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A Chinese translation of this Annual Report is available upon request from the Company's Registrars.

本年報中文譯本，於本公司之股票註冊處備索。



Cathay Pacific Airways, based in Hong Kong, is an international airline offering scheduled passenger and cargo services to 48 cities in five continents.

Cathay Pacific has a 75 percent shareholding in the all-freight carrier AHK Air Hong Kong Limited, which operates scheduled cargo services to Japan, Europe and the Middle East. In association with Hong Kong Dragon Airlines Limited, our global network extends to a further 25 destinations in China and around the region.

Cathay Pacific is a founder member of the global alliance oneworld which has networks that serve over 650 destinations worldwide. Other members of oneworld are American Airlines, British Airways, Finnair, Iberia and Qantas. Aer Lingus and LanChile will join in the middle of 2000.

As a strong, diversified aviation group, we maintain equity interests in a number of subsidiary and associated companies which provide aviation related services in Hong Kong and overseas.

Cathay Pacific Airways is a member of the Swire Group and is listed on The Stock Exchange of Hong Kong.

Chairman's Letter

The Cathay Pacific Group made an attributable profit of HK\$2,191 million in 1999, compared with a loss of HK\$542 million in 1998. Turnover was HK\$28,702 million, up by 7.9 percent compared to the previous year.

The results for the year reflect a strong second half due to both seasonal factors and a return to growth in the Asian economies. Load factors improved across most routes. The United States market was particularly strong, whilst a number of Asian markets rebounded from previous declines. Passenger yields remained under pressure due to continued competition across the region.

The cargo business, which generates 29 percent of our overall revenues, was the star performer of the year, achieving record levels for both tonnage and revenue.

Continued cost controls also contributed to the final result. Challenging cost targets have been met in most areas. Thanks to the efforts of our staff, productivity and efficiency targets were met in many areas of the airline's operations, although higher net finance charges and increasing fuel prices during the year have offset some of these gains.

The year 1999 also brought many challenges. In June, the salary negotiations with our pilots resulted in two weeks of flight disruptions. From July to September Hong Kong experienced a number of severe typhoons, one of which resulted in the effective closure of the airport for 24 hours.

In May we introduced our innovative First Class cabin; in October we introduced new uniforms for our cabin crew and airport staff; and in November we celebrated the grand opening of our new corporate headquarters, Cathay Pacific City. We made solid progress in the development of our oneworld global airline alliance, and successfully launched our new frequent-flyer programme, Asia Miles.

The announcement of a 15 percent reduction in landing and parking charges at Hong Kong International Airport will help to maintain the competitiveness of our home base, Hong Kong, as Asia's premier aviation transport hub.

Development of our e-business strategy is a very high priority. We are determined to be an industry leader in this field.

As market conditions continue to improve, steps are being taken to meet anticipated future demand. Towards the end of the year we committed to the purchase of three new A330s from Airbus Industrie and the lease of three A340s from Air China; we also signed an agreement to purchase two new Boeing 747-400 freighter aircraft which will substantially increase our cargo capacity over the next two years. More recently we agreed to lease a new A340. We are currently reviewing our passenger fleet to see how best to meet further expected growth in demand in the years ahead.

Cathay Pacific is emerging from the recent downturn in better shape than that in which we entered it; with a more competitive cost structure, we are now well positioned to take advantage of new opportunities. We have every confidence in the future of the airline.

James Hughes-Hallett

Chairman

8th March 2000

1999 In Review

Economic conditions improved throughout much of Asia during 1999. An increase in trade and tourism boosted passenger and cargo loads, with consequent improvement in the financial performance of the Company.

During the year the Company continued to invest in its fleet and completed its new corporate headquarters, Cathay Pacific City, at Hong Kong International Airport. The new headquarters was officially opened in November.

Cathay Pacific remains committed to improving its customer service, introducing new products and supporting the Hong Kong community.

Product and customer services

- Cathay Pacific launched its new uniform on 23rd October, another element of a major repositioning campaign which has involved a new corporate livery, new airport lounge, new First Class and new corporate headquarters.
- The airline's new luxury First Class was introduced on long-haul routes with the first aircraft fitted with the new product joining the fleet in May. By the year-end, a total of six long-haul aircraft were fitted with the new product.
- Cathay Pacific's global marketing alliance, oneworld, came into operation in February. The alliance links Cathay Pacific, American Airlines, British Airways, Qantas and Canadian Airlines. Finnair and Iberia joined on 1st September 1999. LanChile and Aer Lingus will join and Canadian Airlines will leave in 2000.
- Cathay Pacific's new frequent-flyer programme, Asia Miles, became operational in February. Asia Miles has proved extremely popular and membership has far exceeded initial estimates.
- A number of new partners have joined Asia Miles since its launch including HSBC, Bank of China and Dragonair. Asia Miles now has more than 30 partners in total, making it Asia's most comprehensive frequent-flyer programme.
- Cathay Pacific received a wide range of awards during the year including Best Long-Haul Airline for Business from *Conde Nast* magazine, Best Airline – Business Class from *Travel Trade Gazette*, 1999 Journalist Choice Airline – Asia Pacific from *Official Airline Guide* Airline of the Year Awards, and Best Business Class in the *South China Morning Post* Annual Travel Survey.

The Airport

- The Hong Kong International Airport saw further improvements in its operation with the opening of the second runway in August.
- The Hong Kong Airport Authority introduced a number of improvements to passenger services, enhancing Hong Kong's position as Asia's premier aviation centre.
- The Government and the Airport Authority announced that landing and parking charges at the airport would be reduced by 15% across the board from January 2000.

Fleet and network

- Cathay Pacific took delivery of three new B777-300 aircraft during the year bringing the number of these aircraft in its fleet to seven. The airline was the launch customer for the B777-300 in 1998.
- During the year, five B747-300 aircraft were leased to Pakistan International Airlines for an initial period of two years and two B747-200 aircraft to Air Atlanta Icelandic, also for two years.
- In October, the Company reached an agreement to lease three A340s from Air China for an initial period of two years.
- Also in October, Cathay Pacific placed an order to purchase two new B747-400 freighters from Boeing. One of the aircraft will be delivered in 2000 and the other in 2001. In December, orders to purchase three new A330s were announced and in February 2000, a five year lease of a new A340 from ILFC was signed.
- The average age of the Cathay Pacific passenger fleet is now 4.5 years, making it among the most modern in the world.
- Cathay Pacific and DHL Worldwide Express entered into a partnership under which the Company will operate 32 new overnight cargo and passenger flights a week between Hong Kong and four Asian destinations: Osaka, Seoul, Singapore and Taipei.
- Cathay Pacific and Japan Airlines launched new codeshare services between Hong Kong and Osaka in March, and Hong Kong and Nagoya in April. The codeshare services on both routes provide a non-stop daily flight operated by Cathay Pacific.
- Cathay Pacific and South African Airways signed a Memorandum of Understanding outlining a long-term partnership between the two airlines. Areas of cooperation outlined include codeshare services, frequent-flyer programmes and ground-handling arrangements.
- Cathay Pacific and Canadian Airlines introduced new codeshare services between Hong Kong and Vancouver and Hong Kong and Toronto in October.

Fleet profile

Aircraft Type	Number per fleet as at 31st December 1999			Total	Firm Orders		Total	Expiry of operating leases			Options (delivery date)			
	Owned	Leased			'00	'01		'01	'02	'03	'02	'03	'04	Total
		Finance	Operating											
Aircraft operated by Cathay Pacific :														
B747-400	2	15	2	19				1	1					
B747-200F	3	1		4										
B747-400F	1	1		2	1	1	2							
B777-200	1	3		4										
B777-300		7		7						3	4	3	10	
A330-300		12		12		3	3				3	3	6[#]	
A340-300		11	3	14		1 ^{##}	1	3						
Total	7	50	5	62	1	5	6	3	1	1	3	7	6	16
Aircraft not operated by Cathay Pacific :														
B747-300	1 [*]	5		6										
B747-200	6			6										
B747-200F		3 ^{**}		3										
Total	7	8		15										

[#] Options are interchangeable between A330/A340.

^{##} Aircraft on five year operating lease.

^{*} Aircraft not leased out as at 31st December 1999.

^{**} Aircraft operated by AHK.

People

- The Flight Training Centre, the Headland Hotel and the Dakota Club leisure complex at Cathay Pacific City were all opened during the year.
- Responding to the need to improve productivity, Hong Kong ground personnel and cabin crew agreed to work longer hours.
- A three-year agreement was reached between the Company and its pilots involving salary concessions in exchange for stock options.
- A new programme, called ARENA, to promote learning within the Company, was launched in September. The programme includes exhibitions, seminars, workshops and interactive learning.

Contribution to Hong Kong

- Cathay Pacific held a number of promotions to help boost tourism to Hong Kong. These included a new global promotion "Hong Kong SUPERSTOP" offering passengers highly attractive packages at six leading hotels when stopping over in Hong Kong.

- The airline sponsored a number of sporting events which also helped draw tourists to Hong Kong, including the Hong Kong Squash Open and the Cathay Pacific Champions tennis tournament.
- A competition was held to design a new livery for one aircraft to be named the “Spirit of Hong Kong”. The newly painted aircraft entered service with the airline in January 2000. The campaign was designed to highlight the resilience of Hong Kong in difficult times.
- Cathay Pacific won the 1999 Hong Kong Eco-Business Green Office Grand Award as a result of its environmental awareness and the contribution it has made to Hong Kong.
- Cathay Pacific remains committed to increasing environmental awareness among its staff and the community. Environmental activities undertaken by staff included two tree-planting days when 2,500 tree saplings and more than 15,000 mangrove seedlings were planted in the Sai Kung Country Park.

Information technology

- A number of new systems progressed through planning, design and implementation with the help of the Sabre Group. In support of the new Integrated Operation Centre, an aircraft movement control system, AirOps, was implemented in April. A new schedule planning system and a crew rostering system will be implemented by the end of 2000. The design of a new revenue management and pricing system was completed and will be followed by a two year implementation phase which commenced at the end of 1999.
- A major study was conducted to develop an e-Business strategy for the Company. The result of the study will lead to a number of initiatives in 2000.
- All the Company’s staff in Hong Kong now have access to the new desktop infrastructure GalaCXy. GalaCXy was also rolled out to a number of overseas offices during the year.



Review of Operations

Passenger Services

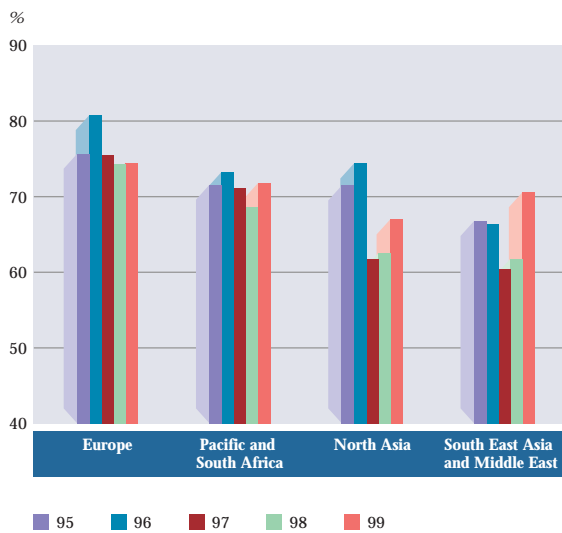
Despite signs that the worst may well be over for the Asian economies, 1999 proved to be another challenging year for passenger revenue, particularly in our home-base, Hong Kong. Passenger numbers travelling in first and business classes remained below pre-crisis levels. Economy class numbers were helped by the continued increase in "sixth-freedom" traffic (i.e. passengers transiting through Hong Kong). oneworld and codeshare arrangements also helped our revenue growth.

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

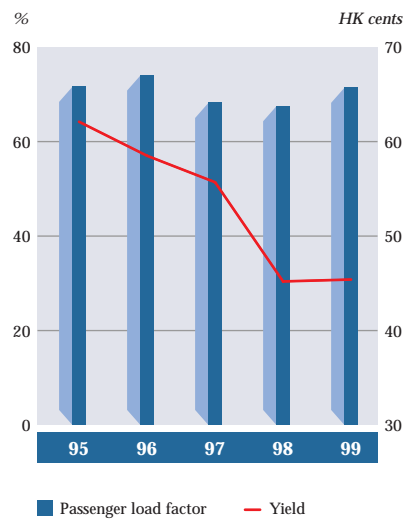
	ASK (million)			Load Factor (%)			Yield
	1999	1998	Change	1999	1998	Change	Change
Europe	13,905	13,927	-0.2%	74.5	74.3	+0.2%pt	-5.2%
Pacific and South Africa	23,473	23,862	-1.6%	71.8	68.6	+3.2%pt	+1.8%
North Asia	9,475	10,423	-9.1%	67.0	62.5	+4.5%pt	+5.2%
South East Asia and Middle East	11,261	12,083	-6.8%	70.6	61.8	+8.8%pt	-0.1%
Overall	58,114	60,295	-3.6%	71.4	67.5	+3.9%pt	+0.4%



Load factor by region



Passenger load factor and yield



Highlights by major routes are as follows:**Europe**

- Depreciation of European currencies adversely affected revenue.
- Front-end business reduced while economy class travel was boosted by “sixth-freedom” traffic to destinations such as Australia and Denpasar.
- The earthquake in Turkey had a negative impact on our Istanbul service.

Pacific and South Africa

- North American routes performed well in 1999 and attained growth in traffic transiting to South East Asian destinations.
- The San Francisco route has performed well since its launch in December 1998, with load factors and revenue continuing to improve throughout the year.
- Australia faced severe price competition and as a result flights to Sydney were reduced. A double daily service has now been reinstated.
- South Africa saw a turnaround after relatively poor results in 1998. The codeshare arrangement with South African Airways, which commenced in July, further improved revenue on this route.

North Asia

- Appreciation of the Japanese yen helped outbound traffic on the Japanese routes.
- Korean services were very strong due to rising demand both from the Hong Kong market and from Korea.
- Intense competition continued in the Taiwan market, adversely affecting yields.

South East Asia and Middle East

- The economies in the region gradually started to recover from the Asian economic downturn. Business to and from South East Asia has been improving, and strengthening currencies have helped, but intense competition has still put pressure on our yields.
- India and the Middle East routes performed satisfactorily. Additional frequencies to India are being sought.

