

CATHAY PACIFIC AIRWAYS LIMITED



INTERIM REPORT 2002



Contents

Financial and Operating Highlights	2
Chairman's Letter	3
2002 Interim Review	4
Review of Operations	7
Financial Review	9
Condensed Financial Statements	11
Information Provided in Accordance with the Listing Rules	23

Corporate Information

Cathay Pacific Airways Limited is incorporated in Hong Kong with limited liability.

Investor relations

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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 within the region. In addition, Hong Kong Dragon Airlines Limited operates passenger services to 28 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

2

Cathay
Pacific
Airways
Limited
INTERIM
REPORT
2002

Group Financial Statistics		2002	2001	Change
Results		Six months ended 30th June		
Turnover	<i>HK\$ million</i>	15,511	15,843	-2.1%
Profit attributable to shareholders	<i>HK\$ million</i>	1,412	1,319	+7.1%
Earnings per share	<i>HK cents</i>	42.4	39.6	+7.1%
Dividend per share	<i>HK cents</i>	16.0	12.5	+28.0%
Profit margin	%	9.1	8.3	+0.8%pt
Balance Sheet		30th June	31st December	
Shareholders' funds	<i>HK\$ million</i>	30,822	31,308	-1.6%
Net borrowings	<i>HK\$ million</i>	13,502	14,278	-5.4%
Net debt/equity ratio	<i>Times</i>	0.44	0.46	-0.02 times
Operating Statistics – Cathay Pacific		Six months ended 30th June		
Available tonne kilometres ("ATK")	<i>Million</i>	5,750	5,936	-3.1%
Passenger load factor	%	78.1	71.9	+6.2%pt
Passenger yield	<i>HK cents</i>	45.4	47.3	-4.0%
Cargo and mail load factor	%	70.2	65.1	+5.1%pt
Cargo and mail yield	<i>HK\$</i>	1.83	1.89	-3.2%
Cost per ATK	<i>HK\$</i>	2.26	2.32	-2.6%
Cost per ATK without fuel	<i>HK\$</i>	1.90	1.89	+0.5%
Aircraft utilisation	<i>Hours per day</i>	11.8	12.7	-7.1%
On-time performance	%	90.7	84.8	+5.9%pt

All definitions are the same as those used in the 2001 annual report.

The Cathay Pacific Group made a profit attributable to shareholders of HK\$1,412 million during the first six months of 2002. This was an encouraging improvement from the loss of HK\$662 million recorded in the second half of 2001. Turnover was HK\$15,511 million representing an increase of 6.3% over the second half of 2001.

The result reflects a steady recovery in market conditions. With more people travelling, previously grounded capacity is being returned to the sky to restore services which were temporarily suspended following the terrorist attacks in the United States. We have also added new services to our schedule; these include a fifth daily flight to Tokyo and four more flights to London, which is now served by eighteen flights each week.

Although total load factors during the period were high, demand for business travel remained relatively weak. As a result, passenger yield in the first half of 2002 declined to HK45.4 cents from HK47.3 cents in the same period of 2001.

Cargo services have rebounded as a revival in the US manufacturing sector earlier this year has stimulated a strong growth in exports from Hong Kong. Weaker cargo yields have been compensated by an increase in tonnage. A new air services agreement with Italy has given us the opportunity to launch cargo services to Milan.

We have acquired the outstanding 25% stake in AHK Air Hong Kong Limited to make the all cargo carrier a wholly owned Cathay Pacific subsidiary. This has enabled us to integrate more closely our two cargo operations and deploy our longer range Boeing 747-400 freighter aircraft more effectively.

We have also placed firm orders to purchase three new Airbus 330-300 and three Boeing 777-300 regional aircraft for delivery in late 2003 and early 2004. In order to operate these, and the three Airbus 340-600 aircraft ordered earlier, we have announced plans to hire a further 1,300 Hong Kong based staff over the next two years, thus confirming again our confidence in Hong Kong's role as Asia's leading aviation hub.

We have continued to invest in our product, and have now passed the halfway mark in the process of equipping our long haul fleet with the new Business Class cabin. A programme to upgrade our Economy Class cabins will be completed by the end of the year.

Subject to unforeseen circumstances we anticipate continued demand in the coming months and an improved result in the traditionally stronger second half.

James Hughes-Hallett

Chairman

Hong Kong, 7th August 2002

During one of the most difficult periods in aviation industry history we preserved jobs and maintained the integrity of our network. We now plan to resume our long term growth and will be acquiring new aircraft, improving our product, strengthening our network and creating jobs for Hong Kong.

