

CATHAY PACIFIC AIRWAYS LIMITED



INTERIM REPORT 2004

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Corporate Information

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

Investor relations

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<http://www.cathaypacific.com>

Cathay Pacific Airways is an international airline registered and based in Hong Kong, offering scheduled cargo and passenger services to over 85 destinations around the world.

We are deeply committed to Hong Kong, where the Company was founded in 1946. We continue to make substantial investments to develop Hong Kong's aviation industry and enhance Hong Kong's position as a regional transportation hub. In addition to our fleet of wide-bodied aircraft, these investments include catering, aircraft maintenance and ground handling companies, as well as our corporate headquarters at Hong Kong International Airport. Cathay Pacific and its subsidiaries and associates employ over 21,000 staff in Hong Kong. The airline's two major shareholders are both Hong Kong companies listed on the Hong Kong Stock Exchange, as is Cathay Pacific itself.

Cathay Pacific is the major shareholder in AHK Air Hong Kong Limited, an all cargo carrier that offers scheduled services in the Asia region. Cathay Pacific is also a shareholder in Hong Kong Dragon Airlines Limited.

We are a founding member of the **one**world global alliance whose combined network serves over 570 destinations worldwide.

FINANCIAL AND OPERATING HIGHLIGHTS

Group Financial Statistics

		2004	2003	Change
		Six months ended 30th June		
Results				
Turnover	<i>HK\$ million</i>	18,185	12,275	+48.1%
Profit/(loss) attributable to shareholders	<i>HK\$ million</i>	1,771	(1,241)	+3,012
Earnings/(loss) per share	<i>HK cents</i>	52.8	(37.2)	+90.0
Dividend per share	<i>HK cents</i>	20.0	3.0	+566.7%
Profit/(loss) margin	<i>%</i>	9.7	(10.1)	+19.8%pt

Balance Sheet

		30th June	31st December	Change
Shareholders' funds	<i>HK\$ million</i>	31,792	31,052	+2.4%
Net borrowings	<i>HK\$ million</i>	10,252	11,111	-7.7%
Shareholders' funds per share	<i>HK\$</i>	9.4	9.3	+1.1%
Net debt/equity ratio	<i>Times</i>	0.32	0.36	-0.04 times

Operating Statistics – Cathay Pacific

		Six months ended 30th June		Change
Available tonne kilometres ("ATK")	<i>Million</i>	7,493	6,087	+23.1%
Passengers carried	<i>'000</i>	6,404	4,019	+59.3%
Passenger load factor	<i>%</i>	76.1	64.4	+11.7%pt
Passenger yield	<i>HK cents</i>	45.7	42.8	+6.8%
Cargo carried	<i>'000 tonnes</i>	470	406	+15.8%
Cargo and mail load factor	<i>%</i>	68.7	69.2	-0.5%pt
Cargo and mail yield	<i>HK\$</i>	1.72	1.72	-
Cost per ATK	<i>HK\$</i>	2.07	2.09	-1.0%
Cost per ATK without fuel	<i>HK\$</i>	1.62	1.70	-4.7%
Aircraft utilisation	<i>Hours per day</i>	11.7	11.1	+5.4%
On-time performance	<i>%</i>	91.2	91.7	-0.5%pt

Definitions are set out in the 2003 annual report.

The Group made a profit attributable to shareholders of HK\$1,771 million during the first six months of 2004. This was in marked contrast to the HK\$1,241 million loss recorded in the SARS-affected first half of 2003. Turnover was HK\$18,185 million, also sharply higher than the comparative figure of HK\$12,275 million. The number of passengers carried was up 59.3% to 6.4 million, whilst the amount of cargo carried at 469,909 tonnes was 15.8% higher than in the same period last year.

Strong passenger demand, particularly on long haul services, led to record first half passenger revenue. Passenger yield was HK45.7 cents compared to HK42.8 cents in the same period in 2003, reflecting both the improved demand for travel and currency gains resulting from the weaker US dollar.

Demand for cargo services out of Hong Kong remained buoyant throughout the first half due to the continued growth in re-exports from Southern China. Cargo volumes increased on trunk routes to Europe, Japan and the United States. Cargo yield remained at HK\$1.72.

The benefits accruing from revenue growth were partially offset by a sharp increase in the price of fuel. The average fuel price, before hedging, was 16.9% higher than last year, with fuel now accounting for 21.8% of total operating costs. Fuel surcharges for both cargo and passenger services only partly offset the additional cost.

Within the Asia Pacific region, low cost carriers are entering a highly competitive and increasingly deregulated market place. It remains to be seen what impact such intensified competition will have. For our part, we will continue to provide a range of products and services tailored to meet the needs of our customers, offering both high standards of service

and value for money. We will maintain our focus on productivity improvements and cost management measures, and target a further reduction of 10% in our unit cost by 2007.

