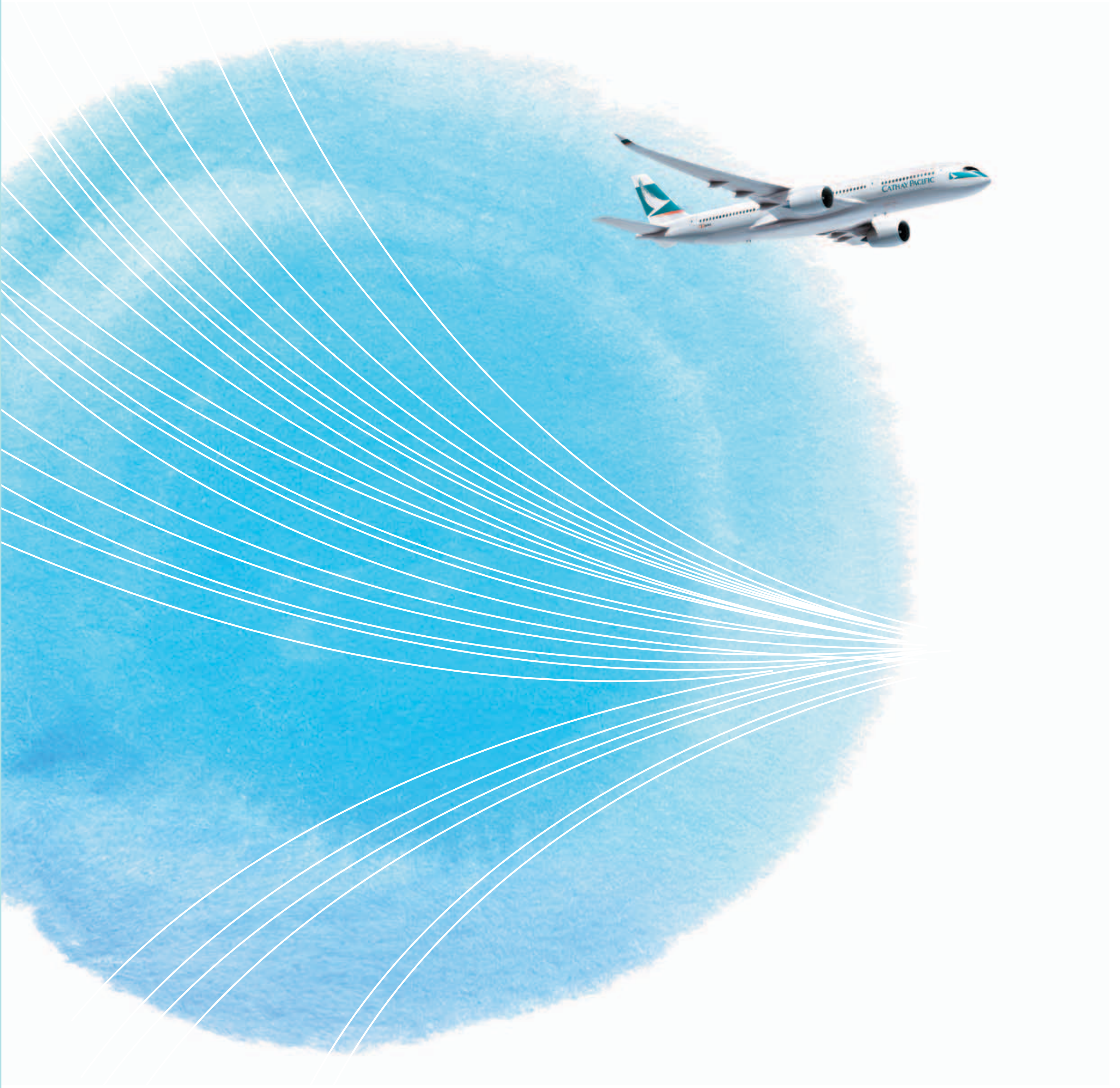
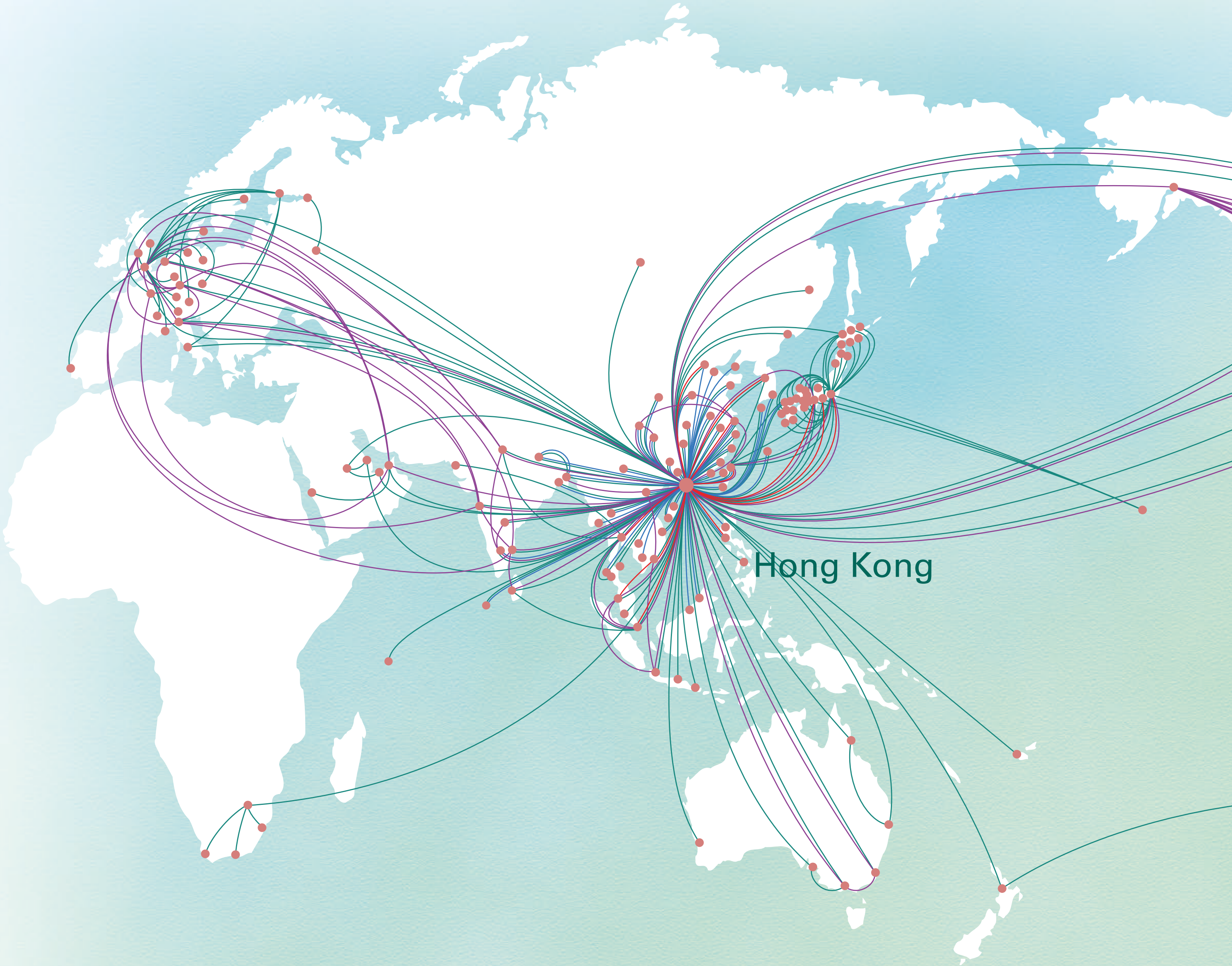


CATHAY PACIFIC

Cathay Pacific Airways Limited

Stock Code: 00293

Annual Report 2013



Contents

Cathay Pacific
Cathay Pacific Freighter
Dragonair
Air Hong Kong

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 182 destinations in 41 countries and territories.

The Company was founded in Hong Kong in 1946 and remains deeply committed to its home base, making substantial investments to develop Hong Kong as one of the world's leading international aviation centres. In addition to its fleet of 140 aircraft, these investments include catering and ground-handling companies, the corporate headquarters at Hong Kong International Airport and a new cargo terminal which became fully operational in October 2013. Cathay Pacific continues to invest heavily in its home city and at 31st December 2013 had another 93 new aircraft due for delivery up to 2024.

Hong Kong Dragon Airlines Limited ("Dragonair"), a regional airline registered and based in Hong Kong, is a wholly owned subsidiary of Cathay Pacific operating 41 aircraft on scheduled services to 47 destinations in Mainland China and elsewhere in Asia. Cathay Pacific owns 20.13% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China. Cathay Pacific is the majority shareholder in AHK Air Hong Kong Limited ("Air Hong Kong"), an all-cargo carrier offering scheduled services in Asia.

Cathay Pacific and its subsidiaries employ more than 31,600 people worldwide, of which around 24,200 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 880 destinations worldwide. Dragonair is an affiliate member of **one**world.

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

Financial and Operating Highlights

Group Financial Statistics

		2013	2012 (restated)	Change
Results				
Turnover	*HK$ million*	**100,484**	99,376	**+1.1%**
Profit attributable to the owners of Cathay Pacific	*HK$ million*	**2,620**	862	**+203.9%**
Earnings per share	*HK cents*	**66.6**	21.9	**+204.1%**
Dividend per share	*HK$*	**0.22**	0.08	**+175.0%**
Profit margin	*%*	**2.6**	0.9	**+1.7%pt**
Financial position				
Funds attributable to the owners of Cathay Pacific	*HK$ million*	**62,888**	56,021	**+12.3%**
Net borrowings	*HK$ million*	**39,316**	35,364	**+11.2%**
Shareholders' funds per share	*HK$*	**15.9**	14.2	**+12.0%**
Net debt/equity ratio	*Times*	**0.63**	0.63	**–**

Operating Statistics – Cathay Pacific and Dragonair

		2013	2012 (restated)	Change
Available tonne kilometres ("ATK")	*Million*	**26,259**	26,250	**–**
Available seat kilometres ("ASK")	*Million*	**127,215**	129,595	**-1.8%**
Passengers carried	*'000*	**29,920**	28,961	**+3.3%**
Passenger load factor	*%*	**82.2**	80.1	**+2.1%pt**
Passenger yield	*HK cents*	**68.5**	67.3	**+1.8%**
Cargo and mail carried	*'000 tonnes*	**1,539**	1,563	**-1.5%**
Cargo and mail load factor	*%*	**61.8**	64.2	**-2.4%pt**
Cargo and mail yield	*HK$*	**2.32**	2.42	**-4.1%**
Cost per ATK (with fuel)	*HK$*	**3.58**	3.65	**-1.9%**
Cost per ATK (without fuel)	*HK$*	**2.16**	2.14	**+0.9%**
Aircraft utilisation	*Hours per day*	**11.8**	12.0	**-1.7%**
On-time performance	*%*	**75.5**	77.4	**-1.9%pt**
Average age of fleet	*Years*	**9.3**	10.1	**-7.9%**
GHG emissions	*Million tonnes of CO_2e*	**15.5**	15.7	**-1.3%**
GHG emissions per ATK	*Grammes of CO_2e*	**589**	600	**-1.8%**
Lost time injury rate	*Number of injuries per 100 full-time equivalent employees*	**4.84**	5.07	**-4.5%**

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$2,620 million in 2013. This compares to a profit of HK$862 million (restated) in the previous year. Earnings per share were HK66.6 cents compared to earnings per share of HK21.9 cents (restated) in 2012. Turnover for the year increased by 1.1% to HK$100,484 million.

The improvement in the Group's performance in 2013 was largely due to the strengthening of the passenger business and the positive impact of measures introduced in 2012 to protect the business from the high price of jet fuel. The cargo business continued to be affected by strong competition and weak demand, though there was some seasonal improvement in the last quarter of 2013. The business overall continued to be affected by the sustained high price of jet fuel. The share of profits from non-airline subsidiaries and from associates decreased to HK$781 million from HK$1,126 million (restated).

Passenger revenue in 2013 increased by 2.4% to HK$71,826 million. Capacity decreased by 1.8% due to the continuation of 2012's reduction in long-haul frequencies and the accelerated retirement of Boeing 747-400 passenger aircraft. However, capacity began to increase towards the end of the year as frequencies were restored and new routes were introduced. The load factor increased by 2.1 percentage points to 82.2%. Yield improved by 1.8% to HK68.5 cents. Passenger demand was strong on long-haul routes in all classes of travel. The introduction of premium economy class has been well received and has improved overall economy class yield. However, demand on regional routes did not match the increase in capacity on these routes, which left yield under pressure.

Our cargo business has been adversely affected by weak demand since April 2011. There was some recovery in business during the last three months (normally the peak period of the year for cargo shipments) of 2013, though business was still weaker than in the corresponding period of 2012. The Group's cargo revenue in 2013 was HK$23,663 million, a decline of 3.6% compared to the previous year. Yield for Cathay Pacific and Dragonair decreased by 4.1% to HK$2.32. Capacity increased by 1.7%. The load factor decreased by 2.4 percentage points to 61.8%. We tried to adjust capacity in line with demand in 2013, reducing freighter schedules and making ad hoc flight cancellations, which helped us to carry more cargo in the bellies of passenger aircraft. Our new cargo terminal at Hong Kong International Airport became fully operational in October 2013. The new terminal will allow us to improve efficiency and to reduce costs in the long term.

The price of jet fuel remains a concern for the Group and the industry as a whole. Fuel remains our most significant cost, accounting for 39.0% of our total operating costs in 2013. In April 2013 we took advantage of a brief drop in fuel prices to extend our fuel hedging into 2016. The Group's fuel costs in 2013 (disregarding the effect of fuel hedging) decreased by 4.6% compared to 2012. This was largely a result of the introduction, in 2012, of measures designed to protect our business against high fuel prices, including changing schedules, reducing capacity, withdrawing older, less fuel-efficient aircraft from service and taking delivery of new, more fuel-efficient aircraft. Managing the risk associated with high and volatile fuel prices remains a high priority.

In 2013 Cathay Pacific took delivery of 19 new aircraft: five Airbus A330-300 aircraft (including one for Dragonair), nine Boeing 777-300ER aircraft and five Boeing 747-8F freighters. Five Boeing 747-400 passenger aircraft were retired during the period. In March 2013, we entered into agreements in relation to our cargo fleet as part of a package of transactions involving The Boeing Company, Cathay Pacific, Air China Cargo Co., Ltd. ("Air China Cargo") and Air China. Under these transactions, we agreed to purchase three Boeing 747-8F freighters (which were delivered in December 2013), cancelled orders for eight Boeing 777-200F freighters, acquired options to purchase five Boeing 777-200F freighters and agreed to sell four Boeing 747-400BCF converted freighters. All of the converted freighters have already left our fleet. In December 2013, we agreed with The Boeing Company to purchase 21 new Boeing 777-9X aircraft (for delivery after 2020), three new Boeing 777-300ER aircraft and one new Boeing 747-8F freighter and to sell six existing Boeing 747-400F freighters. As at 31st December 2013 we had a total of 95 aircraft on firm order for delivery by 2024. We are to take delivery of 16 new aircraft in 2014, one of which was delivered in January 2014.

Chairman's Letter

We continued to develop our passenger and cargo networks in 2013. We fully restored the long-haul passenger frequencies to Los Angeles, Toronto and New York that were cancelled in 2012 and announced the introduction of new flights to a number of new destinations. A fifth daily frequency was added to the London route in June and a four-times-weekly service to Male in the Maldives was introduced in October. We began a daily service to Newark in the United States in March 2014, will begin a daily service to Doha in late March 2014 and will add more frequencies to Los Angeles and Chicago from summer 2014. Dragonair introduced services to Da Nang, Siem Reap, Wenzhou, Yangon and Zhengzhou in 2013 and will begin a two-times-weekly service to Denpasar, Bali in Indonesia in April 2014. We suspended freighter services to Brussels and Stockholm in February 2013 but began offering services between Mexico and Asia later in the year. We introduced freighter services to Guadalajara in October 2013 and extended this service to Mexico City in March 2014. We will add a freighter service to Columbus in the United States in late March 2014.

At the end of 2013, premium economy class was available on 85 of our long-haul and medium-haul aircraft and new regional business class seats had been installed in 11 aircraft. The installation of the new regional business class seats will be completed by the third quarter of 2014 and the introduction of the restyled and upgraded first class cabins on our Boeing 777-300ER aircraft, which began in July 2013, will be completed by the end of 2014. New business class and economy class seats were installed in 18 Dragonair aircraft in 2013. At Hong Kong International Airport we reopened the renovated first class lounge at The Wing in February and opened our fifth departure lounge, The Bridge, in October 2013.

The share of profits from non-airline subsidiaries and from associates decreased by 30.6% to HK$781 million. This mainly reflects the start up costs of our new cargo terminal, which became fully operational in October 2013, after a phased opening which began in February 2013. The results also continued to be affected by the performance of Air China Cargo, our cargo joint venture with Air China. The financial performance of the new cargo terminal in 2014 will benefit from the absence of start up costs. Air China Cargo's financial performance in 2014 will benefit from the steps taken to improve its profitability referred to below.

We continued to develop our strategic partnership with Air China. Steps taken to improve the financial performance of Air China Cargo included the purchase of fuel-efficient Boeing 777-200F freighters (the first of which was delivered in December 2013) to replace the joint venture's Boeing 747-400BCF converted freighters. A new ground-handling company, Shanghai International Airport Services Co., Limited, began operations in February 2013. This joint venture between Cathay Pacific, Air China, Shanghai Airport Authority and Shanghai International Airport Co. Ltd. provides ground-handling services at Shanghai's two international airports, Hongqiao and Pudong.

The operating environment remained challenging throughout 2013, for the Group and the aviation industry as a whole. It was therefore encouraging to see an improvement in our overall performance, and the strength of the passenger business reflects our continuing investment in network development and providing superior service and world-beating products. We were delighted to see our cabin crew win the Skytrax "World's Best Cabin Staff" award – a true acknowledgement of the Service Straight from the Heart that makes the Cathay Pacific experience truly special. The cargo business continues to be problematic. There is still no sign of any sustained improvement in the market. Some changes in the business appear now to be structural rather than cyclical. We thus have reduced the size of our freighter fleet and at the same time increased its efficiency. We remain confident in Hong Kong's future as an air cargo centre and believe that our reshaped freighter fleet and our new cargo terminal will allow us to compete successfully in the long term.

The business outlook for 2014 looks to be improved when compared to 2013. Our passenger business continues to perform well and will benefit from further expansion of frequencies on long-haul routes. Fuel prices remain high but we will benefit from our hedging positions should they remain so. We also expect an improvement in the performance of non-airline subsidiaries and our associates, with the new cargo terminal being fully operational and Air China Cargo benefiting from its upgraded freighter fleet. We will continue to invest to make our business stronger while keeping our financial position strong. As always, we remain committed to strengthening the world class aviation hub in our home, Hong Kong.

Christopher Pratt
Chairman
Hong Kong, 12th March 2014

2013 in Review

The Cathay Pacific Group faced challenges in 2013 from the continued high price of jet fuel and the continued weakness in the air cargo market. But passenger revenues were higher than in 2012 and cost-saving measures introduced in 2012 had a positive effect on results. The Group remained focused on strengthening the networks of its airlines and improving its products and services. We continued to make long-term investments designed to ensure the long-term success of the Group and Hong Kong's position as one of the world's leading aviation hubs.

Award winning products and services

- The installation of our award-winning new business class seats on our Boeing 777-300ER and Airbus A330-300 long-haul aircraft was completed in March 2013.
- We improved the long-haul business class seats on our Boeing 747-400 and Airbus A340-300 aircraft. This was completed at the end of 2013.
- The installation of new economy class seats on Cathay Pacific's long-haul Boeing 777-300ER and Airbus A330-300 aircraft was completed in March 2013.
- Cathay Pacific introduced its new premium economy class in April 2012. It continues to grow in popularity with passengers and received the Best Premium Economy Class award in the 2013 Business Traveller Asia-Pacific Travel Awards. Premium economy class was available on 85 aircraft at the end of 2013.
- All Boeing 777-300ER and Airbus A330-300 aircraft with long-haul configuration to be delivered from now until the end of 2015 will be fitted with Cathay Pacific's award-winning long-haul business class seats, with premium economy class seats and with the new long-haul economy class seats.
- In January 2013, we began to install new regional business class seats in our Boeing 777-300 aircraft. Installation was completed in January 2014. In December 2013, we began installing the same seats in our regional A330-300 aircraft, with installation expected to be completed by the third quarter of 2014. The new seats have better ergonomics and more storage space. Audio and video on demand can be accessed through personal touch-screen television monitors. There are new headsets which reduce external noise.
- New entertainment systems and touch-screen monitors are being installed in economy class in those aircraft that are being fitted with the new regional business class seats.
- In July 2013, we started to improve the first class seats in our Boeing 777-300ER aircraft. This is an upgrade to the existing seats intended to refresh their look and feel and to enhance their features. This improvement will be completed by the end of 2014.
- The installation of new business class and economy class seats in Dragonair's Airbus A330-300 and A321-200 aircraft was started in February and May 2013 respectively and was completed later in the year. Audio and video on demand is available for all passengers through personal television monitors. Newly designed cutlery, crockery and glassware have been introduced.
- In February 2013, we reopened the first class lounge, The Wing, at Hong Kong International Airport following an extensive refurbishment. This was the final stage of the renovation of our signature lounge at the airport. There is a new à la carte menu at The Haven, a new champagne bar and refurbished cabanas with shower and bath facilities.
- The Bridge, a new 2,600 square-metre lounge at Hong Kong International Airport, opened in October 2013. This is the Group's fifth departure lounge at the airport. It has more than 360 seats and features two new food and beverage concepts, The Bakery and The Coffee Loft.
- Cathay Pacific received the Best Airline Lounge in Asia-Pacific award in the 2013 Business Traveller Asia-Pacific Travel Awards.
- The professionalism of our cabin crew was recognised when Cathay Pacific received the World's Best Cabin Staff award in the Skytrax World Airline Awards in June 2013. Cathay Pacific also received the Best Transpacific Airline award.
- Dragonair received the World's Best Regional Airline award for the third time in the Skytrax awards, a first for any airline. It also received the Best Regional Airline in Asia award.

