CATHAY PACIFIC

Cathay Pacific Airways Limited

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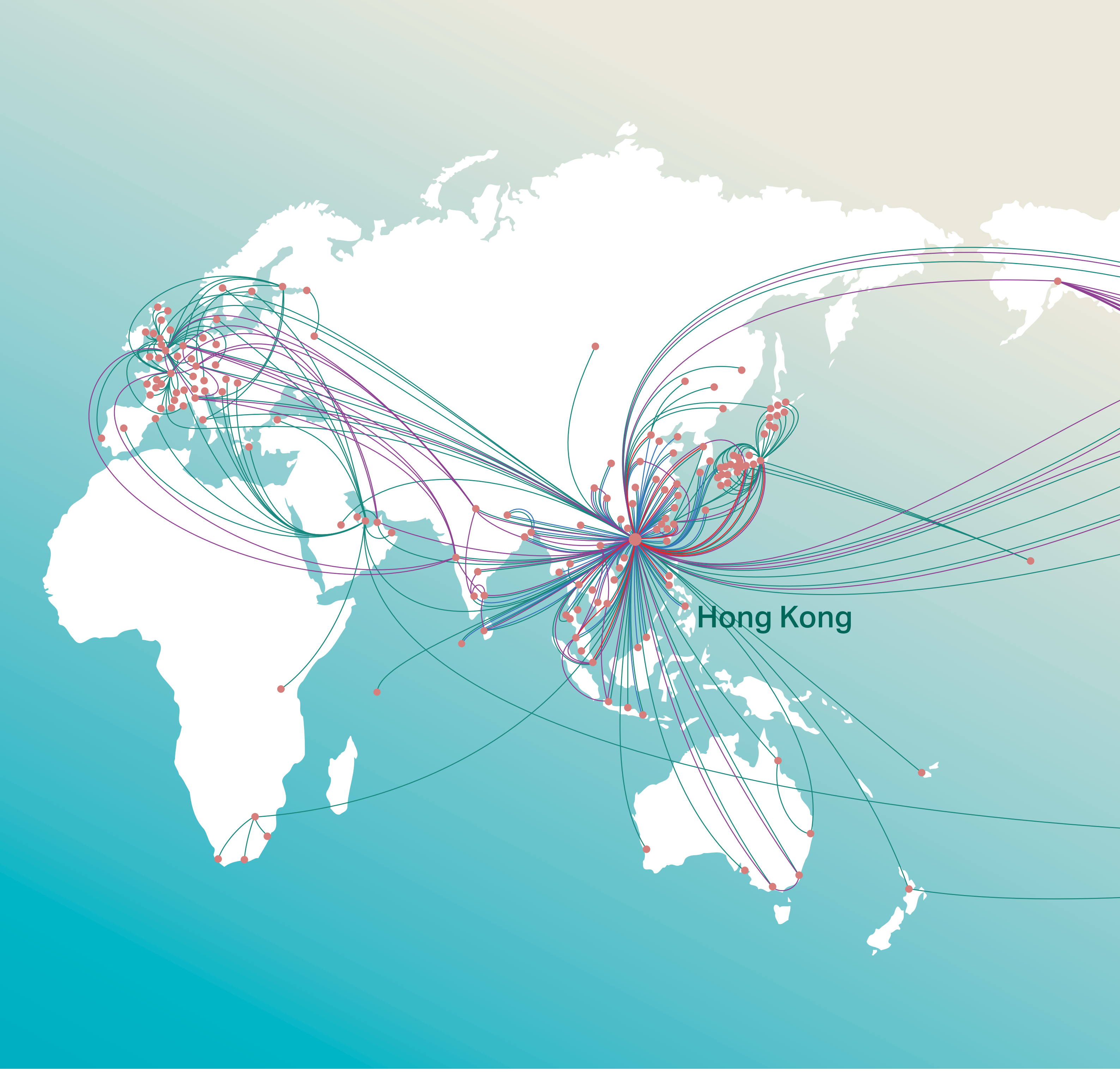

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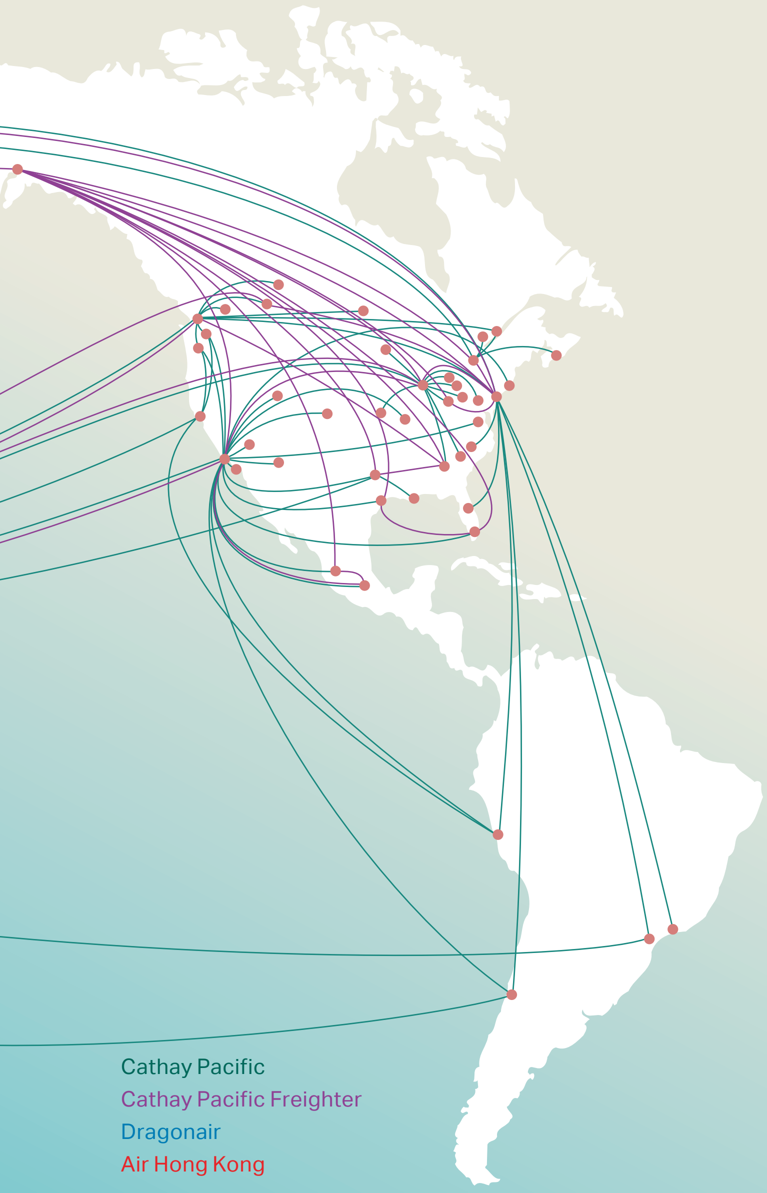


CATHAY PACIFIC

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 203 destinations in 50 countries and territories.

The Company was founded in Hong Kong in 1946 and remains deeply committed to its home base, making substantial investments to develop Hong Kong as one of the world's leading international aviation centres. In addition to its fleet of 147 aircraft, these investments include catering and ground-handling companies and its corporate headquarters and cargo terminal at Hong Kong International Airport. Cathay Pacific continues to invest heavily in its home city and at 31st December 2014 had 79 new aircraft due for delivery up to 2024.

Hong Kong Dragon Airlines Limited ("Dragonair"), a regional airline registered and based in Hong Kong, is a wholly owned subsidiary of Cathay Pacific operating 41 aircraft on scheduled services to 52 destinations in Mainland China and elsewhere in Asia. Cathay Pacific owns 20.13% 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 the majority shareholder in AHK Air Hong Kong Limited ("Air Hong Kong"), an all-cargo carrier offering scheduled services in Asia.

Cathay Pacific and its subsidiaries employ more than 32,900 people worldwide, of whom around 25,400 are employed 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 1,000 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

		2014	2013	Change
Results				
Turnover	*HK$ million*	**105,991**	100,484	**+5.5%**
Profit attributable to the shareholders of Cathay Pacific	*HK$ million*	**3,150**	2,620	**+20.2%**
Earnings per share	*HK cents*	**80.1**	66.6	**+20.3%**
Dividend per share	*HK$*	**0.36**	0.22	**+63.6%**
Profit margin	*%*	**3.0**	2.6	**+0.4%pt**
Financial position				
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**51,722**	62,888	**-17.8%**
Net borrowings	*HK$ million*	**43,998**	39,316	**+11.9%**
Shareholders' funds per share	*HK$*	**13.1**	15.9	**-17.6%**
Net debt/equity ratio	*Times*	**0.85**	0.63	**+0.22 times**

Operating Statistics – Cathay Pacific and Dragonair

		2014	2013	Change
Available tonne kilometres ("ATK")	*Million*	**28,440**	26,259	**+8.3%**
Available seat kilometres ("ASK")	*Million*	**134,711**	127,215	**+5.9%**
Revenue passengers carried	*'000*	**31,570**	29,920	**+5.5%**
Passenger load factor	*%*	**83.3**	82.2	**+1.1%pt**
Passenger yield	*HK cents*	**67.3**	68.5	**-1.8%**
Cargo and mail carried	*'000 tonnes*	**1,723**	1,539	**+12.0%**
Cargo and mail load factor	*%*	**64.3**	61.8	**+2.5%pt**
Cargo and mail yield	*HK$*	**2.19**	2.32	**-5.6%**
Cost per ATK (with fuel)	*HK$*	**3.50**	3.58	**-2.2%**
Cost per ATK (without fuel)	*HK$*	**2.12**	2.16	**-1.9%**
Aircraft utilisation	*Hours per day*	**12.2**	11.8	**+3.4%**
On-time performance	*%*	**70.1**	75.5	**-5.4%pt**
Average age of fleet	*Years*	**9.1**	9.3	**-2.2%**
GHG emissions	*Million tonnes of CO_2e*	**15.0**	15.5	**-3.2%**
GHG emissions per ATK	*Grammes of CO_2e*	**576**	589	**-2.2%**
Lost time injury rate	*Number of injuries per 100 full-time equivalent employees*	**3.67**	4.84	**-24.2%**

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$3,150 million for 2014. This compares to a profit of HK$2,620 million in 2013. Earnings per share were HK80.1 cents compared to HK66.6 cents in 2013. Turnover for the year increased by 5.5% to HK$105,991 million.

In the first half of 2014 our business was affected by high fuel prices, reduced passenger yield and continued weakness and over-capacity in the air cargo market. Our business is normally better in the second half than in the first half. This was the case in 2014. For the full year, passenger demand was reasonably firm, with high demand during the peak summer and Christmas periods. After a prolonged period of weakness, cargo demand started to improve in the summer of 2014 and was strong in the fourth quarter, which is the peak period for cargo. Our business benefited from lower fuel prices in the fourth quarter, but this was partially offset by fuel hedging losses.

The Group's passenger revenue for 2014 increased by 5.4% to HK$75,734 million. Capacity increased by 5.9% as a result of the introduction of new routes (to Doha, Manchester and Newark) and increased frequencies on some existing routes. The load factor increased by 1.1 percentage points to 83.3% and the number of passengers carried increased by 5.5% to 31.6 million. Yield decreased by 1.8% to HK67.3 cents despite an improvement in the second half compared to the first half of the year. Passenger demand was strong in all classes of travel on long-haul routes. However, the increase in passenger numbers did not match the increase in capacity on North American routes. Strong competition put downward pressure on yield on regional routes.

After a prolonged period of weakness, cargo demand started to improve in the summer of 2014 and was very strong in the fourth quarter. The Group's cargo revenue in 2014 increased by 7.3% to HK$25,400 million compared to the previous year. Over-capacity in the air cargo market put downward pressure on rates in the first half of the year. Yield for the full year for Cathay Pacific and Dragonair decreased by 5.6% to HK$2.19, despite improved cargo demand in the second half. Capacity increased by 10.4%. The load factor increased by 2.5 percentage points to 64.3%. We managed capacity in line with demand in the first half of 2014, but were able to operate an almost full freighter schedule for most of the second half. Our new cargo terminal worked effectively in its first full year of operation and made our cargo operations more efficient.

Fuel is the Group's most significant cost and our fuel costs in 2014 (disregarding the effect of fuel hedging) increased by 0.7% compared to 2013, significantly below the increase in passenger and cargo capacity of 5.9% and 10.4% respectively. Fuel consumption increased because more flights were operated, but the introduction of more fuel-efficient aircraft and the retirement of less fuel-efficient aircraft moderated the increase. We also benefited from lower fuel costs in the fourth quarter. Fuel accounted for 39.2% of our total operating costs, compared to 39.0% in 2013. Managing the risk associated with high and volatile fuel prices is a priority. Our fuel hedging contracts extend to 2018. The sharp reduction in fuel prices in the fourth quarter of 2014 caused a very welcome net benefit to overall profits. However, it resulted in losses on our hedging contracts. It also resulted in significant unrealised hedging losses. These unrealised losses are reflected in the consolidated statement of financial position at 31st December 2014 and caused a reduction in our consolidated net assets.

We continue to invest heavily in our fleet. We took delivery of 16 new aircraft in 2014: nine Boeing 777-300ER aircraft, five Airbus A330-300 aircraft and (for Dragonair) two Airbus A321-200 aircraft. Six Boeing 747-400 passenger aircraft were retired during the period. In 2013, we agreed to sell our six Boeing 747-400F freighters back to The Boeing Company. One of them was delivered in November 2014. Two of the remaining freighters are parked and all five of them will have left the fleet by the end of 2016. At 31st December 2014 we had 79 new aircraft on order for delivery up to 2024. A total of nine new aircraft are scheduled for delivery in 2015.

We continue to develop our passenger and cargo networks. In 2014, Cathay Pacific introduced passenger services to Doha, Manchester and Newark. We will introduce passenger services to Zurich in March 2015, to Boston in May 2015 and to Dusseldorf in September 2015. We reorganised our network in the Middle East in 2014. We stopped flights to Abu Dhabi and Jeddah but improved our schedules on other Middle Eastern routes. We stopped flying to Karachi. The Los Angeles service was increased to four-times-daily from June 2014. The San Francisco service will be increased to 17-times-weekly in June 2015. Dragonair started flying to Denpasar-Bali and Penang (replacing Cathay Pacific on the latter route), increased frequencies on a number of other routes and will introduce a daily service to Haneda in Tokyo in March 2015. Dragonair will stop operating to Manila in March 2015. Cathay Pacific tagged Mexico City onto its Guadalajara cargo service in March 2014 and increased this service to five flights per week in October 2014. We introduced cargo services to Columbus in March 2014, to Calgary in October 2014, to Phnom Penh in November 2014 and to Kolkata in March 2015.

We continue to invest heavily in our product and brand. We have completed the installation of new or refreshed seats in all Cathay Pacific's aircraft which started in 2011. We will install new cabins in our Airbus A350 aircraft, which are expected to start being delivered in February 2016. At 31st December 2014, new business and economy class seats had been installed in all Dragonair Airbus A330-300 and six A321-200 aircraft and new first class seats had been installed in six Dragonair Airbus A330-300 aircraft. In November 2014 we started to install new business and economy class seats in Dragonair's Airbus A320-200 aircraft and expect the installation to be completed in 2018. In October 2014 we introduced a refreshed logo for Cathay Pacific. This is part of a new approach to design, to be seen for example on our website, in our new lounge at Haneda in Tokyo and in our refurbished first class lounge in The Pier at Hong Kong International Airport, which will open in June 2015.

The contribution from Air China (the results of which are included in the Group's results three months in arrear) was below expectations in 2014. Air China's results were adversely affected by a difficult operating environment and substantial exchange losses caused by the depreciation of the Renminbi in the early part of the year. As the year progressed, Air China's results improved as a result of lower fuel prices. In 2014 we and Air China made a substantial injection of capital and loans into Air China Cargo (our cargo joint venture with Air China). This capital injection provided funds to enable the carrier to buy new aircraft and improve the performance of its cargo business. Operational efficiency at Air China Cargo has been improved by the replacement of three Boeing 747-400BCF converted freighters with four Boeing 777-200F freighters in 2014. Air China Cargo also benefited from the general improvement in the air cargo market which began in the summer of 2014.

Prospects

It was encouraging to see an overall improvement in our business in 2014. That improvement has continued in the first quarter of this year and we are positive about the overall prospects for 2015. Demand in our cargo business continues to improve and is currently being helped by the congestion in sea ports on the West Coast of the United States. We continue to benefit from the lower net fuel prices. Our associates are also benefiting from these positive factors. While we face growing competition in our passenger business, which makes it harder to maintain yield, overall demand remains strong and the outlook is positive.

In 2014 we continued our efforts to make Cathay Pacific and Dragonair better airlines for our customers. The fact that we won the World's Best Airline award for the fourth time is clear recognition from air travellers worldwide of the work we have put into providing superior products and services. The Group's financial position remains strong, which will enable us to continue with our long-term strategic investment in the business and our commitment to reinforcing Hong Kong's position as one of the world's premier aviation hubs.

John Slosar
Chairman
Hong Kong, 18th March 2015

2014 in Review

The overall business of the Cathay Pacific Group improved in 2014 after a difficult first half. Passenger and cargo revenues increased, but high fuel prices adversely affected results until the fourth quarter of the year. We continued to develop our networks, modernise our fleet and improve our products and services. We continued to invest for long-term success and to strengthen Hong Kong's position as one of the world's leading aviation hubs.

Award-winning products and services

- In July 2013, we started to refresh the first class seats in our Boeing 777-300ER aircraft, aiming to rejuvenate the look and feel of the cabins and to improve bed linen, headsets and seat controls. At 31st December 2014, 28 aircraft had been equipped with refreshed first class seats. The refreshment was completed in March 2015.
- All Cathay Pacific's Boeing 777-300ER and long-haul Airbus A330-300 aircraft have new long-haul business class seats, premium economy class seats and long-haul economy class seats.
- The installation of new regional business class seats was completed in our Boeing 777-300 aircraft in January 2014, in our Airbus A330-300 aircraft in August 2014, and in our Boeing 777-200 aircraft in January 2015.
- Dragonair's first aircraft to be fitted with new first class seats re-entered service in February 2014. This retrofit programme was completed in August 2014.
- The installation of new business class and economy class seats in all Dragonair's Airbus A330-300 aircraft was completed in August 2014. New business and economy class seats are now being installed in Dragonair's Airbus A320-200 aircraft. This started in November 2014 and is expected to be completed in 2018.
- We opened a refurbished lounge at Penang International Airport in January 2014.
- Cathay Pacific jointly developed a new business lounge with Qantas and British Airways at Los Angeles International Airport. It opened in June 2014.
- Cathay Pacific opened a new lounge at Haneda airport in Tokyo in December 2014. This is the only lounge at Haneda airport operated by a non-Japanese airline.
- The first class lounge in The Pier, which was the second Cathay Pacific lounge to open at Hong Kong International Airport, is closed for renovation. It will reopen in June 2015.
- In May 2014, we started to offer streamed digital newspapers and magazines to passengers in our lounges in Hong Kong International Airport. We are extending this service to lounges in other airports.
- In July 2014, Cathay Pacific was named as the World's Best Airline at the Skytrax annual World Airline Awards. This is the fourth time we have received this award, which is decided by public voting.
- During the year, Cathay Pacific was named as the Best Asian Airline Serving China at the Business Traveller China Awards, Inflight Retailer of the Year at the 2014 Frontier Awards, Best North Asian Airline at the TTG Travel Awards and Best Premium Economy, Best Airline Lounge in Asia-Pacific and Best Frequent-Flyer Programme at the Business Traveller Asia-Pacific Travel Awards. Cathay Pacific received the Best Business Class award from Airlineratings.com.
- Dragonair was named as the Best Regional Airline at the TTG Travel Awards – its fifth receipt of this award. The airline also won the Best Airline Economy Class award from Business Traveller China.

Hub development

- The Cathay Pacific Group is committed to the long-term development of Hong Kong International Airport as a premier international hub for passenger and cargo traffic. We continue to develop our networks and frequencies in order to provide customers with more choices and convenience.
- Cathay Pacific fully supports the building of a third runway at Hong Kong International Airport. We welcomed the issue of the environmental permit for the third runway in 2014. We hope that discussions on funding can be concluded quickly in order for this important project to move ahead.
- Keeping our networks intact is a priority. However, we continue to manage capacity in line with demand, making cancellations for commercial reasons where necessary.
- In 2014, the passenger capacity of Cathay Pacific and Dragonair increased by 5.9% compared to 2013, reflecting the introduction of new routes and increased frequencies on existing routes. Cathay Pacific's capacity grew by 5.8%. Dragonair's capacity grew by 6.9%.
- In March 2014, Cathay Pacific introduced a daily service to Doha. We introduced codeshare services with Qatar Airways at the same time.
- We reorganised our network in the Middle East in 2014. We stopped flights to Abu Dhabi and Jeddah but improved our schedules on other Middle Eastern routes.
- We reorganised certain services to Australia. We now operate four-times-weekly direct flights to Adelaide, three-times-daily direct flights to Melbourne and a daily direct flight to Brisbane. There is also a tagged flight between Brisbane and Cairns, four times a week.
- We began using Boeing 777-300ER aircraft on one of our Sydney flights in December 2014, so adding capacity on the route. We will add another Boeing 777-300ER aircraft to the route in October 2015.
- A sixth daily frequency to Seoul was changed from a seasonal to a permanent flight in March 2014. An additional daily flight was added in November 2014, making a total of 49 flights per week.
- A daily flight was added to Osaka in February 2014, with additional flights being added from September 2014. We operated additional flights to Sapporo in July, August and December 2014 in order to meet seasonal demand.
- We reduced capacity on the Bangkok route as political unrest in Thailand affected demand but gradually restored it towards the end of the year. Demand on the Chiang Mai and Phuket routes was not affected by political unrest. We added five flights a week to Manila in October 2014 and three flights a week to Cebu in December 2014.
- We removed the Bangkok tag on one of our two daily flights to Delhi, making all flights to Delhi non-stop.
- We removed the Singapore tag on our Colombo service. We now operate four direct flights per week to Colombo and three tagged flights per week through Bangkok.
- We stopped flying to Karachi in June 2014.
- We introduced a daily service to Newark in March 2014. The Los Angeles service was increased to four-times-daily in June 2014. We will introduce a four-times-weekly service to Boston in May 2015 and will increase our San Francisco service to 17 flights per week in June 2015.
- We introduced a four-times-weekly service to Manchester in December 2014. We will introduce a daily service to Zurich in March 2015 and a four-times-weekly service to Dusseldorf in September 2015. Our capacity on European routes decreased because we used smaller (Boeing 777-300ER) aircraft.
- Cathay Pacific stopped and Dragonair started flying to Penang in March 2014. The schedule and frequency (10 flights per week) remain the same.
- Dragonair introduced a twice-weekly service to Denpasar-Bali in April 2014.
- Dragonair will introduce a daily service to Haneda in Tokyo in March 2015. At the same time it will cease operating to Manila.
- Dragonair's Da Nang service became daily from March 2014. Its service to Siem Reap is four-times-weekly, except in winter, when it is daily. Extra Dragonair flights to Beijing, Kaohsiung and Phuket were introduced. The frequency on Dragonair's Yangon route became daily from September 2014.
- Cathay Pacific tagged Mexico City onto its Guadalajara cargo service in March 2014 and increased this service to five flights per week in October 2014. A twice-weekly cargo service to Columbus in the United States was introduced in March 2014, becoming three flights per

week in June 2014. We stopped cargo flights to Manchester in June 2014. The frequency of cargo flights to Chicago and Los Angeles was increased. We launched new cargo services to Calgary in October 2014, to Phnom Penh in November 2014 and to Kolkata in March 2015.

- 2014 was the first full year of operation of our cargo terminal at Hong Kong International Airport. It made our cargo operations more efficient. It handled 1.45 million tonnes of cargo in 2014. It handles cargo for Cathay Pacific, Dragonair, Air Hong Kong and four other airlines.

Fleet development

- At 31st December 2014, Cathay Pacific operated 147 aircraft, Dragonair operated 41 aircraft and Air Hong Kong operated 13 aircraft. We had 79 new aircraft on order for delivery up to 2024.
- In 2014, we took delivery of 16 new aircraft: nine Boeing 777-300ER aircraft, five Airbus A330-300 aircraft and (for Dragonair) two Airbus A321-200 aircraft.
- Six Boeing 747-400 passenger aircraft were retired in 2014. In 2013, we agreed to sell our six Boeing 747-400F freighters back to The Boeing Company. One of them was delivered in November 2014. Two of the remaining freighters are parked and all five of them will have left the fleet by the end of 2016.
- In 2015 we expect to take delivery of nine new aircraft. Two of them were delivered in February 2015 and one of them was delivered in March 2015. We plan to retire four Boeing 747-400 passenger aircraft in 2015. One of them was retired in January 2015 and three were retired in March 2015.
- In 2014 we decided to accelerate the retirement of our 11 Airbus A340-300 aircraft. Four of these aircraft, one of which was retired in March 2015, will have been retired by the end of 2015 and the remaining seven will have left the fleet by the end of 2017.

Advances in technology

- Airborne trials of our eEnabled aircraft technology and ground systems began in May 2014. In June 2014, we started to evaluate the systems with the Hong Kong Civil Aviation Department. The eEnabled technology will facilitate improvements in working practices and reduce costs. It will be installed in existing aircraft (except Boeing 747-400 and Airbus A340-300 passenger aircraft, which are being retired) and in newly delivered aircraft.
- We introduced a new departure control system for Cathay Pacific and Dragonair.
- We started to develop a new cargo booking system in 2014. It is expected to be in full operation in 2016.
- After a successful trial, we will start using mobile tablet devices in our aircraft in 2015.
- We made improvements to the Cathay Pacific and Dragonair websites in October 2014 and will improve them further in 2015.
- We developed a new Asia Miles website and new mobile apps for Cathay Pacific, Dragonair, Cathay Pacific Cargo and Cathay Pacific Services Limited.
- An app developed for our cabin crew won the Silver Business Solution award at the 2014 Hong Kong ICT Awards and a Merit award at the HK Award for Industries (Innovation and Creativity). Our IT service centre won the Bronze medal award in the Inbound Contact Centre category at the 2014 Hong Kong Call Centre Association Award Ceremony.

Partnerships

- Brazil's TAM became a full member of the **one**world alliance, and US Airways joined as an affiliate member, on 31st March 2014. SriLankan Airlines became a full member of the **one**world alliance in May 2014, the first airline from the Indian subcontinent to join a global alliance.
- Cathay Pacific entered into codeshare arrangements with Qatar Airways in March 2014. The arrangements cover Qatar Airways flights between Doha and Hong Kong, Athens, Barcelona, Budapest, Geneva, Jeddah, Madrid, Nairobi and Venice and Cathay Pacific flights between Hong Kong and Doha, Adelaide, Auckland, Brisbane, Cairns, Melbourne, Nagoya, Osaka, Perth, Seoul, Sydney and Tokyo. In December 2014, the arrangements were extended to Qatar Airways flights between Doha and Copenhagen, Istanbul, Oslo, Stockholm, Vienna and Zagreb. In March 2015, the arrangements were extended to Qatar Airways flights between Doha and Muscat and Sao Paulo.

- American Airlines and Cathay Pacific extended their codeshare arrangements to Cathay Pacific flights between Hong Kong and Newark in April 2014, to American Airlines flights between Hong Kong and Dallas/Fort Worth in June 2014 and to Cathay Pacific flights between Hong Kong and India in December 2014. The arrangements will be extended to Cathay Pacific flights between Hong Kong and Boston in May 2015.
- Japan Airlines and Cathay Pacific extended their codeshare arrangements to Cathay Pacific flights between Hong Kong and Male and Perth in March 2014.
- Finnair and Cathay Pacific extended their codeshare arrangements to Cathay Pacific flights between Hong Kong and Auckland in March 2014.
- Cathay Pacific added its code on Air China flights between Beijing and Jiamusi and Qiqihar in November 2014.
- In December 2014, Cathay Pacific entered into codeshare arrangements with Flybe. The arrangements cover Flybe flights between Manchester and Aberdeen, Belfast, Edinburgh, Exeter, Inverness, the Isle of Man and Southampton. In January 2015, the arrangements were extended to cover Flybe flights between Paris and Birmingham, Manchester and Exeter, and between Amsterdam and Birmingham and Southampton.
- In January 2015, Dragonair entered into codeshare arrangements with Shenzhen Airlines covering Shenzhen Airlines flights between Hong Kong and Jinjiang.

