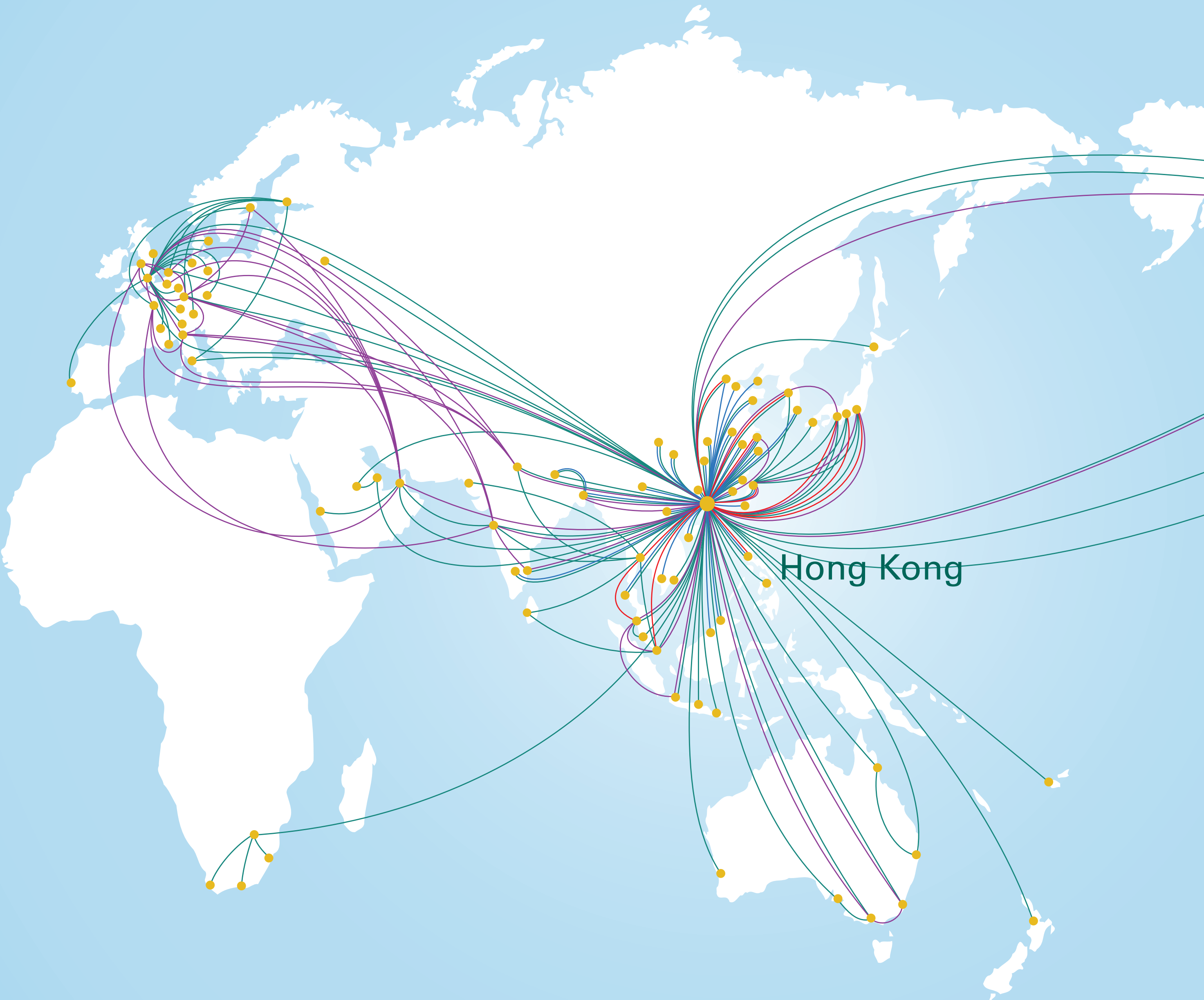
Annual Report 2009

Cathay Pacific Airways Limited

Stock code: 00293



CATHAY PACIFIC

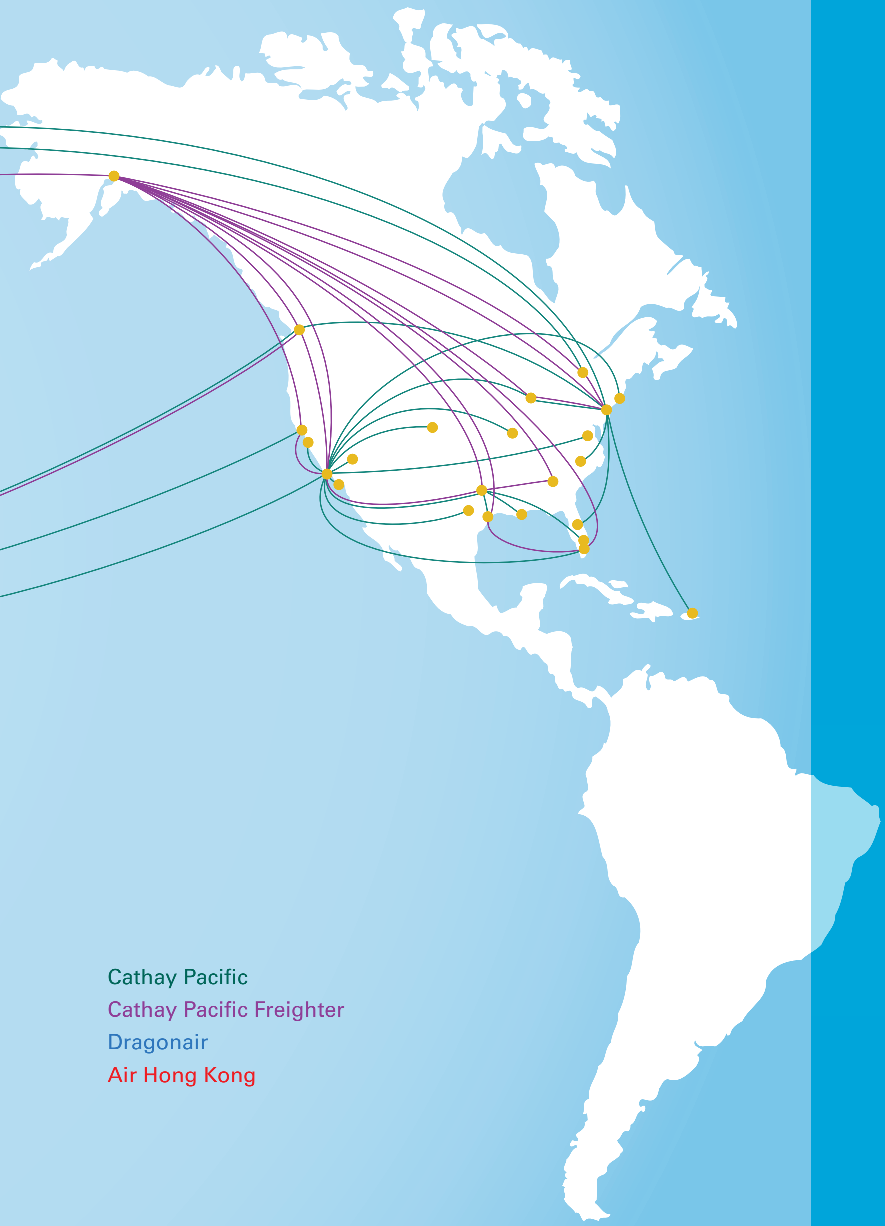
Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 117 destinations in 36 countries and territories.

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 128 wide-bodied aircraft, these investments include catering, aircraft maintenance, ground handling companies and the corporate headquarters, Cathay Pacific City, at Hong Kong International Airport.

Hong Kong Dragon Airlines Limited ("Dragonair"), an Asian regional airline registered and based in Hong Kong offering scheduled passenger and cargo services to 30 destinations in 10 countries and territories with a fleet of 29 aircraft, is a wholly owned subsidiary of Cathay Pacific. Cathay Pacific owns 18.1% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline related services in Mainland China, and is the major shareholder in AHK Air Hong Kong Limited ("Air Hong Kong"), an all-cargo carrier offering scheduled services in the Asian region.

PEOPLE AT CATHAY PACIFIC

We strive to excel in everything we do to achieve our vision to be the world's best airline. From recognising our passengers as individuals to offering inspired service that meets their needs, we always go the extra mile to make them feel special – and to make sure they enjoy an exceptional travel experience.



Cathay Pacific and its subsidiaries employ some 20,000 people in Hong Kong. Cathay Pacific is listed on The Stock Exchange of Hong Kong Limited, as are its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

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。

Contents

Financial and Operating Highlights

Group Financial Statistics

		2009	2008 (restated)	Change
Results				
Turnover	*HK$ million*	66,978	86,563	-22.6%
Profit/(loss) attributable to owners of Cathay Pacific	*HK$ million*	4,694	(8,696)	+13,390
Earnings/(loss) per share	*HK cents*	119.3	(221.0)	+340.3
Dividend per share	*HK cents*	10.0	3.0	+233.3%
Profit/(loss) margin	*%*	7.0	(10.0)	+17.0%pt
Financial Position				
Funds attributable to owners of Cathay Pacific	*HK$ million*	42,238	36,709	+15.1%
Net borrowings	*HK$ million*	26,131	25,198	+3.7%
Shareholders' funds per share	*HK$*	10.7	9.3	+15.1%
Net debt/equity ratio	*Times*	0.62	0.69	-0.07 times

Operating Statistics – Cathay Pacific and Dragonair

		2009	2008 (restated)	Change
Available tonne kilometres ("ATK")	*Million*	22,249	24,410	-8.9%
Passengers carried	*'000*	24,558	24,959	-1.6%
Passenger load factor	*%*	80.5	78.8	+1.7%pt
Passenger yield	*HK cents*	51.1	63.5	-19.5%
Cargo and mail carried	*'000 tonnes*	1,528	1,645	-7.1%
Cargo and mail load factor	*%*	70.8	65.9	+4.9%pt
Cargo and mail yield	*HK$*	1.86	2.54	-26.8%
Cost per ATK	*HK$*	2.76	3.80	-27.4%
Cost per ATK without fuel	*HK$*	2.00	1.89	+5.8%
Aircraft utilisation	*Hours per day*	11.2	11.5	-2.6%
On-time performance	*%*	86.8	81.4	+5.4%pt

Chairman's Letter

The Cathay Pacific Group recorded an attributable profit of HK$4,694 million for 2009. This compares to a loss of HK$8,696 million the previous year. Turnover for the year fell by 22.6% to HK$66,978 million. Earnings per share rose by HK340.3 cents to HK119.3 cents.

The main story of 2009 was the impact on our business of one of the most severe economic downturns in recent memory. The global slump resulted in extremely challenging business conditions for the Cathay Pacific Group and commercial aviation in general. While there was some pick-up in both our passenger and cargo businesses towards the end of the year as the recession began to ease, overall we saw a deep downturn in our key markets which in turn led to sharply reduced revenues.

We took a number of measures to help us address the steep downturn in business, including reducing capacity in both Cathay Pacific and Dragonair, reducing operating costs and capital expenditure, introducing an unpaid leave scheme for staff, parking a number of aircraft, working to get concessions from suppliers and requesting a deferral of new deliveries from aircraft manufacturers.

Fuel prices in the first half of the year were significantly lower than the record highs of mid-2008. However, they started to rise again in the middle of 2009, reaching uncomfortably high levels. This rise was reflected in mark to market gains of HK$2,018 million recorded in 2009 in respect of fuel hedging contracts for the period 2010-2011. These gains reversed a large part of the substantial losses recorded in 2008 in respect of fuel hedging contracts. We expect the results of fuel hedging to be less volatile in future.

Cathay Pacific and Dragonair between them carried 24.6 million passengers in 2009 – a fall of 1.6% on the previous year. Our capacity fell by 3.7% compared to 2008 as we reduced frequencies and (in the case of Dragonair) temporarily suspended operations to six destinations. This in turn supported the load factor, which at 80.5% rose by 1.7 percentage points compared to 2008. Our passenger revenue fell by 20.8% to HK$45,920 million, reflecting substantial reductions in premium traffic and in economy class yields, though economy class passenger numbers held up well. The strong US dollar in the first half of the year also contributed to the 19.5% fall in passenger yield for the year.

Cargo revenue for the Cathay Pacific Group fell by 29.9% to HK$17,255 million in 2009, while the amount of freight carried for Cathay Pacific and Dragonair dropped by 7.1% to 1,527,948 tonnes. We reduced cargo capacity by 13.1% in response to the weakness in demand. This was reflected in a load factor of 70.8% (compared with 65.9% in 2008). Our cargo business was exceptionally weak in the first half of the year, with a significant decline in tonnage and yield in all key markets. The latter half of the year was stronger with yield increasing in October, albeit from a very low base, and rising consistently for the remainder of the year. Our cargo yield for the year fell by 26.8% to HK$1.86.

Despite 2009 being a very difficult year for the Cathay Pacific Group, we worked hard to keep the fundamentals of our business intact. Though we cut capacity and parked a number of passenger and cargo aircraft, we have kept our network substantially intact. We also went to great efforts to ensure that the quality of our product and service was not diminished and that the passenger experience was not compromised. We continued with the rollout of our innovative three-class cabin designs for our medium- and long-haul fleet, with all aircraft fitted with the cabins by November. New aircraft continued to arrive, improving the overall efficiency of our fleets, while the remaining older, fuel-inefficient Boeing 747-200F "Classics" were retired.

A significant change in Cathay Pacific's shareholding structure took place in the second half of the year, with Air China and Swire Pacific both agreeing to increase their shareholdings by acquiring shares from CITIC Pacific. Air China acquired a 12.5% interest, taking its shareholding in Cathay Pacific to approximately 29.99%. Swire Pacific acquired a 2% interest, taking its shareholding from approximately 39.97% to approximately 41.97%. The change in shareholding benefits Cathay Pacific because we now have two strong principal shareholders, both committed to the long-term development of the aviation industry in Hong Kong and Mainland China. In February 2010, we announced a very important development in the cooperation with Air China – we had entered into a conditional framework and other agreements with Air China and others under which the parties have agreed to establish a jointly owned cargo airline. Cathay Pacific's investment in the joint venture will be funded by the sale to the joint venture company, Air China Cargo Co. Ltd. ("Air China Cargo"), of four Boeing 747-400BCF freighters and two spare engines. We expect the joint venture to begin operations in summer 2010 and it will provide the two most important cargo-generating regions in the Mainland with two highly competitive and efficient home-based carriers – Cathay Pacific in the Pearl River Delta and Air China Cargo in the Yangtze River Delta.

Cathay Pacific remains the subject of antitrust investigations and proceedings by competition authorities in various jurisdictions and continues to cooperate with these authorities and, where applicable, defend itself vigorously. These investigations are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but has made a provision of HK$80 million in respect of such liabilities in its 2009 accounts.

We have always managed our finances in a conservative way, but our balance sheet was put under considerable pressure in 2009 by the reduction in revenue during the period. The effect of the reduction in revenue was offset by cost reductions. The balance sheet also benefited from the sale for HK$1,901 million of part of our shareholding in Hong Kong Aircraft Engineering Company Limited ("HAECO"). The sale reduced our interest in HAECO from 27.45% to 15.00%.

While we welcomed the improvement in business in the latter part of 2009, we remain cautious about the prospects for 2010. Revenues and yields remain below levels experienced prior to the recent downturn and there has not yet been a sustained improvement in premium passenger demand which accounts for a high proportion of total revenues. There are concerns that the adverse changes which we have seen in the pattern of passenger and freight demand could be structural rather than cyclical. In addition, the cost of fuel, which rose steadily from the middle of 2009, remains stubbornly high and threatens to undermine profitability.

That said, we have many things working in our favour which will help to put us in a stronger position if the current recovery in the world economy is sustained. We launched a number of projects and initiatives at the beginning of 2009 designed to improve further the way we do things, particularly for our customers. We have a united team that is the hallmark of Cathay Pacific. We have a superb international network and an unrivalled network into Mainland China through Dragonair. Our relationship with Air China will bring many benefits in the years to come and we operate out of one of the world's premier aviation hubs, Hong Kong. We are deeply committed to our home city and remain highly confident about the future of Cathay Pacific.

Christopher Pratt
Chairman
Hong Kong, 10th March 2010

2009 in Review

Cathay Pacific and Dragonair worked hard to ensure that standards did not slip in the face of an unprecedented downturn in business in 2009. The airlines suffered a substantial reduction in both passenger and cargo revenues as a result of the global economic downturn. We responded by adjusting capacity and reducing costs without adversely affecting the overall passenger experience. Both carriers continued with their commitment to providing superior products and services and to the maintenance of Hong Kong's position as a leading international aviation hub.

Award-winning products and services

- The rollout of Cathay Pacific's innovative new three-class cabins was completed in November, concluding an ambitious programme to fit the cabins into the existing fleet that began in 2007. Including new deliveries, a total of 41 aircraft had the new product installed by the end of 2009. The cabins have generally been well received by passengers.
- A cabin refresh programme for Cathay Pacific's regional business and economy class product is underway with the objective of further improving the passenger experience.
- The Dragonair fleet is also undergoing a cabin refresh programme.
- We opened a new first and business class lounge in Kuala Lumpur in June.
- Dragonair began regular consultations with customer panels in Hong Kong, Beijing and Shanghai with a view to involving frequent flyers in product and service development.
- Dragonair introduced business class travel kits for the first time in March 2009, helping to improve the inflight experience for passengers on certain routes.
- Cathay Pacific offered premium passengers a taste of authentic Chinese cooking by offering 14 varieties of our Signature Noodle Soups on board flights.
- We also offered a wide range of creative inflight dishes specially designed by the Hong Kong Chefs Association National Culinary Team.
- In March, Cathay Pacific and Dragonair further extended their cross-border upstream check-in service by allowing passengers to check in in downtown Shenzhen for flights departing from Hong Kong.
- In December, both airlines began offering passengers the option to secure seats with extra legroom in the economy class cabins by paying an additional charge using either cash or Asia Miles.
- Our commitment to a high standard of product and service continues to be recognised, with Cathay Pacific being named "Airline of the Year 2009" by Skytrax.
- In September, Cathay Pacific was named Hong Kong's "Most Admired Company" in the Asian Wall Street Journal's "Asia's 200 Most Admired Companies" poll – the fourth year in a row for us to take this honour.
- The excellence of our premium cabins was recognised with Cathay Pacific named "Best Airline – First Class" at the 2009 Business Traveller China Awards. We also won the "Best Airline – Business Class" honour at the TTG Asia Travel Awards in October.
- Cathay Pacific was named "Best Asia Pacific Carrier" at the annual awards organised by Air Cargo News in the United Kingdom.
- In October we received the "Best Environmental Performance Airline 2009" honour from the Centre for Asia Pacific Aviation, recognising our efforts to address environmental and sustainability challenges.

Hub development

- In recent years, both Cathay Pacific and Dragonair have made concerted efforts to expand their networks and frequencies and generally to work to further the development of Hong Kong as one of the world's leading aviation hubs.
- However, the depth of the recent downturn meant that it was necessary for both airlines to make a temporary adjustment of passenger and freighter capacity in an effort to align capacity with market demand.
- In May, Cathay Pacific introduced an 8% reduction in passenger capacity and an 11% reduction in cargo capacity. Dragonair introduced a 13% reduction in overall capacity, with services to Dalian, Fukuoka, Guilin, Shenyang, Taichung and Xian being temporarily suspended.
- Some of the passenger capacity reduced during the first half of 2009 was restored for the 2009 winter schedule and more capacity is being restored in 2010. Cathay Pacific will add four flights a week to Seoul from May and a further three flights a week from July, taking the frequency back to the 2008 level of five flights a day to and from the city. Current plans also include increasing frequencies to Los Angeles and Toronto, and launching new passenger services to Milan in March and Moscow in summer 2010. In addition, Dragonair has announced an increase in frequencies on its services to a number of destinations in Mainland China and within the region this summer in order to meet seasonal demand.
- Four flights per week were added to the Denpasar service from July to September to meet demand from the market during the summer peak.
- Frequencies on the Sapporo route increased from four flights a week to daily during the summer peak in July and August. A number of extra flights to this popular leisure destination were added over Chinese New Year and Christmas, and daily flights will again be operated in the coming July and August.
- Dragonair frequencies to Phuket were increased from seven to nine per week, starting with the summer schedule, in response to sustained customer demand.
- The Cathay Pacific service to Riyadh increased from five flights a week to daily in August.
- Jeddah joined the Cathay Pacific network in October – our second destination in Saudi Arabia. The four-times-weekly service operates through Dubai. Frequencies will be increased to daily from end of March 2010 in response to market demand.
- Dragonair launched a twice-daily service between Hong Kong and Guangzhou in September. The short flight is primarily aimed at feeding traffic to and from international destinations through Hong Kong.
- In October, Dragonair's services to Kathmandu were increased from thrice-weekly to five times a week with a new arrangement to operate the flights via Dhaka.
- Fiji was added as a Cathay Pacific destination in December through a new codeshare service with Air Pacific.
- Cathay Pacific launched a new weekly freighter service to Jakarta in January 2009. A three-times-weekly freighter service to Miami and Houston was launched in March 2009, giving improved access to the increasingly important markets of Latin America.
- Three additional frequencies were added to the Milan freight service in February 2009.
- We worked hard to boost our on-time performance ("OTP") during the year to ensure a better experience for passengers, particularly through Hong Kong. Our OTP for departures with 15 minutes rose by 5.4 percentage points to 86.8%.
- Cathay Pacific and Dragonair benefitted from a change in flight paths over the Pearl River Delta into Hong Kong in October. The two longest arrival routes have been shortened. This saves time and money. Cathay Pacific continues to work closely with IATA and the Hong Kong Civil Aviation Department on route improvements.

Fleet development

- We took delivery of five new Boeing 777-300ER "Extended Range" passenger aircraft in 2009, taking the total to 14 at the end of the year. Two more were delivered in January and February 2010, leaving 14 of the aircraft type still on firm order for delivery by 2013.
- We signed an agreement with BOC Aviation for the sale and leaseback of six of our new Boeing 777-300ER aircraft, starting with the delivery of our 12th of the aircraft type in October.
- Two Dragonair Airbus A330-300 aircraft were returned in June when their leases expired. Another leased Airbus A330-300 was returned in January 2010.
- Two leased Airbus A320-200s will join the Dragonair fleet in 2010. One Airbus A320-200 was returned in December when its lease expired.
- The sixth and final Boeing 747-400ERF "Extended Range Freighter" was delivered to Cathay Pacific in April, helping to boost the overall operational efficiency of the freighter fleet.
- We retired five Boeing 747-200F "Classic" freighters in 2009, bringing to an end the fleet's 27 year history at Cathay Pacific. The last Dragonair Classic left in January 2009 and the last Cathay Pacific Classic departed in July.
- We parked five of our Boeing 747-400BCF "Boeing Converted Freighter" aircraft at Victorville in California. Two have since been brought back into service.
- We also parked a total of five passenger aircraft – four Airbus A340-300s and one Boeing 747-400 – in 2009 to help manage capacity and costs during the downturn. Another Boeing 747-400 went into the desert in March 2010.
- Cathay Pacific has a total of 10 Boeing 747-8F advanced freighters on order. Delivery was originally due to commence in late 2009 but will now begin in 2011 as a result of a delay in the manufacturing programme.
- Dragonair is currently not operating any freighters though it continues to sell cargo space in passenger aircraft bellies under the Dragonair Cargo brand.

