Berlin*
- Brisbane
- Cairns
- Cebu
- Chicago†
- Cologne*
- Colombo
- Delhi
- Denpasar
- Dubai
- Dusseldorf*
- Edinburgh*
- Frankfurt
- Fukuoka
- Glasgow*
- Hamburg*
- Hanoi
- Helsinki*
- Ho Chi Minh City
- Jakarta
- Johannesburg
- Karachi
- Kuala Lumpur
- London
- Los Angeles
- Manchester*
- Manila
- Melbourne
- Mumbai
- Munich*
- Nagoya
- Newcastle*
- New York
- Nottingham†
- Osaka
- Paris
- Penang
- Perth
- Prague*
- Riyadh
- Rome
- San Francisco
- Sapporo
- Seoul
- Sharjah†
- Singapore
- Stockholm*
- Stuttgart*
- Surabaya
- Sydney
- Taipei
- Tokyo
- Toronto
- Vancouver
- Zurich*
- Bandar Seri Begawan
- Beijing
- Changsha
- Chengdu
- Chongqing
- Dalian
- Dhaka
- Fuzhou
- Guilin
- Haikou
- Hangzhou
- Hiroshima
- Kaohsiung
- Kota Kinabalu
- Kuching
- Kunming
- Nanjing
- Ningbo
- Phnom Penh
- Phuket
- Qingdao
- Sanya
- Sendai
- Shanghai
- Wuhan
- Xiamen
- Xian
- Brussels
- Dubai
- Manchester
- Osaka
- Seoul

Contents

2	Financial and Operating Highlights	34	Consolidated Cash Flow Statement
3	Chairman's Letter	35	Consolidated Statement of Recognised Gains and Losses
4	2001 in Review	35	Reconciliation of Movements in Consolidated Shareholders' Funds
8	Review of Operations	36	Notes to the Accounts
13	Financial Review	60	Principal Subsidiary and Associated Companies
20	Directors and Officers	62	Statistics
22	Directors' Report	67	Glossary
26	Auditors' Report	68	Corporate and Shareholder Information
27	Principal Accounting Policies		
31	Consolidated Profit and Loss Account		
32	Consolidated Balance Sheet		
33	Company Balance Sheet		

The new Business Class cabin was rolled out in August, featuring amongst the longest and widest flat-bed seats in the sky, more table top space, an exclusive bar, and reception and private dressing areas.



Cathay Pacific Airways is an international airline based and registered in Hong Kong, offering scheduled passenger and cargo services to 62 destinations around the world.

We are deeply committed to Hong Kong, where the company was founded in 1946. We have made substantial investments in Hong Kong's aviation industry; in addition to our fleet of aircraft these include catering, aircraft maintenance and ground handling companies, as well as our own corporate headquarters at Hong Kong International Airport.

Cathay Pacific's wholly-owned subsidiary AHK Air Hong Kong Limited is an all-cargo carrier which operates scheduled services to Japan, Korea, Europe and the Middle East. In association with Hong Kong Dragon Airlines Limited our global network extends to a further 27 destinations in China and around the region.

We are also a founder member of the **oneworld** global alliance whose combined network serves over 570 destinations worldwide. Other members of **oneworld** are Aer Lingus, American Airlines, British Airways, Finnair, Iberia, LanChile and Qantas.

Cathay Pacific is a member of the Swire Group and is listed on the Stock Exchange of Hong Kong.

FINANCIAL AND OPERATING HIGHLIGHTS

Group Financial Statistics		2001	2000	Change
Results				
Turnover	<i>HK\$ million</i>	30,436	34,523	-11.8%
Profit attributable to shareholders	<i>HK\$ million</i>	657	5,005	-86.9%
Earnings per share	<i>HK cents</i>	19.7	148.4	-86.7%
Dividend per share	<i>HK cents</i>	17.5	65.0	-73.1%
Profit margin	<i>%</i>	2.2	14.5	-12.3%pt
Balance Sheet				
Shareholders' funds	<i>HK\$ million</i>	31,308	32,832	-4.6%
Net borrowings	<i>HK\$ million</i>	14,278	9,886	+44.4%
Shareholders' funds per share	<i>HK\$</i>	9.4	9.8	-4.1%
Net debt/equity ratio	<i>Times</i>	0.46	0.30	+0.16 times
Operating Statistics – Cathay Pacific				
Available tonne kilometres ("ATK")	<i>Million</i>	11,827	11,630	+1.7%
Passenger load factor	<i>%</i>	71.3	76.2	-4.9%pt
Passenger yield	<i>HK cents</i>	45.7	48.2	-5.2%
Cargo and mail load factor	<i>%</i>	67.3	72.5	-5.2%pt
Cargo and mail yield	<i>HK\$</i>	1.85	2.07	-10.6%
Cost per ATK	<i>HK\$</i>	2.36	2.32	+1.7%
Cost per ATK without fuel	<i>HK\$</i>	1.93	1.86	+3.8%
Aircraft utilisation	<i>Hours per day</i>	12.1	12.9	-6.2%
On-time performance	<i>%</i>	82.9	84.0	-1.1%pt

CHAIRMAN'S LETTER

The year 2001 presented many challenges, even before the tragic events of September plunged the aviation industry into one of the most difficult periods in its history. The Group recorded a loss of HK\$662 million during the second half of the year, as compared to a profit of HK\$1,319 million in the first six months. For the year as a whole, Cathay Pacific reported an attributable profit of HK\$657 million, compared to a record profit of HK\$5,005 million a year earlier. Turnover fell by 11.8 percent to HK\$30,436 million.

Passenger and cargo traffic both suffered major declines. The effects of the global economic slowdown were already evident at the beginning of the year as demand for business travel weakened. Following the terrorist attacks in the United States public confidence was badly shaken, and passenger demand fell even further still. The loss of confidence amongst travellers was most clearly felt on our trans-Pacific routes whilst other routes, including those to Taiwan and South East Asia, were affected by the economic slowdown. Passenger yield declined from HK48.2 cents to HK45.7 cents.

Our cargo business also experienced difficult market conditions. Hong Kong was partly cushioned by the relatively strong performance of exports from Mainland China, but competition in the overall air cargo market remained intense. Cargo yield fell by 10.6 percent to HK\$1.85.

In the fourth quarter, we temporarily cut back scheduled capacity by some 8 percent and implemented a stringent review of our costs. Our aim is to maintain the integrity of our network and, to the greatest extent possible, to preserve the jobs of our staff.