Environment

- Cathay Pacific is involved in the Global Market-Based Measure Technical Task Force, under the auspices of the International Civil Aviation Organization. This task force is leading the industry's work to develop airlines' commitment to carbon neutral growth by 2020 and in developing proposals for a fair and equitable global agreement on emissions.
- Cathay Pacific engages with groups (the IATA Environment Committee, the Airlines Advisory Group on Global Market-Based Measures, the Sustainable Aviation Fuel Users Group, the Roundtable on Sustainable Biomaterials and the Association of Asia Pacific Airlines) involved in shaping climate change and aviation policy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- Cathay Pacific supports market-based measures as an interim solution to reduce aviation's emissions, but does not support the imposition of the European Union's Emissions Trading Scheme (EU ETS) on airlines based outside Europe. Hence, we welcomed the deferment of the start of EU ETS (except as it relates to intra-European flights) until 2016.
- In compliance with the amended EU ETS for intra-European flights, the verification of our 2014 emissions data by an external auditor was completed in February 2015 and our emissions reports were submitted to the UK Environment Agency in March 2015.
- A decal signifying our participation in the Airbus-supported In-service Aircraft for a Global Observing System (IAGOS) project was applied to the fuselage of a Cathay Pacific A330-300 aircraft. Instruments fitted on the aircraft will collect atmospheric data over a 10-year period to aid scientific studies of climate change.
- Cathay Pacific received the Gold Award in the Transport and Logistics Sector of the Hong Kong Awards for Environmental Excellence and the CLP Power Hong Kong Limited Green Plus Recognition Award. We were one of three finalists in the Tourism for Tomorrow Business Awards.
- We have donated over 1,900 sleep suits left behind by our first class passengers on our Hong Kong-bound flights to charities to give to the needy.
- In March 2014, Cathay Pacific participated in WWF's annual Earth Hour activity. We switched off all non-essential lighting in our buildings and billboards during this hour.
- We are a constituent of the Dow Jones Sustainability, FTSE4Good and the Hang Seng Sustainability Indices. We responded to the Carbon Disclosure Project climate change and supply chain questionnaires .
- In August 2014, Cathay Pacific made an investment in Fulcrum BioEnergy, Inc., a US-based sustainable biofuel developer. We hope that this investment will help us to achieve our target of carbon-neutral growth from 2020.

- In July 2014, Cathay Pacific's passenger lounge at Charles De Gaulle Airport in Paris was LEED certified at the silver level. It uses natural and LED lighting, movement sensors and meters in order to improve energy efficiency.
- We share environmental best practice and experience with Air China.
- We published our 2013 Sustainable Development Report, entitled "Making the Connection", in September 2014. The report can be viewed at www.cathaypacific.com/sdreport.

Contribution to the community

- In January 2014, Hong Kong SAR Chief Executive CY Leung was guest of honour on a special community flight organised by Cathay Pacific. The 90-minute flight on a Boeing 777-300ER aircraft was a special treat for 70 single-parent families from less-well-off districts in Hong Kong. Most of the participants had never flown before. The flight was organised in support of the Commission on Poverty's "Bless Hong Kong" campaign. We operated another community flight in February 2015, again with the Hong Kong SAR Chief Executive as our guest of honour.
- The aircraft used in the community flight in 2014 was painted with a special livery which features the silhouettes of the winners of the "Spirit of Hong Kong" contest organised in 2013 in support of the Hong Kong SAR Government's "Hong Kong: Our Home" campaign.
- "I Can Fly" is Cathay Pacific's flagship community programme in Hong Kong. Around 500 young people from underprivileged backgrounds took part in the 2014 programme. The young people, aged from 15 to 21, participated in ground-school training, visited aviation organisations and designed a social service project intended to give them a better understanding of their roles within the community. The 100 best performers were taken on an overseas trip. We targeted underprivileged young people for the programme in support of the Commission on Poverty's "Bless Hong Kong" campaign.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. In September 2014, we announced that the airline's passengers had contributed more than HK$13.1 million in 2013 to help improve the lives of disadvantaged children around the world. Since its introduction in 2001, more than HK$144 million has been raised through the programme.
- In April 2014, a group of Cathay Pacific staff went to Cambodia to see how "Change for Good" donations are put to good use in the local community.
- A percentage of the "Change for Good" donations are passed to the Cathay Pacific Wheelchair Bank, which raises funds to provide specially adapted wheelchairs for children with neuromuscular diseases. Since its formation, the bank has raised more than HK$12 million, benefiting around 440 children.
- In 2014, the CX Volunteers, made up of around 1,400 Cathay Pacific staff, contributed more than 3,000 hours of voluntary service to support the local community in Hong Kong. Their activities included the "English on Air" programme, which has helped more than 2,000 students to improve their conversational English skills and job interview skills, participation in a 24-hour pedal kart event, which developed young people's teamwork, brightening up the homes of senior citizens at Chinese New Year, a Christmas party for children from low-income families and a charity sale for low-income families in Tung Chung.
- We organised tours of our headquarters at Hong Kong International Airport for around 12,000 visitors from schools and NGOs in 2014.
- In April 2014, the Dragonair Youth Aviation Academy organised a two-day aviation career workshop for more than 200 young people, providing them with an opportunity to learn about aviation and careers in the aviation industry. Later in the year, the Academy held a cabin crew workshop and an aviation briefing session for groups of students.
- The Dragonair Aviation Certificate Programme is jointly organised with the Hong Kong Air Cadet Corps. In 2014, our pilots mentored 33 participants over eight months, aiming to inspire potential Hong Kong aviators by giving them first-hand knowledge of the aviation industry. To date, around 175 young people have graduated from the programme. Around 40% of them have started aviation-related careers.

- Cathay Pacific has received the Caring Company Logo from the Hong Kong Council of Social Service every year since 2003 in recognition of its good corporate citizenship. Dragonair has received the Caring Company Logo for nine consecutive years.

Commitment to staff

- At 31st December 2014, the Cathay Pacific Group employed more than 32,900 people worldwide. Around 25,400 of these people are employed in Hong Kong. Cathay Pacific itself employs around 22,500 people worldwide. Dragonair employs more than 3,300 people.
- Cathay Pacific recruited more than 1,700 staff in 2014, including about 1,000 cabin crew and about 90 pilots. Dragonair recruited around 280 cabin crew and about 15 pilots.
- Our airlines' cadet programmes continue to bring new blood into Hong Kong's aviation industry. In 2014, 65 cadets graduated from the Cathay Pacific cadet pilot programme and 25 cadets graduated from the Dragonair cadet pilot programme. Around 330 cadets from the airlines' programmes are expected to graduate in 2015.
- We introduced an IT graduate trainee programme in 2014. Ten local graduates, selected from more than 400 applicants, joined Cathay Pacific's IT team in September 2014.
- Our engineering trainee scheme was introduced in 1985. A number of the trainees are now in senior positions. In 2014 we recruited eight people into the scheme.
- We regularly review our human resources and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.
- Cathay Pacific was named the most attractive employer in Hong Kong in the 2014 Randstad Award. Dragonair was named the third most attractive employer in Hong Kong.
- In January 2014 we co-sponsored the Discover Aviation Careers 2014 expo in Hong Kong in order to highlight the opportunities available in the local aviation industry.
- In November 2014 we recruited a new batch of cabin crew which included the 10,000th cabin crew member employed by Cathay Pacific. This batch of cabin crew began flying in February 2015.
- Two Cathay Pacific pilots, Senior Captain Malcolm Waters and Senior First Officer David Hayhoe, received the International Federation of Air Line Pilots' Associations Polaris Award in recognition of their exceptional airmanship in piloting a Cathay Pacific aircraft which experienced engine malfunctions when operating as CX780 from Surabaya to Hong Kong in April 2010. The two pilots also received Hugh Gordon-Burge Awards from the Honourable Company of Air Pilots.
- The 10th annual Betsy Awards ceremony took place in August 2014. This internal programme honours staff who go beyond the call of duty to help passengers.

Fleet profile*

Aircraft type	Number at 31st December 2014: Owned	Leased: Finance	Leased: Operating	Total	Firm orders: '15	Firm orders: '16	Firm orders: '17 and beyond	Firm orders: Total	Expiry of operating leases: '15	'16	'17	'18	'19	'20 and beyond	Options
Aircraft operated by Cathay Pacific:															
A330-300	19	15	6	**40**	3[(a)]			**3**		1	3			2	
A340-300	8	3		**11**[(b)]											
A350-900						12[(c)]	10	**22**							
A350-1000							26	**26**							
747-400	6[(d)]		1	**7**					1						
747-400F	5			**5**[(e/f)]											
747-400BCF			1[(g)]	**1**								1			
747-400ERF		6		**6**											
747-8F	2	11		**13**		1[(f)]		**1**							
777-200	5			**5**											
777-200F															5[(h)]
777-300	8	4		**12**											
777-300ER	13	11	23	**47**	6[(f/i)]			**6**			2	2		19	
777-9X							21[(f)]	**21**							
Total	66	50	31	**147**	9	13	57	**79**	1	1	5	3		21	5
Aircraft operated by Dragonair:															
A320-200	5		10	**15**								2	1	7	
A321-200	2		6	**8**										6	
A330-300	10		8	**18**					1	1	5		1		
Total	17		24	**41**					1	1	5	2	2	13	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6	1	**9**								1			
747-400BCF			3	**3**						1	2				
Total	2	6	4	**12**[(j)]						1	2	1			
Grand total	**85**	**56**	**59**	**200**	**9**	**13**	**57**	**79**	**2**	**3**	**12**	**6**	**2**	**34**	**5**

** Includes parked aircraft. The table does not reflect aircraft movements after 31st December 2014.*

(a) One aircraft was delivered in February 2015.

(b) Cathay Pacific is accelerating the retirement of 11 Airbus A340-300 aircraft. Four of these aircraft, one of which was retired in March 2015, will have been retired by the end of 2015. The remainder will be retired by the end of 2017.

(c) Including two aircraft on 12-year operating leases.

(d) One aircraft was retired in January 2015 and three aircraft were retired in March 2015.

(e) Two aircraft were parked in January 2014.

(f) In December 2013, Cathay Pacific agreed with The Boeing Company to purchase 21 new Boeing 777-9X aircraft (for delivery after 2020), three new Boeing 777-300ER aircraft and one new Boeing 747-8F freighter and to sell six existing Boeing 747-400F freighters. One of the Boeing 747-400F freighters was delivered to The Boeing Company in November 2014.

(g) Aircraft was parked in August 2013.

(h) Purchase options in respect of five Boeing 777-200F freighters.

(i) One aircraft was delivered in February 2015 and one aircraft was delivered in March 2015.

(j) Air Hong Kong also has one wet-leased Airbus A300-600F freighter. Accordingly, it operates a total of 13 aircraft.

Review of other subsidiaries and associates

The share of profits from other subsidiaries and associates in 2014 increased by 67.0% to HK$1,304 million from HK$781 million. This mainly reflected a stronger performance from our associate, Air China Cargo following a fleet restructuring, and from our subsidiary, Cathay Pacific Services Limited, with 2014 being its first full year of operation. The contribution from our associate, Air China, was below expectations. Below is a review of the performance and operations of 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. It operates express cargo services for DHL Express.
- Air Hong Kong operates eight owned Airbus A300-600F freighters, one dry leased Airbus A300-600F freighter and three Boeing 747-400BCF converted freighters dry leased from Cathay Pacific. It has one wet leased Airbus A300-600F freighter, with its lease term ending in 2015.
- In May 2014, Air Hong Kong early terminated the wet lease on the Airbus A300-600F freighter and dry leased the aircraft with effect from October 2014.
- During 2014 Air Hong Kong operated six flights per week services to Bangkok, Ho Chi Minh City, Nagoya, Osaka, Penang (via Ho Chi Minh City), Seoul, Shanghai, Singapore, Taipei and Tokyo and five flights per week services to Beijing and Manila.
- On-time performance was 88.0% within 15 minutes.
- Compared with 2013, capacity increased by 0.3%. The load factor increased by 0.6 percentage points. Revenue tonne kilometres increased by 1.1%.
- Air Hong Kong achieved an increase in profit for 2014 compared with 2013.

Asia Miles Limited ("AML")

- AML, a wholly owned subsidiary, manages Cathay Pacific Group's reward programme. It has more than seven million members.
- There was a 16% increase in redemptions by Asia Miles members on Cathay Pacific and Dragonair flights in 2014.
- In 2014 AML achieved an increase in profit compared with 2013 due to an increase in business volume.

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

- CPCS, a wholly owned subsidiary, operates the principal flight kitchen in Hong Kong.
- CPCS provides flight catering services to 42 international airlines in Hong Kong. It produced 27.2 million meals and handled 69,000 flights in 2014 (representing a daily average of 74,500 meals and 189 flights and an increase of 5.9% and 5.0% respectively over 2013). CPCS had a 65.0% share of the flight catering market in Hong Kong in 2014.
- Increased business volume and effective management of costs resulted in higher turnover and profit in 2014.
- Outside Hong Kong, profits increased in all kitchens.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, operates the Group's cargo terminal at Hong Kong International Airport. It has the capacity to handle 2.6 million tonnes of cargo annually.
- CPSL provided cargo handling services to six airlines (Cathay Pacific, Dragonair, Air Hong Kong and three others) in 2014. A seventh airline became a customer in January 2015.
- The terminal handled 1.45 million tonnes of cargo during 2014.
- 2014 was the first year of full operation of CPSL. As a consequence, its financial results improved significantly in the year.

Hong Kong Airport Services Limited ("HAS")

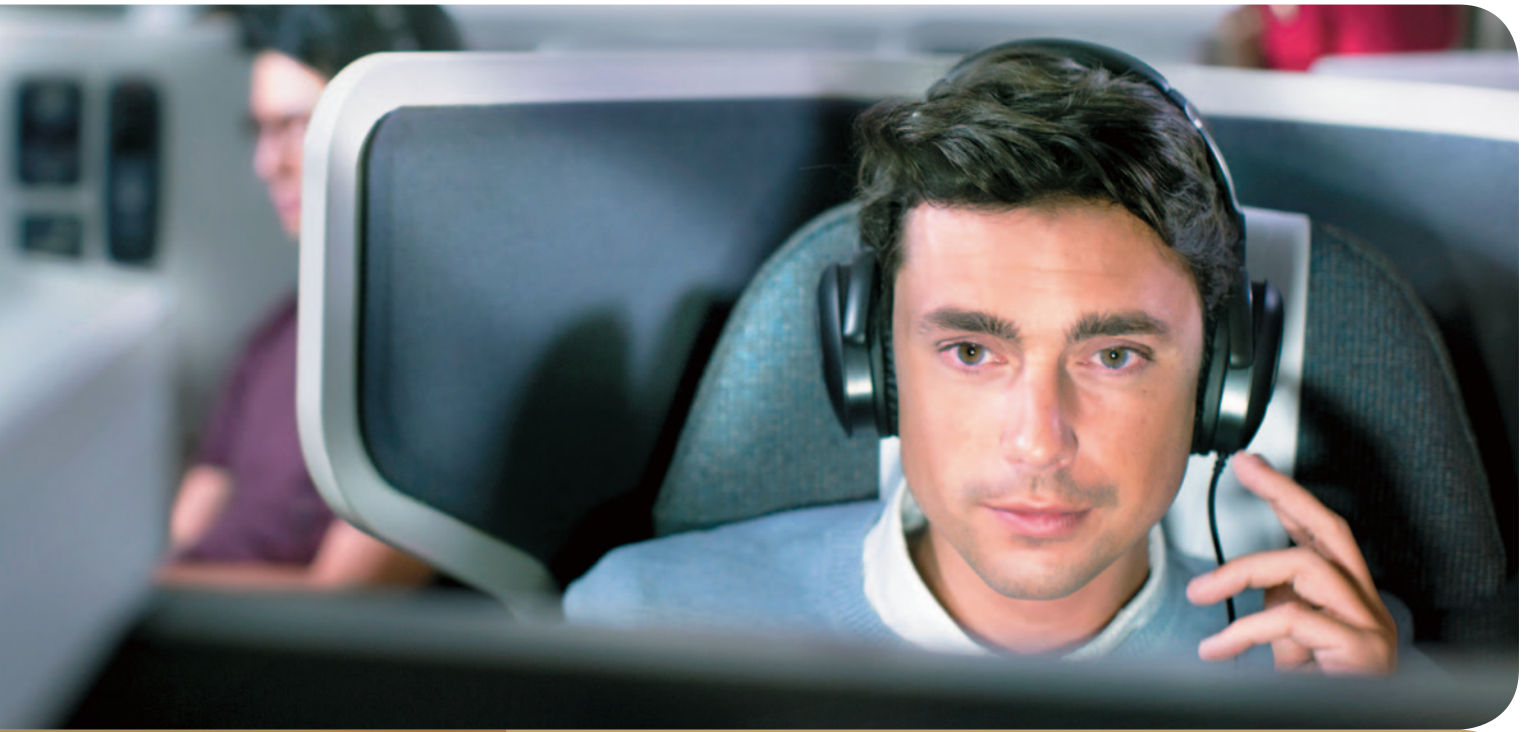
- HAS, a wholly owned subsidiary, provides ramp and passenger handling services in Hong Kong. It provides ground services to 23 airlines, including Cathay Pacific and Dragonair.
- In 2014, HAS had 47.0% and 20.0% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.
- In 2014 the number of customers for passenger handling was 20 and the number of customers for ramp handling was also 20. Passenger handling flights decreased by 10.6% and ramp handling flights decreased by 1.8% compared with 2013.
- The financial results for 2014 improved, reflecting stringent cost control and yield management.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific has a 20.13% interest, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China.
- At 31st December 2014, Air China operated 225 domestic and 97 international (including regional) routes to 32 countries and regions, including 53 overseas cities, three regional cities and 103 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 results is based on its financial statements drawn up three months in arrear. Consequently our 2014 results include Air China's results for the 12 months ended 30th September 2014, adjusted for any significant events or transactions for the period from 1st October 2014 to 31st December 2014.
- In the first half of 2014, Air China's results were adversely affected by a difficult operating environment and substantial foreign exchange losses caused by the depreciation of the Renminbi. As the year progressed, Air China's results improved as a result of lower fuel prices. Despite this improvement, the Group recorded a decrease in profit from Air China in 2014.
- In December 2014, Air China ordered 60 Boeing 737 aircraft. The aircraft are expected to be delivered from 2016 to 2020.

Air China Cargo Co., Ltd. ("Air China Cargo")

- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest, is the leading provider of air cargo services in Mainland China.
- At 31st December 2014, Air China Cargo operated 12 freighters. It operates scheduled freighter services to seven countries and regions. It flies to 11 cities in Mainland China and 11 cities outside Mainland China. Taking account of its rights to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections to 159 destinations.
- Air China Cargo's financial results improved in 2014. This reflected the general improvement in air cargo market from the summer of 2014 and improved operating efficiency resulting from the replacement of three Boeing 747-400BCF converted freighters with four Boeing 777-200F freighters in 2014.

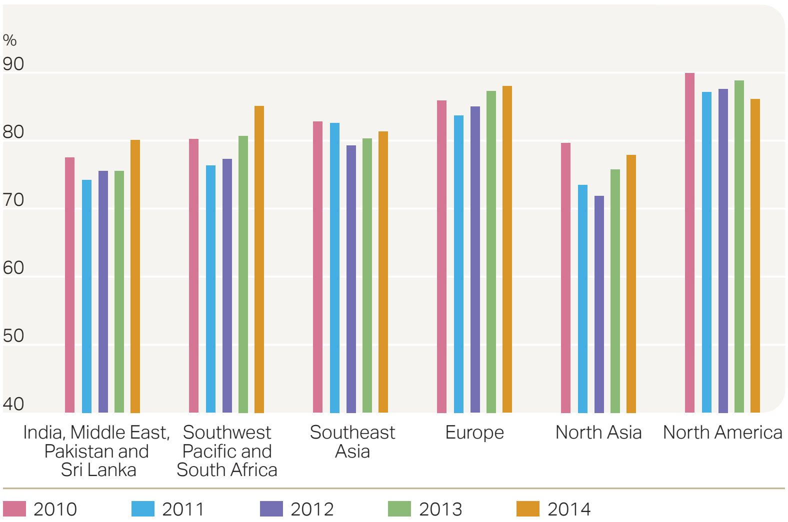


The best experience

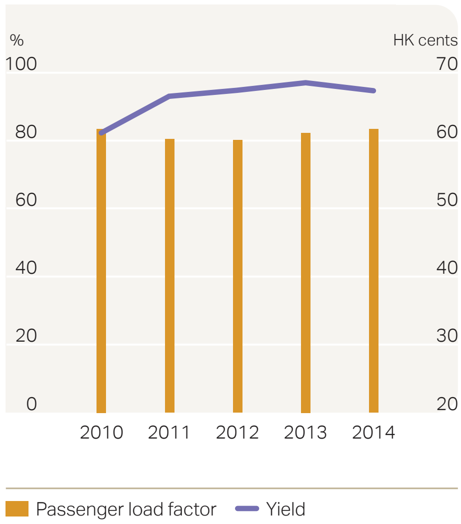
As the home airline of Hong Kong, Cathay Pacific was proud to put the city on the international stage when it was named World's Best Airline in 2014, for a record fourth time.

Our passenger business continued to grow in 2014. Cathay Pacific and Dragonair carried 31.6 million passengers, an increase of 5.5% compared to 2013. Revenue increased by 5.4% to HK$75,734 million. The load factor increased by 1.1 percentage points to 83.3%. Yield decreased by 1.8% to HK67.3 cents. Capacity increased by 5.9% as a result of the introduction of new routes (to Doha, Manchester and Newark) and increased frequencies on some existing routes. Passenger demand was strong in all classes of travel on long-haul routes. However, the increase in passenger numbers did not match the increase in capacity on North American routes. Strong competition put downward pressure on yield on regional routes. The profitability of our passenger operations was improved by lower fuel prices in the fourth quarter of 2014, but this was partially offset by fuel hedging losses. Using more Boeing 777-300ER aircraft on long-haul flights improved our operating economics.

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 2014 were as follows:

	ASK (million)			Load factor (%)			Yield
	2014	2013	**Change**	**2014**	2013	**Change**	**Change**
India, Middle East, Pakistan and Sri Lanka	**10,685**	10,697	**-0.1%**	**80.1**	75.5	**+4.6%pt**	**-1.7%**
Southwest Pacific and South Africa	**18,032**	17,490	**+3.1%**	**85.1**	80.7	**+4.4%pt**	**-1.7%**
Southeast Asia	**18,625**	18,246	**+2.1%**	**81.3**	80.3	**+1.0%pt**	**-1.9%**
Europe	**21,056**	21,536	**-2.2%**	**88.0**	87.3	**+0.7%pt**	**+4.6%**
North Asia	**29,649**	28,450	**+4.2%**	**77.9**	75.8	**+2.1%pt**	**-3.0%**
North America	**36,664**	30,796	**+19.1%**	**86.1**	88.8	**-2.7%pt**	**-3.9%**
Overall	**134,711**	127,215	**+5.9%**	**83.3**	82.2	**+1.1%pt**	**-1.8%**

Home market – Hong Kong and Pearl River Delta

- Demand for leisure travel from Hong Kong was strong for most of 2014, especially during the Chinese New Year, summer and Christmas peak periods.
- Korea was the most popular leisure destination for Hong Kong travellers in 2014. The depreciation of the Japanese yen increased demand for travel to Japan, but increased capacity put yield under pressure.
- There was strong demand for travel to our three destinations in Taiwan, especially during the summer.
- Demand for premium economy class seats increased in 2014.
- Demand for leisure and business travel from the Pearl River Delta continued to increase in 2014. We increased our sales force in Guangzhou.
- Demand for corporate travel increased in 2014. However, it was not as strong as expected in the normally seasonally strong second half of the year.

India, Middle East, Pakistan and Sri Lanka

- Passenger traffic on our South Asia routes was generally robust in 2014. The Delhi non-stop service was increased from daily to twice-daily in March 2014. Four of the seven flights a week to Colombo became non-stop in October 2014.
- We stopped flying to Karachi in June 2014.
- In March 2014, Cathay Pacific introduced a daily service to Doha. We introduced codeshare services with Qatar Airways at the same time. Load factors on the Doha route increased during the year.
- We reorganised our network in the Middle East in 2014. We stopped flights to Abu Dhabi and Jeddah but improved our schedules on other Middle Eastern routes. Competition has intensified and market conditions are difficult in the Middle East. More airlines are flying direct between the Middle East and Southeast Asia.

Southwest Pacific and South Africa

- The performance of our Australian routes was satisfactory in 2014. Traffic between Mainland China and Australia was stable, despite competition from airlines flying non-stop.
- Our business on the Sydney route was helped by the cancellation of a competitor's services between Hong Kong and Sydney in May 2014. We began using Boeing 777-300ER aircraft on one of our Sydney flights in December 2014, so adding capacity on the route. In October 2015, we will add another Boeing 777-300ER aircraft to the route.
- We reorganised certain services to Australia. We now operate four-times-weekly direct flights to Adelaide, three-times-daily direct flights to Melbourne and a daily direct flight to Brisbane. There is also a tagged flight between Brisbane and Cairns, four times a week.
- The New Zealand route was robust in 2014, helped by the joint venture with Air New Zealand. We increased the frequency of the Auckland service to twice-daily in the northern winter.
- The South African route was weak in 2014. It was adversely affected by the weakness of the South African currency and, in the second half, by a decline in group travel to Africa as a result of negative publicity about the Ebola outbreak in West Africa.

Southeast Asia

- Demand for travel to Malaysia, Thailand and Vietnam was adversely affected by political unrest in the first half of 2014. We reduced capacity on the Bangkok route but gradually restored it towards the end of the year.
- Strong competition affected the performance of our Philippines routes.
- The Singapore route performed well despite intense competition.
- Business to and from Indonesia was affected by the presidential election in the third quarter of 2014.
- Cathay Pacific stopped and Dragonair started flying to Penang in March 2014. The schedule and frequency (10 flights per week) remain the same. Dragonair introduced a twice-weekly service to Denpasar-Bali in April 2014.
- Dragonair increased the frequency of its flights to Phuket, Siem Reap and Yangon.

Europe

- Demand was strong on most European routes in 2014. Demand for premium economy class seats was good, particularly on the Frankfurt and London routes.
- Boeing 777-300ER aircraft replaced Airbus A340-300 aircraft on the Amsterdam route in November 2014 and on the Paris and Rome routes in January 2015. In Europe, Airbus A340-300 aircraft now only fly to Moscow.
- The London route performed well in 2014, with good loads in all classes. Demand for travel to and from the Southwest Pacific through Hong Kong was strong.
- We introduced a four-times-weekly service to Manchester in December 2014. Initial results are encouraging. In December 2014, Cathay Pacific entered into codeshare arrangements with Flybe. The arrangements cover Flybe flights between Manchester and Aberdeen, Belfast, Edinburgh, Exeter, Inverness, the Isle of Man and Southampton. In January 2015, the arrangements were extended to cover Flybe flights between Paris and Birmingham, Manchester and Exeter, and between Amsterdam and Birmingham and Southampton.
- Revenue on the Moscow route was affected by political instability and economic sanctions.
- We will introduce a daily service to Zurich in March 2015 and a four-times-weekly service to Dusseldorf in September 2015.

North Asia

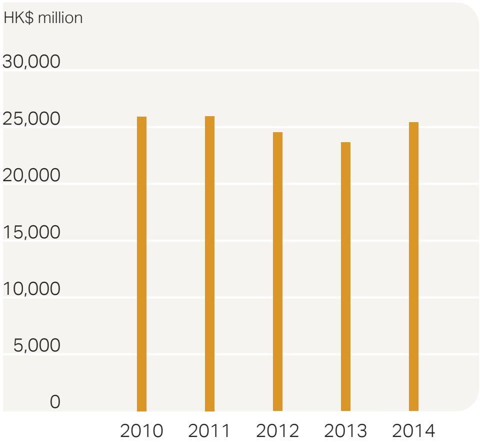
- Demand for group travel from Mainland China weakened in 2014 following the imposition of travel restrictions in October 2013. But there were more individual travellers, which increased yield.
- Demand for premium class travel from Mainland China was affected by restrictions on public spending.
- Dragonair added a four-times-weekly overnight service to Beijing in March 2014. This became a daily service in July 2014.
- There was increased competition on our Taiwan routes. However, demand for leisure travel to Taiwan was strong, assisted by political unrest in some Southeast countries.
- The depreciation of the Japanese yen increased demand for travel to Japan, but increased capacity put yield under pressure.
- The performance of our Korean routes was very strong in 2014. Revenue was well above expectations, primarily due to high demand from Hong Kong.
- Dragonair will introduce a daily service to Haneda in Tokyo in March 2015.