Pioneer in technology

- We introduced a new, more sophisticated Internet booking system with features such as a fare calendar to all countries in which Cathay Pacific operates.
- In December we launched a new redemption booking system featuring an "Award Calendar" to advise users of redemption availability on various dates.
- The Self-Print Boarding Pass facility has proved very popular with passengers and is now available for flights to and from 33 destinations. The facility was also introduced for transit passengers at Hong Kong International Airport ("HKIA") in September.
- Cathay Pacific made greater inroads in the social networking area, increasing its presence on Facebook and launching Twitter feeds. The airline has a YouTube channel and has launched a blog to promote the airline's brand, people and services.
- The introduction of the new Manage My Booking facility in April enabled passengers to retrieve their latest booking information online, and update their personal information. Besides, more self-service functions such as Online Special Meal Request, Special Service Requests and Advanced Seat Reservation with an Interactive Seatmap were added later in the year. Online information on inflight entertainment, destination and travel advisories have also been enriched.
- We extended the *notiFLY* flight messaging service to all passengers with contact details in their booking record.
- The number of Common Use Self-Service Check-in terminals was increased at HKIA for Cathay Pacific and Dragonair passengers. There are now 50 terminals available in the check-in aisles used by the two carriers.

- We also boosted Common Use Self-Service Check-in in various overseas destinations and now have the facility available in 16 airports.
- The popular "Meet the Team" mini-site at Cathay Pacific, which features insights into the people behind Cathay Pacific's success, was made available for iPhone users.
- An innovative CX Mobile and KA Mobile application was made available for users of iPhones, Blackberrys and other smart phones, enabling passengers to check in for flights, download City Guides and retrieve other useful travel information from Cathay Pacific and Dragonair mobile sites.
- Development work on our new Passengers Services Systems project was stepped up in 2009. The sophisticated new system is expected to replace legacy reservations, load control and check-in systems by November 2011.

Partnerships

- The **one**world alliance celebrated its 10th anniversary in February 2009. To mark its ongoing commitment to the alliance, Cathay Pacific painted three of its aircraft – an Airbus A330-300, an Airbus A340-300 and a Boeing 777-300ER – in a special **one**world livery.
- **one**world welcomed Mexicana as the 11th full member of the alliance in November. Two of the Mexican carrier's subsidiaries – MexicanaClick and MexicanaLink – joined as **one**world affiliates.
- In February 2010, India's Kingfisher Airlines announced its intention to become a full member of the **one**world alliance.
- Russian carrier S7 Airlines has committed to become a member of **one**world. It will begin offering the alliance's full range of services, benefits and fares later in 2010.
- As an affiliate member of the **one**world alliance, Dragonair continues to provide alliance passengers with unrivalled access to destinations in Mainland China through the Hong Kong hub.
- Cathay Pacific commenced a new codeshare service with Finnair on its flights from Hong Kong to Brisbane in May. Finnair also puts its "AY" code on Cathay Pacific flights to Bangkok, Melbourne, Perth and Sydney.
- A codeshare cooperation between Cathay Pacific and Air Pacific commenced in December as the latter began a new service between Nadi, Fiji, and Hong Kong.
- Cathay Pacific now codeshares with Dragonair on the latter's twice-daily Guangzhou service which started in September. At the same time we terminated our codeshare cooperation with China Southern on this route.
- In February 2010, we announced that we had entered into a framework and other agreements with Air China and others under which Cathay Pacific and Air China have agreed to establish a jointly owned cargo airline. The agreements are conditional upon the obtaining of all necessary approvals of regulatory bodies and the approvals of independent shareholders of Cathay Pacific and Air China. The joint venture company is Air China Cargo, in which Cathay Pacific will, upon completion of the agreements, have a 25% equity interest and an additional 24% economic interest. Cathay Pacific's investment in the joint venture will be funded by the sale to the joint venture company of four Boeing 747-400BCF freighters and two spare engines. The formation of the cargo joint venture represents an important development in the cooperation between Cathay Pacific and Air China. Air China Cargo will begin operating in the summer of 2010 with Beijing and Shanghai as its principal operating bases.

Environment

- In February 2009 we hosted the first formal meeting of the Aviation Global Deal Group, which aims to contribute to the debate about the inclusion of emissions from international aviation in a global climate change treaty.

- We participated in the World Wildlife Fund for Nature-sponsored activity, Earth Hour, in March 2009, switching off all non-essential lighting in our buildings and billboards in support.
- In April we joined the Climate Group-sponsored Carbon Reduction Programme, encouraging staff to be environmentally friendly in their homes.
- We bought 20,000 tonnes of offsets from Climate Care in May for our FLY greener carbon offset programme. These covered contributions to a natural gas project in Beijing, wind farm projects in Heilongjiang and a run-of-river hydro project in Sanchawan, Mainland China.
- In June we announced our support for IATA's commitment to a 1.5% per annum fuel efficiency improvement until 2020; carbon neutral growth by 2020 and a 50% reduction in carbon emissions by 2050 from 2005 levels.
- We participated in a Friends of the Earth-sponsored activity called "Dim It 6.21", which called on companies to dim their lights for two hours from 8 p.m.
- Our Corporate Social Responsibility ("CSR") report for 2008 earned an A+ Global Reporting Initiative Rating, verified by consultancy firm Environmental Resources Management.
- In July we joined the Sustainable Aviation Fuel Users Group, an airline-led industry working group working to accelerate the commercialisation of aviation biofuels by developing robust, global sustainability criteria and best practices for the aviation biofuel markets.
- In September, Cathay Pacific was listed in the prestigious FTSE4 Good Index Series, designed to measure the performance of companies that meet globally recognised corporate responsibility standards.
- In September, Cathay Pacific and Dragonair signed the Copenhagen Communiqué – the definitive statement from the international business community ahead of the United Nations climate change conference held in Copenhagen in December.
- Using shorter routes over the Pearl River Delta will save up to 67,000 tonnes of CO2 emissions annually.
- We communicated with frequent flyers, institutional investors, environmental NGOs and suppliers about our CSR report and environmental activities.
- Cathay Pacific was once again the Official Carrier for the Greener Skies Conference in Hong Kong.
- In December, the ISO 14001 certification for our headquarters, Cathay Pacific City, was extended to include Dragonair House.
- Dragonair consulted for the first time with cabin crew in order to understand better their views on a variety of social and environmental issues. More consultations will be conducted in 2010.
- An internal awareness campaign was run at Dragonair from October to December, aiming to increase environmental awareness among staff.
- Among the awards we received in 2009 were "First Runner Up – Best Sustainability Report" from the ACCA HK Awards for Sustainability Reporting from the Association of Chartered Certified Accountants Hong Kong; the "Best Environmental Performance Airline 2009" award from the Centre for Asia Pacific Aviation; a Bronze Award in the "Hong Kong Awards for Environmental Excellence" and a "National Enterprise Environmental Achievement Award" from the Hong Kong Environmental Protection Association.

Contribution to the community

- We opened applications for the fourth "I Can Fly" programme in December, inviting 100 Hong Kong teenagers to take part in a programme of aviation learning and social-service activities in 2010, run under the guidance of our staff.
- Cathay Pacific and Dragonair offered special fares to those employed under The Government of the Hong Kong Special Administrative Region's Internship Programme for University Graduates.

- Cathay Pacific passengers gave more than HK$10 million to the Change for Good inflight fundraising programme in 2008. Most of this was given to UNICEF, with the remainder being given to the Cathay Pacific Wheelchair Bank. More than HK$91 million has been raised through Change for Good since 1991.
- A group of staff from Cathay Pacific took part in a field trip organised by UNICEF in February 2009 to see how money donated to Change for Good is being put to good use in northern Thailand.
- For the fourth consecutive year, Dragonair was named as a Caring Company by the Hong Kong Council of Social Service in recognition of its corporate social responsibility efforts.
- The annual Dragonair Aviation Certificate Programme was launched in April, with 16 cadets – the highest number ever – going through an eight month programme to learn about all aspects of aviation.
- Dragonair continued to raise funds to help The Nature Conservancy's environmental projects in Yunnan, China, through the "Change for Conservation" inflight fundraising programme.
- We gave our support to an event held by the Asian Youth Orchestra to enable underprivileged youngsters to enjoy a musical experience. Cathay Pacific has sponsored the orchestra's annual tour for 19 years.
- Through the "English on Air" programme, native-English speakers among Cathay Pacific's workforce have been helping to improve the spoken English of Tung Chung students through informal conversation sessions. Some 700 young people from all Tung Chung schools have participated the programme so far.
- The "CX Volunteers" team, made up of Cathay Pacific staff, took part in a number of activities to help the Hong Kong community, including a beach cleanup on Lantau, a computer sale and charity sale for people in underprivileged areas and conducting "English on Air" sessions for children of different ages.
- Cathay Pacific once again celebrated Senior Citizens' Day in November by offering discounted fares for elderly travellers in Hong Kong and Macau.
- Our team in Taiwan launched a fundraising effort after Typhoon Morakot in August. Including a company contribution, more than HK$500,000 was raised.
- The Life Education Activity Programme ("LEAP"), which promotes an anti-drugs and healthy lifestyle message among Hong Kong youngsters, celebrated its 15th anniversary in October with an exhibition at Pacific Place. Cathay Pacific has supported LEAP from the outset.
- Our staff launched a relief effort for the people of the Philippines following the devastation wreaked by Typhoon Ketsana. Our staff in Indonesia mounted a similar relief effort to help victims of the Sumatra earthquake.
- We supported our home city by being a Diamond Sponsor of the East Asian Games, held in Hong Kong in December.
- We also sponsored a range of other events, including the Chinese New Year International Night Parade, the Hong Kong Sevens rugby spectacular, the Hong Kong Squash Open tournament and the Hong Kong International Races, all of which help to make Hong Kong a more exciting and dynamic city.
- Our staff continued to contribute to the running of the Sunnyside Club, which provides a wide range of support to mentally and physically handicapped youngsters in Hong Kong.

Commitment to staff

- Cathay Pacific and its subsidiaries employed some 26,700 people worldwide at the end of 2009. Of those, 18,500 worked for the airline itself, with 12,500 employed in Hong Kong. The workforce shrank by 1.7% from 2008.
- Dragonair employed a total of 2,400 staff at the end of 2009.
- A suspension of hiring, announced in October 2008, remained in place at both Cathay Pacific and Dragonair throughout 2009. The Group remains committed to doing everything it can to keep the team together despite the economic downturn.
- A strategic restructuring of the Information Management Department (designed to align its structure more closely with the airline's business needs) was carried out in 2009. Suitable positions within the new structure could not be found for a total of 53 senior and middle managers in the department.
- A Special Leave Scheme was introduced at Cathay Pacific and Dragonair as part of the airlines' response to the business slump. The response from all staff groups to the Special Leave Scheme was extremely positive. A key feature of the scheme was that senior staff were asked to take more unpaid leave than junior staff. Many of our operating crew also chose to take voluntary unpaid leave.
- A new vision and missions statement was introduced for Cathay Pacific in January 2009. The statement highlights the importance of the team in achieving the airline's long-term strategy for success.
- We took a number of steps to ensure that staff were kept fully informed about the Influenza A (H1N1) virus, with information and advice updated regularly on our Intranet.
- A special website developed as part of our "People and Service" marketing campaign features up to 100 of our staff, highlighting the stories of the people who help to provide our unique brand of customer service.
- Our fifth annual Betsy Awards ceremony in July celebrated some of the extraordinary achievements of our staff in going the extra mile to help customers.
- Our second Organisational Alignment Survey, conducted among Cathay Pacific's non-flying staff around the world, helped to give us a clearer understanding of opportunities for improvement in the organisation.
- We opened up our Cadet Pilot Programme to non-Hong Kong identity card holders, though we are still looking for candidates with an affiliation with Hong Kong.
- A total of 32 cadets graduated through the Cadet Pilot Programme in 2009. There are currently another 73 cadets going through training in Adelaide, with an additional 36 to join before the end of 2010. By the end of 2009, 298 cadets had graduated from the programme, 55 of whom are now Captains with the airline.
- A number of our staff working at HKIA wrote a popular book about their experiences working in one of the world's busiest hubs.
- We regularly 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.

Fleet profile*

	Number as at 31st December 2009														
		Leased			Firm orders				Expiry of operating leases						
Aircraft type	Owned	Finance	Operating	**Total**	'10	'11	'12 and beyond	**Total**	'10	'11	'12	'13	'14	'15 and beyond	Purchase rights
Aircraft operated by Cathay Pacific:															
A330-300	9	17	6	**32**	1	3	4	**8**		3				3	
A340-300	6	5	4	**15**						4					
747-400	17		6	**23**					1		2			3	
747-400F	2	4		**6**											
747-400BCF	7	1	5	**13**								3	1	1	
747-400ERF		6		**6**											
747-8F						6	4	**10**							
777-200	2	3		**5**											
777-300	3	9		**12**											
777-300ER	2	4	8	**14**	4	6	6	**16**						8	20[a]
Total	48	49	29	**126**	5	15	14	**34**	1	7	2	3	1	15	20
Aircraft operated by Dragonair:															
A320-200	4	1	4	**9**	2			**2**[b]	1	2				1	
A321-200	2		4	**6**					1	2				1	
A330-300	4	1	9	**14**					1	2	3	3			
Total	10	2	17	**29**	2			**2**	3	6	3	3		2	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6		**8**											
Grand total	**60**	**57**	**46**	**163**	**7**	**15**	**14**	**36**	**4**	**13**	**5**	**6**	**1**	**17**	**20**

* *Includes parked aircraft.*
(a) *Purchase rights for aircraft delivered by 2017.*
(b) *Two aircraft on 8 year operating leases.*

Review of other subsidiaries and associates

The results recorded by our other subsidiaries and our associates were satisfactory. The share of profits from associates increased by HK$1,025 million to a profit of HK$261 million mainly as a result of Air China's return to profitability.

A review of their performance and operations is outlined below:

AHK Air Hong Kong Limited ("Air Hong Kong")

- This 60% owned subsidiary of Cathay Pacific, and Hong Kong's only all-cargo airline, continued its core business operating express cargo services for DHL Express.
- The airline's freighter fleet is composed of eight owned Airbus A300-600Fs and three wet-leased aircraft. With effect from March 2009, one of the leased aircraft was upgraded to a Boeing 747-400BCF freighter, acquired under wet-lease from Cathay Pacific.
- The flight frequency of services to Bangkok and Shanghai increased from five to six per week with effect from September and October respectively.
- With an enhanced network, Air Hong Kong's capacity increased by 16%. Load factor improved marginally by 0.3 percentage points, yet yield suffered a reduction of 24%.
- Air Hong Kong recorded a lower profit in 2009 compared with last year due to a substantial reduction in yield.

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

- CPCS, a wholly owned subsidiary, is the principal flight kitchen in Hong Kong.
- CPCS produced 20.9 million meals in 2009 and this accounts for 63.4% of the airline catering market in Hong Kong. Business volume decreased by 4% from 2008.
- The decline in business volume and cost saving by airlines reduced the profit margin from that achieved in 2008 despite effective efforts to reduce operating costs.
- The performance of flight kitchens in Asia (outside Hong Kong) was disappointing, with lower profits than in 2008. The Canadian operations showed an improvement in 2009.

Hong Kong Airport Services Limited ("HAS")

- HAS, a wholly owned subsidiary, is an integrated ground handling operator offering both ramp and passenger handling services in Hong Kong. It is now providing a variety of ground services to 44 airlines including Cathay Pacific and Dragonair.
- HAS has a 53.6% market share in ramp handling business at HKIA.
- The number of customers for passenger handling increased from 13 to 17 during 2009. Service delivery has improved since HAS expanded its business to include passenger handling in 2008.
- With customers cutting flights and deploying smaller aircraft in response to the economic downturn, the results for the year were unsatisfactory.

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 88 domestic and 56 international (regional) destinations, connecting 30 countries and regions in the world.
- The Group has two representatives on the Board of Directors 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 2009 annual results include Air China's results for the 12 months ended 30th September 2009. This excludes the Group's share of Air China's fuel hedging losses of HK$1 billion (incurred in the fourth quarter of 2008) which were included in the Group's 2008 results.
- In February 2010, the Group announced that we had entered into a conditional framework and other agreements with Air China and others under which the parties have agreed to establish a jointly owned cargo airline using Air China's wholly owned subsidiary, Air China Cargo, as a platform. The joint venture plans to commence operations in the summer, with Beijing and Shanghai as its principal operating bases.

Hong Kong Aircraft Engineering Company Limited ("HAECO")

- Cathay Pacific holds a 15.0% interest in HAECO and has 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, a 5.5% interest in Taikoo Spirit AeroSystems (Jinjiang) Composite Company 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").
- The Group has one representative on the Board of Directors of HAECO and equity accounts for its share of HAECO's profit.
- HAECO recorded a profit of HK$688 million in 2009, a reduction of 39.5% compared with 2008. The decrease in profit primarily reflected the reduced demand for heavy airframe and line maintenance services following the deterioration in aviation market conditions.
- Business activity weakened substantially, particularly in the second half of 2009, as airlines continued to reduce expenditure and ground aircraft. The heavy airframe maintenance facilities in both Hong Kong and Xiamen had (and continue to have) significant unsold capacity for the first time in several years. Line maintenance operations recorded a decline linked with the level of aircraft movements at HKIA, although there were signs of improving traffic in the last few months. TAECO reported a significant reduction in profitability despite reducing costs. HAESL recorded a 9% profit decline, due mainly to reduced engine throughput.
- Despite the downturn in demand, the HAECO group continued to invest in both Hong Kong and Mainland China in order to expand its facilities and the range of services it can offer to customers. In Hong Kong, HAECO opened its third hangar in September. Taikoo Spirit opened its specialist composite repair facility and Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited opened its tyre retreading facility at Jinjiang in Fujian Province, Mainland China in November 2009. Taikoo (Shandong) Aircraft Engineering Company Limited opened its fifth hangar in Jinan in May 2009. TAECO has deferred the opening of its sixth hangar to 2011 in view of market conditions. TEXL is upgrading its engine overhaul facilities in Xiamen, with operations expected in the second quarter of 2010. Taikoo Sichuan Aircraft Engineering Services Company Limited is constructing its first hangar in Chengdu and opening is scheduled for the second half of 2010. HAESL's additional component repair extension is expected to commence operation in the first quarter of 2011.

- The HAECO group's employee headcount decreased marginally during the year to 12,615 at the end of 2009, reflecting the decline in business. The group will continue to train staff and improve productivity to remain competitive.
- In recent months there has been some recovery from the difficult market conditions which the HAECO group encountered for most of 2009. The group expects increased aircraft movements at HKIA and better utilisation of our hangars in 2010 though it remains cautious about whether this recovery will be sustained. Start up losses at the group's new joint ventures in Mainland China will affect the group's results in 2010. Overall, 2010 will be another challenging year. The HAECO group will endeavour to contain costs whilst continuing to deliver quality service to customers. With the investments made by the group in new strategic joint ventures and core business facilities and its excellent quality of work and service, the group is well placed to take advantage of future long term growth in the aviation industry.

I ENJOY MAKING OTHER PEOPLE HAPPY.

Renie Yuen, Service Leader

Joel Tuquib, Flight Attendant

"You need **Passion, Heart and Dedication.**"

TO ME, SERVICE IS LIFE.

It's not just something you do from nine to five – it's an attitude that affects every aspect of living.

Nam Kyung Oh, Passenger Sales – Corporate Sales Coordinator

Sandy Ng, Passenger Sales Executive

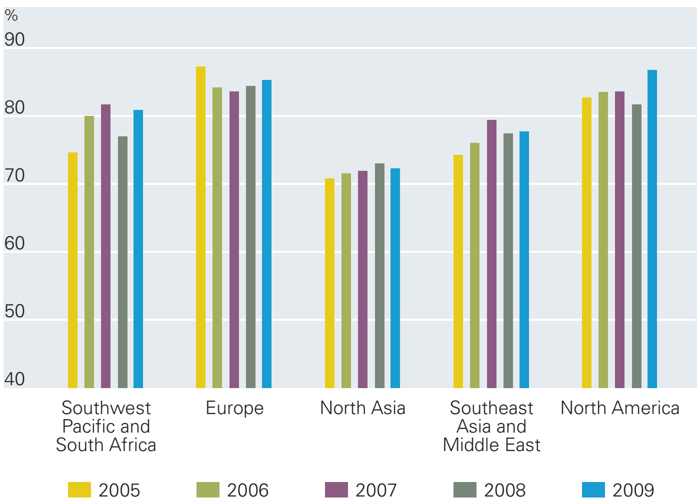
I think, in a way, that is what our job is all about – to create HAPPY ENDINGS **to people's stories.**"

Review of Operations

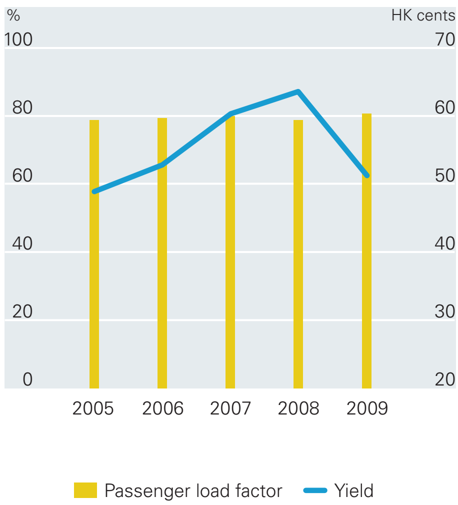
PASSENGER SERVICES

Cathay Pacific and Dragonair carried a total of 24.6 million passengers in 2009, a decrease of 1.6% from the previous year. Demand, in particular for premium class travel, was substantially reduced in the first three quarters of the year and we cut our passenger capacity in response by 8% for Cathay Pacific and 13% for Dragonair from May onwards. Revenue from passenger services fell by 20.8% to HK$45,920 million while yield was reduced by 19.5% to HK51.1 cents. This principally reflected weak demand from premium-class travellers, competitive pressure on economy class yield, changing network traffic flows and, in the first half of the year, the strength of the US dollar.

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 for 2009 were as follows:

	ASK (million)			Load factor (%)			Yield
	2009	2008	**Change**	**2009**	2008	**Change**	**Change**
Southwest Pacific and South Africa	**17,959**	17,689	**+1.5%**	**80.8**	77.0	**+3.8%pt**	**-21.6%**
Europe	**20,222**	20,017	**+1.0%**	**85.3**	84.4	**+0.9%pt**	**-22.5%**
North Asia	**23,343**	24,028	**-2.9%**	**72.2**	73.0	**-0.8%pt**	**-21.9%**
Southeast Asia and Middle East	**24,381**	22,528	**+8.2%**	**77.7**	77.4	**+0.3%pt**	**-18.4%**
North America	**25,262**	31,216	**-19.1%**	**86.7**	81.7	**+5.0%pt**	**-14.3%**
Overall	**111,167**	115,478	**-3.7%**	**80.5**	78.8	**+1.7%pt**	**-19.5%**

Home market – Hong Kong and Pearl River Delta

- Our home market was deeply affected by the economic downturn, particularly by its effect on passenger demand for premium seats. Our front-end business out of Hong Kong is heavily dependent on financial institutions, most of which were hit hard by the financial crisis.
- Corporate sales were affected by companies either cutting back on travel by employees or downgrading from premium to economy class travel. There was some minor reassessment later in the year but at the end of 2009 many companies still had travel restrictions in place.
- Demand in our economy cabins remained strong throughout the year. However, aggressive fare promotions were required to stimulate this demand in a very competitive market. This depressed yields.
- The outbreak of the Influenza A (H1N1) virus had a significant impact on business during May, June and July, in particular affecting leisure travel and group business between Hong Kong and regional destinations.
- Dragonair's business derived from the Pearl River Delta region increased following the launch of a twice daily service between Hong Kong and Guangzhou in September. The service has proved popular with travellers who have Hong Kong connecting flights.

