Cathay Pacific Airways Limited

Stock Code: 00293

Annual Report 2010

Cathay Pacific

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 141 destinations in 39 countries and territories around the world.

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 its fleet of 127 wide-bodied aircraft, these investments include catering and ground-handling companies and the corporate headquarters at Hong Kong International Airport. Cathay Pacific is also building its own state-of-the-art cargo terminal at the airport, which will open in early 2013.

Hong Kong Dragon Airlines ("Dragonair") is a wholly owned subsidiary of Cathay Pacific. Dragonair is an Asian regional airline, registered and based in Hong Kong, which offers scheduled passenger and cargo services to 33 destinations in 14 countries and territories with a fleet of 31 aircraft. Cathay Pacific also owns 18.7% of Air China Limited ("Air China"), the national flag carrier and a leading provider of

Contents

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.

Cathay Pacific and its subsidiaries employ some 27,500 people worldwide (more than 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 more than 750 destinations worldwide. Dragonair is an affiliate member of **one**world.

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

Financial and Operating Highlights

Group Financial Statistics

		2010	2009	Change
Results				
Turnover	*HK$ million*	**89,524**	66,978	**+33.7%**
Profit attributable to owners of Cathay Pacific	*HK$ million*	**14,048**	4,694	**+199.3%**
Earnings per share	*HK cents*	**357.1**	119.3	**+199.3%**
Dividend per share	*HK cents*	**111.0**	10.0	**+1,010.0%**
Profit margin	*%*	**15.7**	7.0	**+8.7%pt**
Financial Position				
Funds attributable to owners of Cathay Pacific	*HK$ million*	**54,274**	42,238	**+28.5%**
Net borrowings	*HK$ million*	**15,435**	26,131	**-40.9%**
Shareholders' funds per share	*HK$*	**13.8**	10.7	**+29.0%**
Net debt/equity ratio	*Times*	**0.28**	0.62	**-0.34 times**

Operating Statistics – Cathay Pacific and Dragonair

		2010	2009	Change
Available tonne kilometres ("ATK")	*Million*	**24,461**	22,249	**+9.9%**
Passengers carried	*'000*	**26,796**	24,558	**+9.1%**
Passenger load factor	*%*	**83.4**	80.5	**+2.9%pt**
Passenger yield	*HK cents*	**61.2**	51.1	**+19.8%**
Cargo and mail carried	*'000 tonnes*	**1,804**	1,528	**+18.1%**
Cargo and mail load factor	*%*	**75.7**	70.8	**+4.9%pt**
Cargo and mail yield	*HK$*	**2.33**	1.86	**+25.3%**
Cost per ATK	*HK$*	**3.16**	2.76	**+14.5%**
Cost per ATK without fuel	*HK$*	**2.02**	2.00	**+1.0%**
Aircraft utilisation	*Hours per day*	**12.0**	11.2	**+7.1%**
On-time performance	*%*	**80.9**	86.8	**-5.9%pt**

Chairman's Letter

The Cathay Pacific Group recorded an attributable profit of HK$14,048 million for 2010. This result, a record for the Group, compares to an attributable profit of HK$4,694 million for 2009. Turnover for the year rose by 33.7% to HK$89,524 million. Earnings per share rose by 199.3% to HK357.1 cents.

The Group's business began to recover from the global economic downturn in the latter part of 2009. The momentum was sustained throughout 2010. Our passenger and cargo businesses both performed well with consistently strong loads and significant increases in revenues. We also benefited from the strong profits earned by our associated company, Air China (which contributed HK$2,482 million to the 2010 result), from the aggregate profit of HK$2,165 million from the disposal of our interests in Hong Kong Air Cargo Terminals Limited ("Hactl") and Hong Kong Aircraft Engineering Company Limited ("HAECO") and from the profit of HK$868 million from the deemed disposal of part of our interest in Air China. The deemed disposal occurred because Air China issued some new shares, an issue in which we were unable to participate.

Cathay Pacific and Dragonair between them carried a total of 26.8 million passengers in 2010, representing an increase of 9.1% over 2009's figure. The load factor increased by 2.9 percentage points as a result of consistently strong demand for economy class seats and a steady increase in demand for premium class seats. Passenger revenue for the year increased by 29.3% to HK$59,354 million. Yield increased by 19.8% to HK61.2 cents. Demand was strong in most markets, there was a marked pick-up in premium travel and seat revenue was managed astutely. Passenger capacity increased by 4.1% as we restored services which had been reduced or suspended during the downturn and added new destinations.

The Group's cargo revenue increased by 50.1% to HK$25,901 million. Freight carried by Cathay Pacific and Dragonair increased by 18.1% to 1.8 million tonnes. Cargo capacity increased by 15.2%, as we brought back into service freighters which had been parked in the desert during the downturn. Despite this substantial increase in capacity, the strength of demand was such that our load factor increased by 4.9 percentage points to 75.7%. Demand in all key markets was strong, and especially so in the peak season of October and November. This was reflected in yield increasing by 25.3% to HK$2.33.

Fuel remains our largest single cost, representing 35.6% of the Group's total operating costs. The fuel price increased during the year and was 28.0% higher on average than in 2009. Our total fuel costs for 2010 (disregarding the effect of fuel hedging), reflecting both the higher price and increased operations, increased by 40.4%. Managing the risk associated with fuel price changes is a key challenge. The Group's fuel hedging activities resulted in a reported loss of HK$41 million in 2010, while unrealised mark-to-market gains of approximately HK$1 billion have been recognised in reserves. These gains, depending on intervening movements in the price of oil, will be released to the profit and loss account in 2011 and 2012 as the underlying contracts mature.

As business conditions improved, we restored capacity, reinstated services and added new destinations. This reflected a superb and sustained effort on the part of our staff. We were able to thank those who took voluntary unpaid leave in 2009 by making an ex gratia payment to them. Staff will also receive a 2010 profit share greater than five weeks' salary.

The improved business conditions helped us to rebuild our balance sheet. Our financial position is strong. This enables us (while continuing our policy of maintaining a conservative balance sheet) to increase the size of the airline and so further strengthen Hong Kong's position as a leading international aviation hub. We continue to invest in a modern, fuel-efficient fleet. In 2010 we took delivery of seven new aircraft. In August 2010 we announced our biggest-ever aircraft order, of 30 Airbus A350-900s (to be delivered between 2016 and 2019) and of six more Boeing 777-300ERs. In December, a further two Airbus A350-900s were ordered. In March 2011, Cathay Pacific announced the acquisition of 15 new Airbus A330-300 aircraft and 10 new Boeing 777-300ER aircraft. Cathay Pacific is also in discussions which, if successfully concluded, will result in the acquisition of 14 further aircraft. Unfortunately, there will be a delay in the delivery of our new-generation Boeing 747-8F freighters, with the first now scheduled to arrive in August 2011.

Cathay Pacific launched services to two new destinations in 2010, Milan and Moscow, added services to Haneda and has announced the commencement of passenger services to Abu Dhabi commencing in June 2011 and to Chicago commencing in September 2011. It also added 22 destinations to its network through codeshare arrangements with airlines in Central and Latin America, the United States, Canada and Japan. Dragonair added a new service to Hongqiao in Shanghai, restored services to Fukuoka and Sendai in Japan and added Okinawa to its network. In December 2010 Cathay Pacific announced the introduction of a new long-haul flat-bed business class seat. During the year we opened a new first and business class lounge in London and a fourth first and business class lounge in Hong Kong, called The Cabin. We also began to renovate our signature lounge in Hong Kong, The Wing.

In November 2010, the European Commission imposed a fine equivalent to HK$618 million on Cathay Pacific. The Commission issued a decision finding that Cathay Pacific and a number of other international air cargo carriers agreed on cargo surcharge levels and that such agreements infringed European competition law. We are appealing this decision but, consistent with accounting standards, have made full provision for the fine in our accounts for 2010. Cathay Pacific remains the subject of antitrust investigations and proceedings in various jurisdictions and will continue to cooperate with the relevant authorities and, where applicable, defend itself vigorously. We remain committed to our longstanding policy of full compliance with the law and reaffirms our support for full and fair competition among air carriers.

The authorities in Mainland China have given formal approval for our cargo joint venture with Air China, and the two airlines are now in the process of completing the necessary paperwork to enable operations to commence. An existing Air China subsidiary, Air China Cargo, will be used as the platform for the joint venture. Air China Cargo is based in Shanghai and is in a good position to exploit the attractive air cargo opportunities in the Yangtze River Delta region. The Group is selling four Boeing 747-400BCF freighters and two spare engines to the joint venture. One of these aircraft has already been sold to Air China Cargo. The other three are expected to be sold in 2011 and 2012. Our commitment to Hong Kong as an international air cargo hub remains unwavering. The construction of our own cargo terminal at Hong Kong International Airport is progressing on schedule. When the facility opens in early 2013 it will be one of the biggest and most advanced of its kind in the world.

The rapid turnround in our business from the lows of 2008 and much of 2009 to the record highs of 2010 is very welcome. It is also indicative of the volatile nature of our business. We cannot afford to be complacent. Our results would be adversely affected, and very quickly so, by a return to recessionary economic conditions. Demand is at present expected to remain strong in 2011, but this expectation could be undermined if the current (or any higher) level of oil prices were to reduce global economic activity. Capacity will increase with the introduction of new destinations and increased frequencies. If our expectation as to demand is met, revenues will increase in line with capacity. Fuel costs are now higher than was expected at the beginning of 2011. Other operating costs are expected to increase, some at a faster rate than revenue. With regard specifically to fuel, increased oil prices can be expected to have a significant adverse effect on profitability if they are not recovered through higher tariffs or fuel surcharges or if the effect of their being so recovered is to reduce demand significantly. 2011 will see significant expenditure on aircraft interiors and airport lounges (undertaken with a view to enhancing the quality of service) and on information technology. The airline industry is challenging and unpredictable. We will continue to manage our finances prudently and will strive to keep costs firmly under control. Many good things happened in 2010. I am confident that these, together with our core strengths of a capable and committed team, a superb international network, the quality of our product and services, our strong relationship with Air China and our position in Hong Kong, one of the world's great international aviation hubs and a key gateway to Mainland China, will help to ensure the continued success of the Group.

Christopher Pratt

Chairman

Hong Kong, 9th March 2011

2010 in Review

Cathay Pacific and Dragonair enjoyed a strong and sustained improvement in their businesses in 2010. The more stable operating environment enabled the airlines to reinstate services that were cut back during the downturn, add new destinations and announce important improvements in customer service. The Group remained focused on further developing its home city, Hong Kong, as one of the world's leading international aviation hubs and reinforced its commitment to sustainable development.

Award winning products and services

- In December, Cathay Pacific launched its new business class seat, a passenger-led move to improve comfort, versatility and functions. The new seat has been designed with passengers' needs firmly in mind. It maximises space and affords both privacy and freedom of movement. The seat is both wider and, when fully flat, longer than its predecessor. All controls are within easy reach.
- The new business class seats will be installed on all new long-haul aircraft and will be progressively retrofitted on existing long-haul aircraft. The new seats are expected to be installed in all long-haul aircraft by February 2013.
- We operate five lounges at Hong Kong International Airport, four departure lounges and one arrival lounge. In October we opened our latest departure lounge, The Cabin. The design of this 1,339 square metre facility follows that of our current lounges, but with new features like The Deli and the Cathay Solus Chair.
- After opening The Cabin, we started to renovate our signature lounge, The Wing. The work will take place in phases in order to minimise the impact on our premium class passengers. We expect to complete the renovation in the third quarter of 2012.
- Our arrival lounge at Hong Kong International Airport, The Arrival, won the Best New Lounge award from the US edition of Travel + Leisure magazine.
- We opened a new first and business class lounge in Terminal 3 at London's Heathrow International Airport in July. This new facility offers passengers using our busiest long-haul route a new level of pre-flight comfort and service.
- Dragonair celebrated its 25th anniversary in 2010. To mark the anniversary, one of its Airbus A330 aircraft was painted in a special anniversary livery, there were special inflight menus developed in conjunction with renowned restaurants in Hong Kong, Beijing, Shanghai and Taiwan. An anniversary website and commemorative brochure were produced featuring milestones in the airline's development and there were fare promotions.
- Cathay Pacific won a number of prestigious awards in 2010, including the Total Caring Award (part of the Caring Company Scheme organised by the Hong Kong Council of Social Service), which recognised the airline's commitment to caring for the well-being of the community, its employees and the environment.
- Other honours for Cathay Pacific in 2010 included being named, for the fifth year in a row, top company in Hong Kong in the "Asia's Most Admired Companies" poll run by Wall Street Journal Asia, being named Cargo Airline of the Year at the 2010 Centre for Asia Pacific Aviation Awards (when it was praised for responding astutely to the downturn and laying an "exceptional platform" to benefit from China's economic and trade boom) and being named Carrier of the Year in the Canadian International Freight Forwarder Association awards in October.
- Dragonair received a number of honours in 2010, including being named World's Best Regional Airline in the annual Skytrax World Airline Awards, Best Regional Airline in the TTG Asia Travel Awards and Best Airline Economy Class in a Business Traveller China reader survey.

- Cathay Pacific introduced a new uniform for its cabin crew and for its airport and reservations staff in December, designed by Hong Kong's renowned fashion designer Eddie Lau. The new uniform will be introduced throughout the network later in 2011.

Hub development

- As business conditions improved, we restored passenger services and added new destinations, so reaffirming our commitment to the continued development of the Hong Kong hub. Frequencies were restored on most routes where they had been cut back and destinations which had been temporarily removed from the network were reinstated. Services on some routes were increased from their pre-downturn levels.
- By the end of the year, the passenger and cargo capacity of Cathay Pacific and Dragonair had increased by 4.1% and 15.2% respectively compared with 2009.
- Cathay Pacific added two new destinations to its passenger network in 2010. A four-times-weekly service to Milan commenced in March and a three-times-weekly service to Moscow commenced in July. A new twice daily service to Haneda International Airport in Tokyo was launched in October. The airline added 22 destinations to its network through codeshare arrangements with airlines in Central and Latin America, the United States, Canada and Japan.
- Cathay Pacific will add two destinations to its network in 2011. A four-times-weekly service to Abu Dhabi in the Middle East will commence in June. It will operate as a triangular route with flights returning to Hong Kong via Jeddah. In September a daily service to Chicago will commence. This will be the airline's fourth passenger destination in the United States.
- Dragonair began a new daily service to Shanghai's Hongqiao International Airport in September and now has 14 daily flights (including those to Pudong) to Shanghai.
- Dragonair restored its daily service to Fukuoka in October, resumed seasonal services to Sendai in December, and converted its charter services to Okinawa into a scheduled service in November.
- Cathay Pacific's flight restorations and increases in 2010 included the addition of five flights per week to Toronto, three flights per week to Jeddah, three flights per week to Los Angeles, seven flights per week to Seoul, seven flights per week to Singapore, 21 flights per week to Taipei, extra flights to Australia and four flights per week to Paris. The airline also increased the number of flights to Denpasar and Sapporo in response to seasonal demand.
- We are continuing to enhance services in 2011. Milan will move to a daily flight from July. From late March, Paris will move to a double-daily service, seven more flights per week will be reinstated to Taipei, Jakarta will become a thrice-daily service and Surabaya will get one extra flight a week to make it a daily service. We will also boost our Penang operation by making all daily flights non-stop.
- Dragonair restored services to Xiamen, increased services to Chengdu, Chongqing and Nanjing in the summer period and increased services to Changsha and Wuhan on a year-round basis. The airline also restored daily services to Bengaluru, added three flights per week to Busan, added four flights per week to Kaohsiung and increased services to Phuket and Kota Kinabalu.
- Dragonair's flights to Dhaka and Kathmandu were combined (in order to improve efficiency) and their number was increased from five to six per week.
- Capacity was increased on the Shanghai route in order to accommodate the increase in demand caused by the World Expo.
- We are committed to maintaining Hong Kong as the world's leading international air cargo hub. During the year we restored freighter services which had been suspended during the downturn and added capacity on a number of routes. By September we were operating our full freighter schedule and had added extra services where necessary to meet demand.
- We launched our first round-the-world freighter service in July, flying twice-weekly to Chicago and then on to Amsterdam and Dubai before flying back to Hong Kong. This is the first time Cathay Pacific has operated transatlantic flights.

- We recommenced work on our HK$5.5 billion cargo terminal at Hong Kong International Airport. The state-of-the-art facility, which will begin operations in early 2013, will provide more choice and competition in Hong Kong's airfreight industry. The construction of the terminal and preparation for operations are progressing well.

Fleet development

- In August Cathay Pacific announced its biggest-ever aircraft order, of 30 Airbus A350-900s (to be delivered between 2016 and 2019) and of six more Boeing 777-300ERs. These aircraft were in addition to the 29 aircraft already on order. In December, a further two Airbus A350-900s were ordered. In March 2011, Cathay Pacific announced the acquisition of 15 new Airbus A330-300 aircraft and 10 new Boeing 777-300ER aircraft. Cathay Pacific is also in discussions which, if successfully concluded, will result in the acquisition of 14 further aircraft.
- Cathay Pacific took delivery of five new aircraft in 2010, comprising four new Boeing 777-300ERs and one new Airbus A330-300.
- Dragonair took delivery of two new Airbus A320s in 2010. It also dry-leased two Airbus A330-300s from Cathay Pacific to replace two of its own Airbus A330s when they were returned to their lessors.
- By July, Cathay Pacific had brought back into service all five of its Boeing 747-400BCF freighters which had been parked in the desert during the downturn.
- A Boeing 747-400BCF freighter was sold to Air China Cargo in November and another three such freighters will be sold in 2011 and 2012.
- One of Cathay Pacific's Boeing 747-400BCFs was wet-leased to Air Hong Kong.
- One of Cathay Pacific's two Boeing 747-400 passenger aircraft parked in the desert was brought back into service in December to increase capacity during a period of peak seasonal demand. The other parked Boeing 747-400 has been retired from the fleet. The airline still has four Airbus A340-300s in the desert. These will in due course be returned to their lessors.
- Cathay Pacific is scheduled to take delivery of 15 new aircraft in 2011, three Airbus A330-300s, six Boeing 777-300ERs and six Boeing 747-8F freighters. Deliveries of the freighters were due to commence in January. As a result of production problems at Boeing, they are now scheduled to commence in August.

Pioneer in technology

- Cathay Pacific expects to launch a new broadband service for its aircraft in early 2012. This will enable passengers to use their mobile devices on board the aircraft and will provide an inflight entertainment portal. The service will also be available on the Dragonair fleet.
- Cathay Pacific is pioneering the move to electronic airway bills (e-AWB) in Hong Kong. e-AWB was implemented for all airway bills in Hong Kong on 1st January 2011 and will be implemented in outports during the next two years. e-AWB will reduce costs and improve efficiency.
- Passengers can buy online travel insurance when booking flights departing from Hong Kong. In late 2010 this service was extended to flights departing from Singapore and Australia.
- In June 2010, Cathay Pacific became the first Asian airline to introduce an online ticket change function. The service was launched in the North American market and was introduced for a number of other destinations in early 2011. The service will be available in Hong Kong from March.
- By using an interactive map on the Cathay Pacific website, passengers can review their bookings, update their personal information, select special meals and make advance seat reservations. The system enables passengers to be contacted when services are disrupted.
- Cathay Pacific was one of the first airlines to introduce an application, or app, specifically for the iPad. The app enables passengers to book tickets on their iPads.
- We plan to start introducing a new website based reservations and check in systems for Cathay Pacific and Dragonair in quarter one of 2012.

Partnerships

- The authorities in Mainland China have given formal approval for our cargo joint venture with Air China, and the two airlines are now in the process of completing the necessary paperwork to enable operations to commence. An existing Air China subsidiary, Air China Cargo, will be used as the platform for the joint venture. Air China Cargo is based in Shanghai and is in a good position to exploit the attractive air cargo opportunities in the Yangtze River Delta region. The Group is selling four Boeing 747-400BCF freighters and two spare engines to the joint venture. One of these aircraft has already been sold to Air China Cargo. The other three are expected to be sold in 2011 and 2012.
- Cathay Pacific launched codeshare arrangements with **one**world partners LAN, LAN Peru and Mexicana Airlines, bringing three destinations in Central and Latin America – Santiago, Lima and Mexico City – into its network.
- Russian carrier S7 became the 12th full member of **one**world when it formally began offering the full range of alliance benefits and services from November.
- With the addition of S7, **one**world serves more than 750 destinations around the world.
- Kingfisher Airlines, India's only five-star airline, has agreed to join **one**world and is expected to begin flying as part of the alliance in 2011.
- Germany's second largest carrier, Air Berlin, has agreed to become a full member of **one**world. NIKI, part of the Air Berlin group, will become an affiliate member.
- Japan Airlines has reaffirmed its commitment to **one**world, following an extensive review of its alliance strategy.
- The **one**world alliance and its member airlines offered support to LAN after its operations were affected by February's major earthquake in Chile.
- Several new codeshare arrangements in North America and Japan were announced towards the end of 2010. The Japan Airlines code is now on Cathay Pacific flights between Hong Kong and five destinations in Japan and the Cathay Pacific code has gone on Japan Airlines flights between Hong Kong, Tokyo and a further 10 destinations in Japan. The arrangements also extend to Japan Airlines' flights to Honolulu. Cathay Pacific launched codeshare services with WestJet and Alaska Airlines and added eight destinations to its existing codeshare network in North America.