In June we launched a codeshare service to Moscow with Aeroflot – Russian Airlines. The following month we introduced twice daily services to New York with the addition of a daily non-stop service using the polar route. In addition we now operate daily to Colombo and have increased flight frequencies to Osaka, Riyadh and Taipei. New freighter services will soon be launched to Munich.

Our recently launched passenger service to Beijing has strengthened Hong Kong's ties with Mainland China and we are hopeful that we will soon be able to resume services to Shanghai.

To continue our growth plans we have ordered one new Boeing 747-400 freighter and eight new Boeing and Airbus passenger aircraft for our regional fleet. We are also to take delivery of eight long haul B747-400 passenger aircraft. This will see Cathay Pacific with a fleet of 100 wide-bodied aircraft by 2006.

Prospects for the traditionally stronger second half appear to be good, although the high fuel price remains a concern which, if sustained, could dampen global economic growth and the demand for air travel. Nevertheless, we remain optimistic over our future and will continue to develop our network, strengthen Hong Kong as a global aviation hub and focus on delivering superior value to our customers.

James Hughes-Hallett

Chairman

Hong Kong, 11th August 2004

2004 INTERIM REVIEW

Cathay Pacific enjoyed record turnover in the first six months of 2004. An improving Hong Kong economy and an upturn in the global economy propelled growth in both our passenger and cargo operations. With the increase in demand, we increased services to a number of regional and long haul destinations.

Expanding network and growing fleet

- A new codeshare service with Aeroflot – Russian Airlines to Moscow was inaugurated on 1st June.
- Daily non-stop services were launched to New York on 1st July operating over the North Pole. With our one-stop service via Vancouver, we are the only airline to operate to New York twice daily.
- Our first codeshare with **oneworld** partner Iberia on services from Amsterdam to Madrid and Barcelona took effect on 1st July.
- Colombo is now served daily with the addition of three new weekly flights via Singapore.
- Osaka is now served by 28 flights a week following the addition of three new summer schedule services.

- A third weekly flight now operates to Riyadh and a fourth weekly service has been added to Sapporo.
- We added nine additional flights to Taipei, raising the total to 108 per week.
- We will add a third daily passenger service to Sydney in late October.
- A new freighter service to Munich will be launched in August which will bring the number of European destinations to nine.
- By mid-2004, we had 86 aircraft in our fleet, including 11 freighters.
- We have nine new aircraft on order for delivery between 2005 and 2007. This comprises one B747-400 freighter, two B777-300 and six A330-300 aircraft.
- In addition we are to take delivery of eight second hand B747-400 passenger aircraft by 2006. By 2007 we will have converted six B747-400 passenger aircraft into Special Freighters. AHK Air Hong Kong Limited also has six A300-600 freighters on order.

Fleet profile

Aircraft type	Number as at 30th June 2004				Firm orders					Expiry of operating leases					Options
	Owned	Leased		Total	'04	'05	'06	'07	Total	'04	'05	'06	'07	'08	
Aircraft operated by Cathay Pacific :															
B747-400	13	4	2	19	2	1	5		8				1	1	
B747-200F	4	2		6											
B747-400F	1	4		5		1			1						
B777-200	1	4		5											
B777-300	1	9		10		1	1		2						3 ^(a)
A330-300		23		23		3 ^(b)	1	2	6						
A340-300		11	4	15								4			
A340-600			3	3									2	1	
Total	20	57	9	86	2	6	7	2	17			4	3	2	3
Aircraft operated by AHK :															
B747-200F		1		1											
A300-600F					4	2			6						4 ^(c)
A300F/B727F ^(d)			4	4						3	1				
Total		1	4	5	4	2			6	3	1				4

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

(b) Aircraft on six year operating leases.

(c) Purchase options expire in 2004 and 2005.

(d) Aircraft on wet lease.

Award winning products and services

- Installation of our New Business Class cabin was completed on all long haul aircraft by the end of March.
- We teamed up with the Peninsula Hong Kong's Spring Moon Chinese restaurant to launch our fourth "Best Chinese Food in the Air" promotion.
- We took top honour in the overall Best Lounge category and top ratings for both Best First Class Lounge and Best Business Class Lounge in a survey conducted by UK-based Skytrax Research.
- We were named "Best of the Best" by the Robb Report, the United States' most prestigious luxury lifestyle and travel award.
- We were named "Best of the Best" in the Top Service Award in the readers' poll of *Next Magazine* in Hong Kong. It is the eighth consecutive year that we have won this award.
- We were named as Best Trans-Pacific Airline at the OAG Airline of the Year Awards 2004.
- We received a Platinum award in the *Reader's Digest Asia's SuperBrands Survey 2004* in recognition of our outstanding quality and customer service.
- Asia Miles continues to grow rapidly and now has over two million members with more than 230 partners in 15 different reward categories.

