

## Notes to the Accounts

### 1. NATURE OF OPERATIONS AND PRINCIPAL 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.

### 2. TURNOVER

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

(a) Primary reporting by geographical segment

	2000	1999
	HK\$M	HK\$M
Turnover by origin of sale		
North Asia		
– Hong Kong and Mainland China	12,676	10,434
– Japan, Korea and Taiwan	8,030	6,101
South East Asia and Middle East	3,938	3,280
Europe	3,991	3,849
Pacific and South Africa	5,888	5,038
	<u>34,523</u>	<u>28,702</u>

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

Analysis of turnover and profit by geographical segment:

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

Analysis of net assets by geographical segment:

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

**2. TURNOVER (CONTINUED)**

(b) Secondary reporting by business segment

	<b>2000</b>	<b>1999</b>
	<b>HK\$M</b>	<b>HK\$M</b>
Revenue – external sales		
– Passenger services	<b>22,878</b>	18,979
– Cargo services	<b>10,136</b>	8,391
	<b>33,014</b>	27,370
Unallocated revenue		
– Catering and other services	<b>1,509</b>	1,332
	<b>34,523</b>	28,702

The Cathay Pacific Group is engaged in two main business segments: in passenger business through Cathay Pacific Airways Limited and in freight traffic (“Cargo”) through Cathay Pacific Airways Limited and AHK Air Hong Kong Limited. Cathay Pacific catering services and other airline supporting services which supplement the Group’s operating business are included in unallocated revenue.

Analysis of net assets by business segment:

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

**3. OPERATING PROFIT**

Operating profit has been arrived at after charging/(crediting):

	<b>2000</b>	<b>1999</b>
	<b>HK\$M</b>	<b>HK\$M</b>
Depreciation of fixed assets		
– Leased	<b>2,014</b>	1,816
– Owned	<b>1,424</b>	1,337
Amortisation of intangible assets	<b>93</b>	58
Operating lease rentals		
– Land and buildings	<b>357</b>	440
– Aircraft and related equipment	<b>616</b>	410
– Others	<b>37</b>	35
Operating lease income		
– Aircraft and related equipment	<b>(297)</b>	(210)
Cost of stock expended	<b>1,284</b>	1,152
Exchange differences	<b>166</b>	41
Auditors’ remuneration	<b>6</b>	6
Income from unlisted investments	<b>(42)</b>	–

**4. NET FINANCE CHARGES**

	<b>2000</b>	<b>1999</b>
	<b>HK\$M</b>	<b>HK\$M</b>
Net interest charges		
– Obligations under finance leases	<b>2,253</b>	2,275
– Interest income on related security deposits, notes and bonds	<b>(1,230)</b>	(1,038)
	<b>1,023</b>	1,237
– Bank loans and overdrafts	<b>467</b>	477
– Interest income on related security deposits	<b>(261)</b>	(275)
	<b>206</b>	202
– Other loans and bonds – wholly repayable within five years	<b>11</b>	23
	<b>1,240</b>	1,462
Income from liquid funds		
– Funds with investment managers	<b>(494)</b>	(278)
– Bank short-term deposits and loans	<b>(151)</b>	(108)
– Others	<b>(228)</b>	(158)
	<b>(873)</b>	(544)
	<b>367</b>	918

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

**5. PROFIT ON SALE OF INVESTMENTS**

The profit on sale of investments in 1999 represented the gain from the sale of an indirect interest of 0.4% in Equant N.V., a company which provides an international communications network. The Group still maintains an indirect interest of 0.6% in this company.

**6. TAXATION**

The taxation charge comprises:

	<b>2000</b>	<b>1999</b>
	<b>HK\$M</b>	<b>HK\$M</b>
The Company and its subsidiary companies		
– Hong Kong profits tax	<b>32</b>	3
– Overseas taxation	<b>167</b>	141
– Deferred taxation	<b>(9)</b>	158
– Over provision for prior years	<b>(114)</b>	(98)
	<b>76</b>	204
Associated companies		
– Hong Kong profits tax	<b>20</b>	14
– Overseas taxation	<b>14</b>	1
	<b>110</b>	219

Hong Kong profits tax is calculated at 16% (1999: 16%) on the estimated assessable profits for the year. Overseas taxation 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.

**7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

Of the profit attributable to the shareholders, HK\$3,464 million (1999: HK\$1,460 million) has been dealt with in the accounts of the Company.

**8. DIVIDENDS**

	<b>2000</b>	<b>1999</b>
	<b>HK\$M</b>	<b>HK\$M</b>
Interim dividend paid on 4th October 2000		
of HK¢20 per share (1999: HK¢3)	<b>674</b>	102
Proposed final dividend of HK¢45 per share (1999: HK¢27)	<b>1,508</b>	914
	<b>2,182</b>	1,016

**9. RETAINED PROFIT FOR THE YEAR**

	<b>2000</b>	1999
	<b>HK\$M</b>	<b>HK\$M</b>
Profit for the year retained by		
– The Company	<b>1,282</b>	444
– Subsidiary companies	<b>1,361</b>	675
– Associated companies	<b>180</b>	45
	<b><u>2,823</u></b>	<u>1,164</u>

**10. EARNINGS PER SHARE**

Basic earnings per share and diluted earnings per share are calculated by dividing the profit attributable to shareholders of HK\$5,005 million (1999: HK\$2,180 million) by the daily weighted average number of shares in issue throughout the year of 3,372 million (1999: 3,384 million) shares and 3,404 million (1999: 3,407 million) shares respectively with the latter adjusted for the effects of the stock options.

