Cathay Pacific Airways Limited

Annual Report 2016

Stock Code: 293

CATHAY PACIFIC

Contents

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 181 destinations in 43 countries and territories.

The airline was founded in Hong Kong in 1946 and celebrated its 70th anniversary on 24th September 2016. It has been deeply committed to its home base over the last seven decades, making substantial investments to develop Hong Kong as one of the world's leading international aviation centres.

The Cathay Pacific Group operated 202 aircraft at 31st December 2016. Cathay Pacific itself had 146 aircraft at that date. Its other 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. At 31st December 2016 it had 59 new aircraft due for delivery up to 2024.

Hong Kong Dragon Airlines Limited ("Cathay Dragon"), a regional airline registered and based in Hong Kong, is a wholly owned subsidiary of Cathay Pacific operating 43 aircraft on scheduled services to 53 destinations in Mainland China and elsewhere in Asia. Cathay Pacific owns 18.13% 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 providing scheduled services in Asia.

Cathay Pacific and its subsidiaries employ more than 33,800 people worldwide, of whom around 26,200 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. Cathay Dragon is an affiliate member of **one**world.

A Chinese translation of this Annual Report is available upon request from the Company's Registrars.

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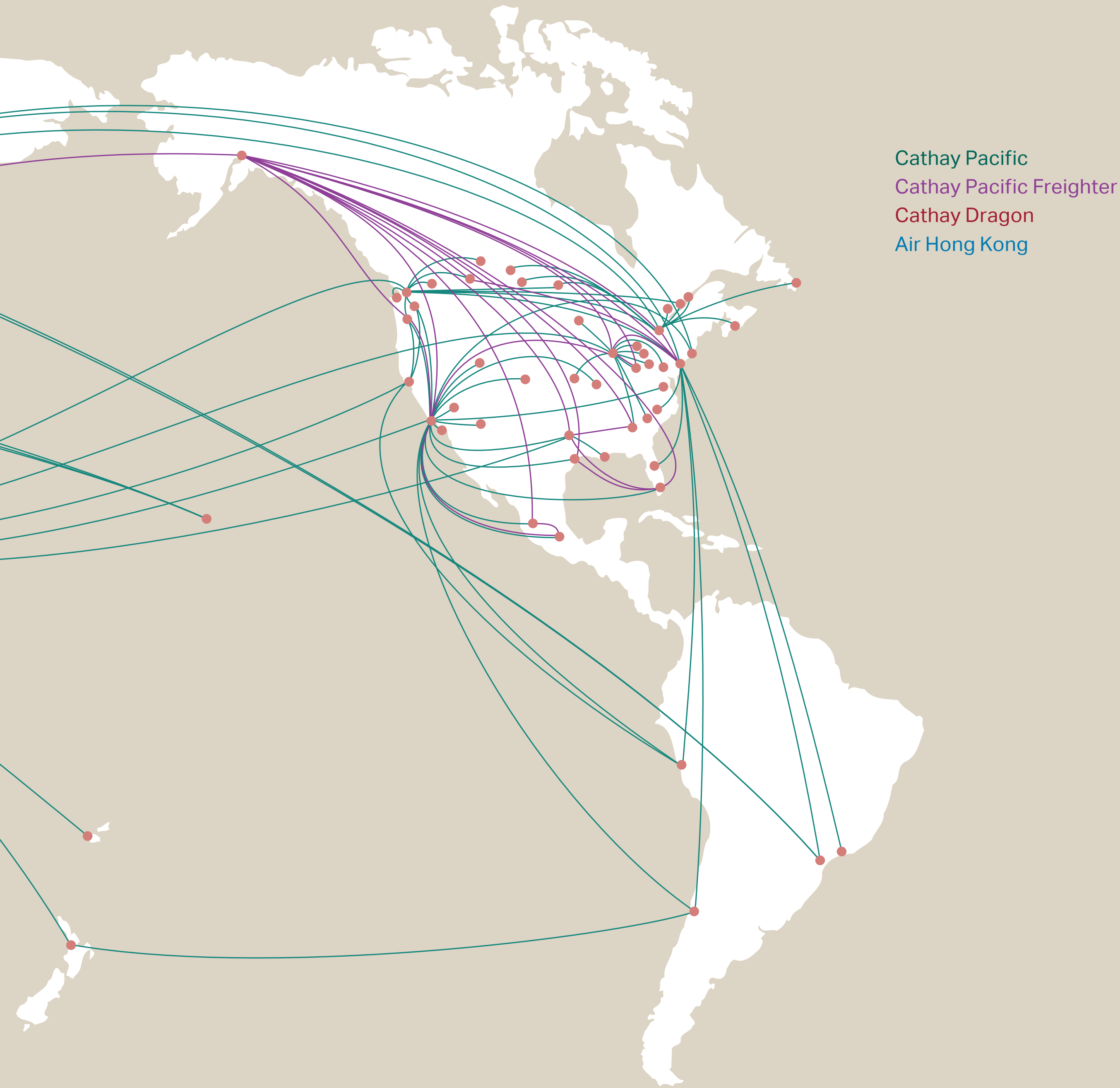



CATHAY PACIFIC


CATHAY DRAGON 國泰港龍

Seamless connectivity

The Cathay Dragon rebranding has brought the award-winning regional airline closer to Cathay Pacific, providing customers with a more seamless, unified customer experience across their respective global and regional networks.

Financial and Operating Highlights

Group Financial Statistics

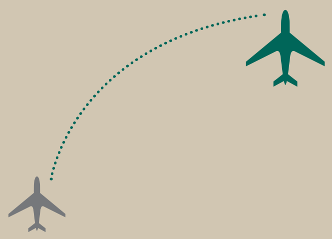
		2016	2015	Change
Results				
Revenue	*HK$ million*	92,751	102,342	-9.4%
(Loss)/profit attributable to the shareholders of Cathay Pacific	*HK$ million*	(575)	6,000	-109.6%
(Loss)/earnings per share	*HK cents*	(14.6)	152.5	-109.6%
Dividend per share	*HK$*	0.05	0.53	-90.6%
(Loss)/profit margin	*%*	(0.6)	5.9	-6.5%pt
Financial position				
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	55,365	47,927	+15.5%
Net borrowings	*HK$ million*	49,879	42,458	+17.5%
Shareholders' funds per share	*HK$*	14.1	12.2	+15.6%
Net debt/equity ratio	*Times*	0.90	0.89	+0.01 times

Operating Statistics – Cathay Pacific and Cathay Dragon

		2016	2015	Change
Available tonne kilometres ("ATK")	*Million*	30,462	30,048	+1.4%
Available seat kilometres ("ASK")	*Million*	146,086	142,680	+2.4%
Revenue passengers carried	*'000*	34,323	34,065	+0.8%
Passenger load factor	*%*	84.5	85.7	-1.2%pt
Passenger yield	*HK cents*	54.1	59.6	-9.2%
Cargo and mail carried	*'000 tonnes*	1,854	1,798	+3.1%
Cargo and mail load factor	*%*	64.4	64.2	+0.2%pt
Cargo and mail yield	*HK$*	1.59	1.90	-16.3%
Cost per ATK (with fuel)	*HK$*	3.02	3.14	-3.8%
Cost per ATK (without fuel)	*HK$*	2.12	2.06	+2.9%
Aircraft utilisation	*Hours per day*	12.2	12.2	–
On-time performance	*%*	72.1	64.7	+7.4%pt
Average age of fleet	*Years*	9.0	9.1	-1.1%
GHG emissions	*Million tonnes of CO_2e*	17.2	17.1	+0.6%
GHG emissions per ATK	*Grammes of CO_2e*	565	569	-0.7%
Lost time injury rate	*Number of injuries per 100 full-time equivalent employees*	3.12	2.95	+5.8%

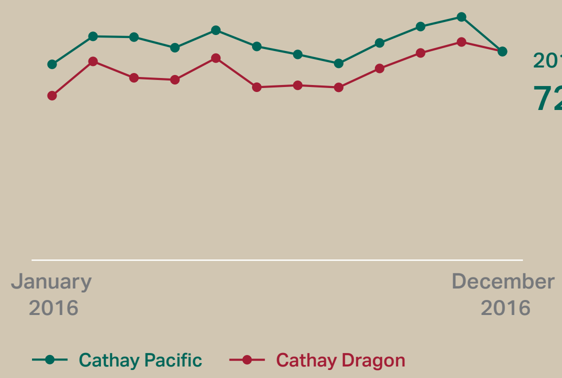
Fleet

2017 Target
12 Airbus A350-900



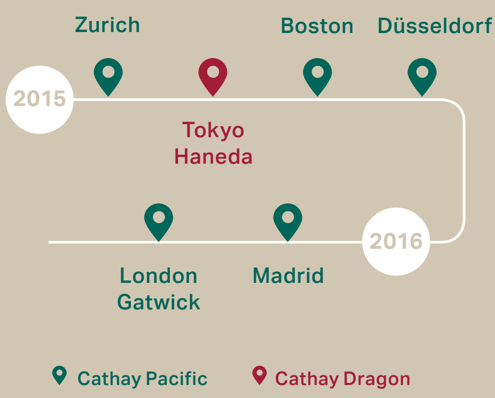
2016 Took delivery
10 Airbus A350-900
1 Boeing 747-8F

On-time Performance



2016 Average:
72.1%

Network



Safety

Leading airline
in the 2016 JACDEC airline
safety rankings

Cathay Dragon Rebranding

Lounges

New lounge in Vancouver opened in May 2016

The Pier Business Class lounge in Hong Kong reopened in June 2016

First and business class lounges at London Heathrow reopened in December 2016

Best First Class Airline Lounge in the Skytrax World Airline Awards 2016

Chairman's Letter

The Cathay Pacific Group reported an attributable loss of HK$575 million for 2016. This compares to a profit of HK$6,000 million in 2015. The loss per share was HK14.6 cents compared to earnings per share of HK152.5 cents in the previous year.

The operating environment for our airlines was difficult in 2016, with a number of factors adversely affecting their performance. Intense and increasing competition with other airlines was the most important. Other airlines significantly increased capacity. There were more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. Overcapacity in the market was a particular competitive problem for our cargo business. Three economic factors were also important, the reduced rate of economic growth in Mainland China, a reduction in the number of visitors to Hong Kong and the strength of the Hong Kong dollar. Hong Kong dollar strength made Hong Kong an expensive destination and caused revenues earned in other currencies to be reduced on conversion into Hong Kong dollars. All these factors put severe competitive pressure on yields. We benefited from low fuel prices, but the benefit was reduced by fuel hedging losses, largely incurred on hedges put in place when the fuel price was much higher than today. The contribution from subsidiary and associated companies was satisfactory.

The Group's passenger revenue in 2016 was HK$66,926 million, a decrease of 8.4% from 2015. Capacity increased by 2.4%, reflecting the introduction of new routes and increased frequencies on other routes. The load factor decreased by 1.2 percentage points, to 84.5%. Yield, which was under intense pressure throughout the year, fell by 9.2% to HK54.1 cents, reflecting overcapacity in the market, a decline in premium class demand and weak foreign currencies.

The Group's cargo revenue in 2016 was HK$20,063 million, a decrease of 13.2% compared to the previous year. The cargo capacity of Cathay Pacific and Cathay Dragon increased by 0.6%. The load factor increased by 0.2 percentage points, to 64.4%. Tonnage carried increased by 3.1%. The market was very weak in the first quarter. Tonnage recovered from the second quarter, becoming seasonally strong in the fourth quarter. Yield fell by 16.3% to HK$1.59, reflecting strong competition, overcapacity and the suspension of Hong Kong fuel surcharges. Demand on European routes was weak. Demand on transpacific routes grew slightly in the second half of the year. Freighter services to Portland and Brisbane West Wellcamp were introduced. We managed freighter capacity in line with demand and carried a higher proportion of cargo in the bellies of our passenger aircraft.

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) decreased by HK$4,906 million (or 20.4%) compared with 2015. Fuel is still the Group's most significant cost, accounting for 29.6% of our total operating costs in 2016 (compared to 34.0% in 2015). Fuel hedging losses reduced the benefit of low fuel costs. After taking hedging losses into account, the Group's fuel costs decreased by HK$5,015 million (or 15.2%) compared to 2015.

There was a 2.9% increase in non-fuel costs per available tonne kilometre. Staff costs, landing and parking fees, and aircraft maintenance costs increased at a faster rate than capacity.

Congestion at Hong Kong International Airport and air traffic control constraints in the Greater China region continued to impose costs on the Group. We are doing more to improve the reliability of our operations. This was reflected in a 7.4 percentage points improvement in on-time performance.

In response to weak revenues, we have undertaken a critical review of our business. In the short term, we are implementing measures designed to improve revenues and reduce costs. The longer term strategy which is being developed in response to the review is designed to improve performance over a three year period.

In 2016, Cathay Pacific introduced passenger services to Madrid (in June) and London Gatwick (in September). Both services have been well received. We will increase the frequency of our Gatwick and Manchester services in June 2017. Frequencies on some other routes were increased in 2016. Cathay Pacific will introduce services to Tel Aviv in March 2017, to Barcelona in July 2017 and to Christchurch in December 2017. Cathay Pacific stopped flying to Doha in February 2016, but still offers codeshare services with Qatar Airways on this route. Cathay Dragon increased frequencies on its Phnom Penh, Wenzhou and Wuhan routes and reduced frequencies on its Clark and Kota Kinabalu routes. Cathay Dragon stopped flying to Hiroshima and stopped the tagged flight between Kathmandu and Dhaka, providing direct services to both destinations instead.

In 2016, we took delivery of 10 Airbus A350-900 aircraft. These fuel efficient and technologically advanced long-haul aircraft are being used on our Auckland, Düsseldorf, London Gatwick, Paris and Rome routes. We retired our last three Boeing 747-400 passenger aircraft and three Airbus A340-300 aircraft during the year. One Airbus A340-300 aircraft was retired in January 2017 and the remaining three such aircraft will be retired later in 2017. We took delivery of our final Boeing 747-8F freighter in August.

The new Airbus A350-900 aircraft have our latest cabins, seats and entertainment systems and inflight connectivity for passengers' mobile devices. We opened a new lounge in Vancouver in May 2016, reopened the business class lounge at The Pier in Hong Kong in June 2016, and reopened our first and business class lounges at London Heathrow in December 2016. The G16 lounge in Hong Kong closed for renovations in July 2016 and will reopen in the second quarter of 2017.

In November 2016, Dragonair was rebranded as Cathay Dragon, bringing the brands of our two airlines into closer alignment. The first aircraft featuring the Cathay Dragon livery went into service in April 2016.

Prospects

We expect the operating environment in 2017 to remain challenging. Strong competition from other airlines and the adverse effect of the strength of the Hong Kong dollar are expected to continue to put pressure on yield. The cargo market got off to a good start, but overcapacity is expected to persist.

We expect to continue to benefit in 2017 from the fact that fuel prices are much lower than their previous high levels, but to a lesser extent (because of some increase in oil prices in recent months) than in 2016. We also expect to incur further fuel hedging losses in 2017, but these should be less than in 2016. Our subsidiaries and associates are expected to continue to perform satisfactorily.

Despite the challenges with which we are faced, we still expect our business to grow in the long-term. Air traffic to, from and within the Asia-Pacific region is expected to grow strongly. We intend to benefit from this growth by increasing our passenger capacity by 4-5% per annum, at least until the third runway at Hong Kong International Airport is open. We will continue to introduce new destinations and to increase frequencies on our most popular routes. We are buying new and more fuel efficient aircraft. This will increase productivity and reduce costs.

We are starting on a three year programme of corporate transformation with the intention of achieving returns above the cost of capital. The goal is to become a more agile and competitive organisation in order to take advantage of changing market trends and customer preferences.

We will continue to make investments designed to strengthen our brand and what we offer to our customers. We aim to deliver better services and to do so more effectively through the use of data analytics and mobile technology. Doing this will increase operational efficiency and help us to meet our customers' needs better. We are reviewing our revenue management, distribution and pricing practices. We intend to increase ancillary revenue.

Just as important as improving revenues is reducing costs. We are working on operational changes intended to improve the reliability of our schedules. This will reduce the costs of disruption and will also enable us to use our assets more efficiently and to improve our on-time performance. Our organisation will become leaner. This will improve productivity and reduce costs and will also enable us to make decisions more quickly. Our aim is to reduce our unit costs excluding fuel over the next three years.

The objective of the Cathay Pacific Group is to provide sustainable growth in shareholder value over the long term. We are confident of longer-term success. We celebrated our 70th anniversary in 2016 and our commitment to Hong Kong and its people remains unwavering.

John Slosar
Chairman
Hong Kong, 15th March 2017

2016 in Review

The Group's performance in 2016 did not match that of 2015. The operating environment for our airlines was difficult in 2016, with a number of factors adversely affecting their performance. Intense and increasing competition with other airlines was the most important. Other airlines significantly increased capacity. There were more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. Overcapacity in the market was a particular competitive problem for our cargo business. Three economic factors were also important, the reduced rate of economic growth in Mainland China, a reduction in the number of visitors to Hong Kong and the strength of the Hong Kong dollar. Hong Kong dollar strength made Hong Kong an expensive destination and caused revenues earned in other currencies to be reduced on conversion into Hong Kong dollars. All these factors put severe competitive pressure on yields. We benefited from low fuel prices, but the benefit was reduced by fuel hedging losses, largely incurred on hedges put in place when the fuel price was much higher than today. The contribution from subsidiary and associated companies was satisfactory.

Despite the challenges with which we are faced, we still expect our business to grow in the long-term. Air traffic to, from and within the Asia-Pacific region is expected to grow strongly. We intend to benefit from this growth by increasing our passenger capacity by 4-5% per annum, at least until the third runway at Hong Kong International Airport is open. We will continue to introduce new destinations and to increase frequencies on our most popular routes. We are buying new and more fuel efficient aircraft. This will increase productivity and reduce costs.

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Award-winning products and services

- We took delivery of our first Airbus A350-900 aircraft in May, and took delivery of a further nine aircraft of this type before the end of 2016. We expect to have 22 aircraft of this type in service by the end of 2017. They have our latest cabins, seats and entertainment systems and inflight connectivity for passengers' mobile devices.
- The Airbus A350 aircraft are fuel efficient and have the right range, capacity and operating economics for our requirements.
- The business class seats in the Airbus A350-900 have better beds, more storage space, larger televisions and simpler seat controls than the business class seats in our other aircraft types.
- The premium economy class seats in the Airbus A350-900 have better storage space and leg rests and larger tables than the premium class seats in our other aircraft types. They have personal reading lights and tablet holders.
- The economy class seats in the Airbus A350-900 have new headrests and tablet holders, and have larger televisions than the economy class seats in our other aircraft types.
- We opened a new lounge in Vancouver in May 2016. The design follows that of our lounges in Bangkok, Tokyo Haneda, Manila and Taipei.
- In June 2016, we reopened our business class lounge at The Pier in Hong Kong after refurbishment. This is our largest lounge. It can accommodate 550 passengers.
- In December 2016, we reopened our first and business class lounge at London Heathrow following a refurbishment. It is Cathay Pacific's only lounge outside Hong Kong that has separate first and business class areas.
- The G16 lounge at Hong Kong International Airport closed for renovations in July 2016. It is scheduled to reopen in the second quarter of 2017.
- Cathay Pacific was ranked first in 2016 among the world's largest airlines by the Jet Airliner Crash Data Evaluation Centre in terms of safety.
- Cathay Pacific was voted Best North Asian Airline at the 27th Annual TTG Travel Awards in 2016.
- At the 2016 Business Traveller Asia-Pacific Awards, Cathay Pacific won Best Airline Premium Economy Class, Best Frequent Flyer Programme and Best Airline Lounge in Asia-Pacific awards.
- In 2016, the first class lounge at The Pier in Hong Kong was named Best First Class Airline Lounge in the Skytrax World Airline Awards. Cathay Pacific also won the award for World's Best Airline Cabin Cleanliness.
- The business class lounge at The Pier in Hong Kong was named Best Airport Lounge at the Monocle Travel Top 50 Awards.
- Cathay Pacific service teams and individual staff members won honours at the Inflight Sales Person of the Year Awards and the Customer Service Excellence Awards organised by the Hong Kong Association for Customer Service Excellence.
- In 2016, Cathay Pacific won Best Presented First Class Wine List at the Business Traveller Cellars in the Sky 2015 Awards.

Hub development

- In 2016, Cathay Pacific celebrated its 70th anniversary as the home carrier of Hong Kong. We remain deeply committed to the long-term development of Hong Kong International Airport as a premier international centre for passenger and cargo traffic.
- We fully support the construction of the third runway at Hong Kong International Airport. We believe its construction is critical to addressing the airport's shortage of capacity, and to maintaining Hong Kong's long-term competitiveness as a premier aviation centre.
- The development of our networks is a priority. We manage capacity in line with passenger and cargo demand. In 2016, we cancelled flights for commercial and operational reasons, without affecting the integrity of our networks.
- The passenger capacity of Cathay Pacific and Cathay Dragon increased by 2.4% in 2016 compared to 2015. This reflected the introduction of new routes and increased frequencies on other routes. Cathay Pacific's passenger capacity increased by 2.8%. Cathay Dragon's passenger capacity decreased by 0.4%.
- In 2016, Cathay Pacific introduced passenger services to Madrid (in June) and to London Gatwick (in September). In June 2017, we will increase the frequency of the Gatwick service from four flights per week to daily and the Manchester service from four to five flights per week. In December 2017, a sixth weekly flight will be added to the Manchester route. In October 2017, the service on the Madrid route will increase from four to five flights per week. In December 2017, an 11th weekly flight to Paris will be restored. We will introduce a four-times-weekly passenger service to Tel Aviv in March 2017 and a four-times-weekly passenger service to Barcelona between July and October 2017.