Environment

- Cathay Pacific continues to work with international organisations such as the United Nations Framework Convention on Climate Change and the International Civil Aviation Organization to ensure that the voice of airlines is heard with regard to climate change.
- We made presentations on climate change at the Corporate Social Responsibility (CSR) Asia Summit 2010 in September, the Association of Asia Pacific Airlines conference in October and the Climate Leaders Group in Japan in December.
- In March, we participated in the World Wildlife Fund for Nature's (WWF) Earth Hour. We switched off all non-essential lighting in our buildings and on our billboards.
- Cathay Pacific published its first Sustainable Development Report in April. The report demonstrates our intention to embed sustainable development processes and principles in our operations. It was given a top A+ rating under the Global Reporting Initiative Guidelines.
- Our environmental efforts were recognised in May when Cathay Pacific collected a Silver Award (Sectoral Awards – Transport and Logistics) in the 2009 Hong Kong Awards for Environmental Excellence.
- Our staff participated in a number of environmental activities. Events were arranged with WWF including a dolphin boat trip in June and a visit to the Mai Po bird sanctuary in Hong Kong in August.
- In August we had a fruitful session sharing environmental best practice experiences with Air China.
- In August Cathay Pacific was named as one of the top airline picks in CLSA's "Sustainable Airlines Thrifty Flyers" report.

- Our FLY *greener* carbon offset scheme allows Cathay Pacific and Dragonair passengers to offset the environmental impact of their travel. In 2010, we purchased offsets from two hydropower projects and one wind turbine project in Mainland China.
- Cathay Pacific produced a leaflet for corporate clients in August aimed at encouraging more businesses to participate in the FLY *greener* scheme.
- In September we undertook, for the purpose of compiling our next Sustainable Development Report, a number of stakeholder engagement exercises. These involved younger staff members, pilots, environmental and social NGOs, sustainability experts, businesses and university students.
- Dragonair participates in the "Change for Conservation" inflight charity fundraising programme. The programme raises awareness of the importance of nature conservation. Funds raised on Dragonair flights (which aggregated over HK$7.9 million at the end of 2010) are used in Yunnan province in Mainland China, to protect watershed areas, to help alleviate poverty and to develop sustainable economic alternatives for the local population.
- Cathay Pacific continues its preparation for the introduction of the European Union's Emissions Trading System (ETS) and put a system in place to comply with regulations under the ETS. In October, consultants were appointed to assist in the setting of emissions targets.
- In November we received the Green Supply Chain Award from the Supply & Demand Chain Executive magazine in recognition of our efforts to make sustainability a core part of our supply chain strategy.
- In November we participated in the Eco Asia Expo 2010 event, taking the opportunity to promote our FLY *greener* scheme.
- In December we renewed our annual Indoor Air Quality Certification for Cathay Pacific City and ISO 14001 Certification for Cathay Pacific City and Dragonair House.

Contribution to the community

- In March, Cathay Pacific won the Total Caring Award (part of the Caring Company Scheme organised by the Hong Kong Council of Social Service), which recognised the airline's commitment to caring for the well-being of the community, its employees and the environment.
- One-hundred students joined the fourth Cathay Pacific "I Can Fly" programme in February. The students participated in a six-month series of activities designed to increase their knowledge of aviation and to foster commitment to the community through self-designed social service projects. Overseas trips were arranged to Seattle, Toulouse, Tianjin and Adelaide.
- The "CX Volunteers" continued to help the local community. Their English on Air programme has helped more than 1,000 Tung Chung school students to improve their conversational English. Other volunteering projects included a beach cleanup, a sale of donated items to help the underprivileged, help for the elderly in remote Lantau villages and collecting Christmas gifts for needy children.
- Cathay Pacific continued to support UNICEF through its Change for Good inflight fundraising programme in the programme's 20th anniversary year. To date, the airline's passengers have contributed more than HK$100 million to help improve the lives of disadvantaged children around the world.
- A new Change for Good donation envelope and a new inflight video, featuring UNICEF ambassadors Leon Lai and Miriam Yeung, were launched in September to coincide with the 20th anniversary of the programme.
- Staff from Cathay Pacific joined trips organised by UNICEF to Kenya and Ethiopia to see at first hand how funds from Change for Good are put to good use in helping to improve people's lives.
- Cathay Pacific and Dragonair, helped by the Swire Group Charitable Trust, donated HK$5 million to support UNICEF's relief work following the earthquake in the Qinghai province of western China. Money contributed by staff and passengers was matched by the airlines.

- Cathay Pacific continued its support for the Asian Youth Orchestra, sponsoring its summer festival and tour. The airline has supported the orchestra since its formation in 1990.
- Staff from the two airlines continue to support handicapped children in Hong Kong through the work of the Sunnyside Club.
- In August, Cathay Pacific launched an appeal among staff to help those affected by the flooding in Pakistan and the landslides in Gansu. The money raised was matched by the airline and a total of HK$1.5 million was given to UNICEF to support its relief efforts.
- Cathay Pacific and Dragonair confirmed their commitment to their home city by putting the updated Brand Hong Kong logo on their aircraft.
- In December, 16 cadets graduated from Dragonair's Aviation Certificate Programme, which is jointly organised with the Hong Kong Air Cadet Corps. 50 cadets have graduated from the programme in the five years of its existence. Some now have careers in aviation. The programme will be opened to the Hong Kong public for the first time in 2011.
- For the fifth consecutive year, Dragonair was named a "Caring Company" by the Hong Kong Council of Social Service, in recognition of its good corporate citizenship.
- Cathay Pacific continued to support major events in Hong Kong. In February the airline sponsored the International Chinese New Year Night Parade, in March it co-sponsored the Hong Kong Sevens rugby event, in June it co-sponsored the Hong Kong Squash Open (for the 25th consecutive year) and in December it sponsored the Cathay Pacific Hong Kong International Races.

Commitment to staff

- In March, the Group made an ex gratia payment to all staff who took part in the 2009 Special Leave Scheme (which was introduced in 2009 to help the Company reduce costs during the global economic downturn).
- In August, following the improvement in business, staff received an advance payment, in amounts equivalent to two weeks' salary, of their profit shares for 2010.
- In November, it was announced that a full 13th-month discretionary bonus would be paid to eligible staff at the end of the year and that, when the Group's full year results are published in March, eligible staff could expect a profit share for 2010 equivalent to at least three weeks' salary in addition to the advance payment of profit share made in August.
- The Cathay Pacific Cadet Pilot Programme continues to produce the next generation of local pilots, with another 61 cadets graduating from the programme in 2010. To date, 359 cadets have graduated and work as pilots at Cathay Pacific, with 57 former cadets now working as Captains with the airline.
- 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 Group. In May we announced a new three-year profit sharing scheme that will enable staff of both Cathay Pacific and Dragonair to share in our success.
- Cathay Pacific recruited almost 900 cabin crew in Hong Kong in 2010. More than 12,000 applications were received. We recruited principally in Hong Kong, but also in Korea and Taiwan. We also added more cabin crew in our overseas bases in San Francisco, London, Bangkok and Singapore. We intend to recruit 800 to 1,000 more cabin crew in 2011.
- Cathay Pacific launched a marketing campaign in March which focused on members of our staff who create the airline's special brand of service. Advertisements which highlight the professional and personal qualities of customer-facing staff have been backed up by a unique "Meet the Team" website. More staff were featured in the second wave of the campaign that was launched in September.
- Cathay Pacific ran an internal campaign for staff to create their own advertisements and confirm their commitment to helping to take our standards of service to new heights. More than 5,000 staff participated.
- The sixth annual Betsy Awards ceremony was held in June to honour Cathay Pacific and Dragonair service staff who went beyond the call of duty to assist passengers in need or to further the excellence of the two airlines' service.

- Cathay Pacific launched its CARE Team in September. This is a special group of volunteers drawn from all sections of the workforce who will be deployed to provide support in the event of a serious incident.
- Cathay Pacific organised 25 service leadership forums for its cabin crew managers and airport managers. The aim was to generate a better understanding of the airline's services and to help the managers to deliver more focused services to passengers.
- Cathay Pacific achieved its best-ever result in the biennial IATA Operational Safety Audit (IOSA) in June. IOSA is an internationally recognised system which measures how safely and effectively an airline operates.
- Dragonair employed 2,467 staff at the end of 2010, compared to 2,412 at the end of the previous year.
- About 140 cabin crew were recruited by Dragonair in Hong Kong in 2010. The airline intends to recruit another 300 cabin crew in 2011.
- Dragonair continues to run its own cadet pilot scheme. 12 new cadets were recruited in 2010.

Our complete Sustainable Development Report is available online at www.cathaypacific.com.

Fleet profile*

	Number as at 31st December 2010				Firm orders				Expiry of operating leases							
		Leased														
Aircraft type	Owned	Finance	Operating	**Total**	'11	'12	'13 and beyond	**Total**	'11	'12	'13	'14	'15	'16 and beyond	Options	Purchase rights
Aircraft operated by Cathay Pacific:																
A330-300	11	15	6	**32**	3	4		**7**					2	4		
A340-300	6	5	4	**15**					4							
A350-900							32[(a)]	**32**							10[(b)]	
747-400	17		5	**22**						2			2	1		
747-400F	3	3		**6**												
747-400BCF	6	1	5	**12**							3	1		1		
747-400ERF		6		**6**												
747-8F					6	4		**10**								
777-200	4	1		**5**												
777-300	3	9		**12**												
777-300ER	2	7	9	**18**	6	5	7	**18**						9		20[(c)]
Total	52	47	29	**128**	15	13	39	**67**	4	2	3	1	4	15	10	20
Aircraft operated by Dragonair:																
A320-200	5		6	**11**										6		
A321-200	2		4	**6**										4		
A330-300	4	1	9	**14**					1	3	3			2		
Total	11	1	19	**31**					1	3	3			12		
Aircraft operated by Air Hong Kong:																
A300-600F	2	6		**8**												
Grand total	**65**	**54**	**48**	**167**	**15**	**13**	**39**	**67**	**5**	**5**	**6**	**1**	**4**	**27**	**10**	**20**

** Includes parked aircraft. This profile does not reflect aircraft movements after year end.*
(a) Including two aircraft on 12-year operating leases.
(b) Options, to be exercised no later than 2016 for A350 family aircraft.
(c) Purchase rights for aircraft delivered by 2017.

Review of other subsidiaries and associates

The results recorded by our other subsidiaries and our associates were overall satisfactory. The share of profits from associates increased by HK$2,326 million to HK$2,587 million mainly as a result of Air China's strong results. Below is a review of their performance and operations.

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

- Air Hong Kong is the only all-cargo airline in Hong Kong and is 60% owned by Cathay Pacific. Its core business is to operate express cargo services for DHL Express.
- The airline operates a fleet of eight owned Airbus A300-600F freighters and three wet-leased aircraft. One of the wet-leased aircraft is a Boeing 747-400BCF freighter leased from Cathay Pacific.
- Air Hong Kong operates six flights per week to Bangkok, Seoul, Shanghai, Singapore, Taipei and Tokyo and five flights per week to Beijing, Manila, Nagoya, Osaka and Penang (via Bangkok).
- On-time performance was 94%, which was slightly below the target of 95%.
- Compared with 2009, capacity increased by 7%. The load factor and yield improved by 3 percentage points and 2% respectively.
- Air Hong Kong achieved a moderate increase in profit for 2010 compared with 2009.

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 22.9 million meals in 2010 and this accounts for 65% of the airline catering market in Hong Kong. Business volume increased by 10% from 2009, reflecting the recovery in aviation traffic.
- The increase in the volume of sales, coupled with effective control of operating costs, resulted in an improved profit margin.
- Business volume and profits at the flight kitchens in Asia (outside Hong Kong) improved over 2009. However, the Canadian operations showed a deficit in 2010. Operating costs, particularly of labour, were high and margins contracted.

Hong Kong Airport Services Limited ("HAS")

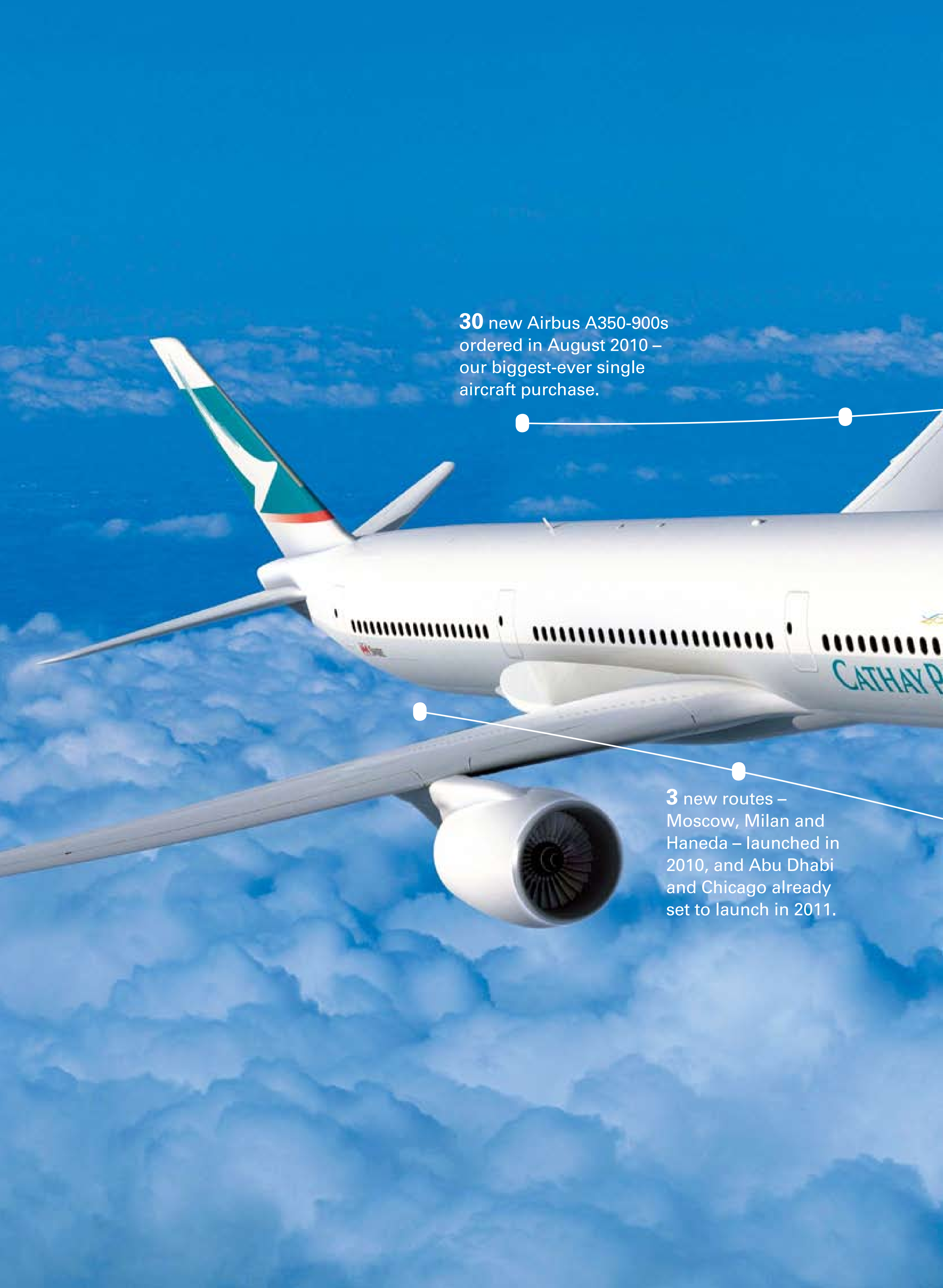
- HAS, a wholly owned subsidiary, is an integrated ground handling operator offering both ramp and passenger handling services in Hong Kong. It provides ground services to 37 airlines, including Cathay Pacific and Dragonair.
- HAS had 49.5% and 24.4% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.
- In a highly competitive market, the number of customers for passenger handling dropped to 13 from 17 in 2010. Some new customers were gained despite the overall loss of customers.
- Operating costs were affected by a tight labour market and increased rates of sickness among staff. It was not possible to pass on increased costs to customers. The 2010 results of HAS were disappointing.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific owns 18.7%, is the national flag carrier and leading provider of passenger, cargo and other airline related services in Mainland China.
- As at 31st December 2010, the airline's scheduled flights reached 32 countries and regions, including 47 international cities, 91 domestic cities and three regions.
- 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 arrear and consequently the 2010 annual results include Air China's results for the 12 months ended 30th September 2010.
- In an announcement made on 13th January 2011 about its expected results for 2010, Air China made the following statement. "In 2010, benefiting from the rapid growth of the macro-economy of China and the steady recovery of the global economy, the Company was able to seize the market opportunity of a strong demand for both passenger and cargo transportation services. The Company achieved a substantial increase in its operating profit for the year of 2010 through active production organisation, effective marketing and further exploration of its cost potential. In addition, we increased our shareholding in Shenzhen Airlines Company Limited becoming its controlling shareholder, the synergy created by which also contributed to the improvement of the annual results of the Company."

Hong Kong Aircraft Engineering Company Limited ("HAECO")

- On 7th June 2010, Cathay Pacific announced that it had agreed to sell its remaining 15% shareholding in HAECO to Swire Pacific Limited. The transaction was driven by our strategic priorities and will benefit our core aviation business. It enabled us to apply the proceeds from the transaction towards other investments in Cathay Pacific's core aviation business, including new aircraft, in our new cargo terminal and enhancements in products and services, and towards Cathay Pacific's general working capital requirements. The longstanding operational relationship between Cathay Pacific and HAECO will remain unchanged. HAECO has always been our main provider of overhaul and maintenance services and we are HAECO's biggest customer airline.
- Cathay Pacific's share of HAECO's profits up to the date of sale in 2010 was HK$44 million, compared with a share of HAECO's profits for the whole of 2009 of HK$188 million.


30 new Airbus A350-900s ordered in August 2010 – our biggest-ever single aircraft purchase.
3 new routes – Moscow, Milan and Haneda – launched in 2010, and Abu Dhabi and Chicago already set to launch in 2011.

Investing in Our Future

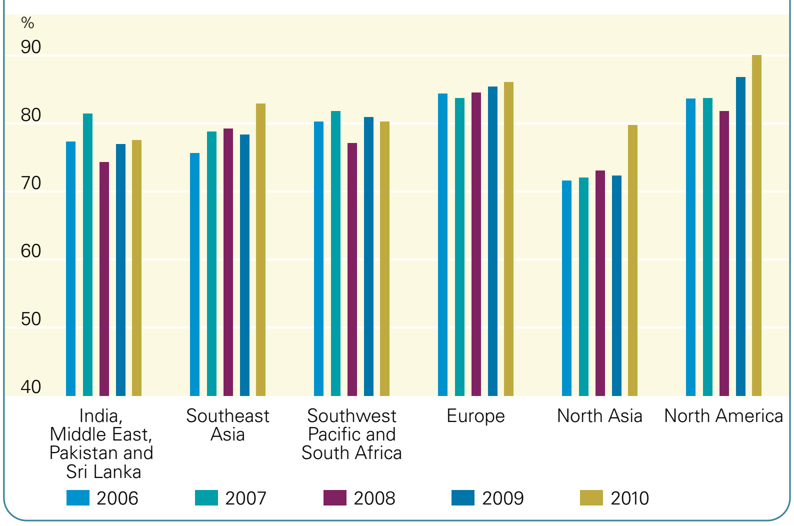
15 new Airbus A330-300s and **10** new Boeing 777-300ERs ordered in March 2011.

A total of **91** new aircraft on firm orders, underscoring our commitment to our home city, Hong Kong.

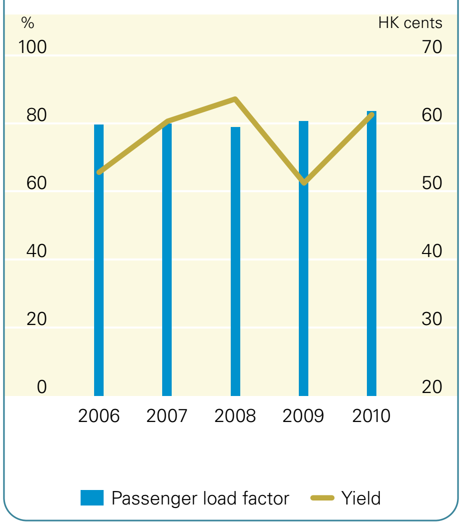
The HK$5.5 billion Cathay Pacific Cargo Terminal will open in 2013, underlining the airline's commitment to developing Hong Kong as a **global airfreight hub**.

Cathay Pacific and Dragonair carried a total of 26.8 million passengers in 2010, an increase of 9.1% compared with 2009 and a record high for the Group. Both airlines achieved a strong increase in passenger load factors and yields compared to the previous year. There was a significant increase in demand from premium class travellers, particularly on routes originating in Hong Kong. This was the key contributor to the 19.8% increase in yield to HK61.2 cents. The passenger load factor for the period rose by 2.9 percentage points to a record 83.4% and revenue from passenger services increased by 29.3% to HK$59,354 million.

