

2003
Annual Report

Delivering Value



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From Swire Pacific

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

Financial Highlights

Note	2003 HK\$M	2002 HK\$M	Change %
Turnover	17,568	15,215	+15.5
Operating profit	4,585	4,345	+5.5
Profit attributable to shareholders	4,922	5,377	-8.5
Cash generated from operations	5,333	4,462	+19.5
Net cash inflow before financing	6,348	5,140	+23.5
Shareholders' funds and minority interests	73,307	73,808	-0.7
Consolidated net borrowings	10,174	14,188	-28.3
	2003 HK¢	2002 HK¢	Change %
1 Earnings per share			
'A' shares	321.4	347.5)	-7.5
'B' shares	64.3	69.5)	
	HK¢	HK¢	
Dividend per share			
'A' shares	134.0	130.0)	+3.1
'B' shares	26.8	26.0)	
	HK\$	HK\$	
Shareholders' funds per share			
'A' shares	44.47	44.98)	-1.1
'B' shares	8.89	9.00)	
	2003	2002	
2 Gearing ratio – percentage	14	19	
3 Interest cover – times	9.88	7.94	
4 Cash interest cover – times	5.90	5.03	
5 Dividend cover – times	2.40	2.69	

Notes:

- Earnings per share have been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during each year.
- Gearing represents the ratio of net borrowings to shareholders' funds and minority interests.
- Interest cover is calculated by dividing operating profit by net finance charges.
- Cash interest cover is calculated by dividing operating profit by net finance charges and capitalised interest.
- Dividend cover is calculated by dividing profit attributable to shareholders by total dividends paid and proposed for the year.

Analysis of return on shareholders' funds

The return of each division on shareholders' funds is:

	Attributable profit		Attributable net assets		Return on shareholders' funds*	
	2003 HK\$M	2002 HK\$M	2003 HK\$M	2002 HK\$M	2003 %	2002 %
Property	3,123	2,623	44,693	46,116	6.9	5.4
Aviation	844	2,115	16,199	16,505	5.2	13.0
Beverages	363	276	1,967	2,046	18.1	14.4
Marine Services	646	658	2,968	2,594	23.2	27.3
Trading & Industrial	238	4	1,262	888	22.1	0.3
Head Office	(292)	(299)	987	798	N/A	N/A
	4,922	5,377	68,076	68,947	7.2	7.6

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

Chairman's Statement

In a year in which the SARS outbreak provoked an unprecedented contraction in economic activity in Hong Kong, a relatively modest profit decline of 8% to HK\$4,922 million reflects the underlying strength and resilience of the Swire Pacific group's businesses. Having weathered the marked slowdown in passenger traffic during the second quarter, Cathay Pacific was well placed to benefit from the resurgence in travel demand that was seen from July onwards, and which continues in the current year. Swire Properties has also benefited from renewed consumer confidence, evident in the second half with strong sales of residential apartments at improved prices. The HK\$1,247 million profit contribution from Beverages, Marine Services and Trading & Industrial interests was 33% up on the previous year.

Dividend

Directors have recommended final dividends of HK¢102.0 per 'A' share and HK¢20.4 per 'B' share. This, together with the interim dividends of HK¢32.0 per 'A' share and HK¢6.4 per 'B' share paid in October 2003, gives a total dividend for the year of HK¢134.0 per 'A' share and HK¢26.8 per 'B' share, 3.1% growth over 2002.

Scope of Activities

Improved property trading profits and the contribution from sales of The Albany units compensated for declining rental income from the office portfolio. Whilst office occupancy levels fell during the year, the pick up in consumer confidence is beginning to filter through to the office leasing market and discussions continue with a number of potential tenants for Three Pacific Place, which will open early in the second half of this year.

As passenger traffic rebounded in the second half Cathay Pacific was quick to deploy additional capacity on existing long haul and regional trunk routes; this has had the added benefit of lowering unit costs, which reached a new low of HK\$2.00 per ATK for the year, notwithstanding high fuel prices. Recovery in the passenger market, lower costs and

robust cargo demand throughout the year helped Cathay Pacific to turn a first half loss into a full year contribution to Swire Pacific of HK\$521 million. Hactl, together with HAECO and other associates, provided attributable profits of HK\$323 million in 2003, 38% of the total Aviation Division contribution.

Another year of double digit volume growth in Mainland China enabled the Beverages Division to contribute profits of HK\$363 million, 32% ahead of the prior year. Extensions to the product range and further reductions in unit costs, combined with volume growth, have facilitated improved margins in Mainland China. Elsewhere profit contributions from our beverage interests in Hong Kong, Taiwan and the USA were similar to those of the prior year.

Conditions in the offshore oil support industry were relatively challenging in 2003, with exploration activity particularly depressed in the first half. Although new vessels commissioned during the year were successfully placed into term charters, overall returns fell slightly.

The Trading & Industrial Division reported record profits of HK\$238 million in 2003, with all the major businesses performing well. Motor vehicle and sports apparel trading operations have successfully integrated new brands during the year, whilst our industrial interests in paints and can manufacturing both benefited from aggressive growth strategies in Mainland China.

Finance

Net cash inflows were again strong in 2003 with cash from operations and asset realisations, in particular from the sale of residential apartments, totalling HK\$9,171 million. Net debt and gearing fell to HK\$10,174 million and 14% respectively. Undrawn committed and uncommitted facilities stood at HK\$7,094 million and HK\$2,577 million respectively.