Comments by region are as follows:

Southwest Pacific and South Africa

- Demand and yield suffered as a result of the economic downturn. Premium traffic in particular was badly hit. Economy class loads held up well on most routes although this was only achieved at the expense of yield due to very significant competition for business. In response to the economic downturn, we reduced capacity on some services. Frequencies on the Sydney route were reduced from four flights a day to three and we withdrew three non-stop services to Brisbane.
- We introduced seasonal increases to the number of frequencies on the Auckland route from late October, when twice daily services were introduced to cater for the southern summer demand.
- The South African route enjoyed a better year than most other routes. The load factor was high throughout the year and yield reductions were less severe than elsewhere, though there was a marked slowdown in the winter as usual.

Europe

- We reduced frequencies on the Frankfurt, London and Paris routes in response to the economic downturn.
- The reduction in premium traffic was particularly significant on the European routes in the first three quarters of the year, with big reductions in both passenger numbers and yield.
- Europe was the first region to show tentative signs of a slow recovery, as demand for premium seats began to recover during the last quarter of the year, particularly on the London route. However, yields were still well below normal peak-season levels and the improvement was from a very low base.
- Economy class demand remained fairly robust on all European routes throughout the year, although to achieve this yields fell sharply, with aggressive competition in all markets.
- In December we announced a strengthening of our European network with the launch of a new four times weekly service to Milan, commencing in March 2010. This will supplement the current daily service to Rome. We have also announced plans to begin a thrice-weekly service to Moscow from summer 2010.

North Asia

- Our passenger business to and from Mainland China was generally slow during the year, although there was some recovery in the fourth quarter, but at reduced yields. Demand for premium seats remained weak, as companies continued to operate under highly restrictive travel policies.
- We reduced Dragonair services to Sanya to help balance capacity with demand. We also suspended services to Dalian, Fukuoka, Guilin, Shenyang, Taichung and Xian from May.
- Business to and from Japan was adversely affected by currency movements and by the economic downturn. In addition, Influenza A (H1N1) caused a substantial reduction in bookings from May to July.

- We increased the Sapporo service to daily over the summer period in response to growing interest in north Japan as a leisure destination. We also provided additional services at Christmas and Chinese New Year and will increase to a daily service again in July and August 2010.
- Our business in Korea was generally poor during the year, with outbound travel affected by the weak Won. We removed one daily service from the Seoul route and reduced Dragonair's Busan services to four times weekly in response to weak demand. However, there were some signs of an improvement in demand, especially inbound to Korea, towards the end of the year and the service will return to five flights a day by July 2010.
- Demand on flights out of Taiwan was adversely affected by the substantial increase in cross-Strait flights to Mainland China which started to take effect in August. However, inbound business was more robust as a result of growing interest in Taiwan as a leisure destination for Hong Kong travellers. H1N1 had a significant adverse effect on demand on the Taiwan routes between May and July.
- Business to and from Kaohsiung was better than that to and from Taipei, reflecting less-intense competition on the former route. However, yields remained under pressure.

Southeast Asia and Middle East

- All routes within the region were affected by the economic downturn, while a number were also affected by increasing competition from low cost carriers.
- As a result of the economic downturn we reduced frequencies on the Bangkok, Kota Kinabalu and Singapore routes.
- The Singapore route suffered for much of the year from a sharp reduction in premium traffic.
- We put on a number of extra flights to and from Indonesia as demand picked up during the Lebaran festival in what was an otherwise a difficult year.
- Demand into and out of the Philippines remained reasonable throughout the year, although yields were significantly down.
- We added four flights a week to the daily service to Denpasar in response to strong summer demand.
- We saw some growth to and from Thailand, albeit from a low base. Leisure travel has picked up more recently but the political uncertainty continues to affect underlying demand.
- The Dragonair service to Hanoi, launched in 2008, performed satisfactorily.
- Dragonair's service to Kathmandu in Nepal was combined with its service to Dhaka, Bangladesh, for operational reasons and performed satisfactorily, especially during the winter peak season.
- Business to and from Colombo showed some improvement with the cessation of the civil conflict in Sri Lanka, albeit from a low base.
- Our business to and from India began to improve in the fourth quarter after a difficult year, reflecting an improvement in premium revenues. The daily Dragonair service to Bengaluru was reduced to four times a week in line with reduced demand. Half of the twice daily Delhi flights were routed via Bangkok.
- Demand to and from the Middle East remained relatively robust in 2009, although it weakened towards the end of the year, especially on the Dubai route. Riyadh became a daily service, and a new four-times-a-week service to Jeddah via Dubai was launched in October. The Jeddah service will become daily in March 2010.

North America

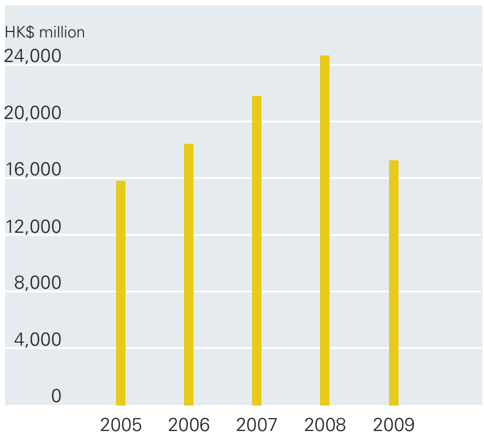
- We reduced capacity on the Los Angeles, San Francisco, Toronto and Vancouver routes as part of our effort to align capacity with reduced demand.
- Load factors in the economy class cabins were high on North American routes throughout the year as a result, though yields were still reduced significantly as a result of very aggressive competition. Premium class demand on all North American routes was heavily affected by the economic downturn.
- Toronto was switched to an overnight operation in the summer, with an early morning departure from the city. Demand from premium passengers on this route was weak for most of the year.
- In response to a recent gradual upturn in demand, we will increase services to Toronto by adding three more flights per week from March 2010. We will also add three flights per week to Los Angeles from May 2010, making a total of 17 per week.

Review of Operations

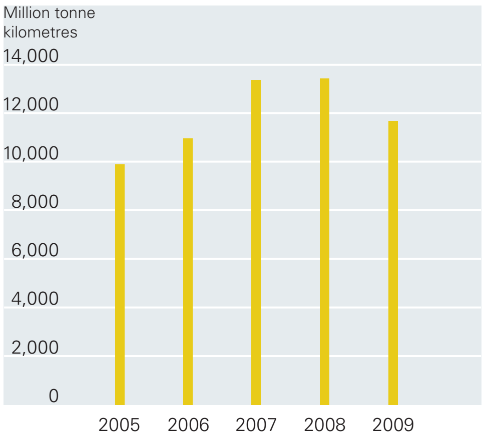
CARGO SERVICES | ASIA MILES

Demand for air cargo was substantially reduced as a result of the global economic downturn. All major markets were affected, particularly in the first half of the year, when the resultant drop in volumes put pressure on prices and therefore on yields and revenue. Demand improved from October onwards, albeit from a low base and this, combined with capacity reductions as the industry parked equipment, helped to increase load factors, yields and revenue. In 2009, cargo and mail tonnage for Cathay Pacific and Dragonair fell by 7.1% to 1,527,948 tonnes, while capacity was reduced by 13.1%. Group cargo revenue fell by 29.9% to HK$17,255 million while yield of Cathay Pacific and Dragonair fell by 26.8% to HK$1.86.

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 for 2009 were as follows:

	ATK (million)			Load factor (%)			Yield
	2009	2008	**Change**	**2009**	2008	**Change**	**Change**
Cathay Pacific and Dragonair	**11,666**	13,425	**-13.1%**	**70.8**	65.9	**+4.9%pt**	**-26.8%**

- Cargo demand weakened from late 2008 in response to the global economic downturn. Freight movements started to fall on all major trade routes. All our major markets were affected to some degree. The India and the Middle East markets were the least affected. The USA and Europe (which are the key export markets for Hong Kong and Mainland China) suffered badly as consumers reduced their spending, with the consequence that the flow of new orders dried up while retailers and their suppliers waited for a reduction in inventories. The same factors affected intra-Asian cargo traffic where much of the volume is made up of semi-manufactured parts moving to other points within the region for final assembly and export.
- The reduction in freight volumes led to a global imbalance of supply and demand with too much capacity chasing too little available cargo in the market. The resultant and intense competition caused rates to fall rapidly and this led to a rapid reduction in yields and revenues.
- Carriers responded to the reduction in demand by reducing capacity; either through ad hoc but frequent flight cancellations or through the parking or decommissioning of older, less efficient aircraft. It is estimated that approximately 20% of the global wide-bodied freighter fleet had been parked or decommissioned by the middle of 2009.
- Business started to improve in the third quarter. Capacity reductions and an increase in demand, albeit from a low base, resulted in increased load factors. New orders were being placed for the year end retail season and inventories needed to be rebuilt. Uncertainty as to the strength of final consumer demand and the desire to hold the least possible amounts of inventory meant that many of these orders were placed later than would normally be the case. This favoured airfreight over sea freight. As a result, the seasonal peak in air cargo demand was stronger than expected. By the end of the third quarter yields and load factors had returned to 2008 levels. In addition, there was a partial reversal of the usual imbalance between outbound and inbound traffic, with stronger inbound traffic than normal in particular from the North American, European and Southwest Pacific markets.
- Along with most other cargo carriers, we reduced capacity in 2009. This began with ad hoc cancellations early in the year. As the extent of the downturn became clearer, we reduced scheduled services (with effect from May) from 126 to 84 a week. We parked five of our aircraft – all Boeing 747-400BCFs – in the desert in California. A further aircraft was wet-leased to our subsidiary, Air Hong Kong.
- A central objective of the capacity reductions was to maintain the integrity of our freighter network. We therefore reduced frequency and capacity but not destinations served.
- On the positive side, the network was strengthened by the introduction of a new service to Jakarta and Ho Chi Minh City in January 2009 and a three-times-weekly service to Miami and Houston in March 2009, which gave us access to the increasingly important Latin American markets. Three additional frequencies were added to the Milan service in February 2009.
- The composition of the freighter fleet changed materially and for the better during the year. We completed the retirement of our older, fuel-inefficient Boeing 747-200F "Classic" freighters, with the last aircraft leaving service in July and we continued to introduce new Boeing 747-400ERF freighters into the fleet, so improving operational efficiency. The sixth and final Boeing 747-400ERF arrived in April.

- The delivery of 10 new-generation Boeing 747-8F freighters will now commence in 2011, the deliveries having been deferred as a result of delays to the manufacturing programme at Boeing.
- Under a supplemental agreement signed in January 2009 between our wholly owned subsidiary Cathay Pacific Services Limited ("CPSL") and the Airport Authority of Hong Kong, our new cargo terminal at HKIA is now scheduled to open in mid-2013. The terminal, which will be designed, constructed and operated by CPSL, was originally due to open in the second half of 2011 but completion was deferred as a result of the economic downturn.

ASIA MILES

- Asia Miles, our travel reward programme, continued to grow and at the end of 2009 had more than three million members.
- The number of Asia Miles partners increased to more than 400 in nine categories including airlines, hotels and major financial institutions.
- Over 90% of Cathay Pacific flights carried passengers redeeming frequent flyer miles.
- There was a 9% growth in flight redemptions from Asia Miles members on its 20 partner airlines.
- In October, Asia Miles launched the first Asia Miles co-branded card with Bank of Communications in Mainland China, a major milestone in the development of the Asia Miles programme in the fast growing Mainland China market. This new co-branded credit card offers frequent Mainland China travellers the ease of earning miles through auto-mileage conversion, plus the opportunity to redeem airline tickets and other lifestyle rewards.
- To support the growth of Asia Miles in Mainland China, a Beijing call centre was established in November for Putonghua speaking Asia Miles members.

ANTITRUST INVESTIGATIONS

Cathay Pacific remains the subject of antitrust investigations and proceedings by competition authorities in various jurisdictions and continues to cooperate with these authorities and, where applicable, defend itself vigorously. These investigations are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but has made a provision of HK$80 million in respect of such liabilities in its 2009 accounts.

I am still as excited about Cathay Pacific as I was on the day I joined.

Michael Spiegel, Cargo Manager –
Germany & Eastern Europe

At Cathay Pacific we are expected to think on our feet and find a way to solve problems.

Eiko Suenaga,
Customer Services Officer

"I get enormous satisfaction mentoring young pilots and helping them fulfill the same passion for flying I had at their age."

Nigel Black, Senior Training Captain

"When you have been in this job as long as I have, you begin to see everyone, both staff and passengers, as just One Big Family."

Janet Jothi, Airport Services Supervisor

”Everyday I fly is still as Big a thrill as I dreamed it would be when I was a kid.”

David Belcastro,
Senior First Officer

Financial Review

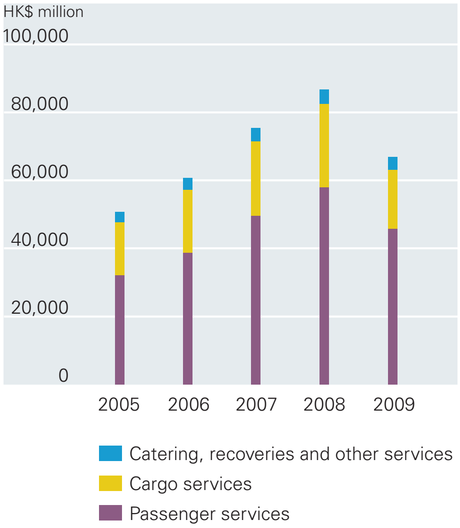
The Cathay Pacific Group reported an attributable profit of HK$4,694 million in 2009, compared with a loss of HK$8,696 million in 2008. The improved results principally reflect the profit on the disposal of a 12.45% stake in HAECO, a lower average fuel price compared to 2008 and significant mark to market gains on fuel hedging contracts. The cost cutting measures that were introduced in response to weak passenger and cargo traffic demand helped to constrain operating expenses in 2009.

Turnover

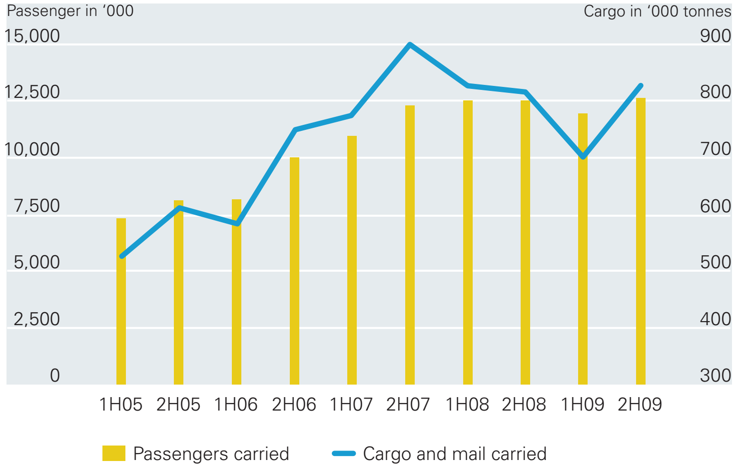
	Group		Cathay Pacific and Dragonair	
	2009 HK$M	2008 (restated) HK$M	**2009 HK$M**	2008 (restated) HK$M
Passenger services#	**45,920**	57,964	**45,920**	57,964
Cargo services#	**17,255**	24,623	**15,341**	22,424
Catering, recoveries and other services	**3,803**	3,976	**3,128**	2,922
Turnover	**66,978**	86,563	**64,389**	83,310

 # Includes relevant surcharges.

Turnover*



Cathay Pacific and Dragonair: passengers and cargo carried*



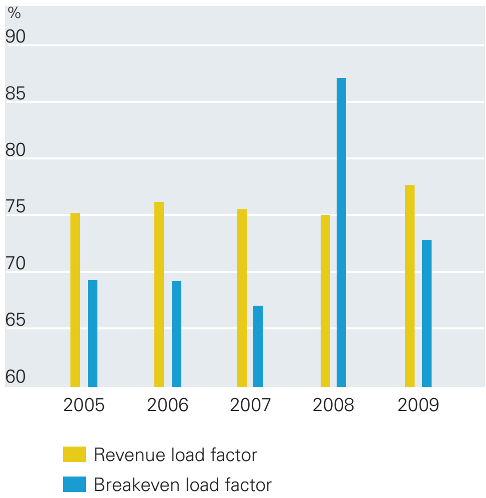
* *Includes Dragonair from 1st October 2006.*

- Group turnover fell by 22.6% in 2009 compared with 2008.

Cathay Pacific and Dragonair

- Passenger turnover decreased significantly, by 20.8% to HK$45,920 million, as a result of the economic downturn. The number of passengers carried decreased by 1.6% to 24.6 million and revenue passenger kilometres decreased by 1.7%.
- Despite a 3.7% reduction in capacity, the passenger load factor increased by 1.7 percentage points to 80.5%.
- Passenger yield decreased by 19.5% to HK¢51.1, reflecting weak demand from premium class passengers, competitive pressure on economy class fares, and the strong US dollar in the first half of the year.
- First and business class revenues decreased by 27.0% and the front-end load factor decreased from 62.5% to 58.5%. Economy class revenue decreased by 17.9% and the economy class load factor increased from 81.6% to 84.3%.
- Cargo turnover decreased by 31.6% to HK$15,341 million with a 13.1% decrease in capacity. Export demand was very weak in the first half but strengthened in the second half.
- Fuel surcharges decreased by HK$6.8 billion as a result of lower fuel prices.
- The cargo load factor increased by 4.9 percentage points while weak demand and intense competition reduced the cargo yield by 26.8% to HK$1.86.
- Revenue load factor increased by 2.6 percentage points to 77.7% while the breakeven load factor was 72.8%.

Cathay Pacific and Dragonair: revenue and breakeven load factor*



* *Includes Dragonair from 1st October 2006.*

- The annualised impact on revenue arising from changes in yield and load factor is set out below:

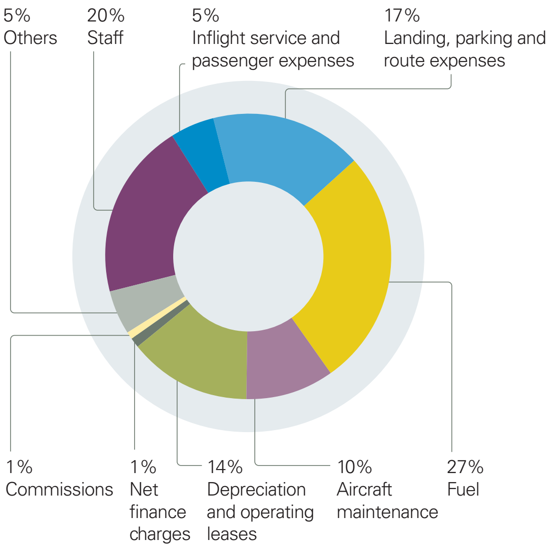
	HK$M
+ 1 percentage point in passenger load factor	568
+ 1 percentage point in cargo and mail load factor	217
+ HK¢1 in passenger yield	894
+ HK¢1 in cargo and mail yield	83

Operating expenses

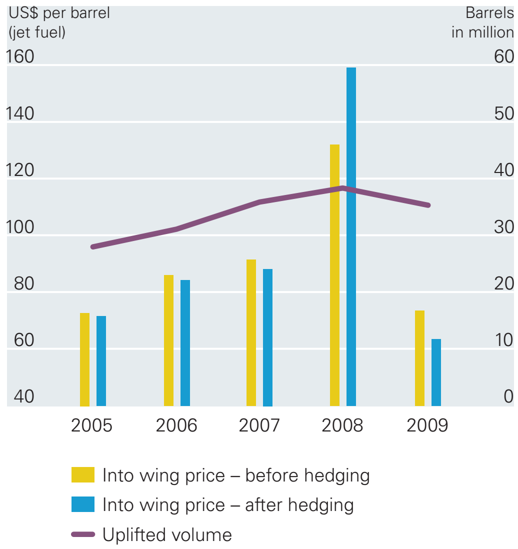
	Group			Cathay Pacific and Dragonair		
	2009 HK$M	2008 (restated) HK$M	**Change**	**2009 HK$M**	2008 (restated) HK$M	**Change**
Staff	**12,618**	12,428	**+1.5%**	**11,515**	11,305	**+1.9%**
Inflight service and passenger expenses	**2,915**	3,336	**-12.6%**	**2,915**	3,336	**-12.6%**
Landing, parking and route expenses	**10,458**	10,823	**-3.4%**	**10,281**	10,777	**-4.6%**
Fuel	**17,349**	47,317	**-63.3%**	**16,937**	46,637	**-63.7%**
Aircraft maintenance	**6,567**	7,643	**-14.1%**	**6,411**	7,511	**-14.6%**
Aircraft depreciation and operating leases	**7,978**	7,211	**+10.6%**	**7,796**	7,024	**+11.0%**
Other depreciation and operating leases	**1,103**	1,060	**+4.1%**	**867**	814	**+6.5%**
Commissions	**571**	851	**-32.9%**	**571**	851	**-32.9%**
Exchange gain	**(344)**	(30)	**N/A**	**(356)**	(13)	**N/A**
Others	**3,284**	3,485	**-5.8%**	**3,628**	3,571	**+1.6%**
Operating expenses	**62,499**	94,124	**-33.6%**	**60,565**	91,813	**-34.0%**
Net finance charges	**847**	1,012	**-16.3%**	**781**	907	**-13.9%**
Total operating expenses	**63,346**	95,136	**-33.4%**	**61,346**	92,720	**-33.8%**

- Group operating expenses decreased by 33.4% to HK$63,346 million.
- The combined cost per ATK of Cathay Pacific and Dragonair decreased from HK$3.80 to HK$2.76. This principally reflected lower average fuel prices and mark to market gains on fuel hedging contracts.

