

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

We have audited the consolidated accounts of Cathay Pacific Airways Limited (the "Company") set out on pages 45 to 89, which comprise the consolidated and company balance sheets as at 31st December 2006, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the accounts

The Directors of the Company are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these accounts based on our audit. This report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical

requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Group and of the Company as at 31st December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
7th March 2007

1. Basis of accounting

The accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") (which include all applicable Hong Kong Accounting Standards ("HKAS"), Hong Kong Financial Reporting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These accounts also comply with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The measurement basis used is historical cost modified by the use of fair value for certain financial assets and liabilities as explained in accounting policies 8, 10 and 12 below.

The preparation of financial statements in conformity with HKFRS requires management to make certain estimates and assumptions which affect the amounts of fixed assets, intangible assets, long-term investments, retirement benefit obligations and taxation included in the financial statements. These estimates and assumptions are continually re-evaluated and are based on management's expectations of future events which are considered to be reasonable.

2. Basis of consolidation

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

associates. Subsidiaries are entities controlled by the Group. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

The results of subsidiaries are included in the consolidated profit and loss account. Where interests have been bought or sold during the year, only those results relating to the period of control are included in the accounts.

Goodwill represents the excess of the cost of subsidiaries and associates over the fair value of the Group's share of the net assets at the date of acquisition. Goodwill is recognised at cost less accumulated impairment losses. Goodwill arising from the acquisition of subsidiaries is allocated to cash-generating units and is tested annually for impairment.

On disposal of a subsidiary or associate, goodwill is included in the calculation of any gain or loss.

Minority interests in the consolidated balance sheet comprise the outside shareholders' proportion of the net assets of subsidiaries and are treated as a part of equity. In the profit and loss account, minority interests are disclosed as an allocation of the profit for the year.

In the Company's balance sheet investments in subsidiaries are stated at cost less any impairment loss recognised. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. Associates

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

The consolidated profit and loss account includes the Group's share of results of associates as reported in their accounts made up to dates not earlier than three months prior to 31st December. In the consolidated balance sheet investments in associates represent the Group's share of net assets, goodwill arising on acquisition of the associates (less any impairment) and loans to those companies.

In the Company's balance sheet, investments in associates are stated at cost less any impairment loss recognised and loans to those companies.

4. Foreign currencies

Foreign currency transactions entered into during the year are translated into Hong Kong dollars at the market rates ruling at the relevant transaction dates whilst the following items are translated at the rates ruling at the balance sheet date:

- (a) foreign currency denominated financial assets and liabilities.
- (b) the balance sheets of foreign subsidiaries and associates.

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

- (a) unrealised exchange differences on foreign currency denominated financial assets and liabilities, as described in accounting policies 8, 9 and 10 below, that qualify as effective cash flow hedge instruments under HKAS 39 "Financial Instruments: Recognition and Measurement" are recognised directly in equity via the Statement of Changes in Equity. These exchange differences are included in the profit and loss account as an adjustment to revenue in the same period or periods during which the hedged item affects the profit and loss.
- (b) unrealised differences on net investments in foreign subsidiaries and associates (including intra-Group balances of an equity nature) and related long-term liabilities are taken directly to equity.

5. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment.

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

Passenger aircraft	over 20 years to residual value of between 0% to 10% of cost
Freighter aircraft	over 20-27 years to residual value of between 0% to 20% of cost
Other equipment	over 3-7 years to nil residual value
Buildings	over the lease term of the leasehold land to nil residual value

Major modifications to aircraft and reconfiguration costs are capitalised as part of aircraft cost and are depreciated over periods of up to 10 years.

The depreciation policy and the carrying amount of fixed assets are reviewed annually taking into consideration factors such as changes in fleet composition, current and forecast market values and technical factors which affect the life expectancy of the assets. Any impairment in value is recognised by writing down the carrying amount to estimated recoverable amount which is the higher of the value in use (the present value of future cash flows) and the net selling price.

6. Leased assets

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

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

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

7. Intangible assets

Intangible assets comprise goodwill arising on consolidation and expenditure on computer system development. The accounting policy for goodwill is outlined in accounting policy 2 on page 45.

Expenditure on computer system development which gives rise to economic benefits is capitalised as part of intangible assets and is amortised on a straight line basis over its useful life not exceeding a period of four years.

8. Financial assets

Other long-term receivables, bank and security deposits, trade and other short-term receivables are categorised as loans and receivables and are stated at amortised cost less impairment loss.

Where long-term investments held by the Group are designated as available-for-sale financial assets, these investments are stated at fair value. Any change in fair value is recognised in the investment revaluation reserve. On disposal or if there is evidence that the investment is impaired, the cumulative gain or loss on the investment is transferred from the investment revaluation reserve to the profit and loss account.

Funds with investment managers and other liquid investments which are managed and evaluated on a fair value basis are designated as at fair value through profit and loss.

The accounting policy for derivative financial assets is outlined in accounting policy 10.

Financial assets are recognised or derecognised by the Group on the date when the purchase or sale of the assets occurs.

Interest income from financial assets is recognised as it accrues while dividend income is recognised when the right to receive payment is established.

9. Financial liabilities

Long-term loans, finance lease obligations and trade and other payables are stated at amortised cost.

Where long-term liabilities have been defeased by the placement of security deposits, those liabilities and deposits (and income and charge arising therefrom) are netted off, in order to reflect the overall commercial effect of the arrangements. Such netting off occurs where there is a current legally enforceable right to set off the liability and the deposit and the Group intends either to settle on a net basis or to realise the deposit and settle the liability simultaneously. For transactions

9. Financial liabilities *(continued)*

entered into before 2005, such netting off occurs where there is a right to insist on net settlement of the liability and the deposit including situations of default and where that right is assured beyond doubt, thereby reflecting the substance and economic reality of the transactions.

The accounting policy for derivative financial liabilities is outlined in accounting policy 10.

Financial liabilities are recognised or derecognised when the contracted obligations are incurred or extinguished.

Interest expenses incurred under financial liabilities are calculated and recognised using the effective interest method.

10. Derivative financial instruments

Derivative financial instruments are used solely to manage exposures to fluctuations in foreign exchange rates, interest rates and jet fuel prices in accordance with the Group's risk management policies. The Group does not hold or issue derivative financial instruments for trading purposes.

All derivative financial instruments are recognised at fair value in the balance sheet. Where derivative financial instruments are designated as effective hedging instruments under HKAS 39 and hedge exposure to fluctuations in foreign exchange rates, interest rates or jet fuel prices, any fair value change is accounted for as follows:

- (a) the portion of the fair value change that is determined to be an effective cash flow hedge is recognised directly in equity via the Statement of Changes in Equity and is included in the profit and loss account as an adjustment to revenue, net finance charges or fuel expense in the same period or periods during which the hedged transaction affects the profit and loss.

- (b) the ineffective portion of the fair value change is recognised in the profit and loss account immediately.

Derivatives which do not qualify as hedging instruments under HKAS 39 are accounted for as held for trading financial instruments and any fair value change is recognised in the profit and loss account immediately.

11. Fair value measurement

Fair value of financial assets and financial liabilities is determined either by reference to quoted market values or by discounting future cash flows using market interest rates for similar instruments.

12. Retirement benefits

Arrangements for staff retirement benefits vary from country to country and are made in accordance with local regulations and customs.

The retirement benefit obligation in respect of defined benefit retirement plans refers to the obligation less the fair value of plan assets where the obligation is calculated by estimating the present value of the expected future payments required to settle the benefit that employees have earned using the projected unit credit method. Actuarial gains and losses are not recognised unless their cumulative amounts exceeds either 10% of the present value of the defined benefit obligation or 10% of the fair value of plan assets whichever is greater. The amount exceeding this corridor is recognised on a straight line basis over the expected average remaining working lives of the employees participating in the plans.

13. Deferred taxation

Provision for deferred tax is made on all temporary differences.

Deferred tax assets relating to unused tax losses and deductible temporary differences are recognised to the extent that it is probable that future taxable profits will be available against which these unused tax losses and deductible temporary differences can be utilised.

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

14. Stock

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

15. Revenue recognition

Passenger and cargo sales are recognised as revenue when the transportation service is provided. The value of unflown passenger and cargo sales is recorded as unearned transportation revenue. Income from catering and other services is recognised when the services are rendered.

16. Maintenance and overhaul costs

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

17. Frequent-flyer programme

The Company operates a frequent-flyer programme called Asia Miles (the “programme”). The incremental cost of providing awards in exchange for redemption of miles earned by members is accrued as an operating cost and a liability after allowing for miles which are not expected to be redeemed. As members redeem their miles the liability is reduced to reflect the reduction in the outstanding obligation.

The Company sells miles to participating partners in the programme. That portion of revenue earned from miles sold which is expected to be redeemed on the Group’s flights is deferred and amortised to the profit and loss account over the expected redemption period.

18. Related parties

Related parties are considered to be related to the Group if the party has the ability, directly or indirectly, to control the Group or exercise significant influence over the Group in making financial and operating decisions or where the Group and the party are subject to common control. The Group’s associates, joint ventures and key management personnel are also considered to be related parties of the Group.

Consolidated Profit and Loss Account

for the year ended 31st December 2006

	Note	2006 HK\$M	2005 HK\$M	2006 US\$M	2005 US\$M
Turnover					
Passenger services		35,155	30,274	4,507	3,881
Cargo services		14,251	12,852	1,827	1,648
Catering, recoveries and other services		11,377	7,783	1,459	998
Total turnover	1	60,783	50,909	7,793	6,527
Expenses					
Staff		(9,950)	(9,025)	(1,276)	(1,157)
Inflight service and passenger expenses		(2,347)	(2,033)	(301)	(261)
Landing, parking and route expenses		(8,066)	(6,947)	(1,034)	(891)
Fuel		(20,214)	(15,588)	(2,592)	(1,999)
Aircraft maintenance		(5,330)	(4,527)	(683)	(580)
Aircraft depreciation and operating leases		(5,283)	(4,893)	(677)	(627)
Other depreciation and operating leases		(862)	(790)	(111)	(101)
Commissions		(668)	(555)	(86)	(71)
Others		(2,845)	(2,408)	(364)	(309)
Operating expenses		(55,565)	(46,766)	(7,124)	(5,996)
Operating profit	2	5,218	4,143	669	531
Finance charges		(1,818)	(1,605)	(233)	(206)
Finance income		1,353	1,161	173	149
Net finance charges	3	(465)	(444)	(60)	(57)
Share of profits of associates	11	301	269	39	35
Profit before tax		5,054	3,968	648	509
Taxation	4	(782)	(500)	(100)	(64)
Profit for the year		4,272	3,468	548	445
Profit attributable to					
Cathay Pacific shareholders	5	4,088	3,298	524	423
Minority interests		184	170	24	22
		4,272	3,468	548	445
Dividends					
Interim – paid	6	786	676	101	87
Special – paid	6	1,259	–	161	–
Final – proposed	6	1,259	947	161	121
		3,304	1,623	423	208
Earnings per share					
Basic	7	115.9¢	97.7¢	14.9¢	12.5¢
Diluted	7	115.7¢	97.4¢	14.8¢	12.5¢
Dividend per share	6	84.0¢	48.0¢	10.8¢	6.2¢

The accounts are prepared and presented in HK\$, the functional currency. The US\$ figures are shown only as supplementary information and are translated at HK\$7.8.

The notes on pages 58 to 89 form part of these accounts.

Consolidated Balance Sheet

at 31st December 2006

	Note	2006 HK\$M	2005 HK\$M	2006 US\$M	2005 US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	8	58,086	50,156	7,447	6,430
Intangible assets	9	7,473	260	958	33
Investments in associates	11	8,966	1,731	1,149	222
Other long-term receivables and investments	12	3,406	5,453	437	699
		77,931	57,600	9,991	7,384
Long-term liabilities		(33,956)	(27,745)	(4,353)	(3,557)
Related pledged security deposits		8,164	8,853	1,047	1,135
Net long-term liabilities	13	(25,792)	(18,892)	(3,306)	(2,422)
Retirement benefit obligations	14	(170)	(72)	(22)	(9)
Deferred taxation	15	(6,600)	(6,460)	(846)	(828)
		(32,562)	(25,424)	(4,174)	(3,259)
Net non-current assets		45,369	32,176	5,817	4,125
Current assets and liabilities					
Stock		800	657	103	84
Trade and other receivables	16	8,735	6,538	1,120	838
Liquid funds	17	15,624	13,459	2,003	1,726
		25,159	20,654	3,226	2,648
Current portion of long-term liabilities		(7,503)	(4,849)	(962)	(622)
Related pledged security deposits		1,352	1,286	173	165
Net current portion of long-term liabilities	13	(6,151)	(3,563)	(789)	(457)
Trade and other payables	18	(11,098)	(7,625)	(1,423)	(978)
Unearned transportation revenue		(4,671)	(3,864)	(599)	(495)
Taxation		(2,902)	(2,527)	(372)	(324)
		(24,822)	(17,579)	(3,183)	(2,254)
Net current assets		337	3,075	43	394
Net assets		45,706	35,251	5,860	4,519
CAPITAL AND RESERVES					
Share capital	19	787	676	101	87
Reserves	20	44,767	34,292	5,739	4,396
Funds attributable to Cathay Pacific shareholders		45,554	34,968	5,840	4,483
Minority interests		152	283	20	36
Total equity		45,706	35,251	5,860	4,519

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The notes on pages 58 to 89 form part of these accounts.

