

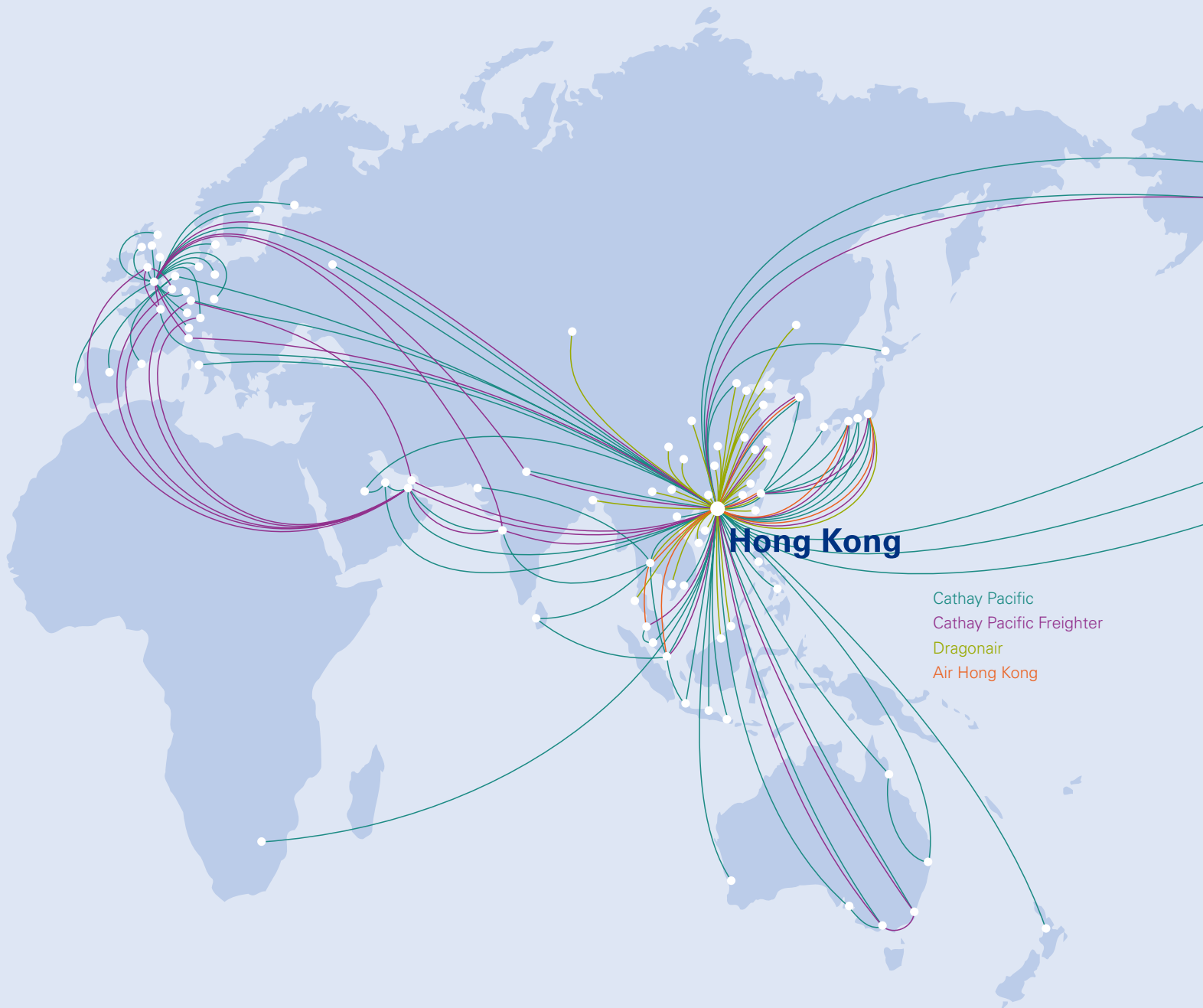
# CATHAY PACIFIC AIRWAYS LIMITED



ANNUAL REPORT 2005

Stock code: 00293





Cathay Pacific  
 Cathay Pacific Freighter  
 Dragonair  
 Air Hong Kong

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# CATHAY PACIFIC

CATHAY PACIFIC AIRWAYS IS AN INTERNATIONAL AIRLINE REGISTERED AND BASED IN HONG KONG, OFFERING SCHEDULED CARGO AND PASSENGER SERVICES TO 92 DESTINATIONS AROUND THE WORLD.

WE ARE DEEPLY COMMITTED TO HONG KONG, WHERE THE COMPANY WAS FOUNDED IN 1946, AND CONTINUE TO MAKE SUBSTANTIAL INVESTMENTS TO DEVELOP HONG KONG'S AVIATION INDUSTRY AND ENHANCE HONG KONG'S POSITION AS A GLOBAL TRANSPORTATION HUB. IN ADDITION TO OUR FLEET OF 96 WIDE-BODIED AIRCRAFT, THESE INVESTMENTS INCLUDE CATERING, AIRCRAFT MAINTENANCE AND GROUND HANDLING COMPANIES, AS WELL AS OUR CORPORATE HEADQUARTERS AT HONG KONG INTERNATIONAL AIRPORT. CATHAY PACIFIC AND ITS SUBSIDIARIES AND ASSOCIATES EMPLOY OVER 23,000 STAFF IN HONG KONG. THE AIRLINE'S TWO MAJOR SHAREHOLDERS ARE BOTH HONG KONG COMPANIES LISTED ON THE HONG KONG STOCK EXCHANGE, AS IS CATHAY PACIFIC ITSELF.

CATHAY PACIFIC IS THE MAJOR SHAREHOLDER IN AHK AIR HONG KONG LIMITED, AN ALL CARGO CARRIER THAT OFFERS SCHEDULED SERVICES IN THE ASIAN REGION. CATHAY PACIFIC IS ALSO A SHAREHOLDER IN HONG KONG DRAGON AIRLINES LIMITED AND AIR CHINA LIMITED.

WE ARE A FOUNDING MEMBER OF THE **oneworld** GLOBAL ALLIANCE WHOSE COMBINED NETWORK SERVES SOME 600 DESTINATIONS WORLDWIDE.

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

本年報中文譯本，於本公司之股份登記處備索。

		2005	2004	Change
<b>GROUP FINANCIAL STATISTICS</b>				
<b>Results</b>				
Turnover	<i>HK\$ million</i>	<b>50,909</b>	42,761	<b>+19.1%</b>
Profit attributable to Cathay Pacific shareholders	<i>HK\$ million</i>	<b>3,298</b>	4,417	<b>-25.3%</b>
Earnings per share	<i>HK cents</i>	<b>97.7</b>	131.4	<b>-25.6%</b>
Dividend per share	<i>HK cents</i>	<b>48.0</b>	65.0	<b>-26.2%</b>
Profit margin	<i>%</i>	<b>7.4</b>	11.3	<b>-3.9%pt</b>
<b>Balance Sheet</b>				
Funds attributable to Cathay Pacific shareholders	<i>HK\$ million</i>	<b>34,968</b>	32,855	<b>+6.4%</b>
Net borrowings	<i>HK\$ million</i>	<b>9,050</b>	11,187	<b>-19.1%</b>
Shareholders' funds per share	<i>HK\$</i>	<b>10.3</b>	9.8	<b>+5.1%</b>
Net debt/equity ratio	<i>Times</i>	<b>0.26</b>	0.34	<b>-0.08 times</b>
<b>OPERATING STATISTICS – CATHAY PACIFIC</b>				
Available tonne kilometres ("ATK")	<i>Million</i>	<b>17,751</b>	15,794	<b>+12.4%</b>
Passengers carried	<i>'000</i>	<b>15,438</b>	13,664	<b>+13.0%</b>
Passenger load factor	<i>%</i>	<b>78.7</b>	77.3	<b>+1.4%pt</b>
Passenger yield	<i>HK cents</i>	<b>46.3</b>	45.8	<b>+1.1%</b>
Cargo carried	<i>'000 tonnes</i>	<b>1,118</b>	972	<b>+15.0%</b>
Cargo and mail load factor	<i>%</i>	<b>67.0</b>	68.7	<b>-1.7%pt</b>
Cargo and mail yield	<i>HK\$</i>	<b>1.75</b>	1.76	<b>-0.6%</b>
Cost per ATK	<i>HK\$</i>	<b>2.19</b>	2.07	<b>+5.8%</b>
Cost per ATK without fuel	<i>HK\$</i>	<b>1.55</b>	1.58	<b>-1.9%</b>
Aircraft utilisation	<i>Hours per day</i>	<b>12.6</b>	12.0	<b>+5.0%</b>
On-time performance	<i>%</i>	<b>86.1</b>	90.3	<b>-4.2%pt</b>

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The Cathay Pacific Group has recorded a profit attributable to shareholders of HK\$3,298 million for 2005, compared with a profit of HK\$4,417 million in 2004, although turnover increased by 19.1% to a record HK\$50,909 million.

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Continuing high fuel prices were the principal cause behind this disappointing result, with the escalating cost of fuel producing a reduced profit in the second half of the year, which is traditionally the much stronger period. For the full year, fuel expenditure increased by 67.2% to HK\$15,588 million, with fuel surcharges on tickets only partially offsetting the additional cost.

Our unit cost excluding fuel fell 1.9% as we continued to increase productivity and reduce controllable overheads.

Passenger revenue increased 14.6% to a record of HK\$30,274 million. We carried 15.4 million passengers in 2005, up by 1.8 million on the previous year. Yield increased 1.1% to HK\$46.3, with strong demand from first and business class passengers. With the addition of new aircraft and services, our passenger capacity increased by 11.8%.

During the year, Cathay Pacific launched a third daily service to Los Angeles, a fourth daily service to London, and increased frequencies to Amsterdam, Beijing, Ho Chi Minh City, Johannesburg, Nagoya, Perth, Seoul and Singapore. We also commenced a three-times-weekly service to Xiamen and a codeshare service with Air China to Beijing.

The airline carried a record 1,118,047 tonnes of freight, mainly as a result of additional capacity and transshipment cargo to and from Shanghai, and set a cargo revenue record of HK\$11,585 million. However, both yield and load factor decreased to HK\$1.75 and 67.0% respectively due to increased competition and a slowdown in the growth of exports from South China.

In December, we announced our biggest ever order for new aircraft, with commitments for 16 Boeing 777-300ER long-range aircraft and three Airbus

330-300s, which will be delivered between 2007 and 2010, together with purchase rights for a further 20 B777-300ERs. This reflects the confidence we have in the future of Hong Kong and the aviation industry. We took delivery of the world's first B747-400BCF, or Boeing Converted Freighter. The prototype aircraft was converted by associate, Taikoo (Xiamen) Aircraft Engineering Company Limited, in Xiamen. We are to convert five more aircraft and have options on a further six.

During 2005, we also took delivery of one new B747-400 freighter, one B777-300 and three A330-300s while three second-hand B747-400 passenger aircraft were refitted and introduced into service. Our fleet will total 101 aircraft when we celebrate Cathay Pacific's 60th Anniversary in September 2006.

Our commitment to setting the industry standard for service has led to several major awards, including "Airline of the Year", in global polls of both passengers and travel industry professionals. These awards are a tribute to the hard work and dedication of all our staff.

Looking forward, we remain optimistic about our future, although our 2006 results are likely to remain heavily dependent on fuel prices and related surcharges. Our efforts will stay focused on delivering superior service and value to our customers, profitably growing our operations, and strengthening Hong Kong's position as a global aviation hub.

