CATHAY PACIFIC

Cathay Pacific Airways Limited

Annual Report 2011

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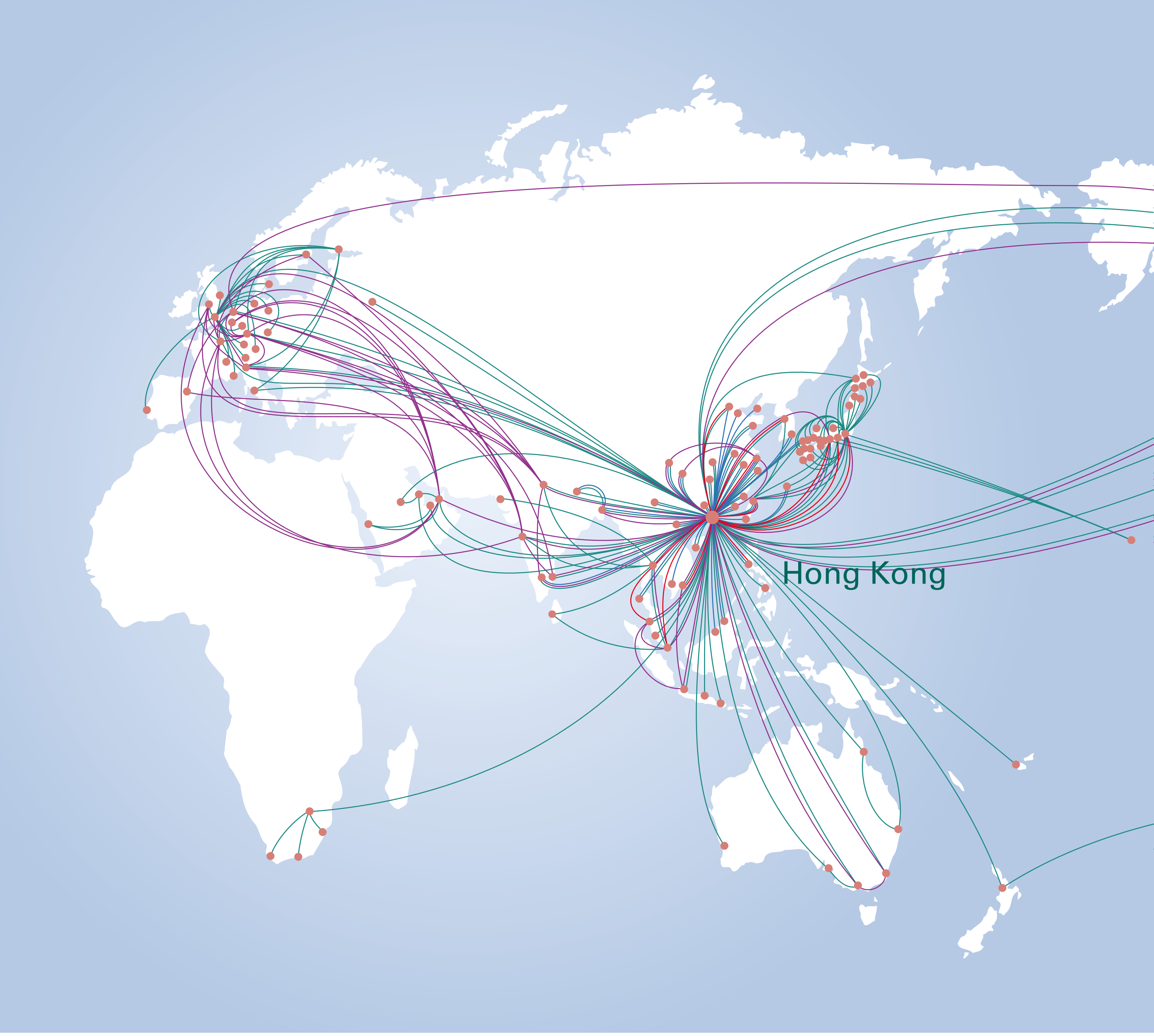

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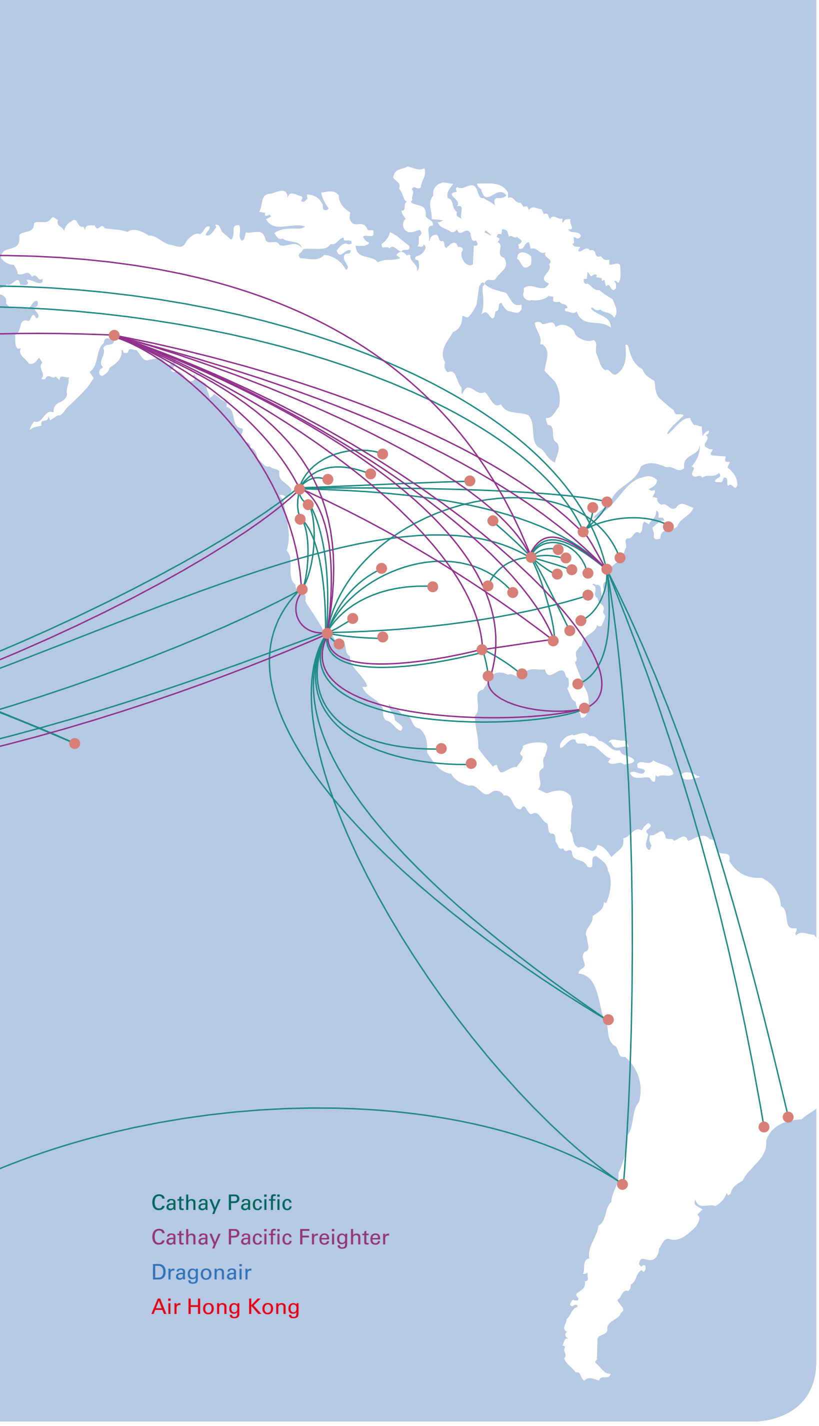


CATHAY PACIFIC

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 162 destinations in 42 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 international aviation hubs. In addition to its fleet of 132 aircraft, these investments include catering and ground-handling companies and the corporate headquarters at Hong Kong International Airport. Cathay Pacific continues to invest heavily in its home city and has another 96 new aircraft due for delivery up to 2019. The airline is also building its own cargo terminal in Hong Kong that will begin operations in early 2013.

Hong Kong Dragon Airlines Limited ("Dragonair") is a regional airline registered and based in Hong Kong. As a wholly owned subsidiary of Cathay Pacific, it operates 32 aircraft on scheduled services to 33 destinations in Mainland China and elsewhere in Asia. Cathay Pacific owns 19.53% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China. Cathay Pacific is also 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 29,000 people worldwide (more than 22,000 of them 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

		2011	2010	Change
Results				
Turnover	*HK$ million*	**98,406**	89,524	**+9.9%**
Profit attributable to owners of Cathay Pacific	*HK$ million*	**5,501**	14,048	**-60.8%**
Earnings per share	*HK cents*	**139.8**	357.1	**-60.9%**
Dividend per share	*HK$*	**0.52**	1.11	**-53.2%**
Profit margin	*%*	**5.6**	15.7	**-10.1%pt**
Financial Position				
Funds attributable to owners of Cathay Pacific	*HK$ million*	**55,809**	54,274	**+2.8%**
Net borrowings	*HK$ million*	**23,738**	15,435	**+53.8%**
Shareholders' funds per share	*HK$*	**14.2**	13.8	**+2.9%**
Net debt/equity ratio	*Times*	**0.43**	0.28	**+0.15 times**

Operating Statistics – Cathay Pacific and Dragonair

		2011	2010	Change
Available tonne kilometres ("ATK")	*Million*	**26,383**	24,461	**+7.9%**
Passengers carried	*'000*	**27,581**	26,796	**+2.9%**
Passenger load factor	*%*	**80.4**	83.4	**-3.0%pt**
Passenger yield	*HK cents*	**66.5**	61.2	**+8.7%**
Cargo and mail carried	*'000 tonnes*	**1,649**	1,804	**-8.6%**
Cargo and mail load factor	*%*	**67.2**	75.7	**-8.5%pt**
Cargo and mail yield	*HK$*	**2.42**	2.33	**+3.9%**
Cost per ATK (with fuel)	*HK$*	**3.45**	3.16	**+9.2%**
Cost per ATK (without fuel)	*HK$*	**2.01**	2.02	**-0.5%**
Aircraft utilisation	*Hours per day*	**12.3**	12.0	**+2.5%**
On-time performance	*%*	**82.0**	80.9	**+1.1%pt**

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$5,501 million for 2011. This compares to the profit of HK$14,048 million for 2010, which was a record year for the Group. The 2010 results included HK$3,033 million of significant non-recurring items being the profit on the sales of our shareholdings in Hong Kong Air Cargo Terminals Limited ("Hactl") and Hong Kong Aircraft Engineering Company Limited ("HAECO") and the gain on the deemed disposal of part of our interest in Air China. Adjusting for these items, the attributable profit in 2011 decreased by HK$5,514 million or 50.1% from 2010. Earnings per share fell by 60.9% to HK139.8 cents. Turnover for the year increased by 9.9% to HK$98,406 million.

In 2011 the core business of the Cathay Pacific Group was materially affected by instability and uncertainty in the world's major economies. The passenger business of Cathay Pacific and Dragonair held up relatively well mainly as a result of strong demand for premium class travel. The cargo business was adversely affected by a substantial reduction in demand for shipments from our two key export markets, Hong Kong and Mainland China.

Fuel is our biggest single cost and the persistently high jet fuel prices had a significant effect on our operating results in 2011. Disregarding the effect of fuel hedging, the Group's gross fuel costs increased by HK$12,455 million (or 44.1%) in 2011. The increase reflected both higher fuel prices and the fact that we operated more flights. Managing the risk associated with changing fuel prices remains a high priority. To this end we have an active fuel hedging programme. In 2011 we realised a profit of HK$1,813 million from fuel hedging activities, with unrealised mark-to-market gains of HK$436 million in the reserves at 31st December 2011.

Passenger revenue for the year was HK$67,778 million, an increase of 14.2% compared with 2010. Capacity increased by 9.2%. We carried a total of 27.6 million passengers, a rise of 2.9% compared with 2010. The load factor fell by 3.0 percentage points. Yield increased by 8.7% to HK66.5 cents. The relative strength of a number of the currencies in which we receive revenues made a positive contribution to our revenues. Demand for premium class travel remained robust in 2011. Firm demand for business class seats on short-haul routes reflected the relative strength of the Asian economy. Load factors in economy class remained generally high, particularly on the North American and Southeast Asian routes. However, there was a reduction in economy class yield on long-haul routes. Business to and from Japan was affected by the earthquake and subsequent tsunami which took place in March 2011. Business to and from Thailand was affected by the serious floods there in October and November.

Cargo revenue for 2011 was up by 0.3% to HK$25,980 million compared with 2010. Cargo business performed reasonably well in the first quarter of 2011. However, from April onwards, demand for shipments from our two most important markets, Hong Kong and Mainland China, weakened significantly and remained weak for the rest of the year. We managed capacity in order to keep it in line with demand and continued to seek opportunities in new markets. Yield was up by 3.9% to HK$2.42. Capacity increased by 6.9%. The load factor, however, fell by 8.5 percentage points to 67.2%. In 2011 we started cargo services to Bengaluru in India, Chongqing and Chengdu in Western China and Zaragoza in Spain.

We continue to acquire new aircraft to replace older, less efficient aircraft and to increase the size of the fleet. In 2011, we took delivery of six Boeing 777-300ERs, three Airbus A330-300s and four Boeing 747-8F freighters. Two new Airbus A320-200s joined the Dragonair fleet in February 2012. In March 2011, we announced orders for 27 new aircraft, including two Airbus A350-900s (which had been ordered in December 2010), 15 Airbus A330-300s and 10 Boeing 777-300ERs. In August 2011, we announced the acquisition of four more Boeing

777-300ERs and eight Boeing 777-200F freighters. In January 2012, we announced the purchase of six more Airbus A350-900s for delivery in 2016 and 2017 and agreed to lease two new Airbus A320-200s to be delivered later in 2012. By 2019, we intend to be operating one of the youngest, most fuel-efficient wide-body passenger fleets in the world.

Despite the current economic weakness, we have confidence in the long-term prospects of our cargo business and in Hong Kong's role as the world's leading international air cargo hub. In addition to bringing more efficient new freighters into the fleet – we have eight Boeing 777-200F freighters on order in addition to the 10 Boeing 747-8F freighters referred to above – we are also building our own cargo terminal. A topping-out ceremony to mark the completion of civil construction was held in November 2011. The terminal is expected to begin operations in early 2013.

During 2011, we have continued our efforts to improve the services which we provide to passengers. In March 2011, Cathay Pacific introduced its new business class seat. Feedback from passengers has been very positive. At the end of 2011, the new seats have been installed in 15 aircraft. In February 2012 we began installing new premium economy class cabins on our long-haul aircraft. The new cabins are expected to be installed in 87 aircraft by 2013. The seats and service in the new cabins will be significantly better than those in economy class cabins. We began to install new economy class seats on medium- and long-haul aircraft in March 2012. The Level 6 Business Class Lounge in The Wing, Cathay Pacific's signature lounge at Hong Kong International Airport, reopened in April 2011 after extensive refurbishment. The entire refurbishment of The Wing (including the first class lounge) is expected to be completed by the fourth quarter of 2012. We continued to develop the passenger network, launching two new Cathay Pacific routes in 2011 – Abu Dhabi and Chicago – and increasing frequencies on other key routes.

Air China plays an increasingly important role in our business, having contributed 31.1% of our consolidated profit before tax in 2011. Air China and Cathay Pacific continue to work together closely. The cargo joint venture with Air China, in which Cathay Pacific owns an equity and an economic interest, was formally approved and established in February and officially launched in May 2011. The joint venture operates from Shanghai under the Air China Cargo name.

Cathay Pacific joined other airlines, industry bodies and governments in opposing the European Union's new Emissions Trading Scheme (ETS). Introduced on 1st January 2012, ETS is essentially a tax on carbon dioxide emissions flying into Europe and unfairly penalise long-haul carriers. We believe that a global approach is needed for any emissions scheme in order to provide a level playing field for all airlines.

After a record year in 2010, we faced a number of major challenges in 2011: the instability of the global economy, the weakness of the air cargo market, the reduction of yields in economy class, the impact of natural disasters in Japan and Thailand, unrest in the Middle East and continued high jet fuel prices. Looking ahead, economic uncertainties have continued into the first half of this year - while these uncertainties continue, we expect pressure on economy class yields and our cargo business in particular to remain weak. Fuel prices have risen further. As a result, 2012 is looking even more challenging than 2011 and we are therefore cautious about prospects for this year. We will continue to be vigilant in managing our costs while not compromising the quality of our products and services or our long-term strategic investment in the business. Our financial position remains strong. In August 2011, we established a medium term note programme. The programme provides an additional source of funding and allows the Company to issue debt in a range of currencies. The first issue of notes under the programme took place in October 2011. Further notes were issued in January and February 2012.

The commitment and hard work of employees across the Cathay Pacific Group and its subsidiary and associated companies are central to our continuing success. I take this opportunity to thank them.

Christopher Pratt

Chairman

Hong Kong, 14th March 2012

2011 in Review

In 2011 the core business of Cathay Pacific and Dragonair was materially affected by instability and uncertainty in the world's major economies. The passenger business remained relatively strong, with premium class travel robust through the year. Economy class yields were down in the second half. The cargo business, however, was particularly weak, with demand significantly down for the last three quarters, particularly from our key markets in Hong Kong and Mainland China. High jet fuel prices also had a significant impact on operating profit. The long-term strategy remains unchanged, namely the continued expansion of our network and fleet, continued investment in products and services and continued development of Hong Kong as one of the world's leading international aviation hubs.

Award winning products and services

- Cathay Pacific has started to install premium economy class cabins in its long-haul aircraft. The first flight of an aircraft fitted with a new cabin will take place in April 2012. New cabins will be installed in all Cathay Pacific's long-haul aircraft. By the end of 2013 new cabins will have been installed on 87 aircraft.
- The seats in the new premium economy class cabins are bigger and more comfortable than those in economy class and will provide more leg room. Each seat has an 8-inch recline, a leg-rest, a foot-rest, a 10.6-inch screen television and a multi-port connector. Premium economy class passengers will have dedicated check-in counters, priority boarding and enhanced service in the air.
- In March 2012 we started to install a new economy class seat on our long-haul Boeing 777-300ER and Airbus A330-300 aircraft. By the end of 2013 the seats are expected to have been installed in 62 aircraft. The new seat is more comfortable and has more storage space than the old one and has an outlet for mobile devices and a touch-screen television.
- Our new business class seats (which were first introduced in March 2011) have been installed in nine recently delivered Boeing 777-300ER and Airbus A330-300 aircraft. The seats are also being installed in existing aircraft of these types. At the end of 2011 the seats had been installed in 15 aircraft. By the end of 2012 they are expected to have been installed in 49 aircraft. Feedback from passengers has been very positive. The key features of the seat are a full-flat bed and a combination of openness and privacy.
- Work continued on the refurbishment of The Wing, Cathay Pacific's signature lounge at Hong Kong International Airport. The Level 6 Business Class Lounge reopened in April 2011. The Level 7 Business Class Lounge closed for refurbishment in May 2011 and reopened to passengers in January 2012. The whole refurbishment (including the first class lounge) is expected to be completed by the fourth quarter of 2012. In February 2011, US guidebook publisher Frommers put The Wing at the top of its list of the world's five best international airport lounges.
- In November 2011 Cathay Pacific reopened its first and business class lounge in Frankfurt following an extensive refurbishment. In December 2011 Cathay Pacific opened a new first and business class lounge at San Francisco International Airport.
- In July 2011, Cathay Pacific introduced a new uniform, designed by Hong Kong's Eddie Lau, for almost 9,000 cabin crew and over 4,000 airport, cargo and reservations staff. While preserving the best elements of the old uniform, the new uniform has new elements which reflect current trends and are aligned with Cathay Pacific's brand image.

- The second phase of Cathay Pacific's "People and Service" advertising campaign was launched in October 2011. It features Cathay Pacific staff and appears on television, in print and on-line.
- We continue to improve our catering, including many special food promotions. In 2011 Cathay Pacific provided dishes created by eight restaurants in the Miramar group and four restaurants in the Swire Hotels group. Dragonair provided dishes created by Michelin-starred The Square and JW's California.
- In the 2011 Skytrax awards, Cathay Pacific won the Best Airline Transpacific and Best First Class Seat awards, and Dragonair won the World's Best Regional Airline and Best Regional Airline Asia awards.
- Cathay Pacific won a number of other awards in 2011. These were Gold and Silver awards from the Hong Kong Association for Customer Excellence; the top Team Award at the 2010/11 Customer Service Excellence Programme organised by the Airport Authority of Hong Kong; a Sing Tao Excellent Services Brand Award; an Eastweek Hong Kong Service Award and Best Asian Airline Serving China and Best Airline First Class in the Business Traveller China Awards.
- In 2011, Cathay Pacific and Dragonair were again awarded the Caring Company Logo by the Hong Kong Council of Social Service in recognition of their good corporate citizenship.
- Dragonair won a number of other awards in 2011. These were an Air Cargo Award of Excellence in the seventh annual Air Cargo Excellence survey, Best Regional Airline in the TTG Travel Awards and recognition as an Asian Excellence Brand by readers of Yazhou Zhoukan.