- We will introduce a three-times-weekly passenger service to Christchurch between December 2017 and February 2018. From October 2017 to March 2018, we will replace the current tagged service between Cairns and Brisbane by providing direct flights to both destinations. The service to Brisbane will have 11 flights per week and the service to Cairns will have three flights per week.
- To meet high summer demand, two flights were added per week on the Toronto route between July and August 2016. We will operate a twice daily service on this route between June and September 2017. In April 2017, we will increase the number of flights to Vancouver from 14 to 17 per week. A fifth weekly flight was added on the Boston route between May and August 2016. Daily flights will start on this route at the end of March 2017. In October 2017, four flights will be added per week to San Francisco, so that this service will become three-times-daily.
- In July and August 2016, we increased our services to Sapporo from five times per week to daily.
- Three of our 10 times per week flights to Paris and all of our flights to Düsseldorf are now operated by Airbus A350-900 aircraft. From October 2016 to May 2017, four flights per week to Rome were operated by Airbus A350-900 aircraft.
- In October 2016, we started to use Airbus A350-900 aircraft on the Auckland route. One of the flights on this route was operated by larger Boeing 777-300ER aircraft.
- Cathay Pacific stopped flying to Doha in February 2016, but still offers codeshare services with Qatar Airways on this route.
- In November 2016, Cathay Dragon stopped flying to Hiroshima and Kathmandu via Dhaka. Cathay Dragon now provides direct services to both Kathmandu and Dhaka.
- From October 2016 to March 2017, Cathay Pacific reduced flights to Bangkok from 63 to 56 per week.
- In May 2016, Cathay Dragon increased the frequency of its Wenzhou service from seven to 10 flights per week. From May to October 2016, it increased the frequency of its Wuhan service from 11 to 12 flights per week and used bigger aircraft on the Xi'an route.
- From September 2016, Cathay Dragon increased the frequency of its Phnom Penh service from 12 to 14 flights per week. It reduced the frequency of its services to Kota Kinabalu from seven to five flights per week from May 2016 and of its Clark service from four to three flights per week from March 2016. In October 2016, the fourth weekly Clark flight was restored.
- In November 2016, Cathay Pacific introduced a twice-weekly cargo service to Portland, Oregon and a weekly cargo service to Brisbane West Wellcamp.

Fleet development

- At 31st December 2016, Cathay Pacific operated 146 aircraft, Cathay Dragon operated 43 aircraft and Air Hong Kong operated 13 aircraft (a total of 202 aircraft for the Group). There are 59 new aircraft on order for delivery up to 2024.
- We took delivery of our first Airbus A350-900 aircraft in May, and took delivery of a further nine aircraft of this type before the end of 2016. We expect to have 22 aircraft of this type in service by the end of 2017. They have our latest cabins, seats and entertainment systems and inflight connectivity for passengers' mobile devices.
- We will start to take delivery of Airbus A350-1000 aircraft (which have a longer range and more capacity than Airbus A350-900 aircraft) in 2018 and expect to have 26 aircraft of this type in service by the end of 2020.
- We retired our last three Boeing 747-400 passenger aircraft and three Airbus A340-300 aircraft during 2016. One Airbus A340-300 was retired in January 2017 and our remaining three Airbus A340-300 aircraft will be retired later in 2017.
- We delivered four Boeing 747-400F freighters to Boeing during 2016.
- We took delivery of our final Boeing 747-8F freighter in August 2016.
- One of Cathay Pacific's regional Airbus A330-300 aircraft was transferred to Cathay Dragon in December 2016. Three Airbus A330-300 aircraft were transferred to Cathay Dragon in 2017, two in February 2017 and one March 2017. One more such aircraft will be transferred later in 2017.

Advances in technology

- During 2016, self-service bag drop facilities were introduced in Hong Kong and Amsterdam and kiosk bag tagging facilities were introduced in Auckland, Bengaluru, Hangzhou, London Gatwick, London Heathrow, Los Angeles, Paris, San Francisco, Singapore, Toronto, Vancouver and Xiamen. These facilities will be introduced in other airports in 2017.
- In August 2016, we introduced a new cargo booking system.
- The Marco Polo Club introduced benefits for some of its members using electronic vouchers. The benefits provide the eligible members with additional lounge access, bookable upgrades and companion cards.

Partnerships

- Cathay Pacific stopped flying to Doha in February 2016, but still offers codeshare services with Qatar Airways on this route.
- In April 2016, Cathay Pacific ended its frequent flyer relationship with China Eastern Airlines.
- In August 2016, Cathay Pacific and Cathay Dragon entered into an air plus rail arrangement with SNCB Railway in Belgium on train services between Amsterdam and Brussels, and between Amsterdam and Antwerp.
- In October 2016, Cathay Pacific entered into a codeshare agreement with LATAM Airlines Brasil. The CX code will be placed on all LATAM Airlines Brasil flights between London and Paris (on the one hand) and Sao Paulo (on the other hand) and between New York (on the one hand) and Sao Paulo and Rio de Janeiro (on the other hand). The LATAM Airlines Brasil JJ code will be placed on all Cathay Pacific flights between New York and Hong Kong.
- In May 2016, Cathay Pacific signed a joint business agreement with Lufthansa Cargo AG in relation to cargo routes between Hong Kong and Europe. The agreement came into effect in the first quarter of 2017.
- In January 2017, Cathay Pacific entered into a codeshare and frequent flyer programme agreement with Air Canada. The CX code will be placed on some domestic Air Canada flights. Air Canada's AC code will be placed on some Cathay Pacific and Cathay Dragon flights to Southeast Asia.

Fleet profile*

	Number at 31st December 2016				Firm orders				Expiry of operating leases						
		Leased													
Aircraft type	Owned	Finance	Operating	**Total**	'17	'18	'19 and beyond	**Total**	'17	'18	'19	'20	'21	'22 and beyond	Options
Aircraft operated by Cathay Pacific:															
A330-300	23	12	6	**41**						3	1	2			
A340-300	4			**4**[a]											
A350-900	5	3	2	**10**	12[b]			**12**						2	
A350-1000						8	18	**26**							
747-400BCF			1	**1**						1					
747-400ERF		6		**6**											
747-8F	3	11		**14**											
777-200	5			**5**											
777-200F															3[c]
777-300	12			**12**		2	3	**5**[d]							
777-300ER	19	11	23	**53**						1	2		5	15	
777-9X							21	**21**							
Total	71	43	32	**146**	12	10	42	**64**		5	3	2	5	17	3
Aircraft operated by Cathay Dragon:															
A320-200	5		10	**15**						2	1	1	3	3	
A321-200	2		6	**8**								1	2	3	
A330-300	10		10[e]	**20**					6		2		2		
Total	17		26	**43**					6	2	3	2	7	6	
Aircraft operated by Air Hong Kong:															
A300-600F	4	4	2	**10**							2				
747-400BCF			3[e]	**3**						3					
Total	4	4	5	**13**						3	2				
Grand total	**92**	**47**	**63**[e]	**202**	**12**	**10**	**42**	**64**[d]	**6**	**10**	**8**	**4**	**12**	**23**	**3**

** Includes parked aircraft. The table does not reflect aircraft movements after 31st December 2016.*

(a) Cathay Pacific is accelerating the retirement of its Airbus A340-300 aircraft. Three of these aircraft were retired in 2016. One Airbus A340-300 was retired in January 2017. The remaining three such aircraft will be retired before the end of 2017.

(b) Two of these Airbus A350-900 aircraft were delivered after 31st December 2016, one in February 2017, the other in March 2017.

(c) Purchase options for aircraft to be delivered by 2019.

(d) Five Boeing 777-300 used aircraft will be delivered from 2018.

(e) 57 of the 63 aircraft which are subject to operating leases are leased from third parties. The remaining six of such aircraft (three Boeing 747-400BCFs and three Airbus A330-300s) are leased within the Group.

Review of other subsidiaries and associates

The share of profits from other subsidiaries and associates in 2016 increased by 14.8% to HK$2,788 million from HK$2,428 million. This mainly reflected a strong performance from our associate, Air China, whose results benefited from low fuel prices and strong passenger demand, offset in part by the adverse effect of the devaluation of the Renminbi. Below is a review of the performance and operations of 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 60.0% owned by Cathay Pacific. It operates express cargo services for DHL Express.
- Air Hong Kong operates eight owned Airbus A300-600F freighters, two dry leased Airbus A300-600F freighters and three Boeing 747-400BCF converted freighters dry leased from Cathay Pacific.
- During 2016, Air Hong Kong operated six flights per week services to Bangkok, Ho Chi Minh City, Osaka, Penang (via Ho Chi Minh City), Seoul, Shanghai, Singapore, Taipei and Tokyo and five flights per week services to Beijing, Manila and Nagoya.
- On-time performance was 86% within 15 minutes.
- Compared with 2015, capacity increased by 0.1% to 777 million available tonne kilometres. The load factor decreased by 1.2 percentage points to 65.3%. Revenue tonne kilometres decreased by 1.6% to 508 million.
- Air Hong Kong recorded a marginal increase in profit for 2016 compared with 2015.

Asia Miles Limited ("AML")

- AML, a wholly owned subsidiary, manages the Cathay Pacific Group's reward programme. It has nearly nine million members.
- In 2016, AML recorded an increase in profit compared with 2015, due to an increase in business volume.

Cathay Pacific Catering Services (H.K.) Limited ("CPCS") and kitchens outside Hong Kong

- CPCS, a wholly owned subsidiary, operates the principal flight kitchen in Hong Kong.
- CPCS provides flight catering services to 45 international airlines in Hong Kong. It produced 30.2 million meals and handled 73,000 flights in 2016 (representing a daily average of 83,000 meals and 200 flights and an increase of 2.5% and 2.0% respectively over 2015). CPCS had a 66.6% share of the flight catering market in Hong Kong in 2016.
- Increased business volume resulted in higher revenue. This was offset by increases in direct labour and overhead costs, which led to a decrease in profit in 2016.
- An expanded facility with 40% additional capacity commenced operations in the first quarter of 2017.
- Outside Hong Kong, profits decreased.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, operates the Group's cargo terminal at Hong Kong International Airport. The terminal's annual handling capacity is 2.6 million tonnes.
- At the end of 2016, CPSL provided cargo handling services to 15 airlines. Seven airlines became new customers in 2016.
- CPSL handled 1.8 million tonnes of cargo in 2016, 51.3% of which were transshipments. Export and import shipments accounted for 31.1% and 17.6% respectively of the total.
- The financial results in 2016 improved compared with 2015. This was due to an increase in the number of customers and effective management of operating costs.

Hong Kong Airport Services Limited ("HAS")

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services at Hong Kong International Airport. It provides ground services to 22 airlines, including Cathay Pacific and Cathay Dragon.
- In 2016, HAS had 44% and 20% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.
- In 2016, the number of customers for passenger handling was 20 and the number of customers for ramp handling was 20. Passenger handling flights increased by 1.2% in 2016. Ramp handling flights decreased by 0.3%.
- The 2016 financial results were worse than the 2015 results. HAS stopped providing services to some airlines. This was necessary in order to maintain services to the remaining airlines in a period of labour shortage.
- With fewer customers, HAS improved the quality of its services and operations. There were year on year reductions of over 30% in delays to aircraft and in the staff injury rate.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific had a 20.13% interest at 31st December 2016, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China. On 10th March 2017, the procedures for Air China's registration of the new A shares were completed. As a consequence, Cathay Pacific's shareholding in Air China has been diluted from 20.13% to 18.13%.
- At 31st December 2016, Air China operated 262 domestic and 116 international (including regional) routes to 41 countries and regions, including 64 overseas cities, three regional cities and 109 domestic cities.
- We are represented on the Board of Directors of Air China and equity account for our share of Air China's results.
- Our share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently, our 2016 results include Air China's results for the 12 months ended 30th September 2016, adjusted for any significant events or transactions in the period from 1st October 2016 to 31st December 2016.
- For the 12 months ended 30th September 2016, Air China's results improved, principally as a result of low fuel prices and strong passenger demand, partly offset by the adverse effect of the devaluation of the Renminbi.

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

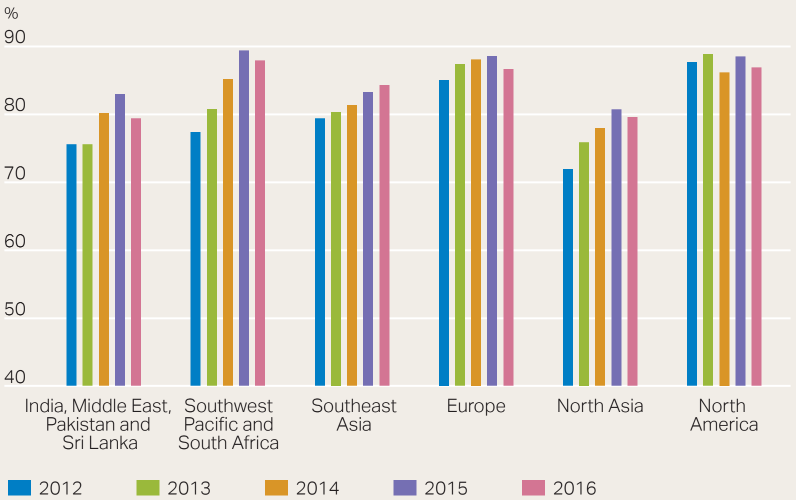
- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest, is the leading provider of air cargo services in Mainland China. It has its headquarters in Beijing. Its main operating base is in Shanghai Pudong.
- At 31st December 2016, Air China Cargo operated 15 freighters. It flies to 10 cities in Mainland China and 11 cities outside Mainland China. Taking into account its rights to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections to more than 170 destinations.
- Air China Cargo's 2016 financial results were better than those of 2015. Savings from lower fuel prices were partially offset by unrealised exchange losses on loans denominated in United States dollars and lower yield in the highly competitive air cargo market.

Life Well Travelled

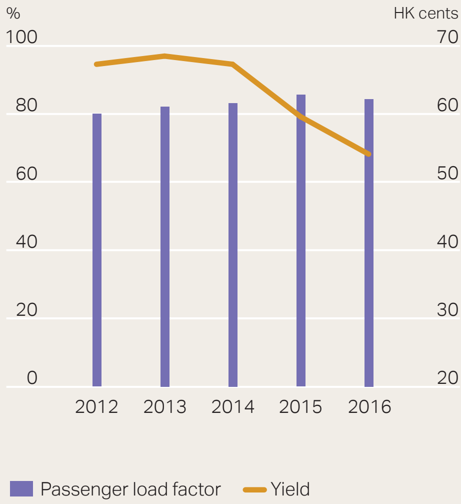
We care about our passengers' experience at every stage of their journey with us, from the moment they plan their travel through to arriving at their destination in better shape.

Cathay Pacific and Cathay Dragon carried 34.3 million passengers in 2016, an increase of 0.8% compared to 2015. Revenue decreased by 8.4% to HK$66,926 million. The load factor decreased by 1.2 percentage points to 84.5%. Capacity increased by 2.4%, reflecting the introduction of new routes (to Madrid and London Gatwick) and increased frequencies on some other routes. Yield decreased by 9.2%, to HK54.1 cents. The operating environment for our passenger business was difficult in 2016, with a number of factors adversely affecting its performance. Intense and increasing competition with other airlines was the most important. Other airlines significantly increased capacity. There were more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. Three economic factors were also important, the reduced rate of economic growth in Mainland China, a reduction in the number of visitors to Hong Kong and the strength of the Hong Kong dollar. Hong Kong dollar strength made Hong Kong an expensive destination and caused revenues earned in other currencies to be reduced on conversion into Hong Kong dollars. All these factors put severe competitive pressure on yields. We benefited from low fuel prices, but the benefit was reduced by fuel hedging losses, largely incurred on hedges put in place when the fuel price was much higher than today. Corporate demand for premium class travel weakened considerably, especially on long-haul routes. Economy class demand was stable, but yield was under pressure.

Load factor by region



Passenger load factor and yield



Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Cathay Dragon passenger services for 2016 were as follows:

	ASK (million)			Load factor (%)			Yield
	2016	2015	**Change**	**2016**	2015	**Change**	**Change**
India, Middle East and Sri Lanka	**9,172**	10,127	**-9.4%**	**79.3**	82.9	**-3.6%pt**	**-6.8%**
Southwest Pacific and South Africa	**19,702**	19,350	**+1.8%**	**87.8**	89.3	**-1.5%pt**	**-12.0%**
Southeast Asia	**21,151**	20,641	**+2.5%**	**84.2**	83.2	**+1.0%pt**	**-8.0%**
Europe	**25,958**	23,969	**+8.3%**	**86.6**	88.5	**-1.9%pt**	**-12.8%**
North Asia	**30,802**	30,267	**+1.8%**	**79.5**	80.6	**-1.1%pt**	**-7.4%**
North America	**39,301**	38,326	**+2.5%**	**86.8**	88.4	**-1.6%pt**	**-8.9%**
Overall	**146,086**	142,680	**+2.4%**	**84.5**	85.7	**-1.2%pt**	**-9.2%**

Home market – Hong Kong and Pearl River Delta

- Passenger volume grew slightly, but at the expense of yield. Promotional pricing benefited the premium class load factor.
- Fewer Hong Kong passengers travelled to Japan in 2016 than in 2015, due to the strength of the yen. More passengers travelled to Korea in 2016 than in 2015, when demand was adversely affected by concerns over middle east respiratory syndrome.
- In February 2016, the suspension of Hong Kong fuel surcharges adversely affected yield. In September, we re-imposed fuel surcharges on tickets booked outside Hong Kong and the Philippines. Yield was also adversely affected by strong competition and overcapacity in Asia.
- Corporate travel originating in Hong Kong was below expectations, particularly to London and New York. The number of corporate travellers declined for the first time since 2009, when business was affected by the global financial crisis. The decline prompted us to sell premium class tickets on a promotional basis to leisure travellers.
- Transit traffic between Japan and the Pearl River Delta was adversely affected by the introduction of direct services. Transit traffic between North America (on the one hand) and Southeast Asia and the Pearl River Delta (on the other hand) grew.

India, Middle East and Sri Lanka

- The performance of our India routes was reasonable in 2016. However, increased competition adversely affected demand for travel between North America and North Asia (on the one hand) and India (on the other hand).
- Low oil prices adversely affected Middle Eastern economies.
- Cathay Pacific stopped flying to Doha in February 2016, but still offers codeshare services with Qatar Airways on this route.
- Demand on the Colombo route was strong.

Southwest Pacific and South Africa

- There was a slight increase in passenger numbers on Southwest Pacific routes. Yield was adversely affected by the weakness of the Australian dollar and by overcapacity in the market.
- Transit traffic between Mainland China and Australia was adversely affected by the availability of additional cheap direct flights.
- In October 2016, we started to use Airbus A350-900 aircraft on the Auckland route. One of the flights on this route was operated by larger Boeing 777-300ER aircraft.
- From October 2017 to March 2018, we will replace the current tagged service between Cairns and Brisbane by providing direct flights to both destinations. The service to Brisbane will have 11 flights per week and the service to Cairns will have three flights per week.
- Cathay Pacific will introduce a three-times-weekly passenger service to Christchurch between December 2017 and February 2018.
- The strategic agreement between Cathay Pacific and Air New Zealand in relation to the Auckland route has been extended until 31st October 2019.
- Demand for travel between Johannesburg (on the one hand) and Japan and Mainland China (on the other hand) remained strong.

Southeast Asia

- The performance of our Southeast Asian routes was satisfactory. We carried more passengers despite strong competition and the depreciation of local currencies. Yield on these routes was affected by overcapacity and intense competition.
- From October 2016 to March 2017, Cathay Pacific reduced flights to Bangkok from 63 to 56 per week.

- From September 2016, Cathay Dragon increased the frequency of its Phnom Penh service from 12 to 14 flights per week. It reduced the frequency of its services to Kota Kinabalu from seven to five flights per week from May 2016 and of its Clark service from four to three flights per week from March 2016. In October 2016 a fourth weekly Clark flight was restored.
- In November 2016, Cathay Dragon stopped the tagged flight between Kathmandu and Dhaka, providing direct services to both destinations instead.
- Cathay Pacific will stop flying to Kuala Lumpur in May 2017. Cathay Dragon will operate this four-times-daily service instead.

Europe

- We increased capacity to Europe in 2016. This reflected the introduction of new routes (Madrid and London Gatwick). The use of A350 aircraft reduced capacity on some routes.
- Our London and Manchester routes were adversely affected by the weakness of sterling and strong competition. Passenger volumes numbers were maintained.
- There was some recovery in demand for travel to Europe in 2016. Premium class demand from leisure travellers benefited from promotions. But demand for corporate travel weakened.
- Increases in capacity by Middle Eastern carriers on routes between Mainland China and Europe affected yield.
- In 2016, Cathay Pacific introduced passenger services to Madrid (in June) and London Gatwick (in September). Both services have been well received. In June 2017, we will increase the frequency of the Gatwick service from four flights per week to daily and the Manchester service from four to five flights per week. In December 2017, a sixth weekly flight will be added to the Manchester route.
- In October 2017, the service on the Madrid route will increase from four to five flights per week.
- In December 2017, an 11th weekly service to Paris will be restored.
- Cathay Pacific will introduce a four-times-weekly passenger service to Tel Aviv in March 2017.
- Cathay Pacific will introduce a four-times-weekly passenger service to Barcelona between July and October 2017.

North Asia

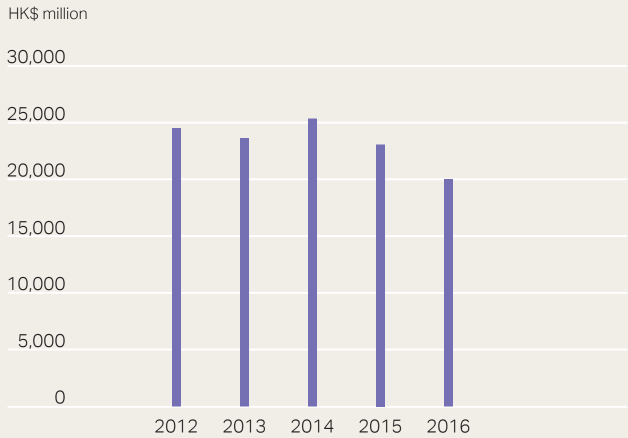
- Demand for travel between Mainland China and Taiwan fell sharply in the second half of 2016. Demand for travel between Taiwan (on the one hand) and Japan and Korea (on the other hand) also fell. Yield was under pressure due to increased capacity.
- Demand for travel to Japan was adversely affected by the strength of the Japanese yen. Transit traffic between Japan and Mainland China (including the Pearl River Delta) was adversely affected by the introduction of direct services. In July and August 2016, we increased our services to Sapporo from five times per week to daily. In November 2016, we stopped our service to Hiroshima.
- More passengers went to Korea in 2016 than in 2015, when demand was adversely affected by concerns over middle east respiratory syndrome. Strong competition put pressure on yield.
- In May 2016, Cathay Dragon increased the frequency of its Wenzhou service from seven to 10 flights per week. From May to October 2016, it increased the frequency of its Wuhan service from 11 to 12 flights per week and used bigger aircraft on the Xi'an route.