Cargo Services

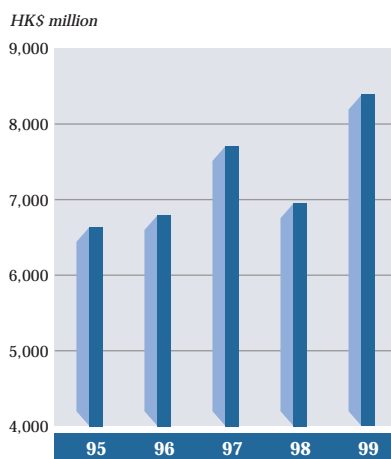
	ATK (million)			Cargo and mail Load Factor (%)			Yield
	1999	1998	Change	1999	1998	Change	Change
Cathay Pacific	5,337	5,119	+4.3%	71.5	65.2	+6.3%pt	+11.8%
AHK Air Hong Kong	1,188	1,114	+6.6%	67.6	74.9	-7.3%pt	+12.3%

Cathay Pacific Airways Limited (“CPA”)

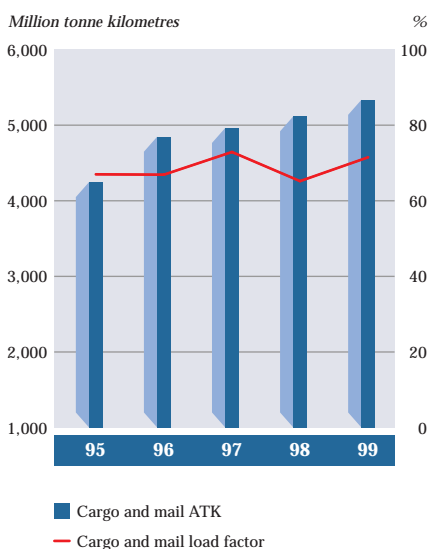
- Cathay Pacific Cargo operates a fleet of two B747-400 freighters and four B747-200 freighters and serves 16 destinations. A further two B747-400 freighters are on order.
- Worldwide cargo markets were stronger than expected in 1999, leading to a strong performance for Cathay Pacific Cargo. Turnover increased by 23.2% over 1998.

- Approximately 63.5% of our cargo was carried by our passenger aircraft.
- Cargo available tonne kilometres (“ATKs”) grew by 7.6% for freighter aircraft and 1.4% for passenger aircraft.
- Cathay Pacific Cargo operated an additional 57 non-scheduled services over the year, utilising aircraft wet-leased from both Air Hong Kong and Atlas Air in order to meet the export demand from Hong Kong and the region.
- Load factors on the freighter aircraft averaged 79.1% during 1999 while cargo load factors on passenger aircraft averaged 64.3%. These strong market conditions have continued into 2000.
- Yields on cargo shipments from Hong Kong to all major markets were robust as demand outpaced supply.
- Most North Asian and South East Asian routes saw substantial growth. Loads out of Europe and North American were, however, relatively weak.
- Cathay Pacific Cargo entered its 18th year of cooperation with Lufthansa between Hong Kong and Frankfurt.
- The two newly ordered B747-400 freighter aircraft to be delivered in 2000 and 2001 will enable the airline to grow its operations and contribute further to the consolidation of Hong Kong’s position as Asia’s leading air cargo centre.

Turnover



Capacity and load factor



AHK Air Hong Kong Limited (“AHK”)

- AHK, a 75% owned subsidiary, is an all-cargo carrier with scheduled services to Brussels, Dubai, Manchester and Osaka.
- Its fleet consists of three B747-200 freighters leased from Cathay Pacific.
- The company achieved a satisfactory profit in 1999.
- Increased demand and favourable currency movements led to an improvement in yields.
- AHK continued to achieve productivity improvements and the cost per ATK reduced by 5.9% over 1998.

Review of Affiliated Businesses and Associated Companies

Cathay Pacific Catering Services (H.K.) Limited

- This wholly-owned subsidiary is the principal flight kitchen in Hong Kong, serving 33 scheduled carriers.
- The first full year of operation for the company at its new facility at Hong Kong International Airport went smoothly.
- 15 million meals were produced in 1999.
- The company's profit improved over the previous year.

Hong Kong Airport Services Limited ("HAS")

- HAS, in which Cathay Pacific holds a 70% interest, is one of three ramp handling companies at Hong Kong International Airport providing aircraft loading, aerobridge and passenger step operations, and mail, cargo and baggage delivery services.
- The company was awarded a ten year exclusive contract to operate passenger bus, staff bus and other bus services for the airport.
- The company continued to improve productivity by implementing cost saving initiatives on the use of ground services equipment.
- The company achieved a small profit in its first full year of operation.

Hong Kong Dragon Airlines Limited ("Dragonair")

	ASK (million)			Passenger Load Factor (%)			Passenger Yield
	1999	1998	Change	1999	1998	Change	Change
All routes	4,398	4,066	+8.2%	62.5	59.6	+2.9%pt	-8.7%

- Dragonair, in which Cathay Pacific holds a 19% interest, is a Hong Kong-based airline operating scheduled and charter services to 25 destinations in Asia, 16 of which are in China. No new destinations were added in 1999. Services to Tianjin and Ningbo were temporarily suspended with effect from May 1999 due to low demand.
- Frequencies to Shanghai, Beijing, Kunming, Qingdao, Dhaka and Phnom Penh were increased during the year in order to cope with increased demand. In addition a weekly charter service to Subic Bay in the Philippines was introduced.
- As a result of market competition, passenger yield dropped by 8.7% from the 1998 level. Cargo, however, performed well with significant increases in both tonnage and revenue.
- The company carried 2.3 million passengers and uplifted 65,900 tonnes of cargo in 1999, representing an increase of 13.3% and 51.1% respectively over 1998.
- Fleet profile as at 31st December 1999:

Aircraft type	In service at 31st December 1999	Firm orders			Options
		2000	2001	2002 and beyond	2002 and beyond
A320	5	1	-	5	-
A321	2	1 [#]	-	-	-
A330	5	-	2 [#]	-	2
Fleet Total	12*	2	2	5	2

[#] One A321 and one A330 will be on operating leases.

* All aircraft were on operating leases, except for two A330s which were on finance leases. One A320 was leased out to another airline from June 1999 onwards, and is not included in the table, and one A330 was returned to the lessor in October 1999.

- In 1999, the company completed its A320 fleet renewal by replacing these aircraft with new A320 and A321 aircraft powered by International Aero A5 engines.
- Dragonair joined the Asia Miles frequent-flyer programme in September 1999.
- Dragonair is constructing its own headquarters building at Chek Lap Kok, Dragonair House, which is expected to be completed by June 2000.
- Demand for air services between Hong Kong and Mainland China is expected to grow in line with the development of China's economy.
- The company reported a similar profit to the previous year. 1999 was a difficult year but management remains optimistic about the future of the airline.

Hong Kong Aircraft Engineering Company Limited ("HAECO")

- HAECO, in which Cathay Pacific holds a 25% interest, provides aircraft maintenance and overhaul services at Hong Kong International Airport.
- Profit after tax for the year was HK\$59 million, 60% lower than that of the previous year.
- Line maintenance revenue was under severe pressure in 1999, as a result of the increase in competition at Hong Kong International Airport. The volume of heavy maintenance work remained at a similar level as last year with hangar facilities being well-utilised during the year.
- Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO), 42% owned by HAECO and 9% by Cathay Pacific, had a successful year. The construction of a second hangar was completed in April 1999, thus doubling the airframe heavy maintenance capacity.
- Hong Kong Aero Engine Services Limited (HAESL), HAECO's joint venture with Rolls-Royce plc and SIA Engineering Pte Limited, also had a satisfactory year.



Financial Review

The Group's attributable profit was HK\$2,191 million, compared with a loss of HK\$542 million in 1998. The improvement reflects a recovery in a number of our markets.

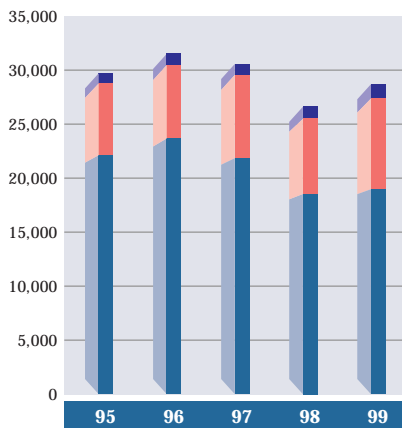
Turnover

	<i>Group</i>		<i>Cathay Pacific</i>	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Passenger services	18,979	18,532	18,979	18,532
Cargo services	8,391	6,955	7,071	5,738
Catering and other services	1,332	1,123	-	-
Turnover	28,702	26,610	26,050	24,270



Consolidated turnover

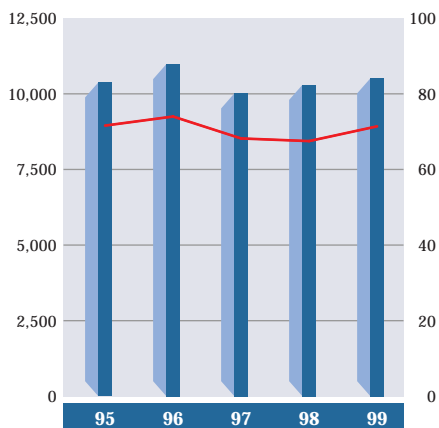
HKS million



■ Passenger services ■ Cargo services
 ■ Catering and other services

Passengers carried and load factor

'000's

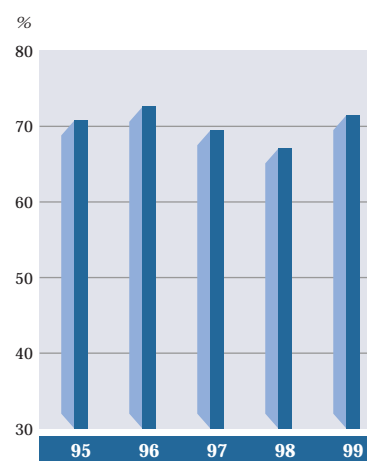


■ Revenue passengers carried
 — Passenger load factor

- Group turnover was up by 7.9% compared with last year.
- For passenger services, Group turnover rose by 2.4% to HK\$18,979 million as a result of improved load factors and stabilising yields.
- The number of passengers carried increased by 2.1% to 10.5 million.
- Passenger traffic (measured by revenue passenger kilometres) increased by 2.0% against a 3.6% decrease in passenger seat capacity (measured by available seat kilometres), which resulted in an increase in the passenger load factor from 67.5% to 71.4%.
- Passenger yield continued to be under pressure. Stronger foreign currencies, however, helped to achieve an increase of 0.4% to HK¢45.4.
- Business class revenue increased by 7.3% whilst first class and economy class revenues showed smaller increases.
- Cargo business reported an encouraging growth of 20.6% to HK\$8,391 million. This reflects the strong demand for exports from Asian countries.
- Cathay Pacific's cargo and mail load factor increased by 6.3 percentage points to 71.5% as cargo and mail tonne kilometres rose by 14.3% against a slight increase of 4.3% in capacity. AHK Air Hong Kong's load factor decreased by 7.3 percentage points to 67.6%.
- At the Cathay Pacific company level, the increase in turnover of HK\$1,780 million was a result of:

	HK\$M
3.6% decrease in passenger capacity	(667)
4.3% increase in cargo and mail capacity	244
3.9%pt increase in passenger load factor	1,037
6.3%pt increase in cargo and mail load factor	577
0.4% increase in passenger yield	76
11.8% increase in cargo and mail yield	513
	1,780

Revenue load factor



- Market improvements in 1999 gave rise to an increase in the Company's revenue load factor of 4.4 percentage points to 71.5%.
- Cathay Pacific's traffic turnover sensitivity is set out below:

Annual effects of:

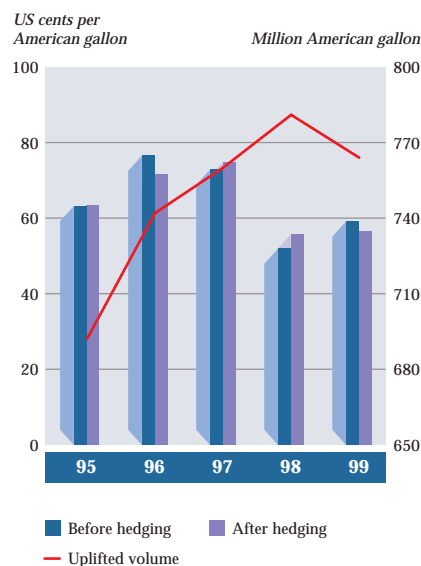
	HK\$M
One percentage point change in passenger load factor at 1999 passenger yield	264
One percentage point change in cargo and mail load factor at 1999 cargo and mail yield	99
One Hong Kong cent change in passenger yield per revenue passenger kilometre at 1999 passenger load factor	415
One Hong Kong cent change in cargo and mail yield per cargo and mail tonne kilometre at 1999 cargo and mail load factor	38

Operating expenses

	Group			Cathay Pacific		
	1999 HK\$M	1998 HK\$M	Change	1999 HK\$M	1998 HK\$M	Change
Staff	7,299	7,786	-6.3%	6,511	7,082	-8.1%
Inflight service and passenger expenses	1,381	1,563	-11.6%	1,381	1,563	-11.6%
Landing, parking and route expenses	4,971	4,913	+1.2%	4,642	4,618	+0.5%
Fuel	3,641	3,612	+0.8%	3,357	3,377	-0.6%
Aircraft maintenance	2,714	2,891	-6.1%	2,533	2,670	-5.1%
Aircraft depreciation and operating leases	2,855	3,334	-14.4%	2,711	3,192	-15.1%
Other depreciation and operating leases	1,020	941	+8.4%	773	813	-4.9%
Commissions	663	717	-7.5%	657	673	-2.4%
Exchange loss	41	88	-53.4%	38	89	-57.3%
Others	1,295	1,422	-8.9%	935	1,128	-17.1%
Operating expenses	25,880	27,267	-5.1%	23,538	25,205	-6.6%
Net finance charges	918	311	+195.2%	855	229	+273.4%
Total operating expenses	26,798	27,578	-2.8%	24,393	25,434	-4.1%

- Staff costs decreased due to lower staff numbers and a contribution holiday for certain retirement funds.
- Inflight service and passenger expenses reduced as a result of better cost control.
- Landing, parking and route expenses increased due to higher costs from the first full year of operation at Hong Kong International Airport.
- Fuel costs remained largely unchanged with the higher fuel price being offset by lower consumption, due in part to the increased use of fuel-efficient aircraft.
- Aircraft maintenance costs reduced as a result of the younger average fleet age, the phasing out of the B747 “classics” and the implementation of successful productivity initiatives.
- Aircraft depreciation and operating lease costs decreased because of the provision made in 1998 for the impairment in value of the B747 “classics”.
- Cathay Pacific’s cost per ATK before finance charges fell by 6.5% to HK\$2.17.
- Cost per ATK after finance charges decreased by 4.3% to HK\$2.24.
- Net finance charges increased as a result of higher average borrowings, lower returns from short-term funds and adverse movements in exchange and interest rates.
- The interest cover improved to 3.1 times.