**Christopher Pratt**

*Chairman*

8th March 2006

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The Group achieved record turnover in 2005. Yet, high fuel costs meant that our attributable profit for the year was less than in 2004. Fuel costs have not dampened demand, however, and both our passenger and cargo operations generated record volumes and revenue. We continued to expand our network and fleet and made our biggest ever order for new aircraft.

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#### Award winning products and services

- Cathay Pacific was voted "Airline of the Year 2005" in UK-based Skytrax Research's global passenger poll – the largest of its kind – and we were also voted "Best Airline Asia" and "Best First Class". The airline's Hong Kong First and Business Class lounges, The Wing and The Pier, have also been voted world's best in a separate survey conducted by Skytrax Research.
- We were voted "Airline of the Year" and "Best Airline North Asia" in the regional TTG Travel Awards. The awards were the result of a poll of the leading travel industry magazines' readers, who largely comprise travel trade professionals from around the region.
- Readers of *Business Traveller* magazine named Cathay Pacific as having the "Best Frequent Flyer Programme".
- The Raven Fox Awards for Travel Retail Excellence in Asia Pacific rated Cathay Pacific "Best Inflight Retailer in Asia/Pacific".
- We were named Hong Kong's leading company in "The Asian Wall Street Journal 200" survey.
- We opened a new lounge in Singapore and remodelled another in Frankfurt.

#### Hub development

- We launched a third daily service to Los Angeles and a fourth daily flight to London, increasing Hong Kong's connection with major hubs around the world.
- Additional services commenced to Amsterdam, Beijing, Ho Chi Minh City, Johannesburg, Nagoya, Perth, Seoul and Singapore.
- A three-times-weekly service to Xiamen commenced in February 2005.
- We announced additional services to Rome and Frankfurt, commencing in the last week of March 2006.
- Passengers in the Pearl River Delta can now check in at a new facility at Shekou before boarding a ferry directly to their flight at Hong Kong International Airport ("HKIA"). More "upstream" full service check-in facilities are planned in Macau, Fuyong (Shenzhen), Zhongshan and Dongguan.

### The growing fleet

- At the end of 2005 we had 96 aircraft in our fleet, including 82 passenger aircraft and 14 freighters. Our fleet will total 101 aircraft by September 2006 when we celebrate Cathay Pacific's 60th Anniversary.
- We made our biggest single order for new aircraft with firm orders for 16 Boeing 777-300ERs and purchasing rights on 20 more, plus three Airbus 330-300 aircraft. We will simplify our fleet as the B777-300ER becomes our primary long haul aircraft. In addition, we have outstanding orders for one B777-300, three A330-300s and five more used B747-400s.
- The world's first B747-400BCF, passenger-to-freighter conversion, entered service with the airline in December. We have five more conversions on firm order and options on six more.
- In 2005 we took delivery of one new B747-400 freighter, one B777-300 and three A330-300s while three second-hand B747-400 passenger aircraft were refitted and introduced into service.
- Our all-cargo subsidiary AHK Air Hong Kong Limited took delivery of its fifth and sixth A300-600 freighter aircraft in 2005 and will take delivery of its seventh and eighth in May and June 2006.

### Fleet profile

Aircraft type	Number as at 31st December 2005			Total	Firm orders			Total	Expiry of operating leases					Purchase rights
	Owned	Leased			'06	'07	'08 and beyond		'06	'07	'08	'11	'12	
		Finance	Operating											
<b>Aircraft operated by Cathay Pacific:</b>														
B747-400	19		3	22 <sup>(a)</sup>	4 <sup>(b)</sup>	1		5		1			2	
B747-200F	4	3		7										
B747-400F	2	4		6										
B747-400BCF	1			1										
B777-200	1	4		5										
B777-300	1	10		11	1			1						
B777-300ER						5 <sup>(c)</sup>	11 <sup>(d)</sup>	16					20 <sup>(e)</sup>	
A330-300	1	22	3	26	1	2	3 <sup>(f)</sup>	6				3		
A340-300		11	4	15					3			1		
A340-600			3	3						2	1			
<b>Total</b>	29	54	13	96	6	8	14	28	3	3	1	4	2	20
<b>Aircraft operated by AHK :</b>														
A300-600F	2	4		6	2			2						

(a) One aircraft under reconfiguration.

(b) One aircraft on 9 year operating lease.

(c) Two aircraft on 10 year operating leases.

(d) Two aircraft on 10 year operating leases.

(e) Purchase rights for aircraft delivered by 2017.

(f) Aircraft on 7.5 year operating leases.



### Pioneer in technology

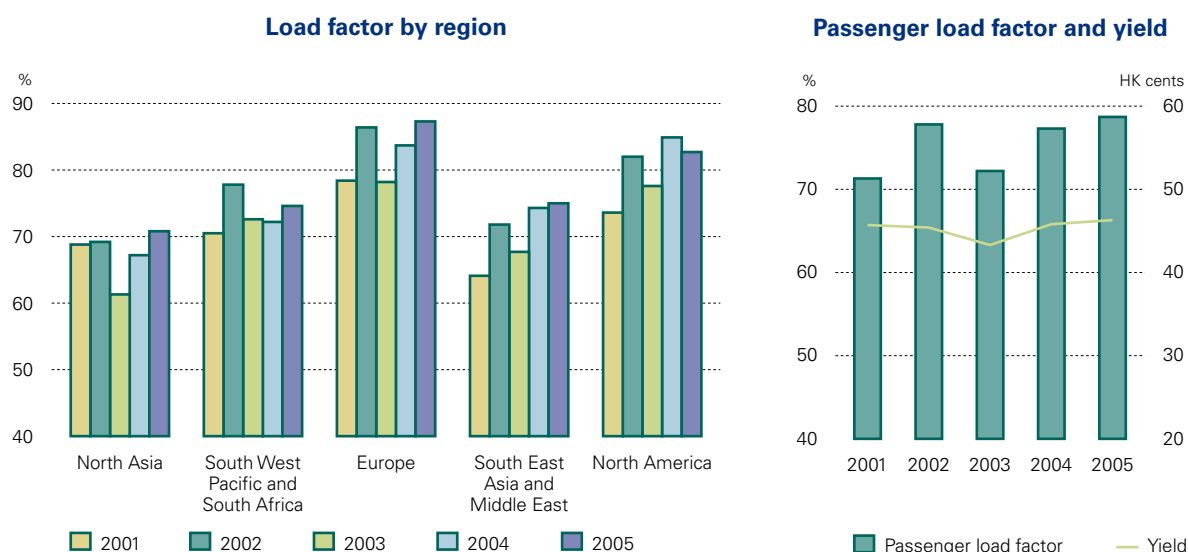
- Cathay Pacific is one of the world's leading airlines in harnessing the power of the Internet to reduce communication costs and increase operational flexibility.
- A more responsive IT strategy and architecture has been put in place to improve the delivery of supporting technology to staff across the Company.
- Together with our **oneworld** partners, we have become the world's first alliance to offer interline e-ticketing between all member carriers. This has cut ticketing costs and provided greater convenience to our customers.
- Online check-in has become increasingly popular with members of our loyalty programmes, who can use this facility to expedite their check-in process and choose their preferred seats.
- Inflight purchases can now be pre-ordered online prior to a flight's departure. This helps us to guarantee the passenger's choice is available and to better manage our inventory.
- Our new generation Company website, due for rollout in April, will be more customer friendly, making online booking and check-in simpler and quicker and enhancing our promotional activities.

### Partnerships

- We launched a codeshare service to Beijing with Air China, in which Cathay Pacific holds a 10% shareholding.
- Three more airlines, Japan Airlines, Malev and Royal Jordanian, expressed their intention of joining **oneworld**.
- Our codeshare agreement with South African Airways ended following the carrier's decision to join another alliance.
- A partnership was created with Air China's frequent flyer programme. Members of Air China Companion and Asia Miles can accrue and redeem miles on flights operated by both carriers as part of our closer strategic partnership.
- Asia Miles has more than 240 partners in nine categories. It has greater reach than any other rewards programme in China, having partnerships with Air China, China Eastern Airlines and Dragonair, as well as British Airways and other partners that serve the Mainland.



During 2005, we achieved our highest ever passenger revenue with record passenger numbers and an average 78.7% load factor. Yield improved 1.1% to HK46.3 cents, driven by buoyant passenger demand and good front-end loads, which were sustained throughout the year. However, economy class yield remained under steady pressure, with increased competition on virtually every sector. Capacity increased 11.8% with additional services and aircraft. A third daily service to Los Angeles added strength to North America, now our second largest sales area.



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

	ASK (million)			Load factor (%)			Yield
	2005	2004	Change	2005	2004	Change	Change
North Asia	<b>13,057</b>	12,290	<b>+6.2%</b>	<b>70.8</b>	67.2	<b>+3.6%pt</b>	<b>+1.8%</b>
South West Pacific and South Africa	<b>14,656</b>	12,466	<b>+17.6%</b>	<b>74.6</b>	72.2	<b>+2.4%pt</b>	<b>-3.6%</b>
Europe	<b>16,181</b>	15,194	<b>+6.5%</b>	<b>87.3</b>	83.7	<b>+3.6%pt</b>	<b>-1.2%</b>
South East Asia and Middle East	<b>17,376</b>	15,764	<b>+10.2%</b>	<b>75.0</b>	74.3	<b>+0.7%pt</b>	<b>-1.1%</b>
North America	<b>21,496</b>	18,348	<b>+17.2%</b>	<b>82.7</b>	84.9	<b>-2.2%pt</b>	<b>+8.1%</b>
<b>Overall</b>	<b>82,766</b>	74,062	<b>+11.8%</b>	<b>78.7</b>	77.3	<b>+1.4%pt</b>	<b>+1.1%</b>

New records were set for both passenger numbers and passenger revenue as capacity increased **11.8%** over 2004.



Comments by region are as follows:

### **North Asia**

- The increased frequency of Beijing flights to 14 a week and the introduction of our codeshare service with Air China strengthened Hong Kong's hub connections to the capital. A thrice-weekly flight was added to Xiamen.
- Economic recovery supported a rebound in the outbound market from Japan with high passenger growth to Europe.
- We added three additional flights a week to Nagoya.
- Interest in Korea, raised by the recent popularity of Korean food and culture in Hong Kong, stimulated leisure traffic. A fifth daily service was added to Seoul in January 2006.

### **South West Pacific and South Africa**

- We consolidated our third daily service to Sydney even as competition increased from a number of carriers.
- We added a fourth flight a week to Perth, bringing the number of direct services we operate to six cities in Australia to 52 each week.
- Services to Africa gained strength and we made Johannesburg a daily operation.

### **Europe**

- Loads to Europe, in particular the United Kingdom, remained high throughout the year.

- We launched a fourth daily service to London on 1st December. Flights to London now depart Hong Kong morning, afternoon and evening.
- Services to Rome will increase from five a week to seven and those to Frankfurt will increase from seven to 11 a week starting from the last week of March 2006.
- Services to Amsterdam became a daily operation.

### **South East Asia and Middle East**

- Ho Chi Minh City became a double-daily service as we ended our joint venture with Vietnam Airlines on this route while retaining our codeshare arrangement.
- The performance of services to the Philippines showed encouraging improvement.
- A second daily non-stop service started to Jakarta.
- Services to Singapore increased by seven more flights a week.