North America

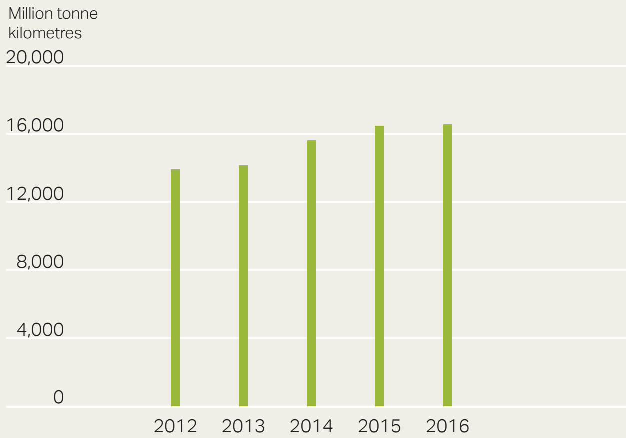
- Revenue from United States routes declined in 2016. Passenger numbers did not increase as much as capacity. A reduction in corporate travel affected premium class revenue, especially on the New York route.
- Competition intensified as Mainland China carriers operated more direct flights to the United States, which put pressure on yield.
- Our Boston service has been doing well since its introduction in 2015. From May to August 2016 we increased the number of flights per week from four to five. Daily flights will start at the end of March 2017.
- Demand on our Canada routes was stable. To meet high summer demand, two flights were added per week on the Toronto route between July and August 2016. We will operate a twice daily service on this route between June and September 2017. In April 2017, we will increase the number of flights to Vancouver from 14 to 17 per week.
- In October 2017, four flights will be added per week to San Francisco, so that this service will become three-times-daily. The service will be operated by Airbus A350-900 aircraft.
- In October 2017, the number of flights on the Los Angeles route will be reduced from 28 to 21 per week.

Cathay Pacific and Cathay Dragon carried 1.9 million tonnes of cargo and mail in 2016, an increase of 3.1% compared to 2015. The cargo revenue of Cathay Pacific and Cathay Dragon was HK$17,024 million, a decrease of 15.2% compared to the previous year. This mainly reflected the suspension of Hong Kong fuel surcharges. Capacity for Cathay Pacific and Cathay Dragon increased by 0.6%. The load factor increased by 0.2 percentage points. Strong competition, overcapacity and the suspension of Hong Kong fuel surcharges put significant pressure on yield, which decreased by 16.3% to HK$1.59. The market was very weak in the first quarter. Tonnage recovered from the second quarter, becoming seasonally strong in the fourth quarter. We managed freighter capacity in line with demand and carried a higher proportion of cargo in the bellies of our passenger aircraft.

Revenue



Capacity – cargo and mail ATK



Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Cathay Dragon cargo services for 2016 were as follows:

	ATK (million)			Load factor (%)			Yield
	2016	2015	**Change**	**2016**	2015	**Change**	**Change**
Cathay Pacific and Cathay Dragon	**16,572**	16,481	**+0.6%**	**64.4**	64.2	**+0.2%pt**	**-16.3%**

- Strong competition, overcapacity and the suspension of Hong Kong fuel surcharges put significant pressure on yield. The market was very weak in the first quarter. Tonnage recovered from the second quarter, becoming seasonally strong in the fourth quarter.
- Shipments of pharmaceutical products and mail, the yield on which is above average, increased by 11% and 8% respectively in 2016.
- Exports from Hong Kong and Mainland China increased in the second half of the year, resulting in high load factors on North American routes. However, the weakness of the Renminbi adversely affected the yield from exports from Mainland China.
- Northeast Asia exports of electronics, machinery and perishable goods were steady. Other shipments within Asia grew.

- In November 2016, we introduced a twice-weekly service to Portland, Oregon, our 18th cargo destination in the Americas. The service was introduced to cater for growing demand to move goods from the Pacific Northwest to Asia.
- In November 2016, we introduced a weekly service to Brisbane West Wellcamp, principally to carry agricultural products grown in one of Australia's most productive regions.
- In April 2016, we started to operate additional services to the Indian sub-continent in response to strong demand. However, yield was under pressure. Airport congestion at Dhaka limited shipments in and out of the city at some points in the year.
- Shipments of perishable products from the Americas to Asia grew strongly.
- In the last week of September 2016, before the long national holiday in Mainland China, we shipped a record weekly tonnage of cargo. We maximised the number of flights in the last quarter of the year to meet peak seasonal demand, but yield was down.
- In May 2016, we signed a joint business agreement with Lufthansa Cargo AG in relation to cargo routes between Hong Kong and Europe. The agreement came into effect in the first quarter of 2017.
- Four Boeing 747-400F freighter aircraft were delivered to Boeing in 2016.
- We took delivery of our 14th and final Boeing 747-8F freighter in August 2016.

Loyalty and reward programmes

The Marco Polo Club

- The Marco Polo Club loyalty programme provides benefits and services to the frequent flyers of Cathay Pacific and Cathay Dragon. It has approximately one million members.
- Members of the Club contribute to almost a quarter of the revenues of Cathay Pacific and Cathay Dragon.
- In April 2016, the basis on which club points are earned by club members was changed. Cabin class, fare class and distance travelled are now taken into consideration. The new basis is in line with that used by other loyalty programmes. It reflects better the contributions which our passengers make to the revenues of our airlines.
- The new basis for earning points does not change the benefits available to qualifying members of the club. Silver members (and above) continue to have unlimited access to lounges when flying on Cathay Pacific or Cathay Dragon and all members are entitled to priority boarding and check-in.

Asia Miles

- Asia Miles is a leading travel and lifestyle rewards programme in Asia. It has nearly nine million members and over 700 partners worldwide, including 25 airlines, more than 150 hotel brands and restaurants and retail shops.
- There was a 7% increase in redemptions by Asia Miles members on Cathay Pacific and Cathay Dragon flights in 2016.
- Marco Polo Club members are also members of Asia Miles.

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 109.

2016 Sustainable Development Review

Sustainable development

We apply sustainable development principles when doing business. We take environmental and social considerations into account when making business decisions. It is our policy to comply with environmental and social regulations and to educate our employees, engage with others and set targets in relation to environmental and social matters. We encourage our staff to mitigate or reduce the environmental and social impact of the decisions which they make.

We operate an environmental management system which is based on ISO14001 certification. The system is audited once a year externally and twice a year internally. Opportunities for improvement are identified during these audits.

We engage with the communities in which we operate and involve our employees in doing so. We prioritise our community activities but maintain flexibility in order to respond to specific local needs.

Our people are one of our greatest assets. We are proud of the high-quality service which they give and are committed to providing them with the best possible working and career environment. This enables us to attract, develop and retain the best people.

Performance updates

		2016	2015	**Change**
Environment				
GHG emissions	*Million tonnes of CO_2e*	**17.2**	17.1	**+0.6%**
GHG emissions per ATK	*Grammes of CO_2e*	**565**	569	**-0.7%**
Electricity consumption	*MWh*	**42,001**	42,490	**-1.2%**
Paper consumption	*Tonnes*	**2,355**	2,270	**+3.7%**
Paper recycled (office and inflight)	*Tonnes*	**1,931**	1,888	**+2.3%**
Metal recycled (office and inflight)	*Kg*	**42,326**	38,415	**+10.2%**
Plastic recycled (office and inflight)	*Kg*	**44,800**	41,706	**+7.4%**
People				
Total workforce	*Number*	**26,674**	26,824	**-0.6%**
By location				
Hong Kong	%	**71.5**	71.1	**+0.4%pt**
Outport	%	**28.5**	28.9	**-0.4%pt**
By employment type				
Flight crew	%	**14.6**	14.2	**+0.4%pt**
Cabin crew	%	**45.8**	46.3	**-0.5%pt**
Ground staff	%	**39.6**	39.5	**+0.1%pt**
By gender				
Female	%	**61.3**	61.8	**-0.5%pt**
Male	%	**38.7**	38.2	**+0.5%pt**

Data for Cathay Pacific and Cathay Dragon is presented. Full indicator tables will be provided in Cathay Pacific's Sustainable Development Report at www.cathaypacific.com/sdreport.

Awards and Recognitions in 2016

- Cathay Pacific is a constituent of the FTSE4Good Index and the Hang Seng Corporate Sustainability Index.
- 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. Cathay Dragon has received the same recognition every year since 2005.

2016 Highlights

Environment

- In October 2016, an agreement to implement a carbon offset and reduction scheme for international aviation was reached by states attending the International Civil Aviation Organization (ICAO)'s 39th assembly. Cathay Pacific has been involved in discussions about the scheme since 2008. We participate in an ICAO task force which leads the aviation industry's work in developing proposals for a fair, equitable and effective global agreement on emissions.
- Cathay Pacific engages with regulators and 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 as part of its climate change strategy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- In compliance with the European Union's Emissions Trading Scheme, our 2016 emissions data from intra-EU flights were reported on by an external auditor in January 2017 and our emissions report was submitted to the UK Environment Agency in February 2017. Cathay Pacific's overall greenhouse gas emissions data for 2016 were reported on by an external auditor.
- All our Airbus A350-900 aircraft are being flown on their delivery flights from Toulouse using fuel containing 10% biofuel. 10 Airbus A350-900 aircraft were delivered in 2016 and 12 more aircraft are scheduled to be delivered by the end of 2017. Biofuel reduces carbon emissions from aircraft by 60-80% when compared to fossil fuel.
- We have started to use Sedex (the Supplier Ethical Data Exchange) in order to obtain information about our suppliers.
- Unopened food items from inbound Cathay Pacific flights to Hong Kong have been collected by Feeding Hong Kong, a non-profit organisation which provides surplus food to Hong Kong charities for distribution to people in need. More than 195 tonnes of surplus food were donated during 2016.
- We donated 2,445 kilograms of surplus food from our canteens at Cathay City in 2016 to Food Angel. Food Angel makes surplus food into hot meals for underprivileged families in Hong Kong.
- In March 2016, Cathay Pacific participated in WWF's annual Earth Hour activity. We switched off all nonessential lighting in our buildings and on billboards outside Cathay City.
- A staff photo competition called "Our Planet, Our Future" was held in June 2016. Staff were encouraged to submit photos celebrating the environment on World Environment Day.
- Our retiring Airbus A340 aircraft are being dealt with under PAMELA (Airbus' Process for Advanced Management of End-of-Life Aircraft). This enables old aircraft to be dismantled (and disposed of or recycled) in a sustainable manner.
- Our online Sustainable Development Report 2015, entitled "Together for Tomorrow" was published in September 2016 and is available at www.cathaypacific.com/sdreport. The Sustainable Development Report 2016 is scheduled to be published in July 2017.
- In June 2016, Cathay Pacific signed the United for Wildlife Transport Taskforce Buckingham Palace Declaration. The Declaration aims to reduce the illegal trafficking of wildlife with the support of aviation and shipping industry companies and organisations.
- In June 2016, Cathay Pacific decided not to carry shark fins.

Contribution to the community

- In January 2016, Hong Kong SAR Chief Executive CY Leung was the guest of honour on a community flight organised by Cathay Pacific. The 90-minute flight on a Boeing 777-300 aircraft was a special treat for 250 residents from less-advantaged families in Hong Kong. Most of the participants had never flown before.
- Starting in March 2016, 300 young people took part in the 2016 three month "I Can Fly" programme. They received training in aviation matters and participated in social service projects. The top 100 participants visited aviation facilities in Singapore and Adelaide. Over 3,700 students have participated in this programme since it started in 2003.

- We held a 24 hour Hackathon in October 2016 for the local youth. It demonstrated our efforts to foster innovation and to generate ideas to improve services to passengers.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. Our passengers contributed HK$13.9 million in 2015 to help improve the lives of vulnerable children. Since its introduction in 1991, more than HK$165 million has been raised through the programme.
- 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$16 million, benefiting more than 490 children.
- In July 2016, 11 Cathay Pacific staff went to Birgunj and Kathmandu in Nepal and in December 2016, 14 staff visited Chongqing in Mainland China, to see how "Change for Good" donations were being applied.
- The Cathay Pacific Volunteers, made up of around 1,400 Cathay Pacific staff, help the local community in Hong Kong. Their "English on Air" programme has helped more than 2,400 students to improve their conversational English skills. They sort unopened and shelf stable food from inflight meal carts to be given to families in need. In 2016, Cathay Pacific Volunteers contributed more than 1,300 hours of voluntary service to support the local community.
- In October 2016, 300 Cathay Pacific staff flew on our last Boeing 747-400 passenger flight, over Hong Kong harbour. Each of them contributed a minimum of HK$747 in order to do so. HK$200,000 was raised for the Hong Kong Breast Cancer Foundation.
- We organised tours of our headquarters at Hong Kong International Airport for around 10,000 visitors in 2016.
- In April 2016, Cathay Dragon organised an aviation career workshop for 200 young people.
- The Cathay Dragon aviation certificate programme is organised with the Hong Kong Air Cadet Corps and the Scout Association of Hong Kong. Participants gain first hand knowledge of the Hong Kong aviation industry and are mentored by Cathay Dragon pilots. In 2016, Cathay Dragon pilots mentored 40 participants over nine months. To date, over 200 participants have graduated from the programme. Almost half of the graduates have started aviation-related careers.
- In December 2016, Cathay Pacific donated approximately 6,000 used blankets to the Society for the Prevention of Cruelty to Animals to help animals stay warm over the winter.

Commitment to staff

- At 31st December 2016, the Cathay Pacific Group employed more than 33,800 people worldwide. Around 26,200 of these people are based in Hong Kong. Cathay Dragon employs more than 3,300 people.
- In 2016, Cathay Pacific recruited more than 1,000 staff, including around 320 cabin crew and around 230 pilots. Cathay Dragon recruited around 110 cabin crew and 10 pilots.
- In 2016, 74 cadets graduated from the Cathay Pacific cadet pilot programme and 11 cadets graduated from the Cathay Dragon cadet pilot programme.
- In 2016, 10 graduates (out of more than 400 applicants) were selected to join our IT graduate trainee programme.
- In 2016, we introduced a careers website. It enables those inside and outside the Group to register interest and to search and apply for jobs.
- 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.
- We are reviewing productivity and expenditure.
- In May 2016, Cathay Pacific introduced "Work Well Done", which encourages recognition of the contributions which our people make to our business.
- Our annual Betsy awards are given to frontline staff who display exceptional customer service. We have introduced Niki awards, for staff who have made exceptional contributions behind the scenes.

Inspiring journey

We continually invest in our products and services, both on the ground and in the air, enabling our customers to enjoy a Life Well Travelled.

Financial Review

The Cathay Pacific Group reported an attributable loss of HK$575 million in 2016 compared with a profit of HK$6,000 million in 2015.

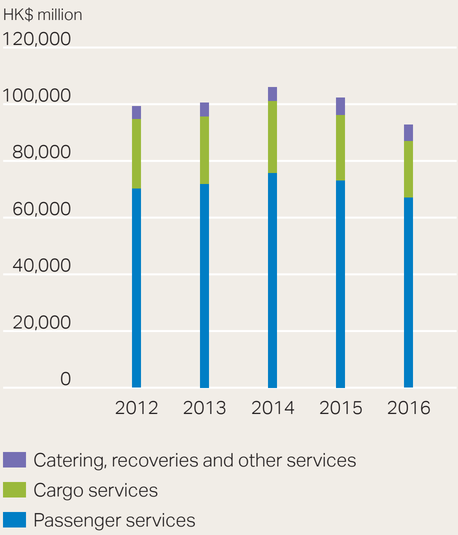
The operating environment for our airlines was difficult in 2016, with a number of factors adversely affecting their performance. Intense and increasing competition with other airlines was the most important. Other airlines significantly increased capacity. There were more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. Overcapacity in the market was a particular competitive problem for our cargo business. Three economic factors were also important, the reduced rate of economic growth in Mainland China, a reduction in the number of visitors to Hong Kong and the strength of the Hong Kong dollar. Hong Kong dollar strength made Hong Kong an expensive destination and caused revenues earned in other currencies to be reduced on conversion into Hong Kong dollars. All these factors put severe competitive pressure on yields. We benefited from low fuel prices, but the benefit was reduced by fuel hedging losses, largely incurred on hedges put in place when the fuel price was much higher than today.

The contribution from the Group's subsidiary and associated companies was satisfactory.

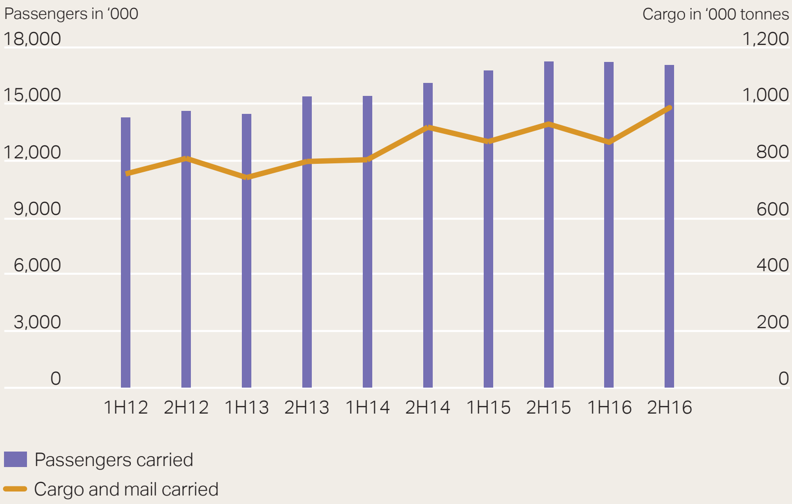
Revenue

	Group		Cathay Pacific and Cathay Dragon	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M
Passenger services	**66,926**	73,047	**66,926**	73,047
Cargo services	**20,063**	23,122	**17,024**	20,079
Catering, recoveries and other services	**5,762**	6,173	**5,067**	5,590
Total revenue	**92,751**	102,342	**89,017**	98,716

Revenue



Cathay Pacific and Cathay Dragon: passengers and cargo carried

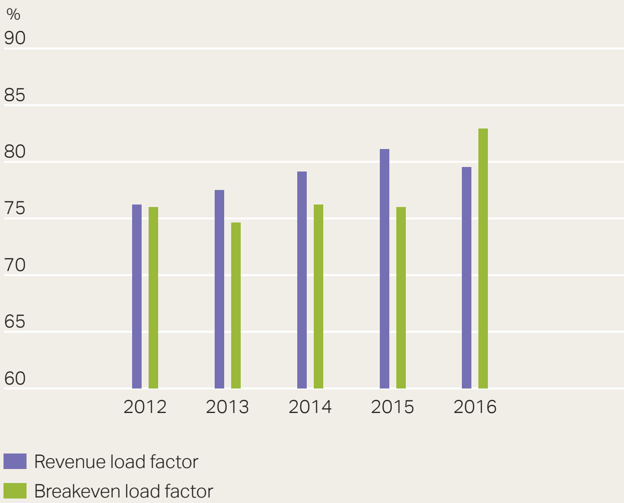


- Group revenue decreased by 9.4% in 2016 compared with 2015.

Cathay Pacific and Cathay Dragon

- Passenger revenue decreased by 8.4% to HK$66,926 million. The number of revenue passengers carried increased by 0.8% to 34.3 million. Revenue passenger kilometres increased by 0.9%.
- The passenger load factor decreased by 1.2 percentage points to 84.5%. Available seat kilometres increased by 2.4%.
- Passenger yield decreased by 9.2% to HK¢54.1.
- First and business class revenues decreased by 6.6% and the load factor increased from 71.8% to 73.2%.
- Premium economy and economy class revenues decreased by 9.2% and the load factor decreased from 88.3% to 86.5%.
- Cargo revenue decreased by 15.2% to HK$17,024 million. There was a 0.6% increase in capacity.
- The cargo load factor increased by 0.2 percentage points. Cargo yield decreased by 16.3% to HK$1.59.
- The revenue load factor decreased by 1.6 percentage points to 79.5%. The breakeven load factor was 82.9%.

Cathay Pacific and Cathay Dragon: revenue and breakeven load factor



- The annualised effect on revenue of changes in yield and load factor is set out in the table below:

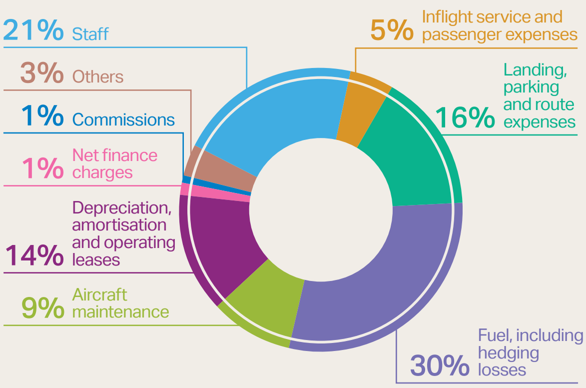
	HK$M
+ 1 percentage point in passenger load factor	**790**
+ 1 percentage point in cargo and mail load factor	**264**
+ HK¢1 in passenger yield	**1,235**
+ HK¢1 in cargo and mail yield	**107**

Operating expenses

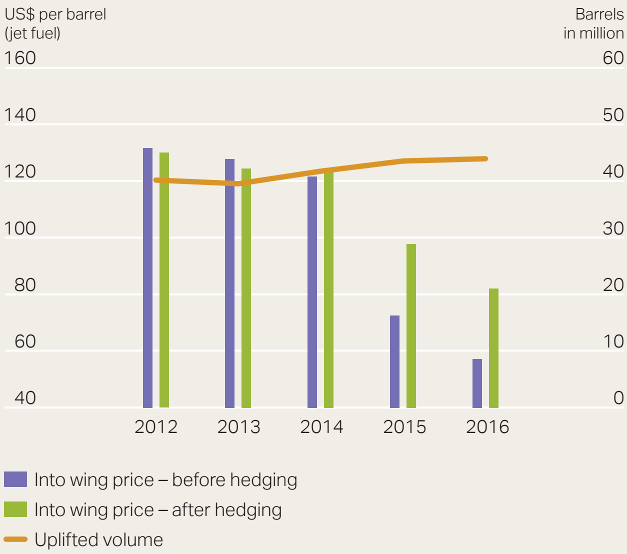
	Group			Cathay Pacific and Cathay Dragon		
	2016 HK$M	2015 HK$M	**Change**	**2016 HK$M**	2015 HK$M	**Change**
Staff	**19,770**	18,990	**+4.1%**	**17,607**	17,028	**+3.4%**
Inflight service and passenger expenses	**4,734**	4,713	**+0.4%**	**4,734**	4,713	**+0.4%**
Landing, parking and route expenses	**14,985**	14,675	**+2.1%**	**14,704**	14,406	**+2.1%**
Fuel, including hedging losses	**27,953**	32,968	**-15.2%**	**27,551**	32,475	**-15.2%**
Aircraft maintenance	**8,856**	7,504	**+18.0%**	**8,453**	7,168	**+17.9%**
Aircraft depreciation and operating leases	**10,551**	10,883	**-3.1%**	**10,406**	10,724	**-3.0%**
Other depreciation, amortisation and operating leases	**2,457**	2,310	**+6.4%**	**1,841**	1,712	**+7.5%**
Commissions	**700**	798	**-12.3%**	**700**	798	**-12.3%**
Others	**3,270**	2,837	**+15.3%**	**4,941**	4,222	**+17.0%**
Operating expenses	**93,276**	95,678	**-2.5%**	**90,937**	93,246	**-2.5%**
Net finance charges	**1,301**	1,164	**+11.8%**	**1,125**	1,007	**+11.7%**
Total operating expenses	**94,577**	96,842	**-2.3%**	**92,062**	94,253	**-2.3%**

- The Group's total operating expenses decreased by 2.3% to HK$94,577 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Cathay Dragon decreased from HK$3.14 to HK$3.02.