Total operating expenses



Fuel price and consumption



Cathay Pacific and Dragonair operating results analysis

	2009 HK$M	2008 HK$M
Airlines operating profit/(loss) before fuel hedging, non-recurring items and tax	285	(1,440)
Profit on disposal of HAECO shares	1,254	–
Realised and unrealised fuel hedging gains/(losses)	2,758	(7,970)
Settlement of the United States Department of Justice Cargo Investigations	–	(468)
Tax (charge)/credit	(170)	1,476
Airlines profit/(loss) after tax	4,127	(8,402)
Share of profits/(losses) from subsidiaries and associates	567	(294)
Consolidated profit/(loss)	4,694	(8,696)

The change in the airlines' operating profit/(loss) before fuel hedging, non-recurring items and tax can be analysed as follows:

	HK$M	
2008 airlines operating loss	(1,440)	
Passenger and cargo turnover	(19,127)	**Passenger** – Decreased HK$2,157 million due to a 3.7% decrease in capacity. – A 1.7% points increase in load factor contributed to an increase of HK$1,183 million. – HK$11,070 million decrease with a 19.5% decrease in yield partly due to a reduction in fuel surcharges. **Cargo** – Decreased HK$2,938 million due to a 13.1% decrease in capacity. – A 4.9% points increase in load factor contributed to an increase of HK$1,452 million. – HK$5,597 million decrease with a 26.8% decrease in yield partly due to a reduction in fuel surcharges.
Recoveries and other services	206	
Staff	(210)	– Increased due to provision for ex-gratia payment and higher average headcount partly offset by savings from no-pay leave.
Inflight service and passenger expenses	421	– Less expenditure due to a 1.6% decrease in passenger numbers.
Landing, parking and route expenses	496	– Decreased as a result of reduction in capacity.
Fuel	18,972	– Fuel costs decreased due to a 44.3% decrease in the average into-plane fuel price to US$73 per barrel and a 7.8% decrease in consumption to 35.3 million barrels.
Aircraft maintenance	1,100	– Decreased with capacity reduction partly offset by provision for return condition.
Depreciation and operating leases	(825)	– Increased due to the new aircraft deliveries.
Net finance charges	126	– Decreased as a result of lower interest rates partly offset by lower return on investment funds.
Others	566	
2009 airlines operating profit before fuel hedging, non-recurring items and tax	**285**	

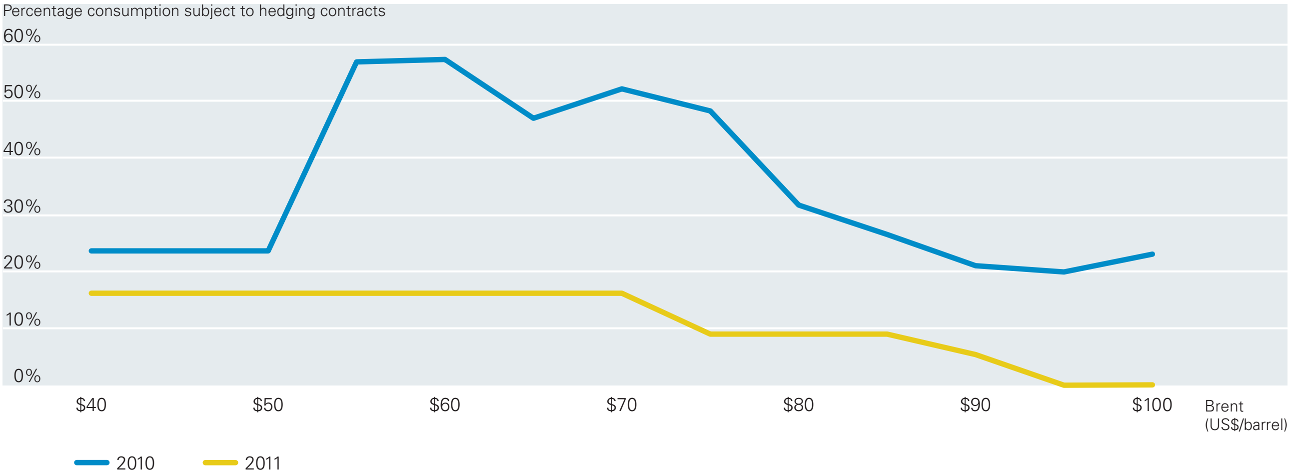
Fuel expenditure and hedging

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

	2009 HK$M	2008 HK$M
Gross fuel cost	**20,107**	39,347
Realised hedging (gains)/losses	**(740)**	309
Unrealised mark to market (gains)/losses	**(2,018)**	7,661
Net fuel cost	**17,349**	47,317
Settlement and premium paid	**3,180**	1,458

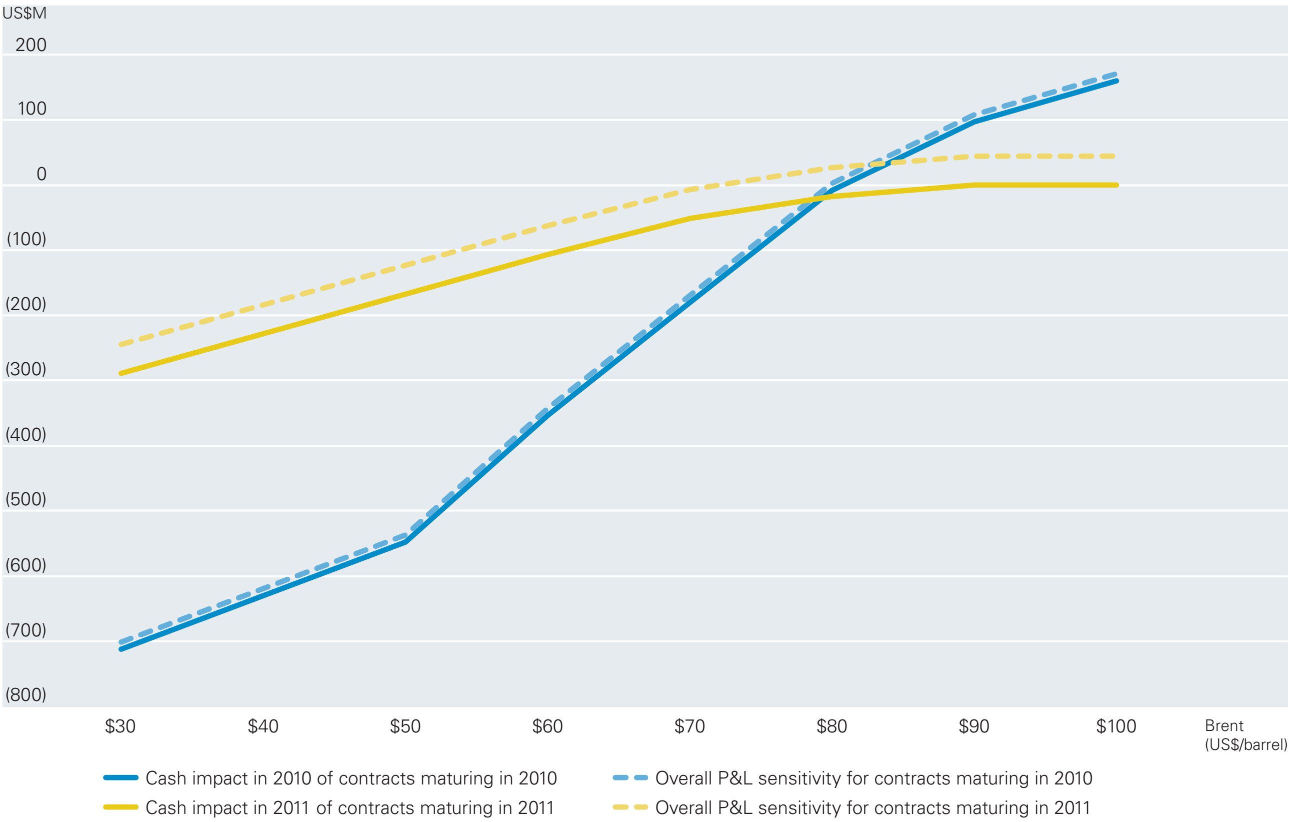
The Group's maximum fuel hedging exposure and a sensitivity analysis of both the cash and the profit and loss impact of fuel price movements on fuel hedging contracts as at 31st December 2009 are set out below:

Maximum fuel hedging exposure



The Group's policy is to reduce exposure to fuel price risk by hedging a percentage of its expected fuel consumption. As the Group uses a combination of fuel derivatives to achieve its desired hedging position, the percentage of expected 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.

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



At 31st December 2009 the Group had entered into fuel derivatives contracts which expire in 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 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 affected varies contract by contract. For contracts which are accounted for as cash flow hedges, profit or loss would generally be affected 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 affected by the change in mark to market valuation in that year.

If the Brent price is at a level of US$40 per barrel in 2010 and 2011, then the Group would be required to pay a total of about US$850 million to settle these contracts and the profit would be reduced accordingly over the two years. If the price of Brent in 2010 and 2011 is approximately US$80 per barrel there will be no further net cash impact and mark to market losses recognised before would then be released in the corresponding years.

In addition to the estimated impact of changes of fuel prices on fuel hedging contracts shown above, the Group's operating profit is affected by the actual cost of buying fuel and the level of fuel surcharges.

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

Taxation

- The tax charge increased by HK$1,616 million to HK$283 million, principally reflecting the change in profitability.

Dividends

- Dividends proposed for the year are HK$393 million representing a dividend cover of 11.9 times.
- Dividends per share increased from HK¢3 to HK¢10.

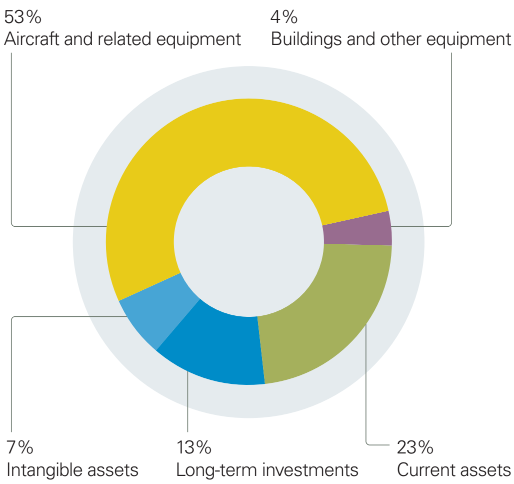
Assets

- Total assets as at 31st December 2009 were HK$113,324 million.
- During the year, additions to fixed assets were HK$6,676 million, comprising HK$6,320 million for aircraft and related equipment, HK$249 million for buildings and HK$107 million for other equipment.

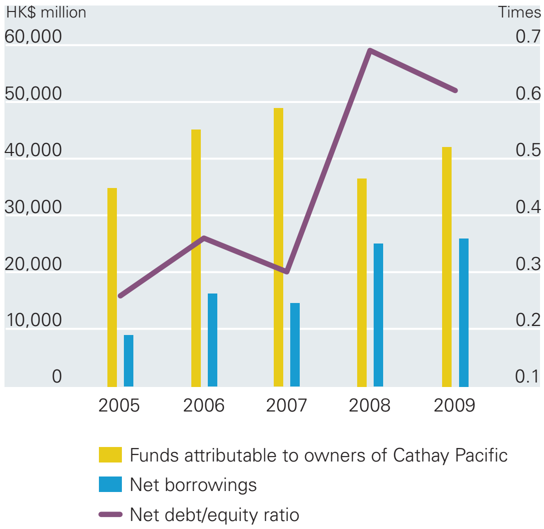
Borrowings and capital

- Borrowings increased by 5.9% to HK$42,642 million from HK$40,280 million in 2008.
- Borrowings are mainly denominated in US dollars, Hong Kong dollars, Singapore dollars, Japanese yen and Euros, and are fully repayable by 2023 with 55% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 48.2% of which are denominated in US dollars, increased by 9.5% to HK$16,522 million.
- Net borrowings increased by 3.7% to HK$26,131 million.
- Funds attributable to the owners of Cathay Pacific increased by 15.1% to HK$42,238 million.
- The net debt/equity ratio decreased from 0.69 times to 0.62 times.

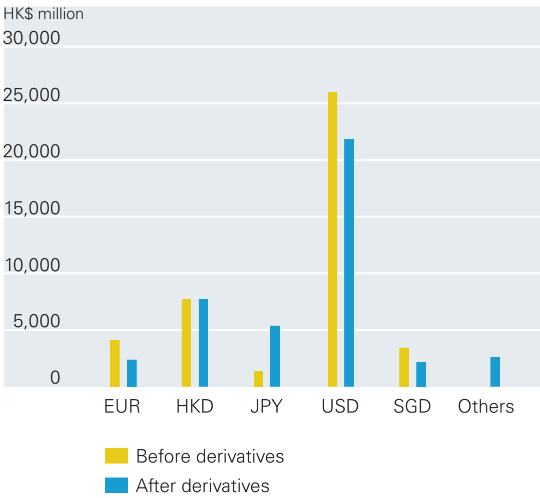
Total assets



Net debt and equity

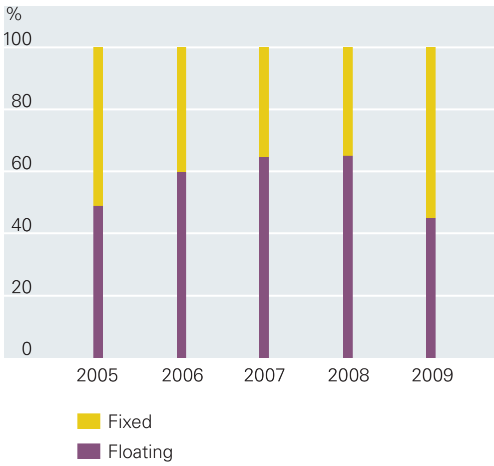


Borrowings before and after derivatives



Others include CAD, KRW, RMB and TWD.

Interest rate profile: borrowings



Directors and Officers

Executive Directors

PRATT, Christopher Dale#, CBE, aged 53, 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, Hong Kong Aircraft Engineering Company Limited and Swire Properties Limited, and a Director of 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.

HUGHES-HALLETT, James Edward#, aged 44, has been Finance Director of the Company since 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 55, 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 53, 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 54, 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

CAI, Jianjiang, aged 46, has been a Director of the Company since November 2009. He is a Director and President of Air China Limited.

CHEN, Nan Lok Philip#, aged 54, 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.

FAN, Cheng*, aged 54, has been a Director of the Company since November 2009. He is a Director, Vice President and Chief Financial Officer of Air China Limited.

HUGHES-HALLETT, James Wyndham John#+, aged 60, 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, Australia and London.

KILGOUR, Peter Alan#, aged 54, has been a Director of the Company since May 2009. He is also Finance Director of Swire Pacific Limited and a Director of John Swire & Sons (H.K.) Limited and Swire Properties Limited. He joined the Swire group in 1983.

KONG, Dong, aged 61, 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.

WOODS, Robert Barclay, CBE, aged 63, 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 54, 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, Irene Yun Lien+*, aged 56, has been a Director of the Company since January 2010. She is Chairman of Keybridge Capital Limited, a Non-Executive Director of The Myer Family Company Pty Limited, QBE Insurance Group Limited and ING Bank (Australia) Limited, and a member of the Advisory Council of JP Morgan Australia. She was a member of the Australian Government Takeovers Panel from March 2001 until March 2010.

SO, Chak Kwong Jack*, aged 64, 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 67, 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.

WONG, Tung Shun Peter*, aged 58, has been a Director of the Company since May 2009. He is currently Chief Executive of The Hongkong and Shanghai Banking Corporation Limited, a Group Managing Director of HSBC Holdings plc and Deputy Chairman and a Non-Executive Director of HSBC Bank (China) Company Limited, and a Non-Executive Director of HSBC Bank Australia Limited, Hang Seng Bank Limited, Bank of Communications Co., Ltd. and Ping An Insurance (Group) Company of China, Ltd. He is also President of the Hong Kong Institute of Bankers and was Chairman of the Hong Kong Association of Banks in 2001, 2004, 2006 and 2009.

Executive Officers

BARRINGTON, William Edward James#, aged 50, has been Director Sales and Marketing since March 2000. He joined the Swire group in 1982.

CHAU, Siu Cheong William, aged 56, has been Director Personnel since May 2000. He joined the Company in 1973.

CHONG, Wai Yan Quince, aged 46, has been Director Corporate Affairs since September 2008. She joined the Company in 1998.

CHU, Kwok Leung Ivan, aged 48, has been Director Service Delivery since September 2008. He joined the Company in 1984.

GIBBS, Christopher Patrick, aged 48, has been Engineering Director since January 2007. He joined the Company in 1992.

HOGG, Rupert Bruce Grantham Trower#, aged 48, has been Director Cargo since September 2008. He joined the Swire group in 1986.

NICOL, Edward Brian#, aged 56, has been Director Information Management since January 2003. He joined the Swire group in 1975.

RHODES, Nicholas Peter#, aged 51, has been Director Flight Operations since January 2003. He joined the Swire group in 1980.

Secretary

FU, Yat Hung David#, aged 46, 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 2009 which are on pages 48 to 97.

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 96 and 97.

Accounts

The profit of the Group for the year ended 31st December 2009 and the state of affairs of the Group and the Company at that date are set out in the accounts on pages 53 to 97.

Dividends

We recommend the payment of a final dividend of HK¢10 per share for the year ended 31st December 2009. As no interim dividend was declared for the period ended 30th June 2009, this makes a total dividend for the year of HK¢10 per share. This represents a total distribution for the year of HK$393 million. Subject to shareholders' approval of the final dividend at the annual general meeting on 12th May 2010, payment of the final dividend will be made on 1st June 2010 to shareholders registered at the close of business on the record date, 12th May 2010.

The register of members will be closed from 7th May 2010 to 12th May 2010, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 6th May 2010.

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 57 and 58.

Accounting policies

The principal accounting policies are set out on pages 48 to 52.

Donations

During the year, the Company and its subsidiaries made charitable donations amounting to HK$10 million in direct payments and a further HK$4 million in the form of discounts on airline travel.

Fixed assets

Movements of fixed assets are shown in note 10 to the accounts. Details of aircraft acquisitions are set out on page 12.

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 15 and 21 to the accounts.

Share capital

During the year under review, the Group did not purchase, sell or redeem any shares in the Company. The Company adopted a share option scheme on 10th March 1999. During the year, 1,098,500 shares were issued under the scheme. Details of the scheme can be found in note 22 to the accounts.

At 31st December 2009, 3,933,844,572 shares were in issue (31st December 2008: 3,932,746,072 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 2009 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, Philip Chen, James E. Hughes-Hallett, James W.J. Hughes-Hallett, Peter Kilgour, John Slosar, Tony Tyler and Robert Woods are interested in the JSSHK Services Agreement (as defined below). Robert Atkinson and Martin Cubbon were interested as directors and/or employees of the Swire group until their resignation with effect from 12th March 2009 and 14th May 2009 respectively.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2009 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 3% of the Group's operating expenses in 2009. 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 transactions

(a) The Company entered into a sale and purchase agreement with Swire Pacific on 16th September 2009 for Swire Pacific to purchase and the Company to sell 20,700,958 ordinary shares of HK$1 each in HAECO (representing 12.45% shareholding in HAECO) for a consideration of approximately HK$1,901 million (equivalent to HK$91.83 per HAECO share) (the "HAECO Share Transaction").

The HAECO Share Transaction enabled the Company to realise cash from its investment in the 20,700,958 HAECO shares while at the same time maintaining, through its continued holding of a 15% shareholding interest in HAECO, a strategic investment in HAECO. The proceeds from the HAECO Share Transaction were applied towards the Company's general working capital requirements.

As Swire Pacific is a substantial shareholder and therefore a connected person of the Company, the HAECO Share Transaction constituted a connected transaction for the Company under the Listing Rules, in respect of which an announcement dated 16th September 2009 was published and a circular dated 23rd September 2009 was sent to shareholders.

Following completion of the HAECO Share Transaction on 22nd October 2009, the Company's shareholding interest in HAECO decreased from 27.45% to 15.00% and Swire Pacific's shareholding interest in HAECO increased from 33.52% to 45.96%.

(b) The Company and its wholly owned subsidiaries Cathay Pacific China Cargo Holdings Limited ("Cathay Pacific China Cargo Holdings") and Dragonair entered into a framework agreement with Air China Limited ("Air China") and its wholly owned subsidiaries Air China Cargo Co., Ltd. ("Air China Cargo") and Fine Star Enterprises Corporation ("Fine Star") on 25th February 2010, which provided for the entry of relevant ancillary agreements for the following transactions (the "Joint Venture Transaction") to take place:

(i) Cathay Pacific China Cargo Holdings will subscribe for a 25% equity interest in Air China Cargo for a consideration of RMB851,621,140 (comprising RMB808,823,530 as contribution to the registered capital and RMB42,797,610 as premium contribution) and Fine Star will make a further capital contribution of RMB238,453,919 (comprising RMB226,470,588 as contribution to the registered capital and RMB11,983,331 as premium contribution) in cash to Air China Cargo. Following the completion of such equity subscription and capital contribution, the equity interests of Air China, Fine Star and Cathay Pacific China Cargo Holdings in Air China Cargo will be 51%, 24% and 25% respectively (with premium contribution credited as capital reserve fund of Air China Cargo);

(ii) Advent Fortune Limited ("AFL") will acquire the entire issued share capital and shareholder's loan of Fine Star held by China National Aviation Company Limited, a subsidiary of Air China with a loan of approximately RMB817 million from the Company. In return, AFL will pledge its equity interest in Fine Star to the Company and the Company's returns on the loan will be equal to the dividend returns on AFL's 24% effective shareholding in Air China Cargo;

(iii) Air China Cargo will purchase from the Company and Dragonair four Boeing 747-400BCF converted freighters powered by PW4056-3 engines and two spare engines for a consideration of approximately RMB1,924 million; and

(iv) the Company will provide a guarantee in favour of Air China in respect of Cathay Pacific China Cargo Holdings' obligations under the relevant agreements and undertakes to exercise its contractual rights under the loan agreement with respect to the loan referred to in (ii) above and other related agreements to procure Fine Star to perform its obligations under the joint venture agreement of Air China Cargo.

As Air China is a substantial shareholder and therefore a connected person of the Company, the Joint Venture Transaction constitutes a connected transaction for the Company under the Listing Rules, in respect of which an announcement dated 25th February 2010 was published.

Continuing connected transactions

During the year ended 31st December 2009, 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"), Air Hong Kong provides to DHL services in respect of the sale of space on certain cargo services operated by Air Hong Kong in the Asian region for the carriage of DHL's door to door air express materials. Payment is made in cash by DHL within 30 days from the date of receipt of Air Hong Kong's monthly invoices. 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 Air Hong Kong. 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 Air Hong Kong under the DHL Services Agreement totalled HK$1,846 million for the year ended 31st December 2009.

(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 or 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 it 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 41.97% 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 2009, JSSHK waived its entitlement to fees under the JSSHK Services Agreement in respect of that part of the Company's adjusted consolidated profit before taxation and minority interests which was referable to the sale by the Company to Swire Pacific of 20,700,958 shares in HAECO. After taking account of that waiver, the fees payable by the Company to JSSHK under the JSSHK Services Agreement were HK$95 million. Expenses of HK$161 million were reimbursed at cost.

(c) Pursuant to 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 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 PCCW Services Agreement are continuing connected transactions in respect of which an announcement dated 29th September 2008 was published.

The fees payable by CPLP to Teleservices under the PCCW Services Agreement totalled HK$83 million for the year ended 31st December 2009.

(d) 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$1,891 million for the year ended 31st December 2009.

(e) 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 29.99% 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 2009 and under the Air China Framework Agreement, the amounts payable by the Group to Air China Group totalled HK$305 million; and the amounts payable by Air China Group to the Group totalled HK$164 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 30% 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

James E. Hughes-Hallett, Peter Wong, Peter Kilgour, Cai Jianjiang, Fan Cheng and Irene Lee were appointed as Directors on 12th March 2009, 13th May 2009, 14th May 2009, 27th November 2009, 27th November 2009 and 13th January 2010 respectively. All the other present Directors of the Company whose names are listed on pages 33 and 34 served throughout the year. Chang Zhenming was appointed as Director and elected Deputy Chairman on 13th May 2009 and resigned with effect from 27th November 2009. Robert Atkinson, Henry Fan, Martin Cubbon and Vernon Moore served as Directors until their resignation with effect from 12th March 2009, 9th April 2009, 14th May 2009 and 27th November 2009 respectively. Raymond Or served as a Director until his retirement at the Company's annual general meeting held on 13th May 2009. In addition, Peter Lee also served as a Director of the Company during the year. It is with great sadness that the Directors report the death of Peter Lee on 17th October 2009.

