

# Auditors' Report

*To the shareholders of Cathay Pacific Airways Limited (Incorporated in Hong Kong with limited liability)*

We have audited the accounts on pages 31 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, save as explained in accounting policy 4 on page 32.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Hong Kong Companies Ordinance requires the Directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

## **OPINION**

In our opinion the accounts give a true and fair view of the state of affairs of the Group and of the Company as at 31st December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

## **KPMG**

*Certified Public Accountants*

Hong Kong, 10th March 2004

# Principal Accounting Policies

## 1. BASIS OF ACCOUNTING

The accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice ("HK SSAP") and Interpretations) issued by the Hong Kong Society of Accountants with the exception of the recognition of certain exchange differences as explained in accounting policy 4 below. These accounts also comply with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules of the Stock Exchange.

The measurement basis used is historical cost modified by the revaluation of investments as explained in accounting policies 8, 10 and 13 below.

## 2. BASIS OF CONSOLIDATION

The consolidated accounts incorporate the accounts of the Company and its subsidiary companies made up to 31st December together with the Group's share of the results and net assets of its associated companies.

The results of subsidiary companies are included in the consolidated profit and loss account and the share attributable to minority interests is deducted from consolidated profit after tax. Where interests have been bought or sold during the year only those results relating to the period of ownership are included in the accounts.

Goodwill arising on consolidation represents the excess of the cost of subsidiary and associated companies over the fair value of the Group's share of the net assets at the date of acquisition. Goodwill arising on consolidation is recognised as an intangible asset and amortised on a straight line basis over its estimated useful economic life, not exceeding a period of 20 years.

The carrying amount of goodwill is reviewed annually and is written down if any impairment arises. On disposal of a subsidiary or associated company, the unamortised goodwill is included in the calculation of any gain or loss.

Minority interests in the consolidated balance sheet comprise the outside shareholders' proportion of the net assets of subsidiary companies.

In the Company's balance sheet investments in subsidiary companies are stated at cost less any impairment loss recognised. The results of subsidiary companies are accounted for by the Company on the basis of dividends received and receivable.

## 3. ASSOCIATED COMPANIES

Associated companies are those companies, not being subsidiary companies, in which the Group holds a substantial long-term interest in the equity share capital and over which the Group is in a position to exercise significant management influence.

The consolidated profit and loss account includes the Group's share of results of associated companies as reported in their accounts made up to 31st December. In the consolidated balance sheet investments in associated companies represent the Group's share of net assets and loans to those companies.

In the Company's balance sheet, investments in associated companies are stated at cost less any impairment loss recognised and loans to those companies.

#### 4. FOREIGN CURRENCIES

Foreign currency transactions entered into during the year are translated into Hong Kong dollars at the market rates ruling at the relevant transaction dates whilst the following items are translated at the rates ruling at the balance sheet date:

- (i) foreign currency denominated monetary assets and liabilities (including currency derivatives).
- (ii) the balance sheets of foreign subsidiary and associated companies.

Exchange differences arising on the translation of foreign currencies into Hong Kong dollars are reflected in the profit and loss account except that:

- (i) to reduce exposure to exchange rate fluctuations on future operating cash flows, borrowings and leasing obligations are arranged in foreign currencies such that repayment can be met by anticipated operating cash flows. In addition currency derivatives are used to hedge anticipated cash flows. Any unrealised exchange differences on these borrowings, leasing obligations, currency derivatives and on related security deposits are recognised directly in equity via the Statement of Changes in Equity. These exchange differences are included in the profit and loss account as an adjustment to revenue in the same period or periods during which the hedged transaction affects the net profit and loss.

Although this complies with International Financial Reporting Standards it does not comply with HK SSAP 11 which requires that all such exchange differences are charged to the profit and loss account immediately. The effect of this departure from HK SSAP 11 is set out in note 21 to the accounts.

- (ii) unrealised differences on net investments in foreign subsidiary and associated companies (including intra-Group balances of an equity nature) and related long-term liabilities are taken directly to reserves.

The treatment of exchange differences on foreign currency operating cash flow hedges is supported by International Financial Reporting Standards. In the opinion of the Directors this treatment fairly reflects the effects of foreign currency cash flow hedge arrangements where the matching of foreign currency cash flows is a key risk management tool. The appropriateness of continuing this treatment is assessed regularly, taking into account the latest operating cash flow projections for each currency. The Directors consider that the immediate recognition of all such exchange fluctuations in the profit and loss account could materially distort year on year results and have concluded that the adopted treatment gives a true and fair view of the financial position, financial performance and cash flow of the Group.

#### 5. FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation and impairment.

Depreciation of fixed assets is calculated on a straight line basis to write down cost over anticipated useful lives to estimated residual value as follows:

Aircraft and related equipment	over 20 years to residual value of between 0% to 10% of cost.
Other equipment	over 3 to 7 years to nil residual value.
Leasehold land and buildings	over the period of the lease to nil residual value.

Major modifications to aircraft and reconfiguration costs are capitalised as part of aircraft cost and are depreciated over periods of up to 10 years.

The depreciation policy and the carrying amount of fixed assets are reviewed annually taking into consideration factors such as changes in fleet composition, current and forecast market values and technical factors which affect the life expectancy of the assets. Any impairment in value is recognised by writing down the carrying amount to estimated recoverable amount which is the higher of the value in use (the present value of future cash flows) and the net selling price.

## 6. LEASED ASSETS

Fixed assets held under lease agreements that give rights equivalent to ownership are treated as if they had been purchased outright at fair market value and the corresponding liabilities to the lessor, net of interest charges, are included as obligations under finance leases.

Amounts payable in respect of finance leases are apportioned between interest charges and reductions of obligations based on the interest rates implicit in the leases.

Operating lease payments and income are charged and credited respectively to the profit and loss account on a straight line basis over the life of the related lease.

## 7. INTANGIBLE ASSETS

Intangible assets comprise goodwill and expenditure on computer system development. The accounting policy for goodwill is outlined in accounting policy 2 on page 31.

Expenditure on computer system development which gives rise to economic benefits is capitalised as part of intangible assets and is amortised on a straight line basis over its useful life not exceeding a period of four years.

## 8. INVESTMENTS

Long-term investments are stated at fair value and any change in fair value is recognised in the investment revaluation reserve. On disposal or if there is evidence that the investment is impaired, the cumulative gain or loss on the investment is transferred from the investment revaluation reserve to the profit and loss account.

## 9. DEFEASANCE OF LONG-TERM LIABILITIES

Where long-term liabilities have been defeased by the placement of security deposits, those liabilities and deposits (and income and charge arising therefrom) are netted off, in order to reflect the overall commercial effect of the arrangements. Such netting off has been effected where a right is held by the Group to insist on net settlement of the liability and deposit including in all situations of default and where that right is assured beyond doubt.

## 10. RETIREMENT BENEFITS

Arrangements for staff retirement benefits vary from country to country and are made in accordance with local regulations and customs.

The retirement benefit obligation in respect of defined benefit retirement plans refers to the obligation less the fair value of plan assets where the obligation is calculated by estimating the present value of the expected future payments required to settle the benefit that employees have earned using the projected unit credit method. Actuarial gains and losses are not recognised unless their cumulative amounts exceeds either 10% of the present value of the defined benefit obligation or 10% of the fair value of plan assets whichever is greater. The amount exceeding this corridor is recognised on a straight line basis over the expected average remaining working lives of the employees participating in the plans.

## 11. DEFERRED TAXATION

With the introduction of HK SSAP 12 (revised), "Income taxes", provision for deferred tax is now made on all temporary differences.

**11. DEFERRED TAXATION** *(continued)*

Deferred tax assets relating to unused tax losses and deductible temporary differences are recognised to the extent that it is probable that future taxable profits will be available against which these unused tax losses and deductible temporary differences can be utilised.

In addition, where initial cash benefits have been received in respect of certain lease arrangements, provision is made for the future obligation to make tax payments.

**12. STOCK**

Stock held for consumption is valued at weighted average cost less any applicable allowance for obsolescence. Stock held for disposal is stated at the lower of cost and net realisable value. Net realisable value represents estimated resale price.

**13. FUNDS WITH INVESTMENT MANAGERS AND OTHER LIQUID INVESTMENTS**

Funds with investment managers and other liquid investments are valued on a mark to market basis and any gain or loss arising from the revaluation is taken to the profit and loss account.

Cash deposits and notes placed in respect of certain leasing and financing arrangements are stated at cost while other investments purchased to meet future leasing obligation repayments are stated at amortised cost.

**14. REVENUE RECOGNITION**

Passenger and cargo sales are recognised as revenue when the transportation service is provided. The value of unflown passenger and cargo sales is recorded as unearned transportation revenue. Income from catering and other services is recognised when the services are rendered.

**15. FUEL PRICE DERIVATIVES**

Fuel derivatives are used to reduce exposure to fluctuating fuel prices. Gains and losses on these instruments are recognised upon contract expiry as a component of fuel expense during the period the related fuel is used.

**16. MAINTENANCE AND OVERHAUL COSTS**

Replacement spares and labour costs for maintenance and overhaul of aircraft are charged to the profit and loss account on consumption and as incurred respectively.

**17. FREQUENT-FLYER PROGRAMME**

The Company operates a frequent-flyer programme called Asia Miles. The incremental cost of providing awards in exchange for redemption of miles earned by members is accrued in the accounts as an operating cost and a future liability after allowing for miles which are not expected to be redeemed. As members redeem their miles the liability is reduced to reflect the reduction in the outstanding obligation.