During the summer the industrial dispute with our pilots' union had an adverse impact on our operations. However, in the wake of rapidly changing industry circumstances the industrial action dissipated and our schedule integrity and

on-time performance returned to their usual high levels. We remain committed to resolving the dispute in a constructive manner with the aim of reaching a long-term durable settlement which takes into account the interests of the Hong Kong community and of the airline, our staff and customers.

Our operating fleet increased by 11 aircraft, and at year end totalled 75 aircraft, including 9 freighters. Whilst we remain optimistic about growth prospects, we have taken a cautious view towards future aircraft deliveries, and have only 3 aircraft on order. We will continue to review further aircraft orders to ensure that we can meet any expected recovery in demand.

Our affiliates and associates, despite a decline in profitability, continued to perform satisfactorily.

Notwithstanding difficult market conditions, Cathay Pacific remains committed to focusing on our strengths in terms of superior product and customer service. During the year we pressed ahead with various product and service enhancements including the introduction of a new Business Class product and various e-Business initiatives including the world's first inflight email service; we upgraded passenger lounges around the world and opened a new lounge, The Pier, at Hong Kong International Airport.

Over the years Cathay Pacific has met and overcome many challenges. We have a team of extremely dedicated and talented staff and committed shareholders. We are ideally located in Hong Kong and at the heart of Asia. We are steady in our resolve and intend to come through the current industry crisis in better shape than ever, poised to resume the successful growth of the airline once economic conditions show signs of improvement.

James Hughes-Hallett

Chairman

6th March 2002

2001 IN REVIEW

The year was an extremely challenging one for Cathay Pacific, due to the effects of the deepening global economic slowdown and the unprecedented impact of the September terrorist attacks on the worldwide demand for air travel. The airline responded by reducing capacity through selective frequency reductions and by implementing a further series of cost-reduction measures. Despite these difficulties Cathay Pacific remains confident over its future and has pressed ahead with new product initiatives and customer service enhancements.

A PRODUCT INNOVATOR

- ▷ We continued with our policy of investing in our products and services, with a new Business Class cabin featuring amongst the longest and widest flat-bed seats in the sky, an exclusive bar, and reception and private dressing areas. The new product will be installed in all the airline's long-haul aircraft.
- ▷ We began to introduce our highly acclaimed new First Class cabin onto our Airbus A340-300s and A330-300s. By the end of the year a total of 27 aircraft had been fitted with the new cabin.
- ▷ We were the first airline in the world to commit to a fleet-wide roll-out of inflight email, with the introduction of Tenzing global inflight email and Web access.
- ▷ Our new inflight entertainment system, Studio^{CX}, more than doubles passenger choice to over 20 channels of video entertainment.
- ▷ We have also launched Audio and Video On Demand – allowing passengers to select movies when they want. This new service is being installed across our long-haul fleet.
- ▷ The world's first comprehensive Online Check-In service, allowing passengers to check-in for flights via the Internet before heading to the airport, was also introduced in the year.
- ▷ We launched a new automated service kiosk at airports in Hong Kong and Taipei, which allows passengers without check-in baggage to check themselves in and receive boarding passes and lounge invitations.

- ▷ Our new lounge, called "The Pier", was opened at Hong Kong International Airport and now complements the luxurious facilities offered by "The Wing".
- ▷ The Asia Miles travel reward programme added more than 350,000 new members over the year, bringing the total membership to over 1.2 million. New airline partners who joined the programme during the year include Asiana and China Eastern. 31 new non-airline partners also joined in 2001.
- ▷ Once again we won a large number of prestigious awards including the World's Leading Airport Lounges from *Forbes*, Best Business to Consumer E-commerce Website from *VISA*, Best E-commerce Strategy from *FinanceAsia* and the Top Service award in the airline category from *Next Magazine*.

NETWORK CHANGES

- ▷ We continued to strengthen and optimise our global network with the launch of 3 new destinations during the year – Delhi in March, Riyadh in October and Sapporo in December. These helped further strengthen Hong Kong's standing as Asia's leading aviation centre.
- ▷ However, we suspended services to Zurich, Manchester and Istanbul due to weakening passenger demand. We will keep resumption of service to these destinations under review.
- ▷ From October we reduced flight frequencies to 8 destinations, which represented a reduction

2001 IN REVIEW

of approximately 8 percent of our total weekly schedule.

- ▷ In November, we signed a codeshare agreement with Philippine Airlines covering the services between Hong Kong and Cebu. This agreement helps both airlines reach more customers through their combined networks.
- ▷ In January 2002, Cathay Pacific and its **oneworld** partner British Airways expanded codeshare agreements to include 11 more destinations in the UK and Continental Europe. The codeshare agreements also cover Cathay Pacific services from Hong Kong to Auckland and Kuala Lumpur.
- ▷ Our first daytime service between Hong Kong and London will start in July 2002. This 4 times weekly service will raise the frequency of our London flights to 18 per week.

- ▷ Members of the **oneworld** global airline alliance reaffirmed their commitment to the alliance. The 8 members offer services to over 570 destinations around the world.

THE GROWING FLEET

- ▷ We continued to invest in our fleet, adding 14 new aircraft during the year. These included 8 A330-300s, 4 A340-300s, and 2 B747-400 freighters. 3 aircraft leased from Air China were returned during the year, bringing the net increase in the fleet size to 11.
- ▷ At the end of the year, our passenger fleet had an average age of 6 years, amongst the lowest of the world's major airlines.
- ▷ 2 of our older freighters and 4 passenger aircraft have been temporarily withdrawn from service due to the general economic downturn.

FLEET PROFILE

Aircraft type	Number as at 31st December 2001			Total	Firm orders			Expiry of operating leases			Options
	Owned	Leased			'02	'03	Total	'02	'03	'06	
		Finance	Operating								
Aircraft operated by Cathay Pacific											
B747-400	2	15	2	19				1	1		
B747-200F	3	1		4							
B747-400F	1	4		5							
B777-200	1	4		5							
B777-300		7		7							3 ^(a)
A330-300	2	18		20							1 ^(b)
A340-300		11	4	15						4	
A340-600					2	1	3^(c)				
Total	9	60	6	75	2	1	3	1	1	4	4
Aircraft not operated by Cathay Pacific											
B747-300	6			6^(d)							
B747-200F		3		3^(e)							
Total	6	3		9							

^(a) Operating lease options expire in 2007 and are for any B777 model.

