



12,321,000
passengers



11,869,000
sq.ft.



24
brands



82
vessels



370,400,000
unit cases



Swire Pacific

is one of Hong Kong's leading listed companies, with five operating divisions: Property, Aviation, Beverages, Marine Services, and Trading & Industrial. The company's operations are predominantly based in the Greater China region, where the name Swire, or 太古 in Chinese, has been established for over 130 years. ■ Swire Pacific is actively involved in the day-to-day management of its various business operations, often in conjunction with joint venture partners and other investors. ■ The company seeks to foster long-term sustainable growth, underpinned by a strong financial base.

CONTENTS

FINANCIAL HIGHLIGHTS

- 1** Financial highlights

MANAGEMENT DISCUSSION AND ANALYSIS

- 2** Chairman's statement
4 Review of operations
28 Financial review
33 Credit analysis

CORPORATE GOVERNANCE

- 38** Corporate governance
42 Directors and officer
43 Directors' report

AUDITORS' REPORT AND ACCOUNTS

- 49** Auditors' report
50 Consolidated profit and loss account
51 Consolidated balance sheet
52 Company balance sheet
53 Consolidated cash flow statement
54 Consolidated statement of changes in equity
55 Notes to the accounts
77 Principal accounting policies
83 Principal subsidiary, jointly controlled and associated companies and investments

SUPPLEMENTARY INFORMATION / FINANCIAL CALENDAR AND INFORMATION FOR INVESTORS

- 92** Cathay Pacific Airways Limited – abridged financial statements
94 Schedule of principal group properties
103 Financial calendar and information for investors
104 Ten-year financial summary
106 Group structure chart

NOTE	2002 HK\$M	2001 HK\$M	Change %
Turnover	15,215	15,198	+0.1
Operating profit	4,345	4,391	-1.0
Profit attributable to shareholders	5,404	4,118	+31.2
Cash generated from operations	4,462	4,069	+9.7
Net cash inflow before financing	5,140	2,364	+117.4
Shareholders' funds and minority interests	74,213	77,600	-4.4
Consolidated net borrowings	14,188	16,756	-15.3

	2002 HK¢	2001 HK¢	Change %
1 Earnings per share			
'A' shares	349.2	265.3) +31.6
'B' shares	69.8	53.1	

	HK¢	HK¢	
Dividends per share			
'A' shares	130.0	112.0) +16.1
'B' shares	26.0	22.4	

	HK\$	HK\$	
Shareholders' funds per share			
'A' shares	45.18	47.00) -3.9
'B' shares	9.04	9.40	

	2002	2001
2 Gearing ratio - percentage	19	22
3 Interest cover - times	7.94	8.91
4 Cash interest cover - times	5.03	4.01
5 Dividend cover - times	2.70	2.37

Notes

1. Earnings per share have been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during each year.

2. Gearing represents the ratio of net borrowings to shareholders' funds and minority interests.

3. Interest cover is calculated by dividing operating profit by net finance charges.

4. Cash interest cover is calculated by dividing operating profit by net finance charges and capitalised interest.

5. Dividend cover is calculated by dividing profit attributable to shareholders by total dividends paid and proposed for the year.

Analysis of return on shareholders' funds

The return of each division on shareholders' funds is:

	Attributable profit		Attributable net assets employed		Return on shareholders' funds*	
	2002 HK\$M	2001 HK\$M	2002 HK\$M	2001 HK\$M	2002 %	2001 %
Property	2,613	2,793	46,317	51,061	5.4	5.2
Aviation	2,115	520	16,505	15,996	13.0	3.2
Beverages	313	252	2,152	1,859	15.6	11.7
Marine Services	657	617	2,603	2,229	27.2	29.7
Trading & Industrial	6	130	890	1,542	0.5	8.2
Head Office	(300)	(194)	799	262	N/A	N/A
	5,404	4,118	69,266	72,949	7.6	5.5

* The return on shareholders' funds is calculated as attributable profit for the year divided by the average of attributable net assets at the start and end of the year.

The attributable profit for 2002 of HK\$5,404 million was 31% higher than in 2001, despite write-downs on residential property developments of HK\$398 million and net restructuring costs of HK\$209 million, principally in the Trading & Industrial Division. This reflects a marked increase in contribution from our aviation interests where there has been a welcome recovery in both passenger and cargo demand. Whilst pressure on Hong Kong office rents has increased, overall property income was well supported by a very resilient retail portfolio and by profits from the sale of units at The Albany. The Beverages and Marine Services Divisions delivered good growth and again made significant contributions to the overall result.

Dividends

Interim dividends of HK¢40.0 per 'A' share and HK¢8.0 per 'B' share were declared on 8th August 2002. Directors have recommended final dividends for 2002 of HK¢90.0 per 'A' share and HK¢18.0 per 'B' share. The total distribution per share paid and proposed for 2002 shows a 16% increase over 2001. Subject to approval by shareholders, dividend payments will be made on 2nd June 2003. During the year the company repurchased 7,804,000 'A' shares and 55,815,000 'B' shares for HK\$540 million at a weighted average cost of HK\$28.51 per effective 'A' share.

Scope of Activities

Pressure on office rents has continued unabated, resulting in a marked decline in rental levels. Occupancy levels also declined to 89% at year end. Nevertheless, our retail portfolio continues to significantly outperform the Hong Kong market and remains 100% let. We have continued to invest in the sector with the ongoing construction of Cambridge House and Three Pacific Place, as well as the signing in April of a joint venture to construct a four million square foot mixed use commercial complex in Guangzhou, China, to be called Taikoo Hui. Cash flow from the sale of residential trading properties was again strong and was supplemented by good profits from the sale of 25 Albany apartments. In 2003, we will continue to focus on further sales of the existing inventory of residential apartments. Further investments in the residential property market will be restricted to projects, such as The Orchards in Hong Kong and Jade Residences in Miami, where the group's ability to add value is recognised by the market and where land costs are judged to fairly reflect the risks of such investments.