- In October 2013, Dragonair received the Best Regional Airline award in the annual TTG Travel Awards. This was the fourth consecutive year for the airline to receive this award.
- At the 2013 Business Traveller China Awards, Cathay Pacific received the Best Airline Business Class award and Dragonair received the Best Airline Economy Class award.

Hub development

- The Cathay Pacific Group remains committed to the long-term development of Hong Kong International Airport as a premier international hub for passenger and cargo traffic. We continue to develop our networks and frequencies where possible, so providing our customers with more choice. We also work to improve the connections available through the Hong Kong hub.
- The Cathay Pacific cargo terminal at Hong Kong International Airport became fully operational in October 2013. This HK$5.9 billion facility is currently handling the cargo operations of Cathay Pacific, Dragonair and Air Hong Kong. In the long run this facility will reduce costs and improve efficiency in our cargo business and will enable us to provide a wider range of services for our cargo customers. We will open the terminal for third-party business in due course.
- In 2013 the passenger capacity of Cathay Pacific and Dragonair decreased by 1.8% compared to the previous year. This was a result of frequency reductions introduced in 2012 in order to save costs and the use of smaller aircraft (Boeing 777-300ERs instead of Boeing 747-400s) on long-haul routes. Capacity began to grow again towards the end of the year as we increased frequencies on some routes and introduced new routes.
- Dragonair's capacity grew by 8.3% in 2013 as it introduced five new routes and increased frequencies on some existing routes.
- In 2013 we fully restored the long-haul passenger frequencies previously cancelled as part of 2012's cost reduction measures including Los Angeles (to three times daily from June 2013), Toronto (to 10 flights per week from March 2013) and New York (to four times daily from September 2013).
- We will increase our passenger services to the United States in 2014. In March 2014 we introduced a service to Newark, resulting in our operating five flights a day to the greater New York area. We will add a fourth daily flight to Los Angeles from June 2014 and three more flights (to the existing seven) a week to Chicago from August 2014.
- We will launch a service to Doha in late March 2014. Cathay Pacific and Qatar Airways will each operate one flight between Hong Kong and Qatar daily under a strategic agreement. We will stop operating flights to Jeddah and Abu Dhabi from March 2014.
- We added a fifth daily flight to London in June 2013. Demand on this additional flight has been consistently strong.
- We introduced a four-times-weekly service to Male in the Maldives in October 2013.
- We improved our Mumbai service from March 2013 by changing three of the flights that went via Bangkok to non-stop flights. There are now 10 non-stop flights a week to Mumbai.
- We added 10 more flights a week to Bangkok in 2013.
- We made adjustments to our Australia services in March 2014, removing some of the triangular routings in order to strengthen our direct services to and from Adelaide, Brisbane, Cairns and Melbourne.
- We are committed to increasing flights to and from Mainland China (primarily through Dragonair), by adding new destinations and more frequencies where possible and so improving connections through Hong Kong. Currently, we operate approaching 400 flights to 22 Mainland China destinations every week. We introduced two new Mainland China routes in 2013, Wenzhou and Zhengzhou, and added three flights a week on the Wuhan route (making a total of 10 flights a week).
- Dragonair introduced services to Da Nang, Yangon and Siem Reap in 2013. The airline has introduced services to 13 new destinations since April 2012. It will introduce a 10-flights-weekly service to Penang in March 2014 (at the same time as Cathay Pacific stops flying on that route) and will begin a two-times-weekly service to Denpasar, Bali in Indonesia in April 2014.
- Dragonair added more flights to a number of destinations. In February 2013, three flights a week were added to Kaohsiung and one more was added in September 2013 (making a total of 46 flights a week). We added one flight a week to Chiang Mai in April 2013 and two more in October to make it a daily service. In July 2013, one flight a week was added to Da Nang (making a total of four flights a week) and we made this a daily service for the December to February holiday peak period. Flights were also added on the Kolkata, Kota Kinabalu and Phuket routes.
- Cargo capacity in 2013 increased by 1.7% compared to 2012. We reduced our freighter schedules and cancelled flights on an ad hoc basis in response to the weak air cargo markets.

- We began offering freighter services between Mexico and Asia in 2013. We introduced a two-times-weekly freighter service to Guadalajara in October 2013. This was extended to three-times-weekly in March 2014 and at the same time we extended this service to Mexico City.
- We will add two-times-weekly freighter service to Columbus in the United States in late March 2014.
- We added one freighter flight to Hanoi in May and one more in July 2013 to make it six-times-weekly. In September 2013, freighter service to Xiamen was increased to three-times-weekly. In October 2013, freighter services to Colombo were increased to two-times-weekly.
- We suspended cargo services to Brussels and Stockholm in February 2013, due to continued weak demand for cargo shipments to and from Europe.

Fleet development

- The Cathay Pacific Group remains committed to upgrading and modernising its fleet. At 31st December 2013, the Group had 95 new aircraft on order for delivery up to 2024.
- In March 2013, we entered into agreements in relation to our cargo fleet as part of a package of transactions among The Boeing Company, Cathay Pacific, Air China Cargo and Air China. Under these transactions, we agreed to purchase three Boeing 747-8F freighters (which were delivered in December 2013), cancelled orders for eight Boeing 777-200F freighters, acquired options to purchase five Boeing 777-200F freighters and agreed to sell four Boeing 747-400BCF converted freighters. All of these converted freighters have already left our fleet. As part of the same package of transactions, Air China Cargo agreed to purchase eight Boeing 777-200F freighters and to sell seven Boeing 747-400BCF converted freighters.
- In December 2013, we agreed with The Boeing Company to purchase 21 new Boeing 777-9X aircraft (for delivery after 2020), three new Boeing 777-300ER aircraft and one new Boeing 747-8F freighter and to sell six existing Boeing 747-400F freighters.
- In 2013 we took delivery of 19 new aircraft: five Airbus A330-300 aircraft (including one for Dragonair), nine Boeing 777-300ER aircraft and five Boeing 747-8F freighters.
- In response to the high cost of jet fuel, we have accelerated the retirement of our older, less fuel-efficient Boeing 747-400 passenger aircraft. Five of these aircraft were retired and deregistered in 2013 in addition to the three retired in 2012. In 2014, a total of six aircraft is to be retired, of which one was retired in January 2014. There will be seven of this aircraft type in the fleet by the end of 2014. We are gradually retiring the Boeing 747-400 aircraft from long-haul services. By September 2014 they will only be operating on regional routes.
- Six Airbus A330-300 aircraft were transferred from Cathay Pacific to Dragonair in 2013. Four of Dragonair's own Airbus A330-300 aircraft were returned to their lessors.
- In addition to the four Boeing 747-400BCF converted freighters that were returned to Boeing in the abovementioned package of transactions, we also parked two other freighters in 2013, the last-remaining Cathay Pacific's operating converted freighter and one of our Boeing 747-400 production freighters. Three Boeing 747-400 production freighters were parked, two parked in January 2014, one parked in February 2014 which will be brought back into service in the second half of 2014.

Advances in technology

- Following the introduction of a new reservations system in 2012, we are preparing to introduce a new departure control system in the second half of 2014. This will deal with check-in and other passenger-related processes at airports. We introduced a new weight and load management system in December 2013.
- We established an IT innovation centre in 2013. Mobile fast passes have been introduced in order to simplify check-in and boarding. We have certified mobile applications for our staff.
- New technology based methods of dealing with procurement and finance are to be introduced.
- We are introducing a digital method of communication between flight crews and staff on the ground. This requires the introduction of an advanced information management system and will represent the most significant upgrade in flight deck communication technology in 30 years. After a two-year trial, the system was installed in the first aircraft in December 2013.
- An electronic system for recording and retrieving aircraft maintenance was introduced in 2013. More than 33 million pages of paper records were converted into electronic format.
- In 2013 we began to replace our cargo booking system with a new system. The replacement is scheduled to be completed in 2016.

Partnerships

- Malaysia Airlines became a full member of the **one**world alliance in February 2013.
- Qatar Airways became a full member of the **one**world alliance in October 2013, the first of the major Gulf carriers to join an airline alliance. Cathay Pacific and Qatar Airways have entered into a strategic agreement for codesharing all their services between Hong Kong and Qatar, effective from late March 2014, which offers enhanced connectivity and frequent flyer benefits to their passengers.
- SriLankan Airlines will become a full member of the **one**world alliance in May 2014. Cathay Pacific is sponsoring the carrier's entry into the alliance.
- LAN Colombia became an affiliate member of the **one**world alliance in October 2013.
- Following completion of their merger with LAN (to form the LATAM Airlines Group), Brazil's TAM and TAM Mercosur will become part of the **one**world alliance by the end of March 2014.
- American Airlines completed its merger with US Airways in December 2013. US Airways will join the **one**world alliance as an affiliate member by the end of March 2014.
- Cathay Pacific, Dragonair and S7 Airlines entered into a codeshare arrangement that covers S7 flights between Hong Kong and Khabarovsk, Vladivostok and Saint Petersburg via Moscow, and Cathay Pacific flights between Hong Kong and Bangkok, Ho Chi Minh City, Moscow and Singapore. The codeshare arrangement also covers Dragonair flights between Hong Kong and Chiang Mai and Hanoi.
- Cathay Pacific, Dragonair and Hunnu Air, formerly Mongolian Airlines, introduced interline arrangements in February 2013.
- In March 2013, British Airways added its code on Cathay Pacific flights to Australia.
- Cathay Pacific added its code on Dragonair flights to Da Nang in March 2013 and to Penang in January 2014.
- Cathay Pacific entered into a codeshare arrangement with Bangkok Airways in November 2013. This covers Bangkok Airways' daily flights between Hong Kong and Koh Samui and its flights between Bangkok and Krabi and Chiang Mai, and Cathay Pacific flights between Hong Kong and Bangkok.
- A codeshare arrangement with Air Seychelles was entered into in December 2013. Cathay Pacific has added its code on Air Seychelles flights between Hong Kong and the Seychelles and between the Seychelles and Abu Dhabi. Air Seychelles has added its code on Cathay Pacific flights between Hong Kong and Australia, South Africa and South Korea.

Environment

- Cathay Pacific continues to engage with regulators and groups involved in shaping aviation policy as part of our climate change strategy.
- Cathay Pacific is engaged with the International Air Transport Association in developing airlines' commitment to carbon neutral growth by 2020, and is engaged with the International Civil Aviation Organization (ICAO) in developing proposals for a fair and equitable global agreement on emissions.
- At the ICAO Assembly in September 2013, delegates representing 191 governments were invited to proceed with the development of a single global market-based measure addressing emissions from international aviation. Cathay Pacific supports this development.
- In compliance with the European Union Emissions Trading Scheme (EU ETS), our emissions data for 2012 were externally verified and our emissions report for 2012 was submitted to the UK Environment Agency at the end of March 2013. Verification of our 2013 emissions data is in progress.
- The European Union Commission is negotiating amendments and limitations to the scope of the EU ETS. While this is happening, Cathay Pacific continues to prepare for compliance with the relevant laws by undertaking the required monitoring, reporting and verification on the basis of the original scope of the EU ETS.
- The 5th Greener Skies Aviation and Environment Conference was held in Hong Kong in February 2013. Cathay Pacific sponsored the event.
- In April 2013, the FTSE4Good Group confirmed that we continued to be included on the FTSE4Good Index Series for the fourth year. The index is designed to measure the performance of companies that meet globally recognised corporate responsibility standards and to facilitate investment in those companies.
- In September 2013, Cathay Pacific maintained its selection as a constituent company of the Hang Seng Corporate Sustainability Index Series in 2013/14.
- We continue sharing environmental best practices with our strategic partner, Air China.
- In September 2013, Cathay Pacific was selected as a constituent company of the Asia Pacific subset of the Dow Jones Sustainability Index for the first time.

- Cathay Pacific continues to disclose its climate change management and performance through the Carbon Disclosure Project (CDP). In November 2013, we were included in the CDP Asia ex-Japan Climate Disclosure Leadership Index.
- Cathay Pacific's Sustainable Development Report for 2012, entitled "Sustainability Matters", was issued in September 2013 at www.cathaypacific.com/sdreport.
- We supported the Hong Kong SAR Government's "Food Wise" campaign by signing the Food Wise Charter in May 2013. This Charter commits its signatories to reduce food waste.
- In March 2013 we participated in the WWF HK-sponsored annual "Earth Hour" activity. We switched off all non-essential lighting in our buildings and on our billboards during this hour.
- As an extension to the 2013 Earth Hour, we ran the "I Will If You Will" campaign to increase awareness by employees of environmental issues. Staff from more than 100 departments and overseas offices used the campaign to devise ways to support the environment.
- A Cathay Pacific Airbus A330-300 aircraft has been fitted with data-collecting instruments under the Airbus-supported In-service Aircraft for a Global Observing System (IAGOS) project. The data collected will aid scientific studies of climate change.
- Cathay Pacific began to take part in the Asia and Pacific Initiative for the Reduction of Emissions (ASPIRE) programme in the latter part of 2013. This programme aims to demonstrate how advanced technology and processes and improved air traffic management can reduce aviation's environmental impact.
- In 2013, we sent approaching 150,000 plastic tea cups collected from flights for recycling, avoiding up to four tonnes of waste being sent to landfills.
- We have donated more than 5,000 sleep suits left behind by first class passengers on Hong Kong-bound flights to Compassion Revival, a charity for the needy in Hong Kong.
- We have introduced new sleep suits for first class passengers made from organic cotton by PYE, a Hong Kong based manufacturer which employs sustainable production methods.
- We reduced the replacement of plastic bags which contain our inflight magazines in the seat pouches. This reduced the print run for the magazines and the amount of plastic wrapping which we use. We reduced the weight of the paper used for printing (with a corresponding reduction in carbon emissions) and obtained the paper from a more sustainable, Forestry Stewardship Council (FSC) certified, source.

Contribution to the community

- In January 2013, Hong Kong SAR Chief Executive CY Leung was guest of honour on a special community flight organised by Cathay Pacific. The 90-minute flight on a Boeing 777-300ER aircraft was a special treat for 82 single-parent families from less-well-off districts in Hong Kong. Most of the participants had never flown before. We operated another community flight in January 2014, again with the Hong Kong SAR Chief Executive as our guest of honour.
- Cathay Pacific organised a special flight for 100 children and their guardians from Ya'an in Sichuan Province, flying them to Hong Kong for a five-day tour in July 2013. All of the youngsters had been affected in some way by the earthquake in Sichuan that struck their home town in April 2013.
- In July 2013, we launched "The Spirit of Hong Kong" contest in support of the "Hong Kong: Our Home" campaign being run by the Hong Kong SAR Government. The contest called on Hong Kong people to submit creative entries that illustrate the spirit of Cathay Pacific's home city. More than 5,200 entries were received and there were more than 400,000 visits to the contest's website. The winners of the contest had their images incorporated into a special "Spirit of Hong Kong" aircraft livery. The livery, painted onto a Cathay Pacific Boeing 777-300ER aircraft, was unveiled at a ceremony in December 2013.
- Cathay Pacific continues to support UNICEF through its "Change for Good" inflight fundraising programme. In June 2013, we announced that the airline's passengers had contributed more than HK$14.3 million in 2012 to help improve the lives of disadvantaged children around the world. Since its introduction in 1991, more than HK$133 million has been raised through "Change for Good". In March 2013, a group of Cathay Pacific staff went to Vietnam to see how "Change for Good" donations are put to good use in the local community.
- In May 2013, HK$2 million was given to UNICEF for its relief efforts following the earthquake in Sichuan in Mainland China. The amount donated comprised money raised from staff (which was matched by the Company) and donations by passengers to "Change for Good". In November 2013, HK$5 million was raised (by similar means) to support the relief efforts of the Red Cross and UNICEF following Super Typhoon Haiyan in the Philippines.

- In February 2013, Cathay Pacific celebrated the 17th Anniversary of the formation of 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$10 million, benefiting around 370 children.
- The CX Volunteers, made up of more than 1,100 Cathay Pacific staff members, continue to help the Hong Kong community. They spent more than 1,700 hours serving the community in 2013. Their "English on Air" programme has helped more than 2,000 students to improve their conversational English skills. The CX volunteers trained and sponsored 40 teenagers from Tung Chung to participate in a 24-hour pedal kart charity competition. They visited more than 40 senior citizens to help brighten up their homes in time for Chinese New Year. They held a charity sale for low-income families in Tung Chung.
- In October 2013, more than 100 Cathay Pacific staff and family members took part in the International Coastal Cleanup initiative, clearing 400 kilograms of debris from a beach on Lantau Island in Hong Kong.
- Our staff can apply to the Cathay Pacific Charitable Fund for money to support charitable activities in which they participate themselves. The fund was launched in late 2011. Up to 31st December 2013, it had supported 43 projects in Hong Kong and overseas.
- We continue to engage with the local community by organising tours of our headquarters at Hong Kong International Airport. More than 12,000 visitors from schools and NGOs were welcomed at Cathay Pacific City in 2013.
- In April 2013, the Dragonair Youth Aviation Academy organised a two-day aviation career workshop for more than 100 young people, providing them with an opportunity to learn about aviation and careers in the aviation industry. In November 2013, the Academy held a cabin crew insight workshop for 120 students in tertiary education.
- The Dragonair Aviation Certificate Programme is jointly organised with the Hong Kong Air Cadet Corps. In 2013, our pilots mentored 30 participants over eight months, aiming to inspire potential Hong Kong aviators by giving them firsthand knowledge of the aviation industry. To date there have been more than 140 participants in the programme. 43% of them have started an aviation-related career.
- Cathay Pacific has received the Caring Company Logo from the Hong Kong Council of Social Service in every year since 2003 in recognition of its good corporate citizenship. Dragonair has received the Caring Company Logo for eight consecutive years.
- Cathay Pacific received an award for 10,000 hours of voluntary service in 2013 from the Volunteer Movement of the Social Welfare Department.
- Around 800 used PCs and laptops were donated by Cathay Pacific to Caritas (a Hong Kong charity) to help less-advantaged people in Hong Kong.

Commitment to staff

- At the end of December 2013, the Cathay Pacific Group employed more than 31,600 people worldwide. More than 24,200 of these people are based in Hong Kong. Cathay Pacific itself employs more than 21,400 people worldwide. Dragonair employs around 3,100 people.
- In 2013, Cathay Pacific recruited more than 590 cabin crew and more than 170 pilots. Dragonair recruited about 110 cabin crew and about 40 pilots.
- Our airlines' cadet programmes continue to bring new blood into Hong Kong's aviation industry. 107 cadets graduated from the Cathay Pacific Cadet Pilot Programme in 2013. About 100 cadets are currently being trained. Dragonair recruited about 20 cadets in 2013. 35 cadets graduated from the Dragonair programme in 2013.
- We launched a new careers website in October 2013, offering jobseekers information about the working lives of different types of employee. The website features videos and testimonials from a number of current staff.
- An IT graduate trainee programme was introduced in November 2013. The first group of trainees will start working at Cathay Pacific in September 2014.
- Our engineering trainee scheme, which was introduced in 1985, has resulted in the employment of more than 100 young engineers. A number of them are now in senior positions.
- 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.
- To encourage innovation, we request staff to offer new ideas and suggestions online. This enables staff to gather as an online community to discuss challenges, to submit their ideas and suggestions and to comment on the ideas and suggestions of others.
- The ninth annual Betsy Awards ceremony took place in July 2013. This is an internal programme aimed at honouring staff who go beyond the call of duty to help passengers.

Fleet profile*

Aircraft type	Number as at 31st December 2013: Owned	Leased: Finance	Leased: Operating	Total	Firm orders: '14	'15	'16 and beyond	Total	Expiry of operating leases: '14	'15	'16	'17	'18	'19 and beyond	Options
Aircraft operated by Cathay Pacific:															
A330-300	14	15	6	**35**	5	3		**8**		2	1	1		2	
A340-300	6	5		**11**											
A350-900							22[a]	**22**							
A350-1000							26	**26**							
747-400	12[b]		1	**13**						1					
747-400F	3[c]	3[d]		**6**[e]											
747-400BCF			1[f]	**1**									1		
747-400ERF		6		**6**											
747-8F	2	11		**13**			1[e]	**1**							
777-200	5			**5**											
777-200F															5[g]
777-300	7	5		**12**											
777-300ER	8	11	19	**38**	9	6[e]		**15**				2	2	15	
777-9X							21[e]	**21**							
Total	57	56	27	**140**	14	9	70	**93**		3	1	3	3	17	5
Aircraft operated by Dragonair:															
A320-200	5		10	**15**									2	8	
A321-200	2		4	**6**	2[h]			**2**						4	
A330-300	5	1	14[i]	**20**					7	1	2	4			
Total	12	1	28	**41**	2			**2**	7	1	2	4	2	12	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6		**8**											
747-400BCF			3	**3**							1	2			
Total	2	6	3	**11**[j]							1	2			
Grand total	**71**	**63**	**58**	**192**	**16**	**9**	**70**	**95**	**7**	**4**	**4**	**9**	**5**	**29**	**5**

** Includes parked aircraft. The table does not reflect aircraft movements after 31st December 2013.*

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

(b) One aircraft was retired in January 2014.