Christopher Pratt
Director
Hong Kong, 7th March 2007

Henry Fan
Director

Company Balance Sheet

at 31st December 2006

	Note	2006 HK\$M	2005 HK\$M	2006 US\$M	2005 US\$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	8	42,115	41,680	5,399	5,343
Intangible assets	9	83	83	11	11
Investments in subsidiaries	10	20,290	11,360	2,601	1,456
Investments in associates	11	6,972	60	894	8
Other long-term receivables and investments	12	1,500	3,792	192	486
		70,960	56,975	9,097	7,304
Long-term liabilities		(27,850)	(25,503)	(3,570)	(3,269)
Related pledged security deposits		2,412	3,200	309	410
Net long-term liabilities	13	(25,438)	(22,303)	(3,261)	(2,859)
Retirement benefit obligations	14	(203)	(127)	(26)	(16)
Deferred taxation	15	(5,085)	(6,234)	(652)	(799)
		(30,726)	(28,664)	(3,939)	(3,674)
Net non-current assets		40,234	28,311	5,158	3,630
Current assets and liabilities					
Stock		708	643	90	82
Trade and other receivables	16	6,400	6,166	821	790
Liquid funds	17	4,639	4,887	595	627
		11,747	11,696	1,506	1,499
Current portion of long-term liabilities		(6,640)	(4,807)	(851)	(616)
Related pledged security deposits		962	400	123	51
Net current portion of long-term liabilities	13	(5,678)	(4,407)	(728)	(565)
Trade and other payables	18	(8,872)	(7,565)	(1,137)	(971)
Unearned transportation revenue		(4,315)	(3,864)	(553)	(495)
Taxation		(2,634)	(2,484)	(338)	(318)
		(21,499)	(18,320)	(2,756)	(2,349)
Net current liabilities		(9,752)	(6,624)	(1,250)	(850)
Net assets		30,482	21,687	3,908	2,780
CAPITAL AND RESERVES					
Share capital	19	787	676	101	87
Reserves	20	29,695	21,011	3,807	2,693
Total equity		30,482	21,687	3,908	2,780

The accounts are prepared and presented in HK\$, the functional currency. The US\$ figures are shown only as supplementary information and are translated at HK\$7.8.

The notes on pages 58 to 89 form part of these accounts.

Christopher Pratt

Director

Hong Kong, 7th March 2007

Henry Fan

Director

Consolidated Cash Flow Statement

for the year ended 31st December 2006

	Note	2006 HK\$M	2005 HK\$M	2006 US\$M	2005 US\$M
Operating activities					
Cash generated from operations	21	11,122	8,706	1,426	1,116
Dividends received from associates	11	241	170	31	22
Interest received		267	163	34	21
Net interest paid		(1,006)	(671)	(129)	(86)
Tax paid		(2,107)	(971)	(270)	(125)
Net cash inflow from operating activities		8,517	7,397	1,092	948
Investing activities					
Purchase of a subsidiary	22	94	–	12	–
Sales of fixed assets		58	21	7	3
Net decrease/(increase) in long-term receivables and investments		41	(232)	5	(30)
Receipts from repayment of loan and capital reduction from associates		1	108	–	14
Receipts from disposal of an investment		–	117	–	15
Payments for fixed and intangible assets		(5,311)	(4,354)	(680)	(558)
Purchase of an associate		(4,082)	–	(523)	–
Net increase in liquid funds other than cash and cash equivalents		(110)	(120)	(14)	(15)
Net cash outflow from investing activities		(9,309)	(4,460)	(1,193)	(571)
Financing activities					
New financing		11,058	5,486	1,418	703
Net cash benefit from financing arrangements		358	343	46	44
Shares issued	19	52	78	7	10
Loan and finance lease repayments		(5,786)	(4,807)	(742)	(616)
Security deposits placed		(210)	(91)	(27)	(11)
Dividends paid – to shareholders		(2,992)	(2,196)	(384)	(282)
– to minority interests		(286)	(21)	(37)	(3)
Net cash inflow/(outflow) from financing activities		2,194	(1,208)	281	(155)
Increase in cash and cash equivalents					
Cash and cash equivalents at 1st January		4,267	2,657	547	341
Effect of exchange differences		98	(119)	12	(16)
Cash and cash equivalents at 31st December	23	5,767	4,267	739	547

The consideration of the purchase of a subsidiary is set out in note 22 to the accounts.

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The notes on pages 58 to 89 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2006

	Attributable to Cathay Pacific shareholders						Total HK\$M	Minority interests	Total equity	
	Non-distributable							Total HK\$M	HK\$M	HK\$M
	Share capital HK\$M	Retained profit HK\$M	Share premium HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Capital redemption reserve and others HK\$M				
At 1st January 2006	676	26,492	7,531	228	30	11	34,968	283	35,251	
Acquisition of additional interest in subsidiaries and associates	–	612	–	(260)	–	–	352	–	352	
Changes in cash flow hedges										
– recognised during the year	–	–	–	–	(679)	–	(679)	–	(679)	
– deferred tax recognised	–	–	–	–	78	–	78	–	78	
– transferred to profit for the year	–	–	–	–	(71)	–	(71)	–	(71)	
Revaluation surplus/(deficit) recognised during the year	–	–	–	938	–	(40)	898	–	898	
Exchange differences	–	–	–	–	–	91	91	–	91	
Net gain/(loss) recognised directly in equity	–	612	–	678	(672)	51	669	–	669	
Profit for the year	–	4,088	–	–	–	–	4,088	184	4,272	
Total recognised profit/(loss) for the year	–	4,700	–	678	(672)	51	4,757	184	4,941	
2005 final dividend	–	(947)	–	–	–	–	(947)	–	(947)	
2006 interim dividend	–	(786)	–	–	–	–	(786)	–	(786)	
2006 special dividend	–	(1,259)	–	–	–	–	(1,259)	–	(1,259)	
Acquisition of minority interests	–	–	–	–	–	–	–	(29)	(29)	
Dividends paid to minority interests	–	–	–	–	–	–	–	(286)	(286)	
Issue of new shares	110	–	8,659	–	–	–	8,769	–	8,769	
Share options exercised	1	–	51	–	–	–	52	–	52	
Total transactions with shareholders	111	(2,992)	8,710	–	–	–	5,829	(315)	5,514	
At 31st December 2006	787	28,200	16,241	906	(642)	62	45,554	152	45,706	

The notes on pages 58 to 89 form part of these accounts.

for the year ended 31st December 2005

	Attributable to Cathay Pacific shareholders							Minority interests HK\$M	Total equity HK\$M
	Non-distributable						Total HK\$M		
	Share capital HK\$M	Retained profit HK\$M	Share premium HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Capital redemption reserve and others HK\$M			
At 31st December 2004	674	25,496	7,455	493	(1,285)	22	32,855	134	32,989
Prior year adjustment for financial derivatives	–	(106)	–	–	–	–	(106)	–	(106)
At 1st January 2005	674	25,390	7,455	493	(1,285)	22	32,749	134	32,883
Changes in cash flow hedges									
– recognised during the year	–	–	–	–	1,212	–	1,212	–	1,212
– deferred tax recognised	–	–	–	–	(165)	–	(165)	–	(165)
– transferred to profit for the year	–	–	–	–	268	–	268	–	268
Revaluation deficit recognised during the year	–	–	–	(265)	–	–	(265)	–	(265)
Exchange differences	–	–	–	–	–	(11)	(11)	–	(11)
Net (loss)/gain recognised directly in equity	–	–	–	(265)	1,315	(11)	1,039	–	1,039
Profit for the year	–	3,298	–	–	–	–	3,298	170	3,468
Total recognised profit/(loss) for the year	–	3,298	–	(265)	1,315	(11)	4,337	170	4,507
2004 final dividend	–	(1,520)	–	–	–	–	(1,520)	–	(1,520)
2005 interim dividend	–	(676)	–	–	–	–	(676)	–	(676)
Dividends paid to minority interests	–	–	–	–	–	–	–	(21)	(21)
Share options exercised	2	–	76	–	–	–	78	–	78
Total transactions with shareholders	2	(2,196)	76	–	–	–	(2,118)	(21)	(2,139)
At 31st December 2005	676	26,492	7,531	228	30	11	34,968	283	35,251

The notes on pages 58 to 89 form part of these accounts.

Company Statement of Changes in Equity

for the year ended 31st December 2006

	Share capital HK\$M	Retained profit HK\$M	Non-distributable				Total equity HK\$M
			Share premium HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Capital redemption reserve HK\$M	
At 1st January 2006	676	13,192	7,531	202	65	21	21,687
Changes in cash flow hedges							
– recognised during the year	–	–	–	–	(669)	–	(669)
– deferred tax recognised	–	–	–	–	78	–	78
– transferred to profit for the year	–	–	–	–	(69)	–	(69)
Revaluation surplus							
– recognised during the year	–	–	–	786	–	–	786
– transferred to investments in associates	–	–	–	(188)	–	–	(188)
Net gain/(loss) recognised directly in equity	–	–	–	598	(660)	–	(62)
Profit for the year	–	3,028	–	–	–	–	3,028
Total recognised profit/(loss) for the year	–	3,028	–	598	(660)	–	2,966
2005 final dividend	–	(947)	–	–	–	–	(947)
2006 interim dividend	–	(786)	–	–	–	–	(786)
2006 special dividend	–	(1,259)	–	–	–	–	(1,259)
Issue of new shares	110	–	8,659	–	–	–	8,769
Share options exercised	1	–	51	–	–	–	52
Total transactions with shareholders	111	(2,992)	8,710	–	–	–	5,829
At 31st December 2006	787	13,228	16,241	800	(595)	21	30,482

The notes on pages 58 to 89 form part of these accounts.

for the year ended 31st December 2005

	Share capital HK\$M	Retained profit HK\$M	Non-distributable				Total equity HK\$M
			Share premium HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Capital redemption reserve HK\$M	
At 31st December 2004	674	13,123	7,455	469	(1,421)	21	20,321
Prior year adjustment for financial derivatives	–	(106)	–	–	–	–	(106)
At 1st January 2005	674	13,017	7,455	469	(1,421)	21	20,215
Changes in cash flow hedges							
– recognised during the year	–	–	–	–	1,210	–	1,210
– deferred tax recognised	–	–	–	–	(165)	–	(165)
– transferred to profit for the year	–	–	–	–	441	–	441
Revaluation deficit recognised during the year	–	–	–	(267)	–	–	(267)
Net (loss)/gain recognised directly in equity	–	–	–	(267)	1,486	–	1,219
Profit for the year	–	2,371	–	–	–	–	2,371
Total recognised profit/(loss) for the year	–	2,371	–	(267)	1,486	–	3,590
2004 final dividend	–	(1,520)	–	–	–	–	(1,520)
2005 interim dividend	–	(676)	–	–	–	–	(676)
Share options exercised	2	–	76	–	–	–	78
Total transactions with shareholders	2	(2,196)	76	–	–	–	(2,118)
At 31st December 2005	676	13,192	7,531	202	65	21	21,687

The notes on pages 58 to 89 form part of these accounts.

1. Turnover

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

(a) Primary reporting by geographical segment

	2006 HK\$M	2005 HK\$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	24,855	20,256
– Japan, Korea and Taiwan	9,757	8,432
South West Pacific and South Africa	4,015	3,747
South East Asia and Middle East	7,019	5,870
Europe	7,016	6,150
North America	8,121	6,454
	60,783	50,909

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

Analysis of turnover and profit by geographical segment:

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

Analysis of net assets by geographical segment:

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

1. Turnover *(continued)*

(b) Secondary reporting by business segment

	2006 HK\$M	2005 HK\$M
Revenue – external sales		
– Passenger services	35,155	30,274
– Cargo services	14,251	12,852
	49,406	43,126
Unallocated revenue		
– Catering, recoveries and other services	11,377	7,783
	60,783	50,909

The Group is engaged in two main business segments: in passenger business and in freight traffic through the Company and two subsidiaries. Catering services, recoveries and other airline supporting services which supplement the Group's main operating business are included in unallocated revenue.