North America

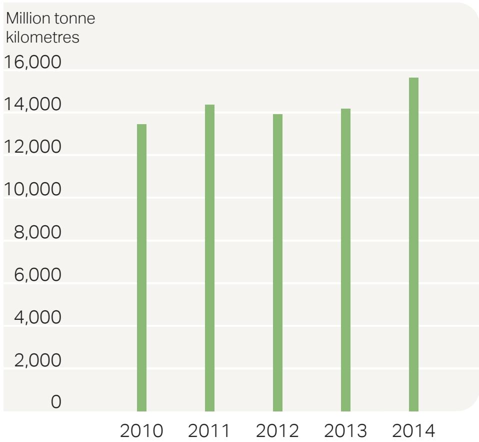
- We introduced a daily service to Newark in March 2014. The Los Angeles service was increased to four-times-daily in June 2014. We will introduce a four-times-weekly service to Boston in May 2015 and will increase our San Francisco service to 17 flights per week in June 2015.
- The increase in passenger numbers did not match the increase in capacity on North American routes.
- Strong competition affected the performance of our Canada routes, putting yield under pressure.

In the first half of 2014, the Cathay Pacific Group's cargo business was affected by high fuel prices, fierce competition and continued weakness and over-capacity in the air cargo market. After a prolonged period of weakness, cargo demand started to improve in the summer of 2014 and was very strong in the fourth quarter, which is the peak period for cargo. As a result, our full year performance improved. Cathay Pacific and Dragonair carried 1.7 million tonnes of cargo and mail in 2014, an increase of 12.0% compared to the previous year. The cargo revenue of Cathay Pacific and Dragonair increased by 8.6% to HK$22,035 million. Yield decreased by 5.6% to HK$2.19 despite improved cargo demand in the second half. The cargo and mail load factor increased by 2.5 percentage points to 64.3%. We managed capacity in line with demand in the first half of 2014, but were able to operate an almost full freighter schedule for most of the second half. Cargo capacity for the year increased by 10.4%. The profitability of our cargo operations was improved by lower fuel prices in the fourth quarter of 2014, but this was partially offset by fuel hedging losses.

Turnover



Capacity – cargo and mail ATK



Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for 2014 were as follows:

	ATK (million)			Load factor (%)			Yield
	2014	2013	**Change**	**2014**	2013	**Change**	**Change**
Cathay Pacific and Dragonair	**15,630**	14,162	**+10.4%**	**64.3**	61.8	**+2.5%pt**	**-5.6%**

- Over-capacity in the air cargo market put downward pressure on rates in the first half of the year. But rates increased in the second half in response to improved demand for shipments from Hong Kong and Mainland China. Demand for cargo shipments to North America was particularly strong, reflecting exports of consumer electronic products.
- When demand was weak in the first half of the year (particularly in the first two months), we managed freighter capacity in line with demand accordingly. We reduced schedules and made ad hoc cancellations as necessary. However, the subsequent increase in demand enabled us to operate an almost full freighter schedule for most of the second half. During the peak period (from October to mid-December), we put on extra scheduled and charter flights.
- The tonnage carried in 2014 increased by 12.0% compared to 2013. This was more than the capacity increase of 10.4%.
- High fuel prices affected the profitability of our cargo services until the fourth quarter of the year, when a lower fuel prices benefited the business, but this was partially offset by fuel hedging losses. We also benefited from operating more fuel-efficient freighter aircraft.
- Demand for cargo shipments from our main market, Hong Kong, was very weak in January and February 2014, but began to improve in March 2014. Demand increased further in July and August 2014 and became strong from September 2014. Demand for shipments to Europe was weaker than expected for most of the year. Demand for shipments to North America was strong, especially in the second half of the year.
- Our cargo business in Mainland China grew in volume and we increased our market share. Exports from the Yangtze River Delta area were strong, particularly in the second half of the year. Demand for shipments from new manufacturing centres (Chengdu, Chongqing and Zhengzhou) fluctuated in the early part of 2014. Later in the year, exports of new consumer electronic products were strong. Our cargo business in Mainland China benefited from an increase in mail shipments.
- Freight movements within Asia have become more important to us. Demand for shipments of manufactured goods from Hanoi was strong for most of the year. We introduced a twice-weekly service to Phnom Penh in November 2014 in response to Cambodia's growth as a manufacturing centre.
- There was relatively strong demand for cargo shipments to and from India in 2014, though the depreciation of the Indian rupee affected profitability. Demand for shipments from Dhaka was affected by political unrest and exports were weak for most of the year. Our business to and from the Middle East was affected by strong competition from Middle Eastern carriers. We introduced a twice-weekly service to Kolkata in March 2015.
- Demand for shipments to and from the Southwest Pacific region was steady. There was strong demand for shipments of fresh produce to Asian markets and milk powder to Mainland China. Chilled meat shipments to the Middle East were also strong.
- We reduced the number of scheduled cargo flights to Europe from 11 to nine per week because of weak demand for shipments to Europe and over-capacity in the market. We concentrated on shipping pharmaceutical and other special products from Europe, in an effort to improve yield. In November 2014 we shipped approaching 2,000 tonnes of Beaujolais wine from Paris and other European airports, most of which went to Japan.
- We stopped operating cargo services to Manchester in June 2014. Cargo is carried in the bellies of the passenger aircraft which started flying to Manchester in December 2014 (and in the bellies of the passenger aircraft which fly to London).
- Demand for shipments from Asia to North America was strong from March 2014, and was particularly strong in the fourth quarter, when we frequently operated more than 40 transpacific services per week. There was high demand for shipments of perishables (fruit and seafood) and pharmaceuticals from North America to Asia. Our business was helped by severe congestion in the major shipping ports on the west coast of the United States, which resulted in more freights needing to be moved by air.

- In March 2014, we introduced a twice-weekly service to Columbus in the United States, which moved to three flights per week in June 2014. We tagged Mexico City onto our Guadalajara cargo service in March 2014 and increased this service to five flights per week in October 2014. We also introduced a twice-weekly freighter service to Calgary, our third freighter destination in Canada, in October 2014.
- We increased the frequency of other cargo services to North America in 2014. Chicago moved from seven to nine flights a week in April 2014 and then increased to 11 flights a week in September 2014. Los Angeles moved from six to 10 flights a week in April 2014.
- In 2013, we agreed to sell our six Boeing 747-400F freighters back to The Boeing Company. One of them was delivered in November 2014. Two of the remaining freighters are parked and all five of them will have left the fleet by the end of 2016. We now operate 13 fuel-efficient Boeing 747-8F freighters and have one more scheduled for delivery in 2016.
- 2014 was the first full year of operation of our cargo terminal at Hong Kong International Airport. It made our cargo operations more efficient. It handled 1.45 million tonnes of cargo in 2014. It handles cargo for Cathay Pacific, Dragonair, Air Hong Kong and four other airlines.
- The investments we have made in new freighters and a new cargo terminal and the strengthening of our cargo network demonstrate our confidence in the long-term prospects of our cargo business and Hong Kong's future as an international air cargo hub.

Loyalty and reward programme

The Marco Polo Club

- The Marco Polo Club is an exclusive loyalty programme which offers privileges to the frequent flyers of Cathay Pacific and Dragonair. It has more than one million members.
- Members of The Marco Polo Club contribute to almost a quarter of the revenues of Cathay Pacific and Dragonair and fly on one-sixth of their flights.

Asia Miles

- Asia Miles, is a leading Asian reward programme. It has more than seven million members and over 500 partners, including 25 airlines and more than 300 restaurants, plus hotels and retail shops.
- There was a 16% increase in redemptions by Asia Miles members on Cathay Pacific and Dragonair flights in 2014.
- Marco Polo Club members are also members of Asia Miles.
- Asia Miles has been recognised as the Best Frequent Flyer Programme by Business Traveller Asia-Pacific for 10 consecutive years.

Antitrust proceedings

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions. The outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on relevant facts and circumstances in line with accounting policy 20 set out on page 101.


ADIRU
ON
PRIMARY FLIGHT COMPUTERS
THRUST ASYM COMP
DISC
AUTO
ELECT
BATTERY

The best team

Cathay Pacific staff are trained to the highest standards and always strive to excel at what they do. They take great pride in delivering service that rises above our customers' expectations.

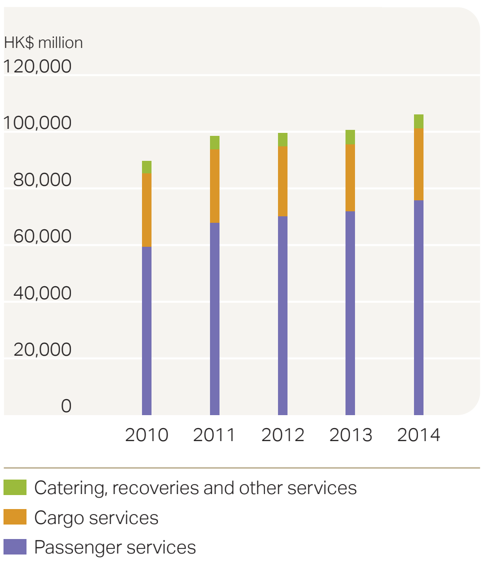
Financial Review

The Cathay Pacific Group reported an attributable profit of HK$3,150 million in 2014 compared with a profit of HK$2,620 million in 2013. The improvement in the Group's performance in 2014 largely occurred in the second half of the year. Passenger demand was reasonably firm throughout the year and that had strong demand during the summer and Christmas seasonal peak periods. However, strong competition put downward pressure on yield on regional routes. The cargo business benefited from the improvement in the cargo market from the summer onwards. Overall profits benefited from lower fuel prices in the fourth quarter of 2014, but this was partially offset by fuel hedging losses.

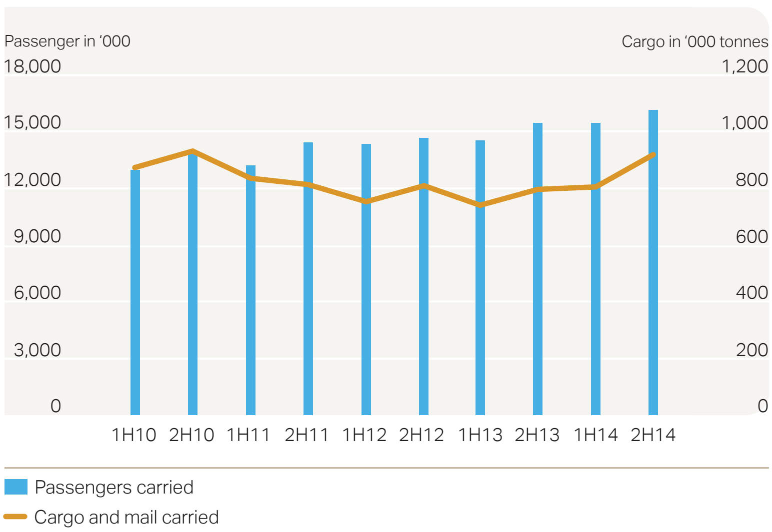
Turnover

	Group		Cathay Pacific and Dragonair	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Passenger services	**75,734**	71,826	**75,734**	71,826
Cargo services	**25,400**	23,663	**22,035**	20,293
Catering, recoveries and other services	**4,857**	4,995	**4,278**	4,322
Total turnover	**105,991**	100,484	**102,047**	96,441

Turnover



Cathay Pacific and Dragonair: passengers and cargo carried

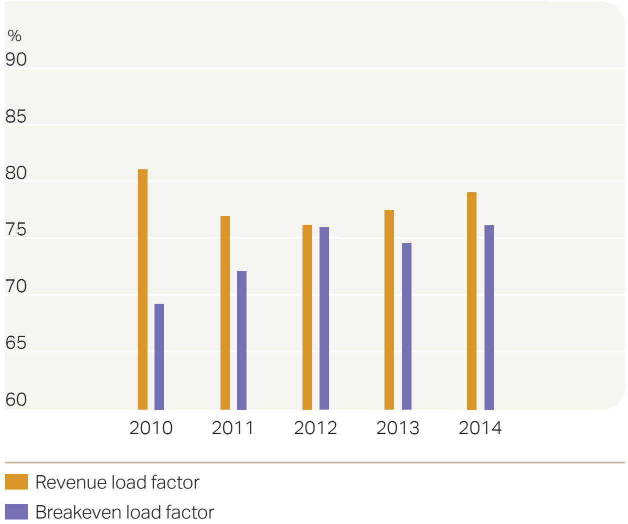


- Group turnover increased by 5.5% in 2014 compared with 2013.

Cathay Pacific and Dragonair

- Passenger turnover increased by 5.4% to HK$75,734 million. The number of revenue passengers carried increased by 5.5% to 31.6 million and revenue passenger kilometres increased by 7.4%.
- The passenger load factor increased by 1.1 percentage points to 83.3%. Available seat kilometres increased by 5.9%.
- Passenger yield decreased by 1.8% to HK¢67.3.
- First and business class revenues increased by 7.8% and the load factor increased from 70.6% to 71.4%.
- Premium economy and economy class revenues increased by 4.4% and the load factor increased from 84.3% to 85.5%.
- Cargo turnover increased by 8.6% to HK$22,035 million, with a 10.4% increase in capacity.
- The cargo load factor increased by 2.5 percentage points. The cargo yield decreased by 5.6% to HK$2.19 despite improved cargo demand in the second half.
- The revenue load factor increased by 1.6 percentage points to 79.1%. The breakeven load factor was 76.2%.

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:

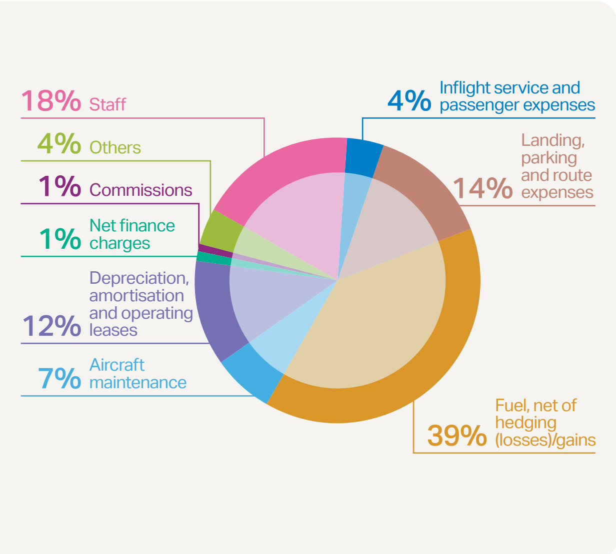
	HK$M
+ 1 percentage point in passenger load factor	906
+ 1 percentage point in cargo and mail load factor	343
+ HK¢1 in passenger yield	1,123
+ HK¢1 in cargo and mail yield	100

Operating expenses

	Group			Cathay Pacific and Dragonair		
	2014 HK$M	2013 HK$M	**Change**	**2014 HK$M**	2013 HK$M	**Change**
Staff	**18,101**	17,027	**+6.3%**	**16,247**	15,269	**+6.4%**
Inflight service and passenger expenses	**4,438**	4,138	**+7.2%**	**4,438**	4,138	**+7.2%**
Landing, parking and route expenses	**14,196**	13,531	**+4.9%**	**13,954**	13,287	**+5.0%**
Fuel, net of hedging (losses)/gains	**40,299**	38,132	**+5.7%**	**39,473**	37,264	**+5.9%**
Aircraft maintenance	**7,077**	7,542	**-6.2%**	**6,766**	7,207	**-6.1%**
Aircraft depreciation and operating leases	**10,411**	9,537	**+9.2%**	**10,179**	9,298	**+9.5%**
Other depreciation, amortisation and operating leases	**2,116**	1,926	**+9.9%**	**1,490**	1,354	**+10.0%**
Commissions	**799**	775	**+3.1%**	**799**	775	**+3.1%**
Others	**4,119**	4,116	**+0.1%**	**5,177**	4,500	**+15.0%**
Operating expenses	**101,556**	96,724	**+5.0%**	**98,523**	93,092	**+5.8%**
Net finance charges	**1,158**	1,019	**+13.6%**	**1,115**	974	**+14.5%**
Total operating expenses	**102,714**	97,743	**+5.1%**	**99,638**	94,066	**+5.9%**

- The Group's total operating expenses increased by 5.1% to HK$102,714 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair decreased from HK$3.58 to HK$3.50.

Total operating expenses



Fuel price and consumption

Cathay Pacific and Dragonair operating results analysis

	2014 HK$M	2013 HK$M
Airlines' profit before taxation	**2,409**	2,375
Taxation	**(563)**	(536)
Airlines' profit after taxation	**1,846**	1,839
Share of profits from subsidiaries and associates	**1,304**	781
Profit attributable to the shareholders of Cathay Pacific	**3,150**	2,620

The changes in the airlines' profit before taxation can be analysed as follows:

	HK$M	
2013 airlines' profit before taxation	**2,375**	
Increase/(decrease) of turnover	**5,606**	– Passenger turnover increased due to a 1.1% point increase in load factor and a 5.9% increase in capacity, offset in part by a 1.8% decrease in yield. – Cargo turnover increased due to a 2.5% point increase in load factor and a 10.4% increase in capacity, offset in part by a 5.6% decrease in yield.
Decrease/(increase) of:		
– Fuel, net of hedging (losses)/gains	**(2,209)**	– Fuel costs increased due to a 5.6% increase in consumption. The average into-plane fuel price decreased by 4.7%, which was partially offset by hedging losses.
– Aircraft maintenance	**441**	– Decreased mainly due to the retirement of older aircraft, resulting in a reduction in maintenance costs.
– Depreciation, amortisation and operating leases	**(1,017)**	– Increased mainly due to the accelerated retirement of Airbus A340-300 aircraft and the addition of new aircraft.
– Staff	**(978)**	– Increased mainly due to increases in headcount and salaries.
– Inflight service, landing and parking, commissions, net finance charges and others	**(1,809)**	– Increased due to an increase in various operating expenses and in the provision for impairment of fixed assets.
2014 airlines' profit before taxation	**2,409**	

Fuel expenditure and hedging

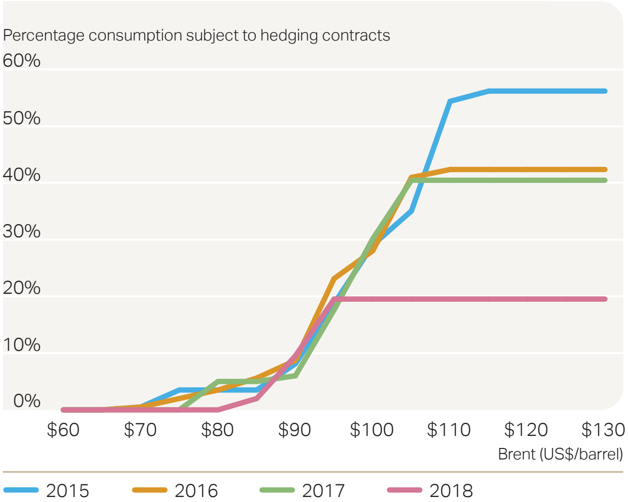
A breakdown of the Group's fuel cost is shown below:

	2014 HK$M	2013 HK$M
Gross fuel cost	**39,388**	39,117
Fuel hedging losses/(gains)	**911**	(985)
Net fuel cost	**40,299**	38,132

Fuel consumption in 2014 was 41.7 million barrels (2013: 39.5 million barrels).

The Group's fuel hedging exposure at 31st December 2014 is set out in the table 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 payments 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$76 million to HK$599 million, principally as a result of a reduction in deferred tax.

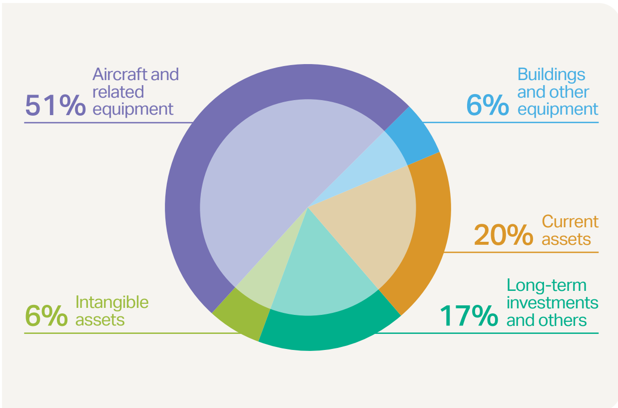
Dividends

- Dividends proposed for the year are HK$1,416 million representing a dividend cover of 2.2 times.
- Dividends per share increased from HK$0.22 to HK$0.36.

Assets

- Total assets as at 31st December 2014 were HK$171,974 million.
- During the year, additions to fixed assets were HK$13,979 million, comprising HK$13,148 million for aircraft and related equipment, HK$480 million for buildings and HK$351 million for other equipment.

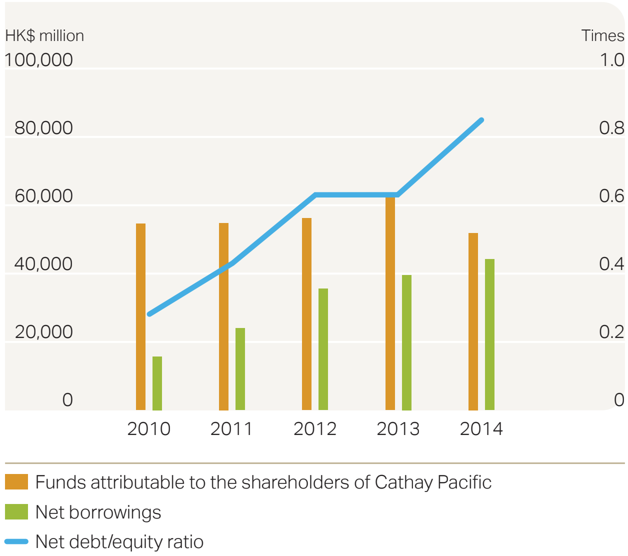
Total assets



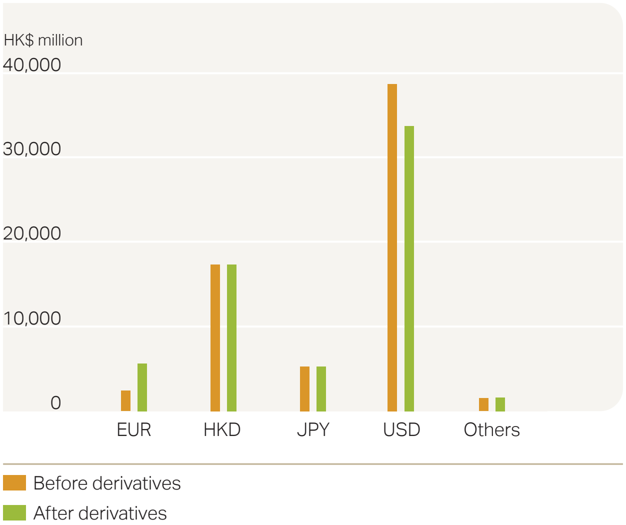
Borrowings and capital

- Borrowings decreased by 2.9% to HK$65,096 million in 2014 from HK$67,052 million in 2013.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2026, with 55% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 62.4% of which are denominated in United States dollars, decreased by 23.9% to HK$21,098 million.
- Net borrowings increased by 11.9% to HK$43,998 million.
- Funds attributable to the shareholders of Cathay Pacific decreased by 17.8% to HK$51,722 million. This was due to significant unrealised hedging losses of HK$12,468 million recognised in the cash flow hedge reserve in 2014.
- The net debt/equity ratio increased from 0.63 times to 0.85 times.

Net debt and equity

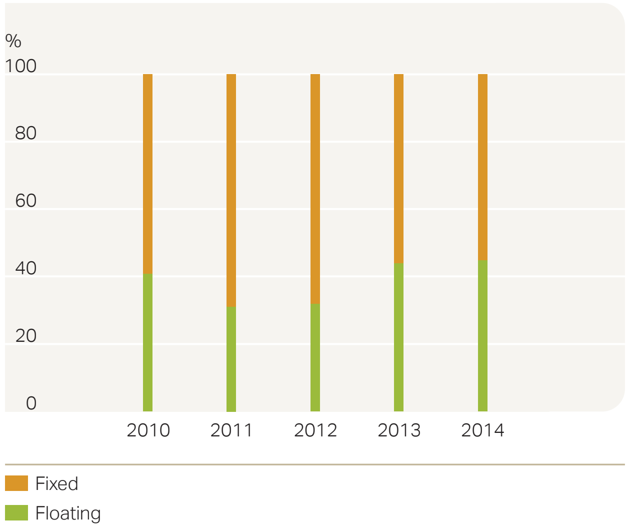


Borrowings before and after derivatives



Others include CAD, RMB and SGD.

Interest rate profile: borrowings



The best support

Behind the scenes, Cathay Pacific is continually working to improve every aspect of its operations, finding better and more efficient ways to add value for customers and stakeholders alike.


CATHAY PACIFIC
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AKE 80432
TARE 58 KG

Directors and Officers

Executive Directors

SLOSAR, John Robert#, aged 58, has been a Director of the Company since July 2007 and its Chairman since March 2014. He was appointed Chief Operating Officer in July 2007 and Chief Executive of the Company in March 2011. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited and a Director of The Hongkong and Shanghai Banking Corporation Limited and Air China Limited. He joined the Swire group in 1980 and has worked with the group in Hong Kong, the United States and Thailand.

BARRINGTON, William Edward James#, aged 55, 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, since 1983, has worked with the Company in Hong Kong, Malaysia and Canada.

CHU, Kwok Leung Ivan#, aged 53, has been a Director of the Company since March 2011. He was appointed Director Service Delivery in September 2008, Chief Operating Officer in March 2011 and Chief Executive of the Company in March 2014. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited. He joined the Swire group in 1984 and has worked with the group in Hong Kong, Mainland China, Taiwan, Thailand and Australia. He is also Chairman of Hong Kong Dragon Airlines Limited.

HOGG, Rupert Bruce Grantham Trower#, aged 53, has been a Director of the Company since March 2014. He was appointed Director Cargo in September 2008, Director Sales and Marketing in August 2010 and Chief Operating Officer in March 2014. He joined the Swire group in 1986 and has worked with the group in Hong Kong, Southeast Asia, Australia and the United Kingdom. He is also Chairman of AHK Air Hong Kong Limited and a Director of Hong Kong Dragon Airlines Limited.

MURRAY, Martin James#, aged 48, 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.

Non-Executive Directors

CAI, Jianjiang, aged 51, has been a Director of the Company since November 2009 and Deputy Chairman since March 2014. He is General Manager of China National Aviation Holding Company and Chairman of Air China Limited.

CUBBON, Martin#, aged 57, has been a Director of the Company since January 2015. He was previously a Director of the Company from September 1998 to May 2009. He is also Corporate Development and 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 1986.

FAN, Cheng*, aged 59, has been a Director of the Company since November 2009. He is a Director and Vice President of Air China Limited.

SHIU, Ian Sai Cheung#, aged 60, 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.

SONG, Zhiyong, aged 50, has been a Director of the Company since March 2014. He is a Director and President of Air China Limited.

SWIRE, Merlin Bingham#, aged 41, has been a Director of the Company since June 2010. He is also Chief Executive and a Director and shareholder of John Swire & Sons Limited and a Director of Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London. He is brother to Samuel Swire, a Non-Executive Director of the Company.

SWIRE, Samuel Compton#+, aged 35, has been a Director of the Company since January 2015. He is also a Director and shareholder of John Swire & Sons Limited and a Director of Swire Pacific Limited. He joined the Swire group in 2003 and has worked with the group in Hong Kong, Singapore, Mainland China, Sri Lanka and London. He is brother to Merlin Swire, a Non-Executive Director of the Company.

ZHAO, Xiaohang, aged 53, 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 61, has been a Director of the Company since January 2010. She is Chairman of Hysan Development Company Limited, an Independent Non-Executive Director of CLP Holdings Limited, Noble Group Limited, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. She was a member of the Australian Government Takeovers Panel from March 2001 until March 2010.

SO, Chak Kwong Jack*, aged 69, has been a Director of the Company since September 2002. He is Chairman of Hong Kong Trade Development Council. He is also Senior Adviser of Credit Suisse (Greater China) and an Independent Non-Executive Director of AIA Group Limited and China Resources Power Holdings Company Limited. He has also been appointed as Chairman of the Airport Authority Hong Kong with effect from 1st June 2015. He will retire as an Independent Non-Executive Director of the Company at the annual general meeting to be held on 20th May 2015.

TUNG, Chee Chen+, aged 72, 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 U-Ming Marine Transport Corp. He was formerly an Independent Non-Executive Director of BOC Hong Kong (Holdings) Limited, PetroChina Company Limited, Sing Tao News Corporation Limited, Wing Hang Bank, Limited and Zhejiang Expressway Co., Ltd., all being companies listed in Hong Kong. He will retire as an Independent Non-Executive Director of the Company at the annual general meeting to be held on 20th May 2015.