	<b>2000</b>	1999
	<b>Million</b>	<b>Million</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>3,372</b>	3,384
Deemed issue of ordinary shares for no consideration	<b>32</b>	23
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b><u>3,404</u></b>	<u>3,407</u>

**11. FIXED ASSETS**

	Aircraft and related equipment		Other equipment		Properties	Total HK\$M
	Owned	Leased	Owned	Leased	HK\$M	
	HK\$M	HK\$M	HK\$M	HK\$M		
<b>Group</b>						
Cost						
At 1st January 2000	14,125	42,139	3,210	106	6,313	65,893
Exchange differences	–	–	(1)	–	(1)	(2)
Additions	3,014	1,113	67	–	19	4,213
Disposals	(1,735)	–	(247)	–	(2)	(1,984)
Transfers	119	(119)	(445)	445	–	–
At 31st December 2000	15,523	43,133	2,584	551	6,329	68,120
Accumulated depreciation						
At 1st January 2000	6,077	9,727	1,568	14	376	17,762
Exchange differences	–	–	–	–	–	–
Charge for the year	945	2,000	235	14	244	3,438
Disposals	(1,409)	–	(218)	–	(1)	(1,628)
Transfers	413	(413)	(138)	138	–	–
At 31st December 2000	6,026	11,314	1,447	166	619	19,572
Net book value						
At 31st December 2000	9,497	31,819	1,137	385	5,710	48,548
At 1st January 2000	8,048	32,412	1,642	92	5,937	48,131
<b>Company</b>						
Cost						
At 1st January 2000	7,455	44,148	1,823	102	518	54,046
Additions	854	1,457	25	–	24	2,360
Disposals	(503)	–	(240)	–	(2)	(745)
Transfers	536	(536)	(445)	445	–	–
At 31st December 2000	8,342	45,069	1,163	547	540	55,661
Accumulated depreciation						
At 1st January 2000	2,762	10,122	1,254	11	130	14,279
Charge for the year	749	2,093	91	14	64	3,011
Disposals	(289)	–	(212)	–	(1)	(502)
Transfers	424	(424)	(138)	138	–	–
At 31st December 2000	3,646	11,791	995	163	193	16,788
Net book value						
At 31st December 2000	4,696	33,278	168	384	347	38,873
At 1st January 2000	4,693	34,026	569	91	388	39,767

**11. FIXED ASSETS (CONTINUED)****(a) Finance leased assets**

Certain aircraft are subject to leases with purchase options to be exercised by the Group at the end of the respective leases. The remaining lease terms range from 2 to 16 years. Some of the rent payments are on a floating basis which are generally linked to market rates of interest. All leases permit subleasing rights, subject to appropriate consent from lessors. Early repayment penalties would be payable on some of the leases should they be terminated prior to their specified expiry dates.

**(b) Leased out assets**

As at 31st December 2000, two B747-200s (1999: six), five B747-300s (1999: five) and related equipment were leased to third-party lessees on two-year operating leases. These have been included under aircraft and related equipment as follows:

	<b>2000</b>	<b>1999</b>
	<b>HK\$M</b>	<b>HK\$M</b>
Cost	<u>3,327</u>	<u>4,948</u>
Accumulated depreciation		
At 1st January	<b>2,560</b>	3,598
Charge for the year	<b>304</b>	268
At 31st December	<u>2,864</u>	<u>3,866</u>
Net book value	<u>463</u>	<u>1,082</u>

The future minimum lease payments receivable under these operating leases for each of the following periods are as follows:

	<b>2000</b>	<b>1999</b>
	<b>HK\$M</b>	<b>HK\$M</b>
Within one year	<b>98</b>	298
After one year but within five years	<b>15</b>	293
	<u>113</u>	<u>591</u>

**(c) Operating leased assets**

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

Under the operating lease arrangements for aircraft, the lease rentals are fixed and subleasing is not allowed. At 31st December 2000, the two B747-400s (1999: two) with purchase options, and three A340-300s (1999: three) without purchase options, delivered and held under operating leases were not capitalised. The estimated capitalised value of these leases being the present value of the aggregate future lease payments is HK\$563 million (1999: HK\$925 million).