Hong Kong community

- Cathay Pacific joined with Credit Suisse First Boston as joint sponsor of the Hong Kong Rugby Sevens tournament.
- We initiated our first ever exchange programme in aviation and aerospace technology for 30 underprivileged students from both Hong Kong and Beijing.
- Seven pilot authors published a book, *Flying High*, about working within the aviation industry. More than 10,000 copies were sold with the proceeds going to the Sunnyside Club children's charity.
- We were the title sponsor of the Cathay Pacific International Chinese New Year Parade, the focus of Hong Kong's celebrations, for the sixth consecutive year.

Skilled and dedicated workforce

- Hong Kong based jobs for 600 cabin crew and 70 customer service officers were opened at the Youth Expo job fair.
- A new overseas base for cabin crew was created in London.
- Cathay Pacific now employs 14,800 staff in 30 countries and territories, 10,700 of whom are based in Hong Kong. Together with our subsidiaries and associates we employ over 21,000 staff in Hong Kong.
- We review our human resources and remuneration policy regularly in the light of local legislation, industry practice, market conditions and the performance of both individuals and the Company.

New technology

- We installed NETVIGATOR inflight email across our entire long haul fleet, making it available to all First and Business Class passengers as well as to passengers in the first ten rows of Economy Class.
- Our Studio^{CX} inflight entertainment system, with more than 20 channels of entertainment, is now available to passengers on all aircraft.
- We recorded a 30% increase in online ticket sales through our website, www.cathaypacific.com.

Environmental issues

- Our commitment to the environment and our desire to mitigate the environmental impact from operations was demonstrated with the publication of our Environmental Report 2003.
- We funded the planting of 10,000 tree saplings in the North Lantau Country Park as part of a corporate afforestation programme organised by Friends of the Earth.
- We continue to ensure effective environmental management of our headquarters through the implementation of our ISO 14001 certified environmental management system.

REVIEW OF OPERATIONS

Cathay Pacific Airways Limited

Passenger services

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

	ASK (million)			Load factor (%)			Yield
	2004	2003	Change	2004	2003	Change	Change
North Asia	6,015	4,077	+47.5%	61.5	55.6	+5.9%pt	-0.9%
South East Asia and Middle East	7,619	5,851	+30.2%	72.3	59.2	+13.1%pt	+0.2%
Europe	7,490	5,481	+36.7%	81.1	69.6	+11.5%pt	+13.5%
South West Pacific and South Africa	5,886	4,757	+23.7%	72.1	66.0	+6.1%pt	+17.0%
North America	8,240	6,665	+23.6%	88.7	69.0	+19.7%pt	+6.4%
Overall	35,250	26,831	+31.4%	76.1	64.4	+11.7%pt	+6.8%

- A very strong first half resulted in new records for both revenue and the number of passengers carried.
- Passenger revenue increased 65.9% year on year as a result of improved demand, together with a 31.4% increase in seat capacity and weak US dollar-related currency gains.
- In the first six months of 2004 6.4 million passengers were carried, an increase of 2.4 million.
- A new record of 45,803 passengers carried in a single day was set on 4th July.
- Overall load factor increased from 64.4% to 76.1%.
- Passenger yield increased to HK\$45.7, an improvement of 6.8%.
- Most long haul routes, in particular London and North America, performed consistently well.
- The Hong Kong market grew with strong front-end demand on long haul services and with more travellers taking flight and hotel packages.
- North Asian routes were relatively weak, with the Japan outbound market only recovering slowly and Taiwan suffering from increased price competition.

Cargo services

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

	ATK (million)			Load factor (%)			Yield
	2004	2003	Change	2004	2003	Change	Change
Cathay Pacific	4,140	3,535	+17.1%	68.7	69.2	-0.5%pt	-

- In the first six months of 2004 we carried 469,909 tonnes of freight, an increase of 15.8% on 2003 and a 21.8% increase on 2002, a record tonnage uplift year.
- Revenue increased by 16.5% with strong export growth on trunk routes to Europe, Japan and the United States. Inbound loads from Europe, Japan, New Zealand and North America also increased.
- Demand out of Hong Kong remained strong due to the continued growth in re-exports from Southern China.
- A new one-week cargo uplift record of 21,000 tonnes was set in March.
- Cargo ATKs grew by 17.1%, load factor decreased to 68.7% while cargo yield remained at HK\$1.72.
- A new freighter service to Munich will be launched soon.

- Cathay Pacific is to be the launch customer for the B747-400 Special Freighter aircraft conversion. The first aircraft is expected to be delivered in December 2005 with five others to be delivered by 2007. Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") will undertake the conversion.