Cathay Pacific had an excellent year, contributing attributable earnings of HK\$1,677 million. Passenger demand fell sharply in the fourth quarter of 2001, but leisure traffic rebounded surprisingly quickly in 2002 stimulated by various successful sales and marketing initiatives. As a result, high load factors in the first half of 2002 were sustained during the second half even as additional aircraft were put into service. The cargo business performed particularly well throughout the year on the back of strong export growth, and set a new record for tonnage carried. In addition to returning parked aircraft to service, the company also took delivery of two new ultra long-haul A340-600s and placed orders for six more passenger aircraft to expand the regional fleet in 2003/2004. Cathay Pacific's successful partnership with DHL was significantly deepened with the signing of a joint venture agreement to utilise Air Hong Kong as a vehicle to develop a regional express cargo network; orders were placed for six A300-600F freighter aircraft for delivery in 2004/2005. Other aviation interests, in particular HAECO and Hactl, also performed well and generated attributable profits of HK\$353 million for the group.

The Beverages Division had an excellent year, achieving volume growth of 11%, helped by the successful launch of new products. Coupled with the effect of lower material costs and productivity gains, attributable profits grew 24% to HK\$313 million. During the year, the division increased its stake in the Xian bottler to 78.3%.

The Marine Services Division had a satisfactory year with profits rising to HK\$657 million.

Results from the Trading & Industrial Division were significantly influenced by restructuring costs in Taikoo Motors, partially offset by gains on the disposal of interests in

Schneider Swire and the Hong Kong Spinners Industrial Building. Automobile operations in Taiwan, the sports apparel business in Hong Kong and the industrial joint ventures – Swire SITA, Crown Can and ICI Swire Paints – all recorded satisfactory results.

Finance

The group's financial position was strengthened during the year with net cash inflow before financing of HK\$5,140 million enabling debt and gearing to fall to HK\$14,188 million and 19% respectively. Undrawn committed and uncommitted loan facilities stood at HK\$5,277 million and HK\$2,069 million as at 31st December 2002, an increase on the prior year.

Our A3 long term debt rating from Moody's was reaffirmed during the year, although in May 2002 Standard & Poor's downgraded our rating from A- to BBB+ .

Corporate Governance

A commitment to good corporate governance is central to our management philosophy and group culture. The key principles and values to which we aim to adhere and the various measures by which the interests of shareholders and other stakeholders are safeguarded are set out on pages 38 to 41. During the year we appointed two additional independent non-executive directors, formally adopted a Corporate Code of Conduct and continued to expand disclosures in our financial statements.

Social & Environmental Responsibility

The group is committed to acting in a socially responsible manner so as to recognise the interests of the community as a whole. During the year the group was included in the Dow Jones Sustainability Index, and made further progress in implementing a project to track key environmental health and safety performance measures across the group.

Prospects

Rental levels, particularly in the office sector, will continue to suffer from a combination of weak demand and additional new supply in the short term, although we remain confident in the underlying quality and resilience of our retail and office property portfolio. Any improvement in prices in the residential sector can be expected only with the return of consumer confidence.

Notwithstanding the good recovery enjoyed by Cathay Pacific in 2002, prospects for the aviation sector in general are

uncertain. Cathay Pacific enjoys considerable financial strength, an excellent route network, a highly dedicated and professional workforce and an outstanding reputation for service excellence. We are confident, therefore, that, despite a planned 14% increase in capacity in 2003 and subject to any major impact stemming from current problems in the Middle East, Cathay Pacific will be able to meet the challenges posed by high fuel prices and the prospect of continued weakness in world economies.

Swire Beverages will continue to leverage its considerable production and distribution capacity with the introduction of new products and packages, supported by tailored marketing and advertising initiatives. Another year of good growth is expected.

Swire Pacific Offshore is currently suffering from a downturn in exploration activity, but demand for production support work has been relatively robust resulting in the successful placement of newly built vessels into term charters. There will be considerable capacity growth at both Modern Terminals and Shekou Container Terminals during the year. Whilst this will inevitably have an impact on asset utilisation and rates in the short term, we remain confident in the prospects for continued growth from these port activities in South China.

The Trading & Industrial Division, following the restructuring carried out over the past three years, is expected to produce a markedly improved result in the year ahead.

In the context of an extremely volatile political situation in Iraq, and elsewhere, of a local economy that is still struggling to recover and of global economic uncertainty it is difficult to predict the future with any normal degree of confidence. Nevertheless I am very satisfied with the strong performance of our businesses in 2002 and believe that the underlying operating trends of the group are positive and encouraging for the future.

On behalf of the shareholders I should like to thank our staff who have, once again, demonstrated their ability to achieve good results in the face of the most challenging conditions.

James Hughes-Hallett

Chairman

Hong Kong, 6th March 2003



11.87 million
square feet of prime
office, retail and
residential properties
in Hong Kong.

Swire Properties' investment portfolio in Hong Kong principally comprises office and retail premises, which it manages in prime locations, as well as serviced apartments and other luxury residential accommodation. The completed portfolio totals 11.87 million square feet of gross floor area. Current investment property pending or under development in Hong Kong comprises a further 2.78 million square feet, mainly of office space. In addition, Swire Properties has a 20% interest in each of the three hotels in Pacific Place. Outside Hong Kong, Swire Properties owns a 55% interest in a foreign joint venture company which plans to construct a mixed-use commercial development in Guangzhou, to be managed by Swire Properties and called Taikoo Hui, and a 10% interest in the CITIC Square development in Shanghai. The Swire Pacific group also owns a 75% interest in the Mandarin Oriental Hotel in Miami, Florida.