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

**11. FIXED ASSETS (CONTINUED)**

The future minimum lease payments payable under operating leases committed as at 31st December 2000 for each of the following periods are as follows:

	2000		1999	
	HK\$M	HK\$M	HK\$M	HK\$M
Aircraft and related equipment				
– within one year	551		424	
– after one year but within five years	2,080		577	
– after five years	<u>473</u>	3,104	<u>–</u>	1,001
Properties and other equipment				
– within one year	280		389	
– after one year but within five years	393		515	
– after five years	<u>266</u>	939	<u>401</u>	1,305
		<u>4,043</u>		<u>2,306</u>

(d) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years. Advance payments included in owned aircraft and related equipment amount to HK\$2,295 million (1999: HK\$441 million) for the Group and HK\$15 million (1999: HK\$55 million) for the Company. No depreciation is provided on these advance payments.

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

(f) Properties held at 31st December 2000 include land held under medium-term leases in Hong Kong with a net book value of HK\$1,695 million (1999: HK\$1,741 million).



**12. INTANGIBLE ASSETS**

	Group		Company	
	Goodwill	Computer systems	Total	Computer systems
Cost				
At 1st January 2000 (restated)	312	312	624	292
Additions	–	94	94	89
At 31st December 2000	<u>312</u>	<u>406</u>	<u>718</u>	<u>381</u>
Accumulated amortisation				
At 1st January 2000 (restated)	125	89	214	81
Charge for the year	14	79	93	71
At 31st December 2000	<u>139</u>	<u>168</u>	<u>307</u>	<u>152</u>
Net book value				
At 31st December 2000	<u>173</u>	<u>238</u>	<u>411</u>	<u>229</u>
At 1st January 2000 (restated)	<u>187</u>	<u>223</u>	<u>410</u>	<u>211</u>

**13. SUBSIDIARY COMPANIES**

	Company	
	2000 HK\$M	1999 HK\$M
Unlisted shares at cost	214	214
Net amounts due (to)/from subsidiary companies		
– Loan accounts	(10,659)	(12,198)
– Current accounts	5,691	6,182
Other investments	30,101	31,092
	<u>25,347</u>	<u>25,290</u>

Principal subsidiary companies are listed on pages 76 to 77.

**14. ASSOCIATED COMPANIES**

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Hong Kong listed shares at cost (Market value: HK\$630 million, 1999: HK\$589 million)	–	–	<b>52</b>	52
Unlisted shares at cost	–	–	<b>39</b>	56
Share of net assets				
– listed in Hong Kong	<b>676</b>	607	–	–
– unlisted	<b>740</b>	638	–	–
	<b>1,416</b>	1,245	<b>91</b>	108
Less: Provision	–	–	<b>(17)</b>	(26)
Loans to associated companies	<b>116</b>	122	<b>2</b>	3
	<b>1,532</b>	1,367	<b>76</b>	85
Share of profits of associated companies				
– listed	<b>106</b>	17	–	–
– unlisted	<b>173</b>	91	–	–
	<b>279</b>	108	–	–
Dividends received and receivable by the Company and its subsidiary companies from associated companies	<b>65</b>	48	<b>50</b>	38

Principal associated companies are listed on page 78.

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

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Staff housing loans and other receivables	<b>765</b>	818	<b>650</b>	697
Investments at fair value				
– listed in Hong Kong	<b>71</b>	58	–	–
– listed outside Hong Kong	<b>469</b>	722	<b>466</b>	711
– unlisted	<b>919</b>	583	<b>840</b>	583
	<b><u>2,224</u></b>	<u>2,181</u>	<b><u>1,956</u></b>	<u>1,991</u>

The fair value of investments listed outside Hong Kong is stated after taking into account certain legal and contracted restrictions on the Group's ability to dispose of these investments.

**16. LONG-TERM LIABILITIES**

	Note	2000		1999	
		Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
<b>Group</b>					
Long-term loans, bonds and other liabilities	(a)	<b>553</b>	<b>2,657</b>	617	3,345
Obligations under finance leases	(b)	<b>1,230</b>	<b>16,398</b>	1,408	19,413
		<b><u>1,783</u></b>	<b><u>19,055</u></b>	<u>2,025</u>	<u>22,758</u>
<b>Company</b>					
Long-term loans, bonds and other liabilities	(a)	<b>431</b>	<b>3,400</b>	486	3,947
Obligations under finance leases	(b)	<b>2,244</b>	<b>22,884</b>	2,141	26,357
		<b><u>2,675</u></b>	<b><u>26,284</u></b>	<u>2,627</u>	<u>30,304</u>