Hub development

- Cathay Pacific is committed to developing Hong Kong as one of the world's premier international aviation hubs. In 2011 we continued to improve the networks of Cathay Pacific and Dragonair, adding new routes and, where appropriate, strengthening existing services in order to provide more choice for passengers and for cargo customers.
- We launched two new Cathay Pacific passenger routes in 2011. In June, we extended our coverage in the Middle East with a new four-times-weekly service to Abu Dhabi, the capital of the United Arab Emirates. In September, we launched a daily service to Chicago.
- Cathay Pacific's Milan service increased from four flights per week to daily in July 2011 in response to strong demand.
- We reinstated seven more flights per week to Taipei, bringing the total back to the pre-financial crisis level of 108 flights per week in each direction.
- Cathay Pacific added three more flights per week to New York in March 2011 and further increased flights in May, so that there is now a four-times-daily service on this route. Three of the four daily flights operate non-stop. Two more flights per week were added to the Toronto route in May, so that we are again operating a twice-daily service on this route.
- We added three more flights per week to Jakarta in August 2011, so that there is now a three-times-daily service on this route. In March, one more flight per week was added to the Surabaya route so that there is now a daily service on this route. Three flights to Penang each week that previously went via Kuala Lumpur now go direct, providing a daily non-stop service to Penang. Singapore became an eight-times-daily service from July 2011.
- In November 2011, we converted three of the seven flights per week to Adelaide into non-stop flights. The other four flights continue to operate via Melbourne.
- We reduced the number of Cathay Pacific and Dragonair flights to Japan in response to the reduction in demand following the earthquake and tsunami in March 2011. We started to restore flights during the summer as demand increased. By October we had reverted to a full schedule on all passenger routes to Japan.
- We cancelled one of our daily services to Bangkok in November 2011 following the reduction in demand resulting from the serious flooding in Thailand. In December we restored the full schedule.
- Dragonair increased capacity on its Mainland China and Taiwan routes from March 2011 onwards. 10 flights per week were added on the Kaohsiung route, taking the total to 42 per week. One daily flight was added on the

Xiamen route, taking the total to four flights per day. The number of flights on the Ningbo route increased from seven to 10 flights per week. There are two flights per day on the Chengdu and Nanjing routes and one flight per day on the Chongqing route. From October 2011, a fourth daily flight was added to Hangzhou.

- Dragonair's capacity was increased on some routes to secondary cities in Mainland China by using larger (Airbus A330-300) aircraft.
- As cargo demand weakened in the second quarter of 2011, we adjusted schedules accordingly. We also strengthened our freighter network where appropriate. We introduced a weekly freighter service to Bangkok, flying via Singapore, in May and a twice-weekly freighter service to Bengaluru in August (operating via Delhi). We also introduced freighter services to Chongqing and Chengdu in Western China in October 2011 and a service to Zaragoza in Spain in November.
- The topping-out ceremony to mark the completion of civil construction of the new Cathay Pacific cargo terminal at Hong Kong International Airport took place in November 2011. The Chief Executive of the Hong Kong Special Administrative Region, Donald Tsang, officiated at the event. The terminal, at which around 1,800 staff will be employed by our subsidiary, Cathay Pacific Services Limited, is expected to start operating in early 2013. When fully operational it will be one of the biggest and most sophisticated air cargo terminals in the world and will reinforce Hong Kong's position as the world's leading international air cargo hub.

Fleet development

- At the end of 2011 there were 93 new aircraft in total on order, for delivery up to 2019.
- In 2011 we took delivery of 13 new aircraft: three Airbus A330-300s, six Boeing 777-300ERs and four Boeing 747-8F freighters.
- Two new Airbus A320-200s joined the Dragonair fleet in February 2012.
- In March 2011, Cathay Pacific announced the acquisition of 15 more Airbus A330-300s and 10 more Boeing 777-300ERs. These aircraft will be delivered over the period to the end of 2015. In August Cathay Pacific announced the acquisition of four more Boeing 777-300ERs and eight Boeing 777-200F freighters.
- In January 2012 we announced the purchase of six more Airbus A350-900s for delivery in 2016 and 2017.
- In January 2012, we agreed to lease two new Airbus A320-200s. These aircraft will be delivered in November and December 2012.
- We expect to take delivery of 19 aircraft in 2012.
- The second of four Boeing 747-400BCF freighters was sold to our cargo joint venture with Air China in July 2011. The remaining two such aircraft are expected to be sold to the cargo joint venture in the second quarter of 2012.
- Three Boeing 747-400BCF freighters were dry-leased to Air Hong Kong in order to increase its capacity.
- A total of three Airbus A330-300s were dry-leased from Cathay Pacific to Dragonair, two of which were dry-leased in 2011. Dragonair's all Airbus fleet now totals 32 aircraft.
- The four leased Airbus A340-300s parked by Cathay Pacific during the financial crisis of 2008-2009 will not return to service. Two of them were returned to their lessors in 2011 with the other two were returned to the lessor in January and February 2012.
- One Dragonair Airbus A330-300 returned to its lessor in 2011.
- We plan to retire the 21 Boeing 747-400s and 11 Airbus A340-300s in our fleet before the end of the decade as new, more efficient aircraft arrive. One Boeing 747-400 passenger aircraft was deregistered in February 2011.
- We acquired one Boeing 747-400 aircraft upon lease expiry in January 2012.

Pioneer in technology

- We are developing new reservations, inventory and check-in systems for Cathay Pacific and Dragonair. We implemented the first phase of the programme, covering reservations and inventory, in February 2012, following extensive testing and training.

- Cathay Pacific was the first Asian airline to introduce an on-line ticket change function. The service was made available on North American routes in 2010 and on most other major routes in 2011.
- A mobile boarding pass service, which is available to passengers who check in on-line, was introduced in Auckland in December 2011. The service was extended to Hong Kong in January 2012 and is being extended to other ports.
- In July 2011, Cathay Pacific introduced a marketing automation system which enables it to market products and services to customers based on their relationship with the airline and their travel habits.
- In May 2011, we introduced a new booking system for our subsidiary, Cathay Holidays Limited.
- Cathay Pacific continued to increase its presence in social media. New Facebook pages were opened in a number of countries. The main Cathay Pacific Facebook page has more than 130,000 fans. New Facebook pages were opened in a number of countries with their own pages and we have over 258,000 fans globally.
- We continue to extend and improve our applications for mobile devices. In May 2011, together with the Hong Kong Tourism Board, we introduced an app which gives iPad, iPhone and Android users a virtual tour of major Hong Kong attractions. We have had over 60,000 downloads.
- Cathay Pacific was the first airline to design a customised airline application for the BlackBerry PlayBook device, which went on sale in Hong Kong in July 2011.
- In 2011, Cathay Pacific became one of the first airlines to introduce a Google + brand page, gaining over 600 members since its recent launch in November 2011.

Partnerships

- In March 2011, our codeshare arrangements with **one**world partner Japan Airlines were expanded so as to include Akita. The arrangements were further expanded in November so as to include eight additional destinations in Japan, Izumo, Miyazaki, Misawa, Matsuyama, Nagasaki, Oita, Tokushima and Ube.
- Our codeshare arrangements with WestJet were expanded in March 2011 so as to include Kelowna in British Columbia, Canada.
- In June 2011, we expanded our codeshare arrangements with Alaska Airlines so as to include Mexico City and Guadalajara (in each case via Los Angeles).
- In June 2011, we announced an expansion of our codeshare arrangements with **one**world partner American Airlines. Cathay Pacific has put its code on 11 American Airlines routes in the United States. The destinations are Atlanta, Charlotte, Cleveland, Columbus, Detroit, Kansas City, Minneapolis-St Paul, Philadelphia, Pittsburgh, Phoenix and Salt Lake City. American Airlines put its code on our new Chicago route and on our route to Ho Chi Minh City. We terminated six existing codeshare arrangements with American Airlines, the destinations being Austin, Chicago, Fort Lauderdale, Newark, San Jose and San Juan.
- In June 2011, it was announced that Malaysia Airlines will join the **one**world alliance. This is expected to happen in 2012. Air Berlin will also become a full member of the alliance in March 2012. Kingfisher Airlines' joining of the alliance has been postponed. Malév, an existing member of **one**world, announced it was suspending operations until further notice.
- In December 2011, we expanded our codeshare arrangements with **one**world partner American Airlines so as to include Sao Paulo and Rio de Janeiro in Brazil.

Environment

- In July 2011, we published our second Sustainable Development Report for 2010. The title, "Our Shared Journey", underlines our commitment to engage with our stakeholders. We again achieved the Global Reporting Initiative (GRI) A+ rating, the highest level possible under GRI guidelines. These guidelines are an internationally accepted benchmark for reporting on sustainability.

- Cathay Pacific continues to engage with regulators and with groups involved in shaping aviation policy in relation to climate change. We work with the International Civil Aviation Organisation, the International Air Transport Association, the Aviation Global Deal, the Sustainable Aviation Fuel Users Group and the Association of Asia Pacific Airlines. We aim to increase awareness of climate change issues and to develop appropriate solutions for the aviation industry.
- In March 2011, we participated in "Earth Hour", an annual event sponsored by the World Wildlife Fund for Nature. We switched off all non-essential lighting in our buildings and on billboards.
- In March 2011, the FTSE4Good Group confirmed that we continue to be included on the FTSE4Good Index Series. This series measures the performance of companies which meet globally recognised corporate responsibility standards and is intended to facilitate investment in such companies.
- In March 2011, in compliance with the relevant European Union Emissions Trading Scheme regulations on aviation, we submitted tonne-kilometre and emissions reports to the UK Environment Agency. We continued to comply with the European Union Emissions Trading Scheme.
- In April 2011, Cathay Pacific won the Hong Kong Awards for Environmental Excellence gold award for Transport and Logistics. This follows our silver award in 2010 and our bronze award in 2009.
- In May 2011, we became a member of the Asia Pacific Business and Sustainability Council (APBSC).
- Our business class travel kits now contain biodegradable products.
- Dragonair has been working with Nature Conservancy since 2004 on the "Change for Conservation" inflight fundraising campaign. "Change for Conservation" raises awareness of the importance of nature conservation. Funds are used in Yunnan (in Mainland China) to protect watershed areas, to alleviate poverty and to develop sustainable economic alternatives for local people. Dragonair has raised over HK$8 million for "Change for Conservation".
- Cathay Pacific and Dragonair continue to participate in the "FLY *greener*" carbon offset programme. This allows passengers to offset the environmental impact of their travel.
- In September 2011 we sponsored the APBSC conference on "Climate Responsiveness for Asian Businesses" which took place at our headquarters, Cathay City. Over 90 delegates from different industries in Asia attended the two-day event. In the same month we were a major sponsor of the Aviation and Environment "Greener Skies" conference, and also hosted a one-day Association of Asia Pacific Airlines Environmental Working Group conference.
- For the purpose of compiling our 2011 Sustainable Development Report we have had discussions with our ground staff and cabin crew in three overseas offices and with suppliers, investors, corporate clients and non-government organisations (NGOs).
- A number of environmental activities in 2011 involved our staff. These included planting trees on Lantau Island in Hong Kong in May 2011 as part of an event organised by the Airport Authority of Hong Kong; a forest biodiversity field day at the Tai Po Kau nature reserve in Hong Kong, participation in a coastal cleanup on Lantau Island organised by the Hong Kong Green Council and a staff visit to the Mai Po Marshes conservation area in Hong Kong in December 2011.

Contribution to the community

- The Group and its staff raised a total of HK$10 million for victims of the earthquake and tsunami in Japan in March 2011. The funds (including HK$1 million from the Swire Group Charitable Trust) were donated to the Red Cross. We also channelled more than HK$1.9 million collected through the "Change for Good" inflight fundraising programme for UNICEF's relief efforts. Meanwhile, we also provided and transported relief items such as blankets, socks and towels and sponsored tickets. The additional relief items were valued at more than HK$1.3 million.
- Following the disaster in Japan, we sponsored tickets for a number of artists from Asia to perform at a fundraising concert in Hong Kong. We also ran the "We Love Japan" campaign in June 2011 to encourage people to start visiting the country again.

- We donated RMB500,000 to the Red Cross to help victims of the Yunnan earthquake. Staff collected more than HK$342,000 for donation to the New Zealand Red Cross to help the victims of the Christchurch earthquake.
- In November 2011, we launched an appeal among staff to raise money to help those affected by the flooding in Thailand. The Company matched the funds raised. HK$1.2 million was given to the Red Cross for its relief efforts.
- The "Cathay Pacific Green Explorer" programme was started in May 2011. In August, 40 participants, aged 16 to 18, participated in the programme in Hong Kong and Sichuan (in Mainland China). The aim is to improve the participants' understanding of environmental issues and of the importance of conservation. The programme has received positive feedback from participants and we aim to make it a regular feature of our community-related events.
- The CX Volunteers continued to help the local community. Their activities include the "English on Air" programme, which has helped more than 1,500 students, including one-fifth of Tung Chung school students, to improve their conversational English skills.
- Staff volunteers visited single elderly people in Tung Chung (on Lantau Island in Hong Kong) to help decorate their houses before the 2011 Chinese New Year and in October 2011 helped to distribute 300 recycled computers donated by Cathay Pacific to underprivileged young people in the Yau Tsim Mong district of Hong Kong.
- Cathay Pacific continued to support UNICEF through its "Change for Good" inflight fundraising programme. In June 2011, we announced that the airline's passengers had contributed more than HK$12.3 million in 2010 to help improve the lives of disadvantaged children around the world. Since the programme's launch in 1991, more than HK$110 million has been raised through "Change for Good".
- Cathay Pacific was awarded the "Five Years Plus" Caring Company Logo by the Hong Kong Council of Social Service, in recognition of its good corporate citizenship, for the fifth consecutive year. Dragonair was named a Caring Company for the sixth consecutive year.
- In May 2011, we launched the "Connecting Your World" campaign as part of the celebrations to mark 100 years of aviation in Hong Kong. The campaign invited the Hong Kong public to offer their ideas on how aviation has connected Hong Kong to the world, with 1,800 air tickets shared amongst Hong Kong's 18 districts as prizes. More than 6,000 people submitted entries.
- Other initiatives to mark the aviation centenary included a major fare promotion in March 2011, an aviation knowledge contest for students and a record-breaking aircraft pull. The knowledge contest, organised in conjunction with the Hong Kong Civil Aviation Department and the Hong Kong Air Cadet Corps, attracted more than 260 teams, comprising 780 students, from secondary schools in Hong Kong, with the winning team being flown to the Boeing factory in Seattle for a delivery flight trip. More than 5,000 young aviation fans were engaged through a Facebook campaign based on the contest.
- Cathay Pacific continued to support the Hong Kong community by helping to stage major events in the city. In January 2011, we sponsored the Hong Kong Tennis Classic, which we have backed for more than three decades. In March 2011, we were again co-sponsor of the Cathay Pacific/Credit Suisse Hong Kong Sevens. In May we announced an agreement to co-sponsor the event with HSBC from 2012 to 2015. In November, we were co-sponsor of the Hong Kong Squash Open. In December we were the sponsor of the Hong Kong International Races. In January 2012, we were the title sponsor for the International Chinese New Year Night Parade, for the 14th consecutive year.
- Thirty-eight of our staff contributed to a new book, Flying High with 38 Hearts of Gold, telling stories of their volunteering efforts around the world. Royalties from the book are being donated to the Sunnyside Club, a charity set up by Cathay Pacific staff to help physically and mentally challenged children in Hong Kong.
- Cathay Pacific continues to engage the local public through organised tours of the airline's headquarters at Hong Kong International Airport. Around 14,600 visitors from schools and NGOs were welcomed in 2011.

- Cathay Pacific staff spent 18,410 hours serving the community in 2010, winning the 10,000 Hours of Volunteer Service award from the Social Welfare Department in October 2011.
- The Dragonair Youth Aviation Academy was established in 2011 with the aim of encouraging young persons in Hong Kong's to learn about the world of aviation and to consider a career in the industry. It is essential that a steady stream of talented young people join the industry in order to secure Hong Kong's future as a global aviation hub.
- The Dragonair Aviation Certificate Programme is the airline's signature corporate social responsibility initiative, jointly organised by Dragonair and the Hong Kong Air Cadet Corps. The programme aims to inspire a new generation of aviators in Hong Kong by giving them firsthand knowledge of the industry. The 2011 programme concluded in December. The 24 graduates had been mentored by Dragonair pilots. Since the introduction of the programme, 90 participants have graduated and around a third of them have started to work in aviation.
- In November 2011, we started the Cathay Pacific Charitable Fund, which is open to all full-time staff working in the Cathay Pacific Group. The fund gives staff the opportunity to apply for funds to support approved charitable organisations and projects in which they are involved.

Commitment to staff

- At the end of 2011, the Cathay Pacific Group employed some 29,000 people worldwide. More than 22,000 of these staff are based in Hong Kong.
- Cathay Pacific will continue to recruit new staff as it expands its operations. We recruited more than 2,000 new staff in 2011 and expect to hire about 1,900 more people, including over 1,000 new cabin crew and about 350 pilots in 2012.
- At the end of 2011, Dragonair employed 2,765 staff. It recruited more than 300 cabin crew in 2011 and aims to recruit about 450 cabin crew in 2012.
- In December 2011, it was announced that eligible staff in Hong Kong would receive a salary increase for 2012 averaging 5% together with a discretionary year-end bonus.
- The Cathay Pacific cadet pilot programme has been opened to applicants from around the world. 112 cadets graduated in 2011. 208 cadets were being trained in Adelaide at the end of 2011.
- Dragonair continues to run its own cadet pilot scheme. In 2011, the airline recruited 9 pilots through the cadet pilot scheme and its pre-qualified cadet programme. It plans to recruit around 35 more pilots in 2012.
- We regularly review our human resource and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.
- In July 2011, we did a third organisation alignment survey among ground staff. This gives employees the opportunity to tell us how they feel we are performing. We take the results of the survey seriously and various things are being done in the light of the latest results.
- We restructured our performance management system in order to focus more on staff development and career progression.
- Our internal ideas campaign, "We Suggest", was run for the sixth time. The campaign aims to generate ideas from staff groups on how to improve our business.
- The seventh annual Betsy Awards ceremony took place in June 2011. These internal awards honour staff who go beyond the call of duty to assist passengers in need.

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

Fleet profile*

Aircraft type	Number as at 31st December 2011				Firm orders				Expiry of operating leases							
		Leased														
	Owned	Finance	Operating	**Total**	'12	'13	'14 and beyond	**Total**	'12	'13	'14	'15	'16	'17 and beyond	Options	Purchase rights
Aircraft operated by Cathay Pacific:																
A330-300	8	15	10	**33**	6	4	9	**19**				2	1	7		
A340-300	6	5	2[(a)]	**13**												
A350-900							32[(b)]	**32**							10[(c)]	
747-400	16		5	**21**					2[(d)]			2	1			
747-400F	3	3		**6**												
747-400BCF	4[(e)]		4	**8**						2	1			1		
747-400ERF		6		**6**												
747-8F	2	2		**4**	4	2		**6**								
777-200	5			**5**												
777-200F							8	**8**								
777-300	3	9		**12**												
777-300ER	5	8	11	**24**	5	8	13	**26**						11		20[(f)]
Total	52	48	32	**132**	15	14	62	**91**	2	2	1	4	2	19	10	20
Aircraft operated by Dragonair:																
A320-200	5		6	**11**	2[(g)]			**2**				2	2	2		
A321-200	2		4	**6**								2	2			
A330-300	4	1	10	**15**					3	3	1	1	2			
Total	11	1	20	**32**	2			**2**	3	3	1	5	6	2		
Aircraft operated by Air Hong Kong:																
A300-600F	2	6		**8**												
747-400BCF			3	**3**									1	2		
Total	2	6	3	**11**									1	2		
Grand total	**65**	**55**	**55**	**175**	**17[(h)]**	**14**	**62**	**93**	**5**	**5**	**2**	**9**	**9**	**23**	**10**	**20**

** Includes parked aircraft. This profile does not reflect aircraft movements after 31st December 2011.*
(a) The operating leases of these two aircraft expired in July and December 2011 and they were returned to the lessor in January and February 2012.
(b) Including two aircraft on 12-year operating leases.
(c) Options, to be exercised no later than 2016, for A350 family aircraft.
(d) One aircraft was purchased by the Company upon its lease expiry in January 2012.
(e) Two aircraft are expected to be sold to Air China Cargo in the second quarter of 2012.
(f) Purchase rights for aircraft to be delivered by 2017.
(g) Two aircraft on 10-year operating leases delivered in February 2012.
(h) Two A320-200s on operating leases for which a letter of intent was signed in December 2011 (with the leases having been signed in January 2012) will be delivered in November and December 2012. With these two additional aircraft, the total aircraft to be delivered in 2012 will be 19.

Review of other subsidiaries and associates

The results recorded by our other subsidiaries were satisfactory overall. The share of profits from associates decreased by HK$870 million to HK$1,717 million. This was mainly a result of a poor performance from the Air China Cargo joint venture and year end provisions made by Air China. Below is a review of the performance and operations of our other subsidiaries and associates.

AHK Air Hong Kong Limited (“Air Hong Kong”)

- Air Hong Kong is the only all-cargo airline in Hong Kong. It is 60% owned by Cathay Pacific. Its core business is to operate express cargo services for DHL Express. It operates a fleet of eight owned Airbus A300-600F freighters and three Boeing 747-400BCF freighters dry-leased from Cathay Pacific.

- During 2011 Air Hong Kong operated six flights per week service to each of Bangkok, Seoul, Shanghai, Singapore, Taipei and Tokyo and a five flights per week service to Beijing, Manila, Nagoya, Osaka and Penang (via Bangkok). From February 2012, a five flights per week service to Ho Chi Minh City was added.
- On-time performance was 91%, which was below the target of 95%.
- Compared with 2010, capacity increased by 7%. The load factor dropped by 3 percentage points. Yield improved by 19%.
- Despite the yield improvement, Air Hong Kong recorded a lower profit in 2011 compared with 2010.