Our A3 long-term debt rating from Moody's was reaffirmed during the year; Standard & Poor's placed us on negative outlook in April 2003 but reaffirmed their BBB+ rating.

Corporate Governance

A commitment to good corporate governance is central to our management philosophy. The key principles and values to which we aim to adhere, and the various measures by which the interests of shareholders and other stakeholders are safeguarded, are set out on pages 42 to 45. During the year we took further steps to enhance governance with the establishment of remuneration committees for each of the three listed companies within the Swire Pacific group.

In the interests of promoting higher standards of corporate governance, we became a member of the Asian Corporate Governance Association.

Social & Environmental Responsibility

The group is committed to acting in a socially responsible manner taking into account wider stakeholder interests. Building on a corporate database of key performance measures, the group published an Environment, Health and Safety progress report. The group received a number of awards and was again included in the Dow Jones Sustainability Index.

Prospects

Rising consumer confidence evident in the second half of 2003 appears to be sustainable and should lead to strong GDP growth both in Hong Kong and the region in 2004. This will help to improve returns from our retail interests and should lead, over time, to revitalised demand for office space, but in the short term it will not arrest the decline in net rental income. However, we remain confident that the market will recover in due course and justify investment in further building projects under consideration.

Cathay Pacific plans a significant increase in capacity in 2004, reflecting reinstatement of schedule reductions in place during the second quarter of 2003 and some further expansion. This will help offset the impact on unit costs of high fuel prices. The airline is now very well positioned to benefit from continued passenger and cargo traffic growth across Asia and the prospect of additional services to

Mainland China. Our other aviation interests are also likely to benefit from a combination of strong traffic growth at the Hong Kong International Airport and a broad recovery in demand for aircraft maintenance services.

Our Mainland China beverage operations will benefit from rising per capita income, new product offerings and better purchasing and distribution strategies following the recent establishment of a supply chain management company in Mainland China in joint venture with The Coca-Cola Company. The offshore oil support market is likely to remain keenly competitive in the near future as demand growth has yet to absorb new supply. Trading & Industrial interests look set for another good year.

Hong Kong, recovering from a period of prolonged deflation, will benefit from closer integration with the rapidly developing Mainland China economy. We remain optimistic about the prospects for further growth and new investment opportunities presented by these developments.

James Hughes-Hallett

Chairman

Hong Kong, 11th March 2004



From Management



To Achievement

Review of Operations

Property Division

Swire Properties' investment portfolio in Hong Kong principally comprises office and retail premises in prime locations, as well as serviced apartments and other luxury residential accommodation. The completed portfolio totals 12.07 million square feet of gross floor area. Current investment property pending or under development in Hong Kong comprises a further 3.26 million square feet, mainly of office space. In addition, Swire Properties has a 20% interest in each of the three hotels in Pacific Place. Outside Hong Kong, Swire Properties owns a 10% interest in the CITIC Square development in Shanghai, and a 75% interest in the Mandarin Oriental Hotel in Miami, Florida. Swire Properties also owns a 55% interest in a foreign joint venture company which plans to construct a mixed-use commercial development in Guangzhou, to be managed by Swire Properties and called Taikoo Hui. Certain terms of this joint venture are currently being renegotiated to allow Swire Properties to take a higher stake.

Swire Properties' trading portfolio in Hong Kong and the United States consists of approximately 400 unsold residential apartments completed or under development, of which approximately 210 units are attributable to the group. In addition, the Swire Pacific group owns further land held for development in Hong Kong and Miami, Florida.

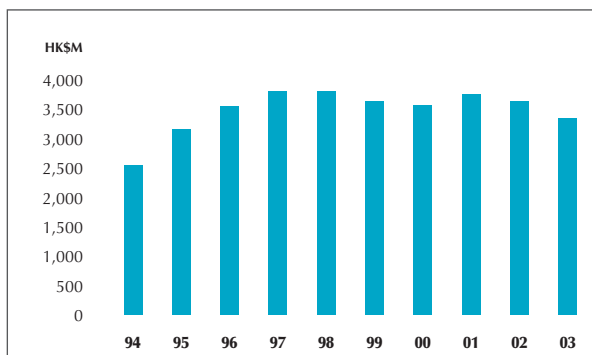
	2003 HK\$M	2002 HK\$M
Turnover		
Gross rental income derived from		
Offices	1,920	2,155
Retail	2,123	2,170
Residential	236	285
Other income (Note)	88	83
Property investment	4,367	4,693
Property trading	2,365	565
Sale of investment properties	833	555
Total turnover	7,565	5,813
Operating profit derived from		
Property investment	3,173	3,338
Property trading	213	125
Sale of investment properties	558	409
	3,944	3,872
Share of profits before taxation jointly controlled and associated companies		
Normal operations	66	112
Non-recurring items	-	(398)
Attributable profit	3,123	2,623

Note: Other income is mainly estate management fees.