**16. LONG-TERM LIABILITIES (CONTINUED)**

## (a) Long-term loans, bonds and other liabilities

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Bank loans				
– secured	<b>4,599</b>	5,078	<b>3,633</b>	3,981
– unsecured	<b>198</b>	451	<b>198</b>	400
Other loans				
– secured	<b>63</b>	82	–	–
– unsecured	<b>50</b>	65	–	52
Bonds				
– unsecured	<b>93</b>	200	–	–
	<b>5,003</b>	5,876	<b>3,831</b>	4,433
Security deposits	<b>(1,793)</b>	(1,914)	–	–
Amount due within one year included under current liabilities	<b>(553)</b>	(617)	<b>(431)</b>	(486)
	<b>2,657</b>	<b>3,345</b>	<b>3,400</b>	<b>3,947</b>
Repayable as follows:				
Bank loans				
– within one year	<b>577</b>	620	<b>431</b>	433
– after one year but within two years	<b>1,004</b>	603	<b>845</b>	457
– after two years but within five years	<b>1,805</b>	2,109	<b>1,283</b>	1,601
– after five years	<b>1,411</b>	2,197	<b>1,272</b>	1,890
	<b>4,797</b>	<b>5,529</b>	<b>3,831</b>	<b>4,381</b>
Other loans				
– within one year	<b>19</b>	19	–	52
– after one year but within two years	<b>19</b>	19	–	–
– after two years but within five years	<b>25</b>	44	–	–
– after five years	<b>50</b>	65	–	–
	<b>113</b>	147	–	52
Bonds				
– within one year	<b>93</b>	100	–	–
– after one year but within two years	–	100	–	–
	<b>93</b>	200	–	–
	<b>5,003</b>	5,876	<b>3,831</b>	4,433
Security deposits	<b>(1,793)</b>	(1,914)	–	–
Amount due within one year included under current liabilities	<b>(553)</b>	(617)	<b>(431)</b>	(486)
	<b>2,657</b>	<b>3,345</b>	<b>3,400</b>	<b>3,947</b>

**16. LONG-TERM LIABILITIES (CONTINUED)**

Borrowings other than bank loans are repayable on various dates up to 2008 at interest rates between 6.5% and 7.0% per annum.

Long-term loans, bonds and other liabilities of the Group and the Company not wholly repayable within five years amounted to HK\$2,259 million (1999: HK\$2,555 million) and HK\$2,596 million (1999: HK\$3,428 million) respectively.

As at 31st December 2000, the Company and the Group had long-term liabilities which were defeased by funds and other investments totalling HK\$26,423 million (1999: HK\$25,226 million). Accordingly, these liabilities and the related funds, as well as related expenditure and income, have not been included in the consolidated accounts.

**(b) Obligations under finance leases**

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2001 to 2016. The future payments under these finance leases are as follows:

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Within one year	<b>3,910</b>	3,884	<b>4,023</b>	4,203
After one year but within two years	<b>4,271</b>	4,237	<b>4,383</b>	4,345
After two years but within five years	<b>18,846</b>	15,619	<b>18,502</b>	15,545
After five years	<b>21,641</b>	28,478	<b>15,732</b>	22,356
Total future payments	<b>48,668</b>	52,218	<b>42,640</b>	46,449
Interest charges relating to future periods	<b>(13,890)</b>	(16,126)	<b>(10,858)</b>	(12,767)
Present value of future payments	<b>34,778</b>	36,092	<b>31,782</b>	33,682
Security deposits, notes and zero coupon bonds	<b>(17,150)</b>	(15,271)	<b>(6,654)</b>	(5,184)
Amounts due within one year included under current liabilities	<b>(1,230)</b>	(1,408)	<b>(2,244)</b>	(2,141)
	<b>16,398</b>	19,413	<b>22,884</b>	26,357

**16. LONG-TERM LIABILITIES (CONTINUED)**

The present value of future payments is repayable as follows :

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Within one year	<b>2,229</b>	1,850	<b>2,320</b>	2,164
After one year but within two years	<b>2,501</b>	2,166	<b>2,694</b>	2,396
After two years but within five years	<b>14,112</b>	10,220	<b>14,196</b>	10,574
After five years	<b>15,936</b>	21,856	<b>12,572</b>	18,548
	<b><u>34,778</u></b>	<u>36,092</u>	<b><u>31,782</u></b>	<u>33,682</u>

As at 31st December 2000, the Company and the Group had obligations under finance leases which were defeased by funds and other investments amounting to HK\$2,317 million and HK\$5,249 million respectively (1999: HK\$1,555 million and HK\$3,714 million). Accordingly, these liabilities and the related funds, as well as related expenditure and income, have not been included in the consolidated accounts.

**17. DEFERRED TAXATION**

Movements on deferred taxation comprise:

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
At 1st January	<b>6,714</b>	6,359	<b>6,564</b>	6,232
Movements for the year				
– transfer from profit and loss account				
– tax provision	<b>(9)</b>	158	<b>(42)</b>	137
– operating expenses	<b>95</b>	99	<b>158</b>	99
– initial cash benefit from lease arrangements	<b>504</b>	225	<b>504</b>	223
Amount due within one year included under current liabilities – taxation	<b>(158)</b>	(127)	<b>(158)</b>	(127)
At 31st December	<b><u>7,146</u></b>	<u>6,714</u>	<b><u>7,026</u></b>	<u>6,564</u>

The deferred taxation provision comprises:

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Timing differences arising from				
– different taxation and accounting treatments of fixed assets net of unutilised tax losses	<b>653</b>	699	<b>533</b>	549
– certain lease arrangements	<b>6,532</b>	6,028	<b>6,532</b>	6,028
– other timing differences	<b>(39)</b>	(13)	<b>(39)</b>	(13)
	<b><u>7,146</u></b>	<u>6,714</u>	<b><u>7,026</u></b>	<u>6,564</u>

Provision has been made for all significant deferred taxation liabilities.

