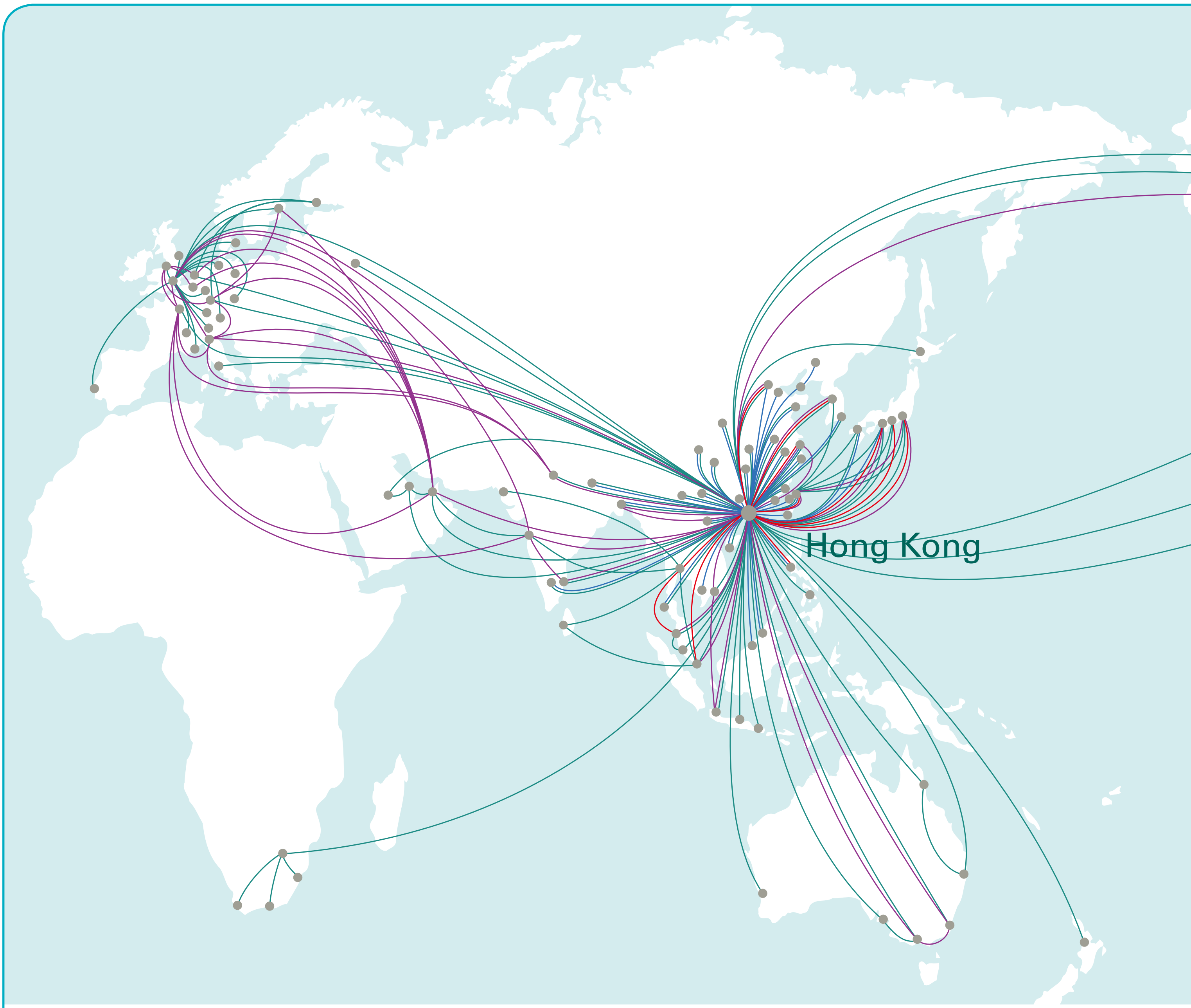
Annual Report
2008

Cathay Pacific Airways Limited

Stock code: 00293

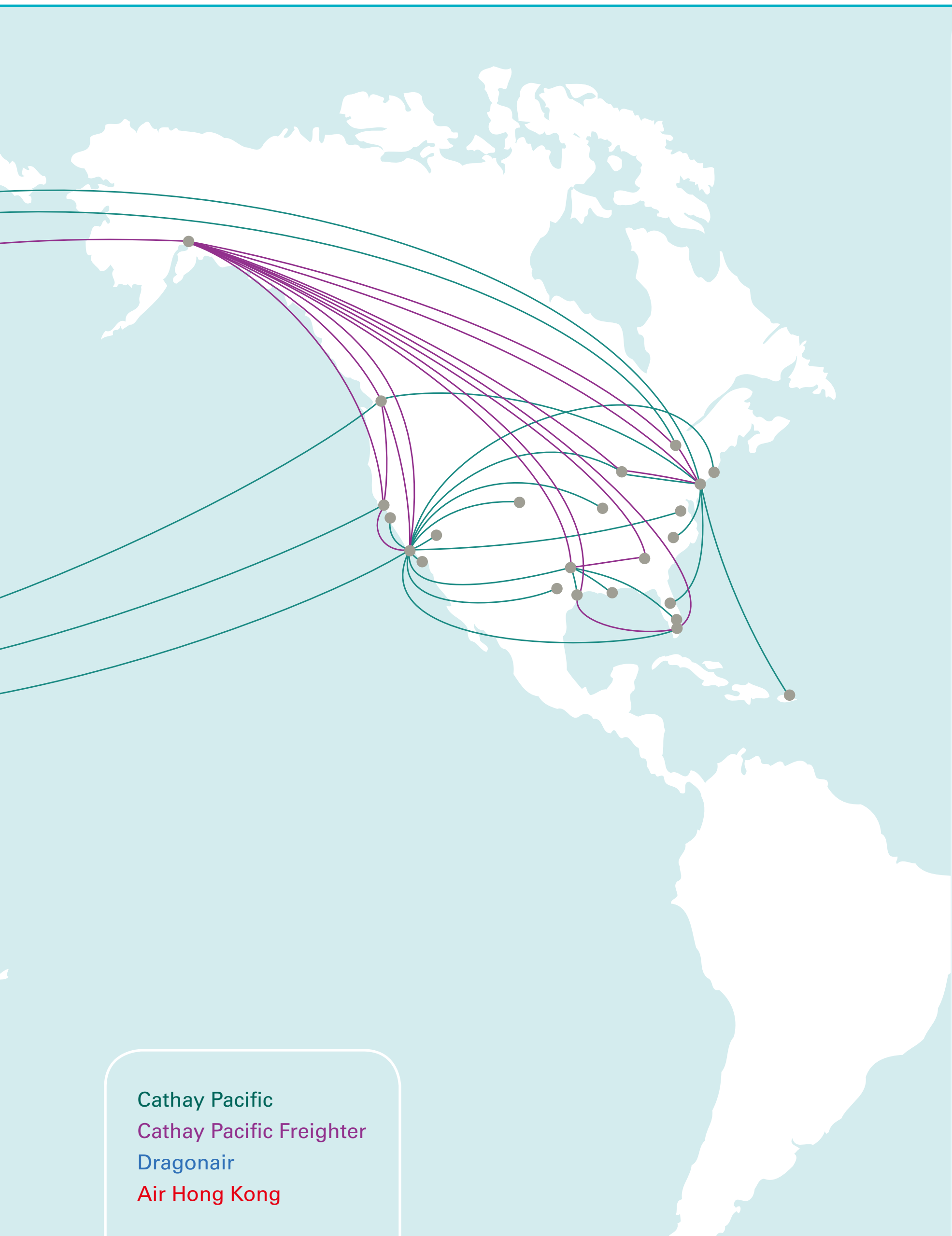
CATHAY PACIFIC



CATHAY PACIFIC

Cathay Pacific Airways is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 116 destinations in 35 countries and territories.

The Company was founded in Hong Kong in 1946 and remains deeply committed to its home base, making substantial investments to develop Hong Kong as one of the world's leading global transportation hubs. In addition to the fleet of 123 wide-bodied aircraft, these investments include catering, aircraft maintenance, ground handling companies and the corporate



Contents

headquarters, Cathay Pacific City, at Hong Kong International Airport.

In September 2006, Hong Kong Dragon Airlines Limited ("Dragonair") became a wholly owned subsidiary of Cathay Pacific. At the same time Cathay Pacific and Air China Limited ("Air China") increased their cross-shareholding to form a closer partnership. Cathay Pacific is also the major shareholder in AHK Air Hong Kong Limited ("AHK"), an all-cargo carrier offering scheduled services in the Asian region.

Cathay Pacific and its subsidiaries employ some 20,300 people in Hong Kong. The airline is listed on The Stock Exchange of Hong Kong Limited as are its substantial shareholders Swire Pacific Limited ("Swire Pacific"), Air China and CITIC Pacific Limited ("CITIC Pacific").

Cathay Pacific is a founding member of the **one**world global alliance whose combined network serves almost 700 destinations worldwide. Dragonair is an affiliate member of **one**world.

A Chinese translation of this Annual Report is available upon request from the Company's Registrars.
本年報中文譯本，於本公司之股份登記處備索。

Financial and Operating Highlights

Group Financial Statistics

		2008	2007	Change
Results				
Turnover	*HK$ million*	86,578	75,358	+14.9%
(Loss)/profit attributable to owners of Cathay Pacific	*HK$ million*	(8,558)	7,023	-221.9%
(Loss)/earnings per share	*HK cents*	(217.5)	178.3	-222.0%
Dividend per share	*HK cents*	3.0	84.0	-96.4%
(Loss)/profit margin	*%*	(9.9)	9.3#	-19.2%pt
Financial Position				
Funds attributable to owners of Cathay Pacific	*HK$ million*	38,325	50,549	-24.2%
Net borrowings	*HK$ million*	25,198	14,731	+71.1%
Shareholders' funds per share	*HK$*	9.7	12.8	-24.2%
Net debt/equity ratio	*Times*	0.66	0.29	+0.37 times

Operating Statistics – Cathay Pacific and Dragonair

		2008	2007	Change
Available tonne kilometres ("ATK")	*Million*	24,410	23,077	+5.8%
Passengers carried	*'000*	24,959	23,253	+7.3%
Passenger load factor	*%*	78.8	79.8	-1.0%pt
Passenger yield	*HK cents*	63.6	60.4#	+5.3%
Cargo and mail carried	*'000 tonnes*	1,645	1,672	-1.6%
Cargo and mail load factor	*%*	65.9	66.7	-0.8%pt
Cargo and mail yield	*HK$*	2.54	2.26#	+12.4%
Cost per ATK	*HK$*	3.79	2.87#	+32.1%
Cost per ATK without fuel	*HK$*	1.88	1.82#	+3.3%
Aircraft utilisation	*Hours per day*	11.5	11.7	-1.7%
On-time performance	*%*	81.4	83.9	-2.5%pt

Restated figures.

Chairman's Letter

The Cathay Pacific Group recorded an attributable loss of HK$8,558 million in 2008, compared to a profit of HK$7,023 million the previous year. Turnover rose by 14.9% to HK$86,578 million.

Cathay Pacific and Dragonair between them carried 25.0 million passengers in 2008 – a rise of 7.3% on the previous year. The amount of freight carried fell by 1.6%. Business in the first six months of the year was generally strong, but extremely high fuel prices in the first half of the year and a plunge in both passenger and cargo demand in the second half as a result of the global financial crisis adversely impacted the financial results.

The price of aviation fuel reached new highs in July 2008 though prices fell significantly towards the end of the year. Fuel surcharges on cargo and passenger tickets only partially offset the additional cost incurred over the course of the year. The fall in fuel prices, though welcome, caused unrealised mark to market losses of HK$7.6 billion on our fuel hedging contracts for the period 2009-2011 which were entered into in order to give a degree of certainty as to future fuel prices and protection against price increases. Our associate Air China also incurred unrealised mark to market losses on fuel hedging contracts and a provision of HK$1 billion has been made covering fourth quarter losses.

On the passenger side revenue increased by HK$8,526 million while the number of passengers carried rose by 7.3% to 25.0 million for the year, largely as a result of strong demand in the first half. At the same time capacity increased by 12.7% due to the arrival of new aircraft and an increase in services to destinations in Australia, India and the Middle East. Demand from First and Business Class passengers was high until the summer but saw a sharp fall in the wake of the financial crisis. As a result of a strong first half performance, passenger yield rose by 5.3% to HK¢63.6.

Our cargo business in the first half was stronger than anticipated, but there was a rapid decline in the last quarter of the year as demand fell in all key markets. Cargo revenue for Cathay Pacific and Dragonair combined rose by HK$2,298 million while total tonnage carried fell by 1.6% to 1,644,785 tonnes. Capacity grew by 0.7% as services were trimmed in the second half of the year due to the weakening demand. Higher fuel surcharges helped improve yield by 12.4% to HK$2.54.

Although 2008 was a difficult year for the Cathay Pacific Group, there were many positive developments. These include the arrival of efficient new aircraft, an expansion of our passenger services and the continued rollout of innovative three-class cabins on our medium- and long-haul aircraft, which can now be found on 41 aircraft. However our business was deeply affected by the dual impact of high fuel prices in the first half and a marked contraction in the world economy thereafter.

As fuel prices soared in the early part of the year a number of measures were put in place to tackle the problem, including moving capacity to routes more likely to make money and continuing work to upgrade the fleet. During the year four new Boeing 777-300ER "Extended Range" aircraft were received which have proved highly effective on our ultra-long-haul services to North America. The first two of six Boeing 747-400ERF "Extended Range Freighters" were also delivered, though schedule deliveries in the latter part of the year were set back by a strike at the Boeing production line in Seattle.

Chairman's Letter

As the impact of the financial crisis in the second half of 2008 became clearer further measures were announced to limit the impact on the business, including revising downwards the original growth plans for 2009. As a result of the downturn we plan to dispose of the five Boeing 777-200 aircraft in the Cathay Pacific fleet, while leases on two Airbus A330-300s and one Airbus A320-200 operated by Dragonair will not be renewed when they expire in June and October 2009. On the freighter side, three of our Boeing 747-400BCF "Boeing Converted Freighters" have now been taken out of service – two from Cathay Pacific and one from Dragonair. We also announced in January 2009 suspension of the construction of the Cathay Pacific cargo terminal at Hong Kong International Airport for two years.

In June 2008, Cathay Pacific announced it had entered into an agreement with the United States Department of Justice under which it pleaded guilty to a violation of the United States Sherman Act and paid a fine of US$60 million (equivalent to HK$468 million). A provision for this amount was made in the interim results, and this amount was paid in August. Cathay Pacific is still the subject of antitrust investigations by competition authorities in a number of other jurisdictions and is cooperating fully with the relevant authorities and vigorously defending itself as applicable. Additionally, Cathay Pacific received and responded to a Statement of Objections issued by the European Commission, and received and is evaluating a Statement of Claim issued by the New Zealand Commerce Commission. Cathay Pacific is not in a position at the present time to assess the full potential liabilities and is therefore not in a position to make further provisions for any antitrust fines.

Having made a painful adjustment to high fuel prices, the aviation industry now has to adjust to a severe economic downturn. Cathay Pacific expects an extremely challenging year in 2009. Passenger and cargo demand are expected to remain weak and, if fuel prices remain at their present levels, further losses on fuel hedging contracts will be incurred (although they will not be at the levels incurred in 2008 and the actual cost of fuel will be substantially lower than in 2008). Up to the end of February, unrealised mark to market losses on fuel hedging of HK$1.9 billion have been incurred in 2009, compared with HK$7.6 billion for the whole of 2008. The 2009 losses principally reflect reductions in the forward prices payable for fuel during the periods in which the relevant fuel hedging contracts will mature.

As a commercial airline with no financial support or subsidies from the government, we will manage resources in a responsible and prudent manner. Despite current difficulties, Cathay Pacific will continue to offer a superb international network through the Hong Kong hub, bolstered by the synergies with our sister carrier Dragonair and a continued strong relationship with Air China.

Christopher Pratt
Chairman
Hong Kong, 11th March 2009

2008 in Review

2008 was a difficult year for the Cathay Pacific Group. While the business picture in the first half of 2008 was generally positive, with continued high passenger traffic and stronger than anticipated cargo demand, the growth in revenue was totally eroded by the unprecedented rise in fuel costs. Fuel prices fell dramatically in the second half of the year while demand, and revenues, fell as a result of the financial crisis and economic downturn. Despite the challenges, both Cathay Pacific and Dragonair continued with their various commitments to service and product quality, and offering a quality travel experience for passengers.

Award-winning products and services

Cathay Pacific

- The rollout of the airline's innovative new cabin design continues. All new aircraft arrived with these cabins, either in three or two classes, and the retrofit is progressing well. Currently 41 aircraft from the medium- and long-haul fleet have the new product, which has been generally well received by passengers. The cabins are now to be found on Australian, Middle East and Indian routes in addition to long-haul services. All the retrofits are expected to be completed by the end of 2009.
- We expanded our "Studio^{CX}" inflight entertainment offering on aircraft with the new cabins in July. We now offer up to 100 movies, 350 TV programmes, 888 CDs, 22 radio channels and over 70 video games.
- We opened joint Cathay Pacific/Dragonair lounges in Beijing in March and Shanghai in April.
- We opened new outport lounges in Melbourne, Incheon and Penang during the year and also refreshed our lounge in Manila.
- The Arrival, our new arrival lounge at Hong Kong International Airport ("HKIA"), opened in October and has been well received by passengers.
- We opened a new Cathay Pacific Ticketing Office in Mumbai in September.
- The service skills of our staff were acknowledged at the Customer Service Excellence Awards run by the Hong Kong Association for Customer Service Excellence. The airline won three gold awards including one for counter service, in January 2008 and four honours, including two individual gold awards, in January 2009.
- The excellence of our premium cabins was recognised when we received the "Best Airline – Business Class" honour from TTG Asia and the "Best First Class Airline" honour from Skytrax. We were also named runner-up in the Skytrax "Airline of the Year" award.
- In September we were named as the "Most Admired Company in Hong Kong" in the Asian Wall Street Journal Top 200 Report.

Dragonair

- Joint Dragonair/Cathay Pacific lounges were opened at Beijing Capital International Airport in March and Shanghai Pudong International Airport in April – the biggest Group lounges outside Hong Kong.
- Dragonair's premium passengers can enjoy the facilities in The Arrival, the new lounge opened by the Cathay Pacific Group at HKIA.
- We opened new ticketing offices in Bengaluru, Hangzhou, Kaohsiung and Taichung.
- Highlights from the 2008 Beijing Olympic Games were shown on the majority of Dragonair's aircraft – the first time the airline provided regular updates from a major sporting event.
- Dragonair and Cathay Pacific launched a joint Mainland China reservations hotline to provide a more convenient service to passengers.
- Dragonair was voted "Best Regional Airline: SE Asia" in the annual World Airline Survey run by Skytrax. This was the first time for the airline to win this category.
- The carrier was also voted "Best Asian Airline" at the 2008 annual Hurun Report Best of the Best Awards.

2008 in Review

Hub development

Cathay Pacific

- The benefits of bringing Dragonair into the Cathay Pacific Group continue to bear fruit, with more passengers connecting between the two carriers through Hong Kong than ever before.
- Cathay Pacific embarked on a significant expansion of its services to and from India in the first half of the year. The airline added an extra 10 flights a week to Delhi, an additional six flights a week to Mumbai, and launched a new destination, Chennai, with a four-times-weekly service from 2nd June.
- We resumed services to Colombo in Sri Lanka on 30th March after being offline for nearly a year due to security concerns.
- In response to the impact of high fuel prices we announced a reshaping of our network in the summer. This involved trimming back ultra-long-haul flights to North America and switching capacity to routes with more profit-earning potential. We increased the number of services to Auckland, Brisbane, Dubai, Perth and Sydney as a result.
- We added a seventh daily flight to Singapore in November and a sixth weekly flight to Surabaya in December.
- We announced that we will add three and four more flights a week to Jakarta and Paris respectively with effect from the 2009 summer schedule.
- Despite the difficulties resulting from high fuel prices and the financial crisis, Cathay Pacific intends to keep its network integrity intact for both passenger and cargo services.
- Additional freighter services to Delhi were operated to meet demand from the growing trade between India and Mainland China.
- Cathay Pacific also launched a new twice-weekly freighter service from Hong Kong to Hanoi and Dhaka, which received a positive response from the market.
- In January 2009 we added two more freighter destinations, Jakarta and Ho Chi Minh City, in a bid to increase our revenue earning potential. We also announced more frequencies to Milan in February and the addition of Houston and Miami to the network in March.
- In March 2008 our subsidiary, Cathay Pacific Services Limited, was awarded a 20-year franchise to design, construct and operate a new cargo terminal in Hong Kong. Work on the HK$4.8 billion facility began in September but we have since deferred construction by up to two years in an effort to conserve cash during the economic downturn. We are, however, committed to the project which we believe will bring significant benefits to the airline and the Hong Kong hub.

Dragonair

- We continue to work on improving connections between Dragonair and Cathay Pacific to provide a seamless experience for passengers travelling through the Hong Kong hub.
- Dragonair launched three new destinations in 2008 with scheduled services starting to Bengaluru in July, Hanoi in October and Manila in December.
- Sendai was switched from a scheduled service to a charter service due to lower demand.
- The twice-weekly tag between Sanya and Haikou was terminated in July to offer an enhanced Sanya service with daily non-stop flights and to achieve greater cost efficiency.
- Dragonair strengthened its services to a number of Mainland cities in March, adding more flights to Changsha, Chengdu, Chongqing, Guilin, Kunming, Nanjing, Wuhan and Xian.
- Services to a number of other Mainland destinations were enhanced in the summer schedule. There is now at least a daily service to all but four of our Mainland destinations.
- The Phuket service will be expanded from seven to 10 flights a week from the 2009 summer schedule.
- Dragonair's freighter services were adjusted in line with high fuel prices and falling demand. In the winter schedule we withdrew our freighter services to Osaka and Xiamen, though both destinations are still covered by Cathay Pacific.

Fleet development

Cathay Pacific

- Cathay Pacific remains committed to building and enhancing its passenger and freighter fleets, and in 2008 the airline took delivery of nine more new aircraft. The airline now has a total of 44 aircraft on firm order, nine of which will arrive in 2009.
- Four more Boeing 777-300ER passenger aircraft entered the fleet in 2008 and another was delivered in January 2009, taking the total to 10. The aircraft have performed superbly on ultra-long-haul routes.

- The Boeing 777-300ER delivered in January 2008, B-KPF, was painted in our unique "Asia's World City" livery to highlight our home city, Hong Kong.
- We took delivery of three more Airbus A330-300 regional aircraft, each fitted with our new two-class cabin design.
- Our first Boeing 747-400ERF freighter, entered service in late May and a second arrived in August.
- A third Boeing 747-400ERF freighter was due to arrive in November but that delivery, and the delivery of our 10th Boeing 777-300ER, was pushed back to 2009 due to the Boeing strike in Seattle. As a result of the strike, our 2009 deliveries have been pushed back from the original schedule and the first of 10 Boeing 747-8F freighters on order will now arrive in 2010.
- At the same time as bringing more sophisticated aircraft into our fleet, we are also retiring our older, less fuel-efficient fleet of Boeing 747-200F "Classic" freighters. The first, B-HVY, left at the end of March 2008 and an accelerated retirement programme means the last will now leave by August 2009.
- As a result of the economic downturn we plan to dispose of our five Boeing 777-200 aircraft in 2009 and 2010 and take two of our Boeing 747-400BCF freighters out of service for a year in January 2009.
- The Airbus A340-600 is no longer part of our fleet with the last of three being returned to the lessor in November.

Dragonair

- We placed an order for two more leased Airbus A320 aircraft which will be delivered in 2009 and 2010 to help further strengthen our network.
- The last of four aircraft wet-leased to Air China returned to the fleet in April.
- As a result of the financial crisis we will not renew the leases on two Airbus A330-300s which expire in June 2009.
- Dragonair's freighter fleet has been consolidated with the Cathay Pacific fleet as a result of the impact of high fuel prices and more recently the financial downturn. Three Boeing 747-400BCF freighters have been moved to the Cathay Pacific fleet while another has been parked in California from January 2009.
- All of the older, fuel-inefficient Boeing 747-200F and Boeing 747-300F "Classic" freighters left the fleet by January 2009 under an accelerated retirement programme.

Pioneer in technology

Cathay Pacific

- Our new Internet Booking Engine rolled out in August, using a new booking process to offer passengers more flexibility when searching for fares.
- The number of passengers booking their flights online continued to grow, with a 70% year-on-year rise in 2008.
- An innovative online virtual tour of our new cabin design was launched in May as part of our marketing campaign to promote the new products. The tour used revolutionary technology to provide a level of detail not seen before.
- We continued to promote the use of our Online Check-In facility to make the airport experience smoother for our passengers. Over the year the use of Online Check-In grew by 11.9%.
- A new service introduced in November enables passengers who check in online to print their own boarding passes for flights departing from Hong Kong. This facility has also been introduced in 15 destinations overseas.
- In December we launched our Mobile Check-In service, which allows passengers to check in using their mobile devices the same way they check in online. Check-in confirmation can also be downloaded onto the mobile device, eliminating the need for any paper confirmation.
- Our passengers can now use Self Check-In kiosks in Amsterdam, Beijing, Busan, Frankfurt, Hong Kong, Kuala Lumpur, London, Mumbai, Nagoya, San Francisco, Seoul, Shanghai, Toronto and Vancouver.
- A new mobile version of the airline's website enables users of handheld devices to get quick access to important travel tools and information such as travel alerts and advisories.
- The City Guides website was launched at *www.cathaypacific.com*, enabling passengers to download information on things to do in 72 destinations around the world.
- Both Cathay Pacific and Dragonair complied with an IATA mandate to have 100% electronic ticketing in place for travel agents from 1st June.