Our product continues to improve

- We have passed the halfway mark in installing the new Business Class cabin on our long haul fleet.
- An upgrade of our Economy Class cabin will be completed by the end of this year.
- A new Business Class lounge was opened in April in Taipei. It is the third overseas lounge created on the same theme as our premium lounges at Hong Kong International Airport. New generation lounges have also been opened in Bangkok and Seoul.
- A poll of more than four million travellers conducted by UK based consulting firm Skytrax voted us Best Airline Trans-Pacific and ranked us as the number two airline in the world.
- The **oneworld** Governing Board met in Hong Kong in June and announced the biggest corporate sales deal ever made by an airline alliance – with a leading US based IT multinational for its global air travel worth US\$40 million a year – and an initiative to deepen co-operation on cargo services.

Our expanding network

- Our codeshare with **oneworld** partner British Airways was extended to 11 more destinations in Europe and expanded to include our services to Auckland and Kuala Lumpur.

- A fifth daily flight to Tokyo and a four times weekly daylight service to London were added to our schedule.
- A twice weekly freighter service to Milan commenced in August.
- Our operations with AHK Air Hong Kong Limited (“AHK”) were restructured in July to enhance efficiency and enable AHK to focus on serving the Asian region. As a result, Brussels, Manchester and Dubai were added to Cathay Pacific’s freighter network.

Our growing fleet

- There are currently 77 aircraft in our fleet, including 66 passenger aircraft and 11 freighters.
- We ordered six new aircraft to join our regional fleet; three A330-300 and three B777-300 aircraft, all powered by Rolls-Royce engines, will be delivered between late 2003 and early 2004.
- Two of the previously ordered long haul A340-600 aircraft will be delivered later this year. Cathay Pacific will be the first airline in Asia to operate this brand new aircraft type, which will be deployed on ultra long haul routes to North America.
- These new aircraft orders and deliveries will help maintain our edge in operating one of the world’s most modern and efficient fleets.
- Two B747-200 freighters leased to AHK were returned to our cargo fleet after the all cargo carrier became a wholly owned subsidiary of Cathay Pacific. This increased our freighter fleet to 11 aircraft.
- As market demand picks up, all parked passenger aircraft and one parked freighter are being returned to service.

Fleet profile

Aircraft type	Number as at 30th June 2002			Total	Firm orders				Expiry of operating leases			Options
	Owned	Leased			'02	'03	'04	Total	'06	'07	'08	
Aircraft operated by Cathay Pacific :												
B747-400	2	15	2	19						1	1	
B747-200F	4			4								
B747-400F	1	4		5								
B777-200	1	4		5								
B777-300		7		7		2	1	3				3 ^(a)
A330-300	1	19		20		3		3				
A340-300		11	4	15						4		
A340-600					2	1		3 ^(b)				
Total	9	60	6	75	2	6	1	9	4	1	1	3
Aircraft not operated by Cathay Pacific :												
B747-300	6			6 ^(c)								
B747-200F		3		3 ^(d)								
Total	6	3		9								

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

(b) Aircraft will be on five year operating leases.

(c) One aircraft was not leased out as at 30th June 2002.

(d) Two aircraft were returned from AHK in July 2002.

The people who build our business

- We already employ more than 14,300 staff in 30 countries including more than 10,400 in Hong Kong.
- As we increase our capacity, we will create some 1,300 new jobs based in Hong Kong in the next two years.
- We will recruit 200 cabin crew this year and 800 more in the following two years. Between now and December 2003 we will take on 235 new pilots from both our Hong Kong cadet training

programme and from overseas. Another 60 jobs will be created this year for ground and office staff.

- The first batch of staff graduated from our two year engineering programme in Perth, Scotland and will become fully licensed after a period of on-the-job training at their home ports of Jakarta, Denpasar, Taipei, Bangkok and Tokyo.
- Cathay Pacific frequently reviews its remuneration policy in conjunction with the local legislation, industry practices, market environment and both individual and company performances.

The importance of new technology

- Ultramain, which will track and predict maintenance requirements and costs for our aircraft and components, began roll out in Hong Kong.
- CXeBuy, our e-Business initiative to implement a centralised online purchasing system, was introduced in Australia – the first location outside Hong Kong – in an important step to build the system into a global network.
- PeopleCX, our online human resources management system, was launched in the second quarter and enables staff to manage their personal information, improves processing efficiency and creates a self-service culture within the Company.
- The iPermit scheme, which enables Taiwan residents to apply for dual entry Hong Kong visas on the Internet and collect them upon arrival in Hong Kong, was inaugurated in April.

A continuous history of supporting the Hong Kong community

- Winners in the “Cathay Pacific – The World’s Biggest Welcome” campaign arrived in Hong Kong between April and July. More than 140 companies, representing all sectors of the Hong Kong tourism industry, supported the campaign by offering giveaways worth more than HK\$10 million.
- For the fourth year running, we were the title sponsor of the International Chinese New Year Parade – the focus of Hong Kong’s celebrations to greet the Year of the Horse.