(c) One aircraft was parked in May 2013.

(d) The finance leases of these three aircraft were early terminated in January 2014.

(e) In December 2013, we agreed with The Boeing Company to purchase 21 new Boeing 777-9X aircraft (for delivery after 2020), three new Boeing 777-300ER aircraft and one new Boeing 747-8F freighter and to sell six existing Boeing 747-400F freighters.

(f) Aircraft was parked in August 2013.

(g) Purchase options to purchase five Boeing 777-200F freighters.

(h) Aircraft on 8-year operating leases, one of which was delivered in January 2014.

(i) Six aircraft (four owned by the Company and two leased by the Company) were leased to Dragonair during the year. Dragonair purchased one such aircraft from the Company upon its lease expiry in February 2014.

(j) Air Hong Kong also has two Airbus A300-600F freighters on wet leases, with lease terms ending in 2015. Accordingly, it operates a total of 13 aircraft.

Review of other subsidiaries and associates

The results recorded by our other subsidiaries were satisfactory overall. The share of profits from other subsidiaries and associates in 2013 decreased by 30.6% to HK$781 million from HK$1,126 million (restated). This mainly reflected the start up costs of the new cargo terminal. Below is a review of the performance and operations of other subsidiaries and associates.

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

- Air Hong Kong is the only all-cargo airline in Hong Kong. It is 60% owned by Cathay Pacific. It operates express cargo services for DHL Express.
- The airline operates a fleet of eight owned Airbus A300-600F freighters, three Boeing 747-400BCF converted freighters dry-leased from Cathay Pacific and two wet-leased Airbus A300-600F freighters.
- During 2013 Air Hong Kong operated six flights per week services to each of Bangkok, Nagoya, Osaka, Seoul, Shanghai, Singapore, Taipei and Tokyo and five flights per week services to each of Beijing, Ho Chi Minh City, Manila and Penang (via Ho Chi Minh City).
- On-time performance was 90% within 15 minutes.
- Compared with 2012, capacity increased by 3%. The load factor decreased by 1 percentage point. Revenue tonne kilometres increased by 2%.
- Air Hong Kong achieved an increase in profit for 2013 compared with 2012.

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

- CPCS, a wholly owned subsidiary, is the principal flight kitchen in Hong Kong.
- CPCS provides flight catering services to 41 international airlines in Hong Kong. It produced 25.7 million meals and handled 65,000 flights in 2013 (representing a daily average of 70,000 meals and 179 flights and an increase of 3.0% and 4.0% respectively over 2012). CPCS had a 63.0% share of the flight catering market in Hong Kong in 2013.
- The increase in business volume and effective management of costs resulted in higher turnover and profit in 2013.
- In 2013, CPCS completed the expansion of its capacity from 80,000 to 100,000 meals a day. It also started to invest in the further expansion of its capacity to 140,000 meals a day (from the middle of 2016).
- Outside Hong Kong, profits increased in all kitchens.
- During the year, the 40% interest in the Vietnam kitchen owned by CPCS was sold to Vietnam Airlines upon the expiry of the joint venture agreement with Vietnam Airlines.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, was established to design, build and operate the new Cathay Pacific cargo terminal at Hong Kong International Airport. The terminal started to operate in February and became fully operational in October 2013. It has the capacity to handle 2.6 million tonnes of cargo annually. Now that it is fully operational, the HK$5.9 billion facility is significantly reducing the time it takes to process and ship cargo in Hong Kong.
- In 2013, CPSL provided cargo handling services to the Cathay Pacific Group. It handled more than 580,000 tonnes of cargo during the year.
- CPSL reported a loss in 2013. This reflected the fact that it was not fully operational until October 2013.

Hong Kong Airport Services Limited ("HAS")

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services in Hong Kong. It provides ground services to 29 airlines, including Cathay Pacific and Dragonair. It also holds a 25% interest in Shanghai International Airport Services Co., Limited.
- In 2013, HAS had 50.6% and 25.0% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.
- In 2013, the number of customers for passenger handling decreased from 25 to 24. The number of customers for ramp handling decreased from 26 to 25. Passenger handling flights increased by 1.5%. Ramp handling flights decreased by 0.5%.
- The financial results for 2013 deteriorated compared to 2012. This reflected manpower shortages at Hong Kong International Airport and the associated higher costs incurred in attracting and retaining staff.

- In 2013, the financial results derived from each customer airline were scrutinised in the light of increasing costs. The intention is to strike a balance between yield and market share in order to provide a sustainable and profitable service.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific has a 20.13% interest, is the national flag carrier and leading provider of passenger, cargo and other airline related services in Mainland China.
- At 31st December 2013, Air China operated 212 domestic and 86 international (including regional) routes to 31 countries and regions, including 47 overseas cities, three regional cities and 104 domestic cities.
- We have two representatives on the Board of Directors of Air China and equity account for our share of Air China's profit.
- Our share of Air China's results is based on its accounts drawn up three months in arrear. Consequently our 2013 results include Air China's results for the 12 months ended 30th September 2013, adjusted for any significant events or transactions for the period from 1st October 2013 to 31st December 2013.
- The Group recorded a decrease in profit from Air China in 2013. This primarily reflected increased fuel costs.
- In March 2013, as part of a package of transactions between the Group, The Boeing Company, Air China and Air China Cargo, Air China agreed to purchase two Boeing 747-8I aircraft, one Boeing 777-300ER aircraft and 20 Boeing 737-800 aircraft from The Boeing Company.
- In May 2013, Air China ordered 100 Airbus A320 aircraft, 60 for itself and 40 for its subsidiary, Shenzhen Airlines Co., Ltd. The aircraft are to be delivered from 2014 to 2020.

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

- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest, is the leading provider of air cargo services in Mainland China.
- The Group recorded a decreased loss from Air China Cargo in 2013. This was mainly due to the retirement of older aircraft, which resulted in a decrease in maintenance costs.
- At 31st December 2013, Air China Cargo had a fleet of eight freighters. It operates scheduled freighter services to seven countries and regions. It flies to seven cities in Mainland China and 10 cities outside Mainland China. Taking account of its right to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections with 154 destinations.
- In March 2013, as part of a package of transactions between the Group, The Boeing Company, Air China and Air China Cargo, Air China Cargo agreed to purchase eight Boeing 777-200F freighters and to sell seven Boeing 747-400BCF converted freighters.

HAECO ITM Limited ("HXITM")

- HXITM, in which Cathay Pacific has a 30% interest, provides aircraft inventory technical management services to Cathay Pacific Group and other airlines.
- In 2013, HXITM provided services for more than 200 aircraft.
- HXITM reported a profit in 2013.

Shanghai International Airport Services Co., Limited ("SIAS")

- SIAS is a joint venture between HAS (25%), Air China (24%), Shanghai Airport Authority (10%) and Shanghai International Airport Co. Ltd. (41%). SIAS provides airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport.
- SIAS provides services to 11 domestic airlines, three international airlines and two private jet companies at Hongqiao. At Pudong, SIAS provides services to 10 domestic airlines, 20 international airlines and one private jet company.
- SIAS made a loss in 2013. The loss was less than expected, principally because of cost savings.

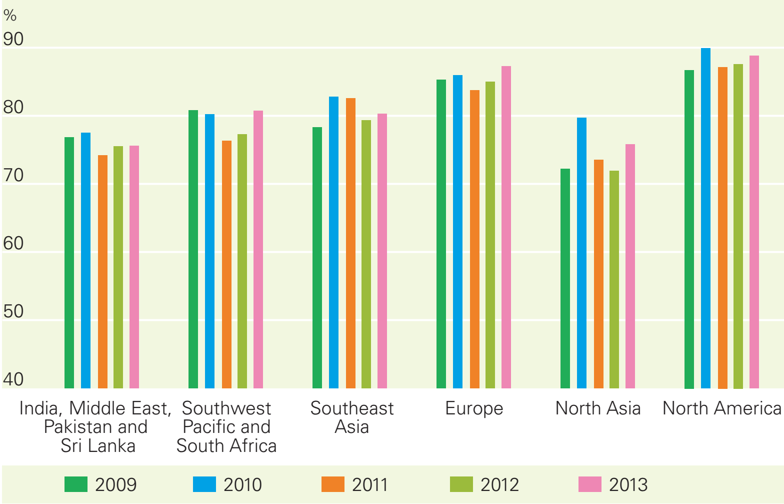
Revitalising Experience

A suite of new inflight products is taking the passenger experience to new heights. The sophisticated cabin products are matched by exciting new lounges and advanced online and mobile travel solutions.

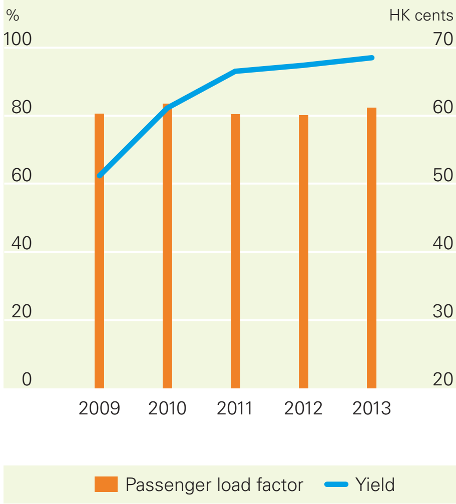
Review of Operations / Passenger services

The passenger business improved in 2013. Cathay Pacific and Dragonair carried 29.9 million passengers, an increase of 3.3% compared to 2012. Revenue increased by 2.4% to HK$71,826 million. The load factor increased by 2.1 percentage points to 82.2%. Yield increased by 1.8% to HK68.5 cents. Revenue and passengers increased despite a capacity decrease of 1.8%, which reflected the 2012's reduction in long-haul frequencies and the accelerated retirement of Boeing 747-400 aircraft. The travel market was more robust than in 2012, with increased demand for both business and leisure travel. Passenger demand was strong on long-haul routes in all classes of travel. However, demand on regional routes did not match the increase in capacity on these routes, which put yield under pressure. The profitability of the passenger services was improved by the use of more Boeing 777-300ER aircraft for long-haul flights, which helped to contain fuel costs.

Load factor by region



Passenger load factor and yield



Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Dragonair passenger services for 2013 were as follows:

	ASK (million)			Load factor (%)			Yield
	2013	2012	**Change**	**2013**	2012	**Change**	**Change**
India, Middle East, Pakistan and Sri Lanka	**10,697**	11,049	**-3.2%**	**75.5**	75.5	**–**	**-4.5%**
Southwest Pacific and South Africa	**17,490**	18,304	**-4.4%**	**80.7**	77.3	**+3.4%pt**	**-1.2%**
Southeast Asia	**18,246**	18,031	**+1.2%**	**80.3**	79.3	**+1.0%pt**	**+1.0%**
Europe	**21,536**	21,509	**+0.1%**	**87.3**	85.0	**+2.3%pt**	**+3.6%**
North Asia	**28,450**	27,980	**+1.7%**	**75.8**	71.9	**+3.9%pt**	**-1.5%**
North America	**30,796**	32,722	**-5.9%**	**88.8**	87.6	**+1.2%pt**	**+8.3%**
Overall	**127,215**	129,595	**-1.8%**	**82.2**	80.1	**+2.1%pt**	**+1.8%**

Home market – Hong Kong and Pearl River Delta

- Demand for leisure travel on routes originating in Hong Kong was strong throughout most of 2013, especially during the peak holiday periods. However, demand on regional routes did not match the increase in capacity on these routes, which put yield under pressure.
- The depreciation of the yen resulted in increased demand for travel to Japan, which was sustained for most of the year. Demand for travel to Korea usually weakens when demand for travel to Japan strengthens. But this did not happen in 2013.
- There was strong demand for leisure travel from Hong Kong to the newly introduced destinations of Da Nang and Chiang Mai.
- Our weekly "fanfares" promotion has been successful in promoting travel from Hong Kong. More than 79,000 "fanfares" tickets were sold in 2013.
- Demand for leisure and business travel from the Pearl River Delta ("PRD") increased sharply in 2013. We opened an office in Shenzhen in October 2013, in order to strengthen our presence in the PRD.

India, Middle East, Pakistan and Sri Lanka

- We added more capacity on routes to India in 2013. Demand was resilient, but revenues derived from India were adversely affected by the depreciation of the Indian currency and the effect of competition on prices.
- Results from the Cathay Pacific service to Hyderabad, introduced in December 2012, and from Dragonair's service to Kolkata, introduced in November 2012, were satisfactory.
- Capacity was unchanged on the Colombo, Dhaka and Karachi routes. Results on these routes were in line with expectations.
- We introduced a four-times-weekly service to Male in the Maldives in October 2013. We expect a significant portion of the traffic on the route to originate from Hong Kong and Mainland China.
- Market conditions were challenging on Middle Eastern routes. Competition increased as more airlines started to fly direct to Southeast Asia.
- We will launch service to Doha in late March 2014. Cathay Pacific and Qatar Airways will each operate one flight between Hong Kong and Qatar daily under a strategic agreement. We will stop operating flights to Jeddah and Abu Dhabi from March 2014.

Southwest Pacific and South Africa

- The results from our Australian routes were satisfactory in 2013. Demand for travel to and from Mainland China remained strong. However, competition continued to grow, with more Mainland Chinese airlines offering direct services to Australia.
- We made adjustments to our Australia services in March 2014, removing some of the triangular routings in order to strengthen our direct services to and from Adelaide, Brisbane, Cairns and Melbourne.
- Demand for travel on the New Zealand route was strong in 2013, helped by the joint venture with Air New Zealand established at the beginning of 2013.
- The results of the South African routes were adversely affected by the depreciation of the South African currency.

Southeast Asia

- Demand was strong in Southeast Asia but results were affected by strong competition from both full service and low-cost carriers. This put pressure on yield.
- Business of economy class benefited from new traffic from Southeast Asian countries to short-haul destinations and Mainland China, connecting through Hong Kong, and from robust local economies.
- The Philippines routes performed well, with good loads in all classes.
- The Singapore route performed well, despite intense competition.
- The Malaysian routes were weak, reflecting strong competition, particularly on the Kuala Lumpur route. Cathay Pacific will cease flying to Penang in March 2014, when Dragonair will take over the route, operating 10 flights a week.
- Dragonair introduced services to Yangon in Myanmar in January 2013 and to Siem Reap in Cambodia in October 2013. The results from both routes have been satisfactory.
- Dragonair will begin a two-times-weekly service to Denpasar, Bali in Indonesia in April 2014.
- Demand on Thailand routes was strong in 2013. We increased the frequency of Dragonair's Chiang Mai service from five to seven flights a week in October 2013. We added 10 more flights a week to Bangkok in 2013.

Europe

- Business was strong on most European routes in 2013. There was good demand for the new premium economy class seats, particularly on the London and Frankfurt routes.
- Capacity on European routes decreased, as smaller aircraft (Boeing 777-300ERs instead of Boeing 747-400s) were used on some of the routes. Since January 2014, only Boeing 777-300ER aircraft have been used on the London route.
- We reduced frequencies on the Paris route from 14 flights a week to 11 per week and on the Rome route from seven flights to five per week, in each case in October 2013. These are seasonal adjustments.
- The results from the London route were strong in 2013. We added a fifth daily flight on the route in June 2013. Loads were consistently high in all classes. More passengers travelling on this route are connecting with flights to and from Southwest Pacific and Northeast Asian destinations.
- The results from the Moscow route were steady, helped by a new codeshare arrangement with **one**world partner S7 Airlines on a number of routes to cities in Russia.

North Asia

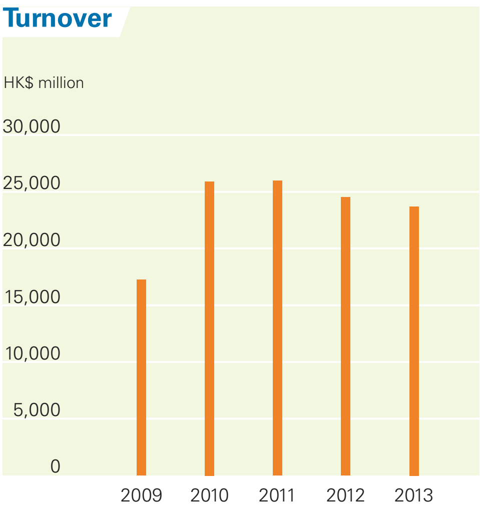
- In Mainland China, Dragonair introduced services to Wenzhou and Zhengzhou in January 2013. The airline now flies to 22 destinations in Mainland China.
- Demand for travel from Mainland China (both from Beijing and Shanghai and from secondary cities) was strong throughout 2013, reflecting the robust Mainland Chinese economy. Demand for travel through Hong Kong to Southeast Asia was particularly strong.
- Demand for travel to Mainland China was disappointing. It was affected by an outbreak of avian flu and by an earthquake in Sichuan in early 2013 and increased competition. An increasing number of international airlines are now flying direct to Mainland China.
- Increased competition and more direct cross straits flights affected results from the Taiwan routes. Taiwan, however, remained a popular leisure destination for Hong Kong travellers.
- The depreciation of the yen led to a considerable increase in traffic from Hong Kong to all our destinations in Japan. Revenues derived from Japan were adversely affected by the depreciation of the yen.
- The results from the Korean routes were strong in 2013. There was good demand for travel to and from Korean destinations.

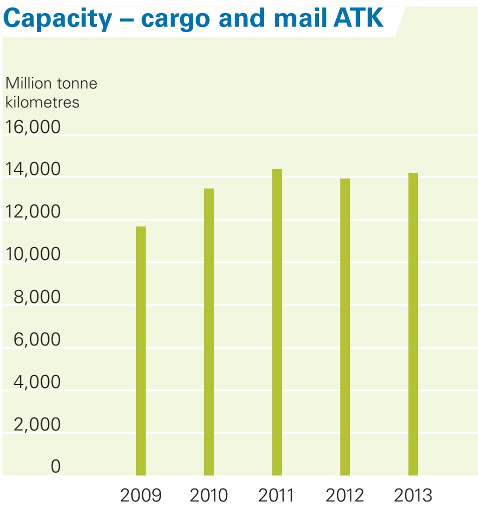
North America

- Demand for all classes of travel to and from our four United States destinations was strong in 2013. We fully restored frequencies on the Los Angeles and New York routes in response to the strength of demand.
- In March 2014 we introduced a service to Newark, resulting in our operating five flights a day to the greater New York area.
- We will add a fourth daily flight to Los Angeles from June 2014 and three more flights (to the existing seven) a week to Chicago from August 2014.
- There was strong competition from other airlines on Canadian routes in 2013. We restored three flights a week to Toronto in March 2013, returning to 10 flights a week.

Review of Operations / Cargo services / Asia Miles

In 2013, the Cathay Pacific Group's cargo business was affected by weak demand, high fuel prices and industry over capacity. Cathay Pacific and Dragonair carried 1.5 million tonnes of cargo and mail in 2013, a reduction of 1.5% compared to 2012. Cargo revenue generated by Cathay Pacific and Dragonair decreased by 6.1% to HK$20,293 million. Capacity increased by 1.7%. The load factor decreased by 2.4 percentage points to 61.8%. Yield decreased by 4.1% to HK$2.32. Our cargo business has been adversely affected by weak demand since April 2011. Some changes in the business appear now to be structural rather than cyclical. More cargo is being moved by sea. In 2013, we adjusted capacity and schedules in line with demand, but we also introduced new freighter services with a view to capture demand generated from newly developing markets. The delivery of new Boeing 747-8F freighters also improved operating efficiency. The opening of our new cargo terminal at Hong Kong International Airport demonstrates our long-term confidence in Hong Kong's position as an airfreight centre.





Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for 2013 were as follows:

	ATK (million)			Load factor (%)			Yield
	2013	2012	**Change**	**2013**	2012	**Change**	**Change**
Cathay Pacific and Dragonair	**14,162**	13,926	**+1.7%**	**61.8**	64.2	**-2.4%pt**	**-4.1%**

- The air cargo business has been affected by weak demand since April 2011. There was some recovery in business during the last three months (normally the peak period of the year for cargo shipments) of 2013, though business was still weaker than in the corresponding period of 2012. The recovery in the last three months of 2013 reflected shipments of consumer IT products manufactured in Asia. As in 2012, the recovery was not sustained.
- With a view to maintaining load factors and yield, we adjusted capacity in line with demand in 2013, reducing freighter schedules and making ad hoc flight cancellations. We carried more cargo in the bellies of passenger aircraft in order to reduce costs.
- Demand for cargo shipments from Hong Kong was weak for much of the year, particularly on European routes. Demand on transpacific and Asian routes was more robust. However, over capacity put pressure on yield.
- Our cargo business into and out of Mainland China improved during the year. This reflected the strong economy in Mainland China and strong demand for consumer products manufactured in Mainland China. Demand on the Chengdu, Chongqing and Zhengzhou routes continued to mature though competition on these routes became stronger. Demand for shipments from Shanghai and Xiamen improved. We added a third weekly flight on the Xiamen route in September 2013.
- Demand for shipments to and from Japan was weak in 2013. The depreciation of the yen did not increase exports. Strong competition for reduced tonnages led to a decline in yield. Our performance in Korea and Taiwan was stronger by comparison, but was still below expectations.
- Demand for shipments of hi-tech consumer products from Hanoi in Vietnam was strong. We made more capacity available on this route by adding one freighter service in May and one more in July 2013.
- Cambodia is a growth market for air cargo.
- The Indian subcontinent continues to grow in importance as an air cargo market. However, our ability to benefit from this depends on space being available on transpacific flights from Hong Kong. In response to strong growth in exports from Sri Lanka, we introduced a second weekly freighter service to Colombo in October 2013. Demand for shipments from Dhaka was strong throughout the year.
- Demand for shipments to and from Europe remained weak in 2013. In February 2013, we suspended cargo services to Brussels and Stockholm. We carried more freight in the bellies of our Boeing 777-300ER aircraft flying from London. We focused on priority and special cargo, including pharmaceuticals, in an effort to maintain yield.
- Demand for shipments to and from the Americas remained relatively strong in 2013, with a strong increase in demand in the last two months of the year. Shipments to North America benefited from the introduction of new IT products. There was strong demand for shipments of perishables and oil industry equipment from North America. We will add two-times-weekly freighter service to Columbus in the United States in late March 2014.
- We began offering freighter services between Mexico and Asia in 2013. We introduced a two-times-weekly freighter service to Guadalajara in October 2013. This was extended to three-times-weekly in March 2014 and at the same time we extended this service to Mexico City. With these new routes and our existing route to Miami (a centre for Latin American airfreight), we have a stronger presence in this fast-growing region.
- Demand for shipments to the Southwest Pacific was steady. Shipments of perishables were strong, but the market remains challenging. Limited air traffic rights make it difficult to increase our Australian air cargo business.
- High fuel prices continued to affect the financial performance of our cargo operations, particularly on long-haul routes. Fuel surcharges were adjusted in line with movements in fuel prices. We continued to improve the operating efficiency of our freighter fleet.
- In March 2013, we entered into agreements in relation to our cargo fleet as part of a package of transactions among The Boeing Company, Cathay Pacific, Air China Cargo and Air China. Under these transactions, we agreed to purchase three Boeing 747-8F freighters (which were delivered in December 2013), cancelled orders for eight Boeing 777-200F freighters, acquired options to purchase five Boeing 777-200F freighters and agreed to sell four Boeing 747-400BCF converted freighters. All of these converted freighters have already left our fleet.

- We parked one of our Boeing 747-400F production freighters in May 2013. In August 2013 we parked Cathay Pacific's only remaining operating converted freighter.
- We took delivery of five Boeing 747-8F freighters during the course of the year. These included the last two from our original order of 10 aircraft, which arrived in May and August 2013 respectively, and three delivered under the agreement made with Boeing in March 2013. These three freighters arrived in December 2013.
- Steps taken to improve the financial performance of Air China Cargo included the purchase of fuel-efficient Boeing 777-200F freighters (the first of which was delivered in December 2013) to replace the joint venture's Boeing 747-400BCF converted freighters.
- Despite current adverse market conditions, we remain confident in Hong Kong's future as an air cargo centre and believe that our investments in new aircraft and our new HK$5.9 billion air cargo terminal will bear fruit in the long term. The new terminal became fully operational in October 2013 after a phased opening that began in February 2013. It is currently handling the cargo operations of Cathay Pacific, Dragonair and Air Hong Kong. In the long run this facility will reduce costs and improve efficiency in our cargo business, and enable us to provide a wider range of services for our cargo customers. We will open the terminal for third-party business in due course.

Asia Miles

- Asia Miles is Cathay Pacific's and Dragonair's award-winning travel reward programme. It has more than five million members worldwide.
- In 2013, for the ninth consecutive year, Asia Miles was named Best Frequent Flyer Programme in the Business Traveller Asia-Pacific Awards.
- For the third consecutive year in 2013, The American Express Cathay Pacific Corporate Card was named Best Corporate Card at the CAPITAL Merits of Achievements in Banking and Finance Award Ceremony.
- Asia Miles has over 500 partners in nine categories, including airlines, finance and insurance, hotels, dining and retail. There are 22 airline partners, which together fly to over 1,000 destinations.
- There was a 21% increase in redemptions by Asia Miles members in 2013. More than 90% of Cathay Pacific and Dragonair flights carry passengers who have redeemed frequent flyer miles through the Asia Miles programme.

Antitrust proceedings

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


CATHAY PACIFIC CARGO TERMINAL
CATHAY

Robust Foundation

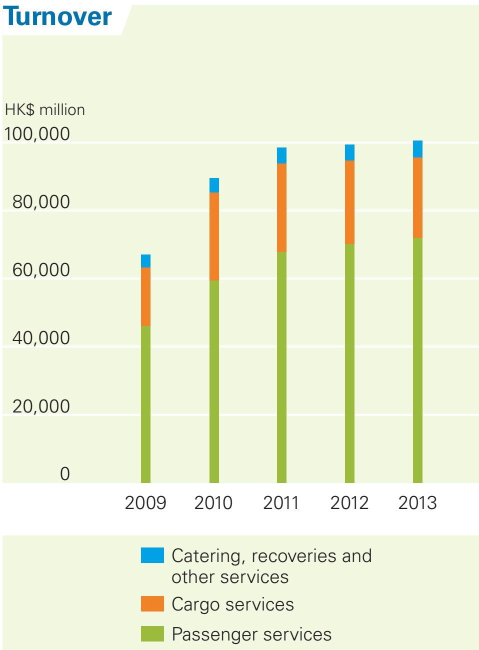
Cathay Pacific is making big investments that underscore the airline's confidence in the future of Hong Kong. These investments included a HK$5.9 billion cargo terminal – one of the most advanced in the world.

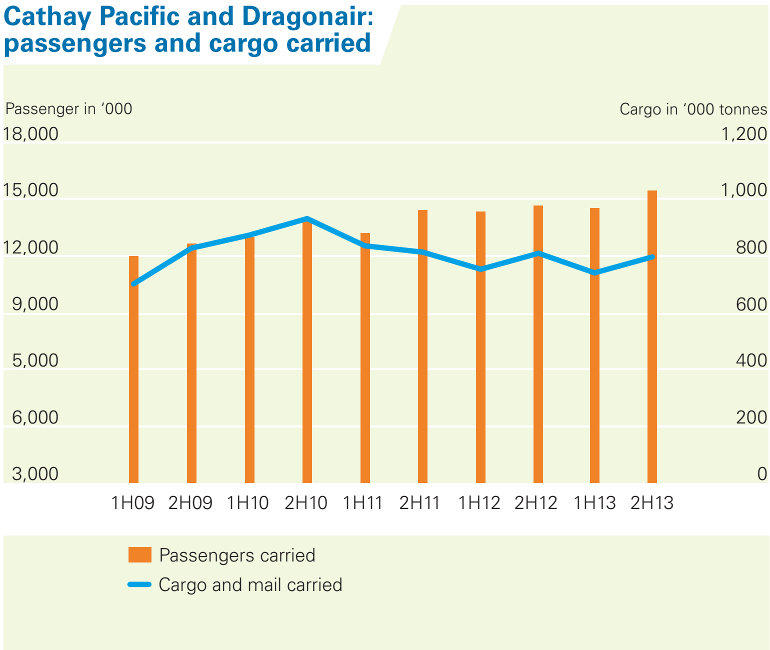
Financial Review

The Cathay Pacific Group reported an attributable profit of HK$2,620 million in 2013 compared with a profit of HK$862 million (restated) in 2012. The improvement in the Group's performance in 2013 was largely due to a strengthening of the passenger business and the positive impact of measures introduced in 2012 to protect the business from the high price of jet fuel. The cargo business continued to be affected by weak demand, high fuel prices and over capacity in the industry. There was some seasonal improvement in the last quarter of 2013 but this was not sustained. The overall business continued to be affected by the stubbornly high price of jet fuel.

Turnover

	Group		Cathay Pacific and Dragonair	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Passenger services	**71,826**	70,133	**71,826**	70,133
Cargo services	**23,663**	24,555	**20,293**	21,601
Catering, recoveries and other services	**4,995**	4,688	**4,322**	4,037
Turnover	**100,484**	99,376	**96,441**	95,771





- Group turnover increased by 1.1% in 2013 compared with 2012.

Cathay Pacific and Dragonair

- Passenger turnover increased by 2.4% to HK$71,826 million. The number of passengers carried increased by 3.3% to 29.9 million and revenue passenger kilometres increased by 0.7%.
- The passenger load factor increased by 2.1 percentage points to 82.2%. Available seat kilometres decreased by 1.8%.
- Passenger yield increased by 1.8% to HK¢68.5.
- First and business class revenues increased by 2.5% and the load factor increased from 67.3% to 70.6%.
- Premium economy and economy class revenues increased by 2.4% and the load factor increased from 82.4% to 84.3%.
- Cargo turnover decreased by 6.1% to HK$20,293 million, with a 1.7% increase in capacity.
- The cargo load factor decreased by 2.4 percentage points. The cargo yield decreased by 4.1% to HK$2.32.
- The revenue load factor increased by 1.3 percentage points to 77.5%. The breakeven load factor was 74.6%.

Cathay Pacific and Dragonair: revenue and breakeven load factor

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

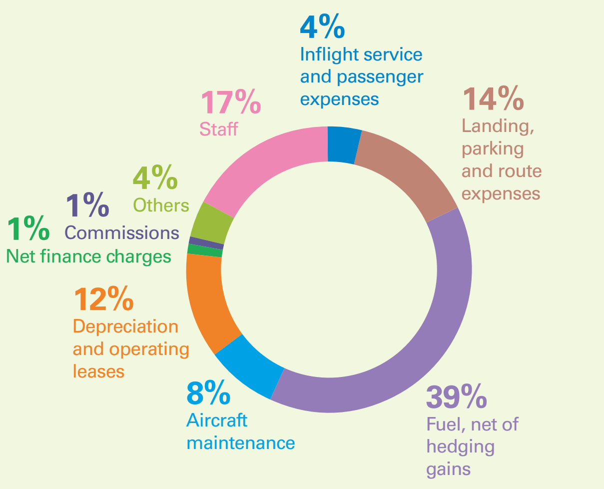
	HK$M
+ 1 percentage point in passenger load factor	871
+ 1 percentage point in cargo and mail load factor	328
+ HK¢1 in passenger yield	1,046
+ HK¢1 in cargo and mail yield	87

Operating expenses

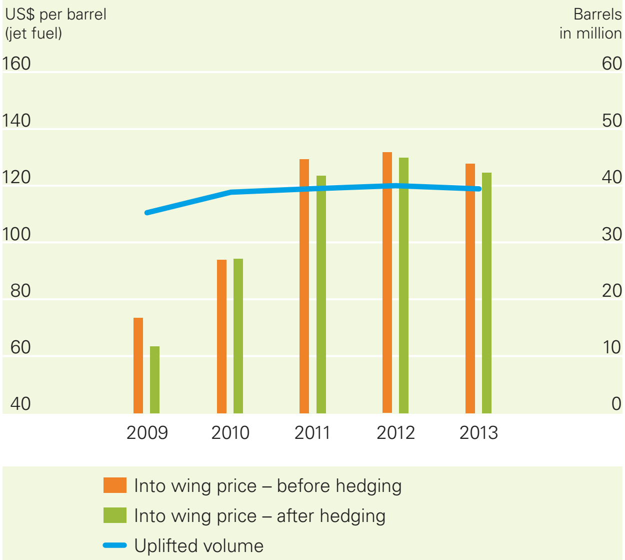
	Group			Cathay Pacific and Dragonair		
	2013 HK$M	2012 HK$M (restated)	**Change**	**2013 HK$M**	2012 HK$M (restated)	**Change**
Staff	**17,027**	16,248	**+4.8%**	**15,269**	14,705	**+3.8%**
Inflight service and passenger expenses	**4,138**	4,017	**+3.0%**	**4,138**	4,017	**+3.0%**
Landing, parking and route expenses	**13,531**	13,603	**-0.5%**	**13,287**	13,330	**-0.3%**
Fuel, net of hedging gains	**38,132**	40,470	**-5.8%**	**37,264**	39,590	**-5.9%**
Aircraft maintenance	**7,542**	8,197	**-8.0%**	**7,207**	7,961	**-9.5%**
Aircraft depreciation and operating leases	**9,537**	8,879	**+7.4%**	**9,298**	8,738	**+6.4%**
Other depreciation, amortisation and operating leases	**1,926**	1,432	**+34.5%**	**1,354**	1,173	**+15.4%**
Commissions	**775**	777	**-0.3%**	**775**	777	**-0.3%**
Others	**4,116**	4,140	**-0.6%**	**4,500**	4,644	**-3.1%**
Operating expenses	**96,724**	97,763	**-1.1%**	**93,092**	94,935	**-1.9%**
Net finance charges	**1,019**	884	**+15.3%**	**974**	838	**+16.2%**
Total operating expenses	**97,743**	98,647	**-0.9%**	**94,066**	95,773	**-1.8%**

- The Group's total operating expenses decreased by 0.9% to HK$97,743 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair decreased from HK$3.65 (restated) to HK$3.58.

Total operating expenses



Fuel price and consumption



Cathay Pacific and Dragonair operating results analysis

	2013 HK$M	2012 HK$M (restated)
Airlines' profit/(loss) before taxation	**2,375**	(2)
Tax charge	**(536)**	(262)
Airlines' profit/(loss) after taxation	**1,839**	(264)
Share of profits from subsidiaries and associates	**781**	1,126
Profit attributable to the owners of Cathay Pacific	**2,620**	862

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

	HK$M	
2012 airlines' loss before taxation (restated)	**(2)**	
Turnover	**670**	– Passenger turnover increased due to a 2.1% points increase in load factor and a 1.8% increase in yield despite a 1.8% decrease in capacity. – Cargo turnover decreased due to a 2.4% points decrease in load factor and a 4.1% decrease in yield despite a 1.7% increase in capacity.
Fuel, net of hedging gains	**2,326**	– Fuel costs decreased due to a 3.0% decrease in the average into-plane fuel price, a 1.5% decrease in consumption and a 81.1% increase in fuel hedging gains.
Aircraft maintenance	**754**	– Decreased mainly due to the retirement of older aircraft resulting in a reduction in the requirement for maintenance.
Depreciation, amortisation and operating leases	**(741)**	– Increased mainly due to the accelerated retirement of Boeing 747-400 aircraft and the addition of new aircraft.
Staff	**(564)**	– Increased mainly due to an increase in headcount and salary.
Inflight service, landing & parking, commissions, net finance charges and others	**(68)**	– Increased due to a net increase from various operating expenses.
2013 airlines' profit before taxation	**2,375**	

Fuel expenditure and hedging

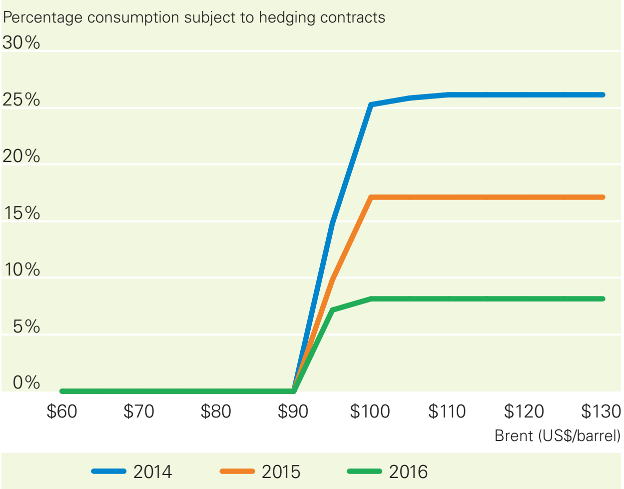
A breakdown of the Group's fuel cost is shown below:

	2013 HK$M	2012 HK$M
Gross fuel cost	**39,117**	41,014
Fuel hedging gains	**(985)**	(544)
Net fuel cost	**38,132**	40,470

Fuel consumption in 2013 was 39.5 million barrels (2012: 40.1 million barrels).

The Group's fuel hedging exposure at 31st December 2013 is set out in the table below:

Maximum fuel hedging exposure



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

Taxation

- The tax charge increased by HK$266 million to HK$675 million, principally as a result of higher profit.

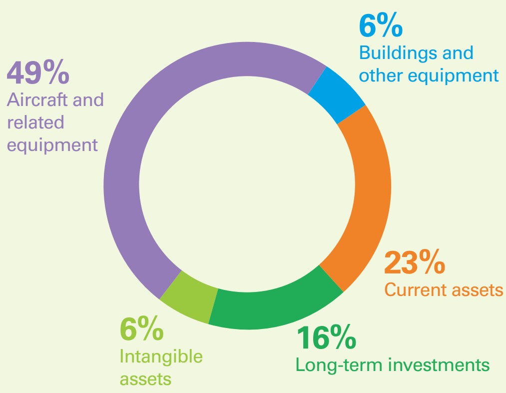
Dividends

- Dividends proposed for the year are HK$865 million representing a dividend cover of 3.0 times.
- Dividends per share increased from HK$0.08 to HK$0.22.

Assets

- Total assets as at 31st December 2013 were HK$171,575 million.
- During the year, additions to fixed assets were HK$20,003 million, comprising HK$18,847 million for aircraft and related equipment, HK$772 million for buildings and HK$384 million for other equipment.

Total assets

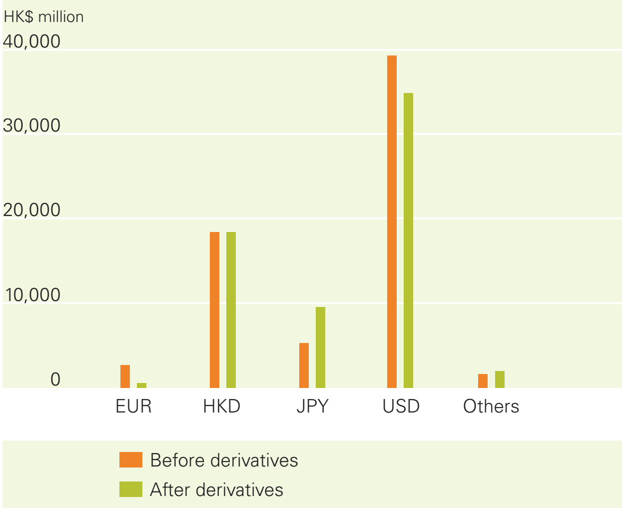


Borrowings and capital

- Borrowings increased by 12.6% to HK$67,052 million in 2013 from HK$59,546 million in 2012.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2025 with 56.0% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 53.7% of which are denominated in United States dollars, increased by 14.7% to HK$27,736 million.
- Net borrowings increased by 11.2% to HK$39,316 million.
- Funds attributable to the owners of Cathay Pacific increased by 12.3% to HK$62,888 million.
- The net debt/equity ratio remained at 0.63 times.

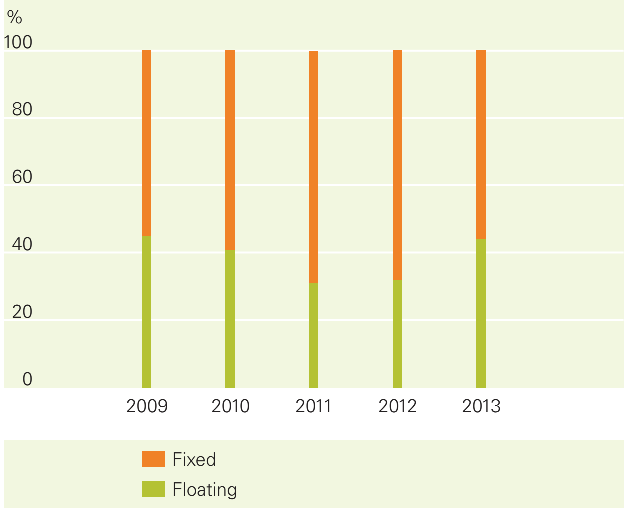
Net debt and equity

Borrowings before and after derivatives



Others include CAD, RMB and SGD.

Interest rate profile: borrowings



Greener Future

New, highly efficient aircraft are being brought into the Cathay Pacific fleet, including advanced Airbus A350 and Boeing 777-9X airplanes. The fleet-modernisation programme will result in a significant reduction in emissions.

Directors and Officers

Executive Directors

PRATT, Christopher Dale#, CBE, aged 57, has been Chairman and a Director of the Company since February 2006. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Hong Kong Aircraft Engineering Company Limited and Swire Properties Limited, and a Director of The Hongkong and Shanghai Banking Corporation Limited and Air China Limited. He will retire from these positions with effect from 14th March 2014. He joined the Swire group in 1978 and has worked with the group in Hong Kong, Australia and Papua New Guinea.

BARRINGTON, William Edward James#, aged 54, has been a Director of the Company since July 2010. He is also a Director of Hong Kong Dragon Airlines Limited and AHK Air Hong Kong Limited. He joined the Swire group in 1982 and has worked with the Company in Hong Kong, Malaysia and Canada since 1983.

