



2002
CATHAY

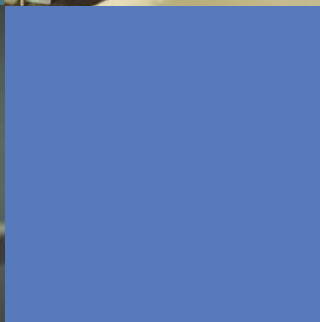
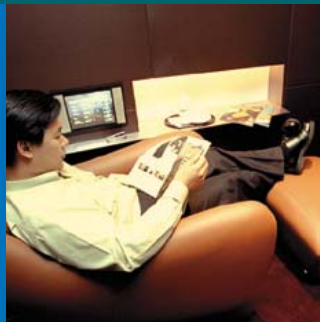
Cathay Pacific Airways is an international airline registered and based in Hong Kong, offering scheduled cargo and passenger services to over 80 destinations around the world • We are deeply committed to Hong Kong, where the Company was founded in 1946. We continue to make substantial investments to develop Hong Kong’s aviation industry and enhance Hong Kong’s position as a regional transportation hub. In addition to our fleet of aircraft, these investments include catering, aircraft maintenance and ground handling companies, as well as our corporate headquarters at Hong Kong International Airport • Cathay Pacific is the major shareholder in AHK Air Hong Kong Limited, an all cargo carrier that offers scheduled services in the Asia region, and is a partner in Hong Kong Dragon Airlines Limited • We are also a founding 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 Hong Kong Stock Exchange.



- CATHAY PACIFIC
- DRAGONAIR
- AHK AIR HONG KONG

† Freighter services only
* Codeshare services

- | | | | | | |
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*Now You Are
Really Flying*

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Financial and Operating Highlights

Group Financial Statistics		2002	2001	Change
Results				
Turnover	<i>HK\$ million</i>	33,090	30,436	+8.7%
Profit attributable to shareholders	<i>HK\$ million</i>	3,983	657	+506.2%
Earnings per share	<i>HK cents</i>	119.5	19.7	+506.6%
Dividend per share	<i>HK cents</i>	72.0	17.5	+311.4%
Profit margin	<i>%</i>	12.0	2.2	+9.8%pt
Balance Sheet				
Shareholders' funds	<i>HK\$ million</i>	32,115	31,308	+2.6%
Net borrowings	<i>HK\$ million</i>	9,646	14,278	-32.4%
Shareholders' funds per share	<i>HK\$</i>	9.6	9.4	+2.1%
Net debt/equity ratio	<i>Times</i>	0.30	0.46	-0.16 times
Operating Statistics – Cathay Pacific				
		2002	2001	Change
Available tonne kilometres ("ATK")	<i>Million</i>	12,820	11,827	+8.4%
Passenger load factor	<i>%</i>	77.8	71.3	+6.5%pt
Passenger yield	<i>HK cents</i>	45.4	45.7	-0.7%
Cargo and mail load factor	<i>%</i>	71.2	67.3	+3.9%pt
Cargo and mail yield	<i>HK\$</i>	1.80	1.85	-2.7%
Cost per ATK	<i>HK\$</i>	2.13	2.36	-9.7%
Cost per ATK without fuel	<i>HK\$</i>	1.76	1.93	-8.8%
Aircraft utilisation	<i>Hours per day</i>	12.1	12.1	-
On-time performance	<i>%</i>	90.7	82.9	+7.8%pt

Chairman's Letter

In 2002 the Group recorded one of its most profitable years. This was an outstanding achievement given that the aviation industry was still suffering from the turmoil of 2001. The Group reported an attributable profit of HK\$3,983 million, compared to a profit of HK\$657 million a year earlier. Turnover increased 8.7% to HK\$33,090 million.

Our much improved performance came from increased passenger demand, the continued growth of our cargo business, and the success of ongoing efforts to increase productivity and lower our operating costs.

Passenger traffic recovered faster than we expected. As market conditions improved we restored services that had been temporarily suspended following the September 2001 attacks and increased the frequency of flights to Auckland, Brisbane, Colombo, Johannesburg, London, Melbourne and Tokyo. Load factors achieved record levels and many flights operated at full capacity. Passenger yield fell by 0.7% to HK45.4 cents.

Our cargo operation enjoyed uninterrupted growth throughout the year and generated 28.4% of the Group's turnover. Its growth was driven to a large extent by the high demand for Hong Kong exports in Europe, Asia and, in particular, North America. Cargo services to Europe were strengthened by the addition of Milan, Manchester and Brussels to our freighter network. Cargo yield fell by 2.7% to HK\$1.80.

Our affiliates and associates performed well with profit increasing despite competitive pressure.

In February 2002 the all cargo carrier AHK Air Hong Kong Limited ("AHK") became a wholly owned subsidiary and in October DHL International Limited ("DHL") bought a 30% stake in AHK to form an express cargo operation. AHK has initially ordered six Airbus 300-600 freighter aircraft to operate regional DHL services from Hong Kong International Airport. Its fleet should increase significantly over the years to come.

In November we became the first airline in Asia to take delivery of the new long range Airbus 340-600 passenger aircraft. Furthermore, last year we ordered three Boeing 777-300 and three Airbus 330-300 aircraft which will join our regional passenger fleet in late 2003 and early 2004. In conjunction with this fleet expansion programme we announced plans to hire 1,300 additional staff in Hong Kong including cabin crew, pilots and ground staff.