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 provides flight catering services to 39 international airlines in Hong Kong. It produced 23.9 million meals in 2011 (representing a daily average of 65,000 meals and an increase of 4% over 2010). CPCS had a 64% share of the flight catering market in Hong Kong in 2011.
- The increase in business volume resulted in improved turnover and profit in 2011. However, increase in raw material, fuel and wage costs were reflected in a lower profit margin.
- The overseas flight kitchens performed well in 2011, with improvements in profitability in Asia and a return to profitability in Canada.

Hong Kong Airport Services Limited ("HAS")

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services in Hong Kong. It provides ground services to 33 airlines, including Cathay Pacific and Dragonair.
- In 2011, HAS had 49% and 24% market share in ramp and passenger handling businesses respectively at Hong Kong International Airport.
- The number of customers for passenger handling increased from 19 to 22 in 2011. The number of customers for ramp handling decreased from 32 to 29. Passenger handling and ramp handling flights increased by 10% and 2% respectively in 2011.
- In April 2011, HAS renewed its crew bus licence at Hong Kong International Airport for three years.
- The 2011 results of HAS were satisfactory, reflecting increased flight movements and an improvement in yield.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific has a 19.53% interest, is the national flag carrier and leading provider of passenger, cargo and other airline related services in Mainland China.
- At 31st December 2011, Air China served 197 domestic and 85 international (including regional) routes. The airline's scheduled flights reached 30 countries and regions, including 43 overseas cities and 96 domestic cities.
- We have two representatives on the Board of Directors of Air China and equity account for our share of Air China's profit.
- Our share of Air China's profit is based on its accounts drawn up three months in arrear. Consequently our 2011 results include Air China's results for the 12 months ended 30th September 2011, adjusted for any significant events or transactions for the period from 1st October 2011 to 31st December 2011.

Air China Cargo Limited ("Air China Cargo")

- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest, is the leading provider of cargo services in Mainland China.
- At 31st December 2011, Air China Cargo had a fleet of 10 Boeing 747-400F freighters. It operates scheduled freighter services to 10 countries and regions. It flies to five cities in Mainland China and 15 cities outside Mainland China. Taking account of its right to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections with 143 destinations.

OUR **BUSINESS**

Passenger experience

We work hard to make each journey more enjoyable in every class of travel. A suite of mobile services makes travelling more convenient for our passengers.

Special service

Our cabin crew always have the interests of every passenger in mind, delivering Cathay Pacific's signature service straight from the heart.

Cathay Pacific's core business is carrying millions of passengers around the world every year from its Hong Kong hub. The airline is committed to high levels of customer service and the best products, on the ground and in the air.

Premium products

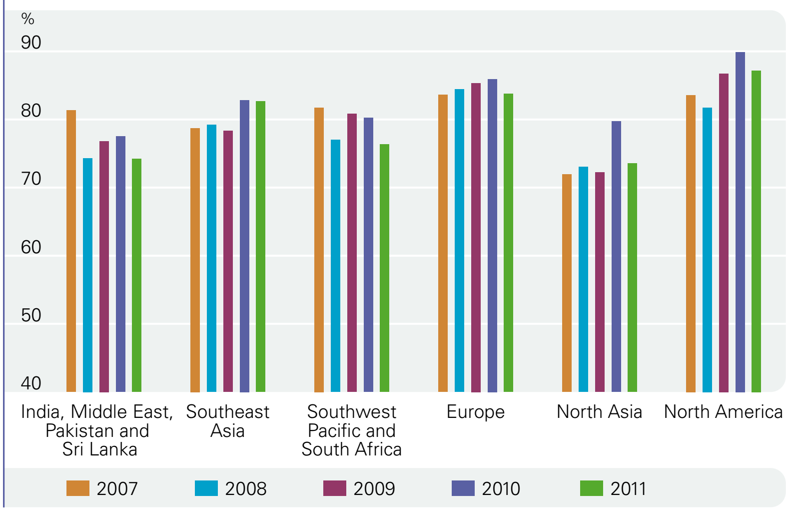
The rollout of our acclaimed new business class continues and in 2012 we are launching a new premium economy class product and a new long-haul economy class seat.

Seamless journey

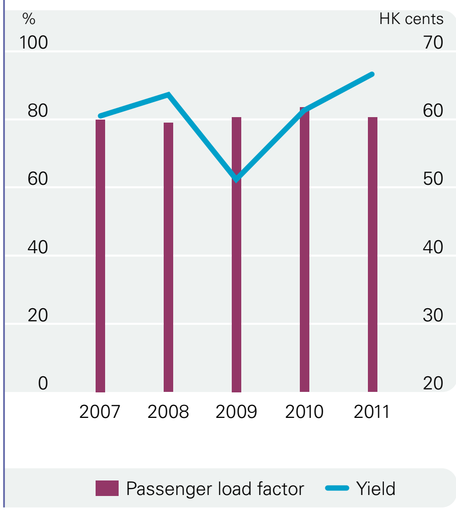
Our award-winning lounges offer pre-flight relaxation. Our signature lounge, The Wing, is being fully refurbished and we have opened new lounges overseas.

Revenue from Cathay Pacific and Dragonair's passenger services grew by 14.2% to HK$67,778 million in 2011. The two airlines carried a total of 27.6 million passengers, an increase of 2.9% compared to the previous year. Capacity increased by 9.2%. The load factor of 80.4% was down 3.0 percentage points compared with 2010. Yield increased by 8.7% to HK66.5 cents, helped by the strength of some currencies in which we receive revenue relative to the Hong Kong and US dollar. Demand for premium class travel remained robust in 2011. Demand for economy class travel was also strong in the first quarter, but then weakened. Economy class yields on long-haul routes declined, particularly in the second half.

Load factor by region



Passenger load factor and yield



Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Dragonair passenger services for 2011 were as follows:

	ASK (million)			Load factor (%)			Yield
	2011	2010	**Change**	**2011**	2010	**Change**	**Change**
India, Middle East, Pakistan and Sri Lanka	**11,467**	10,981	**+4.4%**	**74.2**	77.5	**-3.3%pt**	**+9.5%**
Southeast Asia	**16,020**	14,312	**+11.9%**	**82.6**	82.8	**-0.2%pt**	**+7.5%**
Southwest Pacific and South Africa	**19,082**	18,327	**+4.1%**	**76.3**	80.2	**-3.9%pt**	**+10.7%**
Europe	**22,552**	20,993	**+7.4%**	**83.7**	85.9	**-2.2%pt**	**+10.1%**
North Asia	**25,375**	24,316	**+4.4%**	**73.5**	79.7	**-6.2%pt**	**+14.8%**
North America	**31,844**	26,819	**+18.7%**	**87.1**	89.9	**-2.8%pt**	**+4.0%**
Overall	**126,340**	115,748	**+9.2%**	**80.4**	83.4	**-3.0%pt**	**+8.7%**

Home market – Hong Kong and Pearl River Delta

- Demand on routes originating in Hong Kong was generally robust in 2011. Premium and economy class revenues both increased and did so at rates faster than those at which capacity increased.
- Demand for premium class travel originating in Hong Kong continued to grow in the first half of 2011. There was some reduction in the rate of growth of demand in the second half as corporate customers started to review their travel policies in the light of economic conditions. The number of premium class passengers carried and the premium class yield increased in 2011.
- Demand for economy class travel originating in Hong Kong was generally robust in 2011. However demand for travel to Japan was heavily affected by the earthquake and tsunami in March 2011. We reduced capacity in line with the reduction in demand. Demand recovered as the year progressed. Capacity was fully restored by late October.
- We reduced capacity on the Bangkok route following the serious floods in Thailand in November 2011. Demand on this route from group and individual travellers was reduced. Following a recovery in demand from group travellers, we restored capacity in December.
- Business derived from the Pearl River Delta continued to grow in 2011. Economic development in the region continues to support demand for air travel. Increases in capacity on routes to Southeast Asia, North America and Europe helped to meet this demand. However, our business derived from the Pearl River Delta is under pressure as a result of competitors increasing capacity and more direct cross-strait flights.

India, Middle East, Pakistan and Sri Lanka

- In India, strong competition on the Delhi and Mumbai routes adversely affected our economy class business. Premium class business on these routes was generally robust. Business on the Chennai and Bengaluru routes remained firm.

- Business on the Sri Lanka route was generally robust, but continues to be hampered by the difficulty of obtaining visas for travel to and through Hong Kong. The same difficulty applies in respect of other South Asian routes (Dhaka, Kathmandu and Karachi).
- We added Abu Dhabi to the network in June 2011. This is our fifth destination in the Middle East. Load factor on the route was below expectations initially but has been gradually improving.
- Our business to and from the Middle East in general was disappointing in 2011. The political unrest in the region affected demand for travel, as did the economic outlook. Premium class revenues increased by less than the capacity growth.

Southeast Asia

- Business on most Southeast Asian routes was strong in all classes in 2011. We added capacity on the Singapore and Indonesia routes in the summer.
- In the first half of the year, demand for travel to and from Thailand returned to the levels experienced before the 2010 political unrest. However, in October 2011, heavy flooding in the country began to have a significant impact on inbound and outbound travel. We reduced capacity on the Bangkok route as demand fell but had restored it in full by end of December.
- Demand for travel to and from Singapore was consistently strong in the first three quarters in 2011, despite intense competition on the route. In July 2011, we increased the number of our flights on the route from seven to eight per day.
- The Penang route benefited from becoming a daily direct service in the summer. The Kuala Lumpur route remained robust.
- Demand for travel to and from Indonesia grew strongly in 2011. We increased the service to Surabaya to daily in March. We increased the service to Jakarta to three times daily in August. We put on extra flights to Indonesia in response to strong demand over the Lebaran holiday. Demand on the Bali route was satisfactory despite an increasing number of direct flights from Europe.
- Overall demand for travel to and from the Philippines continued to be adversely affected by the hostage incident in Manila 2010. However, demand for premium class travel was strong and this offset in part the effect of the reduction in demand for economy class travel. The performance of Dragonair's service to Manila continued to improve.

Southwest Pacific and South Africa

- Premium class revenue increased more than capacity on the Southwest Pacific routes, assisted by the strength of the Australian currency and the introduction of our new business class product on the Sydney route in March 2011. Economy class business was adversely affected by increased competition, with more carriers providing direct flights to and from Mainland China.
- Demand on the New Zealand route was satisfactory. Capacity was increased for the southern hemisphere summer. There was a big increase in traffic during for the Rugby World Cup in October 2011.
- Business on the South Africa route was relatively weak in the first half of the year, with a reduction in traffic compared with the previous year (which had benefited from the FIFA World Cup). However, towards the end of the year there was an improvement in traffic on the route, particularly from economy class travellers.

Europe

- Revenue from European routes generally increased more than capacity in 2011. Premium class business was generally stronger than economy class business. Numbers of passengers carried and yields increased at a slower rate as the year progressed.
- The performance of the London route was robust in 2011. Revenue grew despite there being little change in capacity. Yields improved, particularly in the premium classes.
- The Milan route has performed consistently well since it was launched in 2010. In July 2011 we increased the number of flights on the route from four per week to daily.
- We put extra capacity on the Paris route from March to October 2011.
- The Moscow route continued to suffer from intense competition. Load factors decreased in 2011.

North Asia

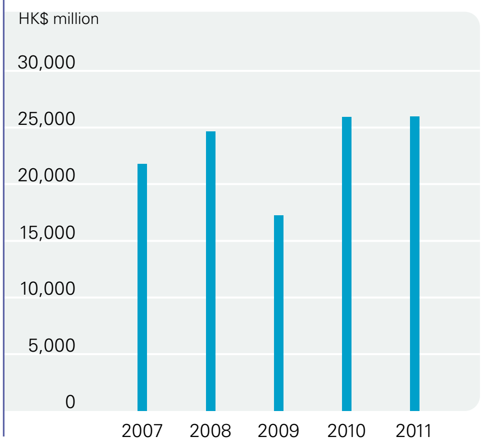
- Business derived from Mainland China continued to increase in importance in 2011. Revenue growth benefited from strong demand for premium class travel. Demand for travel on routes to secondary cities was strong. Dragonair increased its capacity on a number of routes accordingly. The Shanghai route was relatively weak, with competition on the route increasing.
- The increase in cross-strait flights to and from Mainland China continued to affect our business on the Taiwan routes. However, the effect of this was partially offset by growth in the number of passengers flying to and from Hong Kong in order to connect to other routes, particularly in Europe. Revenue on the routes grew in 2011, but at a diminishing rate towards the end of the year.
- Revenue from Korean routes grew more than capacity in 2011, helped by strong demand for all class of travel. However, competition for economy class business increased, especially on the Busan route. This adversely affected yields.
- The earthquake and tsunami in March 2011 adversely affected demand on our Japan routes and we reduced capacity accordingly. Load factors fell, particularly to and from Tokyo. Demand for travel from Japan recovered more quickly than demand for travel to Japan. The recovery in demand started in August 2011 and full capacity was restored by the end of October.

North America

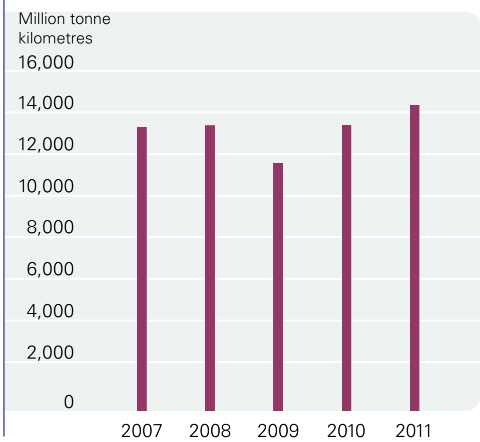
- There was strong demand for all classes of travel on our North American routes in 2011. Demand from corporate customers travelling from the United States to Southeast Asia was particularly strong. Economy class yields fell as the year progressed.
- We increased capacity on the United States routes in 2011. We added a fourth daily flight to New York in May (this flight being our third daily non-stop service). We launched a daily service to Chicago in September. These two new services have increased the number of premium class passengers carried. Economy class loads on the Chicago route are below expectations.
- We announced a number of new codeshare agreements in North American. Our code was placed on Alaska Airlines' flights operating between Los Angeles and both Mexico City and Guadalajara in Mexico in June; and on American Airlines' flights operating between New York and both Sao Paulo and Rio de Janeiro in Brazil in December. We also expanded our codeshare agreement with American Airlines to cover 11 more destinations in the United States, most of which are connected via Chicago.
- Load factors and demand for premium class travel on the San Francisco and Los Angeles routes were satisfactory in 2011.
- In Canada, revenue grew as expected in 2011, but less than capacity. We added two flights a week to Toronto to make it a twice-daily service from May. Yields on the Vancouver route, particularly in economy class, fell as a result of increased competition.
- We expanded our codeshare agreement with WestJet in Canada by putting our code on their flight between Vancouver and Kelowna. We now cover seven domestic destinations under this agreement.

Cathay Pacific and Dragonair's cargo revenue decreased by 1.7% to HK$23,335 million. 2010's strong growth in the world's air cargo markets continued in the first quarter of 2011. Our business in that quarter was solid. However, from April onwards shipments from our two principal markets, Hong Kong and Mainland China, weakened significantly. This weakness continued for the rest of 2011. The normal increase in shipments in the late autumn did not occur. The tonnage carried by Cathay Pacific and Dragonair in 2011 fell by 8.6% to 1.6 million tonnes by comparison with 2010. We operated at full capacity at the beginning of the year. Capacity was subsequently reduced as demand fell. Total capacity for the year rose by 6.9% compared to 2010. The load factor fell by 8.5 percentage points to 67.2%. Cargo yield increased by 3.9% to HK$2.42. The weakness in the air cargo market is continuing in the first half of 2012.

Turnover



Capacity – cargo and mail ATK



Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for 2011 were as follows:

	ATK (million)			Load factor (%)			Yield
	2011	2010	**Change**	**2011**	2010	**Change**	**Change**
Cathay Pacific and Dragonair	**14,367**	13,443	**+6.9%**	**67.2**	75.7	**-8.5%pt**	**+3.9%**

- There was no significant peak in cargo shipments at any time during 2011. We had to reduce capacity in line with demand on key routes.
- Fuel prices were high throughout the year. This affected the profitability of our cargo operations. Fuel surcharges were insufficient to recover increased fuel costs.
- Demand for cargo shipments from our two main markets, Hong Kong and Mainland China, declined from the second quarter of 2011 and remained weak for the rest of the year. Exports from Mainland China fell as consumer demand weakened in key markets. Demand to Europe was particularly weak. Our business was also affected by increased competition from carriers operating from Shanghai.
- In Mainland China less manufacturing is being done in the Pearl River Delta and the Yangtze River Delta and more manufacturing (particularly of high technology products) is being done in western and central areas. In order to position ourselves to carry cargo from these areas, we started scheduled freighter services to Chongqing and Chengdu in October 2011.
- There is growing demand for high quality foreign products in Mainland China. This reflects the growing numbers and wealth of the middle classes and the strength of the Chinese currency. This growing demand has resulted in more cargo being shipped to Hong Kong for transhipment to Mainland China.
- Demand on our intra-Asian cargo routes was strong, reflecting the relative strength of Asian economies. We switched some cargo capacity from long-haul routes accordingly. So did other carriers, which led to increased competition.
- The earthquake and tsunami in Japan in March 2011 disrupted the supply chain for high technology products and consequently the manufacture of such products in Mainland China. This in turn reduced cargo shipments through Hong Kong.
- Our cargo capacity on Japanese routes was reduced because of the reduction of passenger flights (and therefore the availability of belly space for carrying cargo) following the earthquake and tsunami. But we did maintain scheduled cargo services to Japan and operated some charter flights carrying relief supplies.
- We added Bangkok to our freighter network in May 2011 with a flight operating via Singapore. This service was suspended following the floods in late October. The service was restored in November. We operated some charter flights as manufacturing in Thailand resumed.

- We started a twice-weekly freighter service to Bengaluru in August. The service operates via Delhi.
- Demand on our Australian routes was strong for most of 2011, reflecting the strength of the Australian economy and currency. Where possible, we increased capacity on the routes in order to meet demand.
- In November 2011 we started a twice-weekly freighter service to Zaragoza in Spain in response to strong demand for shipments of garments to Asia.
- Dragonair sells space in the bellies of its passenger aircraft. This enables us to meet demand for cargo shipments to and from the secondary cities to which Dragonair flies in Mainland China.
- In October 2011, we took delivery of our first Boeing 747-8F freighter. By the end of 2011, three more such aircraft had been delivered. One of them carried a special livery and was named Hong Kong Trader, which was the name of our first Boeing 747 freighter, delivered in 1982. Four more Boeing 747-8F freighters are expected to be delivered in 2012, with the final two arriving in 2013. These aircraft will provide more capacity and improved efficiency on our North American routes.
- In August 2011, we announced our intention to purchase eight Boeing 777-200F freighters for delivery between 2014 and 2016. These aircraft will be mainly deployed on European and Asian routes. They will improve the efficiency of the freighter fleet and provide additional capacity to meet expected growth in cargo demand.
- The second of four Boeing 747-400BCF freighters was sold to Air China Cargo in July 2011. The remaining two such aircraft are expected to be sold to the cargo joint venture in the second quarter of 2012.
- Three of our Boeing 747-400BCF freighters were dry-leased to Air Hong Kong in order to increase its capacity.
- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest, was formally approved and established in February and officially launched in May 2011. The joint venture operates from Shanghai. In addition to operating its own freighters, the venture has exclusive rights to sell the belly space of Air China's passenger aircraft. The joint venture has likewise been affected by the weakness in the cargo markets in 2011.

Asia Miles

- Asia Miles is the award-winning travel reward programme for Cathay Pacific and Dragonair that now has more than four million members worldwide, 46% of whom reside in Mainland China.
- In 2011 for the seventh consecutive year, Asia Miles was named Best Frequent Flyer Programme by Business Traveller Asia-Pacific Awards.

- There are nearly 500 Asia Miles partners grouped into nine different categories, including airlines, hotels and major financial institutions. There are 20 airline partners covering over 1,000 destinations.
- There was a 19% growth in air redemptions by Asia Miles members in 2011. More than 90% of Cathay Pacific flights carry passengers who have redeemed frequent flyer miles through the Asia Miles programme.

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.

OUR **INVESTMENT**

Freight development
Our new HK$5.7b cargo terminal will open in early 2013.

Catering expertise
Cathay Pacific Catering Services is a world-renowned inflight caterer.

CAT

Cathay Pacific has made significant investments to develop Hong Kong as one of the world's premier aviation hubs. Its investments include ground-handling and catering companies, a new cargo terminal and a growing fleet of modern aircraft.

Fleet enhancement
We have 96 new wide-body aircraft due for delivery by 2019.

Ground-handling
Hong Kong Airport Services Limited is one of Asia's largest ground-handling companies.

