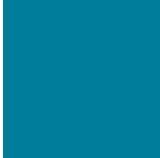


CATHAY PACIFIC AIRWAYS LIMITED



INTERIM REPORT 2 0 0 3





Contents

Financial and Operating Highlights	2
Chairman's Letter	3
2003 Interim Review	4
Review of Operations	6
Financial Review	8
Condensed Financial Statements	10
Information Provided in Accordance with the Listing Rules	22

Corporate Information

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

Investor relations

For further information about Cathay Pacific Airways, please contact:

Corporate Communication Department
 Cathay Pacific Airways Limited
 7th Floor, North Tower
 Cathay Pacific City
 Hong Kong International Airport
 Hong Kong

Tel : 2747 5210

Fax : 2810 6563

Cathay Pacific's main Internet address is
<http://www.cathaypacific.com>

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 and its subsidiaries and associates employ 25,000 staff in Hong Kong. The airline's two major shareholders are both Hong Kong companies listed on the Hong Kong Stock Exchange, as is Cathay Pacific itself.

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 shareholder 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.

FINANCIAL AND OPERATING HIGHLIGHTS

2

Group Financial Statistics

		2003	2002	Change
		Six months ended 30th June		
Results				
Turnover	<i>HK\$ million</i>	12,275	15,511	-20.9%
(Loss)/profit attributable to shareholders	<i>HK\$ million</i>	(1,241)	1,412	-187.9%
(Loss)/earnings per share	<i>HK cents</i>	(37.2)	42.4	-187.7%
Dividend per share	<i>HK cents</i>	3.0	16.0	-81.3%
(Loss)/profit margin	<i>%</i>	(10.1)	9.1	-19.2%pt
Balance Sheet				
		30th June	31st December	
Shareholders' funds	<i>HK\$ million</i>	29,383	32,115	-8.5%
Net borrowings	<i>HK\$ million</i>	11,230	9,646	+16.4%
Net debt/equity ratio	<i>Times</i>	0.38	0.30	+0.08 times

Operating Statistics – Cathay Pacific

		Six months ended 30th June		Change
Available tonne kilometres ("ATKs")	<i>Million</i>	6,087	5,750	+5.9%
Passengers carried	<i>'000</i>	4,019	5,933	-32.3%
Passenger load factor	<i>%</i>	64.4	78.1	-13.7%pt
Passenger yield	<i>HK cents</i>	42.8	45.4	-5.7%
Cargo carried	<i>'000 Tonnes</i>	406	386	+5.2%
Cargo and mail load factor	<i>%</i>	69.2	70.2	-1.0%pt
Cargo and mail yield	<i>HK\$</i>	1.72	1.83	-6.0%
Cost per ATK	<i>HK\$</i>	2.09	2.26	-7.5%
Aircraft utilisation	<i>Hours per day</i>	11.1	11.8	-5.9%
On-time performance	<i>%</i>	91.7	90.7	+1.0%pt

Definitions are set out in the 2002 annual report.

During the first half of 2003, Cathay Pacific was confronted by the greatest commercial challenge in the Company's history. The outbreak in mid March of atypical pneumonia, or SARS, had a devastating impact on our passenger business. Passenger numbers fell dramatically to below one fifth of their normal level and in April the Group issued its first ever profit warning. For the first six months of the year the Group recorded a loss of HK\$1,241 million, compared to a profit of HK\$1,412 million recorded in the first half of 2002. Turnover at HK\$12,275 million was down 20.9%.

Following the outbreak of SARS, we responded quickly both to contain costs and conserve cash reserves. We reduced our passenger schedule by 45 percent and parked 22 aircraft, whilst maintaining the integrity of our global network. Passenger revenue fell 29.5% compared to the same period last year and passenger yield fell 5.7% to HK\$42.8.

Support for the Company during this extremely difficult episode was demonstrated by our shareholders, who voted to accept the Board's recommendation to halve the previously recommended final dividend for 2002, and by the vast majority of our staff who agreed to accept one month's unpaid leave. I would also like to thank the many suppliers who agreed to lower fees and charges and to extend payment terms.

Demand for our cargo services remained strong, particularly to our key markets in Europe and North America. The Group's cargo revenues were up 4.3% on the same period last year. We maintained a full freighter schedule and introduced an additional service to Milan. One Boeing 747-200 freighter, which had been parked since late 2001, was re-introduced into service. Cargo yield fell 6.0% to HK\$1.72.

Following the containment of the SARS outbreak and the subsequent lifting of various World Health Organisation travel advisories, we have focused on rebuilding public confidence in air travel and tourism. Cathay Pacific was instrumental in the creation of the "We Love Hong Kong" campaign aimed at restoring consumer sentiment in Hong Kong. We also launched a range of special promotions and initiatives aimed at recovering lost business.