	2002 HK\$M	2001 HK\$M
Turnover		
Gross rental income derived from		
Offices	2,155	2,261
Retail	2,170	2,144
Residential	285	348
Other income	83	75
Property investment	4,693	4,828
Property trading	565	1,092
Sale of investment properties	555	261
Total turnover	5,813	6,181
Operating profit derived from		
Property investment	3,338	3,471
Property trading	125	128
Sale of investment properties	409	205
Total operating profit	3,872	3,804
Share of profits before taxation jointly controlled and associated companies		
Normal operations	112	222
Non-recurring items	(398)	(312)
Attributable profit	2,613	2,793

Investment property portfolio – gross floor area ('000 square feet)

Location	Total	Office	Techno-centres	Retail	Residential
Pacific Place	2,887	1,559	–	711	617
TaiKoo Place	4,073	2,262	1,811	–	–
Cityplaza	2,751	1,646	–	1,105	–
Festival Walk	1,214	232	–	982	–
Others	944	183	–	574	187
Total completed	11,869	5,882	1,811	3,372	804
Under and pending development	2,785	2,764	–	4	17
Total	14,654	8,646	1,811	3,376	821

2002 OVERVIEW

Demand for office space weakened significantly during 2002 as companies worldwide responded to an extremely cautious business climate, and rental levels have softened as a result. Retail sales in Hong Kong have fallen generally with deflation, and consumer confidence has dropped, which has led to marginal pressure on retail rents: however, sales at our major malls have decreased by only 1.2%, which is significantly better than the Hong Kong average. In the residential market buyer sentiment has remained fragile despite low interest rates.

Net rental income from the investment portfolio amounted to HK\$3,630 million in 2002, compared with HK\$3,762 million in 2001. The lack of new demand for offices has been tempered by a robust performance from our retail centres. We remain cautious about the prospects for office rents in 2003, as business confidence remains low. The outlook for retail rents is more positive, but may be vulnerable to a drop in consumer spending if deflationary pressures persist.

Operating profit from property trading in 2002 amounted to HK\$125 million, compared to HK\$128 million in 2001. This principally reflects contributions from property developments in the United States. The profit for 2002 is stated prior to the provision of HK\$398 million against trading projects in Hong Kong.

Investment Properties

OFFICES

The absence of fresh demand for office space and the desire of companies to reduce overhead costs placed considerable pressure on office rents during 2002. Gross rental income in 2002 from the office portfolio was 5% lower than in 2001. Occupancy levels declined and at the year-end averaged 89% across the office portfolio compared to 95% at the end of 2001. The impact of headline rent decreases or increases in any one year is mitigated by the lease reversion cycle, which typically unfolds over 3 years. The advent of further office supply in 2003 will keep rents under pressure in the near term.

RETAIL

Gross rental income in 2002 from the Swire Properties managed retail portfolio was broadly in line with that of 2001.

Retail sales at its three principal shopping malls outperformed the generally soft market, and these centres remain fully let. Cityplaza, The Mall at Pacific Place and Festival Walk together welcome more than ten million visitors each month.

Cityplaza is the primary destination for shoppers in Island East. Uny, Wing On, Marks & Spencer and UA Cinemas are among the major anchor tenants; other tenants comprise over 170 retail and catering outlets and the Cityplaza Ice Palace.

The Mall at Pacific Place is the pre-eminent shopping mall in Hong Kong. Seibu, Great Food Hall, Lane Crawford, Marks & Spencer and UA Cinemas are the anchor tenants, together with 160 other retail and catering outlets.

Festival Walk is jointly owned by Swire Properties and CITIC Pacific, and is firmly established as a major shopping centre in Kowloon. A significant number of refinements to the trade mix were introduced during 2002 and these have materially improved productivity. Anchor tenants include Park'N'Shop, Marks & Spencer, Page One Books and the 11-screen AMC Cinema, plus over 200 retail and catering outlets and the Glacier ice rink.

The Citygate commercial centre at Tung Chung, in which Swire Properties has a 20% interest, comprises a 463,000 square foot retail centre and a 161,000 square foot office tower, both completed in 1999. There is also provision for a 400-room hotel, which will be completed in late 2005. The retail centre is 70% let, but securing office tenants remains difficult and only 19% of the office space has been let.

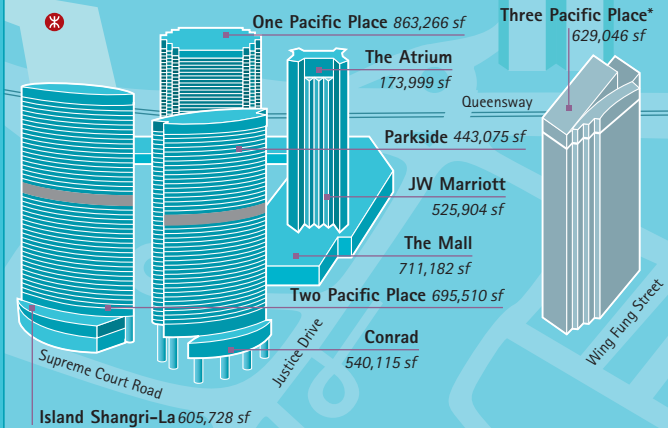
RESIDENTIAL

The residential portfolio comprises mainly The Atrium and Parkside serviced suites at Pacific Place and The Albany apartments in Mid-Levels. The difficult business climate contributed to a drop in gross rental income from the serviced suites. 25 units at The Albany were sold during 2002, making a total of 34 units sold since sales started in late 2001. The remaining residential properties on Hong Kong Island were fully let.