CHU, Kwok Leung Ivan, aged 52, has been a Director of the Company since March 2011. He was appointed Director Service Delivery in September 2008 and Chief Operating Officer of the Company in March 2011. He has been appointed Chief Executive of the Company and a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited with effect from 14th March 2014. 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 52, has been appointed a Director and Chief Operating Officer of the Company with effect from 14th March 2014. He was appointed Director Cargo in September 2008 and Director Sales and Marketing in August 2010. 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 47, has been Finance Director of the Company since November 2011. He is also a Director of Hong Kong Dragon Airlines Limited. He was previously Deputy Finance Director of Swire Pacific Limited. He joined the Swire group in 1995 and has worked with the group in Hong Kong, the United States, Singapore and Australia.

SLOSAR, John Robert#, aged 57, has been a Director of the Company since July 2007. He was appointed Chief Operating Officer in July 2007 and Chief Executive of the Company in March 2011. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited, and Chairman of Swire Beverages Limited. He has been appointed Chairman of the Company, John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited with effect from 14th March 2014. He joined the Swire group in 1980 and has worked with the group in Hong Kong, the United States and Thailand.

Non-Executive Directors

CAI, Jianjiang, aged 50, 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.

FAN, Cheng*, aged 58, has been a Director of the Company since November 2009. He is a Director, Vice President and Chief Financial Officer of Air China Limited.

HUGHES-HALLETT, James Wyndham John#+, aged 64, has been a Director of the Company since July 1998 and served as Chairman of the Board from June 1999 to December 2004. He is Chairman of John Swire & Sons Limited and a Director of Swire Pacific Limited, Swire Properties Limited and Steamships Trading Company Limited. He is also a Director of HSBC Holdings plc. He joined the Swire group in 1976 and has worked with the group in Hong Kong, Taiwan, Japan, Australia and London.

KILGOUR, Peter Alan#, aged 58, has been a Director of the Company since May 2009. He is also Finance Director of Swire Pacific Limited and a Director of John Swire & Sons (H.K.) Limited and Swire Properties Limited. He joined the Swire group in 1983.

SHIU, Ian Sai Cheung#, aged 59, has been a Director of the Company since October 2008. He is also a Director of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Hong Kong Dragon Airlines Limited and Air China Limited. He joined the Company in 1978 and has worked with the Company in Hong Kong, the Netherlands, Singapore and the United Kingdom. He was appointed Director Corporate Development in September 2008 and served as an Executive Director of the Company from 1st October 2008 until 30th June 2010.

SONG, Zhiyong, aged 49, has been appointed a Director of the Company with effect from 14th March 2014. He is President of Air China Limited.

SWIRE, Merlin Bingham#, aged 40, has been a Director of the Company since June 2010. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London. He is a Director and shareholder of John Swire & Sons Limited and Swire Pacific Limited, a Director of Hong Kong Aircraft Engineering Company Limited and Swire Properties Limited, and an Alternate Director of Steamships Trading Company Limited.

ZHAO, Xiaohang, aged 52, has been a Director of the Company since June 2011. He is Vice President of Air China Limited, Chairman of Dalian Airlines Company Limited and a Director of China National Aviation Corporation (Group) Limited and China National Aviation Company Limited.

Independent Non-Executive Directors

LEE, Irene Yun Lien+*, aged 60, 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 and The Hongkong and Shanghai Banking Corporation Limited. She was a member of the Australian Government Takeovers Panel from March 2001 until March 2010.

SO, Chak Kwong Jack*, aged 68, has been a Director of the Company since September 2002. He is Chairman of Hong Kong Trade Development Council. He is also Senior Adviser of Credit Suisse (Greater China) and a Non-Executive Director of AIA Group Limited.

TUNG, Chee Chen+, aged 71, has been a Director of the Company since September 2002. He is Chairman and Chief Executive Officer of Orient Overseas (International) Limited. He is also an Independent Non-Executive Director of U-Ming Marine Transport Corp. He was formerly an Independent Non-Executive Director of BOC Hong Kong (Holdings) Limited, PetroChina Company Limited, Sing Tao News Corporation Limited, Wing Hang Bank, Limited and Zhejiang Expressway Co., Ltd., all being companies listed in Hong Kong.

WONG, Tung Shun Peter*, aged 62, has been a Director of the Company since May 2009. He is currently Deputy Chairman and Chief Executive of The Hongkong and Shanghai Banking Corporation Limited, a Group Managing Director and a member of the Group Management Board of HSBC Holdings plc and a Non-Executive Director of Hang Seng Bank Limited and Bank of Communications Co., Ltd. He is also President of the Hong Kong Institute of Bankers and a member of the Exchange Fund Advisory Committee of Hong Kong Monetary Authority.

Executive Officers

CHEUNG, Fung Ting Chitty, aged 48, has been Director Corporate Affairs since August 2012. She joined the Company in 1987.

DE GENTILE-WILLIAMS, Philippe Anthony Wynne#, aged 49, has been Director Service Delivery since July 2011. He joined the Swire group in 1988.

GIBBS, Christopher Patrick, aged 52, has been Engineering Director since January 2007. He joined the Company in 1992.

HALL, Richard John, aged 58, has been Director Flight Operations since August 2010. He joined the Company in 1988.

LOCANDRO, Joseph Francis, aged 54, has been Director Information Technology since August 2012. He joined the Company in 2012.

RHODES, Nicholas Peter#, aged 55, has been Director People since September 2013. He joined the Swire group in 1980.

WOODROW, James Hugh#, aged 46, has been Director Cargo since September 2013. He joined the Swire group in 1990.

Secretary

FU, Yat Hung David#, aged 50, has been Company Secretary since January 2006. He joined the Swire group in 1988.

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

Directors' Report

We submit our report and the audited accounts for the year ended 31st December 2013 which are on pages 51 to 101.

Activities

Cathay Pacific Airways Limited (the "Company") is managed and controlled in Hong Kong. As well as operating scheduled airline services, the Company and its subsidiaries (the "Group") are engaged in other related areas including airline catering, aircraft handling, aircraft engineering and cargo terminal operation. 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 94 and 95.

Change of Name

By a special resolution passed on 8th May 2013, the name of the Company was changed from "Cathay Pacific Airways Limited" to "Cathay Pacific Airways Limited 國泰航空有限公司". This came into effect on 15th May 2013.

Accounts

The profit of the Group for the year ended 31st December 2013 and the state of affairs of the Group and the Company at that date are set out in the accounts on pages 51 to 101.

Dividends

The Directors have declared a second interim dividend of HK$0.16 per share for the year ended 31st December 2013. Together with the first interim dividend of HK$0.06 per share paid on 3rd October 2013, this makes a total dividend for the year of HK$0.22 per share. This represents a total distribution for the year of HK$865 million. The second interim dividend will be paid on 8th May 2014 to shareholders registered at the close of business on the record date, being Friday, 4th April 2014. Shares of the Company will be traded ex-dividend as from Wednesday, 2nd April 2014.

Closure of register of members

The register of members will be closed on Friday, 4th April 2014, during which day no transfer of shares will be effected. In order to qualify for entitlement to the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 3rd April 2014.

To facilitate the processing of proxy voting for the annual general meeting to be held on 14th May 2014, the register of members will be closed from 9th May 2014 to 14th May 2014, 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, 8th May 2014.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the statement of changes in equity on page 55 and in note 24 to the accounts, respectively.

Accounting policies

The principal accounting policies are set out on pages 96 to 101.

Donations

During the year, the Company and its subsidiaries made charitable donations amounting to HK$13 million in direct payments and a further HK$4 million in the form of discounts on airline travel.

Fixed assets

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

Bank and other borrowings

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

Share capital

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

At 31st December 2013, 3,933,844,572 shares were in issue (31st December 2012: 3,933,844,572 shares). There has been no movement in share capital during the year.

Capital commitments and contingencies

The details of capital commitments and contingent liabilities of the Group and the Company as at 31st December 2013 are set out in note 30 to the accounts.

Agreement for services

The Company has an agreement for services with John Swire & Sons (H.K.) Limited ("JSSHK"), the particulars of which are set out in the section on continuing connected transactions.

As directors and/or employees of the John Swire & Sons Limited ("Swire") group, Christopher Pratt, W.E. James Barrington, Ivan Chu, Rupert Hogg, James W.J. Hughes-Hallett, Peter Kilgour, Martin Murray, Ian Shiu, John Slosar and Merlin Swire are interested in the JSSHK Services Agreement (as defined below). Merlin Swire is also interested as a shareholder of Swire.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2013 are set out below and also given in note 29 to the accounts.

Significant contracts

Contracts between the Group and Hong Kong Aircraft Engineering Company Limited ("HAECO") and its subsidiary, Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO"), for the maintenance and overhaul of aircraft and related equipment accounted for approximately 3% of the Group's operating expenses in 2013. 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 2013, the Group had the following continuing connected transactions, details of which are set out below:

(a) Pursuant to an agreement ("JSSHK Services Agreement") dated 1st December 2004, as amended and restated on 18th September 2008, with JSSHK, JSSHK provides services to the Company and its subsidiaries. The services comprise advice and expertise of the directors and senior officers of the Swire group including (but not limited to) assistance in negotiating with regulatory and other governmental or official bodies, full or part time services of members of the staff of the Swire group, other administrative and similar services and such other services as may be agreed from time to time, and in procuring for the Company and its subsidiary, joint venture and associated companies the use of relevant trademarks owned by the Swire group. No fee is payable in consideration of such procuration obligation or such use.

In return for these services, JSSHK receives annual service fees calculated as 2.5% of the Company's consolidated profit before taxation and non-controlling interests after certain adjustments. The fees for each year are payable in cash in arrear in two instalments, an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment. The Company also reimburses the Swire group at cost for all the expenses incurred in the provision of the services.

The current term of the JSSHK Services Agreement is from 1st January 2014 to 31st December 2016 and it is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Swire is the holding company of Swire Pacific which owns approximately 45% of the issued capital of the Company and JSSHK, a wholly owned subsidiary of Swire, is therefore a connected person of the Company under the Listing Rules. The transactions under the JSSHK Services Agreement are continuing connected transactions in respect of which announcements dated 1st December 2004, 1st October 2007, 1st October 2010 and 14th November 2013 were published.

For the year ended 31st December 2013, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$69 million and expenses of HK$155 million were reimbursed at cost.

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

HAECO and HXITM are connected persons of the Company by virtue of them being subsidiaries of Swire Pacific, one of the Company's substantial shareholders. The transactions under the HAECO Framework Agreement are continuing connected transactions in respect of which an announcement dated 13th November 2013 was published, a circular dated 3rd December 2013 was sent to shareholders and an extraordinary general meeting ("2013 EGM") of the Company was held on 31st December 2013.

For the year ended 31st December 2013 and under the HAECO Framework Agreement, the amounts payable by the Group to HAECO group totalled HK$3,189 million; and the amounts payable by HAECO group to the Group totalled HK$15 million.

(c) The Company entered into a framework agreement dated 26th June 2008 ("Air China Framework Agreement") with Air China Limited ("Air China") in respect of transactions between the Group on the one hand and Air China and its subsidiaries ("Air China group") on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Air China Framework Agreement.

The current term of the Air China Framework Agreement is for three years ending on 31st December 2016 and is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Air China, by virtue of its 29.99% shareholding in Cathay Pacific, is a substantial shareholder and therefore a connected person of Cathay Pacific under the Listing Rules. The transactions under the Air China Framework Agreement are continuing connected transactions in respect of which announcements dated 26th June 2008, 10th September 2010 and 26th September 2013 were published.

For the year ended 31st December 2013 and under the Air China Framework Agreement, the amounts payable by the Group to Air China group totalled HK$350 million; and the amounts payable by Air China group to the Group totalled HK$222 million.

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

The current term of the HAESL Framework Agreement is for three years ending on 31st December 2015 and is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

HAESL is a connected person of the Company by virtue of it being an associate of the Company's substantial shareholder Swire Pacific. The transactions under the HAESL Framework Agreement are continuing connected transactions in respect of which announcements dated 27th July 2010, 8th August 2012 and 14th February 2014 were published. Transactions under the HAESL Framework Agreement have become *de minimis* transactions for the Company and are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules with effect from 1st January 2014.

The fees payable by the Group to HAESL under the HAESL Framework Agreement totalled HK$60 million for year ended 31st December 2013.

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

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

(b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

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

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

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

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

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

Major transaction

Cathay Pacific Aircraft Services Limited ("CPAS"), a wholly owned subsidiary of the Company, entered into an agreement with The Boeing Company on 20th December 2013 for the acquisition of 21 Boeing 777-9X aircraft. This transaction constituted a major transaction under the Listing Rules in respect of which an announcement dated 20th December 2013 was published and a circular dated 24th December 2013 was sent to shareholders.

Discloseable transactions

The Company entered into a framework agreement with Air China on 28th August 2013 in respect of the Company providing guarantees of up to US$910 million for the financing of certain payments due by Air China Cargo Co., Ltd. ("Air China Cargo") (in proportion to the Company's economic interest in Air China Cargo) in connection with the purchase of eight Boeing 777-200F freighter aircraft. This transaction constituted a discloseable transaction and a connected transaction exempt from reporting, announcement and independent shareholders' approval requirements under the Listing Rules in respect of which an announcement dated 28th June 2013 was published.

CPAS entered into an agreement with The Boeing Company on 27th December 2013 for the acquisition of three Boeing 777-300ER aircraft and one Boeing 747-8F freighter. This transaction constituted a discloseable transaction under the Listing Rules in respect of which an announcement dated 27th December 2013 was published.

Major customers and suppliers

7% of sales and 38% 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 while 14% of purchases were made from the Group's largest supplier.

No Director, any of their associates or any shareholder who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital has an interest in the Group's five largest suppliers.

Directors

Rupert Hogg and Song Zhiyong have been appointed as Directors with effect from 14th March 2014. All the other present Directors of the Company whose names are listed on pages 32 and 33 served throughout the year. Wang Changshun resigned as Deputy Chairman and a Director with effect from 27th January 2014. Cai Jianjiang has been elected Deputy Chairman with effect from 14th March 2014. Christopher Pratt will retire as Chairman and a Director with effect from 14th March 2014.

The Company has received from each of its Independent Non-Executive Directors an annual confirmation of his/her independence pursuant to Listing Rule 3.13 and the Company still considers all its Independent Non-Executive Directors to be independent.

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

Article 93 of the Company's Articles of Association provides for all the Directors to retire at the third annual general meeting following their election by ordinary resolution. In accordance therewith, James Barrington, Ivan Chu, James W.J. Hughes-Hallett, John Slosar and Merlin Swire retire this year and, being eligible, offer themselves for re-election.

Rupert Hogg and Song Zhiyong, having been appointed as Directors of the Company under Article 91 since the last annual general meeting, also retire and, being eligible, offer themselves for election.

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

Directors' fees paid to the Independent Non-Executive Directors during the year totalled HK$3.0 million; they received no other emoluments from the Company or any of its subsidiaries.

Directors' interests

At 31st December 2013, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interest in the shares of Cathay Pacific Airways Limited:

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

Other than as stated above, no Director or chief executive of Cathay Pacific Airways Limited had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares (including options) and debentures of Cathay Pacific Airways Limited or any of its associated corporations (within the meaning of Part XV of the SFO).

Directors' interests in competing business

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

Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 31st December 2013 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	No. of shares	Percentage of issued capital (%)	Type of interest (Note)
1. Air China Limited	2,949,997,987	74.99	Attributable interest (a)
2. China National Aviation Holding Company	2,949,997,987	74.99	Attributable interest (b)
3. Swire Pacific Limited	2,949,997,987	74.99	Attributable interest (a)
4. John Swire & Sons Limited	2,949,997,987	74.99	Attributable interest (c)

Note: At 31st December 2013:

(a) Under Section 317 of the SFO, each of Air China, China National Aviation Company Limited ("CNAC") and Swire Pacific, being a party to the Shareholders' Agreement in relation to the Company dated 8th June 2006, was deemed to be interested in a total of 2,949,997,987 shares of the Company, comprising:

(i) 1,770,238,000 shares directly held by Swire Pacific;

(ii) 1,179,759,987 shares indirectly held by Air China and its subsidiaries CNAC, Super Supreme Company Limited and Total Transform Group Limited, comprising the following shares held by their wholly owned subsidiaries: 288,596,335 shares held by Angel Paradise Ltd., 280,078,680 shares held by Custain Limited, 191,922,273 shares held by Easerich Investments Inc., 189,976,645 shares held by Grand Link Investments Holdings Ltd., 207,376,655 shares held by Motive Link Holdings Inc. and 21,809,399 shares held by Perfect Match Assets Holdings Ltd.

(b) China National Aviation Holding Company is deemed to be interested in a total of 2,949,997,987 shares of the Company, in which its subsidiary Air China is deemed interested.

(c) Swire and its wholly owned subsidiary JSSHK are deemed to be interested in a total of 2,949,997,987 shares of the Company by virtue of the Swire group's interests in shares of Swire Pacific representing approximately 47.08% of the issued capital and approximately 60.23% of the voting rights.

Public float

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

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as Auditors to the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Christopher Pratt
Chairman
Hong Kong, 12th March 2014

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

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

To assist it in fulfilling its duties, the Board has established the Board Safety Review Committee, the Executive Committee, the Finance Committee, the Remuneration Committee and the Audit Committee, the latter two 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.

Christopher Pratt, the Chairman, was 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.

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

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

Board Composition

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

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

W.E. James Barrington, Ivan Chu, Rupert Hogg, James W.J. Hughes-Hallett, Peter Kilgour, Martin Murray, Christopher Pratt, Ian Shiu and John Slosar are directors and/or employees of the Swire group. Merlin Swire is a shareholder, director and employee 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 twelve Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Rule 3.13 of the Listing Rules. Confirmation has been received from all Independent Non-Executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules.

The Independent Non-Executive Directors:

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

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

Appointment and Re-election

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

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

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

Board Diversity

The Board adopted a board diversity policy with effect from 1st September 2013 in compliance with a new code provision on board diversity in the CG Code, which came into effect on the same date. The board diversity policy 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 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 ongoing participation at meetings of the Board and its committees and through regular meetings with management at the head office and in the divisions. Directors are regularly updated by the Company Secretary on their legal and other duties as Directors of a listed company.

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

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

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

Board Processes

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

The dates of the 2013 Board meetings were determined in 2012 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 2013. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 42. Average attendance at Board meetings was 88%. 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	2013 Annual General Meeting	2013 EGM	Type of Training (Note)
Executive Directors						
Christopher Pratt – Chairman	5/5			√	√	a
W.E. James Barrington	5/5			√	X	a
Ivan Chu	5/5			√	X	a
Martin Murray	5/5			√	X	a
John Slosar	5/5			√	√	a
Non-Executive Directors						
Cai Jianjiang	5/5			X	X	a
Fan Cheng	3/5	1/3		X	X	a
James W.J. Hughes-Hallett	5/5		2/2	√	X	a
Peter Kilgour	5/5			√	√	a
Ian Shiu	5/5			√	X	a
Merlin Swire	4/5			√	X	a
Wang Changshun	1/5			X	X	a
Zhao Xiaohang	5/5			X	X	a
Independent Non-Executive Directors						
Irene Lee	5/5	3/3	2/2	√	X	a
Jack So	5/5	3/3		√	√	a
Tung Chee Chen	4/5		1/2	√	√	a
Peter Wong	3/5	1/3		√	X	a
Average attendance	88%	67%	83%	76%	29%	

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 income statements and statements of financial position and cash flows compared to budget, together with forecasts
- internal and external audit reports
- feedback from external parties such as customers, those with whom the Group does business, trade associations and service providers.

Securities Transactions

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

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

Under the Securities Code, Directors and senior executives of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

On specific enquiries made, all the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors' interests as at 31st December 2013 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on page 38.

Board Safety Review Committee

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

Executive Committee

The Executive Committee is chaired by the Chief Executive and comprises three Executive Directors (W.E. James Barrington, Ivan Chu and Martin Murray) and four Non-Executive Directors (Cai Jianjiang, Fan Cheng, Peter Kilgour and Zhao Xiaohang). It meets monthly and is responsible to the Board for overseeing and setting the strategic direction of the Company.

Management Committee

The Management Committee meets once a month and is responsible to the Board for overseeing the day-to-day operation of the Company. It is chaired by the Chief Executive and comprises three Executive Directors (W.E. James Barrington, Ivan Chu and Martin Murray) and all eight Executive Officers (Chitty Cheung, Philippe de Gentile-Williams, Christopher Gibbs, Captain Richard Hall, Rupert Hogg, Joseph Locandro, Nick Rhodes and James Woodrow).

Finance Committee

The Finance Committee meets monthly to review the financial position of the Company and is responsible for establishing the financial risk management policies. It is chaired by the Chief Executive and comprises three Executive Directors (W.E. James Barrington, Ivan Chu and Martin Murray), three Non-Executive Directors (Fan Cheng, Peter Kilgour and Zhao Xiaohang), the Head of Treasury (Andrew West), the Manager Treasury (Susan Ng) and an independent representative from the financial community. Reports on its decisions and recommendations are presented at Board meetings.

Remuneration Committee

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

The Remuneration Committee comprises three Non-Executive Directors (Irene Lee, James W.J. Hughes-Hallett and Tung Chee Chen). Two of the Committee Members are Independent Non-Executive Directors, one of whom, Irene Lee, is Chairman. All the members served for the whole of 2013.