Total operating expenses



Fuel price and consumption



Cathay Pacific and Cathay Dragon operating results analysis

	2016 HK$M	2015 HK$M
Airlines' (loss)/profit before taxation	**(3,045)**	4,463
Taxation	**(318)**	(891)
Airlines' (loss)/profit after taxation	**(3,363)**	3,572
Share of profits from subsidiaries and associates	**2,788**	2,428
(Loss)/profit attributable to the shareholders of Cathay Pacific	**(575)**	6,000

The changes in the airlines' (loss)/profit before taxation can be analysed as follows:

	HK$M	
2015 airlines' profit before taxation	**4,463**	
Decrease of revenue	**(9,699)**	– Passenger revenue decreased due to a 9.2% decrease in yield and a 1.2% points decrease in load factor, offset in part by a 0.8% increase in passengers carried. – Cargo revenue decreased due to a 16.3% decrease in yield, offset in part by a 0.2% points increase in load factor and a 3.1% increase in cargo and mail tonnage carried.
Decrease/(increase) of costs:		
– Fuel, including hedging losses	**4,924**	– Fuel costs decreased due to a 21.1% decrease in the average into-plane fuel price, offset in part by a 0.8% increase in consumption.
– Aircraft maintenance	**(1,285)**	– Increased mainly due to an increase in operational capacity, higher engine maintenance charge rates, fleet retirement costs and more programmes to improve aircraft availability.
– Depreciation, amortisation and operating leases	**189**	– Decreased mainly due to the retirement of aircraft.
– Staff	**(579)**	– Increased mainly due to increases in headcount and salaries.
– All other operating expenses, including inflight service, landing and parking, commissions, net finance charges and others	**(1,058)**	– Increased mainly due to increased landing and parking rates (from September 2016) and the absence of an exceptional credit in 2015 resulting from the refund of a fine by the European Commission.
2016 airlines' loss before taxation	**(3,045)**	

Fuel expenditure and hedging

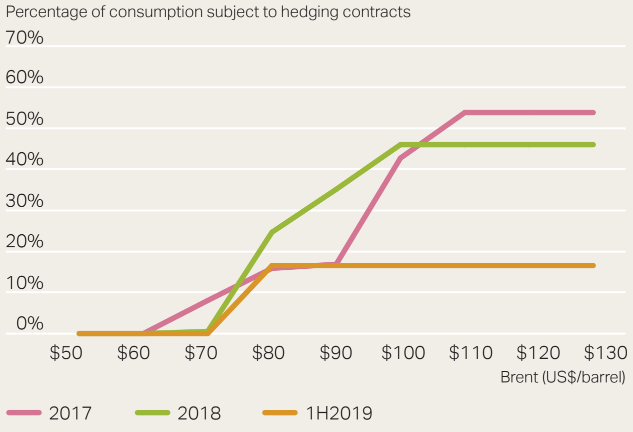
A breakdown of the Group's fuel cost is shown below:

	2016 HK$M	2015 HK$M
Gross fuel cost	**19,497**	24,494
Fuel hedging losses	**8,456**	8,474
Fuel cost	**27,953**	32,968

Fuel consumption in 2016 was 43.9 million barrels (2015: 43.5 million barrels).

- The Group's fuel hedging exposure at 31st December 2016 is set out in the chart below:

Fuel hedging exposure



- The Group's policy is to reduce exposure to fuel price risk by hedging a percentage of its expected fuel consumption. The Group uses fuel derivatives which are economically equivalent to forward contracts to achieve its desired hedging position. The chart above indicates the estimated percentage of projected consumption by year covered by hedging transactions at various Brent strike prices.
- The Group does not speculate on oil prices but uses hedging to manage the risk of increases in oil prices and therefore its fuel costs. Hedging is not risk free and the strategy is to not be 100% hedged. The current hedging position reflects certain assumptions made at the time of hedging. Those assumptions were invalidated by the steep fall in oil prices in 2015 and produced the fuel hedging losses that have been recorded and disclosed. The Group will benefit from lower oil prices on the unhedged share of the fuel requirements but the size of this benefit is not expected to be as large as the benefit to airlines which either do not hedge or hedged less than the Group.

Taxation

- The tax charge decreased by HK$660 million to HK$497 million, principally due to an increase in deferred tax assets as a result of an increase in future tax credits and a decrease in deferred tax charges mainly reflecting a decrease in liability in respect of accelerated depreciation for tax purposes.

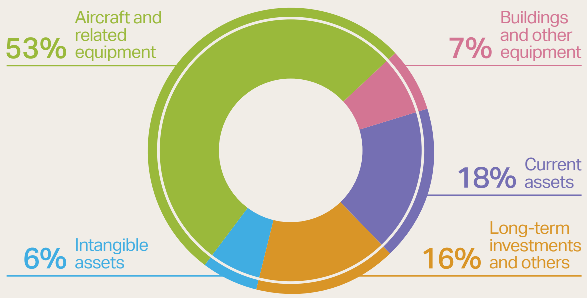
Dividends

- Dividends paid for the year are HK$197 million, representing a negative dividend cover of 2.9 times. No second interim dividend is proposed.
- Dividends per share decreased from HK$0.53 to HK$0.05.

Assets

- Total assets at 31st December 2016 were HK$177,421 million.
- During the year, additions to property, plant and equipment were HK$14,250 million, comprising HK$12,127 million in respect of aircraft and related equipment, HK$1,535 million in respect of buildings and HK$588 million in respect of other equipment.

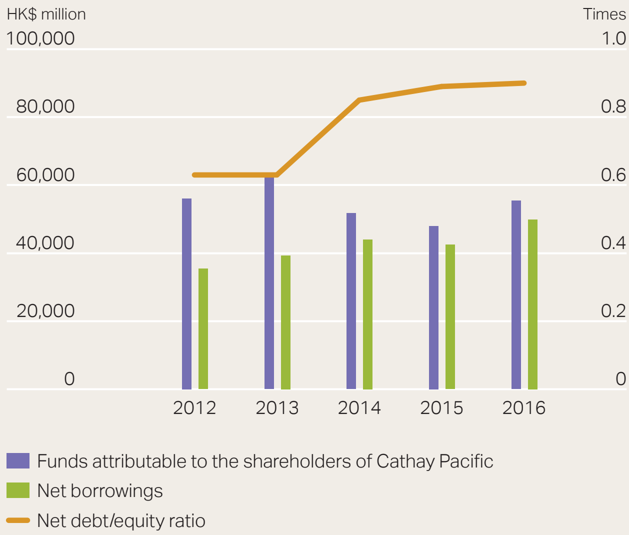
Total assets



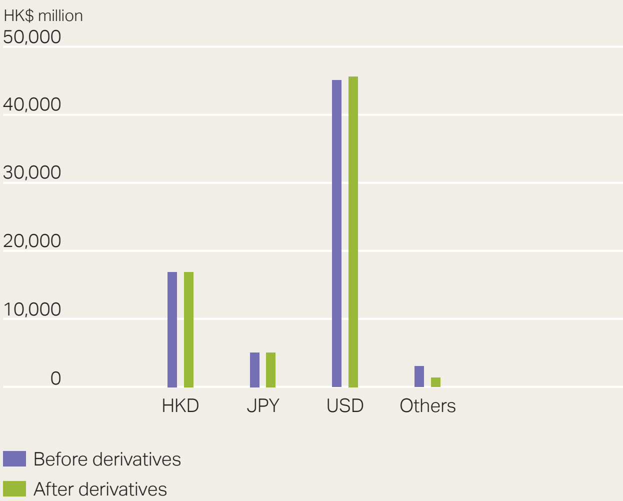
Borrowings and capital

- Borrowings increased by 11.2% to HK$70,169 million at the end of 2016 from HK$63,105 million at the end of 2015.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2027, with 39.3% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 58.1% of which are denominated in United States dollars, decreased by 1.7% to HK$20,290 million.
- Net borrowings (after liquid funds) increased by 17.5% to HK$49,879 million.
- Funds attributable to the shareholders of Cathay Pacific increased by 15.5% to HK$55,365 million. This was in part due to unrealised hedging gains of HK$3,571 million recognised in the cash flow hedge reserve.
- The net debt/equity ratio increased from 0.89 times to 0.90 times.

Net debt and equity

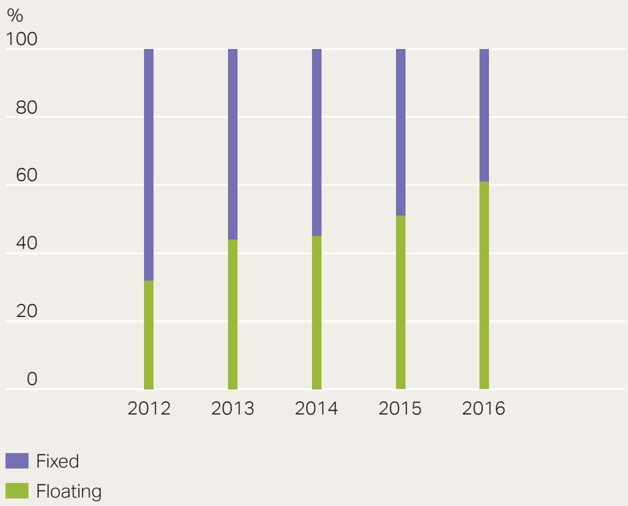


Borrowings before and after derivatives



Others include EUR and SGD.

Interest rate profile: borrowings



Directors and Officers

Executive Directors

SLOSAR, John Robert#, aged 60, 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.

CHU, Kwok Leung Ivan#, aged 55, 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 55, 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 50, 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.

YAU, Ying Wah (Algernon), aged 58, has been a Director of the Company since September 2015. He has been Chief Executive Officer of Hong Kong Dragon Airlines Limited since July 2014. He was previously Chief Executive Officer of Cathay Pacific Services Limited, which operates the Cathay Pacific Cargo Terminal at Hong Kong International Airport. He joined the Company in 1982 and worked in a number of airport-related positions.

Non-Executive Directors

CAI, Jianjiang, aged 53, 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 59, 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.

SONG, Zhiyong, aged 52, has been a Director of the Company since March 2014. He is a Director and President of Air China Limited.

SWIRE, Merlin Bingham#, aged 43, has been a Director of the Company since June 2010. He is also Deputy Chairman and Chief Executive and a 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 37, 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.

XIAO, Feng*, aged 48, has been a Director of the Company since January 2017. He is Chief Financial Officer of Air China Limited.

ZHAO, Xiaohang, aged 55, 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

HARRISON, John Barrie*, aged 60, has been a Director of the Company since May 2015. He is an Independent Non-Executive Director of AIA Group Limited, Hong Kong Exchanges and Clearing Limited, The London Metal Exchange Limited, LME Clear Limited and BW Group Limited and Vice Chairman of BW LPG Limited. He was Chairman and Chief Executive Officer of KPMG, China and Hong Kong and Chairman of KPMG Asia Pacific from 2003 to 2009 and was Deputy Chairman of KPMG International from 2008 until his retirement from KPMG in September 2010.

LEE, Irene Yun Lien+*, aged 63, 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, HSBC Holdings plc, 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.

TUNG, Lieh Cheung Andrew+, aged 52, has been a Director of the Company since May 2015. He is an Executive Director of Orient Overseas (International) Limited and Director and Chief Executive Officer of Orient Overseas Container Line Limited. He is also an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited.

WONG, Tung Shun Peter*, aged 65, 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, a Non-Executive Director of Hang Seng Bank Limited and Vice Chairman of 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, Ka Kui Arnold, aged 47, has been Director Corporate Affairs since July 2016. He joined the Company in 1992.

CHENG, Ting Yat Dane, aged 53, has been Director Sales and Marketing since July 2014. He joined the Company in 1986.

GIBBS, Christopher Patrick, aged 55, has been Engineering Director since January 2007. He joined the Company in 1992.

GINNS, James William#, aged 48, has been Director Service Delivery since August 2014. He joined the Swire group in 1991.

LARGE, Simon Richard St. John#, aged 47, has been Director Cargo since August 2015. He joined the Swire group in 1991.

LOO, Kar Pui Paul, aged 48, has been Director Corporate Development & IT since June 2016. He joined the Company in 1991.

OWEN, Tom William#, aged 48, has been Director People since August 2015. He joined the Swire group in 1995.

THOMPSON, Anna Louise#, aged 48, has been Director Flight Operations since April 2015. She joined the Swire group in 1990.

Company Secretary

FU, Yat Hung David#, aged 53, has been Company Secretary since January 2006. He joined the Swire group in 1988. He is a member of the Takeovers and Mergers Panel and the Takeovers Appeal Committee of the Securities and Futures Commission of Hong Kong. He is also a member of the Standing Committee on Company Law Reform.

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

Directors' Report

We submit our report and the audited financial statements for the year ended 31st December 2016 which are on pages 62 to 109.

Principal activities

Cathay Pacific Airways Limited (the "Company" or "Cathay Pacific") is managed and controlled in Hong Kong. As well as operating scheduled airline services, the Company and its subsidiaries (collectively referred to as 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 103 and 104.

Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries together with the Group's interests in joint ventures and associates. The financial performance of the Group for the year ended 31st December 2016 and the financial position of the Group and the Company at that date are set out in the financial statements on pages 62 to 109. Details of the joint ventures and associates are provided under note 10 to the financial statements.

Dividends

The first interim dividend of HK$0.05 per share was paid on 4th October 2016, representing a distribution of HK$197 million. The Directors decided not to declare a second interim dividend for the year ended 31st December 2016.

Closure of register of members

To facilitate the processing of proxy voting for the annual general meeting to be held on 17th May 2017, the register of members will be closed from 12th May 2017 to 17th May 2017, 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, 11th May 2017.

Business review and performance

A fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of the likely future development of the Group's business (including, in each case to the extent necessary for an understanding of the development, performance or position of the Group's business, key performance indicators) are provided in the sections of this annual report headed Chairman's Letter, 2016 in Review, Review of Operations and Financial Review and in the notes to the financial statements. To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the section of this annual report headed 2016 in Review. To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's compliance with the relevant laws and regulations that have a significant impact on the Group is provided in the sections of this annual report headed 2016 in Review, Corporate Governance Report and Directors' Report.

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 65 and in note 21 to the financial statements, respectively.

Accounting policies

The principal accounting policies are set out on pages 105 to 109.

Environmental, Social and Governance

The Company complied with all the applicable provisions set out in the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules for the year covered by the annual report.

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.

Property, plant and equipment

Movements of property, plant and equipment are shown in note 8 to the financial statements. Details of aircraft acquisitions are set out on page 13.

Bank and other borrowings

The net bank loans and other borrowings, including obligations under finance leases, of the Group are shown in note 12 to the financial statements.

Share capital

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the year and the Group has not adopted any share option scheme.

At 31st December 2016, 3,933,844,572 shares were in issue (31st December 2015: 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 at 31st December 2016 are set out in note 28 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, Ivan Chu, Martin Cubbon, Rupert Hogg, Martin Murray, 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. Ian Shiu was so interested as a director and an employee of the Swire group until his resignation with effect from 1st January 2017.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2016 are set out below and also given in note 27 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 3.5% of the Group's operating expenses in 2016. 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 2016, 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 2017 to 31st December 2019 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 number of issued shares 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, 14th November 2013 and 19th August 2016 were published.

For the year ended 31st December 2016, no service fee was payable by the Company to JSSHK under the JSSHK Services Agreement and expenses of HK$161 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 of 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 2016 and under the HAECO Framework Agreement, the amounts payable by the Group to the HAECO group totalled HK$3,288 million; and the amounts payable by the HAECO group to the Group totalled HK$34 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 2019 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, 26th September 2013 and 30th August 2016 were published.

For the year ended 31st December 2016 and under the Air China Framework Agreement, the amounts payable by the Group to the Air China group totalled HK$346 million; and the amounts payable by the Air China group to the Group totalled HK$269 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 (Revised) "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.

Major customers and suppliers

8% of sales and 26% 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 8% 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 number of issued shares of the Company has an interest in the Group's five largest suppliers.

Directors

Xiao Feng was appointed as a Director with effect from 1st January 2017. All the other present Directors of the Company whose names are listed in the section of this annual report headed Directors and Officers served throughout the year. Fan Cheng and Ian Shiu resigned as Directors with effect from 1st January 2017.

The Company has received from all of its Independent Non-Executive Directors confirmation of their independence pursuant to Listing Rule 3.13 and considers all of them 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 Directors to retire at the third annual general meeting following their election by ordinary resolution. In accordance therewith, John Slosar, Ivan Chu, Rupert Hogg, Song Zhiyong and Merlin Swire retire this year and, being eligible, offer themselves for re-election. Xiao Feng, having been appointed as a Director of the Company under Article 91 since the last annual general meeting, also retires and, being eligible, offers himself 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 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 or re-election. No Director has a service contract with the Company which is not determinable by the employer 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 Group.

Directors' interests

At 31st December 2016, 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 voting shares (%)
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).

Neither during nor prior to the year under review has any right been granted to, or exercised by, any Director of the Company, or to or by the spouse or minor child of any Director, to subscribe for shares, warrants or debentures of the Company.

Other than as stated in this report, no transaction, arrangement or contract of significance to which the Group was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the year.

Directors' interests in competing business

Pursuant to Rule 8.10 of the Listing Rules, John Slosar, Cai Jianjiang, Fan Cheng, Ian Shiu and Song Zhiyong disclosed that they were directors of Air China during the year. Air China competes or is likely to compete, either directly or indirectly, with the businesses of the Company as it operates airline services to certain destinations which are also served by the Company.

Directors of subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31st December 2016 or during the period from 1st January 2017 to the date of this Report are available on the Company's website www.cathaypacific.com.

Permitted indemnity

Subject to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), every Director is entitled under the Company's Articles of Association to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he or she may sustain or incur in or about the execution or discharge of his or her duties and/or the exercise of his or her powers and/or otherwise in relation to or in connection with his or her duties, powers or office. To the extent permitted by such Ordinance, the Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of companies in the Group.

Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 31st December 2016 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

Long position	No. of shares	Percentage of voting shares (%)	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)
5. Kingboard Chemical Holdings Limited	197,026,000	5.01	Attributable interest (d)

Note: At 31st December 2016:

(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 being interested in 55.00% of the equity of Swire Pacific and controlling 63.75% of the voting rights attached to shares in Swire Pacific.

(d) Kingboard Chemical Holdings Limited is deemed to be interested in a total of 197,026,000 shares of the Company, comprising 15,485,000 shares held directly and 181,541,000 shares held by its subsidiaries.

Public float

From information that is publicly available to the Company and within the knowledge of its Directors at the date of this report, at least 25% of the Company's total number of issued shares are 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, 15th March 2017

Heartfelt service

Whether they travel with Cathay Pacific or Cathay Dragon, customers can be assured of receiving the Cathay Pacific Group's signature Service Straight From The Heart.

Corporate Governance Report

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 the Group's risk management and internal control systems
- ensuring the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

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 eleven Non-Executive Directors. Their biographical details are set out in the section of this annual report headed Directors and Officers and are posted on the Company's website.

Ivan Chu, Martin Cubbon, Rupert Hogg, Martin Murray and John Slosar are directors and/or employees of the Swire group. Ian Shiu was a director and an employee of the Swire group. Merlin Swire and Samuel Swire are shareholders, directors and employees of Swire.

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 eleven 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 to management and other 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 section of this annual report headed Directors' Report.

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 in the section of this annual report headed Directors and Officers.

Board Processes

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

The dates of the 2016 Board meetings were determined in 2015 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 2016. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 48. Average attendance at Board meetings was 85%. 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	Finance Committee	Board Safety Review Committee	2016 Annual General Meeting	Type of Training (Note)
Executive Directors							
John Slosar – Chairman	5/5				2/2	√	a
Ivan Chu	5/5			11/11	2/2	√	a
Rupert Hogg	5/5			7/11	2/2	√	a
Martin Murray	5/5			11/11		√	a
Algernon Yau	5/5				2/2	√	a
Non-Executive Directors							
Cai Jianjiang	3/5				0/2	X	a
Martin Cubbon	5/5	3/4		7/11	2/2	√	a
Fan Cheng (resigned on 31st December 2016)	2/5	0/4		0/11	0/2	X	a
Ian Shiu (resigned on 31st December 2016)	5/5				2/2	√	a
Song Zhiyong	0/5				0/2	X	a
Merlin Swire	5/5				2/2	√	a
Samuel Swire	5/5		2/2		2/2	√	a
Xiao Feng (appointed on 1st January 2017)	N/A					N/A	a
Zhao Xiaohang	3/5			0/11	0/2	X	a
Independent Non-Executive Directors							
John Harrison	5/5	4/4			2/2	√	a
Irene Lee	5/5	4/4	2/2		2/2	√	a
Andrew Tung	5/5		2/2		2/2	√	a
Peter Wong	4/5	2/4			0/2	√	a
Average attendance	85%	65%	100%	55%	69%	76%	

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 at 31st December 2016 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 in the section of this annual report headed Directors' Report.

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. Four Executive Directors also attend as observers.

Executive Committee

The Executive Committee is chaired by the Chief Executive and comprises three Executive Directors (Rupert Hogg, Martin Murray and Algernon Yau) and five Non-Executive Directors (Cai Jianjiang, Martin Cubbon, Song Zhiyong, Xiao Feng and Zhao Xiaohang). It is responsible to the Board for overseeing and setting the strategic direction of the Company.

Management Committee

The Management Committee meets monthly 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 (Rupert Hogg, Martin Murray and Algernon Yau) and all eight Executive Officers (Arnold Cheng, Dane Cheng, Christopher Gibbs, James Ginns, Simon Large, Paul Loo, Tom Owen and Anna Thompson).

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 two Executive Directors (Rupert Hogg and Martin Murray), three Non-Executive Directors (Martin Cubbon, Xiao Feng and Zhao Xiaohang), one Executive Officer (Paul Loo), the Manager Financial Services (Alexander Kinloch), 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 25 to the financial statements.