2008 in Review

Dragonair

- Dragonair cut over to the new PROS revenue management system in March 2008 which made a significant positive impact on revenue generation and yield maximisation.
- Dragonair also saw continued growth in online booking and web-based facilities such as Online Check-In. More than 9% of the airline's passengers now check in for flights this way.
- Dragonair has also introduced a range of other new services and facilities aimed at making the travel experience smoother and easier. These include the Self-Print Boarding Pass service, the Mobile Check-In service, and the rollout of Self Check-In kiosks. Dragonair introduced its own mobile website for users of handheld devices.
- Dragonair launched a new Intranet in June to enable its staff to work in a more efficient and productive way.

Partnerships

Cathay Pacific

- Our joint venture with Vietnam Airlines on the Hanoi route ended in October. We now codeshare with the carrier on its daily service on the route.
- In April it was announced that Mexicana was joining the **one**world alliance, of which Cathay Pacific is a founder member. Mexicana and its subsidiary, Click Mexicana, will be flying as part of the alliance in 2009.
- The **one**world alliance celebrated its 10th anniversary on 1st February 2009. To mark the anniversary, and highlight its continued commitment to the alliance, three Cathay Pacific aircraft will feature a special **one**world livery.
- Cathay Pacific signed a new codeshare service with **one**world partner Finnair with the "CX" code going on Finnair flights from Helsinki to Amsterdam, and the Finnair code going on Cathay Pacific flights from Hong Kong to Melbourne, Perth and Sydney.
- We also terminated our codeshare with fellow **one**world partner Iberia on the services from Hong Kong to Amsterdam in March and from Amsterdam to Madrid in May.
- Codeshare arrangements with Dragonair were put in place on flights to Chengdu, Chongqing, Dhaka, Hangzhou, Nanjing, Ningbo, Sanya and Xian. Bengaluru and Hanoi also became codeshare services from July and October respectively.

Dragonair

- Since becoming an affiliate member of the **one**world alliance in November 2007, Dragonair has seen the benefit of being the only alliance member with an extensive network into Mainland China.

Commitment to staff

Cathay Pacific

- Cathay Pacific and its subsidiaries employed 27,100 people worldwide at the end of 2008. Some 18,800 worked for Cathay Pacific itself, with more than 12,700 of those employed in Hong Kong. The workforce grew by 9.9% over 2007, mainly due to the addition of more flying crew.
- The rapid business downturn as a result of the global financial crisis led the airline to announce a suspension of all recruitment for Cathay Pacific and Dragonair in October. However, the airline made clear its intention to do everything to keep the team together.
- Despite the challenging environment, those Cathay Pacific staff not on an increment scale were given pay rises averaging 2% for 2009. The Company also made an ex-gratia payment of half a month's salary to all eligible staff in Hong Kong in recognition of their hard work.
- We introduced voluntary unpaid leave schemes for operating crew in 2009 to help us balance crew numbers with our revised capacity targets. The schemes proved popular with both the pilot and cabin crew communities.
- In the first half of the year we broadened our cabin crew base by recruiting flight attendants from countries such as Indonesia, Japan and Malaysia in addition to Hong Kong. We also expanded our overseas cabin crew bases.
- Our Cadet Pilot Programme continues to nurture new pilots and a total of 21 cadets graduated in 2008. Currently, a total of 48 cadets are going through training in Adelaide.
- We review our human resource and remuneration policies in the light of local legislation, industry practice, market conditions and the performance of individuals and the Company.

Dragonair

- Dragonair employed a total of 2,600 staff at the end of 2008.

- In November, Dragonair's subsidiary Hong Kong International Airport Services Limited was merged with Hong Kong Airport Services Limited to become one of Asia's largest airport service companies and provide better career opportunities for its staff.
- The airline recruited around 170 cabin crew and 33 pilots in 2008, and 9 cadets joined its cadet pilot programme in 2008.
- In line with its sister airline, Dragonair announced a recruitment freeze in October. The airline also introduced its own voluntary unpaid leave scheme for cabin crew, which has been well received by crew.
- Along with Cathay Pacific the airline announced an average increment of 2% for 2009 and an ex-gratia payment for eligible staff, despite the difficult operating environment.

Contribution to the community

Cathay Pacific

- Cathay Pacific and Dragonair announced a fundraising effort after the devastating earthquake in Sichuan Province in May. The airlines contributed HK$2 million to the fund and then matched all monies raised by staff in various fundraising efforts. A total of HK$14.6 million was donated to the Hong Kong Red Cross to help provide relief.
- The third "I Can Fly" programme drew to a close in April, with 1,000 Hong Kong teenagers attending the graduation ceremony. In the 2007/2008 programme the youngsters learned about aviation, guided by Cathay Pacific pilot mentors and staff leaders, and developed their own social service programmes.
- In January 2009 we announced that more than HK$10 million had been collected in the 2007/2008 year of the Change for Good inflight fundraising programme. The bulk of the money went to the United Nations Children's Fund (UNICEF), while some went to help the Cathay Pacific Wheelchair Bank.
- We launched the "CX Volunteers" team at Cathay Pacific, with more than 400 staff signing up to run various initiatives to help disadvantaged people in Hong Kong, and especially in the airport satellite town, Tung Chung, and areas such as Tin Shui Wai and Sham Shui Po.
- Our staff also continued to support the Sunnyside Club, which provides a wide range of support to mentally and physically handicapped youngsters in Hong Kong.
- We launched the "English on Air" programme to help Tung Chung students improve their English conversational skills, with a total of 160 students benefiting from the programme in 2008. We also took more than 100 students on a special "English on Air" community flight in March.
- Cathay Pacific remains committed to bringing top-quality sporting events to Hong Kong, and we put our name to the Hong Kong Sevens rugby spectacular in March, the Hong Kong Squash Open in November and the Hong Kong International Races in December. We also backed the Hong Kong Cricket Sixes as official carrier.
- We provided the Clinton Global Initiative, which held its meeting in Hong Kong in December, with a number of tickets to bring in delegates from developing countries in the region.
- We continued our title sponsorship of the popular Chinese New Year International Night Parade in Hong Kong in February 2008 and January 2009, and we sponsored the Hong Kong performance of the *We Will Rock You* musical which ran in May and June 2008.

Dragonair

- Dragonair is committed to enhancing the quality of life in the communities in which it operates, and its Corporate Social Responsibility programme focuses on four key areas: arts and culture, education, medical and relief efforts and the environment.
- The airline provided support to The Government of the Hong Kong Special Administrative Region and various relief organisations by sending relief teams and supplies to areas affected by the earthquake in Sichuan Province in May. More than 200 air tickets were provided free of charge and more than 54 tonnes of relief supplies were flown to the stricken areas.
- The Dragonair Aviation Certificate Programme 2008, a joint educational programme between Dragonair and the Hong Kong Air Cadet Corps, concluded in December with 13 graduates. This was the third year for the programme to run.
- Dragonair supported a number of arts and cultural programmes including events at the Hong Kong Arts Festival 2008 and performances of Hong Kong Philharmonic Orchestra.

2008 in Review

- Dragonair staff participated in the Walk for Millions held in January 2008 and a team from the airline joined the Olympic Day Run in June which was organised by the Sports Federation and Olympic Committee of Hong Kong as part of a worldwide initiative to promote the Olympic Movement.
- Dragonair was awarded "Caring Company" status by the Hong Kong Council of Social Service for the third consecutive year.
- In November, staff from the airline were able to see the work of The Nature Conservancy at first hand during a field trip to Yunnan Province. Dragonair supports the work of the organisation through its "Change for Conservation" inflight fundraising programme.

Environment

Cathay Pacific

- We published our 2007 Corporate Social Responsibility Report in June, outlining the progress made last year in areas such as environmental initiatives, community activities and requirements for procurement and supply chains. We also outlined our agenda items for the current year, setting targets for each of the key areas. The 2007 report is available online at *www.cathaypacific.com*. We are currently working on our 2008 Corporate Social Responsibility Report.
- A Corporate Social Responsibility supplier Code of Conduct was implemented and published on our Intranet.
- The Business Environmental Council carried out an audit of Cathay Pacific's headquarters for the Clean Air Charter Certification Scheme in November. The results were announced in February 2009 certifying our compliance with the scheme.
- Together with Dragonair we continue to promote our "FLY greener" carbon offset programme, the first of its kind to be launched in Asia. The carbon credits are currently being sourced from a large wind farm near Shanghai. In the first year, 3,752 tonnes of carbon dioxide were offset by passengers, including other corporates in Hong Kong, through "FLY greener", the majority using Asia Miles to pay for their offsets. In 2009, we will look at ways to further promote "FLY greener" to the public.
- We also offset carbon emissions associated with staff business travel at the airline. In 2008 we offset 11,814 tonnes of carbon dioxide at a cost of approximately HK$900,000.
- We will launch new regional projects for our carbon offset initiatives in 2009.
- Our overall fleet efficiency continues to be boosted by the introduction of newer, more fuel-efficient aircraft. For example, the new Boeing 747-400ERF freighter is 16% more fuel-efficient than the Boeing 747-200F "Classic" freighters that are now being retired. The use of the new Boeing 777-300ER on our North Pacific routes is resulting in up to 28% efficiency gain compared to the aircraft it replaces. The phasing out of our older "Classic" freighters has also reduced our fuel burn and associated emissions.
- Cathay Pacific sponsored the second "Greener Skies" forum in Hong Kong in February, organised to form an industry response to the global warming issue.
- Biodegradable plastic bags started to be used inflight from September and we now also recycle plastic cups from Economy Class.
- Six of our staff were nominated as "Earth Champions" in the Hong Kong stage of the Earth Champion Quest.
- Cathay Pacific is part of a new industry coalition, the Aviation Global Deal (AGD) group, which in February 2009 called for CO2 emissions from international aviation to be included in a new global climate deal. The agreement will be negotiated by world leaders at the United Nations climate summit in Copenhagen in December.

Dragonair

- Dragonair developed and published its own Environmental Policy in 2008.
- In line with sister airline Cathay Pacific, Dragonair aims to maximise the efficiency of its fleet either through enhancements to existing aircraft or by adding newer, more fuel-efficient aircraft to the fleet.
- All of Dragonair's fuel-inefficient Boeing 747-200F and Boeing 747-300F "Classic" freighters were retired from the fleet by January 2009.
- A dress-down policy was launched in an effort to reduce air-conditioning, while energy-saving and recycling initiatives were introduced in Dragonair House.
- A dedicated page was set up on the Dragonair intranet to raise internal environmental awareness.

Fleet profile

	Number as at 31st December 2008														
		Leased			Firm orders				Expiry of operating leases						
Aircraft type	Owned	Finance	Operating	**Total**	'09	'10	'11 and beyond	**Total**	'09	'10	'11	'12	'13	'14 and beyond	Purchase rights
Aircraft operated by Cathay Pacific:															
A330-300	9	17	6	**32**		2	6	**8**			3			3	
A340-300	5	6	4	**15**							4				
747-400	17		6	**23**								3		3	
747-200F	5			**5**											
747-400F	2	4		**6**											
747-400BCF	7	1	2	**10**	1[a]			**1**					2		
747-400ERF		2		**2**	4			**4**							
747-8F						4	6	**10**							
777-200	1	4		**5**											
777-300	2	10		**12**											
777-300ER	1	4	4	**9**	4	5	12	**21**						4	20[b]
Total	49	48	22	**119**	9	11	24	**44**			7	3	2	10	20
Aircraft operated by Dragonair:															
A320-200	4	1	5	**10**	1	1		**2**[c]	1	1	3				
A321-200	2		4	**6**						2	2				
A330-300	4	1	11	**16**					2	1	2	3	3		
747-200F	1			**1**											
747-400BCF	2			**2**											
Total	13	2	20	**35**	1	1		**2**	3	4	7	3	3		
Aircraft operated by AHK:															
A300-600F	2	6		**8**											
Grand Total	**64**	**56**	**42**	**162**	**10**	**12**	**24**	**46**	**3**	**4**	**14**	**6**	**5**	**10**	**20**

(a) *Aircraft on 9 year operating lease.*
(b) *Purchase rights for aircraft delivered by 2017.*
(c) *Two aircraft on 8 year operating leases.*


CATHAY PACIFIC
Online Check-In

Innovate

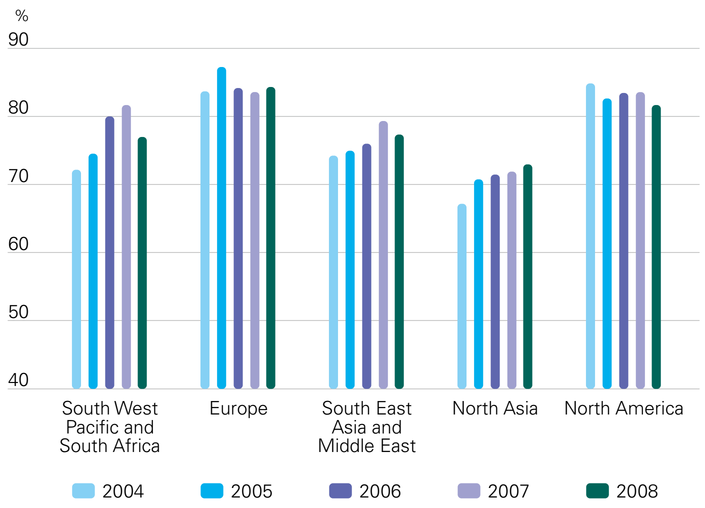
Cathay Pacific significantly boosted the online experience for passengers in 2008, with innovations including an enhanced booking facility, a new Mobile Check-In service, and an option to print boarding passes at home or in the office. The airline is working on further initiatives that will give passengers more control over each stage of their journey.

Review of Operations

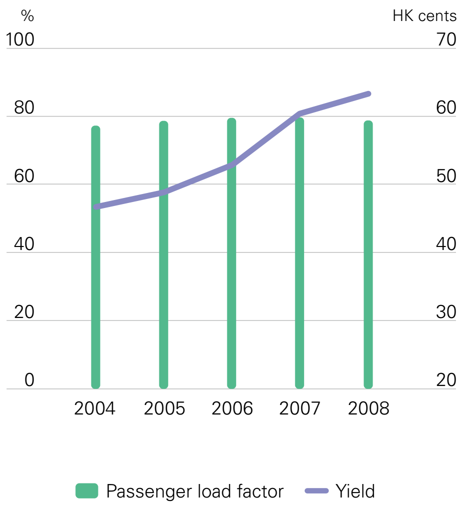
PASSENGER SERVICES

Cathay Pacific and Dragonair carried a total of 25.0 million passengers in 2008 – up 7.3% on the previous year but below a capacity increase of 12.7% for the same period. Passenger revenue rose by 17.2% to HK$58,046 million, mainly as a result of a strong first half performance which helped improve yield by 5.3% to HK63.6 cents. The load factor for the period was 78.8% – down 1.0 percentage point from 2007. Soaring fuel prices eroded profitability in the first half while the second half was hit by the financial crisis. Business out of Hong Kong suffered particularly badly with corporate sales highly dependent on the financial sector.

Load factor by region*



Passenger load factor and yield*



* Includes Dragonair from 1st October 2006.

Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Dragonair passenger services:

	ASK (million)			Load factor (%)			Yield
	2008	2007	**Change**	**2008**	2007	**Change**	**Change**
South West Pacific and South Africa	**17,689**	14,589	**+21.2%**	**77.0**	81.7	**-4.7%pt**	**+6.9%**
Europe	**20,017**	19,641	**+1.9%**	**84.4**	83.6	**+0.8%pt**	**+9.0%**
South East Asia and Middle East	**22,528**	19,220	**+17.2%**	**77.4**	79.4	**-2.0%pt**	**+8.4%**
North Asia	**24,028**	23,765	**+1.1%**	**73.0**	71.9	**+1.1%pt**	**+6.5%**
North America	**31,216**	25,247	**+23.6%**	**81.7**	83.6	**-1.9%pt**	**+2.8%**
Overall	**115,478**	102,462	**+12.7%**	**78.8**	79.8	**-1.0%pt**	**+5.3%**

Comments by region are as follows:

South West Pacific and South Africa

Cathay Pacific

- 2008 saw a significant boost in capacity to Australia as we switched flights to those routes with more revenue earning potential in light of soaring fuel prices.
- Perth moved to a daily service in October while Brisbane went from seven to 10 flights a week. Another three flights were added to Sydney each week to make it a four-times-daily service.
- Business to and from Australia held up well throughout the year, helped by an increase in Mainland China passengers connecting on Dragonair through the Hong Kong hub.
- A product upgrade also helped our Australia business, with our new cabins featuring on the Melbourne and Sydney routes, and other destinations benefiting from the removal of our regional Airbus A330-300s.
- New Zealand moved back to a double-daily service from late October, though demand on the route was below expectations.
- Business to and from South Africa was stable, but yield dropped sharply in the last two months of the year due to the currency movements.

Europe

Cathay Pacific

- Loads on London and other European routes were high in the first half but saw a big falloff in front-end business following the financial crisis.
- We boosted capacity to London by upgrading the CX253/4 flight to a Boeing 747-400 aircraft. A similar upgrade helped us offer more seats to and from Amsterdam.
- A greater number of flights to and from Europe featured our new three-class cabins as the rollout progressed on older aircraft.
- Demand to and from Paris was robust during the year and we announced an increase in flights from summer 2009 with four more flights a week to make a double-daily service.

South East Asia and Middle East

Cathay Pacific

- We added a seventh daily flight to Singapore in November. Demand on the route was reasonably strong throughout 2008 though we began to see the impact of the financial crisis on front-end demand in the last quarter.
- Our business to Thailand was significantly affected by the political turmoil in the country for much of 2008.
- Revenues on the Malaysian routes were affected by aggressive pricing, particularly to and from Kuala Lumpur.
- Demand to and from the Philippines was strong throughout the year with some yield improvement.
- Indonesian routes performed reasonably well and we added an extra flight to Surabaya from December, making it a six-times-weekly service.
- Our joint venture with Vietnam Airlines to Hanoi ended in October. We now codeshare on one flight per day operated by the Vietnamese carrier in addition to the new daily flight operated by Dragonair.
- We reinstated our daily passenger service to Colombo on 30th March and performance has been satisfactory.

- The early part of the year saw a significant boost in our services to India, with a total of 20 extra flights being added. Delhi was turned into a double-daily service and a new destination, Chennai, was added. The latter has performed reasonably well, though demand to and from India as a whole lagged behind the capacity growth.
- Services to the Middle East were expanded in October as a result of the fuel-price-led redeployment of capacity. Dubai moved from a double daily service to triple daily. Demand remained strong throughout the year.

Dragonair

- Dragonair launched a new daily flight to Hanoi in October and initial loads have been encouraging.
- A new flight to Manila, which commenced in December, is providing more options for travellers to and from the Philippines.
- Loads to Kathmandu have been reasonable in the first year of operation, though the Dhaka service has been hampered by visa restrictions.
- Flights to Phuket and Kota Kinabalu have enjoyed good loads throughout the year.
- Dragonair entered the Indian market in July with a new daily service to Bengaluru.

North Asia

Cathay Pacific

- Business to and from Taiwan was satisfactory despite the impact of cross-straits charter flights. These charter flights were introduced in July and were significantly increased from December, to a greater number of destinations. We are still assessing the potential long-term impact on our business.
- Korea flights performed satisfactorily, though the depreciation of the Won did reduce yield.
- Japan flights performed well with some yield improvement, helped by the strengthening of the Yen in the last quarter.
- Cathay Pacific withdrew its passenger services to Xiamen in September.
- Demand to Mainland China, and Beijing in particular, was adversely affected by visa restrictions imposed on international travellers entering Mainland China during the Olympic Games period.

Dragonair

- Traffic to and from Mainland China was affected by a number of factors in 2008, including the January snowstorms, the Sichuan earthquake in May and the Olympic Games in August.
- Demand on the key trunk routes to Beijing and Shanghai held up well, despite the impact from cross-straits charter flights. Beijing in particular saw a boost in business following the Olympics and the relaxation of visa restrictions.
- Dragonair took over Cathay Pacific's daily service to Xiamen, with the two airlines codesharing on the route.
- Business to secondary cities in Mainland China was below expectations for most of the year. Passenger numbers declined to Chengdu and Wuhan following the earthquake but we kept services to both cities intact.
- We added capacity to a number of Mainland China destinations in the summer and now fly daily to all but four of the cities we serve in the country.
- We terminated the twice-weekly tag between Haikou and Sanya in July for cost efficiency and also to boost Sanya as a destination by providing daily non-stop flights.
- We ceased our scheduled service to Sendai in Japan from the summer, turning it into a charter flight to match demand on the route.
- The daily flight to Busan in Korea performed well.

North America

Cathay Pacific

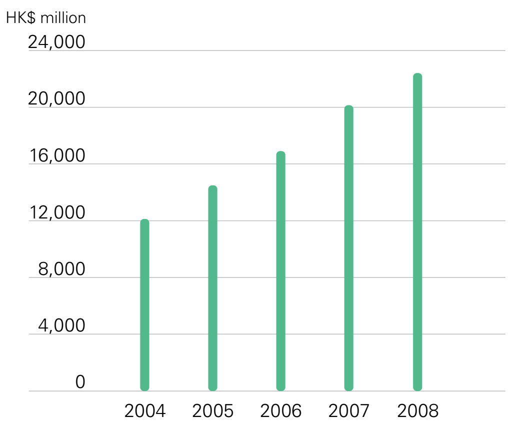
- The profitability of many flights to North America was seriously affected by high fuel prices in the first half of the year.
- The impact of high fuel prices led us to redeploy capacity to other routes with more revenue earning potential. As a result we trimmed back services on a number of North American routes. Los Angeles and Vancouver both moved from three to two flights a day while Toronto went from 10 to seven flights a week.
- Demand on all US routes was high during the first half though we saw a big falloff in front-end business following the financial crisis. New York premium traffic was hit particularly hard, especially in First Class.
- Loads in the back end held up better than expected after the financial crash.
- We saw very real benefits from being able to employ our new Boeing 777-300ERs to North America in terms of both operational efficiency and product quality. Feedback from passengers has been highly favourable.

Review of Operations

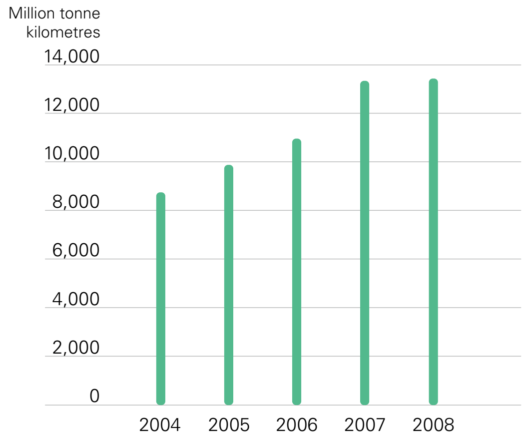
CARGO SERVICES | ASIA MILES

Cargo demand was generally more robust than expected during the first half of 2008 but fell away dramatically in the second half as the impact of the financial crisis was more deeply felt. Cargo and mail tonnage carried by Cathay Pacific and Dragonair fell by 1.6% to 1,644,785 tonnes compared to a capacity rise of 0.7%. The load factor fell by 0.8 percentage point to 65.9% while yield, with the help of higher collection of fuel surcharges, rose by 12.4% to HK$2.54. High fuel prices seriously affected the profitability of our cargo operation in the first six months while the second half saw demand fall as major economies went into recession.

Turnover*



Capacity – cargo and mail ATK*



* Includes Dragonair from 1st October 2006.

Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services:

	ATK (million)			Load factor (%)			Yield
	2008	2007	**Change**	**2008**	2007	**Change**	**Change**
Cathay Pacific and Dragonair	**13,425**	13,335	**+0.7%**	**65.9**	66.7	**-0.8%pt**	**+12.4%**

Cathay Pacific

- High fuel prices made it difficult to operate profitable long-haul freighter flights in the first half. We removed our older Boeing 747-200 "Classic" freighters from European services and combined more flights to ensure profitability.
- We began phasing out the more fuel-inefficient "Classics" in March 2008. Under an accelerated retirement programme, all will be retired by August 2009.
- The move to a more fuel-efficient freighter fleet began in May with the arrival of our first Boeing 747-400ERF freighter. Our second Boeing 747-400ERF freighter arrived in August but the delivery of the third was put back from November to January 2009 as a result of the strike at Boeing. Three more of the type will arrive in 2009.
- We also have 10 new-generation Boeing 747-8F freighters on firm order with delivery commencing in 2010 – later than originally scheduled.