The Company has received from each of its independent non-executive Directors an annual confirmation of his/her 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, Robert Woods and Zhang Lan retire this year and, being eligible, offer themselves for re-election.

Cai Jianjiang, Fan Cheng, Peter Kilgour, Irene Lee and Peter Wong, 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/her 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$2,456,164; they received no other emoluments from the Company or any of its subsidiaries.

Directors' interests

At 31st December 2009, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following beneficial interests (all being personal interests) in the shares of Cathay Pacific Airways Limited:

	No. of shares	Percentage of issued capital
Cathay Pacific Airways Limited		
Philip Chen	9,000	0.00023
Ian Shiu	1,000	0.00003
Tony Tyler	5,000	0.00013

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, Cai Jianjiang, Philip Chen, Fan Cheng 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.

Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 31st December 2009 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	2,830,768,906	71.96	Attributable interest (a)
2. China National Aviation Holding Company	2,830,768,906	71.96	Attributable interest (b)
3. Swire Pacific Limited	2,830,768,906	71.96	Attributable interest (a)
4. John Swire & Sons Limited	2,830,768,906	71.96	Attributable interest (c)

Note: At 31st December 2009:

(a) Under Section 317 of the SFO, each of Air China, China National Aviation Company Limited ("CNAC") 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 2,830,768,906 shares of the Company, comprising:

(i) 1,651,008,919 shares directly held by Swire Pacific;

(ii) 1,179,759,987 shares indirectly held by Air China and its subsidiaries CNAC, Super Supreme Company Limited and Total Transform Group Limited, comprising the following shares held by their wholly owned subsidiaries: 288,596,335 shares held by Angel Paradise Ltd., 214,851,154 shares held by Custain Limited, 191,922,273 shares held by Easerich Investments Inc., 189,976,645 shares held by Grand Link Investments Holdings Ltd., 207,376,655 shares held by Motive Link Holdings Inc. and 87,036,925 shares held by Perfect Match Assets Holdings Ltd.

(b) China National Aviation Holding Company is deemed to be interested in a total of 2,830,768,906 shares of the Company, in which its subsidiary Air China is deemed interested.

(c) Swire and its wholly owned subsidiary JSSHK are deemed to be interested in a total of 2,830,768,906 shares of the Company by virtue of the Swire group's interests in shares of Swire Pacific representing approximately 38.99% of the issued capital and approximately 56.84% 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, 10th March 2010

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 33 and 34 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/her 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/she declares his/her 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 2009, the attendance of which, taking into account dates of appointment or resignation, was as follows:

Christopher Pratt (6/6), Robert Atkinson (2/2), Cai Jianjiang (0/0), Chang Zhenming (1/4), Philip Chen (6/6), Martin Cubbon (3/3), Fan Cheng (0/0), Henry Fan (2/2), James E. Hughes-Hallett (4/4), James W.J. Hughes-

Hallett (5/6), Peter Kilgour (3/3), Kong Dong (0/6), Peter Lee (5/5), Vernon Moore (6/6), Raymond Or (1/2), Ian Shiu (6/6), John Slosar (6/6), Jack So (5/6), Tony Tyler (6/6), Tung Chee Chen (4/6), Peter Wong (3/4), Robert Woods (5/6) 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. A copy of the Securities Code is sent to each Director of the Company first on his/her appointment and thereafter twice annually, at least 30 days and 60 days respectively 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 2009 in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) are set out on page 40.

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, one independent non-executive Director, 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 five non-executive Directors, Cai Jianjiang, Fan Cheng, Peter Kilgour, Kong Dong 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 policies. It is chaired by the CE and comprises three executive Directors, John Slosar, James E. Hughes-Hallett and Ian Shiu, three non-executive Directors, Fan Cheng, Peter Kilgour and Zhang Lan, the General Manager Corporate Finance, Keith Fung, the Manager Corporate Treasury, Andrew West, 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, Irene 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/her 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 2009 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 one meeting during 2009, the attendance of which was as follows:

James W.J. Hughes-Hallett (1/1), Peter Lee (1/1) and Tung Chee Chen (1/1).

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 Fan Cheng, Irene Lee and Peter Wong. It is chaired by an independent non-executive Director, Jack So.

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 2009, the attendance of which, taking into account dates of appointment or resignation/cessation, was as follows:

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

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 includes two other 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, maintain 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 2009 the total remuneration paid to the external auditors was HK$34 million, being HK$10 million for audit, HK$21 million for tax advice and HK$3 million for other professional services.

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 104.

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 48 to 97, which comprise the consolidated and company statements of financial position as at 31st December 2009, and the consolidated statement of comprehensive income, the consolidated and company statements 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 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

10th March 2010

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.

The following new and revised HKAS and HKFRS issued by the HKICPA were adopted:

(a) HK (IFRIC) Interpretation 13 "Customer Loyalty Programmes"

Prior to adopting HK (IFRIC) Interpretation 13, the incremental cost of providing awards in exchange for redemption of miles earned by members was accrued as an operating cost and a liability after allowing for miles which were not expected to be redeemed. As members redeem their miles the liability was reduced to reflect the reduction in the outstanding obligation. Effective from 1st January 2009, part of the revenue from the initial sales transaction equal to the awards at their fair value is deferred until the awards are redeemed, and for redemption on the Group's flights until the transportation service is provided.

The effect of this change in accounting treatment is as follows:

	Group	
	2009 HK$M	2008 HK$M
Consolidated statement of comprehensive income		
Turnover		
Increase/(decrease) in passengers services	**82**	(82)
Increase in catering, recoveries and other services	**132**	67
Expenses		
Decrease in landing, parking and route expenses	**202**	216
Increase in others	**(333)**	(301)
Increase in taxation	**(9)**	(4)
Increase/(decrease) in profit attributable to owners of Cathay Pacific	**74**	(104)
Increase/(decrease) in earnings per share	**1.9¢**	(3.5)¢

	Group			Company		
	2009 HK$M	2008 HK$M	2007 HK$M	**2009 HK$M**	2008 HK$M	2007 HK$M
Statements of financial position						
Decrease in deferred taxation	**137**	146	150	**137**	146	150
Increase/(decrease) in trade and other receivables	**3**	2	(11)	**3**	2	(11)
Decrease in trade and other payables	**1,280**	1,199	1,079	**1,340**	1,280	1,143
Increase in unearned transportation revenue	**(2,770)**	(2,771)	(2,538)	**(2,770)**	(2,771)	(2,538)
Decrease in reserves	**(1,350)**	(1,424)	(1,320)	**(1,290)**	(1,343)	(1,256)

1. Basis of accounting *(continued)*

During the year ended 31st December 2008, Air China made certain adjustments to its opening retained profits as at 1st January 2008 on adopting IFRIC 13 "Customer Loyalty Programmes". Accordingly, adjustments have been made to decrease the opening retained profits as at 1st January 2008 and 2009 by HK$158 million and HK$192 million.

(b) HKAS 1 (revised) "Presentation of Financial Statements"

Derivative financial assets and liabilities were previously classified as current assets and current liabilities. However, with the adoption of HKAS 1 (revised), derivative financial instruments that are not expected to be realised within 12 months after the reporting period are classified as non-current assets or non-current liabilities. The effects of the reclassification of derivative financial instruments as at 31st December for 2007 to 2009 are as follows:

	2009 HK$M	2008 HK$M	2007 HK$M
Increase in other long-term receivables and investments	**1,891**	1,862	1,600
Increase in long-term payables	**843**	4,325	1,222
Decrease in trade, other receivables and other assets	**1,891**	1,365	1,548
Decrease in trade and other payables	**843**	3,828	1,170

The above changes have been applied retrospectively and 2008 and 2007 comparatives have been restated 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 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
Aircraft product	over 5-10 years to nil residual value
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 fair value less costs to sell.

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. Leases which do not give rights equivalent to ownership are treated as operating 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.

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 49.

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.

8. Financial assets *(continued)*

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 "Financial Instruments: Recognition and Measurement" 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 "Financial Instruments: Recognition and Measurement" are accounted for as held for trading financial instruments and any fair value change is recognised in the profit and loss immediately.

11. Fair value measurement

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

12. Retirement benefits

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

The retirement benefit obligation in respect of defined benefit retirement plans refers to the obligation less the fair value of plan assets where the obligation is calculated by estimating the present value of the expected future payments required to settle the benefit that employees have earned using the projected unit credit method. Actuarial gains and losses are not recognised unless their cumulative amounts exceeds either 10% of the present value of the defined benefit obligation or 10% of the fair value of plan assets whichever is greater. The amount exceeding this corridor is recognised in the profit and loss account 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"). As members accumulate miles by travelling on Cathay Pacific or Dragonair flights, part of the revenue from the initial sales transaction equal to the programme awards at their fair value is deferred. The Company sells miles to participating partners in the programme. The revenue earned from miles sold is also deferred. The deferred revenue and breakage revenue are recognised when the awards are redeemed by members. For redemption on the Group's flights, this is deemed to occur when the transportation service is provided which represents the miles. The breakage expectation is determined by a variety of assumptions including historical experience, future redemption pattern and programme design.

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 (including close members of their families) are also considered to be related parties of the Group.

19. Provisions and contingent liabilities

Provisions are recognised when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits is required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2009

	Note	2009 HK$M	2008 (restated) HK$M	2009 US$M	2008 (restated) US$M
Turnover					
Passenger services		**45,920**	57,964	**5,887**	7,431
Cargo services		**17,255**	24,623	**2,212**	3,157
Catering, recoveries and other services		**3,803**	3,976	**488**	510
Total turnover	*1*	**66,978**	86,563	**8,587**	11,098
Expenses					
Staff		**(12,618)**	(12,428)	**(1,618)**	(1,593)
Inflight service and passenger expenses		**(2,915)**	(3,336)	**(374)**	(428)
Landing, parking and route expenses		**(10,458)**	(10,823)	**(1,341)**	(1,387)
Fuel		**(17,349)**	(47,317)	**(2,224)**	(6,066)
Aircraft maintenance		**(6,567)**	(7,643)	**(842)**	(980)
Aircraft depreciation and operating leases		**(7,978)**	(7,211)	**(1,023)**	(925)
Other depreciation and operating leases		**(1,103)**	(1,060)	**(141)**	(136)
Commissions		**(571)**	(851)	**(73)**	(109)
Others		**(2,940)**	(3,455)	**(377)**	(443)
Operating expenses		**(62,499)**	(94,124)	**(8,013)**	(12,067)
Operating profit/(loss) before non-recurring items		**4,479**	(7,561)	**574**	(969)
Profit on disposal of investment in an associate		**1,254**	–	**161**	–
Settlement of the United States Department of Justice cargo investigations		**–**	(468)	**–**	(60)
Operating profit/(loss)	*3*	**5,733**	(8,029)	**735**	(1,029)
Finance charges		**(1,435)**	(2,428)	**(184)**	(311)
Finance income		**588**	1,416	**75**	181
Net finance charges	*4*	**(847)**	(1,012)	**(109)**	(130)
Share of profits/(losses) of associates	*13*	**261**	(764)	**33**	(98)
Profit/(loss) before tax		**5,147**	(9,805)	**659**	(1,257)
Taxation	*5*	**(283)**	1,333	**(36)**	171
Profit/(loss) for the year		**4,864**	(8,472)	**623**	(1,086)
Other comprehensive income					
Cash flow hedges		**329**	(1,035)	**42**	(131)
Revaluation surplus/(deficit) arising from available-for-sale financial assets		**479**	(430)	**62**	(55)
Share of other comprehensive income of associates		**11**	(154)	**1**	(22)
Exchange differences on translation of foreign operations		**8**	524	**1**	67
Other comprehensive income for the year, net of tax	*6*	**827**	(1,095)	**106**	(141)
Total comprehensive income for the year		**5,691**	(9,567)	**729**	(1,227)
Profit/(loss) attributable to					
Owners of Cathay Pacific	*7*	**4,694**	(8,696)	**601**	(1,115)
Minority interests		**170**	224	**22**	29
		4,864	(8,472)	**623**	(1,086)
Total comprehensive income attributable to					
Owners of Cathay Pacific		**5,521**	(9,791)	**707**	(1,256)
Minority interests		**170**	224	**22**	29
		5,691	(9,567)	**729**	(1,227)
Earnings/(loss) per share					
Basic	*8*	**119.3¢**	(221.0)¢	**15.3¢**	(28.3)¢
Diluted	*8*	**119.3¢**	(221.0)¢	**15.3¢**	(28.3)¢

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 59 to 97 form part of these accounts.

Consolidated Statement of Financial Position

at 31st December 2009

	Note	2009 HK$M	2008 (restated) HK$M	2007 (restated) HK$M	2009 US$M	2008 (restated) US$M	2007 (restated) US$M
ASSETS AND LIABILITIES							
Non-current assets and liabilities							
Fixed assets	10	**65,495**	66,039	62,388	**8,397**	8,466	7,999
Intangible assets	11	**7,850**	7,782	7,782	**1,007**	998	997
Investments in associates	13	**9,042**	9,581	9,896	**1,159**	1,228	1,269
Other long-term receivables and investments	14	**5,307**	4,949	5,119	**680**	635	656
		87,694	88,351	85,185	**11,243**	11,327	10,921
Long-term liabilities		**(40,416)**	(43,221)	(40,323)	**(5,182)**	(5,541)	(5,169)
Related pledged security deposits		**5,602**	7,196	7,833	**719**	922	1,004
Net long-term liabilities	15	**(34,814)**	(36,025)	(32,490)	**(4,463)**	(4,619)	(4,165)
Other long-term payables	16	**(1,059)**	(4,606)	(1,490)	**(136)**	(590)	(191)
Deferred taxation	18	**(5,255)**	(4,831)	(6,621)	**(674)**	(619)	(849)
		(41,128)	(45,462)	(40,601)	**(5,273)**	(5,828)	(5,205)
Net non-current assets		**46,566**	42,889	44,584	**5,970**	5,499	5,716
Current assets and liabilities							
Stock		**947**	960	882	**122**	123	113
Trade and other receivables	19	**8,161**	10,647	9,817	**1,046**	1,365	1,258
Liquid funds	20	**16,522**	15,088	21,649	**2,118**	1,934	2,776
		25,630	26,695	32,348	**3,286**	3,422	4,147
Current portion of long-term liabilities		**(9,023)**	(4,556)	(4,788)	**(1,157)**	(584)	(614)
Related pledged security deposits		**1,195**	301	910	**153**	39	117
Net current portion of long-term liabilities	15	**(7,828)**	(4,255)	(3,878)	**(1,004)**	(545)	(497)
Trade and other payables	21	**(12,965)**	(17,722)	(12,538)	**(1,662)**	(2,272)	(1,608)
Unearned transportation revenue		**(8,075)**	(8,649)	(8,792)	**(1,035)**	(1,109)	(1,127)
Taxation		**(943)**	(2,129)	(2,475)	**(121)**	(273)	(317)
		(29,811)	(32,755)	(27,683)	**(3,822)**	(4,199)	(3,549)
Net current (liabilities)/assets		**(4,181)**	(6,060)	4,665	**(536)**	(777)	598
Net assets		**42,385**	36,829	49,249	**5,434**	4,722	6,314
CAPITAL AND RESERVES							
Share capital	22	**787**	787	788	**101**	101	101
Reserves	23	**41,451**	35,922	48,283	**5,314**	4,606	6,190
Funds attributable to owners of Cathay Pacific		**42,238**	36,709	49,071	**5,415**	4,707	6,291
Minority interests		**147**	120	178	**19**	15	23
Total equity		**42,385**	36,829	49,249	**5,434**	4,722	6,314

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 59 to 97 form part of these accounts.

Christopher Pratt
Director

Jack So
Director

Hong Kong, 10th March 2010

Company Statement of Financial Position

at 31st December 2009

	Note	2009 HK$M	2008 (restated) HK$M	2007 (restated) HK$M	2009 US$M	2008 (restated) US$M	2007 (restated) US$M
ASSETS AND LIABILITIES							
Non-current assets and liabilities							
Fixed assets	10	**49,693**	48,374	45,637	**6,371**	6,202	5,851
Intangible assets	11	**182**	116	116	**23**	15	15
Investments in subsidiaries	12	**19,651**	21,165	24,909	**2,519**	2,713	3,193
Investments in associates	13	**7,602**	7,625	7,186	**975**	978	921
Other long-term receivables and investments	14	**3,524**	3,169	3,164	**452**	406	406
		80,652	80,449	81,012	**10,340**	10,314	10,386
Long-term liabilities		**(34,860)**	(37,099)	(34,289)	**(4,469)**	(4,756)	(4,396)
Related pledged security deposits		**923**	1,921	2,484	**118**	246	318
Net long-term liabilities	15	**(33,937)**	(35,178)	(31,805)	**(4,351)**	(4,510)	(4,078)
Other long-term payables	16	**(963)**	(4,601)	(1,388)	**(123)**	(590)	(178)
Deferred taxation	18	**(4,141)**	(3,689)	(5,310)	**(531)**	(473)	(680)
		(39,041)	(43,468)	(38,503)	**(5,005)**	(5,573)	(4,936)
Net non-current assets		**41,611**	36,981	42,509	**5,335**	4,741	5,450
Current assets and liabilities							
Stock		**829**	841	790	**106**	108	101
Trade and other receivables	19	**6,209**	8,427	7,688	**796**	1,080	986
Liquid funds	20	**11,120**	7,566	7,622	**1,426**	970	977
		18,158	16,834	16,100	**2,328**	2,158	2,064
Current portion of long-term liabilities		**(9,052)**	(4,526)	(4,460)	**(1,160)**	(580)	(572)
Related pledged security deposits		**728**	11	17	**93**	1	2
Net current portion of long-term liabilities	15	**(8,324)**	(4,515)	(4,443)	**(1,067)**	(579)	(570)
Trade and other payables	21	**(10,553)**	(15,259)	(10,011)	**(1,353)**	(1,956)	(1,283)
Unearned transportation revenue		**(7,666)**	(8,167)	(8,376)	**(983)**	(1,047)	(1,074)
Taxation		**(675)**	(1,832)	(2,084)	**(87)**	(235)	(267)
		(27,218)	(29,773)	(24,914)	**(3,490)**	(3,817)	(3,194)
Net current liabilities		**(9,060)**	(12,939)	(8,814)	**(1,162)**	(1,659)	(1,130)
Net assets		**32,551**	24,042	33,695	**4,173**	3,082	4,320
CAPITAL AND RESERVES							
Share capital	22	**787**	787	788	**101**	101	101
Reserves	23	**31,764**	23,255	32,907	**4,072**	2,981	4,219
Total equity		**32,551**	24,042	33,695	**4,173**	3,082	4,320

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The notes on pages 59 to 97 form part of these accounts.

Christopher Pratt
Director

Jack So
Director

Hong Kong, 10th March 2010

Consolidated Statement of Cash Flows

for the year ended 31st December 2009

	Note	2009 HK$M	2008 HK$M	2009 US$M	2008 US$M
Operating activities					
Cash generated from operations	*24*	**4,490**	3,882	**576**	497
Dividends received from associates	*13*	**174**	383	**22**	49
Interest received		**79**	258	**10**	33
Net interest paid		**(965)**	(1,305)	**(124)**	(167)
Tax paid		**(1,743)**	(1,402)	**(223)**	(179)
Net cash inflow from operating activities		**2,035**	1,816	**261**	233
Investing activities					
Net decrease in liquid funds other than cash and cash equivalents		**2,250**	7,556	**288**	969
Disposal of investment in an associate		**1,901**	–	**244**	–
Sales of fixed assets		**1,304**	76	**167**	10
Net decrease/(increase) in other long-term receivables and investments		**92**	(51)	**12**	(7)
Net receipt/(payment) for investment in associates		**6**	(439)	**1**	(56)
Disposal of a subsidiary	*25*	**–**	42	**–**	5
Payments for fixed and intangible assets		**(6,776)**	(9,228)	**(869)**	(1,183)
Net cash outflow from investing activities		**(1,223)**	(2,044)	**(157)**	(262)
Financing activities					
New financing		**6,169**	6,665	**790**	854
Net cash benefit from financing arrangements		**585**	772	**75**	99
Shares repurchased and issued	*22*	**8**	(133)	**1**	(17)
Loan and finance lease repayments		**(4,362)**	(3,810)	**(559)**	(488)
Security deposits placed		**(117)**	(109)	**(15)**	(14)
Dividends paid – to owners of Cathay Pacific		**–**	(2,438)	**–**	(313)
– to minority interests		**(143)**	(258)	**(18)**	(33)
Net cash inflow from financing activities		**2,140**	689	**274**	88
Increase in cash and cash equivalents		**2,952**	461	**378**	59
Cash and cash equivalents at 1st January		**7,045**	6,773	**903**	868
Effect of exchange differences		**97**	(189)	**13**	(24)
Cash and cash equivalents at 31st December	*26*	**10,094**	7,045	**1,294**	903

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 59 to 97 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2009

	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 2009 (restated)	**787**	**20,010**	**16,287**	**638**	**(1,712)**	**699**	**36,709**	**120**	**36,829**
Total comprehensive income for the year	**–**	**4,694**	**–**	**479**	**329**	**19**	**5,521**	**170**	**5,691**
Dividends paid to minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(143)**	**(143)**
Share options exercised	**–**	**–**	**8**	**–**	**–**	**–**	**8**	**–**	**8**
	–	**4,694**	**8**	**479**	**329**	**19**	**5,529**	**27**	**5,556**
At 31st December 2009	**787**	**24,704**	**16,295**	**1,117**	**(1,383)**	**718**	**42,238**	**147**	**42,385**
At 31st December 2007 (as previously reported)	788	32,771	16,272	1,068	(677)	327	50,549	178	50,727
Adjustment on investment in Air China	–	(158)	–	–	–	–	(158)	–	(158)
Adjustment on adopting HK (IFRIC) Interpretation 13	–	(1,320)	–	–	–	–	(1,320)	–	(1,320)
At 1st January 2008 (restated)	788	31,293	16,272	1,068	(677)	327	49,071	178	49,249
Total comprehensive income for the year (restated)	–	(8,696)	–	(430)	(1,035)	370	(9,791)	224	(9,567)
Dividends (note 9)									
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)	(11,283)	15	(430)	(1,035)	372	(12,362)	(58)	(12,420)
At 31st December 2008 (restated)	787	20,010	16,287	638	(1,712)	699	36,709	120	36,829

The notes on pages 59 to 97 form part of these accounts.