**18. RELATED PARTIES**

For the purposes of these accounts parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

# Consolidated Profit and Loss Account

for the year ended 31st December 2003

	Note	2003 HK\$M	2002 HK\$M	2003 US\$M	2002 US\$M
<b>Turnover</b>					
Passenger services		18,663	22,376	2,393	2,869
Cargo services		9,913	9,387	1,271	1,203
Catering and other services		1,002	1,327	128	170
<b>Total turnover</b>	2	<b>29,578</b>	33,090	<b>3,792</b>	4,242
<b>Expenses</b>					
Staff		(8,035)	(7,918)	(1,030)	(1,015)
Route		(5,416)	(6,113)	(695)	(784)
Fuel		(5,236)	(4,895)	(671)	(628)
Aircraft maintenance		(2,856)	(3,312)	(366)	(424)
Depreciation and operating leases		(4,860)	(4,720)	(623)	(605)
Commissions		(400)	(501)	(51)	(64)
Others		(550)	(881)	(71)	(113)
<b>Operating expenses</b>		<b>(27,353)</b>	(28,340)	<b>(3,507)</b>	(3,633)
<b>Operating profit</b>	3	<b>2,225</b>	4,750	<b>285</b>	609
Finance charges		(1,807)	(2,421)	(231)	(310)
Finance income		1,187	1,678	152	215
Net finance charges	4	(620)	(743)	(79)	(95)
Share of profits of associated companies	12	151	324	19	42
<b>Profit before tax</b>		<b>1,756</b>	4,331	<b>225</b>	556
Taxation	5	(409)	(328)	(52)	(42)
<b>Profit after tax</b>		<b>1,347</b>	4,003	<b>173</b>	514
Minority interests		(44)	(20)	(6)	(3)
<b>Profit attributable to shareholders</b>	6	<b>1,303</b>	3,983	<b>167</b>	511
<b>Dividends</b>					
Interim – paid	7	100	534	13	68
Final – proposed	7	568	935	73	120
Special – proposed	7	936	–	120	–
		<b>1,604</b>	1,469	<b>206</b>	188
<b>Earnings per share</b>					
Basic	8	<b>39.0¢</b>	119.5¢	<b>5.0¢</b>	15.3¢
Diluted	8	<b>38.8¢</b>	118.7¢	<b>5.0¢</b>	15.2¢
<b>Dividend per share</b>	7	<b>48.0¢</b>	44.0¢	<b>6.2¢</b>	5.6¢

The US\$ figures are for information only and are translated at HK\$78.

The notes on pages 41 to 65 form part of these accounts.

# Consolidated Balance Sheet

at 31st December 2003

	Note	2003 HK\$M	2002 HK\$M	2003 US\$M	2002 US\$M
<b>ASSETS AND LIABILITIES</b>					
<b>Non-current assets and liabilities</b>					
Fixed assets	9	51,357	50,038	6,584	6,415
Intangible assets	10	405	489	52	63
Investments in associated companies	12	1,661	1,739	213	223
Other long-term receivables and investments	13	1,263	1,458	162	187
		<b>54,686</b>	53,724	<b>7,011</b>	6,888
Long-term liabilities		<b>(33,022)</b>	(31,382)	<b>(4,234)</b>	(4,024)
Related pledged security deposits		<b>11,604</b>	12,853	<b>1,488</b>	1,648
Net long-term liabilities	14	<b>(21,418)</b>	(18,529)	<b>(2,746)</b>	(2,376)
Retirement benefit obligations	15	<b>(181)</b>	(346)	<b>(23)</b>	(44)
Deferred taxation	16	<b>(7,762)</b>	(7,614)	<b>(995)</b>	(976)
		<b>(29,361)</b>	(26,489)	<b>(3,764)</b>	(3,396)
<b>Net non-current assets</b>		<b>25,325</b>	27,235	<b>3,247</b>	3,492
<b>Current assets and liabilities</b>					
Stock		<b>398</b>	430	<b>51</b>	55
Trade and other receivables	17	<b>4,753</b>	4,294	<b>609</b>	550
Liquid funds	18	<b>15,200</b>	13,180	<b>1,949</b>	1,690
		<b>20,351</b>	17,904	<b>2,609</b>	2,295
Current portion of long-term liabilities		<b>(6,754)</b>	(6,409)	<b>(866)</b>	(822)
Related pledged security deposits		<b>1,875</b>	2,128	<b>240</b>	273
Net current portion of long-term liabilities	14	<b>(4,879)</b>	(4,281)	<b>(626)</b>	(549)
Trade and other payables	19	<b>(5,543)</b>	(5,280)	<b>(711)</b>	(677)
Unearned transportation revenue		<b>(2,839)</b>	(2,518)	<b>(364)</b>	(323)
Taxation		<b>(1,259)</b>	(874)	<b>(161)</b>	(112)
		<b>(14,520)</b>	(12,953)	<b>(1,862)</b>	(1,661)
<b>Net current assets</b>		<b>5,831</b>	4,951	<b>747</b>	634
<b>Total assets less current and non-current liabilities</b>		<b>31,156</b>	32,186	<b>3,994</b>	4,126
Minority interests		<b>(104)</b>	(71)	<b>(13)</b>	(9)
<b>Net assets</b>		<b>31,052</b>	32,115	<b>3,981</b>	4,117
<b>CAPITAL AND RESERVES</b>					
Share capital	20	<b>669</b>	667	<b>86</b>	86
Reserves	21	<b>30,383</b>	31,448	<b>3,895</b>	4,031
<b>Shareholders' funds</b>		<b>31,052</b>	32,115	<b>3,981</b>	4,117

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**James Hughes-Hallett**

Director

Hong Kong, 10th March 2004

**Henry Fan**

Director

The notes on pages 41 to 65 form part of these accounts.

# Company Balance Sheet

at 31st December 2003

	Note	2003 HK\$M	2002 HK\$M	2003 US\$M	2002 US\$M
<b>ASSETS AND LIABILITIES</b>					
<b>Non-current assets and liabilities</b>					
Fixed assets	9	43,588	42,041	5,588	5,390
Intangible assets	10	211	277	27	35
Investments in subsidiary companies	11	13,766	16,139	1,765	2,069
Investments in associated companies	12	76	75	10	10
Other long-term receivables and investments	13	1,094	1,279	140	164
		<b>58,735</b>	59,811	<b>7,530</b>	7,668
Long-term liabilities		<b>(31,793)</b>	(30,025)	<b>(4,076)</b>	(3,849)
Related pledged security deposits		<b>4,251</b>	4,513	<b>545</b>	579
Net long-term liabilities	14	<b>(27,542)</b>	(25,512)	<b>(3,531)</b>	(3,270)
Retirement benefit obligations	15	<b>(224)</b>	(368)	<b>(29)</b>	(47)
Deferred taxation	16	<b>(7,617)</b>	(7,484)	<b>(976)</b>	(960)
		<b>(35,383)</b>	(33,364)	<b>(4,536)</b>	(4,277)
<b>Net non-current assets</b>		<b>23,352</b>	26,447	<b>2,994</b>	3,391
<b>Current assets and liabilities</b>					
Stock		<b>387</b>	417	<b>50</b>	53
Trade and other receivables	17	<b>4,532</b>	4,042	<b>581</b>	518
Liquid funds	18	<b>6,476</b>	3,487	<b>830</b>	447
		<b>11,395</b>	7,946	<b>1,461</b>	1,018
Current portion of long-term liabilities		<b>(6,337)</b>	(5,835)	<b>(812)</b>	(748)
Related pledged security deposits		<b>564</b>	1,235	<b>72</b>	158
Net current portion of long-term liabilities	14	<b>(5,773)</b>	(4,600)	<b>(740)</b>	(590)
Trade and other payables	19	<b>(5,634)</b>	(5,400)	<b>(723)</b>	(692)
Unearned transportation revenue		<b>(2,839)</b>	(2,518)	<b>(364)</b>	(323)
Taxation		<b>(1,233)</b>	(855)	<b>(158)</b>	(109)
		<b>(15,479)</b>	(13,373)	<b>(1,985)</b>	(1,714)
<b>Net current liabilities</b>		<b>(4,084)</b>	(5,427)	<b>(524)</b>	(696)
<b>Net assets</b>		<b>19,268</b>	21,020	<b>2,470</b>	2,695
<b>CAPITAL AND RESERVES</b>					
Share capital	20	<b>669</b>	667	<b>86</b>	86
Reserves	21	<b>18,599</b>	20,353	<b>2,384</b>	2,609
<b>Shareholders' funds</b>		<b>19,268</b>	21,020	<b>2,470</b>	2,695

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**James Hughes-Hallett**

Director

Hong Kong, 10th March 2004

**Henry Fan**

Director

The notes on pages 41 to 65 form part of these accounts.



# Consolidated Cash Flow Statement

for the year ended 31st December 2003

	Note	2003 HK\$M	2002 HK\$M	2003 US\$M	2002 US\$M
<b>Operating activities</b>					
Cash generated from operations	22	6,370	9,300	817	1,192
Interest received		49	103	6	13
Net interest paid		(928)	(1,021)	(119)	(131)
Tax paid		(815)	(394)	(104)	(50)
Dividends received from associated companies		187	133	24	17
<b>Net cash inflow from operating activities</b>		<b>4,863</b>	<b>8,121</b>	<b>624</b>	<b>1,041</b>
<b>Investing activities</b>					
Sales of fixed assets		27	623	3	80
Net decrease in long-term receivables and investments		84	110	11	14
Receipts from disposal of partial interest in a subsidiary company		9	148	1	19
Sales of other liquid investments		562	150	72	19
Repayment of loan from an associated company		2	4	-	1
Receipts from disposal of an associated company		-	5	-	1
Sales/(investments) of funds with investment managers		620	(2,484)	80	(319)
Purchase of minority interest in a subsidiary company		-	(194)	-	(25)
Net increase in short-term deposits maturing beyond three months		(425)	(11)	(54)	(1)
Payments for fixed and intangible assets		(5,147)	(2,790)	(660)	(358)
<b>Net cash outflow from investing activities</b>		<b>(4,268)</b>	<b>(4,439)</b>	<b>(547)</b>	<b>(569)</b>
<b>Financing activities</b>					
New financing		6,765	2,451	867	314
Net cash benefit from financing arrangements		735	-	94	-
Shares issued		56	46	7	6
Security deposits placed		(70)	(774)	(9)	(99)
Loan and finance lease repayments		(4,995)	(3,965)	(640)	(508)
Dividends paid – to shareholders		(1,035)	(701)	(133)	(90)
– to minority interests		(20)	(39)	(3)	(5)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>1,436</b>	<b>(2,982)</b>	<b>183</b>	<b>(382)</b>
<b>Increase in cash and cash equivalents</b>		<b>2,031</b>	<b>700</b>	<b>260</b>	<b>90</b>
Cash and cash equivalents at 1st January		3,422	2,601	439	333
Effect of exchange differences		196	121	25	16
<b>Cash and cash equivalents at 31st December</b>	23	<b>5,649</b>	<b>3,422</b>	<b>724</b>	<b>439</b>