Our code sharing arrangement with **oneworld** partner American Airlines has now received regulatory approval. This agreement will generate additional traffic through Hong Kong, which is the key to our future growth and to Hong Kong's future as a regional aviation hub. A successful outcome to our application to operate services to the Chinese Mainland will also strengthen Hong Kong's hub position, even though timing remains uncertain.

In considering the outlook for the coming year we are conscious of the fact that it will be hard to repeat the performance of 2002 in the context of the current global political and economic uncertainties. Nevertheless we have every confidence in our long term future and in our ability to excel in an increasingly competitive marketplace.

On behalf of shareholders I would like to thank our staff for their hard work and achievements during the year.

James Hughes-Hallett

Chairman

5th March 2003

2002 in Review

2002 proved to be a very profitable year for Cathay Pacific. Our much improved performance came from increased passenger demand, the uninterrupted growth of our cargo business and the success of our efforts to lower operating costs. We ordered new aircraft, announced plans to recruit more Hong Kong staff and increased the frequency of services on certain routes. We have every confidence in our long term future.

Award winning product and services

- We were named "Airline of the Year" and "Best North East Asian Airline" in the 14th TTG Travel Awards 2002. The awards are voted for by readers of TTG Asia and TTG China.
- In a global poll of more than four million travellers conducted by UK based consulting firm Skytrax, we were voted "Best Airline Transpacific" and were ranked overall as the number two airline in the world.
- We launched a direct toll free hotline to improve our service to the increasing number of Cathay Pacific passengers travelling to and from Mainland China. Callers can now be updated with the latest flight information.
- The "Best Chinese Food in the Air" promotion returned, this year serving specially selected dishes from Hong Kong's internationally acclaimed Yung Kee Restaurant.
- More than 40 inflight catering experts gathered from around our network to take part in our first ever Chinese Chef Workshop. They learned about the latest techniques and ideas for preparing and serving the freshest and tastiest food.
- A refresh of our economy class cabin was completed fleet wide in 2002.
- Our acclaimed New Business Class cabin will be fitted on all long haul aircraft by the end of 2003.

Global network

- We finalised a codeshare agreement with **oneworld** partner American Airlines that gives our passengers access to more US cities beyond our existing gateway destinations.
- A new four times weekly daytime service to London commenced in July which will be upgraded to a daily service in June 2003. We will then be operating three services a day to London.
- We added four flights a week to Melbourne, creating a double daily service four days a week, and added another weekly service to Brisbane.
- We resumed our fifth daily service to Bangkok in September, whilst the fourth weekly service to Colombo, Sri Lanka, was added to meet increased passenger and cargo demand.
- We launched three double daily services to Auckland each week.
- Brussels, Manchester and Milan joined Cathay Pacific's freighter network after restructuring the cargo operations with AHK.
- A new agreement on Taiwan air services was reached with the Taipei Airlines Association.
- The sixth daily flight between Hong Kong and Manila and the fifth weekly service to Johannesburg commenced in January 2003.

The growing fleet

- At the end of the year we had 79 aircraft in our operating fleet, including 68 passenger aircraft and 11 freighters.
- We were the first airline in Asia to take delivery of the new long range A340-600.

- We have ordered three B777-300 and three A330-300 passenger aircraft which will join our fleet in late 2003 and early 2004.
- We have entered into an agreement with DHL to develop a regional freighter network with AHK which has ordered six A300-600 freighter aircraft for delivery in 2004 and early 2005.

Fleet profile

Aircraft type	Number as at 31st December 2002			Total	Firm orders			Total	Expiry of operating leases			Options
	Owned	Leased			'03	'04	'05		'06	'07	'08	
Aircraft operated by Cathay Pacific:												
B747-400	8	9	2	19						1	1	
B747-200F	4	2		6								
B747-400F	1	4		5								
B777-200	1	4		5								
B777-300		7		7	2	1		3				3 ^(a)
A330-300		20		20	3			3				
A340-300		11	4	15					4			
A340-600^(b)			2	2	1			1		2		
Total	14	57	8	79	6	1		7	4	3	1	3
Aircraft operated by AHK Air Hong Kong:												
B747-200F		1		1								
A300-600F						4	2	6				4
A300-B4F/B727F^(c)			1	1	1			1				
Total		1	1	2	1	4	2	7				4

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

^(b) Aircraft on five year operating leases.

^(c) Aircraft on wet lease.

Technology excellence

- We launched the iPermit scheme which enables Taiwan residents to apply for Hong Kong visas via the Internet and collect them upon arrival at Hong Kong International Airport.
- Ultramain, which will track and predict maintenance requirements and costs of our aircraft and components, began roll out in Hong Kong.

- COINS, a new revenue management system to control inventory and pricing strategy, was implemented in early 2003.
- CXeBuy, our e-Business initiative to implement a centralised online purchasing system, was introduced in Australia – the first location outside Hong Kong.

- PeopleCX, our online human resources management system, was launched in the second quarter and enables staff to manage their personal information, improve processing efficiency and create a self service culture within the Company.