- We now have 10 Boeing 747-400BCF freighters after switching three over from the Dragonair fleet. The scheduled delivery of the last Boeing 747-400BCF freighter is in July 2009 bringing the fleet size to 11. However, we have now taken two of these aircraft out of service from January 2009 for a one-year period as a result of the recent deterioration in cargo loads.
- We strengthened our freighter network with the addition of a new service to Dhaka and Hanoi. The route has performed well since its launch.
- We postponed our plan to launch a new service to Houston and Miami in 2008 due to the delayed arrival of our third Boeing 747-400ERF freighter. The service was launched in the first quarter of 2009.
- We also launched a new twice-weekly freighter service to Jakarta/Ho Chi Minh City in January 2009 and increased our Malpensa frequency from three to six per week in February 2009 to maximise revenue earning opportunities.
- Regionally, demand out of Mainland China was robust for most of the year, particularly from the Yangtze River Delta. However, there was a marked dip in demand around the Olympics period.
- We will maintain our freighter frequencies to Beijing and Xiamen in 2009. In the coming summer schedule, our Shanghai frequency will increase and at the same time all Dragonair's Mainland China freighter operations will be transferred to Cathay Pacific.
- Business to and from Japan and Korea was well below expectations for most of the year. The Taiwan market was also soft and we expect a further erosion of demand following the launch of scheduled cross-straits services in December.
- In 2008 we reduced our European and transpacific services in order to mitigate the impact of high fuel prices and, in the latter part of the year, a slowdown in exports from Hong Kong. Capacity has been further adjusted for 2009.
- The Company's wholly owned subsidiary Cathay Pacific Services Limited ("CPSL") entered into a franchise agreement with the Airport Authority of Hong Kong ("AAHK") on 18th March 2008 for the franchise to invest in, design, construct and operate a new air cargo terminal at Hong Kong International Airport. The franchise agreement is for a term of 20 years and the new cargo terminal was originally scheduled to commence operation in the second half of 2011. In light of the recent market downturn, CPSL entered into a supplemental agreement with AAHK on 15th January 2009 to defer the completion of the new cargo terminal by a maximum of 24 months to mid 2013. Under the supplemental agreement, CPSL will compensate AAHK for the deferral. The amount of compensation is deemed to be fair and reasonable having duly considered the contractual terms and conditions of the franchise.

Dragonair

- We began a phased retirement of Dragonair's older Boeing 747-200F and Boeing 747-300F "Classic" freighters in a move to operate a more efficient fleet. The retirement plan was accelerated due to the fuel crisis and financial slump and all the "Classics" have now left the fleet.
- With the retirement of the "Classics" the Dragonair freighter fleet consisted solely of Boeing 747-400BCF freighters. Three of these were switched to Cathay Pacific in the latter part of 2008 so by the end of the year Dragonair operated just two Boeing 747-400BCF freighters.
- Due to the financial downturn, one of these Boeing 747-400BCF freighters was parked in California with effect from January 2009. Dragonair now has just one Boeing 747-400BCF freighter flying regionally.
- The Japan market remained soft and demand on our freighter service to and from Osaka was below expectations. The service was withdrawn with effect from the winter schedule.
- Shanghai was Dragonair's most important freighter route in 2008. For greater operating efficiency, this route will be transferred to Cathay Pacific in the coming summer schedule.

ASIA MILES

- Asia Miles, our travel reward programme, continued to grow and at the end of 2008 had more than three million members.
- The number of partners increased to more than 300 in nine categories including airlines, hotels and major financial institutions.
- Over 90% of Cathay Pacific flights carried frequent flyer redemptions.
- There was a 23% growth in flight redemptions from Asia Miles members on its 20 partner airlines.
- A brand-new website, *www.asiamiles.com*, was launched in September with greatly enhanced content and layout.

Invigorate

Passenger comfort and convenience is a priority for Cathay Pacific at every stage of the journey. In 2008 the airline, together with Dragonair, opened new lounges in Shanghai and Beijing, taking the airport experience to a new level. Another welcome development was the opening of The Arrival, a new lounge for passengers arriving at Hong Kong International Airport.

Financial Review

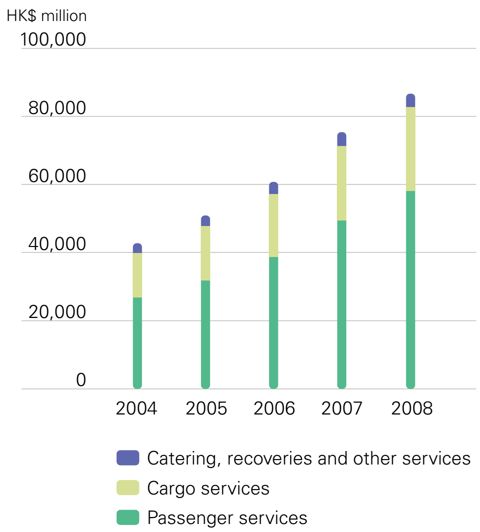
The Cathay Pacific Group reported an attributable loss of HK$8,558 million against a profit of HK$7,023 million the previous year. The disappointing result was largely the impact of the high price of fuel in the first half of the year, followed by a sharp decline in both passenger and cargo traffic in the second half. Although the drop in fuel prices towards the end of the year caused significant mark to market losses on the fuel hedging contracts, it is a favourable factor in the airlines' quest for profitability as fuel in 2008 accounted for more than 50.3% of our total operating expenses.

Fuel surcharges, insurance surcharges and cargo security charges have been reclassified as traffic turnover under passenger services and cargo services instead of being classified as recoveries.

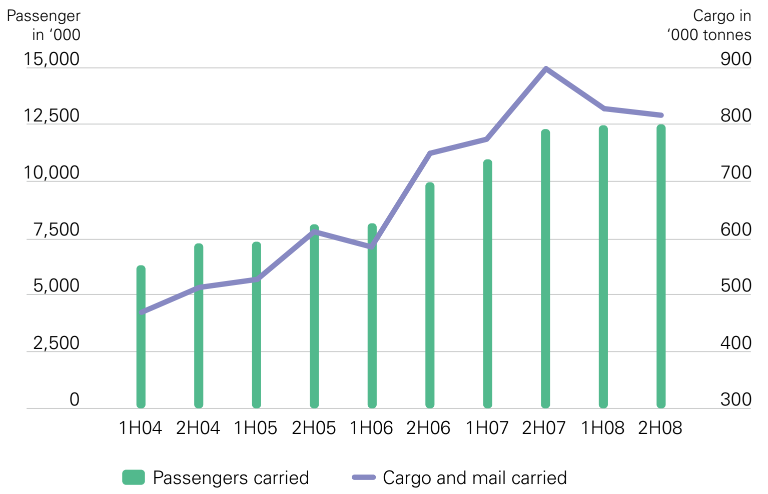
Turnover

	Group		Cathay Pacific and Dragonair	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Passenger services	**58,046**	49,520	**58,046**	49,520
Cargo services	**24,623**	21,783	**22,424**	20,126
Catering, recoveries and other services	**3,909**	4,055	**2,855**	2,714
Turnover	**86,578**	75,358	**83,325**	72,360

Turnover*



Cathay Pacific and Dragonair: passengers and cargo carried*



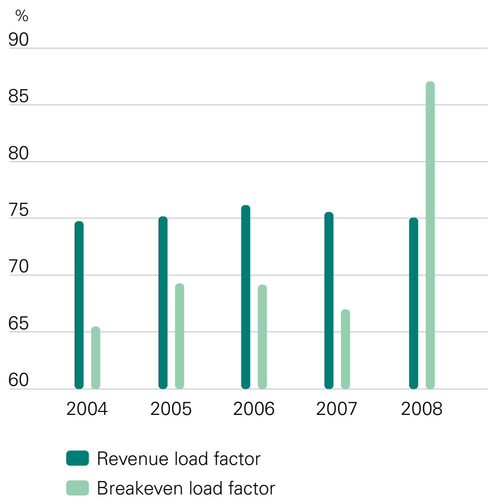
* Includes Dragonair from 1st October 2006.

- Group turnover rose by 14.9% on 2007.

Cathay Pacific and Dragonair

- Passenger turnover increased by 17.2% to HK$58,046 million as a result of strong demand in the first half of the year. The number of passengers carried increased by 7.3% to 25.0 million and revenue passenger kilometres increased by 11.2%.
- Passenger load factor decreased by 1.0 percentage point to 78.8% while available seat kilometres increased by 12.7%.
- Passenger yield increased by 5.3% to HK¢63.6 with the help of higher fuel surcharges.
- First and business class revenues increased by 10.4%. With increased capacity, the front-end load factor decreased from 68.0% to 62.5%. Economy class revenue increased by 20.7% and the economy class load factor decreased from 81.9% to 81.6%.
- Cargo turnover rose by 11.4% to HK$22,424 million with a 0.7% increase in capacity. Export demand from Mainland China through Hong Kong remained strong.
- Cargo load factor decreased by 0.8 percentage point while higher fuel surcharges helped improve cargo yield by 12.4% to HK$2.54.

Cathay Pacific and Dragonair: revenue and breakeven load factor*



* Includes Dragonair from 1st October 2006.

- Revenue load factor decreased by 0.5 percentage point to 75.1% while the breakeven load factor was 87.1%.
- The annualised revenue effect on changes in yield and load factor is set out below:

	HK$M
+ 1 percentage point in passenger load factor	735
+ 1 percentage point in cargo and mail load factor	340
+ HK¢1 in passenger yield	910
+ HK¢1 in cargo and mail yield	88

Financial Review

Operating expenses

	Group			Cathay Pacific and Dragonair		
	2008 HK$M	2007 HK$M	**Change**	**2008 HK$M**	2007 HK$M	**Change**
Staff	**12,428**	12,142	**+2.4%**	**11,305**	10,975	**+3.0%**
Inflight service and passenger expenses	**3,336**	2,903	**+14.9%**	**3,336**	2,903	**+14.9%**
Landing, parking and route expenses	**11,039**	9,950	**+10.9%**	**10,993**	9,876	**+11.3%**
Fuel	**47,317**	24,624	**+92.2%**	**46,637**	24,227	**+92.5%**
Aircraft maintenance	**7,643**	6,830	**+11.9%**	**7,511**	6,718	**+11.8%**
Aircraft depreciation and operating leases	**7,211**	6,369	**+13.2%**	**7,024**	6,303	**+11.4%**
Other depreciation and operating leases	**1,060**	998	**+6.1%**	**814**	756	**+7.7%**
Commissions	**851**	860	**-1.0%**	**851**	860	**-1.0%**
Exchange gain	**(28)**	(490)	**-94.3%**	**(11)**	(502)	**-97.8%**
Others	**3,182**	3,433	**-7.3%**	**3,268**	3,444	**-5.1%**
Operating expenses	**94,039**	67,619	**+39.1%**	**91,728**	65,560	**+39.9%**
Net finance charges	**1,012**	787	**+28.6%**	**907**	645	**+40.6%**
Total operating expenses	**95,051**	68,406	**+39.0%**	**92,635**	66,205	**+39.9%**

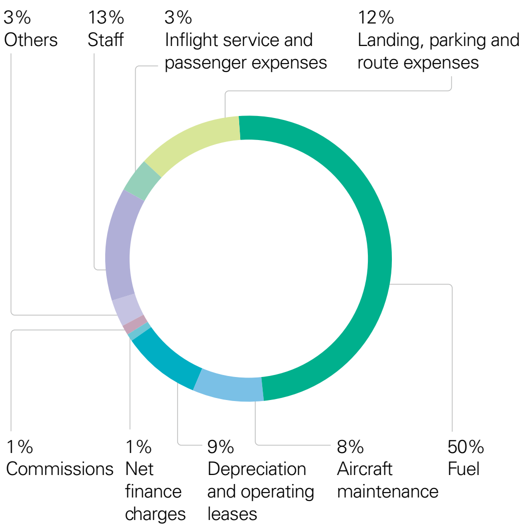
- Group operating expenses rose 39.0% to HK$95,051 million.
- The combined cost per ATK of Cathay Pacific and Dragonair increased from HK$2.87 to HK$3.79 due to higher fuel prices and unrealised mark to market losses on fuel derivatives.

Cathay Pacific and Dragonair operating results

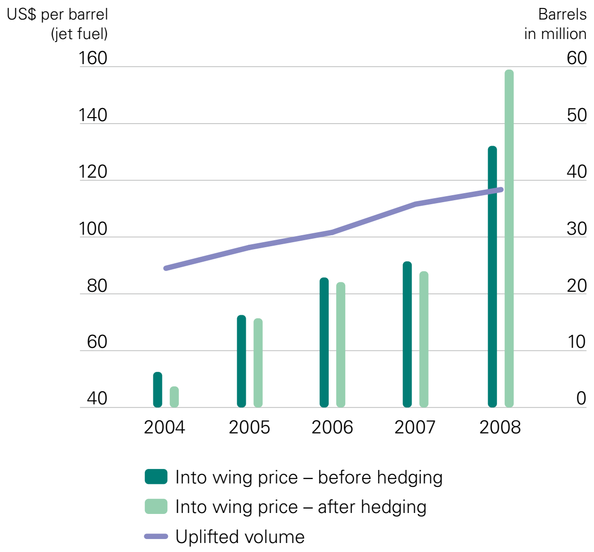
	2008 HK$M	2007 HK$M
Turnover	**83,325**	72,360
Total operating expenses	**(92,635)**	(66,205)
Reversal of fuel hedging losses/(gains)	**7,970**	(933)
Operating (loss)/profit before tax and fuel hedging	**(1,340)**	5,222

- The operating loss for Cathay Pacific and Dragonair combined was HK$1,340 million compared to a profit of HK$5,222 million in 2007.
- The change was mainly due to higher fuel prices which offset the increase in turnover.

Total operating expenses



Fuel price and consumption



Underlying (loss)/profit

The following provides a reconciliation on the Group's reported and underlying (loss)/profit.

	2008 HK$M	2007 HK$M
(Loss)/profit attributable to owners of Cathay Pacific	**(8,558)**	7,023
Adjustment to reverse the impact of Hong Kong Accounting Standards 39*		
– Fuel derivatives	**7,883**	(118)
– Currency and interest rate derivatives	**(5)**	(162)
Adjustment to reverse our share of Air China's mark to market fuel hedging losses in the fourth quarter	**1,000**	–
Settlement of the United States Department of Justice Cargo Investigations	**468**	–
Taxation	**(1,327)**	30
Underlying (loss)/profit	**(539)**	6,773

* *The adjustment reverses both the unrealised mark to market gain/(loss) and the subsequent realised gain/(loss) and instead recognises the cash amount received/(paid) on settlement.*

Financial Review

The change from an underlying profit to an underlying loss can be analysed as follows:

	HK$M	
2007 underlying profit	6,773	
Passenger and cargo turnover	11,366	**Passenger** – Increased HK$6,272 million due to 12.7% increase in capacity. – 1.0% point decrease in load factor contributed to a decrease of HK$714 million. – HK$2,968 million increase with 5.3% increase in yield. **Cargo** – Increased HK$136 million due to 0.7% increase in capacity. – 0.8% point decrease in load factor contributed to a decrease of HK$268 million. – HK$2,430 million increase with 12.4% increase in yield. – HK$542 million increase from AHK.
Catering, recoveries and other services	(146)	
Staff	(286)	– Increased due to a rise in the average number of staff partly offset by a lower bonus.
Inflight service and passenger expenses	(433)	– More expenditure due to a 7.3% increase in passenger numbers.
Landing, parking and route expenses	(1,089)	– Increased as a result of additional flights and strong foreign currencies in the first half of the year.
Fuel	(14,692)	– Fuel costs increased due to a 44.3% increase in the average into-plane fuel price to US$132 per barrel and a 7.0% increase in consumption to 38.3 million barrels.
Aircraft maintenance	(813)	– Higher spending with fleet expansion and a provision for return condition on planned return of operating lease aircraft.
Depreciation and operating leases	(904)	– Increased due to the new aircraft deliveries.
Net finance charges	(364)	– Increased as a result of additional aircraft lease obligations.
Share of profits of associates	(787)	– The reduction was mainly a result of a share of loss from Air China.
Taxation	779	– The tax charge decreased as a result of the loss this year.
Others	57	
2008 underlying loss	**(539)**	

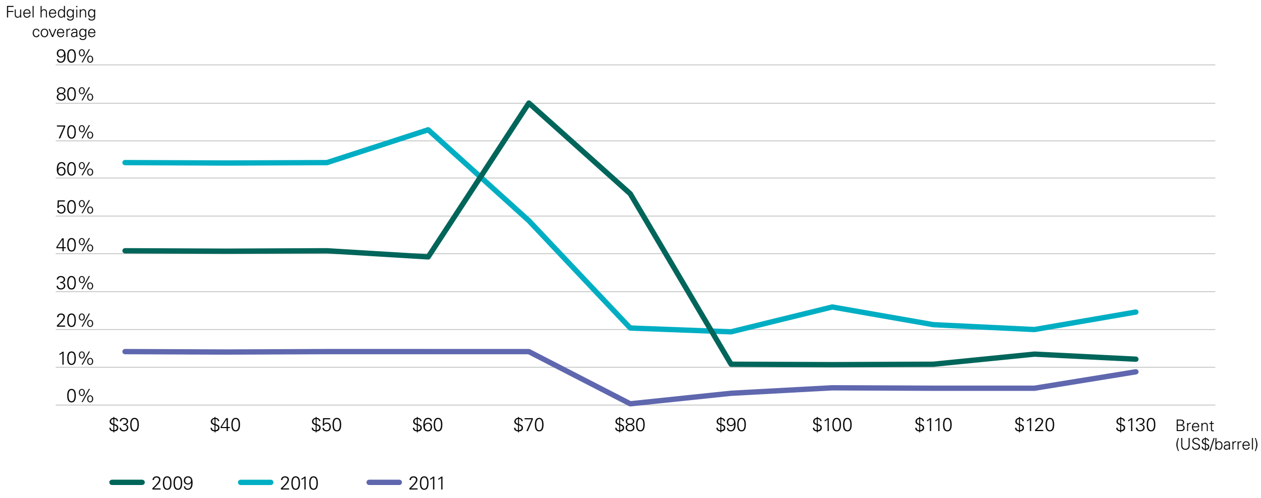
Fuel expenditure and hedging

A breakdown of the Group's fuel cost is shown below:

	2008 HK$M	2007 HK$M
Gross fuel cost	39,347	25,557
Realised hedging losses/(gains)	309	(719)
Unrealised mark to market losses/(gains)	7,661	(214)
Net fuel cost	47,317	24,624

The Group's maximum fuel hedging exposure and a sensitivity analysis of both the cash and the profit and loss impact of fuel price movements on fuel hedging contracts as at 31st December 2008 are set out as below:

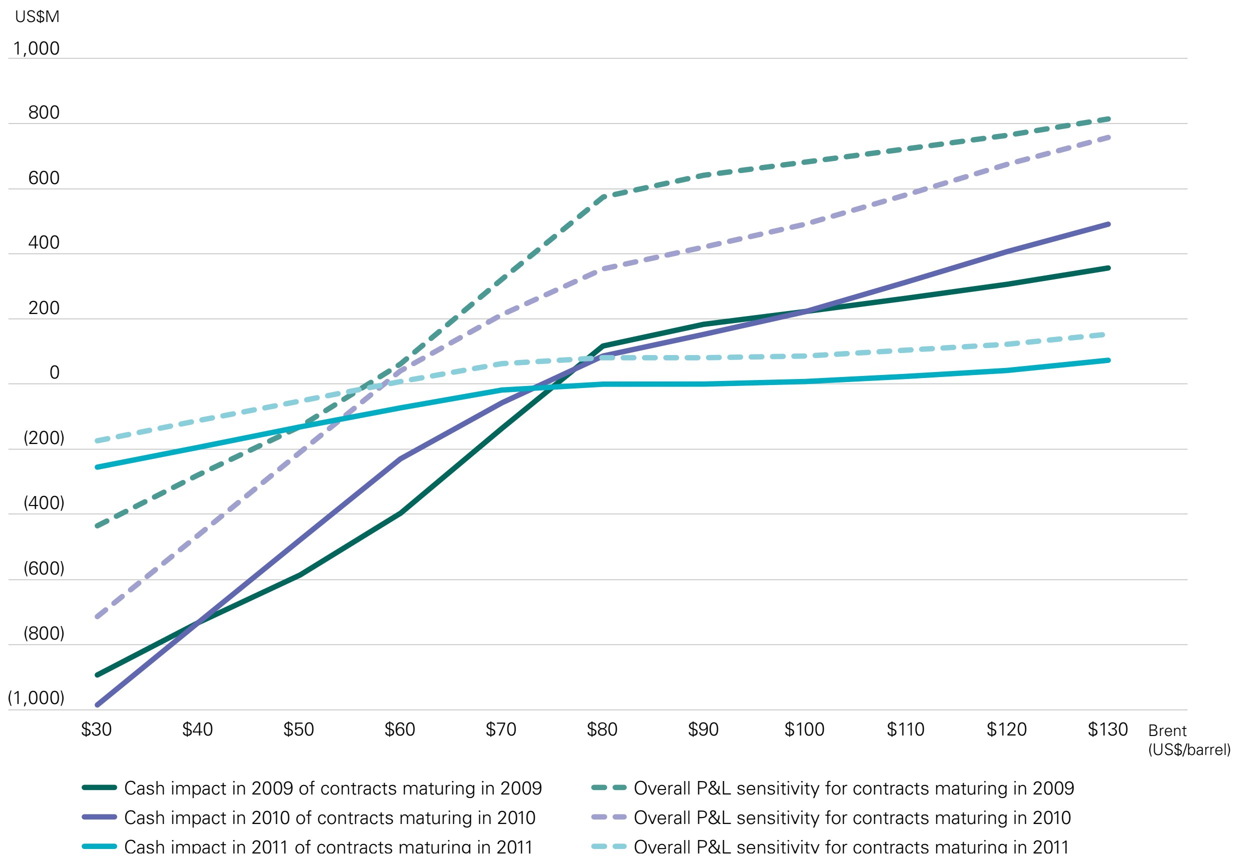
Maximum fuel hedging exposure



The Group's policy is to reduce exposure to fuel price risk by hedging a percentage of its anticipated fuel consumption. As the Group uses a combination of fuel derivatives to achieve its desired hedging position, the percentage of anticipated consumption hedged will vary depending on the nature and combination of contracts which generate payoffs in any particular range of fuel prices. The chart above indicates the estimated maximum percentage of projected consumption covered by hedging transactions at various settled Brent prices.

Financial Review

Sensitivity analysis of cash and profit and loss impact of fuel price movements on fuel hedging contracts*



At 31st December 2008 the Group had entered into fuel derivatives contracts which expire in 2009, 2010 and 2011. The chart above shows, for the range of specified reasonably possible average fuel prices, the estimated amount of cash inflow or outflow from the settlement of these contracts in 2009, 2010 and 2011, and the estimated impact on the Group's profit and loss split according to the maturity of the contracts. The periods in which profit or loss would actually be impacted varies contract by contract. For contracts which are accounted for as cash flow hedges, profit or loss would generally be impacted in the period the contracts mature. For contracts which are not accounted for as cash flow hedges, profit or loss for each year would be impacted by the change in mark to market valuation in that year.

If the Brent price is at a level of US$45 per barrel over 2009, 2010 and 2011, then the Group would be required to pay a total of about US$1.4 billion to settle these contracts and the profit would be further reduced over the three years. If the annual average price of Brent over each of the next three years is approximately US$75 per barrel there will be no further net cash impact and mark to market losses recognised in 2008 would then be released in subsequent periods.

In addition to the estimated impact of changes of fuel prices on fuel hedging contracts shown above, the Group's operating profit would be affected by costs of fuel uplift and the level of fuel surcharges.

* This information supplements note 31(c) (iii) to the accounts.

Settlement of the United States Department of Justice cargo investigations

Cathay Pacific is currently the subject of antitrust investigations by competition authorities in various jurisdictions. In June 2008, Cathay Pacific announced that it had entered into a plea agreement with the United States Department of Justice under which it has pleaded guilty to a violation of the United States Sherman Act. A provision of US$60 million (equivalent to HK$468 million) for the fine was made in the Group's interim results and such fine was paid in August. Cathay Pacific continues to cooperate with the competition authorities by which it is being investigated and, where applicable, to defend itself vigorously. Additionally, Cathay Pacific received and responded to a Statement of Objections issued by the European Commission, and received and is evaluating a Statement of Claim issued by the New Zealand Commerce Commission. These investigations and civil actions against Cathay Pacific, are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position at the present time to assess the full potential liabilities and is therefore not in a position to make provisions additional to the fine already paid in the United States. The matter is also disclosed as a contingent liability in note 30(e) to the accounts.

Review of other subsidiaries and associates

The results recorded by our other subsidiaries and associates were disappointing. The share of profits from associates decreased by HK$1,787 million to a loss of HK$730 million mainly as a result of the loss recorded by Air China.

A review of their performance and operations is outlined below:

AHK Air Hong Kong Limited ("AHK")

- The only all-cargo carrier in Hong Kong is 60% owned by Cathay Pacific. It continues to operate express cargo services for DHL Express as its core business.
- AHK currently operates a fleet of eight Airbus A300-600F freighters.
- AHK further expanded its overnight express cargo network to Manila at the beginning of 2008, increasing the number of cities served in Asia to 11. Services to Nagoya, Seoul, Singapore and Taipei have been enhanced during the year.
- With its network expansion, capacity increased by 10.3%. Load factor and yield increased by 1.5 percentage points and 17.7 % respectively.
- AHK recorded a higher profit in 2008 despite the adverse impact of higher fuel prices in the first half.

Cathay Pacific Catering Services (H.K.) Limited ("CPCS")

- CPCS, a wholly owned subsidiary, is the principal flight kitchen in Hong Kong.
- The company produced a record 21.9 million meals in 2008 and this accounts for 62.1% of the airline catering market in Hong Kong. Business volume increased by 2.1% over 2007.
- Increased food costs, rent and fuel costs reduced the profit margin from 2007.
- The performance of other inflight catering kitchens in Asia and Canada were disappointing with lower profits than in 2007.
- On 22nd July 2008, the Group sold half of its 60% shareholding in its Canadian operations to LSG Skychefs. The Group's shareholding in this inflight catering kitchen decreased from 60% to 30%.
- While the shareholding on the Vietnam kitchen remains unchanged, the profit sharing was reduced from 40% to 35% with effect from 12th July 2008 in accordance with the joint venture agreement.