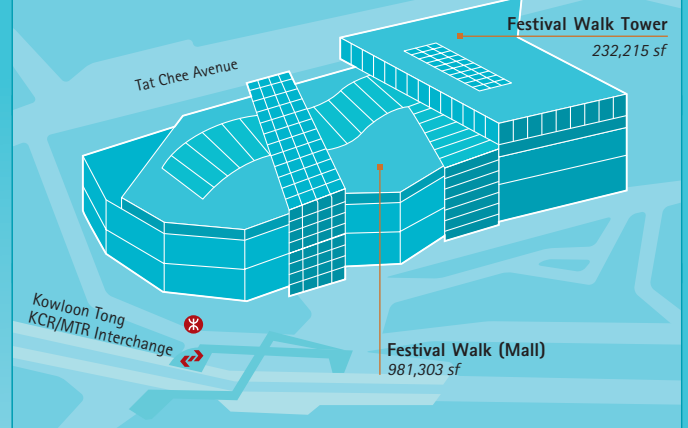
Investment Properties under Development

Cambridge House, at TaiKoo Place, will be completed shortly. This building will provide approximately 271,000 square feet of additional office space linked to Devon House.

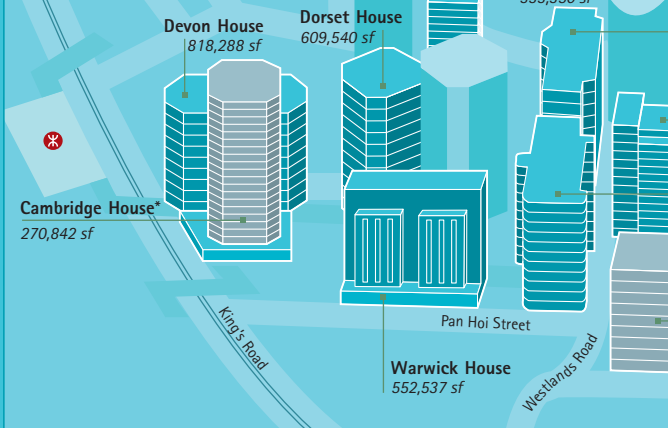
Pacific Place



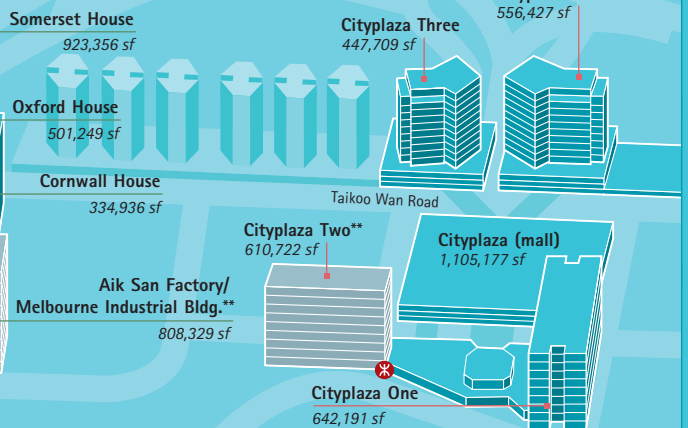
Festival Walk



TaiKoo Place



Cityplaza



The construction of Three Pacific Place (formerly called Pacific Forum), is underway and is scheduled for completion in the middle of 2004. The development will comprise an office tower with a gross floor area of 629,000 square feet, plus 111 car park spaces.

During 2002 Swire Properties completed the acquisition of the Aik San Factory Building and the Melbourne Industrial Building, both located on Westlands Road, Quarry Bay. Demolition of the two buildings will commence in the first half of 2003 but a decision has yet to be taken on when to proceed with this project. The combined site has a redevelopment potential of 808,000 square feet of office space. No land premium is payable to the Government on any office redevelopment on this site.

The luxury residential scheme at 3 Coombe Road, The Peak, comprising four houses, is substantially complete.

2002 Valuation of Investment Properties

The portfolio of completed investment properties in Hong Kong, as well as properties intended for investment which are under or pending development, were revalued at 31st December 2002 by professionally-qualified executives of the group. As a result of this valuation, Swire Pacific's property valuation reserve decreased by HK\$5,408 million. The decrease in 2002 is largely attributable to the decline in office rental levels. Swire Pacific's property valuation reserve at 31st December 2002 showed a surplus of HK\$22,892 million. Particulars of the properties in Hong Kong and the USA, both for investment and development for sale, are set out on pages 94 to 102.

Taikoo Shing Arbitration

The Hong Kong SAR Government Lands Department's claim for payment of land premium and interest in relation to the Cityplaza Four, Cityplaza Three and Cityplaza One office towers, as well as the Horizon Gardens residential scheme at Taikoo Shing, was upheld in an arbitration award announced in January 2001. Whilst the arbitrator's decision that Swire Properties has to surrender 1,974,000 square feet of its entitlement to build commercial gross floor area is now accepted, the timing of the surrender and consequently the Government's entitlement to premium and

interest is the subject of an appeals process for which the ultimate outcome has yet to be determined. The amount of HK\$4,500 million which was accrued in the Swire Pacific group accounts as at 31st December 2000 remains our best estimate of the group's exposure.

Property Trading Portfolio

The portfolio of developments for sale comprises residential apartments in Hong Kong and the USA. In Hong Kong approximately 3,500 unsold units are either completed or under development by subsidiary or jointly-controlled companies. Swire Pacific's attributable interest amounts to approximately 1,600 units.

The main building contract of The Orchards residential project on King's Road is progressing well, and completion is expected by mid-2003. This wholly-owned development will comprise two residential towers with 422,000 square feet of space in 442 units, with 144 car park spaces. A new school campus has been constructed which opened formally in December 2002.

At Ocean Shores in Tseung Kwan O, which comprises 5,728 residential units in 15 towers with 1,176 car park spaces and 32,000 square feet of neighbourhood shopping area, 4,038 units have been sold to date. The final phase is expected to be completed shortly. Swire Properties has a 49% interest in this development.

The Les Saisons residential scheme in Aldrich Bay in which Swire Properties has a 50% interest was completed in early 2002 and 735 units have been sold to date. A further 129 remain to be sold.