Review of subsidiary and associated companies

AHK Air Hong Kong Limited ("AHK")

- AHK operates overnight express cargo services to four destinations in Asia.
- In March the company commenced a five times weekly service to Taipei with a wet-leased regional freighter.
- Capacity, as a result of network expansion, rose by 43.6%. Load factor increased by 4.7% points while yield decreased by 0.5%. The company recorded a satisfactory profit in the first half of 2004.
- The company will take delivery of six A300-600 freighter aircraft between September 2004 and March 2005.

Hong Kong Dragon Airlines Limited ("Dragonair")

- Dragonair recorded an improved interim profit in 2004 in comparison with the previous interim which was significantly affected by the SARS outbreak.
- In the first six months of 2004, the airline carried 2.1 million passengers with an overall passenger load factor of 61.3%, 10.9% points higher than 2003. However, passenger yield decreased by 8.0% mainly due to the introduction of new services.
- The airline carried 147,680 tonnes of cargo during the period, representing a growth of 22.3%. Cargo yield increased by 12.8% mainly due to a strong Euro and to more short haul freighter services to Asian destinations. Cargo load factor decreased by 8.6% points to 74.1%.

- Dragonair signed a codeshare agreement with Air China in February covering services to Chengdu, Chongqing, Dalian and Tianjin. In April, the airline commenced passenger services to Tokyo.
- One A330-300 joined the fleet in March and as a result Dragonair had a fleet of 27 aircraft at the end of June. One B747-200 freighter aircraft and two A320s will be delivered in the second half of 2004.

Hong Kong Aircraft Engineering Company Limited ("HAECO")

- HAECO recorded an interim profit of HK\$232 million, representing a 22% increase from 2003.
- The heavy maintenance workload remained high and line maintenance revenue improved due to the increase in the number of flights through Hong Kong International Airport.
- Lower profits from Hong Kong Aero Engine Services Limited caused the results of HAECO's jointly controlled companies to fall slightly.

Airline services

- Cathay Pacific Catering Services (H.K.) Limited recorded a satisfactory interim profit due to increased meal volumes. However the profit margin remained under pressure due to competition and the avian flu outbreak which led to a higher food cost.
- The flight kitchens in both Taipei and Cebu performed well, while the result of the Vietnam operation was adversely affected by the avian flu outbreak.
- Hong Kong Airport Services Limited recorded a healthy interim profit as business volume returned to a normal level.

FINANCIAL REVIEW

Turnover

	Group		Cathay Pacific	
	Six months ended 30th June		Six months ended 30th June	
	2004 HK\$M	2003 HK\$M	2004 HK\$M	2003 HK\$M
Passenger services	12,341	7,438	12,341	7,438
Cargo services	5,251	4,405	4,891	4,197
Catering and other services	593	432	–	–
Turnover	18,185	12,275	17,232	11,635

- Passenger turnover increased significantly by 65.9% driven by a 31.4% increase in capacity and a recovery in the demand for passenger travel.
- Cathay Pacific's cargo operation recorded a healthy growth of 16.5% in turnover and a 17.1% increase in capacity.
- Catering and other aviation related businesses recovered from last year and recorded a 37.3% increase in turnover.

Operating expenses

	Group			Cathay Pacific		
	Six months ended 30th June			Six months ended 30th June		
	2004 HK\$M	2003 HK\$M	Change	2004 HK\$M	2003 HK\$M	Change
Staff	4,255	3,961	+7.4%	3,871	3,611	+7.2%
Inflight service and passenger expenses	749	559	+34.0%	749	559	+34.0%
Landing, parking and route expenses	2,674	1,925	+38.9%	2,615	1,885	+38.7%
Fuel	3,435	2,402	+43.0%	3,385	2,369	+42.9%
Aircraft maintenance	1,652	1,298	+27.3%	1,610	1,263	+27.5%
Aircraft depreciation and operating leases	2,115	1,975	+7.1%	2,041	1,954	+4.5%
Other depreciation and operating leases	405	458	-11.6%	299	343	-12.8%
Commissions	272	158	+72.2%	272	158	+72.2%
Exchange gain	(16)	(113)	-85.8%	(15)	(112)	-86.6%
Others	414	412	+0.5%	386	418	-7.7%
Operating expenses	15,955	13,035	+22.4%	15,213	12,448	+22.2%
Net finance charges	316	281	+12.5%	310	275	+12.7%
Total operating expenses	16,271	13,316	+22.2%	15,523	12,723	+22.0%

Operating expenses (continued)

- Staff cost increased due mainly to the impact of the weaker US dollar.
- Inflight service and passenger expenses rose by 34.0% due to the increase in passenger numbers.
- Landing, parking and route expenses increased as a result of additional flights and the impact of the weaker US dollar.
- Fuel cost increased as a result of the rise in the fuel price and increased consumption from additional flights.
- Aircraft maintenance increased as a result of the larger operating fleet.
- Cost per ATK decreased by 1.0% while the cost per ATK without fuel decreased by 4.7%.