Analysis of net assets by business segment:

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

2. Operating profit

	2006 HK\$M	2005 HK\$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– Leased	1,766	1,853
– Owned	2,489	2,110
Amortisation of intangible assets	40	44
Operating lease rentals		
– Land and buildings	434	382
– Aircraft and related equipment	1,379	1,258
– Others	37	36
Operating lease income		
– Aircraft and related equipment	(123)	(11)
Cost of stock expensed	1,552	1,427
Exchange differences	(272)	(156)
Auditors' remuneration	8	6
Income from unlisted investments	(166)	(119)
Income from listed investments	(25)	(6)

3. Net finance charges

	2006 HK\$M	2005 HK\$M
Net interest charges comprise:		
– Obligations under finance leases	1,434	1,436
– Interest income on related security deposits, notes and bonds	(609)	(726)
	825	710
– Bank loans and overdrafts	326	117
– Other loans wholly repayable within five years	58	39
	1,209	866
Income from liquid funds:		
– Funds with investment managers and other liquid investments	(462)	(259)
– Bank deposits and other receivables	(267)	(169)
	(729)	(428)
Financial derivatives:		
– Interest income	(15)	(7)
– Interest expenses	–	13
	(15)	6
	465	444

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

4. Taxation

	2006 HK\$M	2005 HK\$M
Current tax expenses		
– Hong Kong profits tax	61	61
– Overseas tax	362	327
– Under/(over) provisions for prior years	162	(72)
Deferred tax		
– Origination and reversal of temporary differences	197	184
	782	500

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries to which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations.

4. Taxation *(continued)*

A reconciliation between tax charge and accounting profit at applicable tax rates is as follows:

	2006 HK\$M	2005 HK\$M
Consolidated profit before tax	5,054	3,968
Notional tax calculated at Hong Kong profits tax rate of 17.5% (2005: 17.5%)	(884)	(694)
Expenses not deductible for tax purposes	(200)	(184)
Tax provisions (under)/over provided in prior years	(162)	72
Effect of different tax rates in overseas jurisdictions	292	294
Tax losses recognised/(unused tax losses not recognised)	34	(97)
Income not subject to tax	138	109
Tax charge	(782)	(500)

Further information on deferred tax is shown in note 15 to the accounts.

5. Profit attributable to shareholders

Of the profit attributable to Cathay Pacific shareholders, a profit of HK\$3,028 million (2005: HK\$2,371 million) has been dealt with in the accounts of the Company.

6. Dividends

	2006 HK\$M	2005 HK\$M
2006 interim dividend paid on 3rd October 2006 of HK¢20 per share (2005: HK¢20 per share)	786	676
2006 special dividend paid on 20th November 2006 of HK¢32 per share	1,259	–
2006 final dividend proposed on 7th March 2007 of HK¢32 per share (2005: HK¢28 per share)	1,259	947
	3,304	1,623

7. Earnings per share

Basic earnings per share and diluted earnings per share are calculated by dividing the profit attributable to Cathay Pacific shareholders of HK\$4,088 million (2005: HK\$3,298 million) by the daily weighted average number of shares in issue throughout the year of 3,526 million (2005: 3,377 million) shares and 3,533 million (2005: 3,386 million) shares respectively with the latter adjusted for the effects of the share options.

	2006 Million	2005 Million
Weighted average number of ordinary shares used in calculating basic earnings per share	3,526	3,377
Deemed issue of ordinary shares for no consideration	7	9
Weighted average number of ordinary shares used in calculating diluted earnings per share	3,533	3,386

8. Fixed assets

Group	Aircraft and related equipment		Other equipment		Buildings	Total HK\$M
	Owned HK\$M	Leased HK\$M	Owned HK\$M	Leased HK\$M	Owned HK\$M	
Cost						
At 1st January 2006	35,270	41,110	2,329	547	4,522	83,778
Exchange differences	(1)	–	–	–	–	(1)
Additions	4,087	988	194	–	3	5,272
Purchase of a subsidiary	5,900	2,934	320	–	677	9,831
Disposals	(304)	–	(156)	–	–	(460)
Transfers	3,310	(3,310)	–	–	–	–
At 31st December 2006	48,262	41,722	2,687	547	5,202	98,420
At 1st January 2005	29,557	43,181	2,304	547	4,522	80,111
Exchange differences	3	–	2	–	2	7
Additions	3,448	435	118	–	–	4,001
Disposals	(244)	–	(95)	–	(2)	(341)
Transfers	2,506	(2,506)	–	–	–	–
At 31st December 2005	35,270	41,110	2,329	547	4,522	83,778
Accumulated depreciation						
At 1st January 2006	17,825	12,486	1,607	281	1,423	33,622
Charge for the year	2,162	1,742	157	24	170	4,255
Purchase of a subsidiary	1,401	1,000	126	–	275	2,802
Disposals	(191)	–	(154)	–	–	(345)
Transfers	1,727	(1,727)	–	–	–	–
At 31st December 2006	22,924	13,501	1,736	305	1,868	40,334
At 1st January 2005	13,833	12,942	1,556	258	1,263	29,852
Exchange differences	–	–	1	–	1	2
Charge for the year	1,805	1,830	144	23	161	3,963
Disposals	(99)	–	(94)	–	(2)	(195)
Transfers	2,286	(2,286)	–	–	–	–
At 31st December 2005	17,825	12,486	1,607	281	1,423	33,622
Net book value						
At 31st December 2006	25,338	28,221	951	242	3,334	58,086
At 31st December 2005	17,445	28,624	722	266	3,099	50,156

8. Fixed assets (continued)

	Aircraft and related equipment		Other equipment		Buildings	Total HK\$M
	Owned HK\$M	Leased HK\$M	Owned HK\$M	Leased HK\$M	Owned HK\$M	
Company						
Cost						
At 1st January 2006	28,587	41,325	773	547	397	71,629
Additions	3,385	751	153	–	–	4,289
Disposals	(301)	–	(108)	–	–	(409)
Transfers	6,017	(6,017)	–	–	–	–
At 31st December 2006	37,688	36,059	818	547	397	75,509
At 1st January 2005	22,240	44,238	787	547	399	68,211
Additions	3,674	–	65	–	–	3,739
Disposals	(240)	–	(79)	–	(2)	(321)
Transfers	2,913	(2,913)	–	–	–	–
At 31st December 2005	28,587	41,325	773	547	397	71,629
Accumulated depreciation						
At 1st January 2006	15,332	13,336	639	281	361	29,949
Charge for the year	1,948	1,689	57	24	21	3,739
Disposals	(187)	–	(107)	–	–	(294)
Transfers	2,795	(2,795)	–	–	–	–
At 31st December 2006	19,888	12,230	589	305	382	33,394
At 1st January 2005	11,495	13,748	668	258	341	26,510
Charge for the year	1,650	1,874	50	23	22	3,619
Disposals	(99)	–	(79)	–	(2)	(180)
Transfers	2,286	(2,286)	–	–	–	–
At 31st December 2005	15,332	13,336	639	281	361	29,949
Net book value						
At 31st December 2006	17,800	23,829	229	242	15	42,115
At 31st December 2005	13,255	27,989	134	266	36	41,680

8. Fixed assets *(continued)*

(a) Finance leased assets

Certain aircraft are subject to leases with purchase options to be exercised at the end of the respective leases. The remaining lease terms range from 1 to 12 years. Some of the rent payments are on a floating basis which are generally linked to market rates of interest. All leases permit subleasing rights subject to appropriate consent from lessors. Early repayment penalties would be payable on some of the leases should they be terminated prior to their specified expiry dates.

(b) Operating leased assets

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

Under the operating lease arrangements for aircraft, the lease rentals are fixed and subleasing is not allowed. At 31st December 2006, four Boeing 747-400s (2005: three), four Airbus A340-300s (2005: four), three Airbus A340-600s (2005: three), fourteen Airbus A330-300s (2005: three), five Airbus A320-200s (2005: nil) and four Airbus A321-200s (2005: nil), most with purchase options, held under operating leases were not capitalised. The estimated capitalised value of these leases being the present value of the aggregate future lease payments is HK\$6,707 million (2005: HK\$2,347 million).

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

The future minimum lease payments payable under operating leases committed as at 31st December 2006 for each of the following periods are as follows:

	2006 HK\$M	2005 HK\$M
Aircraft and related equipment:		
– within one year	1,968	941
– after one year but within five years	8,206	3,880
– after five years	4,548	4,706
	14,722	9,527
Buildings and other equipment:		
– within one year	348	232
– after one year but within five years	478	339
– after five years	122	129
	948	700
	15,670	10,227

(c) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years. Advance payments included in owned aircraft and related equipment amounted to HK\$2,651 million (2005: HK\$2,036 million) for the Group and HK\$424 million (2005: HK\$222 million) for the Company. No depreciation is provided on these advance payments.

(d) Security, including charges over the assets concerned and relevant insurance policies, is provided to the leasing companies or other parties that provide the underlying finance. Further information is provided under note 13 to the accounts.

9. Intangible assets

	Group			Company
	Goodwill HK\$M	Computer systems HK\$M	Total HK\$M	Computer systems HK\$M
Cost				
At 1st January 2006	176	582	758	558
Additions	7,214	39	7,253	39
Purchase of a subsidiary	–	15	15	–
At 31st December 2006	7,390	636	8,026	597
At 1st January 2005	176	640	816	617
Additions	–	61	61	60
Disposals	–	(119)	(119)	(119)
At 31st December 2005	176	582	758	558
Accumulated amortisation				
At 1st January 2006	–	498	498	475
Charge for the year	–	40	40	39
Purchase of a subsidiary	–	15	15	–
At 31st December 2006	–	553	553	514
At 1st January 2005	–	468	468	445
Charge for the year	–	44	44	44
Disposals	–	(14)	(14)	(14)
At 31st December 2005	–	498	498	475
Net book value				
At 31st December 2006	7,390	83	7,473	83
At 31st December 2005	176	84	260	83

The carrying amount of goodwill allocated to the airline operation is HK\$7,351 million (2005: HK\$137 million). The addition of the goodwill relates to the acquisition of Dragonair. In accordance with HKAS 36 "Impairment of Assets" the Group completed its annual impairment test for goodwill allocated to the Group's various cash generating units ("CGUs") by comparing their recoverable amounts to their carrying amounts as at the balance sheet date. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on five-year financial budgets, with reference to past performance and expectations for market development, approved by management. Cash flows beyond the five-year period are extrapolated with an estimated general annual growth rate which does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rates used of approximately 9% are pre-tax and reflect specific risk related to the relevant segments. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

10. Subsidiaries

	Company	
	2006 HK\$M	2005 HK\$M
Unlisted shares at cost	216	214
Other investments at cost	12,899	15,220
Net amounts due (to)/from subsidiaries		
– Loan accounts	(1,147)	(4,327)
– Current accounts	8,322	253
	20,290	11,360

On 8th June 2006, the Company, Air China, CNAC, CITIC Pacific and Swire Pacific entered into a Restructuring Agreement in respect of which a joint announcement dated 8th June 2006 was published and a circular dated 6th July 2006 was sent to shareholders. The transactions contemplated under this agreement were approved at an Extraordinary General Meeting held on 22nd August 2006 and were completed on 28th September 2006. Under this agreement, the Company increased its shareholding in Dragonair from 17.8% to 100% by acquiring 82.2% of Dragonair's issued shares for a total consideration of HK\$8,221 million satisfied by a combination of the issue of 548,045,724 new shares of the Company ("new Cathay Shares") at an issue price of HK\$13.50 per share and HK\$822 million in cash. The issue price of the new Cathay Shares was determined following arm's length negotiation between the parties, in particular with reference to the current and recent average trading price of the shares of the Company as of 8th June 2006. Upon completion of the Restructuring Agreement on 28th September 2006, Dragonair became a wholly owned subsidiary of the Company. For definition of terms, please refer to Directors' Report on page 30.

The valuation of Dragonair was determined following arm's length negotiation between the parties, based on the underlying value of Dragonair, as reflected in the prevailing market price of CNAC, and having regard to the trading multiples of comparable airlines. The goodwill arising on the acquisition of Dragonair is principally attributable to the benefits to the Company of full ownership of Dragonair and potential synergies arising from a combination of the businesses.