The Remuneration Committee comprises three Non-Executive Directors (Irene Lee, Samuel Swire and Andrew Tung). 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 2016.

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, retirement benefits, leave passage and education allowances and, after three years' service, a bonus related to the overall profit of the Swire Pacific group. 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 October 2016. 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 25 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:

	2016 HK$	2017 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.

Risk Management and Internal Control

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's risk management and internal control systems. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed on pages 52 and 53.

The foundation of strong risk management and internal control systems 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 risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material 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 risk management and internal 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 page 54.

Audit Committee

The Audit Committee, consisting of five Non-Executive Directors (Irene Lee, Martin Cubbon, John Harrison, Peter Wong and Xiao Feng), 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, Irene Lee, is Chairman. Xiao Feng succeeded Fan Cheng as a member of the Audit Committee with effect from 1st January 2017. All the other members served for the whole of 2016.

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 four times in 2016. Regular attendees at the meetings are the Finance Director, the Manager Internal Audit 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 2016 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2015 annual and 2016 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's risk management and internal control systems
- the Group's risk management processes
- the approval of the 2017 annual Internal Audit programme and review of progress on the 2016 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 54
- the Company's compliance with the CG Code
- the Company's fuel hedging policy and foreign currency exchange risk policy.

In 2017, the Committee has reviewed, and recommended to the Board for approval, the 2016 financial statements.

Assessing the Effectiveness of Risk Management and Internal Control Systems

On behalf of the Board, the Audit Committee reviews annually the continued effectiveness of the Group's risk management and internal control systems 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 ongoing monitoring of risks and of the risk management and internal control systems, the work and effectiveness 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 condition
- 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, and management has also confirmed to the Board, that the Group's risk management and internal control systems are effective and adequate and have complied with the CG Code provisions on risk management and 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 non-routine expenditure. It is chaired by one Executive Director (Rupert Hogg) and includes one other Executive Director (Martin Murray) and two Executive Officers (Paul Loo and Tom Owen).

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 assists the Audit Committee in carrying out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. 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 Manager Internal Audit 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 and recommendations aimed at resolving material internal control defects is reported quarterly to the Board and reviewed by the Audit Committee. As a key criterion of assessing the adequacy and effectiveness of the Group's risk management and internal control systems, 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 2016 the total remuneration paid to the external auditors was HK$22 million, being HK$15 million for audit, HK$6 million for tax advice and HK$1 million for other professional services.

Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is required to disclose inside information as soon as reasonably practicable in accordance with the Securities and Futures Ordinance and the Listing Rules
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission
- has included in its Corporate Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information
- ensures, through its own internal reporting processes and the consideration of their outcome by senior management, the appropriate handling and dissemination of inside information.

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 eight Safety Action Groups, relating to Flight Operations, Engineering, Cabin, Operational Ramp, Security, Fatigue, Flight Data and Occupational Health & Safety. It is chaired by the General Manager Group Safety & Security and comprises directors, general managers and senior management of all operational departments. Dr. David King, Chairman of the Board Safety Review Committee also attends Airline Safety Review Committee meetings four times per year.

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 methods used to communicate with shareholders include the following:

- 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 section of this annual report headed Corporate and Shareholder Information.

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 11th May 2016. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 48.

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 2015
- 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 2017 are set out in the section of this annual report headed Corporate and Shareholder Information.

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

Independent Auditor's Report

KPMG

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Cathay Pacific Airways Limited and its subsidiaries (together "the Group") set out on pages 62 to 109, which comprise the consolidated statement of financial position as at 31st December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Refer to accounting policy 16 and note 1 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
Passenger and cargo sales are recognised as revenue when the related transportation service is provided. The value of the sales for which the related transportation service has not yet been provided at the end of the reporting period is recorded as unearned transportation revenue in the consolidated statement of financial position. The fair value of programme awards under the Group's customer loyalty programme, Asia Miles, is also deferred and included in unearned transportation revenue. This deferred revenue arises as members of the programme accumulate Asia Miles by travelling on the Group's flights or when the Group sells Asia Miles to participating partners in the programme. The deferred revenue is recognised as income when the related goods or services are provided subsequent to the redemption of the Asia Miles. Management estimates the unit fair value of Asia Miles. The Group maintains sophisticated information technology ("IT") systems in order to track the point of service provision for each sale and also to track the issuance and subsequent redemption and utilisation of Asia Miles. We identified revenue recognition as a key audit matter because revenue is one of the Group's key performance indicators and it involves complicated IT systems and an estimation of fair value, all of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations.	Our audit procedures to assess revenue recognition included the following: • assessing the design, implementation and operating effectiveness of management's general IT controls and key application controls over the Group's IT systems which govern revenue recognition, including access controls, controls over program changes, interfaces between different systems and key manual internal controls over revenue recognition; • performing analytical procedures on passenger and cargo revenue and unearned transportation revenue by developing an expectation for each type of revenue using independent inputs and information generated from the Group's IT systems and comparing such expectations with recorded revenue; • inspecting underlying documentation for any journal entries which were considered to be material or met other specified risk-based criteria; • assessing management's estimate of the unit fair value of Asia Miles, with reference to the prices for third party Asia Miles sales and flight redemption values and by discussing alternatives with management and assessing whether or not there was an indication of management bias; • inspecting the key terms and conditions of contracts with major partners of the Asia Miles program to assess if there were any terms and conditions that may have affected the accounting treatment of the related Asia Miles.

Hedge accounting

Refer to accounting policy 10 and notes 11, 13, 16, 19 and 29 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The Group enters into derivative financial instrument contracts in order to manage its exposure to fuel price risk, foreign currency risk and interest rate risk, which arise during the normal course of its business. These contracts gave rise to derivative financial assets of HK$2,176 million and derivative financial liabilities of HK$9,849 million as at 31st December 2016. Hedge accounting under HKFRSs is applied for a majority of these arrangements. We identified hedge accounting (including the valuation of hedging instruments) as a key audit matter because hedge accounting can be complex and the Group has entered into a large number of hedging contracts, necessitating a sophisticated system to record and track each contract and calculate the related valuations at each financial reporting date and because the valuation of hedging instruments and consideration of hedge effectiveness can involve a significant degree of both complexity and management judgement and is subject to an inherent risk of error.	Our audit procedures to assess hedge accounting included the following: • assessing the design, implementation and operating effectiveness of management's key internal controls over derivative financial instruments and the related hedge accounting; • requesting written confirmations from contract counterparties for derivative financial instruments that existed at the reporting date on a sample basis; • inspecting management's hedge documentation and contracts, on a sample basis, for the purposes of considering whether the related accounting treatment was in accordance with the requirements of the prevailing accounting standards; • re-performing calculations of hedge effectiveness on a sample basis; • engaging our financial instruments valuation specialists to re-perform year end valuations of derivative financial instruments on a sample basis and compare these valuations with those recorded by the Group.

Assessment of provisions for taxation, litigation and claims

Refer to accounting policy 20 and notes 4, 19 and 28 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The Group operates in various jurisdictions and, during the normal course of its business, has received queries from and has disputes with various taxation authorities. The Group is also the subject of legal actions in respect of antitrust proceedings in certain jurisdictions as outlined in note 28(e) to the consolidated financial statements. Provisions are made for possible or actual taxation, litigation and claims. The amount recorded at 31st December 2016, which represented management's best estimates of the amounts likely to be required to settle these matters, totalled HK$1,126 million and is included within the balance of other payables classified as current liabilities in note 19 to the consolidated financial statements. We identified the assessment of provisions for taxation, litigation and claims as a key audit matter because the estimates on which these provisions are based involve a significant degree of management judgement in interpreting the various relevant rules, regulations and practices and in considering precedents in the various jurisdiction and because determining the level of provisions may be subject to a degree of management bias.	Our audit procedures to assess the provisions for taxation, litigation and claims included the following: • engaging our internal tax specialists in Hong Kong and the relevant overseas jurisdictions to assess the Group's provisions for potential exposure to each material tax dispute by discussing with management to understand the dispute and reviewing correspondence with the relevant tax authorities to understand the relevant associated risks; • discussing the status and potential exposures in respect of significant litigation and claims with the Group's internal legal counsel and obtaining letters regarding the progress of litigation and claims from the Group's external legal counsel, including their views on the likely outcome of each litigation or claim and the magnitude of potential exposure; • challenging the assumptions and critical judgements made by management which impacted their estimations of the provisions required, considering judgements previously made by the taxation authorities in the relevant jurisdictions and any relevant opinions given by third party advisors and assessing whether there was an indication of management bias; • performing a retrospective review of provisions for taxation, litigation and claims to evaluate whether the judgement and decisions made by management in estimating provisions in the prior year indicated possible management bias.

Assessing the carrying value of aircraft and related equipment

Refer to accounting policy 5 and note 8 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The carrying value of the Group's aircraft and related equipment as at 31st December 2016 was HK$93,987 million and the related depreciation charge for the year ended 31st December 2016 was HK$7,179 million. Estimated useful lives, residual values and the carrying value of aircraft and related equipment are reviewed annually taking into consideration factors such as changes in fleet composition, current and forecast market values and technical factors which may affect the useful life expectancy of the assets and, therefore, could have a material impact on any impairment charges or the depreciation charge for the year. We identified the assessment of the carrying value of aircraft and related equipment as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management in considering the nature, timing and likelihood of changes to the factors noted above, which may affect the carrying value of the Group's aircraft and related equipment, the depreciation charge and any impairment charges for the current and future years.	Our audit procedures to assess the carrying value of aircraft and related equipment included the following: • assessing the estimated useful lives and residual values of aircraft and related equipment with reference to the Group's historical experience and future operating plans including future acquisitions and retirement of aircraft, policies adopted by other comparable airlines and our knowledge of the airline industry; • challenging any changes to the estimated useful lives and residual values of aircraft by considering external information such as third party quotations, recent sales data for similar aircraft or actual sales agreements the Group entered into which might lead to an adjustment to the remaining useful lives or residual values; • discussing indicators of possible impairment of aircraft and related equipment with management of the Group's finance team and engineering team and, where such indications were identified, assessing whether management had performed impairment testing in accordance with the requirements of the prevailing accounting standards; • challenging the assumptions and critical judgements used by management in their impairment assessments by considering aircraft valuation reports published by third party specialists and comparing management's past estimates and plans to the current year's estimates and plans taking into account recent developments in the airline industry and market conditions.

Assessing aircraft maintenance provisions

Refer to accounting policy 6 and notes 13 and 19 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The Group operated 57 aircraft held under external operating leases as at 31st December 2016. Under the terms of the operating lease arrangements, the Group is contractually committed to return the aircraft to the lessors in a certain condition agreed with the lessors at the inception of each lease. Management estimates the maintenance costs and the costs associated with the restitution of life-limited parts at the end of each reporting period and accrues such costs over the lease term. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft, cost of maintenance and the lifespan of the life-limited parts. Maintenance provisions for aircraft maintenance costs totalled HK$2,204 million as at 31st December 2016 and are included within other long-term payables and trade and other payables in the consolidated statement of financial position. We have identified assessing aircraft maintenance provisions as a key audit matter because of the inherent level of complex and subjective management judgements required in assessing the variable factors and assumptions in order to quantify the provision amounts.	Our audit procedures to assess aircraft maintenance provisions included the following: • assessing the design, implementation and operating effectiveness of management's key internal controls over accounting for maintenance provisions for aircraft held under operating leases; • evaluating the provisioning model, methodology and key assumptions adopted by management in estimating the provisions and any changes therein by reviewing the terms of the operating leases and comparing assumptions to contract terms, information from the lessors and the Group's maintenance cost experience; • discussing with managers in the engineering department responsible for aircraft engineering the utilisation pattern and expected useful lives of life-limited parts of the aircraft and considering the consistency of the provisions with the engineering department's assessment of the condition of aircraft; • performing a retrospective review of aircraft maintenance provisions to evaluate whether the judgement and decisions made by management in estimating the provisions in the prior year indicated possible management bias.

Information other than the consolidated financial statements and auditor's report thereon

The Directors are responsible for the other information. The other information comprises all the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Nicholas James Debnam.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
15th March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31st December 2016

	Note	2016 HK$M	2015 HK$M	2016 US$M	2015 US$M
Revenue					
Passenger services		**66,926**	73,047	**8,580**	9,365
Cargo services		**20,063**	23,122	**2,572**	2,964
Catering, recoveries and other services		**5,762**	6,173	**739**	792
Total revenue		**92,751**	102,342	**11,891**	13,121
Expenses					
Staff		**(19,770)**	(18,990)	**(2,534)**	(2,435)
Inflight service and passenger expenses		**(4,734)**	(4,713)	**(607)**	(604)
Landing, parking and route expenses		**(14,985)**	(14,675)	**(1,921)**	(1,882)
Fuel, including hedging losses		**(27,953)**	(32,968)	**(3,584)**	(4,227)
Aircraft maintenance		**(8,856)**	(7,504)	**(1,135)**	(962)
Aircraft depreciation and operating leases		**(10,551)**	(10,883)	**(1,353)**	(1,395)
Other depreciation, amortisation and operating leases		**(2,457)**	(2,310)	**(315)**	(296)
Commissions		**(700)**	(798)	**(90)**	(102)
Others		**(3,270)**	(2,837)	**(419)**	(364)
Operating expenses		**(93,276)**	(95,678)	**(11,958)**	(12,267)
Operating (loss)/profit	*2*	**(525)**	6,664	**(67)**	854
Finance charges		**(1,561)**	(1,380)	**(200)**	(177)
Finance income		**260**	216	**33**	28
Net finance charges	*3*	**(1,301)**	(1,164)	**(167)**	(149)
Share of profits of associates		**2,049**	1,965	**263**	252
Profit before taxation		**223**	7,465	**29**	957
Taxation	*4*	**(497)**	(1,157)	**(64)**	(148)
(Loss)/profit for the year		**(274)**	6,308	**(35)**	809
Non-controlling interests		**(301)**	(308)	**(39)**	(40)
(Loss)/profit attributable to the shareholders of Cathay Pacific		**(575)**	6,000	**(74)**	769
(Loss)/profit for the year		**(274)**	6,308	**(35)**	809
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Defined benefit plans		**606**	(210)	**78**	(27)
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**9,690**	(5,417)	**1,242**	(694)
Revaluation of available-for-sale financial assets		**178**	(321)	**23**	(41)
Share of other comprehensive income of associates		**334**	(741)	**43**	(95)
Exchange differences on translation of foreign operations		**(1,536)**	(1,060)	**(197)**	(136)
Other comprehensive income for the year, net of taxation	*5*	**9,272**	(7,749)	**1,189**	(993)
Total comprehensive income for the year		**8,998**	(1,441)	**1,154**	(184)
Total comprehensive income attributable to					
Shareholders of Cathay Pacific		**8,697**	(1,749)	**1,115**	(224)
Non-controlling interests		**301**	308	**39**	40
		8,998	(1,441)	**1,154**	(184)
(Loss)/earnings per share (basic and diluted)	*6*	**(14.6)¢**	152.5¢	**(1.9)¢**	19.6¢

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 66 to 104 and the principal accounting policies on pages 105 to 109 form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2016

	Note	2016 HK$M	2015 HK$M	2016 US$M	2015 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment	*8*	**106,456**	100,552	**13,648**	12,891
Intangible assets	*9*	**10,934**	10,606	**1,402**	1,360
Investments in associates	*10*	**23,298**	22,878	**2,987**	2,933
Other long-term receivables and investments	*11*	**4,604**	5,069	**590**	650
Deferred tax assets	*15*	**737**	497	**94**	64
		146,029	139,602	**18,721**	17,898
Long-term liabilities	*12*	**(58,906)**	(49,867)	**(7,552)**	(6,393)
Other long-term payables	*13*	**(7,517)**	(15,838)	**(964)**	(2,031)
Deferred tax liabilities	*15*	**(11,380)**	(9,278)	**(1,458)**	(1,190)
		(77,803)	(74,983)	**(9,974)**	(9,614)
Net non-current assets		**68,226**	64,619	**8,747**	8,284
Current assets and liabilities					
Stock		**1,514**	1,366	**194**	175
Trade, other receivables and other assets	*16*	**9,557**	9,715	**1,225**	1,246
Assets held for sale	*17*	**31**	1,497	**4**	192
Liquid funds	*18*	**20,290**	20,647	**2,602**	2,647
		31,392	33,225	**4,025**	4,260
Current portion of long-term liabilities		**(11,263)**	(13,782)	**(1,444)**	(1,767)
Related pledged security deposits		**–**	544	**–**	70
Net current portion of long-term liabilities	*12*	**(11,263)**	(13,238)	**(1,444)**	(1,697)
Trade and other payables	*19*	**(19,104)**	(23,025)	**(2,449)**	(2,952)
Unearned transportation revenue		**(12,926)**	(13,012)	**(1,657)**	(1,668)
Taxation		**(707)**	(502)	**(91)**	(65)
Dividend payable to non-controlling interests		**(92)**	–	**(12)**	–
		(44,092)	(49,777)	**(5,653)**	(6,382)
Net current liabilities		**(12,700)**	(16,552)	**(1,628)**	(2,122)
Total assets less current liabilities		**133,329**	123,050	**17,093**	15,776
Net assets		**55,526**	48,067	**7,119**	6,162
CAPITAL AND RESERVES					
Share capital and other statutory capital reserves	*20*	**17,106**	17,106	**2,193**	2,193
Other reserves	*21*	**38,259**	30,821	**4,905**	3,951
Funds attributable to the shareholders of Cathay Pacific		**55,365**	47,927	**7,098**	6,144
Non-controlling interests		**161**	140	**21**	18
Total equity		**55,526**	48,067	**7,119**	6,162

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 66 to 104 and the principal accounting policies on pages 105 to 109 form part of these financial statements.

John Slosar
Director

Irene Lee
Director

Hong Kong, 15th March 2017

Consolidated Statement of Cash Flows

for the year ended 31st December 2016

	Note	2016 HK$M	2015 HK$M	2016 US$M	2015 US$M
Operating activities					
Cash generated from operations	*22*	**7,701**	17,137	**987**	2,197
Interest received		**189**	152	**24**	20
Net interest paid		**(1,032)**	(825)	**(132)**	(106)
Tax paid		**(750)**	(469)	**(96)**	(60)
Net cash inflow from operating activities		**6,108**	15,995	**783**	2,051
Investing activities					
Net decrease/(increase) in liquid funds other than cash and cash equivalents		**3,013**	(2,521)	**386**	(323)
Proceeds from scrap/sales of property, plant and equipment		**23**	515	**3**	66
Proceeds from sales of assets held for sale		**1,769**	192	**227**	24
Disposal of a subsidiary	*23*	**–**	83	**–**	11
Proceeds from disposal of long-term investment		**62**	–	**8**	–
Net (increase)/decrease in other long-term receivables and investments		**(105)**	54	**(14)**	7
Payments for property, plant and equipment and intangible assets		**(14,886)**	(13,179)	**(1,908)**	(1,690)
Dividends received from associates		**422**	280	**54**	36
Repayments of loans to associates		**19**	–	**2**	–
Loans to associates		**(12)**	(77)	**(1)**	(10)
Net cash outflow from investing activities		**(9,695)**	(14,653)	**(1,243)**	(1,879)
Financing activities					
New financing		**20,146**	8,268	**2,582**	1,060
Net cash benefit from financing arrangements		**894**	–	**115**	–
Loan and finance lease repayments		**(13,346)**	(10,050)	**(1,711)**	(1,289)
Security deposits placed		**(23)**	(44)	**(3)**	(6)
Dividends paid – to the shareholders of Cathay Pacific		**(1,259)**	(2,046)	**(161)**	(262)
– to non-controlling interests		**(188)**	(283)	**(24)**	(36)
Net cash inflow/(outflow) from financing activities		**6,224**	(4,155)	**798**	(533)
Increase/(decrease) in cash and cash equivalents		**2,637**	(2,813)	**338**	(361)
Cash and cash equivalents at 1st January		**7,207**	10,211	**924**	1,309
Effect of exchange differences		**(66)**	(191)	**(8)**	(24)
Cash and cash equivalents at 31st December	*24*	**9,778**	7,207	**1,254**	924

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 66 to 104 and the principal accounting policies on pages 105 to 109 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2016

	Attributable to the shareholders of Cathay Pacific							
	Share capital HK$M	Retained profit HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Others HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
At 1st January 2016	**17,106**	**45,900**	**730**	**(15,545)**	**(264)**	**47,927**	**140**	**48,067**
(Loss)/profit for the year	**–**	**(575)**	**–**	**–**	**–**	**(575)**	**301**	**(274)**
Other comprehensive income	**–**	**606**	**178**	**9,690**	**(1,202)**	**9,272**	**–**	**9,272**
Total comprehensive income for the year	**–**	**31**	**178**	**9,690**	**(1,202)**	**8,697**	**301**	**8,998**
2015 second interim dividend	**–**	**(1,062)**	**–**	**–**	**–**	**(1,062)**	**–**	**(1,062)**
2016 first interim dividend	**–**	**(197)**	**–**	**–**	**–**	**(197)**	**–**	**(197)**
Dividends paid/payable to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(280)**	**(280)**
	–	**(1,228)**	**178**	**9,690**	**(1,202)**	**7,438**	**21**	**7,459**
At 31st December 2016	**17,106**	**44,672**	**908**	**(5,855)**	**(1,466)**	**55,365**	**161**	**55,526**
At 1st January 2015	17,106	42,156	1,051	(10,128)	1,537	51,722	131	51,853
Profit for the year	–	6,000	–	–	–	6,000	308	6,308
Other comprehensive income	–	(210)	(321)	(5,417)	(1,801)	(7,749)	–	(7,749)
Total comprehensive income for the year	–	5,790	(321)	(5,417)	(1,801)	(1,749)	308	(1,441)
2014 second interim dividend	–	(1,023)	–	–	–	(1,023)	–	(1,023)
2015 first interim dividend	–	(1,023)	–	–	–	(1,023)	–	(1,023)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(283)	(283)
Disposal of a subsidiary (note 23)	–	–	–	–	–	–	(16)	(16)
	–	3,744	(321)	(5,417)	(1,801)	(3,795)	9	(3,786)
At 31st December 2015	17,106	45,900	730	(15,545)	(264)	47,927	140	48,067

The notes on pages 66 to 104 and the principal accounting policies on pages 105 to 109 form part of these financial statements.