Financial position

- Additions to fixed assets were HK\$2,326 million, comprising HK\$2,289 million for aircraft and related equipment and HK\$37 million for other equipment.
- Borrowings decreased by 17.8% to HK\$21,623 million. These are fully repayable by 2017 and are mainly denominated in US dollars, Japanese yen, Sterling, and Euro with 57% at fixed rates of interest.
- Liquid funds, 82% of which is denominated in US dollars, decreased by 25.1% to HK\$11,391 million.
- Net borrowings decreased by 7.7% to HK\$10,252 million.
- The Group's shareholders' funds increased by 2.4% to HK\$31,792 million whilst the net debt/equity ratio decreased to 0.32 times.
- The Group's policy on financial risk management and the management of currency and interest rate exposures is set out in the 2003 annual report.

CONDENSED FINANCIAL STATEMENTS

Consolidated Profit and Loss Account

for the six months ended 30th June 2004 – Unaudited

	Note	2004 HK\$M	2003 HK\$M	2004 US\$M	2003 US\$M
Turnover					
Passenger services		12,341	7,438	1,582	954
Cargo services		5,251	4,405	673	565
Catering and other services		593	432	76	55
Total turnover	2	18,185	12,275	2,331	1,574
Expenses					
Staff		(4,255)	(3,961)	(545)	(508)
Route		(3,423)	(2,484)	(439)	(319)
Fuel		(3,435)	(2,402)	(440)	(308)
Aircraft maintenance		(1,652)	(1,298)	(212)	(166)
Depreciation and operating leases		(2,520)	(2,433)	(323)	(312)
Commissions		(272)	(158)	(35)	(20)
Others		(398)	(299)	(51)	(38)
Operating expenses		(15,955)	(13,035)	(2,045)	(1,671)
Operating profit/(loss)	3	2,230	(760)	286	(97)
Finance charges		(827)	(971)	(106)	(124)
Finance income		511	690	66	88
Net finance charges	4	(316)	(281)	(40)	(36)
Share of profits of associated companies		151	8	19	1
Profit/(loss) before tax		2,065	(1,033)	265	(132)
Taxation	5	(250)	(194)	(32)	(25)
Profit/(loss) after tax		1,815	(1,227)	233	(157)
Minority interests		(44)	(14)	(6)	(2)
Profit/(loss) attributable to shareholders		1,771	(1,241)	227	(159)
Dividends					
Interim declared	6	674	100	86	13
Earnings/(loss) per share					
Basic	7	52.8¢	(37.2¢)	6.8¢	(4.8¢)
Diluted	7	52.5¢	(37.0¢)	6.7¢	(4.7¢)
Dividend per share	6	20.0¢	3.0¢	2.6¢	0.4¢

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

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

CONDENSED FINANCIAL STATEMENTS

Consolidated Balance Sheet

at 30th June 2004 – Unaudited

	Note	30th June 2004 HK\$M	31st December 2003 HK\$M	30th June 2004 US\$M	31st December 2003 US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	8	51,755	51,357	6,635	6,584
Intangible assets	9	376	405	48	52
Investments in associated companies		1,599	1,661	205	213
Other long-term receivables and investments		1,188	1,263	153	162
		54,918	54,686	7,041	7,011
Long-term liabilities		(29,064)	(33,022)	(3,726)	(4,234)
Related pledged security deposits		10,440	11,604	1,338	1,488
Net long-term liabilities	10	(18,624)	(21,418)	(2,388)	(2,746)
Retirement benefit obligations	11	(147)	(181)	(19)	(23)
Deferred taxation		(7,912)	(7,762)	(1,014)	(995)
		(26,683)	(29,361)	(3,421)	(3,764)
Net non-current assets		28,235	25,325	3,620	3,247
Current assets and liabilities					
Stock		516	398	66	51
Trade and other receivables	12	4,301	4,753	552	609
Liquid funds		11,391	15,200	1,460	1,949
		16,208	20,351	2,078	2,609
Current portion of long-term liabilities		(4,735)	(6,754)	(607)	(866)
Related pledged security deposits		1,736	1,875	222	240
Net current portion of long-term liabilities	10	(2,999)	(4,879)	(385)	(626)
Trade and other payables	13	(5,365)	(5,543)	(688)	(711)
Unearned transportation revenue		(2,893)	(2,839)	(371)	(364)
Taxation		(1,267)	(1,259)	(162)	(161)
		(12,524)	(14,520)	(1,606)	(1,862)
Net current assets		3,684	5,831	472	747
Total assets less current and non-current liabilities		31,919	31,156	4,092	3,994
Minority interests		(127)	(104)	(16)	(13)
Net assets		31,792	31,052	4,076	3,981
CAPITAL AND RESERVES					
Share capital	14	674	669	86	86
Reserves		31,118	30,383	3,990	3,895
Shareholders' funds		31,792	31,052	4,076	3,981