Included in the profit attributable to Cathay Pacific shareholders for the year, HK\$28 million was Dragonair's profit shared by the Group since the acquisition date.

The Group's turnover and profit attributable to Cathay Pacific shareholders for the year would be HK\$68,896 million and HK\$4,225 million respectively if the acquisition was effected at the beginning of the year.

Principal subsidiaries are listed on pages 88 and 89.

11. Associates

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Hong Kong listed shares at cost (Market value: HK\$13,763 million, 2005: HK\$2,716 million)	–	–	6,964	52
Unlisted shares at cost	–	–	17	17
Share of net assets				
– listed in Hong Kong	6,705	975	–	–
– unlisted	349	755	–	–
Goodwill	1,912	–	–	–
	8,966	1,730	6,981	69
Less: Impairment loss	–	–	(9)	(9)
Loan to an associate	–	1	–	–
	8,966	1,731	6,972	60
Share of profits of associates				
– listed	232	170	–	–
– unlisted	69	99	–	–
	301	269	–	–
Dividends received and receivable from associates	241	170	196	63
			2006 HK\$M	2005 HK\$M
Summarised financial information of associates:				
Assets			96,009	16,615
Liabilities			(55,313)	(8,913)
Equity			40,696	7,702
Turnover			11,411	14,092
Profit for the year			1,046	1,101

Under the Restructuring Agreement, the Company subscribed in cash for 1,179,151,364 shares of Air China at an aggregate subscription price of HK\$4,068 million in September 2006. Upon completion of the Restructuring Agreement, together with the 10% interest previously held as long-term investment, the Company has acquired 17.3% interest in the share capital of Air China. As the Company has significant influence over Air China by demonstrating the power to participate in its financial and operating policy decisions, Air China is regarded as an associate.

In respect of the year ended 31st December 2006, Air China was included in the consolidated accounts based on the most recent available financial statements drawn up to 30th September 2006, but taking into account any changes in the subsequent period from 1st October 2006 to 31st December 2006 that would materially affect the results. The Group has taken advantage of the provision contained in HKAS 28 "Investments in Associates" whereby it is permitted to include the attributable share of associates' results based on accounts drawn up to a non-coterminous period end where the difference must be no greater than three months.

Principal associates are listed on page 89.

12. Other long-term receivables and investments

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Investments at fair value				
– listed in Hong Kong	132	2,489	–	2,311
– unlisted	1,139	981	1,057	981
Leasehold land rental prepayments	1,685	1,477	–	–
Loans and other receivables	450	506	443	500
	3,406	5,453	1,500	3,792

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK\$1,727 million (2005: HK\$1,513 million).

13. Long-term liabilities

	Note	2006		2005	
		Current HK\$M	Non-current HK\$M	Current HK\$M	Non-current HK\$M
Group					
Long-term loans	(a)	3,603	10,856	1,652	4,611
Obligations under finance leases	(b)	2,548	14,936	1,911	14,281
		6,151	25,792	3,563	18,892
Company					
Long-term loans	(a)	3,099	7,451	1,388	3,648
Obligations under finance leases	(b)	2,579	17,987	3,019	18,655
		5,678	25,438	4,407	22,303

13. Long-term liabilities *(continued)*

(a) Long-term loans

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Bank loans				
– secured	7,290	3,416	3,482	2,255
– unsecured	3,726	1,423	3,625	1,423
Other loans				
– secured	273	309	273	309
– unsecured	3,170	1,115	3,170	1,049
	14,459	6,263	10,550	5,036
Amount due within one year included under current liabilities	(3,603)	(1,652)	(3,099)	(1,388)
	10,856	4,611	7,451	3,648
Repayable as follows:				
Bank loans				
– within one year	3,526	1,556	3,022	1,324
– after one year but within two years	1,407	299	887	205
– after two years but within five years	3,069	1,561	1,496	1,135
– after five years	3,014	1,423	1,702	1,014
	11,016	4,839	7,107	3,678
Other loans				
– within one year	77	96	77	64
– after one year but within two years	82	69	82	69
– after two years but within five years	3,284	1,259	3,284	1,225
	3,443	1,424	3,443	1,358
Amount due within one year included under current liabilities	(3,603)	(1,652)	(3,099)	(1,388)
	10,856	4,611	7,451	3,648

Borrowings other than bank loans are repayable on various dates up to 2011 at interest rates between 3.06% and 4.24% per annum while bank loans are repayable up to 2018.

Long-term loans and other liabilities of the Group and the Company not wholly repayable within five years amounted to HK\$6,382 million and HK\$3,482 million respectively (2005: HK\$2,707 million and HK\$2,040 million).

As at 31st December 2006, the Group and the Company had long-term liabilities which were defeased by funds and other investments totalling HK\$20,631 million and HK\$16,561 million respectively (2005: HK\$19,873 million and HK\$19,873 million). Accordingly, these liabilities and the related funds, as well as related expenditure and income, have been netted off in the accounts.

13. Long-term liabilities (continued)

(b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2007 to 2018. The future payments under these finance leases are as follows:

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Within one year	4,831	4,029	4,296	4,170
After one year but within two years	3,444	4,097	3,561	4,152
After two years but within five years	10,118	9,758	12,162	11,638
After five years	15,875	16,056	12,963	14,893
Total future payments	34,268	33,940	32,982	34,853
Interest charges relating to future periods	(7,268)	(7,609)	(9,042)	(9,579)
Present value of future payments	27,000	26,331	23,940	25,274
Security deposits, notes and zero coupon bonds	(9,516)	(10,139)	(3,374)	(3,600)
Amounts due within one year included under current liabilities	(2,548)	(1,911)	(2,579)	(3,019)
	14,936	14,281	17,987	18,655

The present value of future payments is repayable as follows:

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Within one year	3,900	3,197	3,541	3,419
After one year but within two years	2,654	3,261	2,961	3,445
After two years but within five years	8,107	7,658	9,951	9,529
After five years	12,339	12,215	7,487	8,881
	27,000	26,331	23,940	25,274

As at 31st December 2006, the Group and the Company had obligations under finance leases which were defeased by funds and other investments amounting to HK\$8,775 million and HK\$1,084 million respectively (2005: HK\$8,507 million and HK\$1,080 million). Accordingly these liabilities and the related funds, as well as related expenditure and income, have been netted off in the accounts.

(c) Long-term liabilities by currency at the year end are summarised below:

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
US dollar	20,236	16,045	19,739	19,145
Euro	2,649	2,746	3,407	3,459
Hong Kong dollar	5,196	1,457	3,625	1,424
Singapore dollar	3,170	1,049	3,170	1,049
Pound sterling	355	688	355	688
Japanese yen	337	470	820	945
	31,943	22,455	31,116	26,710

Further information on long-term liabilities is shown in note 28 to the accounts.

14. Retirement benefits

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

The Group operates the following principal schemes:

(a) Defined benefit retirement schemes

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

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

The latest actuarial valuation of CPALRS and the portion of SGRBS funds specifically designated for the Company's employees were completed by a qualified actuary, Watson Wyatt Hong Kong Limited, as at 31st December 2006 using the projected unit credit method. The Group's obligations are 103% (2005: 101%) covered by the plan assets held by the trustees.

	2006		2005	
	SGRBS	CPALRS	SGRBS	CPALRS
The principal actuarial assumptions are:				
Discount rate used	3.85%	3.8%	4.25%	4%
Expected return on plan assets	6%	6%	6%	6%
Future salary increases	3-5%	2-5%	2-5%	2-5%

	2006 HK\$M	2005 HK\$M
Net expenses recognised in the Group profit and loss account:		
Current service cost	325	382
Interest on obligations	336	297
Expected return on plan assets	(437)	(411)
Actuarial loss/(gain) recognised	7	(1)
Total included in staff costs	231	267
Actual return on plan assets	966	590

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Net liability recognised in the balance sheet:				
Present value of funded obligations	7,844	7,341	7,196	6,818
Fair value of plan assets	(8,065)	(7,387)	(7,369)	(6,833)
	(221)	(46)	(173)	(15)
Net unrecognised actuarial gains	391	118	376	142
	170	72	203	127

14. Retirement benefits (continued)

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Movements in present value of funded obligations comprise:				
At 1st January	7,341	7,227	6,818	6,825
Movements for the year				
– current service cost	325	382	299	354
– interest cost	336	297	300	273
– employees contributions	27	31	27	31
– benefits paid	(530)	(464)	(509)	(449)
– purchase of a subsidiary	78	–	–	–
– actuarial losses/(gains)	267	(132)	261	(216)
At 31st December	7,844	7,341	7,196	6,818

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Movements in fair value of plan assets comprise:				
At 1st January	7,387	6,933	6,833	6,415
Movements for the year				
– expected return on plan assets	437	411	403	380
– employees contributions	27	31	27	31
– employer contributions	127	297	120	285
– benefits paid	(530)	(464)	(509)	(449)
– purchase of a subsidiary	88	–	–	–
– actuarial gains	529	179	495	171
At 31st December	8,065	7,387	7,369	6,833

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Fair value of plan assets comprises:				
Equities	5,070	5,049	4,724	4,739
Debt instruments	1,962	2,051	1,848	1,941
Deposits and cash	807	157	797	153
Others	226	130	–	–
	8,065	7,387	7,369	6,833

The overall expected rate of return on plan assets is determined based on the average rate of return of major categories of assets that constitute the total plan assets.

14. Retirement benefits (continued)

	Group				
	2006 HK\$M	2005 HK\$M	2004 HK\$M	2003 HK\$M	2002 HK\$M
Present value of funded obligations	7,844	7,341	7,227	6,326	5,937
Fair value of plan assets	(8,065)	(7,387)	(6,933)	(6,061)	(4,574)
(Surplus)/deficit	(221)	(46)	294	265	1,363
Actuarial losses/(gains) arising on plan liabilities	267	(132)	592	93	314
Actuarial (gains)/losses arising on plan assets	(529)	(179)	(484)	(984)	703

	Company				
	2006 HK\$M	2005 HK\$M	2004 HK\$M	2003 HK\$M	2002 HK\$M
Present value of funded obligations	7,196	6,818	6,825	5,938	5,563
Fair value of plan assets	(7,369)	(6,833)	(6,415)	(5,609)	(4,235)
(Surplus)/deficit	(173)	(15)	410	329	1,328
Actuarial losses/(gains) arising on plan liabilities	261	(216)	592	99	314
Actuarial (gains)/losses arising on plan assets	(495)	(171)	(453)	(910)	646

The difference between the fair value of the schemes' assets and the present value of the accrued past services liabilities at the date of an actuarial valuation is taken into consideration when determining future funding levels in order to ensure that the schemes will be able to meet liabilities as they become due. The contributions are calculated based upon funding recommendations arising from actuarial valuations. The Group expects to make contributions of HK\$265 million to the schemes in 2007.

(b) Defined contribution retirement schemes

Staff employed by the Company in Hong Kong on expatriate terms are eligible to join a defined contribution retirement scheme, the CPA Provident Fund 1993. All staff employed in Hong Kong are eligible to join the CPA Provident Fund.

Under the terms of these schemes, other than the Company contribution, staff may elect to contribute from 0% to 10% of the monthly salary. During the year, the benefits forfeited in accordance with the schemes' rules amounted to HK\$12 million (2005: HK\$12 million) which have been applied towards the contributions payable by the Company.

A mandatory provident fund ("MPF") scheme was established under the MPFSO in December 2000. Where staff elect to join the MPF scheme, both the Company and staff are required to contribute 5% of the employees' relevant income (capped at HK\$20,000). Staff may elect to contribute more than the minimum as a voluntary contribution.

Contributions to defined contribution retirement schemes charged to the Group profit and loss account are HK\$487 million (2005: HK\$386 million).

15. Deferred taxation

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Deferred tax assets:				
– retirement benefits	(25)	(15)	(29)	(24)
– provisions	(121)	(19)	(69)	(19)
– tax losses	(698)	(307)	(497)	(219)
– cash flow hedges	(71)	–	(71)	–
Deferred tax liabilities:				
– accelerated tax depreciation	2,084	1,311	1,419	1,006
– cash flow hedges	–	7	–	7
Provision in respect of certain lease arrangements	5,431	5,483	4,332	5,483
	6,600	6,460	5,085	6,234

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Movements in deferred taxation comprise:				
At 1st January	6,460	7,280	6,234	7,113
Movements for the year				
– transfer from profit and loss account				
– deferred tax expenses (note 4)	197	184	80	125
– operating expenses	148	173	138	173
– transferred to cash flow hedge reserve	(78)	165	(78)	165
– initial cash benefit from lease arrangements	358	343	286	343
– purchase of a subsidiary	1,221	–	–	–
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	(1,706)	(1,685)	(1,575)	(1,685)
At 31st December	6,600	6,460	5,085	6,234

The Group has certain tax losses which do not expire under current tax legislation, a deferred tax asset has been recognised to the extent that recoverability is considered probable.