The residential schemes at Tung Chung Crescent and Seaview Crescent, comprising a total of 3,694 units, were developed in conjunction with the Citygate commercial centre, under an agreement with MTRC. At Tung Chung Crescent 77 units remain unsold, whilst at Seaview Crescent, where sales were launched in mid-2002, 951 units are unsold. Swire Properties has a 20% interest in these developments.

A former bus depot site on Wong Chuk Hang Road, Aberdeen, owned 50:50 by Swire Properties and China Motor Bus, will not be redeveloped until market conditions improve. It has an industrial development potential of 382,000 square feet.

Hotels

The JW Marriott, Conrad Hong Kong and Island Shangri-la hotels at Pacific Place recovered well from the weak fourth quarter of 2001, but room rates remain under pressure in the difficult business environment.

Mainland China

Swire Properties has concluded an agreement with the Guangzhou Daily News Group to develop the Taikoo Hui Guangzhou Cultural Plaza in the Tianhe district of Guangzhou. The project will consist of a major retail centre, offices, an hotel, a performing arts centre and a library and is scheduled for completion in 2007 at a total estimated cost of RMB4,000 million. Swire Properties has a 55% stake in this four million square foot development.

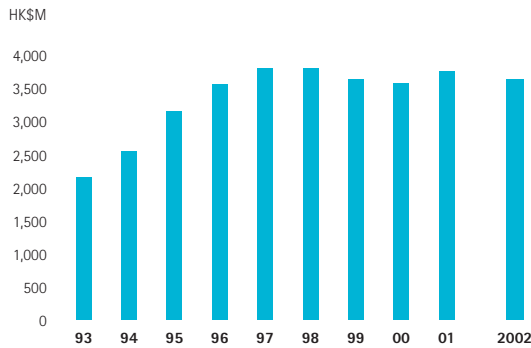
Swire Properties has a 10% interest in CITIC Square on Nanjing Road West, Shanghai. The building comprises 1.1 million square feet of retail and office space, and is over 97% let.

USA

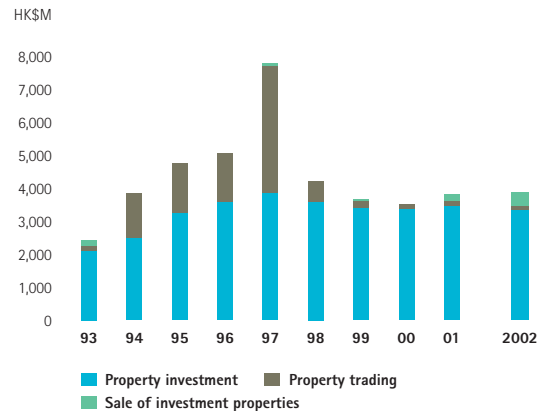
The 319-unit Courts Brickell Key condominium tower on Brickell Key, Miami, was completed in December 2002. To date 251 units have been sold and of these 144 were handed over to purchasers before the end of 2002. Construction of Jade Residences, a 336-unit residential condominium development at Brickell Bay in which Swire Properties has a controlling interest, has commenced with completion scheduled for late 2004. 279 units have been sold to date.

The 329-room Mandarin Oriental Hotel, which is 75% owned by the group, achieved improved occupancy and reported a small operating profit.

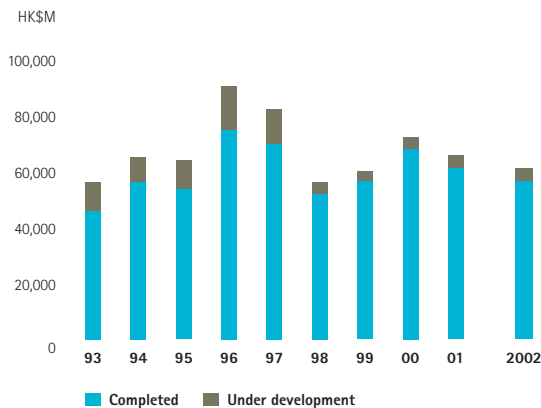
Net rental income



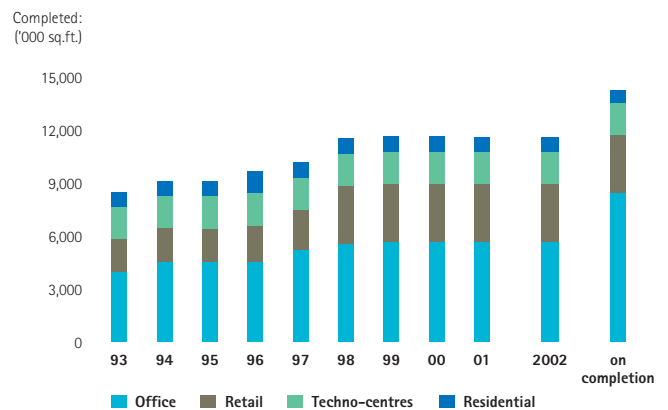
Operating profit before non-recurring items



Valuation of investment properties



Floor area of investment properties





12.3 million
passengers and
851,000 tonnes of
cargo carried by
Cathay Pacific in 2002.

The three airlines are based in Hong Kong. Cathay Pacific Airways provides international passenger and cargo services. Dragon Airlines provides passenger services to Mainland China and the rest of Asia and also runs international cargo services. Air Hong Kong provides cargo services and is in the process of establishing a regional express cargo network. Other interests, comprising associated and jointly controlled companies, provide aviation-related services including aircraft maintenance, flight catering, ramp and cargo handling and laundry services.