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2002 to 2011 (1999: 2001 to 2011) as follows:

	2000 HK\$M	1999 HK\$M
After one year but within five years	<b>1,576</b>	1,079
After five years but within ten years	<b>4,342</b>	4,542
After ten years	<b>614</b>	407
	<b><u>6,532</u></b>	<u>6,028</u>

**18. TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Trade debtors	<b>2,840</b>	2,458	<b>2,388</b>	2,065
Other receivables and prepayments	<b>2,150</b>	1,357	<b>1,907</b>	1,292
Due from associated companies	<b>15</b>	17	<b>8</b>	7
Due from other related companies	<b>1</b>	–	<b>–</b>	–
	<b><u>5,006</u></b>	<u>3,832</u>	<b><u>4,303</u></b>	<u>3,364</u>

Analysis of trade debtors by age:

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Current	<b>2,627</b>	2,121	<b>2,258</b>	1,772
One to three months overdue	<b>170</b>	277	<b>98</b>	240
More than three months overdue	<b>43</b>	60	<b>32</b>	53
	<b><u>2,840</u></b>	<u>2,458</u>	<b><u>2,388</u></b>	<u>2,065</u>

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



**19. LIQUID FUNDS**

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Short-term deposits and bank balances	<b>1,275</b>	1,814	<b>616</b>	1,195
Short-term deposits maturing beyond three months when placed	<b>127</b>	124	<b>91</b>	57
Funds with investment managers				
– debt securities listed outside Hong Kong	<b>6,339</b>	6,253	–	–
– bank deposits	<b>180</b>	877	–	–
Other liquid investments				
– debt securities listed outside Hong Kong	<b>661</b>	757	–	–
– bank deposits	<b>2,458</b>	1,770	<b>657</b>	–
	<b><u>11,040</u></b>	<u>11,595</u>	<b><u>1,364</u></b>	<u>1,252</u>

Included in other liquid investments are short-term bank deposits of HK\$2,082 million (1999: HK\$1,770 million) and debt securities of HK\$455 million (1999: HK\$558 million) which are pledged to lessors as part of long-term financing arrangements. The arrangements provide that the Group must maintain these deposits and debt securities at specified levels for the duration of the financing.

**20. TRADE AND OTHER PAYABLES**

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Trade creditors	<b>2,087</b>	2,133	<b>1,650</b>	1,572
Other payables	<b>3,151</b>	3,588	<b>4,143</b>	4,530
Due to associated companies	<b>72</b>	123	<b>66</b>	111
Due to other related companies	<b>221</b>	180	<b>205</b>	163
Bank overdrafts – unsecured	<b>88</b>	28	<b>88</b>	28
	<b><u>5,619</u></b>	<u>6,052</u>	<b><u>6,152</u></b>	<u>6,404</u>

Analysis of trade creditors by age:

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Current	<b>1,315</b>	1,281	<b>1,136</b>	1,056
One to three months overdue	<b>493</b>	535	<b>420</b>	470
More than three months overdue	<b>279</b>	317	<b>94</b>	46
	<b><u>2,087</u></b>	<u>2,133</u>	<b><u>1,650</u></b>	<u>1,572</u>

**21. SHARE CAPITAL**

	2000		1999	
	Number of shares	HK\$M	Number of shares	HK\$M
Authorised (HK\$0.20 each)	<u>3,900,000,000</u>	<u>780</u>	<u>3,900,000,000</u>	<u>780</u>
Issued and fully paid (HK\$0.20 each)				
At 1st January	3,384,199,848	676	3,384,199,848	676
Shares purchased and cancelled	(33,925,000)	(6)	—	—
Share options exercised	<u>347,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31st December	<u>3,350,621,848</u>	<u>670</u>	<u>3,384,199,848</u>	<u>676</u>

The Company adopted a share option scheme on 10th March 1999. Details of the scheme can be found in the Directors' Report.

## 22. RESERVES

	Non-distributable							Total HK\$M
	Retained profit HK\$M	Share premium HK\$M	Capital Investment		Other reserves HK\$M	Cash flow hedge reserve HK\$M		
			redemption reserve HK\$M	revaluation reserve HK\$M				
<b>Group</b>								
At 1st January 2000	18,186	7,158	11	973	26	185		26,539
Retained profit for the year	2,823	–	–	–	–	–		2,823
Purchase of Company's shares								
– premium paid on purchase	(455)	–	–	–	–	–		(455)
– transfer between reserves	(6)	–	6	–	–	–		–
– dividends for purchased shares written back	3	–	–	–	–	–		3
Premium received from share options exercised	–	3	–	–	–	–		3
Exchange differences on cash flow								
– recognised during the year	–	–	–	–	–	1,648		1,648
– transferred to profit for the year	–	–	–	–	–	82		82
Revaluation surpluses recognised during the year	–	–	–	11	–	–		11
At 31st December 2000	<u>20,551</u>	<u>7,161</u>	<u>17</u>	<u>984</u>	<u>26</u>	<u>1,915</u>		<u>30,654</u>
<b>Company</b>								
At 1st January 2000	14,520	7,158	11	1,009	–	30		22,728
Retained profit for the year	1,282	–	–	–	–	–		1,282
Purchase of Company's shares								
– premium paid on purchase	(455)	–	–	–	–	–		(455)
– transfer between reserves	(6)	–	6	–	–	–		–
– dividends for purchased shares written back	3	–	–	–	–	–		3
Premium received from share options exercised	–	3	–	–	–	–		3
Exchange differences on cash flow								
– recognised during the year	–	–	–	–	–	1,952		1,952
– transferred to profit for the year	–	–	–	–	–	111		111
Revaluation surpluses recognised during the year	–	–	–	6	–	–		6
At 31st December 2000	<u>15,344</u>	<u>7,161</u>	<u>17</u>	<u>1,015</u>	<u>–</u>	<u>2,093</u>		<u>25,630</u>