As market conditions strengthened we reinstated services and are now operating at 90% of our original passenger schedule. As demand continues to recover we anticipate a much improved performance in the second half year.

James Hughes-Hallett

Chairman

Hong Kong, 6th August 2003

The first half of 2003 was extremely difficult for Cathay Pacific. The war in Iraq, the outbreak of SARS and a subsequent World Health Organisation travel advisory against Hong Kong, produced a sharp decline in the airline's passenger business. Services were cut and aircraft parked as part of a broad based cost saving initiative. Our cargo business, however, remained robust.

Global network and growing fleet

- In early April, we reduced our passenger capacity in response to the fall in passenger traffic arising from the SARS outbreak. We cancelled 45% of our passenger flights and parked 22 aircraft. The integrity of our network was maintained, although services to Fukuoka and Sapporo were temporarily suspended.
- Subsequent to the World Health Organisation lifting the travel advisory against Hong Kong, we resumed a number of the cancelled flights.
- Hong Kong's Air Transport Licensing Authority granted us licences to operate services to Beijing, Shanghai and Xiamen. We have been designated by the Hong Kong SAR Government to operate services to Beijing, and we shall be seeking operational approval and slots from the Chinese Mainland authorities.
- We formed a codeshare agreement with **oneworld** alliance partner American Airlines connecting our network to an additional 20 cities in the United States.
- Our codeshare with **oneworld** alliance partner British Airways was extended to include Copenhagen, Lisbon and Seoul.
- By mid-2003 we had 80 aircraft in our fleet, including 69 passenger aircraft and 11 freighters.
- Six aircraft are due for delivery in late 2003 and early 2004: three Boeing 777-300 and three Airbus 330-300.

Fleet profile

Aircraft type	Number as at 30th June 2003				Firm orders				Expiry of operating leases			Options
	Owned	Leased		Total	'03	'04	'05	Total	'06	'07	'08	
		Finance	Operating									
Aircraft operated by Cathay Pacific :												
B747-400	9	8	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)			3	3						2	1	
Total	15	56	9	80	5	1		6	4	3	2	3
Aircraft operated by AHK Air Hong Kong :												
B747-200F		1		1								
A300-600F					4	2		6				4
A300-B4F/B727F ^(c)			2	2								
Total		1	2	3	4	2		6				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.

Award winning product and services

- We were voted “Airline of the Year” in the 2003 Skytrax poll of 4.4 million travellers. We were also named “Best Airline – Asia” and “Best Airline – Transpacific” for the second consecutive year.
- The Far Eastern Economic Review ranked us number two in its “Review 200” survey of top Hong Kong companies and the best Hong Kong company in terms of service and product quality.

Hong Kong community

- We initiated the “We Love Hong Kong” campaign, along with the Board of Airline Representatives, Federation of Hong Kong Hotel Owners, Hong Kong Hotels Association and Travel Industry Council, to help the Hong Kong economy overcome the economic impact of SARS.
- We gave away more than 10,000 free tickets to support the Hong Kong Tourism Board’s effort to rebuild the local tourism industry. We also launched the “Visit Hong Kong Now” promotion which offers up to 50 percent off flight and hotel packages in order to draw overseas travellers back to Hong Kong.
- The “I Can Fly” community programme was launched to nurture the spirit of social service and instil an enthusiasm for aviation among local youth.
- We supported the Operation UNITE – “Take Off With Hong Kong” campaign with a special promotion that offered packages of discounted fares to more than 40 cities worldwide.
- We were title sponsor of the Cathay Pacific International Chinese New Year Parade for the fifth consecutive year.

Dedicated staff

- A staff hiring freeze was implemented following the fall in passenger traffic.

- Staff were asked to join a special leave scheme and take one month’s unpaid leave between June and September in order to help the Company conserve cash and thereby preserve jobs. With the reinstatement of services the unpaid leave has now been reduced by one week.
- By mid-2003, we employed 14,800 staff in 30 countries and territories, 10,900 of which are based in Hong Kong.
- Cathay Pacific regularly reviews its human resources and remuneration policy in light of local legislation, industry practice, market conditions and the performance of both individuals and the Company.

New technology

- We announced a partnership with PCCW NETVIGATOR and Tenzing Communications to offer the NETVIGATOR inflight email service. Cathay Pacific is the first airline to commit to offering inflight email across its fleet.
- COINS, a new revenue management system to control inventory and pricing strategies, was introduced in early 2003.
- Ultramain, which will track and predict maintenance costs, continued roll out.