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# Consolidated Statement of Changes in Equity

for the year ended 31st December 2003

	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	<b>667</b>	<b>23,250</b>	<b>7,207</b>	<b>21</b>	<b>412</b>	<b>559</b>	<b>(1)</b>	<b>32,115</b>
Exchange differences on cash flow hedges								
– recognised during the year	-	-	-	-	-	<b>(1,330)</b>	-	<b>(1,330)</b>
– deferred tax recognised	-	-	-	-	-	<b>90</b>	-	<b>90</b>
– transferred to profit for the year	-	-	-	-	-	<b>(89)</b>	-	<b>(89)</b>
Revaluation deficit recognised during the year	-	-	-	-	<b>(58)</b>	-	-	<b>(58)</b>
Net loss not recognised in the profit and loss account	-	-	-	-	<b>(58)</b>	<b>(1,329)</b>	-	<b>(1,387)</b>
Profit attributable to shareholders	-	<b>1,303</b>	-	-	-	-	-	<b>1,303</b>
2002 final dividend	-	<b>(935)</b>	-	-	-	-	-	<b>(935)</b>
2003 interim dividend	-	<b>(100)</b>	-	-	-	-	-	<b>(100)</b>
Share options exercised								
– premium received	-	-	<b>54</b>	-	-	-	-	<b>54</b>
– share capital issued	<b>2</b>	-	-	-	-	-	-	<b>2</b>
At 31st December 2003	<b>669</b>	<b>23,518</b>	<b>7,261</b>	<b>21</b>	<b>354</b>	<b>(770)</b>	<b>(1)</b>	<b>31,052</b>
At 1st January 2002	666	20,541	7,162	21	306	2,599	13	31,308
Prior year adjustment for retirement benefits								
– retirement benefit obligations	-	(605)	-	-	-	-	-	(605)
– investments in associated companies	-	32	-	-	-	-	-	32
As restated	666	19,968	7,162	21	306	2,599	13	30,735
Exchange differences on cash flow hedges								
– recognised during the year	-	-	-	-	-	(1,313)	-	(1,313)
– transferred to profit for the year	-	-	-	-	-	(727)	-	(727)
Revaluation surplus recognised during the year	-	-	-	-	106	-	-	106
Exchange differences	-	-	-	-	-	-	(14)	(14)
Net loss not recognised in the profit and loss account	-	-	-	-	106	(2,040)	(14)	(1,948)
Profit attributable to shareholders	-	3,983	-	-	-	-	-	3,983
2001 final dividend	-	(167)	-	-	-	-	-	(167)
2002 interim dividend	-	(534)	-	-	-	-	-	(534)
Share options exercised								
– premium received	-	-	45	-	-	-	-	45
– share capital issued	1	-	-	-	-	-	-	1
At 31st December 2002	667	23,250	7,207	21	412	559	(1)	32,115

The notes on pages 41 to 65 form part of these accounts.

# Company Statement of Changes in Equity

for the year ended 31st December 2003

	Share capital HK\$M	Retained profit HK\$M	Non-distributable			Cash flow hedge reserve HK\$M	Total HK\$M
			Share premium HK\$M	Capital redemption reserve HK\$M	Investment revaluation reserve HK\$M		
At 1st January 2003	<b>667</b>	<b>11,998</b>	<b>7,207</b>	<b>21</b>	<b>430</b>	<b>697</b>	<b>21,020</b>
Exchange differences on cash flow hedges							
– recognised during the year	-	-	-	-	-	(1,504)	(1,504)
– deferred tax recognised	-	-	-	-	-	90	90
– transferred to profit for the year	-	-	-	-	-	(96)	(96)
Revaluation deficit recognised during the year	-	-	-	-	(81)	-	(81)
Net loss not recognised in the profit and loss account	-	-	-	-	(81)	(1,510)	(1,591)
Profit for the year	-	<b>818</b>	-	-	-	-	<b>818</b>
2002 final dividend	-	<b>(935)</b>	-	-	-	-	<b>(935)</b>
2003 interim dividend	-	<b>(100)</b>	-	-	-	-	<b>(100)</b>
Share options exercised							
– premium received	-	-	<b>54</b>	-	-	-	<b>54</b>
– share capital issued	<b>2</b>	-	-	-	-	-	<b>2</b>
At 31st December 2003	<b>669</b>	<b>11,781</b>	<b>7,261</b>	<b>21</b>	<b>349</b>	<b>(813)</b>	<b>19,268</b>
At 1st January 2002	666	10,439	7,162	21	330	2,940	21,558
Prior year adjustment for retirement benefits	-	(605)	-	-	-	-	(605)
As restated	666	9,834	7,162	21	330	2,940	20,953
Exchange differences on cash flow hedges							
– recognised during the year	-	-	-	-	-	(1,478)	(1,478)
– transferred to profit for the year	-	-	-	-	-	(765)	(765)
Revaluation surplus recognised during the year	-	-	-	-	100	-	100
Net loss not recognised in the profit and loss account	-	-	-	-	100	(2,243)	(2,143)
Profit for the year	-	2,865	-	-	-	-	2,865
2001 final dividend	-	(167)	-	-	-	-	(167)
2002 interim dividend	-	(534)	-	-	-	-	(534)
Share options exercised							
– premium received	-	-	45	-	-	-	45
– share capital issued	1	-	-	-	-	-	1
At 31st December 2002	667	11,998	7,207	21	430	697	21,020

The notes on pages 41 to 65 form part of these accounts.

# Notes to the Accounts

## 1. NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The Group is predominantly managed and controlled in Hong Kong. As well as operating scheduled airline services, the Group is engaged in other related areas including airline catering, aircraft handling and engineering. The airline operations are principally to and from Hong Kong, which is where most of the Group's other activities are also carried out.

## 2. TURNOVER

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

(a) Primary reporting by geographical segment

	2003 HK\$M	2002 HK\$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	<b>12,022</b>	12,424
– Japan, Korea and Taiwan	<b>5,208</b>	6,979
South East Asia and Middle East	<b>3,395</b>	4,082
Europe	<b>3,551</b>	3,909
Pacific and South Africa	<b>5,402</b>	5,696
	<b>29,578</b>	33,090

South East Asia and Middle East includes Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam, Indian sub-continent and Middle East. Europe includes Continental Europe, United Kingdom, Scandinavia, Russia, Baltic and Turkey. Pacific and South Africa includes U.S.A., Canada, Latin America, Australia, New Zealand and Southern Africa.

Analysis of turnover and profit by geographical segment:

The analysis of turnover by origin of sale is derived by allocating revenue to the area in which the sale was made. Management considers that it is not meaningful to allocate cost on this basis and accordingly segment results are not disclosed.

Analysis of net assets by geographical segment:

The major revenue earning asset is the aircraft fleet which is registered in Hong Kong and is employed across its worldwide route network. Management considers that there is no suitable basis for allocating such assets and related liabilities to geographical segments. Accordingly, segment assets, segment liabilities and other segment information is not disclosed.

**2. TURNOVER** *(continued)*

(b) Secondary reporting by business segment

	2003 HK\$M	2002 HK\$M
Revenue – external sales		
– Passenger services	<b>18,663</b>	22,376
– Cargo services	<b>9,913</b>	9,387
	<b>28,576</b>	31,763
Unallocated revenue		
– Catering and other services	<b>1,002</b>	1,327
	<b>29,578</b>	33,090

The Group is engaged in two main business segments: in passenger business through the Company and in freight traffic through the Company and a subsidiary. Catering services and other airline supporting services which supplement the Group's main operating business are included in unallocated revenue.

Analysis of net assets by business segment:

The major revenue earning asset is the aircraft fleet which is jointly used by the passenger services and cargo services segments. Management considers it is not appropriate to allocate such assets between the two segments as there is no suitable basis for so doing. Accordingly, analysis of net assets by business segment is not disclosed.

**3. OPERATING PROFIT**

	2003 HK\$M	2002 HK\$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– Leased	<b>1,930</b>	2,238
– Owned	<b>1,815</b>	1,591
Amortisation of intangible assets	<b>110</b>	120
Operating lease rentals		
– Land and buildings	<b>324</b>	368
– Aircraft and related equipment	<b>675</b>	444
– Others	<b>19</b>	34
Operating lease income		
– Aircraft and related equipment	<b>(13)</b>	(75)
Cost of stock expensed	<b>933</b>	1,156
Exchange differences	<b>(244)</b>	(179)
Auditors' remuneration	<b>6</b>	6
Income from unlisted investments	<b>(267)</b>	(90)
Income from listed investments	<b>(6)</b>	(5)

**4. NET FINANCE CHARGES**

	2003 HK\$M	2002 HK\$M
Net interest charges comprise:		
– Obligations under finance leases	<b>1,678</b>	2,285
– Interest income on related security deposits, notes and bonds	<b>(966)</b>	(1,311)
	<b>712</b>	974
– Bank loans and overdrafts	<b>112</b>	116
– Interest income on related security deposits	<b>(4)</b>	(11)
	<b>108</b>	105
– Other loans wholly repayable within five years	<b>3</b>	–
– Other loans not wholly repayable within five years	<b>14</b>	20
	<b>837</b>	1,099
Income from liquid funds:		
– Funds with investment managers	<b>(106)</b>	(202)
– Bank deposits and investments	<b>(111)</b>	(154)
	<b>(217)</b>	(356)
	<b>620</b>	743

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

**5. TAXATION**

	2003 HK\$M	2002 HK\$M
The Company and its subsidiary companies:		
Current tax expenses		
– Hong Kong profits tax	<b>50</b>	58
– Overseas tax	<b>248</b>	202
– Under/(over) provisions for prior years	<b>84</b>	(21)
Deferred tax		
– Origination and reversal of temporary differences	<b>(62)</b>	34
– Increase in tax rate	<b>64</b>	–
	<b>384</b>	273
Associated companies:		
– Hong Kong profits tax	<b>16</b>	40
– Overseas tax	<b>9</b>	15
	<b>409</b>	328

In March 2003, the Hong Kong Government announced an increase in the profits tax rate applicable to the operations in Hong Kong. Hong Kong profits tax is calculated at 17.5% (2002: 16%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries to which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations.

**5. TAXATION** *(continued)*

A reconciliation between tax charge and accounting profit at applicable tax rates is as follows:

	2003 HK\$M	2002 HK\$M
Consolidated profit before tax	<b>1,756</b>	4,331
Notional tax calculated at Hong Kong profits tax rate of 17.5% (2002: 16%)	<b>(307)</b>	(693)
Effect of different tax rates in overseas jurisdictions	<b>246</b>	471
Income not subject to tax	<b>80</b>	74
Expenses not deductible for tax purposes	<b>(143)</b>	(263)
Unused tax losses not recognised	<b>(137)</b>	–
Tax provisions (under)/over provided in prior years	<b>(84)</b>	21
Effect on opening deferred tax balances resulting from a change in tax rate	<b>(64)</b>	–
Others	–	62
Tax charge	<b>(409)</b>	(328)

Further information on deferred tax is shown in note 16 to the accounts.

**6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

Of the profit attributable to the shareholders, a profit of HK\$818 million (2002: HK\$2,865 million) has been dealt with in the accounts of the Company.