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 2010 were as follows:

	ASK (million)			Load factor (%)			Yield
	2010	2009	**Change**	**2010**	2009	**Change**	**Change**
India, Middle East, Pakistan and Sri Lanka	**10,981**	10,489	**+4.7%**	**77.5**	76.8	**+0.7%pt**	**+8.2%**
Southeast Asia	**14,312**	13,892	**+3.0%**	**82.8**	78.3	**+4.5%pt**	**+15.0%**
Southwest Pacific and South Africa	**18,327**	17,959	**+2.0%**	**80.2**	80.8	**-0.6%pt**	**+23.4%**
Europe	**20,993**	20,222	**+3.8%**	**85.9**	85.3	**+0.6%pt**	**+18.8%**
North Asia	**24,316**	23,343	**+4.2%**	**79.7**	72.2	**+7.5%pt**	**+18.5%**
North America	**26,819**	25,262	**+6.2%**	**89.9**	86.7	**+3.2%pt**	**+23.3%**
Overall	**115,748**	111,167	**+4.1%**	**83.4**	80.5	**+2.9%pt**	**+19.8%**

Home market – Hong Kong and Pearl River Delta

- Demand on routes originating in Hong Kong was robust in all classes of travel, reflecting recovery from the financial crisis and the strength of Hong Kong's economy.
- Yields increased significantly in 2010, particularly in the premium classes.
- Demand on routes to Europe and North America was particularly strong. All long-haul routes performed well in all classes.
- Demand in economy class on routes to regional destinations was robust, and particularly so during holiday peaks.
- For much of the year, demand for premium travel on regional routes remained below pre-financial crisis levels as companies were slow to relax corporate travel policies encouraging travel in economy class. However, corporate sales still increased from 2009.
- The holding of the World Expo in Shanghai in 2010 was reflected in a sharp increase in the numbers of passengers flying to Shanghai.
- Demand on Dragonair's route to Guangzhou was particularly strong during the April and October Canton Fairs.
- Demand from the Pearl River Delta region continued to grow in 2010, assisted by 2009's introduction of the Guangzhou route and better flight connections from various cities to Hong Kong.

India, Middle East, Pakistan and Sri Lanka

- The Colombo market improved following the financial crisis, though business is still hampered by the difficulty of obtaining visas for travel to and through Hong Kong. This difficulty also affects traffic from Dhaka, Kathmandu and Karachi. We linked the Dhaka and Kathmandu routes in order to improve efficiency.
- Our India routes performed satisfactorily, although there was strong competition from Indian carriers on the Mumbai and Delhi routes. Demand on the Chennai route was strong. We increased the number of Dragonair flights to Bengaluru from four to seven per week.
- In the Middle East, the financial crisis in the United Arab Emirates affected our Dubai route, as did aggressive local competition. Demand on the Jeddah service strengthened.

Southeast Asia

- Demand within this region was generally strong. We restored services to Singapore (back to seven flights a day), and added flights to Jakarta, Surabaya, Kota Kinabalu, Phuket and Hanoi.
- Traffic to and from Singapore was high throughout the year, despite strong competition on the route. The Indonesia routes performed well, particularly over the Lebaran holiday. We increased capacity to Denpasar during the summer peak, although traffic on the route has been affected by an increased number of direct flights from Europe.
- From late March 2011 we will strengthen services to Indonesia, making Jakarta a triple-daily service and adding one more flight a week to Surabaya to make it a daily service.
- The Malaysian routes performed satisfactorily, though they were subject to strong competition. The Penang service is to become a direct daily flight from late March 2011.
- Demand for flights to Bangkok was severely affected by the anti-government protests, although there was some recovery in leisure travel demand later in the year. Demand for flights originating in Bangkok remained reasonable.
- The Philippines routes did not perform well. Demand was weak and was particularly affected by the hostage incident in August.

Southwest Pacific and South Africa

- Demand and yield on the Southwest Pacific routes returned to pre-downturn levels, assisted by an increase in premium traffic. We restored some flights to Sydney and added flights on the Brisbane/Cairns and Perth routes.
- Sales of tickets from Hong Kong to Southwest Pacific destinations were strong. Connecting traffic from Mainland China helped to keep load factors high.
- Capacity on the Auckland was reduced, mainly in the last four months of the year. This affected the performance of the route.
- The South Africa route performed strongly in the first half of the year. Capacity was increased to cater for travellers to the World Cup in June. Demand softened towards the end of the year.

Europe

- Demand for flights to Europe was generally strong in all classes. Yields increased significantly. Demand for flights from Europe was less strong, except from London, in part due to the weakness of the euro.
- Load factors and yield on the London route were high in both directions. Demand in the premium classes recovered much faster than on other European routes.
- We launched a four-times-weekly service to Milan in March. Performance to date is in line with expectations and we will turn it into a daily service with effect from July 2011.
- A thrice-weekly service to Moscow was launched in July. Loads have been satisfactory, but yield is under pressure. Sales for flights out of Russia have risen steadily.
- We increased the number of flights to Paris from seven to 11 per week in response to growing demand and from late March 2011 we will turn it into a double-daily service.

North Asia

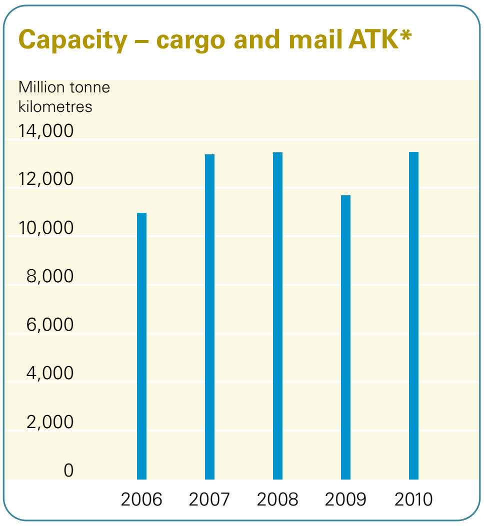
- Business on our Mainland China routes was strong, especially from passengers flying to Hong Kong to connect to our international network and on the trunk routes to Beijing and Shanghai.
- The World Expo in Shanghai resulted in strong demand and high yield on the Shanghai route.
- There was good growth in traffic to and from secondary cities, including Fuzhou, Qingdao and Hangzhou.
- Dragonair restored capacity on a number of Mainland China routes including Xiamen, Nanjing, Chongqing, Sanya and Chengdu.
- The Taiwan routes had quite a strong year. We restored capacity almost to pre-downturn levels on the Taipei route. We benefited from being able to pick up traffic that could not be accommodated by direct cross-Straits flights. There was strong demand from passengers flying to Hong Kong to connect to our international network. The Kaohsiung route performed well. We increased the number of flights on this route from 28 to 32 a week in July.
- Cathay Pacific will restore seven more flights a week to Taipei from late March, bringing the total number of flights to 108 per week.
- There was a strong recovery in business on the Japan routes. Demand for flights originating in Japan was helped by the strength of the yen, but this also affected leisure traffic into Japan.
- We launched a twice daily service to Tokyo's Haneda International Airport in October. We now operate seven flights a day to and from Tokyo's two main airports.
- There are now four flights a day to and from Osaka.
- New codeshare arrangements with Japan Airlines were announced. The Japan Airlines code will go on Cathay Pacific flights between Hong Kong and five destinations in Japan and the Cathay Pacific code will go on Japan Airlines flights between Hong Kong, Tokyo and a further 10 destinations in Japan. The arrangements also extend to Japan Airlines' flights to Honolulu.
- Dragonair resumed its services to Fukuoka and Sendai, which were suspended during the financial downturn, and started scheduled services to Okinawa in November.
- Our Korean routes showed some growth in 2010, though we were subject to increasing competition. Leisure traffic from Hong Kong to Korea was assisted by the weakness of the Korean won.
- We restored capacity on the Seoul route (which is now back to five flights daily) and added one more flight a week on Dragonair's Busan route.

North America

- The markets in the United States and Canada recovered strongly. Premium class traffic has been strong on all North America routes, but business class sales of flights out of the United States were still below pre-financial crisis levels. There was strong growth in economy class demand and a corresponding increase in yield.
- The San Francisco and Los Angeles routes had good years.
- Daily flights to Chicago will start in September 2011. We will add a daily flight to New York in the second quarter of 2011, increasing services to four flights daily.
- The Toronto route benefited from a strong recovery in premium class travel. We increased the number of flights from 10 to 12 per week in October. Toronto will have a twice-daily service from the second quarter of 2011.

Review of Operations CARGO SERVICES ASIA MILES

There was a significant increase in the demand for air cargo in 2010, with a strong and sustained recovery in all major markets. The tonnage carried by Cathay Pacific and Dragonair was 1.8 million tonnes, representing an increase of 18.1% compared to 2009. The load factor increased by 4.9 percentage points to a record 75.7%. Yield also increased 25.3% to HK$2.33. Cargo revenue rose 54.7% to HK$23,727 million. Capacity reduced in response to the economic downturn was reinstated, with all parked freighters being brought back from the desert. The fleet worked at high levels of utilisation throughout the year.



* *Includes Dragonair from 1st October 2006.*

Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for 2010 were as follows:

	ATK (million)			Load factor (%)			Yield
	2010	2009	**Change**	**2010**	2009	**Change**	**Change**
Cathay Pacific and Dragonair	**13,443**	11,666	**+15.2%**	**75.7**	70.8	**+4.9%pt**	**+25.3%**

- Despite some global economic uncertainty, demand for airfreight services remained strong for the whole of 2010. Demand on the major trunk routes to North America and Europe was consistently high, despite significant capacity increases from competitors in the second half of the year. The regional network in Asia remained buoyant.
- Demand for shipments originating from the key markets of Hong Kong and Shanghai was consistently strong. Loads carried by inbound flights were also higher than expected, with luxury goods and other products being shipped into Asia and in particular Mainland China. This is encouraging for the longer term future of our airfreight business.
- The cargo business benefited from the expansion of the passenger network, both long-haul and short-haul. Load factors and utilisation in passenger aircraft bellies were high.
- The Pearl River Delta region continued to be our principal source of growth. However, manufacturers and customers are starting to move west to places like Chengdu and Chongqing and outside Mainland China to countries, such as Vietnam and Bangladesh, where labour costs are lower than in Mainland China.
- We focused on improving yields, which were at or near record levels for many routes during the peak season in the latter part of the year.
- Demand on the North American and European routes was consistently strong, assisted by new product launches in the consumer sector and companies starting to invest again in information technology and other capital projects. Companies' general wish to keep inventory levels to a minimum and maintain flexibility also helped to increase demand for airfreight services.
- Shipments to Japan were strong, assisted by the strength of the yen and by Japan Airlines withdrawing its freighter fleet from operations in October. Exports to Australia were assisted by the strength of the Australian dollar, especially in the latter part of the year.
- All five of the Boeing 747-400BCF freighters which had been parked in the desert during the downturn have been brought back into service in response to the improvement in demand.
- We returned to a full freighter schedule from September ahead of the seasonal peak in demand. We operated additional services during the seasonal peak to cater for strong market demand. The freighter fleet operated at very high levels of utilisation throughout the year.
- Cargo capacity, measured in terms of ATKs, grew by 15.2% over 2009 and by 0.1% over 2008.
- A round-the-world freighter service was launched in July, flying eastwards to Chicago, and then on to Amsterdam and Dubai before flying back Hong Kong. The twice-weekly flight offers significant commercial and operational benefits and has seen good demand. This is the first time Cathay Pacific has operated transatlantic flights.
- We strengthened a number of scheduled freighter services during the year in response to market demand. The Miami/Houston service moved from three to four flights a week in July, while Miami was served by another weekly flight in its own right (two weekly flights during the seasonal peak at the year end). We moved from four flights to eight flights a week to India and the Middle East. Shanghai went to 21 flights a week (compared to 16 during the downturn).
- Early in the year we added a third weekly frequency on the triangular Dhaka/Hanoi route. Later in the year we split the route into two in order to cater for substantially increased exports of cargo from Bangladesh and Vietnam.
- During the seasonal peak in the latter part of the year, we were operating 28 scheduled flights per week to Europe and 40 scheduled flights per week to North America. Earlier in the year the figures had been 22 and 25 respectively.

- The authorities in Mainland China have given formal approval for our cargo joint venture with Air China, and the two airlines are now in the process of completing the necessary paperwork to enable operations to commence. An existing Air China subsidiary, Air China Cargo, will be used as the platform for the joint venture. Air China Cargo is based in Shanghai and is in a good position to exploit the attractive air cargo opportunities in the Yangtze River Delta region. We are selling four Boeing 747-400BCF freighters and two spare engines to the joint venture. One of these aircraft has already been sold to Air China Cargo. The other three are expected to be sold in 2011 and 2012.
- One Boeing Converted Freighter is currently being wet-leased to Air Hong Kong.
- Deliveries of our fleet of new Boeing 747-8F freighters have been delayed and are now scheduled to commence in August 2011, with six expecting to enter service before the end of 2011. We are managing our capacity accordingly in the first half of 2011 and look forward to having the new aircraft in service in time for the 2011 air cargo peak.
- Cathay Pacific is an active participant in IATA's drive to simplify the airfreight business. Cathay Pacific is pioneering the move to e-AWB in Hong Kong. e-AWB was implemented on a 100% basis in Hong Kong on 1st January 2011 and will be implemented in outports during the next two years.
- We recommenced work on our HK$5.5 billion cargo terminal at Hong Kong International Airport. The state-of-the-art facility, which will begin operations in early 2013, will provide more choice and competition in Hong Kong's airfreight industry. The construction of the terminal and preparation for operations are progressing well.
- The building of our new terminal and the expansion of our freighter fleet in 2011 highlight our commitment to maintaining Hong Kong's position as the world's leading international air cargo hub.
- Dragonair sells space for cargo in the bellies of its aircraft on all its routes. Its cargo tonnage increased significantly in 2010, particularly on its Mainland China routes.

Asia Miles

- Asia Miles, our travel rewards programme, continued to grow. At the end of 2010 it had more than three million members. The number of members based in Mainland China grew by 33% in 2010.
- The number of Asia Miles partners increased to more than 400 in nine categories, including airlines, hotels and major financial institutions.
- Redemptions of flights by Asia Miles members on our 20 partner airlines decreased by 1% in 2010. Almost 90% of Cathay Pacific flights carried passengers redeeming frequent flyer miles.
- Asia Miles offers over 800 non-flight redemption products to members. There was a 7% increase on non-flight redemptions in 2010.
- In November 2010, American Express and Cathay Pacific introduced a co-branded corporate card. The new card offers rewards and savings to medium sized and large companies in Hong Kong.
- The Asia Miles Mobile Sites and iPhone apps were introduced in 2010. Members can use mobile devices to manage their accounts in English and in traditional and simplified Chinese.

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 makes provisions based on facts and circumstances in line with accounting policy 19 set out on page 51.

The CX Mobile application offers a wide range of services, including bookings and check in, for people on the move.

Our New Products & Services

The Cabin, our latest passenger lounge at Hong Kong International Airport, offers a new level of comfort and convenience.

Our iPad app – one of the world's first customised airline applications for the device – puts passengers in touch with a wide range of Cathay Pacific online services.

Our new long-haul Business Class offers the things our customers want – a combination of **privacy and openness**, and one of the longest, widest full-flat beds in the sky.

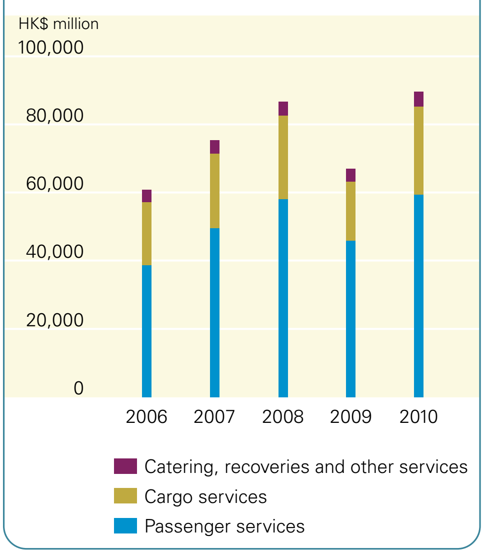
Financial Review

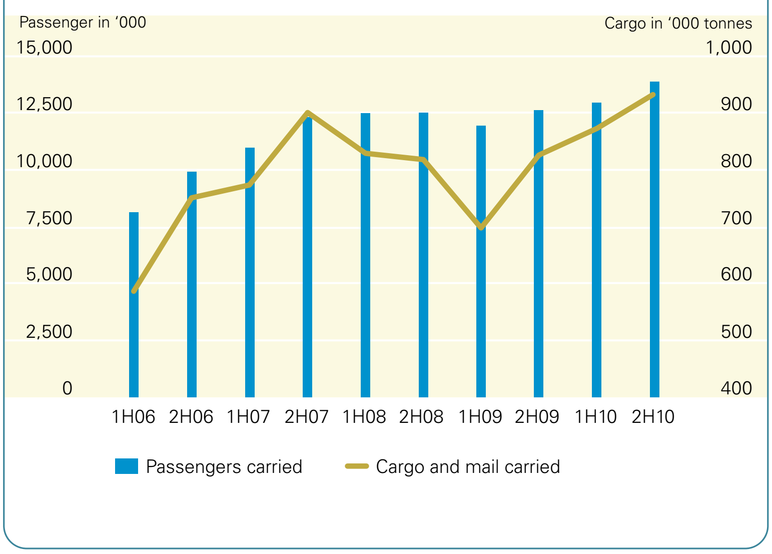
The Cathay Pacific Group reported a record attributable profit of HK$14,048 million in 2010 compared with a profit of HK$4,694 million in 2009. The record result reflects a continued and significant recovery in its core business following the extremely challenging conditions experienced for much of 2009 and a significantly increased contribution from Air China. It also includes non-recurring items, that is gains on the disposal of shares in Hong Kong Air Cargo Terminals Limited and Hong Kong Aircraft Engineering Company Limited and on the deemed disposal of shares in Air China.

Turnover

	Group		Cathay Pacific and Dragonair	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Passenger services#	**59,354**	45,920	**59,354**	45,920
Cargo services#	**25,901**	17,255	**23,727**	15,341
Catering, recoveries and other services	**4,269**	3,803	**3,572**	3,128
Turnover	**89,524**	66,978	**86,653**	64,389

 # Includes relevant surcharges.





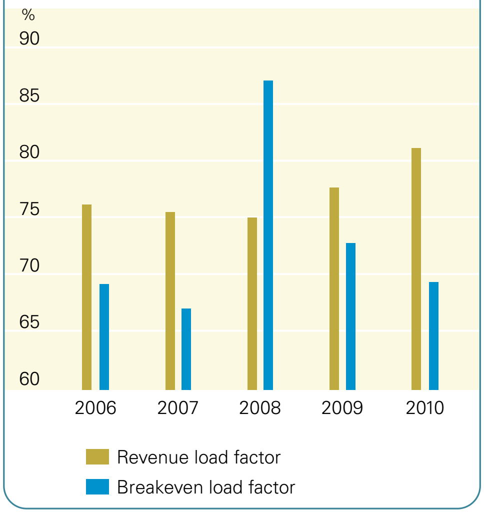
* *Includes Dragonair from 1st October 2006.*

- Group turnover increased by 33.7% in 2010 compared with 2009.

Cathay Pacific and Dragonair

- Passenger turnover increased significantly, by 29.3% to HK$59,354 million, as a result of strong demand. The number of passengers carried increased by 9.1% to 26.8 million and revenue passenger kilometres increased by 8.0%.
- The passenger load factor increased by 2.9 percentage points to a record 83.4% while available seat kilometres increased by 4.1%.
- Passenger yield increased by 19.8% to HK¢61.2.
- First and business class revenues increased by 40.3% and the premium class load factor increased from 58.5% to 66.7%. Economy class revenues increased by 24.8% and the economy class load factor increased from 84.3% to 86.4%.
- Cargo turnover increased by 54.7% to HK$23,727 million, with a 15.2% increase in capacity. Demand for exports from Mainland China routed through Hong Kong remained strong.
- Fuel surcharges increased by HK$3.6 billion as a result of higher fuel prices and more passengers and cargo carried.
- The cargo load factor increased by 4.9 percentage points. The cargo yield increased by 25.3% to HK$2.33.
- The revenue load factor increased by 3.4 percentage points to 81.1%. The breakeven load factor was 69.3%.