WONG, Tung Shun Peter*, aged 63, has been a Director of the Company since May 2009. He is currently Deputy Chairman and 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 and Bank of Communications Co., 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

CHENG, Ting Yat Dane, aged 51, has been Director Sales and Marketing since July 2014. He joined the Company in 1986.

GIBBS, Christopher Patrick, aged 53, has been Engineering Director since January 2007. He joined the Company in 1992.

GINNS, James William#, aged 46, has been Director Service Delivery since August 2014. He joined the Swire group in 1991.

HALL, Richard John, aged 59, has been Director Flight Operations since August 2010. He joined the Company in 1988.

LOCANDRO, Joseph Francis, aged 55, has been Director Information Technology since August 2012. He joined the Company in 2012.

RHODES, Nicholas Peter#, aged 56, has been Director People since September 2013. He joined the Swire group in 1980.

TONG, Wai Pong James, aged 50, has been Director Corporate Affairs since August 2014. He joined the Company in 1987.

WOODROW, James Hugh#, aged 47, has been Director Cargo since September 2013. He joined the Swire group in 1990.

Secretary

FU, Yat Hung David#, aged 51, 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*

We submit our report and the audited financial statements for the year ended 31st December 2014 which are on pages 51 to 101.

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, aircraft engineering and cargo terminal operations. 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.

Financial Statements

The profit of the Group for the year ended 31st December 2014 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 51 to 101.

Dividends

The Directors have declared a second interim dividend of HK$0.26 per share for the year ended 31st December 2014. Together with the first interim dividend of HK$0.10 per share paid on 6th October 2014, this makes a total dividend for the year of HK$0.36 per share. This represents a total distribution for the year of HK$1,416 million. The second interim dividend will be paid on 7th May 2015 to shareholders registered at the close of business on the record date, being Friday, 10th April 2015. Shares of the Company will be traded ex-dividend as from Wednesday, 8th April 2015.

Closure of register of members

The register of members will be closed on Friday, 10th April 2015, during which day no transfer of shares will be effected. In order to qualify for entitlement to the 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 Thursday, 9th April 2015.

To facilitate the processing of proxy voting for the annual general meeting to be held on 20th May 2015, the register of members will be closed from 15th May 2015 to 20th May 2015, 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, 14th May 2015.

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 page 55 and in note 24 to the financial statements, respectively.

Accounting policies

The principal accounting policies are set out on pages 98 to 101.

Donations

During the year, the Company and its subsidiaries made charitable donations amounting to HK$12 million in direct payments and a further HK$8 million in the form of discounts on airline travel.

Fixed assets

Movements of fixed assets are shown in note 10 to the financial statements. Details of aircraft acquisitions are set out on page 11.

Bank and other borrowings

The net bank loans and other borrowings, including obligations under finance leases, of the Group and the Company are shown in notes 15 and 22 to the financial statements.

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 2014, 3,933,844,572 shares were in issue (31st December 2013: 3,933,844,572 shares). There has been no movement in share capital during the year.

Capital commitments and contingencies

The details of capital commitments and contingent liabilities of the Group and the Company as at 31st December 2014 are set out in note 30 to the financial statements.

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, John Slosar, W.E. James Barrington, Ivan Chu, Martin Cubbon, Rupert Hogg, Martin Murray, Ian Shiu, Merlin Swire and Samuel Swire are interested in the JSSHK Services Agreement (as defined below). Merlin Swire and Samuel Swire are also so interested as shareholders of Swire. Christopher Pratt, James W.J. Hughes-Hallett and Peter Kilgour were so interested as directors and employees of the Swire group until their resignations with effect from 14th March 2014, 1st January 2015 and 1st January 2015 respectively.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2014 are set out below and also given in note 29 to the financial statements.

Significant contracts

Contracts between the Group and Hong Kong Aircraft Engineering Company Limited ("HAECO") and its subsidiary, Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO"), for the maintenance and overhaul of aircraft and related equipment accounted for approximately 3% of the Group's operating expenses in 2014. 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.

Continuing connected transactions

During the year ended 31st December 2014, 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 procuring for the Company and its subsidiary, joint venture 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 2014 to 31st December 2016 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 45% 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, 1st October 2010 and 14th November 2013 were published.

    For the year ended 31st December 2014, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$81 million and expenses of HK$214 million were reimbursed at cost.

(b) Pursuant to a framework agreement dated 13th November 2013 ("HAECO Framework Agreement") with HAECO and HAECO ITM Limited ("HXITM"), services (being maintenance and related services in respect of aircraft, aircraft engines and aircraft parts and components and including inventory technical management services and the secondment of personnel) are provided by HAECO and its subsidiaries ("HAECO group") to the Group and vice versa and by HXITM to the HAECO group and vice versa. Payment is made in cash within 30 days of receipt invoices. The term of the HAECO Framework Agreement is for 10 years ending on 31st December 2022.

HAECO and HXITM are connected persons of the Company by virtue of them being subsidiaries 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 13th November 2013 was published, a circular dated 3rd December 2013 was sent to shareholders and an extraordinary general meeting of the Company was held on 31st December 2013.

For the year ended 31st December 2014 and under the HAECO Framework Agreement, the amounts payable by the Group to the HAECO group totalled HK$3,167 million; and the amounts payable by the HAECO group to the Group totalled HK$13 million.

(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 2016 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.

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, 10th September 2010 and 26th September 2013 were published.

For the year ended 31st December 2014 and under the Air China Framework Agreement, the amounts payable by the Group to the Air China group totalled HK$430 million; and the amounts payable by the Air China group to the Group totalled HK$224 million.

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

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

(b) on normal commercial terms or better; and

(c) according to the agreements 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 were engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Chapter 14A of the Listing Rules, which states that:

(a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board of the Company;

(b) nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;

(c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the relevant annual caps.

A copy of the Auditors' letter has been provided by the Company to the Stock Exchange.

Connected transaction

On 26th June 2014, Air China, Cathay Pacific China Cargo Holdings Limited and Fine Star Enterprises Corporation ("Fine Star"), being the existing shareholders of Air China Cargo Co., Ltd. ("Air China Cargo"), entered into a capital increase agreement with Air China Cargo, pursuant to which:

(a) Air China agreed to make a cash contribution of RMB847,780,300 and an in-kind contribution of four Boeing 757 aircraft together with aircraft components, an auxiliary power unit and two back-up engines valued at

RMB172,219,700 in order to subscribe for an additional amount of registered capital of RMB1,020,000,000 in Air China Cargo; and

(b) Cathay Pacific China Cargo Holdings and Fine Star agreed to subscribe in cash for additional amounts of registered capital of RMB500,000,000 and RMB480,000,000 respectively in Air China Cargo (the "Capital Increase").

Separately, the shareholders in Air China Cargo had made shareholder loans to Air China Cargo of RMB2,000,000,000 in proportion to their shareholdings in Air China Cargo. These shareholder loans were exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.65(3) of the Listing Rules. The shareholder loans made by Cathay Pacific China Cargo Holdings and Fine Star aggregated RMB980,000,000.

Upon completion of the transactions described in (a) and (b) above, the registered capital of Air China Cargo increased from RMB3,235,294,118 to RMB5,235,294,118. The shareholdings of Air China, Cathay Pacific China Cargo Holdings and Fine Star in the enlarged registered capital of Air China Cargo remained unchanged at 51%, 25% and 24%, respectively.

Cathay Pacific China Cargo Holdings Limited is a wholly owned subsidiary of the Company. As Air China is a substantial shareholder of the Company and Air China Cargo is a subsidiary of Air China, they are connected persons of the Company under the Listing Rules. Accordingly, the Capital Increase constituted a connected transaction under the Listing Rules in respect of which an announcement dated 26th June 2014 was published.

Major customers and suppliers

7% of sales and 39% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 2% of sales were made to the Group's largest customer and 15% of purchases were made from the Group's largest supplier.

No Director, any of their close 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

Rupert Hogg and Song Zhiyong were appointed as Directors with effect from 14th March 2014. Martin Cubbon and Samuel Swire were appointed as Directors with effect from 1st January 2015. All the other present Directors of the Company whose names are listed on pages 32 and 33 served throughout the year. Wang Changshun resigned as Deputy Chairman and a Director with effect from 27th January 2014. John Slosar and Cai Jianjiang were elected Chairman and Deputy Chairman respectively with effect from 14th March 2014. Christopher Pratt retired as Chairman and a Director with effect from 14th March 2014. James W.J. Hughes-Hallett and Peter Kilgour resigned as Directors with effect from 1st January 2015. Jack So and Tung Chee Chen will retire as Directors at the conclusion of the annual general meeting on 20th May 2015.

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.

The Company has been granted by the Stock Exchange a waiver from strict compliance with Rule 3.10A of the Listing Rules, which requires that an issuer must appoint Independent Non-Executive Directors representing at least one-third of the Board.

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, Martin Murray, Ian Shiu and Zhao Xiaohang retire this year and, being eligible, offer themselves for re-election. Jack So and Tung Chee Chen will also retire this year but do not offer themselves for re-election. Martin Cubbon and Samuel Swire, having been appointed as Directors of the Company under Article 91 since the last annual general meeting, also retire and, being eligible, offer themselves for election.

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

Directors' fees paid to the Independent Non-Executive Directors during the year totalled HK$3.1 million; they received no other emoluments from the Company or any of its subsidiaries.

Directors' interests

At 31st December 2014, 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, Ian Shiu, John Slosar, Song Zhiyong and Wang Changshun 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 2014 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	2,949,997,987	74.99	Attributable interest (a)
2. China National Aviation Holding Company	2,949,997,987	74.99	Attributable interest (b)
3. Swire Pacific Limited	2,949,997,987	74.99	Attributable interest (a)
4. John Swire & Sons Limited	2,949,997,987	74.99	Attributable interest (c)

Note: At 31st December 2014:

(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 2,949,997,987 shares of the Company, comprising:

(i) 1,770,238,000 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 2,949,997,987 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 2,949,997,987 shares of the Company by virtue of the Swire group's interests in shares of Swire Pacific representing approximately 48.83% of the issued capital and approximately 60.91% 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
John Slosar
Chairman
Hong Kong, 18th March 2015

Governance Culture

Cathay Pacific is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, Cathay Pacific believes that shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to shareholders
- that the interests of those who deal with the Company are safeguarded
- that overall business risk is understood and managed appropriately
- the delivery of high-quality products and services to the satisfaction of customers and
- that high standards of ethics are maintained.

Corporate Governance Statement

The Corporate Governance Code (the "CG Code") as published by The Stock Exchange of Hong Kong Limited sets out the principles of good corporate governance and provides two levels of recommendation:

- code provisions, with which issuers are expected to comply, but with which they may choose not to comply, provided they give considered reasons for non-compliance
- recommended best practices, with which issuers are encouraged to comply, but which are provided for guidance only.

The Company supports the principles-based approach of the CG Code and the flexibility this provides for the adoption of corporate policies and procedures which recognise the individuality of companies. Cathay Pacific has adopted its own corporate governance code which is available on its website www.cathaypacific.com. Corporate governance does not stand still; it evolves with each business and operating environment. The Company is always ready to learn and adopt best practices.

The Company complied with all the code provisions set out in the CG Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year covered by the annual report with the following exceptions which it believes do not benefit shareholders:

- Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by the Board as to suitability for the role.

The Board of Directors

Role of the Board

The Company is governed by a Board of Directors, which has responsibility for strategic leadership and control of the Group designed to maximise shareholder value, while taking due account of the interests of those with whom the Group does business and others.

Responsibility for achieving the Company's objectives and running the business on a day-to-day basis is delegated to management. The Board exercises a number of reserved powers which include:

- maintaining and promoting the culture of the Company
- formulation of long-term strategy
- approving public announcements, including financial statements
- committing to major acquisitions, divestments and capital projects
- authorising significant changes to the capital structure and material borrowings
- any issue, or buy-back, of equity securities under the relevant general mandates
- approving treasury policy
- setting dividend policy
- approving appointments to the Board
- reviewing the board diversity policy with a view to the Board having a balance of skills, experience and diversity of perspectives appropriate to the Company's businesses

- ensuring that appropriate management development and succession plans are in place
- setting the Group remuneration policy
- approving annual budgets and forecasts
- reviewing operational and financial performance
- reviewing the effectiveness of internal control and risk management, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

To assist it in fulfilling its duties, the Board has established the Board Safety Review Committee, the Executive Committee, the Finance Committee, the Remuneration Committee and the Audit Committee, the latter two and the Board Safety Review Committee with the participation of Independent Non-Executive Directors.

Chairman and Chief Executive

The CG Code requires that the roles of Chairman and Chief Executive be separate and not performed by the same individual to ensure there is a clear division of responsibilities between the running of the Board and the executives who run the business.

John Slosar, the Chairman, is responsible for:

- leadership of the Board
- setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda
- facilitating effective contributions from and dialogue with all Directors and constructive relations between them
- ensuring that all Directors are properly briefed on issues arising at Board meetings and that they receive accurate, timely and clear information
- obtaining consensus amongst the Directors
- ensuring, through the Board, that good corporate governance practices and procedures are followed.

Ivan Chu, the Chief Executive, is responsible for implementing the policies and strategies set by the Board in order to ensure the successful day-to-day management of the Group's business.

Throughout the year, there was a clear division of responsibilities between the Chairman and the Chief Executive.

Board Composition

The Board is structured with a view to ensuring it is of a high calibre and has a balance of key skills and knowledge so that it works effectively as a team and individuals or groups do not dominate decision-making.

The Board comprises the Chairman, four other Executive Directors and twelve Non-Executive Directors. Their biographical details are set out on pages 32 and 33 of this report and are posted on the Company's website.

W.E. James Barrington, Ivan Chu, Martin Cubbon, Rupert Hogg, Martin Murray, Ian Shiu and John Slosar are directors and/or employees of the Swire group. Merlin Swire and Samuel Swire are shareholders, directors and employees of Swire group.

The Non-Executive Directors bring independent advice, judgement and, through constructive challenge, scrutiny of executives and review of performance and risks. The Audit and Remuneration Committees of the Board comprise only Non-Executive Directors.

The Board considers that four of the twelve Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Rule 3.13 of the Listing Rules. 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.

The Independent Non-Executive Directors:

- provide open and objective challenge of management and Board members
- raise intelligent questions and challenge constructively and with vigour
- bring outside knowledge of the businesses and markets in which the Group operates, providing informed insight and responses to management.

The Company has been granted by the Stock Exchange a waiver from strict compliance with Rule 3.10A of the Listing Rules, which requires that an issuer must appoint Independent Non-Executive Directors representing at least one-third of the Board.

Appointment and Re-election

Potential new Directors are identified and considered for appointment by the Board. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his or her appointment, and all Executive and Non-Executive Directors are subject to re-election by shareholders every three years.

Potential new Board members are identified on the basis of skills and experience which, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board.

Full details of changes in the Board during the year and to the date of this report are provided in the Directors' Report on page 37.

Board Diversity

The Board has a board diversity policy which is available on the Company's website.

In order to achieve a diversity of perspectives among members of the Board, it is the policy of the Company to consider a number of factors when deciding on appointments to the Board and the continuation of those appointments. Such factors include gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the Company's principal shareholders.

Responsibilities of Directors

On appointment, the Directors receive information about the Group including:

- the role of the Board and the matters reserved for its attention
- the role and terms of reference of Board Committees
- the Group's corporate governance practices and procedures
- the powers delegated to management and
- the latest financial information.

Directors update their skills, knowledge and familiarity with the Group through their participation at meetings of the Board and its committees and through regular meetings with management. Directors are regularly updated by the Company Secretary on their legal and other duties as Directors of a listed company.

Through the Company Secretary, Directors are able to obtain appropriate professional training and advice.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Group. All Directors disclose to the Board on their first appointment their interests as a Director or otherwise in other companies or organisations and such declarations of interests are updated regularly.

Details of Directors' other appointments are shown in their biographies on pages 32 and 33.

Board Processes

All committees of the Board follow the same processes as the full Board.

The dates of the 2014 Board meetings were determined in 2013 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met five times in 2014. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 42. Average attendance at Board meetings was 82%. All Directors attended Board meetings in person or through electronic means of communication during the year.

Agendas and accompanying Board papers are circulated with sufficient time to allow the Directors to prepare before meetings.

The Chairman takes the lead to ensure that the Board acts in the best interests of the Company, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole.

Board decisions are made by vote at Board meetings and supplemented by the circulation of written resolutions between Board meetings.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting papers, are made available to all Directors. The minutes record the matters considered by the Board, the decisions reached, and any concerns raised or dissenting views expressed by Directors. Draft and final versions of the minutes are sent to all Directors for their comment and records respectively.

Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings.

A typical Board meeting would consist of:

- review of a report by the Chief Executive on the results since the last meeting and an explanation of changes in the business environment and their impact on budgets and the longer-term plan

- the raising of new initiatives and ideas
- the presentation of papers to support decisions requiring Board approval
- an update of legal and compliance matters for Directors' consideration
- any declarations of interest.

The executive management provides the Board with such information and explanations as are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board. Queries raised by Directors are answered fully and promptly.

When necessary, the Independent Non-Executive Directors meet privately to discuss matters which are their specific responsibility.

The Chairman meets at least annually with the Non-Executive Directors without the Executive Directors being present.

	Meetings Attended/Held				Continuous Professional Development
	Board	Audit Committee	Remuneration Committee	2014 Annual General Meeting	Type of Training (Note)
Executive Directors					
John Slosar – Chairman (elected on 14th March 2014)	5/5			√	a
Christopher Pratt – Chairman (retired on 13th March 2014)	2/2			N/A	a
W.E. James Barrington	5/5			√	a
Ivan Chu	5/5			√	a
Rupert Hogg (appointed on 14th March 2014)	3/3			√	
Martin Murray	5/5			√	a
Non-Executive Directors					
Cai Jianjiang	1/5			X	a
Martin Cubbon (appointed on 1st January 2015)	N/A			N/A	N/A
Fan Cheng	1/5	0/3		X	a
James W.J. Hughes-Hallett (resigned on 31st December 2014)	5/5		2/2	√	a
Peter Kilgour (resigned on 31st December 2014)	5/5			√	a
Ian Shiu	5/5			√	a
Song Zhiyong (appointed on 14th March 2014)	1/3			X	
Merlin Swire	5/5			√	a
Samuel Swire (appointed on 1st January 2015)	N/A			N/A	N/A
Wang Changshun (resigned on 26th January 2014)	1/1			N/A	a
Zhao Xiaohang	3/5			X	a
Independent Non-Executive Directors					
Irene Lee	5/5	3/3	2/2	√	a
Jack So	5/5	3/3		√	a
Tung Chee Chen	4/5		2/2	√	a
Peter Wong	3/5	0/3		X	a
Average attendance	82%	50%	100%	71%	

Note:
a: All the Directors received training materials, including from the Company's external legal advisor, about matters relevant to their duties as directors. They also kept abreast of matters relevant to their role as directors by such means as attendance at seminars and conferences and reading and viewing materials about financial, commercial, economic, legal, regulatory and business affairs.

Continuous Professional Development

All Directors named above have received the training referred to above and have been provided with "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" issued by the Hong Kong Institute of Directors. The Company makes available continuous professional development for all Directors at the expense of the Company so as to develop and refresh their knowledge and skills.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

Conflicts of Interest

If a Director has a material conflict of interest in relation to a transaction or proposal to be considered by the Board, the individual is required to declare such interest and abstains from voting. The matter is considered at a Board meeting and voted on by Directors who have no material interest in the transaction.

Delegation by the Board

Responsibility for delivering the Company's strategies and objectives, as established by the Board, and responsibility for day-to-day management is delegated to the Chief Executive. The Chief Executive has been given clear guidelines and directions as to his powers and, in particular, the circumstances under which he should report back to, and obtain prior approval from, the Board before making commitments on behalf of the Company.

The Board monitors management's performance against the achievement of financial and non-financial measures, the principal items monitored being:

- detailed monthly management accounts consisting of statements of profit or loss, financial position and cash flows compared to budget, together with forecasts
- internal and external audit reports
- feedback from external parties such as customers, others with whom the Group does business, trade associations and service providers.

Securities Transactions

The Company has adopted a code of conduct (the "Securities Code") regarding securities transactions by Directors and Officers on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. These rules are available on the Company's website.

A copy of the Securities Code has been sent to each Director of the Company and will be sent to each Director twice annually, immediately before the two financial period ends, with a reminder that the Director cannot deal in the securities and derivatives of the Company during the blackout period before the Group's interim and annual results have been published, and that all their dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors and senior executives 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 the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors' interests as at 31st December 2014 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on page 38.

Board Safety Review Committee

The Board Safety Review Committee reviews and reports to the Board on safety issues. It met twice during the year and comprises its Chairman (Dr. David King) and all the Non-Executive Directors and Independent Non-Executive Directors of the Company.

Executive Committee

The Executive Committee is chaired by the Chief Executive and comprises three Executive Directors (W.E. James Barrington, Rupert Hogg and Martin Murray) and five Non-Executive Directors (Cai Jianjiang, Fan Cheng, Martin Cubbon, Song Zhiyong 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 Chief Executive and comprises three Executive Directors (W.E. James Barrington, Rupert Hogg and Martin Murray) and all eight Executive Officers (Dane Cheng, Christopher Gibbs, James Ginns, Captain Richard Hall, Joseph Locandro, Nick Rhodes, James Tong and James Woodrow).

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 Chief Executive and comprises three Executive Directors (W.E. James Barrington, Rupert Hogg and Martin Murray), three Non-Executive Directors (Fan Cheng, Martin Cubbon and Zhao Xiaohang), the General Manager Financial Services (Andrew West), the Manager Treasury (Susan Ng) and an independent representative from the financial community. Reports on its decisions and recommendations are presented at Board meetings.

Remuneration Committee

Full details of the remuneration of the Directors and Executive Officers are provided in note 27 to the financial statements.

The Remuneration Committee comprised three Non-Executive Directors (Irene Lee, James W.J. Hughes-Hallett and Tung Chee Chen). Two of the Committee Members are Independent Non-Executive Directors, one of whom, Irene Lee, is Chairman. All the members served for the whole of 2014. Samuel Swire succeeded James W.J. Hughes-Hallett as a member of the Remuneration Committee on 1st January 2015.

The Remuneration Committee reviews and approves the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The Remuneration Committee exercises the powers of the Board to determine the remuneration packages of individual Executive Directors and individual members of senior management (including salaries, bonuses, benefits in kind and the terms on which they participate in any provident fund or other retirement benefit scheme), taking into consideration salaries paid by comparable companies, time commitments and responsibilities and employment conditions elsewhere in the group.

The terms of reference of the Remuneration Committee have been reviewed with reference to the CG Code and are posted on the Company's website.

A Services Agreement exists between the Company and JSSHK, a wholly-owned subsidiary of John Swire & Sons Limited, which is the parent company of the Swire group. This agreement has been considered in detail and approved by the Independent Non-Executive Directors of the Company. Under the terms of the agreement, staff at various levels, including Executive Directors and Executive Officers, are seconded to the Company. These staff report to and take instructions from the Board of the Company but remain employees of the Swire group.

In order to be able to attract and retain staff of suitable calibre, the Swire group provides a competitive remuneration package. This typically comprises salary, housing, provident fund, leave passage and education allowances and, after three years' service, a bonus related to the profit of Swire Pacific as a whole. The provision of housing facilitates 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 Swire Pacific overall, those profits are influenced to a significant extent by the results of 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, given its substantial equity interest in 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 terms similar to those applicable to the staff referred to above.

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors and Executive Officers at its meeting in November 2014. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's

Executive Directors and Executive Officers, as disclosed in note 27 to the financial statements, was comparable with that paid to equivalent executives in peer group companies.

No Director takes part in any discussion about his or her own remuneration.

The following fee levels have been approved by the Board:

	2014 HK$	2015 HK$
Director's Fee	575,000	575,000
Fee for Audit Committee Chairman	260,000	260,000
Fee for Audit Committee Member	180,000	180,000
Fee for Remuneration Committee Chairman	80,000	80,000
Fee for Remuneration Committee Member	58,000	58,000

Accountability and Audit

Financial Reporting

The Board acknowledges its responsibility for:

- the proper stewardship of the Company's affairs, to ensure the integrity of financial information
- preparing annual and interim financial statements and other related information that give a true and fair view of the Group's affairs and of its results and cash flows for the relevant periods, in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance
- selecting appropriate accounting policies and ensuring that these are consistently applied
- making judgements and estimates that are prudent and reasonable; and
- ensuring that the application of the going concern assumption is appropriate.

Internal Controls

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's system of internal controls with a view to ensuring that shareholders' investments and the Company's assets are safeguarded. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed on pages 46 and 47.

The foundation of a strong system of internal control is dependent on the ethics and culture of the organisation, the quality and competence of its personnel, the direction provided by the Board, and the effectiveness of management.

Since profits are, in part, the reward for successful risk taking in business, the purpose of internal controls is to help manage and control, rather than eliminate risk. Consequently internal controls can only provide reasonable, and not absolute, assurance against misstatement or loss.

The key components of the Group's control structure are as follows:

Culture: The Board believes that good governance reflects the culture of an organisation. This is more significant than any written procedures.

The Company aims at all times to act ethically and with integrity, and to instil this behaviour in all its employees by example from the Board down. The Company has a Code of Conduct, which is posted on its internal intranet site.

The Company is committed to developing and maintaining high professional and ethical standards. These are reflected in the rigorous selection process and career development plans for all employees. The organisation prides itself on being a long-term employer which instils in individuals, as they progress through the Group, a thorough understanding of the Company's ways of thinking and acting.

Channels of communication are clearly established, allowing employees a means of communicating their views upwards with a willingness on the part of more senior personnel to listen. Employees are aware that, whenever the unexpected occurs, attention should be given not only to the event itself, but also to determining the cause.

Through the Company's Code of Conduct, employees are encouraged (and instructed as to how) to report control deficiencies or suspicions of impropriety to those who are in a position to take necessary action.

Risk assessment: The Board of Directors and the management each have a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated.

Management structure: The Group has a clear organisational structure that, to the extent required, delegates the day-to-day responsibility for the design, documentation and implementation of procedures and monitoring of risk. Individuals appreciate where they will be held accountable in this process.

A control self-assessment process requires management to assess, through the use of detailed questionnaires, the adequacy and effectiveness of controls over the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. This process and its results are reviewed by internal auditors and form part of the Audit Committee's annual assessment of control effectiveness.

Controls and review: The control environment comprises policies and procedures intended to ensure that relevant management directives are carried out and actions that may be needed to address risks are taken. These may include approvals and verifications, reviews, safeguarding of assets and segregation of duties. Control activities can be divided into operations, financial reporting and compliance, although there may, on occasion, be some overlap between them. The typical control activities include:

- analytical reviews: for example, conducting reviews of actual performance versus budgets, forecasts, prior periods and competitors
- direct functional or activity management: reviews of performance reports, conducted by managers in charge of functions or activities
- information-processing: performing controls intended to check the authorisation of transactions and the accuracy and completeness of their reporting, for example, exception reports
- physical controls: ensuring equipment, inventories, securities and other assets are safeguarded and subjected to periodic checks
- performance indicators: carrying out analyses of different sets of data, operational and financial, examining the relationships between them, and taking corrective action where necessary
- segregation of duties: dividing and segregating duties among different people, with a view to strengthening checks and minimising the risk of errors and abuse.

The Company has in place effective processes and systems for the identification, capture and reporting of operational, financial and compliance-related information in a form and time-frame intended to ensure that staff carry out their designated responsibilities.

Internal audit: The Internal Audit Department performs regular reviews of key risk areas and monitors compliance with Group accounting, financial and operational procedures. The role of Internal Audit is discussed further on pages 47 and 48.

Audit Committee

The Audit Committee, consisting of four Non-Executive Directors (Jack So, Fan Cheng, Irene Lee and Peter Wong), assists the Board in discharging its responsibilities for corporate governance and financial reporting. Three of the Committee members are Independent Non-Executive Directors, one of whom, Jack So, is Chairman. All the members served for the whole of 2014.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and comply with the CG Code. They are available on the Company's website.

The Audit Committee met three times in 2014. Regular attendees at the meetings are the Finance Director, the Group Internal Audit Manager and the external auditors. The Audit Committee meets at least twice a year with the external auditors without the presence of management. Each meeting receives written reports from the external auditors and Internal Audit.

The work of the Committee during 2014 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2013 annual and 2014 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's internal controls and risk management systems
- the Group's risk management processes
- the approval of the 2015 annual Internal Audit programme and review of progress on the 2014 programme

- periodic reports from Internal Audit and progress in resolving any matters identified in them
- significant accounting and audit issues
- the Company's policy regarding connected transactions and the nature of such transactions
- the relationship with the external auditors as discussed on page 48
- the Company's compliance with the CG Code.