Dedicated staff

- We announced plans to create more than 1,300 new jobs in Hong Kong over the next two years as we expand our operations.
- We recruited 200 cabin crew in 2002 and will hire 800 more in 2003 and 2004. We will also take on 235 new pilots and about 60 airport 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 Bangkok, Denpasar, Jakarta, Taipei and Tokyo.
- By the end of 2002, the airline employed more than 14,600 staff in 30 countries, 10,700 of which are based in Hong Kong.
- Cathay Pacific regularly reviews its human resource and remuneration policy in light of local legislation, industry practice, market conditions and the performance of both individuals and the Company.

Contribution to the Hong Kong community

- We responded to the HKSAR Government's call to help young job seekers by creating 10 initial openings to support its "one company one job" initiative.
- We also agreed to give job training to 30 people under the Young Work Experience and Training Scheme.

- We celebrated the 5th Anniversary of the Establishment of the HKSAR by unveiling our "Asia's World City" special livery aircraft. The aircraft, which features Hong Kong's dragon motif logo, was unveiled on 4th July by Financial Secretary of the HKSAR Mr. Antony Leung.
- More than 140 retailers joined our "World's Biggest Welcome" campaign to boost tourism in Hong Kong, with pledges of more than HK\$10 million worth of special offers to the "World's Biggest Welcome" winners.
- We were the title sponsor of the highly successful musical *Singin' in the Rain*.
- For the fourth consecutive year we were title sponsor of the Hong Kong Chinese New Year Parade.
- Fifty Hong Kong children took part in the Junior Pilot Club – a fun one day event to introduce young people to the aviation industry and careers in flying.
- We raised more than HK\$7.5 million for the United Nations Children's Fund (UNICEF) through our "Change for Good" inflight fund raising programme.

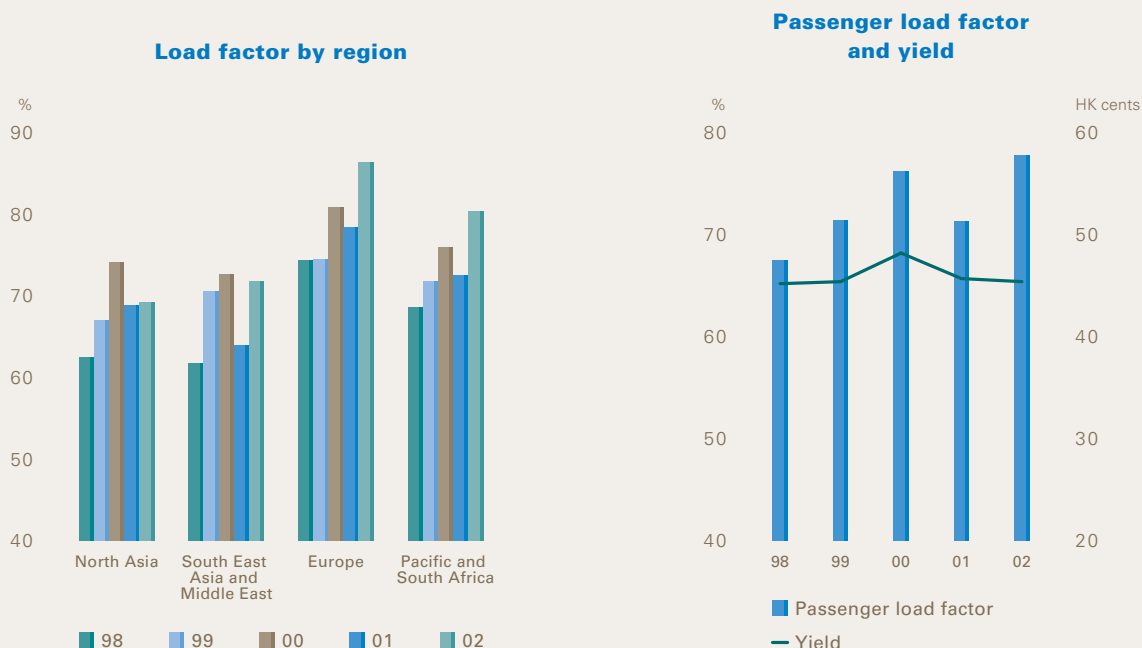
Environment

- Regular energy audits and close monitoring of the computerised building management system have improved the energy efficiency of lighting and air conditioning systems in our Cathay City headquarters.
- A comprehensive programme to sort and recycle paper materials such as newspapers, magazines and inflight menu cards has been implemented on inbound flights.
- We took 42 students from Asia and the Middle East to South Africa on our nine day International Wilderness Experience Programme to study the environment and appreciate cultural diversity.

Review of Operations

Passenger services

The year saw an 8.7% increase in passenger revenue. Passenger numbers rebounded far quicker than expected and as a result we increased the frequency of services to a number of destinations. Passenger yield, which continued to face competitive pressure, declined 0.7% to HK45.4 cents.