Hong Kong Airport Services Limited ("HAS") and Hong Kong International Airport Services Limited ("HIAS")

- HAS, a wholly owned subsidiary, is the largest franchised ramp handling company at HKIA whereas HIAS was a wholly owned subsidiary providing ground services at HKIA to Dragonair and 13 other airlines.
- In November, the two companies successfully merged to become an integrated ground handler offering both ramp and passenger handling services. It is now providing a variety of ground services to 44 airlines including Cathay Pacific and Dragonair.
- Both companies' results were impacted by the economic downturn in the second half of the year.

Financial Review

Air China Limited ("Air China")

- Air China, in which Cathay Pacific owns 18.1%, is the national flag carrier and leading provider of passenger, cargo and other airline related services in Mainland China.
- The airline serves 86 domestic and 49 international (regional) destinations, connecting 32 countries and regions in the world.
- The Group has two representatives on the Board of Director of Air China and equity accounts for its share of Air China's profit.
- The Group's share of Air China's profit is based on accounts drawn up three months in arrears and consequently the 2008 annual results include Air China's results for the 12 months ended 30th September 2008.
- The airline suffered from a loss in this reporting period as a result of higher average fuel price, fuel hedging losses and reduced demand. In view of Air China's material fuel hedging losses in the fourth quarter of 2008, the Group has taken up its share of these losses amounting to HK$1 billion in 2008.

Hong Kong Aircraft Engineering Company Limited ("HAECO")

- Cathay Pacific holds a 27.5% interest in HAECO and has several direct interests in HAECO's subsidiary and jointly controlled companies, including a 9.1% interest in Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO"), an 8.0% interest in Taikoo (Xiamen) Landing Gear Services Limited ("TALSCO"), a 7.5% interest in Taikoo Spirit AeroSystems (Jinjiang) Composite Limited ("Taikoo Spirit") and a 10.0% interest in Taikoo Engine Services (Xiamen) Company Limited ("TEXL"). The HAECO group provides a range of aviation maintenance and repair services. Its most substantial operations are aircraft maintenance and modification work in Hong Kong and Xiamen, and Rolls-Royce engine overhaul work performed by Hong Kong Aero Engine Services Limited ("HAESL").
- Following the high growth rates experienced in the past few years, HAECO recorded a moderate growth in profit in 2008, with profit attributable to shareholders increasing by 6.1% to HK$1,138 million in 2008 driven primarily by airframe maintenance services and the engine overhaul operations in Hong Kong.
- Despite the weakness in the aviation industry, demand in general for the group's services continued to be strong in 2008. The heavy airframe maintenance facilities in both Hong Kong and Xiamen have been utilised at near capacity for most months in 2008 with some signs of softening in the second half of 2008. Line maintenance operations recorded a moderate growth linked with the level of aircraft movements at HKIA. TAECO reported a slight reduction in profitability due to the Renminbi appreciation combined with cost inflation in Mainland China. HAESL recorded satisfactory profit growth from its engine overhaul business.
- The group continues to invest in a number of projects in order to underpin further long-term growth. In Hong Kong, the construction of the company's third hangar is progressing well with the opening scheduled for the middle of 2009. HAESL is constructing an additional component repair extension which is due to open in 2010. TAECO opened a new training centre in December 2008 and is expected to open its sixth hangar in 2010. TALSCO's landing gear overhaul facility in Xiamen was opened in June 2008 and Taikoo Spirit is planning to commence business operations in early 2010.
- The group's headcount increased by 1,040 to approximately 12,740 during 2008 to support business growth, and the group will continue to recruit and train additional staff to cope with business demands.

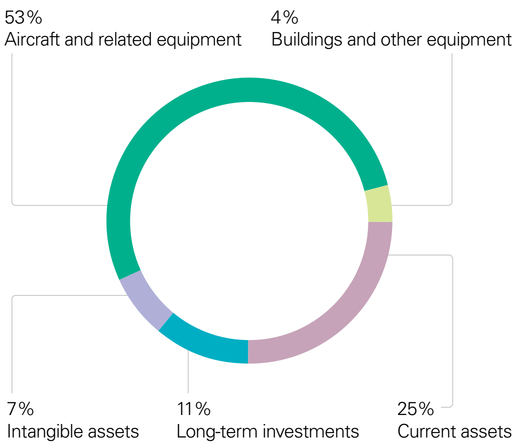
Taxation

- The tax charge decreased by HK$2,136 million to a credit of HK$1,337 million as a result of the loss this year.

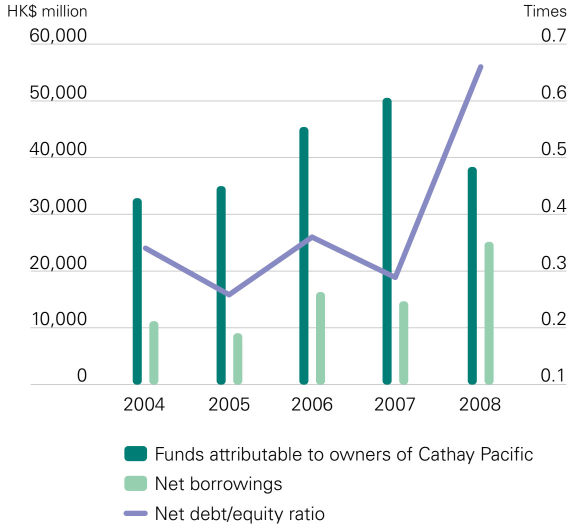
Dividends

- Dividends paid for the year are HK$118 million representing a negative dividend cover of 72.5 times. No final dividends were proposed.
- Dividends per share reduced to HK¢3.

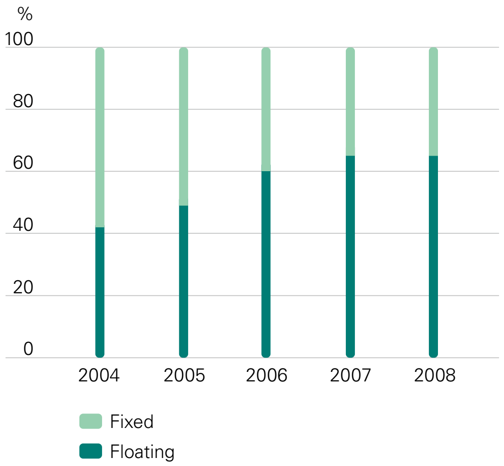
Total assets



Net debt and equity



Interest rate profile: borrowings



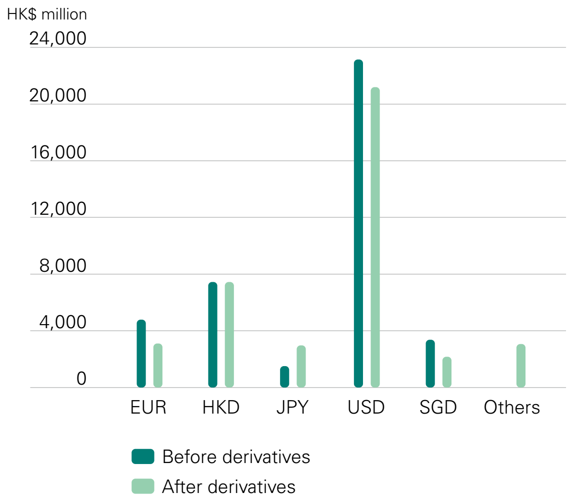
Assets

- Total assets as at 31st December 2008 were HK$114,739 million.
- During the year, additions to fixed assets were HK$9,202 million, comprising HK$8,306 million for aircraft and related equipment, HK$661 million for buildings and HK$235 million for other equipment.

Borrowings and capital

- Borrowings increased by 10.8% to HK$40,280 million compared with HK$36,368 million in 2007.
- Borrowings are mainly denominated in US dollars, Hong Kong dollars, Singapore dollars, Japanese yen and Euros, and are fully repayable by 2023 with 35% at fixed rates of interest net of derivatives.
- Liquid funds, 49% of which are denominated in US dollars, decreased by 30% to HK$15,088 million.
- Net borrowings increased by 71.1% to HK$25,198 million.
- Funds attributable to owners of Cathay Pacific decreased by 24.2% to HK$38,325 million.
- Net debt/equity ratio increased from 0.29 times to 0.66 times.

Borrowings before and after derivatives



Others include CAD, KRW, RMB and TWD.

Directors and Officers

Executive Directors

PRATT, Christopher Dale#, CBE, aged 52, has been Chairman and a Director of the Company since February 2006. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited and Hong Kong Aircraft Engineering Company Limited, and a Director of Swire Properties Limited, The Hongkong and Shanghai Banking Corporation Limited and Air China Limited. He joined the Swire group in 1978 and in addition to Hong Kong has worked for the group in Australia and Papua New Guinea.

ATKINSON, Robert Michael James#, aged 55, has been Finance Director of the Company since June 1997 until his retirement on 11th March 2009. He joined the Swire group in 1979 and in addition to Hong Kong has worked for the group in Japan, the United Kingdom and the United States.

HUGHES-HALLETT, James Edward#, aged 43, has been appointed Finance Director of the Company with effect from 12th March 2009. He is also a Director of Hong Kong Dragon Airlines Limited. He was previously Deputy Finance Director of Swire Pacific Limited. He joined the Swire group in 1994.

SHIU, Ian Sai Cheung, aged 54, has been a Director of the Company since October 2008. He is also a Director of Hong Kong Dragon Airlines Limited. He joined the Company in 1978 and has worked for the Company in Hong Kong, the Netherlands, Singapore and the United Kingdom.

SLOSAR, John Robert#, aged 52, has been a Director of the Company since July 2007. He was appointed Chief Operating Officer in July 2007. He is also a Director of John Swire & Sons (H.K.) Limited, Swire Pacific Limited and Hong Kong Dragon Airlines Limited. He joined the Swire group in 1980 and has worked for the group in Hong Kong, the United States and Thailand.

TYLER, Antony Nigel#, aged 53, has been a Director of the Company since December 1996. He was appointed Director Corporate Development in December 1996, Chief Operating Officer in January 2005 and Chief Executive in July 2007. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited. He is also Chairman of Hong Kong Dragon Airlines Limited. He joined the Swire group in 1977 and in addition to Hong Kong has worked for the group in Australia, the Philippines, Canada, Japan, Italy and the United Kingdom.

Non-Executive Directors

CHEN, Nan Lok Philip#, aged 53, has been a Director of the Company since March 1997. He was appointed Deputy Managing Director in March 1997, Chief Operating Officer in July 1998, Chief Executive in January 2005 and Deputy Chairman in July 2007. He is also a Director of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Air China Limited. He is also Chairman of John Swire & Sons (China) Limited. He joined the Swire group in 1977 and in addition to Hong Kong has worked for the group in Mainland China and the Asia Pacific region.

CUBBON, Martin#, aged 51, has been a Director of the Company since September 1998. He is also Finance Director of Swire Pacific Limited and a Director of John Swire & Sons (H.K.) Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited. He joined the Swire group in 1986.

FAN, Hung Ling Henry, aged 60, has been a Director of the Company since October 1992 except for the period from March to June 1996. He was appointed Deputy Chairman in January 1997. He is Managing Director of CITIC Pacific Limited.

HUGHES-HALLETT, James Wyndham John#+, aged 59, has been a Director of the Company since July 1998 and served as Chairman of the Board from June 1999 to December 2004. He is Chairman of John Swire & Sons Limited and a Director of Swire Pacific Limited and Swire Properties Limited. He is also a Director of HSBC Holdings plc. He joined the Swire group in 1976 and has worked with the group in Hong Kong, Taiwan, Japan and Australia.

KONG, Dong, aged 60, has been Deputy Chairman and a Director of the Company since May 2008. He is General Manager of China National Aviation Holding Company and Chairman of Air China Limited.

MOORE, Vernon Francis*, aged 62, has been a Director of the Company since October 1992 except for the period from March to June 1996. He is an Executive Director of CITIC Pacific Limited and a Director of CLP Holdings Limited.

WOODS, Robert Barclay, CBE, aged 62, has been a Director of the Company since August 2006. He is Chairman of P&O Ferries Limited and Southampton Container Terminals Limited, and a Director of John Swire & Sons Limited.

ZHANG, Lan, aged 53, has been a Director of the Company since October 2006. She is Vice President of Air China Limited, Chairman of Air China Development Corporation (Hong Kong) Limited and a Director of Shandong Aviation Group Corporation.

Independent Non-Executive Directors

LEE, Ting Chang Peter+*, aged 55, has been a Director of the Company since May 2002. He is Chairman of Hysan Development Company Limited, and a non-executive Director of CLP Holdings Limited, Hang Seng Bank Limited, SCMP Group Limited and Maersk China Limited. He is also a Vice President of the Real Estate Developers Association of Hong Kong.

OR, Ching Fai Raymond*, aged 59, has been a Director of the Company since February 2000. He is Vice-Chairman and Chief Executive of Hang Seng Bank Limited. He is also a Director of The Hongkong and Shanghai Banking Corporation Limited, Esprit Holdings Limited, Hutchison Whampoa Limited and 2009 East Asian Games (Hong Kong) Limited.

SO, Chak Kwong Jack*, aged 63, has been a Director of the Company since September 2002. He is Chairman of Hong Kong Trade Development Council. He is also Vice Chairman of Credit Suisse (Greater China).

TUNG, Chee Chen+, aged 66, has been a Director of the Company since September 2002. He is Chairman and Chief Executive Officer of Orient Overseas (International) Limited. He is also an Independent Non-Executive Director of a number of listed companies, including Zhejiang Expressway Company Limited, PetroChina Company Limited, BOC Hong Kong (Holdings) Limited, U-Ming Marine Transport Corp., Sing Tao News Corporation Limited and Wing Hang Bank, Limited.

Executive Officers

BARRINGTON, William Edward James#, aged 49, has been Director Sales and Marketing since March 2000. He joined the Swire group in 1982.

CHAU, Siu Cheong William, aged 55, has been Director Personnel since May 2000. He joined the Company in 1973.

CHONG, Wai Yan Quince, aged 45, has been Director Corporate Affairs since September 2008. She joined the Company in 1998.

CHU, Kwok Leung Ivan, aged 47, has been Director Service Delivery since September 2008. He joined the Company in 1984.

HOGG, Rupert Bruce Grantham Trower#, aged 47, has been Director Cargo since September 2008. He joined the Swire group in 1986.

GIBBS, Christopher Patrick, aged 47, has been Engineering Director since January 2007. He joined the Company in 1992.

NICOL, Edward Brian#, aged 55, has been Director Information Management since January 2003. He joined the Swire group in 1975.

RHODES, Nicholas Peter#, aged 50, has been Director Flight Operations since January 2003. He joined the Swire group in 1980.

Secretary

FU, Yat Hung David#, aged 45, has been Company Secretary since January 2006. He joined the Swire group in 1988.

Employees of the John Swire & Sons Limited group
+ *Member of the Remuneration Committee*
* *Member of the Audit Committee*

Directors' Report

We submit our report and the audited accounts for the year ended 31st December 2008 which are on pages 46 to 93.

Activities

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

Details of principal subsidiaries, their main areas of operation and particulars of their issued capital, and details of principal associates are listed on pages 92 and 93.

Accounts

The loss of the Group for the year ended 31st December 2008 and the state of affairs of the Group and the Company at that date are set out in the accounts on pages 50 to 93.

Dividends

We recommend no final dividends for the year ended 31st December 2008. Together with the interim dividend of HK¢3 per share paid on 2nd October 2008, this makes a total dividend for the year of HK¢3 per share. This represents a total distribution for the year of HK$118 million.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the statement of changes in equity on pages 54 to 55.

Accounting policies

The principal accounting policies are set out on pages 46 to 49.

Donations

During the year, the Company and its subsidiaries made charitable donations amounting to HK$21 million in direct payments and a further HK$7 million in the form of discounts on airline travel.

Fixed assets

Movements of fixed assets are shown in note 11 to the accounts. Details of aircraft acquisitions are set out on page 11.

Bank and other borrowings

The net bank loans, overdrafts and other borrowings, including obligations under finance leases, of the Group and the Company are shown in notes 16 and 21 to the accounts.

Share capital

During the year under review, the Company purchased 9,390,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). These purchases were made for the benefit of the Company and shareholders taking into account relevant factors and circumstances at the time. All the shares purchased were cancelled. Details of shares acquired by month are as follows:

	Number of shares purchased	Highest price paid per share HK$	Lowest price paid per share HK$	Total cost HK$M
March 2008	9,390,000	16.66	15.24	149

The Company adopted a share option scheme on 10th March 1999. During the year, 2,111,000 shares were issued under the scheme. Details of the scheme can be found in note 22 to the accounts.

At 31st December 2008, 3,932,746,072 shares were in issue (31st December 2007: 3,940,025,072 shares). Details of the movement of share capital can be found in note 22 to the accounts.

Commitments and contingencies

The details of capital commitments and contingent liabilities of the Group and the Company as at 31st December 2008 are set out in note 30 to the accounts.

Agreement for services

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

As directors and/or employees of the John Swire & Sons Limited ("Swire") group, Christopher Pratt, Robert Atkinson, Philip Chen, Martin Cubbon, James E. Hughes-Hallett, James W.J. Hughes-Hallett, John Slosar, Tony Tyler and Robert Woods are interested in the JSSHK Services Agreement (as defined below).

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2008 are set out below and also given in note 29 to the accounts.

Significant contracts

Contracts between the Group and HAECO and its subsidiary TAECO for the maintenance and overhaul of aircraft and related equipment accounted for approximately 2% of the Group's operating expenses in 2008. Like the Company, HAECO is an associate of Swire Pacific; all contracts have been concluded on normal commercial terms in the ordinary course of the business of both parties.

Connected transaction

Caterwell One (Netherlands) B.V. ("Caterwell"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with LSG Lufthansa Service Europa / Afrika GmbH ("LSG") on 22nd July 2008 for the sale by Caterwell of a 30% shareholding in CLS Catering Services Limited ("CLS") to LSG for a cash consideration of CAD5.55 million at completion.

As LSG was a substantial shareholder of CLS which was a subsidiary of the Company, LSG was a connected person of the Company and the transaction under the sale and purchase agreement constituted a connected transaction for the Company, in respect of which an announcement dated 22nd July 2008 was published. With effect from 22nd July 2008, the Company's attributable interest in CLS decreased from 60% to 30%; LSG's attributable interest in CLS increased from 40% to 70%; CLS ceased to be a subsidiary of the Company; and LSG and its associates ceased to be connected persons of the Company.

Continuing connected transactions

During the year ended 31st December 2008, the Group had the following continuing connected transactions, details of which are set out below:

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

DHL is a connected person of the Company because its holding company Deutsche Post AG holds a 40% attributable interest in the Company's subsidiary AHK. The transactions under the DHL Services Agreement are continuing connected transactions in respect of which announcements dated 17th October 2002, 27th June 2005 and 12th March 2007 were published and circulars dated 12th July 2005 and 21st March 2007 were sent to shareholders.

The fees payable by DHL to AHK under the DHL Services Agreement totalled HK$2,122 million for the year ended 31st December 2008.

(b) Pursuant to an agreement ("JSSHK Services Agreement") dated 1st December 2004, as amended and restated on 18th September 2008, with JSSHK, JSSHK provides services to the Company and its subsidiaries. The services comprise advice and expertise of the directors and senior officers of the Swire group including (but not limited to) assistance in negotiating with regulatory and other governmental or official bodies, full or part time services of members of the staff of the Swire group, other administrative and similar services and such other services as may be agreed from time to time, and in procuring for the Company and its subsidiary, jointly controlled and associated companies the use of relevant trademarks owned by the Swire group. No fee is payable in consideration of such procuration obligation on such use.

In return for these services, JSSHK receives annual service fees calculated as 2.5% of the Company's consolidated profit before taxation and minority interests after certain adjustments. The fees for each year are payable in cash in arrears in two instalments, an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment. The Company also reimburses the Swire group at cost for all the expenses incurred in the provision of the services.

The current term of the JSSHK Services Agreement is from 1st January 2008 to 31st December 2010 and is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Swire is the holding company of Swire Pacific which owns approximately 40% of the issued capital of the Company and JSSHK, a wholly-owned subsidiary of Swire, is therefore a connected person of the Company under the Listing Rules. The transactions under the JSSHK Services Agreement are continuing connected transactions in respect of which announcements dated 1st December 2004 and 1st October 2007 were published.

For the year ended 31st December 2008, there were no fees payable by the Company to JSSHK under the JSSHK Services Agreement and expenses of HK$138 million were reimbursed at cost.

(c) Pursuant to an agreement dated 31st May 2005 ("Old Agreement") and an agreement dated 29th September 2008 ("PCCW Services Agreement") between Cathay Pacific Loyalty Programmes Limited ("CPLP") with PCCW Teleservices (Hong Kong) Limited ("Teleservices"), Teleservices provides services to CPLP. The services comprise the provision of a service centre and handling of customer calls and related administration for the Company's frequent flyer and customer loyalty programmes. Payment is made in cash by CPLP within 45 days from the date of receipt of Teleservices' invoice. The term of the Old Agreement was from 1st June 2005 to 30th September 2008. The term of the PCCW Services Agreement is from 1st October 2008 to 30th September 2011.

Teleservices is an indirect wholly owned subsidiary of PCCW Limited which indirectly holds a 37% equity interest in the Company's subsidiary Abacus Distribution Systems (Hong Kong) Limited. Teleservices is therefore a connected person of the Company under the Listing Rules. The transactions under the Old Agreement and the PCCW Services Agreement are continuing connected transactions in respect of which announcements dated 31st May 2005, 21st April 2008, 25th July 2008 and 29th September 2008 were published.

The fees payable by CPLP to Teleservices under the Old Agreement and the PCCW Services Agreement totalled HK$83 million for the year ended 31st December 2008.

(d) Pursuant to an agreement dated 26th February 2007 ("LHT Aircraft Maintenance Agreement") with Lufthansa Technik AG ("LHT"), a subsidiary of Deutsche Lufthansa AG ("Lufthansa"), LHT provides aircraft component overhaul services to the Group. Payment is made in cash by the Company to LHT within 30 days upon receipt of the invoice. The term of the LHT Aircraft Maintenance Agreement is for five years ending on 31st December 2011. The LHT Aircraft Maintenance

Agreement could be extended by further agreements for members of the Lufthansa group to provide aircraft line maintenance, aircraft base maintenance services and/or other related services to the Group.

LHT is a subsidiary of Lufthansa which is a substantial shareholder in the Company's former subsidiary CLS. LHT was therefore a connected person of the Company under the Listing Rules. The transactions under the LHT Aircraft Maintenance Agreement and further agreements were continuing connected transactions until 21st July 2008 in respect of which announcements dated 26th February 2007 and 22nd July 2008 were published.

The fees payable by the Group to the Lufthansa group under the LHT Aircraft Maintenance Agreement and further agreements totalled HK$65 million for the period from 1st January to 21st July 2008.

(e) Pursuant to an agreement dated 29th March 2007 ("LHT Engine Maintenance Agreement") with LHT, LHT provides aircraft engine maintenance services to the Group. Payment is made in cash by the Group to LHT within 30 days upon receipt of the invoice. The term of the LHT Engine Maintenance Agreement is for 10 years ending on 31st December 2016.

LHT is a subsidiary of Lufthansa which is a substantial shareholder in the Company's former subsidiary CLS. LHT was therefore a connected person of the Company under the Listing Rules. The transactions under the LHT Engine Maintenance Agreement were continuing connected transactions until 21st July 2008 in respect of which announcements dated 29th March 2007 and 22nd July 2008 were published.

The fees payable by the Group to LHT under the LHT Engine Maintenance Agreement totalled HK$117 million for the period from 1st January to 21st July 2008.

(f) Pursuant to a framework agreement dated 21st May 2007 ("HAECO Framework Agreement") with HAECO, HAECO and its subsidiaries ("HAECO group") provide services to the Group's aircraft fleets. The services include line maintenance, base maintenance, comprehensive stores and logistics support, component and avionics overhaul, material supply, engineering services and ancillary services at Hong Kong International Airport, Xiamen or other airports. Payment is made in cash by the Group to HAECO group within 30 days upon receipt of the invoice. The term of the HAECO Framework Agreement is for 10 years ending on 31st December 2016.

HAECO is a connected person of the Company by virtue of it being an associate of the Company's substantial shareholder Swire Pacific. The transactions under the HAECO Framework Agreement are continuing connected transactions in respect of which an announcement dated 21st May 2007 was published and a circular dated 31st May 2007 was sent to shareholders.

The fees payable by the Group to HAECO group under the HAECO Framework Agreement totalled HK$2,069 million for the year ended 31st December 2008.

(g) Pursuant to an agreement dated 13th June 2008 ("Catering Agreement") between Hong Kong Dragon Airlines Limited ("Dragonair") and LSG Lufthansa Service Hong Kong Limited ("LSGHK"), LSGHK provides in-flight catering services to Dragonair. Payment is made in cash by Dragonair to LSGHK within 30 days upon receipt of the invoice. The term of the Catering Agreement is for 2 years ending on 31st December 2009.

Dragonair is a wholly owned subsidiary of the Company. As LSGHK is an associate of Lufthansa which is a substantial shareholder in the Company's former subsidiary CLS, LSGHK was a connected person of the Company. The transactions under the Catering Agreement were continuing connected transactions until 21st July 2008 in respect of which announcements dated 13th June 2008 and 22nd July 2008 were published.

The fees payable by Dragonair to LSGHK under the Catering Agreement totalled HK$121 million for the period from 1st January to 21st July 2008.

(h) The Company entered into a framework agreement dated 26th June 2008 ("Air China Framework Agreement") with Air China Limited ("Air China") in respect of transactions between the Group on the one hand and Air China and its subsidiaries ("Air China Group") on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Air China Framework Agreement.