1. Segment information

(a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M
Profit or loss								
Sales to external customers	**91,478**	101,199	**1,273**	1,143			**92,751**	102,342
Inter-segment sales	**9**	8	**3,598**	3,478			**3,607**	3,486
Segment revenue	**91,487**	101,207	**4,871**	4,621			**96,358**	105,828
Segment (loss)/profit	**(986)**	6,402	**461**	262			**(525)**	6,664
Net finance charges	**(1,160)**	(1,040)	**(141)**	(124)			**(1,301)**	(1,164)
	(2,146)	5,362	**320**	138			**(1,826)**	5,500
Share of profits of associates					**2,049**	1,965	**2,049**	1,965
Profit before taxation							**223**	7,465
Taxation	**(464)**	(1,037)	**(33)**	(120)			**(497)**	(1,157)
(Loss)/profit for the year							**(274)**	6,308
Other segment information								
Depreciation and amortisation	**8,101**	8,408	**449**	451			**8,550**	8,859
Purchase of property, plant and equipment and intangible assets	**13,805**	11,888	**1,330**	1,291			**15,135**	13,179

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.

1. Segment information *(continued)*

(b) Geographical information

	2016 HK$M	2015 HK$M
Revenue by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**46,957**	51,443
– Japan, Korea and Taiwan	**8,766**	9,445
India, Middle East and Sri Lanka	**3,693**	4,442
Southwest Pacific and South Africa	**5,607**	6,456
Southeast Asia	**7,669**	8,611
Europe	**8,031**	8,485
North America	**12,028**	13,460
	92,751	102,342

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.

2. Operating (loss)/profit

	2016 HK$M	2015 HK$M
Operating (loss)/profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
– leased	**2,003**	2,234
– owned	**6,032**	6,153
Amortisation of intangible assets	**515**	472
Operating lease rentals		
– land and buildings	**1,022**	969
– aircraft and related equipment	**3,372**	3,318
– others	**64**	47
Provision for impairment of assets held for sale	**24**	4
Gain on disposal of assets held for sale	**(232)**	(4)
Loss/(gain) on disposal of property, plant and equipment, net	**272**	(49)
Loss on disposal of intangible assets	**42**	–
Gain on disposal of long-term investment	**(3)**	–
Gain on disposal of a subsidiary	**–**	(106)
Cost of stock expensed	**2,181**	2,002
Exchange differences, net	**306**	320
Auditors' remuneration	**15**	14
Net losses on financial assets and liabilities classified as held for trading	**36**	192
Dividend income from unlisted investments	**(17)**	(484)
Dividend income from listed investments	**(6)**	(5)

3. Net finance charges

	2016 HK$M	2015 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**475**	457
– interest income on related security deposits, notes and zero coupon bonds	**(2)**	(18)
	473	439
– bank loans and overdrafts		
– wholly repayable within five years	**235**	127
– not wholly repayable within five years	**439**	358
– other loans		
– wholly repayable within five years	**101**	101
– not wholly repayable within five years	**16**	16
– other long-term receivables	**(19)**	(22)
	1,245	1,019
Income from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	**(83)**	(41)
– bank deposits and others	**(155)**	(128)
	(238)	(169)
Fair value change:		
– gain on obligations under finance leases designated as at fair value through profit or loss	**(18)**	(157)
– loss on financial derivatives	**312**	471
	294	314
	1,301	1,164

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

Included in the fair value change in respect of financial derivatives are net losses from derivatives that are classified as held for trading of HK$36 million (2015: net losses of HK$192 million).

4. Taxation

	2016 HK$M	2015 HK$M
Current tax expenses		
– Hong Kong profits tax	**165**	170
– overseas tax	**195**	197
– under provisions for prior years	**272**	63
Deferred tax (credit)/charge		
– origination and reversal of temporary differences (note 15)	**(135)**	727
	497	1,157

4. Taxation *(continued)*

Hong Kong profits tax is calculated at 16.5% (2015: 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 28(d) to the financial statements).

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

	2016 HK$M	2015 HK$M
Consolidated profit before taxation	**223**	7,465
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2015: 16.5%)	**(37)**	(1,232)
Expenses not deductible for tax purposes	**(198)**	(364)
Tax under provisions arising from prior years	**(272)**	(63)
Effect of different tax rates in other countries	**699**	282
Recognition of (tax losses not recognised)/tax losses previously not recognised	**(780)**	49
Income not subject to tax	**91**	171
Tax charge	**(497)**	(1,157)

Further information on deferred taxation is shown in note 15 to the financial statements.

5. Other comprehensive income

	2016 HK$M	2015 HK$M
Defined benefit plans		
– remeasurements gain/(loss) recognised during the year	**687**	(243)
– deferred taxation (note 15)	**(81)**	33
Cash flow hedges		
– gain/(loss) recognised during the year	**3,571**	(13,780)
– loss transferred to profit or loss (note 21)	**7,404**	7,473
– deferred taxation (note 15)	**(1,285)**	890
Revaluation of available-for-sale financial assets		
– gain recognised during the year	**178**	161
– reclassified to profit or loss	**–**	(482)
Share of other comprehensive income of associates	**334**	(741)
Exchange differences on translation of foreign operations		
– loss recognised during the year	**(1,536)**	(1,075)
– reclassified to profit or loss	**–**	15
Other comprehensive income for the year	**9,272**	(7,749)

6. (Loss)/earnings per share (basic and diluted)

Loss per share is calculated by dividing the loss attributable to the shareholders of Cathay Pacific of HK$575 million (2015: a profit of HK$6,000 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2015: 3,934 million) shares.

7. Dividends

	2016 HK$M	2015 HK$M
First interim dividend paid on 4th October 2016 of HK$0.05 per share (2015: first interim dividend of HK$0.26 per share)	**197**	1,023
No second interim dividend proposed (2015: second interim dividend of HK$0.27 per share)	**–**	1,062
	197	2,085

8. Property, plant and equipment

	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 2016	**93,177**	**45,998**	**4,125**	**478**	**12,123**	**1,456**	**157,357**
Additions	**9,446**	**2,681**	**588**	**–**	**499**	**1,036**	**14,250**
Disposals	**(2,567)**	**–**	**(414)**	**–**	**(181)**	**–**	**(3,162)**
Reclassification to assets held for sale	**(2,984)**	**–**	**–**	**–**	**–**	**–**	**(2,984)**
Transfers	**3,526**	**(3,526)**	**478**	**(478)**	**61**	**(61)**	**–**
At 31st December 2016	**100,598**	**45,153**	**4,777**	**–**	**12,502**	**2,431**	**165,461**
At 1st January 2015	88,290	51,897	4,082	478	11,747	460	156,954
Exchange differences	(1)	–	–	–	–	–	(1)
Additions	10,489	–	527	–	407	996	12,419
Disposals	(5,126)	–	(250)	–	–	–	(5,376)
Disposal of a subsidiary	–	–	(36)	–	–	–	(36)
Reclassification to assets held for sale	(6,374)	–	(198)	–	(31)	–	(6,603)
Transfers	5,899	(5,899)	–	–	–	–	–
At 31st December 2015	93,177	45,998	4,125	478	12,123	1,456	157,357
Accumulated depreciation and impairment							
At 1st January 2016	**38,124**	**11,752**	**2,523**	**420**	**3,986**	**–**	**56,805**
Charge for the year	**5,176**	**2,003**	**319**	**–**	**537**	**–**	**8,035**
Disposals	**(2,338)**	**–**	**(381)**	**–**	**(163)**	**–**	**(2,882)**
Reclassification to assets held for sale	**(2,953)**	**–**	**–**	**–**	**–**	**–**	**(2,953)**
Transfers	**2,566**	**(2,566)**	**420**	**(420)**	**–**	**–**	**–**
At 31st December 2016	**40,575**	**11,189**	**2,881**	**–**	**4,360**	**–**	**59,005**
At 1st January 2015	38,417	13,505	2,638	412	3,511	–	58,483
Charge for the year	5,339	2,226	312	8	502	–	8,387
Disposals	(4,710)	–	(237)	–	–	–	(4,947)
Disposal of a subsidiary	–	–	(31)	–	–	–	(31)
Reclassification to assets held for sale	(4,901)	–	(159)	–	(27)	–	(5,087)
Transfers	3,979	(3,979)	–	–	–	–	–
At 31st December 2015	38,124	11,752	2,523	420	3,986	–	56,805
Net book value							
At 31st December 2016	**60,023**	**33,964**	**1,896**	**–**	**8,142**	**2,431**	**106,456**
At 31st December 2015	55,053	34,246	1,602	58	8,137	1,456	100,552

8. Property, plant and equipment *(continued)*

(a) Finance leased assets

Certain aircraft are subject to leases with purchase options to be exercised at the end of the respective leases. The remaining lease terms range from 1 to 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.

(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 2016, 13 Airbus A330-300s (2015: 13), one Boeing 747-400BCF (2015: one), 23 Boeing 777-300ERs (2015: 23), 10 Airbus A320-200s (2015: 10), six Airbus A321-200s (2015: six), two Airbus A350-900s (2015: nil) and two A300-600Fs (2015: two) 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$18,665 million (2015: HK$18,831 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 at 31st December 2016 for each of the following periods are as follows:

	2016 HK$M	2015 HK$M
Aircraft and related equipment:		
– within one year	**3,639**	3,673
– after one year but within two years	**3,242**	3,581
– after two years but within five years	**7,939**	8,308
– after five years	**5,655**	7,786
	20,475	23,348
Buildings and other equipment:		
– within one year	**795**	769
– after one year but within two years	**640**	600
– after two years but within five years	**644**	922
– after five years	**465**	410
	2,544	2,701
	23,019	26,049

(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$3,560 million (2015: HK$3,697 million) for the Group. 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 12 to the financial statements.

8. Property, plant and equipment *(continued)*

(e) No impairment loss was recognised for the year ended 31st December 2016 (2015: nil). 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 is categorised as a Level 2 measurement.

9. Intangible assets

	Goodwill HK$M	Computer software HK$M	Others HK$M	Total HK$M
Cost				
At 1st January 2016	**7,666**	**4,498**	**253**	**12,417**
Additions	**–**	**885**	**–**	**885**
Disposals	**–**	**(79)**	**–**	**(79)**
At 31st December 2016	**7,666**	**5,304**	**253**	**13,223**
At 1st January 2015	7,666	3,738	253	11,657
Additions	–	760	–	760
At 31st December 2015	7,666	4,498	253	12,417
Accumulated amortisation				
At 1st January 2016	**–**	**1,806**	**5**	**1,811**
Charge for the year	**–**	**511**	**4**	**515**
Disposals	**–**	**(37)**	**–**	**(37)**
At 31st December 2016	**–**	**2,280**	**9**	**2,289**
At 1st January 2015	–	1,338	1	1,339
Charge for the year	–	468	4	472
At 31st December 2015	–	1,806	5	1,811
Net book value				
At 31st December 2016	**7,666**	**3,024**	**244**	**10,934**
At 31st December 2015	7,666	2,692	248	10,606

The carrying amount of goodwill allocated to the airline operations is HK$7,627 million (2015: 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% (2015: 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 7.9% (2015: 8.0%) are pre-tax and reflect the specific risks 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.

10. Investments in associates

	2016 HK$M	2015 HK$M
Share of net assets		
– listed in Hong Kong	**16,141**	15,282
– unlisted	**2,139**	2,241
Goodwill	**3,629**	3,882
	21,909	21,405
Loans due from associates	**1,389**	1,473
	23,298	22,878

At 31st December 2016, the market value of the Hong Kong listed shares is HK$13,037 million (2015: HK$16,092 million).

At 31st December 2016, included in the loans due from associates is a loan of HK$1,094 million (2015: HK$1,170 million) which is unsecured and interest-free (2015: interest-bearing at 2.0% per annum) 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:

	2016 HK$M	2015 HK$M
Gross amounts of the associate's		
– current assets	**23,869**	25,706
– non-current assets	**231,516**	237,315
– current liabilities	**(75,267)**	(66,060)
– non-current liabilities	**(97,149)**	(116,086)
Revenue	**119,795**	130,432
Profit from continuing operations	**9,402**	8,909
Other comprehensive income	**(689)**	(1,594)
Total comprehensive income	**8,713**	7,315
Dividend received from the associate	**334**	175
Reconciled to the Group's interests in the associate		
– gross amounts of net assets of the associate	**82,969**	80,875
– Group's share of net assets of the associate at effective interest (2016: 20.13%; 2015: 20.13%)	**16,702**	16,280
– effect of cross shareholding and others	**(561)**	(998)
– goodwill	**3,629**	3,882
	19,770	19,164

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.

10. Investments in associates *(continued)*

Aggregate information of associates that are not individually material

	2016 HK$M	2015 HK$M
Aggregate carrying amount of individually immaterial associates	**3,528**	3,714
Aggregate amounts of the Group's share of those associates		
– profit from continuing operations	**105**	139
– other comprehensive income	**(196)**	(164)
– total comprehensive income	**(91)**	(25)

Principal associates are listed on page 104.

11. Other long-term receivables and investments

	2016 HK$M	2015 HK$M
Equity investments at fair value		
– listed in Hong Kong	**553**	433
– unlisted	**631**	584
Leasehold land rental prepayments	**1,258**	1,301
Loans and other receivables	**843**	1,118
Derivative financial assets – long-term portion	**1,319**	1,633
	4,604	5,069

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK$1,301 million (2015: HK$1,344 million).

At 31st December 2016, total derivative financial assets of the Group which did not qualify for hedge accounting amounted to HK$1,160 million (2015: HK$1,222 million). The balance is included in above, except for HK$5 million (2015: HK$33 million) which is included in trade, other receivables and other assets.

12. Long-term liabilities

		2016		2015	
	Note	**Current HK$M**	**Non-current HK$M**	Current HK$M	Non-current HK$M
Long-term loans	*(a)*	**7,217**	**36,125**	9,164	26,438
Obligations under finance leases	*(b)*	**4,046**	**22,781**	4,074	23,429
		11,263	**58,906**	13,238	49,867

(a) Long-term loans

	2016 HK$M	2015 HK$M
Bank loans		
– secured	**25,227**	22,213
– unsecured	**13,094**	9,780
Other loans		
– unsecured	**5,021**	3,609
	43,342	35,602
Amount due within one year included under current liabilities	**(7,217)**	(9,164)
	36,125	26,438
Repayable as follows:		
Bank loans		
– within one year	**5,378**	8,833
– after one year but within two years	**3,116**	4,616
– after two years but within five years	**19,831**	9,060
– after five years	**9,996**	9,484
	38,321	31,993
Other loans		
– within one year	**1,839**	331
– after one year but within two years	**866**	1,870
– after two years but within five years	**1,802**	894
– after five years	**514**	514
	5,021	3,609
Amount due within one year included under current liabilities	**(7,217)**	(9,164)
	36,125	26,438

Borrowings other than bank loans are repayable on various dates up to 2022 at an interest rate of 3.4% per annum while bank loans are repayable up to 2027.

Long-term loans of the Group not wholly repayable within five years amounted to HK$24,211 million (2015: HK$21,615 million).

At 31st December 2016, the Group had long-term loans totalling HK$35,765 million (2015: HK$33,703 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.

12. Long-term liabilities *(continued)*

(b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2017 to 2027. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	2016 HK$M	2015 HK$M
Future payments	**29,668**	30,898
Interest charges relating to future periods	**(2,841)**	(2,851)
Present value of future payments	**26,827**	28,047
Security deposits, notes and zero coupon bonds	**–**	(544)
Amounts due within one year included under current liabilities	**(4,046)**	(4,074)
	22,781	23,429

The present value of future payments is repayable as follows:

	2016 HK$M	2015 HK$M
Within one year	**4,046**	4,618
After one year but within two years	**3,922**	3,845
After two years but within five years	**9,143**	9,707
After five years	**9,716**	9,877
	26,827	28,047

The future lease payment profile is disclosed in note 29 to the financial statements.

At 31st December 2016, the Group had nil (2015: HK$215 million) obligations under finance leases 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.

At 31st December 2016, the Group had financial liabilities designated as at fair value through profit or loss of HK$2,227 million (2015: HK$2,593 million).

13. Other long-term payables

	2016 HK$M	2015 HK$M
Deferred liabilities	**2,805**	2,390
Derivative financial liabilities – long-term portion	**4,169**	12,415
Retirement benefit liabilities (note 14)	**543**	1,033
	7,517	15,838

At 31st December 2016, the Group had a maintenance provision of HK$2,204 million (2015: HK$1,561 million) for returning the aircraft under operating leases to certain maintenance conditions. The provision is included in above, except for HK$3 million (2015: HK$3 million) which is included in trade and other payables.

At 31st December 2016, total derivative financial liabilities of the Group which did not qualify for hedge accounting amounted to HK$32 million (2015: HK$175 million). The balance is included in above, except for HK$2 million (2015: HK$147 million) which is included in trade and other payables.

14. 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") and Vogue Laundry Service Limited ("Vogue") 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 and Vogue meet the full cost of all benefits due by SGRBS to their employee members, who are not required to contribute to the scheme.

Staff employed by the Company in Hong Kong on expatriate terms before April 1993 were eligible to join another scheme, the Cathay Pacific Airways Limited Retirement Scheme ("CPALRS"). Both members and the Company contribute to CPALRS.

The 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 2016, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2015, which were updated at 31st December 2016 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes. For the year ended 31st December 2015, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2015.

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.

14. Retirement benefits *(continued)*

The Group's obligations are 93.5% (2015: 88.4%) covered by the plan assets held by the trustees at 31st December 2016.

	2016 HK$M	2015 HK$M
Net expenses recognised in the Group's profit or loss:		
Current service cost	**315**	331
Net interest cost	**42**	39
Total included in staff costs	**357**	370
Actual return/(loss) on plan assets	**341**	(64)

	2016 HK$M	2015 HK$M
Net liabilities recognised in the statement of financial position:		
Present value of funded obligations	**8,301**	8,912
Fair value of plan assets	**(7,758)**	(7,879)
Retirement benefit liabilities (note 13)	**543**	1,033

	2016 HK$M	2015 HK$M
Movements in present value of funded obligations comprise:		
At 1st January	**8,912**	8,961
Remeasurements:		
– actuarial gains arising from changes in financial assumptions	**(218)**	(253)
– experience (gains)/losses	**(345)**	209
Movements for the year		
– current service cost	**315**	331
– interest expense	**259**	262
– employee contributions	**3**	4
– benefits paid	**(613)**	(565)
– transfer	**(12)**	(7)
– disposal of a subsidiary	**–**	(30)
At 31st December	**8,301**	8,912

The weighted average duration of the defined benefit obligations is seven years (2015: seven years).

	2016 HK$M	2015 HK$M
Movements in fair value of plan assets comprise:		
At 1st January	**7,879**	8,372
Movements for the year		
– return/(loss) on plan assets excluding interest income	**124**	(287)
– interest income	**217**	223
– employee contributions	**3**	4
– employer contributions	**160**	163
– benefits paid	**(613)**	(565)
– transfer	**(12)**	(7)
– disposal of a subsidiary	**–**	(24)
At 31st December	**7,758**	7,879

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

14. Retirement benefits *(continued)*

	2016 HK$M	**%**	2015 HK$M	%
Fair value of plan assets comprises:				
Equities				
– Asia Pacific	**845**	**11**	1,016	13
– Europe	**471**	**6**	460	6
– North America	**980**	**12**	947	12
– others	**993**	**13**	709	9
Bonds				
– Global	**1,838**	**24**	1,873	23
– Emerging markets	**81**	**1**	62	1
Absolute return funds	**1,618**	**21**	1,667	21
Cash	**932**	**12**	1,145	15
	7,758	**100**	7,879	100

At 31st December 2016, the prices of 96% of equities and 45% of bonds were quoted on active markets (31st December 2015: 95% and 38% respectively). The remainder of the prices were not quoted on active markets.

The plan assets are invested in the Swire Group Unitised Trust ("the Trust"). The Trust has three sub-funds in which the assets are invested in accordance with separate and distinct investment policies and objectives. The Trust and sub-funds are overseen by an investment committee, which meets four times a year.

The make-up of the Trust is the result of the asset allocation of each plan. The asset allocation of each plan targets a mix of equities, bonds and absolute return funds.

The management of the assets within the sub-funds is delegated by the investment committee to a number of reputable investment managers.

The contributions are calculated based upon funding recommendations arising from actuarial valuations. The Group expects to make contributions of HK$159 million to the schemes in 2017.

	2016		2015	
	SGRBS	**CPALRS**	SGRBS	CPALRS
The significant actuarial assumptions are:				
Discount rate	**3.64%**	**3.64%**	3.22%	3.22%
Expected rate of future salary increases	**5.00%**	**3.04%**	5.00%	3.06%

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 2016 would have (increased)/decreased as a result of 0.5% change in the actuarial assumptions:

	Increase by 0.5%		Decrease by 0.5%	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M
Discount rate	**251**	282	**(260)**	(298)
Expect rate of future salary increases	**(249)**	(323)	**242**	310

14. Retirement benefits *(continued)*

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.

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 (2015: nil) 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$30,000). 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$1,202 million (2015: HK$1,134 million).

15. Deferred taxation

	2016 HK$M	2015 HK$M
Deferred tax assets:		
– provisions	**(136)**	(169)
– tax losses	**(2,141)**	(1,591)
– cash flow hedges	**(819)**	(2,104)
– retirement benefits	**(70)**	(127)
Deferred tax liabilities:		
– accelerated tax depreciation	**4,366**	4,063
– investments in associates	**882**	779
Provision in respect of certain lease arrangements	**8,561**	7,930
	10,643	8,781

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

	2016 HK$M	2015 HK$M
Net deferred tax asset recognised in the statement of financial position	**(737)**	(497)
Net deferred tax liability recognised in the statement of financial position	**11,380**	9,278
	10,643	8,781

15. Deferred taxation *(continued)*

	2016 HK$M	2015 HK$M
Movements in deferred taxation comprise:		
At 1st January	**8,781**	9,263
Movements for the year		
– (credited)/charged to profit or loss		
– deferred tax expenses (note 4)	**(135)**	727
– operating expenses	**60**	59
– charged/(credited) to other comprehensive income		
– transferred to cash flow hedge reserve (note 5)	**1,285**	(890)
– transferred to retained profit (note 5)	**81**	(33)
– initial cash benefit from lease arrangements	**894**	–
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	**(323)**	(345)
At 31st December	**10,643**	8,781

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$13,197 million (2015: HK$9,654 million) to carry forward against future taxable income. These amounts are analysed as follows:

	Group	
	Unrecognised tax losses	
	2016 HK$M	2015 HK$M
No expiry date	**2,841**	2,426
Expiring beyond 2021	**10,356**	7,228
	13,197	9,654

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2017 to 2026 (2015: 2017 to 2025) as follows:

	2016 HK$M	2015 HK$M
After one year but within five years	**2,705**	2,373
After five years but within 10 years	**5,147**	5,557
After 10 years	**709**	–
	8,561	7,930

16. Trade, other receivables and other assets

	2016 HK$M	2015 HK$M
Trade debtors	**5,595**	5,360
Derivative financial assets – current portion	**857**	1,145
Other receivables and prepayments	**3,042**	3,083
Due from associates and other related companies	**63**	127
	9,557	9,715

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

	2016 HK$M	2015 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by invoice date:		
Current	**4,370**	4,453
One to three months	**705**	522
More than three months	**520**	385
	5,595	5,360

	2016 HK$M	2015 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**5,074**	5,038
One to three months overdue	**395**	167
More than three months overdue	**126**	155
	5,595	5,360

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

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

	2016 HK$M	2015 HK$M
At 1st January	**52**	52
Amounts written back	**(3)**	–
At 31st December	**49**	52

17. Assets held for sale

	2016 HK$M	2015 HK$M
Assets held for sale	**31**	1,497

An impairment loss amounting to HK$24 million was recognised for the year ended 31st December 2016 (2015: HK$4 million). Impairment of assets held for sale is considered by writing down the carrying value to the estimated recoverable amount of HK$565 million (2015: HK$62 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 the market comparison approach with reference to the estimated sales value at 31st December 2016 and 2015. The fair value on which the recoverable amount is based is categorised as a Level 2 measurement.