**7. DIVIDENDS**

	2003 HK\$M	2002 HK\$M
2003 interim dividend paid on 2nd October 2003 of HK¢3 per share (2002: HK¢16 per share)	<b>100</b>	534
2003 final dividend proposed on 10th March 2004 of HK¢17 per share (2002: HK¢28 per share)	<b>568</b>	935
2003 special dividend proposed on 10th March 2004 of HK¢28 per share	<b>936</b>	–
	<b>1,604</b>	1,469

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 in order to conserve cash in response to the business downturn following the SARS outbreak. The revised 2002 final dividend proposal of HK¢28 per share, which totals HK\$935 million was subsequently approved by shareholders on 14th May 2003 and was paid on 2nd June 2003.

**8. EARNINGS PER SHARE**

Basic earnings per share and diluted earnings per share are calculated by dividing the profit attributable to shareholders of HK\$1,303 million (2002: HK\$3,983 million) by the daily weighted average number of shares in issue throughout the year of 3,338 million (2002: 3,333 million) shares and 3,357 million (2002: 3,356 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 earnings per share	<b>3,338</b>	3,333
Deemed issue of ordinary shares for no consideration	<b>19</b>	23
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>3,357</b>	3,356



## 9. FIXED ASSETS

	Aircraft and related equipment		Other equipment		Properties	Total HK\$M
	Owned HK\$M	Leased HK\$M	Owned HK\$M	Leased HK\$M	Owned HK\$M	
<b>Group</b>						
Cost						
At 1st January 2003	21,116	42,864	2,387	547	6,230	73,144
Exchange differences	-	-	6	-	12	18
Additions	2,416	2,611	44	-	50	5,121
Disposals	(138)	-	(109)	-	-	(247)
Transfers	1,366	(1,366)	-	-	-	-
At 31st December 2003	24,760	44,109	2,328	547	6,292	78,036
Accumulated depreciation						
At 1st January 2003	8,952	11,441	1,460	211	1,042	23,106
Exchange differences	-	-	6	-	4	10
Charge for the year	1,419	1,907	160	23	236	3,745
Disposals	(73)	-	(109)	-	-	(182)
Transfers	1,293	(1,293)	-	-	-	-
At 31st December 2003	11,591	12,055	1,517	234	1,282	26,679
Net book value						
At 31st December 2003	13,169	32,054	811	313	5,010	51,357
At 1st January 2003	12,164	31,423	927	336	5,188	50,038
<b>Company</b>						
Cost						
At 1st January 2003	15,413	44,762	927	547	408	62,057
Additions	1,120	3,904	23	-	-	5,047
Disposals	(138)	-	(100)	-	-	(238)
Transfers	2,659	(2,659)	-	-	-	-
At 31st December 2003	19,054	46,007	850	547	408	66,866
Accumulated depreciation						
At 1st January 2003	6,714	12,073	758	211	260	20,016
Charge for the year	1,298	1,994	60	23	60	3,435
Disposals	(73)	-	(100)	-	-	(173)
Transfers	1,293	(1,293)	-	-	-	-
At 31st December 2003	9,232	12,774	718	234	320	23,278
Net book value						
At 31st December 2003	9,822	33,233	132	313	88	43,588
At 1st January 2003	8,699	32,689	169	336	148	42,041

**9. FIXED ASSETS** *(continued)*

## (a) Finance leased assets

Certain aircraft are subject to leases with purchase options to be exercised at the end of the respective leases. The remaining lease terms range from 1 to 14 years. Some of the rent payments are on a floating basis which are generally linked to market rates of interest. All leases permit subleasing rights subject to appropriate consent from lessors. Early repayment penalties would be payable on some of the leases should they be terminated prior to their specified expiry dates.

## (b) Operating leased assets

Certain aircraft, properties and other equipment are under operating leases.

Under the operating lease arrangements for aircraft, the lease rentals are fixed and subleasing is not allowed. At 31st December 2003, the two B747-400s (2002: two), four A340-300s (2002: four) and three A340-600s (2002: two), all with purchase options, delivered and held under operating leases were not capitalised. The estimated capitalised value of these leases being the present value of the aggregate future lease payments is HK\$1,585 million (2002: HK\$2,106 million).

Operating leases for properties and other equipment are normally set with fixed rental payments with options to renew the leases upon expiry at new terms.

The future minimum lease payments payable under operating leases committed as at 31st December 2003 for each of the following periods are as follows:

	2003 HK\$M	2002 HK\$M
Aircraft and related equipment:		
– within one year	740	636
– after one year but within five years	1,460	2,052
– after five years	–	41
	<b>2,200</b>	2,729
Properties and other equipment:		
– within one year	255	289
– after one year but within five years	470	427
– after five years	204	232
	<b>929</b>	948
	<b>3,129</b>	3,677

(c) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years. Advance payments included in owned aircraft and related equipment amount to HK\$1,813 million (2002: HK\$1,672 million) for the Group and HK\$136 million (2002: HK\$2 million) for the Company. No depreciation is provided on these advance payments.

(d) Security, including charges over the assets concerned and relevant insurance policies, is provided to the leasing companies or other parties that provide the underlying finance.

(e) Properties held at 31st December 2003 include land held under medium-term leases in Hong Kong with a net book value of HK\$1,586 million (2002: HK\$1,622 million).

**10. INTANGIBLE ASSETS**

	Group			Company
	Goodwill HK\$M	Computer systems HK\$M	Total HK\$M	Computer systems HK\$M
Cost				
At 1st January 2003	<b>362</b>	<b>639</b>	<b>1,001</b>	<b>616</b>
Additions	<b>–</b>	<b>26</b>	<b>26</b>	<b>26</b>
At 31st December 2003	<b>362</b>	<b>665</b>	<b>1,027</b>	<b>642</b>
Accumulated amortisation				
At 1st January 2003	<b>152</b>	<b>360</b>	<b>512</b>	<b>339</b>
Charge for the year	<b>17</b>	<b>93</b>	<b>110</b>	<b>92</b>
At 31st December 2003	<b>169</b>	<b>453</b>	<b>622</b>	<b>431</b>
Net book value				
At 31st December 2003	<b>193</b>	<b>212</b>	<b>405</b>	<b>211</b>
At 1st January 2003	<b>210</b>	<b>279</b>	<b>489</b>	<b>277</b>

**11. SUBSIDIARY COMPANIES**

	Company	
	2003 HK\$M	2002 HK\$M
Unlisted shares at cost	<b>214</b>	214
Net amounts due (to)/from subsidiary companies		
– Loan accounts	<b>(10,679)</b>	(15,879)
– Current accounts	<b>2,176</b>	4,181
Other investments	<b>22,055</b>	27,623
	<b>13,766</b>	16,139

Principal subsidiary companies are listed on page 64.

**12. ASSOCIATED COMPANIES**

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Hong Kong listed shares at cost (Market value: HK\$2,100 million, 2002: HK\$1,050 million)	-	-	<b>52</b>	52
Unlisted shares at cost	-	-	<b>38</b>	38
Share of net assets				
– listed in Hong Kong	<b>829</b>	882	-	-
– unlisted	<b>726</b>	749	-	-
	<b>1,555</b>	1,631	<b>90</b>	90
Less: Provision	-	-	<b>(17)</b>	(17)
Loans to associated companies	<b>106</b>	108	<b>3</b>	2
	<b>1,661</b>	1,739	<b>76</b>	75
Share of profits of associated companies				
– listed	<b>113</b>	147	-	-
– unlisted	<b>38</b>	177	-	-
	<b>151</b>	324	-	-
Dividends received and receivable from associated companies	<b>187</b>	133	<b>157</b>	47

Principal associated companies are listed on page 65.

**13. OTHER LONG-TERM RECEIVABLES AND INVESTMENTS**

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Staff housing loans and other receivables	<b>443</b>	527	<b>433</b>	484
Investments at fair value				
– listed in Hong Kong	<b>157</b>	134	-	-
– listed outside Hong Kong	<b>51</b>	51	<b>49</b>	49
– unlisted	<b>612</b>	746	<b>612</b>	746
	<b>1,263</b>	1,458	<b>1,094</b>	1,279

## 14. LONG-TERM LIABILITIES

	Note	2003		2002	
		Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
<b>Group</b>					
Long-term loans	(a)	<b>1,983</b>	<b>4,387</b>	963	3,090
Obligations under finance leases	(b)	<b>2,896</b>	<b>17,031</b>	3,318	15,439
		<b>4,879</b>	<b>21,418</b>	4,281	18,529
<b>Company</b>					
Long-term loans	(a)	<b>2,052</b>	<b>3,115</b>	373	2,570
Obligations under finance leases	(b)	<b>3,721</b>	<b>24,427</b>	4,227	22,942
		<b>5,773</b>	<b>27,542</b>	4,600	25,512

## (a) Long-term loans

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Bank loans				
– secured	<b>3,304</b>	3,561	<b>1,931</b>	1,980
– unsecured	<b>2,784</b>	539	<b>2,784</b>	539
Other loans				
– secured	<b>452</b>	450	<b>452</b>	424
– unsecured	<b>372</b>	43	–	–
	<b>6,912</b>	4,593	<b>5,167</b>	2,943
Security deposits	<b>(542)</b>	(540)	–	–
Amount due within one year included under current liabilities	<b>(1,983)</b>	(963)	<b>(2,052)</b>	(373)
	<b>4,387</b>	3,090	<b>3,115</b>	2,570
Repayable as follows:				
Bank loans				
– within one year	<b>2,465</b>	917	<b>1,992</b>	327
– after one year but within two years	<b>893</b>	1,745	<b>510</b>	1,418
– after two years but within five years	<b>2,474</b>	1,179	<b>2,199</b>	757
– after five years	<b>256</b>	259	<b>14</b>	17
	<b>6,088</b>	4,100	<b>4,715</b>	2,519
Other loans				
– within one year	<b>60</b>	46	<b>60</b>	46
– after one year but within two years	<b>393</b>	76	<b>64</b>	50
– after two years but within five years	<b>263</b>	172	<b>220</b>	172
– after five years	<b>108</b>	199	<b>108</b>	156
	<b>824</b>	493	<b>452</b>	424
Security deposits	<b>(542)</b>	(540)	–	–
Amount due within one year included under current liabilities	<b>(1,983)</b>	(963)	<b>(2,052)</b>	(373)
	<b>4,387</b>	3,090	<b>3,115</b>	2,570

**14. LONG-TERM LIABILITIES** (continued)

Borrowings other than bank loans are repayable on various dates up to 2010 at interest rates between 0% and 7.0% per annum.

Long-term loans and other liabilities of the Group and the Company not wholly repayable within five years amounted to HK\$954 million and HK\$483 million respectively (2002: HK\$935 million and HK\$460 million).