HAY

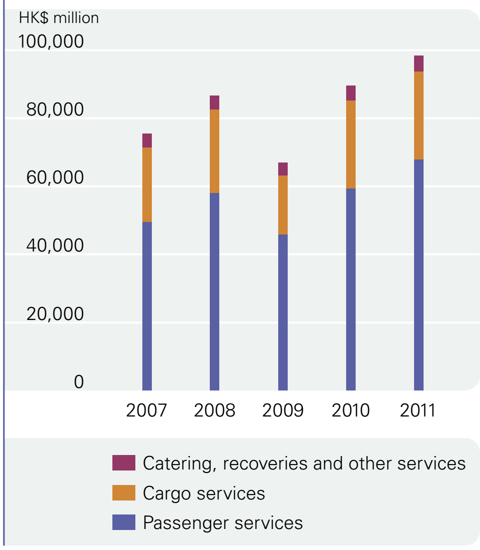
Financial Review

The Cathay Pacific Group reported an attributable profit of HK$5,501 million in 2011 compared with a profit of HK$14,048 million in 2010. The 2010 results included HK$3,033 million of significant non-recurring items, being the profit on the sales of our shareholdings in Hactl and HAECO and the gain on the deemed disposal of part of our interest in Air China. Adjusting for these profits, the attributable profit in 2011 decreased by HK$5,514 million or 50.1% from 2010. The reduction principally reflects slower growth in passenger traffic, weak demand for air cargo services, particularly for shipments of cargo from Hong Kong and Mainland China, and high fuel prices. Global economic uncertainty and high fuel prices are major challenges for the Group.

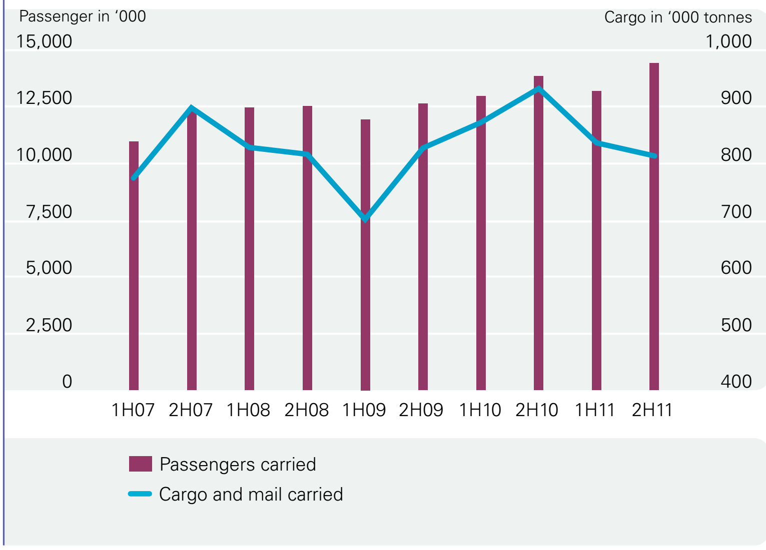
Turnover

	Group		Cathay Pacific and Dragonair	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Passenger services	**67,778**	59,354	**67,778**	59,354
Cargo services	**25,980**	25,901	**23,335**	23,727
Catering, recoveries and other services	**4,648**	4,269	**4,006**	3,572
Turnover	**98,406**	89,524	**95,119**	86,653

Turnover



Cathay Pacific and Dragonair: passengers and cargo carried

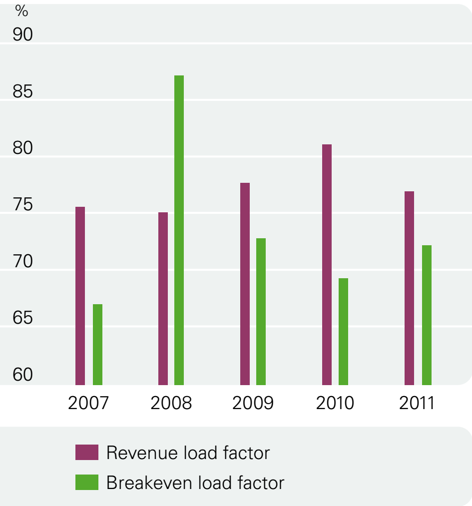


- Group turnover increased by 9.9% in 2011 compared with 2010.

Cathay Pacific and Dragonair

- Passenger turnover increased, by 14.2% to HK$67,778 million. The number of passengers carried increased by 2.9% to 27.6 million and revenue passenger kilometres increased by 5.1%.
- The passenger load factor decreased by 3.0 percentage points to 80.4%. Available seat kilometres increased by 9.2%.
- Passenger yield increased by 8.7% to HK¢66.5.
- First and business class revenues increased by 16.5% and the premium class load factor increased from 66.7% to 66.9%. Economy class revenues increased by 13.1% and the economy class load factor decreased from 86.4% to 82.7%.
- Cargo turnover decreased by 1.7% to HK$23,335 million, with a 6.9% increase in capacity. Demand for exports from Mainland China routed through Hong Kong was weak from the second quarter of 2011.
- The cargo load factor decreased by 8.5 percentage points. The cargo yield increased by 3.9% to HK$2.42.
- The revenue load factor decreased by 4.1 percentage points to 77.0%. The breakeven load factor was 72.2%.

Cathay Pacific and Dragonair: revenue and breakeven load factor



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

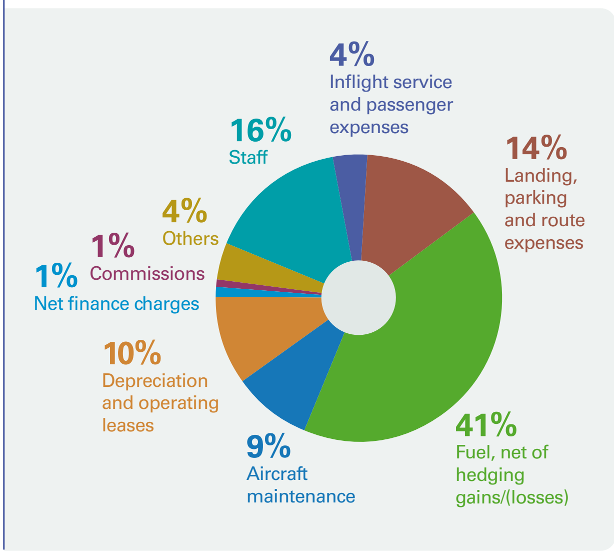
	HK$M
+ 1 percentage point in passenger load factor	**840**
+ 1 percentage point in cargo and mail load factor	**347**
+ HK¢1 in passenger yield	**1,015**
+ HK¢1 in cargo and mail yield	**96**

Operating expenses

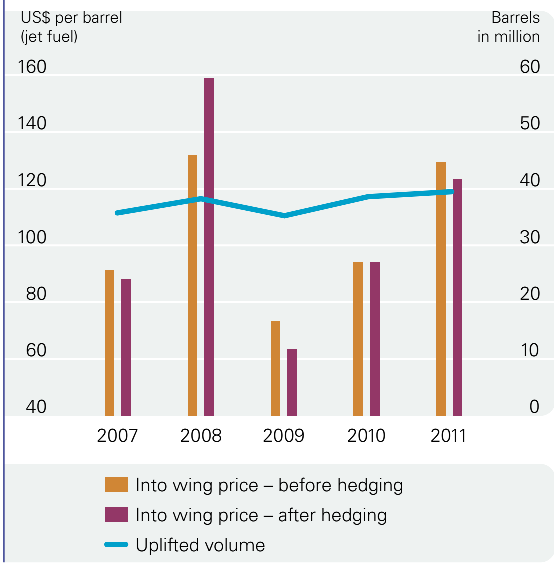
	Group			Cathay Pacific and Dragonair		
	2011 HK$M	2010 HK$M	**Change**	**2011 HK$M**	2010 HK$M	**Change**
Staff	**14,772**	13,850	**+6.7%**	**13,431**	12,655	**+6.1%**
Inflight service and passenger expenses	**3,794**	3,308	**+14.7%**	**3,794**	3,308	**+14.7%**
Landing, parking and route expenses	**13,105**	11,301	**+16.0%**	**12,820**	11,104	**+15.5%**
Fuel, net of hedging gains/(losses)	**38,877**	28,276	**+37.5%**	**38,061**	27,705	**+37.4%**
Aircraft maintenance	**8,468**	7,072	**+19.7%**	**8,268**	6,921	**+19.5%**
Aircraft depreciation and operating leases	**8,197**	8,288	**-1.1%**	**8,049**	8,120	**-0.9%**
Other depreciation, amortisation and operating leases	**1,205**	1,107	**+8.9%**	**977**	881	**+10.9%**
Commissions	**791**	736	**+7.5%**	**791**	736	**+7.5%**
Exchange gain	**(416)**	(196)	**+112.2%**	**(423)**	(214)	**+97.7%**
Others	**4,113**	4,729	**-13.0%**	**4,625**	5,080	**-9.0%**
Operating expenses	**92,906**	78,471	**+18.4%**	**90,393**	76,296	**+18.5%**
Net finance charges	**744**	978	**-23.9%**	**701**	933	**-24.9%**
Total operating expenses	**93,650**	79,449	**+17.9%**	**91,094**	77,229	**+18.0%**

- Group's total operating expenses increased by 17.9% to HK$93,650 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair increased from HK$3.16 to HK$3.45. This principally reflected higher average fuel prices.

Total operating expenses



Fuel price and consumption



Cathay Pacific and Dragonair operating results analysis

	2011 HK$M	2010 HK$M
Airlines' operating profit before non-recurring items and tax	**4,025**	9,424
Profit on disposal of Hactl and HAECO shares	**–**	2,165
Gain on deemed disposal of Air China shares	**–**	868
Airlines' profit before tax	**4,025**	12,457
Tax charge	**(609)**	(1,347)
Airlines' profit after tax	**3,416**	11,110
Share of profits from subsidiaries and associates	**2,085**	2,938
Profit attributable to owners of Cathay Pacific	**5,501**	14,048

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

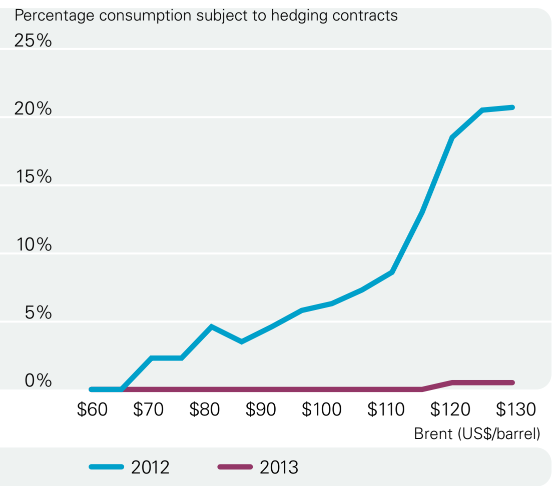
	HK$M	
2010 airlines' operating profit before non-recurring items and tax	**9,424**	
Passenger and cargo turnover	**8,032**	**Passenger** – Increased HK$5,412 million due to a 9.2% increase in capacity. – A 3.0% points decrease in load factor contributed to a decrease of HK$2,352 million. – HK$5,364 million of the increase arose from an 8.7% increase in yield partly due to an increase in fuel surcharges. **Cargo** – Increased HK$1,630 million due to a 6.9% increase in capacity. – An 8.5% points decrease in load factor contributed to a decrease of HK$2,860 million. – HK$838 million of the increase arose from a 3.9% increase in yield partly due to an increase in fuel surcharges.
Fuel	**(10,356)**	– Fuel costs increased due to a 37.7% increase in the average into-plane fuel price to US$129 per barrel and a 4.4% increase in consumption to 39.5 million barrels.
Others	**(3,075)**	
2011 airlines' operating profit before non-recurring items and tax	**4,025**	

Fuel expenditure and hedging

The Group's fuel cost is HK$38,877 million (2010: HK$28,276 million).

The Group's maximum fuel hedging exposure at 31st December 2011 is set out below:

Maximum fuel hedging exposure



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

Taxation

- The tax charge decreased by HK$659 million to HK$803 million, principally as a result of the lower profit.

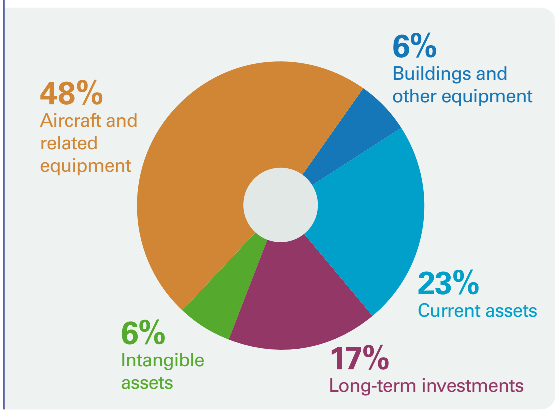
Dividends

- Dividends proposed for the year are HK$2,046 million representing a dividend cover of 2.7 times.
- Dividends per share decreased from HK$1.11 to HK$0.52.

Assets

- Total assets as at 31st December 2011 were HK$137,133 million.
- During the year, additions to fixed assets were HK$16,972 million, comprising HK$14,019 million for aircraft and related equipment, HK$2,628 million for buildings and HK$325 million for other equipment.

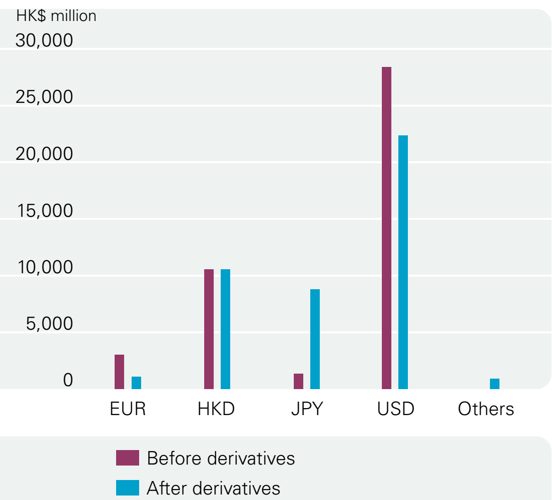
Total assets



Borrowings and capital

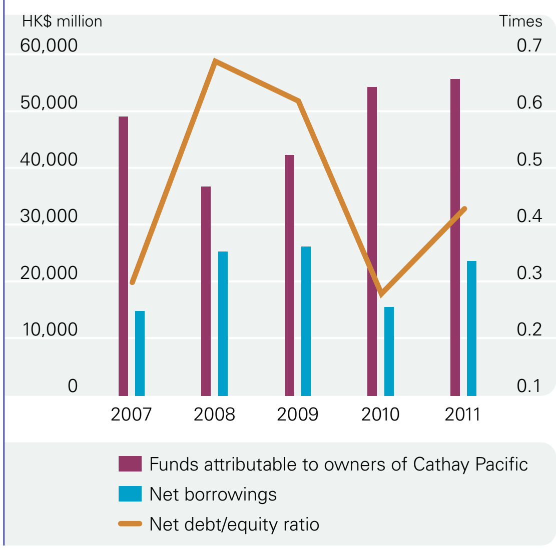
- Borrowings increased by 9.4% to HK$43,335 million in 2011 from HK$39,629 million in 2010.
- Borrowings are mainly denominated in US dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2023 with 69% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 64.6% of which are denominated in US dollars, decreased by 19.0% to HK$19,597 million.
- Net borrowings increased by 53.8% to HK$23,738 million.
- Funds attributable to the owners of Cathay Pacific increased by 2.8% to HK$55,809 million.
- The net debt/equity ratio increased from 0.28 times to 0.43 times.

Borrowings before and after derivatives

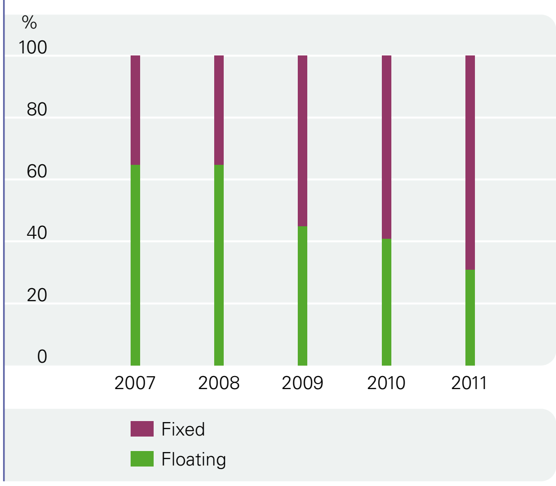


Others include CAD, RMB and SGD.

Net debt and equity



Interest rate profile: borrowings



OUR **PARTNERS**

Cargo carrier

A cargo joint venture between Cathay Pacific and Air China, operating under the Air China Cargo name, was launched in May 2011.

Cathay Pacific has a strong strategic partnership with Air China, the Beijing-based flag carrier. The partnership includes a cross-shareholding, joint operating services covering Air China, Cathay Pacific and Dragonair on flights between Hong Kong and key Mainland cities, and cooperation in a cargo joint venture operating out of Shanghai.

Strategic partner
Cathay Pacific and Air China are both committed to strengthening air services between Hong Kong and Mainland China.

Directors and Officers

Executive Directors

PRATT, Christopher Dale#, CBE, aged 55, 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 has worked with the group in Hong Kong, Australia and Papua New Guinea.

BARRINGTON, William Edward James#, aged 52, 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 50, has been a Director of the Company since March 2011. He was appointed Director Service Delivery in September 2008 and Chief Operating Officer of the Company in March 2011. He joined the Company in 1984 and has worked with the Company in Hong Kong, Mainland China, Taiwan, Thailand and Australia. He is also Chairman of AHK Air Hong Kong Limited and a Director of Hong Kong Dragon Airlines Limited.

MURRAY, Martin James#, aged 45, has been Finance Director of the Company since November 2011. 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 1995 and has worked with the group in Hong Kong, the United States, Singapore and Australia.

SLOSAR, John Robert#, aged 55, has been a Director of the Company since July 2007. He was appointed Chief Operating Officer in July 2007 and Chief Executive of the Company in March 2011. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited, and Chairman of Hong Kong Dragon Airlines Limited and Swire Beverages Limited. He joined the Swire group in 1980 and has worked with the group in Hong Kong, the United States and Thailand.

Non-Executive Directors

CAI, Jianjiang, aged 48, has been a Director of the Company since November 2009. He is a Director and President of Air China Limited.

FAN, Cheng*, aged 56, 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 62, 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 56, 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.

SHIU, Ian Sai Cheung#, aged 57, 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 with 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 38, 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 and Swire Pacific Limited, a Director of Hong Kong Aircraft Engineering Company Limited and Swire Properties Limited, and an Alternate Director of Steamships Trading Company Limited.

WANG, Changshun, aged 54, has been Deputy Chairman and a Director of the Company since March 2012. He is General Manager of China National Aviation Holding Company and Chairman of Air China Limited.

ZHAO, Xiaohang, aged 50, has been a Director of the Company since June 2011. He is Vice President of Air China Limited, Chairman of Dalian Airlines Company Limited and a Director of China National Aviation Corporation (Group) Limited and China National Aviation Company Limited.

Independent Non-Executive Directors

LEE, Irene Yun Lien+*, aged 58, has been a Director of the Company since January 2010. She is Chairman of Hysan Development Company Limited and Keybridge Capital Limited, a Non-Executive Director of QBE Insurance Group Limited, an Independent Non-Executive Director of Noble Group Limited and a member of the Advisory Council of JP Morgan Australia. She was a member of the Australian Government Takeovers Panel from March 2001 until March 2010.

SO, Chak Kwong Jack*, aged 66, 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 69, 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, BOC Hong Kong (Holdings) Limited, U-Ming Marine Transport Corp., Sing Tao News Corporation Limited and Wing Hang Bank, Limited. With effect from the end of 18th May 2011, Mr. Tung resigned as an Independent Non-Executive Director of PetroChina Company Limited.

WONG, Tung Shun Peter*, aged 60, 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 and a member of the Group Management Board of HSBC Holdings plc 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 a member of the Exchange Fund Advisory Committee of Hong Kong Monetary Authority.

Executive Officers

CHAU, Siu Cheong William, aged 58, has been Director Personnel since May 2000. He joined the Company in 1973.

CHONG, Wai Yan Quince, aged 48, has been Director Corporate Affairs since September 2008. She joined the Company in 1998.

DE GENTILE-WILLIAMS, Philippe Anthony Wynne#, aged 47, has been Director Service Delivery since July 2011. He joined the Swire group in 1988.

GIBBS, Christopher Patrick, aged 50, has been Engineering Director since January 2007. He joined the Company in 1992.

HALL, Richard John, aged 56, has been Director Flight Operations since August 2010. He joined the Company in 1988.

HOGG, Rupert Bruce Grantham Trower#, aged 50, has been Director Sales and Marketing since August 2010. He joined the Swire group in 1986.

RHODES, Nicholas Peter#, aged 53, has been Director Cargo since August 2010. He joined the Swire group in 1980.

SMACZNY, Tomasz, aged 49, has been Director Information Management since August 2010. He joined the Company in 2008.

Secretary

FU, Yat Hung David#, aged 48, 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 2011 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 2011 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

With effect from the year ended 31st December 2011, the Company intends to pay two interim dividends instead of an interim dividend and a final dividend. The second interim dividend will be in lieu of a final dividend. The total amount of dividends paid to shareholders for a year will be the same with two interim dividends as it would have been with an interim dividend and a final dividend.

The Directors have declared a second interim dividend of HK$0.34 per share for the year ended 31st December 2011. Together with the first interim dividend of HK$0.18 per share paid on 3rd October 2011, this makes a total dividend for the year of HK$0.52 per share. This represents a total distribution for the year of HK$2,046 million. The second interim dividend will be paid on 3rd May 2012 to shareholders registered at the close of business on the record date, being Thursday, 5th April 2012. Shares of the Company will be traded ex-dividend as from Monday, 2nd April 2012.

Closure of register of members

The register of members will be closed on Thursday, 5th April 2012, during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim 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 Tuesday, 3rd April 2012.