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

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

CONDENSED FINANCIAL STATEMENTS

Consolidated Cash Flow Statement

for the six months ended 30th June 2004 – Unaudited

	2004 HK\$M	2003 HK\$M	2004 US\$M	2003 US\$M
Operating activities				
Cash generated from operations	4,865	927	624	119
Dividends received from associated companies	101	141	13	18
Interest received	10	6	1	1
Net interest paid	(435)	(492)	(56)	(64)
Tax paid	(172)	(142)	(22)	(18)
Net cash inflow from operating activities	4,369	440	560	56
Investing activities				
Net decrease in liquid funds other than cash and cash equivalents	274	1,295	35	167
Receipts from capital reduction of an associated company	68	–	9	–
Net decrease in other long-term receivables and investments	22	54	3	7
Receipts from other investing activities	5	14	–	1
Payments for fixed and intangible assets	(2,340)	(974)	(300)	(125)
Net cash (outflow)/inflow from investing activities	(1,971)	389	(253)	50
Financing activities				
Shares issued	183	15	24	2
New financing	79	1,741	10	223
Net cash benefit from financing arrangements	51	–	7	–
Security deposits placed	–	(4)	–	(1)
Loan and finance lease repayments	(4,742)	(2,604)	(608)	(333)
Dividends paid – to shareholders	(1,515)	(935)	(194)	(120)
– to minority interests	(21)	(9)	(3)	(1)
Net cash outflow from financing activities	(5,965)	(1,796)	(764)	(230)
Decrease in cash and cash equivalents	(3,567)	(967)	(457)	(124)
Cash and cash equivalents at 1st January	5,649	3,422	724	439
Effect of exchange differences	(61)	103	(8)	13
Cash and cash equivalents at 30th June	2,021	2,558	259	328

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

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

CONDENSED FINANCIAL STATEMENTS

Consolidated Statement of Changes in Equity

for the six months ended 30th June 2004 – Unaudited

	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 2004	669	23,518	7,261	21	354	(770)	(1)	31,052
Exchange differences on cash flow hedges								
– recognised during the period	–	–	–	–	–	166	–	166
– deferred tax recognised	–	–	–	–	–	(40)	–	(40)
– transferred to profit for the period	–	–	–	–	–	210	–	210
Revaluation deficit recognised during the period	–	–	–	–	(35)	–	–	(35)
Net gain not recognised in the profit and loss account	–	–	–	–	(35)	336	–	301
Profit attributable to shareholders	–	1,771	–	–	–	–	–	1,771
2003 final dividend	–	(572)	–	–	–	–	–	(572)
2003 special dividend	–	(943)	–	–	–	–	–	(943)
Share options exercised								
– premium received	–	–	178	–	–	–	–	178
– share capital issued	5	–	–	–	–	–	–	5
At 30th June 2004	674	23,774	7,439	21	319	(434)	(1)	31,792
At 1st January 2003	667	23,250	7,207	21	412	559	(1)	32,115
Exchange differences on cash flow hedges								
– recognised during the period	–	–	–	–	–	(417)	–	(417)
– transferred to loss for the period	–	–	–	–	–	(29)	–	(29)
Revaluation deficit recognised during the period	–	–	–	–	(124)	–	–	(124)
Exchange differences	–	–	–	–	–	–	(1)	(1)
Net loss not recognised in the profit and loss account	–	–	–	–	(124)	(446)	(1)	(571)
Loss attributable to shareholders	–	(1,241)	–	–	–	–	–	(1,241)
2002 final dividend	–	(935)	–	–	–	–	–	(935)
Share options exercised								
– premium received	–	–	14	–	–	–	–	14
– share capital issued	1	–	–	–	–	–	–	1
At 30th June 2003	668	21,074	7,221	21	288	113	(2)	29,383

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

Notes to the Accounts

1. Basis of preparation and accounting policies

The unaudited interim report has been prepared on a basis consistent with the principal accounting policies adopted in the 2003 annual report.

Principal accounting policy 4 in the 2003 annual report gives an explanation of the policy in respect of foreign exchange translation which does not comply with HK SSAP 11 "Foreign currency translation".