	2002 HK\$M	2001 HK\$M
Share of profits before taxation associated companies		
Cathay Pacific Group*	1,805	307
Hong Kong Aircraft Engineering Group	242	155
Hong Kong Dragon Airlines	107	66
Hong Kong Air Cargo Terminals	229	156
	2,383	684
Attributable profit	2,115	520

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

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

	Shareholding of Group companies			Swire Pacific effective interest
	Direct or by Swire Aviation**	By Cathay Pacific Group	Total	
Cathay Pacific Airways Ltd	45.8%	–	45.8%	45.8%
Hong Kong Dragon Airlines Ltd	7.7%	17.8%	25.5%	15.9%
AHK Air Hong Kong Ltd	–	70.0%	70.0%	32.0%
Hong Kong Aircraft Engineering Co Ltd	32.5%	27.4%	59.9%	45.0%
Hong Kong Air Cargo Terminals Ltd	30.0%**	10.0%	40.0%	24.6%

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

Cathay Pacific Airways

Key Operating Highlights

		2002	2001	Growth
Available tonne kilometres ("ATK")	Million	12,820	11,827	+8.4%
Available seat kilometres ("ASK")	Million	63,050	62,790	+0.4%
Revenue passenger kilometres ("RPK")	Million	49,041	44,792	+9.5%
Passengers carried	'000	12,321	11,269	+9.3%
Passenger load factor	%	77.8	71.3	+6.5% pts
Passenger yield	HK cents	45.4	45.7	-0.7%
Cargo carried	'000 tonnes	851	704	+20.9%
Cargo and mail load factor	%	71.2	67.3	+3.9% pts
Cargo and mail yield	HK\$	1.80	1.85	-2.7%
Cost per ATK	HK\$	2.13	2.36	-9.7%
Cost per ATK without fuel	HK\$	1.76	1.93	-8.8%
Aircraft utilisation	Hours per day	12.1	12.1	No change
On-time performance	%	90.7	82.9	+7.8% pts
Breakeven load factor	%	65.7	70.5	-4.8% pts

2002 OVERVIEW

The Aviation Division achieved one of its most profitable years. This was a creditable performance given the global aviation industry was still suffering from the turmoil of 2001. Cathay Pacific had a particularly good year with increased passenger demand and the continued growth of its cargo business. Hong Kong Aircraft Engineering benefited from the resurgence of Cathay Pacific's operations including the work required to bring parked aircraft back into service. Hong Kong Air Cargo Terminals benefited from the growth of cargo handled through Hong Kong International Airport.

In February 2002 Cathay Pacific Airways bought out the minority shareholder in the all cargo carrier AHK Air Hong Kong ('AHK') and transferred two AHK B747 freighters and AHK's intercontinental operations to its own cargo arm in July. In October DHL International Limited ('DHL') bought a 30% interest in AHK and entered into an agreement with Cathay Pacific to develop AHK as an express cargo airline. AHK has initially ordered six A300-600F freighter aircraft to operate regional DHL services from Hong Kong International Airport.

Cathay Pacific Airways

The Cathay Pacific group made a consolidated profit of HK\$3,983 million in 2002, compared to a profit of HK\$657 million in 2001.

The much improved performance reflects increased passenger demand, the continued growth of cargo operations, particularly during the second half of the year, and the success of ongoing efforts to lower operating costs.

PASSENGER SERVICES

2002 saw a significant increase in passenger revenue as passenger traffic rebounded faster than expected. Passenger

load factor increased by 6.5% points to 77.8%. Passenger yield declined to HK¢45.4 from HK¢45.7 due to competitive pricing.

As market conditions improved, the airline restored previously suspended flights and increased frequency to several destinations. European, trans-Pacific, Australasian and Middle East services performed well throughout the year but the North Asian market was still adversely affected by weak economic conditions. Yields in the South East Asian market were depressed by excess capacity.

CARGO

2002 was a very good year for cargo as a result of strong export growth from Hong Kong to Europe and North America. During the year, two B747-200 freighters were returned from AHK and one parked aircraft was brought back into service.

Cargo 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 yielding long haul services. Cathay Pacific carried 851,000 tonnes of freight, setting a new annual record, whilst the load factor increased by 3.9% points to 71.2%.

NETWORK, PRODUCT AND FLEET

Most services suspended since the last quarter of 2001 were restored as demand picked up. In the second half of the year, Cathay Pacific increased frequencies to Auckland, Brisbane, Colombo, London, Melbourne and Tokyo. In early 2003, Cathay Pacific finalised a codeshare agreement with its **oneworld** partner American Airlines that allows Cathay Pacific passengers access to 20 US cities beyond the existing gateway destinations. Brussels, Manchester and Milan joined Cathay Pacific's freighter network as part of the restructuring of cargo operations with AHK.

Cathay Pacific continues to deliver high quality products and services to its customers. The installation of the new Business Class Cabin on the long haul fleet is expected to be completed by the end of 2003. The "Best Chinese Food in the Air" promotion returned, serving passengers special dishes from Hong Kong's internationally acclaimed Yung Kee Restaurant.

Cathay Pacific was the first airline in Asia to take delivery of the new long range A340-600. By the end of 2002, the airline had a fleet of 79 aircraft, comprising 19 B747-400s, 12 B777s, 20 A330s, 15 A340-300s, 2 A340-600s and 11 B747 freighters.