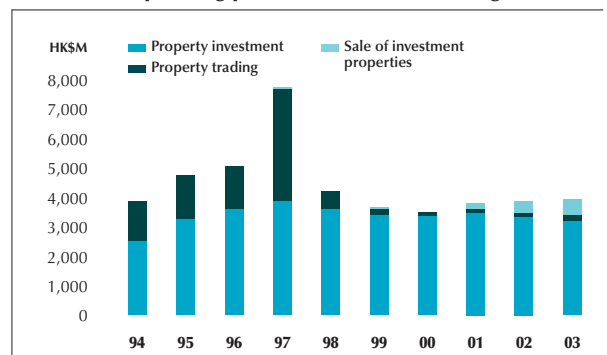
Investment property portfolio – gross floor area ('000 square feet)

Location	Total	Office	Techno-centres	Retail	Residential
Pacific Place	2,887	1,559	–	711	617
TaiKoo Place	4,327	2,516	1,811	–	–
Cityplaza	2,751	1,646	–	1,105	–
Festival Walk	1,214	232	–	982	–
Others	886	183	–	585	118
Total completed	12,065	6,136	1,811	3,383	735
Under and pending development	3,260	3,239	–	4	17
Total	15,325	9,375	1,811	3,387	752

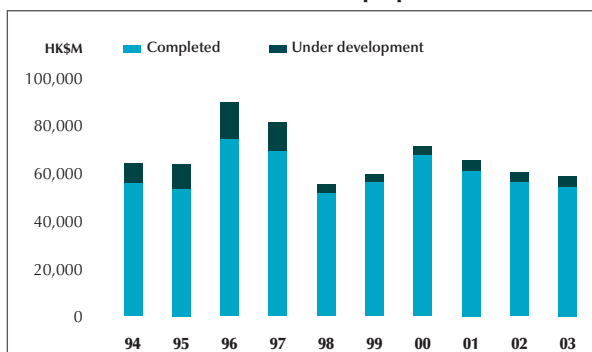
Net rental income



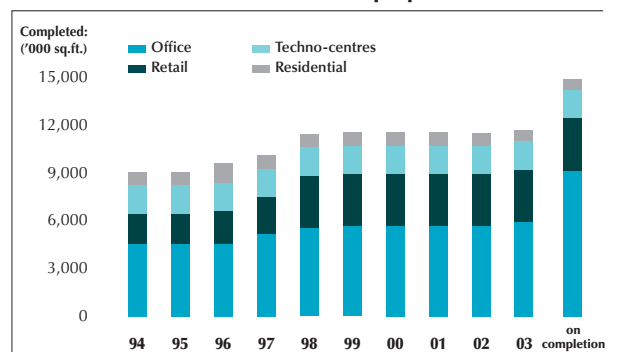
Operating profit before non-recurring items



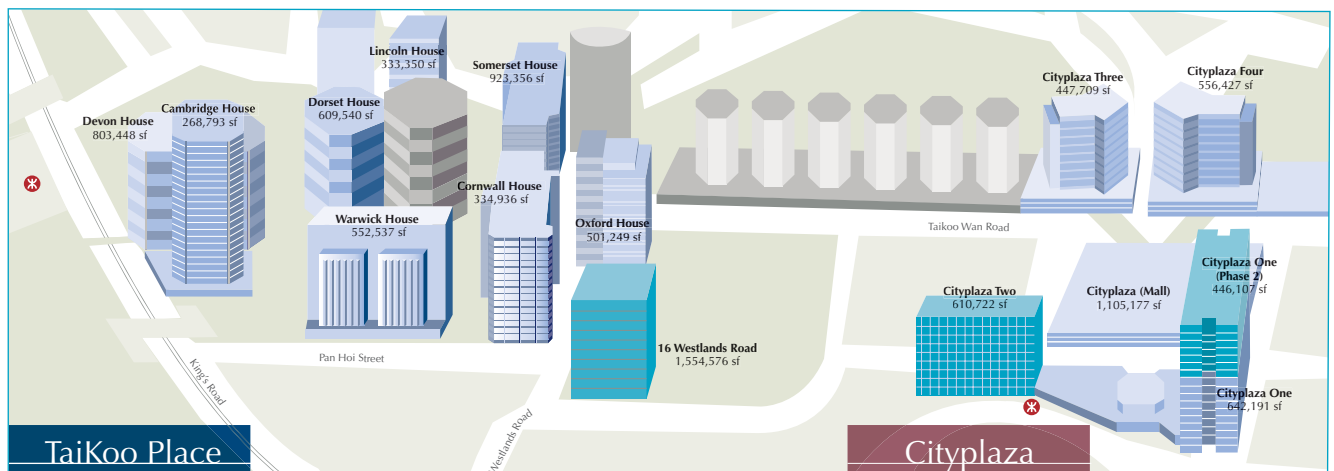
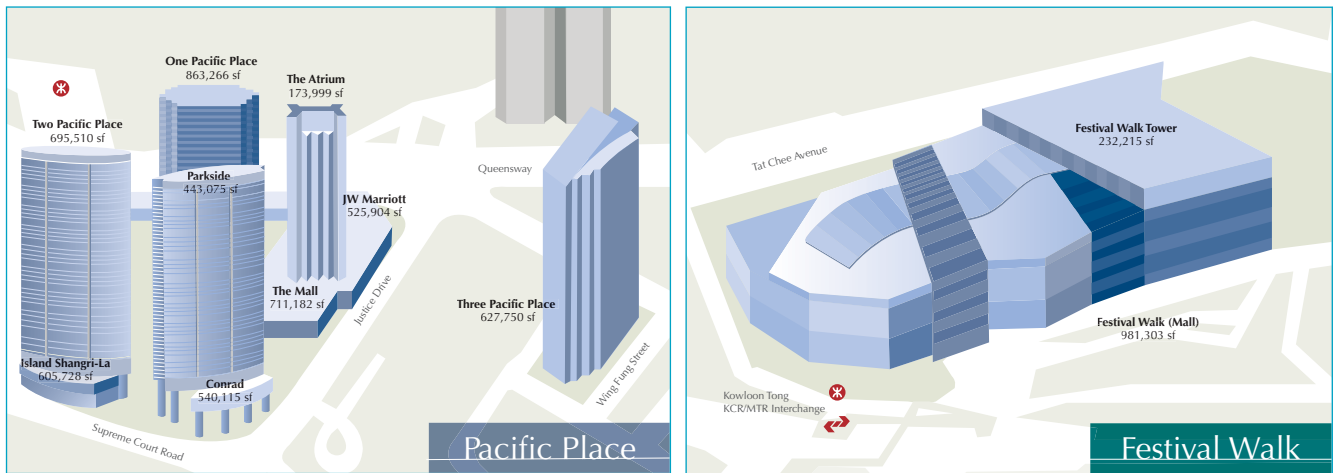
Valuation of investment properties