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:

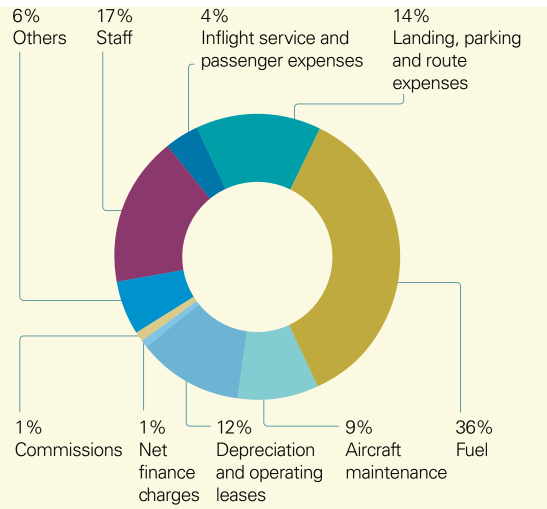
	HK$M
+ 1 percentage point in passenger load factor	709
+ 1 percentage point in cargo and mail load factor	313
+ HK¢1 in passenger yield	966
+ HK¢1 in cargo and mail yield	102

Operating expenses

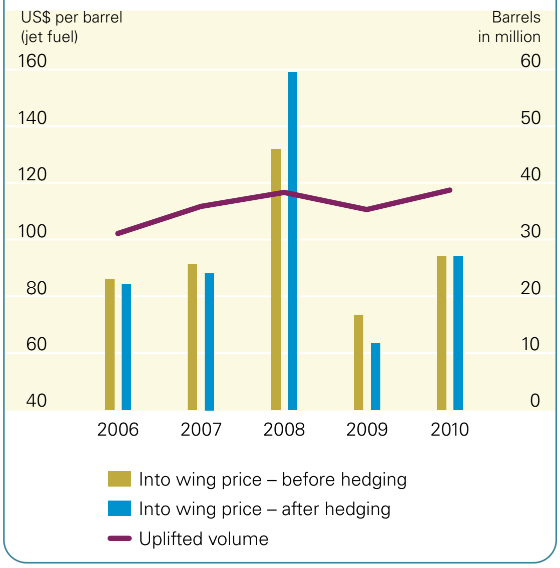
	Group			Cathay Pacific and Dragonair		
	2010 HK$M	2009 HK$M	**Change**	**2010 HK$M**	2009 HK$M	**Change**
Staff	**13,850**	12,618	**+9.8%**	**12,655**	11,515	**+9.9%**
Inflight service and passenger expenses	**3,308**	2,915	**+13.5%**	**3,308**	2,915	**+13.5%**
Landing, parking and route expenses	**11,301**	10,458	**+8.1%**	**11,104**	10,281	**+8.0%**
Fuel	**28,276**	17,349	**+63.0%**	**27,705**	16,937	**+63.6%**
Aircraft maintenance	**7,072**	6,567	**+7.7%**	**6,921**	6,411	**+8.0%**
Aircraft depreciation and operating leases	**8,288**	7,978	**+3.9%**	**8,120**	7,796	**+4.2%**
Other depreciation, amortisation and operating leases	**1,107**	1,103	**+0.4%**	**881**	867	**+1.6%**
Commissions	**736**	571	**+28.9%**	**736**	571	**+28.9%**
Exchange gain	**(196)**	(344)	**-43.0%**	**(214)**	(356)	**-39.9%**
Others	**4,729**	3,284	**+44.0%**	**5,080**	3,628	**+40.0%**
Operating expenses	**78,471**	62,499	**+25.6%**	**76,296**	60,565	**+26.0%**
Net finance charges	**978**	847	**+15.5%**	**933**	781	**+19.5%**
Total operating expenses	**79,449**	63,346	**+25.4%**	**77,229**	61,346	**+25.9%**

- Group total operating expenses increased by 25.4% to HK$79,449 million.
- The combined cost per ATK of Cathay Pacific and Dragonair increased from HK$2.76 to HK$3.16. This principally reflected higher average fuel prices.

Total operating expenses



Fuel price and consumption



Cathay Pacific and Dragonair operating results analysis

	2010 HK$M	2009 HK$M
Airlines' operating profit before fuel hedging, non-recurring items and tax	**9,465**	285
Profit on disposal of Hactl and HAECO shares	**2,165**	1,254
Gain on deemed disposal of Air China shares	**868**	–
Airlines' profit before fuel hedging (losses)/gains and tax	**12,498**	1,539
Realised and unrealised fuel hedging (losses)/gains	**(41)**	2,758
Tax charge	**(1,347)**	(170)
Airlines' profit after tax	**11,110**	4,127
Share of profits from subsidiaries and associates	**2,938**	567
Profit attributable to owners of Cathay Pacific	**14,048**	4,694

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

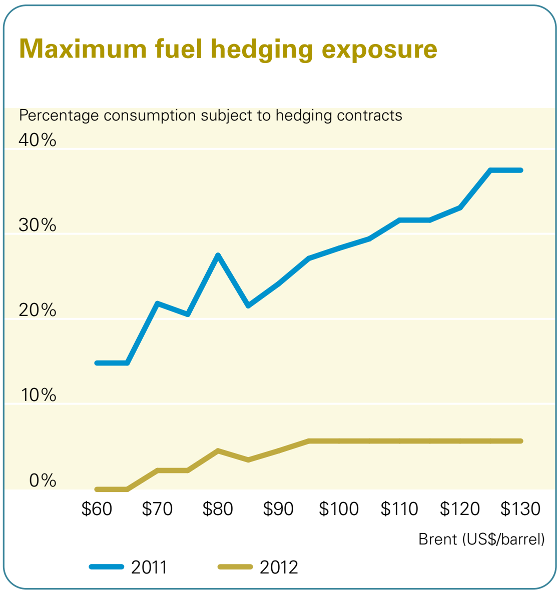
	HK$M	
2009 airlines' operating profit before fuel hedging, non-recurring items and tax	**285**	
Passenger and cargo turnover	**21,820**	**Passenger** – Increased HK$1,885 million due to a 4.1% increase in capacity. – A 2.9% points increase in load factor contributed to an increase of HK$1,807 million. – HK$9,742 million of the increase arose from a 19.8% increase in yield partly due to an increase in fuel surcharges. **Cargo** – Increased HK$2,336 million due to a 15.2% increase in capacity. – A 4.9% points increase in load factor contributed to an increase of HK$1,231 million. – HK$4,819 million of the increase arose from a 25.3% increase in yield partly due to an increase in fuel surcharges.
Staff	**(1,140)**	– Increased due to provision for bonus and profit share scheme.
Fuel	**(7,969)**	– Fuel costs increased due to a 28.0% increase in the average into-plane fuel price to US$94 per barrel and a 7.4% increase in consumption to 37.9 million barrels.
Others	**(3,531)**	
2010 airlines' operating profit before fuel hedging, non-recurring items and tax	**9,465**	

Fuel expenditure and hedging

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

	2010 HK$M	2009 HK$M
Gross fuel cost	**28,235**	20,107
Realised hedging losses/(gains)	**78**	(740)
Unrealised mark to market gains	**(37)**	(2,018)
Net fuel cost	**28,276**	17,349
Settlement and premium paid	**746**	3,180

The Group's maximum fuel hedging exposure as at 31st December 2010 is set out below:



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 indicates the estimated maximum percentage of projected consumption by year covered by hedging transactions at various settled Brent prices.

Taxation

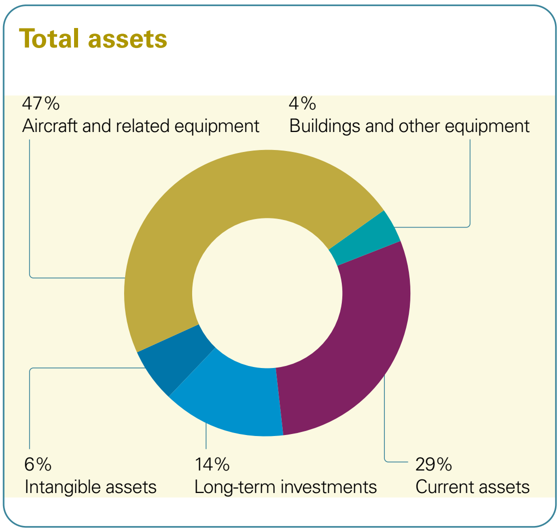
- The tax charge increased by HK$1,179 million to HK$1,462 million, principally reflecting the higher profit.

Dividends

- Dividends proposed for the year are HK$4,367 million representing a dividend cover of 3.2 times.
- Dividends per share increased from HK¢10 to HK¢111.

Assets

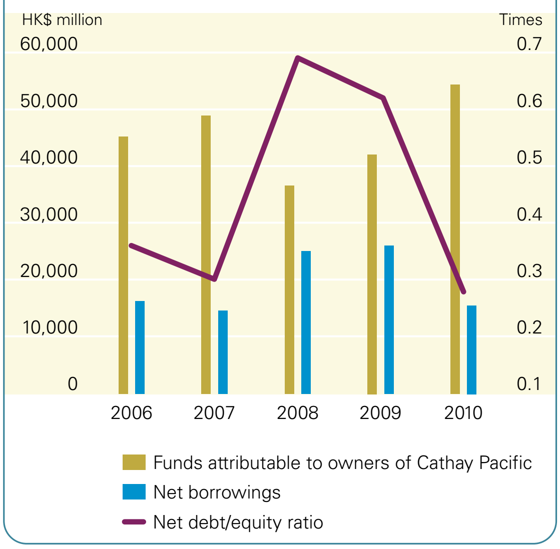
- Total assets as at 31st December 2010 were HK$128,053 million.
- During the year, additions to fixed assets were HK$8,110 million, comprising HK$6,742 million for aircraft and related equipment, HK$1,211 million for buildings and HK$157 million for other equipment.



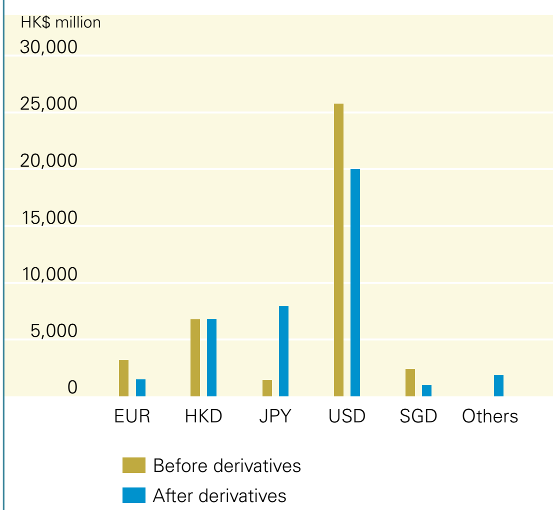
Borrowings and capital

- Borrowings decreased by 7.1% to HK$39,629 million from HK$42,642 million in 2009.
- Borrowings are mainly denominated in US dollars, Hong Kong dollars, Singapore dollars, Japanese yen and Euros, and are fully repayable by 2023 with 59% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 73.7% of which are denominated in US dollars, increased by 46.5% to HK$24,198 million.
- Net borrowings decreased by 40.9% to HK$15,435 million.
- Funds attributable to the owners of Cathay Pacific increased by 28.5% to HK$54,274 million.
- The net debt/equity ratio decreased from 0.62 times to 0.28 times.

Net debt and equity

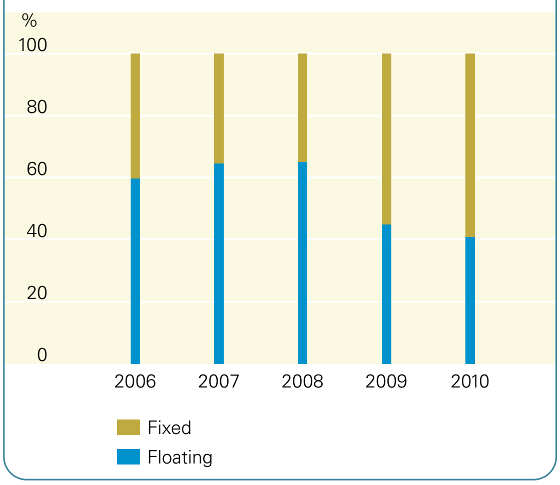


Borrowings before and after derivatives



Others include CAD, KRW, RMB and TWD.

Interest rate profile: borrowings



Our People

On the ground, in the air and behind the scenes, **our people always go the extra mile** to make you feel special.

The popular **"Meet the Team"** function at our website introduces you to the diverse group of people who make travelling on Cathay Pacific a unique experience.

Directors and Officers

Executive Directors

PRATT, Christopher Dale#, CBE, aged 54, 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.

BARRINGTON, William Edward James#, aged 51, has been a Director of the Company since July 2010. He is also a Director of Hong Kong Dragon Airlines Limited and AHK Air Hong Kong Limited. He joined the Swire group in 1982 and has worked with the Company in Hong Kong, Malaysia and Canada since 1983.

CHU, Kwok Leung Ivan, aged 49, has been appointed Chief Operating Officer of the Company with effect from 31st March 2011. He joined the Company in 1984 and has worked with the Company in Hong Kong, Mainland China, Taiwan, Thailand and Australia. He was appointed Director Service Delivery in September 2008 and is also Chairman of Cathay Pacific Catering Services (H.K.) Limited.

HUGHES-HALLETT, James Edward#, aged 45, 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.

SLOSAR, John Robert#, aged 54, has been a Director of the Company since July 2007. He was appointed Chief Operating Officer in July 2007. He has been appointed Chief Executive of the Company with effect from 31st March 2011. He is also a Director of John Swire & Sons (H.K.) Limited, Swire Pacific Limited and Hong Kong Dragon Airlines Limited, and Chairman of Swire Beverages 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 55, 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. He has resigned as Director and Chief Executive of the Company with effect from 31st March 2011. His resignation followed the recommendation of the Board of Governors of the International Air Transport Association ("IATA") that he be appointed as Director General and Chief Executive Officer of IATA with effect from 1st July 2011.

Non-Executive Directors

CAI, Jianjiang, aged 47, has been a Director of the Company since November 2009. He is a Director and President of Air China Limited.

FAN, Cheng*, aged 55, 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 61, 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, Swire Properties Limited and Steamships Trading Company 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 55, 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 62, 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.

SHIU, Ian Sai Cheung#, aged 56, has been a Director of the Company since October 2008. He is also a Director of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Hong Kong Dragon Airlines Limited and Air China Limited. He joined the Company in 1978 and has worked for the

Company in Hong Kong, the Netherlands, Singapore and the United Kingdom. He was appointed Director Corporate Development in September 2008 and served as an Executive Director of the Company from 1st October 2008 until 30th June 2010.

SWIRE, Merlin Bingham#, aged 37, has been a Director of the Company since June 2010. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London. He is a Director and shareholder of John Swire & Sons Limited, a Director of Swire Pacific Limited, Hong Kong Aircraft Engineering Company Limited and Swire Properties Limited and an Alternate Director of Steamships Trading Company Limited.

ZHANG, Lan, aged 55, has been a Director of the Company since October 2006. She was Vice President of Air China Limited, Chairman of Air China Development Corporation (Hong Kong) Limited and a Director of Shandong Aviation Group Corporation until her retirement from Air China Limited in February 2011.

Independent Non-Executive Directors

LEE, Irene Yun Lien+*, aged 57, 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. She is a Non-Executive Director of Hysan Development Company Limited and will become its Non-Executive Chairman on 9th May 2011.

SO, Chak Kwong Jack*, aged 65, 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) and a Non-Executive Director of AIA Group Limited.

TUNG, Chee Chen+, aged 68, 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 59, 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, Chairman and Non-Executive Director of HSBC Bank Malaysia Berhad, Deputy Chairman and a Non-Executive Director of HSBC Bank (China) Company Limited, Vice Chairman and Non-Executive Director of HSBC Bank (Vietnam) Limited, and a Non-Executive Director of 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

CHAU, Siu Cheong William, aged 57, has been Director Personnel since May 2000. He joined the Company in 1973.

CHONG, Wai Yan Quince, aged 47, has been Director Corporate Affairs since September 2008. She joined the Company in 1998.

GIBBS, Christopher Patrick, aged 49, has been Engineering Director since January 2007. He joined the Company in 1992.

HALL, Richard John, aged 55, has been Director Flight Operations since August 2010. He joined the Company in 1988.

HOGG, Rupert Bruce Grantham Trower#, aged 49, has been Director Sales and Marketing since August 2010. He joined the Swire group in 1986.

RHODES, Nicholas Peter#, aged 52, has been Director Cargo since August 2010. He joined the Swire group in 1980.

SMACZNY, Tomasz, aged 48, has been Director Information Management since August 2010. He joined the Company in 2008.

Secretary

FU, Yat Hung David#, aged 47, 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 2010 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 2010 and the state of affairs of the Group and the Company at that date are set out in the accounts on pages 52 to 97.

Dividends

We recommend the payment of a final dividend of HK¢78 per share for the year ended 31st December 2010. Together with the interim dividend of HK¢33 per share paid on 4th October 2010, this makes a total dividend for the year of HK¢111 per share. This represents a total distribution for the year of HK$4,367 million. Subject to shareholders' approval of the final dividend at the annual general meeting on 18th May 2011, payment of the final dividend will be made on 1st June 2011 to shareholders registered at the close of business on the record date, 18th May 2011.

The register of members will be closed from 13th May 2011 to 18th May 2011, 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, 12th May 2011.

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 56 and 57.

Accounting policies

The principal accounting policies are set out on pages 48 to 51.

Donations

During the year, the Company and its subsidiaries made charitable donations amounting to HK$11 million in direct payments and a further HK$5 million in the form of discounts on airline travel.

Fixed assets

Movements of fixed assets are shown in note 12 to the accounts. Details of aircraft acquisitions are set out on page 11.

Bank and other borrowings

The net bank loans, overdrafts and other borrowings, including obligations under finance leases, of the Group and the Company are shown in notes 17 and 23 to the accounts.

Share capital

During the year under review, the Group did not purchase, sell or redeem any shares in the Company and the Group has not adopted any share option scheme.

At 31st December 2010, 3,933,844,572 shares were in issue (31st December 2009: 3,933,844,572 shares). Details of the movement of share capital can be found in note 24 to the accounts.

Commitments and contingencies

The details of capital commitments and contingent liabilities of the Group and the Company as at 31st December 2010 are set out in note 31 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, W.E. James Barrington, James E. Hughes-Hallett, James W.J. Hughes-Hallett, Peter Kilgour, Ian Shiu, John Slosar, Merlin Swire and Tony Tyler are interested in the JSSHK Services Agreement (as defined below). Philip Chen and Robert Woods were interested as directors and/or employees of the Swire group until their resignation with effect from 1st July 2010 and 1st June 2010 respectively. Merlin Swire is also interested as a shareholder of Swire.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2010 are set out below and also given in note 30 to the accounts.

Significant contracts

Contracts between the Group and HAECO and its subsidiary TAECO for the maintenance and overhaul of aircraft and related equipment accounted for approximately 2% of the Group's operating expenses in 2010. HAECO is a subsidiary of Swire Pacific; all contracts have been concluded on normal commercial terms in the ordinary course of the business of both parties.

Major transaction

Cathay Pacific Aircraft Services Limited ("CPAS"), a wholly owned subsidiary of the Company, entered into an agreement with Airbus S.A.S. on 16th September 2010 for the acquisition of 30 Airbus A350-900 aircraft. This transaction constituted a major transaction under the Listing Rules in respect of which an announcement dated 16th September 2010 was published and a circular dated 21st September 2010 was sent to shareholders.

Discloseable transaction

CPAS entered into an agreement with The Boeing Company on 21st September 2010 for the acquisition of six Boeing 777-300ER aircraft. This transaction constituted a discloseable transaction under the Listing Rules in respect of which an announcement dated 21st September 2010 was published.

Connected transactions

(a) 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 would 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 would 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 would be 51%, 24% and 25% respectively (with premium contribution credited as capital reserve fund of Air China Cargo);

(ii) Advent Fortune Limited ("AFL") would 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 would pledge its equity interest in Fine Star to the Company and the Company's returns on the loan would be equal to the dividend returns on AFL's 24% effective shareholding in Air China Cargo;

(iii) Air China Cargo would 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 would provide a guarantee in favour of Air China in respect of Cathay Pacific China Cargo Holdings' obligations under the relevant agreements and undertook 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 constituted a connected transaction for the Company under the Listing Rules, in respect of which an announcement dated 25th February 2010 was published and a circular dated 8th April 2010 was sent to shareholders. The completion process of the Joint Venture Transaction has commenced and is in progress.

(b) The Company, Swire Aviation Limited, Swire Finance Limited, Swire Pacific, CITIC Pacific Limited (as sellers) entered into a sale and purchase agreement with Jardine, Matheson & Co., Limited, The Wharf (Holdings) Limited, Mosgen Limited, Hutchison Port Holdings Limited and China National Aviation Corporation (Group) Limited ("CNACG") (as purchasers) on 25th May 2010 for the Company to sell its entire 10% interests in Hong Kong Air Cargo Terminals Limited ("Hactl") and Hactl Investment Holdings Limited ("HIHL") for a consideration of HK$640 million. The transaction enabled the Company to realise cash from its investment in the 10% interests in Hactl and HIHL.

CNACG is a connected person of the Company because it is an associate of Air China Limited which is a substantial shareholder of the Company. Swire Pacific is a substantial shareholder and therefore a connected person of the Company. As Swire Pacific is a controlling shareholder of the Company and was also a substantial shareholder of Hactl and HIHL, the sale of the Company's interests in Hactl and HIHL constituted a connected transaction of the Company under the Listing Rules, in respect of which an announcement dated 25th May 2010 was published. The transaction was completed on 31st May 2010.