18. Liquid funds

	2016 HK$M	2015 HK$M
Short-term deposits and bank balances (note 24)	**9,778**	7,207
Short-term deposits maturing beyond three months when placed	**5,556**	7,715
Funds with investment managers		
– debt securities listed outside Hong Kong	**4,749**	4,698
– bank deposits	**33**	7
Other liquid investments		
– debt securities listed outside Hong Kong	**4**	817
– bank deposits	**170**	203
	20,290	20,647

Included in other liquid investments are bank deposits of HK$170 million (2015: HK$203 million) and debt securities of HK$4 million (2015: HK$134 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.

19. Trade and other payables

	2016 HK$M	2015 HK$M
Trade creditors	**5,061**	5,341
Derivative financial liabilities – current portion	**5,680**	9,456
Other payables	**8,024**	7,732
Due to associates	**175**	227
Due to other related companies	**164**	269
	19,104	23,025

At 31st December 2016, the Group had a provision of HK$1,126 million (2015: HK$1,418 million) for possible or actual taxation, litigation and claims. The provision is included in above.

	2016 HK$M	2015 HK$M
Analysis of trade creditors by age:		
Current	**4,854**	5,023
One to three months overdue	**196**	308
More than three months overdue	**11**	10
	5,061	5,341

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

20. Share capital

	2016		2015	
	Number of shares	**HK$M**	Number of shares	HK$M
Issued and fully paid				
At 1st January and at 31st December	**3,933,844,572**	**17,106**	3,933,844,572	17,106

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the year. At 31st December 2016, 3,933,844,572 shares were in issue (31st December 2015: 3,933,844,572 shares).

21. Reserves

	2016 HK$M	2015 HK$M
Retained profit	**44,672**	45,900
Investment revaluation reserve	**908**	730
Cash flow hedge reserve	**(5,855)**	(15,545)
Others	**(1,466)**	(264)
	38,259	30,821

	Retained profit HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Others HK$M	Total HK$M
Company					
At 1st January 2016	**38,295**	**346**	**(15,566)**	**(1)**	**23,074**
Loss for the year	**(1,426)**	**–**	**–**	**–**	**(1,426)**
Other comprehensive income	**574**	**58**	**9,734**	**–**	**10,366**
Total comprehensive income for the year	**(852)**	**58**	**9,734**	**–**	**8,940**
2015 second interim dividend	**(1,062)**	**–**	**–**	**–**	**(1,062)**
2016 first interim dividend	**(197)**	**–**	**–**	**–**	**(197)**
	(2,111)	**58**	**9,734**	**–**	**7,681**
At 31st December 2016	**36,184**	**404**	**(5,832)**	**(1)**	**30,755**
At 1st January 2015	34,952	792	(10,162)	(1)	25,581
Profit for the year	5,579	–	–	–	5,579
Other comprehensive income	(190)	(446)	(5,404)	–	(6,040)
Total comprehensive income for the year	5,389	(446)	(5,404)	–	(461)
2014 second interim dividend	(1,023)	–	–	–	(1,023)
2015 first interim dividend	(1,023)	–	–	–	(1,023)
	3,343	(446)	(5,404)	–	(2,507)
At 31st December 2015	38,295	346	(15,566)	(1)	23,074

21. Reserves *(continued)*

Distributable reserves of the Company at 31st December 2016 amounted to HK$36,184 million (2015: HK$38,295 million), as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap. 622).

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

Other reserves of the Group comprise negative exchange differences arising from revaluation of foreign investments which amounted to HK$334 million (2015: positive reserve HK$1,202 million) and share of associate's other negative reserve of HK$1,132 million (2015: HK$1,466 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 loss transferred from the cash flow hedge reserve of the Group to profit or loss items was as follows:

	2016 HK$M	2015 HK$M
Revenue	**1,294**	1,295
Fuel	**(8,423)**	(8,489)
Net finance charge	**(275)**	(279)
Net loss transferred to the profit or loss (note 5)	**(7,404)**	(7,473)

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
2017	**(3,980)**
2018	**(2,899)**
2019	**(216)**
2020	**231**
2021	**238**
Beyond 2021	**771**
	(5,855)

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.

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

	2016 HK$M	2015 HK$M
Operating (loss)/profit	**(525)**	6,664
Depreciation of property, plant and equipment	**8,035**	8,387
Amortisation of intangible assets	**515**	472
Provision for impairment of assets held for sale	**24**	4
Gain on disposal of assets held for sale	**(232)**	(4)
Loss/(gain) on disposal of property, plant and equipment, net	**272**	(49)
Loss on disposal of intangible assets	**42**	–
Gain on disposal of long-term investment	**(3)**	–
Gain on disposal of a subsidiary	**–**	(106)
Currency adjustments and other items not involving cash flows	**7,427**	7,791
(Increase)/decrease in stock	**(148)**	223
Decrease in trade debtors, other receivables and other assets and derivative financial assets	**408**	2,351
Decrease in net amounts due to related companies and associates	**(93)**	(8)
(Decrease)/increase in trade creditors, other payables, derivative financial liabilities and deferred creditors including deferred liabilities and long-term financial derivatives	**(11,595)**	5,526
(Decrease)/increase in unearned transportation revenue	**(86)**	774
Non-operating movements in debtors and creditors	**3,660**	(14,888)
Cash generated from operations	**7,701**	17,137

23. Disposal of a subsidiary

	2016 HK$M	2015 HK$M
Net liabilities disposed of:		
Property, plant and equipment	**–**	5
Trade, other receivables and other assets	**–**	14
Trade and other payables	**–**	(18)
Others	**–**	(8)
Total net liabilities	**–**	(7)
Reversal of non-controlling interests	**–**	(16)
Gain on disposal	**–**	106
Total consideration	**–**	83
Analysis of net cash inflow from disposal of a subsidiary:		
Sales proceeds	**–**	125
Less liquid funds disposed of:		
– short-term deposits	**–**	(20)
– bank balances	**–**	(22)
Net cash inflow from disposal of a subsidiary	**–**	83

24. Analysis of cash and cash equivalents

	2016 HK$M	2015 HK$M
Short-term deposits and bank balances (note 18)	**9,778**	7,207

25. Directors' and executive officers' remuneration

(a) Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and part 2 of the Companies (Disclosure of Information about Benefit of Directors) Regulation is:

	Cash			Non-cash					
	Basic salary/ Fees (note i) HK$'000	Bonus (note ii) HK$'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$'000	**2016 Total HK$'000**	2015 Total HK$'000
Executive Directors									
John Slosar	251	230	4	83	68	–	209	**845**	1,983
Christopher Pratt (up to March 2014)	–	–	–	–	–	–	–	**–**	140
W.E. James Barrington (up to September 2015)	–	1,332	–	–	822	1	–	**2,155**	6,420
Ivan Chu	3,200	5,057	1,527	723	–	–	–	**10,507**	10,096
Rupert Hogg	2,736	2,320	617	903	1,046	–	4,392	**12,014**	11,117
Martin Murray	2,618	1,944	616	864	1,053	137	3,500	**10,732**	9,739
Algernon Yau (from September 2015)	1,992	1,024	869	299	–	–	–	**4,184**	1,051
Non-Executive Directors									
Cai Jianjiang	575	–	–	–	–	–	–	**575**	575
Martin Cubbon	–	–	–	–	–	–	–	**–**	–
Fan Cheng (up to December 2016)	755	–	–	–	–	–	–	**755**	755
Ian Shiu (up to December 2016)	–	–	–	–	–	–	–	**–**	–
Song Zhiyong	575	–	–	–	–	–	–	**575**	575
Merlin Swire	–	–	–	–	–	–	–	**–**	–
Samuel Swire	–	–	–	–	–	–	–	**–**	–
Xiao Feng (from January 2017)	–	–	–	–	–	–	–	**–**	–
Zhao Xiaohang	575	–	–	–	–	–	–	**575**	575
Independent Non-Executive Directors									
John Harrison (from May 2015)	755	–	–	–	–	–	–	**755**	467
Irene Lee	915	–	–	–	–	–	–	**915**	885
Jack So (up to May 2015)	–	–	–	–	–	–	–	**–**	320
Andrew Tung (from May 2015)	633	–	–	–	–	–	–	**633**	392
Tung Chee Chen (up to May 2015)	–	–	–	–	–	–	–	**–**	243
Peter Wong	755	–	–	–	–	–	–	**755**	755
2016 Total	**16,335**	**11,907**	**3,633**	**2,872**	**2,989**	**138**	**8,101**	**45,975**	
2015 Total	16,214	10,382	4,808	3,343	3,360	325	7,656		46,088

(i) 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.

(ii) Management bonus relates to services for 2015 and was paid in 2016. Other discretionary bonuses were paid in 2015 or 2016.

(iii) The total emoluments of Executive Directors are charged to the Group in accordance with the amount of time spent on its affairs.

25. 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$'000	**2016 Total HK$'000**	2015 Total HK$'000
Arnold Cheng (from July 2016)	710	125	340	116	–	–	–	**1,291**	–
Dane Cheng	1,830	1,402	876	300	–	–	–	**4,408**	3,548
Philippe de Gentile-Williams (up to July 2014)	–	–	–	–	–	–	–	**–**	1,127
Christopher Gibbs	2,532	1,919	1,485	388	–	–	–	**6,324**	5,703
James Ginns	1,801	1,158	2,750	592	852	84	–	**7,237**	6,137
Richard Hall (up to April 2015)	–	309	–	–	–	–	–	**309**	2,841
Simon Large (from August 2015)	1,685	471	1,942	556	357	156	846	**6,013**	2,156
Joseph Locandro (up to June 2016)	1,282	1,111	2,886	165	–	–	–	**5,444**	4,820
Paul Loo (from August 2015)	1,742	926	883	286	–	–	–	**3,837**	1,093
Tom Owen (from August 2015)	1,685	424	620	556	312	177	2,245	**6,019**	1,909
Nick Rhodes (up to July 2015)	–	1,178	–	–	734	1	–	**1,913**	6,250
Anna Thompson (from April 2015)	1,702	865	2,003	561	656	155	–	**5,942**	3,116
James Tong (up to July 2016)	954	1,236	377	157	–	–	–	**2,724**	3,379
James Woodrow (up to September 2015)	–	1,059	–	–	635	1	–	**1,695**	5,723
2016 Total	**15,923**	**12,183**	**14,162**	**3,677**	**3,546**	**574**	**3,091**	**53,156**	
2015 Total	16,170	9,834	8,568	3,667	2,713	562	6,288		47,802

(i) Management bonus relates to services for 2015 and was paid in 2016. Other discretionary bonuses were paid in 2015 or 2016.

(ii) The total emoluments of Executive Officers are charged to the Group in accordance with the amount of time spent on its affairs.

26. Employee information

The five highest paid individuals of the Company included three Directors (2015: four) and two executive officers (2015: one), whose emoluments are set out in note 25 above.

27. 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:

	2016		2015	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Revenue	**280**	**24**	240	19
Aircraft maintenance costs	**989**	**2,297**	1,102	2,140
Operating costs	**732**	**–**	761	–
Dividend income	**422**	**1**	280	11
Finance income	**17**	**–**	19	–
Property, plant and equipment purchase	**–**	**6**	–	6

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 2016 totalled HK$3,288 million (2015: HK$3,246 million). The amounts receivable from the HAECO group for the year ended 31st December 2016 totalled HK$34 million (2015: HK$27 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 section of this annual report headed Directors' Report.

(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 2016 totalled HK$346 million (2015: HK$415 million). The amounts receivable from the Air China group for the year ended 31st December 2016 totalled HK$269 million (2015: HK$232 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 section of this annual report headed Directors' Report.

27. Related party transactions *(continued)*

(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 property, plant and equipment are paid annually. For the year ended 31st December 2016, no (2015: HK$143 million) service fee was payable and expenses of HK$161 million (2015: HK$209 million) were reimbursed at cost; in addition, HK$80 million (2015: HK$68 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 section of this annual report headed Directors' Report.

(c) Amounts due from and due to associates and other related companies at 31st December 2016 are disclosed in notes 16 and 19 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 2016 are disclosed in note 28(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 25 to the financial statements.

28. Capital commitments and contingencies

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

	2016 HK$M	2015 HK$M
Authorised and contracted for	**84,645**	94,272
Authorised but not contracted for	**6,842**	5,096
	91,487	99,368

Operating lease commitments are shown in note 8(b) to the financial statements.

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

	2016 HK$M	2015 HK$M
Associates	**4,031**	4,776
Related parties	**–**	1,186
Staff	**–**	200
	4,031	6,162

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

(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.

The proceedings and civil actions, except as otherwise stated below, 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 accounting policy 20 on page 109.

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 57.12 million on the Company. However, the General Court delivered judgment in December 2015 annulling the European Commission's finding against the Company and the fine of Euros 57.12 million was refunded to the Company in February 2016. The European Commission has informed the Company and the other airlines involved in the case of its intention to issue a new decision.

The Company is a defendant in a number of civil claims, including class litigation and third party contribution claims, in a number of countries including Canada, the United Kingdom, Germany, the Netherlands, Norway and Korea alleging violations of applicable competition laws arising from the Company's alleged conduct relating to its air cargo operations. In addition, civil class action claims have been filed in Canada alleging violations of applicable competition laws arising from the Company's alleged conduct relating to certain of its passenger operations. The Company is represented by legal counsel and is defending these actions, except as noted below.

The Company was involved in three putative class action cases filed in Canada, in which the plaintiffs alleged the Company and other carriers that provide air cargo services fixed the prices of various air cargo charges and surcharges in violation of the Canadian Competition Act. The Company reached an agreement to settle all three actions in December 2015, by paying the plaintiffs CAD$6 million (approximately HK$34.9 million at the exchange rate current at date of payment). The settlements, which were approved by the Courts in Ontario and British Columbia in July 2016 and the Courts in Quebec in August 2016, will resolve claims by all putative class members in all three actions.

29. 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 Board.

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.

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 28 to the financial statements. Collateral and guarantees received in respect of credit terms granted at 31st December 2016 totalled HK$1,331 million (2015: HK$1,373 million).

The movement in the provision for bad debts in respect of trade debtors during the year is set out in note 16 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 2015. The undiscounted payment profile of financial liabilities is outlined as follows:

	2016				
	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	**(8,232)**	**(5,024)**	**(24,094)**	**(11,411)**	**(48,761)**
Obligations under finance leases	**(4,512)**	**(4,424)**	**(10,303)**	**(10,429)**	**(29,668)**
Other long-term payables	**–**	**(857)**	**(1,073)**	**(875)**	**(2,805)**
Trade and other payables	**(13,424)**	**–**	**–**	**–**	**(13,424)**
Derivative financial liabilities, net	**(5,813)**	**(4,035)**	**(28)**	**3**	**(9,873)**
Total	**(31,981)**	**(14,340)**	**(35,498)**	**(22,712)**	**(104,531)**

29. Financial risk management *(continued)*

	2015				
	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	(9,806)	(7,148)	(11,559)	(10,945)	(39,458)
Obligations under finance leases	(4,470)	(4,302)	(10,917)	(10,535)	(30,224)
Other long-term payables	–	(312)	(1,091)	(987)	(2,390)
Trade and other payables	(13,569)	–	–	–	(13,569)
Derivative financial liabilities, net	(9,331)	(7,553)	(4,917)	2	(21,799)
Total	(37,176)	(19,315)	(28,484)	(22,465)	(107,440)

(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. 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.

The currencies giving rise to a risk of translation in the Group's financial statements in 2016 are primarily United States dollars, Euros, Australian dollars, Singapore dollars, Renminbi and Japanese yen (2015: United States dollars, Euros, Australian dollars, Singapore dollars, Renminbi and Japanese yen).

At the reporting date, the exposure to these currencies was as follows:

	2016					
	USD HK$M	**EUR HK$M**	**AUD HK$M**	**SGD HK$M**	**RMB HK$M**	**JPY HK$M**
Group						
Loans due from associates	**290**	**–**	**–**	**–**	**1,094**	**–**
Trade debtors, other receivables and prepayments	**5,954**	**349**	**138**	**37**	**1,024**	**185**
Liquid funds	**11,797**	**111**	**58**	**977**	**955**	**96**
Long-term loans	**(24,192)**	**–**	**–**	**(1,341)**	**–**	**(1,717)**
Obligations under finance leases	**(20,903)**	**(1,710)**	**–**	**–**	**–**	**(3,379)**
Trade creditors and other payables	**(13,639)**	**(253)**	**(109)**	**(70)**	**(566)**	**(244)**
Currency derivatives at notional value	**13,509**	**343**	**(1,717)**	**(56)**	**(6,328)**	**(502)**
Net exposure	**(27,184)**	**(1,160)**	**(1,630)**	**(453)**	**(3,821)**	**(5,561)**

29. Financial risk management *(continued)*

	2015					
	USD HK$M	EUR HK$M	AUD HK$M	SGD HK$M	RMB HK$M	JPY HK$M
Group						
Loans due from associates	297	–	–	–	1,170	–
Trade debtors, other receivables and prepayments	5,423	839	179	33	1,106	193
Liquid funds	15,880	128	97	464	767	100
Long-term loans	(19,773)	–	–	(1,370)	–	(1,894)
Obligations under finance leases	(21,722)	(1,953)	–	–	–	(2,899)
Trade creditors and other payables	(26,052)	(254)	(139)	(72)	(624)	(238)
Currency derivatives at notional value	20,854	(65)	(2,630)	(274)	(8,579)	(872)
Net exposure	(25,093)	(1,305)	(2,493)	(1,219)	(6,160)	(5,610)

In addition to the exposure shown above, the Group is exposed to currency risk from its future net operating cash flows in foreign currencies, principally United States dollars, Renminbi, Australian dollars, New Taiwan dollars, Euros, Pound sterling, Indian rupees, Japanese yen and Indonesian rupiahs.

Sensitivity analysis for foreign currency exposure

A five percent appreciation of the Hong Kong dollar against the following currencies at 31st December 2016 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 2015.

	2016	
	Net increase/(decrease) in profit or loss HK$M	**Net increase in other equity components HK$M**
United States dollars	**1,614**	**(187)**
Euros	**–**	**43**
Australian dollars	**(4)**	**75**
Singapore dollars	**(47)**	**69**
Renminbi	**(117)**	**267**
Japanese yen	**(2)**	**279**
Net increase	**1,444**	**546**

	2015	
	Net increase/(decrease) in profit or loss HK$M	Net increase in other equity components HK$M
United States dollars	1,287	6
Euros	(22)	70
Australian dollars	(7)	114
Singapore dollars	(21)	81
Renminbi	(111)	360
Japanese yen	(3)	281
Net increase	1,123	912

29. 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:

	2016 HK$M	2015 HK$M
Fixed rate instruments		
Loans receivable	**469**	536
Long-term loans	**(3,217)**	(2,972)
Obligations under finance leases	**(6,674)**	(7,427)
Interest rate and currency swaps	**(18,004)**	(21,005)
Net exposure	**(27,426)**	(30,868)

	2016 HK$M	2015 HK$M
Variable rate instruments		
Loans due from associates	**1,384**	1,467
Liquid funds	**20,290**	20,647
Long-term loans	**(40,125)**	(32,630)
Obligations under finance leases	**(20,153)**	(20,076)
Interest rate and currency swaps	**19,140**	22,070
Net exposure	**(19,464)**	(8,522)

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 2015.

	2016		2015	
	Profit or loss HK$M	**Other equity components HK$M**	Profit or loss HK$M	Other equity components HK$M
Variable rate instruments	**(101)**	**106**	(98)	149

29. Financial risk management *(continued)*

(iii) Fuel price risk

Fuel accounted for 29.6% of the Group's total operating expenses (2015: 34.0%). 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 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.

	2016		2015	
	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%	**(11)**	**943**	–	1,187
Decrease in jet fuel price by 5%	**9**	**(939)**	–	(1,187)

(d) Hedge accounting

The carrying values of financial assets/(liabilities) designated as cash flow hedges at 31st December 2016 were as follows:

	2016 HK$M	2015 HK$M
Foreign currency risk		
– long-term liabilities (natural hedge)	**(6,827)**	(6,662)
– foreign currency forward contracts	**883**	1,442
Interest rate risk		
– interest rate swaps	**(75)**	(290)
Fuel price risk		
– fuel derivatives	**(9,610)**	(21,291)

(e) Fair values

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

	2016		2015	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Loans receivable	**469**	**494**	536	575
Long-term loans	**(43,342)**	**(45,291)**	(35,602)	(37,202)
Obligations under finance leases	**(26,827)**	**(27,639)**	(28,047)	(28,904)
Pledged security deposits	**–**	**–**	544	671

29. Financial risk management *(continued)*

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 at 31st December 2016 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 inputs 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 discounted cash flow valuation techniques in which any significant input is not based on observable market data.