### **North America**

- The North American market performed well as revenue growth outpaced increased capacity. It was our second largest sales territory during the year.
- All United States services enjoyed strong support from business passengers.
- We now operate three daily non-stop services to Los Angeles. Cathay Pacific is the only airline to fly non-stop from Hong Kong to this United States gateway.

We took delivery of the world's **first B747-400BCF**.  
We are to convert **five** more aircraft and have options  
on a further **six**.





Asia's world city

**CARGO**

BEING CONVERTED FREIGHTER

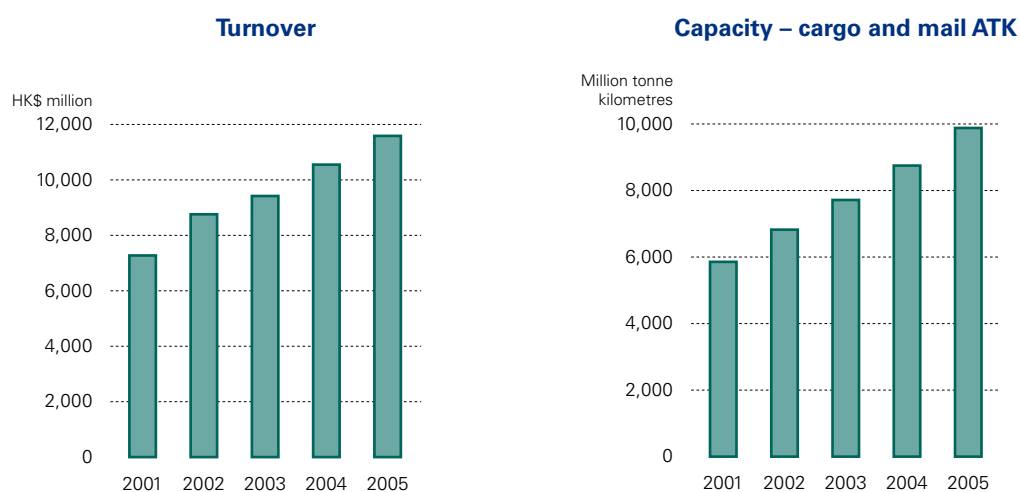
Boeing • Taeco

*Working Together*

B-1800U



Cathay Pacific set new revenue and tonnage records as capacity increased 12.9%. Cargo yield dipped 0.6% to HK\$1.75. Volumes were boosted by transshipment cargo to and from Shanghai, following the introduction of a daily freighter service in January 2005. A new service to Dallas and Atlanta commenced in November. Growth out of China slowed in the second half in the face of high fuel prices, but the long-term growth prospects for air cargo remain positive. Hong Kong remains the primary gateway to the Pearl River Delta despite increased competition from new airports in the region.



	ATK (million)			Load factor (%)			Yield
	2005	2004	Change	2005	2004	Change	Change
Cathay Pacific	9,879	8,748	+12.9%	67.0	68.7	-1.7%pt	-0.6%

- The world's first B747-400BCF passenger-to-freighter conversion aircraft entered service in December. At the end of 2005 we operated a fleet of seven B747-400 and seven B747-200 freighters.
- Yield and load factors declined as a result of weak demand out of Europe, the United States and Australia with traditional directional imbalances exaggerated by large increases in competitor capacity.
- We launched a three-times-weekly service to Dallas, continuing on to Atlanta. The two new destinations will also bring new opportunities to connect with transshipments from South and Central America.
- Overnight express operations on behalf of DHL were launched to Shanghai, Beijing and Nagoya in March, further developing Hong Kong as a regional express cargo hub.
- High fuel prices negatively affected the profitability of our freighter services. The adverse impact of high fuel prices was only partially offset by fuel surcharges passed on to customers.

**AHK Air Hong Kong Limited (“AHK”)**

- AHK, in which Cathay Pacific holds a 60% interest, is an all-cargo carrier with a major focus on express cargo services for DHL Express.
- During the year, AHK further expanded its overnight express cargo network to Seoul, increasing the number of destinations it serves in Asia to seven, together with Bangkok, Osaka, Penang, Singapore, Taipei and Tokyo.
- The airline took delivery of two new A300-600 freighters in February and March, increasing the fleet size to six. Two more A300-600 freighters will be delivered in 2006.
- With network expansion, capacity increased by 44.1%. Load factor increased by 8.3 percentage points while yield decreased by 8.7%.
- AHK recorded a higher profit in 2005 despite the adverse impact of higher fuel prices.

**Cathay Pacific Catering Services (H.K.) Limited (“CPCS”)**

- CPCS, a wholly owned subsidiary of Cathay Pacific, is the principal flight kitchen in Hong Kong.
- The company produced a record 19.8 million meals in 2005 and accounts for 71% of the airline catering market in Hong Kong. Business volume increased by 12% over 2004.
- The company recorded a satisfactory result in 2005 despite a series of food scares in Hong Kong. However, the profit margin decreased with higher crude oil prices and cost-saving campaigns of customer airlines seeking to compensate for higher fuel prices.
- The performance of other inflight catering kitchens in Asia and Canada are also encouraging.

**Hong Kong Airport Services Limited (“HAS”)**

- HAS, in which Cathay Pacific holds a 70% interest, is the largest franchised ramp handling company at HKIA.
- The company recorded a healthy growth in revenue as it handled a record number of flights.
- With continuous stringent cost controls and an improving business environment, HAS achieved a record profit in 2005.

**Hong Kong Aircraft Engineering Company Limited (“HAECO”)**

- HAECO, in which Cathay Pacific holds a 27% interest, provides aircraft maintenance, modification and overhaul services at HKIA.
- The company achieved a consolidated profit attributable to its shareholders of HK\$618 million, a 41.1% increase on the previous year.
- Line maintenance business continued to grow as a result of the increase in aircraft traffic through HKIA. Hangar capacity was fully utilised throughout the year due to strong market demand for heavy maintenance work.
- Construction of the new two-storey office on the cargo apron and the second hangar at HKIA is making good progress. Openings are scheduled in the second half of 2006. HAECO's headcount at HKIA increased by 12% during 2005 to meet the demand and in preparation for the second hangar.



- Taikoo (Xiamen) Aircraft Engineering Company Limited (“TAECO”), 54.6% owned by HAECO and 9% owned by Cathay Pacific, had a good year as a result of high utilisation of its facilities. Its fourth hangar was opened on 19th December and construction was started on a fifth hangar. This fifth hangar is expected to open by mid-2007. TAECO has a contract with Boeing to convert B747-400 passenger aircraft into freighters. The first of these converted aircraft was redelivered to Cathay Pacific in December 2005.
- Hong Kong Aero Engine Services Limited, HAECO’s jointly controlled company with Rolls-Royce plc and SIA Engineering Pte Limited, experienced high work volumes and achieved good results.

#### **Hong Kong Dragon Airlines Limited (“Dragonair”)**

- Dragonair, in which Cathay Pacific holds an 18% interest, operates passenger services to 30 destinations in Asia, including 22 in Mainland China. Dragonair also provides freighter services to ten destinations covering cities in Asia, Europe, Middle East and the United States.
- Dragonair recorded an 18.0% increase in passenger revenue on 2005, due to an increase in passenger services capacity to Mainland China and the full-year impact of the new passenger service to Tokyo, which commenced in April 2004. The company carried more than 5.0 million revenue passengers in 2005, a 9.9% increase over 2004, and passenger yield increased by 2.9%.
- The company uplifted 385,000 tonnes of cargo in 2005, 12.5% higher than in 2004. Cargo revenue increased by 27.9% due to the higher tonnage carried by new passenger and freighter services. With the substantial increase in cargo capacity in the market, cargo load factor decreased by 3.7 percentage points to 72.5%. Cargo yield remained at the same level as last year.
- Higher fuel prices have affected Dragonair significantly, with the system-wide fuel price increasing by 43.4% over 2004. Fuel now accounts for 26.0% of total operating costs, 6.8 percentage points higher than in 2004. However, a fuel hedging programme and fuel surcharges passed on to customers helped to mitigate part of the adverse impact of soaring fuel prices.
- Dragonair has suspended scheduled services to Phuket since January 2005, as the demand for air traffic to Phuket substantially reduced after the Indian Ocean tsunami. The Bangkok passenger service has also been reduced from double-daily to a daily flight and was downgraded to a narrow body aircraft. Dragonair increased its Shanghai passenger service frequency to 16 a day and frequencies to most other Mainland China destinations also increased.
- Dragonair started its first trans-Pacific freighter service to New York in April using a wet-leased B747-400 freighter.

- The company took delivery of three A330s and one A320 during the year. At end of 2005, Dragonair had a passenger aircraft fleet of 11 A320s, six A321s and 13 A330s. Among them, one A320 and one A330 were wet leased to Air China from September 2005 onwards. It also had four B747 freighters.
- The codeshare agreement with Air China was expanded in 2005 to cover Beijing, Hangzhou and Wuhan in addition to the existing routes to Chengdu, Chongqing, Dalian and Tianjin.
- Dragonair celebrated its 20th anniversary in May 2005. During these 20 years, Dragonair has developed into a full service passenger carrier with a dedicated freighter fleet serving major markets of the world. Despite the impact of higher fuel costs, management remains optimistic for the airline's future and 2006 will see continued expansion of freighter services and stringent cost control.

	ASK/ATK* (million)			Load factor (%)			Yield
	2005	2004	Change	2005	2004	Change	Change
Passenger services	10,065	9,176	+9.7%	64.4	64.9	-0.5%pt	+2.9%
Cargo services	1,942	1,425	+36.3%	72.5	76.2	-3.7%pt	-

\* Capacities of passenger and cargo services are measured in available seat kilometres ("ASK") and available tonne kilometres ("ATK") respectively.

#### Fleet profile as at 31st December 2005:

Aircraft type	Number as at 31st December 2005			Total	Firm orders			Total	Expiry of operating leases		
	Owned	Leased			'06	'07	'08 & beyond		'06	'07	'08 & beyond
A320	3	2	6	11				2	4		
A321	2		4	6					4		
A330	2	3	8	13	3*			3	1	7	
B747-200F	1			1							
B747-300SF	3			3							
B747-400F					2	2	1	5			
<b>Total</b>	11	5	18	34	5	2	1	8	2	9	7

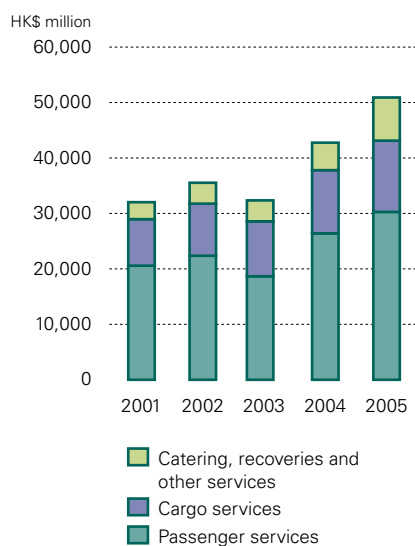
\* Aircraft will be on operating lease.

The Cathay Pacific Group reported an attributable profit of HK\$3,298 million against a profit of HK\$4,417 million in 2004. The substantial decrease in profit reflects the adverse effect of high fuel prices on our profitability.