The term of the Air China Framework Agreement is for 3 years ending on 31st December 2010 and is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Air China, by virtue of its 17.5% shareholding in Cathay Pacific, is a substantial shareholder and therefore a connected person of Cathay Pacific under the Listing Rules. The transactions under the Air China Framework Agreement are continuing connected transactions in respect of which an announcement dated 26th June 2008 was published.

For the year ended 31st December 2008 and under the Air China Framework Agreement, the amounts payable by the Group to Air China Group totalled HK$388 million; and the amounts payable by Air China Group to the Group totalled HK$245 million.

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

(a) in the ordinary and usual course of business of the Group;

(b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

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

(b) they are in accordance with the pricing policies of the Group (if the transactions involve provision of goods or services by the Group);

(c) they have been entered into in accordance with the relevant agreements governing the transactions; and

(d) they have not exceeded the relevant annual caps disclosed in previous announcements.

Major customers and suppliers

6% of sales and 28% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 1% of sales were made to the Group's largest customer while 8% of purchases were made from the Group's largest supplier.

Directors

Kong Dong, Ian Shiu and James E. Hughes-Hallett were appointed Directors with effect from 7th May 2008, 1st October 2008 and 12th March 2009 respectively. All the other present Directors of the Company whose names are listed on pages 32 and 33 served throughout the year. Kong Dong was elected Deputy Chairman on 7th May 2008. In addition, Li Jiaxiang, Augustus Tang and Robert Atkinson served as Directors until their resignation with effect from 7th May 2008, 1st October 2008 and 12th March 2009 respectively. Leslie Chang served as Alternate Director to Henry Fan during the year until 21st October 2008.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Listing Rule 3.13 and the Company still considers all its independent non-executive Directors to be independent.

Article 93 of the Company's Articles of Association provides for all the Directors to retire at the third Annual General Meeting following their election by ordinary resolution. In accordance therewith, Philip Chen, Henry Fan, Peter Lee, Vernon Moore, Christopher Pratt, Jack So, Tung Chee Chen and Tony Tyler retire this year and, being eligible, offer themselves for re-election. Raymond Or also retires in accordance with Article 93 but does not offer himself for re-election.

Kong Dong, Ian Shiu and James E. Hughes-Hallett, having been appointed as Directors of the Company under Article 91 since the last Annual General Meeting, also retire and, being eligible, offer themselves for election.

Each of the Directors has entered into a letter of appointment, which constitutes a service contract, with the Company for a term of up to three years until his retirement under Article 91 or Article 93 of the Articles of Association of the Company, which will be renewed for a term of three years upon each election/re-election. None of the Directors has any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' fees paid to the independent non-executive Directors during the year totalled HK$2,600,000; they received no other emoluments from the Company or any of its subsidiaries.

Directors' interests

At 31st December 2008, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following beneficial interests (all being personal interests) in the shares of Cathay Pacific Airways Limited and Hong Kong Aircraft Engineering Company Limited, its associated corporation (within the meaning of Part XV of the SFO):

	No. of shares	Percentage of issued capital
Cathay Pacific Airways Limited		
Philip Chen	9,000	0.00023
Ian Shiu	1,000	0.00003
Tony Tyler	5,000	0.00013
Hong Kong Aircraft Engineering Company Limited		
Ian Shiu	1,600	0.00096
John Slosar	10,000	0.00601

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

Directors' interests in competing business

Pursuant to Rule 8.10 of the Listing Rules, Christopher Pratt, Philip Chen and Kong Dong have disclosed that they were directors of Air China during the year. Air China competes or is likely to compete, either directly or indirectly, with the businesses of the Company as it operates airline services to certain destinations which are also served by the Company.

Directors' Report

Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 31st December 2008 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	No. of shares	Percentage of issued capital	Type of interest (Note)
1. Air China Limited	2,948,122,554	74.96	Attributable interest (a)
2. China National Aviation Holding Company	2,948,122,554	74.96	Attributable interest (b)
3. CITIC Group	2,948,122,554	74.96	Attributable interest (c)
4. CITIC Pacific Limited	2,948,122,554	74.96	Attributable interest (a)
5. Swire Pacific Limited	2,948,122,554	74.96	Attributable interest (a)
6. John Swire & Sons Limited	2,948,122,554	74.96	Attributable interest (d)

Note: At 31st December 2008:

(a) Under Section 317 of the SFO, each of Air China, China National Aviation Company Limited ("CNAC"), CITIC Pacific and Swire Pacific, being a party to the Shareholders' Agreement in relation to the Company dated 8th June 2006, was deemed to be interested in a total of 2,948,122,554 shares of the Company, comprising:

(i) 1,572,332,028 shares directly held by Swire Pacific;

(ii) 687,895,263 shares indirectly held by CITIC Pacific and its wholly owned subsidiary Super Supreme Company Limited, comprising the following shares held by their wholly owned subsidiaries: 286,451,154 shares held by Custain Limited, 189,976,645 shares held by Grand Link Investments Holdings Ltd., 21,809,399 shares held by Perfect Match Assets Holdings Ltd., and 189,658,065 shares held by Smooth Tone Investments Ltd.; and

(iii) 687,895,263 shares indirectly held by Air China and its subsidiaries CNAC and Total Transform Group Limited, comprising the following shares held by their wholly owned subsidiaries: 288,596,335 shares held by Angel Paradise Ltd., 191,922,273 shares held by Easerich Investments Inc. and 207,376,655 shares held by Motive Link Holdings Inc.

(b) China National Aviation Holding Company is deemed to be interested in a total of 2,948,122,554 shares of the Company, in which its subsidiary Air China is deemed interested.

(c) CITIC Group is deemed to be interested in a total of 2,948,122,554 shares of the Company, in which its subsidiary CITIC Pacific Limited is deemed interested.

(d) Swire and its wholly owned subsidiary JSSHK are deemed to be interested in a total of 2,948,122,554 shares of the Company by virtue of the Swire group's direct or indirect interest in shares of Swire Pacific representing approximately 38.15% of the issued capital and approximately 56.52% of the voting rights.

Public float

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

Auditors

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

By order of the Board

Christopher Pratt
Chairman
Hong Kong, 11th March 2009

Corporate Governance

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

The Board of Directors

The Board is chaired by Christopher Pratt (the "Chairman"). There are five executive Directors and 12 non-executive Directors, four of whom are independent. Names and other details of the Directors are given on pages 32 and 33 of this report. All Directors are able to take independent professional advice in furtherance of their duties if necessary. The independent non-executive Directors are high calibre executives with diversified industry expertise and serve the important function of providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

To ensure a balance of power and authority, the role of the Chairman is separate from that of the Chief Executive ("CE"). The current CE is Tony Tyler. The Board regularly reviews its structure, size and composition to ensure its expertise and independence are maintained. It also identifies and nominates qualified individuals, who are expected to have such expertise to make a positive contribution to the performance of the Board, to be additional Directors or fill Board vacancies as and when they arise. A Director appointed by the Board to fill a casual vacancy is subject to election of shareholders at the first general meeting after his appointment and all Directors have to retire at the third annual general meeting following their election by ordinary resolution, but are eligible for re-election.

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

The Board is accountable to the shareholders for leading the Company in a responsible and effective manner. It determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Company's strategic objectives. It is also responsible for presenting a balanced, clear and understandable assessment of the financial and other information contained in the Company's accounts, announcements and other disclosures required under the Listing Rules or other statutory requirements. Day-to-day management of the Company's business is delegated to the CE. Matters reserved for the Board are those affecting the Company's overall strategic policies, finances and shareholders. These include: financial statements, dividend policy, significant changes in accounting policy, the annual operating budgets, material contracts, major financing arrangements, major investments, risk management strategy and treasury policies. The functions of the Board and the powers delegated to the CE are reviewed periodically to ensure that they remain appropriate. The Board has established the following committees: the Board Safety Review Committee, the Executive Committee, the Finance Committee, the Remuneration Committee and the Audit Committee, the latter two with the participation of independent non-executive Directors.

The Board of Directors held six meetings during 2008, the attendance of which, taking into account dates of appointment or resignation, was as follows:

Christopher Pratt (6/6), Robert Atkinson (6/6), Philip Chen (6/6), Martin Cubbon (6/6), Henry Fan (6/6), James W.J. Hughes-Hallett (5/6), Peter Lee (6/6), Kong Dong (1/4), Li Jiaxiang (0/2), Vernon Moore (5/6), Raymond Or (5/6), Ian Shiu (1/1), John Slosar (6/6), Jack So (5/6), Augustus Tang (5/5), Tony Tyler (6/6), Tung Chee Chen (4/6), Robert Woods (4/6) and Zhang Lan (1/6).

Securities Transactions

The Company has adopted codes of conduct regarding securities transactions by Directors (the "Securities Code") and relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules.

Corporate Governance

A copy of the Securities Code is sent to each Director of the Company first on his appointment and thereafter twice annually, one month before the date of the board meeting to approve the Company's half-year result and annual result, with a reminder that the Director cannot deal in the securities and derivatives of the Company until after such results have been published.

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

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

Directors' interests as at 31st December 2008 in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) are set out on page 39.

Board Safety Review Committee

The Board Safety Review Committee reviews and reports to the Board on safety issues. It meets three times a year and comprises two executive Directors, the CE and John Slosar, two non-executive Directors, Vernon Moore and Jack So, three executive officers, Christopher Gibbs, Nick Rhodes and Ivan Chu, the General Manager Flying, Captain Henry Craig and the Head of Corporate Safety, Richard Howell. It is chaired by the immediate past Director Flight Operations, Ken Barley.

Executive Committee

The Executive Committee is chaired by the CE and comprises two executive Directors, John Slosar and James E. Hughes-Hallett, one executive officer, James Barrington, and four non-executive Directors, Martin Cubbon, Kong Dong, Vernon Moore and Zhang Lan. It meets monthly and is responsible to the Board for overseeing and setting the strategic direction of the Company.

Management Committee

The Management Committee meets once a month and is responsible to the Board for overseeing the day-to-day operation of the Company. It is chaired by the CE and comprises three executive Directors, John Slosar, James E. Hughes-Hallett and Ian Shiu, and all eight executive officers, James Barrington, William Chau, Quince Chong, Ivan Chu, Rupert Hogg, Christopher Gibbs, Edward Nicol and Nick Rhodes.

Finance Committee

The Finance Committee meets monthly to review the financial position of the Company and is responsible for establishing the financial risk management policy. It is chaired by the CE and comprises three executive Directors, John Slosar, James E. Hughes-Hallett and Ian Shiu, three non-executive Directors, Martin Cubbon, Vernon Moore and Zhang Lan, the General Manager Corporate Finance, Keith Fung, and an independent representative from the financial community. Reports on its decisions and recommendations are presented at Board meetings.

Remuneration Committee

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

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

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

Although the remuneration of these executives is not entirely linked to the profits of the Company, it is considered that, given the volatility of the aviation business, this has contributed considerably to the maintenance of a stable, motivated and high-calibre senior management team in the Company. Furthermore, as a substantial shareholder of the Company, it is in the best interest of Swire to see that executives of high quality are seconded to and retained within the Company.

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

This policy and the levels of remuneration paid to executive Directors of the Company were reviewed by the Remuneration Committee. At its meeting in November, the Remuneration Committee considered a report prepared for it by independent consultants, Mercer Human Resources Consulting Limited, which confirmed that the remuneration of the Company's executive Directors was in line with comparators in peer group companies. The Committee approved individual Directors' remuneration packages to be paid in respect of 2009.

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

Annual fees of independent non-executive Directors in 2008 were as follows:

Director's fee	HK$500,000
Fee for serving as Audit Committee chairman	HK$200,000
Fee for serving as Audit Committee member	HK$150,000
Fee for serving as Remuneration Committee chairman	HK$65,000
Fee for serving as Remuneration Committee member	HK$50,000

The Remuneration Committee held three meetings during 2008, the attendance of which was as follows:

James W.J. Hughes-Hallett (3/3), Peter Lee (3/3) and Tung Chee Chen (2/3).

Audit Committee

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

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

The Audit Committee held three meetings during 2008, the attendance of which, taking into account dates of appointment or resignation, was as follows:

Peter Lee (3/3), Vernon Moore (2/2), Raymond Or (3/3), Jack So (1/3) and Zhang Lan (0/1).

Expenditure Control Committee

The Expenditure Control Committee meets monthly to evaluate and approve capital expenditure. It is chaired by one executive Director, John Slosar and comprises two executive Directors, James E. Hughes-Hallett and Ian Shiu.

Internal Control and Internal Audit

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

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

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

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

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

External Auditors

The external auditors are primarily responsible for auditing and reporting on the annual accounts. In 2008 the total remuneration paid to the external auditors was HK$32 million, being HK$10 million for audit and HK$22 million for tax advice.

Airline Safety Review Committee

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

Investor Relations

The Company continues to enhance relationships and communication with its investors. Extensive information about the Company's performance and activities is provided in the Annual Report and the Interim Report which are sent to shareholders. Regular dialogue with institutional investors and analysts is in place to keep them abreast of the Company's development. Inquiries from investors are dealt with in an informative and timely manner. All shareholders are encouraged to attend the annual general meeting to discuss matters relating to the Company. Any inquiries from shareholders can be addressed to the Corporate Communication Department whose contact details are given on page 100.

In order to promote effective communication, the Company maintains its website at *www.cathaypacific.com* on which financial and other information relating to the Company and its business is disclosed.

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

Independent Auditor's Report

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 46 to 93, which comprise the consolidated and company statements of financial position as at 31st December 2008, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2008 and of the Group's loss 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

11th March 2009

Principal Accounting Policies

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, 9, 10 and 12 below.

The preparation of the accounts 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 accounts. These estimates and assumptions are continually re-evaluated and are based on management's expectations of future events which are considered to be reasonable.

There have been no significant changes to the accounting policies applied in these accounts for the years presented. However, as a result of the early adoption of HKAS 1 (revised) "Presentation of Financial Statements", changes in equity arising from transactions with shareholders are presented separately from all other income and expenses in a revised Statement of Changes in Equity. All such items of income and expenses are presented in the Statement of Comprehensive Income with an additional disclosures provided in note 7 to the accounts.

Fuel surcharges, insurance surcharges and cargo security charges collected upon sales of transportation services are now treated as traffic turnover under passenger services and cargo services instead of recoveries. This change has been applied retrospectively and 2007 comparatives have been reclassified accordingly.

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 statement of comprehensive income. 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 statement of financial position comprise the outside shareholders' proportion of the net assets of subsidiaries and are treated as a part of equity. In the statement of comprehensive income, minority interests are disclosed as an allocation of the profit or loss for the year.

In the Company's statement of financial position 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 statement of comprehensive income 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 statement of financial position 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 statement of financial position, 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 reporting date:

(a) foreign currency denominated financial assets and liabilities.

(b) assets and liabilities 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 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 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 10% of cost
Freighter aircraft	over 20-27 years to residual value of between 10% to 20% of cost and over 10 years to nil residual value for freighters converted from passenger aircraft
Other equipment	over 4 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 on a straight line basis over the life of the related lease.

Principal Accounting Policies

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 46.

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.

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 or designated as at fair value through profit and loss.

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 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 statement of financial position. 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 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 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 immediately.

Principal Accounting Policies

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 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 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 Statement of Comprehensive Income

for the year ended 31st December 2008

	Note	2008 HK$M	2007 HK$M	2008 US$M	2007 US$M
Turnover					
Passenger services		**58,046**	49,520	**7,442**	6,349
Cargo services		**24,623**	21,783	**3,157**	2,792
Catering, recoveries and other services		**3,909**	4,055	**501**	520
Total turnover	1	**86,578**	75,358	**11,100**	9,661
Expenses					
Staff		**(12,428)**	(12,142)	**(1,593)**	(1,557)
Inflight service and passenger expenses		**(3,336)**	(2,903)	**(428)**	(372)
Landing, parking and route expenses		**(11,039)**	(9,950)	**(1,415)**	(1,276)
Fuel		**(47,317)**	(24,624)	**(6,066)**	(3,157)
Aircraft maintenance		**(7,643)**	(6,830)	**(980)**	(875)
Aircraft depreciation and operating leases		**(7,211)**	(6,369)	**(925)**	(817)
Other depreciation and operating leases		**(1,060)**	(998)	**(136)**	(128)
Commissions		**(851)**	(860)	**(109)**	(110)
Others		**(3,154)**	(2,943)	**(404)**	(377)
Operating expenses		**(94,039)**	(67,619)	**(12,056)**	(8,669)
Operating (loss)/profit before non-recurring items		**(7,461)**	7,739	**(956)**	992
Settlement of the United States Department of Justice cargo investigations	3	**(468)**	–	**(60)**	–
Operating (loss)/profit	4	**(7,929)**	7,739	**(1,016)**	992
Finance charges		**(2,428)**	(2,451)	**(311)**	(314)
Finance income		**1,416**	1,664	**181**	213
Net finance charges	5	**(1,012)**	(787)	**(130)**	(101)
Share of (losses)/profits of associates	14	**(730)**	1,057	**(93)**	136
(Loss)/profit before tax		**(9,671)**	8,009	**(1,239)**	1,027
Taxation	6	**1,337**	(799)	**171**	(103)
(Loss)/profit for the year		**(8,334)**	7,210	**(1,068)**	924
Other comprehensive income					
Cash flow hedges		**(1,035)**	(57)	**(131)**	(7)
Revaluation (deficit)/surplus arising from available-for-sale financial assets		**(430)**	162	**(55)**	21
Share of other comprehensive income of associates		**(154)**	(309)	**(22)**	(40)
Exchange differences on translation of foreign operations		**524**	557	**67**	72
Other comprehensive income for the year, net of tax	7	**(1,095)**	353	**(141)**	46
Total comprehensive income for the year		**(9,429)**	7,563	**(1,209)**	970
(Loss)/profit attributable to					
Owners of Cathay Pacific	8	**(8,558)**	7,023	**(1,097)**	900
Minority interests		**224**	187	**29**	24
		(8,334)	7,210	**(1,068)**	924
Total comprehensive income attributable to					
Owners of Cathay Pacific		**(9,653)**	7,376	**(1,238)**	946
Minority interests		**224**	187	**29**	24
		(9,429)	7,563	**(1,209)**	970
(Loss)/earnings per share					
Basic	9	**(217.5)¢**	178.3¢	**(27.9)¢**	22.9¢
Diluted	9	**(217.5)¢**	178.1¢	**(27.9)¢**	22.8¢

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 56 to 93 form part of these accounts.

Consolidated Statement of Financial Position

at 31st December 2008

	Note	2008 HK$M	2007 HK$M	2008 US$M	2007 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	*11*	**66,039**	62,388	**8,466**	7,999
Intangible assets	*12*	**7,782**	7,782	**998**	997
Investments in associates	*14*	**9,773**	10,054	**1,253**	1,289
Other long-term receivables and investments	*15*	**3,087**	3,519	**396**	451
		86,681	83,743	**11,113**	10,736
Long-term liabilities		**(43,221)**	(40,323)	**(5,541)**	(5,169)
Related pledged security deposits		**7,196**	7,833	**922**	1,004
Net long-term liabilities	*16*	**(36,025)**	(32,490)	**(4,619)**	(4,165)
Retirement benefit obligations	*17*	**(281)**	(268)	**(36)**	(35)
Deferred taxation	*18*	**(4,977)**	(6,771)	**(638)**	(868)
		(41,283)	(39,529)	**(5,293)**	(5,068)
Net non-current assets		**45,398**	44,214	**5,820**	5,668
Current assets and liabilities					
Stock		**960**	882	**123**	113
Trade and other receivables	*19*	**12,010**	11,376	**1,540**	1,458
Liquid funds	*20*	**15,088**	21,649	**1,934**	2,776
		28,058	33,907	**3,597**	4,347
Current portion of long-term liabilities		**(4,556)**	(4,788)	**(584)**	(614)
Related pledged security deposits		**301**	910	**39**	117
Net current portion of long-term liabilities	*16*	**(4,255)**	(3,878)	**(545)**	(497)
Trade and other payables	*21*	**(22,749)**	(14,787)	**(2,916)**	(1,896)
Unearned transportation revenue		**(5,878)**	(6,254)	**(754)**	(802)
Taxation		**(2,129)**	(2,475)	**(273)**	(317)
		(35,011)	(27,394)	**(4,488)**	(3,512)
Net current (liabilities)/assets		**(6,953)**	6,513	**(891)**	835
Net assets		**38,445**	50,727	**4,929**	6,503
CAPITAL AND RESERVES					
Share capital	*22*	**787**	788	**101**	101
Reserves	*23*	**37,538**	49,761	**4,813**	6,379
Funds attributable to owners of Cathay Pacific		**38,325**	50,549	**4,914**	6,480
Minority interests		**120**	178	**15**	23
Total equity		**38,445**	50,727	**4,929**	6,503

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 56 to 93 form part of these accounts.

Christopher Pratt
Director

Henry Fan
Director

Hong Kong, 11th March 2009

Company Statement of Financial Position

at 31st December 2008

	Note	2008 HK$M	2007 HK$M	2008 US$M	2007 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	11	**48,374**	45,637	**6,202**	5,851
Intangible assets	12	**116**	116	**15**	15
Investments in subsidiaries	13	**21,165**	24,909	**2,713**	3,193
Investments in associates	14	**7,625**	7,186	**978**	921
Other long-term receivables and investments	15	**1,324**	1,567	**170**	201
		78,604	79,415	**10,078**	10,181
Long-term liabilities		**(37,099)**	(34,289)	**(4,756)**	(4,396)
Related pledged security deposits		**1,921**	2,484	**246**	318
Net long-term liabilities	16	**(35,178)**	(31,805)	**(4,510)**	(4,078)
Retirement benefit obligations	17	**(299)**	(287)	**(38)**	(36)
Deferred taxation	18	**(3,835)**	(5,460)	**(492)**	(700)
		(39,312)	(37,552)	**(5,040)**	(4,814)
Net non-current assets		**39,292**	41,863	**5,038**	5,367
Current assets and liabilities					
Stock		**841**	790	**108**	101
Trade and other receivables	19	**9,773**	9,249	**1,252**	1,186
Liquid funds	20	**7,566**	7,622	**970**	977
		18,180	17,661	**2,330**	2,264
Current portion of long-term liabilities		**(4,526)**	(4,460)	**(580)**	(572)
Related pledged security deposits		**11**	17	**1**	2
Net current portion of long-term liabilities	16	**(4,515)**	(4,443)	**(579)**	(570)
Trade and other payables	21	**(20,344)**	(12,208)	**(2,608)**	(1,565)
Unearned transportation revenue		**(5,396)**	(5,838)	**(692)**	(748)
Taxation		**(1,832)**	(2,084)	**(235)**	(267)
		(32,087)	(24,573)	**(4,114)**	(3,150)
Net current liabilities		**(13,907)**	(6,912)	**(1,784)**	(886)
Net assets		**25,385**	34,951	**3,254**	4,481
CAPITAL AND RESERVES					
Share capital	22	**787**	788	**101**	101
Reserves	23	**24,598**	34,163	**3,153**	4,380
Total equity		**25,385**	34,951	**3,254**	4,481

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 56 to 93 form part of these accounts.

Christopher Pratt
Director
Hong Kong, 11th March 2009

Henry Fan
Director

Consolidated Statement of Cash Flows

for the year ended 31st December 2008

	Note	**2008 HK$M**	2007 HK$M	**2008 US$M**	2007 US$M
Operating activities					
Cash generated from operations	*24*	**3,882**	16,101	**497**	2,064
Dividends received from associates	*14*	**383**	274	**49**	35
Interest received		**258**	322	**33**	41
Net interest paid		**(1,305)**	(1,454)	**(167)**	(186)
Tax paid		**(1,402)**	(2,075)	**(179)**	(266)
Net cash inflow from operating activities		**1,816**	13,168	**233**	1,688
Investing activities					
Net decrease/(increase) in liquid funds other than cash and cash equivalents		**7,556**	(4,377)	**969**	(561)
Sales of fixed assets		**76**	81	**10**	10
Disposal of a subsidiary	*25*	**42**	–	**5**	–
Payments for fixed and intangible assets		**(9,228)**	(9,801)	**(1,183)**	(1,256)
Payment for investment in an associate		**(439)**	(214)	**(56)**	(27)
Net increase in long-term receivables and investments		**(51)**	(2)	**(7)**	–
Net cash outflow from investing activities		**(2,044)**	(14,313)	**(262)**	(1,834)
Financing activities					
New financing		**6,665**	7,217	**854**	925
Net cash benefit from financing arrangements		**772**	987	**99**	127
Shares repurchased and issued	*22*	**(133)**	32	**(17)**	4
Loan and finance lease repayments		**(3,810)**	(3,710)	**(488)**	(476)
Security deposits placed		**(109)**	(111)	**(14)**	(14)
Dividends paid – to owners of Cathay Pacific		**(2,438)**	(2,245)	**(313)**	(288)
– to minority interests		**(258)**	(161)	**(33)**	(21)
Net cash inflow from financing activities		**689**	2,009	**88**	257
Increase in cash and cash equivalents		**461**	864	**59**	111
Cash and cash equivalents at 1st January		**6,773**	5,767	**868**	739
Effect of exchange differences		**(189)**	142	**(24)**	18
Cash and cash equivalents at 31st December	*26*	**7,045**	6,773	**903**	868

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 56 to 93 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2008

	Attributable to owners of Cathay Pacific							Minority interests	Total equity
			Non-distributable						
	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	Total HK$M	HK$M	HK$M
At 1st January 2008	**788**	**32,771**	**16,272**	**1,068**	**(677)**	**327**	**50,549**	**178**	**50,727**
Total comprehensive income for the year	**–**	**(8,558)**	**–**	**(430)**	**(1,035)**	**370**	**(9,653)**	**224**	**(9,429)**
Dividends (note 10)									
2007 final dividend	**–**	**(2,320)**	**–**	**–**	**–**	**–**	**(2,320)**	**–**	**(2,320)**
2008 interim dividend	**–**	**(118)**	**–**	**–**	**–**	**–**	**(118)**	**–**	**(118)**
Dividends paid to minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(258)**	**(258)**
Repurchase of Company's shares	**(2)**	**(149)**	**–**	**–**	**–**	**2**	**(149)**	**–**	**(149)**
Share options exercised	**1**	**–**	**15**	**–**	**–**	**–**	**16**	**–**	**16**
Disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(24)**	**(24)**
	(1)	**(11,145)**	**15**	**(430)**	**(1,035)**	**372**	**(12,224)**	**(58)**	**(12,282)**
At 31st December 2008	**787**	**21,626**	**16,287**	**638**	**(1,712)**	**699**	**38,325**	**120**	**38,445**
At 31st December 2006	787	28,200	16,241	906	(642)	62	45,554	152	45,706
Adjustment to fair values of assets and liabilities acquired in prior period	–	(207)	–	–	–	39	(168)	–	(168)
At 1st January 2007 (restated)	787	27,993	16,241	906	(642)	101	45,386	152	45,538
Total comprehensive income for the year	–	7,023	–	162	(35)	226	7,376	187	7,563
Dividends (note 10)									
2006 final dividend	–	(1,260)	–	–	–	–	(1,260)	–	(1,260)
2007 interim dividend	–	(985)	–	–	–	–	(985)	–	(985)
Dividends paid to minority interests	–	–	–	–	–	–	–	(161)	(161)
Share options exercised	1	–	31	–	–	–	32	–	32
	1	4,778	31	162	(35)	226	5,163	26	5,189
At 31st December 2007	788	32,771	16,272	1,068	(677)	327	50,549	178	50,727

The notes on pages 56 to 93 form part of these accounts.