As at 31st December 2003, the Group and the Company had long-term liabilities which were defeased by funds and other investments totalling HK\$28,000 million (2002: HK\$28,660 million). Accordingly, these liabilities and the related funds, as well as related expenditure and income, have been netted off in the accounts.

## (b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2004 to 2017. The future payments under these finance leases are as follows:

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Within one year	<b>5,328</b>	6,645	<b>5,350</b>	6,621
After one year but within two years	<b>6,679</b>	4,804	<b>6,690</b>	4,840
After two years but within five years	<b>10,598</b>	12,790	<b>11,916</b>	13,610
After five years	<b>19,874</b>	19,341	<b>22,315</b>	22,487
Total future payments	<b>42,479</b>	43,580	<b>46,271</b>	47,558
Interest charges relating to future periods	<b>(9,615)</b>	(10,382)	<b>(13,308)</b>	(14,641)
Present value of future payments	<b>32,864</b>	33,198	<b>32,963</b>	32,917
Security deposits, notes and zero coupon bonds	<b>(12,937)</b>	(14,441)	<b>(4,815)</b>	(5,748)
Amounts due within one year included under current liabilities	<b>(2,896)</b>	(3,318)	<b>(3,721)</b>	(4,227)
	<b>17,031</b>	15,439	<b>24,427</b>	22,942

The present value of future payments is repayable as follows:

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Within one year	<b>4,229</b>	5,446	<b>4,285</b>	5,462
After one year but within two years	<b>5,609</b>	3,696	<b>5,688</b>	3,801
After two years but within five years	<b>8,125</b>	10,222	<b>9,359</b>	10,881
After five years	<b>14,901</b>	13,834	<b>13,631</b>	12,773
	<b>32,864</b>	33,198	<b>32,963</b>	32,917

As at 31st December 2003, the Group and the Company had obligations under finance leases which were defeased by funds and other investments amounting to HK\$8,186 million and HK\$1,554 million respectively (2002: HK\$7,725 million and HK\$1,561 million). Accordingly these liabilities and the related funds, as well as related expenditure and income, have been netted off in the accounts.

## 15. RETIREMENT BENEFITS

The Group operates various defined benefit and defined contribution retirement schemes for its employees in Hong Kong and in certain overseas locations. The assets of these schemes are held in funds administered by independent trustees. The retirement schemes in Hong Kong are registered under and comply with the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Schemes Ordinance (“MPFSO”). Most of the employees engaged outside Hong Kong are covered by appropriate local arrangements.

The Group operates the following principal schemes:

### (a) Defined benefit retirement schemes

The Swire Group Retirement Benefit Scheme (“SGRBS”) in Hong Kong, in which the Company and Cathay Pacific Catering Services (H.K.) Limited (“CPCS”) are participating employers, provides resignation and retirement benefits to its members, which include the Company’s cabin attendants who joined before September 1996 and other locally engaged employees who joined before June 1997, upon their cessation of service. The Company and CPCS meet the full cost of all benefits due by SGRBS to their employee members who are not required to contribute to the scheme.

Staff employed by the Company in Hong Kong on expatriate terms before April 1993 were eligible to join another scheme, the Cathay Pacific Airways Limited Retirement Scheme (“CPALRS”). Both members and the Company contribute to CPALRS.

The latest actuarial valuations of CPALRS and of the portion of SGRBS funds specifically designated for the Company’s employees were completed by a qualified actuary, Watson Wyatt Hong Kong Limited, as at 31st December 2003 using the projected unit credit method. The Group’s obligations are 96% (2002: 77%) covered by the plan assets held by the trustees.

	2003		2002	
	SGRBS	CPALRS	SGRBS	CPALRS
The principal actuarial assumptions are:				
Discount rate used	5%	4%	5%	4%
Expected return on plan assets	6%	6%	7%	7%
Future salary increases	2-5%	2-5%	2-5%	2-5%

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Net liability recognised in the balance sheet:				
Present value of funded obligations	<b>6,326</b>	5,937	<b>5,938</b>	5,563
Fair value of plan assets	<b>(6,061)</b>	(4,574)	<b>(5,609)</b>	(4,235)
	<b>265</b>	1,363	<b>329</b>	1,328
Net unrecognised actuarial losses	<b>(84)</b>	(1,017)	<b>(105)</b>	(960)
	<b>181</b>	346	<b>224</b>	368

**15. RETIREMENT BENEFITS** (continued)

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Movements in net retirement benefit liability comprise:				
At 1st January	<b>346</b>	–	<b>368</b>	–
Prior year adjustment for transitional liabilities	–	605	–	605
Movements for the year				
– Net expenses recognised in the profit and loss account	<b>450</b>	379	<b>432</b>	365
– Contributions paid	<b>(615)</b>	(638)	<b>(576)</b>	(602)
At 31st December	<b>181</b>	346	<b>224</b>	368
			<b>2003 HK\$M</b>	2002 HK\$M
Net expenses recognised in the Group profit and loss account:				
Current service cost			<b>409</b>	391
Interest on obligations			<b>272</b>	318
Expected return on plan assets			<b>(273)</b>	(330)
Actuarial loss recognised			<b>42</b>	–
Total included in staff costs			<b>450</b>	379
Actual (return)/loss on plan assets			<b>(1,257)</b>	373

The difference between the fair value of the schemes' assets and the present value of the accrued past services liabilities at the date of an actuarial valuation is taken into consideration when determining future funding levels in order to ensure that the schemes will be able to meet liabilities as they become due. The contributions are calculated based upon funding recommendations arising from actuarial valuations.

## (b) Defined contribution retirement schemes

Staff employed by the Company in Hong Kong on expatriate terms are eligible to join a defined contribution retirement scheme, the CPA Provident Fund 1993. All staff employed in Hong Kong are eligible to join the CPA Provident Fund.

Under the terms of these schemes, other than the Company contribution, staff may elect to contribute from 0% to 10% of the monthly salary. During the year, the benefits forfeited in accordance with the schemes' rules amounted to HK\$9 million (2002: HK\$10 million) which have been applied towards the contributions payable by the Company.

A mandatory provident fund ("MPF") scheme was established under the MPFSO in December 2000. Since the Company has obtained exemption for its existing retirement schemes, all staff were offered the choice of switching to the MPF scheme or staying in existing schemes. Where staff elected to join the MPF scheme, both the Company and staff are required to contribute 5% of the employees' relevant income (capped at HK\$20,000). Staff may elect to contribute more than the minimum as a voluntary contribution.

Contributions to defined contribution retirement schemes charged to the Group profit and loss account are HK\$320 million (2002: HK\$298 million).



**16. DEFERRED TAXATION**

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Deferred tax assets:				
– Retirement benefits	(45)	–	(45)	–
– Provisions	(8)	(5)	(12)	(9)
– Cash flow hedges	(90)	–	(90)	–
Deferred tax liabilities on accelerated tax depreciation	748	698	607	572
Provision in respect of certain lease arrangements	7,157	6,921	7,157	6,921
	<b>7,762</b>	7,614	<b>7,617</b>	7,484

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Movements in deferred taxation comprise:				
At 1st January	7,614	7,836	7,484	7,707
Movements for the year				
– transfer from profit and loss account				
– deferred tax expenses (note 5)	2	34	(13)	33
– operating expenses	551	147	551	147
– transferred to cash flow hedge reserve	(90)	–	(90)	–
– accelerated transfer to current taxation	(223)	–	(223)	–
– initial cash benefit from lease arrangements	503	–	503	–
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	(595)	(403)	(595)	(403)
At 31st December	<b>7,762</b>	7,614	<b>7,617</b>	7,484

The Group has tax losses which do not expire under current tax legislation, no deferred tax asset is recognised due to the uncertainty over its recoverability.

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2005 to 2014 (2002: 2004 to 2012) as follows:

	2003 HK\$M	2002 HK\$M
After one year but within five years	4,381	4,144
After five years but within ten years	2,312	2,777
After ten years	464	–
	<b>7,157</b>	6,921

**17. TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Trade debtors	<b>2,860</b>	2,413	<b>2,728</b>	2,267
Other receivables and prepayments	<b>1,879</b>	1,867	<b>1,804</b>	1,774
Due from associated companies	<b>10</b>	11	–	–
Due from other related companies	<b>4</b>	3	–	1
	<b>4,753</b>	4,294	<b>4,532</b>	4,042

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Analysis of trade debtors by age:				
Current	<b>2,736</b>	2,257	<b>2,627</b>	2,145
One to three months overdue	<b>64</b>	96	<b>45</b>	67
More than three months overdue	<b>60</b>	60	<b>56</b>	55
	<b>2,860</b>	2,413	<b>2,728</b>	2,267

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

**18. LIQUID FUNDS**

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Short-term deposits and bank balances	<b>5,663</b>	3,438	<b>5,257</b>	2,821
Short-term deposits maturing beyond three months when placed	<b>482</b>	57	<b>472</b>	57
Funds with investment managers				
– debt securities listed outside Hong Kong	<b>6,665</b>	6,562	–	–
– bank deposits	<b>275</b>	931	–	–
Other liquid investments				
– debt securities listed outside Hong Kong	<b>256</b>	123	<b>202</b>	–
– bank deposits	<b>1,859</b>	2,069	<b>545</b>	609
	<b>15,200</b>	13,180	<b>6,476</b>	3,487

Included in other liquid investments are short-term bank deposits of HK\$1,859 million (2002: HK\$2,069 million) and debt securities of HK\$256 million (2002: HK\$53 million) which are pledged as part of long-term financing arrangements. The arrangements provide that these deposits and debt securities must be maintained at specified levels for the duration of the financing.

**19. TRADE AND OTHER PAYABLES**

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Trade creditors	<b>1,947</b>	1,520	<b>1,822</b>	1,391
Other payables	<b>3,228</b>	3,431	<b>3,451</b>	3,695
Due to associated companies	<b>197</b>	187	<b>194</b>	180
Due to other related companies	<b>157</b>	126	<b>156</b>	123
Bank overdrafts – unsecured	<b>14</b>	16	<b>11</b>	11
	<b>5,543</b>	5,280	<b>5,634</b>	5,400

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Analysis of trade creditors by age:				
Current	<b>1,478</b>	1,071	<b>1,369</b>	972
One to three months overdue	<b>367</b>	343	<b>362</b>	332
More than three months overdue	<b>102</b>	106	<b>91</b>	87
	<b>1,947</b>	1,520	<b>1,822</b>	1,391

**20. SHARE CAPITAL**

	2003		2002	
	Number of shares	HK\$M	Number of shares	HK\$M
Authorised (HK\$0.20 each)	<b>3,900,000,000</b>	<b>780</b>	3,900,000,000	780
Issued and fully paid (HK\$0.20 each)				
At 1st January	<b>3,336,007,848</b>	<b>667</b>	3,329,817,848	666
Share options exercised	<b>7,507,200</b>	<b>2</b>	6,190,000	1
At 31st December	<b>3,343,515,048</b>	<b>669</b>	3,336,007,848	667

The Company adopted a share option scheme (the "Scheme") on 10th March 1999 for the purpose of providing flight deck crew with an incentive to contribute towards the Company's results. All participants of the Scheme were flight deck crew 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 68,327,000 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.