Floor area of investment properties



Review of Operations – Property Division



2003 OVERVIEW

In the first half of 2003 all sectors of the property market faced extremely difficult market conditions. The SARS outbreak had severe adverse consequences for many retailers, whilst demand for office space continued to be weak. However, in the second half of the year conditions improved. Retail sales have rebounded strongly, with our major malls outperforming the general Hong Kong market. Office market rents have stabilised due to an improvement in business sentiment, but we have yet to see a pick-up in demand for new space.

Net rental income from the investment portfolio amounted to HK\$3,352 million in 2003, compared with HK\$3,630 million in 2002. This decrease is principally attributable to the office portfolio, where the absence of fresh demand, coupled with new supply, brought downward pressure on rents throughout the first three quarters. Whilst office rents appear to have bottomed out, we remain cautious about the prospects for 2004 as excess supply has yet to be absorbed. Our retail centres have continued to perform well and the outlook for the next twelve months is positive.

Transaction volumes in the residential market in Hong Kong in the first half of 2003 were very low due to weak demand exacerbated by the outbreak of SARS. However, a marked improvement in sentiment in the second half has generated demand and supported steady sales volumes.

Operating profit from property trading in 2003 amounted to HK\$213 million, compared with HK\$125 million in 2002. This principally reflects good sales in the second half of the year following the launch of The Orchards, together with continuing contributions from sales of units at Courts Brickell Key in the United States.

Investment Properties

Offices

The combination of abundant supply and lack of new demand resulted in a very difficult year for the office

market. Gross rental income in 2003 from the office portfolio was 11% lower than that of 2002. Occupancy levels declined and at the year-end averaged 80% for the office portfolio compared with 89% at the end of 2002. Construction of Cambridge House, an office tower at TaiKoo Place comprising 269,000 square feet of office space, was completed in the first half of the year. As a result of competitive pressures, a number of leases were restructured at lower rents in exchange for longer tenure. In spite of improved sentiment, relatively high vacancy rates are likely to keep office rents under pressure in the near term. This will probably constrain rental income over the next three years.

Retail

The Swire Properties retail portfolio continued to perform well during 2003, notwithstanding the sharp decline in retail sales that was experienced at the time of the SARS outbreak. Gross rental income for the year was marginally below that of 2002, largely due to concessions granted in the first half of the year to certain key retail partners. Retail sales at Swire Properties' three principal shopping malls have recovered fully from the lows of the first half of the year, and these centres remain fully let. Cityplaza, The Mall at Pacific Place and Festival Walk together welcome more than ten million visitors each month.

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

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

Festival Walk is jointly owned by Swire Properties and CITIC Pacific, and is a major shopping centre in Kowloon. Anchor tenants include Park'N'Shop, Marks & Spencer, Page One Books and the 11-screen AMC Cinema, plus over 200 retail and catering outlets and the Glacier ice rink.

Review of Operations – Property Division

The Citygate commercial centre at Tung Chung, in which Swire Properties has a 20% interest, comprises a retail centre that is 70% let and an office tower for which securing tenants remains difficult, with only 19% of the space let. Construction of a 450-room hotel will commence shortly for completion in late 2005.

Residential Investment Portfolio

The residential portfolio comprises mainly The Atrium and Parkside serviced suites at Pacific Place and The Albany apartments in Mid-Levels. Occupancy of the serviced suites was steady for much of the year. The suites at Parkside are currently undergoing refurbishment, which will remove approximately 50% of the suites from the market through to the middle of 2005. 22 units at The Albany were sold during 2003, mostly in the second half of the year, making a total of 56 units sold since sales started in late 2001. The remaining residential properties on Hong Kong Island were fully let.

All four houses at 3 Coombe Road, The Peak, were sold in the second half of the year.

Investment Properties under Development

The construction of Three Pacific Place is well advanced and is scheduled for completion in the middle of 2004. The development will comprise an office tower with a gross floor area of approximately 630,000 square feet.

Demolition work has commenced on the former site of the Aik San and Melbourne Industrial Buildings in Quarry Bay. The site has been given the working name of 16 Westlands Road. Building plans have been approved for the construction of an office building of approximately 1,550,000 square feet. No decision has yet been taken on when to proceed with this project.