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

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

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

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

In order to be able to attract and retain staff of suitable calibre, the Swire group provides a competitive remuneration package. This typically comprises salary, housing, provident fund, leave passage and education allowances and, after three years' service, a bonus related to the profit of Swire Pacific as a whole. The provision of housing facilitates relocation either within Hong Kong or elsewhere in accordance with the needs of the business and as part of the training process whereby managers gain practical experience in various businesses within the Swire group, and payment of bonuses on a group-wide basis enables postings to be made to group companies with very different profitability profiles. Whilst bonuses are calculated by reference to the profits of Swire Pacific overall, those profits are influenced to a significant extent by the results of the Company.

Although the remuneration of these executives is not entirely linked to the profits of the Company, it is considered that, given the volatility of the aviation business, this has contributed considerably to the maintenance of a stable, motivated and high-calibre senior management team in the Company. Furthermore, given its substantial equity interest in the Company, it is in the best interest of Swire to see that executives of high quality are seconded to and retained within the Company.

A number of Directors and senior staff with specialist skills are employed directly by the Company on terms similar to those applicable to the staff referred to above.

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors and Executive Officers at its meeting in November 2013. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors and Executive Officers, as disclosed in note 27 to the accounts, 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:

	2013 HK$	2014 HK$
Director's Fee	575,000	575,000
Fee for Audit Committee Chairman	240,000	260,000
Fee for Audit Committee Member	180,000	180,000
Fee for Remuneration Committee Chairman	75,000	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 accounts and other related information that give a true and fair view of the Group's affairs and of its results and cash flows for the relevant periods, in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance
- selecting appropriate accounting policies and ensuring that these are consistently applied
- making judgements and estimates that are prudent and reasonable; and
- ensuring that the application of the going concern assumption is appropriate.

Internal Controls

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Audit Committee

The Audit Committee, consisting of four Non-Executive Directors (Jack So, Fan Cheng, Irene Lee and Peter Wong), assists the Board in discharging its responsibilities for corporate governance and financial reporting. Three of the Committee members are Independent Non-Executive Directors, one of whom, Jack So, is Chairman. All the members served for the whole of 2013.

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

The Audit Committee met three times in 2013. Regular attendees at the meetings are the Finance Director, the Group Internal Audit Manager and the external auditors. The Audit Committee meets at least twice a year with the external auditors without the presence of management. Each meeting receives written reports from the external auditors and Internal Audit.

The work of the Committee during 2013 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2012 annual and 2013 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's internal controls and risk management systems
- the Group's risk management processes
- the approval of the 2014 annual Internal Audit programme and review of progress on the 2013 programme

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

In 2014, the Committee has reviewed, and recommended to the Board for approval, the 2013 accounts.

Assessing the Effectiveness of Internal Controls

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

This assessment considers:

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

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

Expenditure Control Committee

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

Company Secretary

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

Internal Audit Department

The Internal Audit Department provides an independent review of the adequacy and effectiveness of the internal control system. The audit plan, which is prepared based on risk assessment methodology, is discussed and agreed every year with the Audit Committee. In addition to its agreed annual schedule of work, the Department conducts other special reviews as required. The Group Internal Audit Manager has direct access to the Audit Committee. Audit reports are sent to the Chief Operating Officer, the Finance Director, external auditors and the relevant management of audited departments. A summary of major audit findings is reported quarterly to the Board and reviewed by the Audit Committee. As a key criterion of assessing the effectiveness of the internal control system, the Board and the Audit Committee actively monitor the number and seriousness of findings raised by the Internal Audit Department and also the corrective actions taken by relevant departments.

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

Detailed control guidelines have been set and made available to all employees of the Company about the handling and dissemination of corporate data which is price sensitive.

Systems and procedures are in place to identify, control and report on major risks, including business, safety, legal, financial, environmental and reputational risks. Exposures to these risks are monitored by the Board with the assistance of various committees and senior management.

External Auditors

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

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

- recommending to the Board, for approval by shareholders, the auditors' appointment
- approval of the auditors' terms of engagement
- consideration of the letters of representation to be provided to the auditors in respect of the interim and annual accounts
- 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 2013 the total remuneration paid to the external auditors was HK$32 million, being HK$16 million for audit, HK$15 million for tax advice and HK$1 million for other professional services.

Airline Safety Review Committee

The Airline Safety Review Committee meets monthly to review the Company's exposure to operational risk. It reviews the work of the Cabin Safety Review Committee, the Operational Ramp Safety Committee and the Engineering Mandatory Occurrence Report Meeting. It is chaired by the General Manager Corporate Safety and comprises Directors and senior management of all operational departments as well as senior management from the ground handling company, HAS, and the aircraft maintenance company, HAECO.

Shareholders

Communication with Shareholders and Investors

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

The principal methods used to communicate with shareholders 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 Corporate and Shareholder Information section of this Annual Report.

The Annual General Meeting

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 8th May 2013. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 42.

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

- receiving the report of the Directors and the audited accounts for the year ended 31st December 2012
- 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 repurchases
- a general mandate authorising the Directors to allot and issue shares up to 20% of the then issued share capital, provided that the aggregate nominal amount of the shares of any class so allotted wholly for cash would not exceed 5% of the aggregate nominal amount of the shares then in issue
- changing the name of the Company from "Cathay Pacific Airways Limited" to "Cathay Pacific Airways Limited 國泰航空有限公司".

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) holding not less than one-fortieth of the total voting rights of all members may request the Board to convene an extraordinary 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 2014 are set out on page 108 of this report.

The name of the Company was changed from "Cathay Pacific Airways Limited" to "Cathay Pacific Airways Limited 國泰航空有限公司" with effect from 15th May 2013. No amendment has been made to the Company's Articles of Association during the year.

Independent Auditor's Report

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

We have audited the consolidated financial statements of Cathay Pacific Airways Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 51 to 101, which comprise the consolidated and company statements of financial position as at 31st December 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Basis for qualified opinion

Our auditor's report on the Group's consolidated financial statements for the year ended 31st December 2012 was qualified due to our inability to obtain sufficient appropriate audit evidence as to whether the carrying amount of the Group's investments in Air China Limited ("Air China") and Air China Cargo Co., Ltd. ("Air China Cargo") and the Group's share of results of these investees included in the Group's consolidated financial statements for the year ended 31st December 2012 were fairly stated. Air China and Air China Cargo are associates of the Group accounted for under the equity method. As this limitation in the scope of our audit with respect to the Group's share of the results of Air China and Air China Cargo for the year ended 31st December 2012 still exists, our opinion on the current year's consolidated financial statements is also qualified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures in the consolidated statement of profit or loss and other comprehensive income.

Qualified opinion

In our opinion, except for the possible effects on the corresponding figures of the matters described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31st December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
12th March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31st December 2013

	Note	2013 HK$M	2012 HK$M (restated)	2013 US$M	2012 US$M (restated)
Turnover					
Passenger services		**71,826**	70,133	**9,208**	8,992
Cargo services		**23,663**	24,555	**3,034**	3,148
Catering, recoveries and other services		**4,995**	4,688	**640**	601
Total turnover	1	**100,484**	99,376	**12,882**	12,741
Expenses					
Staff		**(17,027)**	(16,248)	**(2,183)**	(2,083)
Inflight service and passenger expenses		**(4,138)**	(4,017)	**(530)**	(515)
Landing, parking and route expenses		**(13,531)**	(13,603)	**(1,735)**	(1,744)
Fuel, net of hedging gains		**(38,132)**	(40,470)	**(4,889)**	(5,188)
Aircraft maintenance		**(7,542)**	(8,197)	**(967)**	(1,051)
Aircraft depreciation and operating leases		**(9,537)**	(8,879)	**(1,223)**	(1,138)
Other depreciation, amortisation and operating leases		**(1,926)**	(1,432)	**(247)**	(184)
Commissions		**(775)**	(777)	**(99)**	(100)
Others		**(4,116)**	(4,140)	**(527)**	(531)
Operating expenses		**(96,724)**	(97,763)	**(12,400)**	(12,534)
Operating profit	3	**3,760**	1,613	**482**	207
Finance charges		**(1,370)**	(1,629)	**(175)**	(209)
Finance income		**351**	745	**45**	96
Net finance charges	4	**(1,019)**	(884)	**(130)**	(113)
Share of profits of associates	13	**838**	754	**107**	96
Profit before taxation		**3,579**	1,483	**459**	190
Taxation	5	**(675)**	(409)	**(87)**	(52)
Profit for the year		**2,904**	1,074	**372**	138
Non-controlling interests		**(284)**	(212)	**(36)**	(27)
Profit attributable to the owners of Cathay Pacific	6	**2,620**	862	**336**	111
Profit for the year		**2,904**	1,074	**372**	138
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Defined benefit plans		**997**	142	**128**	18
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**3,170**	1,587	**406**	203
Revaluation of available-for-sale financial assets		**53**	46	**7**	6
Share of other comprehensive income of associates		**89**	3	**11**	–
Exchange differences on translation of foreign operations		**491**	83	**63**	11
Other comprehensive income for the year, net of taxation	7	**4,800**	1,861	**615**	238
Total comprehensive income for the year		**7,704**	2,935	**987**	376
Total comprehensive income attributable to					
Owners of Cathay Pacific		**7,418**	2,726	**951**	349
Non-controlling interests		**286**	209	**36**	27
		7,704	2,935	**987**	376
Earnings per share (basic and diluted)	8	**66.6¢**	21.9¢	**8.5¢**	2.8¢

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

The notes on pages 56 to 95 and the principal accounting policies on pages 96 to 101 form part of these accounts.

Consolidated Statement of Financial Position

at 31st December 2013

	Note	2013 HK$M	2012 HK$M (restated)	2011 HK$M (restated)	2013 US$M	2012 US$M (restated)	2011 US$M (restated)
ASSETS AND LIABILITIES							
Non-current assets and liabilities							
Fixed assets	*10*	**94,935**	84,278	73,498	**12,171**	10,805	9,423
Intangible assets	*11*	**9,802**	9,425	8,601	**1,257**	1,208	1,103
Investments in associates	*13*	**20,314**	18,522	17,902	**2,604**	2,375	2,295
Other long-term receivables and investments	*14*	**7,135**	6,254	5,491	**915**	802	704
Deferred tax assets	*18*	**204**	95	40	**26**	12	5
		132,390	118,574	105,532	**16,973**	15,202	13,530
Long-term liabilities		**(57,460)**	(52,753)	(38,410)	**(7,366)**	(6,763)	(4,924)
Related pledged security deposits		**626**	1,364	3,637	**80**	175	466
Net long-term liabilities	*15*	**(56,834)**	(51,389)	(34,773)	**(7,286)**	(6,588)	(4,458)
Other long-term payables	*16*	**(1,318)**	(3,205)	(3,650)	**(169)**	(411)	(468)
Deferred tax liabilities	*18*	**(9,633)**	(8,156)	(6,691)	**(1,235)**	(1,046)	(858)
		(67,785)	(62,750)	(45,114)	**(8,690)**	(8,045)	(5,784)
Net non-current assets		**64,605**	55,824	60,418	**8,283**	7,157	7,746
Current assets and liabilities							
Stock		**1,511**	1,194	1,155	**194**	153	148
Trade, other receivables and other assets	*19*	**9,827**	9,922	9,859	**1,260**	1,272	1,264
Assets held for sale	*20*	**111**	911	746	**14**	117	95
Liquid funds	*21*	**27,736**	24,182	19,597	**3,556**	3,100	2,512
		39,185	36,209	31,357	**5,024**	4,642	4,019
Current portion of long-term liabilities		**(11,179)**	(10,758)	(10,603)	**(1,433)**	(1,379)	(1,359)
Related pledged security deposits		**961**	2,601	2,041	**123**	333	261
Net current portion of long-term liabilities	*15*	**(10,218)**	(8,157)	(8,562)	**(1,310)**	(1,046)	(1,098)
Trade and other payables	*22*	**(18,206)**	(17,470)	(17,464)	**(2,334)**	(2,240)	(2,239)
Unearned transportation revenue		**(11,237)**	(9,581)	(9,613)	**(1,441)**	(1,228)	(1,232)
Taxation		**(1,116)**	(687)	(1,368)	**(143)**	(88)	(175)
		(40,777)	(35,895)	(37,007)	**(5,228)**	(4,602)	(4,744)
Net current (liabilities)/assets		**(1,592)**	314	(5,650)	**(204)**	40	(725)
Total assets less current liabilities		**130,798**	118,888	99,882	**16,769**	15,242	12,805
Net assets		**63,013**	56,138	54,768	**8,079**	7,197	7,021
CAPITAL AND RESERVES							
Share capital	*23*	**787**	787	787	**101**	101	101
Reserves	*24*	**62,101**	55,234	53,846	**7,962**	7,081	6,903
Funds attributable to the owners of Cathay Pacific		**62,888**	56,021	54,633	**8,063**	7,182	7,004
Non-controlling interests		**125**	117	135	**16**	15	17
Total equity		**63,013**	56,138	54,768	**8,079**	7,197	7,021

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

The notes on pages 56 to 95 and the principal accounting policies on pages 96 to 101 form part of these accounts.

Christopher Pratt
Director

Jack So
Director

Hong Kong, 12th March 2014

Company Statement of Financial Position

at 31st December 2013

	Note	2013 HK$M	2012 HK$M (restated)	2011 HK$M (restated)	2013 US$M	2012 US$M (restated)	2011 US$M (restated)
ASSETS AND LIABILITIES							
Non-current assets and liabilities							
Fixed assets	*10*	**73,909**	64,235	54,722	**9,475**	8,235	7,016
Intangible assets	*11*	**2,115**	1,733	910	**271**	222	117
Investments in subsidiaries	*12*	**35,020**	35,955	29,997	**4,490**	4,610	3,845
Investments in associates	*13*	**10,557**	9,921	9,812	**1,353**	1,272	1,258
Other long-term receivables and investments	*14*	**5,395**	4,575	3,778	**692**	586	484
		126,996	116,419	99,219	**16,281**	14,925	12,720
Long-term liabilities		**(54,500)**	(51,993)	(34,715)	**(6,987)**	(6,666)	(4,450)
Related pledged security deposits		**477**	832	836	**61**	107	107
Net long-term liabilities	*15*	**(54,023)**	(51,161)	(33,879)	**(6,926)**	(6,559)	(4,343)
Other long-term payables	*16*	**(1,094)**	(2,768)	(2,977)	**(140)**	(355)	(382)
Deferred tax liabilities	*18*	**(8,479)**	(6,830)	(5,289)	**(1,087)**	(875)	(678)
		(63,596)	(60,759)	(42,145)	**(8,153)**	(7,789)	(5,403)
Net non-current assets		**63,400**	55,660	57,074	**8,128**	7,136	7,317
Current assets and liabilities							
Stock		**1,320**	1,037	1,014	**169**	133	130
Trade, other receivables and other assets	*19*	**8,421**	8,081	7,874	**1,080**	1,036	1,010
Assets held for sale	*20*	**111**	430	746	**14**	55	95
Liquid funds	*21*	**17,272**	11,131	8,848	**2,215**	1,427	1,134
		27,124	20,679	18,482	**3,478**	2,651	2,369
Current portion of long-term liabilities		**(13,053)**	(8,019)	(8,806)	**(1,673)**	(1,028)	(1,129)
Related pledged security deposits		**395**	42	34	**50**	5	4
Net current portion of long-term liabilities	*15*	**(12,658)**	(7,977)	(8,772)	**(1,623)**	(1,023)	(1,125)
Trade and other payables	*22*	**(14,577)**	(14,246)	(14,567)	**(1,869)**	(1,826)	(1,867)
Unearned transportation revenue		**(10,602)**	(9,089)	(9,089)	**(1,359)**	(1,165)	(1,165)
Taxation		**(748)**	(296)	(860)	**(96)**	(38)	(110)
		(38,585)	(31,608)	(33,288)	**(4,947)**	(4,052)	(4,267)
Net current liabilities		**(11,461)**	(10,929)	(14,806)	**(1,469)**	(1,401)	(1,898)
Total assets less current liabilities		**115,535**	105,490	84,413	**14,812**	13,524	10,822
Net assets		**51,939**	44,731	42,268	**6,659**	5,735	5,419
CAPITAL AND RESERVES							
Share capital	*23*	**787**	787	787	**101**	101	101
Reserves	*24*	**51,152**	43,944	41,481	**6,558**	5,634	5,318
Total equity		**51,939**	44,731	42,268	**6,659**	5,735	5,419

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

The notes on pages 56 to 95 and the principal accounting policies on pages 96 to 101 form part of these accounts.

Christopher Pratt
Director

Jack So
Director

Hong Kong, 12th March 2014

Consolidated Statement of Cash Flows

for the year ended 31st December 2013

	Note	2013 HK$M	2012 HK$M	2013 US$M	2012 US$M
Operating activities					
Cash generated from operations	*25*	**14,163**	9,239	**1,815**	1,185
Interest received		**178**	221	**23**	28
Net interest paid		**(774)**	(664)	**(99)**	(85)
Tax paid		**(891)**	(1,356)	**(114)**	(174)
Net cash inflow from operating activities		**12,676**	7,440	**1,625**	954
Investing activities					
Net increase in liquid funds other than cash and cash equivalents		**(3,947)**	(1,267)	**(506)**	(162)
Proceeds from scrap/sales of fixed assets		**2,030**	1,702	**260**	218
Proceeds from sales of assets held for sale		**882**	43	**113**	6
Net decrease in other long-term receivables and investments		**62**	–	**8**	–
Payments for fixed and intangible assets		**(20,534)**	(20,975)	**(2,633)**	(2,689)
Dividends received from associates		**273**	439	**35**	56
Purchases of shares in associates		**(636)**	(138)	**(81)**	(18)
Loan to associates		**–**	(90)	**–**	(12)
Net cash outflow from investing activities		**(21,870)**	(20,286)	**(2,804)**	(2,601)
Financing activities					
New financing		**16,348**	25,218	**2,096**	3,233
Net cash benefit from financing arrangements		**1,474**	1,461	**189**	187
Loan and finance lease repayments		**(8,193)**	(9,025)	**(1,050)**	(1,157)
Security deposits placed		**(39)**	(37)	**(5)**	(5)
Dividends paid – to the owners of Cathay Pacific		**(551)**	(1,338)	**(71)**	(171)
– to non-controlling interests		**(278)**	(227)	**(36)**	(29)
Net cash inflow from financing activities		**8,761**	16,052	**1,123**	2,058
(Decrease)/increase in cash and cash equivalents		**(433)**	3,206	**(56)**	411
Cash and cash equivalents at 1st January		**12,798**	9,612	**1,641**	1,232
Effect of exchange differences		**(6)**	(20)	**(1)**	(2)
Cash and cash equivalents at 31st December	*26*	**12,359**	12,798	**1,584**	1,641

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

The notes on pages 56 to 95 and the principal accounting policies on pages 96 to 101 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2013

	Attributable to the owners of Cathay Pacific							Non-controlling interests	Total equity
	Share capital HK$M	Retained profit HK$M	Share premium HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Capital redemption reserve and others HK$M	Total HK$M	HK$M	HK$M
At 1st January 2013	**787**	**37,278**	**16,295**	**931**	**(830)**	**1,560**	**56,021**	**117**	**56,138**
Profit for the year	**–**	**2,620**	**–**	**–**	**–**	**–**	**2,620**	**284**	**2,904**
Other comprehensive income	**–**	**995**	**–**	**53**	**3,170**	**580**	**4,798**	**2**	**4,800**
Total comprehensive income for the year	**–**	**3,615**	**–**	**53**	**3,170**	**580**	**7,418**	**286**	**7,704**
2012 interim dividend	**–**	**(315)**	**–**	**–**	**–**	**–**	**(315)**	**–**	**(315)**
2013 first interim dividend	**–**	**(236)**	**–**	**–**	**–**	**–**	**(236)**	**–**	**(236)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(278)**	**(278)**
	–	**3,064**	**–**	**53**	**3,170**	**580**	**6,867**	**8**	**6,875**
At 31st December 2013	**787**	**40,342**	**16,295**	**984**	**2,340**	**2,140**	**62,888**	**125**	**63,013**
At 1st January 2012	787	38,785	16,295	885	(2,417)	1,474	55,809	135	55,944
Impact of changes in accounting policies	–	(1,175)	–	–	–	(1)	(1,176)	–	(1,176)
Restated balance at 1st January 2012	787	37,610	16,295	885	(2,417)	1,473	54,633	135	54,768
Profit for the year (restated)	–	862	–	–	–	–	862	212	1,074
Other comprehensive income (restated)	–	144	–	46	1,587	87	1,864	(3)	1,861
Total comprehensive income for the year	–	1,006	–	46	1,587	87	2,726	209	2,935
2011 second interim dividend	–	(1,338)	–	–	–	–	(1,338)	–	(1,338)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(227)	(227)
	–	(332)	–	46	1,587	87	1,388	(18)	1,370
At 31st December 2012 (restated)	787	37,278	16,295	931	(830)	1,560	56,021	117	56,138

The notes on pages 56 to 95 and the principal accounting policies on pages 96 to 101 form part of these accounts.