In 2015, the Committee reviewed, and recommended to the Board for approval, the 2014 financial statements.

Assessing the Effectiveness of Internal Controls

On behalf of the Board, the Audit Committee reviews annually the continued effectiveness of the Group's systems of internal controls dealing with risk and financial accounting and reporting, the effectiveness and efficiency of operations, compliance with laws and regulations, and risk management functions.

This assessment considers:

- the scope and quality of management's monitoring of risks and of the systems of internal control, the work of Internal Audit and the assurances provided by the Finance Director
- the changes in the nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment
- the extent and frequency with which the results of monitoring are communicated, enabling the Committee to build up a cumulative assessment of the state of control in the Group and the effectiveness with which risk is being managed
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or position
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance
- areas of risk identified by management
- significant risks reported by Internal Audit
- work programmes proposed by both Internal Audit and the external auditors
- significant issues arising from internal and external audit reports
- the results of management's control self assessment exercise.

As a result of the above review, the Board confirms that the Group's internal control systems are adequate and effective and have complied with the CG Code provisions on internal control throughout the year and up to the date of this annual report.

Expenditure Control Committee

The Expenditure Control Committee meets monthly to evaluate and approve capital expenditure. It is chaired by one Executive Director (Rupert Hogg) and includes two other Executive Directors (W.E. James Barrington and Martin Murray).

Company Secretary

The Company Secretary is an employee of the Company and is appointed by the Board. The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. The Company Secretary undertakes at least 15 hours of relevant professional training annually to update his skills and knowledge.

Internal Audit Department

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 Group 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 audited departments. 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 Audit Committee actively monitor the number and seriousness of findings raised by the Internal Audit Department and also the corrective actions taken by relevant departments.

The annual Internal Audit work plan and resources are reviewed and agreed with the Audit Committee.

Detailed control guidelines have been set and made available to all employees of the Company about the 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.

External Auditors

The Audit Committee acts as a point of contact, independent from management, with the external auditors (the "auditors"). The auditors have direct access to the Chairman of the Audit Committee, who meets with them periodically without management present.

The Audit Committee's duties in relation to the auditors include:

- recommending to the Board, for approval by shareholders, the auditors' appointment
- approval of the auditors' terms of engagement
- consideration of the letters of representation to be provided to the auditors in respect of the interim and annual financial statements
- review of reports and other ad-hoc papers from the auditors
- annual appraisal of the quality and effectiveness of the auditors
- assessment of the auditors' independence and objectivity, including the monitoring of non-audit services provided, with a view to ensuring that their independence and objectivity is not, and is not seen to be, compromised
- approval of audit and non-audit fees.

Auditors' Independence

Independence of the auditors is of critical importance to the Audit Committee, the Board and shareholders. The auditors write annually to the members of the Audit Committee confirming that they are independent accountants within the meaning of Section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants and that they are not aware of any matters which may reasonably be thought to bear on their independence. The Audit Committee assesses the independence of the auditors by considering and discussing each such letter (and having regard to the fees payable to the auditors for audit and non-audit work and the nature of the non-audit work) at a meeting of the Audit Committee.

Provision of Non-audit Services

In deciding whether the auditors should provide non-audit services the following key principles are considered:

- the auditors should not audit their own firm's work
- the auditors should not make management decisions
- the auditors' independence should not be impaired
- quality of service.

In addition, any services which may be considered to be in conflict with the role of the auditors must be submitted to the Audit Committee for approval prior to engagement, regardless of the amounts involved.

In 2014 the total remuneration paid to the external auditors was HK$28 million, being HK$15 million for audit, HK$10 million for tax advice and HK$3 million for other professional services.

Airline Safety Review Committee

The Airline Safety Review Committee meets monthly to review the Company's exposure to operational risk. It reviews the work of the Cabin Safety Review Committee, the Operational Ramp Safety Committee and the Engineering Mandatory Occurrence Report Meeting. It is chaired by the General Manager Corporate Safety & Security 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.

Shareholders

Communication with Shareholders and Investors

The Board and senior management recognise their responsibility to represent the interests of all shareholders and to maximise shareholder value. Communication with shareholders and accountability to shareholders is a high priority of the Company.

The principal methods used to communicate with shareholders are these:

- The Finance Director makes himself available for meetings with major shareholders, investors and analysts over two-month periods immediately after the announcement of the interim and annual results and at certain other times during the year. In addition, the Finance Director attended regular meetings with analysts and investors in Hong Kong, analyst briefings, investor group briefings, overseas roadshows and investor conferences during the year.
- through the Company's website. This includes electronic copies of financial reports, audio webcasts of analyst presentations given at the time of the interim and annual results announcements, slides of presentations given at investor conferences, latest news, public announcements and general information about the Group's businesses
- through publication of interim and annual reports
- through the Annual General Meeting as discussed below.

Shareholders may send their enquiries and concerns to the Board by post or email at ir@cathaypacific.com. The relevant contact details are set out in the Corporate and Shareholder Information section of this Annual Report.

The Annual General Meeting

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 14th May 2014. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 42.

At the Annual General Meeting, separate resolutions were proposed for each issue and were voted on by poll. The procedures for conducting a poll were explained at the meeting prior to the polls being taken. The agenda items were:

- receiving the report of the Directors and the audited financial statements for the year ended 31st December 2013
- re-electing Directors
- re-appointing the auditors and authorising the Directors to set their remuneration
- a general mandate authorising the Directors to make on-market share buy-backs
- a general mandate authorising the Directors to allot and issue shares up to 20% of the number of shares then in issue, provided that the aggregate number of the shares so allotted wholly for cash would not exceed 5% of the number of the shares then in issue

Minutes of the meeting together with voting results are available on the Company's website.

Shareholder engagement

Pursuant to Article 95 of the Company's Articles of Association, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should deposit a written notice of nomination at the registered office of the Company within the 7-day period commencing on and including the day after the despatch of the notice of the meeting. The procedures for nominating candidates to stand for election as Directors at general meetings are set out in the Corporate Governance Section of the Company's website.

If they wish to propose a resolution relating to other matters to be considered at a general meeting, shareholders are requested to follow the requirements and procedures set out in the Corporate Governance Section of the Company's website.

Shareholder(s) representing at least 5% of the total voting rights of all members may request the Board to convene a general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office. Detailed requirements and procedures are set out in the Corporate Governance Section of the Company's website.

Other information for shareholders

Key shareholder dates for 2015 are set out on page 108 of this report.

No amendment has been made to the Company's Articles of Association during the year.

Independent Auditor's Report

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 51 to 101, which comprise the consolidated and company statements of financial position as at 31st December 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory 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 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
18th March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31st December 2014

	Note	**2014 HK$M**	2013 HK$M	**2014 US$M**	2013 US$M
Turnover					
Passenger services		**75,734**	71,826	**9,709**	9,208
Cargo services		**25,400**	23,663	**3,256**	3,034
Catering, recoveries and other services		**4,857**	4,995	**623**	640
Total turnover	*1*	**105,991**	100,484	**13,588**	12,882
Expenses					
Staff		**(18,101)**	(17,027)	**(2,321)**	(2,183)
Inflight service and passenger expenses		**(4,438)**	(4,138)	**(569)**	(530)
Landing, parking and route expenses		**(14,196)**	(13,531)	**(1,820)**	(1,735)
Fuel, net of hedging (losses)/gains		**(40,299)**	(38,132)	**(5,167)**	(4,889)
Aircraft maintenance		**(7,077)**	(7,542)	**(907)**	(967)
Aircraft depreciation and operating leases		**(10,411)**	(9,537)	**(1,335)**	(1,223)
Other depreciation, amortisation and operating leases		**(2,116)**	(1,926)	**(271)**	(247)
Commissions		**(799)**	(775)	**(102)**	(99)
Others		**(4,119)**	(4,116)	**(528)**	(527)
Operating expenses		**(101,556)**	(96,724)	**(13,020)**	(12,400)
Operating profit	*3*	**4,435**	3,760	**568**	482
Finance charges		**(1,460)**	(1,370)	**(187)**	(175)
Finance income		**302**	351	**39**	45
Net finance charges	*4*	**(1,158)**	(1,019)	**(148)**	(130)
Share of profits of associates	*13*	**772**	838	**99**	107
Profit before taxation		**4,049**	3,579	**519**	459
Taxation	*5*	**(599)**	(675)	**(77)**	(87)
Profit for the year		**3,450**	2,904	**442**	372
Non-controlling interests		**(300)**	(284)	**(38)**	(36)
Profit attributable to the shareholders of Cathay Pacific	*6*	**3,150**	2,620	**404**	336
Profit for the year		**3,450**	2,904	**442**	372
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Defined benefit plans		**(316)**	997	**(40)**	128
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**(12,468)**	3,170	**(1,598)**	406
Revaluation of available-for-sale financial assets		**67**	53	**9**	7
Share of other comprehensive income of associates		**(52)**	89	**(7)**	11
Exchange differences on translation of foreign operations		**(527)**	491	**(68)**	63
Other comprehensive income for the year, net of taxation	*7*	**(13,296)**	4,800	**(1,704)**	615
Total comprehensive income for the year		**(9,846)**	7,704	**(1,262)**	987
Total comprehensive income attributable to					
Shareholders of Cathay Pacific		**(10,144)**	7,418	**(1,300)**	951
Non-controlling interests		**298**	286	**38**	36
		(9,846)	7,704	**(1,262)**	987
Earnings per share (basic and diluted)	*8*	**80.1¢**	66.6¢	**10.3¢**	8.5¢

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

The notes on pages 56 to 97 and the principal accounting policies on pages 98 to 101 form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2014

	Note	2014 HK$M	2013 HK$M	2014 US$M	2013 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	10	**98,471**	94,935	**12,624**	12,171
Intangible assets	11	**10,318**	9,802	**1,323**	1,257
Investments in associates	13	**22,918**	20,314	**2,938**	2,604
Other long-term receivables and investments	14	**6,372**	7,135	**817**	915
Deferred tax assets	18	**428**	204	**55**	26
		138,507	132,390	**17,757**	16,973
Long-term liabilities		**(55,814)**	(57,460)	**(7,156)**	(7,366)
Related pledged security deposits		**499**	626	**64**	80
Net long-term liabilities	15	**(55,315)**	(56,834)	**(7,092)**	(7,286)
Other long-term payables	16	**(9,354)**	(1,318)	**(1,199)**	(169)
Deferred tax liabilities	18	**(9,691)**	(9,633)	**(1,242)**	(1,235)
		(74,360)	(67,785)	**(9,533)**	(8,690)
Net non-current assets		**64,147**	64,605	**8,224**	8,283
Current assets and liabilities					
Stock		**1,589**	1,511	**204**	194
Trade, other receivables and other assets	19	**10,591**	9,827	**1,358**	1,260
Assets held for sale	20	**189**	111	**24**	14
Liquid funds	21	**21,098**	27,736	**2,705**	3,556
		33,467	39,185	**4,291**	5,024
Current portion of long-term liabilities		**(10,002)**	(11,179)	**(1,282)**	(1,433)
Related pledged security deposits		**221**	961	**28**	123
Net current portion of long-term liabilities	15	**(9,781)**	(10,218)	**(1,254)**	(1,310)
Trade and other payables	22	**(23,543)**	(18,206)	**(3,018)**	(2,334)
Unearned transportation revenue		**(12,238)**	(11,237)	**(1,569)**	(1,441)
Taxation		**(199)**	(1,116)	**(26)**	(143)
		(45,761)	(40,777)	**(5,867)**	(5,228)
Net current liabilities		**(12,294)**	(1,592)	**(1,576)**	(204)
Total assets less current liabilities		**126,213**	130,798	**16,181**	16,769
Net assets		**51,853**	63,013	**6,648**	8,079
CAPITAL AND RESERVES					
Share capital: nominal value	23	**–**	787	**–**	101
Other statutory capital reserves	24	**–**	16,319	**–**	2,092
Share capital and other statutory capital reserves		**17,106**	17,106	**2,193**	2,193
Other reserves	24	**34,616**	45,782	**4,438**	5,870
Funds attributable to the shareholders of Cathay Pacific		**51,722**	62,888	**6,631**	8,063
Non-controlling interests		**131**	125	**17**	16
Total equity		**51,853**	63,013	**6,648**	8,079

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

The notes on pages 56 to 97 and the principal accounting policies on pages 98 to 101 form part of these financial statements.

John Slosar
Director

Jack So
Director

Hong Kong, 18th March 2015

Company Statement of Financial Position

at 31st December 2014

	Note	2014 HK$M	2013 HK$M	2014 US$M	2013 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	*10*	**77,208**	73,909	**9,899**	9,475
Intangible assets	*11*	**2,631**	2,115	**337**	271
Investments in subsidiaries	*12*	**36,436**	35,020	**4,671**	4,490
Investments in associates	*13*	**10,726**	10,557	**1,375**	1,353
Other long-term receivables and investments	*14*	**4,655**	5,395	**597**	692
		131,656	126,996	**16,879**	16,281
Long-term liabilities		**(53,474)**	(54,500)	**(6,856)**	(6,987)
Related pledged security deposits		**499**	477	**64**	61
Net long-term liabilities	*15*	**(52,975)**	(54,023)	**(6,792)**	(6,926)
Other long-term payables	*16*	**(9,059)**	(1,094)	**(1,162)**	(140)
Deferred tax liabilities	*18*	**(8,498)**	(8,479)	**(1,089)**	(1,087)
		(70,532)	(63,596)	**(9,043)**	(8,153)
Net non-current assets		**61,124**	63,400	**7,836**	8,128
Current assets and liabilities					
Stock		**1,379**	1,320	**177**	169
Trade, other receivables and other assets	*19*	**9,599**	8,421	**1,230**	1,080
Assets held for sale	*20*	**189**	111	**24**	14
Liquid funds	*21*	**11,357**	17,272	**1,456**	2,215
		22,524	27,124	**2,887**	3,478
Current portion of long-term liabilities		**(9,089)**	(13,053)	**(1,165)**	(1,673)
Related pledged security deposits		**21**	395	**3**	50
Net current portion of long-term liabilities	*15*	**(9,068)**	(12,658)	**(1,162)**	(1,623)
Trade and other payables	*22*	**(20,156)**	(14,577)	**(2,584)**	(1,869)
Unearned transportation revenue		**(11,577)**	(10,602)	**(1,484)**	(1,359)
Taxation		**(160)**	(748)	**(21)**	(96)
		(40,961)	(38,585)	**(5,251)**	(4,947)
Net current liabilities		**(18,437)**	(11,461)	**(2,364)**	(1,469)
Total assets less current liabilities		**113,219**	115,535	**14,515**	14,812
Net assets		**42,687**	51,939	**5,472**	6,659
CAPITAL AND RESERVES					
Share capital: nominal value	*23*	**–**	787	**–**	101
Other statutory capital reserves	*24*	**–**	16,319	**–**	2,092
Share capital and other statutory capital reserves		**17,106**	17,106	**2,193**	2,193
Other reserves	*24*	**25,581**	34,833	**3,279**	4,466
Total equity		**42,687**	51,939	**5,472**	6,659

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The notes on pages 56 to 97 and the principal accounting policies on pages 98 to 101 form part of these financial statements.

John Slosar
Director

Jack So
Director

Hong Kong, 18th March 2015

Consolidated Statement of Cash Flows

for the year ended 31st December 2014

	Note	2014 HK$M	2013 HK$M	2014 US$M	2013 US$M
Operating activities					
Cash generated from operations	*25*	**12,274**	14,163	**1,574**	1,815
Interest received		**198**	178	**25**	23
Net interest paid		**(792)**	(774)	**(101)**	(99)
Tax paid		**(1,395)**	(891)	**(179)**	(114)
Net cash inflow from operating activities		**10,285**	12,676	**1,319**	1,625
Investing activities					
Net decrease/(increase) in liquid funds other than cash and cash equivalents		**4,540**	(3,947)	**582**	(506)
Proceeds from scrap/sales of fixed assets		**1,864**	2,030	**239**	260
Proceeds from sales of assets held for sale		**97**	882	**12**	113
Net (increase)/decrease in other long-term receivables and investments		**(52)**	62	**(6)**	8
Payments for fixed and intangible assets		**(14,818)**	(20,534)	**(1,900)**	(2,633)
Dividends received from associates		**221**	273	**28**	35
Purchases of shares in an associate		**(1,240)**	(636)	**(159)**	(81)
Loans to associates		**(1,377)**	–	**(176)**	–
Net cash outflow from investing activities		**(10,765)**	(21,870)	**(1,380)**	(2,804)
Financing activities					
New financing		**10,006**	16,348	**1,283**	2,096
Net cash benefit from financing arrangements		**1,195**	1,474	**153**	189
Loan and finance lease repayments		**(11,309)**	(8,193)	**(1,450)**	(1,050)
Security deposits placed		**(42)**	(39)	**(5)**	(5)
Dividends paid – to the shareholders of Cathay Pacific		**(1,022)**	(551)	**(131)**	(71)
– to non-controlling interests		**(292)**	(278)	**(38)**	(36)
Net cash (outflow)/inflow from financing activities		**(1,464)**	8,761	**(188)**	1,123
Decrease in cash and cash equivalents		**(1,944)**	(433)	**(249)**	(56)
Cash and cash equivalents at 1st January		**12,359**	12,798	**1,584**	1,641
Effect of exchange differences		**(204)**	(6)	**(26)**	(1)
Cash and cash equivalents at 31st December	*26*	**10,211**	12,359	**1,309**	1,584

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The notes on pages 56 to 97 and the principal accounting policies on pages 98 to 101 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2014

	Attributable to the shareholders of Cathay Pacific									
	Share capital HK$M	Share premium HK$M	Capital redemption reserve HK$M	Retained profit HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Capital reserve and others HK$M	Total HK$M	Non-Controlling interests HK$M	Total equity HK$M
At 1st January 2014	**787**	**16,295**	**24**	**40,342**	**984**	**2,340**	**2,116**	**62,888**	**125**	**63,013**
Profit for the year	**–**	**–**	**–**	**3,150**	**–**	**–**	**–**	**3,150**	**300**	**3,450**
Other comprehensive income	**–**	**–**	**–**	**(314)**	**67**	**(12,468)**	**(579)**	**(13,294)**	**(2)**	**(13,296)**
Total comprehensive income for the year	**–**	**–**	**–**	**2,836**	**67**	**(12,468)**	**(579)**	**(10,144)**	**298**	**(9,846)**
2013 second interim dividend	**–**	**–**	**–**	**(629)**	**–**	**–**	**–**	**(629)**	**–**	**(629)**
2014 first interim dividend	**–**	**–**	**–**	**(393)**	**–**	**–**	**–**	**(393)**	**–**	**(393)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(292)**	**(292)**
Transfers (note 23)	**16,319**	**(16,295)**	**(24)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	16,319	**(16,295)**	**(24)**	**1,814**	**67**	**(12,468)**	**(579)**	**(11,166)**	**6**	**(11,160)**
At 31st December 2014	**17,106**	**–**	**–**	**42,156**	**1,051**	**(10,128)**	**1,537**	**51,722**	**131**	**51,853**
At 1st January 2013	787	16,295	24	37,278	931	(830)	1,536	56,021	117	56,138
Profit for the year	–	–	–	2,620	–	–	–	2,620	284	2,904
Other comprehensive income	–	–	–	995	53	3,170	580	4,798	2	4,800
Total comprehensive income for the year	–	–	–	3,615	53	3,170	580	7,418	286	7,704
2012 interim dividend	–	–	–	(315)	–	–	–	(315)	–	(315)
2013 first interim dividend	–	–	–	(236)	–	–	–	(236)	–	(236)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(278)	(278)
	–	–	–	3,064	53	3,170	580	6,867	8	6,875
At 31st December 2013	787	16,295	24	40,342	984	2,340	2,116	62,888	125	63,013

The notes on pages 56 to 97 and the principal accounting policies on pages 98 to 101 form part of these financial statements.

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	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M	**2014 HK$M**	2013 HK$M	**2014 HK$M**	2013 HK$M
Profit or loss								
Sales to external customers	**104,869**	99,284	**1,122**	1,200			**105,991**	100,484
Inter-segment sales	**8**	8	**3,111**	2,206			**3,119**	2,214
Segment revenue	**104,877**	99,292	**4,233**	3,406			**109,110**	102,698
Segment results	**4,422**	4,214	**13**	(454)			**4,435**	3,760
Net finance charges	**(1,148)**	(1,008)	**(10)**	(11)			**(1,158)**	(1,019)
	3,274	3,206	**3**	(465)			**3,277**	2,741
Share of profits of associates					**772**	838	**772**	838
Profit before taxation							**4,049**	3,579
Taxation	**(600)**	(681)	**1**	6			**(599)**	(675)
Profit for the year							**3,450**	2,904
Other segment information								
Depreciation and amortisation	**7,919**	6,948	**420**	404			**8,339**	7,352
Purchase of fixed and intangible assets	**14,348**	19,751	**470**	783			**14,818**	20,534

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, aircraft ramp handling services and cargo terminal operations. The unallocated results represent the Group's share of profits of associates.

The major revenue earning asset is the aircraft fleet which is used for both 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

	2014 HK$M	2013 HK$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**51,526**	48,293
– Japan, Korea and Taiwan	**10,932**	11,145
India, Middle East, Pakistan and Sri Lanka	**4,686**	4,775
Southwest Pacific and South Africa	**7,043**	6,455
Southeast Asia	**8,486**	7,970
Europe	**9,096**	8,791
North America	**14,222**	13,055
	105,991	100,484

India, Middle East, Pakistan and Sri Lanka includes the Indian sub-continent, the Maldives, the Middle East, Pakistan, Sri Lanka and Bangladesh. Southwest Pacific and South Africa includes Australia, New Zealand and Southern Africa. Southeast Asia includes Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam and Cambodia. Europe includes continental Europe, the United Kingdom, Scandinavia, Russia, the Baltic states and Turkey. North America includes the 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 the Group's 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. Operating profit

	2014 HK$M	2013 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– leased	**2,442**	2,525
– owned	**5,574**	4,617
Amortisation of intangible assets	**323**	210
Operating lease rentals		
– land and buildings	**979**	938
– aircraft and related equipment	**3,167**	3,139
– others	**42**	34
Provision for impairment of fixed assets	**599**	210
Provision for impairment of assets held for sale	**14**	13
Gain on disposal of fixed assets, net	**(215)**	(213)
Gain on deemed disposal of an associate	**–**	(24)
Cost of stock expensed	**2,007**	2,152
Exchange differences, net	**316**	171
Auditors' remuneration	**15**	16
Net losses on financial assets and liabilities classified as held for trading	**89**	5
Dividend income from unlisted investments	**(15)**	(26)
Dividend income from listed investments	**(5)**	(5)

4. Net finance charges

	2014 HK$M	2013 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**664**	659
– interest income on related security deposits, notes and zero coupon bonds	**(37)**	(96)
	627	563
– bank loans and overdrafts		
– wholly repayable within five years	**139**	231
– not wholly repayable within five years	**230**	96
– other loans		
– wholly repayable within five years	**107**	96
– not wholly repayable within five years	**16**	24
– other long-term receivables	**(24)**	(26)
	1,095	984
Income from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	**(57)**	(53)
– bank deposits and others	**(175)**	(152)
	(232)	(205)
Fair value change:		
– (gain)/loss on obligations under finance leases designated as at fair value through profit or loss	**(40)**	29
– loss on financial derivatives	**335**	211
	295	240
	1,158	1,019

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

Included in fair value change in respect of financial derivatives are net losses from derivatives that are classified as held for trading of HK$89 million (2013: net gains of HK$34 million).

5. Taxation

	2014 HK$M	2013 HK$M
Current tax expenses		
– Hong Kong profits tax	**181**	182
– overseas tax	**177**	182
– under/(over) provisions for prior years	**20**	(36)
Deferred tax		
– origination and reversal of temporary differences (note 18)	**221**	347
	599	675

Hong Kong profits tax is calculated at 16.5% (2013: 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 the status of negotiations (see note 30(d) to the financial statements).

5. Taxation *(continued)*

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

	2014 HK$M	2013 HK$M
Consolidated profit before taxation	**4,049**	3,579
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2013: 16.5%)	**(668)**	(591)
Expenses not deductible for tax purposes	**(122)**	(287)
Tax (under)/over provisions arising from prior years	**(20)**	36
Effect of different tax rates in other countries	**157**	216
Tax losses not recognised	**(57)**	(80)
Income not subject to tax	**111**	31
Tax charge	**(599)**	(675)

Further information on deferred taxation is shown in note 18 to the financial statements.

6. Profit attributable to the shareholders of Cathay Pacific

Of the profit attributable to the shareholders of Cathay Pacific, a profit of HK$4,586 million (2013: HK$3,719 million) has been dealt with in the financial statements of the Company.

7. Other comprehensive income

	2014 HK$M	2013 HK$M
Defined benefit plans		
– remeasurements recognised during the year	**(356)**	1,119
– deferred taxation (note 18)	**40**	(122)
Cash flow hedges		
– recognised during the year	**(14,385)**	4,147
– transferred to profit or loss (note 24)	**427**	(664)
– transferred to intangible assets (note 11)	**–**	66
– deferred tax recognised (note 18)	**1,490**	(379)
Revaluation of available-for-sale financial assets		
– recognised during the year	**67**	53
Share of other comprehensive income of associates		
– recognised during the year	**(52)**	78
– reclassified to profit or loss	**–**	11
Exchange differences on translation of foreign operations		
– recognised during the year	**(525)**	525
– reclassified to profit or loss	**(2)**	(34)
Other comprehensive income for the year	**(13,296)**	4,800

8. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the shareholders of Cathay Pacific of HK$3,150 million (2013: HK$2,620 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2013: 3,934 million) shares.

9. Dividends

	2014 HK$M	2013 HK$M
First interim dividend paid on 6th October 2014 of HK$0.10 per share (2013: first interim dividend of HK$0.06 per share)	**393**	236
Second interim dividend proposed on 18th March 2015 of HK$0.26 per share (2013: second interim dividend of HK$0.16 per share)	**1,023**	629
	1,416	865

The second interim dividend is not accounted for in 2014 because it had not been declared at the year end date. The actual amount payable in respect of 2014 will be accounted for as an appropriation of the retained profit in the year ending 31st December 2015.