2003 Valuation of Investment Properties

The portfolio of completed investment properties in Hong Kong, as well as properties intended for investment which are under or pending development, were revalued at

31st December 2003 by DTZ Debenham Tie Leung Limited. As a result of this valuation, Swire Pacific's property valuation reserve decreased by HK\$2,735 million. The decrease in 2003 is largely attributable to the decline in office rental levels. Swire Pacific's property valuation reserve at 31st December 2003 following the revaluation showed a surplus of HK\$19,673 million. Particulars of the properties in Hong Kong and the USA, both for investment and development for sale, are set out on pages 100 to 107.

Taikoo Shing Arbitration

The Hong Kong SAR Government Lands Department's claim for payment of land premium and interest in relation to the Cityplaza Four, Cityplaza Three and Cityplaza One office towers, as well as the Horizon Gardens residential scheme at Taikoo Shing, was upheld in an arbitration award announced in January 2001. In July 2003 the Court of Final Appeal refused to grant Swire Properties leave to appeal on a point of law against an element of the arbitration award. In accordance with agreed post-arbitration procedures a fresh hearing was held before the arbitrator in February 2004 to determine the valuation date for the purpose of quantifying the amount of land premium and the method of calculating interest. The outcome of this hearing is not yet known, and the amount of HK\$4,500 million which was accrued in the Swire Pacific group accounts as at 31st December 2000 remains our best estimate of the group's exposure. The allocation of the eventual cash payment between revaluation reserve, retained earnings and current year profit and loss has not yet been determined.

Property Trading Portfolio

The portfolio of developments for sale comprises residential apartments in Hong Kong and the USA. In Hong Kong there are approximately 330 unsold units of which Swire Pacific's attributable interest amounts to approximately 160 units.

The Orchards residential project on King's Road was launched successfully in the second half of the year. It comprises two residential towers with 442 units, with

144 car park spaces. 410 units were sold in 2003 and the project is now sold out.

The final phase of Ocean Shores in Tseung Kwan O, which comprises 5,728 residential units in 15 towers with 1,176 car park spaces and 32,000 square feet of neighbourhood shopping area, was completed in the second half of the year. 5,400 units have been sold to date. Swire Properties has a 49% interest in this development.

The Les Saisons residential scheme in Aldrich Bay in which Swire Properties has a 50% interest continued to sell steadily during 2003 and the scheme is virtually fully sold.

The residential schemes at Tung Chung Crescent and Seaview Crescent, comprising a total of 3,694 units, were developed in conjunction with the Citygate commercial centre, under an agreement with MTRC. Fewer than 20 units remain unsold at Tung Chung Crescent and Seaview Crescent.

Swire Properties controls over 98% of the residential properties at 2A–2E Seymour Road in Mid-Levels with an approved redevelopment potential of approximately 174,000 square feet. There is potential to increase this to approximately 229,000 square feet subject to planning approval. No decision has yet been taken on when to proceed with this project.

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

Hotels

The JW Marriott, Conrad Hong Kong and Island Shangri-La hotels at Pacific Place have benefited from the sharp rebound in the number of visitor arrivals since mid-year, and occupancy rates have been very high in the fourth quarter.

Mainland China

Swire Properties has a joint venture agreement with the Guangzhou Daily News Group to develop the Taikoo Hui Guangzhou Cultural Plaza in the Tianhe district of Guangzhou. The project will consist of a major retail centre, offices, a hotel, a performing arts centre and a library and is scheduled for completion in 2008 at a total estimated cost of RMB4,000 million. Discussions are underway to allow Swire Properties to take a higher stake than its current 55% in this proposed four million square foot development.

Swire Properties has a 10% interest in CITIC Square on Nanjing Road West, Shanghai. The building comprises 1.1 million square feet of retail and office space, and is 100% let.

USA

Construction work has commenced at The Carbonell, a 284-unit condominium tower on Brickell Key, Miami. 248 units have been sold to date, with completion scheduled in July 2005. 10 units remain unsold at the Courts Brickell Key condominium. Construction of Jade Residences, a 338-unit residential condominium development at Brickell Bay in which Swire Properties has a controlling interest, is well advanced, with completion scheduled for late 2004. 325 units have been sold to date.

The 329-room Mandarin Oriental Hotel, which is 75% owned by the group saw a pick-up in both occupancies and room rates and reported an improved operating profit.



From Service



A portrait of a man with dark hair and glasses, wearing a white dress shirt and a dark tie with light-colored diagonal stripes. He is smiling slightly. The background is a blurred office interior with curved architectural elements. A solid green horizontal banner is overlaid across the middle of the image, containing the text 'To Satisfaction' in white serif font.

To Satisfaction

Review of Operations

Aviation Division

Cathay Pacific and HAECO are listed on the Hong Kong Stock Exchange. Dragonair provides passenger and cargo services to Mainland China and the rest of Asia, as well as freighter services to Europe. Air Hong Kong focuses on regional express cargo services. Other companies provide aviation-related services including flight catering, ramp and cargo handling and laundry services.

