

## Directors' Report

We submit our report and the audited accounts for the year ended 31st December 2000 which are on pages 33 to 78.

### ACTIVITIES

The Cathay Pacific Group ("the Group") is predominantly managed and controlled in Hong Kong. As well as operating scheduled airline services, the Group is engaged in other related areas, including airline catering, aircraft handling and engineering. The airline operations are principally to and from Hong Kong, which is where most of the Group's other activities are also carried out. Details are set out in note 2 to the accounts.

Details of principal subsidiary companies, their main areas of operation and particulars of their issued capital, and details of principal associated companies are listed on pages 76 to 78.

### ACCOUNTS

The profit of the Group for the year ended 31st December 2000 and the state of affairs of the Company and the Group at that date are set out in the accounts on pages 38 to 78.

### DIVIDENDS

We recommend the payment of a final dividend of HK¢45 per share for the year ended 31st December 2000. Together with the interim dividend of HK¢20 per share paid on 4th October 2000, this makes a total dividend for the year of HK¢65 per share. This represents a total distribution for the year of HK\$2,182 million. Subject to shareholders' approval of the final dividend at the Annual General Meeting on 16th May 2001, payment of the dividend will be on 1st June 2001 to shareholders registered on 16th May 2001. The shareholders' register will be closed from 11th May 2001 to 16th May 2001, both dates inclusive.

### RESERVES

Movements in the reserves of the Company and the Group during the year are set out in note 22 to the accounts.

### ACCOUNTING POLICIES

The principal accounting policies of the Group are set out on pages 33 to 37. A statement of the reasons for a departure from the standard accounting practices laid down by the Hong Kong Society of Accountants is set out in principal accounting policy 4.

### DONATIONS

During the year, the Company and its subsidiary companies made charitable donations amounting to HK\$4 million in direct payments and a further HK\$13 million in the form of discounts on airline travel.

### FIXED ASSETS

Movements of fixed assets are shown in note 11 to the accounts. Details of aircraft acquisitions and disposals are set out on page 6.

**BANK AND OTHER BORROWINGS**

The net bank loans, overdrafts and other borrowings, including obligations under finance leases, of the Company and its subsidiary companies are shown in notes 16 and 20 to the accounts.

**SHARE CAPITAL**

During the year under review, the Company made the following purchases of its shares on The Stock Exchange of Hong Kong Limited (“The Stock Exchange”). These purchases were made for the benefit of the Company and shareholders taking into account relevant factors and circumstances at the time. All the shares purchased were cancelled.

Month	Number Purchased	Highest Price Paid HK\$	Lowest Price Paid HK\$	Total Paid HK\$
April	8,960,000	14.00	11.35	115,592,219
May	5,640,000	14.05	13.30	78,145,816
June	25,000	14.00	14.00	351,220
October	1,200,000	14.00	13.60	16,617,398
November	11,200,000	14.25	13.60	156,421,566
December	6,900,000	14.20	13.40	94,328,882
Total	<u>33,925,000</u>	<u>14.25</u>	<u>11.35</u>	<u>461,457,101</u>

At 31st December 2000, 3,350,621,848 shares were in issue (31st December 1999: 3,384,199,848 shares).

The Company adopted a share option scheme on 10th March 1999, whereby certain flight deck crew were granted options to subscribe for shares at a price not less than the higher of 80% of the average of the closing prices of the Company’s shares on The Stock Exchange on the five trading days immediately preceding the date of grant, and the nominal value of the shares. Options to subscribe for a total of 67,837,097 shares at a subscription price of HK\$7.47 per share were granted under the share option scheme, of which options to subscribe for 67,490,097 shares were outstanding as at 31st December 2000. Other than in limited circumstances, the options in relation to 50% of the shares will become 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. An Extraordinary General Meeting was held on 17th May 2000 to formally ratify certain minor amendments to the original share option scheme. During the year under review, the Company issued a total of 347,000 shares for the options exercised and received HK\$2,592,090 in total for the subscription of the shares.

**COMMITMENTS AND CONTINGENCIES**

The details of capital commitments and contingent liabilities of the Group as at 31st December 2000 are set out in note 33 to the accounts.