## 22. RESERVES (CONTINUED)

	Non-distributable						Total HK\$M
	Retained profit HK\$M	Share premium HK\$M	Capital redemption reserve HK\$M	Investment revaluation reserve HK\$M	Other reserves HK\$M	Cash flow hedge reserve HK\$M	
<b>Group</b>							
At 1st January 1999	16,829	7,158	11	1,033	22	66	25,119
Prior period adjustment for goodwill	193	–	–	–	–	–	193
As restated	17,022	7,158	11	1,033	22	66	25,312
Retained profit for the year (restated)	1,164	–	–	–	–	–	1,164
Exchange differences on cash flow							
– recognised during the year	–	–	–	–	–	48	48
– transferred to profit for the year	–	–	–	–	–	71	71
Revaluation surpluses							
– recognised during the year	–	–	–	422	–	–	422
– transferred to profit for the year on disposal	–	–	–	(482)	–	–	(482)
Exchange differences	–	–	–	–	4	–	4
At 31st December 1999	<u>18,186</u>	<u>7,158</u>	<u>11</u>	<u>973</u>	<u>26</u>	<u>185</u>	<u>26,539</u>
<b>Company</b>							
At 1st January 1999	14,076	7,158	11	1,088	–	(35)	22,298
Retained profit for the year	444	–	–	–	–	–	444
Exchange differences on cash flow							
– recognised during the year	–	–	–	–	–	(89)	(89)
– transferred to profit for the year	–	–	–	–	–	154	154
Revaluation surpluses							
– recognised during the year	–	–	–	387	–	–	387
– transferred to profit for the year on disposal	–	–	–	(466)	–	–	(466)
At 31st December 1999	<u>14,520</u>	<u>7,158</u>	<u>11</u>	<u>1,009</u>	<u>–</u>	<u>30</u>	<u>22,728</u>

**22. RESERVES (CONTINUED)**

Included in retained profit is an amount of HK\$957 million (1999: HK\$769 million) relating to retained profit attributable to associated companies.

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

Other reserves include the attributable post-acquisition reserves of associated companies capitalised by bonus issues and exchange differences arising from revaluation of foreign investments.

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

Exchange differences recorded in the cash flow hedge reserve are expected to be credited/ (charged) to operating profit as noted below, based on exchange rates ruling at 31st December 2000.

	1st half HK\$M	2nd half HK\$M	Total HK\$M
2001	170	193	363
2002	279	235	514
2003	94	86	180
2004	(6)	33	27
2005	273	83	356
Beyond 2005			475
			<u>1,915</u>

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

Had HK SSAP 11 been adopted, there would have been no financial impact on the Group's assets, liabilities and cash flows. HK\$1,915 million (1999: HK\$185 million) would have been included in retained profit rather than the cash flow hedge reserve and the effect on profit attributable to shareholders and earnings per share would be:

	2000 HK\$M	1999 HK\$M
Profit attributable to shareholders	5,005	2,180
HK SSAP 11 adjustment	<u>1,730</u>	<u>119</u>
Adjusted profit with adoption of HK SSAP 11	<u>6,735</u>	<u>2,299</u>
Adjusted earnings per share with adoption of HK SSAP 11	<u>199.7¢</u>	<u>67.9¢</u>
Earnings per share	<u>148.4¢</u>	<u>64.4¢</u>

**23. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	<b>2000</b>	1999
	<b>HK\$M</b>	<b>HK\$M</b>
Operating profit	<b>5,289</b>	2,811
Depreciation	<b>3,438</b>	3,153
Amortisation of intangible assets	<b>93</b>	58
Loss on disposal of fixed assets	<b>3</b>	164
Profit on disposal of a subsidiary company	–	(50)
Profit on disposal of an associated company	<b>(13)</b>	–
Currency adjustments and other items not involving cash flows	<b>140</b>	165
Decrease in stock	<b>1</b>	44
Increase in trade debtors, other receivables and prepayments	<b>(1,175)</b>	(348)
Decrease in net amounts due to related and associated companies	<b>(9)</b>	(32)
(Decrease)/increase in trade creditors and other payables	<b>(483)</b>	371
Increase/(decrease) in unearned transportation revenue	<b>513</b>	(42)
Non-operating movements in debtors and creditors	<b>487</b>	331
Net cash inflow from operating activities	<b><u>8,284</u></b>	<u>6,625</u>