Company Statement of Changes in Equity

for the year ended 31st December 2009

	Attributable to owners of Cathay Pacific						
			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
At 1st January 2009 (restated)	**787**	**8,018**	**16,287**	**593**	**(1,666)**	**23**	**24,042**
Total comprehensive income for the year	**–**	**7,667**	**–**	**412**	**422**	**–**	**8,501**
Share options exercised	**–**	**–**	**8**	**–**	**–**	**–**	**8**
	–	**7,667**	**8**	**412**	**422**	**–**	**8,509**
At 31st December 2009	**787**	**15,685**	**16,295**	**1,005**	**(1,244)**	**23**	**32,551**
At 31st December 2007 (as previously reported)	788	17,538	16,272	876	(544)	21	34,951
Adjustment on adopting HK (IFRIC) Interpretation 13	–	(1,256)	–	–	–	–	(1,256)
At 1st January 2008 (restated)	788	16,282	16,272	876	(544)	21	33,695
Total comprehensive income for the year (restated)	–	(5,677)	–	(283)	(1,122)	–	(7,082)
Dividends (note 9)							
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)	(8,264)	15	(283)	(1,122)	2	(9,653)
At 31st December 2008 (restated)	787	8,018	16,287	593	(1,666)	23	24,042

The notes on pages 59 to 97 form part of these accounts.

Notes to the Accounts STATEMENT OF COMPREHENSIVE INCOME

1. Turnover

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

2. Segment information

(a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2009 HK$M	2008 (restated) HK$M	**2009 HK$M**	2008 (restated) HK$M	**2009 HK$M**	2008 (restated) HK$M	**2009 HK$M**	2008 (restated) HK$M
Profit or loss								
Sales to external customers	**66,080**	85,390	**898**	1,173			**66,978**	86,563
Inter-segment sales	**–**	16	**1,252**	1,343			**1,252**	1,359
Segment revenue	**66,080**	85,406	**2,150**	2,516			**68,230**	87,922
Segment results	**5,638**	(8,218)	**95**	189			**5,733**	(8,029)
Net finance charges	**(839)**	(1,012)	**(8)**	–			**(847)**	(1,012)
	4,799	(9,230)	**87**	189			**4,886**	(9,041)
Share of profits/(losses) of associates					**261**	(764)	**261**	(764)
Profit/(loss) before tax							**5,147**	(9,805)
Taxation	**(269)**	1,356	**(14)**	(23)			**(283)**	1,333
Profit/(loss) for the year							**4,864**	(8,472)

	Airline business			Non-airline business			Unallocated			Total		
	2009 HK$M	2008 (restated) HK$M	2007 (restated) HK$M	**2009 HK$M**	2008 HK$M	2007 HK$M	**2009 HK$M**	2008 (restated) HK$M	2007 (restated) HK$M	**2009 HK$M**	2008 (restated) HK$M	2007 (restated) HK$M
Assets and liabilities												
Segment assets	**103,000**	104,162	105,910	**1,282**	1,303	1,727				**104,282**	105,465	107,637
Investment in associates							**9,042**	9,581	9,896	**9,042**	9,581	9,896
Total assets	**103,000**	104,162	105,910	**1,282**	1,303	1,727	**9,042**	9,581	9,896	**113,324**	115,046	117,533
Segment liabilities	**70,651**	77,981	67,874	**288**	236	410				**70,939**	78,217	68,284
Net assets										**42,385**	36,829	49,249

	Airline business		Non-airline business		Unallocated		Total	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M	**2009 HK$M**	2008 HK$M	**2009 HK$M**	2008 HK$M
Other segment information								
Depreciation and amortisation	**5,534**	5,040	**150**	155	**–**	–	**5,684**	5,195
Purchase of fixed and intangible assets	**6,745**	8,509	**31**	719	**–**	–	**6,776**	9,228

2. Segment information *(continued)*

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 handling 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.

(b) Geographical information

	2009 HK$M	2008 (restated) HK$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**28,880**	35,968
– Japan, Korea and Taiwan	**8,413**	12,176
Southwest Pacific and South Africa	**4,712**	6,136
Europe	**7,920**	10,658
Southeast Asia and Middle East	**8,601**	9,922
North America	**8,452**	11,703
	66,978	86,563

Southwest Pacific and South Africa includes Australia, New Zealand and Southern Africa. Southeast 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. Operating profit/(loss)

	2009 HK$M	2008 (restated) HK$M
Operating profit/(loss) has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– Leased	**1,932**	1,939
– Owned	**3,720**	3,230
Amortisation of intangible assets	**32**	26
Operating lease rentals		
– Land and buildings	**668**	613
– Aircraft and related equipment	**2,707**	2,436
– Others	**22**	27
Operating lease income		
– Aircraft and related equipment	**–**	(48)
Cost of stock expensed	**1,892**	1,836
Exchange differences	**(344)**	(30)
Auditors' remuneration	**10**	10
Net (gain)/loss on financial assets and liabilities classified as held for trading	**(3,082)**	7,374
Net (gain)/loss on financial assets and liabilities designated as at fair value through profit and loss	**(58)**	531
Income from unlisted investments	**(170)**	(114)
Income from listed investments	**(5)**	(3)

4. Net finance charges

	2009 HK$M	2008 HK$M
Net interest charges comprise:		
– Obligations under finance leases stated at amortised cost	**991**	1,226
– Interest income on related security deposits, notes and bonds	**(417)**	(502)
	574	724
– Bank loans and overdrafts	**229**	473
– Other loans wholly repayable within five years	**91**	111
	894	1,308
Income from liquid funds:		
– Funds with investment managers and other liquid investments	**(43)**	(194)
– Bank deposits and other receivables	**(62)**	(284)
	(105)	(478)
Fair value change:		
– Obligations under finance leases designated as at fair value through profit and loss	**(58)**	531
– Financial derivatives	**116**	(349)
	58	182
	847	1,012

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

5. Taxation

	2009 HK$M	2008 (restated) HK$M
Current tax expenses		
– Hong Kong profits tax	**36**	41
– Overseas tax	**264**	330
– Over provisions for prior years	**(259)**	(234)
Deferred tax		
– Origination and reversal of temporary differences	**242**	(1,394)
– Decrease in tax rate	**–**	(76)
	283	(1,333)

Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) 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 (charge)/credit and accounting profit/(loss) at applicable tax rates is as follows:

	2009 HK$M	2008 (restated) HK$M
Consolidated profit/(loss) before tax	**5,147**	(9,805)
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2008: 16.5%)	**(849)**	1,618
Expenses not deductible for tax purposes	**(229)**	(199)
Tax provisions over provided in prior years	**259**	234
Effect of different tax rates in overseas jurisdictions	**320**	(808)
(Unused tax losses not recognised)/tax losses recognised	**(19)**	343
Income not subject to tax	**235**	69
Effect on opening deferred tax balances resulting from a change in tax rate	**–**	76
Tax (charge)/credit	**(283)**	1,333

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

6. Other comprehensive income

	2009 HK$M	2008 HK$M
Cash flow hedges		
– recognised during the year	**6**	(1,275)
– transferred to profit and loss	**360**	132
– deferred tax recognised	**(37)**	108
Revaluation surplus/(deficit) arising from available-for-sale financial assets	**479**	(430)
Share of other comprehensive income of associates	**11**	(154)
Exchange differences on translation of foreign operations		
– recognised during the year	**8**	529
– transferred to profit and loss	**–**	(5)
Other comprehensive income for the year	**827**	(1,095)

7. Profit/(loss) attributable to owners of Cathay Pacific

Of the profit attributable to owners of Cathay Pacific, a profit of HK$7,667 million (2008 (restated): a loss of HK$5,677 million) has been dealt with in the accounts of the Company.

8. Earnings/loss per share

Basic earnings per share and diluted earnings per share are calculated by dividing the profit attributable to owners of Cathay Pacific of HK$4,694 million (2008 (restated): a loss of HK$8,696 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2008: 3,934 million) shares and 3,934 million (2008: 3,935 million) shares respectively with the latter adjusted for the effects of the share options.

	2009 Million	2008 Million
Weighted average number of ordinary shares used in calculating basic earnings/loss per share	**3,934**	3,934
Deemed issue of ordinary shares for no consideration	**–**	1
Weighted average number of ordinary shares used in calculating diluted earnings/loss per share	**3,934**	3,935

9. Dividends

	2009 HK$M	2008 HK$M
2009 no interim dividend paid (2008: HK¢3 per share)	**–**	118
2009 final dividends proposed on 10th March 2010 of HK¢10 per share (2008: nil)	**393**	–
	393	118

Notes to the Accounts STATEMENT OF FINANCIAL POSITION

10. 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 2009	**62,140**	**42,087**	**2,851**	**478**	**5,104**	**620**	**113,280**
Exchange differences	**(13)**	**–**	**–**	**–**	**–**	**–**	**(13)**
Additions	**3,706**	**2,614**	**107**	**–**	**32**	**217**	**6,676**
Disposals	**(5,140)**	**–**	**(84)**	**–**	**(3)**	**–**	**(5,227)**
Transfers	**973**	**(973)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2009	**61,666**	**43,728**	**2,874**	**478**	**5,133**	**837**	**114,716**
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
Accumulated depreciation							
At 1st January 2009	**29,395**	**13,567**	**1,856**	**309**	**2,114**	**–**	**47,241**
Charge for the year	**3,360**	**1,911**	**193**	**21**	**167**	**–**	**5,652**
Impairment	**219**	**–**	**–**	**–**	**–**	**–**	**219**
Disposals	**(3,806)**	**–**	**(82)**	**–**	**(3)**	**–**	**(3,891)**
Transfers	**1,091**	**(1,091)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2009	**30,259**	**14,387**	**1,967**	**330**	**2,278**	**–**	**49,221**
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
Net book value							
At 31st December 2009	**31,407**	**29,341**	**907**	**148**	**2,855**	**837**	**65,495**
At 31st December 2008	32,745	28,520	995	169	2,990	620	66,039

10. 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 2009	**45,965**	**39,711**	**1,018**	**478**	**408**	**87,580**
Additions	**2,786**	**3,854**	**69**	**–**	**28**	**6,737**
Disposals	**(3,098)**	**–**	**(56)**	**–**	**–**	**(3,154)**
Transfers	**1,427**	**(1,427)**	**–**	**–**	**–**	**–**
At 31st December 2009	**47,080**	**42,138**	**1,031**	**478**	**436**	**91,163**
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
Accumulated depreciation						
At 1st January 2009	**25,000**	**12,849**	**677**	**308**	**372**	**39,206**
Charge for the year	**2,702**	**1,902**	**92**	**20**	**1**	**4,717**
Impairment	**219**	**–**	**–**	**–**	**–**	**219**
Disposals	**(2,616)**	**–**	**(56)**	**–**	**–**	**(2,672)**
Transfers	**707**	**(707)**	**–**	**–**	**–**	**–**
At 31st December 2009	**26,012**	**14,044**	**713**	**328**	**373**	**41,470**
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
Net book value						
At 31st December 2009	**21,068**	**28,094**	**318**	**150**	**63**	**49,693**
At 31st December 2008	20,965	26,862	341	170	36	48,374

10. 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 14 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 2009, fifteen Airbus A330-300s (2008: seventeen), four Airbus A340-300s (2008: four), six Boeing 747-400s (2008: six), one Boeing 747-400BCF (2008: nil), eight Boeing 777-300ERs (2008: four), four Airbus A320-200s (2008: five) and four Airbus A321-200s (2008: four) held under operating leases, most with purchase options, were not capitalised. The estimated capitalised value of these leases being the present value of the aggregate future lease payments is HK$11,687 million (2008: HK$9,652 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 2009 for each of the following periods are as follows:

	2009 HK$M	2008 HK$M
Aircraft and related equipment:		
– within one year	**2,707**	2,323
– after one year but within two years	**2,420**	2,136
– after two years but within five years	**5,470**	3,957
– after five years	**7,227**	2,847
	17,824	11,263
Buildings and other equipment:		
– within one year	**552**	411
– after one year but within two years	**384**	295
– after two years but within five years	**559**	369
– after five years	**35**	55
	1,530	1,130
	19,354	12,393

(c) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years. Advance payments included in owned aircraft and related equipment amounted to HK$2,810 million (2008: HK$4,052 million) for the Group and HK$292 million (2008: HK$335 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 15 to the accounts.

(e) Parked aircraft with no existing plan for reactivation are recognised at the lower of their carrying value and fair value less costs to sell. An impairment loss amounting to HK$219 million was recognised for these aircraft for the year ended 31st December 2009.

11. Intangible assets

	Group			Company
	Goodwill HK$M	Computer systems HK$M	Total HK$M	Computer systems HK$M
Cost				
At 1st January 2009	**7,666**	**692**	**8,358**	**667**
Additions	**–**	**100**	**100**	**97**
At 31st December 2009	**7,666**	**792**	**8,458**	**764**
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
Accumulated amortisation				
At 1st January 2009	**–**	**576**	**576**	**551**
Charge for the year	**–**	**32**	**32**	**31**
At 31st December 2009	**–**	**608**	**608**	**582**
At 1st January 2008	–	566	566	526
Charge for the year	–	26	26	25
Disposals	–	(16)	(16)	–
At 31st December 2008	–	576	576	551
Net book value				
At 31st December 2009	**7,666**	**184**	**7,850**	**182**
At 31st December 2008	7,666	116	7,782	116

The carrying amount of goodwill allocated to the airline operation is HK$7,627 million (2008: 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% (2008: 10%) 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.

12. Subsidiaries

	Company	
	2009 **HK$M**	2008 HK$M
Unlisted shares at cost	**246**	239
Other investments at cost	**6,640**	4,973
Net amounts due from subsidiaries		
– Loan accounts	**2,462**	6,690
– Current accounts	**10,303**	9,263
	19,651	21,165

Principal subsidiaries are listed on page 96.

13. Associates

	Group			Company		
	2009 **HK$M**	2008 (restated) HK$M	2007 (restated) HK$M	**2009** **HK$M**	2008 HK$M	2007 HK$M
Hong Kong listed shares at cost (Market value: HK$15,976 million, 2008: HK$8,230 million)	**–**	–	–	**7,594**	7,617	7,178
Unlisted shares at cost	**–**	–	–	**17**	17	17
Share of net assets						
– listed in Hong Kong	**5,880**	6,436	7,167	**–**	–	–
– unlisted	**367**	350	363	**–**	–	–
Goodwill	**2,795**	2,795	2,366	**–**	–	–
	9,042	9,581	9,896	**7,611**	7,634	7,195
Less: Impairment loss	**–**	–	–	**(9)**	(9)	(9)
	9,042	9,581	9,896	**7,602**	7,625	7,186
Share of profits/(losses) of associates						
– listed	**209**	(811)		**–**	–	
– unlisted	**52**	47		**–**	–	
	261	(764)		**–**	–	
Dividends received and receivable from associates	**174**	383		**126**	313	

	2009 **HK$M**	2008 HK$M
Summarised financial information of associates:		
Assets	**127,391**	121,891
Liabilities	**(92,930)**	(88,082)
Equity	**34,461**	33,809
Turnover	**62,911**	66,417
Net profit/(loss) for the year	**2,041**	(5,800)

13. Associates *(continued)*

In respect of the year ended 31st December 2009, Air China has been included in the consolidated accounts based on the most recently available accounts drawn up to 30th September 2009 excluding the Group's share of Air China's fuel hedging losses of HK$1 billion for the fourth quarter of 2008 which were included in the Group's 2008 annual results. The Group has taken advantage of the provision contained in HKAS 28 "Investments in Associates" whereby it is permitted to include the attributable share of associates' results based on accounts drawn up to a non-coterminous period end where the difference must be no greater than three months.

Principal associates are listed on page 97.

14. Other long-term receivables and investments

	Group			Company		
	2009 HK$M	2008 (restated) HK$M	2007 (restated) HK$M	**2009 HK$M**	2008 (restated) HK$M	2007 (restated) HK$M
Investments at fair value						
– listed in Hong Kong	**175**	77	186	**–**	–	–
– unlisted	**1,373**	992	1,256	**1,328**	916	1,142
Leasehold land rental prepayments	**1,557**	1,600	1,642	**–**	–	–
Loans and other receivables	**311**	418	435	**305**	408	425
Derivative financial assets – long-term portion	**1,891**	1,862	1,600	**1,891**	1,845	1,597
	5,307	4,949	5,119	**3,524**	3,169	3,164

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK$1,600 million (2008: HK$1,643 million).

15. Long-term liabilities

		2009		2008	
	Note	**Current HK$M**	**Non-current HK$M**	Current HK$M	Non-current HK$M
Group					
Long-term loans	*(a)*	**4,140**	**15,159**	1,964	16,504
Obligations under finance leases	*(b)*	**3,688**	**19,655**	2,291	19,521
		7,828	**34,814**	4,255	36,025
Company					
Long-term loans	*(a)*	**3,278**	**11,564**	951	12,020
Obligations under finance leases	*(b)*	**5,046**	**22,373**	3,564	23,158
		8,324	**33,937**	4,515	35,178

15. Long-term liabilities *(continued)*

(a) Long-term loans

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Bank loans				
– secured	**8,831**	8,521	**4,709**	3,466
– unsecured	**6,958**	6,459	**6,623**	6,017
Other loans				
– secured	**52**	121	**52**	121
– unsecured	**3,458**	3,367	**3,458**	3,367
	19,299	18,468	**14,842**	12,971
Amount due within one year included under current liabilities	**(4,140)**	(1,964)	**(3,278)**	(951)
	15,159	16,504	**11,564**	12,020
Repayable as follows:				
Bank loans				
– within one year	**2,843**	1,894	**1,981**	881
– after one year but within two years	**3,224**	2,582	**2,495**	1,719
– after two years but within five years	**7,285**	7,498	**5,616**	5,601
– after five years	**2,437**	3,006	**1,240**	1,282
	15,789	14,980	**11,332**	9,483
Other loans				
– within one year	**1,297**	70	**1,297**	70
– after one year but within two years	**2,213**	1,263	**2,213**	1,263
– after two years but within five years	**–**	2,155	**–**	2,155
	3,510	3,488	**3,510**	3,488
Amount due within one year included under current liabilities	**(4,140)**	(1,964)	**(3,278)**	(951)
	15,159	16,504	**11,564**	12,020

Borrowings other than bank loans are repayable on various dates up to 2011 at interest rates between 1.17% and 3.82% 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$6,668 million and HK$3,846 million respectively (2008: HK$7,698 million and HK$3,452 million).

As at 31st December 2009, the Group and the Company had long-term loans which were defeased by funds and other investments totalling HK$22,290 million and HK$19,226 million respectively (2008: HK$21,374 million and HK$17,942 million). Accordingly, these liabilities and the related funds, as well as related expenditure and income, have been netted off in the accounts.

15. Long-term liabilities *(continued)*

(b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2010 to 2023. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Future payments	**35,973**	35,633	**36,296**	36,569
Interest charges relating to future periods	**(5,833)**	(6,324)	**(7,226)**	(7,915)
Present value of future payments	**30,140**	29,309	**29,070**	28,654
Security deposits, notes and zero coupon bonds	**(6,797)**	(7,497)	**(1,651)**	(1,932)
Amounts due within one year included under current liabilities	**(3,688)**	(2,291)	**(5,046)**	(3,564)
	19,655	19,521	**22,373**	23,158

The present value of future payments is repayable as follows:

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Within one year	**4,883**	2,592	**5,774**	3,575
After one year but within two years	**3,200**	4,525	**4,059**	5,414
After two years but within five years	**10,588**	10,853	**7,581**	8,498
After five years	**11,469**	11,339	**11,656**	11,167
	30,140	29,309	**29,070**	28,654

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

As at 31st December 2009, the Group and the Company had obligations under finance leases which were defeased by funds and other investments amounting to HK$8,033 million and HK$1,081 million respectively (2008: HK$8,796 million and HK$1,080 million). Accordingly these liabilities and the related funds, as well as related expenditure and income, have been netted off in the accounts.

As at 31st December 2009, the Group and the Company had financial liabilities designated as at fair value through profit and loss of HK$4,474 million (2008: HK$4,943 million) and HK$4,474 million (2008: HK$4,943 million) respectively.

16. Other long-term payables

	Group			Company		
	2009 HK$M	2008 (restated) HK$M	2007 (restated) HK$M	**2009 HK$M**	2008 (restated) HK$M	2007 (restated) HK$M
Retirement benefit obligations (note 17)	**216**	281	268	**224**	299	287
Derivative financial liabilities – long-term portion	**843**	4,325	1,222	**739**	4,302	1,101
	1,059	4,606	1,490	**963**	4,601	1,388

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 2009 using the projected unit credit method.

	2009		2008	
	SGRBS	**CPALRS**	SGRBS	CPALRS
The principal actuarial assumptions are:				
Discount rate used	**4.8%**	**4.8%**	5.3%	5.3%
Expected return on plan assets	**8.0%**	**6.5%**	7.0%	6.0%
Future salary increases	**2-5%**	**1-5%**	2-5%	1-5%

The actuarial valuation of the above schemes and schemes of other subsidiaries shows that the Group's obligations are 97% (2008: 83%) covered by the plan assets held by the trustees as at 31st December 2009.

	2009 HK$M	2008 HK$M
Net expenses recognised in the Group profit and loss:		
Current service cost	**316**	389
Interest on obligations	**342**	270
Expected return on plan assets	**(371)**	(609)
Actuarial loss/(gain) recognised	**30**	(35)
Total included in staff costs	**317**	15
Actual return on plan assets	**1,578**	(2,759)

17. Retirement benefits *(continued)*

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Net liability recognised in the statement of financial position:				
Present value of funded obligations	**7,460**	7,108	**6,870**	6,522
Fair value of plan assets	**(7,217)**	(5,924)	**(6,583)**	(5,426)
	243	1,184	**287**	1,096
Net unrecognised actuarial losses	**(27)**	(903)	**(63)**	(797)
	216	281	**224**	299

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Movements in present value of funded obligations comprise:				
At 1st January	**7,108**	8,223	**6,522**	7,549
Movements for the year				
– current service cost	**316**	389	**284**	345
– interest cost	**342**	270	**314**	244
– employee contributions	**14**	20	**14**	20
– benefits paid	**(681)**	(470)	**(645)**	(426)
– actuarial losses/(gains)	**361**	(1,324)	**381**	(1,210)
At 31st December	**7,460**	7,108	**6,870**	6,522

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Movements in fair value of plan assets comprise:				
At 1st January	**5,924**	9,131	**5,426**	8,353
Movements for the year				
– expected return on plan assets	**371**	609	**337**	549
– employee contributions	**14**	20	**14**	20
– employer contributions	**382**	2	**359**	–
– benefits paid	**(681)**	(470)	**(645)**	(426)
– actuarial gains/(losses)	**1,207**	(3,368)	**1,092**	(3,070)
At 31st December	**7,217**	5,924	**6,583**	5,426

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Fair value of plan assets comprises:				
Equities	**4,297**	3,717	**3,785**	3,396
Debt instruments	**1,725**	1,780	**1,607**	1,616
Deposits and cash	**526**	427	**522**	414
Others	**669**	–	**669**	–
	7,217	5,924	**6,583**	5,426

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.

17. Retirement benefits *(continued)*

	Group				
	2009 HK$M	2008 HK$M	2007 HK$M	2006 HK$M	2005 HK$M
Present value of funded obligations	**7,460**	7,108	8,223	7,844	7,341
Fair value of plan assets	**(7,217)**	(5,924)	(9,131)	(8,065)	(7,387)
Deficit/(surplus)	**243**	1,184	(908)	(221)	(46)
Actuarial losses/(gains) arising on plan liabilities	**361**	(1,324)	205	267	(132)
Actuarial (gains)/losses arising on plan assets	**(1,207)**	3,368	(990)	(529)	(179)

	Company				
	2009 HK$M	2008 HK$M	2007 HK$M	2006 HK$M	2005 HK$M
Present value of funded obligations	**6,870**	6,522	7,549	7,196	6,818
Fair value of plan assets	**(6,583)**	(5,426)	(8,353)	(7,369)	(6,833)
Deficit/(surplus)	**287**	1,096	(804)	(173)	(15)
Actuarial losses/(gains) arising on plan liabilities	**381**	(1,210)	178	261	(216)
Actuarial (gains)/losses arising on plan assets	**(1,092)**	3,070	(893)	(495)	(171)

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$315 million to the schemes in 2010.