(c) The Company entered into a sale and purchase agreement with Swire Pacific on 7th June 2010 for Swire Pacific to purchase and the Company to sell 24,948,728 ordinary shares of HK$1 each in HAECO (representing approximately 15.00% shareholding in HAECO) for a consideration of approximately HK$2,620 million (equivalent to HK$105 per HAECO share) (the "HAECO Share Transaction"). The HAECO Share Transaction was driven by the strategic priorities of the Company and would benefit its core aviation business. It enabled the Company to apply the proceeds from the transaction towards other investments in the Company's core aviation business, including investments in new aircraft, in the new cargo terminal being constructed at the Hong Kong International Airport, in continuing enhancements in products and services, as well as towards Cathay Pacific'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 7th June 2010 was published.

Following completion of the HAECO Share Transaction on 14th June 2010, the Company's shareholding interest in HAECO decreased from 15.00% to nil and Swire Pacific's shareholding interest in HAECO increased from 45.96% to 60.96%.

Continuing connected transactions

During the year ended 31st December 2010, 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 were continuing connected transactions in respect of which announcements dated 17th October 2002, 27th June 2005, 12th March 2007 and 9th March 2011 were published and circulars dated 12th July 2005 and 21st March 2007 were sent to shareholders. Following amendments to the Listing Rules effective 3rd June 2010, transactions under the DHL Services Agreement constitute transactions with persons connected at the level of subsidiaries of the Company under Rule 14A.33(4) of the Listing Rules with effect from 1st January 2011 and are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

The fees payable by DHL to Air Hong Kong under the DHL Services Agreement totalled HK$2,093 million for the year ended 31st December 2010.

(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 non-controlling interests after certain adjustments. The fees for each year are payable in cash in arrear 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 2011 to 31st December 2013 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 42.97% 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, 1st October 2007 and 1st October 2010 were published.

For the year ended 31st December 2010, 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 non-controlling interests which was referable to the sale by the Company to Swire Pacific of 24,948,728 shares in HAECO. After taking account of that waiver, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$293 million and expenses of HK$139 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 were continuing connected transactions in respect of which announcements dated 29th September 2008 and 29th June 2010 were published. Following amendments to the Listing Rules effective 3rd June 2010, transactions under the PCCW Services Agreement constitute *de minimis* transactions for the Company and are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

The fees payable by CPLP to Teleservices under the PCCW Services Agreement totalled HK$37 million for the period from 1st January to 2nd June 2010.

(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$1,818 million for the year ended 31st December 2010.

(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 current term of the Air China Framework Agreement is for 3 years ending on 31st December 2013 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 announcements dated 26th June 2008 and 10th September 2010 were published.

For the year ended 31st December 2010 and under the Air China Framework Agreement, the amounts payable by the Group to Air China Group totalled HK$403 million; and the amounts payable by Air China Group to the Group totalled HK$219 million.

(f) Pursuant to a framework agreement dated 27th July 2010 ("HAESL Framework Agreement") with Hong Kong Aero Engine Services Limited ("HAESL"), HAESL provides certain services to the Group in connection with the overhaul and repair of aircraft engines and components. Such services do not include reimbursement of the cost of materials purchased by HAESL from the engine supplier, Rolls-Royce plc (or any of its group companies or affiliates) for the Company. Payment is made in cash by the Group to HAESL within 30 days upon receipt of the invoice.

The current term of the HAESL Framework Agreement is for 3 years ending on 31st December 2012 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.

On 7th June 2010, HAECO, which holds a 45% shareholding in HAESL, became a subsidiary of Swire Pacific and as a result HAESL became an associate of Swire Pacific under the Listing Rules. As Swire Pacific is a substantial shareholder of the Company under the Listing Rules, HAESL became a connected person of the Company under the Listing Rules by becoming an associate of a substantial shareholder of the Company. As a result, the transactions under the HAESL Framework Agreement became continuing connected transactions in respect of which an announcement dated 27th July 2010 was published.

The fees payable by the Group to HAESL under the HAESL Framework Agreement totalled HK$228 million for period from 7th June 2010 to 31st December 2010.

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 33% 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 10% of purchases were made from the Group's largest supplier.

In respect of the Company's purchases from PetroChina International (Hong Kong) Corporation Limited, which was among the Group's five largest suppliers in 2010, Tung Chee Chen is interested as a director of its holding company, PetroChina Company Limited. Save as disclosed in this paragraph, no Director, any of their associates or any shareholder who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital has an interest in the Group's five largest suppliers.

Directors

Ivan Chu, Irene Lee, Merlin Swire and W.E. James Barrington were appointed as Directors with effect from 31st March 2011, 13th January 2010, 1st June 2010 and 1st July 2010 respectively. All the other present Directors of the Company whose names are listed on pages 32 and 33 served throughout the year. Robert Woods, Philip Chen and Tony Tyler served as Directors until their resignation with effect from 1st June 2010, 1st July 2010 and 31st March 2011 respectively.

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, James W.J. Hughes-Hallett and John Slosar retire this year and, being eligible, offer themselves for re-election.

W.E. James Barrington, Ivan Chu and Merlin Swire, 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$2.6 million; they received no other emoluments from the Company or any of its subsidiaries.

Directors' interests

At 31st December 2010, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of Cathay Pacific Airways Limited:

	Capacity	No. of shares	Percentage of issued capital (%)
Ian Shiu	Personal	1,000	0.00003
Tony Tyler	Personal	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, Kong Dong and Ian Shiu had 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 2010 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	2,870,107,351	72.96	Attributable interest (a)
2. China National Aviation Holding Company	2,870,107,351	72.96	Attributable interest (b)
3. Swire Pacific Limited	2,870,107,351	72.96	Attributable interest (a)
4. John Swire & Sons Limited	2,870,107,351	72.96	Attributable interest (c)

Note: At 31st December 2010:

(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 2,870,107,351 shares of the Company, comprising:

(i) 1,690,347,364 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., 280,078,680 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 21,809,399 shares held by Perfect Match Assets Holdings Ltd.

(b) China National Aviation Holding Company is deemed to be interested in a total of 2,870,107,351 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 2,870,107,351 shares of the Company by virtue of the Swire group's interests in shares of Swire Pacific representing approximately 40.63% of the issued capital and approximately 57.62% of the voting rights.

Public float

From information that is publicly available to the Company and within the knowledge of its Directors as at the date of this report, at least 25% of the Company's total issued share capital is held by the public.

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, 9th March 2011

Corporate Governance

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

The Board of Directors

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

To ensure a balance of power and authority, the role of the Chairman is separate from that of the Chief Executive ("CE"). The CE, Tony Tyler will be succeeded by John Slosar on 31st March 2011. 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 2010, the attendance of which, taking into account dates of appointment or resignation, was as follows:

Christopher Pratt (6/6), W.E. James Barrington (3/3), Cai Jianjiang (1/6), Philip Chen (3/3), Fan Cheng (3/6), James E. Hughes-Hallett (6/6), James W.J. Hughes-Hallett (5/6), Peter Kilgour (6/6), Kong Dong (2/6), Irene Lee (6/6), Ian Shiu (6/6), John Slosar (6/6), Jack So (6/6), Merlin Swire (3/3), Tung Chee Chen (5/6), Tony Tyler (6/6), Peter Wong (4/6), Robert Woods (3/3) and Zhang Lan (3/6).

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 2010 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, Ivan Chu, Christopher Gibbs and Captain Richard Hall, the General Manager Flying, Captain Henry Craig and the Head of Corporate Safety, Richard Howell. It is chaired by a former Director Flight Operations, Ken Barley.

Executive Committee

The Executive Committee is chaired by the CE and comprises three executive Directors, W.E. James Barrington, James E. Hughes-Hallett and John Slosar, 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, W.E. James Barrington, James E. Hughes-Hallett and John Slosar, and all eight executive officers, William Chau, Quince Chong, Ivan Chu, Christopher Gibbs, Captain Richard Hall, Rupert Hogg, Nick Rhodes and Tomasz Smaczny.

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, W.E. James Barrington, James E. Hughes-Hallett and John Slosar, 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 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 2010 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 two meetings during 2010, the attendance of which was as follows:

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

Audit Committee

The Audit Committee is responsible to the Board and consists of four non-executive Directors, three of whom are independent. The members 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 2010, the attendance of which, taking into account dates of appointment or resignation/cessation, was as follows:

Fan Cheng (1/3), Irene Lee (3/3), Jack So (3/3) and Peter Wong (3/3).

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, W.E. James Barrington and James E. Hughes-Hallett.

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 2010 the total remuneration paid to the external auditors was HK$26 million, being HK$10 million for audit, HK$13 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

KPMG

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

We have audited the consolidated financial statements of Cathay Pacific Airways Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 48 to 97, which comprise the consolidated and company statements of financial position as at 31st December 2010, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated financial statements. 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2010 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

9th March 2011

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.

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.

Non-controlling 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, non-controlling 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 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 profit and loss as an adjustment to revenue in the same period or periods during which the hedged item affects 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 the lower of 10% of cost or expected realisable value
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 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 48.

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. Fair value is based on quoted market prices at the end of the reporting period without any deduction for transaction costs. Fair values for the unquoted equity investments are estimated using an appropriate valuation model. 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 reclassified from the investment revaluation reserve to profit and loss.

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

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.

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 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 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 profit and loss.

(b) the ineffective portion of the fair value change is recognised in 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 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 exceed 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 profit and loss 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 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 2010

	Note	2010 HK$M	2009 HK$M	2010 US$M	2009 US$M
Turnover					
Passenger services		**59,354**	45,920	**7,609**	5,887
Cargo services		**25,901**	17,255	**3,321**	2,212
Catering, recoveries and other services		**4,269**	3,803	**547**	488
Total turnover	*1*	**89,524**	66,978	**11,477**	8,587
Expenses					
Staff		**(13,850)**	(12,618)	**(1,776)**	(1,618)
Inflight service and passenger expenses		**(3,308)**	(2,915)	**(424)**	(374)
Landing, parking and route expenses		**(11,301)**	(10,458)	**(1,449)**	(1,341)
Fuel		**(28,276)**	(17,349)	**(3,625)**	(2,224)
Aircraft maintenance		**(7,072)**	(6,567)	**(907)**	(842)
Aircraft depreciation and operating leases		**(8,288)**	(7,978)	**(1,062)**	(1,023)
Other depreciation, amortisation and operating leases		**(1,107)**	(1,103)	**(142)**	(141)
Commissions		**(736)**	(571)	**(94)**	(73)
Others		**(4,533)**	(2,940)	**(581)**	(377)
Operating expenses		**(78,471)**	(62,499)	**(10,060)**	(8,013)
Operating profit before non-recurring items		**11,053**	4,479	**1,417**	574
Profit on disposal of investments	*3*	**2,165**	1,254	**278**	161
Gain on deemed disposal of an associate	*4*	**868**	–	**111**	–
Operating profit	*5*	**14,086**	5,733	**1,806**	735
Finance charges		**(1,655)**	(1,435)	**(212)**	(184)
Finance income		**677**	588	**87**	75
Net finance charges	*6*	**(978)**	(847)	**(125)**	(109)
Share of profits of associates	*15*	**2,587**	261	**331**	33
Profit before tax		**15,695**	5,147	**2,012**	659
Taxation	*7*	**(1,462)**	(283)	**(187)**	(36)
Profit for the year		**14,233**	4,864	**1,825**	623
Other comprehensive income					
Cash flow hedges		**(488)**	329	**(62)**	42
Revaluation (deficit)/surplus arising from available-for-sale financial assets		**(15)**	479	**(2)**	62
Share of other comprehensive income of associates		**(131)**	11	**(17)**	1
Exchange differences on translation of foreign operations		**313**	8	**40**	1
Other comprehensive income for the year, net of tax	*8*	**(321)**	827	**(41)**	106
Total comprehensive income for the year		**13,912**	5,691	**1,784**	729
Profit attributable to					
Owners of Cathay Pacific	*9*	**14,048**	4,694	**1,801**	601
Non-controlling interests		**185**	170	**24**	22
		14,233	4,864	**1,825**	623
Total comprehensive income attributable to					
Owners of Cathay Pacific		**13,727**	5,521	**1,760**	707
Non-controlling interests		**185**	170	**24**	22
		13,912	5,691	**1,784**	729
Earnings per share (basic and diluted)	*10*	**357.1¢**	119.3¢	**45.8¢**	15.3¢

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 58 to 97 and the principal accounting policies on pages 48 to 51 form part of these accounts.

Consolidated Statement of Financial Position

at 31st December 2010

	Note	**2010 HK$M**	2009 HK$M	**2010 US$M**	2009 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	*12*	**66,112**	65,495	**8,476**	8,397
Intangible assets	*13*	**8,004**	7,850	**1,026**	1,007
Investments in associates	*15*	**12,926**	9,042	**1,657**	1,159
Other long-term receivables and investments	*16*	**4,359**	5,307	**559**	680
		91,401	87,694	**11,718**	11,243
Long-term liabilities		**(36,235)**	(40,416)	**(4,646)**	(5,182)
Related pledged security deposits		**5,310**	5,602	**681**	719
Net long-term liabilities	*17*	**(30,925)**	(34,814)	**(3,965)**	(4,463)
Other long-term payables	*18*	**(1,700)**	(1,059)	**(217)**	(136)
Deferred taxation	*20*	**(5,815)**	(5,255)	**(746)**	(674)
		(38,440)	(41,128)	**(4,928)**	(5,273)
Net non-current assets		**52,961**	46,566	**6,790**	5,970
Current assets and liabilities					
Stock		**1,021**	947	**131**	122
Trade, other receivables and other assets	*21*	**11,433**	8,161	**1,466**	1,046
Liquid funds	*22*	**24,198**	16,522	**3,102**	2,118
		36,652	25,630	**4,699**	3,286
Current portion of long-term liabilities		**(9,249)**	(9,023)	**(1,186)**	(1,157)
Related pledged security deposits		**545**	1,195	**70**	153
Net current portion of long-term liabilities	*17*	**(8,704)**	(7,828)	**(1,116)**	(1,004)
Trade and other payables	*23*	**(15,773)**	(12,965)	**(2,022)**	(1,662)
Unearned transportation revenue		**(9,166)**	(8,075)	**(1,175)**	(1,035)
Taxation		**(1,541)**	(943)	**(198)**	(121)
		(35,184)	(29,811)	**(4,511)**	(3,822)
Net current assets/(liabilities)		**1,468**	(4,181)	**188**	(536)
Net assets		**54,429**	42,385	**6,978**	5,434
CAPITAL AND RESERVES					
Share capital	*24*	**787**	787	**101**	101
Reserves	*25*	**53,487**	41,451	**6,857**	5,314
Funds attributable to owners of Cathay Pacific		**54,274**	42,238	**6,958**	5,415
Non-controlling interests		**155**	147	**20**	19
Total equity		**54,429**	42,385	**6,978**	5,434

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

The notes on pages 58 to 97 and the principal accounting policies on pages 48 to 51 form part of these accounts.

Christopher Pratt
Director

Jack So
Director

Hong Kong, 9th March 2011

Company Statement of Financial Position

at 31st December 2010

	Note	2010 HK$M	2009 HK$M	2010 US$M	2009 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	12	**48,459**	49,693	**6,213**	6,371
Intangible assets	13	**336**	182	**43**	23
Investments in subsidiaries	14	**31,517**	19,651	**4,041**	2,519
Investments in associates	15	**8,703**	7,602	**1,116**	975
Other long-term receivables and investments	16	**2,538**	3,524	**325**	452
		91,553	80,652	**11,738**	10,340
Long-term liabilities		**(30,547)**	(34,860)	**(3,916)**	(4,469)
Related pledged security deposits		**834**	923	**107**	118
Net long-term liabilities	17	**(29,713)**	(33,937)	**(3,809)**	(4,351)
Other long-term payables	18	**(1,503)**	(963)	**(193)**	(123)
Deferred taxation	20	**(4,550)**	(4,141)	**(583)**	(531)
		(35,766)	(39,041)	**(4,585)**	(5,005)
Net non-current assets		**55,787**	41,611	**7,153**	5,335
Current assets and liabilities					
Stock		**883**	829	**113**	106
Trade, other receivables and other assets	21	**9,164**	6,209	**1,175**	796
Liquid funds	22	**9,140**	11,120	**1,172**	1,426
		19,187	18,158	**2,460**	2,328
Current portion of long-term liabilities		**(9,315)**	(9,052)	**(1,194)**	(1,160)
Related pledged security deposits		**126**	728	**16**	93
Net current portion of long-term liabilities	17	**(9,189)**	(8,324)	**(1,178)**	(1,067)
Trade and other payables	23	**(12,920)**	(10,553)	**(1,657)**	(1,353)
Unearned transportation revenue		**(8,697)**	(7,666)	**(1,115)**	(983)
Taxation		**(986)**	(675)	**(127)**	(87)
		(31,792)	(27,218)	**(4,077)**	(3,490)
Net current liabilities		**(12,605)**	(9,060)	**(1,617)**	(1,162)
Net assets		**43,182**	32,551	**5,536**	4,173
CAPITAL AND RESERVES					
Share capital	24	**787**	787	**101**	101
Reserves	25	**42,395**	31,764	**5,435**	4,072
Total equity		**43,182**	32,551	**5,536**	4,173

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

The notes on pages 58 to 97 and the principal accounting policies on pages 48 to 51 form part of these accounts.

Christopher Pratt
Director
Hong Kong, 9th March 2011

Jack So
Director

Consolidated Statement of Cash Flows

for the year ended 31st December 2010

	Note	**2010 HK$M**	2009 HK$M	**2010 US$M**	2009 US$M
Operating activities					
Cash generated from operations	*26*	**18,844**	4,490	**2,416**	576
Dividends received from associates	*15*	**100**	174	**13**	22
Interest received		**89**	79	**11**	10
Net interest paid		**(624)**	(965)	**(80)**	(124)
Tax paid		**(810)**	(1,743)	**(104)**	(223)
Net cash inflow from operating activities		**17,599**	2,035	**2,256**	261
Investing activities					
Net (increase)/decrease in liquid funds other than cash and cash equivalents		**(9,370)**	2,250	**(1,201)**	288
Disposal of investments		**3,260**	1,901	**418**	244
Sales of fixed assets		**869**	1,304	**112**	167
Net decrease in other long-term receivables and investments		**7**	92	**1**	12
Loan repayment from an associate		**–**	6	**–**	1
Payments for fixed and intangible assets		**(8,299)**	(6,776)	**(1,064)**	(869)
Payments to acquire additional shareholding in an associate		**(1,130)**	–	**(145)**	–
Net cash outflow from investing activities		**(14,663)**	(1,223)	**(1,879)**	(157)
Financing activities					
New financing		**5,815**	6,169	**746**	790
Net cash benefit from financing arrangements		**488**	585	**63**	75
Shares repurchased and issued		**–**	8	**–**	1
Loan and finance lease repayments		**(9,290)**	(4,362)	**(1,191)**	(559)
Security deposits placed		**(59)**	(117)	**(8)**	(15)
Dividends paid – to owners of Cathay Pacific		**(1,691)**	–	**(217)**	–
– to non-controlling interests		**(177)**	(143)	**(23)**	(18)
Net cash (outflow)/inflow from financing activities		**(4,914)**	2,140	**(630)**	274
(Decrease)/increase in cash and cash equivalents		**(1,978)**	2,952	**(253)**	378
Cash and cash equivalents at 1st January		**10,094**	7,045	**1,294**	903
Effect of exchange differences		**156**	97	**20**	13
Cash and cash equivalents at 31st December	*27*	**8,272**	10,094	**1,061**	1,294

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

The notes on pages 58 to 97 and the principal accounting policies on pages 48 to 51 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2010

	Attributable to owners of Cathay Pacific							Non-controlling 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 2010	**787**	**24,704**	**16,295**	**1,117**	**(1,383)**	**718**	**42,238**	**147**	**42,385**
Total comprehensive income for the year	**–**	**14,048**	**–**	**(15)**	**(488)**	**182**	**13,727**	**185**	**13,912**
2009 final dividends	**–**	**(393)**	**–**	**–**	**–**	**–**	**(393)**	**–**	**(393)**
2010 interim dividends	**–**	**(1,298)**	**–**	**–**	**–**	**–**	**(1,298)**	**–**	**(1,298)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(177)**	**(177)**
	–	**12,357**	**–**	**(15)**	**(488)**	**182**	**12,036**	**8**	**12,044**
At 31st December 2010	**787**	**37,061**	**16,295**	**1,102**	**(1,871)**	**900**	**54,274**	**155**	**54,429**
At 1st January 2009	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 non-controlling 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

The notes on pages 58 to 97 and the principal accounting policies on pages 48 to 51 form part of these accounts.

Company Statement of Changes in Equity

for the year ended 31st December 2010

	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 2010	**787**	**15,685**	**16,295**	**1,005**	**(1,244)**	**23**	**32,551**
Total comprehensive income for the year	**–**	**12,875**	**–**	**(77)**	**(476)**	**–**	**12,322**
2009 final dividends	**–**	**(393)**	**–**	**–**	**–**	**–**	**(393)**
2010 interim dividends	**–**	**(1,298)**	**–**	**–**	**–**	**–**	**(1,298)**
	–	**11,184**	**–**	**(77)**	**(476)**	**–**	**10,631**
At 31st December 2010	**787**	**26,869**	**16,295**	**928**	**(1,720)**	**23**	**43,182**
At 1st January 2009	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

The notes on pages 58 to 97 and the principal accounting policies on pages 48 to 51 form part of these accounts.