10. Fixed assets

	Aircraft and related equipment		Other equipment		Buildings		
	Owned HK$M	Leased HK$M	Owned HK$M	Leased HK$M	Owned HK$M	Under construction HK$M	Total HK$M
Group							
Cost							
At 1st January 2014	**80,124**	**58,056**	**3,852**	**478**	**11,431**	**298**	**154,239**
Exchange differences	**(1)**	**–**	**3**	**–**	**–**	**–**	**2**
Additions	**13,148**	**–**	**351**	**–**	**318**	**162**	**13,979**
Disposals	**(7,252)**	**–**	**(124)**	**–**	**(2)**	**–**	**(7,378)**
Reclassification to assets held for sale	**(3,888)**	**–**	**–**	**–**	**–**	**–**	**(3,888)**
Transfers	**6,159**	**(6,159)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2014	**88,290**	**51,897**	**4,082**	**478**	**11,747**	**460**	**156,954**
At 1st January 2013	70,743	56,592	3,613	478	5,513	5,432	142,371
Exchange differences	(6)	–	–	–	–	3	(3)
Additions	14,011	4,836	384	–	467	305	20,003
Disposals	(6,962)	–	(136)	–	–	–	(7,098)
Reclassification to assets held for sale	(1,034)	–	–	–	–	–	(1,034)
Transfers	3,372	(3,372)	(9)	–	5,451	(5,442)	–
At 31st December 2013	80,124	58,056	3,852	478	11,431	298	154,239
Accumulated depreciation and impairment							
At 1st January 2014	**38,494**	**14,897**	**2,475**	**399**	**3,039**	**–**	**59,304**
Exchange differences	**–**	**–**	**2**	**–**	**–**	**–**	**2**
Charge for the year	**4,816**	**2,429**	**284**	**13**	**474**	**–**	**8,016**
Disposals	**(5,614)**	**–**	**(123)**	**–**	**(2)**	**–**	**(5,739)**
Impairment	**428**	**171**	**–**	**–**	**–**	**–**	**599**
Reclassification to assets held for sale	**(3,699)**	**–**	**–**	**–**	**–**	**–**	**(3,699)**
Transfers	**3,992**	**(3,992)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2014	**38,417**	**13,505**	**2,638**	**412**	**3,511**	**–**	**58,483**
At 1st January 2013	37,878	14,911	2,334	383	2,587	–	58,093
Charge for the year	3,891	2,509	274	16	452	–	7,142
Disposals	(5,085)	–	(133)	–	–	–	(5,218)
Impairment	210	–	–	–	–	–	210
Reclassification to assets held for sale	(923)	–	–	–	–	–	(923)
Transfers	2,523	(2,523)	–	–	–	–	–
At 31st December 2013	38,494	14,897	2,475	399	3,039	–	59,304
Net book value							
At 31st December 2014	**49,873**	**38,392**	**1,444**	**66**	**8,236**	**460**	**98,471**
At 31st December 2013	41,630	43,159	1,377	79	8,392	298	94,935

10. Fixed assets *(continued)*

	Aircraft and related equipment		Other equipment		Buildings	
	Owned HK$M	Leased HK$M	Owned HK$M	Leased HK$M	Owned HK$M	Total HK$M
Company						
Cost						
At 1st January 2014	**51,790**	**68,341**	**1,520**	**478**	**1,084**	**123,213**
Additions	**3,088**	**8,837**	**176**	**–**	**117**	**12,218**
Disposals	**(8,944)**	**–**	**(76)**	**–**	**–**	**(9,020)**
Reclassification to assets held for sale	**(3,888)**	**–**	**–**	**–**	**–**	**(3,888)**
Transfers	**5,253**	**(5,253)**	**–**	**–**	**–**	**–**
At 31st December 2014	**47,299**	**71,925**	**1,620**	**478**	**1,201**	**122,523**
At 1st January 2013	51,083	59,315	1,533	478	828	113,237
Additions	2,987	13,554	71	–	256	16,868
Disposals	(5,774)	–	(84)	–	–	(5,858)
Reclassification to assets held for sale	(1,034)	–	–	–	–	(1,034)
Transfers	4,528	(4,528)	–	–	–	–
At 31st December 2013	51,790	68,341	1,520	478	1,084	123,213
Accumulated depreciation and impairment						
At 1st January 2014	**32,963**	**14,719**	**935**	**399**	**288**	**49,304**
Charge for the year	**3,358**	**3,136**	**152**	**13**	**92**	**6,751**
Impairment	**428**	**171**	**–**	**–**	**–**	**599**
Disposals	**(7,564)**	**–**	**(76)**	**–**	**–**	**(7,640)**
Reclassification to assets held for sale	**(3,699)**	**–**	**–**	**–**	**–**	**(3,699)**
Transfers	**3,534**	**(3,534)**	**–**	**–**	**–**	**–**
At 31st December 2014	**29,020**	**14,492**	**1,011**	**412**	**380**	**45,315**
At 1st January 2013	33,057	14,461	883	383	218	49,002
Charge for the year	3,112	2,781	134	16	70	6,113
Disposals	(5,016)	–	(82)	–	–	(5,098)
Impairment	210	–	–	–	–	210
Reclassification to assets held for sale	(923)	–	–	–	–	(923)
Transfers	2,523	(2,523)	–	–	–	–
At 31st December 2013	32,963	14,719	935	399	288	49,304
Net book value						
At 31st December 2014	**18,279**	**57,433**	**609**	**66**	**821**	**77,208**
At 31st December 2013	18,827	53,622	585	79	796	73,909

(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 11 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.

10. 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 partially fixed and partially floating and subleasing is not allowed. At 31st December 2014, thirteen Airbus A330-300s (2013: fifteen), one Boeing 747-400 (2013: one), one Boeing 747-400BCF (2013: one), twenty-three Boeing 777-300ERs (2013: nineteen), ten Airbus A320-200s (2013: ten), six Airbus A321-200s (2013: four) and one A300-600F (2013: nil) 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$21,234 million (2013: HK$18,386 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 2014 for each of the following periods are as follows:

	2014 HK$M	2013 HK$M
Aircraft and related equipment:		
– within one year	**3,493**	3,381
– after one year but within two years	**3,577**	3,106
– after two years but within five years	**8,733**	8,164
– after five years	**10,233**	9,720
	26,036	24,371
Buildings and other equipment:		
– within one year	**787**	624
– after one year but within two years	**664**	331
– after two years but within five years	**1,196**	534
– after five years	**456**	496
	3,103	1,985
	29,139	26,356

(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$3,842 million (2013: HK$4,495 million) for the Group and HK$117 million (2013: HK$246 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 in note 15 to the financial statements.

(e) An impairment loss amounting to HK$599 million was recognised for the year ended 31st December 2014 (2013: HK$210 million). Impairment in value of aircraft and related equipment is considered by writing down the carrying value to the estimated recoverable amount of HK$2,623 million (2013: HK$227 million) which is the higher of the value in use and the fair value less costs of disposal. The recoverable amount was determined based on the fair value less costs of disposal, using market comparison approach by reference to the estimated sales value as at 31st December 2014 and 2013. During the year, a number of aircraft have been transferred to assets held for sale. The fair value on which the recoverable amount is based on is categorised as a Level 2 measurement.

11. Intangible assets

	Group				Company		
	Goodwill HK$M	Computer software HK$M	Others HK$M	Total HK$M	Computer software HK$M	Others HK$M	Total HK$M
Cost							
At 1st January 2014	**7,666**	**2,938**	**214**	**10,818**	**2,872**	**214**	**3,086**
Additions	**–**	**800**	**39**	**839**	**787**	**39**	**826**
At 31st December 2014	**7,666**	**3,738**	**253**	**11,657**	**3,659**	**253**	**3,912**
At 1st January 2013	7,666	2,417	148	10,231	2,352	148	2,500
Additions	–	531	–	531	530	–	530
Disposals	–	(10)	–	(10)	(10)	–	(10)
Transfer from cash flow hedges (note 7)	–	–	66	66	–	66	66
At 31st December 2013	7,666	2,938	214	10,818	2,872	214	3,086
Accumulated amortisation							
At 1st January 2014	**–**	**1,016**	**–**	**1,016**	**971**	**–**	**971**
Charge for the year	**–**	**322**	**1**	**323**	**309**	**1**	**310**
At 31st December 2014	**–**	**1,338**	**1**	**1,339**	**1,280**	**1**	**1,281**
At 1st January 2013	–	806	–	806	767	–	767
Charge for the year	–	210	–	210	204	–	204
At 31st December 2013	–	1,016	–	1,016	971	–	971
Net book value							
At 31st December 2014	**7,666**	**2,400**	**252**	**10,318**	**2,379**	**252**	**2,631**
At 31st December 2013	7,666	1,922	214	9,802	1,901	214	2,115

The carrying amount of goodwill allocated to the airline operations is HK$7,627 million (2013: 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 of 1.0% to 3.0% (2013: 1.0% to 3.0%) 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% (2013: 8.0%) 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.

12. Investments in subsidiaries

	Company	
	2014 HK$M	2013 HK$M
Unlisted shares at cost	**10,370**	9,748
Other investments at cost	**10,783**	12,150
Net amounts due from subsidiaries		
– loan accounts	**13,178**	7,514
– current accounts	**2,105**	5,608
	36,436	35,020

Included in the loan accounts and current accounts are net amounts due from subsidiaries of HK$7,262 million (2013: HK$7,392 million) which are unsecured, interest-bearing at 0.55% to 4.87% (2013: 0.69% to 4.87%) per annum and repayable before 31st December 2017.

12. Investments in subsidiaries *(continued)*

Other net amounts due from subsidiaries are unsecured, non-interest-bearing and have no fixed repayment terms.

Principal subsidiaries are listed on page 96.

13. Investments in associates

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Hong Kong listed shares at cost (Market value: HK$16,513 million, 2013: HK$15,249 million)	**–**	–	**10,466**	10,466
Unlisted shares at cost	**–**	–	**39**	1
Share of net assets				
– listed in Hong Kong	**15,082**	15,021	**–**	–
– unlisted	**2,316**	1,031	**–**	–
Goodwill	**4,068**	4,165	**–**	–
	21,466	20,217	**10,505**	10,467
Less: Impairment loss	**–**	–	**(2)**	(3)
	21,466	20,217	**10,503**	10,464
Loans due from associates	**1,452**	97	**223**	93
	22,918	20,314	**10,726**	10,557

As at 31st December 2014, included in the loans due from associates is a loan of HK$1,226 million (2013: nil) which is unsecured, interest-free and repayable before 23rd March 2019. Terms are subject to review annually.

Air China is considered material to the Group and the share of assets and liabilities and results is summarised as below:

	2014 HK$M	2013 HK$M
Gross amounts of the associate's		
– current assets	**27,020**	36,286
– non-current assets	**232,435**	225,485
– current liabilities	**(76,773)**	(89,882)
– non-current liabilities	**(107,483)**	(97,625)
Revenue	**129,998**	125,548
Profit from continuing operations	**3,275**	6,484
Other comprehensive income	**284**	476
Total comprehensive income	**3,559**	6,960
Dividend received from the associate	**150**	189
Reconciled to the Group's interests in the associate		
– gross amounts of net assets of the associate	**75,199**	74,264
– Group's share of net assets of the associate at effective interest (2014: 20.13%; 2013: 20.13%)	**15,138**	14,949
– effect of cross shareholding and others	**(56)**	72
– goodwill	**4,068**	4,165
	19,150	19,186

Air China is a strategic partner for the Group and the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China.

13. Investments in associates *(continued)*

Aggregate information of associates that are not individually material

	2014 HK$M	2013 HK$M
Aggregate carrying amount of individually immaterial associates	**3,768**	1,128
Aggregate amounts of the Group's share of those associates		
– profit/(loss) from continuing operations	**121**	(439)
– other comprehensive income	**(68)**	28
– total comprehensive income	**53**	(411)

Principal associates are listed on page 97.

14. Other long-term receivables and investments

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Equity investments at fair value				
– listed in Hong Kong	**284**	259	**–**	–
– unlisted	**1,196**	1,085	**1,112**	994
Leasehold land rental prepayments	**1,344**	1,386	**–**	–
Loans and other receivables	**1,170**	1,199	**1,169**	1,195
Derivative financial assets – long-term portion	**2,378**	3,206	**2,374**	3,206
	6,372	7,135	**4,655**	5,395

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK$1,386 million (2013: HK$1,429 million).

15. Long-term liabilities

		2014		2013	
	Note	**Current HK$M**	**Non-current HK$M**	Current HK$M	Non-current HK$M
Group					
Long-term loans	*(a)*	**6,025**	**27,672**	5,834	24,954
Obligations under finance leases	*(b)*	**3,756**	**27,643**	4,384	31,880
		9,781	**55,315**	10,218	56,834
Company					
Long-term loans	*(a)*	**3,932**	**11,993**	4,315	14,687
Obligations under finance leases	*(b)*	**5,136**	**40,982**	8,343	39,336
		9,068	**52,975**	12,658	54,023

15. Long-term liabilities *(continued)*

(a) Long-term loans

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Bank loans				
– secured	**18,181**	12,839	**654**	1,053
– unsecured	**11,468**	13,810	**11,468**	13,810
Other loans				
– unsecured	**4,048**	4,139	**3,803**	4,139
	33,697	30,788	**15,925**	19,002
Amount due within one year included under current liabilities	**(6,025)**	(5,834)	**(3,932)**	(4,315)
	27,672	24,954	**11,993**	14,687
Repayable as follows:				
Bank loans				
– within one year	**5,664**	5,546	**3,640**	4,027
– after one year but within two years	**8,206**	5,732	**6,315**	4,392
– after two years but within five years	**7,824**	10,067	**2,167**	6,444
– after five years	**7,955**	5,304	**–**	–
	29,649	26,649	**12,122**	14,863
Other loans				
– within one year	**361**	288	**292**	288
– after one year but within two years	**331**	275	**261**	275
– after two years but within five years	**2,842**	2,862	**2,736**	2,862
– after five years	**514**	714	**514**	714
	4,048	4,139	**3,803**	4,139
Amount due within one year included under current liabilities	**(6,025)**	(5,834)	**(3,932)**	(4,315)
	27,672	24,954	**11,993**	14,687

Borrowings other than bank loans are repayable on various dates up to 2022 at an interest rate of 3.0% per annum while bank loans are repayable up to 2026.

Long-term loans of the Group and the Company not wholly repayable within five years amounted to HK$17,698 million and HK$514 million respectively (2013: HK$11,782 million and HK$714 million).

As at 31st December 2014, the Group and the Company had long-term loans totalling HK$36,617 million and HK$36,617 million respectively (2013: HK$32,215 million and HK$32,215 million) which were defeased by funds and other investments. Accordingly, these liabilities and the related funds, as well as related expenditure and income, have been defeased in the financial statements.

(b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2015 to 2026. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Future payments	**35,871**	43,468	**52,958**	56,027
Interest charges relating to future periods	**(3,752)**	(5,617)	**(6,320)**	(7,476)
Present value of future payments	**32,119**	37,851	**46,638**	48,551
Security deposits, notes and zero coupon bonds	**(720)**	(1,587)	**(520)**	(872)
Amounts due within one year included under current liabilities	**(3,756)**	(4,384)	**(5,136)**	(8,343)
	27,643	31,880	**40,982**	39,336

15. Long-term liabilities *(continued)*

The present value of future payments is repayable as follows:

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Within one year	**3,978**	5,345	**5,157**	8,738
After one year but within two years	**4,622**	4,013	**5,815**	4,531
After two years but within five years	**10,916**	12,202	**15,354**	13,994
After five years	**12,603**	16,291	**20,312**	21,288
	32,119	37,851	**46,638**	48,551

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

As at 31st December 2014, the Group and the Company had obligations under finance leases amounting to HK$1,062 million and HK$466 million respectively (2013: HK$5,428 million and HK$851 million) which were defeased by funds and other investments. Accordingly these liabilities and the related funds, as well as related expenditure and income, have been defeased in the financial statements.

As at 31st December 2014, the Group and the Company had financial liabilities designated as at fair value through profit or loss of HK$3,129 million and HK$3,129 million respectively (2013: HK$3,587 million and HK$3,587 million).

16. Other long-term payables

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Deferred creditors	**1,018**	980	**852**	826
Derivative financial liabilities – long-term portion	**7,747**	277	**7,743**	262
Retirement benefit liabilities (note 17)	**589**	61	**464**	6
	9,354	1,318	**9,059**	1,094

17. Retirement benefits

The Group operates various defined benefit and defined contribution retirement schemes for its employees in Hong Kong and in certain overseas locations. The assets of these schemes are held in separate trustee-administered funds. 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

A defined benefit scheme is a retirement plan that defines the benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Group has an obligation to provide participating employees with these benefits.

The Swire Group Retirement Benefit Scheme ("SGRBS") in Hong Kong, in which the Company, Cathay Pacific Catering Services (H.K.) Limited ("CPCS"), Vogue Laundry Service Limited ("Vogue") and Abacus Distribution Systems (Hong Kong) Limited ("Abacus") 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, CPCS, Vogue and Abacus meet the full cost of all benefits due by SGRBS to their employee members, who are not required to contribute to the scheme.

17. Retirement benefits *(continued)*

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 majority of the Group's schemes are final salary guarantee lump sum defined benefit plans.

Contributions to the defined benefit retirement schemes are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past service liabilities, on an on-going basis, as computed by reference to actuarial valuations. The principal schemes in Hong Kong are valued annually by qualified actuaries for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance. For the year ended 31st December 2014 and 2013, disclosures are based on valuations prepared by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes.

Through its defined benefit retirement schemes the Group is exposed to a number of risks, the most significant of which is market risk.

Market risk embodies the potential for losses and gains and includes price risk, interest rate risk and currency risk as well as factors specific to an individual investment or its issuer or risk specific to a certain market. Market risk is managed principally through diversification of the investments by the investment managers appointed. Investment managers are governed by agreements that stipulate the performance objective of the investments, which is referenced to a recognised benchmark and the predicated tracking error around this benchmark. An investment committee monitors the overall market risk position on a quarterly basis.

The Group's obligations are 93% (2013: 99%) covered by the plan assets held by the trustees as at 31st December 2014.

	2014 HK$M	2013 HK$M
Net expenses recognised in the Group's profit or loss:		
Current service cost	**324**	357
Net interest cost	**15**	37
Total included in staff costs	**339**	394
Actual return on plan assets	**325**	586

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Net liabilities recognised in the statement of financial position:				
Present value of funded obligations	**8,961**	8,414	**8,205**	7,698
Fair value of plan assets	**(8,372)**	(8,353)	**(7,741)**	(7,692)
Retirement benefit liabilities (note 16)	**589**	61	**464**	6

17. Retirement benefits *(continued)*

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Movements in present value of funded obligations comprise:				
At 1st January	**8,414**	9,102	**7,698**	8,333
Remeasurements:				
– actuarial losses/(gains) arising from changes in financial assumptions	**600**	(643)	**547**	(584)
– experience gains	**(226)**	(132)	**(230)**	(147)
Movements for the year				
– current service cost	**324**	357	**292**	321
– interest expense	**322**	279	**293**	254
– employee contributions	**5**	6	**5**	6
– benefits paid	**(438)**	(534)	**(360)**	(464)
– transfer	**(40)**	(21)	**(40)**	(21)
At 31st December	**8,961**	8,414	**8,205**	7,698

The weighted average duration of the defined benefit obligations is seven years (2013: eight years).

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Movements in fair value of plan assets comprise:				
At 1st January	**8,353**	8,119	**7,692**	7,458
Movements for the year				
– return on plan assets excluding interest income	**18**	344	**18**	316
– interest income	**307**	242	**280**	221
– employee contributions	**5**	6	**5**	6
– employer contributions	**167**	197	**146**	176
– benefits paid	**(438)**	(534)	**(360)**	(464)
– transfer	**(40)**	(21)	**(40)**	(21)
At 31st December	**8,372**	8,353	**7,741**	7,692

There were no plan amendments, curtailments and settlements during the year.

	Group				Company			
	2014 HK$M	**%**	2013 HK$M	%	**2014 HK$M**	**%**	2013 HK$M	%
Fair value of plan assets comprises:								
Equities								
– Asia Pacific	**1,138**	**14**	992	12	**1,036**	**13**	899	12
– Europe	**476**	**5**	530	6	**434**	**6**	480	6
– North America	**981**	**12**	990	12	**894**	**11**	897	12
– others	**832**	**10**	1,034	12	**757**	**10**	938	12
Debt instruments	**2,283**	**27**	2,249	27	**2,069**	**27**	2,029	26
Deposits and cash	**2,662**	**32**	2,558	31	**2,551**	**33**	2,449	32
	8,372	**100**	8,353	100	**7,741**	**100**	7,692	100

All equities and bonds are held in quoted unit trusts, through reputable investment managers.

The performance and risks are monitored and managed by an investment committee that meets between four and six times a year.

17. Retirement benefits *(continued)*

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$171 million to the schemes in 2015.

	2014		2013	
	SGRBS	**CPALRS**	SGRBS	CPALRS
The significant actuarial assumptions are:				
Discount rate	**3.27%**	**3.27%**	4.27%	4.27%
Expected rate of future salary increases	**5.00%**	**3.41%**	5.00%	3.41%

The sensitivity of the defined benefit obligations to changes in the actuarial assumptions are set out below. This shows how the defined benefit obligations at 31st December 2014 would have (increased)/decreased as a result of 0.5% change in the actuarial assumptions:

	Increase in 0.5%		Decrease in 0.5%	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Discount rate	**303**	316	**(315)**	(331)
Expect rate of future salary increases	**(283)**	(327)	**275**	316

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method has been applied as when calculating the retirement benefit liability recognised within the statement of financial position.

(b) Defined contribution retirement schemes

A defined contribution scheme is a retirement plan under which the Group pays fixed contribution into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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's contribution, staff may elect to contribute from 0% to 10% of their monthly salary. During the year, there were no benefits forfeited in accordance with the schemes' rules (2013: HK$77 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$25,000 up to 31st May 2014 and HK$30,000 from 1st June 2014). Staff may elect to contribute more than the minimum as a voluntary contribution.

Contributions to defined contribution retirement schemes charged to the Group's profit or loss were HK$1,089 million (2013: HK$1,017 million).

18. Deferred taxation

	Group 2014 HK$M	Group 2013 HK$M	Company 2014 HK$M	Company 2013 HK$M
Deferred tax assets:				
– provisions	**(169)**	(158)	**(166)**	(150)
– tax losses	**(1,637)**	(1,835)	**(209)**	(796)
– cash flow hedges	**(1,214)**	–	**(1,221)**	–
– retirement benefits	**(69)**	(17)	**(50)**	(8)
Deferred tax liabilities:				
– accelerated tax depreciation	**3,511**	3,508	**1,928**	2,067
– investments in associates	**625**	582	**–**	–
– cash flow hedges	**–**	276	**–**	293
Provision in respect of certain lease arrangements	**8,216**	7,073	**8,216**	7,073
	9,263	9,429	**8,498**	8,479

The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position:

	Group 2014 HK$M	Group 2013 HK$M	Company 2014 HK$M	Company 2013 HK$M
Net deferred tax asset recognised in the statement of financial position	**(428)**	(204)	**–**	–
Net deferred tax liability recognised in the statement of financial position	**9,691**	9,633	**8,498**	8,479
	9,263	9,429	**8,498**	8,479

	Group 2014 HK$M	Group 2013 HK$M	Company 2014 HK$M	Company 2013 HK$M
Movements in deferred taxation comprise:				
At 1st January	**9,429**	8,061	**8,479**	6,830
Movements for the year				
– charged to profit or loss				
– deferred tax expenses (note 5)	**221**	347	**422**	349
– operating expenses	**48**	38	**48**	37
– charged to other comprehensive income				
– transferred to cash flow hedge reserve (note 7)	**(1,490)**	379	**(1,514)**	377
– transferred to retained profit (note 7)	**(40)**	122	**(32)**	109
– initial cash benefit from lease arrangements	**1,195**	1,474	**1,195**	1,474
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	**(100)**	(992)	**(100)**	(697)
At 31st December	**9,263**	9,429	**8,498**	8,479

18. Deferred taxation *(continued)*

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$12,424 million (2013: HK$12,078 million) to carry forward against future taxable income. These amounts are analysed as follows:

	Group	
	Unrecognised tax losses	
	2014 HK$M	2013 HK$M
No expiry date	**8,444**	8,089
Expiring beyond 2025	**3,980**	3,989
	12,424	12,078

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2016 to 2025 (2013: 2015 to 2024) as follows:

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
After one year but within five years	**2,096**	1,470	**2,096**	1,470
After five years but within 10 years	**5,173**	4,433	**5,173**	4,433
After 10 years	**947**	1,170	**947**	1,170
	8,216	7,073	**8,216**	7,073

19. Trade, other receivables and other assets

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Trade debtors	**5,527**	5,421	**4,900**	4,656
Derivative financial assets – current portion	**891**	2,022	**812**	2,022
Other receivables and prepayments	**4,050**	2,314	**3,799**	1,713
Due from associates and other related companies	**123**	70	**88**	30
	10,591	9,827	**9,599**	8,421

As at 31st December 2014, total derivative financial assets of the Group and the Company which did not qualify for hedge accounting amounted to HK$1,315 million and HK$1,315 million respectively (2013: HK$1,329 million and HK$1,329 million).

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:				
Current	**5,379**	5,319	**4,761**	4,575
One to three months overdue	**96**	86	**89**	65
More than three months overdue	**52**	16	**50**	16
	5,527	5,421	**4,900**	4,656

The overdue trade debtors are not impaired and relate to a number of independent customers for whom there is no recent history of default.

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

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

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
At 1st January	**53**	54	**35**	36
Amounts written back	**(1)**	(1)	**(1)**	(1)
At 31st December	**52**	53	**34**	35

20. Assets held for sale

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Assets held for sale	**189**	111	**189**	111
	189	111	**189**	111

An impairment loss amounting to HK$14 million was recognised for the year ended 31st December 2014 (2013: HK$13 million). Impairment of assets held for sale is considered by writing down the carrying value to the estimated recoverable amount of HK$97 million (2013: HK$437 million) which is the higher of the value in use and the fair value less costs of disposal. The recoverable amount was determined based on the fair value less costs of disposal, using market comparison approach by reference to the estimated sales value as at 31st December 2014 and 2013. The fair value on which the recoverable amount is based on is catergorised as a Level 2 measurement.

21. Liquid funds

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Short-term deposits and bank balances (note 26)	**10,211**	12,359	**7,802**	9,607
Short-term deposits maturing beyond three months when placed	**2,176**	6,349	**2,176**	6,320
Funds with investment managers				
– debt securities listed outside Hong Kong	**6,780**	7,282	**–**	–
– bank deposits	**224**	32	**–**	–
Other liquid investments				
– debt securities listed outside Hong Kong	**1,295**	1,439	**1,179**	1,168
– bank deposits	**412**	275	**200**	177
	21,098	27,736	**11,357**	17,272

Included in other liquid investments are bank deposits of HK$412 million (2013: HK$275 million) and debt securities of HK$250 million (2013: HK$1,433 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.

22. Trade and other payables

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Trade creditors	**6,756**	7,601	**4,894**	5,572
Derivative financial liabilities – current portion	**7,291**	799	**7,268**	727
Other payables	**8,996**	9,331	**7,616**	7,925
Due to associates	**239**	166	**155**	88
Due to other related companies	**261**	309	**223**	265
	23,543	18,206	**20,156**	14,577

As at 31st December 2014, total derivative financial liabilities of the Group and the Company which did not qualify for hedge accounting amounted to HK$201 million and HK$198 million respectively (2013: HK$233 million and HK$227 million).

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Analysis of trade creditors by age:				
Current	**6,561**	7,408	**4,770**	5,492
One to three months overdue	**176**	174	**114**	71
More than three months overdue	**19**	19	**10**	9
	6,756	7,601	**4,894**	5,572

The Group's general payment terms are one to two months from the invoice date.

23. Share capital

	2014		2013	
	Number of shares	**HK$M**	Number of shares	HK$M
Authorised (HK$0.20 each)	**–**	**–**	5,000,000,000	1,000
Issued and fully paid (HK$0.20 each)				
At 1st January	**3,933,844,572**	**787**	3,933,844,572	787
Transition to no-par value regime on 3rd March 2014 (note 24)	**–**	**16,319**	–	–
At 31st December	**3,933,844,572**	**17,106**	3,933,844,572	787

During the year, the Company did not purchase, sell or redeem any of its shares (2013: nil). At 31st December 2014, 3,933,844,572 shares were in issue (31st December 2013: 3,933,844,572 shares). Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3rd March 2014, the concepts of "authorised share capital" and "par value" no longer exist. In accordance with Section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have nominal value with effect from 3rd March 2014. In accordance with the transitional provisions set out in Section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622) on 3rd March 2014, any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital. These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

24. Reserves

	Group 2014 HK$M	Group 2013 HK$M	Company 2014 HK$M	Company 2013 HK$M
Share premium	**–**	16,295	**–**	16,295
Capital redemption reserve	**–**	24	**–**	24
Retained profit	**42,156**	40,342	**34,952**	31,656
Investment revaluation reserve	**1,051**	984	**792**	743
Cash flow hedge reserve	**(10,128)**	2,340	**(10,162)**	2,435
Capital reserve and others	**1,537**	2,116	**(1)**	(1)
	34,616	62,101	**25,581**	51,152

	Share premium HK$M	Capital redemption reserve HK$M	Retained profit HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Capital reserve and others HK$M	Total HK$M
Company							
At 1st January 2014	**16,295**	**24**	**31,656**	**743**	**2,435**	**(1)**	**51,152**
Profit for the year	**–**	**–**	**4,586**	**–**	**–**	**–**	**4,586**
Other comprehensive income	**–**	**–**	**(268)**	**49**	**(12,597)**	**–**	**(12,816)**
Total comprehensive income for the year	**–**	**–**	**4,318**	**49**	**(12,597)**	**–**	**(8,230)**
2013 interim dividend	**–**	**–**	**(629)**	**–**	**–**	**–**	**(629)**
2014 first interim dividend	**–**	**–**	**(393)**	**–**	**–**	**–**	**(393)**
Transfers (note 23)	**(16,295)**	**(24)**	**–**	**–**	**–**	**–**	**(16,319)**
	(16,295)	**(24)**	**3,296**	**49**	**(12,597)**	**–**	**(25,571)**
At 31st December 2014	**–**	**–**	**34,952**	**792**	**(10,162)**	**(1)**	**25,581**
At 1st January 2013	16,295	24	27,549	795	(718)	(1)	43,944
Profit for the year	–	–	3,719	–	–	–	3,719
Other comprehensive income	–	–	939	(52)	3,153	–	4,040
Total comprehensive income for the year	–	–	4,658	(52)	3,153	–	7,759
2012 interim dividend	–	–	(315)	–	–	–	(315)
2013 first interim dividend	–	–	(236)	–	–	–	(236)
	–	–	4,107	(52)	3,153	–	7,208
At 31st December 2013	16,295	24	31,656	743	2,435	(1)	51,152

24. Reserves *(continued)*

The investment revaluation reserve comprises changes in the fair value of long-term investments.