Into wing fuel price and consumption



Associated companies

- The share of profits after tax of associated companies decreased significantly by 38% to HK\$93 million.
- The lower profits were mainly due to the adverse performances of both HAECO and Securair, as compared with last year.

Taxation

- The taxation charge at HK\$219 million was HK\$323 million higher than in 1998 as a result of the return to profitability.

Dividends

- Total amount paid and proposed for 1999 is HK\$1,016 million, representing a dividend cover of 2.2 times.

Assets

- Total assets as at 31st December 1999 amounted to HK\$67,977 million.
- Additions to fixed assets were HK\$3,992 million, comprising HK\$2,899 million for aircraft purchases including advance payments, HK\$701 million for expenditure at Hong Kong International Airport, and HK\$392 million for properties and other equipment.

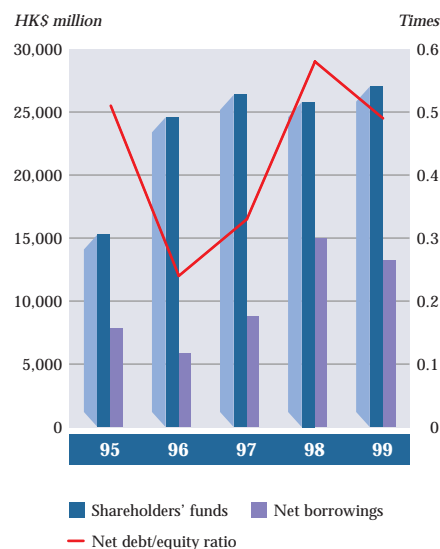
Borrowings and capital

- Borrowings decreased by 8.9% to HK\$24,783 million compared with HK\$27,198 million in 1998.
- Liquid funds decreased by 5.9% to HK\$11,595 million as a result of aircraft acquisitions and the completion of the airline hotel, the flight training centre and other facilities at Cathay Pacific City.
- Net borrowings decreased by 11.7% to HK\$13,216 million.
- The Group's shareholders' funds increased by 4.8% to HK\$27,028 million.
- Net debt/equity ratio decreased to 0.49 times.

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.

Net debt and equity

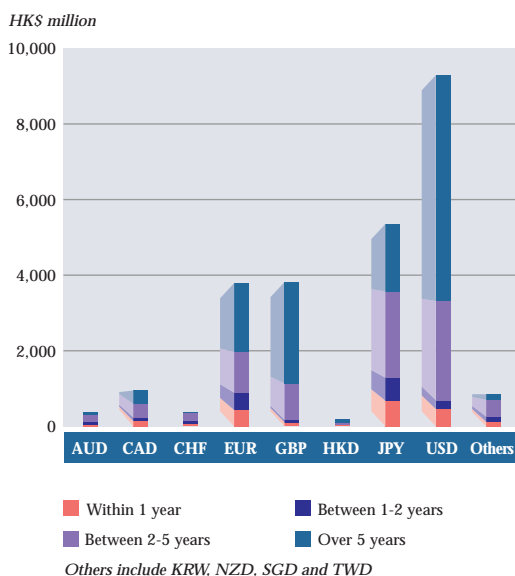


Interest cover

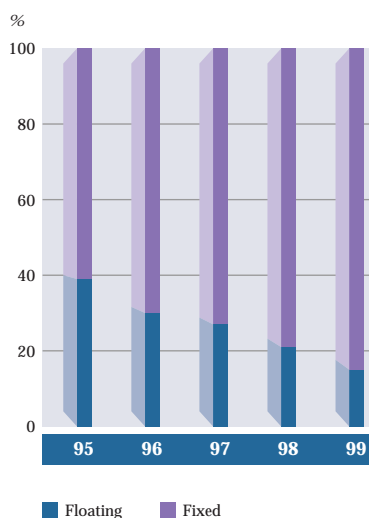


- Derivative financial instruments which constitute a hedge do not expose the Group to market risk since, by definition, any change in their market value will be offset by a compensating change in the market value of the asset, liability or transaction being hedged.
- Exposure to foreign currencies, 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.

Maturity profile by currency: borrowings



Interest rate profile: borrowings



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 1998 and 1999.

	1999 HK\$M	1998 HK\$M
Total revenue	28,702	26,610
Less: Purchases of goods and services	(14,677)	(15,184)
Other costs	(756)	(591)
Value added by the Group	13,269	10,835
Add: (Deficit)/surplus on sale of fixed assets	(8)	18
Net investment income	–	28
Surplus on sales of investments	482	185
Share of profits of associated companies	93	149
Total value added available for distribution	13,836	11,215
<i>Applied as follows:</i>		
To employees		
– Salaries and other staff costs	7,299	7,786
To government		
– Corporation taxes	144	133
To providers of capital		
– Dividends	1,016	339
– Minority interests	84	35
– Net finance charges	918	311
Retained for re-investment and future growth		
– Depreciation	3,200	3,492
– Retained profit/(loss) for the year	1,175	(881)
Total value added	13,836	11,215

- The Group value added grew by HK\$2,621 million which was principally due to an improvement in total revenue.
- Dividends increased by HK\$677 million whilst the amount retained for future growth and for replacement of assets increased by HK\$1,764 million.

Directors and Advisers

Executive Directors

James Hughes-Hallett, aged 50, has been a Director of the Company since July 1998. He was appointed Chairman of the Board in June 1999. He is also Chairman of Swire Pacific Limited, Swire Properties Limited and John Swire & Sons (H.K.) Limited. He joined the Swire Group in April 1976 and in addition to Hong Kong he has worked for the Group in Japan, Taiwan and Australia.

Robert Atkinson, aged 46, has been Finance Director of the Company since June 1997. He joined the Swire Group in 1979 and in addition to Hong Kong has also worked for the Group in Japan, the United Kingdom and the United States of America. He is also a Director of AHK Air Hong Kong Limited.

Ken Barley, aged 55, has been Director Flight Operations since December 1996. He joined the Company as an aircrew member in 1979 and was previously employed by Air New Zealand after serving as an officer in the Royal Air Force.

Philip Chen, aged 44, has been Director and Chief Operating Officer since 1st July 1998 and was previously Deputy Managing Director. He is also a Director of John Swire & Sons (H.K.) Limited. He joined the Swire Group in 1977.

Derek Cridland, aged 54, has been Engineering Director since April 1998. He joined the Company in 1982 and was previously employed by the International Civil Aviation Organisation and British Airways. He is also a Director of Hong Kong Aircraft Engineering Company Limited, AHK Air Hong Kong Limited, Hong Kong Aero Engine Services Limited and Associated Engineers Limited.

David Turnbull, aged 44, has been a Director of the Company since January 1994. He has been Deputy Chairman and Chief Executive since 1st July 1998 and was previously Managing Director. He is also Chairman of Hong Kong Aircraft Engineering Company Limited, and a Director of Swire Pacific Limited and John Swire & Sons (H.K.) Limited. He joined the Swire Group in 1976.

Tony Tyler, aged 44, has been Director Corporate Development since December 1996 and was previously Director Service Delivery. He is also a Director of John Swire & Sons (H.K.) Limited, Hong Kong Aircraft Engineering Company Limited, Hong Kong Dragon Airlines Limited and AHK Air Hong Kong Limited. He joined the Swire Group in 1977 and has worked in Australia, the Philippines, Canada, Japan and Europe.

Non-Executive Directors

Robert Adams, aged 56, has been a Director of the Company since July 1996. He is an Executive Director of CITIC Pacific Limited.

Martin Cubbon, aged 42, has been a Director of the Company since September 1998. He is also Group Finance Director of Swire Pacific Limited and is a Director of John Swire & Sons (H.K.) Limited. He joined the Swire Group in 1986.

Henry Fan, aged 51, has been a Director of the Company since October 1992 except for the period from March to June 1996. He was appointed Deputy Chairman in January 1997. He is Managing Director of CITIC Pacific Limited.

Lee Hon Chiu*, aged 71, has been a Director of the Company since January 1989. He is Chairman of Hysan Development Company Limited, Chairman of The Stock Exchange of Hong Kong Limited, President of the International Federation of Stock Exchanges, a Director of Hong Kong Exchanges and Clearing Limited, Hang Seng Bank Limited, The Hong Kong & China Gas Company Limited and Imperial Chemical Industries plc of England and Chairman of the Council of The Chinese University of Hong Kong.

Vernon Moore*, aged 53, has been a Director of the Company since October 1992 except for the period from March to June 1996. He is Deputy Managing Director of CITIC Pacific Limited.

Raymond Or*, aged 50, has been a Director of the Company since February 2000. He is General Manager of The Hongkong and Shanghai Banking Corporation Limited.

Edward Scott, aged 61, has been a Director of the Company since July 1976. He is Chairman of John Swire & Sons Limited and a Director of Swire Pacific Limited and John Swire & Sons (H.K.) Limited. He joined the Swire Group in 1960.

Peter Sutch, CBE, aged 54, has been a Director of the Company since May 1983, and was Managing Director from January 1984 to June 1989 when he was appointed Deputy Chairman. He was Chairman of the Board from June 1992 to May 1999. He is also a Director of Swire Pacific Limited, John Swire & Sons Limited and John Swire & Sons (H.K.) Limited. He joined the Swire Group in 1966.

Sir Adrian Swire, aged 68, was Chairman of John Swire & Sons Limited from July 1987 to December 1997 and currently is a Director and Honorary President of that Company. He has been a Director of the Company since June 1965, and is also a Director of Swire Pacific Limited, John Swire & Sons (H.K.) Limited and HSBC Holdings plc.

Raymond Yuen, aged 54, has been a Director of the Company since September 1998. He is General Manager, China Affairs for the airline and is also a Director of John Swire & Sons (H.K.) Limited and Hong Kong Dragon Airlines Limited. He joined the Swire Group in 1982.

Carl Yung, aged 31, is a General Manager of CITIC Pacific Limited and is also a Director of other companies concerned with infrastructure projects in the PRC. He joined CITIC Pacific Limited in 1993.

Zhang Xianlin, aged 46, has been a Director of the Company since August 1997. He is a Director of China National Aviation Corporation (Group) Limited and Hong Kong Dragon Airlines Limited.

* Member of the Audit Committee

Executive Officers

Robert Cutler, aged 46, has been Director Service Delivery since December 1996. He joined the Swire Group in 1975.

William Chau, aged 46, has been General Manager Personnel since November 1997. He joined the Swire Group in 1973.

James Barrington, aged 40, was appointed Director Sales and Marketing on 10th March 2000. He joined the Swire Group in 1982.

Secretary

Paul Moore, aged 42, has been Company Secretary since October 1997. He joined the Swire Group in 1989 and has worked with the Group in Hong Kong and Japan.

Adviser to the Board

Baroness Dunn, DBE, aged 60, was a Director of the Company from December 1985 to March 1997. She is a Director of John Swire & Sons Limited, John Swire & Sons (H.K.) Limited, Swire Pacific Limited and Marconi Plc. She is also Deputy Chairman of HSBC Holdings plc.

Directors' Report

We submit our report and the audited accounts for the year ended 31st December 1999 which are on pages 32 to 63.

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 aircraft engineering and airline catering. 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 62 and 63.

Accounts

The profit of the Group for the year ended 31st December 1999 and the state of affairs of the Company and the Group at that date are set out in the accounts on pages 35 to 63.

Dividends

We recommend the payment of a final dividend of HK¢27 per share for the year ended 31st December 1999. Together with the interim dividend of HK¢3 per share paid on 4th October 1999, this makes a total dividend for the year of HK¢30 per share. This represents a total distribution for the year of HK\$1,016 million. Subject to shareholders' approval of the final dividend at the Annual General Meeting on 17th May 2000, payment of the dividend will be on 2nd June 2000 to shareholders registered on 17th May 2000. The shareholders' register will be closed from 12th May 2000 to 17th May 2000, 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 32 to 34. 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 policies note 4.

Donations

During the year, the Company and its subsidiary companies made charitable donations amounting to HK\$5.1 million in direct payments and a further HK\$7.2 million in the form of discounts on airline travel. In addition, the Swire Educational Trust, to which the Company is a founding contributor, and the James Henry Scott Educational Trust funded scholarships of HK\$6.9 million.

Fixed assets

Movements of fixed assets are shown in note 12 to the accounts. Details of aircraft acquisitions and disposals are set out on pages 9 and 10.

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

The Group did not purchase, sell or redeem any shares in Cathay Pacific Airways Limited in 1999.

The Company adopted a share option scheme on 10th March 1999, whereby certain flight deck crew were granted options to subscribe to shares at a price not less than the higher of 80% of the average of the closing prices of the

Share capital *(continued)*

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. As at 31st December 1999, options to subscribe for a total of 67,837,097 shares were granted at a subscription price of HK\$7.47 per share. 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. A resolution will be proposed at an Extraordinary General Meeting of the Company on 17th May 2000 to formally ratify certain minor amendments made to the original share option scheme approved by shareholders at an Extraordinary General Meeting held on 10th March 1999.

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 2001 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 3.1% of the airline's operating costs in 1999. 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.

Disposal of assets

In February 1999, the Group sold 0.3% of its interest in Equant N.V., a company which provides an international communications network, for HK\$322 million. A further 0.1% was sold in December 1999 for HK\$160 million. The Group retains a 0.6% holding in Equant N.V.

In March 1999, the Group sold its interests in Cathay Pacific Catering (Holdings) Pty Limited, which operated its Australian flight kitchens, to Gate Gourmet for a consideration of HK\$113 million.

Major customers and suppliers

6.0% of sales and 16.1% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 1.7% of sales were made to the Group's largest customer while 7.2% of purchases were made from the Group's largest supplier. HAECO is one of the Group's largest suppliers.