1. Turnover

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

2. Segment information

(a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M	**2010 HK$M**	2009 HK$M	**2010 HK$M**	2009 HK$M
Profit or loss								
Sales to external customers	**88,542**	66,080	**982**	898			**89,524**	66,978
Inter-segment sales	**–**	–	**1,343**	1,252			**1,343**	1,252
Segment revenue	**88,542**	66,080	**2,325**	2,150			**90,867**	68,230
Segment results	**13,962**	5,638	**124**	95			**14,086**	5,733
Net finance charges	**(971)**	(839)	**(7)**	(8)			**(978)**	(847)
	12,991	4,799	**117**	87			**13,108**	4,886
Share of profits of associates					**2,587**	261	**2,587**	261
Profit before tax							**15,695**	5,147
Taxation	**(1,448)**	(269)	**(14)**	(14)			**(1,462)**	(283)
Profit for the year							**14,233**	4,864
Other segment information								
Depreciation and amortisation	**6,206**	5,534	**145**	150			**6,351**	5,684
Purchase of fixed and intangible assets	**7,175**	6,745	**1,124**	31			**8,299**	6,776

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 used both for passenger and cargo services. Management considers that there is no suitable basis for allocating such assets and related operating costs between the two segments. Accordingly, passenger and cargo services are not disclosed as separate business segments.

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

2. Segment information *(continued)*

(b) Geographical information

	2010 HK$M	2009 HK$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**41,313**	28,880
– Japan, Korea and Taiwan	**11,409**	8,413
India, Middle East, Pakistan and Sri Lanka	**4,529**	3,735
Southwest Pacific and South Africa	**6,282**	4,712
Europe	**8,664**	7,920
Southeast Asia	**6,175**	4,866
North America	**11,152**	8,452
	89,524	66,978

In view of the growing significance of the Southeast Asia and Middle East region during the year under review, the Management has decided to split it into two separate regions, the India, Middle East, Pakistan and Sri Lanka region and the Southeast Asia region. The 2009 comparatives have been reclassified accordingly.

India, Middle East, Pakistan and Sri Lanka includes Indian sub-continent, Middle East, Pakistan, Sri Lanka and Bangladesh. Southeast Asia includes Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam and Cambodia. Southwest Pacific and South Africa includes Australia, New Zealand and Southern Africa. 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. Profit on disposal of investments

	2010 HK$M	2009 HK$M
Profit on disposal of an associate	**1,837**	1,254
Profit on disposal of a long-term investment	**328**	–
	2,165	1,254

In June 2010, the Company sold its remaining 15% interest in HAECO to Swire Pacific for HK$2,620 million. The disposal constitutes a related party transaction as the Company is an associate of Swire Pacific.

4. Gain on deemed disposal of an associate

On 24th November 2010, Air China completed the issuance of 483,592,400 A shares and 157,000,000 H shares. As a consequence, Cathay Pacific's shareholding in Air China has been diluted from 19.3% to 18.3% (further purchases after the year end takes the current holding to 18.7%). A gain on this deemed disposal of HK$868 million was recorded, principally reflecting the change in the Group's share of net assets in Air China immediately before and after the share issuance.

5. Operating profit

	2010 HK$M	2009 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– leased	**1,932**	1,932
– owned	**4,384**	3,720
Amortisation of intangible assets	**35**	32
Operating lease rentals		
– land and buildings	**675**	668
– aircraft and related equipment	**2,343**	2,707
– others	**26**	22
Net (write back)/provision for impairment of aircraft and related equipment	**(98)**	219
Cost of stock expensed	**1,912**	1,892
Exchange differences	**(196)**	(344)
Auditors' remuneration	**10**	10
Net gain on financial assets and liabilities classified as held for trading	**(565)**	(3,082)
Net loss/(gain) on financial assets and liabilities designated as at fair value through profit and loss	**159**	(58)
Income from unlisted investments	**(68)**	(170)
Income from listed investments	**(3)**	(5)

6. Net finance charges

	2010 HK$M	2009 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**743**	991
– interest income on related security deposits, notes and bonds	**(343)**	(417)
	400	574
– bank loans and overdrafts	**196**	229
– other loans wholly repayable within five years	**53**	91
	649	894
Income from liquid funds:		
– funds with investment managers and other liquid investments	**(135)**	(43)
– bank deposits and other receivables	**(64)**	(62)
	(199)	(105)
Fair value change:		
– obligations under finance leases designated as at fair value through profit and loss	**159**	(58)
– financial derivatives	**369**	116
	528	58
	978	847

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

7. Taxation

	2010 HK$M	2009 HK$M
Current tax expenses		
– Hong Kong profits tax	**100**	36
– overseas tax	**241**	264
– under/(over) provisions for prior years	**13**	(259)
Deferred tax		
– origination and reversal of temporary differences (note 20)	**1,108**	242
	1,462	283

Hong Kong profits tax is calculated at 16.5% (2009: 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 31(d) to the accounts).

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

	2010 HK$M	2009 HK$M
Consolidated profit before tax	**15,695**	5,147
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2009: 16.5%)	**(2,590)**	(849)
Expenses not deductible for tax purposes	**(211)**	(229)
Tax (under)/over provisions arising from prior years	**(13)**	259
Effect of different tax rates in overseas jurisdictions	**892**	320
Tax losses recognised/(tax losses not recognised)	**79**	(19)
Income not subject to tax	**381**	235
Tax charge	**(1,462)**	(283)

Further information on deferred tax is shown in note 20 to the accounts.

8. Other comprehensive income

	2010 HK$M	2009 HK$M
Cash flow hedges		
– recognised during the year	**(1,414)**	6
– transferred to profit and loss	**874**	360
– deferred tax recognised	**52**	(37)
Revaluation of available-for-sale financial assets		
– recognised during the year	**263**	479
– transferred to profit and loss	**(278)**	–
Share of other comprehensive income of associates		
– recognised during the year	**(156)**	11
– transferred to profit and loss	**25**	–
Exchange differences on translation of foreign operations		
– recognised during the year	**383**	8
– transferred to profit and loss	**(70)**	–
Other comprehensive income for the year	**(321)**	827

9. Profit attributable to owners of Cathay Pacific

Of the profit attributable to owners of Cathay Pacific, a profit of HK$12,875 million (2009: HK$7,667 million) has been dealt with in the accounts of the Company.

10. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to owners of Cathay Pacific of HK$14,048 million (2009: HK$4,694 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2009: 3,934 million) shares.

11. Dividends

	2010 HK$M	2009 HK$M
2010 interim dividend paid on 4th October 2010 of HK¢33 per share (2009: nil)	**1,298**	–
2010 final dividend proposed on 9th March 2011 of HK¢78 per share (2009: HK¢10 per share)	**3,069**	393
	4,367	393

Notes to the Accounts STATEMENT OF FINANCIAL POSITION

12. 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 2010	**61,666**	**43,728**	**2,874**	**478**	**5,133**	**837**	**114,716**
Additions	**4,544**	**2,198**	**157**	**–**	**128**	**1,083**	**8,110**
Disposals	**(1,333)**	**–**	**(89)**	**–**	**(4)**	**–**	**(1,426)**
Reclassification to trade, other receivables and other assets	**(552)**	**–**	**–**	**–**	**–**	**–**	**(552)**
Transfers	**3,073**	**(3,073)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2010	**67,398**	**42,853**	**2,942**	**478**	**5,257**	**1,920**	**120,848**
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
Accumulated depreciation							
At 1st January 2010	**30,259**	**14,387**	**1,967**	**330**	**2,278**	**–**	**49,221**
Charge for the year	**4,033**	**1,912**	**182**	**20**	**169**	**–**	**6,316**
Impairment	**(98)**	**–**	**–**	**–**	**–**	**–**	**(98)**
Disposals	**(428)**	**–**	**(87)**	**–**	**(4)**	**–**	**(519)**
Reclassification to trade, other receivables and other assets	**(184)**	**–**	**–**	**–**	**–**	**–**	**(184)**
Transfers	**2,330**	**(2,330)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2010	**35,912**	**13,969**	**2,062**	**350**	**2,443**	**–**	**54,736**
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
Net book value							
At 31st December 2010	**31,486**	**28,884**	**880**	**128**	**2,814**	**1,920**	**66,112**
At 31st December 2009	31,407	29,341	907	148	2,855	837	65,495

12. 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 2010	**47,080**	**42,138**	**1,031**	**478**	**436**	**91,163**
Additions	**800**	**3,724**	**103**	**–**	**128**	**4,755**
Disposals	**(1,100)**	**–**	**(16)**	**–**	**–**	**(1,116)**
Transfers	**4,289**	**(4,289)**	**–**	**–**	**–**	**–**
At 31st December 2010	**51,069**	**41,573**	**1,118**	**478**	**564**	**94,802**
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
Accumulated depreciation						
At 1st January 2010	**26,012**	**14,044**	**713**	**328**	**373**	**41,470**
Charge for the year	**3,356**	**1,931**	**85**	**21**	**4**	**5,397**
Impairment	**(98)**	**–**	**–**	**–**	**–**	**(98)**
Disposals	**(410)**	**–**	**(16)**	**–**	**–**	**(426)**
Transfers	**2,576**	**(2,576)**	**–**	**–**	**–**	**–**
At 31st December 2010	**31,436**	**13,399**	**782**	**349**	**377**	**46,343**
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
Net book value						
At 31st December 2010	**19,633**	**28,174**	**336**	**129**	**187**	**48,459**
At 31st December 2009	21,068	28,094	318	150	63	49,693

(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 13 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.

12. Fixed assets *(continued)*

(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 2010, fourteen Airbus A330-300s (2009: fifteen), four Airbus A340-300s (2009: four), five Boeing 747-400s (2009: six), one Boeing 747-400BCF (2009: one), nine Boeing 777-300ERs (2009: eight), six Airbus A320-200s (2009: four) and four Airbus A321-200s (2009: 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$12,572 million (2009: HK$11,687 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 2010 for each of the following periods are as follows:

	2010 HK$M	2009 HK$M
Aircraft and related equipment:		
– within one year	**2,686**	2,707
– after one year but within two years	**2,328**	2,420
– after two years but within five years	**5,925**	5,470
– after five years	**8,358**	7,227
	19,297	17,824
Buildings and other equipment:		
– within one year	**498**	552
– after one year but within two years	**315**	384
– after two years but within five years	**383**	559
– after five years	**66**	35
	1,262	1,530
	20,559	19,354

(c) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years. As at the year end, advance payments included in owned aircraft and related equipment amounted to HK$4,849 million (2009: HK$2,810 million) for the Group and HK$359 million (2009: HK$292 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 17 to the accounts.

(e) The Group revised the estimated residual values of certain aircraft and as a result, the depreciation charge of the Group increased by HK$549 million in 2010. This will also increase the depreciation charge for future periods up to the year ending 31st December 2020 by HK$1,086 million.

(f) 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$153 million was recognised for these aircraft and related equipment for the year ended 31st December 2010 (2009: HK$219 million). On the other hand, the Group reversed an impairment loss of HK$251 million (2009: nil) for aircraft which have now been brought back to service.

13. Intangible assets

	Group			Company
	Goodwill HK$M	Computer systems HK$M	Total HK$M	Computer systems HK$M
Cost				
At 1st January 2010	**7,666**	**792**	**8,458**	**764**
Additions	**–**	**189**	**189**	**188**
At 31st December 2010	**7,666**	**981**	**8,647**	**952**
At 1st January 2009	7,666	692	8,358	667
Additions	–	100	100	97
At 31st December 2009	7,666	792	8,458	764
Accumulated amortisation				
At 1st January 2010	**–**	**608**	**608**	**582**
Charge for the year	**–**	**35**	**35**	**34**
At 31st December 2010	**–**	**643**	**643**	**616**
At 1st January 2009	–	576	576	551
Charge for the year	–	32	32	31
At 31st December 2009	–	608	608	582
Net book value				
At 31st December 2010	**7,666**	**338**	**8,004**	**336**
At 31st December 2009	7,666	184	7,850	182

The carrying amount of goodwill allocated to the airline operation is HK$7,627 million (2009: 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 total recoverable amounts to their total 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 9% (2009: 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.

14. Subsidiaries

	Company	
	2010 HK$M	2009 HK$M
Unlisted shares at cost	**246**	246
Other investments at cost	**14,983**	6,640
Net amounts due from subsidiaries		
– loan accounts	**6,280**	2,462
– current accounts	**10,008**	10,303
	31,517	19,651

Principal subsidiaries are listed on page 96.

15. Associates

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Hong Kong listed shares at cost (Market value: HK$20,611 million, 2009: HK$15,976 million)	**–**	–	**8,695**	7,594
Unlisted shares at cost	**–**	–	**20**	17
Share of net assets				
– listed in Hong Kong	**8,882**	5,880	**–**	–
– unlisted	**373**	367	**–**	–
Goodwill	**3,671**	2,795	**–**	–
	12,926	9,042	**8,715**	7,611
Less: Impairment loss	**–**	–	**(12)**	(9)
	12,926	9,042	**8,703**	7,602
Share of profits of associates				
– listed	**2,526**	209	**–**	–
– unlisted	**61**	52	**–**	–
	2,587	261	**–**	–
Dividends received and receivable from associates	**100**	174	**38**	126

	2010 HK$M	2009 HK$M
Summarised financial information of associates (100 percent):		
Assets	**177,273**	127,391
Liabilities	**(137,394)**	(92,930)
Equity	**39,879**	34,461
Turnover	**88,285**	62,911
Net profit for the year	**11,649**	2,041

15. Associates *(continued)*

In respect of the year ended 31st December 2010, Air China has been included in the consolidated accounts based on the most recently available accounts drawn up to 30th September 2010 (2009: 30th September 2009). 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.

16. Other long-term receivables and investments

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Investments at fair value				
– listed in Hong Kong	**183**	175	**–**	–
– unlisted	**1,232**	1,373	**1,133**	1,328
Leasehold land rental prepayments	**1,514**	1,557	**–**	–
Loans and other receivables	**101**	311	**95**	305
Derivative financial assets – long-term portion	**1,111**	1,891	**1,111**	1,891
Retirement benefit assets (note 19)	**218**	–	**199**	–
	4,359	5,307	**2,538**	3,524

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK$1,557 million (2009: HK$1,600 million).

17. Long-term liabilities

		2010		2009	
	Note	**Current HK$M**	**Non-current HK$M**	Current HK$M	Non-current HK$M
Group					
Long-term loans	*(a)*	**5,793**	**11,193**	4,140	15,159
Obligations under finance leases	*(b)*	**2,911**	**19,732**	3,688	19,655
		8,704	**30,925**	7,828	34,814
Company					
Long-term loans	*(a)*	**4,912**	**7,357**	3,278	11,564
Obligations under finance leases	*(b)*	**4,277**	**22,356**	5,046	22,373
		9,189	**29,713**	8,324	33,937

17. Long-term liabilities *(continued)*

(a) Long-term loans

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Bank loans				
– secured	**8,274**	8,831	**3,676**	4,709
– unsecured	**6,292**	6,958	**6,173**	6,623
Other loans				
– secured	**–**	52	**–**	52
– unsecured	**2,420**	3,458	**2,420**	3,458
	16,986	19,299	**12,269**	14,842
Amount due within one year included under current liabilities	**(5,793)**	(4,140)	**(4,912)**	(3,278)
	11,193	15,159	**7,357**	11,564
Repayable as follows:				
Bank loans				
– within one year	**3,373**	2,843	**2,492**	1,981
– after one year but within two years	**4,942**	3,224	**4,217**	2,495
– after two years but within five years	**4,575**	7,285	**2,725**	5,616
– after five years	**1,676**	2,437	**415**	1,240
	14,566	15,789	**9,849**	11,332
Other loans				
– within one year	**2,420**	1,297	**2,420**	1,297
– after one year but within two years	**–**	2,213	**–**	2,213
	2,420	3,510	**2,420**	3,510
Amount due within one year included under current liabilities	**(5,793)**	(4,140)	**(4,912)**	(3,278)
	11,193	15,159	**7,357**	11,564

Borrowings other than bank loans are repayable on various dates up to 2011 at interest rates between 1.26% 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$4,359 million and HK$1,581 million respectively (2009: HK$6,668 million and HK$3,846 million).

As at 31st December 2010, the Group and the Company had long-term loans which were defeased by funds and other investments totalling HK$20,319 million and HK$18,035 million respectively (2009: HK$22,290 million and HK$19,226 million). Accordingly, these liabilities and the related funds, as well as related expenditure and income, have been netted off in the accounts.

17. 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 2011 to 2023. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Future payments	**33,098**	35,973	**33,525**	36,296
Interest charges relating to future periods	**(4,600)**	(5,833)	**(5,932)**	(7,226)
Present value of future payments	**28,498**	30,140	**27,593**	29,070
Security deposits, notes and zero coupon bonds	**(5,855)**	(6,797)	**(960)**	(1,651)
Amounts due within one year included under current liabilities	**(2,911)**	(3,688)	**(4,277)**	(5,046)
	19,732	19,655	**22,356**	22,373

The present value of future payments is repayable as follows:

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Within one year	**3,456**	4,883	**4,403**	5,774
After one year but within two years	**4,317**	3,200	**3,251**	4,059
After two years but within five years	**9,747**	10,588	**8,515**	7,581
After five years	**10,978**	11,469	**11,424**	11,656
	28,498	30,140	**27,593**	29,070

The future lease payment profile is disclosed in note 32 to the accounts.

As at 31st December 2010, the Group and the Company had obligations under finance leases which were defeased by funds and other investments amounting to HK$7,357 million and HK$1,083 million respectively (2009: HK$8,033 million and HK$1,081 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 2010, the Group and the Company had financial liabilities designated as at fair value through profit and loss of HK$4,231 million (2009: HK$4,474 million) and HK$4,231 million (2009: HK$4,474 million) respectively.

18. Other long-term payables

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Retirement benefit obligations (note 19)	**–**	216	**–**	224
Deferred creditors	**97**	–	**–**	–
Derivative financial liabilities – long-term portion	**1,603**	843	**1,503**	739
	1,700	1,059	**1,503**	963

19. 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. The figures for SGRBS and CPALRS disclosed as at 31st December 2010 were provided by Cannon Trustees Limited, the administration manager.

	2010		2009	
	SGRBS	**CPALRS**	SGRBS	CPALRS
The principal actuarial assumptions are:				
Discount rate used	**4.4%**	**4.4%**	4.8%	4.8%
Expected return on plan assets	**8.0%**	**6.5%**	8.0%	6.5%
Future salary increases	**2-5%**	**1-5%**	2-5%	1-5%

The Group's obligations are 106% (2009: 97%) covered by the plan assets held by the trustees as at 31st December 2010.

	2010 HK$M	2009 HK$M
Net expenses recognised in the Group profit and loss:		
Current service cost	**324**	316
Interest on obligations	**311**	342
Expected return on plan assets	**(518)**	(371)
Actuarial loss recognised	**1**	30
Total included in staff costs	**118**	317
Actual return on plan assets	**820**	1,578

19. Retirement benefits *(continued)*

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Net (asset)/liability recognised in the statement of financial position:				
Present value of funded obligations	**7,615**	7,460	**6,991**	6,870
Fair value of plan assets	**(8,077)**	(7,217)	**(7,396)**	(6,583)
	(462)	243	**(405)**	287
Net unrecognised actuarial gain/(losses)	**244**	(27)	**206**	(63)
	(218)	216	**(199)**	224

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Movements in present value of funded obligations comprise:				
At 1st January	**7,460**	7,108	**6,870**	6,522
Movements for the year				
– current service cost	**324**	316	**293**	284
– interest cost	**311**	342	**285**	314
– employee contributions	**12**	14	**12**	14
– benefits paid	**(524)**	(681)	**(483)**	(645)
– actuarial losses	**32**	361	**14**	381
At 31st December	**7,615**	7,460	**6,991**	6,870

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Movements in fair value of plan assets comprise:				
At 1st January	**7,217**	5,924	**6,583**	5,426
Movements for the year				
– expected return on plan assets	**518**	371	**469**	337
– employee contributions	**12**	14	**12**	14
– employer contributions	**552**	382	**532**	359
– benefits paid	**(524)**	(681)	**(483)**	(645)
– actuarial gains	**302**	1,207	**283**	1,092
At 31st December	**8,077**	7,217	**7,396**	6,583

19. Retirement benefits *(continued)*

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Fair value of plan assets comprises:				
Equities	**5,318**	4,297	**4,859**	3,785
Debt instruments	**1,919**	1,725	**1,712**	1,607
Deposits and cash	**840**	526	**825**	522
Others	**–**	669	**–**	669
	8,077	7,217	**7,396**	6,583

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

	Group				
	2010 HK$M	2009 HK$M	2008 HK$M	2007 HK$M	2006 HK$M
Present value of funded obligations	**7,615**	7,460	7,108	8,223	7,844
Fair value of plan assets	**(8,077)**	(7,217)	(5,924)	(9,131)	(8,065)
(Surplus)/deficit	**(462)**	243	1,184	(908)	(221)
Actuarial losses/(gains) arising on plan liabilities	**32**	361	(1,324)	205	267
Actuarial (gains)/losses arising on plan assets	**(302)**	(1,207)	3,368	(990)	(529)

	Company				
	2010 HK$M	2009 HK$M	2008 HK$M	2007 HK$M	2006 HK$M
Present value of funded obligations	**6,991**	6,870	6,522	7,549	7,196
Fair value of plan assets	**(7,396)**	(6,583)	(5,426)	(8,353)	(7,369)
(Surplus)/deficit	**(405)**	287	1,096	(804)	(173)
Actuarial losses/(gains) arising on plan liabilities	**14**	381	(1,210)	178	261
Actuarial (gains)/losses arising on plan assets	**(283)**	(1,092)	3,070	(893)	(495)

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$378 million to the schemes in 2011.