The interim report has been prepared in accordance with HK SSAP 25 "Interim financial reporting" and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. Turnover

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

(a) Primary reporting by geographical segment

	Six months ended 30th June	
	2004 HK\$M	2003 HK\$M
Turnover by origin of sale :		
North Asia		
– Hong Kong and Mainland China	6,764	4,981
– Japan, Korea and Taiwan	3,159	2,193
South East Asia and Middle East	2,136	1,443
Europe	2,293	1,453
South West Pacific and South Africa	1,523	827
North America	2,310	1,378
	18,185	12,275

Countries included in each region are defined in the 2003 annual report. "Pacific and South Africa" is now split into "North America", which includes U.S.A., Canada and Latin America, and "South West Pacific and South Africa". Geographical analysis of segment results, segment assets and segment liabilities are not disclosed for the reasons set out in the 2003 annual report.

2. Turnover (continued)

(b) Secondary reporting by business segment

	Six months ended 30th June	
	2004 HK\$M	2003 HK\$M
Revenue — external sales		
– Passenger services	12,341	7,438
– Cargo services	5,251	4,405
	17,592	11,843
Unallocated revenue		
– Catering and other services	593	432
	18,185	12,275

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 is not disclosed for the reasons set out in the 2003 annual report.

3. Operating profit/(loss)

	Six months ended 30th June	
	2004 HK\$M	2003 HK\$M
Operating profit/(loss) has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– Leased	936	991
– Owned	967	886
Amortisation of intangible assets	43	56
Operating lease rentals		
– Land and buildings	159	170
– Aircraft and related equipment	409	324
– Others	17	11
Operating lease income		
– Aircraft and related equipment	(11)	(5)
Cost of stock expensed	566	430
Exchange differences	(16)	(113)
Auditors' remuneration	3	3
Income from listed investments	(3)	(6)
Income from unlisted investments	(51)	(36)

Notes to the Accounts

4. Net finance charges

	Six months ended 30th June	
	2004 HK\$M	2003 HK\$M
Net interest charges comprise:		
– Obligations under finance leases	775	904
– Interest income on related security deposits, notes and bonds	(428)	(547)
	347	357
– Bank loans and overdrafts	44	58
– Interest income on related security deposits	–	(3)
	44	55
– Other loans wholly repayable within five years	2	–
– Other loans not wholly repayable within five years	6	9
	399	421
Income from liquid funds :		
– Funds with investment managers	(39)	(69)
– Bank deposits and investments	(44)	(71)
	(83)	(140)
	316	281

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

5. Taxation

	Six months ended 30th June	
	2004 HK\$M	2003 HK\$M
The Company and its subsidiary companies		
Current tax expenses		
– Hong Kong profits tax	30	6
– Overseas tax	92	69
– Under provision for prior years	34	42
Deferred tax		
– Origination and reversal of temporary differences	66	(5)
– Increase in tax rate	–	64
Share of associated companies' taxation	28	18
	250	194

Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profits for the period. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations.

6. Dividends

On 11th August 2004, the Board of Directors declared an interim dividend of HK¢20 per share (2003: HK¢3 per share) for the period ended 30th June 2004. This interim dividend which totals HK\$674 million (2003: HK\$100 million) will be paid on 4th October 2004 to shareholders registered at the close of business on 10th September 2004. The share register will be closed from 6th September 2004 to 10th September 2004, both dates inclusive.

7. Earnings/(loss) per share

Basic earnings per share and diluted earnings per share are calculated by dividing the profit attributable to shareholders of HK\$1,771 million (2003 loss: HK\$1,241 million) by the daily weighted average number of shares in issue throughout the period of 3,355 million (2003: 3,337 million) shares and 3,376 million (2003: 3,353 million) shares respectively with the latter adjusted for the effects of the share options.

	2004 million	2003 million
Weighted average number of ordinary shares used in calculating basic earnings/(loss) per share	3,355	3,337
Deemed issue of ordinary shares for no consideration	21	16
Weighted average number of ordinary shares used in calculating diluted earnings/(loss) per share	3,376	3,353

8. Fixed assets

	Aircraft and related equipment HK\$M	Other equipment HK\$M	Properties HK\$M	Total HK\$M
Cost				
At 1st January 2004	68,869	2,875	6,292	78,036
Exchange differences	3	(2)	(2)	(1)
Additions	2,289	37	–	2,326
Disposals	(41)	(47)	–	(88)
At 30th June 2004	71,120	2,863	6,290	80,273
Accumulated depreciation				
At 1st January 2004	23,646	1,751	1,282	26,679
Exchange differences	–	(1)	(2)	(3)
Charge for the period	1,717	86	100	1,903
Disposals	(14)	(47)	–	(61)
At 30th June 2004	25,349	1,789	1,380	28,518
Net book value				
At 30th June 2004	45,771	1,074	4,910	51,755
At 1st January 2004	45,223	1,124	5,010	51,357

Fixed assets at 30th June 2004 include leased assets of HK\$30,605 million (31st December 2003: HK\$32,367 million).

