

Cathay Pacific Airways Limited - Abridged Financial Statements

To provide shareholders with information on the results and financial position of the group's significant listed associated company, Cathay Pacific Airways Limited, the following is a summary of its audited consolidated profit and loss account for the year ended 31st December 2006 and consolidated balance sheet as at 31st December 2006.

CATHAY PACIFIC AIRWAYS LIMITED

Consolidated Profit and Loss Account

For the year ended 31st December 2006

	2006 HK\$M	2005 HK\$M
Turnover	60,783	50,909
Operating expenses	(55,565)	(46,766)
Operating profit	5,218	4,143
Finance charges	(1,818)	(1,605)
Finance income	1,353	1,161
Net finance charges	(465)	(444)
Share of profits of associated companies	301	269
Profit before taxation	5,054	3,968
Taxation	782	500
Profit for the year	4,272	3,468
Profit attributable to:		
– Cathay Pacific shareholders	4,088	3,298
– Minority interests	184	170
	4,272	3,468
Dividends		
Interim – paid	786	676
Special – paid	1,259	–
Final – proposed	1,259	947
	3,304	1,623
	HK¢	HK¢
Basic earnings per share	115.9	97.7
Diluted earnings per share (Note)	115.7	97.4

Note:

Following approval at the Extraordinary General Meeting held on 22nd August 2006, Cathay Pacific Airways issued 548,045,724 new shares of HK\$0.20 each on 28th September 2006 as part of the consideration for acquisition of the remaining interest in Dragonair from the other shareholders. The issue of new share was recognised at HK\$16.00 per share, being the fair value of Cathay Pacific's shares as at 28th September 2006.

Cathay Pacific Airways adopted a share option scheme on 10th March 1999 whereby certain flight deck crew of Cathay Pacific group were granted options to subscribe for a total of 68,327,000 shares at a price of HK\$7.47 per share. During the year, 7,019,500 shares were subscribed for through the exercise of such share options. Diluted earnings per share are calculated to adjust for the effects of the remaining share options not yet exercised.

CATHAY PACIFIC AIRWAYS LIMITED**Consolidated Balance Sheet**

At 31st December 2006

	2006 HK\$M	2005 HK\$M
ASSETS AND LIABILITIES		
Non-current assets		
Fixed assets	58,086	50,156
Intangible assets	7,473	260
Investments in associated companies	8,966	1,731
Other long-term receivables and investments	3,406	5,453
	77,931	57,600
Current assets		
Stock	800	657
Trade and other receivables	8,735	6,538
Liquid funds	15,624	13,459
	25,159	20,654
Current liabilities		
Current portion of long-term liabilities	7,503	4,849
Related pledged security deposits	(1,352)	(1,286)
Net current portion of long-term liabilities	6,151	3,563
Trade and other payables	11,098	7,625
Unearned transportation revenues	4,671	3,864
Taxation	2,902	2,527
	24,822	17,579
Net current assets	337	3,075
Total assets less current liabilities	78,268	60,675
Non-current liabilities		
Long-term liabilities	33,956	27,745
Related pledged security deposits	(8,164)	(8,853)
Net long-term liabilities	25,792	18,892
Retirement benefit obligations	170	72
Deferred taxation	6,600	6,460
	32,562	25,424
NET ASSETS	45,706	35,251
CAPITAL AND RESERVES		
Share capital	787	676
Reserves	44,767	34,292
Funds attributable to Cathay Pacific shareholders	45,554	34,968
Minority interests	152	283
TOTAL EQUITY	45,706	35,251

CATHAY PACIFIC AIRWAYS LIMITED

Consolidated Balance Sheet (continued)

At 31st December 2006

Contingencies

- (a) Cathay Pacific Airways has under certain circumstances undertaken to maintain specified rates of return within Cathay Pacific group's leasing arrangements. The Directors of Cathay Pacific Airways do not consider that an estimate of the potential financial effect of these contingencies can practically be made.
- (b) At 31st December 2006, contingent liabilities existed in respect of guarantees given by Cathay Pacific group on behalf of associated companies and staff relating to bank loans and other liabilities of up to HK\$217 million (2005: HK\$218 million).
- (c) Cathay Pacific Airways 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.
- (d) Cathay Pacific Airways 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. Cathay Pacific Airways has been cooperating with the authorities in their investigations. The focus of the investigations appears to be on issues relating to pricing and competition. Cathay Pacific Airways is represented by legal counsel in connection with the investigations.

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

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