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2008 to 2017 (2005: 2007 to 2016) as follows:

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
After one year but within five years	3,240	3,444	2,656	3,444
After five years but within 10 years	1,907	1,770	1,450	1,770
After 10 years	284	269	226	269
	5,431	5,483	4,332	5,483

16. Trade and other receivables

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Trade debtors	4,701	3,448	3,751	3,304
Derivative financial assets	720	886	707	886
Other receivables and prepayments	3,213	2,192	1,941	1,976
Due from associates	101	12	1	–
	8,735	6,538	6,400	6,166

As at 31st December 2006, derivative financial assets of the Group and the Company accounted for as held for trading amounted to HK\$237 million (2005: HK\$119 million) and HK\$236 million (2005: HK\$119 million) respectively.

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Analysis of trade debtors by age:				
Current	4,445	3,408	3,715	3,277
One to three months overdue	241	38	35	26
More than three months overdue	15	2	1	1
	4,701	3,448	3,751	3,304

17. Liquid funds

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Short-term deposits and bank balances	5,796	4,321	3,834	3,761
Short-term deposits maturing beyond three months when placed	71	557	45	547
Funds with investment managers				
– debt securities listed outside Hong Kong	7,200	6,036	–	–
– bank deposits	490	713	–	–
Other liquid investments				
– debt securities listed outside Hong Kong	58	55	–	–
– bank deposits	2,009	1,777	760	579
	15,624	13,459	4,639	4,887

Included in other liquid investments are bank deposits of HK\$1,829 million (2005: HK\$1,754 million) and debt securities of HK\$58 million (2005: HK\$55 million) which are pledged as part of long-term financing arrangements. The arrangements provide that these deposits and debt securities must be maintained at specified levels for the duration of the financing. Other than Hong Kong dollars, liquid funds were mainly denominated in US dollars and Renminbi of HK\$12,672 million (2005: HK\$8,993 million) and HK\$906 million (2005: HK\$1,178 million) respectively.

18. Trade and other payables

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Trade creditors	4,617	3,019	2,949	2,802
Derivative financial liabilities	756	313	682	313
Other payables	5,426	3,937	4,995	4,106
Due to associates	160	211	118	204
Due to other related companies	110	91	109	91
Bank overdrafts – unsecured	29	54	19	49
	11,098	7,625	8,872	7,565

As at 31st December 2006, derivative financial liabilities of the Group and the Company accounted for as held for trading amounted to HK\$371 million (2005: HK\$66 million) and HK\$310 million (2005: HK\$66 million) respectively.

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Analysis of trade creditors by age:				
Current	3,129	2,421	2,316	2,226
One to three months overdue	939	463	525	449
More than three months overdue	549	135	108	127
	4,617	3,019	2,949	2,802

19. Share capital

	2006		2005	
	Number of shares	HK\$M	Number of shares	HK\$M
Authorised (HK\$0.20 each)				
At 1st January	3,900,000,000	780	3,900,000,000	780
Additions	1,100,000,000	220	–	–
At 31st December	5,000,000,000	1,000	3,900,000,000	780
Issued and fully paid (HK\$0.20 each)				
At 1st January	3,380,632,348	676	3,370,215,348	674
Issue of new shares	548,045,724	110	–	–
Share options exercised	7,019,500	1	10,417,000	2
At 31st December	3,935,697,572	787	3,380,632,348	676

19. Share capital *(continued)*

At the Extraordinary General Meeting held on 22nd August 2006, the transactions contemplated under the Restructuring Agreement and the increase of the Company's authorised share capital from 3,900,000,000 shares of HK\$0.20 each to 5,000,000,000 shares of HK\$0.20 each were approved. Upon completion of the Restructuring Agreement on 28th September 2006, the Company issued 548,045,724 new shares of HK\$0.20 each. The issue of new shares was recognised at HK\$16.00 per share, being the fair value of the Company's shares as at 28th September 2006.

The Company adopted a share option scheme (the "Scheme") on 10th March 1999 for the purpose of providing flight deck crew with an incentive to contribute towards the Company's results. All participants of the Scheme were flight deck crew who paid HK\$1 each on acceptance of their share options and were granted options to subscribe for shares of the Company at a price not less than the higher of 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant, and the nominal value of the shares. The Scheme had been closed and no share options were available for issue under the Scheme during the year. The entitlement of each participant has not exceeded 0.32% of the maximum aggregate number of shares in respect of which options have been granted under the Scheme.

Options to subscribe for a total of 68,327,000 shares at the exercise price of HK\$7.47 per share were granted under the Scheme on the date of grant 15th March 1999. Other than in limited circumstances, the options in relation to 50% of the shares became exercisable on 15th March 2002, and the balance on 15th March 2004. The options will, except in limited circumstances, be exercisable until 14th March 2009.

HKFRS 2 "Share-based Payment" does not apply to this Scheme as share options were granted before 7th November 2002.

Upon exercise of share options, equity is increased by the number of options exercised at the exercise price.

	2006	2005
	Number of shares	Number of shares
Movements in options outstanding comprise:		
At 1st January	16,077,500	26,494,500
Options exercised	(7,019,500)	(10,417,000)
At 31st December	9,058,000	16,077,500
Options vested at 31st December	9,058,000	16,077,500

No option was granted under the Scheme during the year.

	2006	2005
Details of share options exercised during the year:		
Exercise date	10/1/06 – 19/12/06	7/1/05 – 25/11/05
Proceeds received (HK\$)	52,435,665	77,814,990
Weighted average closing share price immediately before the exercise date (HK\$)	15.74	14.46

20. Reserves

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Retained profit	28,200	26,492	13,228	13,192
Share premium	16,241	7,531	16,241	7,531
Investment revaluation reserve	906	228	800	202
Cash flow hedge reserve	(642)	30	(595)	65
Capital redemption reserve and others	62	11	21	21
	44,767	34,292	29,695	21,011

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

Capital redemption reserve and others include the capital redemption reserve of HK\$21 million (2005: HK\$21 million), asset revaluation reserve and exchange differences arising from revaluation of foreign investments.

The cash flow hedge reserve relates to the effective portion of the cumulative net change in fair values of hedging instruments and exchange differences on borrowings and lease obligations which are arranged in foreign currencies such that repayments can be met by anticipated operating cash flows.

The cash flow hedge reserve is expected to be charged to operating profit as noted below when the hedged transactions affect the profit and loss account.

	Total HK\$M
2007	169
2008	122
2009	157
2010	69
2011	22
Beyond 2011	103
	642

The actual amount ultimately recognised in operating profit will depend upon the fair values of the hedging instruments at the time that the hedged transactions affect the profit and loss account.

21. Reconciliation of operating profit to cash generated from operations

	2006 HK\$M	2005 HK\$M
Operating profit	5,218	4,143
Depreciation	4,255	3,963
Amortisation of intangible assets	40	44
Loss on disposal of fixed assets and intangible assets	57	230
Profit on disposal of an investment	–	(66)
Currency adjustments and other items not involving cash flows	241	373
Increase in stock	(67)	(133)
Increase in trade debtors, other receivables and prepayments	(429)	(1,190)
Decrease in net amounts due to related companies and associates	(70)	(77)
Increase in trade creditors and other payables	1,730	514
Increase in unearned transportation revenue	441	242
Non-operating movements in debtors and creditors	(294)	663
Cash generated from operations	11,122	8,706

22. Purchase of a subsidiary

	2006 HK\$M	2005 HK\$M
Net assets acquired:		
Fixed and intangible assets	7,029	–
Other non-current assets	526	–
Stocks	76	–
Trade and other receivables	1,769	–
Short-term deposits and bank balances	957	–
Other liquid funds	89	–
Borrowings	(3,765)	–
Other non-current liabilities	(1,215)	–
Trade and other payables	(1,839)	–
Other current liabilities	(557)	–
	3,070	–
Goodwill	7,214	–
	10,284	–
Satisfied by:		
Cash	863	–
Issue of new shares	8,769	–
Investments in associates	546	–
Transfer from long-term investments	106	–
Analysis of the net inflow of cash and cash equivalents in respect of the purchase of a subsidiary		
Cash consideration	(863)	–
Short-term deposits and bank balances acquired	957	–
Net inflow of cash and cash equivalents in respect of the purchase of a subsidiary	94	–

23. Analysis of cash and cash equivalents

	2006 HK\$M	2005 HK\$M
Short-term deposits and bank balances	5,796	4,321
Bank overdrafts	(29)	(54)
	5,767	4,267

24. Directors' and executive officers' remuneration

(a) Directors' remuneration disclosed pursuant to the Listing Rules is as follows:

	Cash			Non-cash			2006 Total HK\$'000	2005 Total HK\$'000
	Basic salary/ Directors' fee* HK\$'000	Bonus HK\$'000	Allowances & benefits HK\$'000	Contributions to retirement schemes HK\$'000	Bonus paid into retirement schemes HK\$'000	Housing benefits HK\$'000		
Executive Directors								
Christopher Pratt (from February 2006)	647	–	70	116	–	504	1,337	–
David Turnbull (up to January 2006)	117	1,452	13	19	–	236	1,837	3,272
Robert Atkinson	1,812	1,350	124	326	766	2,103	6,481	5,984
Philip Chen	3,436	4,318	2,044	362	–	–	10,160	9,292
Derek Cridland	1,842	1,419	1,792	12	–	1,129	6,194	4,420
Tony Tyler	2,964	2,903	442	533	991	2,295	10,128	8,533
Non-Executive Directors								
Martin Cubbon	–	–	–	–	–	–	–	–
Henry Fan	160*	–	–	–	–	–	160	160
Davy Ho (from May 2006)	–	–	–	–	–	–	–	–
James Hughes-Hallett	–	–	–	–	–	–	–	–
Li Jiaxiang (from October 2006)	31*	–	–	–	–	–	31	–
Vernon Moore	281*	–	–	–	–	–	281	310
Robert Woods (from August 2006)	–	–	–	–	–	–	–	–
Raymond Yuen (up to December 2005)	–	–	–	–	–	–	–	2,461
Carl Yung (up to September 2006)	118*	–	–	–	–	–	118	160
Zhang Lan (from October 2006)	59*	–	–	–	–	–	59	–
Zhang Xianlin (up to October 2006)	129*	–	–	–	–	–	129	160
Independent Non-Executive Directors								
Peter Lee	360*	–	–	–	–	–	360	360
Raymond Or	310*	–	–	–	–	–	310	310
Jack So	310*	–	–	–	–	–	310	310
Tung Chee Chen	210*	–	–	–	–	–	210	210
2006 Total	12,786	11,442	4,485	1,368	1,757	6,267	38,105	
2005 Total	13,849	9,127	3,701	1,680	1,595	5,990		35,942

For Directors employed by the Swire group, the remuneration disclosed represents the amount charged to the Company. Bonus is related to services for 2005 but paid and charged to the Company in 2006. Allowances and benefits of Philip Chen include housing allowances of HK\$1,963,636.

24. Directors' and executive officers' remuneration (continued)

(b) Executive Officers' remuneration disclosed as recommended by the Listing Rules is as follows:

	Cash			Non-cash			2006 Total HK\$'000	2005 Total HK\$'000
	Basic salary HK\$'000	Bonus HK\$'000	Allowances & benefits HK\$'000	Contributions to retirement schemes HK\$'000	Bonus paid into retirement schemes HK\$'000	Housing benefits HK\$'000		
James Barrington	1,366	1,037	732	246	605	1,711	5,697	4,668
William Chau	1,416	1,129	592	97	–	–	3,234	3,273
Quince Chong	1,347	1,049	601	135	–	–	3,132	2,893
Ronald Mathison	1,200	721	332	216	535	1,115	4,119	3,569
Edward Nicol	1,500	1,213	444	270	746	2,052	6,225	5,547
Nick Rhodes	1,500	1,112	437	270	654	1,684	5,657	5,289
Augustus Tang	1,878	1,507	602	129	–	–	4,116	3,909
2006 Total	10,207	7,768	3,740	1,363	2,540	6,562	32,180	
2005 Total	9,461	6,432	3,979	1,711	2,086	5,479		29,148

Bonus disclosed is related to services for 2005 and paid in 2006.