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

	ASK (million)			Load factor (%)			Yield
	2002	2001	Change	2002	2001	Change	Change
North Asia	11,022	10,279	+7.2%	69.2	68.8	+0.4%pt	-4.9%
South East Asia and Middle East	14,063	13,609	+3.3%	71.8	64.0	+7.8%pt	-4.6%
Europe	13,291	13,833	-3.9%	86.4	78.4	+8.0%pt	+4.3%
Pacific and South Africa	24,674	25,069	-1.6%	80.4	72.5	+7.9%pt	+2.6%
Overall	63,050	62,790	+0.4%	77.8	71.3	+6.5%pt	-0.7%

Highlights by region are as follows:

North Asia

- Traffic and yields were affected by the opening of a second runway at Tokyo's Narita airport.
- Taipei remained strong despite the pressure on yield resulting from increased competition.
- The Korean market was temporarily boosted by increased traffic during the World Cup soccer finals.

South East Asia and Middle East

- Front end demand weakened as corporate travellers shifted to economy class.
- Declining yields were compensated by load factors which rose due to a surge in demand from leisure travellers.
- Middle East markets performed well, particularly our service to Dubai. Services to Bahrain and Riyadh attracted high traffic volumes from contract workers.
- The service to Delhi consolidated its position a year after inauguration.
- The bomb attack in Bali prompted cancellations on many flights and bookings were slow during the usual peak Christmas and New Year season.
- An increasing number of long haul passengers now connect to our South East Asian network through our hub at Hong Kong International Airport.

Europe

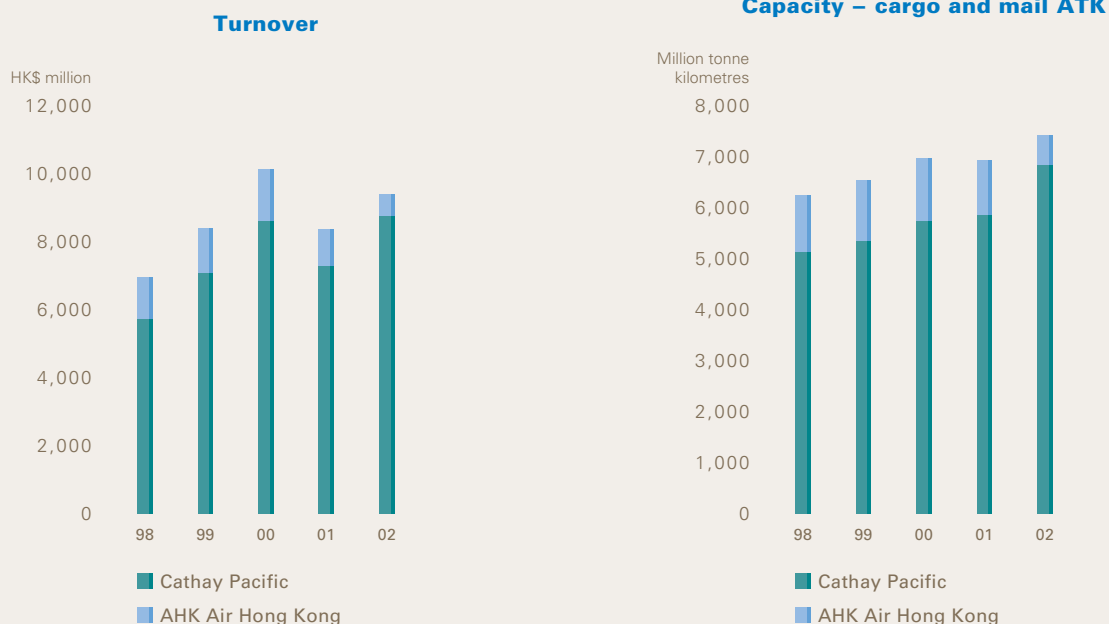
- Europe performed well throughout the year with exceptionally high load factors and a recovery in the business travel market.
- An additional four times weekly daytime service commencing in July helped make London one of our strongest performing routes.
- Traffic on our European services was strengthened by an increase in passengers originating in Japan, Korea and Taiwan.

Pacific and South Africa

- The continued success of our service to Johannesburg led to the recent launch of a fifth weekly service operated by a higher capacity B747-400 aircraft.
- Australia and New Zealand remained strong and additional services were launched to Auckland, Brisbane and Melbourne.
- Transpacific traffic recovered and capacity was increased to San Francisco with the introduction of a larger B747-400 aircraft. The second daily service to Los Angeles resumed in August.

Cargo services

2002 was a good year for cargo, both in terms of revenue and freight tonnage carried. Growth was driven by demand for Hong Kong exports to Europe and the United States. Brussels, Manchester and Milan were added to our freighter network. Cargo revenue contributed 28.4% to Group turnover.



	ATK (million)			Load factor (%)			Yield
	2002	2001	Change	2002	2001	Change	Change
Cathay Pacific	6,822	5,855	+16.5%	71.2	67.3	+3.9%pt	-2.7%
AHK Air Hong Kong	585	1,074	-45.5%	69.1	73.3	-4.2%pt	+20.2%

Cathay Pacific Airways Limited

- Cathay Pacific operates a fleet of five B747-400 and six B747-200 freighters to 23 destinations worldwide. Freight is also carried in the belly holds of our passenger aircraft.
- During 2002, 851,000 tonnes of freight were carried, setting a new annual record. Cargo ATKs grew by 16.5% while load factor for the year increased to 71.2%.
- Revenue in 2002 increased by 20.4% with strong export growth from Hong Kong to the United States, Europe and Asian destinations.
- Yield declined from HK\$1.85 to HK\$1.80 per revenue tonne kilometre, due in part to an increase in the number of lower yield long haul services.
- Brussels and Manchester were added to Cathay Pacific's freighter network following the integration of AHK operations in July.
- In August, Cathay Pacific launched its first freighter service to Milan.
- During the year, frequency of flights to Dubai, Frankfurt, Paris and the United States increased as demand in these markets grew.