^(b) Option to be exercised in 2002, is interchangeable between A330/A340.

^(c) Aircraft will be on 5 year operating leases.

^(d) 1 aircraft was not leased out as at 31st December 2001.

^(e) Aircraft are operated by AHK.

2001 IN REVIEW

A LEADING E-BUSINESS STRATEGY

- ▷ In October we took steps to keep ahead of our competitors by launching a version of our Internet site on the world's first commercial 3G mobile phone network, "Freedom of Mobile Multimedia Access". The service is 40 times faster than conventional mobile communications.
- ▷ Also in October we expanded our *notiFLY* Flight Paging service worldwide. Mobile phone subscribers in every country served by Cathay Pacific can now receive automated *notiFLY* text messages to confirm flight arrival and departure times in English, Chinese, Japanese and Korean.
- ▷ Our jointly owned Asia-Pacific travel exchange, Zuji, appointed Travelocity as its primary technology provider and Abacus as its primary Global Distribution System provider.
- ▷ IBM took over responsibility for the maintenance and management of our desktop personal computers and workstations in Hong Kong.
- ▷ We invested in the initial public offering of TravelSky, a unit of the Beijing-based Civil Aviation Computer Information Centre.

A HIGHLY-SKILLED WORKFORCE

- ▷ Our people are what make us an exceptional airline, and at the end of 2001 we employed approximately 14,500 staff around the world, including 10,600 based in Hong Kong.

- ▷ We held graduation ceremonies for 20 local cadet pilots at BAE Systems Flight Training in Adelaide, Australia.
- ▷ In August, we welcomed the arrival of our first Learjet 45 training aircraft for use in our comprehensive pilot training programme.
- ▷ We began work on the introduction of a new range of human resource management software from e-Business applications provider, PeopleSoft. The new system will be known as PeopleCX.
- ▷ Cathay Pacific's pilot union undertook limited industrial action between July and October as part of an ongoing dispute with the Company over remuneration, benefits and rostering. The action was largely suspended in October, and there has been no further disruption to service.
- ▷ Our staff remuneration policies are frequently reviewed with reference to current employment legislation, market conditions and both individual and company performance.

SERVICE TO THE HONG KONG COMMUNITY

- ▷ Cathay Pacific staged its biggest ever campaign to promote tourism in Hong Kong. "The World's Biggest Welcome" lucky draw for 10,000 free inbound return tickets drew more than 1 million entries from Hong Kong residents who nominated friends and family members living overseas.
- ▷ Cathay Pacific continues to be title sponsor of the Hong Kong Chinese New Year Parade.

2001 IN REVIEW

- ▷ As part of our contribution to Hong Kong and the local aviation industry, we held a Career Expo at our headquarters in June for almost 1,000 local university graduates.
- ▷ We were the title sponsor for the very successful Hong Kong season of the award-winning musical, Miss Saigon.
- ▷ The "Spirit of Kai Tak", an Aerostar Super 700 aircraft sponsored by Cathay Pacific, won the speed category of the London to Sydney Air Race 2001. The team was led by Captain Mike Miller, a Cathay Pacific pilot.
- ▷ Together with the Hong Kong Federation of Youth Groups, we invited 46 students to take part in the Cathay Pacific International Wilderness Experience Programme 2001 held in South Africa in July.
- ▷ Also in July Cathay Pacific and the United Nations Children's Fund (UNICEF) launched their annual "Change for Good" inflight fund-raising programme at a ceremony held at Cathay Pacific City. The fund-raising period was extended from 6 months to year-round.
- ▷ We helped 4 incurably ill children from Hong Kong take the flight of their dreams to Disneyworld's Magic Kingdom in the United States. The trip was arranged by the Dreamflight charity and the air tickets were sponsored by Cathay Pacific.

- ▷ In September, we held our second induction course for 40 children enrolled in the Cathay Pacific Junior Pilot Club. The course is designed to stimulate children's interest in the Hong Kong aviation industry.
- ▷ We also announced a special 50 percent discount on air tickets for Hong Kong senior citizens for tickets departing Hong Kong between 12th November 2001 to 28th February 2002.

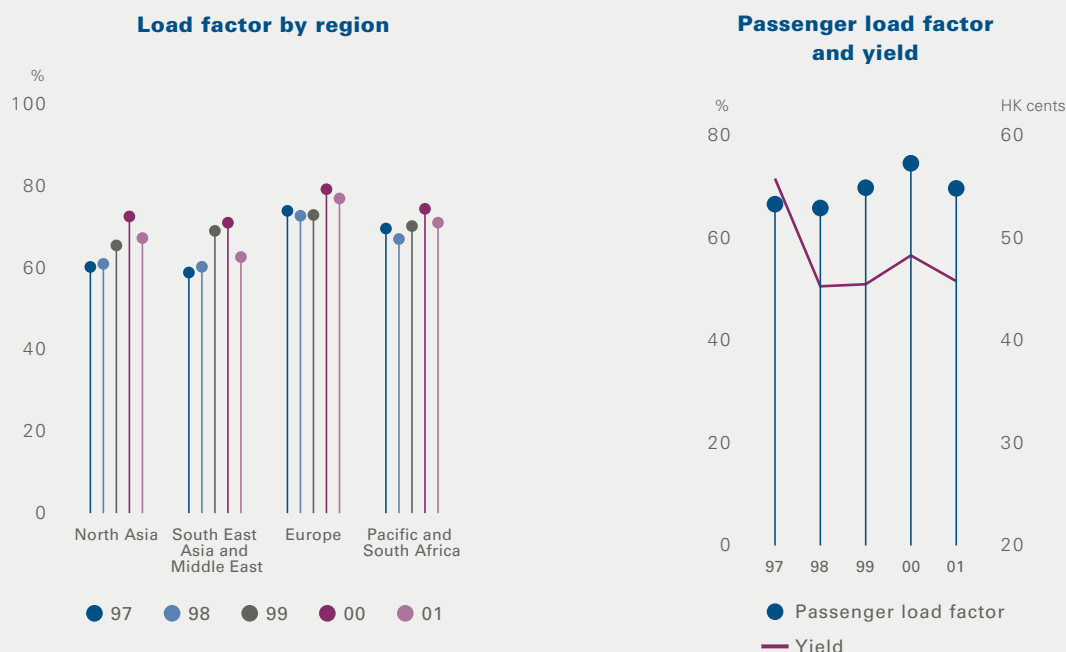
ENVIRONMENT

- ▷ Cathay Pacific has continued with its commitment to environmental awareness. During 2001, both green activities and environmental training courses were organised. A briefing on indoor air quality and ISO14000 was conducted for staff members.
- ▷ A number of events in which staff and families were invited took place during the year including tree and mangrove planting and day camps at a green farm.
- ▷ In May, Cathay Pacific played host to the Environmental Protection Bureau from Harbin in Mainland China.