The environment

- An air quality monitoring programme, undertaken in aircraft cabins, showed that the air is of a good quality.
- A comprehensive programme to sort and recycle paper materials such as newspapers and inflight menu cards has been implemented on all inbound flights.
- The impact of SARS resulted in a concerted effort to reduce energy consumption in Cathay City. Measures taken include temperature adjustments, reduced lighting and restricted availability of lifts and escalators.

Passenger services

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

	ASK (million)			Load factor (%)			Yield
	2003	2002	Change	2003	2002	Change	Change
North Asia	4,077	5,346	-23.7%	55.6	68.8	-13.2%pt	-8.2%
South East Asia and Middle East	5,851	6,684	-12.5%	59.2	72.5	-13.3%pt	-4.6%
Europe	5,481	6,386	-14.2%	69.6	84.6	-15.0%pt	+8.3%
Pacific and South Africa	11,422	11,121	+2.7%	67.7	82.3	-14.6%pt	-3.4%
Overall	26,831	29,537	-9.2%	64.4	78.1	-13.7%pt	-5.7%

- In the first six months of 2003, 4 million passengers were carried representing a reduction of 1.9 million passengers on 2002. ASKs fell by 9.2% while load factor, on the greatly reduced capacity, fell to 64.4%.
- Passenger revenue fell by 29.5%, partly as a result of uncertainty over the war in Iraq, but mainly due to the outbreak of SARS and a subsequent World Health Organisation travel advisory issued against Hong Kong.
- At the worst point in the crisis passenger services were cut by 45 percent and 22 aircraft were parked.
- Yield in the first half dropped to HK¢42.8 from HK¢45.4 in the same period last year.
- Passenger operations were not affected by the war in Iraq, although First Class and Business Class traffic slowed from early March amid uncertainty over the conflict.
- All routes were adversely affected by SARS, in particular services to Taiwan and North America.
- The proportion of revenue generated from Hong Kong increased significantly in the second quarter.
- We saw a gradual yet slow recovery in June after the World Health Organisation lifted the travel advisory against Hong Kong.

Cargo services

Available tonne kilometres ("ATKs"), load factor and yield are analysed as follows:

	ATK (million)			Load factor (%)			Yield
	2003	2002	Change	2003	2002	Change	Change
Cathay Pacific	3,535	2,940	+20.2%	69.2	70.2	-1.0%pt	-6.0%
AHK Air Hong Kong	78	510	-84.7%	55.8	72.0	-16.2%pt	+281.5%

Cathay Pacific Airways Limited

- In the first six months of 2003, 406,000 tonnes of freight were carried representing an increase of 20,000 tonnes on 2002. Cargo ATKs grew by 20.2% while the load factor decreased to 69.2%.
- Revenue increased by 11.4% with strong export growth to the United States, Europe and Asian destinations.
- Yield declined from HK\$1.83 to HK\$1.72 per revenue tonne kilometre due in part to an increase in the number of lower yield long-haul services.
- While the war in Iraq had no effect upon cargo operations, SARS had the effect of reducing cargo capacity by 20% because of the cancelled passenger flights.

- This shortfall was compensated by the integration of AHK's European operation in July 2002 and the reactivation of a previously parked B747-200 freighter.
- Additional freighter services were mounted within the region where there was any shortfall in cargo capacity.
- We increased our freighter service frequency to Milan from two to three flights each week.
- Cathay Pacific Cargo was joined by Japan Airlines Cargo, Qantas Freight and Singapore Airlines Cargo in signing a memorandum of understanding to partner in a new Internet-based cargo portal.

AHK Air Hong Kong Limited ("AHK")

- Cathay Pacific sold a 10% stake in AHK to DHL International Limited in March.
- AHK ordered six A300-600 freighters for delivery in 2004 and early 2005.
- AHK commenced a four times weekly service to Bangkok in March using a wet leased regional freighter.
- AHK will start operating service to Singapore in the winter schedule this year.
- SARS had little effect on the air freight business and the company reported a satisfactory interim profit.
- Capacity, as a result of the return of two aircraft to Cathay Pacific in July 2002, fell by 84.7%. Load factor decreased while the yield increased as the company shifted its focus towards regional cargo operations.

Review of affiliated businesses and associated companies

Hong Kong Dragon Airlines Limited ("Dragonair")

- Dragonair recorded an interim loss due to a significant fall in passenger traffic resulting from the SARS outbreak in Hong Kong, Mainland China and

Taiwan. The company reduced passenger capacity by over 60% in the second quarter.