- Our product has been enhanced with the introduction of Internet cargo booking and Website functions that feature consignment track and trace.
- Cathay Pacific is the world's first airline certified under the Cargo 2000 quality assurance initiative.

AHK Air Hong Kong Limited ("AHK")

- AHK continues to operate scheduled services to Osaka and Seoul and charter flights for Cathay Pacific using a B747-200 freighter.
- In July, the company commenced five times weekly express cargo services to Tokyo using a wet leased regional freighter. In March 2003, the second wet leased freighter joined the fleet to operate a service to Bangkok.
- In October, DHL entered into an agreement with Cathay Pacific and acquired a 30% shareholding in AHK. Under this agreement, AHK will operate express cargo services for DHL to major Asian cities.
- The company has ordered six A300-600 freighters for delivery in 2004 and early 2005 and will extend its Asian network.
- Capacity, as a result of the return of two B747-200 freighters to Cathay Pacific in July, fell by 45.5% over 2001 whilst the load factor decreased by 4.2 percentage points.
- Yield increased by 20.2% due to a reduction in the number of lower yield long haul services following the transfer of the European services to Cathay Pacific in July.
- AHK recorded a satisfactory profit in 2002.

Review of affiliated businesses and associated companies

Cathay Pacific Catering Services (H.K.) Limited

- This wholly owned subsidiary is the principal flight kitchen in Hong Kong, serving 33 scheduled carriers.
- 15 million meals were produced in 2002, representing a growth of 15% over 2001. The company accounts for 70% of the airline catering market in Hong Kong.
- The company achieved a higher profit due mainly to increased business.

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 step and air bridge operations, baggage handling, aircraft load control and cargo and mail delivery.
- The company is also contracted to operate passenger, staff and other bus services for the Airport Authority.
- With over 30 airline customers, the company increased its market share during the year despite intense competition.
- HAS handled 60,000 flights and achieved a satisfactory profit.

Hong Kong Aircraft Engineering Company Limited (“HAECO”)

- HAECO, in which Cathay Pacific holds a 27% interest, provides aircraft maintenance, modification and overhaul services at Hong Kong International Airport.
- The company achieved a consolidated profit after tax of HK\$465 million, 49% higher than 2001, mainly reflecting the release of provisions, cost savings and improved profits from joint ventures.
- The number of flights handled by the line maintenance division in Hong Kong increased

while 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 continued high usage of its hangar facilities. A third hanger will be completed in 2003, increasing 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.

Hong Kong Dragon Airlines Limited (“Dragonair”)

	ASK/ATK* (million)			Load factor (%)			Yield
	2002	2001	Change	2002	2001	Change	Change
Passenger services	6,657	5,576	+19.4%	65.3	66.7	-1.4%pt	-4.8%
Cargo services	814	552	+47.5%	79.5	71.1	+8.4%pt	-2.3%

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

- Dragonair, in which Cathay Pacific holds 19%, operates passenger services to 28 destinations in Asia, including 18 major cities in Mainland China. Dragonair also provides freighter services to seven destinations in Europe, Middle East, North Asia and Mainland China.
- Dragonair reported a higher profit mainly due to an increase in traffic and improved freighter performance, particularly in the second half of the year.
- Passenger numbers increased by 19.2%. With a 19.4% increase in capacity, passenger load factor decreased by 1.4 percentage points. Passenger yield decreased by 4.8% due to weak currencies and intense market competition.
- The airline carried 193,000 tonnes of cargo, representing a growth of 59.6%. Cargo load factor increased by 8.4 percentage points to 79.5%. Cargo yield decreased by 2.3% due mainly to the withdrawal of the fuel surcharge and more lower yield transshipment traffic.
- Dragonair commenced a 22 times weekly passenger service to Taipei in July. Weekly passenger frequencies to Beijing and Shanghai were increased to 42 and 56 respectively since the commencement of the summer schedule. Additional flights were operated to Chengdu, Chongqing, Dalian, Hangzhou, Kunming, Nanjing, Ningbo and Xiamen in order to cope with higher demand during the summer season.

- With the arrival of the third freighter in November, freighter services to Europe via Dubai and to Shanghai increased to six times and four times weekly respectively. A twice weekly freighter service to Taipei also began in July.
- Dragonair took delivery of one A320 and one A321 in March under operating leases whilst two A330s were delivered in June and December. One B747-300 freighter joined the fleet in November. As a result, Dragonair's fleet size increased to 24 at the end of 2002.
- The A320 and A321 fleet are now equipped with more business class seats and are deployed on the trunk routes to Beijing and Shanghai. An upgrade in first and business class cabins and inflight entertainment on the A330 fleet is expected to be completed by mid 2004.
- Demand for air travel between Hong Kong and Mainland China is expected to increase. Dragonair remains optimistic about the airline's prospects in 2003.
- Fleet profile as at 31st December 2002:

Aircraft type	Number as at 31st December 2002			Total	Firm orders			Total	Expiry of operating leases		
	Owned	Leased			'03	'04	'05 & beyond		'03	'04	'05 & beyond
		Finance	Operating								
A320		2	6	8		1	1	2	2	1	3
A321			4	4	2		1	3		3	1
A330	1	4	4	9		1*	4	5	1		3
B747-300F	3			3							
Total	4	6	14	24	2	2	6	10	3	4	7

* Aircraft will be on operating lease.