19. Retirement benefits *(continued)*

(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$18 million (2009: HK$19 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$756 million (2009: HK$677 million).

20. Deferred taxation

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Deferred tax assets:				
– provisions	**(161)**	(178)	**(112)**	(113)
– tax losses	**(1,136)**	(1,831)	**(926)**	(1,516)
– cash flow hedges	**(210)**	(158)	**(184)**	(135)
– customer loyalty programmes	**(41)**	(82)	**(41)**	(82)
Deferred tax liabilities:				
– retirement benefits	**8**	13	**7**	11
– accelerated tax depreciation	**2,182**	2,047	**1,501**	1,380
– investment in associates	**225**	–	**–**	–
Provision in respect of certain lease arrangements	**4,948**	5,444	**4,305**	4,596
	5,815	5,255	**4,550**	4,141

20. Deferred taxation *(continued)*

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Movements in deferred taxation comprise:				
At 1st January	**5,255**	4,831	**4,141**	3,689
Movements for the year				
– transferred from the profit and loss				
– deferred tax expenses (note 7)	**1,108**	242	**749**	193
– operating expenses	**70**	76	**52**	56
– transferred to cash flow hedge reserve	**(52)**	37	**(49)**	56
– initial cash benefit from lease arrangements	**488**	585	**488**	585
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	**(1,054)**	(516)	**(831)**	(438)
At 31st December	**5,815**	5,255	**4,550**	4,141

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 2012 to 2021 (2009: 2011 to 2020) as follows:

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
After one year but within five years	**1,792**	2,598	**1,406**	2,018
After five years but within 10 years	**2,772**	2,376	**2,515**	2,108
After 10 years	**384**	470	**384**	470
	4,948	5,444	**4,305**	4,596

21. Trade, other receivables and other assets

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Trade debtors	**5,904**	4,771	**5,165**	4,114
Derivative financial assets – current portion	**2,349**	746	**2,349**	733
Other receivables and prepayments	**2,766**	2,631	**1,625**	1,351
Due from associates	**46**	13	**25**	11
Aircraft held for sale	**368**	–	**–**	–
	11,433	8,161	**9,164**	6,209

21. Trade, other receivables and other assets *(continued)*

As at 31st December 2010, total derivative financial assets of the Group and the Company which did not qualify for hedge accounting amounted to HK$842 million (2009: HK$1,123 million) and HK$842 million (2009: HK$1,123 million) respectively.

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Analysis of trade debtors by age:				
Current	**5,853**	4,741	**5,130**	4,097
One to three months overdue	**45**	27	**30**	15
More than three months overdue	**6**	3	**5**	2
	5,904	4,771	**5,165**	4,114

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

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
At 1st January	**163**	169	**128**	135
Amounts written back	**–**	(8)	**–**	(7)
Impairment loss recognised	**32**	2	**30**	–
At 31st December	**195**	163	**158**	128

22. Liquid funds

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Short-term deposits and bank balances	**8,276**	10,105	**5,827**	7,872
Short-term deposits maturing beyond three months when placed	**551**	407	**551**	402
Funds with investment managers				
– debt securities listed outside Hong Kong	**11,722**	2,370	**–**	–
– bank deposits	**13**	2	**–**	–
Other liquid investments				
– debt securities listed outside Hong Kong	**1,632**	1,388	**1,372**	1,146
– bank deposits	**2,004**	2,250	**1,390**	1,700
	24,198	16,522	**9,140**	11,120

Included in other liquid investments are bank deposits of HK$1,856 million (2009: HK$1,085 million) and debt securities of HK$1,632 million (2009: HK$1,388 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.

23. Trade and other payables

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Trade creditors	**6,211**	4,832	**4,681**	3,410
Derivative financial liabilities	**1,391**	1,884	**1,361**	1,845
Other payables	**7,779**	5,970	**6,517**	5,053
Due to associates	**37**	131	**23**	97
Due to other related companies	**351**	137	**334**	137
Bank overdrafts – unsecured (note 27)	**4**	11	**4**	11
	15,773	12,965	**12,920**	10,553

As at 31st December 2010, total derivative financial liabilities of the Group and the Company which did not qualify for hedge accounting amounted to HK$355 million (2009: HK$1,477 million) and HK$355 million (2009: HK$1,471 million) respectively.

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Analysis of trade creditors by age:				
Current	**6,039**	4,713	**4,548**	3,332
One to three months overdue	**161**	106	**126**	70
More than three months overdue	**11**	13	**7**	8
	6,211	4,832	**4,681**	3,410

24. Share capital

	2010		2009	
	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	**3,933,844,572**	**787**	3,932,746,072	787
Shares repurchased during the year	**–**	**–**	–	–
Share options exercised	**–**	**–**	1,098,500	–
At 31st December	**3,933,844,572**	**787**	3,933,844,572	787

During the year, the Company did not purchase, sell or redeem any of its shares.

25. Reserves

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Retained profit	**37,061**	24,704	**26,869**	15,685
Share premium	**16,295**	16,295	**16,295**	16,295
Investment revaluation reserve	**1,102**	1,117	**928**	1,005
Cash flow hedge reserve	**(1,871)**	(1,383)	**(1,720)**	(1,244)
Capital redemption reserve and others	**900**	718	**23**	23
	53,487	41,451	**42,395**	31,764

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 (2009: HK$24 million), exchange differences arising from revaluation of foreign investments amounted to HK$1,458 million (2009: HK$1,145 million) and share of associate's other negative reserve of HK$605 million (2009: HK$474 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:

	2010 HK$M	2009 HK$M
Turnover	**(243)**	(94)
Fuel	**(477)**	(192)
Others	**(14)**	(46)
Finance income	**(140)**	(28)
Net loss transferred to the profit and loss	**(874)**	(360)

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

	Total HK$M
2011	**331**
2012	**488**
2013	**315**
2014	**184**
2015	**148**
Beyond 2015	**405**
	1,871

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 profit and loss.

Notes to the Accounts STATEMENT OF CASH FLOWS

26. Reconciliation of operating profit to cash generated from operations

	2010 HK$M	2009 HK$M
Operating profit	**14,086**	5,733
Depreciation	**6,316**	5,652
Amortisation of intangible assets	**35**	32
Loss on disposal of fixed assets and intangible assets	**107**	32
Profit on disposal of investments	**(2,165)**	(1,254)
Gain on deemed disposal of an associate	**(868)**	–
Currency adjustments and other items not involving cash flows	**238**	525
(Increase)/decrease in stock	**(74)**	13
(Increase)/decrease in trade debtors, other receivables and prepayments and long-term portion of derivative financial assets	**(2,091)**	2,422
Increase in net amounts due to related companies and associates	**87**	94
Increase/(decrease) in trade creditors, other payables, long-term portion of derivative financial liabilities and deferred creditors	**3,552**	(8,303)
Increase/(decrease) in unearned transportation revenue	**1,091**	(574)
Non-operating movements in debtors and creditors	**(1,470)**	118
Cash generated from operations	**18,844**	4,490

27. Analysis of cash and cash equivalents

	2010 HK$M	2009 HK$M
Short-term deposits and bank balances	**8,276**	10,105
Bank overdrafts (note 23)	**(4)**	(11)
	8,272	10,094

28. 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	**2010 Total HK$'000**	2009 Total HK$'000
Executive Directors								
Christopher Pratt	1,130	530	79	420	157	626	**2,942**	3,088
Robert Atkinson (up to March 2009)	–	–	–	–	–	–	**–**	4,160
W.E. James Barrington (from July 2010)	824	–	1,072	395	–	–	**2,291**	–
James E. Hughes-Hallett (from March 2009)	1,980	684	2,217	736	313	1,629	**7,559**	4,798
Ian Shiu (up to June 2010)	1,186	1,391	372	137	–	–	**3,086**	3,194
John Slosar	3,449	2,033	290	1,282	686	1,926	**9,666**	11,125
Tony Tyler	4,428	2,300	55	1,646	775	2,271	**11,475**	12,109
Non-Executive Directors								
Cai Jianjiang (from November 2009)	500*	–	–	–	–	–	**500**	48
Chang Zhenming (from May 2009 to November 2009)	–	–	–	–	–	–	**–**	270
Philip Chen (up to June 2010)	–	–	–	–	–	–	**–**	–
Martin Cubbon (up to May 2009)	–	–	–	–	–	–	**–**	–
Fan Cheng (from November 2009)	650*	–	–	–	–	–	**650**	62
Henry Fan (up to April 2009)	–	–	–	–	–	–	**–**	134
James W.J. Hughes-Hallett	–	–	–	–	–	–	**–**	–
Peter Kilgour (from May 2009)	–	–	–	–	–	–	**–**	–
Kong Dong	500*	–	–	–	–	–	**500**	500
Vernon Moore (up to November 2009)	–	–	–	–	–	–	**–**	466
Ian Shiu (from July 2010)	–	–	–	–	–	–	**–**	–
Merlin Swire (from June 2010)	–	–	–	–	–	–	**–**	–
Robert Woods (up to May 2010)	–	–	–	–	–	–	**–**	–
Zhang Lan	500*	–	–	–	–	–	**500**	621

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

	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	**2010 Total HK$'000**	2009 Total HK$'000
Independent Non-Executive Directors								
Irene Lee (from January 2010)	677*	–	–	–	–	–	**677**	–
Peter Lee (up to October 2009)	–	–	–	–	–	–	**–**	556
Raymond Or (up to May 2009)	–	–	–	–	–	–	**–**	255
Jack So	700*	–	–	–	–	–	**700**	682
Tung Chee Chen	550*	–	–	–	–	–	**550**	550
Peter Wong (from May 2009)	650*	–	–	–	–	–	**650**	379
2010 Total	**17,724**	**6,938**	**4,085**	**4,616**	**1,931**	**6,452**	**41,746**	
2009 Total	17,139	3,447	1,537	14,278	–	6,596		42,997

For Directors employed by the Swire group, the remuneration disclosed represents the amount charged to the Company. Bonus is related to services for 2009 but paid and charged to the Company in 2010.

(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	**2010 Total HK$'000**	2009 Total HK$'000
W.E. James Barrington (up to June 2010)	824	1,168	1,233	218	–	–	**3,443**	7,917
William Chau	1,749	1,420	601	257	–	–	**4,027**	3,240
Quince Chong	1,681	1,366	613	168	–	–	**3,828**	3,206
Ivan Chu	1,623	1,303	796	238	–	–	**3,960**	3,056
Christopher Gibbs	1,994	1,621	311	335	–	522	**4,783**	3,897
Richard Hall (from August 2010)	733	328	695	77	–	369	**2,202**	–
Rupert Hogg	1,537	652	1,251	571	387	2,167	**6,565**	7,607
Edward Nicol (up to October 2010)	1,486	840	495	584	533	1,486	**5,424**	8,902
Nick Rhodes	1,808	793	457	672	482	2,550	**6,762**	8,515
Tomasz Smaczny (from August 2010)	708	212	246	35	–	–	**1,201**	–
2010 Total	**14,143**	**9,703**	**6,698**	**3,155**	**1,402**	**7,094**	**42,195**	
2009 Total	12,448	8,511	7,959	9,082	2,741	5,599		46,340

Bonus related to services for 2009 was paid in 2010.

29. Employee information

(a) The five highest paid individuals of the Company included three Directors (2009: two) and two Executive Officers (2009: three), whose emoluments are set out in note 28 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:

	2010			2009		
HK$'000	**Director**	**Flight staff**	**Other staff**	Director	Flight staff	Other staff
0 – 1,000	**13**	**9,122**	**8,525**	17	9,046	8,185
1,001 – 1,500	**–**	**662**	**238**	–	551	209
1,501 – 2,000	**–**	**585**	**112**	–	638	103
2,001 – 2,500	**1**	**379**	**58**	–	330	42
2,501 – 3,000	**1**	**291**	**12**	–	150	7
3,001 – 3,500	**1**	**137**	**10**	2	75	4
3,501 – 4,000	**–**	**59**	**6**	–	21	5
4,001 – 4,500	**–**	**19**	**2**	1	4	3
4,501 – 5,000	**–**	**3**	**4**	1	–	4
5,001 – 5,500	**–**	**1**	**3**	–	–	1
5,501 – 6,000	**–**	**–**	**1**	–	–	2
6,001 – 6,500	**–**	**–**	**1**	–	–	1
6,501 – 7,000	**–**	**–**	**2**	–	–	2
7,001 – 7,500	**–**	**–**	**–**	–	–	1
7,501 – 8,000	**1**	**–**	**–**	–	–	2
8,501 – 9,000	**–**	**–**	**–**	–	–	2
9,501 – 10,000	**1**	**–**	**–**	–	–	–
11,001 – 11,500	**1**	**–**	**–**	1	–	–
12,001 – 12,500	**–**	**–**	**–**	1	–	–
	19	**11,258**	**8,974**	23	10,815	8,573

Notes to the Accounts RELATED PARTY TRANSACTIONS

30. 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:

	2010		2009	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Turnover	**219**	**8**	161	–
Aircraft maintenance costs	**666**	**1,152**	1,891	–
Route operating costs	**540**	**–**	463	–
Dividends received	**(132)**	**–**	(174)	–
Fixed assets purchase	**1**	**–**	2	–

On 7th June 2010 the Company entered into a sale and purchase agreement to sell its entire 15% shareholding in HAECO to Swire Pacific and HAECO has since become a subsidiary of Swire Pacific. HAECO, which was an associate of the Company before completion of the transaction on 14th June 2010, has since been classified as an "other related party".

(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, non-controlling interests, and any profits and losses on disposal of fixed assets are paid annually. For the year ended 31st December 2010, service fees paid for the year ended 31st December 2010 totalled HK$293 million (2009: HK$95 million) and expenses of HK$139 million (2009: HK$161 million) were reimbursed at cost; in addition, HK$57 million (2009: HK$60 million) in respect of shared administrative services were reimbursed.

Transactions under the JSSHK Services Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For definition of terms, please refer to Directors' Report on page 37.

(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 2010 were HK$1,818 million (2009: HK$1,891 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 2010 totalled HK$403 million (2009: HK$305 million). The amounts receivable from Air China group for the year ended 31st December 2010 totalled HK$219 million (2009: HK$164 million).

Transactions under the Air China Framework Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For definition of terms, please refer to Directors' Report on pages 38 and 39.

(c) Amounts due from and due to associates and other related companies at 31st December 2010 are disclosed in notes 21 and 23 to the accounts. These balances arising in the normal course of business are non-interest bearing and have no fixed repayment terms.

(d) Guarantees given by the Company in respect of bank loan facilities of an associate at 31st December 2010 are disclosed in note 31 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 28 to the accounts.

31. Commitments and contingencies

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

	Group		Company	
	2010 **HK$M**	2009 HK$M	**2010** **HK$M**	2009 HK$M
Authorised and contracted for	**75,290**	35,982	**3,913**	1,949
Authorised but not contracted for	**11,958**	4,458	**8,987**	605
	87,248	40,440	**12,900**	2,554

Operating lease commitments are shown in note 12 to the accounts.

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

	Group		Company	
	2010 **HK$M**	2009 HK$M	**2010** **HK$M**	2009 HK$M
Subsidiaries	**–**	–	**4,235**	4,421
Associates	**62**	62	**62**	62
Staff	**200**	200	**200**	200
	262	262	**4,497**	4,683

(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 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, 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.

On 27th May 2010, the Korean Fair Trade Commission ("KFTC") announced it will fine several airlines, including Cathay Pacific, for their air cargo pricing practices. On 29th November 2010, KFTC issued a written decision and Cathay Pacific's fine was KRW 5.35 billion which is approximately HK$36 million at the exchange rate current as of the date of the announcement. Cathay Pacific has filed an appeal in the Seoul High Court challenging the KFTC's decision in December 2010.

31. Commitments and contingencies *(continued)*

On 9th November 2010, the European Commission announced that it has issued a decision in its Airfreight investigation finding that, amongst other things, Cathay Pacific and a number of other international cargo carriers agreed to cargo surcharge levels and that such agreements infringed European competition law. The European Commission has imposed a fine of Euros 57,120,000 (equivalent to HK$618 million) on Cathay Pacific. Cathay Pacific has filed an appeal with the General Court of the European Union in January 2011.

The Company has been named as a defendant in a number of civil complaints, including class litigation and third party contribution claims, in a number of countries including the United States, Canada, Korea, United Kingdom 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 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 makes provisions based on facts and circumstances in line with accounting policy 19 set out on page 51.

32. 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 31 to the accounts. Collateral and guarantees received in respect of credit terms granted as at 31st December 2010 is HK$1,173 million (2009: HK$2,562 million).

The movement in the provision for bad debt in respect of trade debtors during the year is set out in note 21 to the accounts.

32. 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 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:

	2010				
	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	**(5,975)**	**(5,039)**	**(4,849)**	**(1,796)**	**(17,659)**
Obligations under finance leases	**(3,671)**	**(4,683)**	**(11,367)**	**(13,377)**	**(33,098)**
Trade and other payables	**(14,382)**	**–**	**–**	**–**	**(14,382)**
Derivative financial liabilities	**(1,254)**	**(679)**	**(195)**	**99**	**(2,029)**
Total	**(25,282)**	**(10,401)**	**(16,411)**	**(15,074)**	**(67,168)**

	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)

32. Financial risk management *(continued)*

	2010				
	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	**(5,048)**	**(4,273)**	**(2,868)**	**(441)**	**(12,630)**
Obligations under finance leases	**(4,595)**	**(3,615)**	**(10,459)**	**(14,856)**	**(33,525)**
Trade and other payables	**(11,559)**	**–**	**–**	**–**	**(11,559)**
Derivative financial liabilities	**(1,226)**	**(655)**	**(146)**	**99**	**(1,928)**
Total	**(22,428)**	**(8,543)**	**(13,473)**	**(15,198)**	**(59,642)**

	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)

32. 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. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The currencies giving rise to this risk in 2010 are primarily US dollars, Euros, New Taiwan dollars, Australian dollars, Renminbi and Japanese yen (2009: 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:

	2010					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**AUD HK$M**	**RMB HK$M**	**JPY HK$M**
Group						
Trade and other receivables	**5,998**	**521**	**336**	**215**	**404**	**497**
Liquid funds	**17,832**	**264**	**75**	**14**	**2,444**	**249**
Long-term loans	**(6,340)**	**–**	**–**	**–**	**–**	**(1,429)**
Obligations under finance leases	**(19,391)**	**(3,253)**	**–**	**–**	**–**	**–**
Trade and other payables	**(3,225)**	**(282)**	**(81)**	**(152)**	**(564)**	**(232)**
Currency derivatives at notional value	**36,285**	**(1,726)**	**(6,072)**	**(4,111)**	**(10,449)**	**(10,342)**
Net exposure	**31,159**	**(4,476)**	**(5,742)**	**(4,034)**	**(8,165)**	**(11,257)**

	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)

32. Financial risk management *(continued)*

	2010					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**AUD HK$M**	**RMB HK$M**	**JPY HK$M**
Company						
Trade and other receivables	**4,879**	**518**	**287**	**215**	**171**	**490**
Liquid funds	**4,623**	**145**	**72**	**14**	**1,325**	**246**
Long-term loans	**(4,142)**	**–**	**–**	**–**	**–**	**–**
Obligations under finance leases	**(21,397)**	**(3,807)**	**–**	**–**	**–**	**(1,429)**
Trade and other payables	**(2,804)**	**(275)**	**(55)**	**(152)**	**(177)**	**(210)**
Currency derivatives at notional value	**35,809**	**(1,726)**	**(6,072)**	**(4,111)**	**(9,890)**	**(10,342)**
Net exposure	**16,968**	**(5,145)**	**(5,768)**	**(4,034)**	**(8,571)**	**(11,245)**

	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)

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 2010 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 2009.