- Passenger load factor dropped significantly by 14.1% points to 50.4% despite the substantial reduction in capacity. Passenger demand further deteriorated on account of the quarantine requirements introduced by Taiwan and certain cities in Mainland China.
- Cargo services were less affected by the SARS outbreak and recorded 6.6% points increase in cargo load factor.
- In view of the adverse operating environment, the company implemented stringent cost control measures and parked 11 of its 21 passenger aircraft.

Airline services

- Hong Kong Aircraft Engineering Company Limited ("HAECO") recorded an interim profit of HK\$190 million, representing a 20.8% decrease due to a provision write back last year.
- Whilst workload in the heavy maintenance facility remained high, the drop in aircraft movements at Hong Kong International Airport affected line maintenance revenue.
- The contribution from HAECO's jointly controlled companies increased from HK\$85 million to HK\$136 million, with strong performances from both Hong Kong Aero Engine Services Limited and Taikoo (Xiamen) Aircraft Engineering Company Limited.
- Hong Kong Airport Services Limited reported an interim loss due to the large number of flight cancellations.

Airline catering

- The interim performance of Cathay Pacific Catering Services (H.K.) Limited was badly affected by the outbreak of SARS. The company implemented stringent cost controls.
- All overseas flight kitchens were impacted by SARS and also implemented cost control measures.

Turnover

	Group		Cathay Pacific	
	Six months ended 30th June		Six months ended 30th June	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Passenger services	7,438	10,550	7,438	10,550
Cargo services	4,405	4,225	4,197	3,768
Catering and other services	432	736	–	–
Turnover	12,275	15,511	11,635	14,318

- Passenger turnover reduced significantly by HK\$3,112 million.
- Cathay Pacific's cargo operation recorded a HK\$429 million increase in turnover, partly due to the integration of AHK's European services since July 2002.
- During the first half of 2003, the cargo operation accounted for 35.9% of Group's total revenue.

Operating expenses

	Group			Cathay Pacific		
	Six months ended 30th June			Six months ended 30th June		
	2003 HK\$M	2002 HK\$M	Change	2003 HK\$M	2002 HK\$M	Change
Staff	3,961	3,810	+4.0%	3,611	3,420	+5.6%
Inflight service and passenger expenses	559	695	-19.6%	559	695	-19.6%
Landing, parking and route expenses	1,925	2,297	-16.2%	1,885	2,195	-14.1%
Fuel	2,402	2,197	+9.3%	2,369	2,063	+14.8%
Aircraft maintenance	1,298	1,589	-18.3%	1,263	1,510	-16.4%
Aircraft depreciation and operating leases	1,975	1,801	+9.7%	1,954	1,731	+12.9%
Other depreciation and operating leases	458	516	-11.2%	343	388	-11.6%
Commissions	158	247	-36.0%	158	246	-35.8%
Exchange gain	(113)	(85)	+32.9%	(112)	(81)	+38.3%
Others	412	608	-32.2%	418	402	+4.0%
Operating expenses	13,035	13,675	-4.7%	12,448	12,569	-1.0%
Net finance charges	281	456	-38.4%	275	444	-38.1%
Total operating expenses	13,316	14,131	-5.8%	12,723	13,013	-2.2%

Operating expenses (continued)

- Staff cost increased by 5.6% due to an increase in staff numbers.
- Inflight service and passenger expenses fell due to cost saving initiatives and the decrease in passenger numbers.
- Landing, parking and route expenses reduced mainly as a result of flight cancellations.
- Fuel cost increased, despite flight cancellations, as a result of a 25% increase in the average fuel price.
- Aircraft maintenance decreased following the parking of 22 passenger aircraft.
- Aircraft depreciation and operating leases increased as a result of the new aircraft which joined the fleet in the second half of 2002.
- Net finance charges decreased due to lower average net borrowings.
- Cathay Pacific's cost per ATK fell to HK\$2.09 due to passenger flight cancellations and cost saving initiatives.

Financial position

- Additions to fixed assets were HK\$955 million, comprising HK\$885 million for aircraft and related equipment and HK\$70 million for properties and other equipment.
- Borrowings decreased by 1% to HK\$22,581 million. These are fully repayable by 2017 and are mainly denominated in US dollars, Japanese yen, Sterling, and Euro with 68% at fixed rates of interest.
- Liquid funds, 84% of which is denominated in US dollars, reduced by 13.7% to HK\$11,371 million.
- Net borrowings increased by 16.4% to HK\$11,230 million.
- The Group's shareholders' funds decreased by 8.5% to HK\$29,383 million whilst the net debt/equity ratio increased to 0.38 times.
- The Group's policy on financial risk management and the management of currency and interest rate exposures is set out in the 2002 annual report.