**20. SHARE CAPITAL** (continued)

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

	2003 Number of shares	2002 Number of shares
Movements in options outstanding comprise:		
At 1st January	<b>60,883,000</b>	67,144,000
Options exercised	<b>(7,507,200)</b>	(6,190,000)
Options lapsed	<b>(181,000)</b>	(71,000)
At 31st December	<b>53,194,800</b>	60,883,000
Options vested at 31st December	<b>24,361,300</b>	29,913,500

No option was granted under the Scheme during the year.

	2003	2002
Details of share options exercised during the year:		
Exercise date	<b>14/1/03-30/12/03</b>	10/1/02-31/12/02
Proceeds received (HK\$)	<b>56,078,784</b>	46,239,300
Weighted average closing share price immediately before the exercise date (HK\$)	<b>12.95</b>	12.14

**21. RESERVES**

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Retained profit	<b>23,518</b>	23,250	<b>11,781</b>	11,998
Share premium	<b>7,261</b>	7,207	<b>7,261</b>	7,207
Capital redemption reserve	<b>21</b>	21	<b>21</b>	21
Investment revaluation reserve	<b>354</b>	412	<b>349</b>	430
Cash flow hedge reserve	<b>(770)</b>	559	<b>(813)</b>	697
Other reserves	<b>(1)</b>	(1)	-	-
	<b>30,383</b>	31,448	<b>18,599</b>	20,353

Included in retained profit is an amount of HK\$1,137 million (2002: HK\$1,198 million) relating to retained profit attributable to associated companies.

Investment revaluation reserve relates to changes in the fair value of long-term investments.

Cash flow hedge reserve relates to exchange differences on borrowings, lease obligations, currency derivatives and related security deposits which are arranged in foreign currencies such that repayments can be met by anticipated operating cash flows.

**21. RESERVES** (continued)

Exchange differences recorded in the Group's cash flow hedge reserve are expected to be credited/(charged) to operating profit as noted below based on exchange rates ruling at 31st December 2003.

	1st half HK\$M	2nd half HK\$M	Total HK\$M
2004	(171)	(144)	(315)
2005	151	(97)	54
2006	(61)	(84)	(145)
2007	(11)	(41)	(52)
2008	(46)	(34)	(80)
Beyond 2008			(232)
			(770)

The actual exchange differences ultimately recognised in operating profit will depend upon exchange rates ruling on the repayment dates of the relevant long-term liabilities and lease obligations.

Had HK SSAP 11 been adopted, there would have been no financial impact on the Group's assets, liabilities and cash flows. A HK\$770 million deficit (2002: HK\$559 million surplus) would have been included in retained profit rather than the cash flow hedge reserve and the effect on profit attributable to shareholders and earnings per share would be:

	2003 HK\$M	2002 HK\$M
Profit attributable to shareholders	1,303	3,983
HK SSAP 11 adjustment	(1,329)	(2,040)
Adjusted (loss)/profit with adoption of HK SSAP 11	(26)	1,943
Adjusted (loss)/earnings per share with adoption of HK SSAP 11	(0.8)¢	58.3¢
Earnings per share	39.0¢	119.5¢

**22. RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS**

	2003 HK\$M	2002 HK\$M
Operating profit	2,225	4,750
Depreciation	3,745	3,829
Amortisation of intangible assets	110	120
Loss/(gain) on disposal of fixed assets and intangible assets	38	(119)
Profit on disposal of an associated company	–	(1)
Profit on disposal of partial interest in a subsidiary	–	(32)
Currency adjustments and other items not involving cash flows	240	(780)
Decrease in stock	32	157
(Increase)/decrease in trade debtors, other receivables and prepayments	(459)	488
Increase in net amounts due to related and associated companies	41	45
Increase in trade creditors and other payables	224	677
Increase in unearned transportation revenue	321	553
Non-operating movements in debtors and creditors	(147)	(387)
Cash generated from operations	<b>6,370</b>	9,300

**23. ANALYSIS OF CASH AND CASH EQUIVALENTS**

	2003 HK\$M	2002 HK\$M
Short-term deposits and bank balances	5,663	3,438
Bank overdrafts	(14)	(16)
	<b>5,649</b>	3,422

**24. DIRECTORS' REMUNERATION**

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2003 HK\$M	2002 HK\$M
Fees	–	–
Emoluments		
– Salaries, allowances and benefits in kind	34	35
– Contributions to retirement schemes	3	3
	<b>37</b>	38

Housing costs accounted for 26% (2002: 20%) of emoluments.

**25. EMPLOYEE INFORMATION**

The five highest paid individuals of the Company included four (2002: four) Directors, whose total emoluments are included in the amounts set out in note 24 above, and one (2002: one) other whose emoluments comprised:

	2003 HK\$M	2002 HK\$M
Salaries, allowances and benefits in kind	5	4
Contributions to retirement schemes	1	1
	<b>6</b>	<b>5</b>

The table below sets out the number of individuals, including those who have retired or resigned during the year, in each employment category whose total remuneration for the year fell into the following ranges:

HK\$'000	2003			2002		
	Director	Flight staff	Other staff	Director	Flight staff	Other staff
0 – 1,000	13	6,415	7,064	15	6,345	7,387
1,000 – 1,500	–	420	189	–	436	165
1,500 – 2,000	–	334	85	–	241	70
2,000 – 2,500	–	120	16	–	64	26
2,500 – 3,000	–	164	11	–	116	10
3,000 – 3,500	–	138	3	–	141	5
3,500 – 4,000	–	44	6	–	63	3
4,000 – 4,500	1	6	2	1	25	–
4,500 – 5,000	–	3	–	–	4	2
5,000 – 5,500	–	–	1	2	4	1
5,500 – 6,000	1	–	–	–	–	–
6,000 – 6,500	–	–	1	1	–	–
7,000 – 7,500	1	–	–	1	–	–
8,500 – 9,000	1	–	–	1	–	–
10,500 – 11,000	1	–	–	–	–	–
	<b>18</b>	<b>7,644</b>	<b>7,378</b>	21	7,439	7,669

**26. RELATED PARTY TRANSACTIONS**

(a) Material transactions between the Group and associated companies and other related parties which were carried out in the normal course of business on commercial terms are summarised below:

	2003		2002	
	Associated companies HK\$M	Other related parties HK\$M	Associated companies HK\$M	Other related parties HK\$M
Turnover	<b>70</b>	<b>-</b>	85	-
Aircraft maintenance costs	<b>782</b>	<b>994</b>	839	1,191
Route operating costs	<b>164</b>	<b>665</b>	194	657
Dividends received	<b>(187)</b>	<b>(61)</b>	(133)	(87)
Fixed assets purchase	<b>22</b>	<b>53</b>	56	42

(b) Other transactions with related parties

(i) Under an agreement between the two parties, the Company pays fees and reimburses costs to the John Swire & Sons Limited group in exchange for services provided. Service fees calculated at 2.5% of the Group's profit before tax, results of associated companies, minority interests, and any profits and losses on disposal of fixed assets will be paid annually. Service fees paid for the year ended 31st December 2003 were HK\$42 million (2002: HK\$102 million) and expenses of HK\$155 million (2002: HK\$156 million) were reimbursed at cost.

(ii) The Company received agency commission and service fees from Dragonair. Service fees were received in respect of computer support, engineering, station and ground services provided to Dragonair. All these transactions were conducted in the ordinary course of business and on normal commercial terms. A total of HK\$202 million was received from Dragonair for these transactions in 2003 (2002: HK\$201 million). Dragonair is also a partner of the Asia Miles frequent-flyer programme.

(c) Amounts due to and due from associated companies and other related companies at 31st December 2003 are disclosed in notes 17 and 19 to the accounts. These balances arising in the normal course of business are non-interest bearing and have no fixed repayment terms.

(d) Guarantees given by the Company in respect of bank loan facilities held by an associated company at 31st December 2003 are disclosed in note 28 to the accounts.

(e) There were no material transactions with Directors except for those relating to remuneration (note 24 to the accounts) and shareholdings (Directors' Report).



**27. WAIVER FROM COMPLIANCE WITH LISTING RULES**

Pursuant to Rule 14.04 (8) of the Listing Rules, the Stock Exchange has granted to the Company a waiver from full compliance with the provisions of Chapter 14 of the Listing Rules, which relates to notifiable transactions, in relation to the acquisition or disposal of aircraft. As a result of the waiver, instead of the normal tests under Chapter 14, the test for the Company will be made by reference to Available Tonne Kilometres (“ATKs”). The test will be a calculation based on ATKs for aircraft being acquired or disposed of compared to the aggregate fleet ATKs. ATKs are calculated for each sector by multiplying the capacity, measured in tonnes available for the carriage of passengers, excess baggage, cargo and mail on that sector, by the sector distance.

	2003	2002
Fleet ATKs (in million tonne kilometres)	<b>13,355</b>	12,820

**28. COMMITMENTS AND CONTINGENCIES**

(a) Outstanding commitments for capital expenditure authorised at the year end but not provided for in the accounts:

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Authorised and contracted for	<b>3,865</b>	3,609	<b>919</b>	58
Authorised but not contracted for	<b>105</b>	445	–	443
	<b>3,970</b>	4,054	<b>919</b>	501

Operating lease commitments are shown in note 9 to the accounts.

**28. COMMITMENTS AND CONTINGENCIES** *(continued)*

(b) Guarantees in respect of bank loans and other liabilities outstanding at the year end:

	Group		Company	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M
Subsidiary companies	–	–	<b>916</b>	916
Associated company	<b>19</b>	18	<b>19</b>	18
Staff	<b>420</b>	470	<b>405</b>	470
	<b>439</b>	488	<b>1,340</b>	1,404

(c) The Company has under certain circumstances undertaken to maintain specified rates of return within the Group's leasing arrangements. The Directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.

(d) The Company files tax returns in many jurisdictions and in certain of these the returns have remained in dispute for a number of years. Provisions have been made to cover the expected outcome of the disputes to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.

