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## Hong Kong Dragon Airlines Limited: Determining Cost of Capital

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## *Cathay Pacific Airways Balance Sheet For 31 December 2003 and 2004 (HK\$ Million)*

	<u>2004</u>	<u>2003</u>
<b>Assets &amp; Liabilities</b>		
<b>Non-current Assets</b>		
Fixed Assets	\$ 51,808	\$ 51,357
Intangible Assets	348	405
Investments in associated companies	1,743	1,661
Other long-term receivables and investments	4,076	1,263
	<u>\$ 57,975</u>	<u>\$ 54,686</u>
<b>Current Assets</b>		
Stock	\$ 524	\$ 398
Trade and other receivables	5,311	4,753
Liquid funds	11,474	15,200
	<u>\$ 17,309</u>	<u>\$ 20,351</u>
<b>Total Assets</b>	<u>\$ 75,284</u>	<u>\$ 75,037</u>
<b>Non-current Liabilities</b>		
Long-term liabilities	\$ (27,698)	\$ (33,022)
Related pledged security deposits	10,036	11,604
Net long-term liabilities	<u>(17,662)</u>	<u>(21,418)</u>
Retirement benefits obligations	(102)	(181)
Deferred taxation	(7,280)	(7,762)
	<u>\$ (25,044)</u>	<u>\$ (29,361)</u>
<b>Current Liabilities</b>		
Current portion of long-term liabilities	\$ (7,096)	\$ (6,754)
Related pledged security deposits	2,127	1,875
Net current portion of long-term liabilities	<u>(4,969)</u>	<u>(4,879)</u>
Trade and other payables	(7,163)	(5,543)
Unearned transportation revenue	(3,622)	(2,839)
Taxation	(1,497)	(1,259)
	<u>\$ (17,251)</u>	<u>\$ (14,520)</u>
<b>Total Liabilities</b>	<u>\$ (42,295)</u>	<u>\$ (43,881)</u>
<b>Total Assets Total Liabilities (Total Equity)</b>	<u>\$ 32,989</u>	<u>\$ 31,156</u>
<b>Financed by</b>		
Share Capital	\$ 674	\$ 669
Reserves	32,181	30,383
Minority Interest	134	104
	<u>\$ 32,989</u>	<u>\$ 31,156</u>

	<u>2004</u>	<u>2003</u>
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	<u>2004</u>		<u>2003</u>		<u>Average</u>
<b>Total Assets</b>	\$ 75,284	\$	75,037	\$	75,160.50
<b>Total Liabilities</b>	\$ (42,295)	\$	(43,881)	\$	(43,088.00)
<b>Total Equity</b>	\$ 32,989	\$	31,156	\$	32,072.50

**$W_d = 0.573280$**

**$W_e = 0.426720$**

Year	10 - Year			Interest rate spread	1 Year Spread to Best	10 Year Spread to Best
	1-Year Hong Exchange Fund Bill	Hong Kong Exchange Fund Note	Best Lending Rate			
1996	5.00%	7.27%	8.50%	2.27%	3.50%	1.23%
1997	9.41%	9.22%	9.50%	-0.19%	0.09%	0.28%
1998	5.72%	6.36%	9.00%	0.64%	3.28%	2.64%
1999	5.82%	7.74%	8.50%	1.92%	2.68%	0.76%
2000	5.38%	6.46%	9.50%	1.08%	4.12%	3.04%
2001	2.22%	6.22%	5.13%	4.00%	2.91%	-1.09%
2002	1.39%	4.39%	5.00%	3.00%	3.61%	0.61%
2003	0.26%	4.37%	5.00%	4.11%	4.74%	0.63%
2004	0.58%	3.63%	5.00%	3.05%	4.42%	1.37%
2005	3.90%	4.18%	7.75%	0.28%	3.85%	3.57%
2006	3.74%	4.18%	7.42%	0.44%	3.68%	3.24%
<i>Weighted Moving Average</i>				1.50%	3.82%	2.31%