	2003 HK\$M	2002 HK\$M
Share of profits before taxation associated companies		
Cathay Pacific Group*	696	1,805
Hong Kong Aircraft Engineering Group	186	242
Hong Kong Dragon Airlines	11	107
Hong Kong Air Cargo Terminals	283	229
	1,176	2,383
Attributable profit	844	2,115

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

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

	Shareholding of Group companies			Swire Pacific effective interest
	Direct or by Swire Aviation**	By Cathay Pacific Group	Total	
Cathay Pacific Airways Ltd	46.4%	–	46.4%	46.4%
Hong Kong Dragon Airlines Ltd	7.7%	17.8%	25.5%	16.0%
AHK Air Hong Kong Ltd	–	60.0%	60.0%	27.8%
Hong Kong Aircraft Engineering Co Ltd	32.5%	27.4%	59.9%	45.2%
Hong Kong Air Cargo Terminals Ltd	30.0%**	10.0%	40.0%	24.6%

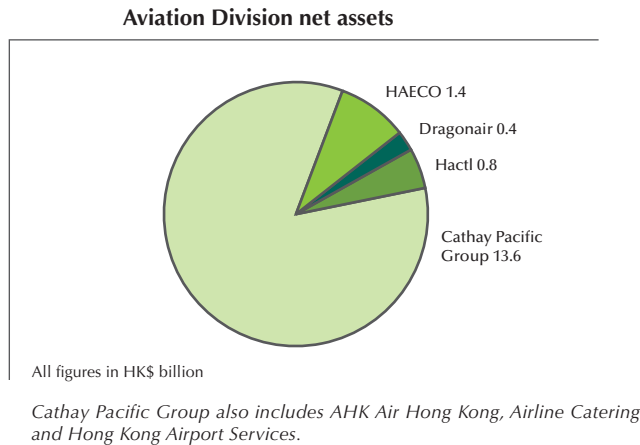
** Swire Aviation is a 66.7% held subsidiary company of Swire Pacific.

Cathay Pacific Airways

Key Operating Highlights

		2003	2002	Growth
Available tonne kilometres ("ATK")	Million	13,355	12,820	+4.2%
Available seat kilometres ("ASK")	Million	59,280	63,050	-6.0%
Revenue passenger kilometres ("RPK")	Million	42,774	49,041	-12.8%
Revenue passengers carried	'000	10,059	12,321	-18.4%
Passenger load factor	%	72.2	77.8	-5.6% pts
Passenger yield	HK cents	43.3	45.4	-4.6%
Cargo carried	'000 tonnes	875	851	+2.8%
Cargo and mail load factor	%	68.7	71.2	-2.5% pts
Cargo and mail yield	HK\$	1.78	1.80	-1.1%
Cost per ATK	HK\$	2.00	2.13	-6.1%
Cost per ATK without fuel	HK\$	1.61	1.76	-8.5%
Aircraft utilisation	Hours per day	11.4	12.1	-5.8%
On-time performance	%	91.0	90.7	+0.3% pts
Breakeven load factor	%	67.4	65.7	+1.7% pts

The distribution of the Aviation Division's net assets is as follows:



2003 OVERVIEW

The Aviation Division started the year well but the airlines suffered from a very severe drop in passenger business in March to July due to the SARS outbreak, before recovering and ending the year with a strong last quarter.

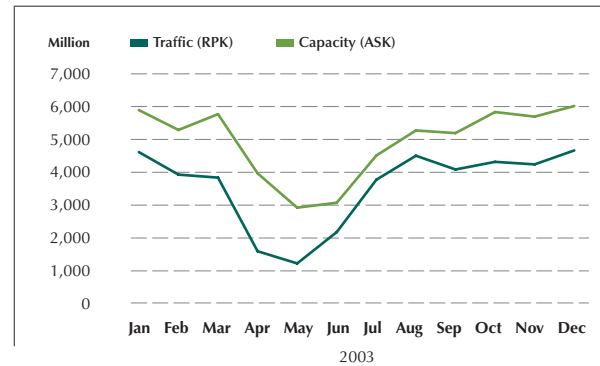
The air cargo business was strong throughout the year, setting a new record for tonnage carried.

Cathay Pacific Airways

The Cathay Pacific Group made a consolidated profit of HK\$1,303 million in 2003, compared to a profit of HK\$3,983 million in 2002.

The results were severely affected by the SARS outbreak, which caused a sharp fall in passenger numbers. However, the recovery in the second half came more quickly than expected, spurred by pent-up demand and special offers created to stimulate passenger traffic. The cargo business remained strong throughout the year in spite of the loss of capacity from the passenger fleet during SARS, with 875,000 tonnes carried during the year, up 2.8% on 2002.

Passenger capacity and traffic



Passenger Services

The graph above illustrates the sharp drop in passenger loads and the cutback in capacity which occurred between March and July due to SARS. During May and June Cathay Pacific reduced its passenger schedule by 45% and parked 22 aircraft. As demand picked up, suspended services were progressively restored to full capacity by the end of September. Overall passenger traffic for the year, measured in revenue passenger kilometres, was down 12.8% on 2002, while passenger yield for the year was down 4.6% to HK¢43.3.

During the second half, Cathay Pacific carried six million passengers compared to just four million in the first half of the year. Traffic levels in the second half recovered to 2002 levels, with the exception of routes to North Asia which were still down 11% on the comparable period. Long haul routes performed particularly well, with European routes boosted by an increase in business travel and by stronger currencies.