25. Employee information

- (a) The five highest paid individuals of the Company included four Directors (2005: three) and one Executive Officer (2005: two), whose emoluments are set out in note 24 above.
- (b) The table below sets out the number of individuals, including those who have retired or resigned during the year, in each employment category whose total remuneration for the year fell into the following ranges:

HK\$'000	2006			2005		
	Director	Flight staff	Other staff	Director	Flight staff	Other staff
0 – 1,000	14	7,704	7,551	11	7,337	7,189
1,001 – 1,500	1	446	174	–	443	175
1,501 – 2,000	1	506	75	–	487	78
2,001 – 2,500	–	233	17	1	183	18
2,501 – 3,000	–	147	9	–	156	7
3,001 – 3,500	–	112	6	1	134	7
3,501 – 4,000	–	25	4	–	40	4
4,001 – 4,500	–	5	7	1	4	3
4,501 – 5,000	–	–	–	–	1	1
5,001 – 5,500	–	–	1	–	–	1
5,501 – 6,000	–	–	2	1	–	1
6,001 – 6,500	2	–	1	–	–	–
8,501 – 9,000	–	–	–	1	–	–
9,001 – 9,500	–	–	–	1	–	–
10,001 – 10,500	2	–	–	–	–	–
	20	9,178	7,847	17	8,785	7,484

26. Related party transactions

- (a) Material transactions between the Group and associates and other related parties which were carried out in the normal course of business on commercial terms are summarised below:

	2006		2005	
	Associates HK\$M	Other related parties HK\$M	Associates HK\$M	Other related parties HK\$M
Turnover	207	–	103	–
Aircraft maintenance costs	1,057	–	967	–
Route operating costs	226	–	183	–
Dividends received	(241)	–	(170)	–
Fixed assets purchase	1	–	5	–

- (b) Other transactions with related parties

- (i) The Company had an agreement for services with JSSHK (“JSSHK Services Agreement”). Under the JSSHK Services Agreement, the Company paid fees and reimbursed costs to JSSHK in exchange for services provided. Service fees calculated at 2.5% of the Group’s profit before tax, results of associates, minority interests, and any profits and losses on disposal of fixed assets were paid annually. Service fees paid for the year ended 31st December 2006 were HK\$125 million (2005: HK\$101 million) and expenses of HK\$124 million (2005: HK\$106 million) were reimbursed at cost; in addition, HK\$50 million (2005: HK\$47 million) in respect of shared administrative services were reimbursed.

Transactions under the JSSHK Services Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For definition of terms, please refer to Directors’ Report on page 31.

- (ii) Under the HAECO Services Agreements with HAECO, the Company paid fees to HAECO in exchange for maintenance services provided to the Company’s aircraft fleet. Service fees paid to HAECO for the year ended 31st December 2006 were HK\$941 million (2005: HK\$949 million).

Transactions under the HAECO Services Agreements are continuing connected transactions, in respect of which the Company has complied with the disclosure and shareholders’ approval requirements in accordance with Chapter 14A of the Listing Rules. For definition of terms, please refer to Directors’ Report on page 32.

- (iii) The Company received agency commission and service fees from Dragonair as a related party for the period from 1st January to 28th September 2006, on which date Dragonair became a wholly owned subsidiary of the Company. Service fees were received in respect of computer support, engineering, station and ground services provided to Dragonair. All these transactions were conducted in the ordinary course of business and on normal commercial terms. A total of HK\$163 million was received from Dragonair for these transactions during the period from 1st January to 28th September 2006 (2005: HK\$215 million). Dragonair is also a partner of the Asia Miles frequent-flyer programme.

- (iv) The acquisition of 38,551,808 Dragonair shares from Swire Pacific, the acquisition of 142,482,484 Dragonair shares from CITIC Pacific, the allotment of 51,402,411 new shares of the Company to Swire Pacific, and the allotment of 189,976,645 new shares of the Company to CITIC Pacific under the Restructuring Agreement constituted connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For definition of terms and further details, please refer to Directors’ Report on page 30.

- (c) Amounts due from and due to associates and other related companies at 31st December 2006 are disclosed in notes 16 and 18 to the accounts. These balances arising in the normal course of business are non-interest bearing and have no fixed repayment terms.

26. Related party transactions *(continued)*

- (d) Guarantees given by the Company in respect of bank loan facilities held by an associate at 31st December 2006 are disclosed in note 27 to the accounts.
- (e) There were no material transactions with Directors and Executive Officers except for those relating to shareholdings (Directors' Report and Corporate Governance). Remuneration of Directors and Executive Officers is disclosed in note 24 to the accounts.

27. Commitments and contingencies

- (a) Outstanding commitments for capital expenditure authorised at the year end but not provided for in the accounts:

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Authorised and contracted for	23,422	16,724	2,932	1,958
Authorised but not contracted for	1,646	1,034	1,638	1,032
	25,068	17,758	4,570	2,990

Operating lease commitments are shown in note 8 to the accounts.

- (b) Guarantees in respect of lease obligations, bank loans and other liabilities outstanding at the year end:

	Group		Company	
	2006 HK\$M	2005 HK\$M	2006 HK\$M	2005 HK\$M
Subsidiaries	–	–	3,122	2,311
Associate	17	18	17	18
Staff	200	200	200	200
	217	218	3,339	2,529

- (c) The Company has under certain circumstances undertaken to maintain specified rates of return within the Group's leasing arrangements. The Directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.
- (d) The Company operates in many jurisdictions and in certain of these there are disputes with the tax authorities. Provisions have been made to cover the expected outcome of the disputes to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.
- (e) The Company is the subject of investigations in respect of its air cargo operations by the competition authorities of various jurisdictions including the United States, the European Union, Canada, Switzerland and New Zealand. The Company has been cooperating with the authorities in their investigations. The focus of the investigations appears to be on issues relating to pricing and competition. The Company is represented by legal counsel in connection with the investigations.

The Company has been named as a defendant in a number of civil class action complaints in the United States, Canada and Australia. The Company is represented by legal counsel in the actions filed in the United States, Canada and Australia and intends to defend each of those actions.

The investigations and civil actions are ongoing and the outcomes are subject to uncertainties. The Company is not in a position at the present time to assess any potential liabilities and cannot therefore make any provisions.

28. Financial risk management

In the normal course of business, the Group is exposed to fluctuations in foreign exchange rates, interest rates and jet fuel prices. These exposures are managed, sometimes with the use of derivative financial instruments, by the Treasury Department of Cathay Pacific in accordance with the policies approved by the Finance Committee.

Derivative financial instruments are used solely for financial risk management purposes and the Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments which constitute a hedge do not expose the Group to market risk since any change in their market value will be offset by a compensating change in the market value of the hedged items. Exposure to foreign exchange rates, interest rates and jet fuel price movements are regularly reviewed and positions are amended in compliance with internal guidelines and limits.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group normally grants a credit term of 30 days to customers or follows the local industry standard with the debt in certain circumstances being partially protected by bank guarantees or other monetary collateral.

Trade debtors mainly represented passenger and freight sales due from agents and amounts due from airlines for interline services provided. The majority of the agents are connected to the settlement systems operated by the International Air Transport Association ("IATA") who is responsible for checking the credit worthiness of such agents and collecting bank guarantees or other monetary collateral according to local industry practice. In most cases amounts due from airlines are settled on net basis via an IATA clearing house. The credit risk with regard to individual agents and airlines is relatively low.

To manage credit risk, derivative financial transactions, deposits and funds are only carried out with financial institutions which have high credit ratings and all counterparties are subject to prescribed trading limits which are regularly reviewed. Risk exposures are monitored regularly by reference to market values.

At the balance sheet date there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet and the amount of guarantees granted as disclosed in note 27 to the accounts. Collateral and guarantees received in respect of credit terms granted as at 31st December 2006 is HK\$2,871 million (2005: HK\$2,602 million).

(b) Liquidity risk

The Group's policy is to monitor liquidity and compliance with lending covenants, so as to ensure sufficient liquid funds and adequate funding lines from financial institutions to meet liquidity requirements in both the short and long term. The payment profile of financial liabilities is outlined in notes 13 and 18 to the accounts. Settlement of these liabilities as they fall due will primarily be through liquid funds being generated from operations.

(c) Foreign currency risk

As an international airline, the Group's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations. The currencies giving rise to this risk are primarily Japanese Yen, Euros, Taiwanese dollars, Renminbi and Australian dollars. To manage this exposure assets are, where possible, financed in those foreign currencies in which net operating surpluses are anticipated, thus establishing a natural hedge. In addition, the Group uses currency derivatives to reduce anticipated foreign currency surpluses. The use of foreign currency borrowings and currency derivatives to hedge future operating revenues is a key component of the financial risk management process, as exchange differences realised on the repayment of financial commitments are effectively matched by the change in value of the foreign currency earnings used to make those repayments.

28. Financial risk management (continued)

(d) Interest rate risk

Interest rate swaps are used to manage the interest rate profile of interest-bearing financial liabilities on a currency by currency basis to maintain an appropriate fixed rate and floating rate ratio.

The table below indicates the effective interest rates of interest-bearing financial liabilities and interest-earning financial assets as at the balance sheet date and the period in which they are repriced or mature whichever is earlier:

Group	2006						Total HK\$M
	Fixed/ floating	Effective interest rate (%)	Within one year HK\$M	After one	After two	After five	
				year but within two years HK\$M	years but within five years HK\$M	years HK\$M	
Bank loans	Floating	4.03-5.99	(11,016)	-	-	-	(11,016)
Other loans	Fixed	3.06-3.82	-	-	(1,902)	-	(1,902)
Other loans	Floating	3.80-4.24	(1,541)	-	-	-	(1,541)
Obligations under finance leases	Fixed	1.64-8.75	(1,428)	(661)	(3,640)	(10,168)	(15,897)
Obligations under finance leases	Floating	3.15-6.24	(11,103)	-	-	-	(11,103)
Pledged security deposits	Fixed	3.05-8.75	899	527	1,027	6,938	9,391
Pledged security deposits	Floating	5.24	125	-	-	-	125
Currency swap	Floating	1.29-9.12	1,442	(395)	(371)	(699)	(23)
Interest rate swap	Fixed	2.80-6.43	1,319	(252)	(1,067)	-	-
Liquid funds	Fixed	2.27	-	180	-	-	180
Liquid funds	Floating	0-7.33	15,444	-	-	-	15,444
Bank overdrafts	Floating	0-16.25	(29)	-	-	-	(29)
2005							
Group	Fixed/ floating	Effective interest rate (%)	Within one year HK\$M	After one	After two	After five	Total HK\$M
				year but within two years HK\$M	years but within five years HK\$M	years HK\$M	
Bank loans	Floating	3.20-5.28	(4,839)	-	-	-	(4,839)
Other loans	Fixed	0-7.00	(32)	-	(1,083)	-	(1,115)
Other loans	Floating	2.68-2.83	(309)	-	-	-	(309)
Obligations under finance leases	Fixed	1.64-8.75	(422)	(1,305)	(2,918)	(10,659)	(15,304)
Obligations under finance leases	Floating	1.77-5.33	(11,027)	-	-	-	(11,027)
Pledged security deposits	Fixed	3.25-8.75	570	811	1,307	7,347	10,035
Pledged security deposits	Floating	4.07	104	-	-	-	104
Currency swap	Floating	1.29-9.12	1,098	(78)	(411)	(398)	211
Interest rate swap	Fixed	3.45-6.43	1,860	(702)	(773)	(385)	-
Liquid funds	Fixed	2.27	-	-	23	-	23
Liquid funds	Floating	0-7.45	13,436	-	-	-	13,436
Bank overdrafts	Floating	0-9.25	(54)	-	-	-	(54)

28. Financial risk management (continued)

	2006						Total HK\$M
	Fixed/ floating	Effective interest rate (%)	Within one year HK\$M	After one year but within two years HK\$M	After two years but within five years HK\$M	After five years HK\$M	
Company							
Bank loans	Floating	4.03-5.99	(7,107)	–	–	–	(7,107)
Other loans	Fixed	3.06-3.82	–	–	(1,902)	–	(1,902)
Other loans	Floating	3.80-4.24	(1,541)	–	–	–	(1,541)
Obligations under finance leases	Fixed	1.64-11.19	(1,162)	(618)	(4,702)	(8,080)	(14,562)
Obligations under finance leases	Floating	3.15-6.24	(9,378)	–	–	–	(9,378)
Pledged security deposits	Fixed	3.79-8.75	803	–	1,007	1,439	3,249
Pledged security deposits	Floating	5.24	125	–	–	–	125
Currency swap	Floating	1.29-9.12	1,442	(395)	(371)	(699)	(23)
Interest rate swap	Fixed	4.20-6.43	940	–	(940)	–	–
Liquid funds	Fixed	2.27	–	180	–	–	180
Liquid funds	Floating	0-7.33	4,459	–	–	–	4,459
Bank overdrafts	Floating	0-16.25	(19)	–	–	–	(19)