Directors

With the exception of Raymond Or, all the present Directors of Cathay Pacific Airways Limited, whose names are listed on pages 25 and 26, served throughout the year. In addition, Chris Langley resigned on 31st January 2000 and was replaced by Raymond Or 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 present Directors to retire at the third Annual General Meeting following their election by ordinary resolution. In accordance therewith, Robert Adams, Ken Barley, Philip Chen, Henry Fan, Lee Hon Chiu, Vernon Moore, Tony Tyler, David Turnbull and Carl Yung retire this year and being eligible, offer themselves for re-election.

Raymond Or, having been appointed to the Board under Article 91 since the last Annual General Meeting, also retires and, being eligible, offers himself for election.

No Director has a service contract that 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\$100,000; they received no other emoluments from the Company or any of its subsidiaries.

Year 2000

The Year 2000 (Y2K) or millennium date change issue arose because many computer systems and electronic devices which store date information based on a two-digit year sequence were considered unable to accurately process dates for the Year 2000 and beyond.

Cathay Pacific started to address the Y2K issue in 1996 and on 30th June 1999 it achieved Y2K compliance. By this it meant, in relation to its own mission critical equipment and systems, the modification or replacement of all such equipment and systems that failed its Y2K compliance test and, in respect of suppliers of such equipment and systems, it meant that all critical suppliers had passed its Y2K compliance audit, or had been replaced where possible by those that had.

Cathay Pacific has not experienced any significant Y2K problems and its operations proceeded smoothly through the millennium changeover period.

The aggregate cost of Cathay Pacific's Y2K programme, calculated to be HK\$514 million, has been authorised by the Directors of the Company. As at 31st December 1999, Cathay Pacific has spent HK\$507 million in replacing systems with upgraded versions, which the vendors have represented as being Y2K compliant, and in other costs relating to the Y2K programme. HK\$303 million of the amount spent has been capitalised as assets.

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 of Hong Kong Limited.

In compliance with the additional requirement of The Stock Exchange of Hong Kong Limited to its Code of Best Practice, on 30th October 1998 the Company established an Audit Committee with written terms of reference.

Directors' interests

At 31st December 1999, 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:

	<i>Shares</i>			
	Personal	Family	Other	Total
Philip Chen	9,000	–	–	9,000
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 1999 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
	6,226,925,662	Limited's holding
Less: Duplications	3,840,965,954	
	<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 of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

James Hughes-Hallett

Chairman

Hong Kong, 8th March 2000

Auditors' Report

To the shareholders of Cathay Pacific Airways Limited (Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 32 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, save as explained in accounting policy 4 on page 32.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the Directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31st December 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 8th March 2000

Principal Accounting Policies

1. Basis of accounting

The accounts have been prepared in accordance with the Hong Kong Society of Accountants' Statements of Standard Accounting Practice (HK SSAPs) with the exception of the recognition of exchange differences on certain long-term liabilities as explained in accounting policy 4 below.

2. Basis of consolidation

The consolidated accounts of the Group incorporate the accounts of the Company and its subsidiary companies made up to 31st December, together with the Group's share of the results and net assets of its associated companies.

The results of subsidiary companies are included in the consolidated profit and loss account, and the share attributable to minority interests is deducted from consolidated profit after taxation. Where interests have been bought or sold during the year, only those results relating to the period of ownership are included in the accounts.

Goodwill arising on consolidation, representing the excess of the cost of subsidiary and associated companies over the fair value of the Group's share of the separable net assets at the date of acquisition, is written off to reserves in the year in which it arises.

On the sale of a subsidiary or associated company, goodwill previously eliminated against reserves is written back to the profit and loss account.

Minority interests in the consolidated balance sheet comprise the outside shareholders' proportion of the net assets of subsidiary companies.

3. Associated companies

Associated companies are those companies, not being subsidiary companies, in which the Group holds a substantial long-term interest in the equity share capital and over which the Group is in a position to exercise significant management influence.

The consolidated profit and loss account includes the Group's share of results of associated companies as reported in their accounts made up to 31st December. In the consolidated balance sheet, investment in associated companies represents the Group's share of net assets other than goodwill.

In the Company's balance sheet, investment in associated companies is stated at cost less provision for permanent diminution in value, and loans to those companies.

4. Foreign currencies

Foreign currencies are translated into Hong Kong dollars on the following basis:

- (a) for foreign currency denominated monetary assets and liabilities (including currency derivatives), and the balance sheets of subsidiary and associated companies, at the rates ruling at the balance sheet date; and
- (b) for foreign currency transactions entered into during the year, at the market rates ruling at the relevant transaction dates.

Exchange differences arising on the translation of foreign currencies into Hong Kong dollars are reflected in the profit and loss account except that:

- (i) To reduce its exposure to exchange rate fluctuations on future operating cash flows, the Group arranges its borrowings and leasing obligations in foreign currencies such that repayments can be met by anticipated operating cash flows. In addition the Group takes out currency derivatives to hedge anticipated cash flows. Any unrealised exchange differences on these borrowings, leasing obligations, currency derivatives and on related security deposits are recognised directly in equity via the statement of recognised gains and losses. These exchange differences are included in the profit and loss account as an adjustment to revenue in the same period or periods during which the hedged transaction affects the net profit and loss.

4. Foreign currencies *(continued)*

In prior years unrealised exchange differences on hedges of foreign currency operating cash flows were deferred and carried forward in the balance sheet as deferred items. The introduction of the Statement of Recognised Gains and Losses under HK SSAP 1 (revised) and developments in International Accounting Standards result in the current best accounting practice being to reflect such exchange differences directly into equity.

A prior period adjustment of HK\$66 million has been credited to reserves as at 1st January 1999. The change has no impact on the profit and loss account of the Group.

Although this method of accounting complies with International Accounting Standards, it does not comply with HK SSAP 11 which requires that all such exchange differences are charged to the profit and loss account. The effect of this departure from HK SSAP 11 is set out in note 22 to the accounts.

- (ii) Unrealised differences on net investments in foreign subsidiary and associated companies (including intra-Group balances of an equity nature) and related long-term liabilities are taken directly to reserves.

The treatment of exchange differences on foreign currency operating cash flow hedges is supported by that element of International Accounting Standards which deals with accounting for hedge transactions. In the opinion of the Directors, this treatment fairly reflects the effects of the Group's foreign currency cash flow hedge arrangements. The matching of foreign currency cash flows is a key risk management tool for the Group's airline operations. The appropriateness of continuing this treatment is assessed regularly, taking into consideration the latest operating cash flow projections of each currency. The Directors consider that the immediate recognition of all such exchange fluctuations in the profit and loss account could materially distort year on year results and conclude that the adopted treatment gives a true and fair view of the financial position, financial performance and cash flow of the Group.

5. Fixed assets and depreciation

Fixed assets are stated at cost less depreciation.

Depreciation of fixed assets is calculated on a straight line basis to write down their cost over their anticipated useful lives to estimated residual values as follows:

Aircraft and related equipment	over 15 to 20 years to residual value of between 7.5% to 20% of cost
Other equipment	over 3 to 7 years to nil residual value
Leasehold land and buildings	over the period of the lease to nil residual value

Major modifications to aircraft and reconfiguration costs are capitalised as part of aircraft cost and are depreciated over periods of up to ten years.

The Group's aircraft depreciation policy is reviewed regularly, taking into consideration factors such as changes in fleet composition, current and forecast market prices, and technical factors which affect the life expectancy of the fleet. Where decisions have been made to take aircraft out of service, any impairment in value is recognised by writing down their carrying value to estimated net recoverable amount.

6. Leased assets

Fixed assets held under lease agreements that give rights equivalent to ownership are treated as if they had been purchased outright at fair market value, and the corresponding liabilities to the lessor, net of interest charges, are included as obligations under finance leases.

Amounts payable in respect of finance leases are apportioned between interest charges and reductions of obligations based on the interest rates implicit in the leases.

Operating lease payments and income are charged and credited respectively to the profit and loss account on a straight line basis over the life of the related lease.

7. Investments

In prior years long-term investments were stated at cost less provision for any permanent diminution in value. With the introduction of the Statement of Accounting for Investments in Securities, HK SSAP 24, the Group has adopted the alternative treatment prescribed therein. Long-term investments are now stated at fair value and any change in fair value is recognised in the investment revaluation reserve. On disposal or if there is evidence that the investment is impaired, the relevant cumulative gain or loss on the investment is transferred from the investment revaluation reserve to the profit and loss account.

A prior period adjustment of HK\$1,033 million has been credited to reserves as at 1st January 1999. The change has no impact on the profit and loss account of the Group.

Cash deposits and notes placed in respect of certain leasing and financing arrangements are stated at cost while other investments purchased to meet future leasing obligation repayments are stated at amortised cost.

8. Stocks

Stocks held for consumption are valued at weighted average cost, less any applicable allowance for obsolescence. Stocks held for disposal are stated at the lower of cost and net realisable value. Net realisable value represents estimated resale price.

9. Funds with investment managers and other liquid investments

Funds with investment managers and other liquid investments are marked to market and any gain or loss arising from their revaluation is taken to the profit and loss account.

10. Fuel price derivatives

The Group uses fuel derivatives to reduce its exposure to fluctuating fuel costs. Gains and losses on these instruments are recognised as a component of fuel expense during the period the related fuel is used.

11. Deferred taxation

Provision is made for deferred taxation using the liability method for all material timing differences except where it is considered probable that no liability will arise in the foreseeable future.

In addition, where initial cash benefits have been received in respect of certain lease arrangements, provision is made for the future obligation to make taxation payments on behalf of the lessors.

12. Maintenance and overhaul costs

Replacement spares and labour costs for maintenance and overhaul of aircraft are charged to operating profit on consumption and as incurred respectively.

13. Revenue recognition

Passenger and cargo ticket sales are recognised as revenue when the transportation service is provided. The value of unflown passenger and cargo sales is recorded as unearned transportation revenue.

14. Retirement benefits

Arrangements for staff retirement benefits vary from country to country and are made in accordance with local regulations and customs. The significant plans are defined benefit retirement plans and are valued every year using a prospective actuarial valuation method. The Group profit and loss account is charged each year with actuarially determined contributions based on such valuation.

15. Frequent-flyer programme

The Group operates a new frequent-flyer programme called Asia Miles through a wholly-owned subsidiary. The incremental cost of providing travel in exchange for redemption of miles earned by members is accrued in the accounts as an operating cost and a future liability after allowing for miles which are not expected to be redeemed. As members redeem awards, the incremental liability is reduced to reflect the release of the outstanding obligations.

16. Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

Consolidated Profit and Loss Account

for the year ended 31st December 1999

	Note	1999 HK\$M	1998 HK\$M	1999 US\$M	1998 US\$M
Turnover					
Passenger services		18,979	18,532	2,433	2,376
Cargo services		8,391	6,955	1,076	892
Catering and other services		1,332	1,123	171	143
Total turnover	2	28,702	26,610	3,680	3,411
Expenses					
Staff		(7,299)	(7,786)	(936)	(998)
Route		(6,352)	(6,476)	(814)	(830)
Fuel		(3,641)	(3,612)	(467)	(463)
Aircraft maintenance		(2,714)	(2,891)	(348)	(370)
Depreciation and operating leases		(3,875)	(4,275)	(497)	(548)
Commissions		(663)	(717)	(85)	(92)
Others		(1,336)	(1,510)	(171)	(194)
Operating expenses	3	(25,880)	(27,267)	(3,318)	(3,495)
Operating profit/(loss)	4	2,822	(657)	362	(84)
Finance charges		(2,775)	(2,605)	(356)	(334)
Finance income		1,857	2,294	238	294
Net finance charges	5	(918)	(311)	(118)	(40)
Profit on sale of investments	6	482	185	62	24
Share of profits of associated companies	14	108	172	14	22
Profit/(loss) before taxation		2,494	(611)	320	(78)
Taxation	7	(219)	104	(28)	13
Profit/(loss) after taxation		2,275	(507)	292	(65)
Minority interests		(84)	(35)	(11)	(4)
Profit/(loss) attributable to shareholders	8	2,191	(542)	281	(69)
Dividends	9	(1,016)	(339)	(130)	(44)
Retained profit/(loss) for the year	10	1,175	(881)	151	(113)
Basic earnings/(loss) per share	11	64.7c	(16.0c)	8.3c	(2.1c)
Diluted earnings/(loss) per share	11	64.3c	(16.0c)	8.2c	(2.1c)

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

The notes on pages 40 to 63 form part of these accounts.

Consolidated Balance Sheet

at 31st December 1999

	Note	1999 HK\$M	1998 HK\$M	1999 US\$M	1998 US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	12	48,354	47,792	6,200	6,127
Investments in associated companies	14	1,367	1,325	175	170
Other long-term receivables and investments	15	2,181	2,310	280	296
		51,902	51,427	6,655	6,593
Long-term liabilities		(39,380)	(39,436)	(5,049)	(5,056)
Related pledged security deposits		16,622	14,578	2,131	1,869
Net long-term liabilities	16	(22,758)	(24,858)	(2,918)	(3,187)
Deferred taxation	17	(6,714)	(6,359)	(861)	(815)
		(29,472)	(31,217)	(3,779)	(4,002)
Net non-current assets		22,430	20,210	2,876	2,591
Current assets and liabilities					
Stock		648	694	83	89
Trade and other receivables	18	3,832	3,502	491	449
Liquid funds	19	11,595	12,326	1,487	1,580
		16,075	16,522	2,061	2,118
Current portion of long-term liabilities		(2,588)	(3,401)	(332)	(436)
Related pledged security deposits		563	1,061	72	136
Net current portion of long-term liabilities	16	(2,025)	(2,340)	(260)	(300)
Trade and other payables	20	(6,052)	(5,796)	(776)	(743)
Unearned transportation revenues		(1,741)	(1,783)	(223)	(229)
Taxation		(659)	(673)	(85)	(86)
Proposed dividend		(914)	(237)	(117)	(30)
		(11,391)	(10,829)	(1,461)	(1,388)
Net current assets		4,684	5,693	600	730
Total assets less current and non-current liabilities		27,114	25,903	3,476	3,321
Minority interests		(86)	(108)	(11)	(14)
Net assets		27,028	25,795	3,465	3,307
CAPITAL AND RESERVES					
Share capital	21	676	676	87	87
Reserves	22	26,352	25,119	3,378	3,220
Shareholders' funds		27,028	25,795	3,465	3,307

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

James Hughes-Hallett
Director
Hong Kong, 8th March 2000

Henry Fan
Director

The notes on pages 40 to 63 form part of these accounts.