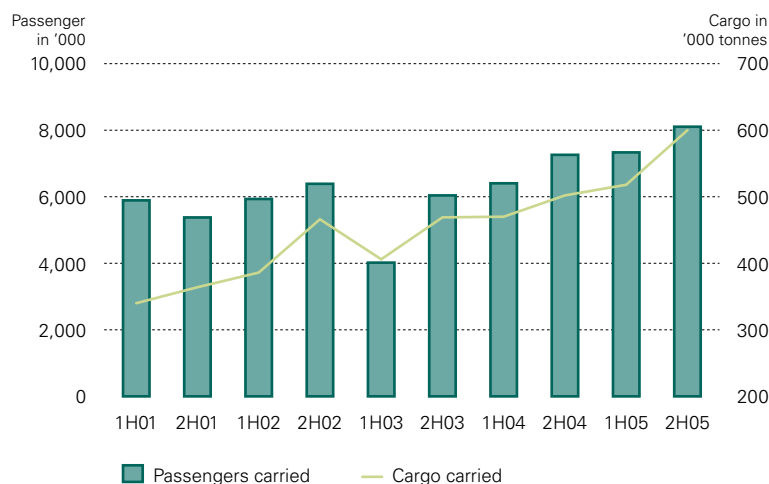
### Turnover

	Group		Cathay Pacific	
	2005 HK\$M	2004 HK\$M	2005 HK\$M	2004 HK\$M
Passenger services	30,274	26,407	30,274	26,407
Cargo services	12,852	11,395	11,585	10,549
Catering, recoveries and other services	7,783	4,959	6,529	3,774
<b>Turnover</b>	<b>50,909</b>	<b>42,761</b>	<b>48,388</b>	<b>40,730</b>

Group turnover



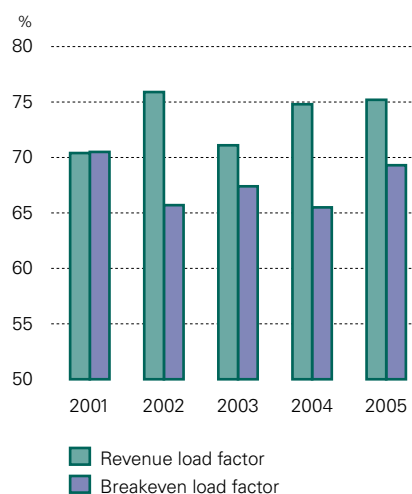
Cathay Pacific: passengers and cargo carried



- Group turnover rose by 19.1% on 2004.
- Passenger turnover increased significantly by 14.6% to HK\$30,274 million as a result of strong demand. The number of passengers carried increased by 13.0% to 15.4 million and revenue passenger kilometres increased by 13.7%.
- Passenger load factor increased by 1.4 percentage points to 78.7% while capacity, in terms of available seat kilometres, increased by 11.8%.
- Passenger yield increased by 1.1% to HK¢46.3.
- First and business class revenues increased by 19.1% and the front-end load factor increased from 63.1% to 66.0%. Economy class revenue increased by 12.5% and the economy class load factor increased from 80.0% to 80.9%.
- Cathay Pacific's cargo turnover increased by 9.8% to HK\$11,585 million as the demand of exports from Mainland China through Hong Kong remained strong though slowed in the second half in the face of high fuel prices.
- Cathay Pacific's cargo load factor decreased by 1.7 percentage points while capacity increased by 12.9%. Cargo yield decreased by 0.6% to HK\$1.75.
- The improvement in Cathay Pacific's traffic turnover can be analysed as follows:

		HK\$M
<b>+11.8%</b>	Passenger capacity	<b>3,086</b>
<b>+12.9%</b>	Cargo and mail capacity	<b>1,364</b>
<b>+1.4%pt</b>	Passenger load factor	<b>501</b>
<b>-1.7%pt</b>	Cargo and mail load factor	<b>(291)</b>
<b>+1.1%</b>	Passenger yield	<b>279</b>
<b>-0.6%</b>	Cargo and mail yield	<b>(36)</b>
		<b>4,903</b>

### Revenue and breakeven load factor



- Revenue load factor increased by 0.4 percentage points to 75.2% while the breakeven load factor increased by 3.8 percentage points to 69.3%.
- The annualised revenue effect on changes in yield and load factor is set out below:

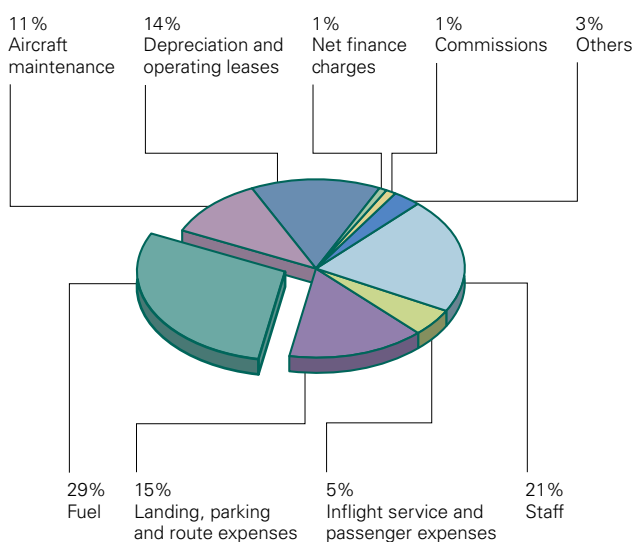
	HK\$M
+ 1 percentage point in passenger load factor	<b>383</b>
+ 1 percentage point in cargo and mail load factor	<b>173</b>
+ HK¢1 in passenger yield	<b>651</b>
+ HK¢1 in cargo and mail yield	<b>66</b>

### Operating expenses

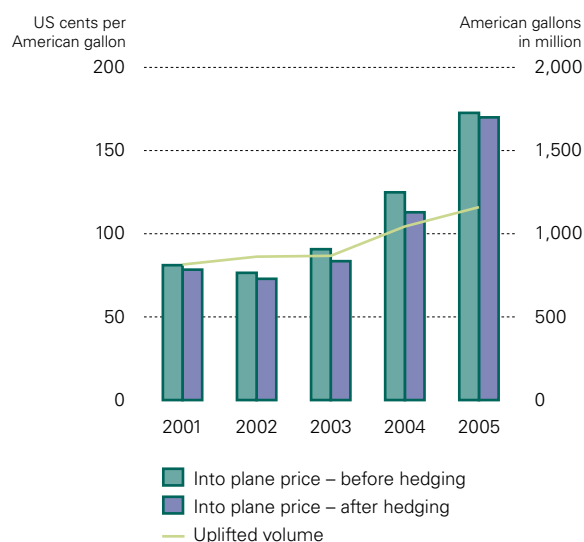
Net operating expenses after deduction of Group recoveries HK\$6,446 million (2004: HK\$3,696 million) and of Cathay Pacific recoveries HK\$6,529 million (2004: HK\$3,774 million) are analysed as follows:

	Group			Cathay Pacific		
	2005 HK\$M	2004 HK\$M	Change	2005 HK\$M	2004 HK\$M	Change
Staff	9,025	8,842	+2.1%	8,132	7,985	+1.8%
Inflight service and passenger expenses	1,783	1,566	+13.9%	1,783	1,566	+13.9%
Landing, parking and route expenses	5,977	5,324	+12.3%	5,832	5,209	+12.0%
Fuel	11,640	7,836	+48.5%	11,400	7,704	+48.0%
Aircraft maintenance	4,527	3,784	+19.6%	4,459	3,768	+18.3%
Aircraft depreciation and operating leases	4,882	4,356	+12.1%	4,755	4,206	+13.1%
Other depreciation and operating leases	790	814	-2.9%	590	595	-0.8%
Commissions	555	529	+4.9%	555	529	+4.9%
Exchange gain	(156)	(199)	-21.6%	(148)	(201)	-26.4%
Others	1,297	966	+34.3%	1,147	820	+39.9%
<b>Net operating expenses</b>	<b>40,320</b>	<b>33,818</b>	<b>+19.2%</b>	<b>38,505</b>	<b>32,181</b>	<b>+19.7%</b>
Net finance charges	444	583	-23.8%	361	556	-35.1%
<b>Total net operating expenses</b>	<b>40,764</b>	<b>34,401</b>	<b>+18.5%</b>	<b>38,866</b>	<b>32,737</b>	<b>+18.7%</b>

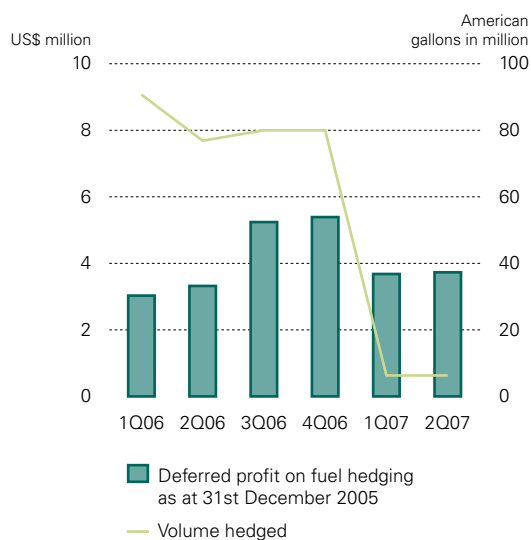
Cathay Pacific: total net operating expenses



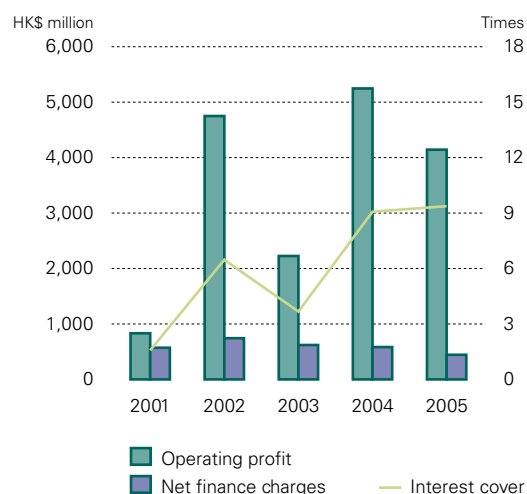
Cathay Pacific: fuel price and consumption



### Cathay Pacific: fuel hedging



### Group interest cover



- Staff costs increased due to an increase in average staff numbers and backdated salary payments to cabin crew.
- Inflight service and passenger expenses rose due to a 13% increase in passenger numbers.
- Landing, parking and route expenses increased as a result of additional flights.
- Fuel costs increased due to a 38% increase in the average into plane fuel price to US\$1.73 per American gallon and an 11.2% increase in consumption to 1,160 million American gallons.
- Aircraft maintenance increased as a result of the fleet expansion.
- Aircraft depreciation and operating leases increased due to the new aircraft deliveries.

- Net finance charges decreased due to lower average net borrowings.
- Cathay Pacific's cost per ATK increased from HK\$2.07 to HK\$2.19 due to higher fuel prices.

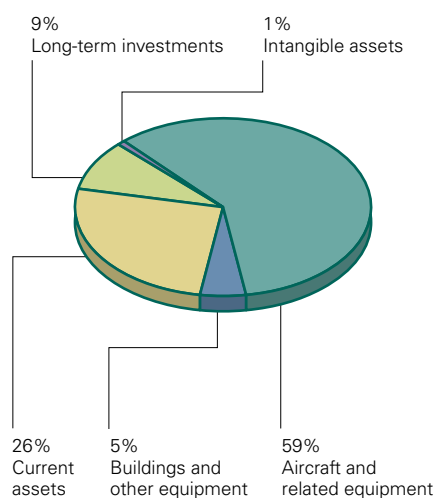
### Associates

- The share of profits from associates decreased by 9.7% to HK\$269 million.
- HAECO reported a higher profit than 2004 and this partially outweighed the lower profit from Dragonair which was adversely affected by higher fuel costs.