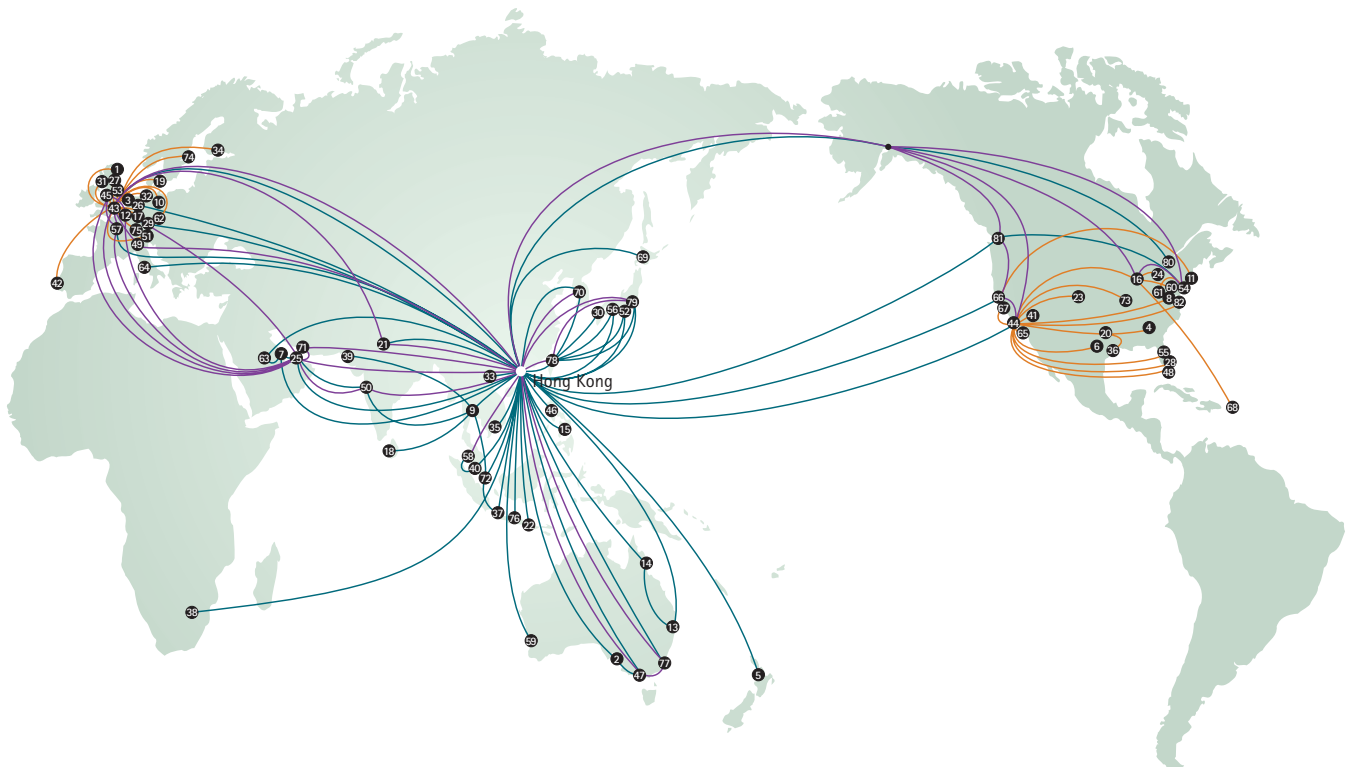
It will take delivery of a third A340-600 in 2003 and has ordered three B777-300 and three A330-300 passenger aircraft to expand the regional fleet in late 2003 and early 2004.

AHK Air Hong Kong (AHK)

Following the restructuring in July 2002, AHK has operated a single B747 freighter on scheduled services to Osaka and Seoul and charter flights for Cathay Pacific. It also operates a wet-leased freighter to Tokyo and will use a second wet-leased freighter to operate flights to Bangkok starting March 2003. It recorded a satisfactory profit in 2002.

Cathay Pacific Network

— Passenger Network — Codeshare Services — Freighter Services • Anchorage (Technical stop only)



- | | | | | | | | |
|-------------|--------------|-------------------|---------------------|---------------|------------------|--------------|------------------|
| ① Aberdeen | ⑬ Brussels | ⑳ Denver | ⑳ Helsinki | ⑤⑤ Manchester | ⑤⑥ Osaka | ⑥⑦ San Jose | ⑦⑧ Taipei |
| ② Adelaide | ⑭ Brisbane | ㉑ Detroit | ⑤⑥ Ho Chi Minh City | ⑤⑥ Manila | ⑤⑦ Paris | ⑥⑧ San Juan | ⑦⑨ Tokyo |
| ③ Amsterdam | ⑮ Cairns | ㉒ Dubai | ⑤⑦ Houston | ⑤⑦ Melbourne | ⑤⑧ Perth | ⑥⑨ Sapporo | ⑧① Toronto |
| ④ Atlanta | ⑯ Cebu | ㉓ Dusseldorf | ⑤⑧ Jakarta | ⑤⑧ Miami | ⑤⑨ Philadelphia | ⑦① Seoul | ⑧② Vancouver |
| ⑤ Auckland | ⑰ Chicago | ㉔ Edinburgh | ⑤⑨ Johannesburg | ⑤⑨ Milan | ⑥① Pittsburgh | ⑦② Singapore | ⑧③ Washington DC |
| ⑥ Austin | ⑱ Cologne | ㉕ Fort Lauderdale | ⑥① Karachi | ⑥① Mumbai | ⑥② Prague | ⑦③ St Louis | |
| ⑦ Bahrain | ⑲ Colombo | ㉖ Frankfurt | ⑥② Kuala Lumpur | ⑥② Munich | ⑥③ Riyadh | ⑦④ Stockholm | |
| ⑧ Baltimore | ⑳ Copenhagen | ㉗ Fukuoka | ⑥③ Las Vegas | ⑥③ Nagoya | ⑥④ Rome | ⑦⑤ Stuttgart | |
| ⑨ Bangkok | ㉑ Dallas | ㉘ Glasgow | ⑥④ Lisbon | ⑥④ Newcastle | ⑥⑤ San Diego | ⑦⑥ Surabaya | |
| ⑩ Berlin | ㉒ Delhi | ㉙ Hamburg | ⑥⑤ London | ⑥⑤ New York | ⑥⑥ San Francisco | ⑦⑦ Sydney | |
| ⑪ Boston | ㉓ Denpasar | ㉚ Hanoi | ⑥⑥ Los Angeles | ⑥⑥ Orlando | | | |

AHK will develop a regional express cargo network with the six A300-600F freighter aircraft it has on order for delivery in the second half of 2004 and first quarter of 2005.