REVIEW OF OPERATIONS

PASSENGER SERVICES

The year saw a significant fall in passenger revenue as compared with 2000. This was due to the worldwide economic slowdown, the impact of the tragic events in the United States on 11th September, the decline in regional currencies and the industrial action initiated by the pilots' union. First Class and Business Class traffic fell by 14.1%.



Available seat kilometres ("ASK"), load factor and yield by region:

	ASK (million)			Load factor (%)			Yield
	2001	2000	Change	2001	2000	Change	Change
North Asia	10,279	9,912	+3.7%	68.8	74.1	-5.3%pt	-4.1%
South East Asia and Middle East	13,609	12,097	+12.5%	64.0	72.6	-8.6%pt	-9.1%
Europe	13,833	14,565	-5.0%	78.4	80.8	-2.4%pt	-5.6%
Pacific and South Africa	25,069	25,335	-1.0%	72.5	76.0	-3.5%pt	-4.8%
Overall	62,790	61,909	+1.4%	71.3	76.2	-4.9%pt	-5.2%

Highlights by region are as follows:

NORTH ASIA

- ▷ Traffic from Japan remained robust until the events in September, which led to an increase in passenger cancellations and a reduction in passenger numbers.
- ▷ The new service to Sapporo in northern Japan

commenced in December; initial revenue was satisfactory.

- ▷ The Korean market was stable throughout the year.
- ▷ Traffic from Taiwan dropped sharply due to the country's severe economic downturn. Passengers originating from Hong Kong and Mainland China helped sustain revenue on this route.

REVIEW OF OPERATIONS

SOUTH EAST ASIA AND
MIDDLE EAST

- ▷ Most South East Asian markets were adversely affected by the slowdown of the US economy. This was partly offset by the greater propensity to travel of overseas workers and Asian emigrants visiting their home countries.
- ▷ A new codeshare agreement was signed with Philippine Airlines in November on the service between Hong Kong and Cebu.
- ▷ The Indian and Middle East markets performed satisfactorily. The revenue picture was helped by new services to Delhi and Riyadh, which started during the year.

EUROPE

- ▷ Load factors on European routes proved more resilient in the face of the downturn than those on any other routes. Yield declined, however,

due to the weakness of European currencies against US dollar.

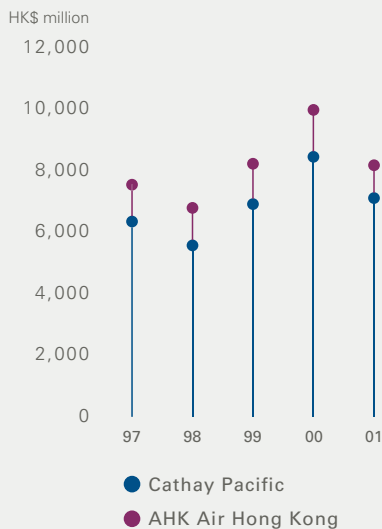
- ▷ Our services to Zurich and Manchester were suspended in the middle of the year. Services to Istanbul were also temporarily suspended in November.

PACIFIC AND
SOUTH AFRICA

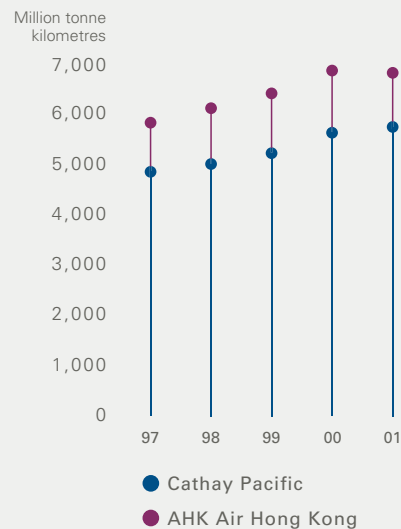
- ▷ Trans-Pacific traffic was badly affected by the September incident, and a number of flights to Los Angeles and Vancouver were suspended as a result.
- ▷ Australian and New Zealand markets performed relatively well in terms of passenger numbers, but yield was again under pressure due to the weakness of local currencies.
- ▷ Traffic to South Africa showed healthy growth, despite currency weakness.

CARGO SERVICES

Turnover



Capacity – cargo and mail ATK



	ATK (million)			Cargo and mail load factor (%)			Yield
	2001	2000	Change	2001	2000	Change	Change
Cathay Pacific	5,855	5,740	+2.0%	67.3	72.5	-5.2%pt	-10.6%
AHK Air Hong Kong	1,074	1,234	-13.0%	73.3	73.9	-0.6%pt	-18.6%

REVIEW OF OPERATIONS

CATHAY PACIFIC AIRWAYS LIMITED

- ▷ Cathay Pacific Cargo operates a fleet of 5 B747-400 freighters and 4 B747-200 freighters serving 20 destinations worldwide.
- ▷ 2 new B747-400 freighters joined the fleet during the year.
- ▷ Turnover decreased by 15.6% as compared to 2000. The slowdown in the world economy reduced the demand for air cargo, especially for traffic between Hong Kong and North America and Europe.
- ▷ In view of the economic situation, 2 B747-200 freighters have been temporarily taken out of service.
- ▷ Cargo yield was under pressure due to weak demand and surplus capacity.
- ▷ Cargo available tonne kilometres grew by 1.5% for the freighter fleet and 2.0% for the fleet as a whole, whilst overall cargo load factor averaged 67.3%.
- ▷ Insurance and security surcharges were introduced to compensate for the impact of higher insurance premiums following the events in September.
- ▷ The dedicated overnight services operated by Cathay Pacific for DHL Worldwide Express continue to operate successfully. These services enable DHL to offer a superior express freight product.

AHK AIR HONG KONG LIMITED ("AHK")

- ▷ AHK is an all-cargo carrier with scheduled services to Japan, Korea, Europe and the Middle East. The Korean service, which commenced in September, is operated as an extension of the Japanese service.
- ▷ The profitability of the company deteriorated, due to the slowdown in exports from Hong Kong and intense competition across the region.
- ▷ Capacity, due to the combination of heavy aircraft maintenance and flight consolidations, fell by 13.0% over 2000. Yield and load factor, which were both under severe pressure from the excess of cargo capacity, fell by 18.6% and 0.6 percentage points respectively.