- “Asia’s World City”, a B747-400 aircraft painted with Hong Kong’s new dragon logo, was unveiled on 4th July. The livery depicts a powerful and energetic dragon, the spirit of Hong Kong and its people, soaring above shades of Cathay Pacific green.

Environment

- Regular energy audits and close monitoring of the computerised building management system have improved the energy efficiency of lighting and air-conditioning systems in Cathay City.
- Contractors and cleaners are required to use water-based agents and green cleaning products inside Cathay City.
- A comprehensive programme to sort and recycle paper materials such as newspapers, magazines and inflight menu cards has been implemented on inbound flights.

Passenger services

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

	ASK (million)			Load factor (%)			Yield
	2002	2001	Change	2002	2001	Change	Change
North Asia	5,346	5,071	+5.4%	68.8	72.8	-4.0%pt	-6.2%
South East Asia and Middle East	6,684	6,971	-4.1%	72.5	65.1	+7.4%pt	-8.1%
Europe	6,386	7,230	-11.7%	84.6	76.2	+8.4%pt	-3.6%
Pacific and South Africa	11,121	13,147	-15.4%	82.3	72.7	+9.6%pt	-0.8%
Overall	29,537	32,419	-8.9%	78.1	71.9	+6.2%pt	-4.0%

- Passenger revenue fell by HK\$542 million during the first six months of this year. Capacity reduced by 8.9% as a result of temporarily parking passenger aircraft.
- Load factor increased by 6.2 percentage points to 78.1%, while yield decreased to HK45.4 cents due to the impact of weak regional currencies and less front-end traffic.
- Revenue per ASK grew by 4.4% to HK35.7 cents.
- Front-end revenue declined by 8.5%.
- Long haul routes to London, Los Angeles, New York, Sydney, Auckland and Johannesburg performed relatively well.
- The performance of our North Asian routes was adversely affected by weak local currencies.
- The new services to Delhi, Riyadh and Sapporo performed satisfactorily.

Cargo services

	ATK (million)			Load factor (%)			Yield
	2002	2001	Change	2002	2001	Change	Change
Cathay Pacific	2,940	2,852	+3.1%	70.2	65.1	+5.1%pt	-3.2%
AHK Air Hong Kong	510	478	+6.7%	72.0	72.0	-	-12.7%

Cathay Pacific Airways Limited

- Cargo revenue grew by HK\$253 million in the first six months of this year.
- Cargo growth was fuelled by an increase in demand from the United States.
- Cargo load factor increased by 5.1 percentage points to 70.2%, while yield decreased to HK\$1.83 per revenue tonne kilometre.
- Cathay Pacific in February made AHK a wholly owned subsidiary by acquiring the 25% stake held by a subsidiary of ShunTak Holdings Limited, in a transaction worth HK\$194 million.

AHK Air Hong Kong Limited ("AHK")

- The interim performance of the company improved as a result of a recovery in exports from Hong Kong to Europe.
- During the first six months, load factor remained at 72.0% whilst the capacity in terms of ATKs increased by 6.7%. Yield decreased by 12.7%.
- In July, the company launched a five times weekly freighter service to Tokyo.
- After the restructuring of the Group's freighter network in July, AHK continues to operate cargo services to Japan and Korea.

Review of affiliated businesses and associated companies**Hong Kong Dragon Airlines Limited ("Dragonair")**

- Dragonair recorded a reduced interim profit due to lower passenger and cargo yields and increased operating costs arising from the introduction of additional capacity.
- During the first six months, one A320, one A321 and one A330 joined the fleet. These new aircraft were deployed on additional frequencies to major destinations in Mainland China.
- At the end of June the airline was operating a fleet of 22 aircraft.
- Dragonair will take delivery of one A330 and one B747-300 freighter in the second half of the year.

Airline services

- Hong Kong Aircraft Engineering Company Limited ("HAECO") recorded an interim profit of HK\$240 million, representing an 37% increase over 2001.
- HAECO's revenue benefited from an increase in the number of flights handled and from a higher base maintenance workload. This was partly offset by a reduction in the component overhaul workload.
- The contribution from HAECO's joint venture companies was satisfactory being at a similar level to the previous year.
- Hong Kong Airport Services Limited reported a marginally higher interim profit despite the competitive pressure.

Airline catering

- Cathay Pacific Catering Services (H.K.) Limited reported a higher interim profit in the first six months.
- The overseas flight kitchens recorded lower interim profits compared to last year.