Company Statement of Changes in Equity

for the year ended 31st December 2008

	Share capital HK$M	Retained profit HK$M	Share premium HK$M (Non-distributable)	Investment revaluation reserve HK$M (Non-distributable)	Cash flow hedge reserve HK$M (Non-distributable)	Capital redemption reserve and others HK$M (Non-distributable)	Total HK$M
At 1st January 2008	**788**	**17,538**	**16,272**	**876**	**(544)**	**21**	**34,951**
Total comprehensive income for the year	**–**	**(5,590)**	**–**	**(283)**	**(1,122)**	**–**	**(6,995)**
Dividends (note 10)							
2007 final dividend	**–**	**(2,320)**	**–**	**–**	**–**	**–**	**(2,320)**
2008 interim dividend	**–**	**(118)**	**–**	**–**	**–**	**–**	**(118)**
Repurchase of Company's shares	**(2)**	**(149)**	**–**	**–**	**–**	**2**	**(149)**
Share options exercised	**1**	**–**	**15**	**–**	**–**	**–**	**16**
	(1)	**(8,177)**	**15**	**(283)**	**(1,122)**	**2**	**(9,566)**
At 31st December 2008	**787**	**9,361**	**16,287**	**593**	**(1,666)**	**23**	**25,385**
At 1st January 2007	787	13,228	16,241	800	(595)	21	30,482
Total comprehensive income for the year	–	6,555	–	76	51	–	6,682
Dividends (note 10)							
2006 final dividend	–	(1,260)	–	–	–	–	(1,260)
2007 interim dividend	–	(985)	–	–	–	–	(985)
Share options exercised	1	–	31	–	–	–	32
	1	4,310	31	76	51	–	4,469
At 31st December 2007	788	17,538	16,272	876	(544)	21	34,951

The notes on pages 56 to 93 form part of these accounts.

1. Turnover

Turnover comprises revenue and surcharges from transportation services, airline catering, recoveries and other services provided to third parties. Fuel surcharges, insurance surcharges and cargo security charges collected upon sales of transportation services are treated as traffic turnover and a total amount of HK$9,936 million have been reclassified in the 2007 comparatives.

2. Segment information

(a) Primary reporting by business segment

	Airline business		Non-airline business		Unallocated		Total	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M	**2008 HK$M**	2007 HK$M	**2008 HK$M**	2007 HK$M
Revenue								
Sales to external customers	**85,405**	73,881	**1,173**	1,477			**86,578**	75,358
Inter-segment sales	**16**	24	**1,343**	1,209			**1,359**	1,233
Segment revenue	**85,421**	73,905	**2,516**	2,686			**87,937**	76,591
Segment results	**(8,118)**	7,471	**189**	268			**(7,929)**	7,739
Net finance charges	**(1,012)**	(803)	**–**	16			**(1,012)**	(787)
	(9,130)	6,668	**189**	284			**(8,941)**	6,952
Share of (losses)/profits of associates					**(730)**	1,057	**(730)**	1,057
(Loss)/profit before tax							**(9,671)**	8,009
Taxation	**1,360**	(752)	**(23)**	(47)			**1,337**	(799)
(Loss)/profit for the year							**(8,334)**	7,210
Assets and liabilities								
Segment assets	**103,663**	105,869	**1,303**	1,727			**104,966**	107,596
Investment in associates					**9,773**	10,054	**9,773**	10,054
Total assets	**103,663**	105,869	**1,303**	1,727	**9,773**	10,054	**114,739**	117,650
Segment liabilities	**76,058**	66,513	**236**	410			**76,294**	66,923
Net assets							**38,445**	50,727
Other segment information								
Depreciation and amortisation	**5,040**	4,681	**155**	163	**–**	–	**5,195**	4,844
Purchase of fixed and intangible assets	**8,509**	9,722	**719**	79	**–**	–	**9,228**	9,801

The Group's two reportable segments are classified according to the nature of the business. The airline business segment comprises the Group's passenger and cargo operations. The non-airline business segment includes mainly catering, ground and aircraft ramp handling services.

The major revenue earning asset is the aircraft fleet which is jointly used by the passenger and cargo services. Management considers that there is no suitable basis for allocating such assets and related operating costs between the two segments. Accordingly, passenger and cargo services are not disclosed as separate business segments.

Inter-segment sales are based on prices set on an arm's length basis.

2. Segment information *(continued)*

(b) Secondary reporting by geographical segment

	2008 HK$M	2007 HK$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**35,921**	32,906
– Japan, Korea and Taiwan	**12,189**	11,324
South West Pacific and South Africa	**6,144**	5,073
South East Asia and Middle East	**9,937**	7,722
Europe	**10,670**	8,707
North America	**11,717**	9,626
	86,578	75,358

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

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.

3. Settlement of the United States Department of Justice cargo investigations

The Company is the subject of investigations and proceedings in respect of its air cargo operations by the competition authorities of various jurisdictions, including the European Union, Canada, Australia, Switzerland, Korea and New Zealand. The Company has been cooperating with the authorities in their investigations and, where applicable, vigorously defending itself. The investigations are focused on issues relating to pricing and competition.

On 22nd July 2008, the United States District Court for the District Columbia accepted a plea agreement between the United States and the Company in which it paid a fine of US$60 million, or HK$468 million. Cathay Pacific pleaded guilty to a one-count violation of the United States Sherman Act and this concludes the investigation in the United States. This payment was incorporated by way of provision in the 2008 Interim Results.

4. Operating (loss)/profit

	2008 HK$M	2007 HK$M
Operating (loss)/profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– Leased	**1,939**	1,811
– Owned	**3,230**	3,020
Amortisation of intangible assets	**26**	13
Operating lease rentals		
– Land and buildings	**613**	550
– Aircraft and related equipment	**2,436**	1,941
– Others	**27**	32
Operating lease income		
– Aircraft and related equipment	**(48)**	(276)
Cost of stock expensed	**1,836**	1,919
Exchange differences	**(28)**	(490)
Auditors' remuneration	**10**	10
Net losses/(gains) on financial assets and liabilities classified as held for trading	**7,374**	(867)
Net loss on financial assets and liabilities designated as at fair value through profit and loss	**531**	257
Income from unlisted investments	**(114)**	(213)
Income from listed investments	**(3)**	(3)

5. Net finance charges

	2008 HK$M	2007 HK$M
Net interest charges comprise:		
– Obligations under finance leases stated at amortised cost	**1,226**	1,428
– Interest income on related security deposits, notes and bonds	**(502)**	(531)
	724	897
– Bank loans and overdrafts	**473**	624
– Other loans wholly repayable within five years	**111**	120
	1,308	1,641
Income from liquid funds:		
– Funds with investment managers and other liquid investments	**(194)**	(611)
– Bank deposits and other receivables	**(284)**	(322)
	(478)	(933)
Fair value change:		
– Obligations under finance leases designated as at fair value through profit and loss	**531**	257
– Financial derivatives	**(349)**	(178)
	182	79
	1,012	787

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

6. Taxation

	2008 HK$M	2007 HK$M
Current tax expenses		
– Hong Kong profits tax	**41**	61
– Overseas tax	**330**	502
– (Over)/under provisions for prior years	**(234)**	37
Deferred tax		
– Origination and reversal of temporary differences	**(1,398)**	199
– Decrease in tax rate	**(76)**	–
	(1,337)	799

Hong Kong profits tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations (see note 30(d) to the accounts).

A reconciliation between tax credit/(charge) and accounting (loss)/profit at applicable tax rates is as follows:

	2008 HK$M	2007 HK$M
Consolidated (loss)/profit before tax	**(9,671)**	8,009
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2007: 17.5%)	**1,595**	(1,402)
Expenses not deductible for tax purposes	**(184)**	(57)
Tax provisions over/(under) provided in prior years	**234**	(37)
Effect of different tax rates in overseas jurisdictions	**(796)**	449
Tax losses recognised	**341**	59
Income not subject to tax	**71**	189
Effect on opening deferred tax balances resulting from a change in tax rate	**76**	–
Tax credit/(charge)	**1,337**	(799)

Further information on deferred tax is shown in note 18 to the accounts.

7. Other comprehensive income

	2008 HK$M	2007 HK$M
Cash flow hedges		
– recognised during the year	**(1,275)**	(249)
– transferred to profit and loss	**132**	176
– deferred tax recognised	**108**	16
Revaluation (deficit)/surplus arising from available-for-sale financial assets	**(430)**	162
Share of other comprehensive income of associates	**(154)**	(309)
Exchange differences on translation of foreign operations		
– recognised during the year	**529**	557
– transferred to profit and loss	**(5)**	–
Other comprehensive income for the year	**(1,095)**	353

8. (Loss)/profit attributable to owners of Cathay Pacific

Of the (loss)/profit attributable to owners of Cathay Pacific, a loss of HK$5,590 million (2007: a profit of HK$6,555 million) has been dealt with in the accounts of the Company.

9. Loss/earnings per share

Basic loss per share and diluted loss per share are calculated by dividing the loss attributable to owners of Cathay Pacific of HK$8,558 million (2007: a profit of HK$7,023 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2007: 3,938 million) shares and 3,935 million (2007: 3,942 million) shares respectively with the latter adjusted for the effects of the share options.

	2008 Million	2007 Million
Weighted average number of ordinary shares used in calculating basic loss/earnings per share	**3,934**	3,938
Deemed issue of ordinary shares for no consideration	**1**	4
Weighted average number of ordinary shares used in calculating diluted loss/earnings per share	**3,935**	3,942

10. Dividends

	2008 HK$M	2007 HK$M
2008 interim dividend paid on 2nd October 2008 of HK¢3 per share (2007: HK¢25 per share)	**118**	985
2008 no final dividends proposed on 11th March 2009 (2007: HK¢59 per share)	**–**	2,320
	118	3,305

Notes to the Accounts

STATEMENT OF FINANCIAL POSITION

11. Fixed assets

	Aircraft and related equipment		Other equipment		Buildings		
	Owned HK$M	Leased HK$M	Owned HK$M	Leased HK$M	Owned HK$M	Under construction HK$M	Total HK$M
Group							
Cost							
At 1st January 2008	**55,843**	**43,044**	**2,831**	**547**	**5,189**	**–**	**107,454**
Exchange differences	**2**	**–**	**(3)**	**–**	**(4)**	**–**	**(5)**
Additions	**6,416**	**1,890**	**235**	**–**	**41**	**620**	**9,202**
Disposals	**(2,968)**	**–**	**(281)**	**–**	**(122)**	**–**	**(3,371)**
Transfers	**2,847**	**(2,847)**	**69**	**(69)**	**–**	**–**	**–**
At 31st December 2008	**62,140**	**42,087**	**2,851**	**478**	**5,104**	**620**	**113,280**
At 1st January 2007	48,262	41,722	2,687	547	5,202	–	98,420
Exchange differences	4	–	10	–	16	–	30
Additions	7,835	1,666	252	–	2	–	9,755
Disposals	(602)	–	(118)	–	(31)	–	(751)
Transfers	344	(344)	–	–	–	–	–
At 31st December 2007	55,843	43,044	2,831	547	5,189	–	107,454
Accumulated depreciation							
At 1st January 2008	**27,102**	**13,771**	**1,838**	**329**	**2,026**	**–**	**45,066**
Exchange differences	**–**	**–**	**(3)**	**–**	**(2)**	**–**	**(5)**
Charge for the year	**2,857**	**1,918**	**205**	**21**	**168**	**–**	**5,169**
Disposals	**(2,686)**	**–**	**(225)**	**–**	**(78)**	**–**	**(2,989)**
Transfers	**2,122**	**(2,122)**	**41**	**(41)**	**–**	**–**	**–**
At 31st December 2008	**29,395**	**13,567**	**1,856**	**309**	**2,114**	**–**	**47,241**
At 1st January 2007	23,408	13,501	1,736	305	1,868	–	40,818
Exchange differences	–	–	8	–	9	–	17
Charge for the year	2,641	1,787	207	24	172	–	4,831
Disposals	(464)	–	(113)	–	(23)	–	(600)
Transfers	1,517	(1,517)	–	–	–	–	–
At 31st December 2007	27,102	13,771	1,838	329	2,026	–	45,066
Net book value							
At 31st December 2008	**32,745**	**28,520**	**995**	**169**	**2,990**	**620**	**66,039**
At 31st December 2007	28,741	29,273	993	218	3,163	–	62,388

11. Fixed assets *(continued)*

	Aircraft and related equipment		Other equipment		Buildings	
	Owned HK$M	Leased HK$M	Owned HK$M	Leased HK$M	Owned HK$M	Total HK$M
Company						
Cost						
At 1st January 2008	**42,416**	**38,112**	**925**	**547**	**385**	**82,385**
Additions	**2,897**	**4,212**	**98**	**–**	**23**	**7,230**
Disposals	**(1,961)**	**–**	**(74)**	**–**	**–**	**(2,035)**
Transfers	**2,613**	**(2,613)**	**69**	**(69)**	**–**	**–**
At 31st December 2008	**45,965**	**39,711**	**1,018**	**478**	**408**	**87,580**
At 1st January 2007	37,688	36,059	818	547	397	75,509
Additions	5,005	2,412	163	–	–	7,580
Disposals	(636)	–	(56)	–	(12)	(704)
Transfers	359	(359)	–	–	–	–
At 31st December 2007	42,416	38,112	925	547	385	82,385
Accumulated depreciation						
At 1st January 2008	**22,738**	**12,703**	**607**	**329**	**371**	**36,748**
Charge for the year	**2,304**	**1,795**	**92**	**20**	**1**	**4,212**
Disposals	**(1,691)**	**–**	**(63)**	**–**	**–**	**(1,754)**
Transfers	**1,649**	**(1,649)**	**41**	**(41)**	**–**	**–**
At 31st December 2008	**25,000**	**12,849**	**677**	**308**	**372**	**39,206**
At 1st January 2007	19,888	12,230	589	305	382	33,394
Charge for the year	2,218	1,594	74	24	1	3,911
Disposals	(489)	–	(56)	–	(12)	(557)
Transfers	1,121	(1,121)	–	–	–	–
At 31st December 2007	22,738	12,703	607	329	371	36,748
Net book value						
At 31st December 2008	**20,965**	**26,862**	**341**	**170**	**36**	**48,374**
At 31st December 2007	19,678	25,409	318	218	14	45,637

11. 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 15 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 2008, seventeen Airbus A330-300s (2007: fourteen), four Airbus A340-300s (2007: four), six Boeing 747-400s (2007: six), four Boeing 777-300ERs (2007: two), five Airbus A320-200s (2007: five), four Airbus A321-200s (2007: four) and nil Airbus A340-600 (2007: three), 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$9,652 million (2007: HK$7,707 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 2008 for each of the following periods are as follows:

	2008 HK$M	2007 HK$M
Aircraft and related equipment:		
– within one year	**2,323**	2,430
– after one year but within five years	**6,093**	7,246
– after five years	**2,847**	3,561
	11,263	13,237
Buildings and other equipment:		
– within one year	**411**	364
– after one year but within five years	**664**	440
– after five years	**55**	97
	1,130	901
	12,393	14,138

(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$4,052 million (2007: HK$3,247 million) for the Group and HK$335 million (2007: HK$123 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 16 to the accounts.

12. Intangible assets

	Group			Company
	Goodwill HK$M	Computer systems HK$M	Total HK$M	Computer systems HK$M
Cost				
At 1st January 2008	**7,666**	**682**	**8,348**	**642**
Additions	**–**	**26**	**26**	**–**
Disposals	**–**	**(16)**	**(16)**	**25**
At 31st December 2008	**7,666**	**692**	**8,358**	**667**
At 1st January 2007	7,666	636	8,302	597
Additions	–	46	46	45
At 31st December 2007	7,666	682	8,348	642
Accumulated amortisation				
At 1st January 2008	**–**	**566**	**566**	**526**
Charge for the year	**–**	**26**	**26**	**25**
Disposals	**–**	**(16)**	**(16)**	**–**
At 31st December 2008	**–**	**576**	**576**	**551**
At 1st January 2007	–	553	553	514
Charge for the year	–	13	13	12
At 31st December 2007	–	566	566	526
Net book value				
At 31st December 2008	**7,666**	**116**	**7,782**	**116**
At 31st December 2007	7,666	116	7,782	116

The carrying amount of goodwill allocated to the airline operation is HK$7,627 million (2007: HK$7,627 million). 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 reporting 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 10% (2007: 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.

13. Subsidiaries

	Company	
	2008 HK$M	2007 HK$M
Unlisted shares at cost	**239**	218
Other investments at cost	**4,973**	12,982
Net amounts due from subsidiaries		
– Loan accounts	**6,690**	3,727
– Current accounts	**9,263**	7,982
	21,165	24,909

Principal subsidiaries are listed on page 92.

14. Associates

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Hong Kong listed shares at cost (Market value: HK$8,230 million, 2007: HK$34,798 million)	**–**	–	**7,617**	7,178
Unlisted shares at cost	**–**	–	**17**	17
Share of net assets				
– listed in Hong Kong	**6,628**	7,325	**–**	–
– unlisted	**350**	363	**–**	–
Goodwill	**2,795**	2,366	**–**	–
	9,773	10,054	**7,634**	7,195
Less: Impairment loss	**–**	–	**(9)**	(9)
	9,773	10,054	**7,625**	7,186
Share of (losses)/profits of associates				
– listed	**(777)**	995	**–**	–
– unlisted	**47**	62	**–**	–
	(730)	1,057	**–**	–
Dividends received and receivable from associates	**383**	274	**313**	220

14. Associates *(continued)*

	2008 HK$M	2007 HK$M
Summarised financial information of associates:		
Assets	**121,891**	101,323
Liabilities	**(88,082)**	(61,963)
Equity	**33,809**	39,360
Turnover	**66,417**	57,057
Net (loss)/profit for the year	**(5,800)**	5,097

In respect of the year ended 31st December 2008, Air China has been included in the consolidated accounts based on the most recently available accounts drawn up to 30th September 2008, but taking into account the unrealised fuel hedging losses that occurred in the subsequent period from 1st October 2008 to 31st December 2008. 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 93.

15. Other long-term receivables and investments

	Group		Company	
	2008 HK$M	2007 HK$M	2008 HK$M	2007 HK$M
Investments at fair value				
– listed in Hong Kong	**77**	186	**–**	–
– unlisted	**992**	1,256	**916**	1,142
Leasehold land rental prepayments	**1,600**	1,642	**–**	–
Loans and other receivables	**418**	435	**408**	425
	3,087	3,519	**1,324**	1,567

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK$1,643 million (2007: HK$1,685 million).

16. Long-term liabilities

	Note	2008 Current HK$M	2008 Non-current HK$M	2007 Current HK$M	2007 Non-current HK$M
Group					
Long-term loans	*(a)*	**1,964**	**16,504**	1,665	15,298
Obligations under finance leases	*(b)*	**2,291**	**19,521**	2,213	17,192
		4,255	**36,025**	3,878	32,490
Company					
Long-term loans	*(a)*	**951**	**12,020**	1,077	11,831
Obligations under finance leases	*(b)*	**3,564**	**23,158**	3,366	19,974
		4,515	**35,178**	4,443	31,805

(a) Long-term loans

	Group 2008 HK$M	Group 2007 HK$M	Company 2008 HK$M	Company 2007 HK$M
Bank loans				
– secured	**8,521**	7,670	**3,466**	3,928
– unsecured	**6,459**	5,683	**6,017**	5,370
Other loans				
– secured	**121**	220	**121**	220
– unsecured	**3,367**	3,390	**3,367**	3,390
	18,468	16,963	**12,971**	12,908
Amount due within one year included under current liabilities	**(1,964)**	(1,665)	**(951)**	(1,077)
	16,504	15,298	**12,020**	11,831
Repayable as follows:				
Bank loans				
– within one year	**1,894**	1,573	**881**	985
– after one year but within two years	**2,582**	1,741	**1,719**	877
– after two years but within five years	**7,498**	7,253	**5,601**	5,709
– after five years	**3,006**	2,786	**1,282**	1,727
	14,980	13,353	**9,483**	9,298
Other loans				
– within one year	**70**	92	**70**	92
– after one year but within two years	**1,263**	74	**1,263**	74
– after two years but within five years	**2,155**	3,444	**2,155**	3,444
	3,488	3,610	**3,488**	3,610
Amount due within one year included under current liabilities	**(1,964)**	(1,665)	**(951)**	(1,077)
	16,504	15,298	**12,020**	11,831

16. Long-term liabilities *(continued)*

(a) Long-term loans *(continued)*

Borrowings other than bank loans are repayable on various dates up to 2011 at interest rates between 1.43% and 5.71% per annum while bank loans are repayable up to 2020.

Long-term loans and other liabilities of the Group and the Company not wholly repayable within five years amounted to HK$7,698 million and HK$3,452 million respectively (2007: HK$6,908 million and HK$3,911 million).

As at 31st December 2008, the Group and the Company had long-term loans which were defeased by funds and other investments totalling HK$21,374 million and HK$17,942 million respectively (2007: HK$21,081 million and HK$17,318 million). Accordingly, these liabilities and the related funds, as well as related expenditure and income, have been netted off in the accounts.

(b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2009 to 2023. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Future payments	**35,633**	35,385	**36,569**	34,719
Interest charges relating to future periods	**(6,324)**	(7,237)	**(7,915)**	(8,878)
Present value of future payments	**29,309**	28,148	**28,654**	25,841
Security deposits, notes and zero coupon bonds	**(7,497)**	(8,743)	**(1,932)**	(2,501)
Amounts due within one year included under current liabilities	**(2,291)**	(2,213)	**(3,564)**	(3,366)
	19,521	17,192	**23,158**	19,974

The present value of future payments is repayable as follows:

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Within one year	**2,592**	3,123	**3,575**	3,383
After one year but within two years	**4,525**	2,368	**5,414**	3,225
After two years but within five years	**10,853**	10,609	**8,498**	10,280
After five years	**11,339**	12,048	**11,167**	8,953
	29,309	28,148	**28,654**	25,841

The future lease payment profile is disclosed in note 31 to the accounts.

As at 31st December 2008, the Group and the Company had obligations under finance leases which were defeased by funds and other investments amounting to HK$8,796 million and HK$1,080 million respectively (2007: HK$9,016 million and HK$1,087 million). Accordingly these liabilities and the related funds, as well as related expenditure and income, have been netted off in the accounts.

As at 31st December 2008, the Group and the Company had financial liabilities designated as at fair value through profit and loss of HK$4,943 million (2007: HK$3,226 million) and HK$4,943 million (2007: HK$3,226 million) respectively.

17. 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 figures for SGRBS and CPALRS disclosed as at 31st December 2008 were provided by Cannon Trustees Limited, the administration manager. The Group's obligations are 83% (2007: 111%) covered by the plan assets held by the trustees.

