

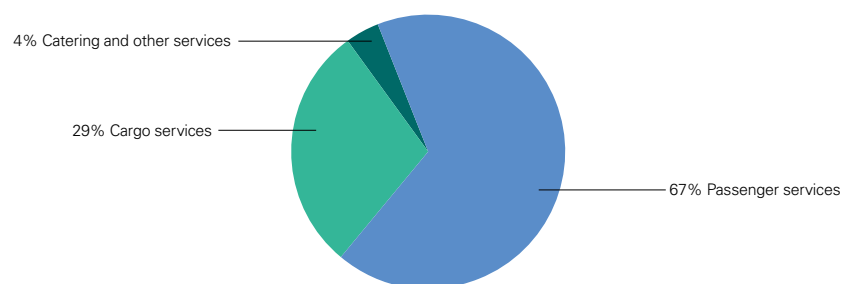
Financial Review

The Group's attributable profit was HK\$5,005 million as compared with a profit of HK\$2,180 million in 1999. The improvement reflects a further recovery in Asian markets.

TURNOVER

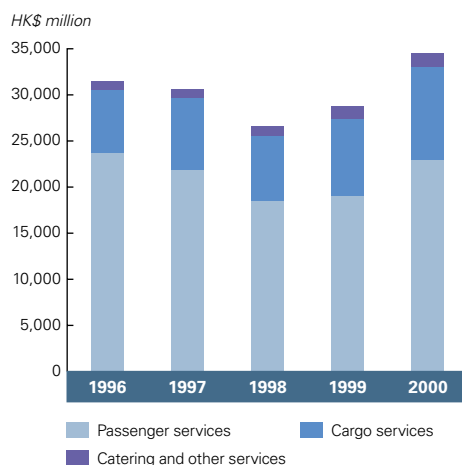
	Group		Cathay Pacific	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Passenger services	22,878	18,979	22,878	18,979
Cargo services	10,136	8,391	8,615	7,071
Catering and other services	1,509	1,332	—	—
Turnover	<u>34,523</u>	<u>28,702</u>	<u>31,493</u>	<u>26,050</u>

Composition of group turnover



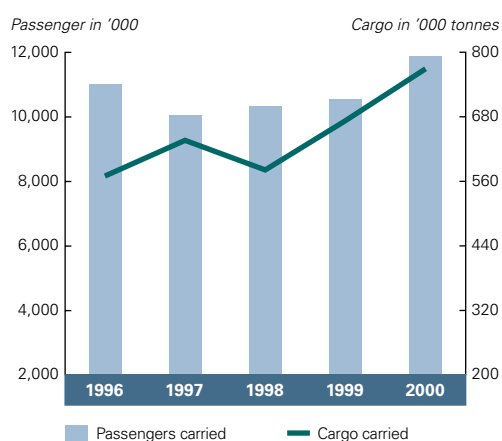
- Group turnover was up by 20.3% compared with 1999.

Group turnover



- Turnover of passenger services rose by 20.5% to HK\$22,878 million as a result of an improvement in both load factors and yields.
- The number of passengers carried increased by 12.8% to 11.9 million.
- Passenger traffic (measured by revenue passenger kilometres) increased by 13.6% against a 6.5% increase in passenger seat capacity (measured by available seat kilometres), which resulted in an increase in the passenger load factor from 71.4% to 76.2%.
- Passenger yield improved by 6.2% to HK\$48.2 as a result of higher front-end traffic and price increases.
- First and business class revenues increased by 25.6% whilst economy class revenue showed a smaller increase of 16.6%.
- Turnover from cargo services reported a growth of 20.8% to HK\$10,136 million. This reflects the continued demand for exports from Asian countries and the impact of our partnership with DHL Worldwide Express which commenced in March.