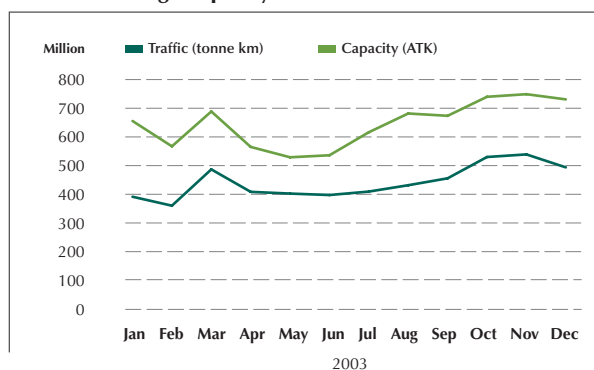


Cathay Pacific Network

Aberdeen	Boston	Denpasar	Hanoi	London	New Orleans	Raleigh Durham	Stockholm
Adelaide	Brisbane	Denver	Helsinki	Los Angeles	New York	Riyadh	Stuttgart
Amsterdam	Brussels	Detroit	Ho Chi Minh City	Manchester	Newcastle	Rome	Surabaya
Anchorage	Cairns	Dubai	Hong Kong	Manila	Orlando	St. Louis	Sydney
Atlanta	Cebu	Dusseldorf	Houston	Melbourne	Osaka	San Diego	Taipei
Auckland	Chicago	Edinburgh	Jakarta	Miami	Paris	San Francisco	Tampa
Austin	Cologne	Fort Lauderdale	Johannesburg	Milan	Penang	San Jose	Tokyo
Bahrain	Colombo	Frankfurt	Karachi	Mumbai	Perth	San Juan	Toronto
Bangkok	Copenhagen	Fukuoka	Kuala Lumpur	Munich	Philadelphia	Sapporo	Vancouver
Beijing	Dallas	Glasgow	Las Vegas	Nagoya	Pittsburgh	Seoul	Washington DC /
Berlin	Delhi	Hamburg	Lisbon	Nashville	Prague	Singapore	Baltimore

Cargo

Cargo capacity and traffic



As the graph above shows, the direct impact of SARS on cargo traffic was not significant even though cargo capacity was reduced as a result of cutting back on passenger flights.

Cathay Pacific's cargo revenue grew by 7.5% in 2003 due to increased exports from Hong Kong to Europe, Japan and the United States. The improvement was partly due to additional traffic from the integration of Air Hong Kong's European operation.

During 2003, a record 875,000 tonnes of freight were carried, up 2.8% on 2002. Cargo capacity, measured in available cargo and mail tonne kilometres, grew by 13.1% while load factor decreased to 68.7%. Cargo yield also decreased by 1.1% to HK\$1.78.

Network, Product and Fleet

Flights to London were increased to three times daily and additional flights were added to Auckland, Johannesburg, Melbourne and Rome. Codeshare agreements with **oneworld** partners American Airlines and British Airways were extended to more destinations in the United States and Europe respectively. Additional freighter services were operated to Chicago, Los Angeles, Melbourne, Milan, New York, Osaka and Singapore. Cathay Pacific resumed services to Beijing in December and has also been licensed by the Hong Kong authorities to operate services to Shanghai and Xiamen.

Cathay Pacific won a number of awards including "World's Best Airline" in a global Skytrax Research poll and was recognised for its leadership role in various initiatives to relaunch Hong Kong and the region after SARS.

The airline took delivery of six new aircraft during 2003 including one Airbus A340-600, three A330-300s, and two Boeing B777-300s. At the end of the year it had a fleet of 85 aircraft, consisting of 74 passenger aircraft and 11 freighters. One more B777-300 joined the fleet in February 2004 and a B747-400 freighter is scheduled for delivery in 2005. In addition the airline has announced its intention to convert up to 12 used B747-400 passenger aircraft into freighters.

AHK Air Hong Kong (AHK)

AHK is 60% owned by Cathay Pacific and 40% by DHL International Limited ("DHL") following DHL's acquisition of an additional 10% shareholding from Cathay Pacific in March 2003.

AHK operates scheduled cargo services to Osaka and Seoul and charter flights for Cathay Pacific using a B747-200 freighter. It commenced a four times weekly express cargo service to Bangkok in March and a five times weekly service to Singapore in October. The company recorded a satisfactory profit in 2003. AHK has placed orders for six A300-600 freighter aircraft for delivery in 2004/2005.

Hong Kong Aircraft Engineering Company (HAECO)

HAECO provides line and heavy maintenance services at Hong Kong International Airport. Its principal associated companies are:

- Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO) which provides heavy maintenance from three double bay hangars in Xiamen, the third having opened in March 2003. TAECO also provides line maintenance services at Xiamen, Beijing and Shanghai.

Review of Operations – Aviation Division

- Hong Kong Aero Engine Services Limited (HAESL) which is the major Rolls-Royce aero engine overhaul and refurbishment facility in the region.

Attributable profit from the HAECO Group comprised:

	2003 HK\$M	2002 HK\$M	Change %
HAECO	82	238	-65.5
TAECO	81	71	+14.1
HAESL	158	141	+12.1
Other associates	24	15	+60.0
	345	465	-25.8

These results reflect the drop in traffic through Hong Kong International Airport and the deferral of heavy maintenance due to base customers temporarily grounding some of their aircraft during the SARS outbreak. HAECO's 2002 result included provision write-backs totalling HK\$70 million.

Prospects for the HAECO Group in 2004 are encouraging with base maintenance work deferred from 2003 likely to result in high utilisation of the maintenance facilities in both Hong Kong and Xiamen. In addition TAECO should benefit from plans announced by Cathay Pacific in January 2004 to acquire up to 12 used B747-400s for conversion to freighters.

Hong Kong Air Cargo Terminals (Hactl)

Boosted by strong export growth, Hactl achieved record throughput of 2.0 million tonnes, representing a growth of 5.6%.