To facilitate the processing of proxy voting for the annual general meeting to be held on 9th May 2012, the register of members will be closed from 4th May 2012 to 9th May 2012, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, 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, 3rd May 2012.

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$17 million in direct payments and a further HK$6 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 12.

Bank and other borrowings

The net bank loans, overdrafts and other borrowings, including obligations under finance leases, of the Group and the Company are shown in notes 17 and 24 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 2011, 3,933,844,572 shares were in issue (31st December 2010: 3,933,844,572 shares). Details of the movement of share capital can be found in note 25 to the accounts.

Commitments and contingencies

The details of capital commitments and contingent liabilities of the Group and the Company as at 31st December 2011 are set out in note 32 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 W.J. Hughes-Hallett, Peter Kilgour, Martin Murray, Ian Shiu, John Slosar and Merlin Swire are interested in the JSSHK Services Agreement (as defined below). Tony Tyler and James E. Hughes-Hallett were interested as directors and/or employees of the Swire group until their resignation with effect from 31st March 2011 and 18th November 2011 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 2011 are set out below and also given in note 31 to the accounts.

Significant contracts

Contracts between the Group and HAECO and its subsidiary TAECO for the maintenance and overhaul of aircraft and related equipment accounted for approximately 3% of the Group's operating expenses in 2011. 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 transactions

Cathay Pacific Aircraft Services Limited ("CPAS"), a wholly owned subsidiary of the Company, entered into an agreement with Airbus S.A.S. on 9th March 2011 for the acquisition of 15 Airbus A330-300 aircraft. This transaction constituted a major transaction under the Listing Rules in respect of which an announcement dated 9th March 2011 was published and a circular dated 30th March 2011 was sent to shareholders.

CPAS entered into an agreement with The Boeing Company on 9th March 2011 for the acquisition of 10 Boeing 777-300ER aircraft. This transaction constituted a major transaction under the Listing Rules in respect of which an announcement dated 9th March 2011 was published and a circular dated 30th March 2011 was sent to shareholders.

CPAS entered into agreements with The Boeing Company on 10th August 2011 for the acquisition of four Boeing 777-300ER aircraft and eight Boeing 777-200F freighters. This transaction constituted a major transaction under the Listing Rules in respect of which an announcement dated 10th August 2011 was published and a circular dated 19th August 2011 was sent to shareholders.

Discloseable transaction

CPAS entered into an agreement with Airbus S.A.S. on 20th January 2012 for the acquisition of six Airbus A350-900 aircraft. This transaction constituted a discloseable transaction under the Listing Rules in respect of which an announcement dated 20th January 2012 was published.

Continuing connected transactions

During the year ended 31st December 2011, the Group had the following continuing connected transactions, details of which are set out below:

(a) 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 44.97% 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 2011, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$136 million and expenses of HK$146 million were reimbursed at cost.

(b) 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 a subsidiary of Swire Pacific, one of the Company's substantial shareholders. The transactions under the HAECO Framework Agreement are continuing connected transactions in respect of which an announcement dated 21st May 2007 was published and a circular dated 31st May 2007 was sent to shareholders.

The fees payable by the Group to HAECO group under the HAECO Framework Agreement totalled HK$2,287 million for the year ended 31st December 2011.

(c) 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 three 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 2011 and under the Air China Framework Agreement, the amounts payable by the Group to Air China Group totalled HK$356 million; and the amounts payable by Air China Group to the Group totalled HK$287 million.

(d) 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 three 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.

HAESL 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 HAESL Framework Agreement are 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$430 million for year ended 31st December 2011.

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 36% 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 12% 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 2011, Tung Chee Chen was interested as a director of its holding company, PetroChina Company Limited until May 2011. 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, Zhao Xiaohang, Martin Murray and Wang Changshun were appointed as Directors with effect from 31st March 2011, 1st June 2011, 18th November 2011 and 14th March 2012 respectively. All the other present Directors of the Company whose names are listed on pages 34 and 35 served throughout the year. Tony Tyler, Zhang Lan, James E. Hughes-Hallett and Kong Dong served as Directors until their resignation with effect from 31st March 2011, 1st June 2011, 18th November 2011 and 14th March 2012 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, Christopher Pratt, Ian Shiu, Jack So and Tung Chee Chen retire this year and, being eligible, offer themselves for re-election.

Martin Murray, Wang Changshun and Zhao Xiaohang, 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$3.0 million; they received no other emoluments from the Company or any of its subsidiaries.

Directors' interests

At 31st December 2011, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interest in the shares of Cathay Pacific Airways Limited:

	Capacity	No. of shares	Percentage of issued capital (%)
Ian Shiu	Personal	1,000	0.00003

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, 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 2011 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	No. of shares	Percentage of issued capital (%)	Type of interest (Note)
1. Air China Limited	2,948,784,242	74.96	Attributable interest (a)
2. China National Aviation Holding Company	2,948,784,242	74.96	Attributable interest (b)
3. Swire Pacific Limited	2,948,784,242	74.96	Attributable interest (a)
4. John Swire & Sons Limited	2,948,784,242	74.96	Attributable interest (c)

Note: At 31st December 2011:

(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 2,948,784,242 shares of the Company, comprising:

(i) 1,769,024,255 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 2,948,784,242 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 2,948,784,242 shares of the Company by virtue of the Swire group's interests in shares of Swire Pacific representing approximately 42.79% of the issued capital and approximately 58.45% 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, 14th March 2012

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 34 and 35 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. Jack So and Tung Chee Chen have served as independent non-executive Directors for more than nine years. The Directors are of the opinion that they remain independent, notwithstanding their length of tenure. Jack So and Tung Chee Chen continue to demonstrate the attributes of an independent non-executive Director noted above and there is no evidence that their tenure has had any impact on their independence. The Board believes that their detailed knowledge and experience of the Group's business and their external experience continue to be of significant benefit to the Company, and that they maintain an independent view of its affairs. Confirmation has been received from all independent non-executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules.

To ensure a balance of power and authority, the role of the Chairman is separate from that of the Chief Executive ("CE"). The current CE is John Slosar. 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 2011, the attendance at which, taking into account dates of appointment or resignation, was as follows:

Christopher Pratt (6/6), W.E. James Barrington (6/6), Cai Jianjiang (0/6), Ivan Chu (4/4), Fan Cheng (0/6), James E. Hughes-Hallett (5/6), James W.J. Hughes-Hallett (6/6), Peter Kilgour (6/6), Kong Dong (0/6), Irene Lee (6/6), Martin Murray (0/0), Ian Shiu (6/6), John Slosar (5/6), Jack

So (6/6), Merlin Swire (5/6), Tung Chee Chen (5/6), Tony Tyler (2/2), Peter Wong (2/6), Zhang Lan (0/3) and Zhao Xiaohang (0/3).

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 2011 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 Ivan Chu, one independent non-executive Director, Jack So, three executive officers, Philippe de Gentile-Williams, Christopher Gibbs and Captain Richard Hall, the General Manager Flying, Captain Henry Craig and the General Manager Corporate Safety, Richard Howell. It was chaired in 2011 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, Ivan Chu and Martin Murray, and five non-executive Directors, Cai Jianjiang, Fan Cheng, Peter Kilgour, Kong Dong and Zhao Xiaohang. 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, Ivan Chu and Martin Murray, and all eight executive officers, William Chau, Quince Chong, Philippe de Gentile-Williams, 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, Ivan Chu and Martin Murray, three non-executive Directors, Fan Cheng, Peter Kilgour and Zhao Xiaohang, the General Manager Corporate Finance, Raymond 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 2011, 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 2012.

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 2011 were as follows:

Director's fee	HK$575,000
Fee for serving as Audit Committee chairman	HK$240,000
Fee for serving as Audit Committee member	HK$180,000
Fee for serving as Remuneration Committee chairman	HK$75,000
Fee for serving as Remuneration Committee member	HK$58,000

The Remuneration Committee held two meetings during 2011, the attendance of which was as follows:

James W.J. Hughes-Hallett (2/2), Irene Lee (2/2) and Tung Chee Chen (1/2).

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 2011, the attendance of which, taking into account dates of appointment or resignation/cessation, was as follows:

Fan Cheng (0/3), Irene Lee (3/3), Jack So (3/3) and Peter Wong (0/3).

Expenditure Control Committee

The Expenditure Control Committee meets monthly to evaluate and approve capital expenditure. It is chaired by one executive Director, Ivan Chu and includes two other executive Directors, W.E. James Barrington and Martin Murray.

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 audited 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 2011 the total remuneration paid to the external auditors was HK$28 million, being HK$11 million for audit, HK$16 million for tax advice and HK$1 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 2011, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory 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 qualified audit opinion.

Basis for qualified opinion

Included in the consolidated statement of financial position is an investment in an associate, Air China Limited ("Air China"). As stated in note 15 to the financial statements, the Group applies the equity method to account for its investment in Air China using financial information at 30th September. In respect of the year ended 31st December 2011, the Group has used financial information of Air China as at and for the year ended 30th September 2011 based on unaudited financial information contained in Air China's management accounts in respect of the period from 1st October 2010 to 30th September 2011, prepared in accordance with Chinese Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China. The financial information has been adjusted by the Company's management for any differences to conform to the accounting policies set out on pages 48 to 51 to the consolidated financial statements and any significant events or transactions of Air China for the period from 1st October 2011 to 31st December 2011. The Group's share of the profits and net assets of Air China for the year ended 30th September 2011 and as at that date included in the Group's consolidated financial statements for the year ended 31st December 2011 are set out in note 15 to the financial statements.

Hong Kong Standard on Auditing 600 ("HKSA 600"), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, first became effective for audits of group financial statements beginning on or after 15th December 2009. HKSA 600 requires us to consider whether Air China is a significant component of the Group. For the year ended 31st December 2011, Air China contributed a significant portion of the Group's profit before tax and is, accordingly, considered to be a component that is significant due to its individual financial significance to the Group. HKSA 600 requires that an audit be performed on the financial information of all such significant components.

Air China published its unaudited quarterly results for the three months to 30th September 2011 on 27th October 2011. It was not practicable for an audit to be performed on the management accounts of Air China for the year ended 30th September 2011 prior to the announcement of its results for the quarter to 30th September 2011. The audited results of Air China for the year ended 31st December 2011 have not been published as at the date of this report. As a result, the requirements of HKSA 600 have not been fulfilled. There were no other satisfactory audit procedures that we could adopt and therefore we were unable to obtain sufficient appropriate audit evidence as to whether the carrying amount of the Group's investment in Air China and the Group's share of Air China's results for the year as included in the Group's consolidated financial statements as at and for the year ended 31st December 2011 were fairly stated. Consequently, we were unable to determine whether any adjustments to these amounts were necessary and to apply the requirements of all of the applicable auditing standards.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31st December 2011 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.

Report on matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding the Group's interest in Air China:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account have been kept.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
14th March 2012

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 2011

	Note	2011 HK$M	2010 HK$M	2011 US$M	2010 US$M
Turnover					
Passenger services		**67,778**	59,354	**8,689**	7,609
Cargo services		**25,980**	25,901	**3,331**	3,321
Catering, recoveries and other services		**4,648**	4,269	**596**	547
Total turnover	1	**98,406**	89,524	**12,616**	11,477
Expenses					
Staff		**(14,772)**	(13,850)	**(1,894)**	(1,776)
Inflight service and passenger expenses		**(3,794)**	(3,308)	**(486)**	(424)
Landing, parking and route expenses		**(13,105)**	(11,301)	**(1,680)**	(1,449)
Fuel, net of hedging gains/(losses)		**(38,877)**	(28,276)	**(4,984)**	(3,625)
Aircraft maintenance		**(8,468)**	(7,072)	**(1,086)**	(907)
Aircraft depreciation and operating leases		**(8,197)**	(8,288)	**(1,051)**	(1,062)
Other depreciation, amortisation and operating leases		**(1,205)**	(1,107)	**(155)**	(142)
Commissions		**(791)**	(736)	**(101)**	(94)
Others		**(3,697)**	(4,533)	**(474)**	(581)
Operating expenses		**(92,906)**	(78,471)	**(11,911)**	(10,060)
Operating profit before non-recurring items		**5,500**	11,053	**705**	1,417
Profit on disposal of investments	3	**–**	2,165	**–**	278
Gain on deemed disposal of an associate	4	**–**	868	**–**	111
Operating profit	5	**5,500**	14,086	**705**	1,806
Finance charges		**(1,726)**	(1,655)	**(221)**	(212)
Finance income		**982**	677	**126**	87
Net finance charges	6	**(744)**	(978)	**(95)**	(125)
Share of profits of associates	15	**1,717**	2,587	**220**	331
Profit before tax		**6,473**	15,695	**830**	2,012
Taxation	7	**(803)**	(1,462)	**(103)**	(187)
Profit for the year		**5,670**	14,233	**727**	1,825
Non-controlling interests		**(169)**	(185)	**(22)**	(24)
Profit attributable to owners of Cathay Pacific	8	**5,501**	14,048	**705**	1,801
Profit for the year		**5,670**	14,233	**727**	1,825
Other comprehensive income					
Cash flow hedges		**(546)**	(488)	**(70)**	(62)
Revaluation deficit arising from available-for-sale financial assets		**(217)**	(15)	**(28)**	(2)
Share of other comprehensive income of associates		**(158)**	(131)	**(20)**	(17)
Exchange differences on translation of foreign operations		**732**	313	**94**	40
Other comprehensive income for the year, net of tax	9	**(189)**	(321)	**(24)**	(41)
Total comprehensive income for the year		**5,481**	13,912	**703**	1,784
Total comprehensive income attributable to					
Owners of Cathay Pacific		**5,312**	13,727	**681**	1,760
Non-controlling interests		**169**	185	**22**	24
		5,481	13,912	**703**	1,784
Earnings per share (basic and diluted)	10	**139.8¢**	357.1¢	**17.9¢**	45.8¢

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

The notes on pages 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 2011

	Note	2011 HK$M	2010 HK$M	2011 US$M	2010 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	*12*	**73,498**	66,112	**9,423**	8,476
Intangible assets	*13*	**8,601**	8,004	**1,103**	1,026
Investments in associates	*15*	**17,894**	12,926	**2,294**	1,657
Other long-term receivables and investments	*16*	**5,783**	4,359	**741**	559
		105,776	91,401	**13,561**	11,718
Long-term liabilities		**(38,410)**	(36,235)	**(4,924)**	(4,646)
Related pledged security deposits		**3,637**	5,310	**466**	681
Net long-term liabilities	*17*	**(34,773)**	(30,925)	**(4,458)**	(3,965)
Other long-term payables	*18*	**(2,612)**	(1,700)	**(335)**	(217)
Deferred taxation	*20*	**(6,797)**	(5,815)	**(871)**	(746)
		(44,182)	(38,440)	**(5,664)**	(4,928)
Net non-current assets		**61,594**	52,961	**7,897**	6,790
Current assets and liabilities					
Stock		**1,155**	1,021	**148**	131
Trade, other receivables and other assets	*21*	**9,859**	11,065	**1,264**	1,419
Assets held for sale	*22*	**746**	368	**95**	47
Liquid funds	*23*	**19,597**	24,198	**2,512**	3,102
		31,357	36,652	**4,019**	4,699
Current portion of long-term liabilities		**(10,603)**	(9,249)	**(1,359)**	(1,186)
Related pledged security deposits		**2,041**	545	**261**	70
Net current portion of long-term liabilities	*17*	**(8,562)**	(8,704)	**(1,098)**	(1,116)
Trade and other payables	*24*	**(17,464)**	(15,773)	**(2,239)**	(2,022)
Unearned transportation revenue		**(9,613)**	(9,166)	**(1,232)**	(1,175)
Taxation		**(1,368)**	(1,541)	**(175)**	(198)
		(37,007)	(35,184)	**(4,744)**	(4,511)
Net current (liabilities)/assets		**(5,650)**	1,468	**(725)**	188
Total assets less current liabilities		**100,126**	92,869	**12,836**	11,906
Net assets		**55,944**	54,429	**7,172**	6,978
CAPITAL AND RESERVES					
Share capital	*25*	**787**	787	**101**	101
Reserves	*26*	**55,022**	53,487	**7,054**	6,857
Funds attributable to owners of Cathay Pacific		**55,809**	54,274	**7,155**	6,958
Non-controlling interests		**135**	155	**17**	20
Total equity		**55,944**	54,429	**7,172**	6,978

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, 14th March 2012

Company Statement of Financial Position

at 31st December 2011

	Note	2011 HK$M	2010 HK$M	2011 US$M	2010 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	12	**54,722**	48,459	**7,016**	6,213
Intangible assets	13	**910**	336	**117**	43
Investments in subsidiaries	14	**29,997**	31,517	**3,845**	4,041
Investments in associates	15	**9,812**	8,703	**1,258**	1,116
Other long-term receivables and investments	16	**4,044**	2,538	**518**	325
		99,485	91,553	**12,754**	11,738
Long-term liabilities		**(34,715)**	(30,547)	**(4,450)**	(3,916)
Related pledged security deposits		**836**	834	**107**	107
Net long-term liabilities	17	**(33,879)**	(29,713)	**(4,343)**	(3,809)
Other long-term payables	18	**(2,033)**	(1,503)	**(261)**	(193)
Deferred taxation	20	**(5,415)**	(4,550)	**(694)**	(583)
		(41,327)	(35,766)	**(5,298)**	(4,585)
Net non-current assets		**58,158**	55,787	**7,456**	7,153
Current assets and liabilities					
Stock		**1,014**	883	**130**	113
Trade, other receivables and other assets	21	**7,874**	9,164	**1,010**	1,175
Assets held for sale	22	**746**	–	**95**	–
Liquid funds	23	**8,848**	9,140	**1,134**	1,172
		18,482	19,187	**2,369**	2,460
Current portion of long-term liabilities		**(8,806)**	(9,315)	**(1,129)**	(1,194)
Related pledged security deposits		**34**	126	**4**	16
Net current portion of long-term liabilities	17	**(8,772)**	(9,189)	**(1,125)**	(1,178)
Trade and other payables	24	**(14,567)**	(12,920)	**(1,867)**	(1,657)
Unearned transportation revenue		**(9,089)**	(8,697)	**(1,165)**	(1,115)
Taxation		**(860)**	(986)	**(110)**	(127)
		(33,288)	(31,792)	**(4,267)**	(4,077)
Net current liabilities		**(14,806)**	(12,605)	**(1,898)**	(1,617)
Total assets less current liabilities		**84,679**	78,948	**10,856**	10,121
Net assets		**43,352**	43,182	**5,558**	5,536
CAPITAL AND RESERVES					
Share capital	25	**787**	787	**101**	101
Reserves	26	**42,565**	42,395	**5,457**	5,435
Total equity		**43,352**	43,182	**5,558**	5,536

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, 14th March 2012

Jack So
Director

Consolidated Statement of Cash Flows

for the year ended 31st December 2011

	Note	**2011 HK$M**	2010 HK$M	**2011 US$M**	2010 US$M
Operating activities					
Cash generated from operations	*27*	**15,393**	18,844	**1,973**	2,416
Dividends received from associates		**417**	100	**53**	13
Interest received		**119**	89	**15**	11
Net interest paid		**(488)**	(624)	**(62)**	(80)
Tax paid		**(1,461)**	(810)	**(187)**	(104)
Net cash inflow from operating activities		**13,980**	17,599	**1,792**	2,256
Investing activities					
Net decrease/(increase) in liquid funds other than cash and cash equivalents		**6,185**	(9,370)	**793**	(1,201)
Disposal of investments		**–**	3,260	**–**	418
Sales of fixed assets		**2,288**	869	**293**	112
Sales of assets held for sale		**361**	–	**46**	–
Net (increase)/decrease in other long-term receivables and investments		**(1,604)**	7	**(206)**	1
Payments for fixed and intangible assets		**(17,610)**	(8,299)	**(2,257)**	(1,064)
Payments to acquire additional shareholding in associate		**(3,098)**	(1,130)	**(397)**	(145)
Net cash outflow from investing activities		**(13,478)**	(14,663)	**(1,728)**	(1,879)
Financing activities					
New financing		**12,187**	5,815	**1,562**	746
Net cash benefit from financing arrangements		**1,467**	488	**188**	63
Loan and finance lease repayments		**(8,874)**	(9,290)	**(1,138)**	(1,191)
Security deposits placed		**(56)**	(59)	**(7)**	(8)
Dividends paid – to owners of Cathay Pacific		**(3,777)**	(1,691)	**(484)**	(217)
– to non-controlling interests		**(189)**	(177)	**(24)**	(23)
Net cash inflow/(outflow) from financing activities		**758**	(4,914)	**97**	(630)
Increase/(decrease) in cash and cash equivalents		**1,260**	(1,978)	**161**	(253)
Cash and cash equivalents at 1st January		**8,272**	10,094	**1,061**	1,294
Effect of exchange differences		**80**	156	**10**	20
Cash and cash equivalents at 31st December	*28*	**9,612**	8,272	**1,232**	1,061

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 2011

	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 2011	**787**	**37,061**	**16,295**	**1,102**	**(1,871)**	**900**	**54,274**	**155**	**54,429**
Total comprehensive income for the year	**–**	**5,501**	**–**	**(217)**	**(546)**	**574**	**5,312**	**169**	**5,481**
2010 final dividends	**–**	**(3,069)**	**–**	**–**	**–**	**–**	**(3,069)**	**–**	**(3,069)**
2011 interim dividends	**–**	**(708)**	**–**	**–**	**–**	**–**	**(708)**	**–**	**(708)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(189)**	**(189)**
	–	**1,724**	**–**	**(217)**	**(546)**	**574**	**1,535**	**(20)**	**1,515**
At 31st December 2011	**787**	**38,785**	**16,295**	**885**	**(2,417)**	**1,474**	**55,809**	**135**	**55,944**
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

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 2011

	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 2011	**787**	**26,869**	**16,295**	**928**	**(1,720)**	**23**	**43,182**
Total comprehensive income for the year	**–**	**4,687**	**–**	**(169)**	**(571)**	**–**	**3,947**
2010 final dividends	**–**	**(3,069)**	**–**	**–**	**–**	**–**	**(3,069)**
2011 interim dividends	**–**	**(708)**	**–**	**–**	**–**	**–**	**(708)**
	–	**910**	**–**	**(169)**	**(571)**	**–**	**170**
At 31st December 2011	**787**	**27,779**	**16,295**	**759**	**(2,291)**	**23**	**43,352**
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

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	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M	**2011 HK$M**	2010 HK$M	**2011 HK$M**	2010 HK$M
Profit or loss								
Sales to external customers	**97,359**	88,542	**1,047**	982			**98,406**	89,524
Inter-segment sales	**8**	–	**1,569**	1,343			**1,577**	1,343
Segment revenue	**97,367**	88,542	**2,616**	2,325			**99,983**	90,867
Segment results	**5,325**	13,962	**175**	124			**5,500**	14,086
Net finance charges	**(737)**	(971)	**(7)**	(7)			**(744)**	(978)
	4,588	12,991	**168**	117			**4,756**	13,108
Share of profits of associates					**1,717**	2,587	**1,717**	2,587
Profit before tax							**6,473**	15,695
Taxation	**(778)**	(1,448)	**(25)**	(14)			**(803)**	(1,462)
Profit for the year							**5,670**	14,233
Other segment information								
Depreciation and amortisation	**6,018**	6,206	**150**	145			**6,168**	6,351
Purchase of fixed and intangible assets	**15,110**	7,175	**2,500**	1,124			**17,610**	8,299

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 unallocated results represent the Group's share of profits of associates.