Turnover

	Group		Cathay Pacific	
	Six months ended 30th June		Six months ended 30th June	
	2002 HK\$M	2001 HK\$M	2002 HK\$M	2001 HK\$M
Passenger services	10,550	11,092	10,550	11,092
Cargo services	4,225	4,005	3,768	3,515
Catering and other services	736	746	–	–
Turnover	15,511	15,843	14,318	14,607

- Passenger turnover decreased by 4.9% mainly due to lower passenger yield as a result of reduced front-end traffic and weak North Asian currencies.
- The Company's cargo turnover increased by 7.2% with a reduction in yield being offset by an increase in tonnage.

Operating expenses

	Group			Cathay Pacific		
	Six months ended 30th June			Six months ended 30th June		
	2002 HK\$M	2001 HK\$M	Change	2002 HK\$M	2001 HK\$M	Change
Staff	3,810	3,989	-4.5%	3,420	3,605	-5.1%
Inflight service and passenger expenses	695	832	-16.5%	695	832	-16.5%
Landing, parking and route expenses	2,297	2,483	-7.5%	2,195	2,362	-7.1%
Fuel	2,197	2,754	-20.2%	2,063	2,592	-20.4%
Aircraft maintenance	1,589	1,664	-4.5%	1,510	1,592	-5.2%
Aircraft depreciation and operating leases	1,801	1,607	+12.1%	1,731	1,534	+12.8%
Other depreciation and operating leases	516	480	+7.5%	388	353	+9.9%
Commissions	247	315	-21.6%	246	312	-21.2%
Exchange gain	(85)	(10)	+750.0%	(81)	(13)	+523.1%
Others	608	689	-11.8%	402	478	-15.9%
Operating expenses	13,675	14,803	-7.6%	12,569	13,647	-7.9%
Net finance charges	456	168	+171.4%	444	146	+204.1%
Total operating expenses	14,131	14,971	-5.6%	13,013	13,793	-5.7%

- Staff costs decreased primarily as a result of lower staff numbers.
- Landing, parking and route expenses decreased due to the reduction in capacity.
- Inflight service and passenger expenses decreased due to the impact of weak currencies and cost control initiatives.
- Fuel costs decreased due to lower average fuel prices and lower consumption arising from the reduction in capacity.

- The decrease in aircraft maintenance was due to less engine overhaul work.
- Aircraft depreciation and operating lease charges increased as a result of the new aircraft deliveries in 2001.
- The net finance charges increased due to higher average borrowings resulting from the aircraft acquisitions in 2001 and lower returns from short-term funds.
- Liquid funds, 83% of which are denominated in US dollars, increased by 20.1% to HK\$11,726 million.
- Net borrowings decreased by 5.4% to HK\$13,502 million.
- The Group's shareholders' funds decreased by 1.6% to HK\$30,822 million.
- Net debt/equity ratio decreased to 0.44 times.
- Borrowings, which are fully repayable by 2017, are mainly denominated in US dollars, Japanese yen, Sterling, and Euro with 72% being on fixed rates of interest.
- The Group's policy on financial risk management and the management of currency and interest rate exposures is set out in the 2001 annual report.

Financial position

- Additions to fixed assets were HK\$1,955 million, comprising HK\$1,906 million for aircraft related equipment and HK\$49 million for other equipment and properties.
- Borrowings increased by 4.9% to HK\$25,208 million.

CONDENSED FINANCIAL STATEMENTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

11

Cathay Pacific Airways Limited INTERIM REPORT 2002

	Note	2002 HK\$M	2001 HK\$M	2002 US\$M	2001 US\$M
Turnover					
Passenger services		10,550	11,092	1,352	1,422
Cargo services		4,225	4,005	542	513
Catering and other services		736	746	94	96
Total turnover	2	15,511	15,843	1,988	2,031
Expenses					
Staff		(3,810)	(3,989)	(488)	(512)
Route		(2,992)	(3,315)	(383)	(425)
Fuel		(2,197)	(2,754)	(282)	(353)
Aircraft maintenance		(1,589)	(1,664)	(204)	(213)
Depreciation and operating leases		(2,317)	(2,087)	(297)	(268)
Commissions		(247)	(315)	(32)	(40)
Others		(523)	(679)	(67)	(87)
Operating expenses		(13,675)	(14,803)	(1,753)	(1,898)
Operating profit	3	1,836	1,040	235	133
Finance charges		(1,264)	(1,276)	(162)	(163)
Finance income		808	1,108	104	142
Net finance charges	4	(456)	(168)	(58)	(21)
Profit on sale of investments	5	–	452	–	58
Share of profits of associated companies		141	127	18	16
Profit before taxation		1,521	1,451	195	186
Taxation	6	(102)	(124)	(13)	(16)
Profit after taxation		1,419	1,327	182	170
Minority interests		(7)	(8)	(1)	(1)
Profit attributable to shareholders		1,412	1,319	181	169
Dividends					
Interim proposed	15	533	416	68	53
Earnings per share					
Basic	7	42.4¢	39.6¢	5.4¢	5.1¢
Diluted	7	42.1¢	39.3¢	5.4¢	5.0¢
Dividend per share	15	16.0¢	12.5¢	2.1¢	1.6¢

The US\$ figures are for information only and are translated at HK\$7.8.