Capital reserve and others of the Group comprise the capital reserve of HK$23 million (2013: HK$23 million), exchange differences arising from revaluation of foreign investments which amounted to HK$2,247 million (2013: HK$2,774 million) and share of associate's other negative reserve of HK$733 million (2013: HK$681 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 gain/(loss) transferred from the cash flow hedge reserve of the Group to profit or loss items was as follows:

	2014 HK$M	2013 HK$M
Turnover	**489**	247
Fuel	**(743)**	725
Others	**73**	(63)
Net finance charge	**(246)**	(245)
Net (loss)/gain transferred to the profit or loss (note 7)	**(427)**	664

The cash flow hedge reserve of the Group is expected to be charged to operating profit or transferred to relevant assets as noted below when the hedged transactions affect profit or loss or the relevant assets are recognised.

	Total HK$M
2015	**(5,389)**
2016	**(2,800)**
2017	**(2,482)**
2018	**(665)**
2019	**175**
Beyond 2019	**1,033**
	(10,128)

The actual amount ultimately recognised in operating profit or transferred to relevant assets will depend upon the fair values of the hedging instruments at the time that the hedged transactions affect profit or loss.

Distributable reserves of the Company at 31st December 2014 amounted to HK$34,952 million (2013: HK$31,656 million), as calculated under the provisions of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622).

25. Reconciliation of operating profit to cash generated from operations

	2014 HK$M	2013 HK$M
Operating profit	**4,435**	3,760
Depreciation of fixed assets	**8,016**	7,142
Amortisation of intangible assets	**323**	210
Provision for impairment of assets held for sale	**14**	13
Provision for impairment of fixed assets	**599**	210
Gain on disposal of fixed assets, net	**(215)**	(213)
Gain on deemed disposal of an associate	**–**	(24)
Currency adjustments and other items not involving cash flows	**619**	(658)
Increase in stock	**(78)**	(317)
Decrease/(increase) in trade debtors, other receivables and other assets and derivative financial assets	**1,008**	(905)
(Decrease)/increase in net amounts due to related companies and associates	**(28)**	182
Increase/(decrease) in trade creditors, other payables, derivative financial liabilities and deferred creditors	**12,821**	(395)
Increase in unearned transportation revenue	**1,001**	1,656
Non-operating movements in debtors and creditors	**(16,241)**	3,502
Cash generated from operations	**12,274**	14,163

26. Analysis of cash and cash equivalents

	2014 HK$M	2013 HK$M
Short-term deposits and bank balances (note 21)	**10,211**	12,359
	10,211	12,359

27. Directors' and executive officers' remuneration

(a) Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32) is as follows:

	Cash			Non-cash					
	Basic salary/ Fees (note a) HK$'000	Bonus (note b) HK$'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$'000	**2014 Total HK$'000**	2013 Total HK$'000
Executive Directors									
John Slosar	1,326	3,639	17	367	1,297	–	721	**7,367**	13,799
Christopher Pratt (up to March 2014)	125	626	1	38	–	–	72	**862**	2,593
W.E. James Barrington	2,018	1,458	2,173	619	931	44	–	**7,243**	6,985
Ivan Chu	3,267	2,380	1,356	369	–	–	–	**7,372**	6,137
Rupert Hogg (from March 2014)	2,001	–	960	641	–	123	2,799	**6,524**	–
Martin Murray	2,408	1,447	371	739	809	72	3,264	**9,110**	8,192
Non-Executive Directors									
Cai Jianjiang	575	–	–	–	–	–	–	**575**	575
Fan Cheng	755	–	–	–	–	–	–	**755**	755
James W.J. Hughes-Hallett (up to December 2014)	–	–	–	–	–	–	–	**–**	–
Peter Kilgour (up to December 2014)	–	–	–	–	–	–	–	**–**	–
Ian Shiu	–	–	–	–	–	–	–	**–**	–
Song Zhiyong (from March 2014)	462	–	–	–	–	–	–	**462**	–
Merlin Swire	–	–	–	–	–	–	–	**–**	–
Wang Changshun (up to January 2014)	41	–	–	–	–	–	–	**41**	575
Zhao Xiaohang	575	–	–	–	–	–	–	**575**	575
Independent Non-Executive Directors									
Irene Lee	835	–	–	–	–	–	–	**835**	830
Jack So	835	–	–	–	–	–	–	**835**	815
Tung Chee Chen	633	–	–	–	–	–	–	**633**	633
Peter Wong	755	–	–	–	–	–	–	**755**	755
2014 Total	**16,611**	**9,550**	**4,878**	**2,773**	**3,037**	**239**	**6,856**	**43,944**	
2013 Total	17,254	9,468	3,689	2,750	3,351	77	6,630		43,219

(a) Independent Non-Executive Directors receive fees as members of the Board and its committees. Executive Directors receive salaries. For Directors employed by the Swire group, the remuneration disclosed represents the amount charged to the Company.

(b) Bonus is related to services for 2013 and was paid in 2014.

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

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

	Cash			Non-cash					
	Basic salary HK$'000	Bonus HK$'000	Allowances & benefits HK$'000	Contributions to retirement schemes HK$'000	Bonus paid into retirement schemes HK$'000	Other benefits HK$'000	Housing benefits HK$'000	**2014 Total HK$'000**	2013 Total HK$'000
William Chau (up to August 2013)	–	799	–	–	–	–	–	**799**	3,214
Dane Cheng (from July 2014)	849	142	347	139	–	–	–	**1,477**	–
Chitty Cheung (up to August 2014)	1,412	1,250	315	187	–	–	–	**3,164**	3,276
Quince Chong (up to August 2012)	–	–	–	–	–	–	–	**–**	463
Philippe de Gentile-Williams (up to July 2014)	995	984	255	305	758	28	1,337	**4,662**	6,090
Christopher Gibbs	2,297	1,695	741	386	–	–	–	**5,119**	4,913
James Ginns (from July 2014)	739	–	353	–	226	23	988	**2,329**	–
Richard Hall	1,885	1,456	3,090	–	–	–	–	**6,431**	6,169
Rupert Hogg (up to March 2014)	508	1,550	132	130	922	50	727	**4,019**	9,493
Joseph Locandro	2,257	1,538	1,072	339	–	–	–	**5,206**	4,339
Nick Rhodes	2,064	1,531	112	633	985	183	2,794	**8,302**	8,251
James Tong (from August 2014)	700	140	209	115	–	–	–	**1,164**	–
James Woodrow (from September 2013)	1,635	902	732	502	694	176	2,209	**6,850**	1,487
2014 Total	**15,341**	**11,987**	**7,358**	**2,736**	**3,585**	**460**	**8,055**	**49,522**	
2013 Total	15,223	9,920	7,991	2,732	2,576	432	8,821		47,695

Bonus is related to services for 2013 and was paid in 2014.

28. Employee information

(a) The five highest paid individuals of the Company included four Directors (2013: three) and one executive officer (2013: two), whose emoluments are set out in note 27 above.

(b) The table below sets out the number of individuals, including those who have retired or resigned during the year, in each employment category whose total remuneration for the year fell into the following ranges:

	2014			2013		
HK$'000	**Director**	**Flight staff**	**Other staff**	Director	Flight staff	Other staff
0 – 1,000	**14**	**11,102**	**9,717**	12	10,462	9,332
1,001 – 1,500	**–**	**423**	**301**	–	390	304
1,501 – 2,000	**–**	**343**	**142**	–	472	131
2,001 – 2,500	**–**	**692**	**67**	–	662	61
2,501 – 3,000	**–**	**419**	**21**	1	405	17
3,001 – 3,500	**–**	**250**	**6**	–	224	8
3,501 – 4,000	**–**	**142**	**1**	–	121	3
4,001 – 4,500	**–**	**54**	**3**	–	28	6
4,501 – 5,000	**–**	**5**	**2**	–	1	3
5,001 – 5,500	**–**	**1**	**5**	–	–	2
6,001 – 6,500	**–**	**–**	**1**	1	–	3
6,501 – 7,000	**1**	**–**	**2**	1	–	1
7,001 – 7,500	**3**	**–**	**–**	–	–	–
8,001 – 8,500	**–**	**–**	**1**	1	–	1
9,001 – 9,500	**1**	**–**	**–**	–	–	1
13,501 – 14,000	**–**	**–**	**–**	1	–	–
	19	**13,431**	**10,269**	17	12,765	9,873

29. Related party transactions

(a) Material transactions between the Group and associates and other related parties which were carried out in the normal course of business on commercial terms are summarised below:

	2014		2013	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Turnover	**226**	**11**	226	12
Aircraft maintenance costs	**948**	**2,207**	827	2,355
Operating costs	**514**	**–**	463	–
Dividend income	**221**	**8**	273	–
Fixed assets purchase	**–**	**13**	–	7
Sales of fixed assets	**–**	**–**	206	–

Other related parties are companies under control of a company which has a significant influence on the Group.

(i) Under the HAECO Framework Agreement with HAECO and HXITM, the Group paid fees to, and received fees from, the HAECO group in respect of aircraft maintenance and related services. The amounts payable to the HAECO group for the year ended 31st December 2014 totalled HK$3,167 million (2013: HK$3,189 million). The amounts receivable from the HAECO group for the year ended 31st December 2014 totalled HK$13 million (2013: HK$15 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 a definition of terms, please refer to the Directors' Report on pages 35 and 36.

(ii) Under the Air China Framework Agreement with Air China dated 26th June 2008, the Group paid fees to, and received fees from, the Air China group in respect of transactions between the Group on the one hand and the 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 the Air China group for the year ended 31st December 2014 totalled HK$430 million (2013: HK$350 million). The amounts receivable from the Air China group for the year ended 31st December 2014 totalled HK$224 million (2013: HK$222 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 a definition of terms, please refer to the Directors' Report on page 36.

(b) The Company has 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 taxation, results of associates, non-controlling interests, and any profits or losses on disposal of fixed assets are paid annually. For the year ended 31st December 2014, service fees of HK$81 million (2013: HK$69 million) were paid and expenses of HK$214 million (2013: HK$155 million) were reimbursed at cost; in addition, HK$50 million (2013: HK$54 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 a definition of terms, please refer to the Directors' Report on page 35.

(c) Amounts due from and due to associates and other related companies at 31st December 2014 are disclosed in notes 19 and 22 to the financial statements. 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 2014 are disclosed in note 30(b) to the financial statements.

(e) There were no material transactions with Directors and executive officers except for those relating to shareholdings (as disclosed in the Directors' Report and the Corporate Governance Report). Remuneration of Directors and executive officers is disclosed in note 27 to the financial statements.

30. Capital commitments and contingencies

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

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Authorised and contracted for	**100,841**	113,307	**3,094**	3,921
Authorised but not contracted for	**10,102**	15,897	**9,868**	12,499
	110,943	129,204	**12,962**	16,420

Operating lease commitments are shown in note 10(b) to the financial statements.

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

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Subsidiaries	**–**	–	**4,686**	5,218
Associates	**3,112**	753	**90**	90
Related parties	**1,032**	1,064	**1,032**	1,064
Staff	**200**	200	**200**	200
	4,344	2,017	**6,008**	6,572

Related parties are companies under control of a company which has a significant influence on the Group.

In February 2015, the Group provided a guarantee in respect of an associate amounting to HK$548 million.

(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 remains the subject of antitrust proceedings in various jurisdictions except as otherwise noted below. The proceedings are focused on issues relating to pricing and competition. The Company is represented by legal counsel in connection with these matters.

In November 2010, the European Commission 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. In January 2011, the Company filed an appeal with the General Court of the European Union. The appeal is currently pending.

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, the United Kingdom, the Netherlands, Norway and Korea 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 these actions, except as noted below.

30. Capital commitments and contingencies *(continued)*

The Company was a respondent (together with a number of other airlines) in an Australian civil antitrust class action in respect of its cargo operations. The Company, together with other airlines, settled the Australian civil cargo antitrust class action in which it is a respondent. Under the terms of settlement, which was approved by the Federal Court of Australia in June 2014, the Company made a payment to settle this litigation without any admission of liability or wrongdoing whatsoever. Any settlement amounts payable by individual airlines under the terms of settlement are to remain confidential. The amount payable by the Company is not material to its financial position. An amount sufficient to cover the amount payable by the Company was provided in the financial statements of the Company before 2014.

The Company is a defendant in various putative class action cases filed in the United States, in which the plaintiffs allege the Company and other carriers that provide air cargo services fixed the prices of various air cargo charges and surcharges in violation of United States federal and state antitrust laws, and certain foreign competition laws. Those were consolidated into one case for all pre-trial purposes, In re Air Cargo Shipping Services Antitrust Litigation, MDL No. 1775, EDNY. Damages were demanded, but the amounts are not specified. The Company reached an agreement to settle this matter in February 2014, by paying the plaintiffs US$65 million (approximately HK$504 million at the exchange rate current at date of payment). The settlement, which is subject to Court approval, will resolve claims against all putative class members who choose not to opt out of the agreement.

The Company is a defendant in various putative class action cases filed in the United States, in which the plaintiffs allege the Company and other carriers fixed certain elements of the price charged for passenger air transportation services in violation of United States antitrust laws. Those cases were consolidated into one case for all pre-trial purposes, In re Transpacific Passenger Air Transportation Antitrust Litigation, MDL No. 1913, N.D. Cal. Damages were demanded, but the amounts were not specified. The Company reached an agreement to settle this matter in July 2014 by paying the plaintiffs US$7.5 million (approximately HK$58.1 million at the exchange rate current at date of payment). The settlement, which is subject to Court approval, will resolve claims against all putative class members who choose not to opt out of the agreement.

The proceedings and civil actions, except as otherwise stated above, are ongoing and the outcomes are subject to uncertainties. The Company is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with the accounting policy set out above in this note.

31. Financial risk management

In the normal course of business, the Group is exposed to fluctuations in foreign exchange rates, interest rates and jet fuel prices. These exposures are managed, sometimes with the use of derivative financial instruments, by the Treasury Department of Cathay Pacific in accordance with the policies approved by the Finance Committee.

Derivative financial instruments are used solely for financial risk management purposes and the Group does not hold or issue derivative financial instruments for proprietary trading purposes. Derivative financial instruments which constitute a hedge do not expose the Group to market risk since any change in their market value will be offset by a compensating change in the market value of the hedged items. Exposure to foreign exchange rates, interest rates and jet fuel prices 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") which 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.

31. Financial risk management *(continued)*

At the reporting date there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position and the amount of guarantees granted as disclosed in note 30 to the financial statements. Collateral and guarantees received in respect of credit terms granted as at 31st December 2014 is HK$1,413 million (2013: HK$1,333 million).

The movement in the provision for bad debts in respect of trade debtors during the year is set out in note 19 to the financial statements.

(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 has been performed on the same basis as for 2013. The undiscounted payment profile of financial liabilities is outlined as follows:

	2014				
	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	**(6,526)**	**(9,125)**	**(12,107)**	**(9,386)**	**(37,144)**
Obligations under finance leases	**(4,122)**	**(4,615)**	**(12,582)**	**(13,690)**	**(35,009)**
Other long-term payables	**–**	**(319)**	**(678)**	**(21)**	**(1,018)**
Trade and other payables	**(16,252)**	**–**	**–**	**–**	**(16,252)**
Derivative financial liabilities, net	**(7,147)**	**(3,779)**	**(3,979)**	**16**	**(14,889)**
Total	**(34,047)**	**(17,838)**	**(29,346)**	**(23,081)**	**(104,312)**

	2013				
	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	(6,263)	(6,438)	(14,168)	(6,961)	(33,830)
Obligations under finance leases	(4,804)	(4,287)	(13,852)	(18,749)	(41,692)
Other long-term payables	–	(155)	(509)	(316)	(980)
Trade and other payables	(17,407)	–	–	–	(17,407)
Derivative financial liabilities, net	(635)	(283)	(69)	57	(930)
Total	(29,109)	(11,163)	(28,598)	(25,969)	(94,839)

31. Financial risk management *(continued)*

	2014				
	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	**(4,112)**	**(6,782)**	**(5,159)**	**(596)**	**(16,649)**
Obligations under finance leases	**(5,828)**	**(6,152)**	**(18,106)**	**(22,211)**	**(52,297)**
Other long-term payables	**–**	**(153)**	**(678)**	**(21)**	**(852)**
Trade and other payables	**(12,888)**	**–**	**–**	**–**	**(12,888)**
Derivative financial liabilities, net	**(7,101)**	**(3,769)**	**(3,979)**	**13**	**(14,836)**
Total	**(29,929)**	**(16,856)**	**(27,922)**	**(22,815)**	**(97,522)**

	2013				
	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	(4,539)	(4,894)	(9,726)	(859)	(20,018)
Obligations under finance leases	(9,034)	(5,151)	(16,304)	(24,494)	(54,983)
Other long-term payables	–	–	(509)	(317)	(826)
Trade and other payables	(13,850)	–	–	–	(13,850)
Derivative financial liabilities, net	(549)	(268)	(69)	57	(829)
Total	(27,972)	(10,313)	(26,608)	(25,613)	(90,506)

(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 Hong Kong dollars and United States dollars would be materially unaffected by any changes in movement in value of United States dollars against other currencies. The currencies giving rise to this risk in 2014 and 2013 are primarily United States dollars, Euros, New Taiwan dollars, Singapore dollars, Renminbi and Japanese yen. Foreign currency risk is measured by employing sensitivity analysis, taking into account current and anticipated exposures. To manage this exposure, assets are, where possible, financed in those foreign currencies in which net operating surpluses are anticipated, thus establishing a natural hedge. In addition, the Group uses currency derivatives to reduce anticipated foreign currency surpluses. The use of foreign currency borrowings and currency derivatives to hedge future operating revenues is a key component of the financial risk management process, as exchange differences realised on the repayment of financial commitments are effectively matched by the change in value of the foreign currency earnings used to make those repayments.

31. Financial risk management *(continued)*

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

	2014					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**SGD HK$M**	**RMB HK$M**	**JPY HK$M**
Group						
Loans due from associates	**130**	**–**	**–**	**–**	**1,226**	**–**
Trade debtors, other receivables and prepayments	**6,609**	**422**	**208**	**51**	**721**	**244**
Liquid funds	**13,157**	**77**	**6**	**95**	**2,230**	**114**
Long-term loans	**(13,798)**	**–**	**–**	**(1,466)**	**–**	**(2,137)**
Obligations under finance leases	**(24,933)**	**(2,337)**	**–**	**–**	**–**	**(3,109)**
Trade creditors and other payables	**(19,899)**	**(290)**	**(90)**	**(93)**	**(580)**	**(199)**
Currency derivatives at notional value	**27,376**	**(5,940)**	**(2,361)**	**(678)**	**(6,344)**	**(943)**
Net exposure	**(11,358)**	**(8,068)**	**(2,237)**	**(2,091)**	**(2,747)**	**(6,030)**

	2013					
	USD HK$M	EUR HK$M	TWD HK$M	SGD HK$M	RMB HK$M	JPY HK$M
Group						
Loans due from associates	94	–	–	–	–	–
Trade debtors, other receivables and prepayments	7,554	455	192	42	563	226
Liquid funds	14,894	53	5	76	6,188	94
Long-term loans	(10,535)	–	–	(1,532)	–	(1,454)
Obligations under finance leases	(28,786)	(2,610)	–	–	–	(3,760)
Trade creditors and other payables	(6,379)	(346)	(99)	(74)	(640)	(212)
Currency derivatives at notional value	22,340	(924)	(2,187)	(576)	(2,698)	(6,043)
Net exposure	(818)	(3,372)	(2,089)	(2,064)	3,413	(11,149)

	2014					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**SGD HK$M**	**RMB HK$M**	**JPY HK$M**
Company						
Loans due from subsidiaries	**3,717**	**–**	**–**	**–**	**–**	**–**
Loans due from associates	**130**	**–**	**–**	**–**	**–**	**–**
Trade debtors, other receivables and prepayments	**5,947**	**422**	**189**	**51**	**516**	**241**
Liquid funds	**5,212**	**71**	**3**	**94**	**935**	**108**
Long-term loans	**(2,071)**	**–**	**–**	**(1,466)**	**–**	**–**
Obligations under finance leases	**(33,579)**	**(2,424)**	**–**	**–**	**–**	**(5,247)**
Trade creditors and other payables	**(19,502)**	**(270)**	**(54)**	**(89)**	**(157)**	**(169)**
Currency derivatives at notional value	**22,269**	**(5,940)**	**(2,361)**	**(678)**	**(1,208)**	**(943)**
Net exposure	**(17,877)**	**(8,141)**	**(2,223)**	**(2,088)**	**86**	**(6,010)**

31. Financial risk management *(continued)*

	2013					
	USD HK$M	EUR HK$M	TWD HK$M	SGD HK$M	RMB HK$M	JPY HK$M
Company						
Loans due from subsidiaries	5,558	–	–	–	–	–
Trade debtors, other receivables and prepayments	6,607	455	169	42	307	222
Liquid funds	6,920	40	2	75	4,455	88
Long-term loans	(4,679)	–	–	(1,532)	–	–
Obligations under finance leases	(34,085)	(2,990)	–	–	–	(5,214)
Trade creditors and other payables	(5,774)	(323)	(61)	(67)	(223)	(180)
Currency derivatives at notional value	21,067	(924)	(2,187)	(576)	(1,334)	(6,043)
Net exposure	(4,386)	(3,742)	(2,077)	(2,058)	3,205	(11,127)

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 United States dollars, Euros, New Taiwan dollars, Singapore dollars, Renminbi and Japanese yen. The Group currently has operating surpluses in all these foreign currencies except Renminbi.

Sensitivity analysis for foreign currency exposure

A five percent appreciation of the Hong Kong dollar against the following currencies at 31st December 2014 would have resulted in a change in profit or 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 has been performed on the same basis as for 2013.

	2014	
	Net increase/ (decrease) in profit or loss HK$M	**Net increase/ (decrease) in other equity components HK$M**
United States dollars	**1,247**	**(544)**
Euros	**2**	**345**
New Taiwan dollars	**(5)**	**105**
Singapore dollars	**(3)**	**103**
Renminbi	**(173)**	**276**
Japanese yen	**25**	**274**
Net increase	**1,093**	**559**

	2013	
	Net increase/ (decrease) in profit or loss HK$M	Net increase/ (decrease) in other equity components HK$M
United States dollars	1,031	(816)
Euros	32	111
New Taiwan dollars	(4)	98
Singapore dollars	(2)	102
Renminbi	(306)	119
Japanese yen	11	520
Net increase	762	134

31. Financial risk management *(continued)*

(ii) Interest rate risk

The Group's cash flow exposure to interest rate risk arises primarily from long-term borrowings at floating rates. Interest rate swaps are used to manage the interest rate profile of interest-bearing financial liabilities on a currency by currency basis to maintain an appropriate fixed rate and floating rate ratio. Interest rate risk is measured by using sensitivity analysis on variable rate instruments.

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

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Fixed rate instruments				
Net amounts due from subsidiaries	**–**	–	**178**	147
Loans receivable	**601**	663	**601**	663
Long-term loans	**(3,411)**	(3,502)	**(3,166)**	(3,502)
Obligations under finance leases	**(8,592)**	(10,486)	**(7,520)**	(12,437)
Interest rate and currency swaps	**(24,057)**	(24,351)	**(23,301)**	(23,958)
Net exposure	**(35,459)**	(37,676)	**(33,208)**	(39,087)

	Group		Company	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M
Variable rate instruments				
Loans due from associates	**1,356**	–	**130**	–
Net amounts due from subsidiaries	**–**	–	**7,084**	7,245
Liquid funds	**21,098**	27,736	**11,357**	17,272
Long-term loans	**(30,286)**	(27,286)	**(12,759)**	(15,500)
Obligations under finance leases	**(22,807)**	(25,778)	**(38,598)**	(35,242)
Interest rate and currency swaps	**25,201**	25,680	**24,456**	25,331
Net exposure	**(5,438)**	352	**(8,330)**	(894)

Sensitivity analysis for interest rate exposure

An increase of 25 basis points in interest rates at the reporting date would have decreased profit or 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 or 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 has been performed on the same basis as for 2013.

	2014		2013	
	Profit or loss HK$M	**Other equity components HK$M**	Profit or loss HK$M	Other equity components HK$M
Variable rate instruments	**(91)**	**190**	(111)	236

31. Financial risk management *(continued)*

(iii) Fuel price risk

Fuel accounted for 39.2% of the Group's total operating expenses (2013: 39.0%). 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

An increase/(decrease) of five percent in the jet fuel price at the reporting date would have affected profit or 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.

	2014		2013	
	Net increase/ (decrease) in profit or loss HK$M	**Net increase/ (decrease) in other equity components HK$M**	Net increase/ (decrease) in profit or loss HK$M	Net increase/ (decrease) in other equity components HK$M
Increase in jet fuel price by 5%	**(21)**	**1,695**	(98)	872
Decrease in jet fuel price by 5%	**12**	**(1,702)**	(38)	(736)

(d) Hedge accounting

The carrying values of financial assets/(liabilities) designated as cash flow hedges as at 31st December 2014 were as follows:

	2014 HK$M	2013 HK$M
Foreign currency risk		
– long-term liabilities (natural hedge)	**(7,482)**	(7,751)
– cross currency swaps	**519**	877
– foreign currency forward contracts	**1,168**	520
– foreign exchange swap	**(4)**	(1)
Interest rate risk		
– interest rate swaps	**(258)**	6
Fuel price risk		
– fuel derivatives	**(14,307)**	1,654

(e) Fair values

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

	2014		2013	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Group				
Loans receivable	**601**	**650**	663	719
Long-term loans	**(33,697)**	**(35,185)**	(30,788)	(32,089)
Obligations under finance leases	**(32,119)**	**(33,171)**	(37,851)	(39,354)
Pledged security deposits	**720**	**855**	1,587	1,839

31. Financial risk management *(continued)*

	2014		2013	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Company				
Loans receivable	**601**	**650**	663	719
Long-term loans	**(15,925)**	**(16,340)**	(19,002)	(19,587)
Obligations under finance leases	**(46,638)**	**(48,710)**	(48,551)	(51,405)
Pledged security deposits	**520**	**655**	872	1,108

These financial instruments are measured using quoted prices in active markets for similar assets or liabilities, or using valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates.

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

(f) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value as at 31st December 2014 across three levels of the fair value hierarchy defined in HKFRS 13 "Fair Value Measurement" 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 only unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes financial instruments with fair values measured using input other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value has been determined based on quotes from market makers or discounted cash flow valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates, exchange rates and fuel price. Level 3 includes financial instruments with fair values measured using dividend discount model and discounted cash flow valuation techniques in which any significant input is not based on observable market data.

	2014							
	Group				**Company**			
	Level 1 HK$M	**Level 2 HK$M**	**Level 3 HK$M**	**Total HK$M**	**Level 1 HK$M**	**Level 2 HK$M**	**Level 3 HK$M**	**Total HK$M**
Recurring fair value measurement								
Assets								
Investments at fair value								
– listed	**284**	**–**	**–**	**284**	**–**	**–**	**–**	**–**
– unlisted	**–**	**–**	**1,196**	**1,196**	**–**	**–**	**1,112**	**1,112**
Liquid funds								
– funds with investment managers	**–**	**6,780**	**–**	**6,780**	**–**	**–**	**–**	**–**
– other liquid investments	**–**	**1,295**	**–**	**1,295**	**–**	**1,179**	**–**	**1,179**
Derivative financial assets	**–**	**3,269**	**–**	**3,269**	**–**	**3,186**	**–**	**3,186**
	284	**11,344**	**1,196**	**12,824**	**–**	**4,365**	**1,112**	**5,477**
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	**–**	**(3,129)**	**–**	**(3,129)**	**–**	**(3,129)**	**–**	**(3,129)**
Derivative financial liabilities	**–**	**(15,038)**	**–**	**(15,038)**	**–**	**(15,011)**	**–**	**(15,011)**
	–	**(18,167)**	**–**	**(18,167)**	**–**	**(18,140)**	**–**	**(18,140)**

31. Financial risk management *(continued)*

	2013							
	Group				Company			
	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Recurring fair value measurement								
Assets								
Investments at fair value								
– listed	259	–	–	259	–	–	–	–
– unlisted	–	–	1,085	1,085	–	–	994	994
Liquid funds								
– funds with investment managers	–	7,282	–	7,282	–	–	–	–
– other liquid investments	–	1,439	–	1,439	–	1,168	–	1,168
Derivative financial assets	–	5,228	–	5,228	–	5,228	–	5,228
	259	13,949	1,085	15,293	–	6,396	994	7,390
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	–	(3,587)	–	(3,587)	–	(3,587)	–	(3,587)
Derivative financial liabilities	–	(1,076)	–	(1,076)	–	(989)	–	(989)
	–	(4,663)	–	(4,663)	–	(4,576)	–	(4,576)

There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 fair value hierarchy classifications.