CONDENSED FINANCIAL STATEMENTS

Consolidated Profit and Loss Account

For the six months ended 30th June 2003 – Unaudited

10

	Note	2003 HK\$M	2002 HK\$M	2003 US\$M	2002 US\$M
Turnover					
Passenger services		7,438	10,550	954	1,352
Cargo services		4,405	4,225	565	542
Catering and other services		432	736	55	94
Total turnover	2	12,275	15,511	1,574	1,988
Expenses					
Staff		(3,961)	(3,810)	(508)	(488)
Route		(2,484)	(2,992)	(319)	(383)
Fuel		(2,402)	(2,197)	(308)	(282)
Aircraft maintenance		(1,298)	(1,589)	(166)	(204)
Depreciation and operating leases		(2,433)	(2,317)	(312)	(297)
Commissions		(158)	(247)	(20)	(32)
Others		(299)	(523)	(38)	(67)
Operating expenses		(13,035)	(13,675)	(1,671)	(1,753)
Operating (loss)/profit	3	(760)	1,836	(97)	235
Finance charges		(971)	(1,264)	(124)	(162)
Finance income		690	808	88	104
Net finance charges	4	(281)	(456)	(36)	(58)
Share of profits of associated companies		8	141	1	18
(Loss)/profit before taxation		(1,033)	1,521	(132)	195
Taxation	5	(194)	(102)	(25)	(13)
(Loss)/profit after taxation		(1,227)	1,419	(157)	182
Minority interests		(14)	(7)	(2)	(1)
(Loss)/profit attributable to shareholders		(1,241)	1,412	(159)	181
Dividends					
Interim declared	6	100	533	13	68
(Loss)/earnings per share					
Basic	7	(37.2¢)	42.4¢	(4.8¢)	5.4¢
Diluted	7	(37.0¢)	42.1¢	(4.7¢)	5.4¢
Dividend per share	6	3.0¢	16.0¢	0.4¢	2.1¢

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

The notes on pages 14 to 21 form part of these accounts.

Consolidated Balance Sheet

At 30th June 2003 – Unaudited

11

	Note	30th June 2003 HK\$M	31st December 2002 HK\$M	30th June 2003 US\$M	31st December 2002 US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	8	49,086	50,038	6,293	6,415
Intangible assets	9	452	489	58	63
Investments in associated companies		1,581	1,739	203	223
Other long-term receivables and investments		1,280	1,458	164	187
		52,399	53,724	6,718	6,888
Long-term liabilities		(29,422)	(31,382)	(3,772)	(4,024)
Related pledged security deposits		11,652	12,853	1,494	1,648
Net long-term liabilities	10	(17,770)	(18,529)	(2,278)	(2,376)
Retirement benefit obligations	11	(328)	(346)	(42)	(44)
Deferred taxation		(7,870)	(7,614)	(1,009)	(976)
		(25,968)	(26,489)	(3,329)	(3,396)
Net non-current assets		26,431	27,235	3,389	3,492
Current assets and liabilities					
Stock		480	430	62	55
Trade and other receivables	12	3,172	4,294	407	550
Liquid funds		11,371	13,180	1,457	1,690
		15,023	17,904	1,926	2,295
Current portion of long-term liabilities		(7,692)	(6,409)	(986)	(822)
Related pledged security deposits		2,881	2,128	369	273
Net current portion of long-term liabilities	10	(4,811)	(4,281)	(617)	(549)
Trade and other payables	13	(4,363)	(5,280)	(560)	(677)
Unearned transportation revenue		(1,906)	(2,518)	(244)	(323)
Taxation		(906)	(874)	(116)	(112)
		(11,986)	(12,953)	(1,537)	(1,661)
Net current assets		3,037	4,951	389	634
Total assets less current and non-current liabilities		29,468	32,186	3,778	4,126
Minority interests		(85)	(71)	(11)	(9)
Net assets		29,383	32,115	3,767	4,117
CAPITAL AND RESERVES					
Share capital	14	668	667	86	86
Reserves		28,715	31,448	3,681	4,031
Shareholders' funds		29,383	32,115	3,767	4,117

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

The notes on pages 14 to 21 form part of these accounts.