**24. ANALYSIS OF PAYMENTS FOR FIXED AND INTANGIBLE ASSETS**

	<b>2000</b>	1999
	<b>HK\$M</b>	<b>HK\$M</b>
Additions to fixed and intangible assets (excluding goodwill)	<b>(4,307)</b>	(3,992)
Finance raised on fixed assets acquired under finance leases	<b>1,113</b>	1,341
Payments for fixed and intangible assets	<b><u>(3,194)</u></b>	<u>(2,651)</u>

**25. ANALYSIS OF CHANGES IN FINANCING**

	Long-term loans, bonds and other liabilities HK\$M	Obligations under finance leases HK\$M	Minority interests HK\$M	Total HK\$M
At 1st January 2000	3,962	20,821	86	24,869
Finance raised on leased assets	–	1,113	–	1,113
Loan and finance lease repayments	(615)	(1,523)	–	(2,138)
New financing	–	456	–	456
Purchases of bonds and security deposits placed	–	(2,068)	–	(2,068)
Dividends paid to minority interests	–	–	(73)	(73)
Minority interests' share of subsidiaries' capital and revenue reserves	–	–	86	86
Non-cash movements	(137)	(1,171)	–	(1,308)
At 31st December 2000	<u>3,210</u>	<u>17,628</u>	<u>99</u>	<u>20,937</u>
At 1st January 1999	5,203	21,995	108	27,306
Finance raised on leased assets	–	1,341	–	1,341
Loan and finance lease repayments	(1,166)	(1,292)	–	(2,458)
New financing	–	1,069	–	1,069
Purchases of bonds and security deposits placed	–	(2,552)	–	(2,552)
Dividends paid to minority interests	–	–	(87)	(87)
Acquisitions of minority shareholdings	–	–	(19)	(19)
Minority interests' share of subsidiaries' capital and revenue reserves	–	–	84	84
Non-cash movements	(75)	260	–	185
At 31st December 1999	<u>3,962</u>	<u>20,821</u>	<u>86</u>	<u>24,869</u>

**26. ANALYSIS OF CASH AND CASH EQUIVALENTS**

	2000 HK\$M	1999 HK\$M
Short-term deposits and bank balances	1,275	1,814
Bank overdrafts	(88)	(28)
	<u>1,187</u>	<u>1,786</u>

**27. DIRECTORS' REMUNERATION**

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

	2000 HK\$M	1999 HK\$M
Fees	–	–
Emoluments		
– Salaries, allowances and benefits in kind	33	32
– Contributions to retirement schemes	1	2
	<u>34</u>	<u>34</u>

Housing costs accounted for 25% (1999: 26%) of emoluments.

Individual Directors' remuneration for the year fell into the following ranges:

HK\$'000	2000	1999
0 - 1,000	13	12
1,500 - 2,000	–	1
3,500 - 4,000	–	1
4,000 - 4,500	2	1
5,000 - 5,500	1	1
5,500 - 6,000	1	2
6,000 - 6,500	1	1
6,500 - 7,000	1	–
	<u>19</u>	<u>19</u>

**28. EMPLOYEE INFORMATION**

The five highest paid individuals of the Company included four (1999: four) Directors, whose total emoluments are included in the amounts set out in note 27 above, and one (1999: one) other whose emoluments comprised:

	2000 HK\$M	1999 HK\$M
Remuneration		
– Salaries, allowances and benefits in kind	4	4
– Contributions to retirement schemes	1	1
	<u>5</u>	<u>5</u>



**29. LOANS TO DIRECTORS**

Loans made by the Company to Directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Balance at 1st January 2000 HK\$M	Balance at 31st December 2000 HK\$M	Maximum balance outstanding during the year HK\$M
Ken Barley	0.2	0.1	0.2

The loan is repayable on demand and bears interest at Hong Kong prime rate. There was no interest due but unpaid nor any provision made against this loan at 31st December 2000.

**30. RETIREMENT BENEFITS**

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

Retirement benefit costs for the year were:

	2000 HK\$M	1999 HK\$M
Swire Group Retirement Benefit Scheme	–	79
Cathay Pacific Airways Limited Retirement Scheme	–	41
CPA Provident Fund 1993	67	63
CPA Provident Fund	34	30
Other schemes	151	146
	<u>252</u>	<u>359</u>

The Group operates the following principal schemes:

**(a) Defined benefit retirement schemes**

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

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

**30. RETIREMENT BENEFITS (CONTINUED)**

The cost of the schemes to the Group is calculated based upon funding recommendations arising from actuarial valuations. Details of the latest actuarial valuations of CPALRS and of the portion of SGRBS funds specifically designated for the purposes of the actuarial valuation for the Group's employees are:

	SGRBS	CPALRS
Latest actuarial valuation	31st December 1999	31st December 1999
Actuaries	Watson Wyatt Hong Kong Limited	Watson Wyatt Hong Kong Limited
Actuarial valuation method	Attained age	Attained age
Assumed long-term average return on investment	1% higher than assumed average salary increase	1.5% higher than assumed average salary increase
Market value of scheme assets at date of valuation	HK\$3,563 million	HK\$2,299 million
Asset market valuation as a percentage of the present value of past service liabilities	139%	133%

The differences between the market values of the schemes' assets and the present value of the accrued past services liabilities at the date of an actuarial valuation are taken into consideration when determining future funding levels in order to ensure that the schemes will be able to meet these liabilities as they become due.