	2008		2007	
	SGRBS	**CPALRS**	SGRBS	CPALRS
The principal actuarial assumptions are:				
Discount rate used	**5.3%**	**5.3%**	3.5%	3.5%
Expected return on plan assets	**7%**	**6%**	7%	6%
Future salary increases	**4%**	**3%**	5%	3%

	2008 HK$M	2007 HK$M
Net expenses recognised in the Group profit and loss:		
Current service cost	**389**	376
Interest on obligations	**270**	277
Expected return on plan assets	**(609)**	(520)
Actuarial (gain)/loss recognised	**(35)**	4
Total included in staff costs	**15**	137
Actual return on plan assets	**(2,759)**	1,510

17. Retirement benefits *(continued)*

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Net liability recognised in the statement of financial position:				
Present value of funded obligations	**7,108**	8,223	**6,522**	7,549
Fair value of plan assets	**(5,924)**	(9,131)	**(5,426)**	(8,353)
	1,184	(908)	**1,096**	(804)
Net unrecognised actuarial (losses)/gains	**(903)**	1,176	**(797)**	1,091
	281	268	**299**	287

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Movements in present value of funded obligations comprise:				
At 1st January	**8,223**	7,844	**7,549**	7,196
Movements for the year				
– current service cost	**389**	376	**345**	341
– interest cost	**270**	277	**244**	255
– employees contributions	**20**	24	**20**	24
– benefits paid	**(470)**	(503)	**(426)**	(445)
– actuarial (gains)/losses	**(1,324)**	205	**(1,210)**	178
At 31st December	**7,108**	8,223	**6,522**	7,549

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Movements in fair value of plan assets comprise:				
At 1st January	**9,131**	8,065	**8,353**	7,369
Movements for the year				
– expected return on plan assets	**609**	520	**549**	478
– employees contributions	**20**	24	**20**	24
– employer contributions	**2**	35	**–**	34
– benefits paid	**(470)**	(503)	**(426)**	(445)
– actuarial (losses)/gains	**(3,368)**	990	**(3,070)**	893
At 31st December	**5,924**	9,131	**5,426**	8,353

17. Retirement benefits *(continued)*

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Fair value of plan assets comprises:				
Equities	**3,717**	6,542	**3,396**	6,002
Debt instruments	**1,780**	2,276	**1,616**	2,059
Deposits and cash	**427**	304	**414**	292
Others	**–**	9	**–**	–
	5,924	9,131	**5,426**	8,353

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.

	Group				
	2008 HK$M	2007 HK$M	2006 HK$M	2005 HK$M	2004 HK$M
Present value of funded obligations	**7,108**	8,223	7,844	7,341	7,227
Fair value of plan assets	**(5,924)**	(9,131)	(8,065)	(7,387)	(6,933)
Deficit/(surplus)	**1,184**	(908)	(221)	(46)	294
Actuarial (gains)/losses arising on plan liabilities	**(1,324)**	205	267	(132)	592
Actuarial losses/(gains) arising on plan assets	**3,368**	(990)	(529)	(179)	(484)

	Company				
	2008 HK$M	2007 HK$M	2006 HK$M	2005 HK$M	2004 HK$M
Present value of funded obligations	**6,522**	7,549	7,196	6,818	6,825
Fair value of plan assets	**(5,426)**	(8,353)	(7,369)	(6,833)	(6,415)
Deficit/(surplus)	**1,096**	(804)	(173)	(15)	410
Actuarial (gains)/losses arising on plan liabilities	**(1,210)**	178	261	(216)	592
Actuarial losses/(gains) arising on plan assets	**3,070**	(893)	(495)	(171)	(453)

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$726 million to the schemes in 2009.

(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 their monthly salary. During the year, the benefits forfeited in accordance with the schemes' rules amounted to HK$26 million (2007: HK$23 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 are HK$655 million (2007: HK$576 million).

18. Deferred taxation

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Deferred tax assets:				
– retirement benefits	**(46)**	(52)	**(48)**	(52)
– provisions	**(108)**	(141)	**(63)**	(82)
– tax losses	**(2,142)**	(512)	**(1,767)**	(346)
– cash flow hedges	**(195)**	(87)	**(191)**	(65)
Deferred tax liabilities:				
– accelerated tax depreciation	**2,169**	2,052	**1,511**	1,503
Provision in respect of certain lease arrangements	**5,299**	5,511	**4,393**	4,502
	4,977	6,771	**3,835**	5,460

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Movements in deferred taxation comprise:				
At 1st January	**6,771**	6,508	**5,460**	5,085
Movements for the year				
– transferred from the profit and loss				
– deferred tax (income)/expenses (note 6)	**(1,474)**	199	**(1,390)**	199
– operating (income)/expenses	**(68)**	141	**(70)**	103
– transferred to cash flow hedge reserve	**(108)**	(16)	**(126)**	6
– initial cash benefit from lease arrangements	**772**	987	**703**	839
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	**(916)**	(1,048)	**(742)**	(772)
At 31st December	**4,977**	6,771	**3,835**	5,460

The Group has certain tax losses which do not expire under current tax legislation and 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 2010 to 2019 (2007: 2009 to 2018) as follows:

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
After one year but within five years	**2,457**	3,183	**1,913**	2,637
After five years but within 10 years	**2,234**	1,548	**1,926**	1,204
After 10 years	**608**	780	**554**	661
	5,299	5,511	**4,393**	4,502

19. Trade and other receivables

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Trade debtors	**4,640**	4,938	**4,098**	4,150
Derivative financial assets	**3,828**	2,666	**3,688**	2,653
Other receivables and prepayments	**3,494**	3,709	**1,977**	2,431
Due from associates	**48**	63	**10**	15
	12,010	11,376	**9,773**	9,249

As at 31st December 2008, derivative financial assets of the Group and the Company accounted for as held for trading amounted to HK$3,300 million (2007: HK$1,064 million) and HK$3,195 million (2007: HK$1,056 million) respectively.

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Analysis of trade debtors by age:				
Current	**4,558**	4,841	**4,050**	4,098
One to three months overdue	**69**	95	**36**	52
More than three months overdue	**13**	2	**12**	–
	4,640	4,938	**4,098**	4,150

The movement in the provision for bad debt included in trade debtors during the year was as follows:

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
At 1st January	**169**	144	**133**	123
Amounts written back	**(2)**	(2)	**–**	–
Impairment loss recognised	**2**	27	**2**	10
At 31st December	**169**	169	**135**	133

20. Liquid funds

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Short-term deposits and bank balances	**7,051**	6,785	**4,456**	4,827
Short-term deposits maturing beyond three months when placed	**816**	2,574	**419**	1,636
Funds with investment managers				
– debt securities listed outside Hong Kong	**3,046**	9,351	**–**	–
– bank deposits	**372**	499	**–**	–
Other liquid investments				
– debt securities listed outside Hong Kong	**966**	62	**–**	–
– bank deposits	**2,837**	2,378	**2,691**	1,159
	15,088	21,649	**7,566**	7,622

Included in other liquid investments are bank deposits of HK$2,025 million (2007: HK$1,876 million) and debt securities of HK$966 million (2007: HK$62 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.

21. Trade and other payables

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Trade creditors	**5,571**	5,546	**3,931**	4,064
Derivative financial liabilities	**10,467**	2,103	**10,422**	1,971
Other payables	**6,496**	6,783	**5,841**	5,912
Due to associates	**170**	197	**105**	105
Due to other related companies	**39**	146	**39**	146
Bank overdrafts – unsecured	**6**	12	**6**	10
	22,749	14,787	**20,344**	12,208

As at 31st December 2008, derivative financial liabilities of the Group and the Company accounted for as held for trading amounted to HK$9,216 million (2007: HK$1,246 million) and HK$9,203 million (2007: HK$1,239 million) respectively.

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Analysis of trade creditors by age:				
Current	**5,321**	5,270	**3,759**	3,841
One to three months overdue	**240**	266	**164**	217
More than three months overdue	**10**	10	**8**	6
	5,571	5,546	**3,931**	4,064

Trade accruals are now grouped under current in the aging analysis and a total amount of HK$1,352 million and HK$591 million have been reclassified in the 2007 comparatives for the Group and the Company respectively.

22. Share capital

	2008		2007	
	Number of shares	**HK$M**	Number of shares	HK$M
Authorised (HK$0.20 each)	**5,000,000,000**	**1,000**	5,000,000,000	1,000
Issued and fully paid (HK$0.20 each)				
At 1st January	**3,940,025,072**	**788**	3,935,697,572	787
Shares repurchased during the year	**(9,390,000)**	**(2)**	–	–
Share options exercised	**2,111,000**	**1**	4,327,500	1
At 31st December	**3,932,746,072**	**787**	3,940,025,072	788

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.

	2008 Number of shares	2007 Number of shares
Movements in options outstanding comprise:		
At 1st January	**4,730,500**	9,058,000
Options exercised	**(2,111,000)**	(4,327,500)
At 31st December	**2,619,500**	4,730,500
Options vested at 31st December	**2,619,500**	4,730,500

No option was granted under the Scheme during the year.

	2008	2007
Details of share options exercised during the year:		
Exercise date	**8/1/08 – 30/12/08**	7/1/07 – 30/11/07
Proceeds received (HK$)	**15,769,170**	32,326,425
Weighted average closing share price immediately before the exercise date (HK$)	**14.87**	20.56

23. Reserves

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Retained profit	**21,626**	32,771	**9,361**	17,538
Share premium	**16,287**	16,272	**16,287**	16,272
Investment revaluation reserve	**638**	1,068	**593**	876
Cash flow hedge reserve	**(1,712)**	(677)	**(1,666)**	(544)
Capital redemption reserve and others	**699**	327	**23**	21
	37,538	49,761	**24,598**	34,163

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

Capital redemption reserve and others of the Group mainly include the capital redemption reserve of HK$24 million (2007: HK$21 million), exchange differences arising from revaluation of foreign investments amounted to HK$1,137 million (2007: HK$613 million) and share of associate's other negative reserve of HK$485 million (2007: HK$331 million).

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 amount transferred from the cash flow hedge reserve to the following profit and loss items was as follows:

	2008 HK$M	2007 HK$M
Turnover	**(468)**	(208)
Fuel	**382**	34
Others	**(47)**	(24)
Finance income	**1**	22
Net loss transferred to the profit and loss	**(132)**	(176)

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

	Total HK$M
2009	**321**
2010	**831**
2011	**153**
2012	**87**
2013	**71**
Beyond 2013	**249**
	1,712

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

24. Reconciliation of operating (loss)/profit to cash generated from operations

	2008 HK$M	2007 HK$M
Operating (loss)/profit	**(7,929)**	7,739
Depreciation	**5,169**	4,831
Amortisation of intangible assets	**26**	13
Loss on disposal of fixed assets and intangible assets	**245**	70
Currency adjustments and other items not involving cash flows	**223**	506
Increase in stock	**(82)**	(93)
Increase in trade debtors, other receivables and prepayments	**(719)**	(2,679)
(Decrease)/increase in net amounts due to related companies and associates	**(119)**	111
Increase in trade creditors and other payables	**8,165**	3,732
(Decrease)/increase in unearned transportation revenue	**(376)**	1,583
Non-operating movements in debtors and creditors	**(721)**	288
Cash generated from operations	**3,882**	16,101

Notes to the Accounts | STATEMENT OF CASH FLOWS

25. Disposal of a subsidiary

	2008 HK$M	2007 HK$M
Net assets disposed of:		
Fixed assets	**61**	–
Trade and other receivables	**70**	–
Trade and other payables	**(63)**	–
Others	**8**	–
Total net assets	**76**	–
Transfer to investment in associates	**(23)**	–
Reversal of minority interests	**(24)**	–
Exchange differences on translation in other reserves	**(11)**	–
Gains on disposal	**24**	–
Total consideration	**42**	–
Satisfied by:		
Cash	**42**	–

26. Analysis of cash and cash equivalents

	2008 HK$M	2007 HK$M
Short-term deposits and bank balances	**7,051**	6,785
Bank overdrafts	**(6)**	(12)
	7,045	6,773

Notes to the Accounts

DIRECTORS AND EMPLOYEES

27. Directors' and executive officers' remuneration

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

	Cash			Non-cash				
	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	**2008 Total HK$'000**	2007 Total HK$'000
Executive Directors								
Christopher Pratt	1,059	957	39	449	277	682	**3,463**	2,656
Robert Atkinson	2,004	1,835	128	850	1,055	2,580	**8,452**	7,122
Philip Chen (up to June 2007)	–	3,714	–	–	–	–	**3,714**	5,287
Ian Shiu (from October 2008)	1,656	858	528	–	–	–	**3,042**	–
John Slosar (from July 2007)	3,812	2,000	274	1,014	652	2,153	**9,905**	5,070
Augustus Tang (up to September 2008)	1,893	2,160	402	–	–	–	**4,455**	4,646
Tony Tyler	4,320	4,621	162	1,832	1,521	2,709	**15,165**	11,018
Non-Executive Directors								
Philip Chen (from July 2007)	–	–	–	–	–	–	**–**	–
Martin Cubbon	–	–	–	–	–	–	**–**	–
Henry Fan	500*	–	–	–	–	–	**500**	200
Davy Ho (up to June 2007)	–	–	–	–	–	–	**–**	–
James W.J. Hughes-Hallett	–	–	–	–	–	–	**–**	–
Kong Dong (from May 2008)	327*	–	–	–	–	–	**327**	–
Li Jiaxiang (up to May 2008)	173*	–	–	–	–	–	**173**	200
Vernon Moore	621*	–	–	–	–	–	**621**	229
Robert Woods	–	–	–	–	–	–	**–**	–
Zhang Lan	529*	–	–	–	–	–	**529**	321
Independent Non-Executive Directors								
Peter Lee	700*	–	–	–	–	–	**700**	400
Raymond Or	700*	–	–	–	–	–	**700**	400
Jack So	650*	–	–	–	–	–	**650**	350
Tung Chee Chen	550*	–	–	–	–	–	**550**	250
2008 Total	**19,494**	**16,145**	**1,533**	**4,145**	**3,505**	**8,124**	**52,946**	
2007 Total	13,892	11,379	2,312	1,546	2,649	6,371		38,149

For Directors employed by the Swire group, the remuneration disclosed represents the amount charged to the Company. Bonus is related to services for 2007 but paid and charged to the Company in 2008.

27. Directors' and executive officers' remuneration *(continued)*

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

	Cash			Non-cash				
	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	**2008 Total HK$'000**	2007 Total HK$'000
James Barrington	1,608	1,450	2,311	682	853	–	**6,904**	6,162
William Chau	1,681	1,227	528	–	–	–	**3,436**	3,299
Quince Chong	1,615	1,168	528	162	–	–	**3,473**	3,270
Ivan Chu (from September 2008)	1,419	681	602	–	–	–	**2,702**	–
Christopher Gibbs (from January 2007)	1,772	1,350	711	274	–	–	**4,107**	3,294
Rupert Hogg (from September 2008)	392	–	751	166	–	734	**2,043**	–
Ronald Mathison (up to August 2008)	1,131	1,107	602	480	809	2,170	**6,299**	6,156
Edward Nicol	1,740	1,699	267	738	1,044	2,383	**7,871**	6,795
Nick Rhodes	1,764	1,595	292	748	935	2,513	**7,847**	6,592
2008 Total	**13,122**	**10,277**	**6,592**	**3,250**	**3,641**	**7,800**	**44,682**	
2007 Total	10,425	7,645	4,159	1,491	2,867	8,981		35,568

Bonus disclosed is related to services for 2007 and paid in 2008.

28. Employee information

(a) The five highest paid individuals of the Company included three Directors (2007: two) and two Executive Officers (2007: three), whose emoluments are set out in note 27 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:

	2008			2007		
HK$'000	**Director**	**Flight staff**	**Other staff**	Director	Flight staff	Other staff
0 – 1,000	**12**	**8,646**	**8,383**	12	7,976	8,029
1,001 – 1,500	**–**	**505**	**198**	–	512	182
1,501 – 2,000	**–**	**502**	**96**	–	519	80
2,001 – 2,500	**–**	**312**	**33**	–	275	19
2,501 – 3,000	**–**	**217**	**9**	1	181	11
3,001 – 3,500	**2**	**141**	**6**	–	107	7
3,501 – 4,000	**1**	**46**	**7**	–	29	1
4,001 – 4,500	**1**	**7**	**2**	–	1	7
4,501 – 5,000	**–**	**2**	**1**	1	1	–
5,001 – 5,500	**–**	**–**	**5**	2	–	–
5,501 – 6,000	**–**	**–**	**2**	–	–	1
6,001 – 6,500	**–**	**–**	**1**	–	–	2
6,501 – 7,000	**–**	**–**	**1**	–	–	2
7,001 – 7,500	**–**	**–**	**–**	1	–	–
7,501 – 8,000	**–**	**–**	**2**	–	–	–
8,001 – 8,500	**1**	**–**	**–**	–	–	–
9,501 – 10,000	**1**	**–**	**–**	–	–	–
11,001 – 11,500	**–**	**–**	**–**	1	–	–
15,001 – 15,500	**1**	**–**	**–**	–	–	–
	19	**10,378**	**8,746**	18	9,601	8,341

29. 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:

	2008		2007	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Turnover	**229**	**–**	290	–
Aircraft maintenance costs	**2,069**	**–**	1,445	–
Route operating costs	**546**	**–**	432	–
Dividends received	**(383)**	**–**	(274)	–
Fixed assets purchase	**2**	**–**	1	–

(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 2008 were nil (2007: HK$182 million) and expenses of HK$138 million (2007: HK$108 million) were reimbursed at cost; in addition, HK$70 million (2007: HK$53 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 36.

(ii) Under the HAECO Framework Agreement with HAECO, the Group paid fees to HAECO group in exchange for maintenance services provided to the Group's aircraft fleets. Service fees paid to HAECO group for the year ended 31st December 2008 were HK$2,069 million (2007: HK$1,445 million).

Transactions under the HAECO Framework Agreement 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 37.

(iii) Under the Air China Framework Agreement with Air China dated 26th June 2008, the Group paid fees to, and received fees from, Air China group in respect of transactions between the Group on the one hand and Air China group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Air China Framework Agreement. The amounts payable to Air China group for the year ended 31st December 2008 totalled HK$388 million. The amounts receivable from Air China group for the year ended 31st December 2008 totalled HK$245 million.

Transactions under the Air China Framework 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 pages 37 and 38.

(c) Amounts due from and due to associates and other related companies at 31st December 2008 are disclosed in notes 19 and 21 to the accounts. These balances arising in the normal course of business are non-interest bearing and have no fixed repayment terms.

(d) Guarantees given by the Company in respect of bank loan facilities of associates at 31st December 2008 are disclosed in note 30 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 27 to the accounts.

Notes to the Accounts

SUPPLEMENTARY INFORMATION

30. Commitments and contingencies

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

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Authorised and contracted for	**43,000**	48,782	**1,528**	2,835
Authorised but not contracted for	**4,255**	5,676	**512**	5,670
	47,255	54,458	**2,040**	8,505

Operating lease commitments are shown in note 11 to the accounts.

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

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Subsidiaries	**–**	–	**3,608**	3,123
Associates	**70**	19	**70**	19
Staff	**200**	200	**200**	200
	270	219	**3,878**	3,342

(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 and proceedings in respect of its air cargo operations by the competition authorities of various jurisdictions, including the European Union, Canada, Australia, Switzerland, Korea and New Zealand. The Company has been cooperating with the authorities in their investigations and, where applicable, vigorously defending itself. The investigations and proceedings are focused on issues relating to pricing and competition. The Company is represented by legal counsel in connection with these matters.

As noted in the Company's press release on 24th December 2007, the Company received a Statement of Objections from the European Commission with regard to the Company's air cargo operations and has responded to it.

On 15th December 2008, the Company received a Statement of Claim from the New Zealand Commerce Commission with regard to the Company's air cargo operations. The Company, with the assistance of counsel, is evaluating the allegations and will respond to it.

The Company has been named as a defendant in a number of civil class action complaints in the United States, Canada and Australia alleging violations of applicable competition laws arising from the Company's conduct relating to its air cargo operations. In addition, civil class action claims have been filed in the United States alleging violations of applicable competition laws arising from the Company's conduct relating to certain of its passenger operations. The Company is represented by legal counsel in the actions filed in the United States, Canada and Australia and is defending those actions.

The investigations, proceedings and civil actions are ongoing and the outcomes are subject to uncertainties. The Company is not in a position at the present time to make a sufficiently reliable estimate of the amount of any potential liability. Accordingly no provision has been made in the accounts. The information usually required by HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is not disclosed on the grounds that it can be expected to prejudice seriously the outcomes.

31. 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 proprietary 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 reporting 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 statement of financial position and the amount of guarantees granted as disclosed in note 30 to the accounts. Collateral and guarantees received in respect of credit terms granted as at 31st December 2008 is HK$2,911 million (2007: HK$2,073 million).

Impairment is recognised when the recoverability of the debt is in doubt resulting from financial difficulty of a customer or the debt in dispute. The movement in the provision for bad debt in respect of trade debtors during the year is set out in note 19 to the accounts.

31. Financial risk management *(continued)*

(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 are available to meet liquidity requirements in both the short and long term. The undiscounted payment profile of financial liabilities is outlined as follows:

	2008				
	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**	**Total HK$M**
Group					
Bank and other loans	**(2,491)**	**(4,262)**	**(10,474)**	**(3,277)**	**(20,504)**
Obligations under finance leases	**(3,170)**	**(5,067)**	**(12,953)**	**(14,443)**	**(35,633)**
Trade and other payables	**(12,282)**	**–**	**–**	**–**	**(12,282)**
Derivative financial liabilities	**(7,205)**	**(2,557)**	**(513)**	**(31)**	**(10,306)**
Total	**(25,148)**	**(11,886)**	**(23,940)**	**(17,751)**	**(78,725)**

	2007				
	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	Total HK$M
Group					
Bank and other loans	(2,404)	(2,369)	(11,847)	(3,121)	(19,741)
Obligations under finance leases	(3,848)	(3,003)	(12,689)	(15,845)	(35,385)
Trade and other payables	(12,684)	–	–	–	(12,684)
Derivative financial liabilities	(1,663)	(124)	(161)	(32)	(1,980)
Total	(20,599)	(5,496)	(24,697)	(18,998)	(69,790)

	2008				
	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**	**Total HK$M**
Company					
Bank and other loans	**(1,340)**	**(3,285)**	**(8,297)**	**(1,411)**	**(14,333)**
Obligations under finance leases	**(4,087)**	**(5,911)**	**(10,413)**	**(16,158)**	**(36,569)**
Trade and other payables	**(9,922)**	**–**	**–**	**–**	**(9,922)**
Derivative financial liabilities	**(7,196)**	**(2,541)**	**(482)**	**(11)**	**(10,230)**
Total	**(22,545)**	**(11,737)**	**(19,192)**	**(17,580)**	**(71,054)**

31. Financial risk management *(continued)*

	2007				
	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	Total HK$M
Company					
Bank and other loans	(1,556)	(1,293)	(9,833)	(1,965)	(14,647)
Obligations under finance leases	(3,978)	(3,798)	(12,379)	(14,564)	(34,719)
Trade and other payables	(10,237)	–	–	–	(10,237)
Derivative financial liabilities	(1,663)	(123)	(160)	(32)	(1,978)
Total	(17,434)	(5,214)	(22,372)	(16,561)	(61,581)

(c) Market risk

(i) Foreign currency risk

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 US dollars, Euros, New Taiwan dollars, Singapore dollars, Renminbi and Japanese yen. Foreign currency risk is measured by employing sensitivity analysis, taking into account current and anticipated exposures. 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.

At the reporting date, the financial position exposure to foreign currency risk was as follows:

	2008					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**SGD HK$M**	**RMB HK$M**	**JPY HK$M**
Group						
Trade and other receivables	**7,091**	**606**	**299**	**25**	**148**	**448**
Liquid funds	**7,323**	**286**	**26**	**922**	**2,485**	**176**
Long-term loans	**(5,729)**	**(393)**	**–**	**(3,367)**	**–**	**(1,530)**
Obligations under finance leases	**(17,417)**	**(4,395)**	**–**	**–**	**–**	**–**
Trade and other payables	**(14,241)**	**(243)**	**(81)**	**(51)**	**(390)**	**(161)**
Currency derivatives at notional value	**6,768**	**1,152**	**(1,786)**	**1,148**	**(3,580)**	**(1,286)**
Net exposure	**(16,205)**	**(2,987)**	**(1,542)**	**(1,323)**	**(1,337)**	**(2,353)**

Notes to the Accounts | SUPPLEMENTARY INFORMATION

31. Financial risk management *(continued)*

	2007					
	USD HK$M	EUR HK$M	TWD HK$M	SGD HK$M	RMB HK$M	JPY HK$M
Group						
Trade and other receivables	6,396	626	340	29	449	355
Liquid funds	12,391	664	49	657	2,200	119
Long-term loans	(6,107)	(559)	–	(3,390)	–	–
Obligations under finance leases	(16,367)	(2,879)	–	–	–	–
Trade and other payables	(5,714)	(294)	(82)	(66)	(153)	(199)
Currency derivatives at notional value	10,636	(345)	(1,778)	1,101	(3,817)	(929)
Net exposure	1,235	(2,787)	(1,471)	(1,669)	(1,321)	(654)

	2008					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**SGD HK$M**	**RMB HK$M**	**JPY HK$M**
Company						
Trade and other receivables	**5,993**	**605**	**237**	**24**	**48**	**441**
Liquid funds	**2,195**	**204**	**19**	**922**	**718**	**171**
Long-term loans	**(3,931)**	**(121)**	**–**	**(3,367)**	**–**	**–**
Obligations under finance leases	**(19,792)**	**(5,400)**	**–**	**–**	**–**	**(1,530)**
Trade and other payables	**(13,226)**	**(237)**	**(37)**	**(50)**	**(66)**	**(144)**
Currency derivatives at notional value	**4,268**	**1,152**	**(1,786)**	**1,148**	**(1,420)**	**(1,286)**
Net exposure	**(24,493)**	**(3,797)**	**(1,567)**	**(1,323)**	**(720)**	**(2,348)**

	2007					
	USD HK$M	EUR HK$M	TWD HK$M	SGD HK$M	RMB HK$M	JPY HK$M
Company						
Trade and other receivables	5,518	626	256	29	224	351
Liquid funds	755	600	31	657	771	113
Long-term loans	(4,397)	(220)	–	(3,390)	–	–
Obligations under finance leases	(18,566)	(4,086)	–	–	–	(530)
Trade and other payables	(4,612)	(234)	(49)	(65)	(67)	(136)
Currency derivatives at notional value	8,367	(345)	(1,778)	1,101	(2,179)	(929)
Net exposure	(12,935)	(3,659)	(1,540)	(1,668)	(1,251)	(1,131)

In addition to the statement of financial position exposure, the Group is exposed to a currency risk on its net operating exposure in foreign currencies primarily Euros, Japanese yen, New Taiwan dollars and Renminbi. The Group currently has operating surpluses in all these foreign currencies except the US dollars.