### **AGREEMENT FOR SERVICES**

Under an agreement between the two parties, the Company reimburses costs and pays fees to John Swire & Sons Limited in exchange for services provided. This agreement can be terminated by either party giving not less than 12 months' notice to take effect on 31st December 2002 or 31st December in any subsequent year. As directors and shareholders of John Swire & Sons Limited, Edward Scott, Sir Adrian Swire and Peter Sutch are interested in this agreement.

### **SIGNIFICANT CONTRACTS**

Contracts between the Company and HAECO for the maintenance and overhaul of aircraft and related equipment accounted for approximately 2.7% of the airline's operating costs in 2000. Like the Company, HAECO is an associated company of Swire Pacific Limited; all contracts have been concluded on normal commercial terms in the ordinary course of the business of both parties.

### **MAJOR CUSTOMERS AND SUPPLIERS**

6.4% of sales and 27.3% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 1.8% of sales were made to the Group's largest customer while 8.8% of purchases were made from the Group's largest supplier. HAECO is one of the Group's largest suppliers.

### **DIRECTORS**

All the present Directors of Cathay Pacific Airways Limited whose names are listed on pages 24 to 25 served throughout the year with the exception of Raymond Or who was appointed on 1st February 2000.

During the year, Peter Lee and Tony Tyler served as alternate directors.

Article 93 of the Company's Articles of Association provides for all the Directors to retire at the third Annual General Meeting following their election by ordinary resolution. In accordance therewith, Robert Atkinson, Derek Cridland, Peter Sutch and Zhang Xianlin retire this year and being eligible, offer themselves for re-election.

No Director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Directors' fees paid to the independent non-executive Directors during the year totalled HK\$180,000; they received no other emoluments from the Company or any of its subsidiaries.

### **CORPORATE GOVERNANCE**

The Company has complied throughout the year with the Code of Best Practice as set out in the Listing Rules of The Stock Exchange.

**DIRECTORS' INTERESTS**

At 31st December 2000, the register maintained under Section 29 of the Securities (Disclosures of Interests) Ordinance ("SDI") showed that Directors held the following beneficial interests in the shares of Cathay Pacific Airways Limited:

	Shares			
	Personal	Family	Other	Total
Philip Chen	9,000	–	–	9,000
Derek Cridland	17,000	–	–	17,000
James Hughes-Hallett	12,000	–	–	12,000
Lee Hon Chiu	10,000	–	–	10,000
Peter Sutch	20,000	–	–	20,000
Tony Tyler	5,000	–	–	5,000
Raymond Yuen	9,000	–	–	9,000

Neither during nor prior to the year under review, has any right been granted to, or exercised by, any Director of Cathay Pacific Airways Limited, or to or by the spouse or minor children of any Director, to subscribe for shares, warrants or debentures of Cathay Pacific Airways Limited.

Other than as stated above, no Director of Cathay Pacific Airways Limited held any interest, whether beneficial or non-beneficial, in the share capital or warrants of Cathay Pacific Airways Limited or any of its associated corporations (within the meaning of the SDI).

At no time during the year did any Director, other than as stated in this report, have a beneficial interest, whether directly or indirectly, in a contract to which Cathay Pacific Airways Limited, or any of its associated corporations, was a party which was of significance and in which the Director's interest was material.

At no time during the year was Cathay Pacific Airways Limited or any of its associated corporations, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

**SUBSTANTIAL SHAREHOLDERS**

The register of substantial shareholders maintained under Section 16(1) of the SDI shows that at 31st December 2000 the Company had been notified of the following interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

		Remarks
1. John Swire & Sons Limited	1,526,606,246	
2. Swire Pacific Limited	1,526,606,246	) Duplications of John Swire
3. John Swire & Sons (H.K.) Limited	1,526,606,246	) & Sons Limited's holding
4. CITIC Pacific Limited	859,353,462	
5. Super Supreme Company Limited	787,753,462	) Duplication of CITIC Pacific
	<u>6,226,925,662</u>	Limited's holding
Less: Duplications	<u>3,840,965,954</u>	
	<u>2,385,959,708</u>	

**AUDITORS**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as Auditors to the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

**James Hughes-Hallett**

Chairman

Hong Kong, 7th March 2001