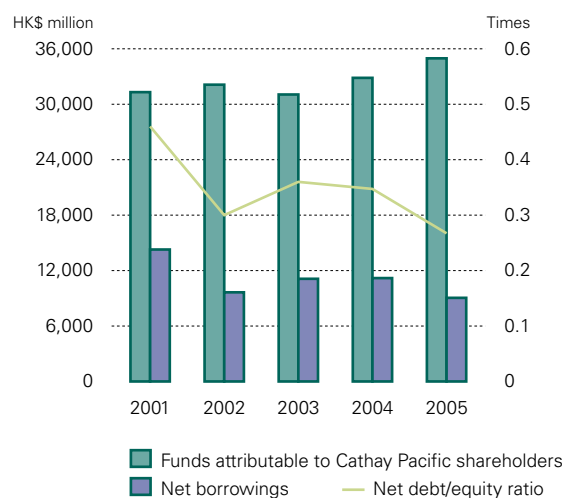
### Taxation

- Despite reduced profit, the tax charge of HK\$500 million was HK\$54 million higher than the previous year as a result of both increased overseas charges and deferred tax liabilities on accelerated tax depreciation.

**Group total assets**



**Group net debt and equity**



**Dividends**

- Dividends paid and proposed for the year are HK\$1,623 million representing a dividend cover of 2.0 times.
- Dividends per share decreased from HK¢65 to HK¢48.

**Assets**

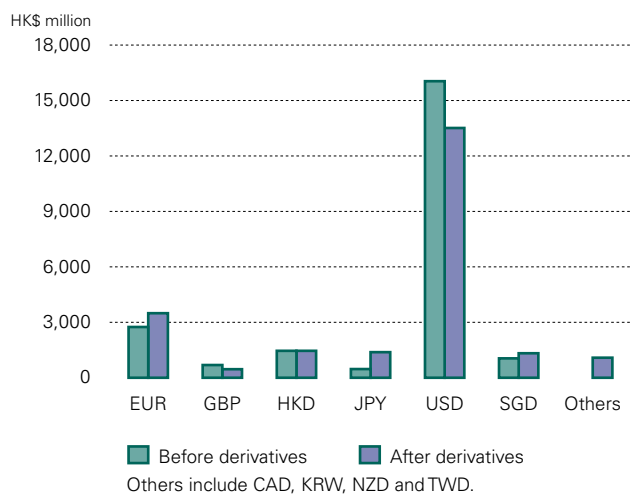
- Total assets as at 31st December 2005 amounted to HK\$78,254 million.
- During the year, additions to fixed assets were HK\$4,001 million, comprising HK\$3,883 million for aircraft and related equipment and HK\$118 million for other equipment.

**Borrowings and capital**

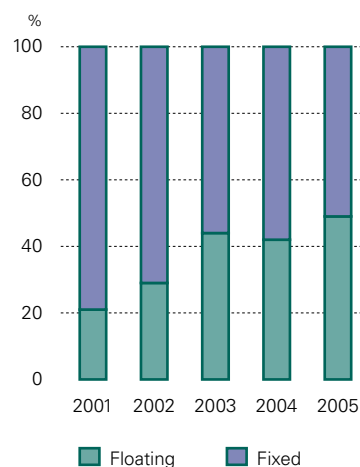
- Borrowings decreased by 0.8% to HK\$22,455 million compared with HK\$22,631 million in 2004.
- Borrowings are mainly denominated in US dollars, Hong Kong dollars, Singapore dollars and Euros, and are fully repayable by 2018 with 51% at fixed rates of interest net of derivatives.
- Liquid funds, 67% of which are denominated in US dollars, increased by 17.3% to HK\$13,459 million.
- Net borrowings decreased by 19.1% to HK\$9,050 million.
- Funds attributable to Cathay Pacific shareholders increased by 6.4% to HK\$34,968 million.
- Net debt/equity ratio decreased from 0.34 times to 0.26 times.



**Group borrowings before and after derivatives**



**Group interest rate profile: borrowings**



**Value added**

The following table summarises the distribution of the Group's value added in 2004 and 2005.

	2005 HK\$M	2004 HK\$M
Total revenue	50,909	42,761
Less: Purchases of goods and services	(33,778)	(24,908)
Value added by the Group	17,131	17,853
Add: Share of profits of associates	269	298
<b>Total value added available for distribution</b>	<b>17,400</b>	<b>18,151</b>
Applied as follows:		
To employees		
– Salaries and other staff costs	9,025	8,842
To governments		
– Corporation taxes	500	446
To providers of capital		
– Dividends – paid	676	674
– proposed	947	1,520
– Minority interests	170	99
– Net finance charges	444	583
Retained for re-investment and future growth		
– Depreciation	3,963	3,764
– Profit after dividends	1,675	2,223
<b>Total value added</b>	<b>17,400</b>	<b>18,151</b>

- The Group value added decreased by HK\$751 million mainly due to an increase in the cost of fuel.
- Dividends paid and proposed decreased by HK\$571 million while the amount retained for re-investment and future growth decreased by HK\$349 million.

### Executive Directors

**PRATT, Christopher Dale**<sup>#</sup>, CBE, aged 49, has been Chairman and a Director of the Company since February 2006. He is also Chairman of John Swire & Sons (H.K.) Limited and Swire Pacific Limited, and a Director of Swire Properties Limited. He joined the Swire group in 1978 and in addition to Hong Kong has worked with the group in Australia and Papua New Guinea.

**ATKINSON, Robert Michael James**<sup>#</sup>, aged 52, has been Finance Director of the Company since June 1997. He joined the Swire group in 1979 and in addition to Hong Kong has worked for the group in Japan, the United Kingdom and the United States.

**CHEN, Nan Lok Philip**<sup>#</sup>, aged 50, has been a Director of the Company since March 1997. He was appointed Deputy Managing Director in March 1997, Chief Operating Officer in July 1998 and Chief Executive in January 2005. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited. He joined the Swire group in 1977 and in addition to Hong Kong has worked with the group in Mainland China and the Asia Pacific region.

**CRIDLAND, Derek George**, aged 60, has been Engineering Director since April 1998. He joined the Company in 1982 and was previously employed by International Civil Aviation Organisation and British Airways. He is also a Director of Hong Kong Aircraft Engineering Company Limited and Hong Kong Aero Engine Services Limited.

**TYLER, Antony Nigel**<sup>#</sup>, aged 50, has been a Director of the Company since December 1996. He was appointed Director Corporate Development in December 1996 and Chief Operating Officer in January 2005. He is also a Director of John Swire & Sons (H.K.) Limited, Hong Kong Aircraft Engineering Company Limited and Hong Kong Dragon Airlines Limited. He joined the Swire group in 1977 and in addition to Hong Kong has worked with the group in Australia, the Philippines, Canada, Japan, Italy and the United Kingdom.

### Non-Executive Directors

**CUBBON, Martin**<sup>#</sup>, aged 48, has been a Director of the Company since September 1998. He is also Finance Director of Swire Pacific Limited and a Director of John Swire & Sons (H.K.) Limited and Swire Properties Limited. He joined the Swire group in 1986.

**FAN, Hung Ling Henry**, aged 57, 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.

**HUGHES-HALLETT, James Wyndham John**<sup>#+</sup>, aged 56, has been a Director of the Company since July 1998 and served as Chairman of the Board from June 1999 to December 2004. He is Chairman of John Swire & Sons Limited and a Director of Swire Pacific Limited and Swire Properties Limited. He is also a Director of HSBC Holdings plc. He joined the Swire group in 1976 and in addition to Hong Kong has worked for the group in Japan, Taiwan and Australia.

**MOORE, Vernon Francis**<sup>\*</sup>, aged 59, has been a Director of the Company since October 1992 except for the period from March to June 1996. He is an Executive Director of CITIC Pacific Limited and a Director of CLP Holdings Limited.

**YUNG, Ming Jie Carl**, aged 37, has been a Director of the Company since March 1997. He is an Executive Director of CITIC Pacific Limited and is also a Director of other companies concerned with infrastructure and industrial projects in the PRC. He joined CITIC Pacific Limited in 1993.

**ZHANG, Xianlin**, aged 52, has been a Director of the Company since August 1997. He is a Director of China National Aviation Corporation (Group) Limited, China National Aviation Company Limited and Hong Kong Dragon Airlines Limited and a supervisor of Air China Limited.

#### Independent Non-Executive Directors

**LEE, Ting Chang Peter** <sup>+</sup>\*, aged 52, has been a Director of the Company since May 2002. He is Chairman of Hysan Development Company Limited and is also a Director of Hang Seng Bank Limited and SCMP Group Limited.

**OR, Ching Fai Raymond** <sup>\*</sup>, aged 56, has been a Director of the Company since February 2000. He is an Executive Director of The Hongkong and Shanghai Banking Corporation Limited. He is Vice-Chairman and Chief Executive of Hang Seng Bank Limited. He is also a Director of Esprit Holdings Limited, Hutchison Whampoa Limited and 2009 East Asian Games (Hong Kong) Limited.

**SO, Chak Kwong Jack** <sup>\*</sup>, aged 60, has been a Director of the Company since September 2002. He is Deputy Chairman and Group Managing Director of PCCW Limited. He is also a Director of The Hongkong and Shanghai Banking Corporation Limited.

**TUNG, Chee Chen** <sup>+</sup>, aged 63, has been a Director of the Company since September 2002. He is Chairman of Orient Overseas (International) Limited.

#### Executive Officers

**BARRINGTON, William Edward James** <sup>#</sup>, aged 46, has been Director Sales and Marketing since March 2000. He joined the Swire group in 1982.

**CHAU, Siu Cheong William**, aged 52, has been Director Personnel since May 2000. He joined the Swire group in 1973.

**CHONG, Wai Yan Quince**, aged 42, has been Director Service Delivery since July 2004. She joined the Swire group in 1998.

**MATHISON, Ronald James** <sup>#</sup>, aged 44, has been Director and General Manager Cargo since June 2004. He joined the Swire group in 1984.

**NICOL, Edward Brian** <sup>#</sup>, aged 52, has been Director Information Management since January 2003. He joined the Swire group in 1975.

**RHODES, Nicholas Peter** <sup>#</sup>, aged 47, has been Director Flight Operations since January 2003. He joined the Swire group in 1980.

**TANG, Kin Wing Augustus**, aged 47, has been Director Corporate Development since January 2005. He joined the Swire group in 1982.

#### Secretary

**FU, Yat Hung David** <sup>#</sup>, aged 42, has been Company Secretary since January 2006. He joined the Swire group in 1988.

<sup>#</sup> *Employees of the John Swire & Sons Limited group*

<sup>+</sup> *Member of the Remuneration Committee*

<sup>\*</sup> *Member of the Audit Committee*

We submit our report and the audited accounts for the year ended 31st December 2005 which are on pages 41 to 85.

### Activities

Cathay Pacific Airways Limited (the "Company") is managed and controlled in Hong Kong. As well as operating scheduled airline services, the Company and its subsidiaries (the "Group") are engaged in other related areas including airline catering, aircraft handling and aircraft engineering. The airline operations are principally to and from Hong Kong, which is where most of the Group's other activities are also carried out. Details are set out in note 1 to the accounts.

Details of principal subsidiaries, their main areas of operation and particulars of their issued capital, and details of principal associates are listed on pages 84 and 85.