Notes to the Accounts / Statement of Profit or Loss and Other Comprehensive Income

1. Turnover

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

2. Segment information

(a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2013 HK$M	2012 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)
Profit or loss								
Sales to external customers	**99,284**	98,198	**1,200**	1,178			**100,484**	99,376
Inter-segment sales	**8**	8	**2,206**	1,685			**2,214**	1,693
Segment revenue	**99,292**	98,206	**3,406**	2,863			**102,698**	101,069
Segment results	**4,214**	1,484	**(454)**	129			**3,760**	1,613
Net finance charges	**(1,008)**	(876)	**(11)**	(8)			**(1,019)**	(884)
	3,206	608	**(465)**	121			**2,741**	729
Share of profits of associates					**838**	754	**838**	754
Profit before taxation							**3,579**	1,483
Taxation	**(681)**	(371)	**6**	(38)			**(675)**	(409)
Profit for the year							**2,904**	1,074
Other segment information								
Depreciation and amortisation	**6,948**	6,571	**404**	168			**7,352**	6,739
Purchase of fixed and intangible assets	**19,751**	19,656	**783**	1,319			**20,534**	20,975

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

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

2. Segment information *(continued)*

(b) Geographical information

	2013 HK$M	2012 HK$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**48,293**	44,970
– Japan, Korea and Taiwan	**11,145**	12,775
India, Middle East, Pakistan and Sri Lanka	**4,775**	4,521
Southwest Pacific and South Africa	**6,455**	6,875
Southeast Asia	**7,970**	7,968
Europe	**8,791**	8,760
North America	**13,055**	13,507
	100,484	99,376

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

Analysis of net assets by geographical segment:

The major revenue earning asset is the aircraft fleet which is registered in Hong Kong and is employed across the Group's worldwide route network. Management considers that there is no suitable basis for allocating such assets and related liabilities to geographical segments. Accordingly, segment assets, segment liabilities and other segment information are not disclosed.

3. Operating profit

	2013 HK$M	2012 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– leased	**2,525**	2,317
– owned	**4,617**	4,300
Amortisation of intangible assets	**210**	122
Operating lease rentals		
– land and buildings	**938**	823
– aircraft and related equipment	**3,139**	2,715
– others	**34**	34
Provision for impairment of fixed assets	**210**	52
Provision for impairment of assets held for sale	**13**	140
Loss on scrapping an aircraft	**–**	247
(Gain)/loss on disposal of fixed assets, net	**(213)**	101
Gain on disposal of assets held for sale	**–**	(34)
Gain on deemed disposal of an associate	**(24)**	–
Cost of stock expensed	**2,152**	2,074
Exchange differences, net	**171**	(173)
Auditors' remuneration	**16**	13
Net losses on financial assets and liabilities classified as held for trading	**5**	19
Dividend income from unlisted investments	**(26)**	(58)
Dividend income from listed investments	**(5)**	(4)

4. Net finance charges

	2013 HK$M	2012 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**659**	752
– interest income on related security deposits, notes and zero coupon bonds	**(96)**	(247)
	563	505
– bank loans and overdrafts		
– wholly repayable within five years	**231**	186
– not wholly repayable within five years	**96**	74
– other loans		
– wholly repayable within five years	**96**	55
– not wholly repayable within five years	**24**	40
– other long-term receivables	**(26)**	(28)
	984	832
Income from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	**(53)**	(164)
– bank deposits and others	**(152)**	(98)
	(205)	(262)
Fair value change:		
– loss on obligations under finance leases designated as at fair value through profit or loss	**29**	224
– loss on financial derivatives	**211**	90
	240	314
	1,019	884

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

Included in fair value change in respect of financial derivatives are net gains from derivatives that are classified as held for trading of HK$34 million (2012: HK$115 million).

5. Taxation

	2013 HK$M	2012 HK$M (restated)
Current tax expenses		
– Hong Kong profits tax	**182**	145
– overseas tax	**182**	218
– over provisions for prior years	**(36)**	(149)
Deferred tax		
– origination and reversal of temporary differences (note 18)	**347**	195
	675	409

Hong Kong profits tax is calculated at 16.5% (2012: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 30(d) to the accounts).

5. Taxation *(continued)*

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

	2013 HK$M	2012 HK$M (restated)
Consolidated profit before taxation	**3,579**	1,483
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2012: 16.5%)	**(591)**	(245)
Expenses not deductible for tax purposes	**(287)**	(310)
Tax over provisions arising from prior years	**36**	149
Effect of different tax rates in other countries	**216**	22
Tax losses not recognised	**(80)**	(109)
Income not subject to tax	**31**	84
Tax charge	**(675)**	(409)

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

6. Profit attributable to the owners of Cathay Pacific

Of the profit attributable to the owners of Cathay Pacific, a profit of HK$3,719 million (2012: HK$2,047 million (restated)) has been dealt with in the accounts of the Company.

7. Other comprehensive income

	2013 HK$M	2012 HK$M (restated)
Defined benefit plans		
– remeasurements recognised during the year	**1,119**	159
– deferred taxation (note 18)	**(122)**	(17)
Cash flow hedges		
– recognised during the year	**4,147**	1,818
– transferred to profit or loss	**(664)**	(222)
– transferred to intangible assets (note 11)	**66**	148
– deferred tax recognised (note 18)	**(379)**	(157)
Revaluation of available-for-sale financial assets		
– recognised during the year	**53**	46
Share of other comprehensive income of associates		
– recognised during the year	**78**	3
– reclassified to profit or loss	**11**	–
Exchange differences on translation of foreign operations		
– recognised during the year	**525**	83
– reclassified to profit or loss	**(34)**	–
Other comprehensive income for the year	**4,800**	1,861

8. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the owners of Cathay Pacific of HK$2,620 million (2012: HK$862 million (restated)) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2012: 3,934 million) shares.

9. Dividends

	2013 HK$M	2012 HK$M
First interim dividend paid on 3rd October 2013 of HK$0.06 per share (2012: nil)	**236**	–
Second interim dividend proposed on 12th March 2014 of HK$0.16 per share (2012: interim dividend of HK$0.08 per share)	**629**	315
	865	315

The second interim dividend is not accounted for in 2013 because it had not been declared at the year end date. The actual amount payable in respect of 2013 will be accounted for as an appropriation of the retained profit in the year ending 31st December 2014.

Notes to the Accounts / Statement of Financial Position

10. Fixed assets

	Aircraft and related equipment		Other equipment		Buildings		
	Owned HK$M	Leased HK$M	Owned HK$M	Leased HK$M	Owned HK$M	Under construction HK$M	Total HK$M
Group							
Cost							
At 1st January 2013	**70,743**	**56,592**	**3,613**	**478**	**5,513**	**5,432**	**142,371**
Exchange differences	**(6)**	**–**	**–**	**–**	**–**	**3**	**(3)**
Additions	**14,011**	**4,836**	**384**	**–**	**467**	**305**	**20,003**
Disposals	**(6,962)**	**–**	**(136)**	**–**	**–**	**–**	**(7,098)**
Reclassification to assets held for sale	**(1,034)**	**–**	**–**	**–**	**–**	**–**	**(1,034)**
Transfers	**3,372**	**(3,372)**	**(9)**	**–**	**5,451**	**(5,442)**	**–**
At 31st December 2013	**80,124**	**58,056**	**3,852**	**478**	**11,431**	**298**	**154,239**
At 1st January 2012	71,028	46,167	3,216	478	5,497	4,282	130,668
Exchange differences	(7)	–	–	–	–	–	(7)
Additions	8,581	9,708	495	–	243	1,150	20,177
Disposals	(5,950)	–	(98)	–	(227)	–	(6,275)
Reclassification to assets held for sale	(2,192)	–	–	–	–	–	(2,192)
Transfers	(717)	717	–	–	–	–	–
At 31st December 2012	70,743	56,592	3,613	478	5,513	5,432	142,371
Accumulated depreciation and impairment							
At 1st January 2013	**37,878**	**14,911**	**2,334**	**383**	**2,587**	**–**	**58,093**
Charge for the year	**3,891**	**2,509**	**274**	**16**	**452**	**–**	**7,142**
Disposals	**(5,085)**	**–**	**(133)**	**–**	**–**	**–**	**(5,218)**
Impairment	**210**	**–**	**–**	**–**	**–**	**–**	**210**
Reclassification to assets held for sale	**(923)**	**–**	**–**	**–**	**–**	**–**	**(923)**
Transfers	**2,523**	**(2,523)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2013	**38,494**	**14,897**	**2,475**	**399**	**3,039**	**–**	**59,304**
At 1st January 2012	36,971	15,025	2,203	367	2,604	–	57,170
Charge for the year	3,863	2,301	227	16	210	–	6,617
Disposals	(3,872)	–	(96)	–	(227)	–	(4,195)
Impairment	52	–	–	–	–	–	52
Reclassification to assets held for sale	(1,551)	–	–	–	–	–	(1,551)
Transfers	2,415	(2,415)	–	–	–	–	–
At 31st December 2012	37,878	14,911	2,334	383	2,587	–	58,093
Net book value							
At 31st December 2013	**41,630**	**43,159**	**1,377**	**79**	**8,392**	**298**	**94,935**
At 31st December 2012	32,865	41,681	1,279	95	2,926	5,432	84,278

10. Fixed assets *(continued)*

	Aircraft and related equipment		Other equipment		Buildings	
	Owned HK$M	Leased HK$M	Owned HK$M	Leased HK$M	Owned HK$M	Total HK$M
Company						
Cost						
At 1st January 2013	**51,083**	**59,315**	**1,533**	**478**	**828**	**113,237**
Additions	**2,987**	**13,554**	**71**	**–**	**256**	**16,868**
Disposals	**(5,774)**	**–**	**(84)**	**–**	**–**	**(5,858)**
Reclassification to assets held for sale	**(1,034)**	**–**	**–**	**–**	**–**	**(1,034)**
Transfers	**4,528**	**(4,528)**	**–**	**–**	**–**	**–**
At 31st December 2013	**51,790**	**68,341**	**1,520**	**478**	**1,084**	**123,213**
At 1st January 2012	51,835	48,130	1,287	478	823	102,553
Additions	3,574	12,899	319	–	232	17,024
Disposals	(5,500)	–	(73)	–	(227)	(5,800)
Reclassification to assets held for sale	(540)	–	–	–	–	(540)
Transfers	1,714	(1,714)	–	–	–	–
At 31st December 2012	51,083	59,315	1,533	478	828	113,237
Accumulated depreciation and impairment						
At 1st January 2013	**33,057**	**14,461**	**883**	**383**	**218**	**49,002**
Charge for the year	**3,112**	**2,781**	**134**	**16**	**70**	**6,113**
Impairment	**210**	**–**	**–**	**–**	**–**	**210**
Disposals	**(5,016)**	**–**	**(82)**	**–**	**–**	**(5,098)**
Reclassification to assets held for sale	**(923)**	**–**	**–**	**–**	**–**	**(923)**
Transfers	**2,523**	**(2,523)**	**–**	**–**	**–**	**–**
At 31st December 2013	**32,963**	**14,719**	**935**	**399**	**288**	**49,304**
At 1st January 2012	31,842	14,375	849	366	399	47,831
Charge for the year	3,115	2,435	107	17	46	5,720
Reversal of impairment	(8)	–	–	–	–	(8)
Disposals	(3,861)	–	(73)	–	(227)	(4,161)
Reclassification to assets held for sale	(380)	–	–	–	–	(380)
Transfers	2,349	(2,349)	–	–	–	–
At 31st December 2012	33,057	14,461	883	383	218	49,002
Net book value						
At 31st December 2013	**18,827**	**53,622**	**585**	**79**	**796**	**73,909**
At 31st December 2012	18,026	44,854	650	95	610	64,235

(a) Finance leased assets

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

10. Fixed assets *(continued)*

(b) Operating leased assets

Certain aircraft, buildings and other equipment are under operating leases.

Under the operating lease arrangements for aircraft, the lease rentals are partially fixed and partially floating and subleasing is not allowed. At 31st December 2013, fifteen Airbus A330-300s (2012: nineteen), one Boeing 747-400 (2012: one), one Boeing 747-400BCF (2012: one), nineteen Boeing 777-300ERs (2012: fourteen), ten Airbus A320-200s (2012: ten) and four Airbus A321-200s (2012: four) held under operating leases, most with purchase options, were not capitalised. The estimated capitalised value of these leases being the present value of the aggregate future lease payments is HK$18,386 million (2012: HK$15,045 million).

Operating leases for buildings and other equipment are normally set with fixed rental payments with options to renew the leases upon expiry at new terms.

The future minimum lease payments payable under operating leases committed as at 31st December 2013 for each of the following periods are as follows:

	2013 HK$M	2012 HK$M
Aircraft and related equipment:		
– within one year	**3,381**	2,909
– after one year but within two years	**3,106**	2,569
– after two years but within five years	**8,164**	6,395
– after five years	**9,720**	7,271
	24,371	19,144
Buildings and other equipment:		
– within one year	**624**	681
– after one year but within two years	**331**	432
– after two years but within five years	**534**	439
– after five years	**496**	135
	1,985	1,687
	26,356	20,831

(c) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years. As at the year end, advance payments included in owned aircraft and related equipment amounted to HK$4,495 million (2012: HK$5,245 million) for the Group and HK$246 million (2012: HK$236 million) for the Company. No depreciation is provided on these advance payments.

(d) Security, including charges over the assets concerned and relevant insurance policies, is provided to the leasing companies or other parties that provide the underlying finance. Further information is provided in note 15 to the accounts.

(e) An impairment loss amounting to HK$210 million was recognised for the year ended 31st December 2013 (2012: HK$52 million). Impairment in value of aircraft is considered by writing down the carrying value to the estimated recoverable amount 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 by reference to the estimated sales value as at 31st December 2013 and 2012.

11. Intangible assets

	Group				Company		
	Goodwill HK$M	Computer software HK$M	Others HK$M	Total HK$M	Computer software HK$M	Others HK$M	Total HK$M
Cost							
At 1st January 2013	**7,666**	**2,417**	**148**	**10,231**	**2,352**	**148**	**2,500**
Additions	**–**	**531**	**–**	**531**	**530**	**–**	**530**
Disposals	**–**	**(10)**	**–**	**(10)**	**(10)**	**–**	**(10)**
Transfer from cash flow hedges (note 7)	**–**	**–**	**66**	**66**	**–**	**66**	**66**
At 31st December 2013	**7,666**	**2,938**	**214**	**10,818**	**2,872**	**214**	**3,086**
At 1st January 2012	7,666	1,619	–	9,285	1,562	–	1,562
Additions	–	798	–	798	790	–	790
Transfer from cash flow hedges (note 7)	–	–	148	148	–	148	148
At 31st December 2012	7,666	2,417	148	10,231	2,352	148	2,500
Accumulated amortisation							
At 1st January 2013	**–**	**806**	**–**	**806**	**767**	**–**	**767**
Charge for the year	**–**	**210**	**–**	**210**	**204**	**–**	**204**
At 31st December 2013	**–**	**1,016**	**–**	**1,016**	**971**	**–**	**971**
At 1st January 2012	–	684	–	684	652	–	652
Charge for the year	–	122	–	122	115	–	115
At 31st December 2012	–	806	–	806	767	–	767
Net book value							
At 31st December 2013	**7,666**	**1,922**	**214**	**9,802**	**1,901**	**214**	**2,115**
At 31st December 2012	7,666	1,611	148	9,425	1,585	148	1,733

The carrying amount of goodwill allocated to the airline operation is HK$7,627 million (2012: 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% (2012: 1.0% to 3.0%) which does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rates used of approximately 8.0% (2012: 8.0%) are pre-tax and reflect specific risk related to the relevant segments. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

12. Investments in subsidiaries

	Company	
	2013 HK$M	2012 HK$M
Unlisted shares at cost	**9,748**	9,748
Other investments at cost	**12,150**	14,186
Net amounts due from subsidiaries		
– loan accounts	**7,514**	7,718
– current accounts	**5,608**	4,303
	35,020	35,955

Included in the loan accounts, there are loans due from subsidiaries of HK$939 million (2012: HK$367 million) which are unsecured, interest-bearing at 0.69% to 4.87% per annum and repayable before 31st December 2018.

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

Principal subsidiaries are listed on page 94.

13. Investments in associates

	Group			Company		
	2013 HK$M	2012 HK$M (restated)	2011 HK$M (restated)	**2013 HK$M**	2012 HK$M	2011 HK$M
Hong Kong listed shares at cost (Market value: HK$15,249 million, 2012: HK$16,526 million)	**–**	–	–	**10,466**	9,830	9,804
Unlisted shares at cost	**–**	–	–	**1**	1	17
Share of net assets						
– listed in Hong Kong	**15,021**	12,790	11,739	**–**	–	–
– unlisted	**1,031**	1,547	2,105	**–**	–	–
Goodwill	**4,165**	4,088	4,051	**–**	–	–
	20,217	18,425	17,895	**10,467**	9,831	9,821
Less: Impairment loss	**–**	–	–	**(3)**	(3)	(12)
	20,217	18,425	17,895	**10,464**	9,828	9,809
Loans due from associates						
– Interest-free	**97**	97	7	**93**	93	3
	20,314	18,522	17,902	**10,557**	9,921	9,812

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

	2013 HK$M	2012 HK$M
Gross amounts of the associate's		
– current assets	**36,286**	27,420
– non-current assets	**225,485**	201,927
– current liabilities	**(89,882)**	(76,247)
– non-current liabilities	**(97,625)**	(87,935)
Revenue	**125,548**	123,259
Profit from continuing operations	**6,484**	4,898
Other comprehensive income	**476**	(252)
Total comprehensive income	**6,960**	4,646
Dividend received from the associate	**189**	365
Reconciled to the Group's interests in the associate		
– gross amounts of net assets of the associate	**74,264**	65,165
– Group's share of net assets of the associate at effective interest (2013: 20.13%; 2012: 19.57%)	**14,949**	12,753
– effect of cross shareholding and others	**72**	37
– goodwill	**4,165**	4,088
	19,186	16,878

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

13. Investments in associates *(continued)*

Aggregate information of associates that are not individually material

	2013 HK$M	2012 HK$M
Aggregate carrying amount of individually immaterial associates	**1,128**	1,644
Aggregate amounts of the Group's share of those associates		
– loss from continuing operations	**(439)**	(577)
– other comprehensive income	**28**	(4)
– total comprehensive income	**(411)**	(581)

Principal associates are listed on page 95.

14. Other long-term receivables and investments

	Group			Company		
	2013 HK$M	2012 HK$M (restated)	2011 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)	2011 HK$M (restated)
Equity investments at fair value						
– listed in Hong Kong	**259**	140	136	**–**	–	–
– unlisted	**1,085**	1,151	1,062	**994**	1,046	963
Leasehold land rental prepayments	**1,386**	1,429	1,472	**–**	–	–
Loans and other receivables	**1,199**	1,312	1,635	**1,195**	1,307	1,629
Derivative financial assets – long-term portion	**3,206**	2,222	1,186	**3,206**	2,222	1,186
	7,135	6,254	5,491	**5,395**	4,575	3,778

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK$1,429 million (2012: HK$1,472 million).

15. Long-term liabilities

		2013		2012	
	Note	**Current HK$M**	**Non-current HK$M**	Current HK$M	Non-current HK$M
Group					
Long-term loans	*(a)*	**5,834**	**24,954**	4,428	20,209
Obligations under finance leases	*(b)*	**4,384**	**31,880**	3,729	31,180
		10,218	**56,834**	8,157	51,389
Company					
Long-term loans	*(a)*	**4,315**	**14,687**	3,173	15,167
Obligations under finance leases	*(b)*	**8,343**	**39,336**	4,804	35,994
		12,658	**54,023**	7,977	51,161

15. Long-term liabilities *(continued)*

(a) Long-term loans

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Bank loans				
– secured	**12,839**	8,372	**1,053**	2,075
– unsecured	**13,810**	12,729	**13,810**	12,729
Other loans				
– unsecured	**4,139**	3,536	**4,139**	3,536
	30,788	24,637	**19,002**	18,340
Amount due within one year included under current liabilities	**(5,834)**	(4,428)	**(4,315)**	(3,173)
	24,954	20,209	**14,687**	15,167
Repayable as follows:				
Bank loans				
– within one year	**5,546**	4,361	**4,027**	3,106
– after one year but within two years	**5,732**	4,986	**4,392**	4,098
– after two years but within five years	**10,067**	9,380	**6,444**	7,530
– after five years	**5,304**	2,374	**–**	70
	26,649	21,101	**14,863**	14,804
Other loans				
– within one year	**288**	67	**288**	67
– after one year but within two years	**275**	68	**275**	68
– after two years but within five years	**2,862**	2,029	**2,862**	2,029
– after five years	**714**	1,372	**714**	1,372
	4,139	3,536	**4,139**	3,536
Amount due within one year included under current liabilities	**(5,834)**	(4,428)	**(4,315)**	(3,173)
	24,954	20,209	**14,687**	15,167

Borrowings other than bank loans are repayable on various dates up to 2022 at an interest rate of 3.0% per annum while bank loans are repayable up to 2025.

Long-term loans of the Group and the Company not wholly repayable within five years amounted to HK$11,782 million and HK$714 million respectively (2012: HK$6,931 million and HK$1,792 million).

As at 31st December 2013, the Group and the Company had long-term loans totalling HK$32,215 million and HK$32,215 million respectively (2012: HK$28,994 million and HK$27,960 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 accounts.