(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$19 million (2008: HK$26 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$677 million (2008: HK$655 million).

18. Deferred taxation

	Group			Company		
	2009 HK$M	2008 (restated) HK$M	2007 (restated) HK$M	**2009 HK$M**	2008 (restated) HK$M	2007 (restated) HK$M
Deferred tax assets:						
– retirement benefits	**13**	(46)	(52)	**11**	(48)	(52)
– provisions	**(178)**	(108)	(141)	**(113)**	(63)	(82)
– tax losses	**(1,831)**	(2,142)	(512)	**(1,516)**	(1,767)	(346)
– cash flow hedges	**(158)**	(195)	(87)	**(135)**	(191)	(65)
– customer loyalty programmes	**(82)**	(146)	(150)	**(82)**	(146)	(150)
Deferred tax liabilities:						
– accelerated tax depreciation	**2,047**	2,169	2,052	**1,380**	1,511	1,503
Provision in respect of certain lease arrangements	**5,444**	5,299	5,511	**4,596**	4,393	4,502
	5,255	4,831	6,621	**4,141**	3,689	5,310

	Group		Company	
	2009 HK$M	2008 (restated) HK$M	**2009 HK$M**	2008 (restated) HK$M
Movements in deferred taxation comprise:				
At 1st January	**4,831**	6,621	**3,689**	5,310
Movements for the year				
– transferred from the profit and loss				
– deferred tax expenses/(income) (note 5)	**242**	(1,470)	**193**	(1,386)
– operating expenses/(income)	**76**	(68)	**56**	(70)
– transferred to cash flow hedge reserve	**37**	(108)	**56**	(126)
– initial cash benefit from lease arrangements	**585**	772	**585**	703
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	**(516)**	(916)	**(438)**	(742)
At 31st December	**5,255**	4,831	**4,141**	3,689

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 2011 to 2020 (2008: 2010 to 2019) as follows:

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
After one year but within five years	**2,598**	2,457	**2,018**	1,913
After five years but within 10 years	**2,376**	2,234	**2,108**	1,926
After 10 years	**470**	608	**470**	554
	5,444	5,299	**4,596**	4,393

19. Trade and other receivables

	Group			Company		
	2009 HK$M	2008 (restated) HK$M	2007 (restated) HK$M	**2009 HK$M**	2008 (restated) HK$M	2007 (restated) HK$M
Trade debtors	**4,771**	4,640	4,938	**4,114**	4,098	4,150
Derivative financial assets – current portion	**746**	2,463	1,118	**733**	2,340	1,103
Other receivables and prepayments	**2,631**	3,496	3,698	**1,351**	1,979	2,420
Due from associates	**13**	48	63	**11**	10	15
	8,161	10,647	9,817	**6,209**	8,427	7,688

As at 31st December 2009, total derivative financial assets of the Group and the Company accounted for as held for trading amounted to HK$1,123 million (2008: HK$3,300 million) and HK$1,123 million (2008: HK$3,195 million) respectively.

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Analysis of trade debtors by age:				
Current	**4,741**	4,558	**4,097**	4,050
One to three months overdue	**27**	69	**15**	36
More than three months overdue	**3**	13	**2**	12
	4,771	4,640	**4,114**	4,098

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

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
At 1st January	**169**	169	**135**	133
Amounts written back	**(8)**	(2)	**(7)**	–
Impairment loss recognised	**2**	2	**–**	2
At 31st December	**163**	169	**128**	135

20. Liquid funds

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Short-term deposits and bank balances	**10,105**	7,051	**7,872**	4,456
Short-term deposits maturing beyond three months when placed	**407**	816	**402**	419
Funds with investment managers				
– debt securities listed outside Hong Kong	**2,370**	3,046	**–**	–
– bank deposits	**2**	372	**–**	–
Other liquid investments				
– debt securities listed outside Hong Kong	**1,388**	966	**1,146**	–
– bank deposits	**2,250**	2,837	**1,700**	2,691
	16,522	15,088	**11,120**	7,566

Included in other liquid investments are bank deposits of HK$1,085 million (2008: HK$2,025 million) and debt securities of HK$1,388 million (2008: HK$966 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		
	2009 HK$M	2008 (restated) HK$M	2007 (restated) HK$M	**2009 HK$M**	2008 (restated) HK$M	2007 (restated) HK$M
Trade creditors	**4,832**	5,571	5,546	**3,410**	3,931	4,064
Derivative financial liabilities	**1,884**	6,639	933	**1,845**	6,617	917
Other payables	**5,970**	5,297	5,704	**5,053**	4,561	4,769
Due to associates	**131**	170	197	**97**	105	105
Due to other related companies	**137**	39	146	**137**	39	146
Bank overdrafts – unsecured	**11**	6	12	**11**	6	10
	12,965	17,722	12,538	**10,553**	15,259	10,011

As at 31st December 2009, total derivative financial liabilities of the Group and the Company accounted for as held for trading amounted to HK$1,477 million (2008: HK$9,216 million) and HK$1,471 million (2008: HK$9,203 million) respectively.

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Analysis of trade creditors by age:				
Current	**4,713**	5,321	**3,332**	3,759
One to three months overdue	**106**	240	**70**	164
More than three months overdue	**13**	10	**8**	8
	4,832	5,571	**3,410**	3,931

22. Share capital

	2009		2008	
	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	**3,932,746,072**	**787**	3,940,025,072	788
Shares repurchased during the year	**–**	**–**	(9,390,000)	(2)
Share options exercised	**1,098,500**	**–**	2,111,000	1
At 31st December	**3,933,844,572**	**787**	3,932,746,072	787

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 were, except in limited circumstances, exercisable until 14th March 2009. All unexercised options lapsed in accordance with the terms of the Scheme on 15th March 2009, being 10 years after the date of grant 15th March 1999.

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 was increased by the number of options exercised at the exercise price.

	2009	2008
	Number of shares	Number of shares
Movements in options outstanding comprise:		
At 1st January	**2,619,500**	4,730,500
Options exercised	**(1,098,500)**	(2,111,000)
Options lapsed	**(1,521,000)**	–
At 31st December	**–**	2,619,500
Options vested at 31st December	**–**	2,619,500

No options were granted under the Scheme during the year.

	2009	2008
Details of share options exercised during the year:		
Exercise date	**3/2/09 – 14/3/09**	8/1/08 – 30/12/08
Proceeds received (HK$)	**8,205,795**	15,769,170
Weighted average closing share price immediately before the exercise date (HK$)	**8.13**	14.87

23. Reserves

	Group			Company		
	2009	2008 (restated)	2007 (restated)	**2009**	2008 (restated)	2007 (restated)
	HK$M	HK$M	HK$M	**HK$M**	HK$M	HK$M
Retained profit	**24,704**	20,010	31,293	**15,685**	8,018	16,282
Share premium	**16,295**	16,287	16,272	**16,295**	16,287	16,272
Investment revaluation reserve	**1,117**	638	1,068	**1,005**	593	876
Cash flow hedge reserve	**(1,383)**	(1,712)	(677)	**(1,244)**	(1,666)	(544)
Capital redemption reserve and others	**718**	699	327	**23**	23	21
	41,451	35,922	48,283	**31,764**	23,255	32,907

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 (2008: HK$24 million), exchange differences arising from revaluation of foreign investments amounted to HK$1,145 million (2008: HK$1,137 million) and share of associate's other negative reserve of HK$474 million (2008: HK$485 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:

	2009	2008
	HK$M	HK$M
Turnover	**(94)**	(468)
Fuel	**(192)**	382
Others	**(46)**	(47)
Finance income	**(28)**	1
Net loss transferred to the profit and loss	**(360)**	(132)

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

	Total
	HK$M
2010	**788**
2011	**254**
2012	**127**
2013	**70**
2014	**56**
Beyond 2014	**88**
	1,383

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

Notes to the Accounts STATEMENT OF CASH FLOWS

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

	2009 HK$M	2008 (restated) HK$M
Operating profit/(loss)	**5,733**	(8,029)
Depreciation	**5,652**	5,169
Amortisation of intangible assets	**32**	26
Loss on disposal of fixed assets and intangible assets	**32**	245
Profit on disposal of interest in an associate	**(1,254)**	–
Currency adjustments and other items not involving cash flows	**525**	223
Decrease/(increase) in stock	**13**	(82)
Decrease/(increase) in trade debtors, other receivables and prepayments and long-term portion of derivative financial assets	**2,422**	(732)
Increase/(decrease) in net amounts due to related companies and associates	**94**	(119)
(Decrease)/increase in trade creditors, other payables and long-term portion of derivative financial liabilities	**(8,303)**	8,045
Decrease in unearned transportation revenue	**(574)**	(143)
Non-operating movements in debtors and creditors	**118**	(721)
Cash generated from operations	**4,490**	3,882

25. Disposal of a subsidiary

	2009 HK$M	2008 HK$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

	2009 HK$M	2008 HK$M
Short-term deposits and bank balances	**10,105**	7,051
Bank overdrafts	**(11)**	(6)
	10,094	7,045

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	**2009 Total HK$'000**	2008 Total HK$'000
Executive Directors								
Christopher Pratt	1,059	–	51	1,347	–	631	**3,088**	3,463
Robert Atkinson (up to March 2009)	393	2,494	164	497	–	612	**4,160**	8,452
Philip Chen	–	–	–	–	–	–	**–**	3,714
James E. Hughes-Hallett (from March 2009)	1,404	–	494	1,979	–	921	**4,798**	–
Ian Shiu (from October 2008)	1,628	953	501	112	–	–	**3,194**	3,042
John Slosar	3,812	–	287	4,848	–	2,178	**11,125**	9,905
Augustus Tang (up to September 2008)	–	–	–	–	–	–	**–**	4,455
Tony Tyler	4,320	–	40	5,495	–	2,254	**12,109**	15,165
Non-Executive Directors								
Cai Jianjiang (from November 2009)	48*	–	–	–	–	–	**48**	–
Chang Zhenming (from May 2009 to November 2009)	270*	–	–	–	–	–	**270**	–
Philip Chen	–	–	–	–	–	–	**–**	–
Martin Cubbon (up to May 2009)	–	–	–	–	–	–	**–**	–
Fan Cheng (from November 2009)	62*	–	–	–	–	–	**62**	–
Henry Fan (up to April 2009)	134*	–	–	–	–	–	**134**	500
James W.J. Hughes-Hallett	–	–	–	–	–	–	**–**	–
Peter Kilgour (from May 2009)	–	–	–	–	–	–	**–**	–
Kong Dong (from May 2008)	500*	–	–	–	–	–	**500**	327
Li Jiaxiang (up to May 2008)	–	–	–	–	–	–	**–**	173
Vernon Moore (up to November 2009)	466*	–	–	–	–	–	**466**	621
Robert Woods	–	–	–	–	–	–	**–**	–
Zhang Lan	621*	–	–	–	–	–	**621**	529
Independent Non-Executive Directors								
Irene Lee (from January 2010)	–	–	–	–	–	–	**–**	–
Peter Lee (up to October 2009)	556*	–	–	–	–	–	**556**	700
Raymond Or (up to May 2009)	255*	–	–	–	–	–	**255**	700
Jack So	682*	–	–	–	–	–	**682**	650
Tung Chee Chen	550*	–	–	–	–	–	**550**	550
Peter Wong (from May 2009)	379*	–	–	–	–	–	**379**	–
2009 Total	**17,139**	**3,447**	**1,537**	**14,278**	**–**	**6,596**	**42,997**	
2008 Total	19,494	16,145	1,533	4,145	3,505	8,124		52,946

For Directors employed by the Swire group, the remuneration disclosed represents the amount charged to the Company. Bonus is related to services for 2008 but paid and charged to the Company in 2009.

 # The deficit of the Swire group retirement schemes identified as at 31st December 2008 was fully funded during the course of 2009.

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	**2009 Total HK$'000**	2008 Total HK$'000
James Barrington	1,484	1,278	2,335	2,045	775	–	**7,917**	6,904
William Chau	1,582	1,065	485	108	–	–	**3,240**	3,436
Quince Chong	1,518	1,024	500	164	–	–	**3,206**	3,473
Ivan Chu (from September 2008)	1,445	845	667	99	–	–	**3,056**	2,702
Christopher Gibbs	1,800	1,114	682	301	–	–	**3,897**	4,107
Rupert Hogg (from September 2008)	1,385	305	1,255	1,908	182	2,572	**7,607**	2,043
Ronald Mathison (up to August 2008)	–	–	–	–	–	–	**–**	6,299
Edward Nicol	1,606	1,483	1,802	2,213	938	860	**8,902**	7,871
Nick Rhodes	1,628	1,397	233	2,244	846	2,167	**8,515**	7,847
2009 Total	**12,448**	**8,511**	**7,959**	**9,082**	**2,741**	**5,599**	**46,340**	
2008 Total	13,122	10,277	6,592	3,250	3,641	7,800		44,682

Bonus disclosed is related to services for 2008 and paid in 2009.

28. Employee information

(a) The five highest paid individuals of the Company included two Directors (2008: three) and three Executive Officers (2008: two), 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:

	2009			2008		
HK$'000	**Director**	**Flight staff**	**Other staff**	Director	Flight staff	Other staff
0 – 1,000	**17**	**9,046**	**8,185**	12	8,646	8,383
1,001 – 1,500	**–**	**551**	**209**	–	505	198
1,501 – 2,000	**–**	**638**	**103**	–	502	96
2,001 – 2,500	**–**	**330**	**42**	–	312	33
2,501 – 3,000	**–**	**150**	**7**	–	217	9
3,001 – 3,500	**2**	**75**	**4**	2	141	6
3,501 – 4,000	**–**	**21**	**5**	1	46	7
4,001 – 4,500	**1**	**4**	**3**	1	7	2
4,501 – 5,000	**1**	**–**	**4**	–	2	1
5,001 – 5,500	**–**	**–**	**1**	–	–	5
5,501 – 6,000	**–**	**–**	**2**	–	–	2
6,001 – 6,500	**–**	**–**	**1**	–	–	1
6,501 – 7,000	**–**	**–**	**2**	–	–	1
7,001 – 7,500	**–**	**–**	**1**	–	–	–
7,501 – 8,000	**–**	**–**	**2**	–	–	2
8,001 – 8,500	**–**	**–**	**–**	1	–	–
8,501 – 9,000	**–**	**–**	**2**	–	–	–
9,501 – 10,000	**–**	**–**	**–**	1	–	–
11,001 – 11,500	**1**	**–**	**–**	–	–	–
12,001 – 12,500	**1**	**–**	**–**	–	–	–
15,001 – 15,500	**–**	**–**	**–**	1	–	–
	23	**10,815**	**8,573**	19	10,378	8,746

Notes to the Accounts RELATED PARTY TRANSACTIONS

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:

	2009		2008	
	Associates HK\$M	**Other related parties HK\$M**	Associates HK\$M	Other related parties HK\$M
Turnover	**161**	**–**	229	–
Aircraft maintenance costs	**1,891**	**–**	2,069	–
Route operating costs	**463**	**–**	546	–
Dividends received	**(174)**	**–**	(383)	–
Fixed assets purchase	**2**	**–**	2	–

(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 are paid annually. For the year ended 31st December 2009, JSSHK waived its entitlement to fees under the JSSHK Services Agreement in respect of that part of the Group's adjusted consolidated profit before taxation and minority interests which was referable to the sale by the Company to Swire Pacific of 20,700,958 shares in HAECO. After taking account of that waiver, service fees paid for the year ended 31st December 2009 were HK\$95 million (2008: nil) and expenses of HK\$161 million (2008: HK\$138 million) were reimbursed at cost; in addition, HK\$60 million (2008: HK\$70 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 pages 37 and 38.

(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 2009 were HK\$1,891 million (2008: HK\$2,069 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 38.

(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 2009 totalled HK\$305 million (2008: HK\$388 million). The amounts receivable from Air China group for the year ended 31st December 2009 totalled HK\$164 million (2008: 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 page 39.

(c) Amounts due from and due to associates and other related companies at 31st December 2009 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.

Notes to the Accounts

RELATED PARTY TRANSACTIONS / SUPPLEMENTARY INFORMATION

29. Related party transactions *(continued)*

(d) Guarantees given by the Company in respect of bank loan facilities of an associate at 31st December 2009 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.

30. Commitments and contingencies

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

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Authorised and contracted for	**35,982**	43,000	**1,949**	1,528
Authorised but not contracted for	**4,458**	4,255	**605**	512
	40,440	47,255	**2,554**	2,040

Operating lease commitments are shown in note 10 to the accounts.

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

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Subsidiaries	**–**	–	**4,421**	3,608
Associates	**62**	70	**62**	70
Staff	**200**	200	**200**	200
	262	270	**4,683**	3,878

(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 with regard to 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.

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, with the assistance of legal counsel, has responded.

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 legal counsel, is evaluating the allegations and has responded.

On 17th July 2009, the Company received an Amended Statement of Claim from the Australian Competition & Consumer Commission with regard to the Company's air cargo operations. The Company, with the assistance of legal counsel, has responded.

30. Commitments and contingencies *(continued)*

On 24th November 2009, the Company received an Examiner's Report from the Korean Fair Trade Commission with regard to the Company's air cargo operations. The Company, with the assistance of legal counsel, has responded.

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 and Canada 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. Cathay Pacific is not in a position to assess the full potential liabilities but has made a provision of HK$80 million in respect of such liabilities in its 2009 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 2009 is HK$2,562 million (2008: HK$2,911 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:

	2009				
	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	**(4,365)**	**(5,729)**	**(7,800)**	**(2,667)**	**(20,561)**
Obligations under finance leases	**(5,225)**	**(3,594)**	**(12,587)**	**(14,567)**	**(35,973)**
Trade and other payables	**(11,081)**	**–**	**–**	**–**	**(11,081)**
Derivative financial liabilities	**(1,535)**	**(578)**	**(95)**	**24**	**(2,184)**
Total	**(22,206)**	**(9,901)**	**(20,482)**	**(17,210)**	**(69,799)**

	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 (restated)	(11,083)	–	–	–	(11,083)
Derivative financial liabilities	(7,205)	(2,557)	(513)	(31)	(10,306)
Total	(23,949)	(11,886)	(23,940)	(17,751)	(77,526)

	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 (restated)	(11,605)	–	–	–	(11,605)
Derivative financial liabilities	(1,663)	(124)	(161)	(32)	(1,980)
Total	(19,520)	(5,496)	(24,697)	(18,998)	(68,711)

31. Financial risk management *(continued)*

	2009				
	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	**(3,455)**	**(4,946)**	**(5,966)**	**(1,375)**	**(15,742)**
Obligations under finance leases	**(6,093)**	**(4,405)**	**(9,418)**	**(16,380)**	**(36,296)**
Trade and other payables	**(8,708)**	**–**	**–**	**–**	**(8,708)**
Derivative financial liabilities	**(1,508)**	**(562)**	**(58)**	**30**	**(2,098)**
Total	**(19,764)**	**(9,913)**	**(15,442)**	**(17,725)**	**(62,844)**

	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 (restated)	(8,642)	–	–	–	(8,642)
Derivative financial liabilities	(7,196)	(2,541)	(482)	(11)	(10,230)
Total	(21,265)	(11,737)	(19,192)	(17,580)	(69,774)

	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 (restated)	(9,094)	–	–	–	(9,094)
Derivative financial liabilities	(1,663)	(123)	(160)	(32)	(1,978)
Total	(16,291)	(5,214)	(22,372)	(16,561)	(60,438)

31. Financial risk management *(continued)*

(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 exposure to foreign currency risk was as follows:

	2009					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**SGD HK$M**	**RMB HK$M**	**JPY HK$M**
Group						
Trade and other receivables	**4,536**	**440**	**291**	**37**	**385**	**398**
Liquid funds	**7,956**	**58**	**47**	**1,395**	**1,882**	**163**
Long-term loans	**(6,702)**	**(52)**	**–**	**(3,458)**	**–**	**(1,379)**
Obligations under finance leases	**(19,281)**	**(4,062)**	**–**	**–**	**–**	**–**
Trade and other payables	**(4,168)**	**(240)**	**(71)**	**(57)**	**(372)**	**(170)**
Currency derivatives at notional value	**15,585**	**370**	**(1,556)**	**1,235**	**(3,452)**	**(6,681)**
Net exposure	**(2,074)**	**(3,486)**	**(1,289)**	**(848)**	**(1,557)**	**(7,669)**

	2008					
	USD HK$M	EUR HK$M	TWD HK$M	SGD HK$M	RMB HK$M	JPY HK$M
Group						
Trade and other receivables (restated)	7,093	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 (restated)	(13,042)	(243)	(81)	(51)	(390)	(161)
Currency derivatives at notional value	6,768	1,152	(1,786)	1,148	(3,580)	(1,286)
Net exposure	(15,004)	(2,987)	(1,542)	(1,323)	(1,337)	(2,353)

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 (restated)	6,385	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 (restated)	(4,635)	(294)	(82)	(66)	(153)	(199)
Currency derivatives at notional value	10,636	(345)	(1,778)	1,101	(3,817)	(929)
Net exposure	2,303	(2,787)	(1,471)	(1,669)	(1,321)	(654)

	2009					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**SGD HK$M**	**RMB HK$M**	**JPY HK$M**
Company						
Trade and other receivables	**3,460**	**439**	**233**	**36**	**134**	**388**
Liquid funds	**4,300**	**59**	**45**	**1,395**	**971**	**158**
Long-term loans	**(5,174)**	**(52)**	**–**	**(3,458)**	**–**	**–**
Obligations under finance leases	**(21,192)**	**(4,848)**	**–**	**–**	**–**	**(1,379)**
Trade and other payables	**(3,126)**	**(232)**	**(30)**	**(54)**	**(76)**	**(148)**
Currency derivatives at notional value	**14,553**	**370**	**(1,556)**	**1,235**	**(2,356)**	**(6,681)**
Net exposure	**(7,179)**	**(4,264)**	**(1,308)**	**(846)**	**(1,327)**	**(7,662)**

	2008					
	USD HK$M	EUR HK$M	TWD HK$M	SGD HK$M	RMB HK$M	JPY HK$M
Company						
Trade and other receivables (restated)	5,995	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 (restated)	(11,946)	(237)	(37)	(50)	(66)	(144)
Currency derivatives at notional value	4,268	1,152	(1,786)	1,148	(1,420)	(1,286)
Net exposure	(23,211)	(3,797)	(1,567)	(1,323)	(720)	(2,348)

31. Financial risk management *(continued)*

	2007					
	USD HK$M	EUR HK$M	TWD HK$M	SGD HK$M	RMB HK$M	JPY HK$M
Company						
Trade and other receivables (restated)	5,507	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 (restated)	(3,469)	(234)	(49)	(65)	(67)	(136)
Currency derivatives at notional value	8,367	(345)	(1,778)	1,101	(2,179)	(929)
Net exposure	(11,803)	(3,659)	(1,540)	(1,668)	(1,251)	(1,131)

In addition to the current exposure shown above, the Group is exposed to a currency risk on its future net operating cash flow in foreign currencies primarily Euros, Japanese yen, New Taiwan dollars, Australian dollars and Renminbi. The Group currently has operating surpluses in all these foreign currencies except the US dollars.