# Principal Subsidiary and Associated Companies

at 31st December 2003

## SUBSIDIARY COMPANIES

	Place of incorporation and operation	Principal activities	Percentage of issued capital owned	Issued and paid up share capital
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Computerised reservation systems and related services	53	15,600,000 shares of HK\$1
Airline Property Limited	Hong Kong	Property investment	100	2 shares of HK\$10
Airline Stores Property Limited	Hong Kong	Property investment	100	2 shares of HK\$10
Airline Training Property Limited	Hong Kong	Property investment	100	2 shares of HK\$10
Cathay Holidays Limited	Hong Kong	Travel tour operator	100	5,000 shares of HK\$100
Cathay Pacific Aircraft Services Limited	Isle of Man	Aircraft acquisition facilitator	100	10,000 shares of US\$1
Cathay Pacific Catering Services (H.K.) Limited	Hong Kong	Airline catering	100	600 shares of HK\$1,000
Cathay Pacific Loyalty Programmes Limited	Hong Kong	Travel reward programme	100	2 shares of HK\$1
CLS Catering Services Limited	Canada	Airline catering	60*	330,081 shares of no par value
Global Logistics System (H.K.) Company Limited	Hong Kong	Computer network for interchange of air cargo related information	97	100 shares of HK\$10
Guangzhou Guo Tai Information Processing Company Limited	People's Republic of China	Information processing	80*	Paid up registered capital HK\$7,000,000 (wholly foreign equity enterprise)
Hong Kong Airport Services Limited	Hong Kong	Provision of ground and ramp handling services	70	100 shares of HK\$1
Snowdon Limited	Isle of Man	Financial services	100*	2 shares of GBP1
Troon Limited	Bermuda	Financial services	100	12,000 shares of US\$1
Vogue Laundry Service Limited	Hong Kong	Laundry and dry cleaning	100	3,700 shares of HK\$500

Principal subsidiary and associated companies are those which materially affect the results or assets of the Group.

\* Shareholding held through subsidiary companies.

**ASSOCIATED COMPANIES**

	Place of incorporation and operation	Principal activities	Percentage of issued capital owned
Associated Engineers Limited	Hong Kong	Airport ground support and general engineering	34
Cathay Kansai Terminal Services Company Limited	Japan	Ground handling	48
Cebu Pacific Catering Services Inc	Philippines	Airline catering	40*
Hong Kong Aircraft Engineering Company Limited	Hong Kong	Aircraft overhaul and maintenance	27
Hong Kong Dragon Airlines Limited	Hong Kong	Airline	19*
VN/CX Catering Services Limited	Vietnam	Airline catering	40*

\* Shareholding held through subsidiary companies.

# Statistics

		2003	2002	2001
<b>Consolidated profit and loss summary</b>				
	<i>HK\$M</i>			
Passenger services		<b>18,663</b>	22,376	20,580
Cargo services		<b>9,913</b>	9,387	8,343
Catering and other services		<b>1,002</b>	1,327	1,513
Total turnover		<b>29,578</b>	33,090	30,436
Operating expenses		<b>(27,353)</b>	(28,340)	(29,604)
Operating profit/(loss)		<b>2,225</b>	4,750	832
Net finance charges		<b>(620)</b>	(743)	(571)
Profit on sale of investments		<b>-</b>	-	452
Share of profits of associated companies		<b>151</b>	324	188
Profit/(loss) before tax		<b>1,756</b>	4,331	901
Taxation		<b>(409)</b>	(328)	(202)
Profit/(loss) after tax		<b>1,347</b>	4,003	699
Minority interests		<b>(44)</b>	(20)	(42)
Profit/(loss) attributable to shareholders		<b>1,303</b>	3,983	657
Dividends paid		<b>(1,035)</b>	(701)	(1,915)
Retained profit/(loss) for the year		<b>268</b>	3,282	(1,258)
<b>Consolidated balance sheet summary</b>				
	<i>HK\$M</i>			
Fixed and intangible assets		<b>51,762</b>	50,527	52,114
Long-term receivables and investments		<b>2,924</b>	3,197	3,165
Borrowings		<b>(26,297)</b>	(22,810)	(24,024)
Liquid funds less bank overdrafts		<b>15,186</b>	13,164	9,746
Net borrowings		<b>(11,111)</b>	(9,646)	(14,278)
Net current liabilities (excluding liquid funds and bank overdrafts)		<b>(4,476)</b>	(3,932)	(1,764)
Retirement benefit obligations		<b>(181)</b>	(346)	-
Deferred taxation		<b>(7,762)</b>	(7,614)	(7,836)
Minority interests		<b>(104)</b>	(71)	(93)
Net assets		<b>31,052</b>	32,115	31,308
Financed by:				
Shareholders' funds		<b>31,052</b>	32,115	31,308
<b>Per share</b>				
Shareholders' funds	<i>HK\$</i>	<b>9.29</b>	9.63	9.40
EBITDA	<i>HK\$</i>	<b>1.87</b>	2.71	1.64
Earnings/(loss)	<i>HK cents</i>	<b>39.0</b>	119.5	19.7
Dividend	<i>HK cents</i>	<b>48.0</b>	44.0	17.5
<b>Ratios</b>				
Profit/(loss) margin	<i>%</i>	<b>4.4</b>	12.0	2.2
Return of average shareholders' funds	<i>%</i>	<b>4.1</b>	12.6	2.0
Dividend cover	<i>Times</i>	<b>0.8</b>	2.7	1.1
Interest cover	<i>Times</i>	<b>3.6</b>	6.4	1.5
Gross debt/equity ratio	<i>Times</i>	<b>0.85</b>	0.71	0.77
Net debt/equity ratio	<i>Times</i>	<b>0.36</b>	0.30	0.46

	2000	1999	1998	1997	1996	1995	1994
	22,878	18,979	18,532	21,851	23,680	22,128	20,027
	10,136	8,391	6,955	7,712	6,797	6,641	5,573
	1,509	1,332	1,123	1,014	1,037	941	800
	34,523	28,702	26,610	30,577	31,514	29,710	26,400
	(29,234)	(25,891)	(27,281)	(28,537)	(27,738)	(25,956)	(23,258)
	5,289	2,811	(671)	2,040	3,776	3,754	3,142
	(367)	(918)	(311)	(335)	(384)	(597)	(557)
	–	482	185	–	559	–	–
	279	108	172	306	363	379	381
	5,201	2,483	(625)	2,011	4,314	3,536	2,966
	(110)	(219)	104	(291)	(484)	(516)	(560)
	5,091	2,264	(521)	1,720	3,830	3,020	2,406
	(86)	(84)	(35)	(40)	(17)	(57)	(33)
	5,005	2,180	(556)	1,680	3,813	2,963	2,373
	(1,585)	(339)	(694)	(1,817)	(1,455)	(1,217)	(1,203)
	3,420	1,841	(1,250)	(137)	2,358	1,746	1,170
	48,959	48,541	47,985	41,787	38,138	28,930	24,226
	3,756	3,548	3,635	2,728	2,302	2,149	1,789
	(20,838)	(24,783)	(27,198)	(23,122)	(26,043)	(21,722)	(22,036)
	10,952	11,567	12,240	14,327	20,178	13,926	14,975
	(9,886)	(13,216)	(14,958)	(8,795)	(5,865)	(7,796)	(7,061)
	(2,752)	(3,944)	(3,970)	(2,652)	(2,904)	(2,639)	(2,153)
	–	–	–	–	–	–	–
	(7,146)	(6,714)	(6,359)	(5,802)	(5,359)	(3,954)	(3,006)
	(99)	(86)	(108)	(104)	(78)	(99)	(88)
	32,832	28,129	26,225	27,162	26,234	16,591	13,707
	32,832	28,129	26,225	27,162	26,234	16,591	13,707
	9.80	8.31	7.75	8.02	7.63	5.79	4.78
	2.70	2.07	0.91	1.47	2.06	2.40	2.16
	148.4	64.4	(16.4)	49.1	119.7	103.4	82.8
	65.0	30.0	10.0	29.0	53.0	48.0	42.0
	14.5	7.6	(2.1)	5.5	12.1	10.0	9.0
	16.4	8.0	(2.1)	6.3	17.8	19.6	17.6
	2.3	2.1	(1.6)	1.7	2.1	2.2	2.0
	14.4	3.1	(2.2)	6.1	9.8	6.3	5.6
	0.63	0.88	1.04	0.85	0.99	1.31	1.61
	0.30	0.47	0.57	0.32	0.22	0.47	0.52

		2003	2002	2001
<b>Operating summary (Cathay Pacific)</b>				
Kilometres flown	<i>Million</i>	<b>238</b>	237	224
Block hours	<i>'000 Hours</i>	<b>322</b>	322	307
Aircraft departures	<i>'000</i>	<b>65</b>	68	65
Available tonne kilometres	<i>Million</i>	<b>13,355</b>	12,820	11,827
Revenue tonne kilometres	<i>Million</i>	<b>9,371</b>	9,522	8,201
Available seat kilometres	<i>Million</i>	<b>59,280</b>	63,050	62,790
Revenue passengers carried	<i>'000</i>	<b>10,059</b>	12,321	11,269
Revenue passenger kilometres	<i>Million</i>	<b>42,774</b>	49,041	44,792
Revenue load factor	<i>%</i>	<b>71.1</b>	75.9	70.4
Passenger load factor	<i>%</i>	<b>72.2</b>	77.8	71.3
Cargo carried	<i>'000 Tonnes</i>	<b>875</b>	851	704
Cargo and mail tonne kilometres	<i>Million</i>	<b>5,299</b>	4,854	3,938
Cargo and mail load factor	<i>%</i>	<b>68.7</b>	71.2	67.3
Excess baggage carried	<i>Tonnes</i>	<b>2,190</b>	2,401	2,270
Mail carried	<i>Tonnes</i>	<b>14,279</b>	11,082	8,684
Length of scheduled routes network	<i>'000 Kilometres</i>	<b>377</b>	374	341
Destinations at year end	<i>Number</i>	<b>87</b>	62	51
Staff number at year end	<i>Number</i>	<b>14,673</b>	14,649	14,473
ATK per staff	<i>'000</i>	<b>903</b>	885	810
<b>On-time performance</b>				
Departure (within 15 minutes)	<i>%</i>	<b>91.0</b>	90.7	82.9
<b>Average aircraft utilisation</b>				
	<i>Hours per day</i>			
A330-300		<b>9.2</b>	10.1	9.4
A340-200		<b>-</b>	-	-
A340-300		<b>12.4</b>	13.3	13.4
A340-600		<b>11.7</b>	6.3	-
B747-200/300		<b>-</b>	-	-
B747-400		<b>12.8</b>	14.1	14.4
B747-200F		<b>13.3</b>	13.6	12.2
B747-400F		<b>16.4</b>	15.4	14.3
B777-200/300		<b>8.7</b>	9.4	9.6
L1011		<b>-</b>	-	-
Fleet average		<b>11.4</b>	12.1	12.1
<b>Fleet profile</b>				
Aircraft operated by Cathay Pacific:				
A330-300		<b>23</b>	20	20
A340-200		<b>-</b>	-	-
A340-300		<b>15</b>	15	15
A340-600		<b>3</b>	2	-
B747-200/300		<b>-</b>	-	-
B747-400		<b>19</b>	19	19
B747-200F		<b>6</b>	6	4
B747-400F		<b>5</b>	5	5
B777-200		<b>5</b>	5	5
B777-300		<b>9</b>	7	7
L1011		<b>-</b>	-	-
Sub-total		<b>85</b>	79	75
Aircraft not operated by Cathay Pacific:				
B747-200/300		<b>-</b>	-	6
B747-200F		<b>1</b>	1	3
Total number of aircraft		<b>86</b>	80	84