Cathay Pacific: passengers and cargo carried

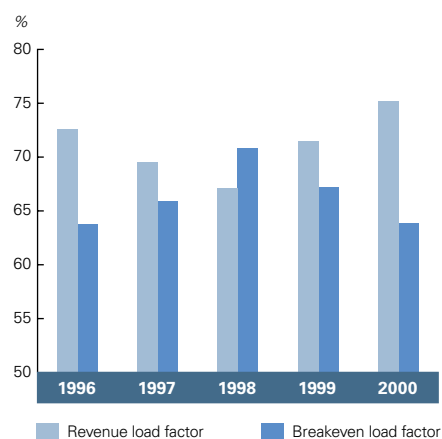


- Cathay Pacific's cargo and mail load factor increased by 1.0 percentage points to 72.5% as cargo and mail revenue tonne kilometres rose by 9.0% against an increase of 7.6% in capacity. AHK Air Hong Kong's load factor increased by 6.3 percentage points to 73.9%.
- At the Cathay Pacific company level, the increase in turnover of HK\$5,443 million was a result of an increase in:

		HK\$M
+6.5%	Passenger capacity	1,231
+7.6%	Cargo and mail capacity	534
+4.8%pt	Passenger load factor	1,334
+1.0%pt	Cargo and mail load factor	105
+6.2%	Passenger yield	1,334
+11.9%	Cargo and mail yield	905
		<u>5,443</u>

- Revenue load factor improved by 3.7 percentage points to 75.2%.
- Breakeven load factor reduced by 3.3 percentage points to 63.9%.

Revenue and breakeven load factor



- Cathay Pacific's traffic turnover sensitivity is set out below:

HK\$M

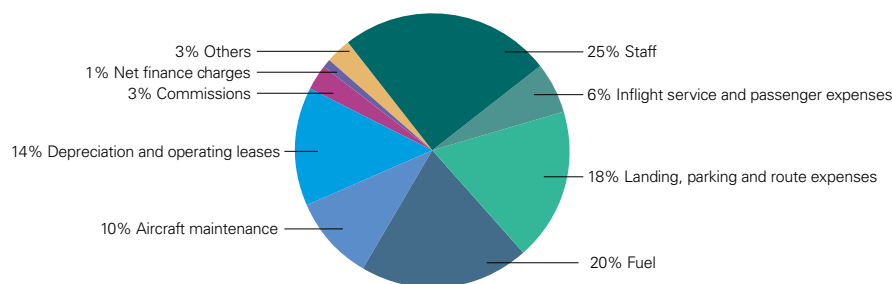
Annual effects of:

One percentage point change in passenger load factor at 2000 passenger yield	298
One percentage point change in cargo and mail load factor at 2000 cargo and mail yield	119
One Hong Kong cent change in passenger yield per revenue passenger kilometre at 2000 passenger load factor	472
One Hong Kong cent change in cargo and mail yield per cargo and mail tonne kilometre at 2000 cargo and mail load factor	42

OPERATING EXPENSES

	Group			Cathay Pacific		
	2000 HK\$M	1999 HK\$M	Change	2000 HK\$M	1999 HK\$M	Change
Staff	7,482	7,299	+2.5%	6,742	6,511	+3.5%
Inflight service and passenger expenses	1,677	1,381	+21.4%	1,677	1,381	+21.4%
Landing, parking and route expenses	5,079	4,971	+2.2%	4,724	4,642	+1.8%
Fuel	5,770	3,641	+58.5%	5,319	3,357	+58.4%
Aircraft maintenance	2,920	2,714	+7.6%	2,796	2,533	+10.4%
Aircraft depreciation and operating leases	3,264	2,855	+14.3%	3,127	2,711	+15.3%
Other depreciation and operating leases	980	1,031	-4.9%	726	773	-6.1%
Commissions	719	663	+8.4%	711	657	+8.2%
Exchange loss	166	41	+304.9%	160	38	+321.1%
Others	1,177	1,295	-9.1%	686	935	-26.6%
Operating expenses	29,234	25,891	+12.9%	26,668	23,538	+13.3%
Net finance charges	367	918	-60.0%	307	855	-64.1%
Total operating expenses	29,601	26,809	+10.4%	26,975	24,393	+10.6%

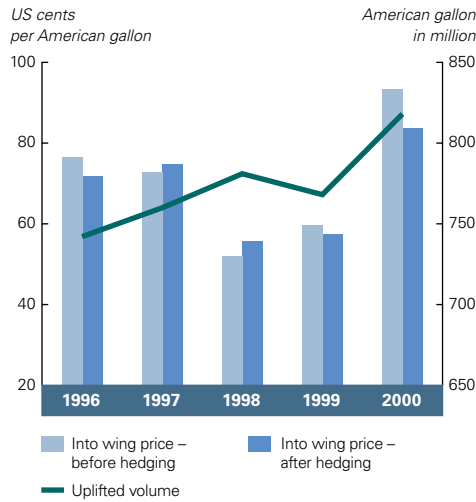
Cathay Pacific: total operating expenses



- Staff costs increased due to the increase in staff numbers arising from planned capacity growth and the re-introduction of a profit sharing scheme.
- Inflight service and passenger expenses increased as a result of the higher passenger numbers.
- Landing, parking and route expenses increased due to additional flights; lower landing and parking charges at Hong Kong International Airport helped reduce the overall increase.