Consolidated Cash Flow Statement

For the six months ended 30th June 2003 – Unaudited

	Note	2003 HK\$M	2002 HK\$M	2003 US\$M	2002 US\$M
Operating activities					
Cash generated from operations		927	4,451	119	571
Interest received		6	46	1	6
Net interest paid		(492)	(518)	(64)	(66)
Tax paid		(142)	(106)	(18)	(14)
Dividends received from associated companies		141	51	18	6
Net cash inflow from operating activities		440	3,924	56	503
Investing activities					
Sales of fixed assets		3	18	–	2
Net decrease in other long-term receivables and investments		54	77	7	10
Receipts from disposal of partial interest in a subsidiary company		9	–	1	–
Repayment of loans from an associated company		2	2	–	–
Receipts from disposal of an associated company		–	5	–	1
Net decrease/(increase) in liquid funds other than cash and cash equivalents		1,295	(2,397)	167	(307)
Payments for fixed and intangible assets		(974)	(2,012)	(125)	(258)
Purchase of minority interest in a subsidiary company		–	(194)	–	(25)
Net cash inflow/(outflow) from investing activities		389	(4,501)	50	(577)
Financing activities					
Shares issued		15	34	2	4
New financing		1,741	1,906	223	244
Security deposits placed		(4)	(409)	(1)	(52)
Loan and finance lease repayments		(2,604)	(1,409)	(333)	(181)
Dividends paid – to shareholders	6	(935)	(167)	(120)	(21)
– to minority interests		(9)	(28)	(1)	(3)
Net cash outflow from financing activities		(1,796)	(73)	(230)	(9)
Decrease in cash and cash equivalents		(967)	(650)	(124)	(83)
Cash and cash equivalents at 1st January		3,422	2,601	439	333
Effect of exchange differences		103	87	13	11
Cash and cash equivalents at 30th June		2,558	2,038	328	261

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

The notes on pages 14 to 21 form part of these accounts.

Consolidated Statement of Changes in Equity

For the six months ended 30th June 2003 – Unaudited

13

	Share capital HK\$M	Retained profit HK\$M	Non-distributable				Other reserves HK\$M	Total HK\$M
			Share premium HK\$M	Capital redemption reserve HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M		
At 1st January 2003	667	23,250	7,207	21	412	559	(1)	32,115
Exchange differences on cash flow hedges								
– recognised during the period	–	–	–	–	–	(417)	–	(417)
– transferred to loss for the period	–	–	–	–	–	(29)	–	(29)
Revaluation deficit recognised during the period	–	–	–	–	(124)	–	–	(124)
Exchange differences	–	–	–	–	–	–	(1)	(1)
Net loss not recognised in the profit and loss account	–	–	–	–	(124)	(446)	(1)	(571)
Loss attributable to shareholders	–	(1,241)	–	–	–	–	–	(1,241)
2002 final dividends (note 6)	–	(935)	–	–	–	–	–	(935)
Share options exercised								
– premium received	–	–	14	–	–	–	–	14
– share capital issued	1	–	–	–	–	–	–	1
At 30th June 2003	668	21,074	7,221	21	288	113	(2)	29,383
At 1st January 2002	666	20,541	7,162	21	306	2,599	13	31,308
Prior period adjustment for retirement benefits	–	(573)	–	–	–	–	–	(573)
As restated	666	19,968	7,162	21	306	2,599	13	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 surplus recognised during the period	–	–	–	–	405	–	–	405
Exchange differences	–	–	–	–	–	–	(8)	(8)
Net loss not recognised in the profit and loss account	–	–	–	–	405	(1,589)	(8)	(1,192)
Profit attributable to shareholders	–	1,412	–	–	–	–	–	1,412
2001 final dividends (note 6)	–	(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	1,010	5	30,822

The notes on pages 14 to 21 form part of these accounts.

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 2002 annual report except for the accounting policy on deferred taxation.

With the introduction of HK SSAP 12 (revised) "Income taxes", provision for deferred taxation is made for all taxable temporary differences instead of timing differences as previously adopted. This change in accounting policy does not have any impact on the Group's results and net assets for the current or prior periods.

Principal accounting policy 4 in the 2002 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.

	Six months ended 30th June	
	2003 HK\$M	2002 HK\$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	4,981	5,868
– Japan, Korea and Taiwan	2,193	3,281
South East Asia and Middle East	1,443	1,931
Europe	1,453	1,788
Pacific and South Africa	2,205	2,643
	12,275	15,511

Countries included in each region are defined in the 2002 annual report. Geographical analysis of segment results, segment assets and segment liabilities are not disclosed for the reasons set out in the 2002 annual report.