Financial Review

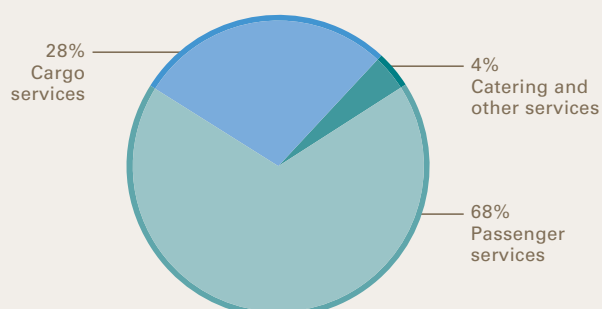
The Cathay Pacific Group reported an attributable profit of HK\$3,983 million against a profit of HK\$657 million in 2001. The improved results reflect the recovery in demand for air transport since the last quarter of 2001.

Turnover

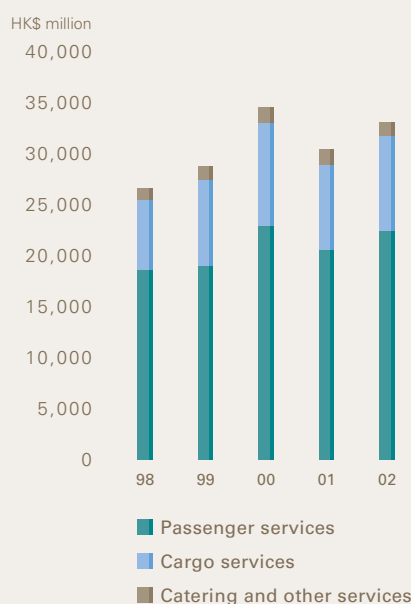
	Group		Cathay Pacific	
	2002 HK\$M	2001 HK\$M	2002 HK\$M	2001 HK\$M
Passenger services	22,376	20,580	22,376	20,580
Cargo services	9,387	8,343	8,758	7,272
Catering and other services	1,327	1,513	–	–
Turnover	33,090	30,436	31,134	27,852

- Group turnover rose by 8.7% on 2001 results but remained 4.2% below the level recorded in 2000.
- Passenger services turnover increased by 8.7% to HK\$22,376 million primarily due to higher passenger numbers. The number of passengers carried increased by 9.3% to 12.3 million.
- Passenger traffic in revenue passenger kilometres (“RPKs”) increased by 9.5% whilst capacity in terms of available seat kilometres remained at the 2001 level due to the temporary suspension of certain services from the last quarter of 2001.
- As a result, the passenger load factor increased to a record level of 77.8%, representing a 6.5 percentage points improvement over 2001.
- Passenger yield decreased by 0.7% to HK¢45.4.
- First and business class revenues increased by 8.1% and the front end load factor increased from 52.6% to 58.9%. Economy class revenue rose by 9.0% and the economy class load factor increased from 75.6% to 81.8%.

Composition of group turnover



Group turnover



- Cathay Pacific's cargo turnover increased by 20.4% to HK\$8,758 million. The improvement reflects a recovery in exports from Hong Kong and additional traffic following the integration of AHK's European operations in July 2002.
- Cathay Pacific's cargo load factor rose by 3.9 percentage points to 71.2% whilst capacity increased by 16.5%.
- Growth of Cathay Pacific's turnover can be analysed as follows:

		HK\$M
+0.4%	Passenger capacity	85
+16.5%	Cargo and mail capacity	1,201
+6.5%pt	Passenger load factor	1,866
+3.9%pt	Cargo and mail load factor	491
-0.7%	Passenger yield	(155)
-2.7%	Cargo and mail yield	(206)
		3,282

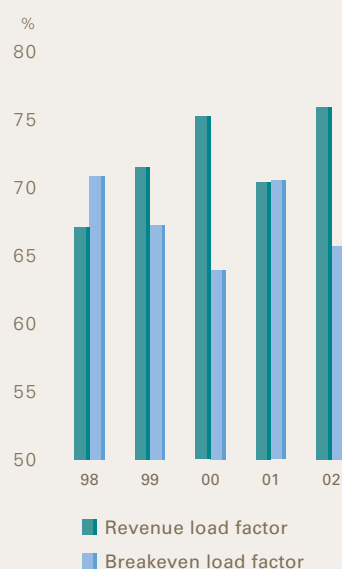
- Revenue load factor increased by 5.5 percentage points to 75.9% whilst the breakeven load factor reduced by 4.8 percentage points to 65.7%.
- The annualised revenue effect on changes in yield and load factor are set out below:

	HK\$M
+ 1 percentage point in passenger load factor	286
+ 1 percentage point in cargo and mail load factor	123
+ HK¢1 in passenger yield	490
+ HK¢1 in cargo and mail yield	49