Company Balance Sheet

at 31st December 1999

	Note	1999 HK\$M	1998 HK\$M	1999 US\$M	1998 US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	12	39,978	38,289	5,125	4,909
Investments in subsidiary companies	13	25,290	30,548	3,243	3,916
Investments in associated companies	14	85	85	11	11
Other long-term receivables and investments	15	1,991	2,119	255	272
		67,344	71,041	8,634	9,108
Long-term liabilities		(35,465)	(39,598)	(4,547)	(5,077)
Related pledged security deposits		5,161	5,021	662	644
Net long-term liabilities	16	(30,304)	(34,577)	(3,885)	(4,433)
Deferred taxation	17	(6,564)	(6,232)	(842)	(799)
		(36,868)	(40,809)	(4,727)	(5,232)
Net non-current assets		30,476	30,232	3,907	3,876
Current assets and liabilities					
Stock		628	678	80	87
Trade and other receivables	18	3,364	3,046	431	391
Liquid funds	19	1,252	2,055	161	263
		5,244	5,779	672	741
Current portion of long-term liabilities		(2,650)	(3,399)	(340)	(435)
Related pledged security deposits		23	19	3	2
Net current portion of long-term liabilities	16	(2,627)	(3,380)	(337)	(433)
Trade and other payables	20	(6,404)	(6,984)	(821)	(895)
Unearned transportation revenues		(1,741)	(1,783)	(223)	(229)
Taxation		(630)	(653)	(81)	(84)
Proposed dividend		(914)	(237)	(117)	(30)
		(12,316)	(13,037)	(1,579)	(1,671)
Net current liabilities		(7,072)	(7,258)	(907)	(930)
Net assets		23,404	22,974	3,000	2,946
CAPITAL AND RESERVES					
Share capital	21	676	676	87	87
Reserves	22	22,728	22,298	2,913	2,859
Shareholders' funds		23,404	22,974	3,000	2,946

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

James Hughes-Hallett
Director
Hong Kong, 8th March 2000

Henry Fan
Director

The notes on pages 40 to 63 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31st December 1999

	Note	1999 HK\$M	1998 HK\$M	1999 US\$M	1998 US\$M
Net cash inflow from operating activities	23	6,625	4,066	849	521
Returns on investments and servicing of finance					
Interest received		415	387	53	50
Dividends received from associated companies		48	89	6	12
Net interest paid		(1,790)	(1,407)	(230)	(181)
Dividends paid – to shareholders		(339)	(694)	(43)	(89)
– to minority interests		(87)	(31)	(11)	(4)
Net cash outflow from returns on investments and servicing of finance		(1,753)	(1,656)	(225)	(212)
Tax paid		(94)	(75)	(12)	(10)
Investing activities					
Sales of fixed assets		13	52	2	7
Payments for fixed assets	24	(2,651)	(5,074)	(340)	(650)
Net decrease in long-term receivables		69	124	8	16
Sales of funds with investment managers		464	1,354	60	174
Sales/(purchase) of other liquid investments		222	(660)	28	(85)
Receipts from sale of investments		482	229	62	29
Net increase in short-term deposits maturing beyond three months		(38)	(85)	(5)	(11)
Purchase of minority interests in a subsidiary company		(32)	–	(4)	–
Repayment of loans from associated companies		3	(121)	1	(15)
Proceeds from sale of interest in a subsidiary company	23(c)	109	–	14	–
Net cash outflow from investing activities		(1,359)	(4,181)	(174)	(535)
Net cash inflow/(outflow) before financing		3,419	(1,846)	438	(236)
Financing					
New financing	25	1,069	2,917	137	374
Purchases of bonds and security deposits placed	25	(2,552)	(2,391)	(327)	(307)
Loan and finance lease repayments	25	(2,458)	(1,690)	(315)	(217)
Net cash benefit from financing arrangements		196	749	25	96
Purchase of Company's shares		–	(19)	–	(2)
Net cash outflow from financing		(3,745)	(434)	(480)	(56)
Decrease in cash and cash equivalents		(326)	(2,280)	(42)	(292)
Cash and cash equivalents at beginning of the year	26	2,119	4,381	272	562
Effect of exchange differences		(7)	18	(1)	2
Cash and cash equivalents at end of the year	26	1,786	2,119	229	272

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

The notes on pages 40 to 63 form part of these accounts.

Statement of Recognised Gains and Losses

for the year ended 31st December 1999

	1999 HK\$M	1998 HK\$M
Exchange differences on cash flow hedges		
– recognised during the year	48	(618)
– transferred to the profit and loss account	71	65
Revaluation surpluses		
– recognised during the year	422	895
– transferred to the profit and loss account	(482)	–
Exchange differences on foreign investments	4	(9)
Net gains not recognised in the profit and loss account	63	333
Profit/(loss) attributable to shareholders	2,191	(542)
Total recognised gains/(losses)	2,254	(209)
Movement of goodwill taken directly to reserves	(5)	(1)
	2,249	(210)

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st December 1999

	1999 HK\$M	1998 HK\$M
Shareholders' funds at beginning of the year	25,795	26,363
Total disclosed in statement of recognised gains and losses	2,249	(210)
Transactions with shareholders:		
– Dividends paid and proposed	(1,016)	(339)
– Payment for purchase of Company's shares	–	(19)
Shareholders' funds at end of the year	27,028	25,795

The notes on pages 40 to 63 form part of these accounts.

Notes to the Accounts – Profit and Loss Account

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 aircraft engineering and airline catering. 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

	<i>Turnover by origin of sale</i>	
	1999	1998
	HK\$M	HK\$M
North Asia:		
Hong Kong and Mainland China	10,434	9,539
Japan, Korea and Taiwan	6,101	5,148
Europe	3,849	3,852
Pacific and South Africa	5,038	5,027
South East Asia and Middle East	3,280	3,044
	28,702	26,610

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. South East Asia and Middle East includes Singapore, Indonesia, Malaysia, Thailand, Indian sub-continent and Middle East.

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

	1999 HK\$M	1998 HK\$M
Revenue – external sales		
Passenger services	18,979	18,532
Cargo services	8,391	6,955
	27,370	25,487
Unallocated revenue		
Catering and other services	1,332	1,123
	28,702	26,610

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 expenses

As a result of the decision to remove the B747-200 and B747-300 aircraft from service, the operating expenses in 1998 included the provision for severance payments of HK\$217 million in staff cost, the provision for the impairment in value of these aircraft of HK\$607 million in depreciation and operating leases, and the provision to write down the value of the related aircraft spare parts of HK\$230 million in aircraft maintenance. Details can be found in the 1998 Annual Report.

4. Operating profit/(loss)

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

	1999 HK\$M	1998 HK\$M
Depreciation of fixed assets:		
Leased	1,816	2,047
Owned	1,384	1,445
Operating lease rentals:		
Land and buildings	440	555
Aircraft and related equipment	410	205
Others	35	39
Operating lease income:		
Aircraft and related equipment	(210)	(16)
Exchange differences	41	24
Auditors’ remuneration	6	6
Income from unlisted investments	–	(28)

5. Net finance charges

	1999 HK\$M	1998 HK\$M
Net interest charged on:		
Obligations under finance leases	2,275	2,047
Interest income on related security deposits, notes and bonds	(1,038)	(933)
	1,237	1,114
Bank loans and overdrafts	477	518
Interest income on related security deposits	(275)	(290)
	202	228
Other loans and bonds		
– wholly repayable within five years	23	40
	23	40
Interest income on bank short-term deposits and loans	(108)	(256)
Other finance income	(158)	(245)
	(266)	(501)
	1,196	881
Income from funds with investment managers	(278)	(570)
	918	311

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

6. Profit on sale of investments

The profit on sale of investments in 1999 represents 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.

The net profit arising in 1998 from the sale of investments mainly related to the sale of a 4.5% shareholding in a company operating a computerised reservation system business in Asia. The Company still maintains an 8.4% shareholding in this business.

7. Taxation

The taxation charge/(credit) comprises:

	1999 HK\$M	1998 HK\$M
The Company and its subsidiary companies:		
Hong Kong profits tax	3	5
Overseas taxation	141	128
Deferred taxation (note 17)	158	(97)
Overprovision for prior years	(98)	(163)
	204	(127)
Associated companies:		
Hong Kong profits tax	14	22
Overseas taxation	1	1
	219	(104)

7. Taxation (continued)

Hong Kong profits tax is calculated at 16% (1998: 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.

8. Profit/(loss) attributable to shareholders

Of the profit attributable to the shareholders, HK\$1,460 million (1998: loss HK\$663 million) has been dealt with in the accounts of the Company.

9. Dividends

	1999 HK\$M	1998 HK\$M
Interim dividend paid on 4th October 1999 of HK¢3 per share (1998: HK¢3)	102	102
Proposed final dividend of HK¢27 per share (1998: HK¢7)	914	237
	1,016	339

10. Retained profit/(loss) for the year

	1999 HK\$M	1998 HK\$M
Profit/(loss) for the year retained by:		
The Company	444	(1,002)
Subsidiary companies	686	61
Associated companies	45	60
	1,175	(881)

11. Earnings/(loss) per share

Basic earnings per share and diluted earnings per share are calculated by dividing profit attributable to shareholders of HK\$2,191 million (1998: loss HK\$542 million) by the daily weighted average number of shares in issue throughout the year of 3,384 million (1998: 3,384 million) shares and 3,407 million shares respectively with the latter including the effects of the stock options.

	1999 Million	1998 Million
Weighted average number of ordinary shares used in calculating basic earnings per share	3,384	3,384
Deemed issue of ordinary shares for no consideration	23	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	3,407	3,384

12. Fixed assets

	<i>Aircraft and related equipment</i>		<i>Other equipment</i>		<i>Properties</i>	<i>Properties under construction</i>	<i>Total</i>
	<i>Owned</i>	<i>Leased</i>	<i>Owned</i>	<i>Leased</i>			
	<i>HK\$M</i>	<i>HK\$M</i>	<i>HK\$M</i>	<i>HK\$M</i>	<i>HK\$M</i>	<i>HK\$M</i>	<i>HK\$M</i>
GROUP							
Cost							
At beginning of the year	14,250	39,383	3,523	107	4,565	1,672	63,500
Exchange differences	-	-	2	-	3	-	5
Additions	1,558	1,341	349	-	43	701	3,992
Disposals	(268)	-	(457)	-	(430)	-	(1,155)
Disposal on sale of subsidiary	-	-	(71)	(1)	(65)	-	(137)
Transfers	(1,415)	1,415	176	-	2,197	(2,373)	-
At end of the year	14,125	42,139	3,522	106	6,313	-	66,205
Depreciation							
At beginning of the year	5,097	8,191	1,814	10	596	-	15,708
Exchange differences	-	-	1	-	1	-	2
Charge for the year	844	1,811	320	5	220	-	3,200
Disposals	(139)	-	(409)	-	(430)	-	(978)
Disposal on sale of subsidiary	-	-	(69)	(1)	(11)	-	(81)
Transfers	275	(275)	-	-	-	-	-
At end of the year	6,077	9,727	1,657	14	376	-	17,851
Net book value							
At end of the year	8,048	32,412	1,865	92	5,937	-	48,354
At beginning of the year	9,153	31,192	1,709	97	3,969	1,672	47,792
COMPANY							
Cost							
At beginning of the year	6,018	41,439	2,346	102	945	-	50,850
Additions	1,100	3,463	196	-	3	-	4,762
Disposals	(417)	-	(427)	-	(430)	-	(1,274)
Transfers	754	(754)	-	-	-	-	-
At end of the year	7,455	44,148	2,115	102	518	-	54,338
Depreciation							
At beginning of the year	1,957	8,539	1,558	6	501	-	12,561
Charge for the year	612	1,905	176	5	59	-	2,757
Disposals	(129)	-	(399)	-	(430)	-	(958)
Transfers	322	(322)	-	-	-	-	-
At end of the year	2,762	10,122	1,335	11	130	-	14,360
Net book value							
At end of the year	4,693	34,026	780	91	388	-	39,978
At beginning of the year	4,061	32,900	788	96	444	-	38,289

12. Fixed assets (continued)

(a) Finance leased aircraft

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 bases 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 aircraft

As at the year ended 31st December 1999, six B747-200s (1998: three), five B747-300s (1998: nil) and related equipment were leased to third-party lessees on operating leases of varying terms of between two and five years. These have been included under aircraft and related equipment as follows:

	1999 HK\$M	1998 HK\$M
Cost	4,948	1,288
Accumulated depreciation		
Balance at 1st January	3,598	841
Charge for the year	268	118
Balance at 31st December	3,866	959
Net book value	1,082	329

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

	1999 HK\$M	1998 HK\$M
Within one year	298	103
After one year but within five years	293	309
	591	412

(c) Operating leased aircraft

At 31st December 1999, the two B747-400s (1998: two) with purchase options, and three A340-300s (1998: nil) without purchase options, 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\$925 million.

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

	1999 HK\$M	1998 HK\$M
Within one year	424	200
After one year but within five years	577	590
	1,001	790

The lease rentals are fixed. Subleasing is not allowed under the lease arrangements.

12. Fixed assets (continued)

- (d) 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.
- (e) Properties held at 31st December 1999 include land held under medium-term leases in Hong Kong with a net book value of HK\$1,741 million (1998: HK\$1,061 million).
- (f) 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\$441 million (1998: HK\$1,194 million) for the Group and HK\$55 million (1998: HK\$60 million) for the Company. No depreciation is provided on these advance payments.
- (g) Included in the cost of the properties under construction in 1998 was land held under medium-term leases in Hong Kong with a net book value of HK\$708 million.

13. Subsidiary companies

	<i>Company</i>	
	1999 HK\$M	1998 HK\$M
Investments at cost	31,306	31,921
Net amounts due (to)/from subsidiary companies:		
Loan accounts	(12,198)	(8,698)
Current accounts	6,182	7,325
	25,290	30,548

Principal subsidiary companies are listed on page 62.