REVIEW OF AFFILIATED BUSINESSES AND ASSOCIATED COMPANIES

CATHAY PACIFIC CATERING SERVICES (H.K.) LIMITED

- ▷ This wholly-owned subsidiary of Cathay Pacific operates the principal flight kitchen at Hong Kong International Airport.
- ▷ The company produced 13 million meals in 2001, down by 1.4 million from last year, and serves 26 scheduled carriers.
- ▷ The company reported a lower profit, compared with last year, due to the lower production volume.

REVIEW OF OPERATIONS

HONG KONG AIRPORT SERVICES LIMITED ("HAS")

- ▷ HAS, in which Cathay Pacific holds a 70% interest, is the leading franchised ramp handling company at Hong Kong International Airport. Services include aircraft loading, passenger steps and air bridge operations, baggage handling and cargo and mail delivery.
- ▷ With over 30 airline customers, the company has maintained a market share of over 50% despite aggressive competition.

- ▷ The company is also contracted to operate passenger, staff and other bus services for the Airport Authority.
- ▷ In September, HAS took over responsibility for load control on Cathay Pacific flights departing from outports.
- ▷ HAS recorded a satisfactory profit in 2001 despite the increased competition, whilst the downturn in the fourth quarter also adversely affected results.

HONG KONG DRAGON AIRLINES LIMITED ("DRAGONAIR")

	ASK/ATK* (million)			Load factor (%)			Yield
	2001	2000	Change	2001	2000	Change	Change
Passenger services	5,576	4,885	+14.1%	66.7	66.2	+0.5%pt	-0.6%
Cargo services	552	295	+87.1%	71.1	76.2	-5.1%pt	-26.2%

* Capacities of passenger and cargo services are measured in available seat kilometres ("ASK") and available tonne kilometres ("ATK") respectively.

- ▷ Dragonair operates passenger services to 27 destinations in Asia, 18 of which are in Mainland China.
- ▷ Weekly frequencies to Beijing and Shanghai were increased to 35 and 48 respectively in the summer schedule. Additional flights were operated to major provincial cities in Mainland China in order to meet demand during the summer season. A fourth daily service to Kaohsiung was introduced in March 2001. Services to Ningbo were resumed in September.
- ▷ In May the airline commenced a twice weekly freighter service to Osaka. The freighter service to Shanghai was increased to twice weekly in September, whilst the service to Europe via the

Middle East was increased to 5 times a week in October.

- ▷ Despite reduced traffic following the September incident in the United States, Dragonair recorded a 14.5% increase in passenger revenue and a 0.5 percentage point increase in passenger load factor in 2001. Passenger yield decreased marginally by 0.6%.
- ▷ With the commencement of the all-cargo services in 2000 and the delivery of 2 B747-300 freighters in the second half of 2001, cargo revenue and tonnage increased by 29.8% and 29.3% respectively. Cargo yield dropped by 26.2% due to weak demand and the introduction of additional long-haul services.

REVIEW OF OPERATIONS

- ▷ The airline reported a lower profit compared with the previous year due to a softening of the air cargo market and a reduction in demand for passenger travel in the fourth quarter.
- ▷ During 2001 Dragonair took delivery of 2 A330-300s and 2 B747-300 freighters. 1 of the A330-
- ▷ Fleet profile as at 31st December 2001:

300s was on an operating lease. At the end of 2001, the airline was operating a fleet of 19 aircraft.

- ▷ Dragonair is well positioned to meet the future opportunities that will arise from the accession of China to the World Trade Organisation.

Aircraft type	Number as at 31st December 2001			Firm orders			Expiry of operating leases				
	Leased		Total	'02	'03	'04 & beyond	Total	'02	'03	'04	'05 & beyond
	Finance	Operating									
A320	2	5	7^(a)	1 ^(b)		3	4		4	1	
A321		3	3	1 ^(b)	2		3			3	
A330	3	4	7	2			2	1	2		1
B747-300F	2		2								
Total	7	12	19	4	2	3	9	1	6	4	1

^(a) 1 A320 was returned from a lessee in March 2001.

^(b) Aircraft will be on operating leases.

HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED ("HAECO")

- ▷ HAECO, in which Cathay Pacific holds a 27% interest, provides aircraft maintenance and overhaul services at Hong Kong International Airport.
- ▷ The company achieved a profit after tax of HK\$312 million, 22% lower than in the previous year. The decrease was mainly due to the profit arising on the sale of properties and interests in joint ventures in 2000 not being repeated in 2001.
- ▷ While line maintenance revenues increased in line with the increased number of flights into

Hong Kong, margins remained under pressure. Heavy airframe maintenance and modification activity in the hangar remained high.

- ▷ Taikoo (Xiamen) Aircraft Engineering Company Limited, 49% owned by HAECO and 9% owned by Cathay Pacific had a profitable year, with high usage of its hangar facilities. A third hangar is currently being built, with completion expected in 2003, which will increase capacity by 50%.
- ▷ Hong Kong Aero Engine Services Limited, HAECO's joint venture with Rolls-Royce plc and SIA Engineering Pte Limited, continued to achieve good results with high workloads.

FINANCIAL REVIEW

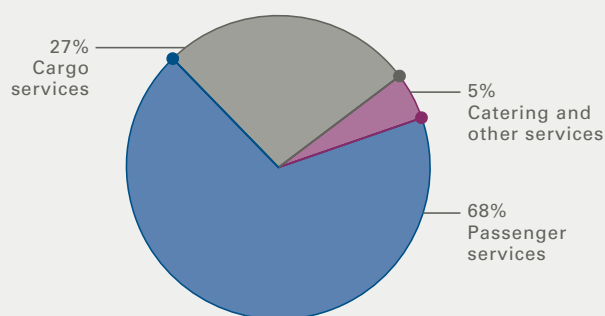
The Group's attributable profit was HK\$657 million compared to a profit of HK\$5,005 million in 2000. This decline was due to the global economic slowdown, while the tragic events in the United States in September further reduced the demand for air travel.