Notes to the Accounts

9. Intangible assets

	Goodwill HK\$M	Computer systems HK\$M	Total HK\$M
Cost			
At 1st January 2004	362	665	1,027
Additions	–	14	14
Disposals	–	(52)	(52)
At 30th June 2004	362	627	989
Accumulated amortisation			
At 1st January 2004	169	453	622
Charge for the period	8	35	43
Disposals	–	(52)	(52)
At 30th June 2004	177	436	613
Net book value			
At 30th June 2004	185	191	376
At 1st January 2004	193	212	405

10. Long-term liabilities

	30th June 2004		31st December 2003	
	Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Long-term loans	859	2,942	1,983	4,387
Obligations under finance leases	2,140	15,682	2,896	17,031
	2,999	18,624	4,879	21,418

11. Retirement benefit obligations

	30th June 2004 HK\$M	31st December 2003 HK\$M
Present value of funded obligations	6,434	6,326
Fair value of plan assets	(6,166)	(6,061)
	268	265
Net unrecognised actuarial losses	(121)	(84)
	147	181

12. Trade and other receivables

	30th June 2004 HK\$M	31st December 2003 HK\$M
Trade debtors	2,692	2,860
Other receivables and prepayments	1,598	1,879
Due from associated companies	9	10
Due from other related companies	2	4
	4,301	4,753

	30th June 2004 HK\$M	31st December 2003 HK\$M
Analysis of trade debtors by age:		
Current	2,588	2,736
One to three months overdue	41	64
More than three months overdue	63	60
	2,692	2,860

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.

13. Trade and other payables

	30th June 2004 HK\$M	31st December 2003 HK\$M
Trade creditors	1,774	1,947
Other payables	3,273	3,228
Due to associated companies	210	197
Due to other related companies	88	157
Bank overdrafts – unsecured	20	14
	5,365	5,543

	30th June 2004 HK\$M	31st December 2003 HK\$M
Analysis of trade creditors by age:		
Current	1,423	1,478
One to three months overdue	301	367
More than three months overdue	50	102
	1,774	1,947

Notes to the Accounts

14. Share capital

During the period under review, the Group did not purchase, sell or redeem any shares in the Company. At 30th June 2004, 3,368,048,848 shares were in issue (31st December 2003: 3,343,515,048 shares).

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 on 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 of Hong Kong Limited (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 on 15th March 2004. The options will, except in limited circumstances, be exercisable until 14th March 2009.

Upon exercise of share options, equity is increased by the number of options exercised. The options were exercised at HK\$7.47 per share.

	2004 Number of shares	2003 Number of shares
Movements in options outstanding comprise:		
At 1st January	53,194,800	60,883,000
Options exercised	(24,533,800)	(1,966,000)
Options lapsed	–	(143,000)
At 30th June	28,661,000	58,774,000
Options vested at 30th June	28,661,000	28,559,000

No option was granted under the Scheme during the period.

	2004	2003
Details of share options exercised during the period:		
Exercise date	6/1/04 – 25/6/04	14/1/03 – 20/6/03
Proceeds received (HK\$)	183,267,486	14,686,020
Weighted average closing share price immediately before the exercise date (HK\$)	15.17	10.28

15. Commitments and contingencies

- (a) Outstanding commitments for capital expenditure of the Group authorised at the end of the period but not provided for in the accounts:

	30th June 2004 HK\$M	31st December 2003 HK\$M
Authorised and contracted for	6,064	3,865
Authorised but not contracted for	2,023	105
	8,087	3,970

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

	30th June 2004 HK\$M	31st December 2003 HK\$M
Associated company	19	19
Staff	420	420
	439	439

- (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.

16. Waiver from compliance with the Listing Rules

The Stock Exchange has granted 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 ATKs. Further details are set out in the 2003 annual report.

	12 months to	
	June 2004	June 2003
Fleet ATK (in million tonne kilometres)	14,761	13,157

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Corporate governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in the Listing Rules.

In respect of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Listing Rules and in relation to the accounting period covered by the interim report:

- (a) the Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code; and
- (b) all Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

Directors' interests

At 30th June 2004, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following beneficial interests (all being personal interests) in the shares of Cathay Pacific Airways Limited:

	No. of shares	Percentage of issued capital
Philip Chen	9,000	0.00027
Derek Cridland	17,000	0.00050
James Hughes-Hallett	12,000	0.00036
Tony Tyler	5,000	0.00015
Raymond Yuen	9,000	0.00027

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

Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 2004 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons, all being beneficial interests:

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

Note: At 30th June 2004, the John Swire & Sons Limited group owned directly or indirectly interests in shares of Swire Pacific Limited representing 29.47% of the issued share capital and 52.86% of the voting rights.