CONSOLIDATED BALANCE SHEET – UNAUDITED

12

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Pacific
Airways
Limited
INTERIM
REPORT
2002

	Note	30th June	(Audited) 31st December	30th June	(Audited) 31st December
		2002 HK\$M	2001 HK\$M	2002 US\$M	2001 US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	8	51,672	51,660	6,625	6,623
Intangible assets	9	612	454	78	58
Investments in associated companies		1,678	1,590	215	204
Other long-term receivables and investments		1,890	1,575	242	202
		55,852	55,279	7,160	7,087
Long-term liabilities		(40,314)	(39,208)	(5,169)	(5,027)
Related pledged security deposits		17,588	17,194	2,255	2,205
Net long-term liabilities	10	(22,726)	(22,014)	(2,914)	(2,822)
Retirement benefit obligations	11	(447)	–	(57)	–
Deferred taxation		(7,879)	(7,836)	(1,010)	(1,005)
		(31,052)	(29,850)	(3,981)	(3,827)
Net non-current assets		24,800	25,429	3,179	3,260
Current assets and liabilities					
Stock		568	587	73	75
Trade and other receivables	12	4,324	4,778	554	613
Liquid funds		11,726	9,764	1,503	1,252
		16,618	15,129	2,130	1,940
Current portion of long-term liabilities		(3,367)	(3,241)	(431)	(416)
Related pledged security deposits		885	1,231	113	158
Net current portion of long-term liabilities	10	(2,482)	(2,010)	(318)	(258)
Trade and other payables	13	(5,132)	(4,556)	(658)	(584)
Unearned transportation revenue		(2,320)	(1,965)	(297)	(252)
Taxation		(620)	(626)	(80)	(80)
		(10,554)	(9,157)	(1,353)	(1,174)
Net current assets		6,064	5,972	777	766
Total assets less current and non-current liabilities		30,864	31,401	3,956	4,026
Minority interests		(42)	(93)	(5)	(12)
Net assets		30,822	31,308	3,951	4,014
CAPITAL AND RESERVES					
Share capital	14	667	666	85	85
Reserves		30,155	30,642	3,866	3,929
Shareholders' funds		30,822	31,308	3,951	4,014

The US\$ figures are for information only and are translated at HK\$7.8.

CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

13

Cathay
Pacific
Airways
Limited
INTERIM
REPORT
2002

Note	2002 HK\$M	2001 HK\$M	2002 US\$M	2001 US\$M
Operating activities				
Cash generated from operations	4,451	2,833	571	363
Interest received	46	84	6	11
Net interest paid	(518)	(601)	(66)	(77)
Tax paid	(106)	(112)	(14)	(14)
Dividends received from associated companies	51	35	6	4
Net cash inflow from operating activities	3,924	2,239	503	287
Investing activities				
Sales of fixed assets	18	11	2	1
Payments for fixed and intangible assets	(2,012)	(2,938)	(258)	(376)
Net decrease/(increase) in other long term receivables and investments	77	(2)	10	–
Receipts from disposal of an associated company	5	–	1	–
Net (increase)/decrease in liquid funds other than cash and cash equivalents	(2,397)	339	(307)	43
Purchase of minority interest in a subsidiary company	(194)	–	(25)	–
Repayment of loans from associated companies	2	3	–	–
Net cash outflow from investing activities	(4,501)	(2,587)	(577)	(332)
Financing				
New financing	1,906	3,867	244	495
Security deposits placed	(409)	(1,238)	(52)	(158)
Loan and finance lease repayments	(1,409)	(928)	(181)	(119)
Net cash benefit from financing arrangements	–	250	–	32
Shares repurchased and issued	34	(259)	4	(33)
Dividends paid – to shareholders	(167)	(1,499)	(21)	(192)
– to minority interests	(28)	(36)	(3)	(4)
Net cash (outflow)/inflow from financing	(73)	157	(9)	21
Decrease in cash and cash equivalents	(650)	(191)	(83)	(24)
Cash and cash equivalents at 1st January	2,601	1,187	333	152
Effect of exchange differences	87	(9)	11	(1)
Cash and cash equivalents at 30th June	2,038	987	261	127

The US\$ figures are for information only and are translated at HK\$7.8.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