Hong Kong Aircraft Engineering Company (HAECO)

HAECO's 2002 profit attributable to shareholders was HK\$465 million – an increase of 49% compared to that in 2001. This result included a release of provisions totalling HK\$70 million which were made in previous financial periods to cover potential problems in collecting debts due from customers and stock obsolescence.

The year saw an increase in the number of flights into Hong Kong International Airport, which led to a 7% increase in HAECO's line maintenance activity. The base maintenance and modification facilities at Hong Kong International Airport continued to be heavily used.

The jointly controlled companies also had a successful year, with their combined contribution to HAECO's profit before tax increasing by 18% from the prior year. Taikoo (Xiamen) Aircraft Engineering (TAECO) provides heavy maintenance from two double-bay hangars in Xiamen, with a third hangar nearing completion. TAECO also provides line maintenance services at Xiamen, Beijing and Shanghai. Hong Kong Aero Engine Services (HAESL) is the major Rolls-Royce aero engine overhaul and refurbishment facility in the region. Both companies achieved high utilisation of their facilities and manpower during the year.

It is expected that commercial aircraft traffic in the region will increase in 2003, which should benefit the company's line maintenance activities and facilitate high utilisation of the base maintenance facilities in both Hong Kong and Xiamen.

Hong Kong Air Cargo Terminals (Hactl)

Hactl achieved throughput growth of 19.6% to 1.9 million tonnes and has substantially completed a series of productivity improvements which will increase its annual handling capacity to over 3.5 million tonnes.

Hong Kong Dragon Airlines (Dragonair)

Dragonair reported a higher profit mainly due to an increase in traffic and improved contribution from cargo operations, particularly in the second half of the year.

Passenger numbers increased by 19.2% whilst passenger load factor decreased by 1.4 percentage points with a 19.4% increase in capacity. Passenger yield decreased by 4.8% due to adverse currency movements and intense market competition.

Cargo tonnage increased by 59.6% whilst 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 a higher proportion of lower yielding transshipment traffic.

A 22 times weekly passenger service to Taipei was launched in July. Frequencies to Beijing and Shanghai were increased from the commencement of the summer schedule, whilst additional flights were operated to other major cities in order to cope with higher demand during the summer season. 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 four passenger aircraft and one freighter during the year increasing its fleet to 24 aircraft at the end of 2002.

Demand for air travel between Hong Kong and Mainland China is expected to continue to grow strongly for the foreseeable future and Dragonair remains optimistic about its prospects for 2003.

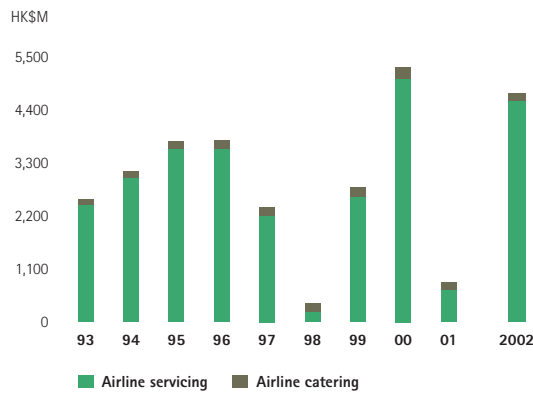
Airline Catering

The Cathay Pacific Catering Services group operates seven in-flight catering facilities in Asia and North America. The group recorded a higher profit than last year as a result of higher passenger numbers and improved cost control.

Hong Kong Airport Services (HAS)

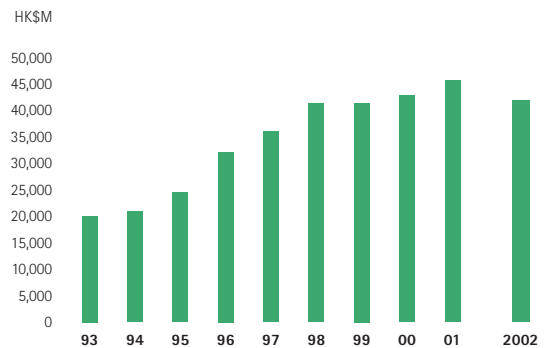
Services provided by the company include aircraft loading, passenger steps and air bridge operations, baggage handling and cargo and mail delivery. HAS recorded a satisfactory profit following an increase in aircraft movements and a small increase in market share in 2002.

Operating profit* – Cathay Pacific Group



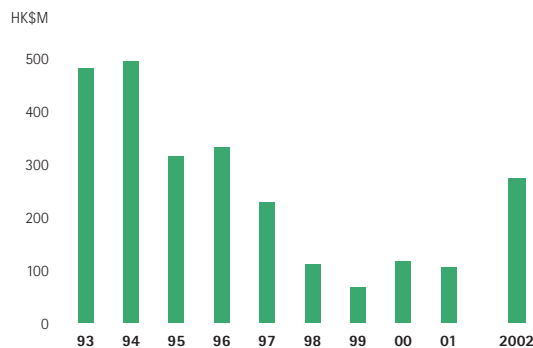
* Operating profit is stated before non-recurring items.

Net assets employed** – Cathay Pacific Group



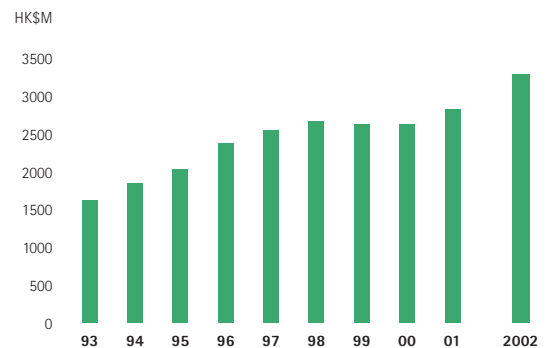
** Net assets employed comprise shareholders' funds, minority interests and net external borrowings of the Cathay Pacific Group.

Operating profit* – HAECO Group



* Operating profit is stated before non-recurring items.

Net assets employed** – HAECO Group



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