TURNOVER

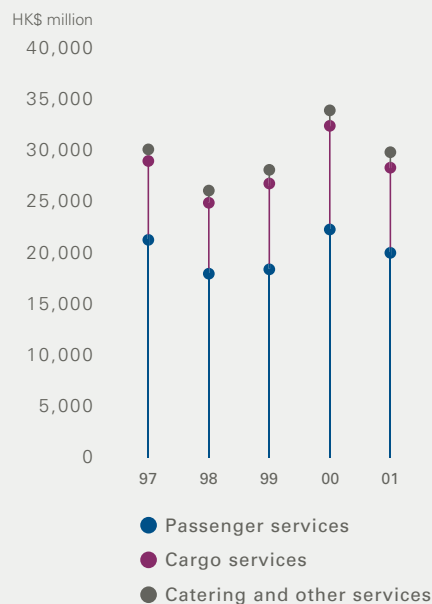
	Group		Cathay Pacific	
	2001 HK\$M	2000 HK\$M	2001 HK\$M	2000 HK\$M
Passenger services	20,580	22,878	20,580	22,878
Cargo services	8,343	10,136	7,272	8,615
Catering and other services	1,513	1,509	-	-
Turnover	30,436	34,523	27,852	31,493

- ▷ Group turnover decreased by 11.8% compared with 2000.
- ▷ Turnover of passenger services was down by 10.0% to HK\$20,580 million as a result of the reduction in both load factors and yields.
- ▷ Cathay Pacific carried 11.3 million passenger in 2001, representing a 5.0% decrease from 2000.
- ▷ Passenger traffic, measured by revenue passenger kilometres, decreased by 5.0% against a 1.4% increase in passenger seat capacity in terms of available seat kilometres. As a result, the passenger load factor decreased from 76.2% to 71.3%.
- ▷ Passenger yield decreased by 5.2% to HK\$45.7 as a result of weak demand, in particular for front-end traffic, and adverse currency movements.
- ▷ First and business class revenues showed a decrease of 16.9% whilst economy class revenue fell by 6.3%.
- ▷ Turnover from cargo services declined sharply by 17.7% to HK\$8,343 million. This reflects the weakening demand for air cargo and the resultant over-capacity.

Composition of group turnover



Group turnover



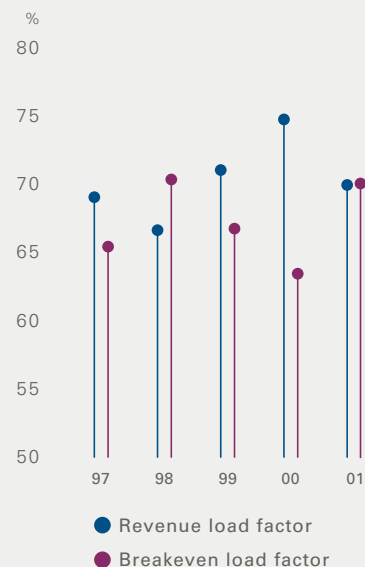
FINANCIAL REVIEW

- ▷ Cathay Pacific's cargo and mail load factor decreased by 5.2 percentage points to 67.3% as cargo and mail revenue tonne kilometres decreased by 5.4% against an increase of 2.0% in capacity. AHK Air Hong Kong's load factor also decreased by 0.6 percentage points to 73.3%.
- ▷ Cathay Pacific's turnover decreased by HK\$3,641 million because of:

	HK\$M
+1.4% Passenger capacity	297
+2.0% Cargo and mail capacity	173
-4.9%pt Passenger load factor	(1,462)
-5.2%pt Cargo and mail load factor	(635)
-5.2% Passenger yield	(1,134)
-10.6% Cargo and mail yield	(880)
	(3,641)

- ▷ Revenue load factor decreased by 4.8 percentage points to 70.4%.
- ▷ Breakeven load factor increased by 6.6 percentage points to 70.5% as yield declined.
- ▷ Cathay Pacific's turnover sensitivity is set out below:

Annual effects of:	HK\$M
+ 1 percentage point in passenger load factor	287
+ 1 percentage point in cargo and mail load factor	108
+ HK¢1 in passenger yield	448
+ HK¢1 in cargo and mail yield	39

Cathay Pacific:
passengers and cargo carriedRevenue and breakeven
load factor

FINANCIAL REVIEW

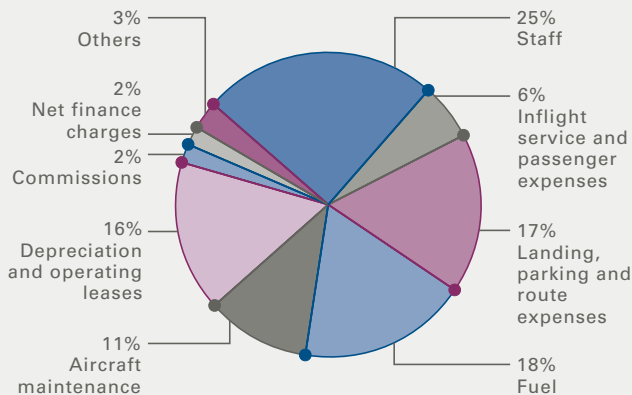
OPERATING EXPENSES

	Group			Cathay Pacific		
	2001 HK\$M	2000 HK\$M	Change	2001 HK\$M	2000 HK\$M	Change
Staff	7,629	7,482	+2.0%	6,857	6,742	+1.7%
Inflight service and passenger expenses	1,586	1,677	-5.4%	1,586	1,677	-5.4%
Landing, parking and route expenses	5,112	5,079	+0.6%	4,815	4,724	+1.9%
Fuel	5,313	5,770	-7.9%	4,985	5,319	-6.3%
Aircraft maintenance	3,234	2,920	+10.8%	3,177	2,796	+13.6%
Aircraft depreciation and operating leases	3,993	3,264	+22.3%	3,837	3,127	+22.7%
Other depreciation and operating leases	975	980	-0.5%	728	726	+0.3%
Commissions	539	719	-25.0%	534	711	-24.9%
Exchange (gain)/loss	(100)	166	-160.2%	(105)	160	-165.6%
Others	1,323	1,177	+12.4%	911	686	+32.8%
Operating expenses	29,604	29,234	+1.3%	27,325	26,668	+2.5%
Net finance charges	571	367	+55.6%	535	307	+74.3%
Total operating expenses	30,175	29,601	+1.9%	27,860	26,975	+3.3%