14

Cathay
Pacific
Airways
Limited
INTERIM
REPORT
2002

	Share capital HK\$M	Retained profit HK\$M	Non-distributable				Cash flow hedge reserve HK\$M	Total HK\$M
			Share premium HK\$M	Capital redemption reserve HK\$M	Investment revaluation reserve HK\$M	Other reserves HK\$M		
At 1st January 2002	666	20,541	7,162	21	306	13	2,599	31,308
Prior period adjustment for retirement benefits	-	(573)	-	-	-	-	-	(573)
As restated	666	19,968	7,162	21	306	13	2,599	30,735
Exchange differences on cash flow hedges								
– recognised during the period	-	-	-	-	-	-	(1,155)	(1,155)
– transferred to profit for the period	-	-	-	-	-	-	(434)	(434)
Revaluation surpluses recognised during the period	-	-	-	-	405	-	-	405
Exchange differences	-	-	-	-	-	(8)	-	(8)
Net losses not recognised in the profit and loss account	-	-	-	-	405	(8)	(1,589)	(1,192)
Profit attributable to shareholders	-	1,412	-	-	-	-	-	1,412
Dividends paid (note 15)	-	(167)	-	-	-	-	-	(167)
Share options exercised								
– premium received	-	-	33	-	-	-	-	33
– share capital issued	1	-	-	-	-	-	-	1
At 30th June 2002	667	21,213	7,195	21	711	5	1,010	30,822

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED (CONTINUED)
FOR THE SIX MONTHS ENDED 30TH JUNE 2001

15

Cathay Pacific Airways Limited
 INTERIM REPORT 2002

	Share capital HK\$M	Retained profit HK\$M	Non-distributable				Cash flow hedge reserve HK\$M	Total HK\$M
			Share premium HK\$M	Capital redemption reserve HK\$M	Investment revaluation reserve HK\$M	Other reserves HK\$M		
At 1st January 2001	670	22,059	7,161	17	984	26	1,915	32,832
Exchange differences on cash flow hedges								
– recognised during the period	–	–	–	–	–	–	1,040	1,040
– transferred to profit for the period	–	–	–	–	–	–	(174)	(174)
Revaluation surpluses								
– recognised during the period	–	–	–	–	7	–	–	7
– transferred to profit for the period on disposal	–	–	–	–	(452)	–	–	(452)
Exchange differences	–	–	–	–	–	(1)	–	(1)
Net gains not recognised in the profit and loss account	–	–	–	–	(445)	(1)	866	420
Profit attributable to shareholders	–	1,319	–	–	–	–	–	1,319
Dividends paid (note 15)	–	(1,499)	–	–	–	–	–	(1,499)
Purchase of Company's shares								
– premium paid on purchase	–	(256)	–	–	–	–	–	(256)
– transfer between reserves	–	(4)	–	4	–	–	–	–
– share capital repurchased	(4)	–	–	–	–	–	–	(4)
Premium received from share options exercised	–	–	1	–	–	–	–	1
At 30th June 2001	666	21,619	7,162	21	539	25	2,781	32,813

1. Basis of preparation and accounting policies

The unaudited interim report has been prepared on a basis consistent with the principal accounting policies adopted in the 2001 annual report except for the accounting policy on retirement benefits. In prior years, the cost of defined benefit retirement plans was based upon funding recommendations using a prospective actuarial valuation. With the introduction of HK SSAP 34 "Employee benefits", the retirement benefit obligation less the fair value of plan assets is now recognised. The obligation is calculated by estimating the present value of the expected future payments required to settle the benefit that employees have earned using the projected unit credit method. The retained profit brought forward from 2001 has been reduced by HK\$573 million being the recognition of the net defined benefit retirement obligations. Comparative figures have not been restated.

Principal accounting policy 4 in the 2001 annual report gives an explanation of the policy in respect of foreign exchange translation which does not comply with HK SSAP 11 "Foreign currency translation".

The interim report has been prepared in accordance with HK SSAP 25 "Interim financial reporting" and the disclosure requirements of the Listing Rules (Main Board) of The Stock Exchange of Hong Kong Limited ("The Stock Exchange").

2. Turnover

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

Turnover by origin of sales :	Six months ended 30th June	
	2002 HK\$M	2001 HK\$M
North Asia		
– Hong Kong and Mainland China	5,868	5,566
– Japan, Korea and Taiwan	3,281	3,610
South East Asia and Middle East	1,931	2,017
Europe	1,788	1,843
Pacific and South Africa	2,643	2,807
	15,511	15,843

Countries included in each region are defined in the 2001 annual report. Geographical analysis of segment results, segment assets and segment liabilities are not disclosed for the reasons set out in the 2001 annual report.