	2016				2015			
	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	**553**	**–**	**–**	**553**	433	–	–	433
– unlisted	**–**	**–**	**631**	**631**	–	–	584	584
Liquid funds								
– funds with investment managers	**–**	**4,749**	**–**	**4,749**	–	4,698	–	4,698
– other liquid investments	**–**	**4**	**–**	**4**	–	817	–	817
Derivative financial assets	**–**	**2,176**	**–**	**2,176**	–	2,778	–	2,778
	553	**6,929**	**631**	**8,113**	433	8,293	584	9,310
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	**–**	**(2,227)**	**–**	**(2,227)**	–	(2,593)	–	(2,593)
Derivative financial liabilities	**–**	**(9,849)**	**–**	**(9,849)**	–	(21,871)	–	(21,871)
	–	**(12,076)**	**–**	**(12,076)**	–	(24,464)	–	(24,464)

29. Financial risk management *(continued)*

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 investments				
Discount rate	2016: 8.5-9.0% (2015: 10.0%)	The higher the discount rate, the lower the fair value	2016: +/- 0.5% (2015: +/- 0.5%)	2016: (17)/18 (2015: (11)/11)

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

	2016 HK$M	2015 HK$M
Investments at fair value – unlisted		
At 1st January	**584**	1,196
Disposals	**(11)**	(143)
Net unrealised gains or losses recognised in other comprehensive income during the year	**58**	13
Net unrealised gains or losses reclassified to profit or loss	**–**	(482)
At 31st December	**631**	584

(g) Offsetting financial assets and financial liabilities

	2016				
	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	**2,176**	**–**	**2,176**	**(1,235)**	**941**
Derivative financial liabilities	**(9,849)**	**–**	**(9,849)**	**1,235**	**(8,614)**
	(7,673)	**–**	**(7,673)**	**–**	**(7,673)**

29. Financial risk management *(continued)*

	2015				
	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	2,778	–	2,778	(2,022)	756
Related pledged security deposits	544	(544)	–	–	–
Obligations under finance leases	(544)	544	–	–	–
Derivative financial liabilities	(21,871)	–	(21,871)	2,022	(19,849)
	(19,093)	–	(19,093)	–	(19,093)

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 currently have any 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.

30. 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 115 and a ten year history is included on pages 110 and 111 of the annual report.

31. Company-level statement of financial position

	Note	**2016 HK$M**	2015 HK$M	**2016 US$M**	2015 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment		**84,813**	79,154	**10,873**	10,148
Intangible assets		**3,257**	2,931	**418**	376
Investments in subsidiaries		**36,090**	34,329	**4,627**	4,401
Investments in associates		**10,796**	10,802	**1,384**	1,385
Other long-term receivables and investments		**2,792**	3,335	**358**	427
		137,748	130,551	**17,660**	16,737
Long-term liabilities		**(58,033)**	(48,279)	**(7,440)**	(6,190)
Other long-term payables		**(6,516)**	(14,972)	**(835)**	(1,919)
Deferred tax liabilities		**(9,898)**	(7,929)	**(1,269)**	(1,017)
		(74,447)	(71,180)	**(9,544)**	(9,126)
Net non-current assets		**63,301**	59,371	**8,116**	7,611
Current assets and liabilities					
Stock		**1,247**	1,141	**160**	146
Trade, other receivables and other assets		**8,823**	8,989	**1,131**	1,152
Assets held for sale		**31**	1,493	**4**	192
Liquid funds		**14,260**	14,985	**1,828**	1,921
		24,361	26,608	**3,123**	3,411
Current portion of long-term liabilities		**(10,354)**	(13,006)	**(1,327)**	(1,667)
Related pledged security deposits		**–**	544	**–**	70
Net current portion of long-term liabilities		**(10,354)**	(12,462)	**(1,327)**	(1,597)
Trade and other payables		**(16,386)**	(20,272)	**(2,102)**	(2,599)
Unearned transportation revenue		**(12,567)**	(12,619)	**(1,611)**	(1,618)
Taxation		**(494)**	(446)	**(63)**	(57)
		(39,801)	(45,799)	**(5,103)**	(5,871)
Net current liabilities		**(15,440)**	(19,191)	**(1,980)**	(2,460)
Total assets less current liabilities		**122,308**	111,360	**15,680**	14,277
Net assets		**47,861**	40,180	**6,136**	5,151
CAPITAL AND RESERVES					
Share capital and other statutory capital reserves	*20*	**17,106**	17,106	**2,193**	2,193
Other reserves	*21*	**30,755**	23,074	**3,943**	2,958
Total equity		**47,861**	40,180	**6,136**	5,151

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 66 to 104 and the principal accounting policies on pages 105 to 109 form part of these financial statements.

John Slosar
Director

Irene Lee
Director

Hong Kong, 15th March 2017

32. Impact of further new accounting standards

HKICPA has issued amendments and new standards which become effective for accounting periods beginning on or after 1st January 2016 and which are not adopted in the financial statements. The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9 "Financial Instruments" is relevant to the Group and becomes effective for accounting periods beginning on or after 1st January 2018. HKFRS 9 contains three principal classification categories for financial assets: measured at (a) amortised cost, (b) fair value through profit or loss and (c) fair value through other comprehensive income. If an equity security is designated as fair value through other comprehensive income, then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling. With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either fair value through profit or loss or irrevocably elect to designate as fair value through other comprehensive income (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as fair value through other comprehensive income or classify them as fair value through profit or loss. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's accounting policy 8 on page 107. This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share. The Group has yet to assess the full impact of the new standard.

HKFRS 15 "Revenue from Contracts with Customers" is relevant to the Group and becomes effective for accounting periods beginning on or after 1st January 2018. The standard deals with revenue recognition and establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Group has yet to assess the full impact of the new standard.

HKFRS 16 "Leases" is relevant to the Group and becomes effective for accounting periods beginning on or after 1st January 2019. The standard eliminates the lessee's classification of leases as either operating leases or finance leases and, instead, introduces a single lease accounting model. Applying that model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for aircraft and related equipment and buildings and other equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 8 to the financial statements, at 31st December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$20,475 million and HK$2,544 million for aircraft and related equipment and buildings and other equipment respectively, the majority of which is payable between one and five years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16.

33. Event after the reporting period

On 10th March 2017, Air China Limited ("Air China") completed the issuance of 1,440,064,181 A shares. As a consequence, the Company's shareholding in Air China has been diluted from 20.13% to 18.13%.

Principal Subsidiaries and Associates

at 31st December 2016

Subsidiaries

	Place of incorporation/ establishment and operation	Principal activities	Percentage of issued capital owned	Issued and paid up share capital and debt securities
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 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"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. 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").

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 property, plant and equipment, 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 amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. The adoption of the amendments has had no significant impact on the results and financial position of the Group.

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

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. Loans from holders of non-controlling interests are presented as financial liabilities in the consolidated statement of financial position in accordance with accounting policy 9.

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. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment.

The cost of an item of property, plant and equipment 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 gear, 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 property, plant and equipment 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 3-25 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 property, plant and equipment 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

Property, plant and equipment held under lease agreements that transfers substantially all the risks and rewards of ownership is treated as if it 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 page 105.

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 recoverability of the debt is in doubt resulting from financial difficulty of a customer or the debt in dispute.

The accounting policy for derivative financial assets is outlined in accounting policy 10.

Financial assets are recognised or derecognised by the Group on the date when the purchase or sale of the assets occurs.

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 in 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 every three years 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 the statement of profit or loss and other comprehensive income in the period in which they arise. 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 Cathay Dragon 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

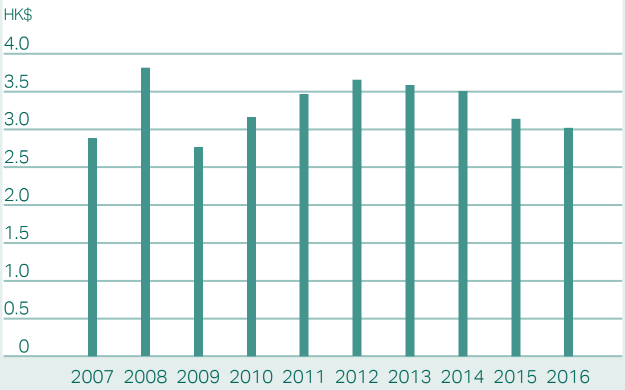
		2016	2015
Consolidated profit or loss summary	*HK$M*		
Passenger services		**66,926**	73,047
Cargo services		**20,063**	23,122
Catering, recoveries and other services		**5,762**	6,173
Revenue		**92,751**	102,342
Operating expenses		**(93,276)**	(95,678)
Operating (loss)/profit		**(525)**	6,664
Profit on disposal of investments		**–**	–
Gain on deemed disposal of an associate		**–**	–
Net finance charges		**(1,301)**	(1,164)
Share of profits/(losses) of associates		**2,049**	1,965
Profit/(loss) before taxation		**223**	7,465
Taxation		**(497)**	(1,157)
(Loss)/profit for the year		**(274)**	6,308
Profit attributable to non-controlling interests		**(301)**	(308)
(Loss)/profit attributable to the shareholders of Cathay Pacific		**(575)**	6,000
Dividends paid		**(1,259)**	(2,046)
Retained profit for the year		**(1,834)**	3,954
Consolidated statement of financial position summary	*HK$M*		
Property, plant and equipment and intangible assets		**117,390**	111,158
Long-term receivables and investments		**27,902**	27,947
Borrowings		**(70,169)**	(63,105)
Liquid funds less bank overdrafts		**20,290**	20,647
Net borrowings		**(49,879)**	(42,458)
Net current liabilities (excluding liquid funds, bank overdrafts and current portion of borrowings)		**(21,727)**	(23,961)
Other long-term payables		**(7,517)**	(15,838)
Deferred taxation		**(10,643)**	(8,781)
Net assets		**55,526**	48,067
Financed by:			
Funds attributable to the shareholders of Cathay Pacific		**55,365**	47,927
Non-controlling interests		**161**	140
Total equity		**55,526**	48,067
Per share			
Shareholders' funds	*HK$*	**14.07**	12.18
EBITDA	*HK$*	**2.56**	4.45
(Loss)/earnings	*HK cents*	**(14.6)**	152.5
Dividend	*HK$*	**0.05**	0.53
Ratios			
(Loss)/profit margin	*%*	**(0.6)**	5.9
Return on capital employed	*%*	**1.0**	8.0
Dividend cover	*Times*	**(2.9)**	2.9
Cash interest cover	*Times*	**9.1**	25.5
Gross debt/equity ratio	*Times*	**1.27**	1.32
Net debt/equity ratio	*Times*	**0.90**	0.89

2014	2013	2012	2011	2010	2009	2008	2007
75,734	71,826	70,133	67,778	59,354	45,920	57,964	49,520
25,400	23,663	24,555	25,980	25,901	17,255	24,623	21,783
4,857	4,995	4,688	4,648	4,269	3,803	3,976	4,055
105,991	100,484	99,376	98,406	89,524	66,978	86,563	75,358
(101,556)	(96,724)	(97,763)	(93,125)	(78,672)	(62,583)	(94,911)	(67,831)
4,435	3,760	1,613	5,281	10,852	4,395	(8,348)	7,527
–	–	–	–	2,165	1,254	–	–
–	–	–	–	868	–	–	–
(1,158)	(1,019)	(884)	(744)	(978)	(847)	(1,012)	(787)
772	838	754	1,708	2,577	264	(764)	1,057
4,049	3,579	1,483	6,245	15,484	5,066	(10,124)	7,797
(599)	(675)	(409)	(779)	(1,441)	(275)	1,366	(775)
3,450	2,904	1,074	5,466	14,043	4,791	(8,758)	7,022
(300)	(284)	(212)	(169)	(185)	(170)	(224)	(187)
3,150	2,620	862	5,297	13,858	4,621	(8,982)	6,835
(1,022)	(551)	(1,338)	(3,777)	(1,691)	–	(2,438)	(2,245)
2,128	2,069	(476)	1,520	12,167	4,621	(11,420)	4,590
108,789	104,737	93,703	82,099	74,116	73,345	73,821	70,170
29,290	27,449	24,776	23,393	17,512	14,321	14,504	15,923
(65,096)	(67,052)	(59,546)	(43,335)	(39,629)	(42,642)	(40,280)	(36,368)
21,098	27,736	24,182	19,597	24,194	16,511	15,082	21,637
(43,998)	(39,316)	(35,364)	(23,738)	(15,435)	(26,131)	(25,198)	(14,731)
(22,478)	(19,110)	(15,711)	(16,685)	(14,022)	(12,864)	(16,887)	(13,094)
(10,487)	(1,318)	(3,205)	(3,650)	(1,700)	(1,086)	(5,509)	(1,222)
(9,263)	(9,429)	(8,061)	(6,651)	(5,842)	(5,255)	(4,737)	(6,752)
51,853	63,013	56,138	54,768	54,629	42,330	35,994	50,294
51,722	62,888	56,021	54,633	54,476	42,182	35,878	50,116
131	125	117	135	153	148	116	178
51,853	63,013	56,138	54,768	54,629	42,330	35,994	50,294
13.15	15.99	14.24	13.89	13.85	10.72	9.12	12.72
3.44	3.04	2.31	3.34	5.80	2.95	(1.00)	3.41
80.1	66.6	21.9	134.7	352.3	117.5	(228.3)	173.5
0.36	0.22	0.08	0.52	1.11	0.10	0.03	0.84
3.0	2.6	0.9	5.4	15.5	6.9	(10.4)	9.1
4.7	4.0	2.3	8.4	21.7	8.7	(12.3)	12.3
2.2	3.0	2.7	2.6	3.2	11.8	(76.1)	2.1
20.7	23.8	20.9	41.7	35.2	5.1	3.7	14.2
1.26	1.07	1.06	0.79	0.73	1.01	1.12	0.73
0.85	0.63	0.63	0.43	0.28	0.62	0.70	0.29

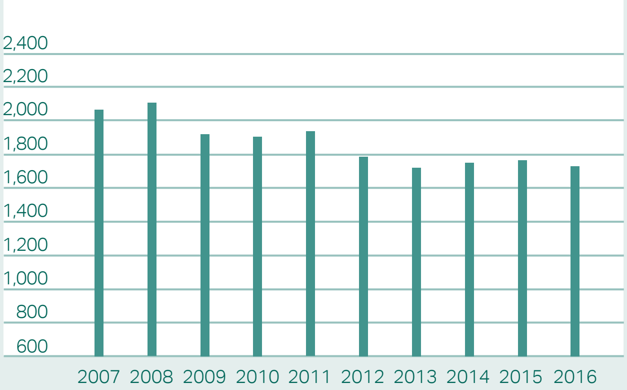
		2016	2015
Cathay Pacific and Cathay Dragon operating summary			
Available tonne kilometres	*Million*	**30,462**	30,048
Revenue tonne kilometres	*Million*	**22,418**	22,220
Available seat kilometres	*Million*	**146,086**	142,680
Revenue passengers carried	*'000*	**34,323**	34,065
Revenue passenger kilometres	*Million*	**123,478**	122,330
Revenue load factor	*%*	**79.5**	81.1
Passenger load factor	*%*	**84.5**	85.7
Cargo and mail carried	*'000 tonnes*	**1,854**	1,798
Cargo and mail revenue tonne kilometres	*Million*	**10,675**	10,586
Cargo and mail load factor	*%*	**64.4**	64.2
Excess baggage carried	*Tonnes*	**2,471**	2,596
Kilometres flown	*Million*	**579**	576
Block hours	*'000 hours*	**826**	823
Aircraft departures	*'000*	**172**	173
Length of scheduled routes network	*'000 kilometres*	**636**	620
Number of destinations at year end	*Destinations*	**182**	179
Staff number at year end	*Number*	**26,674**	26,833
ATK per staff	*'000*	**1,142**	1,120
On-time performance			
Departure (within 15 minutes)	*%*	**72.1**	64.7
Average aircraft utilisation	*Hours per day*		
A320-200		**9.3**	9.4
A321-200		**9.4**	9.8
A330-300		**11.4**	12.1
A340-300		**8.3**	8.5
A340-600		**–**	–
A350-900		**12.7**	–
747-400		**5.2**	5.7
747-200F/300SF		**–**	–
747-400F/BCF/8F		**11.7**	11.9
777-200/300		**9.4**	8.6
777-300ER		**16.0**	15.9
Fleet average		**12.2**	12.2
Fleet profile			
Aircraft operated by Cathay Pacific:			
A330-300		**41**	42
A340-300		**4**	7
A340-600		**–**	–
A350-900		**10**	–
747-400		**–**	3
747-200F		**–**	–
747-400F		**–**	4
747-400BCF		**1**	1
747-400ERF		**6**	6
747-8F		**14**	13
777-200		**5**	5
777-300		**12**	12
777-300ER		**53**	53
Total		**146**	146
Aircraft operated by Cathay Dragon:			
A320-200		**15**	15
A321-200		**8**	8
A330-300		**20**	19
747-200F		**–**	–
747-300SF		**–**	–
747-400BCF		**–**	–
Total		**43**	42

2014	2013	2012	2011	2010	2009	2008	2007
28,440	26,259	26,250	26,383	24,461	22,249	24,410	23,077
20,722	18,696	18,819	19,309	19,373	16,775	17,499	16,680
134,711	127,215	129,595	126,340	115,748	111,167	115,478	102,462
31,570	29,920	28,961	27,581	26,796	24,558	24,959	23,253
112,257	104,571	103,837	101,536	96,588	89,440	90,975	81,801
79.1	77.5	76.2	77.0	81.1	77.7	75.1	75.6
83.3	82.2	80.1	80.4	83.4	80.5	78.8	79.8
1,723	1,539	1,563	1,649	1,804	1,528	1,645	1,672
10,044	8,750	8,942	9,648	10,175	8,256	8,842	8,900
64.3	61.8	64.2	67.2	75.7	70.8	65.9	66.7
2,699	2,599	2,711	3,103	4,053	3,883	2,963	2,310
550	512	502	494	464	431	460	422
789	735	715	695	652	605	649	598
167	160	154	146	138	130	138	131
586	576	602	568	535	481	453	442
210	190	179	167	146	122	124	129
25,755	24,572	23,844	23,015	21,592	20,907	21,309	19,840
1,104	1,069	1,101	1,146	1,133	1,064	1,146	1,163
70.1	75.5	77.4	82.0	80.9	86.8	81.4	83.9
9.2	9.1	8.8	8.9	8.2	8.0	8.4	8.5
9.9	8.8	8.9	8.4	8.6	7.8	8.4	8.9
12.4	12.0	12.3	12.1	11.6	10.8	10.9	10.7
11.6	13.3	12.7	13.0	13.8	12.2	14.7	15.3
–	–	–	–	–	–	11.4	14.4
–	–	–	–	–	–	–	–
8.2	10.9	12.7	13.7	13.2	12.9	14.1	14.5
–	–	–	–	–	5.4	7.5	10.8
11.8	10.9	11.4	13.8	14.4	13.2	13.1	14.0
8.8	8.3	8.4	8.2	8.0	8.1	8.7	8.4
16.1	15.8	15.7	15.7	15.3	15.8	14.3	10.7
12.2	11.8	12.0	12.3	12.0	11.2	11.5	11.7
40	35	37	33	32	32	32	29
11	11	11	13	15	15	15	15
–	–	–	–	–	–	–	3
–	–	–	–	–	–	–	–
7	13	18	21	22	23	23	24
–	–	–	–	–	–	5	7
5	6	6	6	6	6	6	6
1	1	6	8	12	13	10	6
6	6	6	6	6	6	2	–
13	13	8	4	–	–	–	–
5	5	5	5	5	5	5	5
12	12	12	12	12	12	12	12
47	38	29	24	18	14	9	5
147	140	138	132	128	126	119	112
15	15	15	11	11	9	10	10
8	6	6	6	6	6	6	6
18	20	17	15	14	14	16	16
–	–	–	–	–	–	1	1
–	–	–	–	–	–	–	3
–	–	–	–	–	–	2	3
41	41	38	32	31	29	35	39

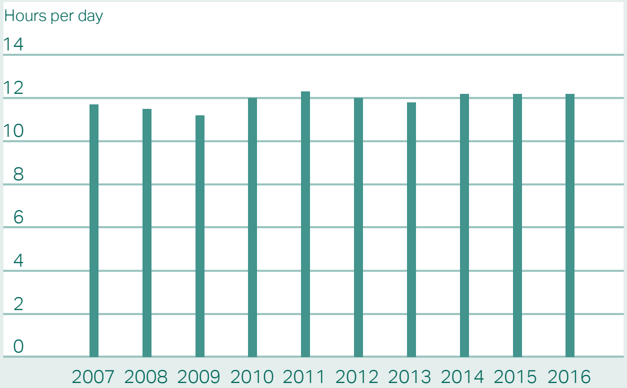
Cost per ATK (with fuel)



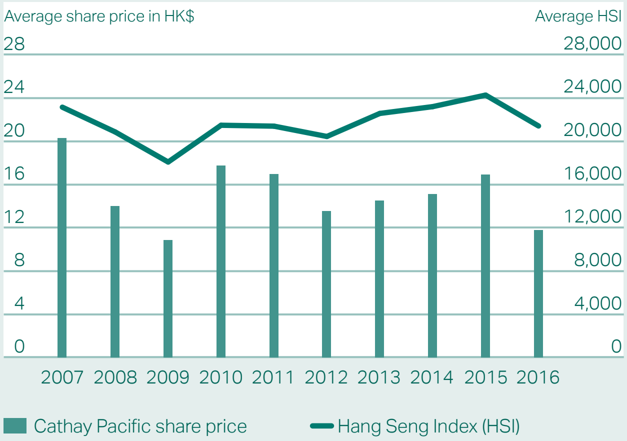
ATK per HK$'000 staff cost



Aircraft utilisation



Share price



		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Productivity											
Cost per ATK (with fuel)	*HK$*	**3.02**	3.14	3.50	3.58	3.65	3.46	3.16	2.76	3.81	2.88
ATK per HK$'000 staff cost	*Unit*	**1,730**	1,764	1,750	1,720	1,785	1,936	1,905	1,919	2,106	2,066
Aircraft utilisation	*Hours per day*	**12.2**	12.2	12.2	11.8	12.0	12.3	12.0	11.2	11.5	11.7
Share prices	*HK$*										
High		**14.0**	20.6	17.7	16.8	15.9	23.1	24.1	14.7	20.3	23.1
Low		**10.1**	12.7	13.7	12.2	11.9	11.9	12.8	7.0	7.1	18.3
Year-end		**10.2**	13.4	16.9	16.4	14.2	13.3	21.5	14.5	8.8	20.4
Price ratios (Note)	*Times*										
Price/earnings		**(69.8)**	8.8	21.1	24.6	64.9	9.9	6.1	12.3	(3.9)	11.8
Market capitalisation/ funds attributable to the shareholders of Cathay Pacific		**0.7**	1.1	1.3	1.0	1.0	1.0	1.6	1.4	1.0	1.6
Price/cash flows		**5.2**	3.1	5.4	4.6	6.1	3.4	4.5	12.7	8.9	5.0

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate and Shareholder Information

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

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Financial calendar

Year ended 31st December 2016	
Annual report available to shareholders	7th April 2017
Annual General Meeting	17th May 2017
Six months ending 30th June 2017	
Interim results announcement	August 2017
Interim dividend payable	October 2017

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