The Group enjoyed a contribution holiday for both schemes in 2000.

**(b) Defined contribution retirement schemes**

Staff employed by the Company in Hong Kong on expatriate terms are eligible to join a defined contribution retirement scheme, the CPA Provident Fund 1993. During the year, the benefits forfeited in accordance with the scheme's rules amounted to HK\$1.5 million (1999: HK\$3.0 million) which have been applied towards the contributions payable by the Company.

All staff employed in Hong Kong are eligible to join the CPA Provident Fund.

Under the terms of these schemes, other than the Company contribution, staff may elect to contribute from 0% to 10% of the monthly salary.

**(c) Mandatory provident fund scheme ("MPF")**

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

**31. RELATED PARTY TRANSACTIONS**

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

	2000		1999	
	Associated companies HK\$M	Other related parties HK\$M	Associated companies HK\$M	Other related parties HK\$M
Turnover	67	–	62	–
Aircraft maintenance costs	748	1,650	758	914
Route operating costs	195	673	194	632
Dividends received	(65)	(28)	(48)	–
Fixed assets purchase	–	61	–	47

## (a) Other transactions with related parties

(i) Under an agreement between the two parties, the Company pays fees and reimburses costs to John Swire & Sons Limited in exchange for services provided. Management services fees, calculated at 2.5% of the Group's profit before tax, results of associated companies, minority interests, and any profits and losses on disposal of fixed assets will be paid annually. Management fee paid for the year ended 31st December 2000 was HK\$126 million (1999: HK\$62 million) and expenses of HK\$150 million (1999: HK\$155 million) were reimbursed at cost.

(ii) The Company received agency commission and services fees from Hong Kong Dragon Airlines Limited ("Dragonair"). The services fees were received in respect of computer support, engineering, station and ground services provided to Dragonair. All these transactions were conducted in the ordinary course of business and on normal commercial terms. A total of HK\$178 million was received from Dragonair for these transactions in 2000 (1999 : HK\$142 million). Dragonair is also a partner of the Asia Miles frequent-flyer programme.

(b) Amounts due to and due from associated companies and other related companies at 31st December 2000 are disclosed in note 18 and note 20. These balances arise in the normal course of business, are non-interest bearing and have no fixed repayment terms.

(c) At 31st December 2000, the Company has given guarantees relating to long-term loan facilities of HK\$680 million (1999: HK\$684 million) held by associated and other related companies.

(d) There were no material transactions with Directors, except for those relating to remuneration (note 27) and shareholdings (Directors' Report).

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

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

	2000	1999
Fleet ATKs (in million tonne kilometres)	<b>11,630</b>	10,867

**33. COMMITMENTS AND CONTINGENCIES**

(a) Outstanding payment commitments in respect of capital items and investments authorised at the end of the year but not provided for in the accounts amounted to:

	Group		Company	
	2000 HK\$M	1999 HK\$M	2000 HK\$M	1999 HK\$M
Authorised and contracted for				
– aircraft and related equipment	<b>6,752</b>	6,353	<b>331</b>	672
– others	<b>2</b>	10	–	–
	<b>6,754</b>	6,363	<b>331</b>	672
Authorised but not contracted for				
– aircraft and related equipment	<b>407</b>	140	<b>407</b>	140
– others	<b>3</b>	4	–	–
	<b>410</b>	144	<b>407</b>	140
	<b>7,164</b>	6,507	<b>738</b>	812

These Group commitments are expected to be paid as follows:

	HK\$M
2001	<b>7,014</b>
2002	<b>150</b>
	<b>7,164</b>

Commitments include amounts for the acquisition of two B747-400 freighters and eight A330-300 aircraft. Operating lease commitments are shown in note 11.

**33. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

(b) The Company has undertaken to indemnify lessors in respect of certain leasing arrangements of the Group so as to maintain a specified rate of return on each of the lessors' investments. The Group has been notified by certain lessors of potential claims under these indemnities. The likelihood of any specific claims being made is dependant upon the resolution of disputes between these lessors and a third party. No claims have been received and the financial effect of these contingencies remains uncertain.

(c) At 31st December 2000, contingent liabilities existed in respect of guarantees given by the Company on behalf of subsidiary, associated and other related companies relating to long-term loan facilities of up to HK\$696 million (1999: HK\$692 million).

**34. CHANGES IN THE FINANCIAL STATEMENTS**

The Group has prepared the accounts in accordance with HK SSAP 30 "Business Combinations" and HK SSAP 29 "Intangible Assets" recently issued by the HKSA. This has resulted in changes to the presentation of various items as described in accounting policies 2 and 7. Certain comparative information has been restated accordingly.