### Accounts

The profit of the Group for the year ended 31st December 2005 and the state of affairs of the Group and the Company at that date are set out in the accounts on pages 46 to 85.

### Dividends

We recommend the payment of a final dividend of HK¢28 per share for the year ended 31st December 2005. Together with the interim dividend of HK¢20 per share paid on 3rd October 2005, this makes a total dividend for the year of HK¢48 per share. This represents a total distribution for the year of HK\$1,623 million. Subject to shareholders' approval of the final dividend at the Annual General Meeting on 10th May 2006, payment of the final dividend will be made on 2nd June 2006 to shareholders registered on 10th May 2006. The shareholders' register will be closed from 5th May 2006 to 10th May 2006, both dates inclusive.

### Reserves

Movements in the reserves of the Group and the Company during the year are set out in the statement of changes in equity on pages 50 to 53.

### Accounting policies

The principal accounting policies are set out on pages 41 to 45.

### Donations

During the year, the Company and its subsidiaries made charitable donations amounting to HK\$14 million in direct payments and a further HK\$7 million in the form of discounts on airline travel.

### Fixed assets

Movements of fixed assets are shown in note 8 to the accounts. Details of aircraft acquisitions are set out on page 5.

### Bank and other borrowings

The net bank loans, overdrafts and other borrowings, including obligations under finance leases, of the Group and the Company are shown in notes 13 and 18 to the accounts.

### Share capital

During the year under review, the Group did not purchase or redeem any shares in the Company. At 31st December 2005, 3,380,632,348 shares were in issue (31st December 2004: 3,370,215,348 shares).

The Company adopted a share option scheme on 10th March 1999. During the year, 10,417,000 shares were issued under the scheme. Details of the scheme can be found in note 19 to the accounts.

### Commitments and contingencies

The details of capital commitments and contingent liabilities of the Group and the Company as at 31st December 2005 are set out in note 26 to the accounts.

### Agreement for services

The Company has an agreement for services with John Swire & Sons (H.K.) Limited ("JSSHK"), the particulars of which are set out in the section on continuing connected transactions.

As directors and employees of the John Swire & Sons Limited ("Swire") group, Christopher Pratt, Robert Atkinson, Philip Chen, Martin Cubbon, James Hughes-Hallett and Tony Tyler are interested in the JSSHK Services Agreement (as defined below). Sir Adrian Swire was interested as shareholder, and David Turnbull and Raymond Yuen as employees, of the Swire group.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2005 are set out below and also given in note 25 to the accounts.

### Significant contracts

Contracts between the Company and Hong Kong Aircraft Engineering Company Limited ("HAECO") for the maintenance and overhaul of aircraft and related equipment accounted for approximately 2.5% of the airline's net operating expenses in 2005. Like the Company, HAECO is an associate of Swire Pacific Limited; all contracts have been concluded on normal commercial terms in the ordinary course of the business of both parties.

### Major transaction

The Company entered into a purchase agreement with The Boeing Company on 14th December 2005 for the acquisition of 12 Boeing 777-300ER aircraft. This transaction constituted a major transaction under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in respect of which an announcement dated 14th December 2005 was published and a circular dated 22nd December 2005 was sent to shareholders.

### Continuing connected transactions

During the year ended 31st December 2005, the Group had the following continuing connected transactions, details of which are set out below:

- (a) Pursuant to an agreement dated 17th October 2002 (the "DHL Services Agreement") with DHL International GmbH (formerly DHL International Limited) ("DHL"), AHK Air Hong Kong Limited ("AHK") has provided to DHL services in respect of the sale of space on certain cargo services operated by AHK in the Asian region for the carriage of DHL's door to door air express materials. Payment is made in cash by DHL to AHK against invoice presented monthly within 30 days from the date of receipt of the invoice. The term of the DHL Services Agreement is from 17th October 2002 to 31st December 2018.

DHL is a connected person of the Company because of its 40% attributable interest in the Company's subsidiary AHK. The transactions under the DHL Services Agreement are continuing connected transactions in respect of which announcements dated 17th October 2002 and 27th June 2005 were published and a circular dated 12th July 2005 was sent to shareholders.

The fees payable by DHL to AHK under the DHL Services Agreement totalled HK\$1,169 million for the year ended 31st December 2005.

(b) Pursuant to the amendments made during 2005 to the Cargo Capacity (Network Block Space) Agreement ("BSA") and Network Cargo Joint Sales Agreement ("JSA") both dated 6th December 1999, the Company provides cargo capacity for the carriage of DHL's air express materials between Hong Kong and Beijing, Nagoya and Shanghai and acts as the agent for DHL to sell reserved space surplus to DHL's requirements. Payment is made in cash by DHL to the Company against invoice presented at the end of each two-week period within 21 days from the date of the invoice. The term of the BSA and JSA (as amended) is from 6th March 2000 to 24th March 2007.

DHL is a connected person of the Company because of its 40% attributable interest in the Company's subsidiary AHK. The transactions under the BSA and JSA are continuing connected transactions in respect of which an announcement dated 19th April 2005 was published.

The fees and commissions payable by DHL to the Company under the BSA and JSA totalled HK\$285 million for the year ended 31st December 2005.

(c) Pursuant to an agreement dated 1st December 2004 ("JSSHK Services Agreement") with JSSHK, JSSHK provides services to the Company and its subsidiaries. The services comprise advice and expertise of the directors and senior officers of the Swire group including (but not limited to) assistance in negotiating with regulatory and other governmental or official bodies, full or part time services of members of the staff of the Swire group, other administrative and similar services and such other services as may be agreed from time to time.

In return for these services, JSSHK receives annual service fees calculated as 2.5% of the Company's consolidated profit before taxation and minority interests after certain adjustments. The fees for each year are payable in cash in arrears in two

instalments, an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment. The Company also reimburses the Swire group for all the expenses incurred in the provision of the services at cost.

The term of the JSSHK Services Agreement is from 1st January 2005 to 31st December 2007 and is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Swire is the holding company of Swire Pacific Limited which owns approximately 46% of the issued capital of the Company and JSSHK, a wholly owned subsidiary of Swire, is therefore a connected person of the Company under the Listing Rules. The transactions under the JSSHK Services Agreement are continuing connected transactions in respect of which an announcement dated 1st December 2004 was published.

For the year ended 31st December 2005, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK\$101 million and expenses of HK\$106 million were reimbursed at cost.

(d) Pursuant to an agreement dated 31st May 2005 ("PCCW Services Agreement") between Cathay Pacific Loyalty Programmes Limited ("CPLP") with PCCW Teleservices (Hong Kong) Limited ("Teleservices"), Teleservices provides services to CPLP. The services comprise the provision of a service centre and handling of customer calls and related administration for the Company's frequent flyer and customer loyalty programmes. In return for the services, CPLP pays to Teleservices a monthly charge based on cost plus a margin. Furthermore, Teleservices is paid additional margins upon the achievement of certain performance criteria and efficiency targets, and

deductions will be imposed for underachievement. Payment is made in cash by CPLP within 45 days from the date of receipt of Teleservices' invoice. The term of the PCCW Services Agreement is from 1st June 2005 to 31st May 2008.

Teleservices is an indirect wholly owned subsidiary of PCCW Limited which indirectly holds 37% equity interest in the Company's subsidiary Abacus Distribution Systems (Hong Kong) Limited.

Teleservices is therefore a connected person of the Company under the Listing Rules. The transactions under the PCCW Services Agreement are continuing connected transactions in respect of which an announcement dated 31st May 2005 was published.

The fees payable by CPLP to Teleservices under the PCCW Services Agreement totalled HK\$36 million for the year ended 31st December 2005.

Three independent non-executive Directors, who are not interested in any connected transactions with the Group, have reviewed and confirmed that the continuing connected transactions as set out above have been entered into by the Group:

- (a) in the ordinary and usual course of business of the Group;
- (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have also reviewed these transactions and confirmed to the Board that:

- (a) they have been approved by the Board of the Company;

- (b) they are in accordance with the pricing policies of the Group (if the transactions involve provision of goods or services by the Group);
- (c) they have been entered into in accordance with the relevant agreements governing the transactions; and
- (d) they have not exceeded the relevant annual caps disclosed in previous announcements.

In addition, the Company entered into service agreements ("New Agreements") with HAECO and Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") on 10th November 2005 for provision of services by HAECO and TAECO to the Company's aircraft fleet. The services comprise line maintenance, base maintenance, comprehensive stores and logistics support, component and avionics overhaul, material supply, engineering services and ancillary services at Hong Kong International Airport and/or Xiamen.

Payment is made in cash by the Company to HAECO/TAECO within 30 days upon receipt of the invoice. The term of the New Agreements is from 1st January 2006 to 31st December 2007.

HAECO is a connected person of the Company by virtue of it being an associate of the Company's substantial shareholder Swire Pacific Limited. TAECO is a non-wholly owned subsidiary of HAECO and is therefore also a connected person of the Company. The transactions under the New Agreements are continuing connected transactions in respect of which an announcement dated 10th November 2005 was published and a circular dated 22nd November 2005 was sent to shareholders.

### Major customers and suppliers

6.1% of sales and 29.1% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 1.4% of sales were made to the Group's largest customer while 7.8% of purchases were made from the Group's largest supplier.



## Directors

Christopher Pratt was appointed Chairman and a Director of the Company on 1st February 2006. All the other present Directors of the Company whose names are listed on pages 22 and 23 served throughout the year. In addition, Sir Adrian Swire and Raymond Yuen served as Directors until their retirement at the Company's Annual General Meeting held on 11th May 2005 and 31st December 2005 respectively; David Turnbull served as Chairman and a Director until his resignation on 31st January 2006. The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Listing Rule 3.13 and the Company still considers all its independent non-executive Directors to be independent.

Article 93 of the Company's Articles of Association provides for all the Directors to retire at the third Annual General Meeting following their election by ordinary resolution. In accordance therewith, Philip Chen, Henry Fan, Peter Lee, Vernon Moore, Raymond Or, Jack So, Tung Chee Chen, Tony Tyler and Carl Yung retire this year and, being eligible, offer themselves for re-election.

Christopher Pratt, having been appointed as a Director of the Company under Article 91 since the last Annual General Meeting, also retires and, being eligible, offers himself for election.

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

Directors' fees paid to the independent non-executive Directors during the year totalled HK\$1,190,000; they received no other emoluments from the Company or any of its subsidiaries.

## Directors' interests

At 31st December 2005, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following beneficial interests (all being personal interests) in the shares of Cathay Pacific Airways Limited:

	No. of shares	Percentage of issued capital
Philip Chen	9,000	0.00027
Derek Cridland	17,000	0.00050
Tony Tyler	5,000	0.00015

Other than as stated above, no Director or chief executive of Cathay Pacific Airways Limited had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares (including options) and debentures of Cathay Pacific Airways Limited or any of its associated corporations (within the meaning of Part XV of the SFO).

## Directors' interests in competing business

Pursuant to Rule 8.10 of the Listing Rules, Zhang Xianlin has disclosed that he is a supervisor of Air China Limited ("Air China"); Henry Fan, Tony Tyler and Zhang Xianlin have disclosed that they are directors of Hong Kong Dragon Airlines Limited ("Dragonair"). David Turnbull had disclosed that he was a director of Air China from 30th May 2005 until his resignation on 12th December 2005. Raymond Yuen had disclosed that he was a director of Dragonair during the year until his retirement on 31st December 2005. Air China and Dragonair compete or are likely to compete, either directly or indirectly, with the businesses of the Company as they operate airline services to certain destinations which are also served by the Company.

### Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 31st December 2005 the Company had been

notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	No. of shares	Percentage of issued capital	Type of interest (Note)
1. Swire Pacific Limited	1,566,233,246	46.33	Beneficial owner
2. John Swire & Sons Limited	1,566,233,246	46.33	Attributable interest (a)
3. CITIC Pacific Limited	859,353,462	25.42	Beneficial owner and attributable interest (b)

Note: At 31st December 2005:

- (a) Swire and its wholly owned subsidiary JSSHK are deemed to be interested in the 1,566,233,246 shares of the Company directly held by Swire Pacific Limited by virtue of the Swire group's direct or indirect interests in shares of Swire Pacific Limited representing approximately 30% of the issued share capital and approximately 53% of the voting rights;
- (b) CITIC Pacific Limited was beneficial owner of 71,600,000 shares of the Company. In addition, each of CITIC Pacific Limited and its wholly owned subsidiary Super Supreme Company Limited had an attributable interest in 787,753,462 shares of the Company which were held by their wholly owned subsidiaries as follows: 214,851,154 shares held by Custain Limited, 191,922,273 shares held by Easerich Investments Inc., 189,057,762 shares held by Motive Link Holdings Inc., and 191,922,273 shares held by Smooth Tone Investments Ltd.

### Public float

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of the Company's total issued share capital are held by the public at all times.

### Auditors

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

By order of the Board

**Christopher Pratt**

Chairman

Hong Kong, 8th March 2006

Cathay Pacific Airways is committed to maintaining a high standard of corporate governance and devotes considerable effort to identifying and formalising best practices of corporate governance. The Company has complied throughout the year with all the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Listing Rules. The Company has also put in place corporate governance practices to meet most of the recommended best practices in the CG Code.

### **The Board of Directors**

The Board is chaired by Christopher Pratt (the “Chairman”). There are five executive Directors and ten non-executive Directors, four of whom are independent. Names and other details of the Directors are given on pages 22 and 23 of this report. All Directors are able to take independent professional advice in furtherance of their duties if necessary. The independent non-executive Directors are high calibre executives with diversified industry expertise and serve the important function of providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

To ensure a balance of power and authority, the role of the Chairman is separate from that of the Chief Executive (“CE”). The current CE is Philip Chen. The Board regularly reviews its structure, size and composition to ensure its expertise and independence are maintained. It also identifies and nominates qualified individuals, who are expected to have such expertise to make a positive

contribution to the performance of the Board, to be additional Directors or fill Board vacancies as and when they arise. A Director appointed by the Board to fill a casual vacancy is subject to election of shareholders at the first general meeting after his appointment and all Directors have to retire at the third annual general meeting following their election by ordinary resolution, but are eligible for re-election.

All Directors disclose to the Board on their first appointment their interests as director or otherwise in other companies or organisations and such declarations of interests are updated annually. When the Board considers any proposal or transaction in which a Director has a conflict of interest, he declares his interest and is required to abstain from voting.

The Board is accountable to the shareholders for leading the Company in a responsible and effective manner. It determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Company’s strategic objectives. It is also responsible for presenting a balanced, clear and understandable assessment of the financial and other information contained in the Company’s accounts, announcements and other disclosures required under the Listing Rules or other statutory requirements. Day-to-day management of the Company’s business is delegated to the CE. Matters reserved for the Board are those affecting the Company’s overall strategic policies, finances and shareholders. These include: financial statements, dividend policy, significant

changes in accounting policy, the annual operating budgets, material contracts, major financing arrangements, major investments, risk management strategy and treasury policies. The functions of the Board and the powers delegated to the CE are reviewed periodically to ensure that they remain appropriate. The Board has established the following committees: the Board Safety Review Committee, the Executive Committee, the Finance Committee, the Remuneration Committee and the Audit Committee, the latter two with the participation of independent non-executive Directors.

The Board of Directors held six meetings during 2005, the attendance of which was as follows:

Robert Atkinson (6/6), Philip Chen (6/6), Derek Cridland (5/6), Martin Cubbon (6/6), Henry Fan (6/6), James Hughes-Hallett (5/6), Peter Lee (6/6), Vernon Moore (6/6), Raymond Or (6/6), Jack So (6/6), Sir Adrian Swire (2/3), David Turnbull (5/6), Tony Tyler (5/6), Tung Chee Chen (5/6), Raymond Yuen (6/6), Carl Yung (4/6) and Zhang Xianlin (1/6).

### **Securities Transactions**

The Company has adopted codes of conduct regarding securities transactions by Directors (the "Securities Code") and relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. A copy of the Securities Code is sent to each Director of the Company first on his appointment and thereafter twice annually, one month before the date of the

board meeting to approve the Company's half-year result and annual result, with a reminder that the Director cannot deal in the securities and derivatives of the Company until after such results have been published.

Under the Securities Code, Directors of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

On specific enquiries made, all Directors have confirmed that they have complied with the required standard set out in the Securities Code throughout the year.

Directors' interests as at 31st December 2005 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on page 28. In addition, of the executive officers, only Ronald Mathison holds 7,000 shares in the Company.

### **Board Safety Review Committee**

The Board Safety Review Committee reviews and reports to the Board on safety issues. It meets three times a year and comprises three executive Directors, the CE, Tony Tyler and Derek Cridland, two non-executive Directors, Vernon Moore and Jack So, two executive officers, Nick Rhodes and Quince Chong, the General Manager Flying, Captain Andrew Maddox and the Head of Corporate Safety, Richard Howell. It is chaired by the immediate past Director Flight Operations, Ken Barley.

### **Executive Committee**

The Executive Committee is chaired by the CE and comprises two executive Directors, Tony Tyler and Robert Atkinson, three non-executive Directors, Martin Cubbon, Henry Fan and Vernon Moore and one executive officer, Augustus Tang. It meets monthly and is responsible to the Board for overseeing and setting the strategic direction of the Company.

### **Management Committee**

The Management Committee meets once a month and is responsible to the Board for overseeing the day-to-day operation of the Company. It is chaired by the CE and comprises three executive Directors, Tony Tyler, Robert Atkinson and Derek Cridland, and all seven executive officers, James Barrington, William Chau, Quince Chong, Ronald Mathison, Edward Nicol, Nick Rhodes and Augustus Tang.

### **Finance Committee**

The Finance Committee meets monthly to review the financial position of the Company and is responsible for establishing the financial risk management policy. It is chaired by the CE and comprises two executive Directors, Tony Tyler and Robert Atkinson, one non-executive Director, Martin Cubbon, one executive officer, Augustus Tang, the General Manager Corporate Finance, Keith Fung, and an independent representative from the financial community. Reports on its decisions and recommendations are presented at Board meetings.

### **Remuneration Committee**

The Remuneration Committee comprises two independent non-executive Directors, Peter Lee and Tung Chee Chen, and is chaired by the Company's past Chairman, James Hughes-Hallett who is also a non-executive Director.

Under the Services Agreement between the Company and JSSHK, which has been considered in detail and approved by the Directors of the Board who are not connected with the Swire group, staff at various levels, including executive Directors, are seconded to the Company. Those staff report to and take instructions from the Board of the Company but remain employees of Swire.

In order to be able to attract and retain international staff of suitable calibre, the Swire group provides a competitive remuneration package. This comprises salary, housing, provident fund, leave passage and education allowances and, after three years' service, a bonus related to the profit of the overall Swire group. The provision of housing affords ease of relocation either within Hong Kong or elsewhere in accordance with the needs of the business and as part of the training process whereby managers gain practical experience in various businesses within the Swire group, and payment of bonuses on a group-wide basis enables postings to be made to group companies with very different profitability profiles. Whilst bonuses are calculated by reference to the profits of the Swire group overall, a significant part of such profits are usually derived from the Company.

Although the remuneration of these executives is not entirely linked to the profits of the Company, it is considered that, given the volatility of the aviation business, this has contributed considerably to the maintenance of a stable, motivated and high-calibre senior management team in the Company.

Furthermore, as a substantial shareholder of the Company, it is in the best interest of Swire to see that executives of high quality are seconded to and retained within the Company.

A number of Directors and senior staff with specialist skills are employed directly by the Company on similar terms.

This policy and the levels of remuneration paid to executive Directors of the Company were reviewed by the Remuneration Committee. At its meeting in November, the Remuneration Committee considered a report prepared for it by independent consultants, Mercer Human Resource Consulting Limited, which confirmed that the remuneration of the Company's executive Directors was in line with comparators in peer group companies. The Committee approved individual Directors' remuneration packages to be paid in respect of 2006.

No Director takes part in any discussion about his own remuneration. The remuneration of independent non-executive Directors is determined by the Board in consideration of the complexity of the business and the responsibility involved.

Annual fees of independent non-executive Directors are as follows:

Director's fee	HK\$160,000
Fee for serving on Audit Committee	HK\$150,000
Fee for serving on Remuneration Committee	HK\$50,000

The Remuneration Committee held two meetings during 2005, the attendance of which was as follows:

James Hughes-Hallett (2/2), Peter Lee (2/2) and Tung Chee Chen (2/2).

### **Audit Committee**

The Audit Committee is responsible to the Board and consists of four non-executive Directors, three of whom are independent. The members are Vernon Moore, Peter Lee and Jack So. It is chaired by an independent non-executive Director, Raymond Or.

The Committee reviewed the completeness, accuracy and fairness of the Company's reports and accounts and provided assurance to the Board that these comply with accounting standards, stock exchange and legal requirements. The Committee also reviewed the adequacy and effectiveness of the internal control and risk management systems. It reviewed the work done by the internal and external auditors, the relevant fees and terms, results of audits performed by the external auditors and appropriate actions required on significant control weaknesses. The external auditors, the Finance Director and the Internal Audit Manager also attended these meetings.

The Audit Committee held three meetings during 2005, the attendance of which was as follows:

Peter Lee (3/3), Vernon Moore (3/3), Raymond Or (3/3) and Jack So (3/3).

### **Expenditure Control Committee**

The Expenditure Control Committee meets monthly to evaluate and approve capital expenditure. It is chaired by one executive Director, Tony Tyler and comprises the Finance Director, Robert Atkinson and one executive officer, Augustus Tang.

### **Internal Control and Internal Audit**

The internal control system has been designed to safeguard corporate assets, maintaining proper accounting records and ensure transactions are executed in accordance with management's authorisation. The system comprises a well-established organisational structure and comprehensive policies and standards.

The Internal Audit Department provides an independent review of the adequacy and effectiveness of the internal control system. The audit plan, which is prepared based on risk assessment methodology, is discussed and agreed every year with the Audit Committee. In addition to its agreed annual schedule of work, the Department conducts other special reviews as required. The Internal Audit Manager has direct access to the Audit Committee. Audit reports are sent to the Chief Operating Officer, the Finance Director, external auditors and the relevant management of the auditee department. A summary of major audit findings is reported quarterly to the Board and reviewed by the Audit Committee. As a key criteria of assessing the effectiveness of the internal control system, the Board and the Committee actively monitor the number and seriousness of findings raised by the Internal Audit Department and also the corrective actions taken by relevant departments.

Detailed control guidelines have been set and made available to all employees of the Company regarding handling and dissemination of corporate data which is price sensitive.

Systems and procedures are in place to identify, control and report on major risks, including business, safety, legal, financial, environmental and reputational risks. Exposures to these risks are monitored by the Board with the assistance of various committees and senior management.