31. Financial risk management *(continued)*

Sensitivity analysis for foreign currency exposure

A five percent appreciation of the Hong Kong dollars against the following currencies at 31st December 2008 would have increased equity and profit and loss by the amounts shown below. This represents the translation of financial assets and liabilities and the change in fair value of currency derivatives at the reporting date. It assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	2008		2007	
	Profit and loss HK$M	**Other equity components HK$M**	Profit and loss HK$M	Other equity components HK$M
US dollars	**612**	**189**	378	(453)
Euros	**(19)**	**157**	(87)	226
New Taiwan dollars	**(11)**	**82**	(15)	90
Singapore dollars	**(6)**	**77**	7	74
Renminbi	**(43)**	**86**	(124)	195
Japanese yen	**(20)**	**141**	(14)	55
Increase	**513**	**732**	145	187

(ii) Interest rate risk

The Group's cash flow exposure to interest rate risk arises primarily from long-term borrowings at floating rates. 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. Interest rate risk is measured by using sensitivity analysis on variable rate instruments.

At the reporting date the interest rate profile of the interest-bearing financial instruments was as below:

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Fixed rate instruments				
Liquid funds	**812**	501	**812**	501
Long-term loans	**(2,020)**	(2,034)	**(2,020)**	(2,034)
Obligations under finance leases	**(12,696)**	(10,348)	**(17,805)**	(17,213)
Interest rate and currency swaps	**(643)**	(756)	**147**	142
Net exposure	**(14,547)**	(12,637)	**(18,866)**	(18,604)

	Group		Company	
	2008 HK$M	2007 HK$M	**2008 HK$M**	2007 HK$M
Variable rate instruments				
Liquid funds	**14,276**	21,147	**6,754**	7,121
Long-term loans	**(16,448)**	(14,929)	**(10,951)**	(10,874)
Obligations under finance leases	**(9,116)**	(9,057)	**(8,917)**	(6,127)
Interest rate and currency swaps	**1,116**	667	**413**	(186)
Bank overdrafts	**(6)**	(12)	**(6)**	(10)
Net exposure	**(10,178)**	(2,184)	**(12,707)**	(10,076)

31. Financial risk management *(continued)*

Sensitivity analysis for interest rate exposure

An increase of 25 basis points in interest rates at the reporting date would have decreased equity and profit and loss for the year by the amounts shown below. These amounts represent the fair value change of interest rate swaps and financial liabilities designated as at fair value through profit and loss at the reporting date and the increase in net finance charges. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

	2008		2007	
	Profit and loss HK$M	**Other equity components HK$M**	Profit and loss HK$M	Other equity components HK$M
Variable rate instruments	**(97)**	**(2)**	(61)	34

(iii) Fuel price risk

Fuel accounts for 50% of the Group's operating expenses (2007: 36%). Exposure to fluctuations in the fuel price is managed by the use of fuel derivatives. The profit or loss generated from these fuel derivatives is dependent on the nature and combination of contracts which generate payoffs in any particular range of fuel prices. The Group's policy is to reduce exposure by hedging at least 30% of its anticipated fuel consumption for the next 12 months.

Sensitivity analysis for jet fuel price derivatives

A five percent change in the jet fuel price would have affected the equity and profit and loss by the amounts shown below, representing the change in fair value of fuel derivatives at the reporting date. This assumes that all other variables remain constant.

	2008		2007	
	Profit and loss HK$M	**Other equity components HK$M**	Profit and loss HK$M	Other equity components HK$M
Net increase in jet fuel price	**532**	**123**	(95)	271
Net decrease in jet fuel price	**(573)**	**(123)**	105	(258)

The analysis on page 28 of the Annual Report under the heading "Sensitivity analysis of cash and profit and loss impact of fuel price movements on fuel hedging contracts" provides further supplementary information.

(d) Hedge accounting

The Group has designated the following as cash flow hedges as at 31st December 2008:

	2008 HK$M	2007 HK$M
Foreign currency risk		
– Natural hedge on long-term liabilities	**(5,242)**	(4,032)
– Cross currency swaps	**(45)**	(353)
– Foreign currency forward contract	**281**	(292)
Interest rate risk		
– Interest rate swaps	**(96)**	(22)
Fuel price risk		
– Fuel options	**(831)**	1,405

31. Financial risk management *(continued)*

(e) Fair values

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

	Carrying amount 2008 HK$M	**Fair value 2008 HK$M**	Carrying amount 2007 HK$M	Fair value 2007 HK$M
Group				
Long-term loans	**(18,468)**	**(18,858)**	(16,963)	(17,315)
Obligations under finance leases	**(29,309)**	**(31,561)**	(28,148)	(28,608)
Pledged security deposits	**7,497**	**8,690**	8,743	9,496

	Carrying amount 2008 HK$M	**Fair value 2008 HK$M**	Carrying amount 2007 HK$M	Fair value 2007 HK$M
Company				
Long-term loans	**(12,971)**	**(13,213)**	(12,908)	(13,174)
Obligations under finance leases	**(28,654)**	**(32,654)**	(25,841)	(28,320)
Pledged security deposits	**1,932**	**2,433**	2,501	2,935

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

32. Capital risk management

The Group's objectives when managing capital are to ensure a sufficient level of liquid funds and to establish an optimal capital structure which maximises shareholders' value.

The Group regards the net debt/equity ratio as the key measurement of capital risk management. The definition of net debt/equity ratio is shown on page 99 and a ten year history is included on pages 94 and 95 of the annual report.

33. Impact of further new accounting standards

HKICPA has issued new and revised HKFRS which become effective for accounting periods beginning on or after 1st January 2009 and which are not adopted in the accounts. The following new accounting standards are relevant to the Group:

(a) Hong Kong (IFRIC) Interpretation 13 "Customer Loyalty Programmes" is relevant to the Group and becomes effective for accounting periods beginning on or after 1st July 2008. The interpretation requires that revenue from the initial sales transaction is allocated to free or discounted goods or services offered as awards at their fair value and that this is deferred until the awards are redeemed. The interpretation will be adopted on 1st January 2009. The Group currently estimates that the adoption of IFRIC 13 would result in a reduction of the opening retained earnings as at 1st January 2009 by about HK$1.5 billion and the full year result of 2009 by about HK$150 million. These estimates are arrived at after making assumptions on a number of key factors, including but not limited to the estimated fair value of awards, the future passenger travel demand, the future redemption demand and the estimated proportion of award miles which are expected to be redeemed.

(b) HKAS 23 (revised) "Borrowing Costs" is relevant to the Group and becomes effective for accounting periods beginning on or after 1st January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group is in the process of assessing the impact of this interpretation on both the results and the financial position of the Group.

Principal Subsidiaries and Associates

at 31st December 2008

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	40,000 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
Cathay Pacific Services Limited	Hong Kong	Cargo terminal	100	1 share of HK$1
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$8,000,000 (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
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.*

Principal Subsidiaries and Associates

Associates

	Place of incorporation and operation	Principal activities	Percentage of issued capital owned
Air China Limited	People's Republic of China	Airline	18#
Cathay Kansai Terminal Services Company Limited	Japan	Ground handling	48
Cebu Pacific Catering Services Inc.	Philippines	Airline catering	40*
CLS Catering Services Limited	Canada	Airline catering	30*
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.*

 # The Group has significant influence by demonstrating the power to participate in its financial and operating policy decisions.

Statistics

		2008	2007
Consolidated profit and loss summary	*HK$M*		
Passenger services		**58,046**	49,520
Cargo services		**24,623**	21,783
Catering, recoveries and other services		**3,909**	4,055
Turnover		**86,578**	75,358
Operating expenses		**(94,039)**	(67,619)
Operating (loss)/profit		**(7,461)**	7,739
Settlement of the United States Department of Justice cargo investigations		**(468)**	–
Net finance charges		**(1,012)**	(787)
Profit on sale of investments		**–**	–
Share of (losses)/profits of associates		**(730)**	1,057
(Loss)/profit before tax		**(9,671)**	8,009
Taxation		**1,337**	(799)
(Loss)/profit for the year		**(8,334)**	7,210
Profit attributable to minority interests		**(224)**	(187)
(Loss)/profit attributable to owners of Cathay Pacific		**(8,558)**	7,023
Dividends paid		**(2,438)**	(2,245)
Retained (loss)/profit for the year		**(10,996)**	4,778
Consolidated statement of financial position summary	*HK$M*		
Fixed and intangible assets		**73,821**	70,170
Long-term receivables and investments		**12,860**	13,573
Borrowings		**(40,280)**	(36,368)
Liquid funds less bank overdrafts		**15,082**	21,637
Net borrowings		**(25,198)**	(14,731)
Net current liabilities (excluding liquid funds and bank overdrafts)		**(17,780)**	(11,246)
Retirement benefit obligations		**(281)**	(268)
Deferred taxation		**(4,977)**	(6,771)
Net assets		**38,445**	50,727
Financed by:			
Funds attributable to owners of Cathay Pacific		**38,325**	50,549
Minority interests		**120**	178
Total equity		**38,445**	50,727
Per share			
Shareholders' funds	*HK$*	**9.74**	12.83
EBITDA	*HK$*	**(0.88)**	3.46
(Loss)/earnings	*HK cents*	**(217.5)**	178.3
Dividend	*HK cents*	**3.0**	84.0
Ratios			
(Loss)/profit margin*	*%*	**(9.9)**	9.3
Return on capital employed	*%*	**(11.3)**	12.6
Dividend cover	*Times*	**(72.5)**	2.1
Interest cover	*Times*	**(7.8)**	9.8
Gross debt/equity ratio	*Times*	**1.05**	0.72
Net debt/equity ratio	*Times*	**0.66**	0.29

* *Restated for 1999 to 2007*

Statistics

2006	2005	2004	2003	2002	2001	2000	1999
38,755	32,005	26,879	18,920	22,811	20,641	22,878	18,979
18,385	15,773	12,965	10,704	9,908	8,406	10,136	8,391
3,643	3,131	2,917	2,726	2,813	2,941	2,953	2,436
60,783	50,909	42,761	32,350	35,532	31,988	35,967	29,806
(55,565)	(46,766)	(37,514)	(30,125)	(30,782)	(31,156)	(30,678)	(26,995)
5,218	4,143	5,247	2,225	4,750	832	5,289	2,811
–	–	–	–	–	–	–	–
(465)	(444)	(583)	(620)	(743)	(571)	(367)	(918)
–	–	–	–	–	452	–	482
301	269	298	126	269	153	245	93
5,054	3,968	4,962	1,731	4,276	866	5,167	2,468
(782)	(500)	(446)	(384)	(273)	(167)	(76)	(204)
4,272	3,468	4,516	1,347	4,003	699	5,091	2,264
(184)	(170)	(99)	(44)	(20)	(42)	(86)	(84)
4,088	3,298	4,417	1,303	3,983	657	5,005	2,180
(2,992)	(2,196)	(2,189)	(1,035)	(701)	(1,915)	(1,585)	(339)
1,096	1,102	2,228	268	3,282	(1,258)	3,420	1,841

2006	2005	2004	2003	2002	2001	2000	1999
65,351	50,416	50,607	50,176	48,905	50,456	47,264	46,800
12,232	7,184	7,332	4,473	4,783	4,787	5,414	5,253
(31,943)	(22,455)	(22,631)	(26,297)	(22,810)	(24,024)	(20,838)	(24,783)
15,595	13,405	11,444	15,186	13,164	9,746	10,952	11,567
(16,348)	(9,050)	(11,187)	(11,111)	(9,646)	(14,278)	(9,886)	(13,216)
(9,019)	(6,767)	(6,381)	(4,439)	(3,896)	(1,728)	(2,715)	(3,908)
(170)	(72)	(102)	(181)	(346)	–	–	–
(6,508)	(6,460)	(7,280)	(7,762)	(7,614)	(7,836)	(7,146)	(6,714)
45,538	35,251	32,989	31,156	32,186	31,401	32,931	28,215

2006	2005	2004	2003	2002	2001	2000	1999
45,386	34,968	32,855	31,052	32,115	31,308	32,832	28,129
152	283	134	104	71	93	99	86
45,538	35,251	32,989	31,156	32,186	31,401	32,931	28,215

2006	2005	2004	2003	2002	2001	2000	1999
11.53	10.34	9.75	9.29	9.63	9.40	9.80	8.31
2.78	2.49	2.79	1.85	2.68	1.62	2.68	2.05
115.9	97.7	131.4	39.0	119.5	19.7	148.4	64.4
84.0	48.0	65.0	48.0	44.0	17.5	65.0	30.0
6.7	6.5	10.3	4.0	11.2	2.1	13.9	7.3
8.9	8.8	11.8	4.7	10.8	1.8	13.0	6.5
1.2	2.0	2.0	0.8	2.7	1.1	2.3	2.1
11.2	9.3	9.0	3.6	6.4	1.5	14.4	3.1
0.70	0.64	0.69	0.85	0.71	0.77	0.63	0.88
0.36	0.26	0.34	0.36	0.30	0.46	0.30	0.47

Statistics

		2008	2007
Operating summary*			
Available tonne kilometres	*Million*	**24,410**	23,077
Revenue tonne kilometres	*Million*	**17,499**	16,680
Available seat kilometres	*Million*	**115,478**	102,462
Revenue passengers carried	*'000*	**24,959**	23,253
Revenue passenger kilometres	*Million*	**90,975**	81,801
Revenue load factor	*%*	**75.1**	75.6
Passenger load factor	*%*	**78.8**	79.8
Cargo and mail carried	*'000 tonnes*	**1,645**	1,672
Cargo and mail tonne kilometres	*Million*	**8,842**	8,900
Cargo and mail load factor	*%*	**65.9**	66.7
Excess baggage carried	*Tonnes*	**2,963**	2,310
Kilometres flown	*Million*	**460**	422
Block hours	*'000 hours*	**649**	598
Aircraft departures	*'000*	**138**	131
Length of scheduled routes network	*'000 kilometres*	**453**	442
Destinations at year end	*Number*	**124**	129
Staff number at year end	*Number*	**21,309**	19,840
ATK per staff	*'000*	**1,185**	1,194
On-time performance*			
Departure (within 15 minutes)	*%*	**81.4**	83.9
Average aircraft utilisation*	*Hours per day*		
A320		**8.4**	8.5
A321		**8.4**	8.9
A330-300		**10.9**	10.7
A340-300		**14.7**	15.3
A340-600		**11.4**	14.4
747-200/300		**–**	–
747-400		**14.1**	14.5
747-200F/300SF		**7.5**	10.8
747-400F/BCF		**13.1**	14.0
777-200/300		**8.7**	8.4
777-300ER		**14.3**	10.7
Fleet average		**11.5**	11.7

* *Includes Dragonair's operation from 1st October 2006.*

	2008	2007
Fleet profile		
Aircraft operated by Cathay Pacific:		
A330-300	**32**	29
A340-300	**15**	15
A340-600	**–**	3
747-400	**23**	24
747-200F	**5**	7
747-400F	**6**	6
747-400BCF	**10**	6
747-400ERF	**2**	–
777-200	**5**	5
777-300	**12**	12
777-300ER	**9**	5
Total	**119**	112
Aircraft operated by Dragonair:		
A320-200	**10**	10
A321-200	**6**	6
A330-300	**16**	16
747-200F	**1**	1
747-300SF	**–**	3
747-400BCF	**2**	3
Total	**35**	39

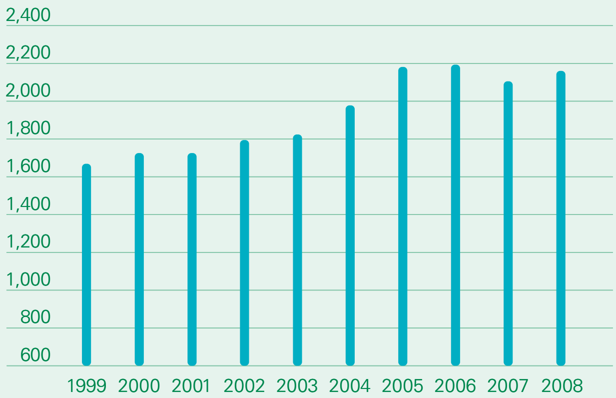
Statistics

2006	2005	2004	2003	2002	2001	2000	1999
19,684	17,751	15,794	13,355	12,820	11,827	11,630	10,867
14,452	12,813	11,459	9,371	9,522	8,201	8,650	7,768
91,769	82,766	74,062	59,280	63,050	62,790	61,909	58,114
18,097	15,438	13,664	10,059	12,321	11,269	11,864	10,516
72,939	65,110	57,283	42,774	49,041	44,792	47,153	41,502
76.2	75.2	74.8	71.1	75.9	70.4	75.2	71.5
79.5	78.7	77.3	72.2	77.8	71.3	76.2	71.4
1,334	1,139	990	889	862	713	778	679
7,514	6,618	6,007	5,299	4,854	3,938	4,161	3,817
68.6	67.0	68.7	68.7	71.2	67.3	72.5	71.5
2,218	2,489	2,530	2,190	2,401	2,270	3,489	3,376
357	317	285	238	237	224	219	202
489	431	386	322	322	307	296	273
98	84	77	65	68	65	63	58
457	403	386	377	374	341	363	346
125	92	90	87	62	51	51	49
18,992	15,806	15,054	14,673	14,649	14,473	14,328	13,159
1,173	1,147	1,066	903	885	810	843	807
85.2	86.1	90.3	91.0	90.7	82.9	84.0	83.5
8.2	–	–	–	–	–	–	–
8.9	–	–	–	–	–	–	–
11.2	10.8	10.1	9.2	10.1	9.4	9.5	9.0
14.9	15.1	13.6	12.4	13.3	13.4	14.7	14.9
14.9	15.3	13.6	11.7	6.3	–	–	–
–	–	–	–	–	–	–	7.7
14.9	14.7	13.9	12.8	14.1	14.4	15.1	14.4
11.8	11.8	13.3	13.3	13.6	12.2	13.6	14.1
15.3	16.1	16.3	16.4	15.4	14.3	15.8	15.8
9.0	9.1	8.8	8.7	9.4	9.6	9.7	8.9
–	–	–	–	–	–	–	–
12.5	12.6	12.0	11.4	12.1	12.1	12.9	12.4
27	26	23	23	20	20	12	12
15	15	15	15	15	15	14	14
3	3	3	3	2	–	–	–
22	22	21	19	19	19	19	19
7	7	7	6	6	4	4	4
6	6	5	5	5	5	3	2
5	1	–	–	–	–	–	–
–	–	–	–	–	–	–	–
5	5	5	5	5	5	5	4
12	11	10	9	7	7	7	7
–	–	–	–	–	–	–	–
102	96	89	85	79	75	64	62
10	11	10	8	8	7	6	5
6	6	6	6	4	3	3	2
16	13	10	9	9	7	5	5
1	1	1	–	–	–	–	–
3	3	3	3	3	2	–	–
1	–	–	–	–	–	–	–
37	34	30	26	24	19	14	12

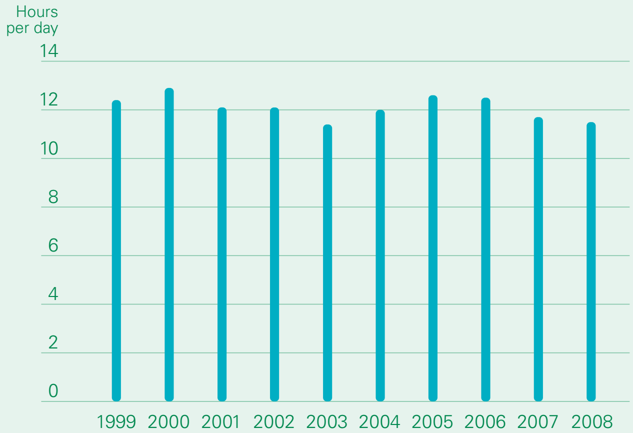
Statistics

Cost per ATK

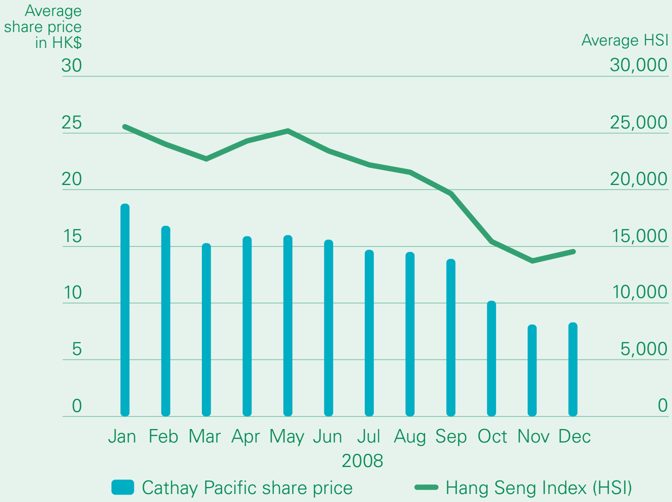
ATK per HK$'000 staff cost



Aircraft utilisation



Share price



		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Productivity*											
Cost per ATK	*HK$*	**3.79**	2.87	2.75	2.56	2.31	2.21	2.33	2.50	2.46	2.36
ATK per HK$'000 staff cost	*Unit*	**2,160**	2,105	2,197	2,183	1,978	1,825	1,798	1,725	1,725	1,669
Aircraft utilisation	*Hours per day*	**11.5**	11.7	12.5	12.6	12.0	11.4	12.1	12.1	12.9	12.4
Share prices	*HK$*										
High		**20.3**	23.1	19.5	15.1	16.4	15.5	13.6	14.3	17.6	16.8
Low		**7.1**	18.3	12.7	12.0	12.5	8.4	9.9	6.1	10.3	7.4
Year-end		**8.8**	20.4	19.2	13.6	14.7	14.8	10.7	10.0	14.4	13.9
Price ratios (Note)	*Times*										
Price/earnings		**(4.0)**	11.4	16.5	13.9	11.2	37.9	9.0	50.8	9.7	21.6
Market capitalisation/ funds attributable to owners of Cathay Pacific		**0.9**	1.6	1.7	1.3	1.5	1.6	1.1	1.1	1.5	1.7
Price/cash flows		**8.9**	5.0	6.1	5.3	4.5	7.8	3.8	7.2	5.9	7.0

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

* *Includes Dragonair results from 1st October 2006.*

Glossary

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 incidental activities.

Ratios

Ratio		Numerator	Denominator
Earnings/(loss) per share	=	Profit/(loss) attributable to owners of Cathay Pacific	Weighted average number of shares (by days) in issue for the year
Profit/(loss) margin	=	Profit/(loss) attributable to owners of Cathay Pacific	Turnover
Shareholders' funds per share	=	Funds attributable to owners of Cathay Pacific	Total issued and fully paid shares at end of the year
Return on capital employed	=	Operating profit and share of profits of associates less taxation	Average of total equity and net borrowings
Dividend cover	=	Profit/(loss) attributable to owners of Cathay Pacific	Dividends
Interest cover	=	Operating profit/(loss)	Net finance charges
Gross debt/ equity ratio	=	Borrowings	Funds attributable to owners of Cathay Pacific
Net debt/ equity ratio	=	Net borrowings	Funds attributable to owners of Cathay Pacific
Passenger/Cargo and mail load factor	=	Revenue passenger kilometres/ Cargo and mail tonne kilometres	Available seat kilometres/ Available cargo and mail tonne kilometres
Revenue load factor	=	Total passenger, cargo and mail traffic revenue	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	=	Passenger turnover/ Cargo and mail turnover	Revenue passenger kilometres/ Cargo and mail tonne kilometres
Cost per ATK	=	Total operating expenses of Cathay Pacific and Dragonair	ATK of Cathay Pacific and Dragonair

Corporate and Shareholder Information

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

Investor relations

For further information about Cathay Pacific Airways Limited, please contact:
Corporate Communication Department
Cathay Pacific Airways Limited
7th Floor, North Tower
Cathay Pacific City
Hong Kong International Airport
Hong Kong
Tel: (852) 2747 5210
Fax: (852) 2810 6563

Cathay Pacific's main Internet address is *www.cathaypacific.com*

Registered office

35th Floor, Two Pacific Place
88 Queensway
Hong Kong

Depositary

The Bank of New York Mellon
BNY Mellon Shareowner Services
P.O. Box 358516
Pittsburgh, PA 15252-8516
U.S.A.

Domestic toll free hotline: 1(888) BNY ADRS
International hotline: 1(201) 680 6825
Email: shrrelations@bnymellon.com
Website: *www.bnymellon.com/shareowner*

Stock codes

Hong Kong Stock Exchange	00293
ADR	CPCAY

Registrars

Computershare Hong Kong Investor Services Limited
Rooms 1806-1807
18th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Auditors

KPMG
8th Floor, Prince's Building
10 Chater Road
Hong Kong

Financial calendar

Year ended 31st December 2008	
Annual report sent to shareholders	6th April 2009
Annual General Meeting	13th May 2009
Six months ending 30th June 2009	
Interim results announcement	August 2009
Interim dividend payable	October 2009

DESIGN:
FORMAT LIMITED
www.format.com.hk
Printed in Hong Kong

FSC
Mixed Sources
Product group from well-managed forests and other controlled sources
Cert no. BV-COC-936401
www.fsc.org
© 1996 Forest Stewardship Council

SWIRE

www.cathaypacific.com