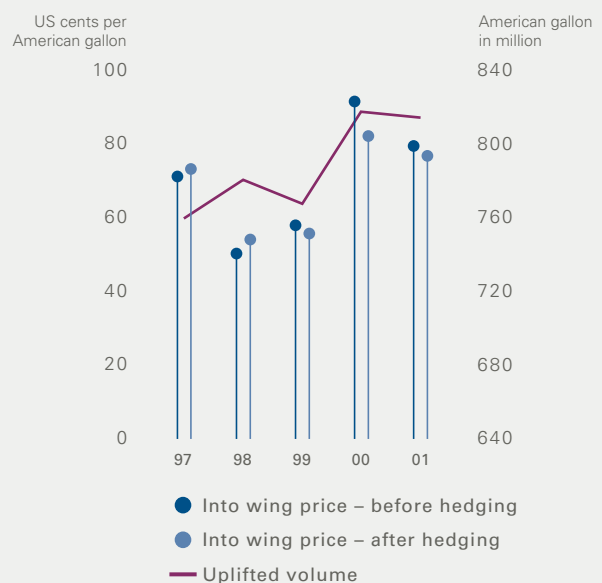
- ▷ Staff costs rose due to increased staff numbers and the end of the contribution holiday on certain pension funds.
- ▷ Inflight service and passenger expenses decreased as a result of the reduction in passenger numbers.

- ▷ Landing, parking and route expenses increased due to additional flights and higher insurance premiums; weak foreign currencies helped reduce the overall increase.
- ▷ Fuel costs decreased as a result of a 6.5% decrease in the average fuel price.

**Cathay Pacific:
total operating expenses**



**Cathay Pacific:
fuel price and consumption**



FINANCIAL REVIEW

- ▷ Aircraft maintenance costs increased primarily due to an increase in the fleet size and additional engine overhaul work.
- ▷ Aircraft depreciation and operating lease costs increased mainly due to the new aircraft deliveries and the charter costs incurred during the disruption in July 2001.
- ▷ Net finance charges increased due to higher average net borrowings resulting from aircraft acquisitions.
- ▷ Cathay Pacific's cost per ATK increased by 1.7% to HK\$2.36, whilst the cost per ATK without fuel rose by 3.8%.

ASSOCIATED COMPANIES

- ▷ The share of profits after tax of associated companies decreased by 37.6% to HK\$153 million.
- ▷ The decrease was due to lower profits of both HAECO and Dragonair, as compared with last year.

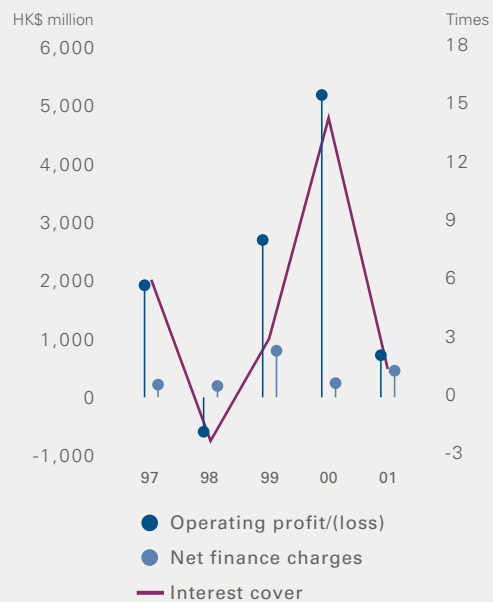
DIVIDENDS

- ▷ The total dividend for the year 2001 is HK\$582 million, representing a dividend cover of 1.1 times. Dividend per share decreased by 73.1% to HK¢17.5.

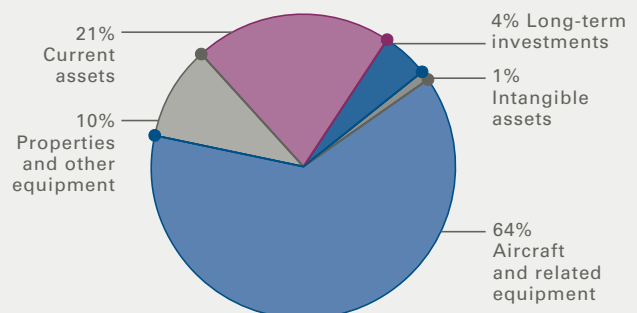
ASSETS

- ▷ Total assets as at 31st December 2001 amounted to HK\$70,408 million.
- ▷ Additions to fixed assets were HK\$7,148 million, comprising HK\$6,870 million for aircraft delivery payments and HK\$278 million for properties and other equipment.

Group interest cover



Group total assets



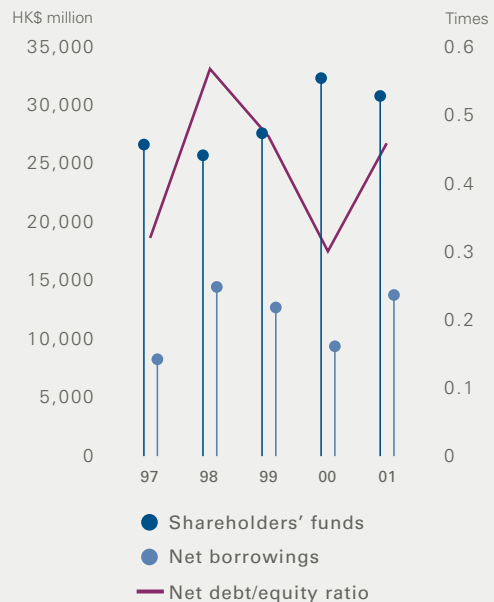
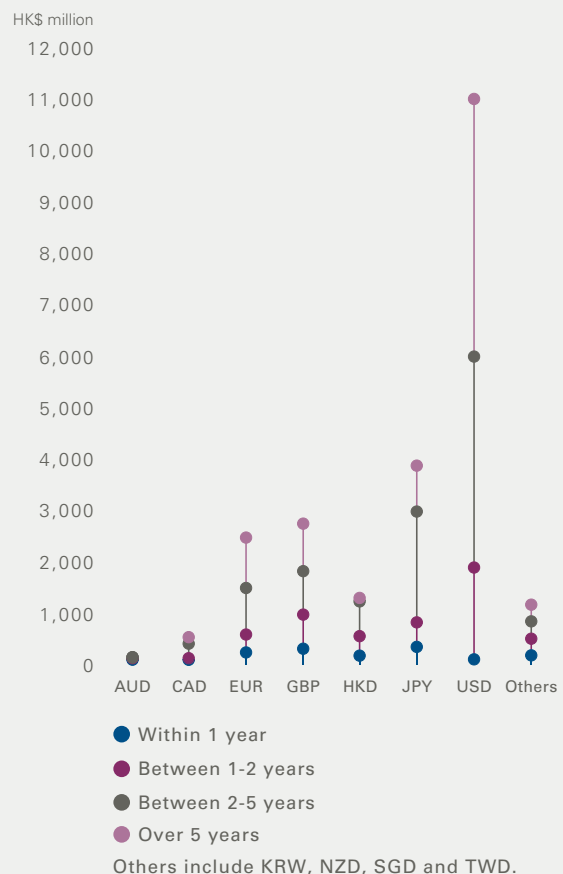
FINANCIAL REVIEW