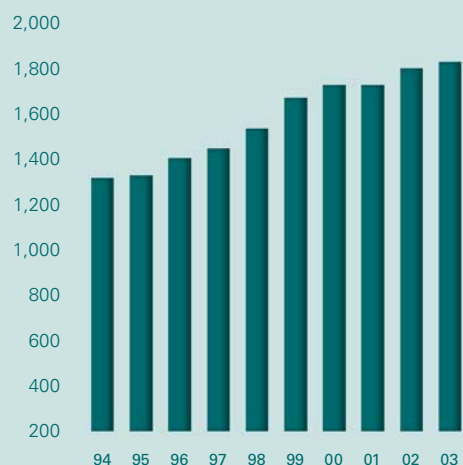
	2000	1999	1998	1997	1996	1995	1994
	219	202	202	193	182	162	146
	296	273	271	254	244	217	193
	63	58	59	56	55	52	49
	11,630	10,867	10,857	10,399	10,018	8,946	8,052
	8,650	7,768	7,213	7,331	7,072	6,214	5,553
	61,909	58,114	60,295	57,104	54,306	49,334	45,892
	11,864	10,516	10,299	10,018	10,985	10,381	9,750
	47,153	41,502	40,679	38,962	40,185	35,341	32,727
	75.2	71.5	67.1	69.5	72.6	70.8	70.4
	76.2	71.4	67.5	68.2	74.0	71.6	71.3
	769	672	580	635	568	531	463
	4,161	3,817	3,339	3,621	3,244	2,847	2,434
	72.5	71.5	65.2	72.9	66.9	67.0	66.1
	3,489	3,376	3,375	3,301	4,133	4,632	4,807
	8,927	7,094	6,775	10,831	13,719	13,112	12,697
	363	346	338	309	296	279	275
	51	49	49	48	45	44	42
	14,328	13,159	13,971	15,747	15,757	14,744	14,469
	843	807	739	663	651	619	574
	84.0	83.5	80.3	81.8	78.0	77.3	79.0
	9.5	9.0	9.5	8.5	8.9	7.4	-
	-	-	-	12.8	14.7	12.3	10.3
	14.7	14.9	15.8	15.9	16.4	-	-
	-	-	-	-	-	-	-
	-	7.7	7.0	7.1	7.6	8.5	8.8
	15.1	14.4	15.3	15.4	15.3	14.5	14.7
	13.6	14.1	13.6	14.2	13.8	13.8	14.0
	15.8	15.8	15.6	15.3	15.2	14.7	13.9
	9.7	8.9	8.9	7.9	7.0	-	-
	-	-	-	-	4.8	6.1	5.6
	12.9	12.4	12.2	11.8	11.4	10.8	10.2
	12	12	12	11	10	7	-
	-	-	-	-	2	4	2
	14	14	11	6	5	-	-
	-	-	-	-	-	-	-
	-	-	6	13	13	13	13
	19	19	19	19	19	19	18
	4	4	4	4	4	4	4
	3	2	2	2	2	2	1
	5	4	4	4	4	-	-
	7	7	4	-	-	-	-
	-	-	-	-	-	8	17
	64	62	62	59	59	57	55
	8	12	7	-	-	-	-
	3	3	3	3	3	-	-
	75	77	72	62	62	57	55



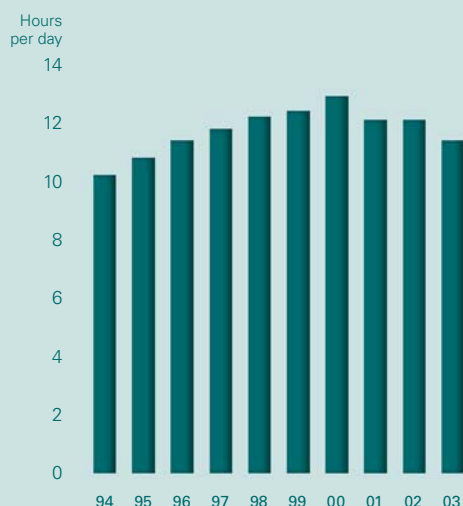
**Cost per ATK**



**ATK per HK\$'000 staff cost**



**Aircraft utilisation**



**Share price**



		2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
<b>Productivity</b>											
Cost per ATK	HK\$	<b>2.00</b>	2.13	2.36	2.32	2.24	2.34	2.60	2.64	2.80	2.81
ATK per HK\$'000 staff cost	Unit	<b>1,825</b>	1,798	1,725	1,725	1,669	1,533	1,446	1,403	1,327	1,316
Aircraft utilisation	Hours per day	<b>11.4</b>	12.1	12.1	12.9	12.4	12.2	11.8	11.4	10.8	10.2
<b>Share prices</b>		HK\$									
High		<b>15.5</b>	13.6	14.3	17.6	16.8	8.9	16.4	14.9	12.8	15.7
Low		<b>8.4</b>	9.9	6.1	10.3	7.4	4.7	5.4	10.6	10.0	10.2
Year-end		<b>14.8</b>	10.7	10.0	14.4	13.9	7.7	6.3	12.2	11.8	11.3
<b>Price ratios (Note)</b>		Times									
Price/Earnings		<b>37.9</b>	9.0	50.8	9.7	21.6	(46.9)	12.8	10.2	11.4	13.6
Market capitalisation/ Shareholders' funds		<b>1.6</b>	1.1	1.1	1.5	1.7	1.0	0.8	1.6	2.0	2.4
Price/Cash flow		<b>7.8</b>	3.8	7.2	5.9	7.0	6.4	4.5	6.1	4.9	5.4

Note: Based on year end share price, where applicable.

# Glossary

## TERMS

**Borrowings** Total borrowings (loans and lease obligations) less security deposits, notes and zero coupon bonds.

**Net borrowings** Borrowings and bank overdrafts less liquid funds.

**Available tonne kilometres ("ATK")** Overall capacity, measured in tonnes available for the carriage of passengers, excess baggage, cargo and mail on each sector multiplied by the sector distance.

**Available seat kilometres ("ASK")** Passenger seat capacity, measured in seats available for the carriage of passengers on each sector multiplied by the sector distance.

**Revenue passenger kilometres ("RPK")** Number of passengers carried on each sector multiplied by the sector distance.

**Revenue tonne kilometres ("RTK")** Traffic volume, measured in load tonnes from the carriage of passengers, excess baggage, cargo and mail on each sector multiplied by the sector distance.

**On-time performance** Departure within 15 minutes of scheduled departure time.

**EBITDA** Earnings before interest, tax, depreciation and amortisation.

## RATIOS

$$\text{Earnings/(loss) per share} = \frac{\text{Profit/(loss) attributable to shareholders}}{\text{Weighted average number of shares (by days) in issue for the year}}$$

$$\text{Profit/(loss) margin} = \frac{\text{Profit/(loss) attributable to shareholders}}{\text{Turnover}}$$

$$\text{Shareholders' funds per share} = \frac{\text{Shareholders' funds}}{\text{Total issued and fully paid shares at end of the year}}$$

$$\text{Return on average shareholders' funds} = \frac{\text{Profit/(loss) attributable to shareholders}}{\text{Average shareholders' funds}}$$

$$\text{Dividend cover} = \frac{\text{Profit/(loss) attributable to shareholders}}{\text{Dividends}}$$

$$\text{Interest cover} = \frac{\text{Operating profit/(loss)}}{\text{Net finance charges}}$$

$$\text{Gross debt/equity ratio} = \frac{\text{Borrowings}}{\text{Shareholders' funds}}$$

$$\text{Net debt/equity ratio} = \frac{\text{Net borrowings}}{\text{Shareholders' funds}}$$

$$\text{Passenger/Cargo and mail load factor} = \frac{\text{Revenue passenger kilometres/Cargo and mail tonne kilometres}}{\text{Available seat kilometres/Available cargo and mail tonne kilometres}}$$

$$\text{Revenue load factor} = \frac{\text{Total passenger, cargo and mail traffic revenue}}{\text{Maximum possible revenue at current yields and capacity}}$$

$$\text{Breakeven load factor} = \text{A theoretical revenue load factor at which the traffic revenue equates to the operating cost.}$$

$$\text{Passenger/Cargo and mail yield} = \frac{\text{Passenger turnover/Cargo and mail turnover}}{\text{Revenue passenger kilometres/Cargo and mail tonne kilometres}}$$

$$\text{Cost per ATK} = \frac{\text{Total operating expenses of Cathay Pacific}}{\text{ATK of Cathay Pacific}}$$

# Corporate and Shareholder Information

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

## INVESTOR RELATIONS

For further information about Cathay Pacific Airways Limited, 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>

## REGISTERED OFFICE

35th Floor, Two Pacific Place

88 Queensway

Hong Kong

## DEPOSITARY

The Bank of New York

American Depositary Receipts

101 Barclay Street, 22nd Floor

New York, NY 10286

U.S.A.

Investor hotline (toll free):

1(888) BNY ADRS or 1(888) 269 2377

General line: 1(212) 815 2293

Fax: 1(212) 571 3050

Email: [ADR@bankofny.com](mailto:ADR@bankofny.com)

Website: [www.adrbny.com](http://www.adrbny.com)

## REGISTRARS

Computershare Hong Kong Investor Services Limited

19th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

## AUDITORS

KPMG

8th Floor, Prince's Building

10 Chater Road

Hong Kong

## FINANCIAL CALENDAR

Year ended 31st December 2003

Annual General Meeting 12th May 2004

2003 final dividend payable 2nd June 2004

Six months ending 30th June 2004

Interim results announcement August 2004

Interim dividend payable October 2004