3. Operating (loss)/profit

	Six months ended 30th June	
	2003 HK\$M	2002 HK\$M
Operating (loss)/profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– Leased	991	1,122
– Owned	886	781
Amortisation of intangible assets	56	63
Operating lease rentals		
– Land and buildings	170	181
– Aircraft and related equipment	324	211
– Others	11	19
Operating lease income		
– Aircraft and related equipment	(5)	(60)
Cost of stock expensed	430	553
Exchange differences	(113)	(85)
Auditors' remuneration	3	3
Income from listed investments	(6)	–
Income from unlisted investments	(36)	(50)

4. Net finance charges

	Six months ended 30th June	
	2003 HK\$M	2002 HK\$M
Net interest charges:		
– Obligations under finance leases	904	1,196
– Interest income on related security deposits, notes and bonds	(547)	(637)
	357	559
– Bank loans and overdrafts	58	58
– Interest income on related security deposits	(3)	(6)
	55	52
– Other loans not wholly repayable within five years	9	10
	421	621
Income from liquid funds:		
– Funds with investment managers	(69)	(96)
– Bank deposits and investments	(71)	(69)
	(140)	(165)
	281	456

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

5. Taxation

	Six months ended 30th June	
	2003 HK\$M	2002 HK\$M
The Company and its subsidiary companies		
– Hong Kong profits tax	6	16
– Overseas taxation	69	59
– Deferred taxation	59	26
– Under/(over) provision for prior years	42	(22)
Share of associated companies' taxation	18	23
	194	102

Hong Kong profits tax is calculated at 17.5% (2002: 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.

6. Dividends

On 5th May 2003, the Board of Directors revised the 2002 final dividend from HK¢56 per share, as originally proposed on 5th March 2003, to HK¢28 per share (2001: HK¢5 per share) in order to conserve the Company's cash in reaction to the business downturn following the SARS outbreak. The revised 2002 final dividend proposal of HK¢28 per share, which totals HK\$935 million (2001: HK\$167 million) was subsequently approved by shareholders on 14th May 2003 and was paid on 2nd June 2003.

On 6th August 2003, the Board of Directors declared an interim dividend of HK¢3 per share for the period ended 30th June 2003. This interim dividend which totals HK\$100 million will be paid on 2nd October 2003 to shareholders registered at the close of business on 11th September 2003. The share register will be closed from 8th September 2003 to 11th September 2003, both dates inclusive.

7. (Loss)/earnings per share

Basic loss per share and diluted loss per share are calculated by dividing the loss attributable to shareholders of HK\$1,241 million (2002 profit: HK\$1,412 million) by the daily weighted average number of shares in issue throughout the period of 3,337 million (2002: 3,332 million) shares and 3,353 million (2002: 3,357 million) shares respectively with the latter adjusted for the effects of the share options.

	2003 million	2002 million
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share	3,337	3,332
Deemed issue of ordinary shares for no consideration	16	25
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	3,353	3,357

8. Fixed assets

	Aircraft and related equipment HK\$M	Other equipment HK\$M	Properties HK\$M	Total HK\$M
Cost				
At 1st January 2003	63,980	2,934	6,230	73,144
Exchange differences	–	6	9	15
Additions	885	21	49	955
Disposals	(97)	(60)	–	(157)
At 30th June 2003	64,768	2,901	6,288	73,957
Accumulated depreciation				
At 1st January 2003	20,393	1,671	1,042	23,106
Exchange differences	–	4	3	7
Charge for the period	1,656	98	123	1,877
Disposals	(60)	(59)	–	(119)
At 30th June 2003	21,989	1,714	1,168	24,871
Net book value				
At 30th June 2003	42,779	1,187	5,120	49,086
At 1st January 2003	43,587	1,263	5,188	50,038

Fixed assets at 30th June 2003 include leased assets of HK\$30,184 million (31st December 2002: HK\$31,759 million).

9. Intangible assets

	Goodwill HK\$M	Computer systems HK\$M	Total HK\$M
Cost			
At 1st January 2003	362	639	1,001
Additions	–	19	19
At 30th June 2003	362	658	1,020
Accumulated amortisation			
At 1st January 2003	152	360	512
Charge for the period	8	48	56
At 30th June 2003	160	408	568
Net book value			
At 30th June 2003	202	250	452
At 1st January 2003	210	279	489

10. Long-term liabilities

	30th June 2003		31st December 2002	
	Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Long-term loans	2,009	3,364	963	3,090
Obligations under finance leases	2,802	14,406	3,318	15,439
	4,811	17,770	4,281	18,529

11. Retirement benefit obligations

	30th June 2003 HK\$M	31st December 2002 HK\$M
Present value of funded obligations	6,091	5,937
Fair value of plan assets	(5,086)	(4,574)
	1,005	1,363
Net unrecognised actuarial losses	(677)	(1,017)
	328	346