3. Operating profit

	Six months ended 30th June	
	2002 HK\$M	2001 HK\$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– Leased	1,122	977
– Owned	781	641
Amortisation of intangible assets	63	54
Operating lease rentals		
– Land and buildings	181	165
– Aircraft and related equipment	211	308
– Others	19	20
Operating lease income		
– Aircraft and related equipment	(60)	(78)
Cost of stock expensed	553	712
Exchange differences	(85)	(10)
Auditors' remuneration	3	3
Income from unlisted investments	(50)	(14)

4. Net finance charges

	Six months ended 30th June	
	2002 HK\$M	2001 HK\$M
Net interest charges :		
– Obligations under finance leases	1,196	1,163
– Interest income on related security deposits, notes and bonds	(637)	(690)
	559	473
– Bank loans and overdrafts	58	97
– Interest income on related security deposits	(6)	(10)
	52	87
– Other loans and bonds wholly repayable within five years	–	4
– Other loans not wholly repayable within five years	10	12
	621	576
Income from liquid funds :		
– Funds with investment managers	(96)	(229)
– Bank deposits and investments	(69)	(179)
	(165)	(408)
	456	168

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

5. Profit on sale of investments

The profit on sale of investments in 2001 represented the gain from the disposal of the Group's indirect interest in Equant N.V. in exchange for an indirect interest in France Telecom S.A.

6. Taxation

The taxation charge comprises:	Six months ended 30th June	
	2002 HK\$M	2001 HK\$M
The Company and its subsidiary companies		
– Hong Kong profits tax	16	14
– Overseas taxation	59	66
– Deferred taxation	26	37
– Over provision for prior years	(22)	(10)
Share of associated companies' taxation	23	17
	102	124

Hong Kong profits tax is calculated at 16% (2001: 16%) on the estimated assessable profits for the period. Overseas taxation is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations.

7. Earnings per share

Basic earnings per share and diluted earnings per share are calculated by dividing the profit attributable to shareholders of HK\$1,412 million (2001: HK\$1,319 million) by the daily weighted average number of shares in issue throughout the period of 3,332 million (2001: 3,332 million) shares and 3,357 million (2001: 3,356 million) shares respectively with the latter adjusted for the effects of the stock options.

	2002 million	2001 million
Weighted average number of ordinary shares used in calculating basic earnings per share	3,332	3,332
Deemed issue of ordinary shares for no consideration	25	24
Weighted average number of ordinary shares used in calculating diluted earnings per share	3,357	3,356

8. Fixed assets

	Aircraft and related equipment HK\$M	Other equipment HK\$M	Properties HK\$M	Total HK\$M
Cost				
At 1st January 2002	64,808	3,202	6,470	74,480
Exchange differences	–	–	2	2
Additions	1,906	45	4	1,955
Disposals	(105)	(264)	–	(369)
At 30th June 2002	66,609	2,983	6,476	76,068
Accumulated depreciation				
At 1st January 2002	20,168	1,789	863	22,820
Charge for the period	1,650	121	132	1,903
Disposals	(63)	(264)	–	(327)
At 30th June 2002	21,755	1,646	995	24,396
Net book value				
At 30th June 2002	44,854	1,337	5,481	51,672
At 1st January 2002	44,640	1,413	5,607	51,660

Fixed assets at 30th June 2002 include leased assets of HK\$35,223 million (31st December 2001: HK\$35,917 million).

9. Intangible assets

	Goodwill HK\$M	Computer systems HK\$M	Total HK\$M
Cost			
At 1st January 2002	312	559	871
Additions	164	57	221
At 30th June 2002	476	616	1,092
Accumulated amortisation			
At 1st January 2002	153	264	417
Charge for the period	12	51	63
At 30th June 2002	165	315	480
Net book value			
At 30th June 2002	311	301	612
At 1st January 2002	159	295	454

10. Long-term liabilities

	(Unaudited) 30th June 2002		(Audited) 31st December 2001	
	Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Long-term loans and other liabilities	686	3,585	628	3,268
Obligations under finance leases	1,796	19,141	1,382	18,746
	2,482	22,726	2,010	22,014

11. Retirement benefit obligations

	(Unaudited) 30th June 2002 HK\$M	(Audited) 31st December 2001 HK\$M
Net liabilities recognised in the balance sheet:		
Present value of funded obligations	5,042	–
Fair value of plan assets	(4,595)	–
Net liabilities	447	–

12. Trade and other receivables

	(Unaudited) 30th June 2002 HK\$M	(Audited) 31st December 2001 HK\$M
Trade debtors	2,397	2,518
Other receivables and prepayments	1,915	2,250
Due from associated companies	10	9
Due from other related companies	2	1
	4,324	4,778

	(Unaudited) 30th June 2002 HK\$M	(Audited) 31st December 2001 HK\$M
Analysis of trade debtors by age:		
Current	2,277	2,336
One to three months overdue	71	116
More than three months overdue	49	66
	2,397	2,518