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

	2011 HK$M	2010 HK$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**42,915**	41,313
– Japan, Korea and Taiwan	**13,598**	11,409
India, Middle East, Pakistan and Sri Lanka	**4,727**	4,529
Southeast Asia	**7,259**	6,175
Southwest Pacific and South Africa	**7,117**	6,282
Europe	**9,518**	8,664
North America	**13,272**	11,152
	98,406	89,524

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 are not disclosed.

3. Profit on disposal of investments

	2011 HK$M	2010 HK$M
Profit on disposal of an associate	**–**	1,837
Profit on disposal of a long-term investment	**–**	328
	–	2,165

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

	2011 HK$M	2010 HK$M
Gain on deemed disposal of an associate	**–**	868
	–	868

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

	2011 HK$M	2010 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– leased	**1,971**	1,932
– owned	**4,156**	4,384
Amortisation of intangible assets	**41**	35
Operating lease rentals		
– land and buildings	**734**	675
– aircraft and related equipment	**2,465**	2,343
– others	**35**	26
Net provision for/(write back of) impairment of aircraft and related equipment	**250**	(98)
Cost of stock expensed	**2,162**	1,912
Exchange differences	**(416)**	(196)
Auditors' remuneration	**11**	10
Net gain on financial assets and liabilities classified as held for trading	**(120)**	(565)
Net loss on financial assets and liabilities designated as at fair value through profit and loss	**339**	159
Income from unlisted investments	**(36)**	(68)
Income from listed investments	**(4)**	(3)

6. Net finance charges

	2011 HK$M	2010 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**676**	743
– interest income on related security deposits, notes and bonds	**(318)**	(343)
	358	400
– bank loans and overdrafts		
– wholly repayable within five years	**132**	156
– not wholly repayable within five years	**51**	40
– other loans		
– wholly repayable within five years	**41**	53
– not wholly repayable within five years	**9**	–
– sales and lease back	**(13)**	–
	578	649
Income from liquid funds:		
– funds with investment managers and other liquid investments	**(255)**	(135)
– bank deposits and other receivables	**(68)**	(64)
	(323)	(199)
Fair value change:		
– obligations under finance leases designated as at fair value through profit and loss	**340**	159
– financial derivatives	**149**	369
	489	528
	744	978

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

7. Taxation

	2011 HK$M	2010 HK$M
Current tax expenses		
– Hong Kong profits tax	**116**	100
– overseas tax	**272**	241
– (over)/under provisions for prior years	**(53)**	13
Deferred tax		
– origination and reversal of temporary differences (note 20)	**468**	1,108
	803	1,462

Hong Kong profits tax is calculated at 16.5% (2010: 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 32(d) to the accounts).

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

	2011 HK$M	2010 HK$M
Consolidated profit before tax	**6,473**	15,695
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2010: 16.5%)	**(1,068)**	(2,590)
Expenses not deductible for tax purposes	**(146)**	(211)
Tax over/(under) provisions arising from prior years	**53**	(13)
Effect of different tax rates in overseas jurisdictions	**223**	892
(Tax losses not recognised)/tax losses recognised	**(55)**	79
Income not subject to tax	**190**	381
Tax charge	**(803)**	(1,462)

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

8. Profit attributable to owners of Cathay Pacific

Of the profit attributable to owners of Cathay Pacific, a profit of HK$4,687 million (2010: HK$12,875 million) has been dealt with in the accounts of the Company.

9. Other comprehensive income

	2011 HK$M	2010 HK$M
Cash flow hedges		
– recognised during the year	**485**	(1,414)
– transferred to profit and loss	**(1,081)**	874
– deferred tax recognised	**50**	52
Revaluation of available-for-sale financial assets		
– recognised during the year	**(217)**	263
– transferred to profit and loss	**–**	(278)
Share of other comprehensive income of associates		
– recognised during the year	**(158)**	(156)
– transferred to profit and loss	**–**	25
Exchange differences on translation of foreign operations		
– recognised during the year	**732**	383
– transferred to profit and loss	**–**	(70)
Other comprehensive income for the year	**(189)**	(321)

10. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to owners of Cathay Pacific of HK$5,501 million (2010: HK$14,048 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2010: 3,934 million) shares.

11. Dividends

	2011 HK$M	2010 HK$M
First interim dividend paid on 3rd October 2011 of HK$0.18 per share (2010: HK$0.33 per share)	**708**	1,298
Second interim dividend proposed on 14th March 2012 of HK$0.34 per share	**1,338**	–
Final dividend paid on 1st June 2011 of HK$0.78 per share	**–**	3,069
	2,046	4,367

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 2011	**67,398**	**42,853**	**2,942**	**478**	**5,257**	**1,920**	**120,848**
Exchange differences	**6**	**–**	**–**	**–**	**–**	**–**	**6**
Additions	**10,039**	**3,980**	**325**	**–**	**266**	**2,362**	**16,972**
Disposals	**(5,909)**	**–**	**(51)**	**–**	**(13)**	**–**	**(5,973)**
Reclassification to assets held for sale	**(1,172)**	**–**	**–**	**–**	**(13)**	**–**	**(1,185)**
Transfers	**666**	**(666)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2011	**71,028**	**46,167**	**3,216**	**478**	**5,497**	**4,282**	**130,668**
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 assets held for sale	(552)	–	–	–	–	–	(552)
Transfers	3,073	(3,073)	–	–	–	–	–
At 31st December 2010	67,398	42,853	2,942	478	5,257	1,920	120,848
Accumulated depreciation							
At 1st January 2011	**35,912**	**13,969**	**2,062**	**350**	**2,443**	**–**	**54,736**
Charge for the year	**3,778**	**1,954**	**191**	**17**	**187**	**–**	**6,127**
Impairment	**250**	**–**	**–**	**–**	**–**	**–**	**250**
Disposals	**(3,451)**	**–**	**(50)**	**–**	**(13)**	**–**	**(3,514)**
Reclassification to assets held for sale	**(416)**	**–**	**–**	**–**	**(13)**	**–**	**(429)**
Transfers	**898**	**(898)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2011	**36,971**	**15,025**	**2,203**	**367**	**2,604**	**–**	**57,170**
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
Reversal of impairment	(98)	–	–	–	–	–	(98)
Disposals	(428)	–	(87)	–	(4)	–	(519)
Reclassification to assets held for sale	(184)	–	–	–	–	–	(184)
Transfers	2,330	(2,330)	–	–	–	–	–
At 31st December 2010	35,912	13,969	2,062	350	2,443	–	54,736
Net book value							
At 31st December 2011	**34,057**	**31,142**	**1,013**	**111**	**2,893**	**4,282**	**73,498**
At 31st December 2010	31,486	28,884	880	128	2,814	1,920	66,112

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 2011	**51,069**	**41,573**	**1,118**	**478**	**564**	**94,802**
Additions	**4,804**	**9,069**	**195**	**–**	**259**	**14,327**
Disposals	**(5,378)**	**–**	**(26)**	**–**	**–**	**(5,404)**
Reclassification to assets held for sale	**(608)**	**(564)**	**–**	**–**	**–**	**(1,172)**
Transfers	**1,948**	**(1,948)**	**–**	**–**	**–**	**–**
At 31st December 2011	**51,835**	**48,130**	**1,287**	**478**	**823**	**102,553**
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
Accumulated depreciation						
At 1st January 2011	**31,436**	**13,399**	**782**	**349**	**377**	**46,343**
Charge for the year	**3,095**	**2,038**	**93**	**17**	**22**	**5,265**
Impairment	**100**	**–**	**–**	**–**	**–**	**100**
Disposals	**(3,435)**	**–**	**(26)**	**–**	**–**	**(3,461)**
Reclassification to assets held for sale	**(252)**	**(164)**	**–**	**–**	**–**	**(416)**
Transfers	**898**	**(898)**	**–**	**–**	**–**	**–**
At 31st December 2011	**31,842**	**14,375**	**849**	**366**	**399**	**47,831**
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
Reversal of 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
Net book value						
At 31st December 2011	**19,993**	**33,755**	**438**	**112**	**424**	**54,722**
At 31st December 2010	19,633	28,174	336	129	187	48,459

(a) Finance leased assets

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

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 floating and subleasing is not allowed. At 31st December 2011, nineteen Airbus A330-300s (2010: fourteen), two Airbus A340-300s (2010: four), five Boeing 747-400s (2010: five), one Boeing 747-400BCF (2010: one), eleven Boeing 777-300ERs (2010: nine), six Airbus A320-200s (2010: six) and four Airbus A321-200s (2010: 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$13,925 million (2010: HK$12,572 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 2011 for each of the following periods are as follows:

	2011 HK$M	2010 HK$M
Aircraft and related equipment:		
– within one year	**2,640**	2,686
– after one year but within two years	**2,228**	2,328
– after two years but within five years	**6,042**	5,925
– after five years	**7,351**	8,358
	18,261	19,297
Buildings and other equipment:		
– within one year	**611**	498
– after one year but within two years	**488**	315
– after two years but within five years	**365**	383
– after five years	**217**	66
	1,681	1,262
	19,942	20,559

(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$4,301 million (2010: HK$4,849 million) for the Group and HK$271 million (2010: HK$359 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) Impairment in value of aircraft is considered by writing down the carrying value to estimated recoverable amount which is the higher of the value in use and the fair value less cost to sell. An impairment loss amounting to HK$250 million was recognised for the year ended 31st December 2011 (2010: net impairment loss of HK$98 million written back).

13. Intangible assets

	Group			Company
	Goodwill HK$M	Computer systems HK$M	Total HK$M	Computer systems HK$M
Cost				
At 1st January 2011	**7,666**	**981**	**8,647**	**952**
Additions	**–**	**638**	**638**	**610**
At 31st December 2011	**7,666**	**1,619**	**9,285**	**1,562**
At 1st January 2010	7,666	792	8,458	764
Additions	–	189	189	188
At 31st December 2010	7,666	981	8,647	952
Accumulated amortisation				
At 1st January 2011	**–**	**643**	**643**	**616**
Charge for the year	**–**	**41**	**41**	**36**
At 31st December 2011	**–**	**684**	**684**	**652**
At 1st January 2010	–	608	608	582
Charge for the year	–	35	35	34
At 31st December 2010	–	643	643	616
Net book value				
At 31st December 2011	**7,666**	**935**	**8,601**	**910**
At 31st December 2010	7,666	338	8,004	336

The carrying amount of goodwill allocated to the airline operation is HK$7,627 million (2010: 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 8.5% (2010: 9.0%) 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	
	2011 HK$M	2010 HK$M
Unlisted shares at cost	**1,259**	246
Other investments at cost	**11,556**	14,983
Net amounts due from subsidiaries		
– loan accounts	**6,619**	6,280
– current accounts	**10,563**	10,008
	29,997	31,517

Principal subsidiaries are listed on page 96.

15. Associates

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Hong Kong listed shares at cost (Market value: HK$14,457 million, 2010: HK$20,611 million)	**–**	–	**9,804**	8,695
Unlisted shares at cost	**–**	–	**20**	20
Share of net assets				
– listed in Hong Kong	**11,642**	8,882	**–**	–
– unlisted	**2,117**	373	**–**	–
Goodwill	**4,135**	3,671	**–**	–
	17,894	12,926	**9,824**	8,715
Less: Impairment loss	**–**	–	**(12)**	(12)
	17,894	12,926	**9,812**	8,703

	2011 HK$M	2010 HK$M
Summarised financial information of associates (100 percent):		
Assets	**224,749**	177,273
Liabilities	**(159,950)**	(137,394)
Equity	**64,799**	39,879
Turnover	**100,451**	88,285
Net profit for the year	**8,942**	11,649

15. Associates *(continued)*

The Group 2011 results include Air China's results for the 12 months ended 30th September 2011 and any significant events or transactions for the period from 1st October 2011 to 31st December 2011. Air China's most recently available accounts were drawn up to 30th September 2011 (2010: 30th September 2010). 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. The Group's share of the profits and net assets of Air China for the year ended 30th September 2011 and as at that date included in the Group's consolidated financial statements for the year ended 31st December 2011 amounted to HK$2,013 million and HK$11,642 million respectively.

Principal associates are listed on page 97.

16. Other long-term receivables and investments

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Investments at fair value				
– listed in Hong Kong	**136**	183	**–**	–
– unlisted	**1,062**	1,232	**963**	1,133
Leasehold land rental prepayments	**1,472**	1,514	**–**	–
Loans and other receivables	**1,635**	101	**1,629**	95
Derivative financial assets – long–term portion	**1,186**	1,111	**1,186**	1,111
Retirement benefit assets (note 19)	**292**	218	**266**	199
	5,783	4,359	**4,044**	2,538

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK$1,514 million (2010: HK$1,557 million).

17. Long-term liabilities

		2011		2010	
	Note	**Current HK$M**	**Non-current HK$M**	Current HK$M	Non-current HK$M
Group					
Long-term loans	*(a)*	**5,832**	**12,858**	5,793	11,193
Obligations under finance leases	*(b)*	**2,730**	**21,915**	2,911	19,732
		8,562	**34,773**	8,704	30,925
Company					
Long-term loans	*(a)*	**4,415**	**7,040**	4,912	7,357
Obligations under finance leases	*(b)*	**4,357**	**26,839**	4,277	22,356
		8,772	**33,879**	9,189	29,713

17. Long-term liabilities *(continued)*

(a) Long-term loans

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Bank loans				
– secured	**10,230**	8,274	**2,995**	3,676
– unsecured	**7,802**	6,292	**7,802**	6,173
Other loans				
– unsecured	**658**	2,420	**658**	2,420
	18,690	16,986	**11,455**	12,269
Amount due within one year included under current liabilities	**(5,832)**	(5,793)	**(4,415)**	(4,912)
	12,858	11,193	**7,040**	7,357
Repayable as follows:				
Bank loans				
– within one year	**5,832**	3,373	**4,415**	2,492
– after one year but within two years	**2,450**	4,942	**1,454**	4,217
– after two years but within five years	**6,959**	4,575	**4,769**	2,725
– after five years	**2,791**	1,676	**159**	415
	18,032	14,566	**10,797**	9,849
Other loans				
– within one year	**–**	2,420	**–**	2,420
– after five years	**658**	–	**658**	–
	658	2,420	**658**	2,420
Amount due within one year included under current liabilities	**(5,832)**	(5,793)	**(4,415)**	(4,912)
	12,858	11,193	**7,040**	7,357

Borrowings other than bank loans are repayable on various dates up to 2018 at interest rate 3.9% per annum while bank loans are repayable up to 2023.

Long-term loans and other liabilities of the Group and the Company not wholly repayable within five years amounted to HK$6,809 million and HK$1,363 million respectively (2010: HK$4,359 million and HK$1,581 million).

As at 31st December 2011, the Group and the Company had long-term loans which were defeased by funds and other investments totalling HK$23,943 million and HK$22,368 million respectively (2010: HK$20,319 million and HK$18,035 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 2012 to 2023. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Future payments	**33,677**	33,098	**37,114**	33,525
Interest charges relating to future periods	**(3,354)**	(4,600)	**(5,048)**	(5,932)
Present value of future payments	**30,323**	28,498	**32,066**	27,593
Security deposits, notes and zero coupon bonds	**(5,678)**	(5,855)	**(870)**	(960)
Amounts due within one year included under current liabilities	**(2,730)**	(2,911)	**(4,357)**	(4,277)
	21,915	19,732	**26,839**	22,356

The present value of future payments is repayable as follows:

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Within one year	**4,771**	3,456	**4,390**	4,403
After one year but within two years	**5,273**	4,317	**3,829**	3,251
After two years but within five years	**9,052**	9,747	**10,750**	8,515
After five years	**11,227**	10,978	**13,097**	11,424
	30,323	28,498	**32,066**	27,593

The future lease payment profile is disclosed in note 33 to the accounts.

As at 31st December 2011, the Group and the Company had obligations under finance leases which were defeased by funds and other investments amounting to HK$6,493 million and HK$1,083 million respectively (2010: HK$7,357 million and HK$1,083 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 2011, the Group and the Company had financial liabilities designated as at fair value through profit and loss of HK$4,156 million (2010: HK$4,231 million) and HK$4,156 million (2010: HK$4,231 million) respectively.

18. Other long-term payables

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Deferred creditors	**906**	97	**392**	–
Derivative financial liabilities – long-term portion	**1,706**	1,603	**1,641**	1,503
	2,612	1,700	**2,033**	1,503

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 2011 were provided by Cannon Trustees Limited, the administration manager.

	2011		2010	
	SGRBS	**CPALRS**	SGRBS	CPALRS
The principal actuarial assumptions are:				
Discount rate used	**3.96%**	**3.96%**	4.4%	4.4%
Expected return on plan assets	**7.5%**	**6.5%**	8.0%	6.5%
Future salary increases	**3-5%**	**1.75-5%**	2-5%	1-5%

The Group's obligations are 88% (2010: 106%) covered by the plan assets held by the trustees as at 31st December 2011.

	2011 HK\$M	2010 HK\$M
Net expenses recognised in the Group profit and loss:		
Current service cost	**349**	324
Interest on obligations	**302**	311
Expected return on plan assets	**(550)**	(518)
Actuarial loss recognised	**–**	1
Total included in staff costs	**101**	118
Actual return on plan assets	**(412)**	820

19. Retirement benefits *(continued)*

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Net (asset)/liability recognised in the statement of financial position:				
Present value of funded obligations	**8,362**	7,615	**7,658**	6,991
Fair value of plan assets	**(7,324)**	(8,077)	**(6,714)**	(7,396)
	1,038	(462)	**944**	(405)
Net unrecognised actuarial (losses)/gains	**(1,330)**	244	**(1,210)**	206
	(292)	(218)	**(266)**	(199)

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Movements in present value of funded obligations comprise:				
At 1st January	**7,615**	7,460	**6,991**	6,870
Movements for the year				
– current service cost	**349**	324	**316**	293
– interest cost	**302**	311	**276**	285
– employee contributions	**9**	12	**9**	12
– benefits paid	**(525)**	(524)	**(481)**	(483)
– actuarial losses	**612**	32	**547**	14
At 31st December	**8,362**	7,615	**7,658**	6,991

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Movements in fair value of plan assets comprise:				
At 1st January	**8,077**	7,217	**7,396**	6,583
Movements for the year				
– expected return on plan assets	**550**	518	**500**	469
– employee contributions	**9**	12	**9**	12
– employer contributions	**175**	552	**159**	532
– benefits paid	**(525)**	(524)	**(481)**	(483)
– actuarial (losses)/gains	**(962)**	302	**(869)**	283
At 31st December	**7,324**	8,077	**6,714**	7,396

19. Retirement benefits *(continued)*

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Fair value of plan assets comprises:				
Equities	**4,484**	5,318	**4,104**	4,859
Debt instruments	**2,018**	1,919	**1,805**	1,712
Deposits and cash	**822**	840	**805**	825
	7,324	8,077	**6,714**	7,396

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				
	2011 HK$M	2010 HK$M	2009 HK$M	2008 HK$M	2007 HK$M
Present value of funded obligations	**8,362**	7,615	7,460	7,108	8,223
Fair value of plan assets	**(7,324)**	(8,077)	(7,217)	(5,924)	(9,131)
Deficit/(surplus)	**1,038**	(462)	243	1,184	(908)
Actuarial losses/(gains) arising on plan liabilities	**612**	32	361	(1,324)	205
Actuarial losses/(gains) arising on plan assets	**962**	(302)	(1,207)	3,368	(990)

	Company				
	2011 HK$M	2010 HK$M	2009 HK$M	2008 HK$M	2007 HK$M
Present value of funded obligations	**7,658**	6,991	6,870	6,522	7,549
Fair value of plan assets	**(6,714)**	(7,396)	(6,583)	(5,426)	(8,353)
Deficit/(surplus)	**944**	(405)	287	1,096	(804)
Actuarial losses/(gains) arising on plan liabilities	**547**	14	381	(1,210)	178
Actuarial losses/(gains) arising on plan assets	**869**	(283)	(1,092)	3,070	(893)

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$180 million to the schemes in 2012.