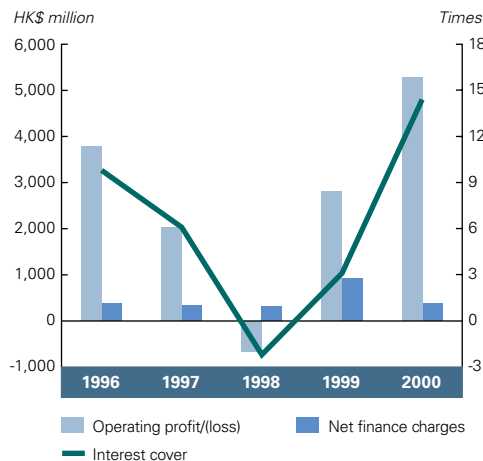
- Fuel costs increased as a result of higher fuel prices.

Cathay Pacific: fuel price and consumption



- Aircraft maintenance costs increased primarily due to an increase in engine overhaul workload.
- Aircraft depreciation and operating lease costs increased mainly due to the full year charge in respect to aircraft which joined the fleet in 1999.
- Net finance charges decreased due to lower average borrowings and favourable interest rate movements.
- The interest cover improved to 14.4 times.

Group interest cover



- Cathay Pacific's cost per ATK increased by 3.6% to HK\$2.32 mainly due to the higher fuel price. The cost per ATK without fuel reduced by 4.1%.

ASSOCIATED COMPANIES

- The share of profits after tax of associated companies increased significantly by 163% to HK\$245 million.
- The increase was due to the improved performance of both HAECO and Dragonair, as compared with last year.

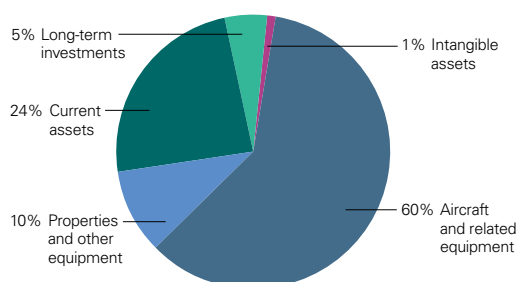
DIVIDENDS

- The total amount paid and proposed for 2000 is HK\$2,182 million, representing a dividend cover of 2.3 times. Dividend per share increased by 116.7% to HK\$65.

ASSETS

- Total assets as at 31st December 2000 amounted to HK\$69,408 million.
- Additions to fixed assets were HK\$4,213 million, comprising HK\$4,127 million for aircraft purchases including advance payments and HK\$86 million for properties and other equipment.

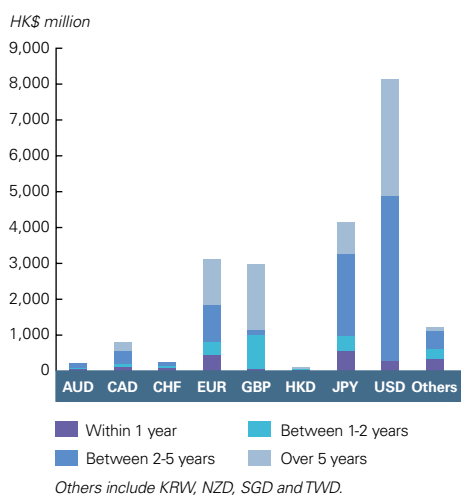
Group total assets



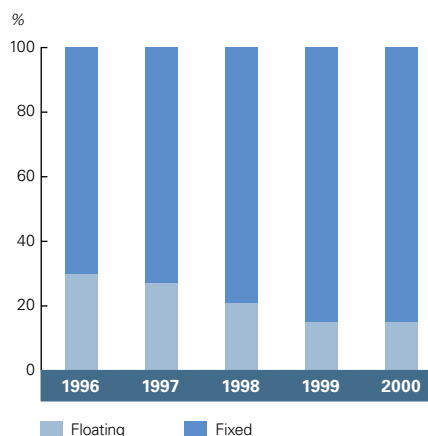
BORROWINGS AND CAPITAL

- Borrowings decreased by 15.9% to HK\$20,838 million compared with HK\$24,783 million in 1999.
- Borrowings are mainly denominated in US dollar, Japanese yen, Sterling and Euro, and are fully repayable by 2016 with 85% being at fixed rates of interest.