Hong Kong Dragon Airlines (Dragonair)

Dragonair's result was seriously affected by the SARS outbreak. However, the company returned to profit based on a very strong cargo performance and the robust recovery in passenger demand in the second half of the year.

Dragonair recorded a 11.1% decrease in passenger numbers in 2003. Passenger yield decreased by 8.6% as a result of special offers to stimulate passenger traffic. The passenger load factor, despite flight cancellations, was down by 5.9 percentage points to 59.4% in 2003.

Helped by additional freighter capacity, the company carried 269,980 tonnes of cargo in 2003, 39.5% higher than last year. Cargo load factor increased by 0.9 percentage points to 80.4%, while cargo yield increased by 8.6%.

In April, Dragonair's services to Sendai and Hiroshima were suspended as a result of the SARS outbreak whilst the joint venture service with Malaysian Airlines to Kuching was also terminated. The company commenced a twice-daily passenger service to Bangkok in November whilst frequencies of passenger services to Beijing and Shanghai were increased in the winter season in order to cope with growing traffic demand.

Dragonair took delivery of two A321s during the year bringing the fleet to 23 passenger aircraft and 3 freighters at the end of 2003.

With the relaxation of visa requirements for individual travel from Mainland China to Hong Kong and the signing of the Closer Economic Partnership Arrangement, Dragonair is optimistic about the future growth in demand for air travel between Hong Kong and Mainland China.

Airline Catering

The Cathay Pacific Catering Services group operates six flight catering facilities in Asia and North America. The catering business was severely affected by the sharp fall in passenger numbers during the SARS outbreak and stringent cost controls were implemented. Passenger traffic returned to normal levels in the second half but pressure on meal prices continued.

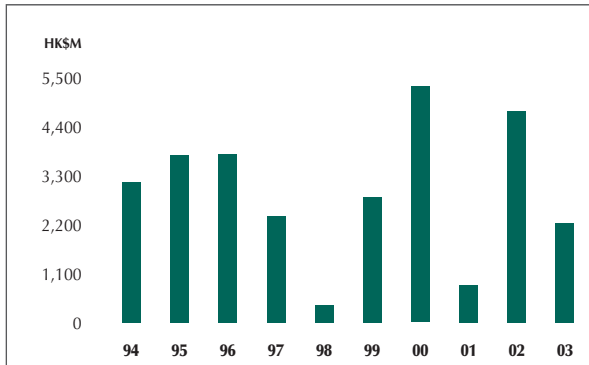
Hong Kong Airport Services (HAS)

HAS is the largest franchised ramp handling company at Hong Kong International Airport and provides services including aircraft loading, passenger steps and air-bridge operation, baggage handling, passenger and staff buses, aircraft load control, cargo and mail delivery.

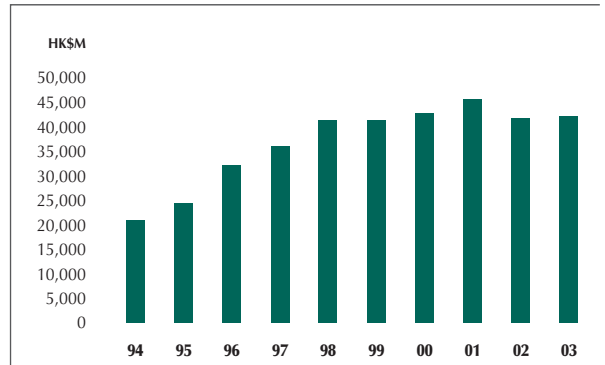
The total number of flights handled in 2003 fell due to flight cancellations resulting from the SARS outbreak. In the circumstances HAS reported a satisfactory profit for the year.

Cathay Pacific Group

Operating profit before non-recurring items



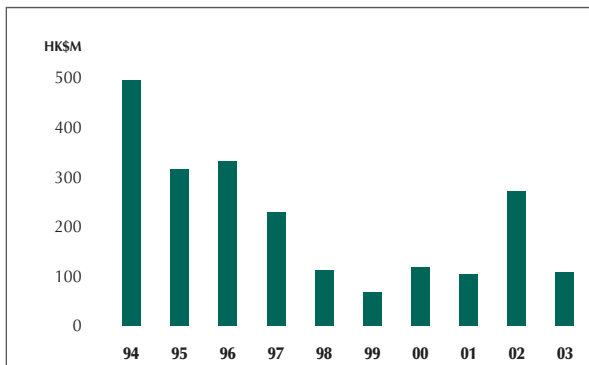
Net assets employed*



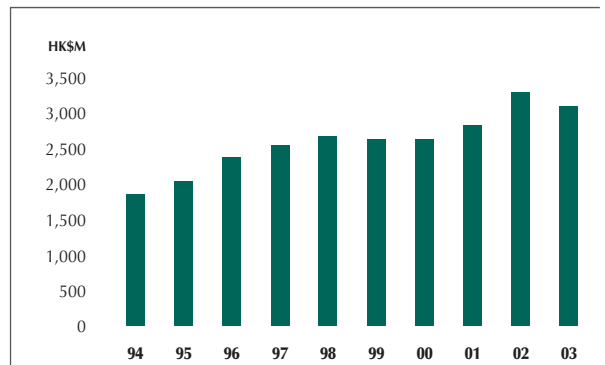
* Net assets employed comprise shareholders' funds, minority interests and net external borrowings of the Cathay Pacific Group.

HAECO

Operating profit before non-recurring items



Net assets employed*



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