12. Trade and other receivables

	30th June 2003 HK\$M	31st December 2002 HK\$M
Trade debtors	1,597	2,413
Other receivables and prepayments	1,559	1,867
Due from associated companies	15	11
Due from other related companies	1	3
	3,172	4,294
	30th June 2003 HK\$M	31st December 2002 HK\$M
Analysis of trade debtors by age:		
Current	1,505	2,257
One to three months overdue	43	96
More than three months overdue	49	60
	1,597	2,413

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

	30th June 2003 HK\$M	31st December 2002 HK\$M
Trade creditors	1,217	1,520
Other payables	2,888	3,431
Due to associated companies	138	187
Due to other related companies	100	126
Bank overdrafts – unsecured	20	16
	4,363	5,280
	30th June 2003 HK\$M	31st December 2002 HK\$M
Analysis of trade creditors by age:		
Current	781	1,071
One to three months overdue	350	343
More than three months overdue	86	106
	1,217	1,520

14. Share capital

During the period under review, the Group did not purchase or redeem any shares in the Company. At 30th June 2003, 3,337,973,848 shares were in issue (31st December 2002: 3,336,007,848 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 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.

Upon exercise of share options, equity is increased by the number of options exercised at the exercise price.

14. Share capital (continued)

	2003 Number of shares	2002 Number of shares
Movements in options outstanding comprise:		
At 1st January	60,873,000	67,134,000
Options exercised	(1,966,000)	(4,532,500)
Options lapsed	(143,000)	–
At 30th June	58,764,000	62,601,500
Options vested at 30th June	28,554,000	31,489,000

No option was granted under the Scheme during the period.

	2003	2002
Details of share options exercised during the period:		
Exercise date	14/1/03 – 20/6/03	10/1/02 – 21/6/02
Proceeds received (HK\$)	14,686,020	33,857,775
Weighted average closing share price immediately before the exercise date (HK\$)	10.28	12.35

15. Commitments and contingencies

(a) 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:

	30th June 2003 HK\$M	31st December 2002 HK\$M
Authorised and contracted for		
– aircraft and related equipment	5,544	3,605
– others	–	4
	5,544	3,609
Authorised but not contracted for		
– aircraft and related equipment	698	443
– others	–	2
	698	445
	6,242	4,054

	HK\$M
These commitments are expected to be paid as follows:	
2003	3,599
2004	2,127
2005	516
	6,242

Commitments include the amounts for the acquisition of three A330-300, three B777-300 and six A300-600F aircraft.

- (b) The Company has undertaken to indemnify lessors in leasing arrangements of the Group so as to maintain a specified rate of return on each of the lessors' investments under certain circumstances. The Directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.
- (c) At 30th June 2003, contingent liabilities existed in respect of guarantees given by the Company on behalf of subsidiary, associated, other related companies and staff relating to long-term loan facilities of up to HK\$1,353 million (31st December 2002: HK\$1,404 million).

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Corporate governance

None of the Directors of the Company are 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 2003, the registers maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following beneficial interests (all being personal interests) in the shares of Cathay Pacific Airways Limited and Tenzing Communications, Inc., its associated corporation (within the meaning of Part XV of the SFO):

Cathay Pacific Airways Limited	No. of shares	Percentage of issued capital
Philip Chen	9,000	0.00027
Derek Cridland	17,000	0.00051
James Hughes-Hallett	12,000	0.00036
Tony Tyler	5,000	0.00015
Raymond Yuen	9,000	0.00027

Tenzing Communications, Inc.	No. of shares	Percentage of issued capital
James Hughes-Hallett	45,975	0.04
David Turnbull	45,975	0.04

Other than as stated above, no Director or chief executive of Cathay Pacific Airways Limited had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares and debentures of Cathay Pacific Airways Limited or any of its associated corporations (within the meaning of Part XV of the SFO).

Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 2003 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons, all being beneficial interests:

	No. of shares	Percentage of issued capital	Remarks
1. Swire Pacific Limited	1,540,046,246	46.14	
2. John Swire & Sons Limited	1,540,046,246	46.14) Duplications of Swire Pacific Limited's holding (Note)
3. CITIC Pacific Limited	859,353,462	25.74	
4. Super Supreme Company Limited	787,753,462	23.60) Duplication of CITIC Pacific
5. Custain Limited	214,851,154	6.44) Limited's holding
6. Easerick Investments Inc.	191,922,273	5.75)
7. Motive Link Holdings Inc.	189,057,762	5.66)
8. Smooth Tone Investments Ltd.	191,922,273	5.75)

Note: At 30th June 2003, the John Swire & Sons Limited Group owned directly or indirectly interests in shares of Swire Pacific Limited representing 29.37% of the issued share capital and 52.82% of the voting rights.