	2005						Total HK\$M
	Fixed/ floating	Effective interest rate (%)	Within one year HK\$M	After one year but within two years HK\$M	After two years but within five years HK\$M	After five years HK\$M	
Company							
Bank loans	Floating	4.08-5.28	(3,678)	–	–	–	(3,678)
Other loans	Fixed	3.06	–	–	(1,049)	–	(1,049)
Other loans	Floating	2.68-2.83	(309)	–	–	–	(309)
Obligations under finance leases	Fixed	1.64-11.19	(650)	(1,305)	(3,628)	(9,418)	(15,001)
Obligations under finance leases	Floating	1.77-5.33	(10,273)	–	–	–	(10,273)
Pledged security deposits	Fixed	3.79-8.75	188	811	757	1,844	3,600
Currency swap	Floating	1.29-9.12	1,098	(78)	(411)	(398)	211
Interest rate swap	Fixed	3.45-6.43	1,860	(702)	(773)	(385)	–
Liquid funds	Fixed	2.27	–	–	23	–	23
Liquid funds	Floating	0-7.45	4,864	–	–	–	4,864
Bank overdrafts	Floating	0-9.25	(49)	–	–	–	(49)

(e) Fuel price risk

Exposure to fluctuations in the fuel price is managed by the use of fuel derivatives. The Group's policy is to reduce exposure by hedging a percentage of its anticipated fuel consumption. Around 43% of the anticipated fuel consumption for 2007 and 5% for 2008 were hedged at the balance sheet date.

28. Financial risk management (continued)

(f) Fair values

The fair values of the following financial instruments differ from their carrying amounts shown in the balance sheet:

	Carrying amount 2006 HK\$M	Fair value 2006 HK\$M	Carrying amount 2005 HK\$M	Fair value 2005 HK\$M
Group				
Bank loans	(11,016)	(11,216)	(4,839)	(4,909)
Other loans	(3,443)	(3,501)	(1,424)	(1,434)
Obligations under finance leases	(27,000)	(27,740)	(26,331)	(27,463)
Pledged security deposits	9,516	10,108	10,139	10,992
Company				
Bank loans	(7,107)	(7,205)	(3,678)	(3,720)
Other loans	(3,443)	(3,501)	(1,358)	(1,369)
Obligations under finance leases	(23,940)	(26,781)	(25,274)	(28,730)
Pledged security deposits	3,374	3,774	3,600	4,119

The carrying amounts of other financial assets and liabilities are considered to be reasonable approximations to their fair values.

29. Impact of further new accounting standards

HKICPA has issued new and revised HKAS and HKFRS which become effective for accounting periods beginning on or after 1st January 2007 and which are not adopted in these financial statements. HKFRS 7 "Financial Instruments: Disclosures" is relevant to the Group. This standard became effective for accounting periods beginning on or after 1st January 2007. Adoption of this new accounting standard will result in different disclosures with respect to financial instruments and financial risks. The accounting standard will have no impact on either the results or financial position of the Group.

Principal Subsidiaries and Associates

at 31st December 2006

Subsidiaries

	Place of incorporation and operation	Principal activities	Percentage of issued capital owned	Issued and paid up share capital and debt securities
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Computerised reservation systems and related services	53	15,600,000 shares of HK\$1
AHK Air Hong Kong Limited	Hong Kong	Cargo airline	60*	54,402,000 A shares of HK\$1 36,268,000 B shares of HK\$1
Airline Property Limited	Hong Kong	Property investment	100	2 shares of HK\$10
Airline Stores Property Limited	Hong Kong	Property investment	100	2 shares of HK\$10
Airline Training Property Limited	Hong Kong	Property investment	100	2 shares of HK\$10
Cathay Holidays Limited	Hong Kong	Travel tour operator	100	5,000 shares of HK\$100
Cathay Pacific Aero Limited	Hong Kong	Financial services	100	1 share of HK\$10
Cathay Pacific Aircraft Acquisition Limited	Isle of Man	Aircraft acquisition facilitator	100	2,000 shares of US\$1
Cathay Pacific Aircraft Services Limited	Isle of Man	Aircraft acquisition facilitator	100	10,000 shares of US\$1
Cathay Pacific Catering Services (H.K.) Limited	Hong Kong	Airline catering	100	600 shares of HK\$1,000
Cathay Pacific Loyalty Programmes Limited	Hong Kong	Travel reward programme	100	2 shares of HK\$1
CLS Catering Services Limited	Canada	Airline catering	60*	330,081 shares of no par value
CPA Finance (Cayman) Limited	Cayman Islands	Issuer of SGD note	100	1 share of US\$1 SGD 225,000,000 note 3.0575% due 2010
Global Logistics System (H.K.) Company Limited	Hong Kong	Computer network for interchange of air cargo related information	95	100 shares of HK\$10
Guangzhou Guo Tai Information Processing Company Limited	People's Republic of China	Information processing	100*	Paid up registered capital HK\$7,000,000 (wholly foreign equity enterprise)
Hong Kong Airport Services Limited	Hong Kong	Aircraft ramp handling	100#	100 shares of HK\$1
Hong Kong Aviation and Airport Services Limited	Hong Kong	Property investment	100*	2 ordinary shares of HK\$1

Subsidiaries (continued)

	Place of incorporation and operation	Principal activities	Percentage of issued capital owned	Issued and paid up share capital and debt securities
Hong Kong Dragon Airlines Limited	Hong Kong	Airline	100*	500,000,000 shares of HK\$1
Hong Kong International Airport Services Limited	Hong Kong	Ground handling	100*	10,000 ordinary shares of HK\$1
Snowdon Limited	Isle of Man	Financial services	100*	2 shares of GBP1
Troon Limited	Bermuda	Financial services	100	12,000 shares of US\$1
Vogue Laundry Service Limited	Hong Kong	Laundry and dry cleaning	100	3,700 shares of HK\$500

Principal subsidiaries and associates are those which materially affect the results or assets of the Group.

* Shareholding held through subsidiaries.

Shareholding partly held through subsidiaries.

Associates

	Place of incorporation and operation	Principal activities	Percentage of issued capital owned
Air China Limited	People's Republic of China	Airline	17
Cathay Kansai Terminal Services Company Limited	Japan	Ground handling	48
Cebu Pacific Catering Services Inc.	Philippines	Airline catering	40*
Ground Support Engineering Limited	Hong Kong	Airport ground engineering support and equipment maintenance	50*
Hong Kong Aircraft Engineering Company Limited	Hong Kong	Aircraft overhaul and maintenance	27
LSG Lufthansa Service Hong Kong Limited	Hong Kong	Airline catering	32*
VN/CX Catering Services Limited	Vietnam	Airline catering	40*

* Shareholding held through subsidiaries.

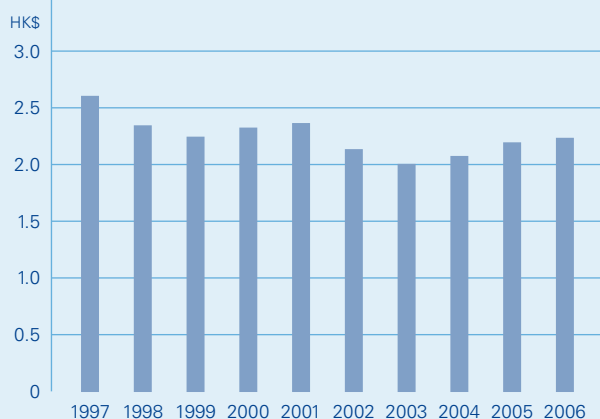
		2006	2005
Consolidated profit and loss summary			
	<i>HK\$M</i>		
Passenger services		35,155	30,274
Cargo services		14,251	12,852
Catering and other services		1,382	1,337
Turnover net of recoveries		50,788	44,463
Net operating expenses		(45,570)	(40,320)
Operating profit/(loss)		5,218	4,143
Net finance charges		(465)	(444)
Profit on sale of investments		–	–
Share of profits of associates		301	269
Profit/(loss) before tax		5,054	3,968
Taxation		(782)	(500)
Profit/(loss) for the year		4,272	3,468
Profit attributable to minority interests		(184)	(170)
Profit/(loss) attributable to Cathay Pacific shareholders		4,088	3,298
Dividends paid		(2,992)	(2,196)
Retained profit/(loss) for the year		1,096	1,102
Consolidated balance sheet summary			
	<i>HK\$M</i>		
Fixed and intangible assets		65,559	50,416
Long-term receivables and investments		12,372	7,184
Borrowings		(31,943)	(22,455)
Liquid funds less bank overdrafts		15,595	13,405
Net borrowings		(16,348)	(9,050)
Net current liabilities (excluding liquid funds and bank overdrafts)		(9,107)	(6,767)
Retirement benefit obligations		(170)	(72)
Deferred taxation		(6,600)	(6,460)
Net assets		45,706	35,251
Financed by:			
Funds attributable to Cathay Pacific shareholders		45,554	34,968
Minority interests		152	283
Total equity		45,706	35,251
Per share			
Shareholders' funds	<i>HK\$</i>	11.57	10.34
EBITDA	<i>HK\$</i>	2.78	2.49
Earnings/(loss)	<i>HK cents</i>	115.9	97.7
Dividend	<i>HK cents</i>	84.0	48.0
Ratios			
Profit/(loss) margin	<i>%</i>	8.0	7.4
Return of average shareholders' funds	<i>%</i>	10.2	9.7
Dividend cover	<i>Times</i>	1.2	2.0
Interest cover	<i>Times</i>	11.2	9.3
Gross debt/equity ratio	<i>Times</i>	0.70	0.64
Net debt/equity ratio	<i>Times</i>	0.36	0.26

2004	2003	2002	2001	2000	1999	1998	1997
26,407	18,663	22,376	20,580	22,878	18,979	18,532	21,851
11,395	9,913	9,387	8,343	10,136	8,391	6,955	7,712
1,263	1,002	1,327	1,513	1,509	1,332	1,123	1,014
39,065	29,578	33,090	30,436	34,523	28,702	26,610	30,577
(33,818)	(27,353)	(28,340)	(29,604)	(29,234)	(25,891)	(27,281)	(28,537)
5,247	2,225	4,750	832	5,289	2,811	(671)	2,040
(583)	(620)	(743)	(571)	(367)	(918)	(311)	(335)
–	–	–	452	–	482	185	–
298	126	269	153	245	93	149	261
4,962	1,731	4,276	866	5,167	2,468	(648)	1,966
(446)	(384)	(273)	(167)	(76)	(204)	127	(246)
4,516	1,347	4,003	699	5,091	2,264	(521)	1,720
(99)	(44)	(20)	(42)	(86)	(84)	(35)	(40)
4,417	1,303	3,983	657	5,005	2,180	(556)	1,680
(2,189)	(1,035)	(701)	(1,915)	(1,585)	(339)	(694)	(1,817)
2,228	268	3,282	(1,258)	3,420	1,841	(1,250)	(137)
50,607	50,176	48,905	50,456	47,264	46,800	46,216	40,026
7,332	4,473	4,783	4,787	5,414	5,253	5,376	4,481
(22,631)	(26,297)	(22,810)	(24,024)	(20,838)	(24,783)	(27,198)	(23,122)
11,444	15,186	13,164	9,746	10,952	11,567	12,240	14,327
(11,187)	(11,111)	(9,646)	(14,278)	(9,886)	(13,216)	(14,958)	(8,795)
(6,381)	(4,439)	(3,896)	(1,728)	(2,715)	(3,908)	(3,942)	(2,644)
(102)	(181)	(346)	–	–	–	–	–
(7,280)	(7,762)	(7,614)	(7,836)	(7,146)	(6,714)	(6,359)	(5,802)
32,989	31,156	32,186	31,401	32,931	28,215	26,333	27,266
32,855	31,052	32,115	31,308	32,832	28,129	26,225	27,162
134	104	71	93	99	86	108	104
32,989	31,156	32,186	31,401	32,931	28,215	26,333	27,266
9.75	9.29	9.63	9.40	9.80	8.31	7.75	8.02
2.79	1.85	2.68	1.62	2.68	2.05	0.89	1.45
131.4	39.0	119.5	19.7	148.4	64.4	(16.4)	49.1
65.0	48.0	44.0	17.5	65.0	30.0	10.0	29.0
11.3	4.4	12.0	2.2	14.5	7.6	(2.1)	5.5
13.8	4.1	12.6	2.0	16.4	8.0	(2.1)	6.3
2.0	0.8	2.7	1.1	2.3	2.1	(1.6)	1.7
9.0	3.6	6.4	1.5	14.4	3.1	(2.2)	6.1
0.69	0.85	0.71	0.77	0.63	0.88	1.04	0.85
0.34	0.36	0.30	0.46	0.30	0.47	0.57	0.32