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$8 million (2010: HK$18 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$864 million (2010: HK$756 million).

20. Deferred taxation

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Deferred tax assets:				
– provisions	**(96)**	(161)	**(75)**	(112)
– tax losses	**(1,054)**	(1,136)	**(852)**	(926)
– cash flow hedges	**(260)**	(210)	**(239)**	(184)
– customer loyalty programmes	**(15)**	(41)	**(15)**	(41)
Deferred tax liabilities:				
– retirement benefits	**3**	8	**2**	7
– accelerated tax depreciation	**2,295**	2,182	**1,525**	1,501
– investment in associates	**385**	225	**–**	–
– others	**27**	–	**27**	–
Provision in respect of certain lease arrangements	**5,512**	4,948	**5,042**	4,305
	6,797	5,815	**5,415**	4,550

20. Deferred taxation *(continued)*

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Movements in deferred taxation comprise:				
At 1st January	**5,815**	5,255	**4,550**	4,141
Movements for the year				
– transferred from the profit and loss				
– deferred tax expenses (note 7)	**468**	1,108	**183**	749
– operating expenses	**50**	70	**41**	52
– transferred to cash flow hedge reserve	**(50)**	(52)	**(55)**	(49)
– initial cash benefit from lease arrangements	**1,467**	488	**1,467**	488
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	**(953)**	(1,054)	**(771)**	(831)
At 31st December	**6,797**	5,815	**5,415**	4,550

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 2013 to 2022 (2010: 2012 to 2021) as follows:

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
After one year but within five years	**1,489**	1,792	**1,199**	1,406
After five years but within 10 years	**2,865**	2,772	**2,684**	2,515
After 10 years	**1,158**	384	**1,159**	384
	5,512	4,948	**5,042**	4,305

21. Trade, other receivables and other assets

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Trade debtors	**5,908**	5,904	**5,142**	5,165
Derivative financial assets – current portion	**1,044**	2,349	**1,044**	2,349
Other receivables and prepayments	**2,844**	2,766	**1,674**	1,625
Due from associates	**63**	46	**14**	25
	9,859	11,065	**7,874**	9,164

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

As at 31st December 2011, total derivative financial assets of the Group and the Company which did not qualify for hedge accounting amounted to HK$1,105 million (2010: HK$842 million) and HK$1,105 million (2010: HK$842 million) respectively.

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Analysis of trade debtors by age:				
Current	**5,839**	5,853	**5,087**	5,130
One to three months overdue	**59**	45	**47**	30
More than three months overdue	**10**	6	**8**	5
	5,908	5,904	**5,142**	5,165

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

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
At 1st January	**195**	163	**158**	128
Amounts written back	**(135)**	–	**(116)**	–
Impairment loss recognised	**–**	32	**–**	30
At 31st December	**60**	195	**42**	158

22. Assets held for sale

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Aircraft and related equipment held for sale	**746**	368	**746**	–
	746	368	**746**	–

23. Liquid funds

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Short-term deposits and bank balances (note 28)	**9,612**	8,276	**7,256**	5,827
Short-term deposits maturing beyond three months when placed	**228**	551	**228**	551
Funds with investment managers				
– debt securities listed outside Hong Kong	**7,778**	11,722	**–**	–
– bank deposits	**106**	13	**–**	–
Other liquid investments				
– debt securities listed outside Hong Kong	**1,515**	1,632	**1,242**	1,372
– bank deposits	**358**	2,004	**122**	1,390
	19,597	24,198	**8,848**	9,140

23. Liquid funds *(continued)*

Included in other liquid investments are bank deposits of HK$358 million (2010: HK$1,856 million) and debt securities of HK$1,515 million (2010: HK$1,632 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.

24. Trade and other payables

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Trade creditors	**7,663**	6,211	**5,816**	4,681
Derivative financial liabilities	**1,182**	1,391	**1,149**	1,361
Other payables	**8,318**	7,779	**7,342**	6,517
Due to associates	**49**	37	**37**	23
Due to other related companies	**252**	351	**223**	334
Bank overdrafts – unsecured (note 28)	**–**	4	**–**	4
	17,464	15,773	**14,567**	12,920

As at 31st December 2011, total derivative financial liabilities of the Group and the Company which did not qualify for hedge accounting amounted to HK$356 million (2010: HK$355 million) and HK$356 million (2010: HK$355 million) respectively.

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Analysis of trade creditors by age:				
Current	**7,428**	6,039	**5,638**	4,548
One to three months overdue	**225**	161	**172**	126
More than three months overdue	**10**	11	**6**	7
	7,663	6,211	**5,816**	4,681

25. Share capital

	2011		2010	
	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 and 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 (2010: nil).

26. Reserves

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Retained profit	**38,785**	37,061	**27,779**	26,869
Share premium	**16,295**	16,295	**16,295**	16,295
Investment revaluation reserve	**885**	1,102	**759**	928
Cash flow hedge reserve	**(2,417)**	(1,871)	**(2,291)**	(1,720)
Capital redemption reserve and others	**1,474**	900	**23**	23
	55,022	53,487	**42,565**	42,395

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 (2010: HK$24 million), capital reserve of HK$23 million (2010: HK$23 million), exchange differences arising from revaluation of foreign investments amounted to HK$2,190 million (2010: HK$1,458 million) and share of associate's other negative reserve of HK$763 million (2010: HK$605 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:

	2011 HK$M	2010 HK$M
Turnover	**(1,274)**	(243)
Fuel	**2,122**	(477)
Others	**449**	(14)
Finance income	**(216)**	(140)
Net gain/(loss) transferred to the profit and loss	**1,081**	(874)

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
2012	**341**
2013	**348**
2014	**391**
2015	**354**
2016	**265**
Beyond 2016	**718**
	2,417

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.

27. Reconciliation of operating profit to cash generated from operations

	2011 HK$M	2010 HK$M
Operating profit	**5,500**	14,086
Depreciation	**6,127**	6,316
Amortisation of intangible assets	**41**	35
Loss on disposal of fixed assets	**159**	107
Loss on disposal of assets held for sale	**17**	–
Profit on disposal of investments	**–**	(2,165)
Gain on deemed disposal of an associate	**–**	(868)
Currency adjustments and other items not involving cash flows	**(1,109)**	238
Increase in stock	**(134)**	(74)
Decrease/(increase) in trade debtors, other receivables and prepayments and derivative financial assets	**1,148**	(2,091)
(Decrease)/increase in net amounts due to related companies and associates	**(104)**	87
Increase in trade creditors, other payables, derivative financial liabilities and deferred creditors	**2,694**	3,552
Increase in unearned transportation revenue	**447**	1,091
Non-operating movements in debtors and creditors	**607**	(1,470)
Cash generated from operations	**15,393**	18,844

28. Analysis of cash and cash equivalents

	2011 HK$M	2010 HK$M
Short-term deposits and bank balances (note 23)	**9,612**	8,276
Bank overdrafts (note 24)	**–**	(4)
	9,612	8,272

29. 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$'000	Other benefits HK$'000	Housing benefits HK$'000	**2011 Total HK$'000**	2010 Total HK$'000
Executive Directors									
Christopher Pratt	1,186	894	71	341	276	–	746	**3,514**	2,942
W.E. James Barrington (from July 2010)	1,812	1,216	2,231	521	766	83	–	**6,629**	2,291
Ivan Chu (from March 2011)	1,620	1,368	378	237	–	–	–	**3,603**	–
James E. Hughes-Hallett (up to November 2011)	2,093	1,225	2,466	617	684	53	–	**7,138**	7,559
Martin Murray (from November 2011)	186	–	44	49	–	11	297	**587**	–
Ian Shiu (up to June 2010)	–	–	–	–	–	–	–	**–**	3,086
John Slosar	4,026	2,925	295	1,158	1,040	–	2,380	**11,824**	9,666
Tony Tyler (up to March 2011)	1,150	5,078	84	331	–	–	789	**7,432**	11,475
Non-Executive Directors									
Cai Jianjiang	575*	–	–	–	–	–	–	**575**	500
Philip Chen (up to June 2010)	–	–	–	–	–	–	–	**–**	–
Fan Cheng	755*	–	–	–	–	–	–	**755**	650
James W.J. Hughes-Hallett	–	–	–	–	–	–	–	**–**	–
Peter Kilgour	–	–	–	–	–	–	–	**–**	–
Kong Dong	575*	–	–	–	–	–	–	**575**	500
Ian Shiu (from July 2010)	–	–	–	–	–	–	–	**–**	–
Merlin Swire (from June 2010)	–	–	–	–	–	–	–	**–**	–
Robert Woods (up to May 2010)	–	–	–	–	–	–	–	**–**	–
Zhang Lan (up to May 2011)	240*	–	–	–	–	–	–	**240**	500
Zhao Xiaohang (from June 2011)	335*	–	–	–	–	–	–	**335**	–

29. 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$'000	Other benefits HK$'000	Housing benefits HK$'000	**2011 Total HK$'000**	2010 Total HK$'000
Independent Non-Executive Directors									
Irene Lee (from January 2010)	813*	–	–	–	–	–	–	**813**	677
Jack So	815*	–	–	–	–	–	–	**815**	700
Tung Chee Chen	633*	–	–	–	–	–	–	**633**	550
Peter Wong	755*	–	–	–	–	–	–	**755**	650
2011 Total	**17,569**	**12,706**	**5,569**	**3,254**	**2,766**	**147**	**4,212**	**46,223**	
2010 Total	17,724	6,938	4,085	4,616	1,931	–	6,452		41,746

For Directors employed by the Swire group, the remuneration disclosed represents the amount charged to the Company. Bonus is related to services for 2010 but paid and charged to the Company in 2011.

(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$'000	Other benefits HK$'000	Housing benefits HK$'000	**2011 Total HK$'000**	2010 Total HK$'000
W.E. James Barrington (up to June 2010)	–	–	–	–	–	–	–	**–**	3,443
William Chau	1,826	1,540	481	270	–	–	–	**4,117**	4,027
Quince Chong	1,765	1,482	500	176	–	–	–	**3,923**	3,828
Ivan Chu (up to March 2011)	427	101	126	61	–	–	–	**715**	3,960
Philippe de Gentile-Williams (from July 2011)	558	–	81	161	–	35	871	**1,706**	–
Christopher Gibbs	2,083	1,756	725	350	–	–	–	**4,914**	4,783
Richard Hall (from August 2010)	1,823	1,294	3,097	–	–	–	–	**6,214**	2,202
Rupert Hogg	1,800	1,158	1,160	518	694	143	2,853	**8,326**	6,565
Edward Nicol (up to October 2010)	–	–	–	–	–	–	–	**–**	5,424
Nick Rhodes	1,880	1,326	122	541	832	218	2,981	**7,900**	6,762
Tomasz Smaczny (from August 2010)	1,869	1,285	599	93	–	–	–	**3,846**	1,201
2011 Total	**14,031**	**9,942**	**6,891**	**2,170**	**1,526**	**396**	**6,705**	**41,661**	
2010 Total	14,143	9,703	6,698	3,155	1,402	–	7,094		42,195

Bonus related to services for 2010 was paid in 2011.

30. Employee information

(a) The five highest paid individuals of the Company included three Directors (2010: three) and two executive officers (2010: two), whose emoluments are set out in note 29 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:

	2011			2010		
HK$'000	**Director**	**Flight staff**	**Other staff**	Director	Flight staff	Other staff
0 – 1,000	**14**	**9,699**	**8,228**	13	9,122	8,525
1,001 – 1,500	**–**	**486**	**298**	–	662	238
1,501 – 2,000	**–**	**646**	**117**	–	585	112
2,001 – 2,500	**–**	**512**	**68**	1	379	58
2,501 – 3,000	**–**	**331**	**14**	1	291	12
3,001 – 3,500	**–**	**197**	**4**	1	137	10
3,501 – 4,000	**2**	**89**	**7**	–	59	6
4,001 – 4,500	**–**	**21**	**2**	–	19	2
4,501 – 5,000	**–**	**3**	**3**	–	3	4
5,001 – 5,500	**–**	**1**	**2**	–	1	3
5,501 – 6,000	**–**	**–**	**1**	–	–	1
6,001 – 6,500	**–**	**–**	**2**	–	–	1
6,501 – 7,000	**1**	**–**	**–**	–	–	2
7,001 – 7,500	**2**	**–**	**–**	–	–	–
7,501 – 8,000	**–**	**–**	**1**	1	–	–
8,001 – 8,500	**–**	**–**	**1**	–	–	–
9,501 – 10,000	**–**	**–**	**–**	1	–	–
11,001 – 11,500	**–**	**–**	**–**	1	–	–
11,501 – 12,000	**1**	**–**	**–**	–	–	–
	20	**11,985**	**8,748**	19	11,258	8,974

31. 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:

	2011		2010	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Turnover	**287**	**23**	219	8
Aircraft maintenance costs	**2**	**2,287**	666	1,152
Route operating costs	**584**	**–**	540	–
Dividends received	**(417)**	**–**	(132)	–
Fixed assets purchase	**–**	**1**	1	–

(b) Other transactions with related parties

(i) The Company had an agreement for services with JSSHK ("JSSHK Services Agreement"). Under the JSSHK Services Agreement, the Company paid fees and reimbursed costs to JSSHK in exchange for services provided. Service fees calculated at 2.5% of the Group's profit before tax, results of associates, non-controlling interests, and any profits and losses on disposal of fixed assets are paid annually. For the year ended 31st December 2011, service fees of HK$136 million (2010: HK$293 million) were paid and expenses of HK$146 million (2010: HK$139 million) were reimbursed at cost; in addition, HK$55 million (2010: HK$57 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 38.

(ii) Under the HAECO Framework Agreement with HAECO, the Group paid fees to HAECO group in exchange for maintenance services provided to the Group's aircraft fleets. Service fees paid to HAECO group for the year ended 31st December 2011 were HK$2,287 million (2010: HK$1,818 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 2011 totalled HK$356 million (2010: HK$403 million). The amounts receivable from Air China group for the year ended 31st December 2011 totalled HK$287 million (2010: HK$219 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 2011 are disclosed in notes 21 and 24 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 2011 are disclosed in note 32(b) 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 29 to the accounts.

32. Commitments and contingencies

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

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Authorised and contracted for	**99,272**	75,290	**5,701**	3,913
Authorised but not contracted for	**17,175**	11,958	**8,962**	8,987
	116,447	87,248	**14,663**	12,900

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

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

	Group		Company	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Subsidiaries	**–**	–	**4,120**	4,235
Associates	**489**	62	**489**	62
Staff	**200**	200	**200**	200
	689	262	**4,809**	4,497

(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.

In December 2008, the Company received a Statement of Claim from the New Zealand Commerce Commission ("NZCC") with regard to the Company's air cargo operations. The Company, with the assistance of legal counsel, has responded. In May – June 2011, the first stage trial in this matter was heard in the Auckland High Court. In August 2011, the Auckland High Court issued its first stage decision, holding that it had jurisdiction over all claims brought by the NZCC.

In 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.

In May 2010, the Korean Fair Trade Commission ("KFTC") announced it will fine several airlines, including Cathay Pacific, for their air cargo pricing practices. In November 2010, KFTC issued a written decision and Cathay Pacific's fine was KRW 5.35 billion (equivalent to 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.

32. Commitments and contingencies *(continued)*

On 9th November 2010, the European Commission announced that it had issued a decision in its airfreight investigation finding that, amongst other things, the Company and a number of other international cargo carriers agreed to cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57,120,000 (equivalent to HK$618 million at the exchange rate current as of the date of the announcement) on the Company. The Company 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, the United Kingdom, the Netherlands 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.

33. 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 32 to the accounts. Collateral and guarantees received in respect of credit terms granted as at 31st December 2011 is HK$1,208 million (2010: HK$1,173 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.

33. 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 analysis is performed on the same basis for 2010. The undiscounted payment profile of financial liabilities is outlined as follows:

	2011				
	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	**(6,024)**	**(2,617)**	**(7,431)**	**(3,749)**	**(19,821)**
Obligations under finance leases	**(2,916)**	**(3,134)**	**(8,817)**	**(12,527)**	**(27,394)**
Other long-term payables	**–**	**(251)**	**(415)**	**(240)**	**(906)**
Trade and other payables	**(16,282)**	**–**	**–**	**–**	**(16,282)**
Derivative financial liabilities, net	**(1,119)**	**(459)**	**(618)**	**(76)**	**(2,272)**
Total	**(26,341)**	**(6,461)**	**(17,281)**	**(16,592)**	**(66,675)**

	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	(3,041)	(2,676)	(7,959)	(12,607)	(26,283)
Other long-term payables	–	(97)	–	–	(97)
Trade and other payables	(14,382)	–	–	–	(14,382)
Derivative financial liabilities, net	(1,254)	(679)	(195)	99	(2,029)
Total	(24,652)	(8,491)	(13,003)	(14,304)	(60,450)

33. Financial risk management *(continued)*

	2011				
	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	**(4,514)**	**(1,538)**	**(4,993)**	**(874)**	**(11,919)**
Obligations under finance leases	**(4,635)**	**(4,139)**	**(11,639)**	**(15,480)**	**(35,893)**
Other long-term payables	**–**	**–**	**(152)**	**(240)**	**(392)**
Trade and other payables	**(13,418)**	**–**	**–**	**–**	**(13,418)**
Derivative financial liabilities, net	**(1,084)**	**(426)**	**(573)**	**(76)**	**(2,159)**
Total	**(23,651)**	**(6,103)**	**(17,357)**	**(16,670)**	**(63,781)**

	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	(4,408)	(3,529)	(10,095)	(14,087)	(32,119)
Trade and other payables	(11,559)	–	–	–	(11,559)
Derivative financial liabilities, net	(1,226)	(655)	(146)	99	(1,928)
Total	(22,241)	(8,457)	(13,109)	(14,429)	(58,236)

33. 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 dollars and the United States dollars would be materially unaffected by any changes in movement in value of the United States dollars against other currencies. The currencies giving rise to this risk in 2011 and 2010 are primarily US dollars, Euros, New Taiwan dollars, Australian 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:

	2011					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**AUD HK$M**	**RMB HK$M**	**JPY HK$M**
Group						
Trade debtors, other receivables and prepayments	**6,908**	**635**	**198**	**200**	**299**	**522**
Liquid funds	**12,663**	**40**	**93**	**67**	**2,290**	**612**
Long-term loans	**(6,787)**	**–**	**–**	**–**	**–**	**(1,350)**
Obligations under finance leases	**(21,611)**	**(3,034)**	**–**	**–**	**–**	**–**
Trade creditors and other payables	**(6,019)**	**(395)**	**(92)**	**(161)**	**(487)**	**(223)**
Currency derivatives at notional value	**26,913**	**(489)**	**(4,338)**	**(2,089)**	**(5,039)**	**(11,028)**
Net exposure	**12,067**	**(3,243)**	**(4,139)**	**(1,983)**	**(2,937)**	**(11,467)**

	2010					
	USD HK$M	EUR HK$M	TWD HK$M	AUD HK$M	RMB HK$M	JPY HK$M
Group						
Trade debtors, other receivables and prepayments	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	(19,390)	(3,253)	–	–	–	–
Trade creditors 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	31,160	(4,476)	(5,742)	(4,034)	(8,165)	(11,257)

33. Financial risk management *(continued)*

	2011					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**AUD HK$M**	**RMB HK$M**	**JPY HK$M**
Company						
Trade debtors, other receivables and prepayments	**5,843**	**497**	**175**	**200**	**114**	**518**
Liquid funds	**3,889**	**36**	**89**	**67**	**949**	**608**
Long-term loans	**(3,461)**	**–**	**–**	**–**	**–**	**–**
Obligations under finance leases	**(24,422)**	**(3,592)**	**–**	**–**	**–**	**(1,350)**
Trade creditors and other payables	**(5,503)**	**(390)**	**(63)**	**(161)**	**(142)**	**(211)**
Currency derivatives at notional value	**26,534**	**(489)**	**(4,338)**	**(2,089)**	**(4,573)**	**(11,028)**
Net exposure	**2,880**	**(3,938)**	**(4,137)**	**(1,983)**	**(3,652)**	**(11,463)**

	2010					
	USD HK$M	EUR HK$M	TWD HK$M	AUD HK$M	RMB HK$M	JPY HK$M
Company						
Trade debtors, other receivables and prepayments	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 creditors 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)

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 US dollars, Euros, New Taiwan dollars, Australian dollars, Renminbi and Japanese yen. 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 2011 would have resulted in a net increase in 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 2010.