The Board is responsible for the system of internal control and for reviewing its effectiveness. For the year under review, the Board considered that the Company's internal control system is adequate and effective and the Company has complied with the code provisions on internal control of the CG Code.

### **External Auditors**

The external auditors are primarily responsible for auditing and reporting on the annual financial statements. In 2005 the total remuneration paid to the external auditors was HK\$8 million, being HK\$6 million for audit and HK\$2 million for tax advice.

### **Airline Safety Review Committee**

The Airline Safety Review Committee meets monthly to review the Company's exposure to operational risk. It reviews the work of the Cabin Safety Review Committee, the Operational Ramp Safety Committee and the Engineering Mandatory Occurrence Report Meeting. It is chaired by the Head of Corporate Safety and comprises Directors and senior management of all operational departments as well as senior management from the ground handling company, Hong Kong Airport Services Limited, and the aircraft maintenance company, HAECO.



## **Investor Relations**

The Company continues to enhance relationships and communication with its investors. Extensive information about the Company's performance and activities is provided in the Annual Report and the Interim Report which are sent to shareholders. Regular dialogue with institutional investors and analysts is in place to keep them abreast of the Company's development. Inquiries from investors are dealt with in an informative and timely manner. All shareholders are encouraged to attend the Annual General Meeting to discuss matters relating to the Company. Any inquiries from shareholders can be addressed to the Corporate Communication Department whose contact details are given on page 92.

In order to promote effective communication, the Company maintains its website at [www.cathaypacific.com](http://www.cathaypacific.com) on which financial and other information relating to the Company and its business are disclosed.

Shareholders may request an extraordinary general meeting to be convened in accordance with Section 113 of the Companies Ordinance.

We at Cathay Pacific Airways recognise that we have a responsibility to our customers, our shareholders, our staff, and stakeholders around the world. Safety is our highest priority. We aim to provide attentive, caring service to our customers inflight and on the ground. We strive to be a good corporate citizen and to manage our businesses in ways that benefit the wider community and minimise our impact on the environment. We adhere to rigorous ethical and professional standards, and we insist on high levels of honesty, accountability and transparent decision-making in all areas of our operations. We endeavour to deliver superior financial returns and provide rewarding career opportunities to our employees. Our vision is to achieve operational excellence in everything we do and to lead the field in our industry.

### **Contribution to the community**

We believe we have a responsibility to give something back to the communities in which we operate, and which have played such an important role in our success. Our community and charitable programmes focus on supporting youth, contributing to environmental and educational initiatives, and helping those least able to help themselves.

"I Can Fly", our signature youth development programme, gives 1,000 Hong Kong people aged between 13 and 18 years the chance to learn about aviation and devise and lead community service activities. Our pilots and 100 staff volunteers act as their mentors throughout. Cathay Pacific is the principal sponsor in Hong Kong of the Life Education Activity Programme ("LEAP"), which promotes healthy lifestyles to children in schools and teaches them about the dangers of drug and alcohol abuse. It reaches children in more than 170 schools each year.

Our Change for Good inflight donation scheme, in association with the United Nation's Children's Fund, supports UNICEF programmes in over 150 countries, and helps fund the Cathay Pacific Wheelchair Bank, providing special chairs for Hong Kong children with neuromuscular diseases. Asia Miles, Cathay Pacific's frequent flyer programme, also has four charity partners, Oxfam, UNICEF, Project Orbis and CARE. Members may donate miles for their use.

Since 1994, our annual Wilderness Experience, an educational safari in South Africa, has educated young people about key ecological issues and promoted cross-cultural understanding among people taking part from around the world. Participants are selected from around the Asia-Pacific region. More than 500 young people have taken part since the scheme was started.

We encourage and support staff in the development of their own charitable projects. The Sunnyside Club was established in 1983 to help local handicapped youngsters. To date, over 2,000 staff have volunteered their time; their motto is "we put smiles on faces".

### **Environment**

As an airline, our activities do impact on the environment; however we are committed to seeking new ways to minimise the consequences of our operations, and to integrating environmental best practice into our day-to-day business and long-term development strategies. We recognise it is not enough simply to comply with legislation; as an industry leader, we need to set standards that others will follow.

Developing a business along sustainable lines – that is, reducing consumption and minimising waste – makes sound economic sense and can make a very real difference to the bottom line, so taking a proactive stance on environmental issues is an investment in the future of any company. Transparency and accountability to stakeholders are not just desirable objectives in their own right, they are powerful communications and marketing tools, which can materially affect the way in which a company is viewed by its customers and investors. Corporate responsibility to the environment is therefore all about striking the right balance between successful business development and doing the right thing by society and the world around us.

The rising price of fuel is a major concern for the aviation industry. In 2005, fuel accounted for 29.3% of our net operating expenses and our average cost of fuel into plane increased from US\$1.25 per American gallon in 2004 to US\$1.73, so improving fuel performance per unit of capacity is highly desirable. We operate one of the youngest passenger fleets in the world. New aircraft are powered by engines that are quieter, more fuel-efficient, and generate lower levels of carbon dioxide (CO<sub>2</sub>) and unburned fuel; coupled with rigorous engine and mainframe maintenance programmes on older aircraft, these factors have seen the fuel efficiency of our mainline fleet improved by 9% per available tonne kilometres (“ATK”) since 1998.

We expend considerable effort on flight planning, and so far as is commercially practicable, select optimal routes to minimise fuel consumption. We fully endorse global initiatives urging governments to straighten airways in order to reduce flight times and unnecessary fuel burn. Close monitoring of fuel uptake and the application of stringent weight criteria in aircraft design and when purchasing aircraft fittings, are part of our ongoing effort to reduce consumption.

In 2005, we established a task force to focus on challenges associated with global climate change. The aviation industry is contributing to climate change through the emission of CO<sub>2</sub>, nitrogen oxide (NO<sub>x</sub>) and water vapour into the upper atmosphere. Since 1998, annual CO<sub>2</sub> and NO<sub>x</sub> emissions generated by Cathay Pacific aircraft have increased by 32% and 12% respectively, reflecting the substantial growth of the airline’s fleet. During the same period, we achieved a decrease in CO<sub>2</sub> emissions of 8.7% per ATK, and in NO<sub>x</sub> emissions of 22.3% per ATK. We expect to see these figures improve as advanced new aircraft come on stream between now and 2010. Cathay Pacific became a signatory to the Hong Kong Clean Air Charter in 2005.

We make every effort to instil the guiding principles of “replace, reduce, reuse and recycle” into every area of our business. In Hong Kong, we place significant emphasis on recycling. In our offices we collect paper, cans, printer cartridges, CDs, plastic bottles and rechargeable batteries. Inflight our plastic cutlery is collected for recycling and for inbound flights newspapers and magazines are collected and sent for recycling. Following a trial in 2005, aluminium cans and water bottles will also be collected and sent for recycling. We continue to investigate waste recycling opportunities at destinations worldwide, in the context of varying hygiene regulations in different countries.

We exert considerable influence on our service providers – a number of whom are Swire group subsidiaries or associates – to ensure they conform to the very highest environmental standards. We conduct environmental audits of our key Hong Kong service providers to assess regulatory compliance, waste handling/storage, wastewater disposal, air emissions and water and energy efficiency. Our Swire group service providers are planning to produce their own corporate environmental reports on a regular basis.

We know we have a responsibility to promote environmental awareness amongst our staff and the wider community – not just by setting a good example, but also through focused education programmes. Green forums and workshops, and activities such as green farming activities, tree planting and visits to areas of environmental interest have all helped to engender a deeper appreciation of nature and a greater awareness of their individual responsibility to the environment amongst our corporate family. We believe that only by raising awareness of the issues at stake can we hope to ensure tomorrow's world provides a clean and healthy environment for our children to enjoy.

Our latest environmental report can be found at our website: [www.cathaypacific.com](http://www.cathaypacific.com).

### **Health and safety**

The safety and security of our passengers and staff is our highest priority, and our mission is to make Cathay Pacific Airways the safest airline in the world. Every effort is made to ensure that we operate in a manner that safeguards the health and safety of all sectors of the community. Our businesses comply with international regulatory requirements or with our own higher standards as applicable. As part of our good corporate governance, we proactively identify and manage potential threats and hazards, apply risk management processes in our decision-making, and appraise new systems and work practices for their safety implications.

Our health and safety policies are kept constantly under review, and continuous efforts are made to achieve performance improvements. Staff are provided with effective and appropriate education

and training, as well as timely feedback on security, health and safety issues; we encourage management to set the very highest standards by personal example. Every employee is responsible for ensuring that, in all aspects of their daily work, safety comes first. We encourage our business partners, contractors and suppliers to share our vision.

We implement programmes to safeguard the health of customers and staff. We continually monitor air quality in our aircraft to ensure a safe, healthy and comfortable environment for passengers and crew. We undertake similar monitoring in our Hong Kong headquarters, Cathay Pacific City, and in our training facilities and airport lounges, and have been certified by the Hong Kong Government for indoor air quality. We monitor the exposure of aircrew to cosmic radiation and ensure annual dosages are below international guideline limits. Cabin crew can call a 24-hour aero-medical advisory service should a passenger fall ill during a flight. We adhere closely to advisories issued by the World Health Organisation ("WHO"), International Air Transport Association ("IATA"), The Centre for Disease Control and Hong Kong Department of Health. We provide a variety of services for special needs customers, as well as advice to passengers on maintaining good health inflight.

### **Commitment to staff**

We aim to provide our staff with a safe, healthy, comfortable workplace that is free from discrimination on grounds of race, sex, colour, religion or disability. We are committed to providing fair employment conditions, good promotional prospects, a balance between work and life, and we aim to be recognised as an employer of choice.

Cathay Pacific and its subsidiaries and associates employ over 33,000 people worldwide. More than 11,000 Cathay Pacific staff are Hong Kong-based and a further 12,000 work for local associates, making the Cathay Pacific Group one of Hong Kong's biggest employers. We are committed to investing in the long-term development of Hong Kong's aviation industry. Our Cadet Pilot Programme has provided career opportunities with Cathay Pacific for more than 200 cadets since 1988, and around 30 potential pilots gain their wings each year.

The planned expansion of our fleet over the next five years will see us continue to create local jobs and career opportunities. Training is one of the most important investments we make in human resources. We have progressively introduced leading-edge training and development programmes to up-skill our workforce, encourage collaborative problem solving, strong executive development and business-driven learning.

We recognise that our commercial success relies on the full participation of our staff and we are committed to their health and well-being. We have recently overhauled our systems for monitoring work-related injuries – especially amongst cabin crew. At Cathay Pacific City we offer on-site fitness programmes, health promotion and work injury prevention workshops, and provide an Employee Assistance Programme that offers confidential counselling.

We review our human resource and remuneration policies regularly in the light of local legislation, industry practice, market conditions and the performance of individuals and the Company. We promote a culture of open communication in which staff can report concerns without fear of retribution. We never forget our business depends on the skill, dedication and loyalty of our staff: their teamwork keeps us strong and successful.

### **Valuing customers**

Our goal is to deliver superior service and value to our customers and to become the world's most admired airline. We recognise that the quality of the service we provide sets us apart from our competitors. We are committed to meeting our on-time performance goals, maintaining and growing our international route network, and increasing flight frequencies to meet market demand. We strive to deliver Service Straight from the Heart and we take pride in making our customers feel safe, welcome, comfortable and, above all, reassured. We anticipate our customers' needs and aim not just to meet, but surpass their expectations. We go beyond ensuring satisfaction in order to strengthen customer loyalty and enhance the profitability of the airline.