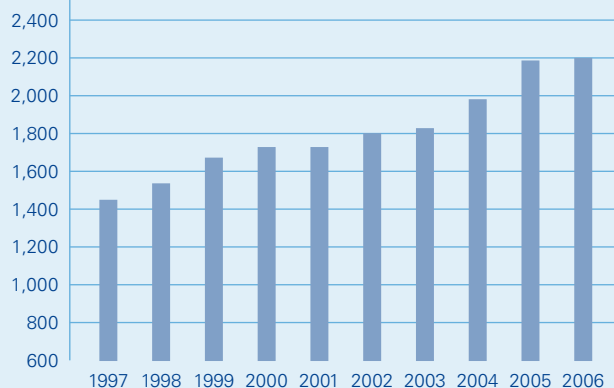
		2006	2005
Operating summary*			
Kilometres flown	Million	357	317
Block hours	'000 hours	489	431
Aircraft departures	'000	98	84
Available tonne kilometres	Million	19,684	17,751
Revenue tonne kilometres	Million	14,452	12,813
Available seat kilometres	Million	91,769	82,766
Revenue passengers carried	'000	18,097	15,438
Revenue passenger kilometres	Million	72,939	65,110
Revenue load factor	%	76.2	75.2
Passenger load factor	%	79.5	78.7
Cargo carried	'000 tonnes	1,308	1,118
Cargo and mail tonne kilometres	Million	7,514	6,618
Cargo and mail load factor	%	68.6	67.0
Excess baggage carried	Tonnes	2,218	2,489
Mail carried	Tonnes	25,545	20,676
Length of scheduled routes network	'000 kilometres	457	403
Destinations at year end	Number	125	92
Staff number at year end	Number	18,992	15,806
ATK per staff	'000	1,173	1,147
On-time performance*			
Departure (within 15 minutes)	%	85.2	86.1
Average aircraft utilisation*			
	Hours per day		
A320		8.2	–
A321		8.9	–
A330–300		11.2	10.8
A340–200		–	–
A340–300		14.9	15.1
A340–600		14.9	15.3
747–200/300		–	–
747–400		14.9	14.7
747–200F		11.8	11.8
747–300SF		11.7	–
747–400F/BCF		15.3	16.1
777–200/300		9.0	9.1
Fleet average		12.5	12.6
* Includes Dragonair's operation from 1st October 2006.			
Fleet profile			
Aircraft operated by Cathay Pacific:			
A330–300		27	26
A340–300		15	15
A340–600		3	3
747–200/300		–	–
747–400		22	22
747–200F		7	7
747–400F		6	6
747–400BCF		5	1
777–200		5	5
777–300		12	11
Total		102	96
Aircraft operated by Dragonair:			
A320		10	11
A321		6	6
A330		16	13
747–200F		1	1
747–300SF		3	3
747–400BCF		1	–
Total		37	34

2004	2003	2002	2001	2000	1999	1998	1997
285	238	237	224	219	202	202	193
386	322	322	307	296	273	271	254
77	65	68	65	63	58	59	56
15,794	13,355	12,820	11,827	11,630	10,867	10,857	10,399
11,459	9,371	9,522	8,201	8,650	7,768	7,213	7,331
74,062	59,280	63,050	62,790	61,909	58,114	60,295	57,104
13,664	10,059	12,321	11,269	11,864	10,516	10,299	10,018
57,283	42,774	49,041	44,792	47,153	41,502	40,679	38,962
74.8	71.1	75.9	70.4	75.2	71.5	67.1	69.5
77.3	72.2	77.8	71.3	76.2	71.4	67.5	68.2
972	875	851	704	769	672	580	635
6,007	5,299	4,854	3,938	4,161	3,817	3,339	3,621
68.7	68.7	71.2	67.3	72.5	71.5	65.2	72.9
2,530	2,190	2,401	2,270	3,489	3,376	3,375	3,301
17,997	14,279	11,082	8,684	8,927	7,094	6,775	10,831
386	377	374	341	363	346	338	309
90	87	62	51	51	49	49	48
15,054	14,673	14,649	14,473	14,328	13,159	13,971	15,747
1,066	903	885	810	843	807	739	663
90.3	91.0	90.7	82.9	84.0	83.5	80.3	81.8
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
10.1	9.2	10.1	9.4	9.5	9.0	9.5	8.5
-	-	-	-	-	-	-	12.8
13.6	12.4	13.3	13.4	14.7	14.9	15.8	15.9
13.6	11.7	6.3	-	-	-	-	-
-	-	-	-	-	7.7	7.0	7.1
13.9	12.8	14.1	14.4	15.1	14.4	15.3	15.4
13.3	13.3	13.6	12.2	13.6	14.1	13.6	14.2
-	-	-	-	-	-	-	-
16.3	16.4	15.4	14.3	15.8	15.8	15.6	15.3
8.8	8.7	9.4	9.6	9.7	8.9	8.9	7.9
12.0	11.4	12.1	12.1	12.9	12.4	12.2	11.8
23	23	20	20	12	12	12	11
15	15	15	15	14	14	11	6
3	3	2	-	-	-	-	-
-	-	-	-	-	-	6	13
21	19	19	19	19	19	19	19
7	6	6	4	4	4	4	4
5	5	5	5	3	2	2	2
-	-	-	-	-	-	-	-
5	5	5	5	5	4	4	4
10	9	7	7	7	7	4	-
89	85	79	75	64	62	62	59
10	8	8	7	6	5	7	7
6	6	4	3	3	2	-	-
10	9	9	7	5	5	6	5
1	-	-	-	-	-	-	-
3	3	3	2	-	-	-	-
-	-	-	-	-	-	-	-
30	26	24	19	14	12	13	12

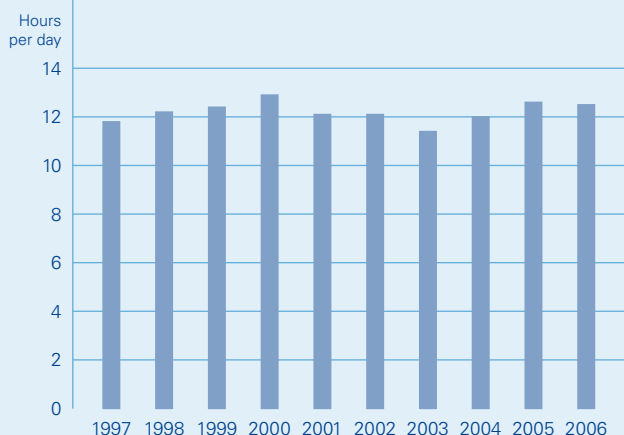
Cost per ATK



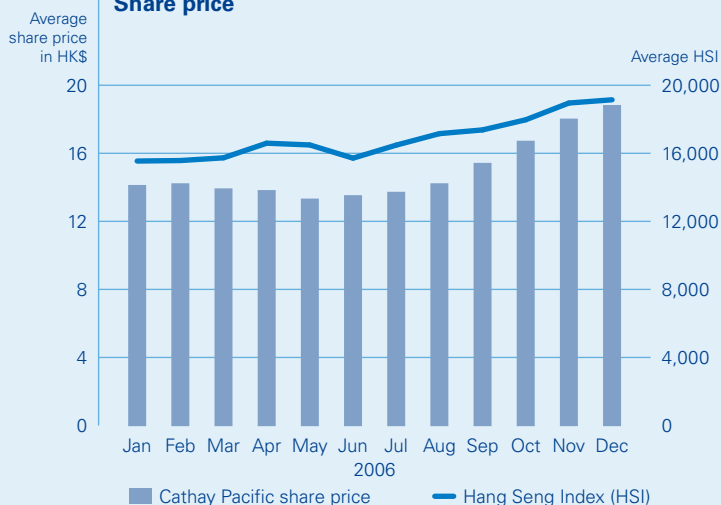
ATK per HK\$'000 staff cost



Aircraft utilisation



Share price



		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Productivity*											
Cost per ATK	HK\$	2.23	2.19	2.07	2.00	2.13	2.36	2.32	2.24	2.34	2.60
ATK per HK\$'000 staff cost	Unit	2,197	2,183	1,978	1,825	1,798	1,725	1,725	1,669	1,533	1,446
Aircraft utilisation	Hours per day	12.5	12.6	12.0	11.4	12.1	12.1	12.9	12.4	12.2	11.8
Share prices											
High	HK\$	19.5	15.1	16.4	15.5	13.6	14.3	17.6	16.8	8.9	16.4
Low		12.7	12.0	12.5	8.4	9.9	6.1	10.3	7.4	4.7	5.4
Year-end		19.2	13.6	14.7	14.8	10.7	10.0	14.4	13.9	7.7	6.3
Price ratios (Note)											
Price/earnings	Times	16.5	13.9	11.2	37.9	9.0	50.8	9.7	21.6	(46.9)	12.8
Market capitalisation/ funds attributable to Cathay Pacific shareholders		1.7	1.3	1.5	1.6	1.1	1.1	1.5	1.7	1.0	0.8
Price/cash flow		6.1	5.3	4.5	7.8	3.8	7.2	5.9	7.0	6.4	4.5

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

* Includes Dragonair results from 1st October 2006.

Terms

Borrowings Total borrowings (loans and lease obligations) less security deposits, notes and zero coupon bonds.

Net borrowings Borrowings and bank overdrafts less liquid funds.

Available tonne kilometres ("ATK") Overall capacity, measured in tonnes available for the carriage of passengers, excess baggage, cargo and mail on each sector multiplied by the sector distance.

Available seat kilometres ("ASK") Passenger seat capacity, measured in seats available for the carriage of passengers on each sector multiplied by the sector distance.

Revenue passenger kilometres ("RPK") Number of passengers carried on each sector multiplied by the sector distance.

Revenue tonne kilometres ("RTK") Traffic volume, measured in load tonnes from the carriage of passengers, excess baggage, cargo and mail on each sector multiplied by the sector distance.

On-time performance Departure within 15 minutes of scheduled departure time.

EBITDA Earnings before interest, tax, depreciation and amortisation.

Recoveries Cost recoveries from surcharges and incidental activities.

Ratios

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

Profit/(loss) margin = $\frac{\text{Profit/(loss) attributable to Cathay Pacific shareholders}}{\text{Turnover net of recoveries}}$

Shareholders' funds per share = $\frac{\text{Funds attributable to Cathay Pacific shareholders}}{\text{Total issued and fully paid shares at end of the year}}$

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

Dividend cover = $\frac{\text{Profit/(loss) attributable to Cathay Pacific shareholders}}{\text{Dividends}}$

Interest cover = $\frac{\text{Operating profit/(loss)}}{\text{Net finance charges}}$

Gross debt/equity ratio = $\frac{\text{Borrowings}}{\text{Funds attributable to Cathay Pacific shareholders}}$

Net debt/equity ratio = $\frac{\text{Net borrowings}}{\text{Funds attributable to Cathay Pacific shareholders}}$

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

Revenue load factor = $\frac{\text{Total passenger, cargo and mail traffic revenue}}{\text{Maximum possible revenue at current yields and capacity}}$

Breakeven load factor = A theoretical revenue load factor at which the traffic revenue equates to the net operating expenses.

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

Cost per ATK = $\frac{\text{Total net operating expenses of Cathay Pacific}}{\text{ATK of Cathay Pacific}}$

Cathay Pacific Airways Limited is incorporated in Hong Kong with limited liability.

Investor relations

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KPMG

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Hong Kong

Financial calendar

Year ended 31st December 2006

Annual report sent to shareholders 11th April 2007

Shares traded ex-dividend 2nd May 2007

Share register closed 4th-9th May 2007

Annual General Meeting 9th May 2007

2006 final dividend payable 1st June 2007

Six months ending 30th June 2007

Interim results announcement August 2007

Interim dividend payable October 2007

www.cathaypacific.com