14. Associated companies

	<i>Group</i>		<i>Company</i>	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Hong Kong listed shares at cost (Market value: HK\$589 million, 1998: HK\$484 million)	–	–	52	52
Unlisted shares at cost	–	–	56	56
Share of net assets other than goodwill				
– listed in Hong Kong	607	616	–	–
– unlisted	638	584	–	–
	1,245	1,200	108	108
Less: Provision	–	–	(26)	(26)
Loans to associated companies	122	125	3	3
	1,367	1,325	85	85
Share of profits of associated companies				
– listed	17	40	–	–
– unlisted	91	132	–	–
	108	172	–	–
Dividends received and receivable by the Company and its subsidiary companies from associated companies	48	89	38	24

Principal associated companies are listed on page 63.

15. Other long-term receivables and investments

	<i>Group</i>		<i>Company</i>	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Staff housing loans and other receivables	818	887	697	746
Investments at fair value				
– listed in Hong Kong	58	32	–	–
– listed outside Hong Kong	722	854	711	836
– unlisted	583	537	583	537
	2,181	2,310	1,991	2,119

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

16. Long-term liabilities

	<i>Note</i>	1999		1998	
		Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Group					
Long-term bank loans, bonds and other liabilities	(a)	617	3,345	980	4,223
Obligations under finance leases	(b)	1,408	19,413	1,360	20,635
		2,025	22,758	2,340	24,858
Company					
Long-term bank loans, bonds and other liabilities	(a)	486	3,947	909	4,640
Obligations under finance leases	(b)	2,141	26,357	2,471	29,937
		2,627	30,304	3,380	34,577

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

	<i>Group</i>		<i>Company</i>	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Bank loans				
– secured	5,078	5,522	3,981	4,303
– unsecured	451	1,039	400	899
Other loans				
– secured	82	228	–	126
– unsecured	65	92	52	221
Bonds				
– unsecured	200	346	–	–
	5,876	7,227	4,433	5,549
Security deposits	(1,914)	(2,024)	–	–
Amount due within one year included under current liabilities	(617)	(980)	(486)	(909)
	3,345	4,223	3,947	4,640

16. Long-term liabilities (continued)

Repayable as follows:	Group		Company	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Bank loans				
– within one year	620	931	433	712
– after one year but within two years	603	605	457	424
– after two years but within five years	2,109	2,184	1,601	1,710
– after five years	2,197	2,841	1,890	2,356
	5,529	6,561	4,381	5,202
Other loans				
– within one year	19	43	52	197
– after one year but within two years	19	43	–	71
– after two years but within five years	44	110	–	66
– after five years	65	124	–	13
	147	320	52	347
Bonds				
– within one year	100	115	–	–
– after one year but within two years	100	115	–	–
– after two years but within five years	–	116	–	–
– after five years	–	–	–	–
	200	346	–	–
	5,876	7,227	4,433	5,549
Security deposits	(1,914)	(2,024)	–	–
Amount due within one year included under current liabilities	(617)	(980)	(486)	(909)
	3,345	4,223	3,947	4,640

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 not wholly repayable within five years amounted to HK\$2,555 million (1998: HK\$3,218 million).

As at 31st December 1999, the Company and the Group had long-term liabilities which were defeased by funds and other investments totalling HK\$25,226 million (1998: HK\$32,847 million). Accordingly, these liabilities and the related funds, as well as related expenditure and income, have not been included in the consolidated accounts.

16. Long-term liabilities (continued)

(b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2000 to 2016. The future payments under these finance leases are as follows:

	Group		Company	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Within one year	3,884	4,846	4,203	4,914
After one year but within two years	4,237	3,949	4,345	4,307
After two years but within five years	15,619	13,572	15,545	14,903
After five years	28,478	30,199	22,356	31,124
Total future payments	52,218	52,566	46,449	55,248
Interest charges relating to future periods	(16,126)	(16,956)	(12,767)	(17,819)
Present value of future payments	36,092	35,610	33,682	37,429
Security deposits, notes and zero coupon bonds	(15,271)	(13,615)	(5,184)	(5,021)
Amounts due within one year included under current liabilities	(1,408)	(1,360)	(2,141)	(2,471)
	19,413	20,635	26,357	29,937

The present value of future payments is repayable as follows:

	Group		Company	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Within one year	1,850	2,312	2,164	2,490
After one year but within two years	2,166	1,605	2,396	1,970
After two years but within five years	10,220	7,352	10,574	8,320
After five years	21,856	24,341	18,548	24,649
	36,092	35,610	33,682	37,429

As at 31st December 1999, the Company and the Group had obligations under finance leases which were defeased by funds and other investments amounting to HK\$1,555 million and HK\$3,714 million respectively (1998: HK\$2,117 million and HK\$3,382 million). Accordingly, these liabilities and the related funds, as well as related expenditure and income, have not been included in the consolidated accounts.

The Company's obligations under finance leases exceeded the Group's by HK\$1,819 million in 1998 as a result of net amounts owing to subsidiary companies on certain aircraft financing arrangements, which have been eliminated on consolidation.

17. Deferred taxation

Movements on deferred taxation comprise:

	<i>Group</i>		<i>Company</i>	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
At beginning of the year	6,359	5,802	6,232	5,699
Movements for the year				
– transfer from profit and loss account				
– tax provision (note 7)	158	(97)	137	(121)
– operating expenses	99	81	99	81
– initial cash benefit from lease arrangements	225	666	223	666
Amount due within one year included under current liabilities – taxation	(127)	(93)	(127)	(93)
At end of the year	6,714	6,359	6,564	6,232

The deferred taxation provision comprises the taxation effects of:

	<i>Group</i>		<i>Company</i>	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Timing differences arising from:				
– different taxation and accounting treatments of fixed assets net of unutilised tax losses	699	541	549	412
– certain lease arrangements	6,028	5,831	6,028	5,833
– other timing differences	(13)	(13)	(13)	(13)
	6,714	6,359	6,564	6,232

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 2001 to 2011 as follows:

	1999 HK\$M	1998 HK\$M
Within two to five years	1,079	666
After five years but within ten years	4,542	4,395
After ten years	407	770
	6,028	5,831

18. Trade and other receivables

	<i>Group</i>		<i>Company</i>	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Trade debtors and other receivables	3,630	3,313	3,189	2,894
Prepayments	185	166	168	138
Due from associated companies	17	21	7	13
Due from other related companies	–	2	–	1
	3,832	3,502	3,364	3,046

19. Liquid funds

	<i>Group</i>		<i>Company</i>	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Short-term deposits and bank balances	1,814	2,205	1,195	1,644
Short-term deposits maturing beyond three months when placed	124	86	57	86
Funds with investment managers				
– debt securities listed outside Hong Kong	6,253	7,091	–	–
– bank deposits	877	225	–	–
Other liquid investments				
– debt securities listed outside Hong Kong	757	1,746	–	325
– bank deposits	1,770	973	–	–
	11,595	12,326	1,252	2,055

Included in other liquid investments are short-term bank deposits of HK\$1,770 million (1998: HK\$973 million) and debt securities of HK\$558 million (1998: HK\$706 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

	<i>Group</i>		<i>Company</i>	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Creditors	(5,721)	(5,369)	(6,102)	(6,585)
Due to associated companies	(123)	(165)	(111)	(150)
Due to other related companies	(180)	(176)	(163)	(166)
Bank overdrafts – unsecured	(28)	(86)	(28)	(83)
	(6,052)	(5,796)	(6,404)	(6,984)

21. Share capital

	1999		1998	
	Number of shares	HK\$M	Number of shares	HK\$M
Authorised (HK\$0.20 each):	3,900,000,000	780	3,900,000,000	780
Issued and fully paid (HK\$0.20 each):				
At beginning of the year	3,384,199,848	676	3,387,799,848	677
Shares purchased and cancelled	–	–	(3,600,000)	(1)
At end of the year	3,384,199,848	676	3,384,199,848	676

The Company adopted a share option scheme on 10th March 1999, whereby certain flight deck crew were granted options to subscribe to 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 five trading days immediately preceding the date of grant, and the nominal value of the shares.

22. Reserves

Group	Non-distributable						Total HK\$M
	Retained profit HK\$M	Share premium HK\$M	Capital	Investment	Other reserves HK\$M	Cash flow	
			redemption reserve HK\$M	revaluation reserve HK\$M		hedge reserve HK\$M	
At beginning of the year	16,829	7,158	11	1,033	22	66	25,119
Profit retained for the year	1,175	-	-	-	-	-	1,175
Goodwill on acquisition of minority's interest in a subsidiary company written off	(13)	-	-	-	-	-	(13)
Goodwill on disposal of a subsidiary company written back	8	-	-	-	-	-	8
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 end of the year	17,999	7,158	11	973	26	185	26,352
Company							
At beginning of the year	14,076	7,158	11	1,088	-	(35)	22,298
Profit retained 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 end of the year	14,520	7,158	11	1,009	-	30	22,728

Included in retained profit is an amount of HK\$769 million (1998: HK\$724 million) relating to retained profit attributable to associated companies.

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

22. Reserves (continued)

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 1999.

	1st half HK\$M	2nd half HK\$M	Total HK\$M
2000	(89)	(39)	(128)
2001	(41)	19	(22)
2002	47	102	149
2003	19	37	56
2004	(107)	(39)	(146)
Beyond 2004			276
			185

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\$185 million (1998: HK\$66 million) would have been included in retained profit rather than the cash flow hedge reserve and the effect on profit/(loss) attributable to shareholders and earnings/(loss) per share would be:

	1999 HK\$M	1998 HK\$M
Profit/(loss) attributable to shareholders	2,191	(542)
HK SSAP 11 adjustment	119	(553)
Adjusted profit/(loss) with adoption of HK SSAP 11	2,310	(1,095)
Adjusted earnings/(loss) per share with adoption of HK SSAP 11	68.3¢	(32.4¢)
Earnings/(loss) per share	64.7¢	(16.0¢)

23. (a) Reconciliation of operating profit to net cash inflow from operating activities

	1999 HK\$M	1998 HK\$M
Operating profit/(loss)	2,822	(657)
Depreciation	3,200	3,492
Loss on disposal of fixed assets	164	117
Profit on disposal of a subsidiary company	(50)	–
Currency adjustments and other items not involving cash flows	165	151
Decrease in stocks	44	380
(Increase)/decrease in trade debtors, other receivables and prepayments	(348)	480
(Decrease)/increase in net amounts due to related and associated companies	(32)	185
Increase in creditors	371	639
Decrease in unearned transportation revenue	(42)	(261)
Non-operating movements in debtors and creditors	331	(460)
Net cash inflow from operating activities	6,625	4,066

(b) Disposal of a subsidiary company

	1999 HK\$M	1998 HK\$M
Net assets disposed of:		
Fixed assets	56	–
Bank balances	4	–
Stock	2	–
Trade and other receivables	12	–
Trade and other payables	(19)	–
	55	–
Goodwill previously written off	8	–
Gain on disposal	50	–
	113	–
Satisfied by:		
Cash	113	–

(c) Analysis of the net cash inflow in respect of the disposal of the subsidiary company

	1999 HK\$M	1998 HK\$M
Cash consideration	113	–
Bank balances disposed of	(4)	–
Net cash inflow in respect of the sale of the subsidiary company	109	–

24. Analysis of payments for fixed assets

	1999 HK\$M	1998 HK\$M
Additions to fixed assets	(3,992)	(9,685)
Finance raised on assets acquired under finance leases (note 12)	1,341	4,611
Payments for fixed assets	(2,651)	(5,074)

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 beginning of the year	5,203	21,995	108	27,306
Finance raised on leased assets (note 24)	–	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 end of the year	3,962	20,821	86	24,869

26. Analysis of cash and cash equivalents and net liquid funds

	1999 HK\$M	1998 HK\$M
Analysis of cash and cash equivalents		
Short-term deposits and bank balances	1,814	2,205
Bank overdrafts and short-term loans	(28)	(86)
Cash and cash equivalents at end of the year	1,786	2,119
Analysis of net liquid funds		
Cash and cash equivalents	1,786	2,119
Funds with investment managers	7,130	7,316
Other liquid investments	2,527	2,719
Short-term deposits maturing beyond three months when placed	124	86
Net liquid funds at end of the year	11,567	12,240

27. Directors' remuneration

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

	1999 HK\$M	1998 HK\$M
Fees	–	–
Emoluments:		
Salaries, allowances and benefits in kind	32	36
Contributions to retirement schemes	2	2
	34	38

Housing costs accounted for 26% (1998: 28%) of emoluments.

28. Employee information

The five highest paid individuals of the Company included four (1998: four) Directors, whose total emoluments are included in the amounts set out in note 27 above, and one (1998: one) other whose emoluments comprised:

	1999 HK\$M	1998 HK\$M
Remuneration:		
Salaries, allowances and benefits in kind	4	4
Contributions to retirement schemes	1	1
	5	5

The table below sets out the number of individuals, including those who have retired or resigned during the year, in each employment category whose total remuneration for the year fell into the following ranges:

HK\$'000's	1999			1998		
	Director	Flight staff	Other staff	Director	Flight staff	Other staff
0 – 1,000	12	5,620	7,265	15	6,027	8,632
1,000 – 1,500	–	334	108	–	300	154
1,500 – 2,000	1	177	88	1	145	86
2,000 – 2,500	–	201	11	1	240	18
2,500 – 3,000	–	201	13	1	200	12
3,000 – 3,500	–	61	6	1	89	7
3,500 – 4,000	1	13	1	–	15	3
4,000 – 4,500	1	1	2	1	1	3
4,500 – 5,000	–	2	1	–	2	–
5,000 – 5,500	1	–	–	1	–	–
5,500 – 6,000	2	–	–	2	–	–
6,000 – 6,500	1	–	–	1	–	–
	19	6,610	7,495	24	7,019	8,915

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:

	<i>Balance at 1st January 1999</i> HK\$M	<i>Balance at 31st December 1999</i> HK\$M	<i>Maximum balance outstanding during the year</i> HK\$M
Ken Barley	0.2	0.2	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 1999.

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:

	1999 HK\$M	1998 HK\$M
Swire Group Retirement Benefit Scheme	79	243
Cathay Pacific Airways Limited Retirement Scheme	41	112
CPA Provident Fund 1993	63	49
Other schemes	176	199
	359	603

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 and other locally engaged employees, 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 1st 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:

	<i>SGRBS</i>	<i>CPALRS</i>
Latest actuarial valuation	31st December 1998	31st December 1998
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 at date of valuation	HK\$2,774 million	HK\$1,939 million
Asset market valuation as a percentage of the present value of past service liabilities	114%	113%

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.