33. Financial risk management *(continued)*

	2011	
	Profit and loss HK$M	**Other equity components HK$M**
US dollars	**448**	**(903)**
Euros	**1**	**135**
New Taiwan dollars	**(10)**	**197**
Australian dollars	**(3)**	**90**
Renminbi	**(107)**	**226**
Japanese yen	**(45)**	**584**
Net increase	**284**	**329**

	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
Net increase	5	248

(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	
	2011 HK$M	2010 HK$M	**2011 HK$M**	2010 HK$M
Fixed rate instruments				
Long-term loans	**(658)**	(908)	**(658)**	(908)
Obligations under finance leases	**(10,510)**	(11,443)	**(13,087)**	(14,784)
Interest rate and currency swaps	**(18,855)**	(10,625)	**(18,119)**	(10,016)
Net exposure	**(30,023)**	(22,976)	**(31,864)**	(25,708)

33. Financial risk management *(continued)*

	Group		Company	
	2011 **HK$M**	2010 HK$M	**2011** **HK$M**	2010 HK$M
Variable rate instruments				
Liquid funds	**19,597**	24,198	**8,848**	9,140
Long-term loans	**(18,032)**	(16,078)	**(10,797)**	(11,361)
Obligations under finance leases	**(14,135)**	(11,200)	**(18,109)**	(11,849)
Interest rate and currency swaps	**19,192**	11,762	**18,542**	11,236
Bank overdrafts	**–**	(4)	**–**	(4)
Net exposure	**6,622**	8,678	**(1,516)**	(2,838)

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 2010.

	2011		2010	
	Profit and loss HK$M	**Other equity components HK$M**	Profit and loss HK$M	Other equity components HK$M
Variable rate instruments	**(108)**	**230**	(88)	167

(iii) Fuel price risk

Fuel accounted for 41.5% of the Group's total operating expenses (2010: 35.6%). 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.

Sensitivity analysis for jet fuel price derivatives

A net increase of five percent in the jet fuel price at the reporting date would have increased profit and loss and other equity components while a net decrease of five percent in the jet fuel price at the reporting date would have decreased profit and loss and other equity components for the year by the amounts shown below. These amounts represent the change in fair value of fuel derivatives at the reporting date.

	2011		2010	
	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	**97**	**119**	13	453
Net decrease in jet fuel price	**(74)**	**(118)**	(14)	(444)

33. Financial risk management *(continued)*

(d) Hedge accounting

The carrying values of financial assets/(liabilities) designated as cash flow hedges as at 31st December 2011 were as follows:

	2011 HK$M	2010 HK$M
Foreign currency risk		
– long-term liabilities (natural hedge)	**(2,303)**	(2,595)
– cross currency swaps	**(1,062)**	110
– foreign currency forward contracts	**(231)**	(1,211)
Interest rate risk		
– interest rate swaps	**(695)**	(176)
Fuel price risk		
– fuel options	**749**	1,301
Others		
– carbon offsets	**(168)**	(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 2011 HK$M	**Fair value 2011 HK$M**	Carrying amount 2010 HK$M	Fair value 2010 HK$M
Group				
Loan receivable	**780**	**875**	–	–
Long-term loans	**(18,690)**	**(19,202)**	(16,986)	(17,236)
Obligations under finance leases	**(30,323)**	**(31,716)**	(28,498)	(29,846)
Pledged security deposits	**5,678**	**6,198**	5,855	6,577

	Carrying amount 2011 HK$M	**Fair value 2011 HK$M**	Carrying amount 2010 HK$M	Fair value 2010 HK$M
Company				
Loan receivable	**780**	**875**	–	–
Long-term loans	**(11,455)**	**(11,689)**	(12,269)	(12,403)
Obligations under finance leases	**(32,066)**	**(34,805)**	(27,593)	(30,166)
Pledged security deposits	**870**	**1,166**	960	1,267

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

33. 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 2011 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			
	2011 Level 1 HK$M	2011 Level 2 HK$M	2011 Level 3 HK$M	2011 Total HK$M	2011 Level 1 HK$M	2011 Level 2 HK$M	2011 Level 3 HK$M	2011 Total HK$M
Assets								
Investments at fair value								
– listed	**136**	**–**	**–**	**136**	**–**	**–**	**–**	**–**
– unlisted	**–**	**–**	**1,062**	**1,062**	**–**	**963**	**–**	**963**
Liquid funds								
– funds with investment managers	**–**	**7,778**	**–**	**7,778**	**–**	**–**	**–**	**–**
– other liquid investments	**–**	**1,515**	**–**	**1,515**	**–**	**1,242**	**–**	**1,242**
Derivative financial assets	**–**	**2,230**	**–**	**2,230**	**–**	**2,230**	**–**	**2,230**
	136	**11,523**	**1,062**	**12,721**	**–**	**4,435**	**–**	**4,435**
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	**–**	**(4,156)**	**–**	**(4,156)**	**–**	**(4,156)**	**–**	**(4,156)**
Derivative financial liabilities	**–**	**(2,888)**	**–**	**(2,888)**	**–**	**(2,790)**	**–**	**(2,790)**
	–	**(7,044)**	**–**	**(7,044)**	**–**	**(6,946)**	**–**	**(6,946)**

33. Financial risk management *(continued)*

	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)

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 2011	**1,232**	**1,133**
Net unrealised gains or losses recognised in other comprehensive income during the year	**(170)**	**(170)**
At 31st December 2011	**1,062**	**963**

	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

34. Capital risk management

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

The Group regards the net debt/equity ratio as the key measurement of capital risk management. The definition of net debt/equity ratio is shown on page 103 and a ten year history is included on pages 98 and 99 of the annual report.

35. 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 2015. 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.

36. Event after the reporting period

In January 2012, an agreement was entered into under which a wholly owned subsidiary of the Company agreed to purchase six Airbus A350-900 aircraft. The catalogue price of these aircraft is approximately HK$12,698 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 2011

Subsidiaries

	Place of incorporation/ establishment 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 Lease Finance Limited	Hong Kong	Aircraft leasing facilitator	100	1 share of HK$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 MTN Financing Limited	Cayman Islands	Financial services	100	1 share of US$1
Asia Miles 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 owned 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 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.

All shares are ordinary shares unless otherwise stated.

* *Shareholding held through subsidiaries.*

Associates

	Place of incorporation/ establishment and operation	Principal activities	Percentage of issued capital owned
Air China Limited	People's Republic of China	Airline	20#
Air China Cargo Co., Ltd.	People's Republic of China	Cargo carriage service	25**
CKTS 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.*

** *Shareholding held through subsidiary at 25%, another 24% held through an economic interest with total holding at 49%.*

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

Statistics

		2011	2010
Consolidated profit and loss summary	*HK$M*		
Passenger services		**67,778**	59,354
Cargo services		**25,980**	25,901
Catering, recoveries and other services		**4,648**	4,269
Turnover		**98,406**	89,524
Operating expenses		**(92,906)**	(78,471)
Operating profit/(loss)		**5,500**	11,053
Profit on disposal of investments		**–**	2,165
Gain on deemed disposal of an associate		**–**	868
Net finance charges		**(744)**	(978)
Share of profits/(losses) of associates		**1,717**	2,587
Profit/(loss) before tax		**6,473**	15,695
Taxation		**(803)**	(1,462)
Profit/(loss) for the year		**5,670**	14,233
Profit attributable to non-controlling interests		**(169)**	(185)
Profit/(loss) attributable to owners of Cathay Pacific		**5,501**	14,048
Dividends paid		**(3,777)**	(1,691)
Movement in retained profit/(loss) for the year		**1,724**	12,357
Consolidated statement of financial position summary	*HK$M*		
Fixed and intangible assets		**82,099**	74,116
Long-term receivables and investments		**23,677**	17,285
Borrowings		**(43,335)**	(39,629)
Liquid funds less bank overdrafts		**19,597**	24,194
Net borrowings		**(23,738)**	(15,435)
Net current liabilities (excluding liquid funds and bank overdrafts)		**(16,685)**	(14,022)
Other long-term payables		**(2,612)**	(1,700)
Deferred taxation		**(6,797)**	(5,815)
Net assets		**55,944**	54,429
Financed by:			
Funds attributable to owners of Cathay Pacific		**55,809**	54,274
Non-controlling interests		**135**	155
Total equity		**55,944**	54,429
Per share			
Shareholders' funds	*HK$*	**14.19**	13.80
EBITDA	*HK$*	**3.40**	5.85
Earnings/(loss)	*HK cents*	**139.8**	357.1
Dividend	*HK$*	**0.52**	1.11
Ratios			
Profit/(loss) margin	*%*	**5.6**	15.7
Return on capital employed	*%*	**8.6**	22.0
Dividend cover	*Times*	**2.7**	3.2
Cash interest cover	*Times*	**41.7**	35.2
Gross debt/equity ratio	*Times*	**0.78**	0.73
Net debt/equity ratio	*Times*	**0.43**	0.28

2009	2008	2007	2006	2005	2004	2003	2002
45,920	57,964	49,520	38,755	32,005	26,879	18,920	22,811
17,255	24,623	21,783	18,385	15,773	12,965	10,704	9,908
3,803	3,976	4,055	3,643	3,131	2,917	2,726	2,813
66,978	86,563	75,358	60,783	50,909	42,761	32,350	35,532
(62,499)	(94,592)	(67,619)	(55,565)	(46,766)	(37,514)	(30,125)	(30,782)
4,479	(8,029)	7,739	5,218	4,143	5,247	2,225	4,750
1,254	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
(847)	(1,012)	(787)	(465)	(444)	(583)	(620)	(743)
261	(764)	1,057	301	269	298	126	269
5,147	(9,805)	8,009	5,054	3,968	4,962	1,731	4,276
(283)	1,333	(799)	(782)	(500)	(446)	(384)	(273)
4,864	(8,472)	7,210	4,272	3,468	4,516	1,347	4,003
(170)	(224)	(187)	(184)	(170)	(99)	(44)	(20)
4,694	(8,696)	7,023	4,088	3,298	4,417	1,303	3,983
–	(2,438)	(2,245)	(2,992)	(2,196)	(2,189)	(1,035)	(701)
4,694	(11,134)	4,778	1,096	1,102	2,228	268	3,282
73,345	73,821	70,170	65,351	50,416	50,607	50,176	48,905
14,349	14,530	15,015	12,232	7,184	7,332	4,473	4,783
(42,642)	(40,280)	(36,368)	(31,943)	(22,455)	(22,631)	(26,297)	(22,810)
16,511	15,082	21,637	15,595	13,405	11,444	15,186	13,164
(26,131)	(25,198)	(14,731)	(16,348)	(9,050)	(11,187)	(11,111)	(9,646)
(12,864)	(16,887)	(13,094)	(9,019)	(6,767)	(6,381)	(4,439)	(3,896)
(1,059)	(4,606)	(1,490)	(170)	(72)	(102)	(181)	(346)
(5,255)	(4,831)	(6,621)	(6,508)	(6,460)	(7,280)	(7,762)	(7,614)
42,385	36,829	49,249	45,538	35,251	32,989	31,156	32,186
42,238	36,709	49,071	45,386	34,968	32,855	31,052	32,115
147	120	178	152	283	134	104	71
42,385	36,829	49,249	45,538	35,251	32,989	31,156	32,186
10.74	9.33	12.45	11.53	10.34	9.75	9.29	9.63
2.97	(0.91)	3.46	2.78	2.49	2.79	1.86	2.69
119.3	(221.0)	178.3	115.9	97.7	131.4	39.0	119.5
0.10	0.03	0.84	0.84	0.48	0.65	0.48	0.44
7.0	(10.0)	9.3	6.7	6.5	10.3	4.0	11.2
8.7	(11.8)	12.6	8.9	8.8	11.8	4.7	10.8
11.9	(73.7)	2.1	1.2	2.0	2.0	0.8	2.7
5.1	3.7	14.2	15.1	17.1	14.6	7.2	10.1
1.01	1.10	0.74	0.70	0.64	0.69	0.85	0.71
0.62	0.69	0.30	0.36	0.26	0.34	0.36	0.30

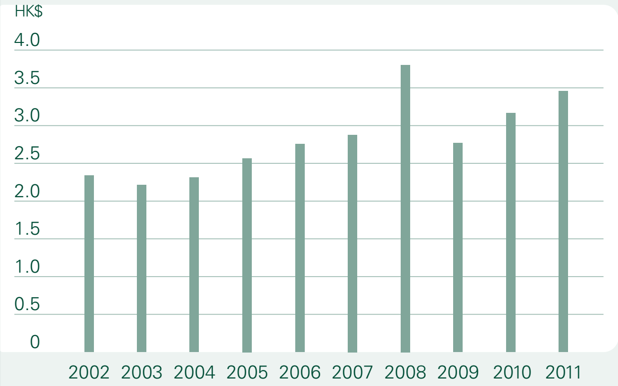
		2011	2010
Cathay Pacific and Dragonair operating summary*			
Available tonne kilometres	*Million*	**26,383**	24,461
Revenue tonne kilometres	*Million*	**19,309**	19,373
Available seat kilometres	*Million*	**126,340**	115,748
Revenue passengers carried	*'000*	**27,581**	26,796
Revenue passenger kilometres	*Million*	**101,536**	96,588
Revenue load factor	*%*	**77.0**	81.1
Passenger load factor	*%*	**80.4**	83.4
Cargo and mail carried	*'000 tonnes*	**1,649**	1,804
Cargo and mail revenue tonne kilometres	*Million*	**9,648**	10,175
Cargo and mail load factor	*%*	**67.2**	75.7
Excess baggage carried	*Tonnes*	**3,103**	4,053
Kilometres flown	*Million*	**494**	464
Block hours	*'000 hours*	**695**	652
Aircraft departures	*'000*	**146**	138
Length of scheduled routes network	*'000 kilometres*	**568**	535
Destinations at year end	*Number*	**167**	146
Staff number at year end	*Number*	**23,015**	21,592
ATK per staff	*'000*	**1,184**	1,165
On-time performance*			
Departure (within 15 minutes)	*%*	**82.0**	80.9
Average aircraft utilisation*	*Hours per day*		
A320-200		**8.9**	8.2
A321-200		**8.4**	8.6
A330-300		**12.1**	11.6
A340-300		**13.0**	13.8
A340-600		**–**	–
747-400		**13.7**	13.2
747-200F/300SF		**–**	–
747-400F/BCF		**13.8**	14.4
777-200/300		**8.2**	8.0
777-300ER		**15.7**	15.3
Fleet average		**12.3**	12.0

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

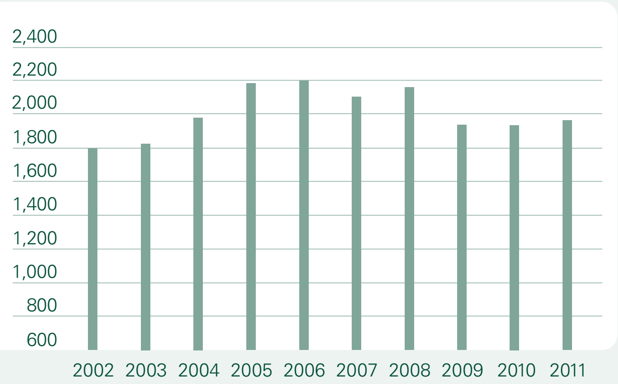
		2011	2010
Fleet profile			
Aircraft operated by Cathay Pacific:			
A330-300		**33**	32
A340-300		**13**	15
A340-600		**–**	–
747-400		**21**	22
747-200F		**–**	–
747-400F		**6**	6
747-400BCF		**8**	12
747-400ERF		**6**	6
747-8F		**4**	–
777-200		**5**	5
777-300		**12**	12
777-300ER		**24**	18
Total		**132**	128
Aircraft operated by Dragonair:			
A320-200		**11**	11
A321-200		**6**	6
A330-300		**15**	14
747-200F		**–**	–
747-300SF		**–**	–
747-400BCF		**–**	–
Total		**32**	31

	2009	2008	2007	2006	2005	2004	2003	2002
	22,249	24,410	23,077	19,684	17,751	15,794	13,355	12,820
	16,775	17,499	16,680	14,452	12,813	11,459	9,371	9,522
	111,167	115,478	102,462	91,769	82,766	74,062	59,280	63,050
	24,558	24,959	23,253	18,097	15,438	13,664	10,059	12,321
	89,440	90,975	81,801	72,939	65,110	57,283	42,774	49,041
	77.7	75.1	75.6	76.2	75.2	74.8	71.1	75.9
	80.5	78.8	79.8	79.5	78.7	77.3	72.2	77.8
	1,528	1,645	1,672	1,334	1,139	990	889	862
	8,256	8,842	8,900	7,514	6,618	6,007	5,299	4,854
	70.8	65.9	66.7	68.6	67.0	68.7	68.7	71.2
	3,883	2,963	2,310	2,218	2,489	2,530	2,190	2,401
	431	460	422	357	317	285	238	237
	605	649	598	489	431	386	322	322
	130	138	131	98	84	77	65	68
	481	453	442	457	403	386	377	374
	122	124	129	125	92	90	87	62
	20,907	21,309	19,840	18,992	15,806	15,054	14,673	14,649
	1,053	1,185	1,194	1,173	1,147	1,066	903	885
	86.8	81.4	83.9	85.2	86.1	90.3	91.0	90.7
	8.0	8.4	8.5	8.2	–	–	–	–
	7.8	8.4	8.9	8.9	–	–	–	–
	10.8	10.9	10.7	11.2	10.8	10.1	9.2	10.1
	12.2	14.7	15.3	14.9	15.1	13.6	12.4	13.3
	–	11.4	14.4	14.9	15.3	13.6	11.7	6.3
	12.9	14.1	14.5	14.9	14.7	13.9	12.8	14.1
	5.4	7.5	10.8	11.8	11.8	13.3	13.3	13.6
	13.2	13.1	14.0	15.3	16.1	16.3	16.4	15.4
	8.1	8.7	8.4	9.0	9.1	8.8	8.7	9.4
	15.8	14.3	10.7	–	–	–	–	–
	11.2	11.5	11.7	12.5	12.6	12.0	11.4	12.1
	32	32	29	27	26	23	23	20
	15	15	15	15	15	15	15	15
	–	–	3	3	3	3	3	2
	23	23	24	22	22	21	19	19
	–	5	7	7	7	7	6	6
	6	6	6	6	6	5	5	5
	13	10	6	5	1	–	–	–
	6	2	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	5	5	5	5	5	5	5	5
	12	12	12	12	11	10	9	7
	14	9	5	–	–	–	–	–
	126	119	112	102	96	89	85	79
	9	10	10	10	11	10	8	8
	6	6	6	6	6	6	6	4
	14	16	16	16	13	10	9	9
	–	1	1	1	1	1	–	–
	–	–	3	3	3	3	3	3
	–	2	3	1	–	–	–	–
	29	35	39	37	34	30	26	24

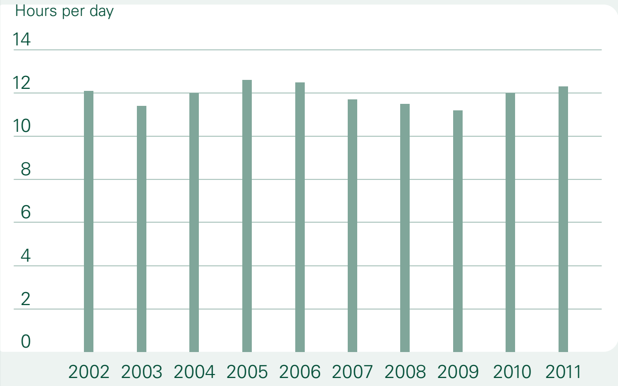
Cost per ATK (with fuel)



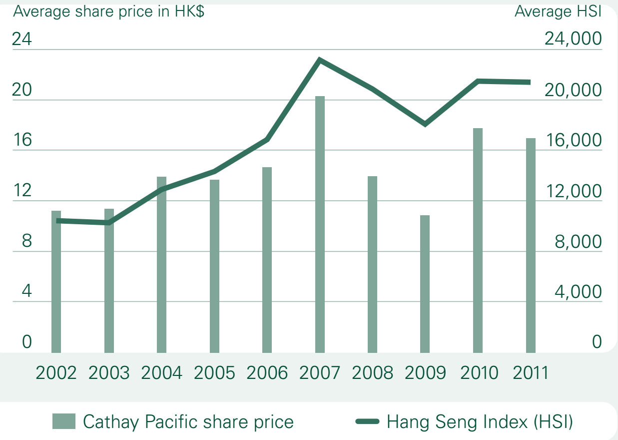
ATK per HK$'000 staff cost



Aircraft utilisation



Share price



		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Productivity*											
Cost per ATK (with fuel)	*HK$*	**3.45**	3.16	2.76	3.80	2.87	2.75	2.56	2.31	2.21	2.33
ATK per HK$'000 staff cost	*Unit*	**1,964**	1,933	1,932	2,160	2,105	2,197	2,183	1,978	1,825	1,798
Aircraft utilisation	*Hours per day*	**12.3**	12.0	11.2	11.5	11.7	12.5	12.6	12.0	11.4	12.1
Share prices	*HK$*										
High		**23.1**	24.1	14.7	20.3	23.1	19.5	15.1	16.4	15.5	13.6
Low		**11.9**	12.8	7.0	7.1	18.3	12.7	12.0	12.5	8.4	9.9
Year-end		**13.3**	21.5	14.5	8.8	20.4	19.2	13.6	14.7	14.8	10.7
Price ratios (Note)	*Times*										
Price/earnings		**9.5**	6.0	12.2	(4.0)	11.4	16.5	13.9	11.2	37.9	9.0
Market capitalisation/ funds attributable to owners of Cathay Pacific		**0.9**	1.6	1.4	0.9	1.6	1.7	1.3	1.5	1.6	1.1
Price/cash flows		**3.4**	4.5	12.7	8.9	5.0	6.1	5.3	4.5	7.8	3.8

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

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Financial calendar

Year ended 31st December 2011	
Annual report available to shareholders	5th April 2012
Annual General Meeting	9th May 2012
Six months ending 30th June 2012	
Interim results announcement	August 2012
Interim dividend payable	October 2012

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