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

13. Trade and other payables

	(Unaudited) 30th June 2002 HK\$M	(Audited) 31st December 2001 HK\$M
Trade creditors	1,671	1,617
Other payables	3,036	2,657
Due to associated companies	197	145
Due to other related companies	208	119
Bank overdrafts – unsecured	20	18
	5,132	4,556

	(Unaudited) 30th June 2002 HK\$M	(Audited) 31st December 2001 HK\$M
Analysis of trade creditors by age:		
Current	1,108	1,068
One to three months overdue	445	397
More than three months overdue	118	152
	1,671	1,617

14. Share capital

During the period under review, the Group did not purchase or redeem any shares in the Company. At 30th June 2002, 3,334,350,348 shares were in issue (31st December 2001: 3,329,817,848 shares).

The Company adopted a share option scheme ("the Scheme") on 10th March 1999 for the purpose of providing flight deck crew of the Group with the incentive to contribute towards the Company's results. All participants of the Scheme were flight deck crew of the Group 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 68,317,000 shares at the exercise price of HK\$7.47 (the "Exercise Price") 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 will be exercisable on 15th March 2004. The options will, except in limited circumstances, be exercisable until 14th March 2009.

During the first six months of 2002, 4,532,500 options were exercised at the Exercise Price (with HK\$12.35 being the weighted average closing share price immediately before the dates on which the options were exercised), no option at the Exercise Price lapsed, no option was granted under the Scheme, and the Company issued a total of 4,532,500 shares and received HK\$33,857,775 in total for the share options exercised. Options to subscribe for 62,601,500 shares (31st December 2001: 67,134,000 shares) were outstanding as at 30th June 2002.

15. Dividends

	2002 HK\$M	2001 HK\$M
2001 final dividend of HK¢5 per share (2000 final dividend: HK¢45 per share)	167	1,508
Dividends for purchased shares written back	–	(9)
Dividends paid	167	1,499

2001 final dividend of HK¢5 per share was proposed on 6th March 2002 and was paid on 3rd June 2002.

On 7th August 2002, the Board of Directors declared an interim dividend of HK¢16 per share for the period ended 30th June 2002. This interim dividend which totals HK\$533 million will be paid on 2nd October 2002 to shareholders registered at the close of business on 13th September 2002. The share register will be closed from 9th September 2002 to 13th September 2002, both dates inclusive.

16. Commitments and contingencies

Outstanding payment commitments in respect of capital items and investments authorised at the end of the period but not provided for in the accounts amounted to:

	(Unaudited) 30th June 2002 HK\$M	(Audited) 31st December 2001 HK\$M
Authorised and contracted for		
– aircraft and related equipment	3,799	121
– others	2	1
	3,801	122
Authorised but not contracted for		
– aircraft and related equipment	103	105
	3,904	227

These commitments are expected to be paid as follows:

	HK\$M
2002	325
2003	2,885
2004	694
	3,904

Commitments include the amounts for the acquisition of three A330-300 and three B777-300 aircraft. There has been no material change in contingencies since 31st December 2001.

Corporate governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in the Listing Rules (Main Board) of The Stock Exchange.

Directors' interests

At 30th June 2002, the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI") showed that Directors held the following beneficial interests (all being personal interests) in the shares of Cathay Pacific Airways Limited:

	Number of shares			Total
	Personal	Family	Other	
Philip Chen	9,000	–	–	9,000
Derek Cridland	17,000	–	–	17,000
James Hughes-Hallett	12,000	–	–	12,000
Tony Tyler	5,000	–	–	5,000
Raymond Yuen	9,000	–	–	9,000

Neither during nor prior to the period under review, has any right been granted to, or exercised by, any Director of Cathay Pacific Airways Limited, or to or by the spouse or minor children of any Director, to subscribe for shares, warrants or debentures of Cathay Pacific Airways Limited.

Other than as stated above, no Director of Cathay Pacific Airways Limited held any interest, whether beneficial or non-beneficial, in the share capital or warrants of Cathay Pacific Airways Limited or any of its associated corporations (within the meaning of the SDI).

Substantial shareholders

The register of substantial shareholders maintained under Section 16(1) of the SDI shows that at 30th June 2002 the Company had been notified of the following interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

		Remarks
1. John Swire & Sons Limited	1,526,606,246	
2. Swire Pacific Limited	1,526,606,246) Duplications of John Swire
3. John Swire & Sons (H.K.) Limited	1,526,606,246) & Sons Limited's holding
4. CITIC Pacific Limited	859,353,462	
5. Super Supreme Company Limited	787,753,462) Duplication of CITIC Pacific Limited's holding
	6,226,925,662	
Less: Duplications	3,840,965,954	
	2,385,959,708	