(b) Defined contribution retirement scheme

Staff employed by the Company in Hong Kong on expatriate terms after 31st March 1993 are eligible to join a defined contribution retirement scheme, the CPA Provident Fund 1993. Under the terms of this scheme, only the Company is required to make contributions. During the year, the benefits forfeited in accordance with the scheme's rules amounted to HK\$3.0 million (1998: HK\$1.5 million) which have been applied towards the contributions payable by the Company.

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:

	1999		1998	
	<i>Associated Companies</i>	<i>Other Related Parties</i>	<i>Associated Companies</i>	<i>Other Related Parties</i>
	HK\$M	HK\$M	HK\$M	HK\$M
Turnover	62	–	27	–
Aircraft maintenance costs	758	914	854	361
Route operating costs	194	632	224	623
Dividends received	(48)	–	(89)	(22)
Fixed assets purchase	–	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 1999 was HK\$62 million (1998: nil) and expenses of HK\$155 million (1998: HK\$185 million) were reimbursed at cost.
 - (ii) An additional loan of HK\$26 million was made to Hong Kong Air Cargo Terminals Limited during the year. It is unsecured and interest bearing. The total outstanding amount at the end of the year was HK\$305 million (1998: HK\$279 million).
 - (iii) 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\$142 million was received from Dragonair for these transactions in 1999 (1998: HK\$110 million). In September 1999, Dragonair joined the Asia Miles frequent-flyer programme.
- (b) Amounts due to and due from associated companies and other related companies at 31st December 1999 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 1999, the Company has given guarantees relating to long-term loan facilities of HK\$684 million (1998: HK\$691 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 of Hong Kong Limited, 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.

	1999	1998
Fleet ATKs (in million tonne kilometres)	10,867	10,857

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:

	<i>Group</i>		<i>Company</i>	
	1999 HK\$M	1998 HK\$M	1999 HK\$M	1998 HK\$M
Authorised and contracted for				
– aircraft and related equipment	6,353	3,476	672	3,476
– investments at Hong Kong International Airport	10	725	–	–
– others	–	18	–	–
	6,363	4,219	672	3,476
Authorised but not contracted for				
– aircraft and related equipment	140	–	140	–
– investments at Hong Kong International Airport	3	9	–	–
– others	1	–	–	–
	144	9	140	–
Grand Total	6,507	4,228	812	3,476

These commitments are expected to be paid as follows:

	HK\$M
2000	2,229
2001	3,885
Beyond 2001	393
	6,507

Commitments include amounts for the acquisition of two B747-400 freighters and three A330-300 aircraft.

33. Commitments and contingencies *(continued)*

(b) At the end of the year, the Group had commitments to make payments in the next year under operating leases as follows, analysed by expiry dates:

	1999		1998	
	HK\$M	HK\$M	HK\$M	HK\$M
Land and buildings				
– within one year	117		122	
– after one year but within five years	167		250	
– after five years	60	344	81	453
Aircraft and related equipment				
– within one year	–		–	
– after one year but within five years	424		200	
– after five years	–	424	–	200
Others				
– within one year	8		2	
– after one year but within five years	20		21	
– after five years	17	45	16	39
		813		692

(c) Under some of the Group's leasing arrangements for aircraft and related equipment, the Company has undertaken to indemnify the lessors so as to maintain a specified rate of return on each of the lessors' investments as agreed at the inception of the lease. The Directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.

(d) At 31st December 1999, contingent liabilities existed in respect of guarantees given by the Company relating to long-term loan facilities of up to HK\$692 million (1998: HK\$700 million).

34. Changes in the financial statements

HK SSAP 1 (revised) "Presentation of financial statements", HK SSAP 2 (revised) "Net profit or loss for the period, fundamental errors and changes in accounting policies" and HK SSAP 24 "Accounting for investments in securities", as issued by the Hong Kong Society of Accountants, are applicable to financial statements for periods beginning 1st January 1999. The Group has therefore prepared these accounts in accordance with these new standards. This has resulted in changes to the presentation of various items. The comparative information has been presented in a format consistent with the new requirements.

Adoption of these new standards has no impact on the reported profit or loss of the current or prior periods.

Principal Subsidiary and Associated Companies

at 31st December 1999

Subsidiary Companies

	Place of incorporation and operation	Principal activities	Percentage of issued capital owned	Issued and paid up share capital
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Computerised reservation systems and related services	53	15,600,000 shares of HK\$1
AHK Air Hong Kong Limited	Hong Kong	Cargo airline	75*	90,666,816 shares of HK\$1
Aircrew Services Limited	Hong Kong	Provision of aircrew services	100	9 shares of HK\$10
Airline Property Limited	Hong Kong	Property investment	100	2 shares of HK\$10
Airline Stores Property Limited	Hong Kong	Property investment	100	2 shares of HK\$10
Airline Training Property Limited	Hong Kong	Property investment	100	2 shares of HK\$10
Cathay Pacific Catering Services (H.K.) Limited	Hong Kong	Airline catering	100	600 shares of HK\$1,000
Cathay Holidays Limited	Hong Kong	Travel tour operator	100	5,000 shares of HK\$100
Cathay Pacific Leasing Limited	Isle of Man	Aircraft leasing/ acquisition facilitator	100	5,000,000 shares of US\$1
Cathay Pacific Loyalty Programmes Limited	Hong Kong	Airline frequent-flyer programme	100	2 shares of HK\$1
CLS Catering Services Limited	Canada	Airline catering	60*	330,081 shares of no par value
Guangzhou Guo Tai Information Processing Company Limited	Mainland China	Information processing	80*	7,000,000 shares of no par value
Hong Kong Airport Services Limited	Hong Kong	Provision of ground and ramp handling services	70	100 shares of HK\$1
Prestwick Aviation Limited	Bermuda	Aircraft leasing	100*	12,000 shares of US\$1
Snowdon Limited	Isle of Man	Financial services	100*	2 shares of GBP1
Swansea Limited	Isle of Man	Financial services	100*	2,000 shares of US\$1
Troon Limited	Bermuda	Financial services	100	12,000 shares of US\$1
Vogue Laundry Service Limited	Hong Kong	Laundry and dry cleaning	100	3,700 shares of HK\$500

Principal subsidiary and associated companies are those which materially affect the results or assets of the Group.

* Shareholding held through subsidiary companies.

Principal Subsidiary and Associated Companies

at 31st December 1999

Associated Companies

	Place of incorporation and operation	Principal activities	Percentage of issued capital owned
Associated Engineers Limited	Hong Kong	Airport ground support and general engineering	34
Cathay Kansai Terminal Services Company Limited	Japan	Ground handling	33
Cebu Pacific Catering Services Inc	Philippines	Airline catering	40*
Hong Kong Aircraft Engineering Company Limited	Hong Kong	Aircraft overhaul and maintenance	25
Hong Kong Airport Restaurant Caterers Company Limited	Hong Kong	Airport catering	33
Hong Kong Dragon Airlines Limited	Hong Kong	Airline	19*
VN/CX Catering Services Limited	Vietnam	Airline catering	40*

* Shareholding held through subsidiary companies.

Statistics

		1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Consolidated profit and loss summary											
Passenger services	HK\$M	18,979	18,532	21,851	23,680	22,128	20,027	18,321	18,284	16,459	15,823
Cargo services	HK\$M	8,391	6,955	7,712	6,797	6,641	5,573	4,277	3,974	3,671	3,332
Catering and other services	HK\$M	1,332	1,123	1,014	1,037	941	800	738	585	377	354
Total turnover	HK\$M	28,702	26,610	30,577	31,514	29,710	26,400	23,336	22,843	20,507	19,509
Operating expenses	HK\$M	(25,880)	(27,267)	(28,523)	(27,724)	(25,941)	(23,243)	(20,759)	(19,222)	(16,854)	(15,891)
Operating profit/(loss)	HK\$M	2,822	(657)	2,054	3,790	3,769	3,157	2,577	3,621	3,653	3,618
Net finance charges	HK\$M	(918)	(311)	(335)	(384)	(597)	(557)	(280)	(319)	(238)	(161)
Profit on sale of investments	HK\$M	482	185	-	541	-	-	-	-	-	-
Share of profits of associated companies	HK\$M	108	172	306	363	379	381	316	233	176	136
Profit/(loss) before taxation	HK\$M	2,494	(611)	2,025	4,310	3,551	2,981	2,613	3,535	3,591	3,593
Taxation	HK\$M	(219)	104	(291)	(484)	(516)	(560)	(288)	(505)	(622)	(582)
Profit/(loss) after taxation	HK\$M	2,275	(507)	1,734	3,826	3,035	2,421	2,325	3,030	2,969	3,011
Minority interests	HK\$M	(84)	(35)	(40)	(17)	(57)	(33)	(32)	(22)	(19)	(16)
Profit/(loss) attributable to shareholders	HK\$M	2,191	(542)	1,694	3,809	2,978	2,388	2,293	3,008	2,950	2,995
Dividends	HK\$M	(1,016)	(339)	(986)	(1,821)	(1,375)	(1,203)	(1,203)	(1,203)	(1,203)	(1,203)
Retained profit/(loss) for the year	HK\$M	1,175	(881)	708	1,988	1,603	1,185	1,090	1,805	1,747	1,792

Consolidated balance sheet summary											
Fixed assets	HK\$M	48,354	47,792	41,580	37,917	28,691	23,972	22,120	19,935	16,489	13,938
Long-term receivables and investments	HK\$M	3,548	3,635	2,728	2,302	2,149	1,789	1,459	1,319	1,015	1,049
Borrowings	HK\$M	(24,783)	(27,198)	(23,122)	(26,043)	(21,722)	(22,036)	(21,182)	(19,920)	(16,612)	(13,424)
Liquid funds	HK\$M	11,567	12,240	14,327	20,178	13,926	14,975	14,383	13,755	11,200	8,970
Net borrowings	HK\$M	(13,216)	(14,958)	(8,795)	(5,865)	(7,796)	(7,061)	(6,799)	(6,165)	(5,412)	(4,454)
Net current liabilities (excluding liquid funds)	HK\$M	(4,858)	(4,207)	(3,244)	(4,330)	(3,699)	(3,055)	(2,607)	(2,864)	(3,205)	(2,994)
Deferred taxation	HK\$M	(6,714)	(6,359)	(5,802)	(5,359)	(3,954)	(3,006)	(1,951)	(962)	(355)	(807)
Minority interests	HK\$M	(86)	(108)	(104)	(78)	(99)	(88)	(33)	(45)	(40)	(32)
Net assets	HK\$M	27,028	25,795	26,363	24,587	15,292	12,551	12,189	11,218	8,492	6,700
Financed by:											
Shareholders' funds	HK\$M	27,028	25,795	26,363	24,587	15,292	12,551	12,189	11,218	8,492	6,700

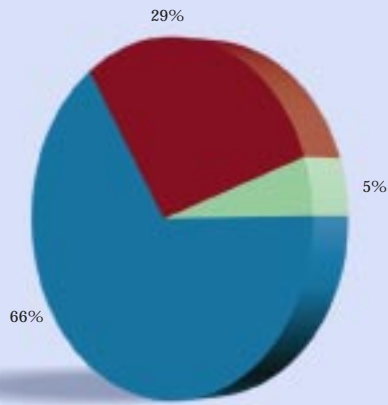
Per share											
Shareholders' funds	HK\$	7.99	7.62	7.78	7.15	5.33	4.38	4.26	3.92	2.96	2.34
EBITDA	HK\$	2.07	0.91	1.47	2.06	2.40	2.16	1.69	2.06	1.98	1.87
Earnings/(loss)	HK cents	64.7	(16.0)	49.5	119.6	104.0	83.4	80.0	105.0	103.0	104.6
Dividend	HK cents	30.0	10.0	29.0	53.0	48.0	42.0	42.0	42.0	42.0	42.0

Share price											
High	HK\$	16.8	8.9	16.4	14.9	12.8	15.7	15.3	12.4	10.2	10.7
Low	HK\$	7.4	4.7	5.4	10.6	10.0	10.2	8.5	8.0	7.0	6.8
Year-end	HK\$	13.9	7.7	6.3	12.2	11.8	11.3	15.0	9.5	10.0	7.0

Ratios (Note)											
Profit/(loss) margin	%	7.6	(2.0)	5.5	12.1	10.0	9.0	9.8	13.2	14.4	15.4
Return of average shareholders' funds	%	8.3	(2.1)	6.6	19.1	21.4	19.3	19.6	30.6	38.8	49.3
Dividend cover	Times	2.2	(1.6)	1.7	2.1	2.2	2.0	1.9	2.5	2.5	2.5
Interest cover	Times	3.1	(2.1)	6.1	9.9	6.3	5.7	9.2	11.4	15.3	22.5
Gross debt/equity ratio	Times	0.92	1.05	0.88	1.06	1.42	1.76	1.74	1.78	1.96	2.00
Net debt/equity ratio	Times	0.49	0.58	0.33	0.24	0.51	0.56	0.56	0.55	0.64	0.66
Price/Earnings	Times	21.5	(48.1)	12.7	10.2	11.3	13.5	18.8	9.0	9.7	6.7
Market capitalization / Shareholders' funds	Times	1.7	1.0	0.8	1.7	2.2	2.6	3.5	2.4	3.4	3.0
Price/Cash flow	Times	7.0	6.4	4.5	6.1	4.9	5.4	10.0	5.0	5.6	4.1
Cost per ATK	HK\$	2.24	2.34	2.60	2.64	2.80	2.81	2.84	2.97	3.00	2.92

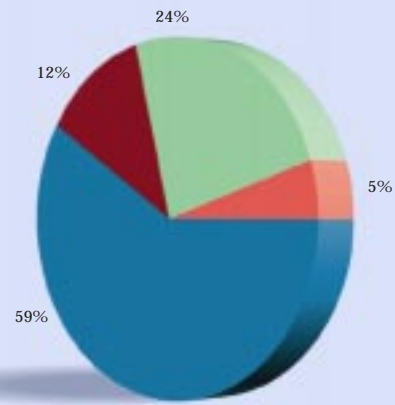
Note: Based on year end share prices, where applicable.