BORROWINGS AND CAPITAL

- ▷ Borrowings increased by 15.3% to HK\$24,024 million compared with HK\$20,838 million in 2000.
- ▷ Borrowings are mainly denominated in US dollar, Japanese yen, Sterling and Euro, and are fully repayable by 2017 with 79% being at fixed rates of interest.
- ▷ Liquid funds, 83% of which are denominated in US dollar, decreased by 11.6% to HK\$9,764 million.
- ▷ Net borrowings increased by 44.4% to HK\$14,278 million.
- ▷ The Group's shareholders' funds decreased by 4.6% to HK\$31,308 million.
- ▷ Net debt/equity ratio increased from 0.30 times to 0.46 times.

FINANCIAL RISK MANAGEMENT POLICY

- ▷ In the normal course of business, the Group is exposed to fluctuations in foreign currencies, interest rates and jet fuel prices.
- ▷ These exposures are managed, sometimes with the use of derivative financial instruments, by the Treasury Department of Cathay Pacific in accordance with the Group's approved policies and parameters.
- ▷ Derivative financial instruments are used solely for financial risk management purposes and the Group does not hold or issue derivative financial instruments for trading purposes.
- ▷ Derivative financial instruments which constitute a hedge do not expose the Group to market risk since any change in their market value will be offset by a compensating change in the

Group net debt and equity**Group maturity profile by currency: borrowings**

FINANCIAL REVIEW

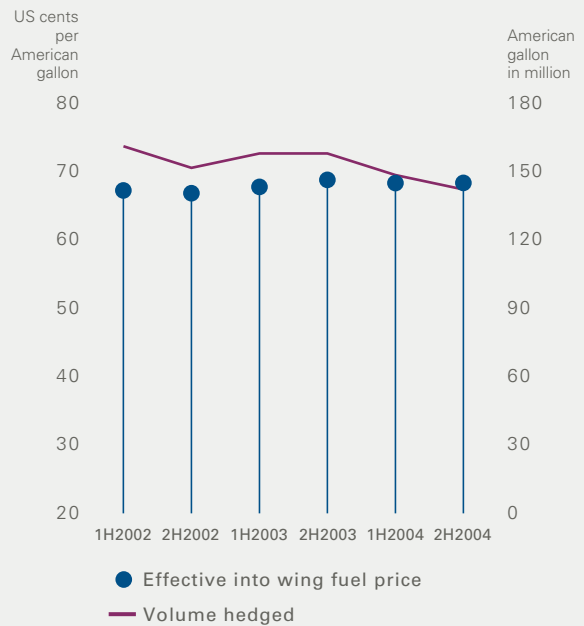
market value of the asset, liability or transaction being hedged.

- ▷ Exposure to foreign currencies, interest rates and jet fuel price movements are regularly reviewed and positions are amended in compliance with internal guidelines and limits.
- ▷ To manage credit risk, transactions are only carried out with financial institutions of high repute and all counterparties are subject to prescribed trading limits which are regularly reviewed. Risk exposures are monitored regularly by reference to market values.

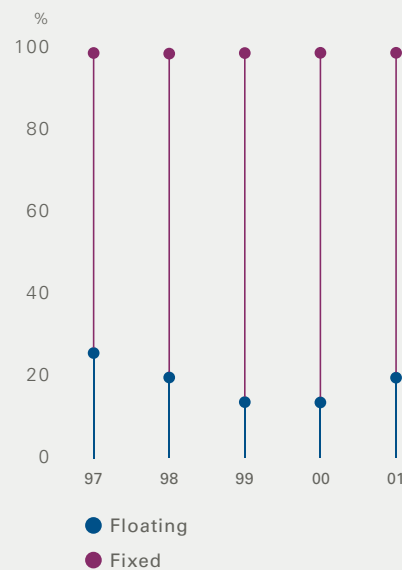
MANAGEMENT OF CURRENCY AND INTEREST RATE EXPOSURES

- ▷ As an international airline, the Group's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange fluctuations.
- ▷ To manage this exposure assets are, where possible, financed in those foreign currencies in which net operating surpluses are anticipated, thus establishing a natural hedge. In addition, the Group uses currency derivatives to reduce anticipated foreign currency surpluses.
- ▷ The use of foreign currency borrowings and currency derivatives to hedge future operating revenues is a key component of the financial risk management process, as exchange differences realised on the repayment of financial commitments are effectively matched by the change in value of the foreign currency earnings used to make those repayments.
- ▷ Derivative financial instruments are used to manage the interest rate profile of the foreign currency commitments.

Cathay Pacific: fuel hedging



Group interest rate profile: borrowings



FINANCIAL REVIEW

VALUE ADDED

The following table summarises the distribution of the Group's value added in 2000 and 2001.

	2001 HK\$M	2000 HK\$M
Total revenue	30,436	34,523
Less: Purchases of goods and services	(17,716)	(17,429)
Other costs	(435)	(804)
Value added by the Group	12,285	16,290
Add: Income from unlisted investments	64	42
Surplus on sales of investments	452	–
Share of profits of associated companies	153	245
Total value added available for distribution	12,954	16,577
Applied as follows:		
To employees		
– Salaries and other staff costs	7,629	7,482
To government		
– Corporation taxes	171	199
To providers of capital		
– Dividends	1,915	1,585
– Minority interests	42	86
– Net finance charges	571	367
Retained for re-investment and future growth		
– Depreciation	3,884	3,438
– Retained (loss)/profit for the year	(1,258)	3,420
Total value added	12,954	16,577

▷ The Group value added reduced by HK\$3,623 million mainly due to the decrease in revenue.

▷ Salaries and other staff costs grew by HK\$147 million to HK\$7,629 million.

▷ Dividends paid increased by HK\$330 million while the amount retained for re-investment and future growth fell by HK\$4,232 million.