32. Financial risk management *(continued)*

	2010	
	Profit and loss HK$M	**Other equity components HK$M**
US dollars	**178**	**(1,452)**
Euros	**(15)**	**216**
New Taiwan dollars	**(16)**	**282**
Australian dollars	**(3)**	**179**
Renminbi	**(115)**	**482**
Japanese yen	**(24)**	**541**
Increase	**5**	**248**

	2009	
	Profit and loss HK$M	Other equity components HK$M
US dollars	686	(438)
Euros	4	164
New Taiwan dollars	(12)	73
Singapore dollars	(30)	76
Renminbi	(94)	160
Japanese yen	(18)	316
Increase	536	351

(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	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Fixed rate instruments				
Liquid funds	**–**	1,164	**–**	1,164
Long-term loans	**(908)**	(2,075)	**(908)**	(2,075)
Obligations under finance leases	**(11,443)**	(13,198)	**(14,784)**	(17,421)
Interest rate and currency swaps	**(10,625)**	(8,099)	**(10,016)**	(7,407)
Net exposure	**(22,976)**	(22,208)	**(25,708)**	(25,739)

32. Financial risk management *(continued)*

	Group		Company	
	2010 HK$M	2009 HK$M	**2010 HK$M**	2009 HK$M
Variable rate instruments				
Liquid funds	**24,198**	15,358	**9,140**	9,956
Long-term loans	**(16,078)**	(17,224)	**(11,361)**	(12,767)
Obligations under finance leases	**(11,200)**	(10,145)	**(11,849)**	(9,998)
Interest rate and currency swaps	**11,762**	8,683	**11,236**	8,067
Bank overdrafts	**(4)**	(11)	**(4)**	(11)
Net exposure	**8,678**	(3,339)	**(2,838)**	(4,753)

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 2009.

	2010		2009	
	Profit and loss HK$M	**Other equity components HK$M**	Profit and loss HK$M	Other equity components HK$M
Variable rate instruments	**(88)**	**167**	(85)	106

(iii) Fuel price risk

Fuel accounted for 36% of the Group's operating expenses (2009: 28%). 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.

	2010		2009	
	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	**13**	**453**	204	142
Net decrease in jet fuel price	**(14)**	**(444)**	(237)	(157)

32. Financial risk management *(continued)*

(d) Hedge accounting

The carrying values of financial assets/(liabilities) designated as cash flow hedges as at 31st December 2010 were as follows:

	2010 HK$M	2009 HK$M
Foreign currency risk		
– long-term liabilities (natural hedge)	**(2,595)**	(4,680)
– cross currency swaps	**110**	164
– foreign currency forward contracts	**(1,211)**	46
Interest rate risk		
– interest rate swaps	**(176)**	10
Fuel price risk		
– fuel options	**1,301**	92
Others		
– carbon offsets	**(45)**	(45)

(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 2010 HK$M	**Fair value 2010 HK$M**	Carrying amount 2009 HK$M	Fair value 2009 HK$M
Group				
Long-term loans	**(16,986)**	**(17,236)**	(19,299)	(19,639)
Obligations under finance leases	**(28,498)**	**(29,846)**	(30,140)	(31,420)
Pledged security deposits	**5,855**	**6,577**	6,797	7,606

	Carrying amount 2010 HK$M	**Fair value 2010 HK$M**	Carrying amount 2009 HK$M	Fair value 2009 HK$M
Company				
Long-term loans	**(12,269)**	**(12,403)**	(14,842)	(15,085)
Obligations under finance leases	**(27,593)**	**(30,166)**	(29,070)	(31,736)
Pledged security deposits	**960**	**1,267**	1,651	1,983

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

32. Financial risk management *(continued)*

(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 2010 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			
	2010 Level 1 HK$M	2010 Level 2 HK$M	2010 Level 3 HK$M	2010 Total HK$M	2010 Level 1 HK$M	2010 Level 2 HK$M	2010 Level 3 HK$M	2010 Total HK$M
Assets								
Investments at fair value								
– listed	183	–	–	183	–	–	–	–
– unlisted	–	–	1,232	1,232	–	1,133	–	1,133
Liquid funds								
– funds with investment managers	–	11,722	–	11,722	–	–	–	–
– other liquid investments	–	1,632	–	1,632	–	1,372	–	1,372
Derivative financial assets	–	3,460	–	3,460	–	3,460	–	3,460
	183	16,814	1,232	18,229	–	5,965	–	5,965
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	–	(4,231)	–	(4,231)	–	(4,231)	–	(4,231)
Derivative financial liabilities	–	(2,994)	–	(2,994)	–	(2,864)	–	(2,864)
	–	(7,225)	–	(7,225)	–	(7,095)	–	(7,095)

32. Financial risk management *(continued)*

	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)

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 2010	**1,373**	**1,328**
Disposals	**(396)**	**(396)**
Net unrealised gains or losses recognised in other comprehensive income during the year	**255**	**201**
At 31st December 2010	**1,232**	**1,133**

	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

33. 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 to 99 of the annual report.

34. 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 2011 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.

35. Event after the reporting period

In March 2011, agreements were entered into under which a wholly owned subsidiary of the Company agreed to purchase 15 Airbus A330-300 aircraft and 10 Boeing 777-300ER aircraft. The catalogue price of these aircraft is approximately HK$46,683 million. The actual purchase price of the aircraft, which was determined after arm's length negotiations between the parties, is lower than the catalogue price.

Principal Subsidiaries and Associates

at 31st December 2010

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
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*
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

		2010	2009
Consolidated profit and loss summary	*HK$M*		
Passenger services		**59,354**	45,920
Cargo services		**25,901**	17,255
Catering, recoveries and other services		**4,269**	3,803
Turnover		**89,524**	66,978
Operating expenses		**(78,471)**	(62,499)
Operating profit/(loss)		**11,053**	4,479
Profit on disposal of investments		**2,165**	1,254
Gain on deemed disposal of an associate		**868**	–
Settlement of the United States Department of Justice cargo investigations		**–**	–
Net finance charges		**(978)**	(847)
Share of profits/(losses) of associates		**2,587**	261
Profit/(loss) before tax		**15,695**	5,147
Taxation		**(1,462)**	(283)
Profit/(loss) for the year		**14,233**	4,864
Profit attributable to non-controlling interests		**(185)**	(170)
Profit/(loss) attributable to owners of Cathay Pacific		**14,048**	4,694
Dividends paid		**(1,691)**	–
Retained profit/(loss) for the year		**12,357**	4,694
Consolidated statement of financial position summary	*HK$M*		
Fixed and intangible assets		**74,116**	73,345
Long-term receivables and investments		**17,285**	14,349
Borrowings		**(39,629)**	(42,642)
Liquid funds less bank overdrafts		**24,194**	16,511
Net borrowings		**(15,435)**	(26,131)
Net current liabilities (excluding liquid funds and bank overdrafts)		**(14,022)**	(12,864)
Other long-term payables		**(1,700)**	(1,059)
Deferred taxation		**(5,815)**	(5,255)
Net assets		**54,429**	42,385
Financed by:			
Funds attributable to owners of Cathay Pacific		**54,274**	42,238
Non-controlling interests		**155**	147
Total equity		**54,429**	42,385
Per share			
Shareholders' funds	*HK$*	**13.80**	10.74
EBITDA	*HK$*	**5.85**	2.97
Earnings/(loss)	*HK cents*	**357.1**	119.3
Dividend	*HK cents*	**111.0**	10.0
Ratios			
Profit/(loss) margin	*%*	**15.7**	7.0
Return on capital employed	*%*	**22.0**	8.7
Dividend cover	*Times*	**3.2**	11.9
Cash interest cover	*Times*	**35.2**	5.1
Gross debt/equity ratio	*Times*	**0.73**	1.01
Net debt/equity ratio	*Times*	**0.28**	0.62

2008	2007	2006	2005	2004	2003	2002	2001
57,964	49,520	38,755	32,005	26,879	18,920	22,811	20,641
24,623	21,783	18,385	15,773	12,965	10,704	9,908	8,406
3,976	4,055	3,643	3,131	2,917	2,726	2,813	2,941
86,563	75,358	60,783	50,909	42,761	32,350	35,532	31,988
(94,124)	(67,619)	(55,565)	(46,766)	(37,514)	(30,125)	(30,782)	(31,156)
(7,561)	7,739	5,218	4,143	5,247	2,225	4,750	832
–	–	–	–	–	–	–	452
–	–	–	–	–	–	–	–
(468)	–	–	–	–	–	–	–
(1,012)	(787)	(465)	(444)	(583)	(620)	(743)	(571)
(764)	1,057	301	269	298	126	269	153
(9,805)	8,009	5,054	3,968	4,962	1,731	4,276	866
1,333	(799)	(782)	(500)	(446)	(384)	(273)	(167)
(8,472)	7,210	4,272	3,468	4,516	1,347	4,003	699
(224)	(187)	(184)	(170)	(99)	(44)	(20)	(42)
(8,696)	7,023	4,088	3,298	4,417	1,303	3,983	657
(2,438)	(2,245)	(2,992)	(2,196)	(2,189)	(1,035)	(701)	(1,915)
(11,134)	4,778	1,096	1,102	2,228	268	3,282	(1,258)
73,821	70,170	65,351	50,416	50,607	50,176	48,905	50,456
14,530	15,015	12,232	7,184	7,332	4,473	4,783	4,787
(40,280)	(36,368)	(31,943)	(22,455)	(22,631)	(26,297)	(22,810)	(24,024)
15,082	21,637	15,595	13,405	11,444	15,186	13,164	9,746
(25,198)	(14,731)	(16,348)	(9,050)	(11,187)	(11,111)	(9,646)	(14,278)
(16,887)	(13,094)	(9,019)	(6,767)	(6,381)	(4,439)	(3,896)	(1,728)
(4,606)	(1,490)	(170)	(72)	(102)	(181)	(346)	–
(4,831)	(6,621)	(6,508)	(6,460)	(7,280)	(7,762)	(7,614)	(7,836)
36,829	49,249	45,538	35,251	32,989	31,156	32,186	31,401
36,709	49,071	45,386	34,968	32,855	31,052	32,115	31,308
120	178	152	283	134	104	71	93
36,829	49,249	45,538	35,251	32,989	31,156	32,186	31,401
9.33	12.45	11.53	10.34	9.75	9.29	9.63	9.40
(0.91)	3.46	2.78	2.49	2.79	1.86	2.69	1.63
(221.0)	178.3	115.9	97.7	131.4	39.0	119.5	19.7
3.0	84.0	84.0	48.0	65.0	48.0	44.0	17.5
(10.0)	9.3	6.7	6.5	10.3	4.0	11.2	2.1
(11.8)	12.6	8.9	8.8	11.8	4.7	10.8	2.9
(73.7)	2.1	1.2	2.0	2.0	0.8	2.7	1.1
3.7	14.2	15.1	17.1	14.6	7.2	10.1	4.2
1.10	0.74	0.70	0.64	0.69	0.85	0.71	0.77
0.69	0.30	0.36	0.26	0.34	0.36	0.30	0.46

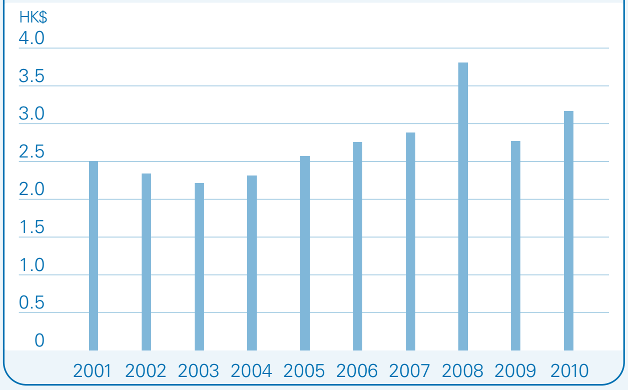
		2010	2009
Operating summary – Cathay Pacific and Dragonair*			
Available tonne kilometres	*Million*	**24,461**	22,249
Revenue tonne kilometres	*Million*	**19,373**	16,775
Available seat kilometres	*Million*	**115,748**	111,167
Revenue passengers carried	*'000*	**26,796**	24,558
Revenue passenger kilometres	*Million*	**96,588**	89,440
Revenue load factor	*%*	**81.1**	77.7
Passenger load factor	*%*	**83.4**	80.5
Cargo and mail carried	*'000 tonnes*	**1,804**	1,528
Cargo and mail revenue tonne kilometres	*Million*	**10,175**	8,256
Cargo and mail load factor	*%*	**75.7**	70.8
Excess baggage carried	*Tonnes*	**4,053**	3,883
Kilometres flown	*Million*	**464**	431
Block hours	*'000 hours*	**652**	605
Aircraft departures	*'000*	**138**	130
Length of scheduled routes network	*'000 kilometres*	**535**	481
Destinations at year end	*Number*	**146**	122
Staff number at year end	*Number*	**21,592**	20,907
ATK per staff	*'000*	**1,165**	1,053
On-time performance*			
Departure (within 15 minutes)	*%*	**80.9**	86.8
Average aircraft utilisation*	*Hours per day*		
A320-200		**8.2**	8.0
A321-200		**8.6**	7.8
A330-300		**11.6**	10.8
A340-300		**13.8**	12.2
A340-600		**–**	–
747-400		**13.2**	12.9
747-200F/300SF		**–**	5.4
747-400F/BCF		**14.4**	13.2
777-200/300		**8.0**	8.1
777-300ER		**15.3**	15.8
Fleet average		**12.0**	11.2

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

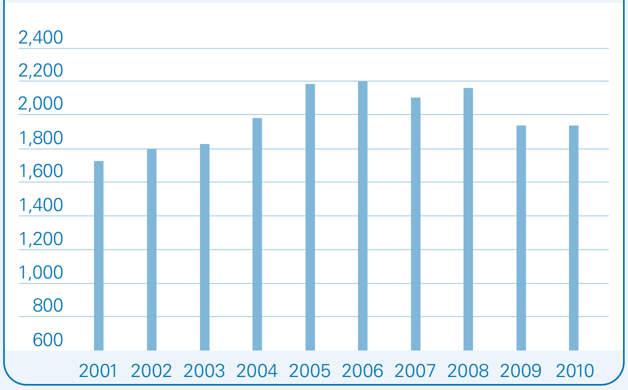
	2010	2009
Fleet profile		
Aircraft operated by Cathay Pacific:		
A330-300	**32**	32
A340-300	**15**	15
A340-600	**–**	–
747-400	**22**	23
747-200F	**–**	–
747-400F	**6**	6
747-400BCF	**12**	13
747-400ERF	**6**	6
777-200	**5**	5
777-300	**12**	12
777-300ER	**18**	14
Total	**128**	126
Aircraft operated by Dragonair:		
A320-200	**11**	9
A321-200	**6**	6
A330-300	**14**	14
747-200F	**–**	–
747-300SF	**–**	–
747-400BCF	**–**	–
Total	**31**	29

2008	2007	2006	2005	2004	2003	2002	2001
24,410	23,077	19,684	17,751	15,794	13,355	12,820	11,827
17,499	16,680	14,452	12,813	11,459	9,371	9,522	8,201
115,478	102,462	91,769	82,766	74,062	59,280	63,050	62,790
24,959	23,253	18,097	15,438	13,664	10,059	12,321	11,269
90,975	81,801	72,939	65,110	57,283	42,774	49,041	44,792
75.1	75.6	76.2	75.2	74.8	71.1	75.9	70.4
78.8	79.8	79.5	78.7	77.3	72.2	77.8	71.3
1,645	1,672	1,334	1,139	990	889	862	713
8,842	8,900	7,514	6,618	6,007	5,299	4,854	3,938
65.9	66.7	68.6	67.0	68.7	68.7	71.2	67.3
2,963	2,310	2,218	2,489	2,530	2,190	2,401	2,270
460	422	357	317	285	238	237	224
649	598	489	431	386	322	322	307
138	131	98	84	77	65	68	65
453	442	457	403	386	377	374	341
124	129	125	92	90	87	62	51
21,309	19,840	18,992	15,806	15,054	14,673	14,649	14,473
1,185	1,194	1,173	1,147	1,066	903	885	810
81.4	83.9	85.2	86.1	90.3	91.0	90.7	82.9
8.4	8.5	8.2	–	–	–	–	–
8.4	8.9	8.9	–	–	–	–	–
10.9	10.7	11.2	10.8	10.1	9.2	10.1	9.4
14.7	15.3	14.9	15.1	13.6	12.4	13.3	13.4
11.4	14.4	14.9	15.3	13.6	11.7	6.3	–
14.1	14.5	14.9	14.7	13.9	12.8	14.1	14.4
7.5	10.8	11.8	11.8	13.3	13.3	13.6	12.2
13.1	14.0	15.3	16.1	16.3	16.4	15.4	14.3
8.7	8.4	9.0	9.1	8.8	8.7	9.4	9.6
14.3	10.7	–	–	–	–	–	–
11.5	11.7	12.5	12.6	12.0	11.4	12.1	12.1
32	29	27	26	23	23	20	20
15	15	15	15	15	15	15	15
–	3	3	3	3	3	2	–
23	24	22	22	21	19	19	19
5	7	7	7	7	6	6	4
6	6	6	6	5	5	5	5
10	6	5	1	–	–	–	–
2	–	–	–	–	–	–	–
5	5	5	5	5	5	5	5
12	12	12	11	10	9	7	7
9	5	–	–	–	–	–	–
119	112	102	96	89	85	79	75
10	10	10	11	10	8	8	7
6	6	6	6	6	6	4	3
16	16	16	13	10	9	9	7
1	1	1	1	1	–	–	–
–	3	3	3	3	3	3	2
2	3	1	–	–	–	–	–
35	39	37	34	30	26	24	19

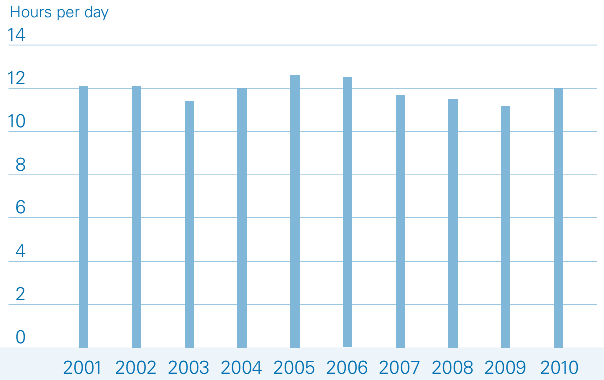
Cost per ATK



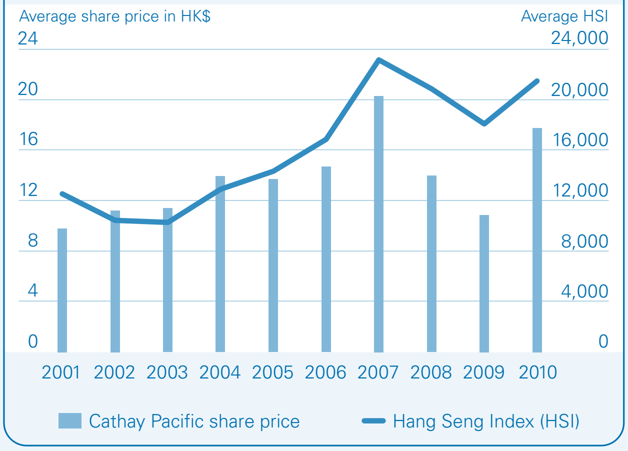
ATK per HK$'000 staff cost



Aircraft utilisation



Share price



		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Productivity*											
Cost per ATK	*HK$*	**3.16**	2.76	3.80	2.87	2.75	2.56	2.31	2.21	2.33	2.50
ATK per HK$'000 staff cost	*Unit*	**1,933**	1,932	2,160	2,105	2,197	2,183	1,978	1,825	1,798	1,725
Aircraft utilisation	*Hours per day*	**12.0**	11.2	11.5	11.7	12.5	12.6	12.0	11.4	12.1	12.1
Share prices	*HK$*										
High		**24.1**	14.7	20.3	23.1	19.5	15.1	16.4	15.5	13.6	14.3
Low		**12.8**	7.0	7.1	18.3	12.7	12.0	12.5	8.4	9.9	6.1
Year-end		**21.5**	14.5	8.8	20.4	19.2	13.6	14.7	14.8	10.7	10.0
Price ratios (Note)	*Times*										
Price/earnings		**6.0**	12.2	(4.0)	11.4	16.5	13.9	11.2	37.9	9.0	50.8
Market capitalisation/ funds attributable to owners of Cathay Pacific		**1.6**	1.4	0.9	1.6	1.7	1.3	1.5	1.6	1.1	1.1
Price/cash flows		**4.5**	12.7	8.9	5.0	6.1	5.3	4.5	7.8	3.8	7.2

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

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

Glossary

Terms

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

Net borrowings Borrowings and bank overdrafts less liquid funds.

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

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

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

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

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

EBITDA Earnings before interest, tax, depreciation and amortisation.

Recoveries Cost recoveries from incidental activities.

Ratios

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate and Shareholder Information

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

Investor relations

For further information about Cathay Pacific Airways Limited, please contact:

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

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

Registered office

33rd Floor, One Pacific Place
88 Queensway
Hong Kong

Depositary

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

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

Stock codes

Hong Kong Stock Exchange	00293
ADR	CPCAY

Registrars

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

Auditors

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

Financial calendar

Year ended 31st December 2010	
Annual report available to shareholders	6th April 2011
Annual General Meeting	18th May 2011
Six months ending 30th June 2011	
Interim results announcement	August 2011
Interim dividend payable	October 2011

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