**Cathay Pacific:
passengers and cargo carried**



Revenue and breakeven load factor



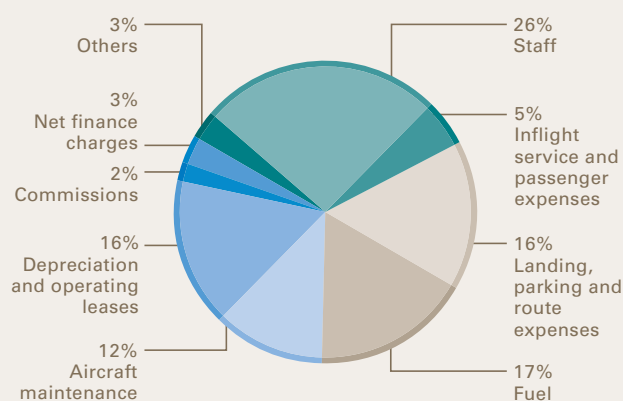
Operating expenses

	Group			Cathay Pacific		
	2002 HK\$M	2001 HK\$M	Change	2002 HK\$M	2001 HK\$M	Change
Staff	7,918	7,629	+3.8%	7,130	6,857	+4.0%
Inflight service and passenger expenses	1,464	1,586	-7.7%	1,464	1,586	-7.7%
Landing, parking and route expenses	4,649	5,112	-9.1%	4,468	4,815	-7.2%
Fuel	4,895	5,313	-7.9%	4,735	4,985	-5.0%
Aircraft maintenance	3,312	3,234	+2.4%	3,194	3,177	+0.5%
Aircraft depreciation and operating leases	3,711	3,993	-7.1%	3,624	3,837	-5.6%
Other depreciation and operating leases	1,009	975	+3.5%	765	728	+5.1%
Commissions	501	539	-7.1%	498	534	-6.7%
Exchange gain	(179)	(100)	+79.0%	(169)	(105)	+61.0%
Others	1,060	1,323	-19.9%	913	911	+0.2%
Operating expenses	28,340	29,604	-4.3%	26,622	27,325	-2.6%
Net finance charges	743	571	+30.1%	723	535	+35.1%
Total operating expenses	29,083	30,175	-3.6%	27,345	27,860	-1.8%

- Staff costs increased due to resumption of bonus and profit share payments.
- Inflight service and passenger expenses decreased due to cost control initiatives and weak foreign currencies.

- Landing, parking and route expenses fell as the cost of operating more flights was offset by cost initiatives and the effect of weak foreign currencies.
- Fuel costs decreased as a result of a 7.0% reduction in the average fuel price.

**Cathay Pacific:
total operating expenses**



**Cathay Pacific:
fuel price and consumption**



- Aircraft depreciation and operating leases decreased due to the disposal of the classic aircraft and the non recurrence of an impairment charge booked in 2001.
- Net finance charges were higher as a result of a lower return on the Company's liquid funds.
- Cathay Pacific's cost per ATK reduced from HK\$2.36 to HK\$2.13 due to lower fuel prices and cost saving initiatives.

Associated companies

- The share of profits from associated companies increased significantly by 75.8% to HK\$269 million.
- Profitability of both HAECO and Dragonair improved as a result of higher workload and increased traffic respectively.

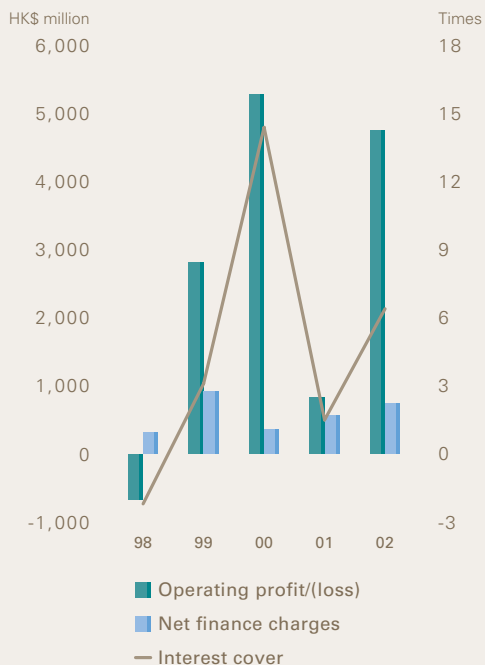
Dividends

- Dividends paid and proposed for the year are HK\$2,402 million representing a dividend cover of 1.7 times.
- Dividends per share increased from HK¢17.5 to HK¢72.

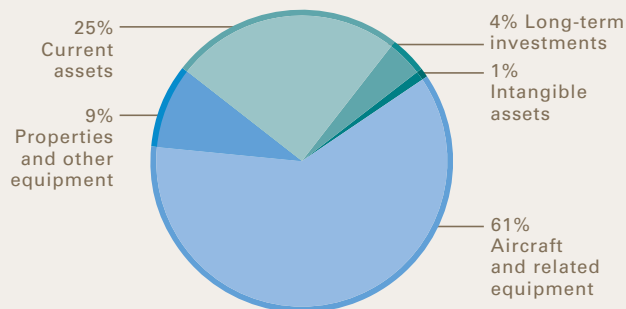
Assets

- Total assets as at 31st December 2002 amounted to HK\$71,628 million.
- During the year, additions to fixed assets were HK\$2,710 million, comprising HK\$2,630 million for aircraft and related equipment and HK\$80 million for properties and other equipment.