Group maturity profile by currency: borrowings

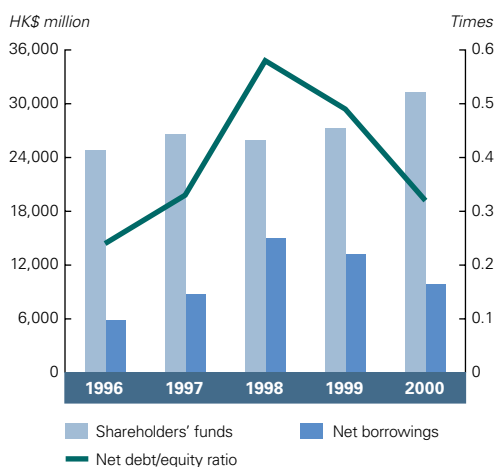


Group interest rate profile: borrowings



- Liquid funds, 84% of which are denominated in US dollar, decreased by 4.8% to HK\$11,040 million.
- Net borrowings decreased by 25.2% to HK\$9,886 million.
- The Group's shareholders' funds increased by 15.1% to HK\$31,324 million.
- Net debt/equity ratio improved from 0.49 times to 0.32 times.

Group net debt and equity



FINANCIAL RISK MANAGEMENT POLICY

- In the normal course of business, the Group is exposed to fluctuations in foreign currencies, interest rates and jet fuel prices.
- These exposures are managed, sometimes with the use of derivative financial instruments, by the Treasury Department of Cathay Pacific in accordance with the Group's approved policies and parameters.
- Derivative financial instruments are used solely for financial risk management purposes and the Group does not hold or issue derivative financial instruments for trading purposes.
- Derivative financial instruments which constitute a hedge do not expose the Group to market risk since any change in their market value will be offset by a compensating change in the market value of the asset, liability or transaction being hedged.

Cathay Pacific: fuel hedging



- Exposure to foreign currencies, interest rates and jet fuel price movements are regularly reviewed and positions are amended in compliance with internal guidelines and limits.
- To manage credit risk, transactions are only carried out with financial institutions of high repute and all counterparties are subject to prescribed trading limits which are regularly reviewed. Risk exposures are monitored regularly by reference to market values.

MANAGEMENT OF CURRENCY AND INTEREST RATE EXPOSURES

- As an international airline, the Group's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange fluctuations.
- To manage this exposure assets are, where possible, financed in those foreign currencies in which net operating surpluses are anticipated, thus establishing a natural hedge. In addition, the Group uses currency derivatives to reduce such foreign currency surpluses.
- The use of foreign currency borrowings and currency derivatives to hedge future operating revenues is a key component of the financial risk management process, as exchange differences realised on the repayment of financial commitments are effectively matched by the change in value of the foreign currency earnings used to make those repayments.
- Derivative financial instruments are used to manage the interest rate profile of the foreign currency commitments.

VALUE ADDED

The following table summarises the distribution of the Group's value added in 1999 and 2000.

	2000	1999
	HK\$M	HK\$M
Total revenue	34,523	28,702
Less: Purchases of goods and services	(17,429)	(14,735)
Other costs	(804)	(764)
Value added by the Group	16,290	13,203
Add: Income from unlisted investments	42	–
Surplus on sales of investments	–	482
Share of profits of associated companies	245	93
Total value added available for distribution	<u>16,577</u>	<u>13,778</u>
Applied as follows:		
To employees		
– Salaries and other staff costs	7,482	7,299
To government		
– Corporation taxes	199	144
To providers of capital		
– Dividends	2,182	1,016
– Minority interests	86	84
– Net finance charges	367	918
Retained for re-investment and future growth		
– Depreciation	3,438	3,153
– Retained profit for the year	2,823	1,164
Total value added	<u>16,577</u>	<u>13,778</u>

- The Group value added increased by HK\$2,799 million due to the improvement in revenue, although the increase was partly offset by increased purchases of goods and services.
- Salaries and other staff costs grew by HK\$183 million to HK\$7,482 million.
- Dividends grew by HK\$1,166 million while the amount retained for re-investment and future growth increased by HK\$1,944 million.