Total turnover



Passenger services Cargo services
Catering and other services

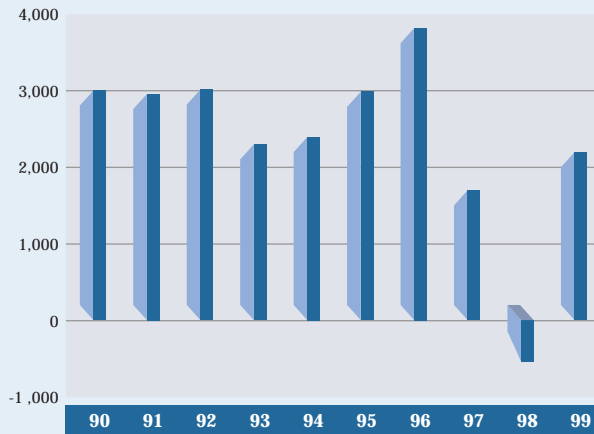
Total assets



Aircraft and related equipment Properties and other equipment
Current assets Long-term investments

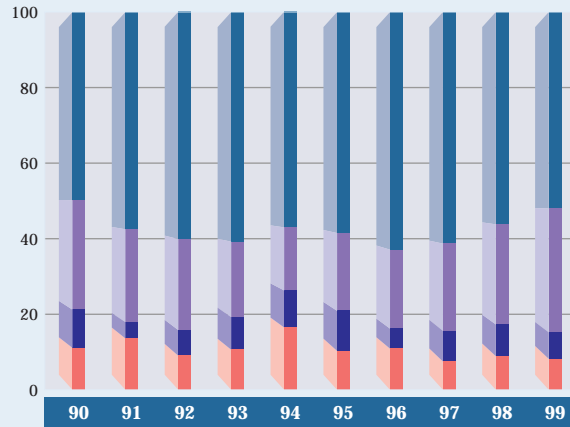
Profit/(loss) attributable to shareholders

HK\$ million



Maturity profile: borrowings

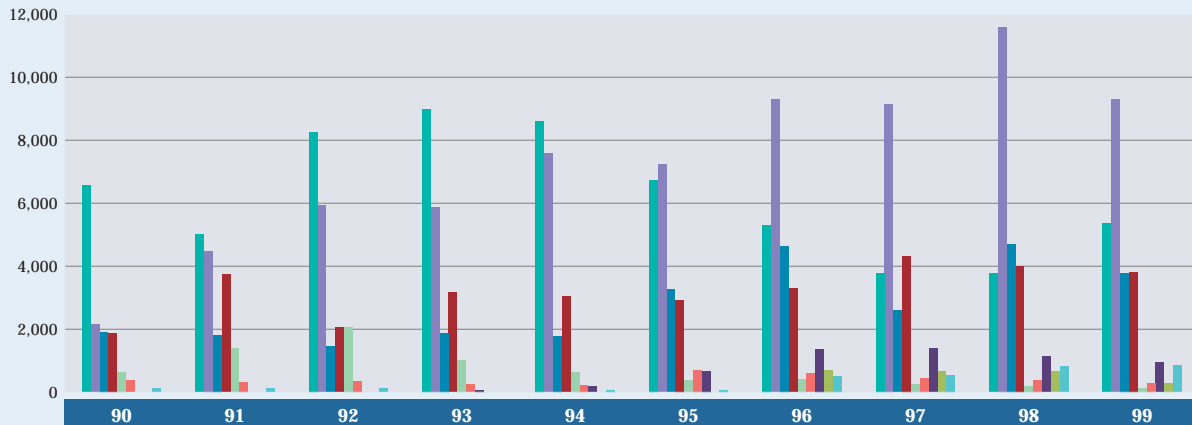
%



Within 1 year Between 1-2 years
Between 2-5 years Over 5 years

Currency analysis of borrowings

HK\$ million



JPY USD EUR GBP HKD AUD CAD CHF Others

Statistics

		1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Operating summary (Company)											
Kilometres flown	Million	202	202	193	182	162	146	135	119	105	101
Block hours	'000 Hours	273	271	254	244	217	193	175	165	147	141
Aircraft departures	'000's	58	59	56	55	52	49	46	41	38	38
Available tonne kilometres	Million	10,867	10,857	10,399	10,018	8,946	8,052	7,212	6,466	5,621	5,429
Revenue tonne kilometres	Million	7,768	7,213	7,331	7,072	6,214	5,553	4,834	4,366	3,854	3,843
Available seat kilometres	Million	58,114	60,295	57,104	54,306	49,334	45,892	41,552	37,428	33,186	32,214
Revenue passengers carried	'000's	10,516	10,299	10,018	10,985	10,381	9,750	8,867	8,363	7,391	7,731
Revenue passenger kilometres	Million	41,502	40,679	38,962	40,185	35,341	32,727	29,097	27,527	24,433	24,461
Revenue load factor	%	71.5	67.1	69.5	72.6	70.8	70.4	68.9	70.4	71.0	74.3
Passenger load factor	%	71.4	67.5	68.2	74.0	71.6	71.3	70.0	73.5	73.6	75.9
Cargo carried	'000 Tonnes	672	580	635	568	531	463	395	349	314	315
Cargo and mail											
tonne kilometres	Million	3,817	3,339	3,621	3,244	2,847	2,434	2,060	1,739	1,524	1,510
Cargo and mail load factor	%	71.5	65.2	72.9	66.9	67.0	66.1	63.3	60.0	62.0	64.0
Excess baggage carried	Tonnes	3,376	3,375	3,301	4,133	4,632	4,807	5,068	6,049	4,107	4,105
Mail carried	Tonnes	7,094	6,775	10,831	13,719	13,112	12,697	13,071	13,569	13,322	12,838
Length of scheduled											
route network	'000 Kilometres	346	338	309	296	279	275	276	243	199	199
Destinations at year end	Number	48	48	48	45	44	42	42	41	39	38
Staff number at year end	Number	13,159	13,971	15,747	15,757	14,744	14,469	14,098	13,240	12,747	12,764
ATK per staff	'000's	807	739	663	651	619	574	534	501	443	444
ATK per HK\$'000 staff cost	Unit	1,669	1,533	1,446	1,403	1,327	1,316	1,326	1,286	1,263	1,336

On-time performance

Departure (within 15 minutes)	%	83.5	80.3	81.8	78.0	77.3	79.0	74.0	69.1	70.2	71.5
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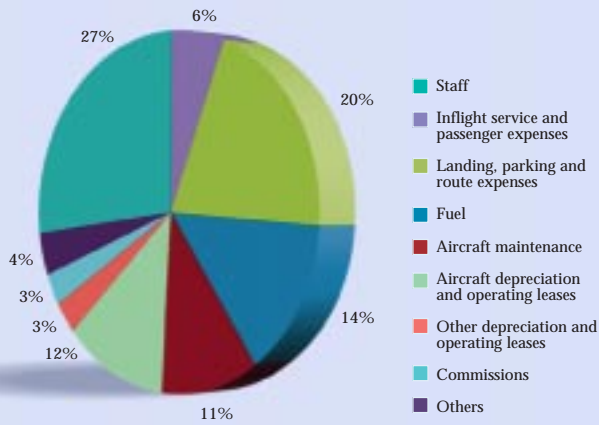
Operating fleet

Daily average utilisation (hours)											
A330-300		9.0	9.5	8.5	8.9	7.4	-	-	-	-	-
A340-200		-	-	12.8	14.7	12.3	10.3	-	-	-	-
A340-300		14.9	15.8	15.9	16.4	-	-	-	-	-	-
B747-200/300		7.7	7.0	7.1	7.6	8.5	8.8	8.8	11.5	11.2	12.7
B747-400		14.4	15.3	15.4	15.3	14.5	14.7	14.4	13.0	15.1	13.4
B747-200F		14.1	13.6	14.2	13.8	13.8	14.0	13.9	13.4	13.6	13.2
B747-400F		15.8	15.6	15.3	15.2	14.7	13.9	-	-	-	-
B777-200/300		8.9	8.9	7.9	7.0	-	-	-	-	-	-
L1011		-	-	-	4.8	6.1	5.6	5.7	6.0	5.7	6.3
Fleet daily average utilisation		12.4	12.2	11.8	11.4	10.8	10.2	9.8	10.0	9.8	10.0

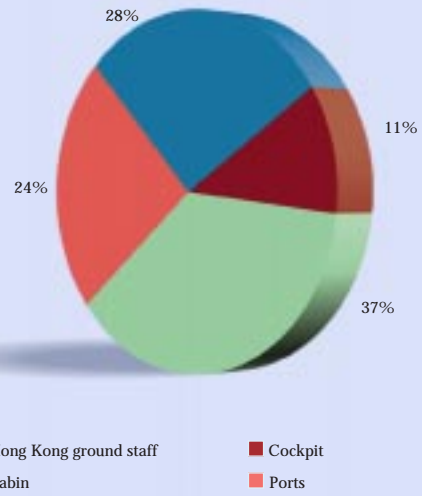
Number per fleet at year end:

A330-300		12	12	11	10	7	-	-	-	-	-
A340-200		-	-	-	2	4	2	-	-	-	-
A340-300		14	11	6	5	-	-	-	-	-	-
B747-200/300		12	13	13	13	13	13	13	13	14	15
B747-400		19	19	19	19	19	18	17	14	10	5
B747-200F		7	7	7	7	4	4	4	4	3	3
B747-400F		2	2	2	2	2	1	-	-	-	-
B777-200		4	4	4	4	-	-	-	-	-	-
B777-300		7	4	-	-	-	-	-	-	-	-
L1011		-	-	-	-	8	17	19	18	18	18
Total number of aircraft		77	72	62	62	57	55	53	49	45	41

Airline operating costs

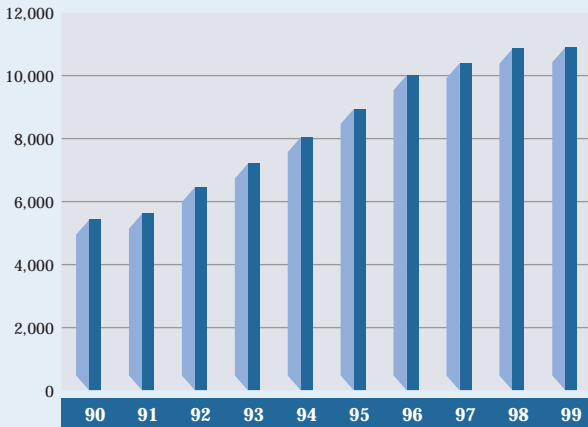


Staff composition



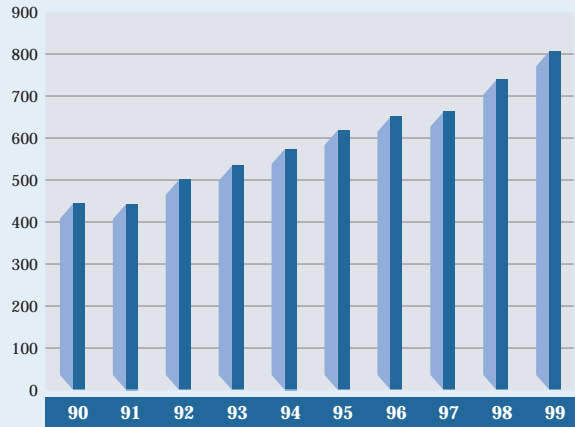
Available tonne kilometres

Million

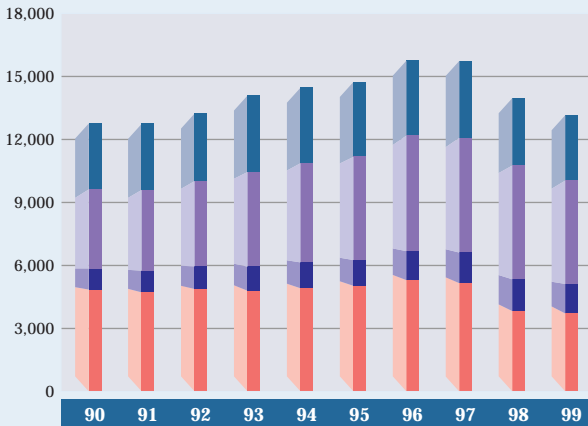


ATK per staff

ATK ('000's)



Number of staff



■ Hong Kong ground staff ■ Cockpit
■ Cabin ■ Ports

ATK per HK\$'000 staff cost



Glossary

Terms:

Borrowings	Total borrowings (loans and lease obligations) less security deposits, notes and zero coupon bonds.
Net borrowings	Borrowings and bank overdraft less liquid funds.
Available tonne kilometres (“ATK”)	Capacity, measured in tonnes available for the carriage of passengers, excess baggage, cargo and mail on each sector multiplied by the sector distance.
On-time performance	Departure within 15 minutes of scheduled departure time.
EBITDA	Earnings before interest, tax, depreciation and amortisation

Ratios:

$$\text{Earnings/(loss) per share} = \frac{\text{Profit/(loss) attributable to shareholders}}{\text{Weighted average number of shares (by days) in issue for the year}}$$

$$\text{Shareholders' funds per share} = \frac{\text{Shareholders' funds}}{\text{Total issued and fully paid shares at end of the year}}$$

$$\text{Profit/(loss) margin} = \frac{\text{Profit/(loss) attributable to shareholders}}{\text{Turnover}}$$

$$\text{Return of average shareholders' funds} = \frac{\text{Profit/(loss) attributable to shareholders}}{\text{Average shareholders' funds}}$$

$$\text{Gross debt/equity ratio} = \frac{\text{Borrowings}}{\text{Shareholders' funds}}$$

$$\text{Net debt/equity ratio} = \frac{\text{Net borrowings}}{\text{Shareholders' funds}}$$

$$\text{Passenger/Cargo and mail load factor} = \frac{\text{Revenue passenger kilometres/Cargo and mail tonne kilometres}}{\text{Available seat kilometres/Available cargo and mail tonne kilometres}}$$

$$\text{Passenger/Cargo and mail yield} = \frac{\text{Passenger revenue/Cargo and mail revenue}}{\text{Revenue passenger kilometres/Cargo and mail tonne kilometres}}$$

$$\text{Cost per ATK} = \frac{\text{Operating costs and net finance charges of Cathay Pacific Airways}}{\text{ATK of Cathay Pacific Airways}}$$

Corporate and Shareholder Information

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Financial Calendar

Year ended 31st December 1999

Annual General Meeting

1999 final dividend payable

17th May 2000

2nd June 2000

Six months ending 30th June 2000

Interim results announcement

Interim dividend payable

August 2000

October 2000