Sensitivity analysis for foreign currency exposure

A five percent appreciation of the Hong Kong dollars against the following currencies at 31st December 2009 would have increased profit and loss and other equity components 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 2008.

	2009		2008	
	Profit and loss HK$M	**Other equity components HK$M**	Profit and loss (restated) HK$M	Other equity components HK$M
US dollars	**686**	**(438)**	559	189
Euros	**4**	**164**	(19)	157
New Taiwan dollars	**(12)**	**73**	(11)	82
Singapore dollars	**(30)**	**76**	(6)	77
Renminbi	**(94)**	**160**	(43)	86
Japanese yen	**(18)**	**316**	(20)	141
Increase	**536**	**351**	460	732

31. Financial risk management *(continued)*

(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	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Fixed rate instruments				
Liquid funds	**1,164**	812	**1,164**	812
Long-term loans	**(2,075)**	(2,020)	**(2,075)**	(2,020)
Obligations under finance leases	**(13,198)**	(12,696)	**(17,421)**	(17,805)
Interest rate and currency swaps	**(8,099)**	(643)	**(7,407)**	147
Net exposure	**(22,208)**	(14,547)	**(25,739)**	(18,866)

	Group		Company	
	2009 HK$M	2008 HK$M	**2009 HK$M**	2008 HK$M
Variable rate instruments				
Liquid funds	**15,358**	14,276	**9,956**	6,754
Long-term loans	**(17,224)**	(16,448)	**(12,767)**	(10,951)
Obligations under finance leases	**(10,145)**	(9,116)	**(9,998)**	(8,917)
Interest rate and currency swaps	**8,683**	1,116	**8,067**	413
Bank overdrafts	**(11)**	(6)	**(11)**	(6)
Net exposure	**(3,339)**	(10,178)	**(4,753)**	(12,707)

Sensitivity analysis for interest rate exposure

An increase of 25 basis points in interest rates at the reporting date would have decreased profit and loss and increased other equity components 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 2008.

	2009		2008	
	Profit and loss HK$M	**Other equity components HK$M**	Profit and loss HK$M	Other equity components HK$M
Variable rate instruments	**(85)**	**106**	(97)	(2)

31. Financial risk management *(continued)*

(iii) Fuel price risk

Fuel accounted for 28% of the Group's operating expenses (2008: 50%). 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 profit and loss and other equity components 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.

	2009		2008	
	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	**204**	**142**	532	123
Net decrease in jet fuel price	**(237)**	**(157)**	(573)	(123)

The analysis on page 31 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 carrying values of financial assets/(liabilities) designated as cash flow hedges as at 31st December 2009 were as follows:

	2009 HK$M	2008 HK$M
Foreign currency risk		
– Long-term liabilities (natural hedge)	**(4,680)**	(5,242)
– Cross currency swaps	**164**	(45)
– Foreign currency forward contracts	**46**	281
Interest rate risk		
– Interest rate swaps	**10**	(96)
Fuel price risk		
– Fuel options	**92**	(831)
Others		
– Carbon offsets	**(45)**	(31)

(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 2009 HK$M	**Fair value 2009 HK$M**	Carrying amount 2008 HK$M	Fair value 2008 HK$M
Group				
Long-term loans	**(19,299)**	**(19,639)**	(18,468)	(18,858)
Obligations under finance leases	**(30,140)**	**(31,420)**	(29,309)	(31,561)
Pledged security deposits	**6,797**	**7,606**	7,497	8,690

31. Financial risk management *(continued)*

	Carrying amount 2009 HK$M	Fair value 2009 HK$M	Carrying amount 2008 HK$M	Fair value 2008 HK$M
Company				
Long-term loans	**(14,842)**	**(15,085)**	(12,971)	(13,213)
Obligations under finance leases	**(29,070)**	**(31,736)**	(28,654)	(32,654)
Pledged security deposits	**1,651**	**1,983**	1,932	2,433

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

(f) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value as at 31st December 2009 across three levels of the fair value hierarchy defined in HKFRS 7 "Financial Instruments: Disclosures" with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. Level 1 includes financial instruments with fair values measured using quoted prices in active markets for identical assets or liabilities. Level 2 includes financial instruments with fair values measured using quoted prices in active markets for similar assets or liabilities, or using valuation techniques in which all significant input are based on observable market data. Level 3 includes financial instruments with fair values measured using valuation techniques in which any significant input is not based on observable market data.

	Group				Company			
	2009 Level 1 HK$M	2009 Level 2 HK$M	2009 Level 3 HK$M	2009 Total HK$M	2009 Level 1 HK$M	2009 Level 2 HK$M	2009 Level 3 HK$M	2009 Total HK$M
Assets								
Investments at fair value								
– Listed	**175**	–	–	**175**	–	–	–	–
– Unlisted	–	–	**1,373**	**1,373**	–	–	**1,328**	**1,328**
Liquid funds								
– Funds with investment managers	–	**2,370**	–	**2,370**	–	–	–	–
– Other liquid investments	–	**1,388**	–	**1,388**	–	**1,146**	–	**1,146**
Derivative financial assets	–	**2,637**	–	**2,637**	–	**2,624**	–	**2,624**
	175	**6,395**	**1,373**	**7,943**	–	**3,770**	**1,328**	**5,098**
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	–	**(4,474)**	–	**(4,474)**	–	**(4,474)**	–	**(4,474)**
Derivative financial liabilities	–	**(2,727)**	–	**(2,727)**	–	**(2,584)**	–	**(2,584)**
	–	**(7,201)**	–	**(7,201)**	–	**(7,058)**	–	**(7,058)**

31. Financial risk management *(continued)*

The movement during the year in the balance of level 3 fair value measurements is as follows:

	Group HK$M	Company HK$M
Investments at fair value – unlisted		
At 1st January 2009	**992**	**916**
Net unrealised gains or losses recognised in other comprehensive income during the year	**381**	**412**
At 31st December 2009	**1,373**	**1,328**

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 103 and a ten year history is included on pages 98 and 99 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 2010 and which are not adopted in the accounts. HKFRS 9 "Financial Instruments" is relevant to the Group and becomes effective for accounting periods beginning on or after 1st January 2013. The standard requires that financial assets are measured at either amortised cost or fair value. The Group is in the process of assessing the impact of this new accounting standard on both the results and the financial position of the Group.

Principal Subsidiaries and Associates

at 31st December 2009

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 SGD225,000,000 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
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.*

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	32
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	15#
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

		2009	2008 (restated)
Consolidated profit and loss summary	*HK$M*		
Passenger services		**45,920**	57,964
Cargo services		**17,255**	24,623
Catering, recoveries and other services		**3,803**	3,976
Turnover		**66,978**	86,563
Operating expenses		**(62,499)**	(94,124)
Operating profit/(loss)		**4,479**	(7,561)
Profit on disposal of associate/investment		**1,254**	–
Settlement of the United States Department of Justice cargo investigations		**–**	(468)
Net finance charges		**(847)**	(1,012)
Share of profits/(losses) of associates		**261**	(764)
Profit/(loss) before tax		**5,147**	(9,805)
Taxation		**(283)**	1,333
Profit/(loss) for the year		**4,864**	(8,472)
Profit attributable to minority interests		**(170)**	(224)
Profit/(loss) attributable to owners of Cathay Pacific		**4,694**	(8,696)
Dividends paid		**–**	(2,438)
Retained profit/(loss) for the year		**4,694**	(11,134)
Consolidated statement of financial position summary	*HK$M*		
Fixed and intangible assets		**73,345**	73,821
Long-term receivables and investments		**14,349**	14,530
Borrowings		**(42,642)**	(40,280)
Liquid funds less bank overdrafts		**16,511**	15,082
Net borrowings		**(26,131)**	(25,198)
Net current liabilities (excluding liquid funds and bank overdrafts)		**(12,864)**	(16,887)
Other long-term payables		**(1,059)**	(4,606)
Deferred taxation		**(5,255)**	(4,831)
Net assets		**42,385**	36,829
Financed by:			
Funds attributable to owners of Cathay Pacific		**42,238**	36,709
Minority interests		**147**	120
Total equity		**42,385**	36,829
Per share			
Shareholders' funds	*HK$*	**10.74**	9.33
EBITDA	*HK$*	**2.97**	(0.91)
Earnings/(loss)	*HK cents*	**119.3**	(221.0)
Dividend	*HK cents*	**10.0**	3.0
Ratios			
Profit/(loss) margin	*%*	**7.0**	(10.0)
Return on capital employed	*%*	**8.7**	(11.8)
Dividend cover	*Times*	**11.9**	(73.7)
Cash interest cover*	*Times*	**5.1**	3.7
Gross debt/equity ratio	*Times*	**1.01**	1.10
Net debt/equity ratio	*Times*	**0.62**	0.69

* *Restated for 2000 to 2008.*

With the adoption of HKAS 1 (revised) "Presentation of Financial Statements" and HK (IFRIC) Interpretation 13 "Customer Loyalty Programmes", the above consolidated profit and loss summary for 2008 and the consolidated

Statistics

2007 (restated)	2006	2005	2004	2003	2002	2001	2000
49,520	38,755	32,005	26,879	18,920	22,811	20,641	22,878
21,783	18,385	15,773	12,965	10,704	9,908	8,406	10,136
4,055	3,643	3,131	2,917	2,726	2,813	2,941	2,953
75,358	60,783	50,909	42,761	32,350	35,532	31,988	35,967
(67,619)	(55,565)	(46,766)	(37,514)	(30,125)	(30,782)	(31,156)	(30,678)
7,739	5,218	4,143	5,247	2,225	4,750	832	5,289
–	–	–	–	–	–	452	–
–	–	–	–	–	–	–	–
(787)	(465)	(444)	(583)	(620)	(743)	(571)	(367)
1,057	301	269	298	126	269	153	245
8,009	5,054	3,968	4,962	1,731	4,276	866	5,167
(799)	(782)	(500)	(446)	(384)	(273)	(167)	(76)
7,210	4,272	3,468	4,516	1,347	4,003	699	5,091
(187)	(184)	(170)	(99)	(44)	(20)	(42)	(86)
7,023	4,088	3,298	4,417	1,303	3,983	657	5,005
(2,245)	(2,992)	(2,196)	(2,189)	(1,035)	(701)	(1,915)	(1,585)
4,778	1,096	1,102	2,228	268	3,282	(1,258)	3,420
70,170	65,351	50,416	50,607	50,176	48,905	50,456	47,264
15,015	12,232	7,184	7,332	4,473	4,783	4,787	5,414
(36,368)	(31,943)	(22,455)	(22,631)	(26,297)	(22,810)	(24,024)	(20,838)
21,637	15,595	13,405	11,444	15,186	13,164	9,746	10,952
(14,731)	(16,348)	(9,050)	(11,187)	(11,111)	(9,646)	(14,278)	(9,886)
(13,094)	(9,019)	(6,767)	(6,381)	(4,439)	(3,896)	(1,728)	(2,715)
(1,490)	(170)	(72)	(102)	(181)	(346)	–	–
(6,621)	(6,508)	(6,460)	(7,280)	(7,762)	(7,614)	(7,836)	(7,146)
49,249	45,538	35,251	32,989	31,156	32,186	31,401	32,931
49,071	45,386	34,968	32,855	31,052	32,115	31,308	32,832
178	152	283	134	104	71	93	99
49,249	45,538	35,251	32,989	31,156	32,186	31,401	32,931
12.45	11.53	10.34	9.75	9.29	9.63	9.40	9.80
3.46	2.78	2.49	2.79	1.86	2.69	1.63	2.69
178.3	115.9	97.7	131.4	39.0	119.5	19.7	148.4
84.0	84.0	48.0	65.0	48.0	44.0	17.5	65.0
9.3	6.7	6.5	10.3	4.0	11.2	2.1	13.9
12.6	8.9	8.8	11.8	4.7	10.8	2.9	13.0
2.1	1.2	2.0	2.0	0.8	2.7	1.1	2.3
14.2	15.1	17.1	14.6	7.2	10.1	4.2	7.3
0.74	0.70	0.64	0.69	0.85	0.71	0.77	0.63
0.30	0.36	0.26	0.34	0.36	0.30	0.46	0.30

statement of financial position summary for 2007 and 2008 and related ratios have been restated. The financial information for the period 2000-2006 has not been restated as it is impractical to obtain data for such purpose.

Statistics

		2009	2008
Operating summary*			
Available tonne kilometres	*Million*	**22,249**	24,410
Revenue tonne kilometres	*Million*	**16,775**	17,499
Available seat kilometres	*Million*	**111,167**	115,478
Revenue passengers carried	*'000*	**24,558**	24,959
Revenue passenger kilometres	*Million*	**89,440**	90,975
Revenue load factor	*%*	**77.7**	75.1
Passenger load factor	*%*	**80.5**	78.8
Cargo and mail carried	*'000 tonnes*	**1,528**	1,645
Cargo and mail tonne kilometres	*Million*	**8,256**	8,842
Cargo and mail load factor	*%*	**70.8**	65.9
Excess baggage carried	*Tonnes*	**3,883**	2,963
Kilometres flown	*Million*	**431**	460
Block hours	*'000 hours*	**605**	649
Aircraft departures	*'000*	**130**	138
Length of scheduled routes network	*'000 kilometres*	**481**	453
Destinations at year end	*Number*	**122**	124
Staff number at year end	*Number*	**20,907**	21,309
ATK per staff	*'000*	**1,053**	1,185
On-time performance*			
Departure (within 15 minutes)	*%*	**86.8**	81.4
Average aircraft utilisation*	*Hours per day*		
A320-200		**8.0**	8.4
A321-200		**7.8**	8.4
A330-300		**10.8**	10.9
A340-300		**12.2**	14.7
A340-600		**–**	11.4
747-400		**12.9**	14.1
747-200F/300SF		**5.4**	7.5
747-400F/BCF		**13.2**	13.1
777-200/300		**8.1**	8.7
777-300ER		**15.8**	14.3
Fleet average		**11.2**	11.5

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

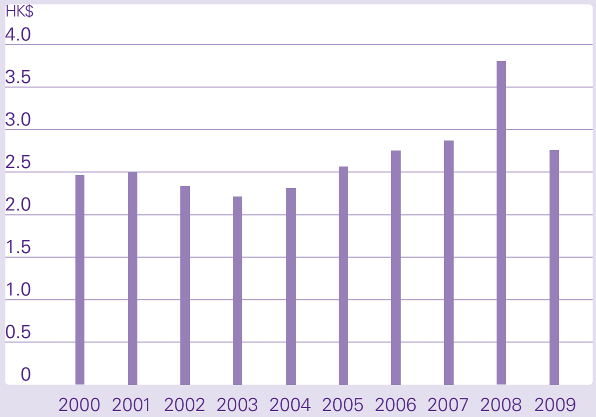
	2009	2008
Fleet profile		
Aircraft operated by Cathay Pacific:		
A330-300	**32**	32
A340-300	**15**	15
A340-600	**–**	–
747-400	**23**	23
747-200F	**–**	5
747-400F	**6**	6
747-400BCF	**13**	10
747-400ERF	**6**	2
777-200	**5**	5
777-300	**12**	12
777-300ER	**14**	9
Total	**126**	119
Aircraft operated by Dragonair:		
A320-200	**9**	10
A321-200	**6**	6
A330-300	**14**	16
747-200F	**–**	1
747-300SF	**–**	–
747-400BCF	**–**	2
Total	**29**	35

Statistics

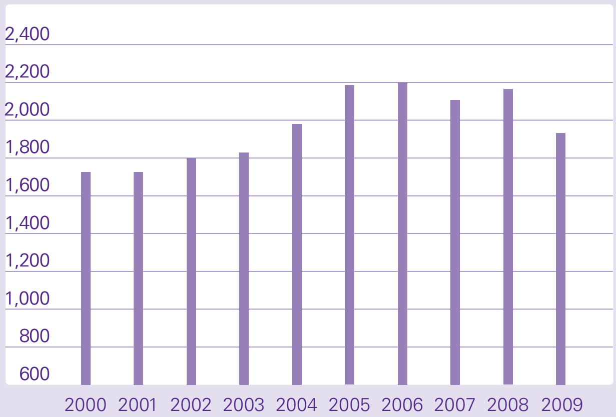
	2007	2006	2005	2004	2003	2002	2001	2000
	23,077	19,684	17,751	15,794	13,355	12,820	11,827	11,630
	16,680	14,452	12,813	11,459	9,371	9,522	8,201	8,650
	102,462	91,769	82,766	74,062	59,280	63,050	62,790	61,909
	23,253	18,097	15,438	13,664	10,059	12,321	11,269	11,864
	81,801	72,939	65,110	57,283	42,774	49,041	44,792	47,153
	75.6	76.2	75.2	74.8	71.1	75.9	70.4	75.2
	79.8	79.5	78.7	77.3	72.2	77.8	71.3	76.2
	1,672	1,334	1,139	990	889	862	713	778
	8,900	7,514	6,618	6,007	5,299	4,854	3,938	4,161
	66.7	68.6	67.0	68.7	68.7	71.2	67.3	72.5
	2,310	2,218	2,489	2,530	2,190	2,401	2,270	3,489
	422	357	317	285	238	237	224	219
	598	489	431	386	322	322	307	296
	131	98	84	77	65	68	65	63
	442	457	403	386	377	374	341	363
	129	125	92	90	87	62	51	51
	19,840	18,992	15,806	15,054	14,673	14,649	14,473	14,328
	1,194	1,173	1,147	1,066	903	885	810	843
	83.9	85.2	86.1	90.3	91.0	90.7	82.9	84.0
	8.5	8.2	–	–	–	–	–	–
	8.9	8.9	–	–	–	–	–	–
	10.7	11.2	10.8	10.1	9.2	10.1	9.4	9.5
	15.3	14.9	15.1	13.6	12.4	13.3	13.4	14.7
	14.4	14.9	15.3	13.6	11.7	6.3	–	–
	14.5	14.9	14.7	13.9	12.8	14.1	14.4	15.1
	10.8	11.8	11.8	13.3	13.3	13.6	12.2	13.6
	14.0	15.3	16.1	16.3	16.4	15.4	14.3	15.8
	8.4	9.0	9.1	8.8	8.7	9.4	9.6	9.7
	10.7	–	–	–	–	–	–	–
	11.7	12.5	12.6	12.0	11.4	12.1	12.1	12.9
	29	27	26	23	23	20	20	12
	15	15	15	15	15	15	15	14
	3	3	3	3	3	2	–	–
	24	22	22	21	19	19	19	19
	7	7	7	7	6	6	4	4
	6	6	6	5	5	5	5	3
	6	5	1	–	–	–	–	–
	–	–	–	–	–	–	–	–
	5	5	5	5	5	5	5	5
	12	12	11	10	9	7	7	7
	5	–	–	–	–	–	–	–
	112	102	96	89	85	79	75	64
	10	10	11	10	8	8	7	6
	6	6	6	6	6	4	3	3
	16	16	13	10	9	9	7	5
	1	1	1	1	–	–	–	–
	3	3	3	3	3	3	2	–
	3	1	–	–	–	–	–	–
	39	37	34	30	26	24	19	14

Statistics

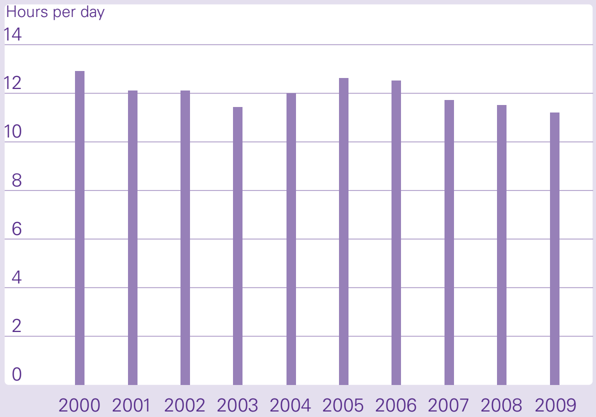
Cost per ATK



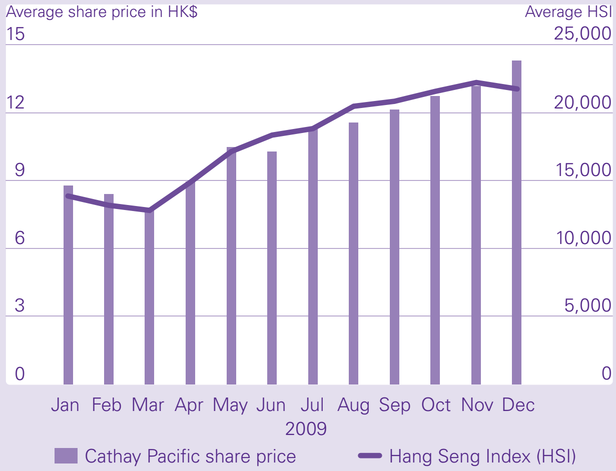
ATK per HK$'000 staff cost



Aircraft utilisation



Share price



		2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Productivity*											
Cost per ATK	*HK$*	**2.76**	3.80#	2.87	2.75	2.56	2.31	2.21	2.33	2.50	2.46
ATK per HK$'000 staff cost	*Unit*	**1,932**	2,160	2,105	2,197	2,183	1,978	1,825	1,798	1,725	1,725
Aircraft utilisation	*Hours per day*	**11.2**	11.5	11.7	12.5	12.6	12.0	11.4	12.1	12.1	12.9
Share prices	*HK$*										
High		**14.7**	20.3	23.1	19.5	15.1	16.4	15.5	13.6	14.3	17.6
Low		**7.0**	7.1	18.3	12.7	12.0	12.5	8.4	9.9	6.1	10.3
Year-end		**14.5**	8.8	20.4	19.2	13.6	14.7	14.8	10.7	10.0	14.4
Price ratios (Note)	*Times*										
Price/earnings		**12.2**	(4.0)	11.4	16.5	13.9	11.2	37.9	9.0	50.8	9.7
Market capitalisation/ funds attributable to owners of Cathay Pacific		**1.4**	0.9	1.6	1.7	1.3	1.5	1.6	1.1	1.1	1.5
Price/cash flows		**12.9**	8.9	5.0	6.1	5.3	4.5	7.8	3.8	7.2	5.9

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

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

 # Restated figure.

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

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

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

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

$$\text{Return on capital employed} = \frac{\text{Operating profit and share of profits of associates less taxation}}{\text{Average of total equity and net borrowings}}$$

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

$$\text{Cash interest cover} = \frac{\text{Cash generated from operations}}{\text{Net interest paid}}$$

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

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

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

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

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

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

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

Corporate and Shareholder Information

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

Investor relations

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BNY Mellon Shareowner Services
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Stock codes

Hong Kong Stock Exchange	00293
ADR	CPCAY

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Auditors

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Financial calendar

Year ended 31st December 2009	
Annual report sent to shareholders	7th April 2010
Annual General Meeting	12th May 2010
Six months ending 30th June 2010	
Interim results announcement	August 2010
Interim dividend payable	October 2010

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