The fair value of the unlisted investments in Level 3 is determined using a discounted cash flow valuation technique. The significant unobservable input used in the fair value measurement is the discount rate. Information about fair value measurements using significant unobservable inputs (Level 3):

Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Positive/(negative) impact on valuation (HK$M)
Unlisted investment				
– Discount rate	2014: 8.0% (2013: 8.0%)	The higher the discount rate, the lower the fair value	2014: +/- 0.5% (2013: +/- 0.5%)	2014: (76)/100 (2013: (79)/102)
– Growth rate	2014: 4.3% (2013: 4.1%)	The higher the future growth rate, the higher the fair value	2014: +/- 0.1% (2013: +/- 0.1%)	2014: 17/(16) (2013: 17/(16))

31. Financial risk management *(continued)*

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

	Group HK$M	**Company HK$M**
Investments at fair value – unlisted		
At 1st January 2014	**1,085**	**994**
Additions	**78**	**78**
Disposals	**(9)**	**(9)**
Net unrealised gains or losses recognised in other comprehensive income during the year	**42**	**49**
At 31st December 2014	**1,196**	**1,112**

	Group HK$M	Company HK$M
Investments at fair value – unlisted		
At 1st January 2013	1,151	1,046
Net unrealised gains or losses recognised in other comprehensive income during the year	(66)	(52)
At 31st December 2013	1,085	994

(g) Offsetting financial assets and financial liabilities

	2014				
	Gross amounts of recognised financial assets/ liabilities HK$M	**Gross amounts of recognised financial assets/ liabilities offset in the statement of financial position HK$M**	**Net amounts of financial assets/ liabilities presented in the statement of financial position HK$M**	**Financial instruments not offset in the statement of financial position HK$M**	**Net amount HK$M**
Group					
Derivative financial assets	**3,269**	**–**	**3,269**	**(1,667)**	**1,602**
Related pledged security deposits	**720**	**(720)**	**–**	**–**	**–**
Obligations under finance leases	**(720)**	**720**	**–**	**–**	**–**
Derivative financial liabilities	**(15,038)**	**–**	**(15,038)**	**1,667**	**(13,371)**
	(11,769)	**–**	**(11,769)**	**–**	**(11,769)**

31. Financial risk management *(continued)*

	2013				
	Gross amounts of recognised financial assets/ liabilities HK$M	Gross amounts of recognised financial assets/ liabilities offset in the statement of financial position HK$M	Net amounts of financial assets/liabilities presented in the statement of financial position HK$M	Financial instruments not offset in the statement of financial position HK$M	Net amount HK$M
Group					
Derivative financial assets	5,228	–	5,228	(944)	4,284
Related pledged security deposits	1,587	(1,587)	–	–	–
Obligations under finance leases	(1,587)	1,587	–	–	–
Derivative financial liabilities	(1,076)	–	(1,076)	944	(132)
	4,152	–	4,152	–	4,152

	2014				
	Gross amounts of recognised financial assets/ liabilities HK$M	**Gross amounts of recognised financial assets/ liabilities offset in the statement of financial position HK$M**	**Net amounts of financial assets/liabilities presented in the statement of financial position HK$M**	**Financial instruments not offset in the statement of financial position HK$M**	**Net amount HK$M**
Company					
Derivative financial assets	**3,186**	**–**	**3,186**	**(1,640)**	**1,546**
Related pledged security deposits	**520**	**(520)**	**–**	**–**	**–**
Obligations under finance leases	**(520)**	**520**	**–**	**–**	**–**
Derivative financial liabilities	**(15,011)**	**–**	**(15,011)**	**1,640**	**(13,371)**
	(11,825)	**–**	**(11,825)**	**–**	**(11,825)**

31. Financial risk management *(continued)*

	2013				
	Gross amounts of recognised financial assets/ liabilities HK$M	Gross amounts of recognised financial assets/ liabilities offset in the statement of financial position HK$M	Net amounts of financial assets/liabilities presented in the statement of financial position HK$M	Financial instruments not offset in the statement of financial position HK$M	Net amount HK$M
Company					
Derivative financial assets	5,228	–	5,228	(944)	4,284
Related pledged security deposits	872	(872)	–	–	–
Obligations under finance leases	(872)	872	–	–	–
Derivative financial liabilities	(989)	–	(989)	944	(45)
	4,239	–	4,239	–	4,239

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements, providing offsetting in the event of default. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default on the bank loans or other credit events.

32. Capital risk management

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

The Group regards the net debt/equity ratio as the key measurement of capital risk management. The definition of net debt/equity ratio is shown on page 107 and a ten year history is included on pages 102 and 103 of the annual report.

33. Impact of further new accounting standards

HKICPA has issued new and revised standards which become effective for accounting periods beginning on or after 1st January 2015 and which are not adopted in the financial statements.

HKFRS 9 "Financial Instruments" is relevant to the Group and becomes effective for accounting periods beginning on or after 1st January 2018. The standard requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The Group has yet to access the full impact of the new standard.

Principal Subsidiaries and Associates

at 31st December 2014

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
AHK Air Hong Kong Limited	Hong Kong	Cargo airline	60*	54,402,000 A shares and 36,268,000 B shares
Airline Property Limited	Hong Kong	Property investment	100	2 shares
Airline Stores Property Limited	Hong Kong	Property investment	100	2 shares
Airline Training Property Limited	Hong Kong	Property investment	100	2 shares
Asia Miles Limited	Hong Kong	Travel reward programme	100	2 shares
Cathay Holidays Limited	Hong Kong	Travel tour operator	100	40,000 shares
Cathay Pacific Aero Limited	Hong Kong	Financial services	100	1 share
Cathay Pacific Aircraft Acquisition Limited	Isle of Man	Aircraft acquisition facilitator	100	2,000 shares of US$1 each
Cathay Pacific Aircraft Lease Finance Limited	Hong Kong	Aircraft leasing facilitator	100	1 share
Cathay Pacific Aircraft Services Limited	Isle of Man	Aircraft acquisition facilitator	100	10,000 shares of US$1 each
Cathay Pacific Catering Services (H.K.) Limited	Hong Kong	Airline catering	100	600 shares
Cathay Pacific MTN Financing Limited	Cayman Islands	Financial services	100	1 share of US$1
Cathay Pacific Services Limited	Hong Kong	Cargo terminal	100	1 share
Deli Fresh Limited	Hong Kong	Food processing and catering	100	20 shares
Global Logistics System (H.K.) Company Limited	Hong Kong	Computer network for interchange of air cargo related information	95	100 shares
Guangzhou Guo Tai Information Processing Company Limited	People's Republic of China	Information processing	100*	Registered capital of HK$8,000,000 (wholly foreign owned enterprise)
Hong Kong Airport Services Limited	Hong Kong	Aircraft ramp handling	100	100 shares
Hong Kong Aviation and Airport Services Limited	Hong Kong	Property investment	100*	2 shares
Hong Kong Dragon Airlines Limited	Hong Kong	Airline	100	500,000,000 shares
Snowdon Limited	Isle of Man	Financial services	100*	2 shares of GBP1 each
Troon Limited	Bermuda	Financial services	100	12,000 shares of US$1 each
Vogue Laundry Service Limited	Hong Kong	Laundry and dry cleaning	100	3,700 shares

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 Cargo Co., Ltd.	People's Republic of China	Cargo carriage service	25**
Air China Limited	People's Republic of China	Airline	20
Cebu Pacific Catering Services Inc.	Philippines	Airline catering	40*
Ground Support Engineering Limited	Hong Kong	Airport ground engineering support and equipment maintenance	50*
HAECO ITM Limited	Hong Kong	Inventory technical management services	30
LSG Lufthansa Service Hong Kong Limited	Hong Kong	Airline catering	32*
Shanghai International Airport Services Co., Limited	People's Republic of China	Ground handling	25*

** Shareholding held through subsidiaries.*

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

Principal Accounting Policies

1. Basis of accounting

The financial statements 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 financial statements also comply with the requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with the transitional and saving arrangements in Part 9 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of that Schedule. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3rd March 2014 (i.e. 1st January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

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

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 32 "Offsetting Financial Assets and Financial Liabilities"
- Amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"
- Amendments to HKAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"
- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) "Investment Entities"
- HK (IFRIC) Interpretation 21 "Levies"

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendments to HKAS 32 "Offsetting Financial Assets and Financial Liabilities" clarify the offsetting criteria in HKAS 32. The amendments have had no significant impact on the Group's financial statements.

The amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The Group has provided the disclosure requirements applicable to the Group.

The amendments to HKAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments have had no significant impact on the Group's financial statements.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) "Investment Entities" provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. The amendments have had no significant impact on the Group's financial statements.

The HK (IFRIC) Interpretation 21 "Levies" provides guidance on when a liability to pay a levy imposed by a government should be recognised. The interpretation has had no significant impact on the Group's financial statements.

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements 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. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries are included in the consolidated statement of profit or loss and other 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 financial statements.

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 consolidated statement of profit or loss and other comprehensive income, non-controlling interests are disclosed as an allocation of the profit or loss and total comprehensive income 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 profit or loss and other comprehensive income includes the Group's share of results of associates as reported in their financial statements 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 or 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 or loss as an adjustment to the hedged item in the same period or periods during which the hedged item affects profit or loss.

(b) unrealised exchange 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.

The cost of an item of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. An acquired (owned and finance leased) aircraft reflects all components in its full service potential excluding the maintenance condition of its landing gears, airframe and engines. The cost relating to the maintenance element is identified on acquisition as a separate component and depreciated till its next major maintenance event. Expenditure for heavy maintenance visits on aircraft, engine overhauls and landing gear overhauls, is capitalised at cost and depreciated over the average expected life between major overhauls, estimated to be 4 to 10 years. Expenditure for engine overhaul costs covered by power-by-hour (fixed rate charged per hour) maintenance agreements is expensed by hours flown. Expenditure for other maintenance and repairs is charged to the profit or loss.

Depreciation of fixed assets is calculated on a straight line basis to write down cost over their anticipated useful lives to their estimated residual values 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 3-4 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 of disposal.

6. Leased assets

Fixed assets held under lease agreements that transfer substantially all the risks and rewards of 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 transfer substantially all the risks and rewards of 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 or loss on a straight line basis over the life of the related lease.

With respect to operating lease agreements, where the Group is required to return the aircraft with adherence to certain maintenance conditions, provision is made during the lease term. This provision is based on the present value of the expected future cost of meeting the maintenance and non-maintenance return condition, having regard to the current fleet plan and long-term maintenance schedules.

7. Intangible assets

Intangible assets comprise goodwill arising on consolidation, acquisition of computer software licences and others. The accounting policy for goodwill is outlined in accounting policy 2 on pages 98 and 99.

Expenditure on computer software licences and others 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 to ten 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 or 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 or loss.

Impairment is recognised when the recover ability 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.

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 or 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 proprietary 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 or 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 or loss.

(b) the ineffective portion of the fair value change is recognised in profit or 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 or 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

For defined benefit schemes, retirement benefit costs are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the statement of profit or loss and other comprehensive income so as to spread the regular cost over the service lives of employees.

The asset or liability recognised on the statement of financial position is the present value of the cost of providing these benefits (the defined benefit obligations) less the fair value of the plan assets at the end of the reporting period. The defined benefit obligations are calculated annually by independent actuaries and are determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds. The plan assets are valued on a bid price basis.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in statement of profit or loss and other comprehensive income in the period in which they arise and accumulated in equity. Past service costs are recognised immediately in the statement of profit or loss and other comprehensive income.

For defined contribution schemes, the Group's contributions are charged to the statement of profit or loss and other comprehensive income in the period to which the contributions relate.

13. Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the recognition, has no impact on taxable nor accounting profit or loss, it is not recognised.

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. Assets held for sale

Non-current assets are classified as assets held for sale when their carrying amounts are to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs of disposal.

16. 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. Interest income is recognised as it accrues while dividend income is recognised when the right to receive payment is established.

17. Maintenance and overhaul costs

Replacement spares and labour costs for maintenance and overhaul of aircraft are charged to profit or loss on consumption and as incurred respectively unless they are capitalised according to the accounting policy 5.

18. Loyalty programme

The Company operates a customer loyalty programme called Asia Miles (the "programme"). As members accumulate miles by travelling on Cathay Pacific or Dragonair flights, or when the Company sells miles to participating partners in the programme, revenue from the initial sales transaction equal to the programme awards at their fair value is deferred as a liability until the miles are redeemed or the passenger is uplifted in the case of the Group's flight redemptions. Breakage, the proportion of points that are expected to expire, is recognised to reduce fair value, and is determined by a number of assumptions including historical experience, future redemption pattern and programme design.

Marketing revenue, associated with the sales of miles to participating partners is measured as the difference between the consideration received and the revenue deferred, and is recognised when the service is performed.

19. Related parties

Related parties are individuals and companies, including subsidiary, fellow subsidiary, jointly controlled and associated companies and key management (including close members of their families), where the individual, Company or Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

20. 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.

Statistics

		2014	2013
Consolidated profit or loss summary	*HK$M*		
Passenger services		**75,734**	71,826
Cargo services		**25,400**	23,663
Catering, recoveries and other services		**4,857**	4,995
Turnover		**105,991**	100,484
Operating expenses		**(101,556)**	(96,724)
Operating profit/(loss)		**4,435**	3,760
Profit on disposal of investments		**–**	–
Gain on deemed disposal of an associate		**–**	–
Net finance charges		**(1,158)**	(1,019)
Share of profits/(losses) of associates		**772**	838
Profit/(loss) before taxation		**4,049**	3,579
Taxation		**(599)**	(675)
Profit/(loss) for the year		**3,450**	2,904
Profit attributable to non-controlling interests		**(300)**	(284)
Profit/(loss) attributable to the shareholders of Cathay Pacific		**3,150**	2,620
Dividends paid		**(1,022)**	(551)
Retained profit for the year		**2,128**	2,069
Consolidated statement of financial position summary	*HK$M*		
Fixed and intangible assets		**108,789**	104,737
Long-term receivables and investments		**29,290**	27,449
Borrowings		**(65,096)**	(67,052)
Liquid funds less bank overdrafts		**21,098**	27,736
Net borrowings		**(43,998)**	(39,316)
Net current liabilities (excluding liquid funds, bank overdrafts and current portion of borrowings)		**(23,611)**	(19,110)
Other long-term payables		**(9,354)**	(1,318)
Deferred taxation		**(9,263)**	(9,429)
Net assets		**51,853**	63,013
Financed by:			
Funds attributable to the shareholders of Cathay Pacific		**51,722**	62,888
Non-controlling interests		**131**	125
Total equity		**51,853**	63,013
Per share			
Shareholders' funds	*HK$*	**13.15**	15.99
EBITDA	*HK$*	**3.44**	3.04
Earnings/(loss)	*HK cents*	**80.1**	66.6
Dividend	*HK$*	**0.36**	0.22
Ratios			
Profit/(loss) margin	*%*	**3.0**	2.6
Return on capital employed	*%*	**4.7**	4.0
Dividend cover	*Times*	**2.2**	3.0
Cash interest cover	*Times*	**20.7**	23.8
Gross debt/equity ratio	*Times*	**1.26**	1.07
Net debt/equity ratio	*Times*	**0.85**	0.63

	2012	2011	2010	2009	2008	2007	2006	2005
	70,133	67,778	59,354	45,920	57,964	49,520	38,755	32,005
	24,555	25,980	25,901	17,255	24,623	21,783	18,385	15,773
	4,688	4,648	4,269	3,803	3,976	4,055	3,643	3,131
	99,376	98,406	89,524	66,978	86,563	75,358	60,783	50,909
	(97,763)	(93,125)	(78,672)	(62,583)	(94,911)	(67,831)	(55,687)	(46,934)
	1,613	5,281	10,852	4,395	(8,348)	7,527	5,096	3,975
	–	–	2,165	1,254	–	–	–	–
	–	–	868	–	–	–	–	–
	(884)	(744)	(978)	(847)	(1,012)	(787)	(465)	(444)
	754	1,708	2,577	264	(764)	1,057	301	269
	1,483	6,245	15,484	5,066	(10,124)	7,797	4,932	3,800
	(409)	(779)	(1,441)	(275)	1,366	(775)	(769)	(482)
	1,074	5,466	14,043	4,791	(8,758)	7,022	4,163	3,318
	(212)	(169)	(185)	(170)	(224)	(187)	(183)	(170)
	862	5,297	13,858	4,621	(8,982)	6,835	3,980	3,148
	(1,338)	(3,777)	(1,691)	–	(2,438)	(2,245)	(2,992)	(2,196)
	(476)	1,520	12,167	4,621	(11,420)	4,590	988	952
	93,703	82,099	74,116	73,345	73,821	70,170	65,351	50,416
	24,776	23,393	17,512	14,321	14,504	15,923	12,452	7,230
	(59,546)	(43,335)	(39,629)	(42,642)	(40,280)	(36,368)	(31,943)	(22,455)
	24,182	19,597	24,194	16,511	15,082	21,637	15,595	13,405
	(35,364)	(23,738)	(15,435)	(26,131)	(25,198)	(14,731)	(16,348)	(9,050)
	(15,711)	(16,685)	(14,022)	(12,864)	(16,887)	(13,094)	(9,019)	(6,767)
	(3,205)	(3,650)	(1,700)	(1,086)	(5,509)	(1,222)	–	–
	(8,061)	(6,651)	(5,842)	(5,255)	(4,737)	(6,752)	(6,550)	(6,470)
	56,138	54,768	54,629	42,330	35,994	50,294	45,886	35,359
	56,021	54,633	54,476	42,182	35,878	50,116	45,731	35,073
	117	135	153	148	116	178	155	286
	56,138	54,768	54,629	42,330	35,994	50,294	45,886	35,359
	14.24	13.89	13.85	10.72	9.12	12.72	11.62	10.37
	2.31	3.34	5.80	2.95	(1.00)	3.41	2.75	2.44
	21.9	134.7	352.3	117.5	(228.3)	173.5	112.9	93.2
	0.08	0.52	1.11	0.10	0.03	0.84	0.84	0.48
	0.9	5.4	15.5	6.9	(10.4)	9.1	6.5	6.2
	2.3	8.4	21.7	8.7	(12.3)	12.3	8.7	8.5
	2.7	2.6	3.2	11.8	(76.1)	2.1	1.2	1.9
	20.9	41.7	35.2	5.1	3.7	14.2	15.1	17.1
	1.06	0.79	0.73	1.01	1.12	0.73	0.70	0.64
	0.63	0.43	0.28	0.62	0.70	0.29	0.36	0.26

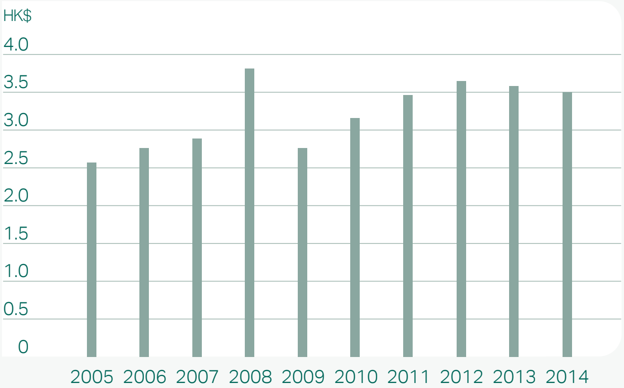
		2014	2013
Cathay Pacific and Dragonair operating summary *			
Available tonne kilometres	*Million*	**28,440**	26,259
Revenue tonne kilometres	*Million*	**20,722**	18,696
Available seat kilometres	*Million*	**134,711**	127,215
Revenue passengers carried	*'000*	**31,570**	29,920
Revenue passenger kilometres	*Million*	**112,257**	104,571
Revenue load factor	*%*	**79.1**	77.5
Passenger load factor	*%*	**83.3**	82.2
Cargo and mail carried	*'000 tonnes*	**1,723**	1,539
Cargo and mail revenue tonne kilometres	*Million*	**10,044**	8,750
Cargo and mail load factor	*%*	**64.3**	61.8
Excess baggage carried	*Tonnes*	**2,699**	2,599
Kilometres flown	*Million*	**550**	512
Block hours	*'000 hours*	**789**	735
Aircraft departures	*'000*	**167**	160
Length of scheduled routes network	*'000 kilometres*	**586**	576
Number of destinations at year end	*Destinations*	**210**	190
Staff number at year end	*Number*	**25,755**	24,572
ATK per staff	*'000*	**1,104**	1,091
On-time performance *			
Departure (within 15 minutes)	*%*	**70.1**	75.5
Average aircraft utilisation *	*Hours per day*		
A320-200		**9.2**	9.1
A321-200		**9.9**	8.8
A330-300		**12.4**	12.0
A340-300		**11.6**	13.3
A340-600		**–**	–
747-400		**8.2**	10.9
747-200F/300SF		**–**	–
747-400F/BCF/8F		**11.8**	10.9
777-200/300		**8.8**	8.3
777-300ER		**16.1**	15.8
Fleet average		**12.2**	11.8

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

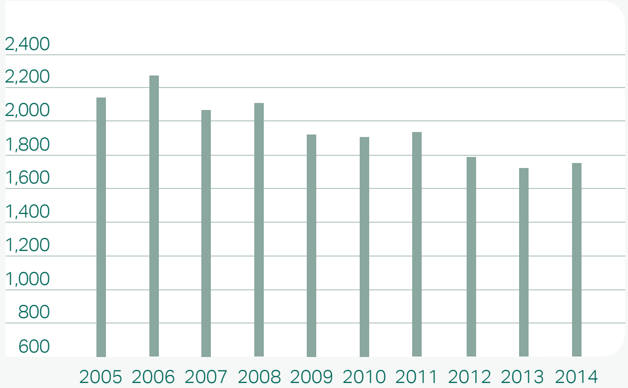
	2014	2013
Fleet profile		
Aircraft operated by Cathay Pacific:		
A330-300	**40**	35
A340-300	**11**	11
A340-600	**–**	–
747-400	**7**	13
747-200F	**–**	–
747-400F	**5**	6
747-400BCF	**1**	1
747-400ERF	**6**	6
747-8F	**13**	13
777-200	**5**	5
777-300	**12**	12
777-300ER	**47**	38
Total	**147**	140
Aircraft operated by Dragonair:		
A320-200	**15**	15
A321-200	**8**	6
A330-300	**18**	20
747-200F	**–**	–
747-300SF	**–**	–
747-400BCF	**–**	–
Total	**41**	41

2012	2011	2010	2009	2008	2007	2006	2005
26,250	26,383	24,461	22,249	24,410	23,077	19,684	17,751
18,819	19,309	19,373	16,775	17,499	16,680	14,452	12,813
129,595	126,340	115,748	111,167	115,478	102,462	91,769	82,766
28,961	27,581	26,796	24,558	24,959	23,253	18,097	15,438
103,837	101,536	96,588	89,440	90,975	81,801	72,939	65,110
76.2	77.0	81.1	77.7	75.1	75.6	76.2	75.2
80.1	80.4	83.4	80.5	78.8	79.8	79.5	78.7
1,563	1,649	1,804	1,528	1,645	1,672	1,334	1,139
8,942	9,648	10,175	8,256	8,842	8,900	7,514	6,618
64.2	67.2	75.7	70.8	65.9	66.7	68.6	67.0
2,711	3,103	4,053	3,883	2,963	2,310	2,218	2,489
502	494	464	431	460	422	357	317
715	695	652	605	649	598	489	431
154	146	138	130	138	131	98	84
602	568	535	481	453	442	457	403
179	167	146	122	124	129	125	92
23,844	23,015	21,592	20,907	21,309	19,840	18,992	15,806
1,110	1,184	1,165	1,053	1,185	1,194	1,173	1,147
77.4	82.0	80.9	86.8	81.4	83.9	85.2	86.1
8.8	8.9	8.2	8.0	8.4	8.5	8.2	–
8.9	8.4	8.6	7.8	8.4	8.9	8.9	–
12.3	12.1	11.6	10.8	10.9	10.7	11.2	10.8
12.7	13.0	13.8	12.2	14.7	15.3	14.9	15.1
–	–	–	–	11.4	14.4	14.9	15.3
12.7	13.7	13.2	12.9	14.1	14.5	14.9	14.7
–	–	–	5.4	7.5	10.8	11.8	11.8
11.4	13.8	14.4	13.2	13.1	14.0	15.3	16.1
8.4	8.2	8.0	8.1	8.7	8.4	9.0	9.1
15.7	15.7	15.3	15.8	14.3	10.7	–	–
12.0	12.3	12.0	11.2	11.5	11.7	12.5	12.6
37	33	32	32	32	29	27	26
11	13	15	15	15	15	15	15
–	–	–	–	–	3	3	3
18	21	22	23	23	24	22	22
–	–	–	–	5	7	7	7
6	6	6	6	6	6	6	6
6	8	12	13	10	6	5	1
6	6	6	6	2	–	–	–
8	4	–	–	–	–	–	–
5	5	5	5	5	5	5	5
12	12	12	12	12	12	12	11
29	24	18	14	9	5	–	–
138	132	128	126	119	112	102	96
15	11	11	9	10	10	10	11
6	6	6	6	6	6	6	6
17	15	14	14	16	16	16	13
–	–	–	–	1	1	1	1
–	–	–	–	–	3	3	3
–	–	–	–	2	3	1	–
38	32	31	29	35	39	37	34

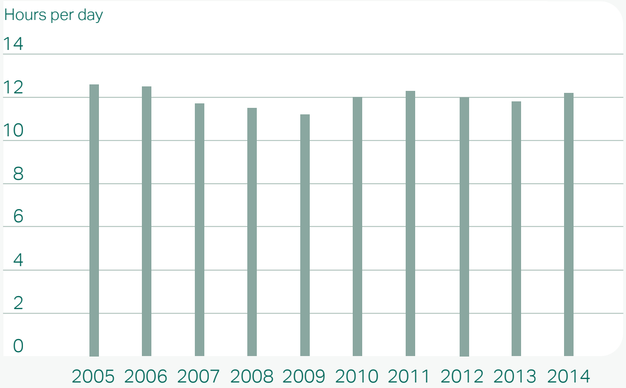
Cost per ATK (with fuel)



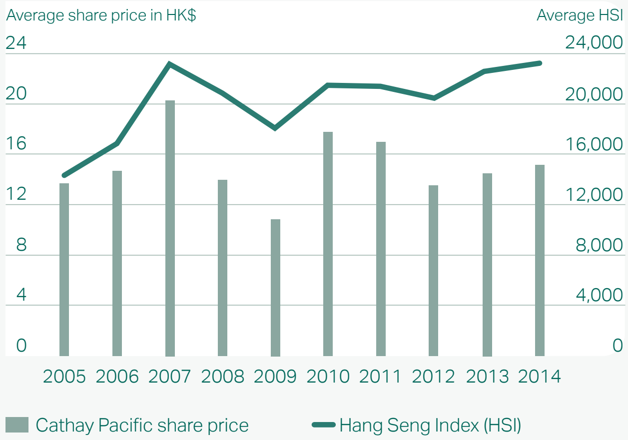
ATK per HK$'000 staff cost



Aircraft utilisation



Share price



		2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Productivity*											
Cost per ATK (with fuel)	*HK$*	**3.50**	3.58	3.65	3.46	3.16	2.76	3.81	2.88	2.76	2.57
ATK per HK$'000 staff cost	*Unit*	**1,750**	1,720	1,785	1,936	1,905	1,919	2,106	2,066	2,270	2,140
Aircraft utilisation	*Hours per day*	**12.2**	11.8	12.0	12.3	12.0	11.2	11.5	11.7	12.5	12.6
Share prices	*HK$*										
High		**17.7**	16.8	15.9	23.1	24.1	14.7	20.3	23.1	19.5	15.1
Low		**13.7**	12.2	11.9	11.9	12.8	7.0	7.1	18.3	12.7	12.0
Year-end		**16.9**	16.4	14.2	13.3	21.5	14.5	8.8	20.4	19.2	13.6
Price ratios (Note)	*Times*										
Price/earnings		**21.1**	24.6	64.9	9.9	6.1	12.3	(3.9)	11.8	17.0	14.6
Market capitalisation/ funds attributable to the shareholders of Cathay Pacific		**1.3**	1.0	1.0	1.0	1.6	1.4	1.0	1.6	1.7	1.3
Price/cash flows		**5.4**	4.6	6.1	3.4	4.5	12.7	8.9	5.0	6.1	5.3

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

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

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

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

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

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

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

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

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

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

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

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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ADR	CPCAY

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Financial calendar

Year ended 31st December 2014	
Annual report available to shareholders	10th April 2015
Annual General Meeting	20th May 2015
Six months ending 30th June 2015	
Interim results announcement	August 2015
Interim dividend payable	October 2015

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