Group interest cover



Group total assets



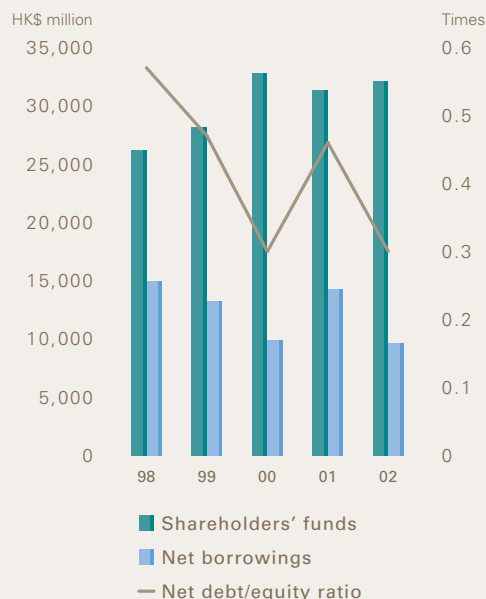
Borrowings and capital

- Borrowings decreased by 5.1% to HK\$22,810 million compared with HK\$24,024 million in 2001.
- Borrowings are mainly denominated in US dollar, Japanese yen, Sterling and Euro, and are fully repayable by 2017 with 71% at fixed rates of interest.
- Liquid funds, 83% of which are denominated in US dollar, increased by 35% to HK\$13,180 million.
- Net borrowings decreased by 32.4% to HK\$9,646 million.
- The Group's shareholders' funds increased by 2.6% to HK\$32,115 million.
- Net debt/equity ratio decreased from 0.46 times to 0.30 times.

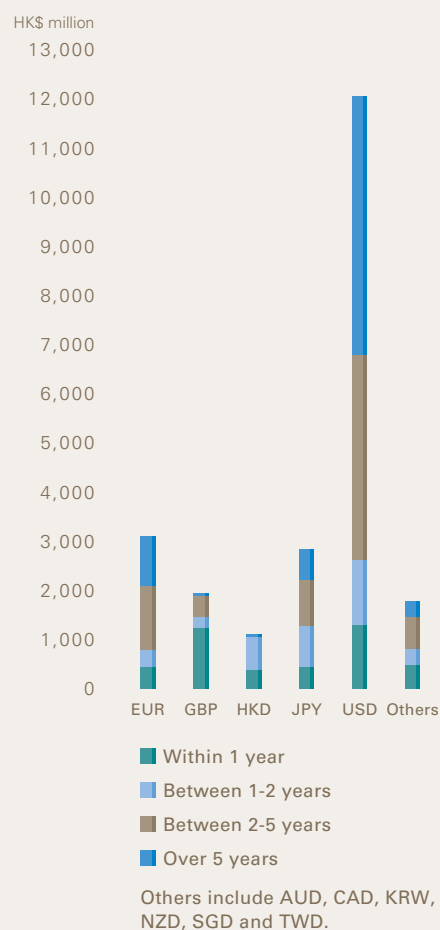
Financial risk management policy

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

Group net debt and equity



Group maturity profile by currency: borrowings



- 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.

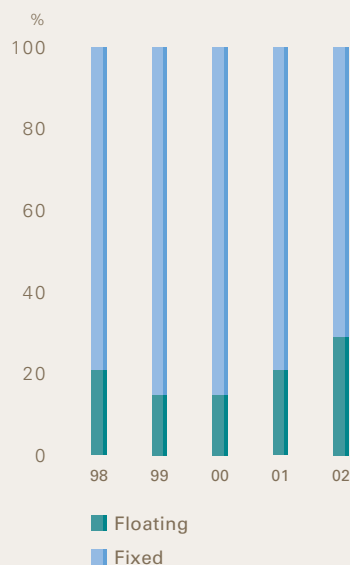
Management of currency and interest rate exposures

- 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. 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 foreign currency commitments.

Cathay Pacific: fuel hedging



Group interest rate profile: borrowings



Value added

The following table summarises the distribution of the Group's value added in 2001 and 2002.

	2002 HK\$M	2001 HK\$M
Total revenue	33,090	30,436
Less: Purchases of goods and services	(16,366)	(17,716)
Other costs	(335)	(435)
Value added by the Group	16,389	12,285
Add: Income from investments	95	64
Surplus on sales of investments	–	452
Share of profits of associated companies	269	153
Total value added available for distribution	16,753	12,954
<i>Applied as follows:</i>		
To employees		
– Salaries and other staff costs	7,918	7,629
To government		
– Corporation taxes	260	171
To providers of capital		
– Dividends – paid	534	416
– proposed	1,868	167
– Minority interests	20	42
– Net finance charges	743	571
Retained for re-investment and future growth		
– Depreciation	3,829	3,884
– Profit after dividends	1,581	74
Total value added	16,753	12,954

- The Group value added increased by HK\$3,799 million mainly due to the growth in revenue.
- Dividends paid and proposed increased by HK\$1,819 million while the amount retained for re-investment and future growth increased by HK\$1,452 million.