(b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2014 to 2025. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Future payments	**43,468**	43,567	**56,027**	47,752
Interest charges relating to future periods	**(5,617)**	(4,693)	**(7,476)**	(6,080)
Present value of future payments	**37,851**	38,874	**48,551**	41,672
Security deposits, notes and zero coupon bonds	**(1,587)**	(3,965)	**(872)**	(874)
Amounts due within one year included under current liabilities	**(4,384)**	(3,729)	**(8,343)**	(4,804)
	31,880	31,180	**39,336**	35,994

15. Long-term liabilities *(continued)*

The present value of future payments is repayable as follows:

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Within one year	**5,345**	6,330	**8,738**	4,846
After one year but within two years	**4,013**	3,755	**4,531**	3,981
After two years but within five years	**12,202**	12,507	**13,994**	14,539
After five years	**16,291**	16,282	**21,288**	18,306
	37,851	38,874	**48,551**	41,672

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

As at 31st December 2013, the Group and the Company had obligations under finance leases amounting to HK$5,428 million and HK$851 million respectively (2012: HK$5,858 million and HK$1,054 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 accounts.

As at 31st December 2013, the Group and the Company had financial liabilities designated as at fair value through profit or loss of HK$3,587 million (2012: HK$3,973 million) and HK$3,587 million (2012: HK$3,973 million) respectively.

16. Other long-term payables

	Group			Company		
	2013 HK$M	2012 HK$M (restated)	2011 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)	2011 HK$M (restated)
Deferred creditors	**980**	1,079	906	**826**	797	392
Derivative financial liabilities – long-term portion	**277**	1,143	1,706	**262**	1,096	1,641
Retirement benefit liabilities (note 17)	**61**	983	1,038	**6**	875	944
	1,318	3,205	3,650	**1,094**	2,768	2,977

17. Retirement benefits

The Group operates various defined benefit and defined contribution retirement schemes for its employees in Hong Kong and in certain overseas locations. The assets of these schemes are held in separate trustee-administered funds. The retirement schemes in Hong Kong are registered under and comply with the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Schemes Ordinance ("MPFSO"). Most of the employees engaged outside Hong Kong are covered by appropriate local arrangements.

The Group operates the following principal schemes:

(a) Defined benefit retirement schemes

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

The Swire Group Retirement Benefit Scheme ("SGRBS") in Hong Kong, in which the Company, Cathay Pacific Catering Services (H.K.) Limited ("CPCS"), Vogue Laundry Service Limited ("Vogue") and Abacus Distribution Systems (Hong Kong) Limited ("Abacus") are participating employers, provides resignation and retirement benefits to its members, which include the Company's cabin attendants who joined before September 1996 and other locally engaged employees who joined before June 1997, upon their cessation of service. The Company, CPCS, Vogue and Abacus meet the full cost of all benefits due by SGRBS to their employee members who are not required to contribute to the scheme.

17. Retirement benefits *(continued)*

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

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

Contributions to the defined benefit retirement schemes are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past service liabilities, on an on-going basis, as computed by reference to actuarial valuations. The principal schemes in Hong Kong are valued annually by qualified actuaries for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance. For the year ended 31st December 2012, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2012. For the year ended 31st December 2013, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2012, which were updated at 31st December 2013 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes.

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

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

The Group's obligations are 99% (2012: 89%) covered by the plan assets held by the trustees as at 31st December 2013.

	2013 HK$M	2012 HK$M (restated)
Net expenses recognised in the Group's profit or loss:		
Current service cost	**357**	388
Net interest cost	**37**	18
Total included in staff costs	**394**	406
Actual return on plan assets	**586**	886

	Group			Company		
	2013 HK$M	2012 HK$M (restated)	2011 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)	2011 HK$M (restated)
Net liabilities recognised in the statement of financial position:						
Present value of funded obligations	**8,414**	9,102	8,362	**7,698**	8,333	7,658
Fair value of plan assets	**(8,353)**	(8,119)	(7,324)	**(7,692)**	(7,458)	(6,714)
	61	983	1,038	**6**	875	944

17. Retirement benefits *(continued)*

	Group		Company	
	2013 HK$M	2012 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)
Movements in present value of funded obligations comprise:				
At 1st January	**9,102**	8,362	**8,333**	7,658
Remeasurements:				
– actuarial (gains)/losses arising from changes in financial assumptions	**(643)**	426	**(584)**	388
– experience (gains)/losses	**(132)**	20	**(147)**	1
Movements for the year				
– current service cost	**357**	388	**321**	354
– interest expense	**279**	299	**254**	272
– employee contributions	**6**	7	**6**	7
– benefits paid	**(534)**	(400)	**(464)**	(347)
– transfer	**(21)**	–	**(21)**	–
At 31st December	**8,414**	9,102	**7,698**	8,333

The weighted average duration of the defined benefit obligations is eight years (2012: nine years).

	Group		Company	
	2013 HK$M	2012 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)
Movements in fair value of plan assets comprise:				
At 1st January	**8,119**	7,324	**7,458**	6,714
Movements for the year				
– return on plan assets excluding interest income	**344**	605	**316**	551
– interest income	**242**	281	**221**	257
– employee contributions	**6**	7	**6**	7
– employer contributions	**197**	302	**176**	276
– benefits paid	**(534)**	(400)	**(464)**	(347)
– transfer	**(21)**	–	**(21)**	–
At 31st December	**8,353**	8,119	**7,692**	7,458

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

	Group				Company			
	2013 HK$M	**%**	2012 HK$M	%	**2013 HK$M**	**%**	2012 HK$M	%
Fair value of plan assets comprises:								
Equities								
– Asia Pacific	**992**	**12**	1,187	14	**899**	**12**	1,079	14
– Europe	**530**	**6**	635	8	**480**	**6**	576	8
– North America	**990**	**12**	1,130	14	**897**	**12**	1,027	14
– others	**1,034**	**12**	1,143	14	**938**	**12**	1,038	14
Debt instruments	**2,249**	**27**	2,172	27	**2,029**	**26**	1,942	26
Deposits and cash	**2,558**	**31**	1,852	23	**2,449**	**32**	1,796	24
	8,353	**100**	8,119	100	**7,692**	**100**	7,458	100

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

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

17. Retirement benefits *(continued)*

The difference between the fair value of the schemes' assets and the present value of the accrued past services liabilities at the date of an actuarial valuation is taken into consideration when determining future funding levels in order to ensure that the schemes will be able to meet liabilities as they become due. The contributions are calculated based upon funding recommendations arising from actuarial valuations. The Group expects to make contributions of HK$202 million to the schemes in 2014.

	2013		2012	
	SGRBS	**CPALRS**	SGRBS	CPALRS
The significant actuarial assumptions are:				
Discount rate	**4.27%**	**4.27%**	3.32%	3.32%
Expected rate of future salary increases	**5%**	**3.41%**	2-6.88%	0.6-5%

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 2013 would have (increased)/decreased as a result of 0.5% change in the actuarial assumptions:

	Increase in 0.5% HK$M	**Decrease in 0.5% HK$M**
Discount rate	**316**	**(331)**
Expected rate of future salary increases	**(327)**	**316**

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

(b) Defined contribution retirement schemes

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

Staff employed by the Company in Hong Kong on expatriate terms are eligible to join a defined contribution retirement scheme, the CPA Provident Fund 1993. All staff employed in Hong Kong are eligible to join the CPA Provident Fund.

Under the terms of these schemes, other than the Company contribution, staff may elect to contribute from 0% to 10% of their monthly salary. During the year, the benefits forfeited in accordance with the schemes' rules amounted to HK$77 million (2012: HK$20 million) which have been applied towards the contributions payable by the Company.

A mandatory provident fund ("MPF") scheme was established under the MPFSO in December 2000. Where staff elect to join the MPF scheme, both the Company and staff are required to contribute 5% of the employees' relevant income (capped at HK$25,000). 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$1,017 million (2012: HK$951 million).

18. Deferred taxation

	Group			Company		
	2013 HK$M	2012 HK$M (restated)	2011 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)	2011 HK$M (restated)
Deferred tax assets:						
– provisions	**(158)**	(117)	(96)	**(150)**	(99)	(75)
– tax losses	**(1,835)**	(1,283)	(1,054)	**(796)**	(918)	(852)
– cash flow hedges	**–**	(103)	(260)	**–**	(84)	(239)
– customer loyalty programmes	**–**	(1)	(15)	**–**	(1)	(15)
– retirement benefits	**(17)**	(129)	(143)	**(8)**	(107)	(124)
Deferred tax liabilities:						
– accelerated tax depreciation	**3,508**	2,658	2,295	**2,067**	1,780	1,525
– investments in associates	**582**	483	385	**–**	–	–
– cash flow hedges	**276**	–	–	**293**	–	–
– others	**–**	–	27	**–**	–	27
Provision in respect of certain lease arrangements	**7,073**	6,553	5,512	**7,073**	6,259	5,042
	9,429	8,061	6,651	**8,479**	6,830	5,289

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

	Group			Company		
	2013 HK$M	2012 HK$M (restated)	2011 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)	2011 HK$M (restated)
Net deferred tax asset recognised in the statement of financial position	**(204)**	(95)	(40)	**–**	–	–
Net deferred tax liability recognised in the statement of financial position	**9,633**	8,156	6,691	**8,479**	6,830	5,289
	9,429	8,061	6,651	**8,479**	6,830	5,289

	Group		Company	
	2013 HK$M	2012 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)
Movements in deferred taxation comprise:				
At 1st January	**8,061**	6,651	**6,830**	5,289
Movements for the year				
– charged to profit or loss				
– deferred tax expenses (note 5)	**347**	195	**349**	152
– operating expenses	**38**	41	**37**	36
– charged to other comprehensive income				
– transferred to cash flow hedge reserve (note 7)	**379**	157	**377**	155
– transferred to retained profit (note 7)	**122**	17	**109**	17
– initial cash benefit from lease arrangements	**1,474**	1,461	**1,474**	1,461
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	**(992)**	(461)	**(697)**	(280)
At 31st December	**9,429**	8,061	**8,479**	6,830

18. Deferred taxation *(continued)*

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$12,078 million (2012: HK$11,597 million) to carry forward against future taxable income. These amounts are analysed as follows:

	Group	
	Unrecognised tax losses	
	2013 HK$M	2012 HK$M
No expiry date	**8,089**	7,512
Expiring beyond 2025	**3,989**	4,085
	12,078	11,597

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2015 to 2024 (2012: 2014 to 2023) as follows:

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
After one year but within five years	**1,470**	1,735	**1,470**	1,441
After five years but within 10 years	**4,433**	3,658	**4,433**	3,658
After 10 years	**1,170**	1,160	**1,170**	1,160
	7,073	6,553	**7,073**	6,259

19. Trade, other receivables and other assets

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Trade debtors	**5,421**	5,600	**4,656**	4,840
Derivative financial assets – current portion	**2,022**	1,094	**2,022**	1,094
Other receivables and prepayments	**2,314**	3,141	**1,713**	2,106
Due from associates and other related companies	**70**	87	**30**	41
	9,827	9,922	**8,421**	8,081

As at 31st December 2013, total derivative financial assets of the Group and the Company which did not qualify for hedge accounting amounted to HK$1,329 million (2012: HK$1,349 million) and HK$1,329 million (2012: HK$1,349 million) respectively.

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:				
Current	**5,319**	5,467	**4,575**	4,729
One to three months overdue	**86**	115	**65**	94
More than three months overdue	**16**	18	**16**	17
	5,421	5,600	**4,656**	4,840

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:

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
At 1st January	**54**	60	**36**	42
Amounts written back	**(1)**	(6)	**(1)**	(6)
At 31st December	**53**	54	**35**	36

20. Assets held for sale

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Assets held for sale	**111**	911	**111**	430
	111	911	**111**	430

Impairment of assets held for sale is considered by writing down the carrying value to fair value less costs of disposal, determined by reference to the estimated sales value as at 31st December 2013 and 2012. An impairment loss amounting to HK$13 million was recognised for the year ended 31st December 2013 (2012: HK$140 million).

21. Liquid funds

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Short-term deposits and bank balances (note 26)	**12,359**	12,798	**9,607**	9,715
Short-term deposits maturing beyond three months when placed	**6,349**	7	**6,320**	7
Funds with investment managers				
– debt securities listed outside Hong Kong	**7,282**	9,353	**–**	–
– bank deposits	**32**	203	**–**	–
Other liquid investments				
– debt securities listed outside Hong Kong	**1,439**	1,529	**1,168**	1,260
– bank deposits	**275**	292	**177**	149
	27,736	24,182	**17,272**	11,131

Included in other liquid investments are bank deposits of HK$275 million (2012: HK$292 million) and debt securities of HK$1,433 million (2012: HK$1,529 million) which are pledged as part of long-term financing arrangements. The arrangements provide that these deposits and debt securities must be maintained at specified levels for the duration of the financing.

22. Trade and other payables

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Trade creditors	**7,601**	7,357	**5,572**	5,430
Derivative financial liabilities – current portion	**799**	1,087	**727**	1,048
Other payables	**9,331**	8,716	**7,925**	7,505
Due to associates	**166**	56	**88**	42
Due to other related companies	**309**	254	**265**	221
	18,206	17,470	**14,577**	14,246

As at 31st December 2013, total derivative financial liabilities of the Group and the Company which did not qualify for hedge accounting amounted to HK$233 million (2012: HK$339 million) and HK$227 million (2012: HK$339 million) respectively.

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Analysis of trade creditors by age:				
Current	**7,408**	7,039	**5,492**	5,210
One to three months overdue	**174**	298	**71**	210
More than three months overdue	**19**	20	**9**	10
	7,601	7,357	**5,572**	5,430

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

23. Share capital

	2013		2012	
	Number of shares	**HK$M**	Number of shares	HK$M
Authorised (HK$0.20 each)	**5,000,000,000**	**1,000**	5,000,000,000	1,000
Issued and fully paid (HK$0.20 each)				
At 1st January and at 31st December	**3,933,844,572**	**787**	3,933,844,572	787

During the year, the Company did not purchase, sell or redeem any of its shares (2012: nil).

24. Reserves

	Group			Company		
	2013 HK$M	2012 HK$M (restated)	2011 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)	2011 HK$M (restated)
Retained profit	**40,342**	37,278	37,610	**31,656**	27,549	26,695
Share premium	**16,295**	16,295	16,295	**16,295**	16,295	16,295
Investment revaluation reserve	**984**	931	885	**743**	795	759
Cash flow hedge reserve	**2,340**	(830)	(2,417)	**2,435**	(718)	(2,291)
Capital redemption reserve and others	**2,140**	1,560	1,473	**23**	23	23
	62,101	55,234	53,846	**51,152**	43,944	41,481

	Retained profit HK$M	Share premium HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Capital redemption reserve and others HK$M	Total HK$M
Company						
At 1st January 2013	**27,549**	**16,295**	**795**	**(718)**	**23**	**43,944**
Profit for the year	**3,719**	**–**	**–**	**–**	**–**	**3,719**
Other comprehensive income	**939**	**–**	**(52)**	**3,153**	**–**	**4,040**
Total comprehensive income for the year	**4,658**	**–**	**(52)**	**3,153**	**–**	**7,759**
2012 interim dividend	**(315)**	**–**	**–**	**–**	**–**	**(315)**
2013 first interim dividend	**(236)**	**–**	**–**	**–**	**–**	**(236)**
	4,107	**–**	**(52)**	**3,153**	**–**	**7,208**
At 31st December 2013	**31,656**	**16,295**	**743**	**2,435**	**23**	**51,152**
At 1st January 2012	27,779	16,295	759	(2,291)	23	42,565
Impact of changes in accounting policies	(1,084)	–	–	–	–	(1,084)
Restated balance at 1st January 2012	26,695	16,295	759	(2,291)	23	41,481
Profit for the year (restated)	2,047	–	–	–	–	2,047
Other comprehensive income (restated)	145	–	36	1,573	–	1,754
Total comprehensive income for the year	2,192	–	36	1,573	–	3,801
2011 second interim dividend	(1,338)	–	–	–	–	(1,338)
	854	–	36	1,573	–	2,463
At 31st December 2012	27,549	16,295	795	(718)	23	43,944

24. Reserves *(continued)*

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

Capital redemption reserve and others of the Group mainly include the capital redemption reserve of HK$24 million (2012: HK$24 million), capital reserve of HK$23 million (2012: HK$23 million), exchange differences arising from revaluation of foreign investments which amounted to HK$2,774 million (2012: HK$2,273 million (restated)) and share of associate's other negative reserve of HK$681 million (2012: HK$760 million (restated)).

The cash flow hedge reserve relates to the effective portion of the cumulative net change in fair values of hedging instruments and exchange differences on borrowings and lease obligations which are arranged in foreign currencies such that repayments can be met by anticipated operating cash flows.

The gain/(loss) transferred from the cash flow hedge reserve to profit or loss items was as follows:

	2013 HK$M	2012 HK$M
Turnover	**247**	(613)
Fuel	**725**	957
Others	**(63)**	83
Net finance charge	**(245)**	(205)
Net gains transferred to the profit or loss	**664**	222

The cash flow hedge reserve 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
2014	**1,007**
2015	**259**
2016	**66**
2017	**123**
2018	**172**
Beyond 2018	**713**
	2,340

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

Distributable reserves of the Company at 31st December 2013 amounted to HK$31,656 million (2012: HK$27,549 million).

Notes to the Accounts / Statement of Cash Flows

25. Reconciliation of operating profit to cash generated from operations

	2013 HK$M	2012 HK$M (restated)
Operating profit	**3,760**	1,613
Depreciation of fixed assets	**7,142**	6,617
Amortisation of intangible assets	**210**	122
Provision for impairment of assets held for sale	**13**	140
Provision for impairment of fixed assets	**210**	52
(Gain)/loss on disposal of fixed assets, net	**(213)**	101
Loss on scrapping an aircraft	**–**	247
Gain on disposal of assets held for sale	**–**	(34)
Gain on deemed disposal of an associate	**(24)**	–
Currency adjustments and other items not involving cash flows	**(658)**	(304)
Increase in stock	**(317)**	(39)
Increase in trade debtors, other receivables and other assets and derivative financial assets	**(905)**	(1,075)
Increase/(decrease) in net amounts due to related companies and associates	**182**	(15)
Decrease in trade creditors, other payables, derivative financial liabilities and deferred creditors	**(395)**	(393)
Increase/(decrease) in unearned transportation revenue	**1,656**	(32)
Non-operating movements in debtors and creditors	**3,502**	2,239
Cash generated from operations	**14,163**	9,239

26. Analysis of cash and cash equivalents

	2013 HK$M	2012 HK$M
Short-term deposits and bank balances (note 21)	**12,359**	12,798
	12,359	12,798

Notes to the Accounts / Directors and Employees

27. Directors' and executive officers' remuneration

(a) Directors' remuneration disclosed pursuant to the Listing Rules is as follows:

	Cash			Non-cash					
	Basic salary/ Fees (note a) HK$'000	Bonus (note b) HK$'000	Allowances & benefits HK$'000	Contributions to retirement schemes HK$'000	Bonus paid into retirement schemes HK$'000	Other benefits HK$'000	Housing benefits HK$'000	**2013 Total HK$'000**	2012 Total HK$'000
Executive Directors									
Christopher Pratt	588	1,068	33	150	330	–	424	**2,593**	4,363
W.E. James Barrington	1,903	1,507	2,111	485	943	36	–	**6,985**	8,065
Ivan Chu	2,910	1,740	989	498	–	–	–	**6,137**	5,653
James E. Hughes-Hallett (up to November 2011)	–	–	–	–	–	–	–	**–**	2,724
Martin Murray	2,112	1,311	346	539	742	41	3,101	**8,192**	6,267
John Slosar	4,228	3,842	210	1,078	1,336	–	3,105	**13,799**	15,742
Tony Tyler (up to March 2011)	–	–	–	–	–	–	–	**–**	1,817
Non-Executive Directors									
Cai Jianjiang	575	–	–	–	–	–	–	**575**	575
Fan Cheng	755	–	–	–	–	–	–	**755**	755
James W.J. Hughes-Hallett	–	–	–	–	–	–	–	**–**	–
Peter Kilgour	–	–	–	–	–	–	–	**–**	–
Kong Dong (up to March 2012)	–	–	–	–	–	–	–	**–**	115
Ian Shiu	–	–	–	–	–	–	–	**–**	–
Merlin Swire	–	–	–	–	–	–	–	**–**	–
Wang Changshun (up to January 2014)	575	–	–	–	–	–	–	**575**	460
Zhao Xiaohang	575	–	–	–	–	–	–	**575**	575
Independent Non-Executive Directors									
Irene Lee	830	–	–	–	–	–	–	**830**	826
Jack So	815	–	–	–	–	–	–	**815**	815
Tung Chee Chen	633	–	–	–	–	–	–	**633**	633
Peter Wong	755	–	–	–	–	–	–	**755**	755
2013 Total	**17,254**	**9,468**	**3,689**	**2,750**	**3,351**	**77**	**6,630**	**43,219**	
2012 Total	17,386	14,400	3,676	4,218	3,286	140	7,034		50,140

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

(b) Bonus is related to services for 2012 and was paid in 2013.

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

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

	Cash			Non-cash					
	Basic salary HK$'000	Bonus HK$'000	Allowances & benefits HK$'000	Contributions to retirement schemes HK$'000	Bonus paid into retirement schemes HK$'000	Other benefits HK$'000	Housing benefits HK$'000	**2013 Total HK$'000**	2012 Total HK$'000
William Chau (up to August 2013)	1,278	1,397	321	218	–	–	–	**3,214**	4,311
Chitty Cheung (from August 2012)	1,676	802	511	287	–	–	–	**3,276**	1,079
Quince Chong (up to August 2012)	–	–	463	–	–	–	–	**463**	3,216
Philippe de Gentile-Williams	1,469	951	384	375	718	43	2,150	**6,090**	5,037
Christopher Gibbs	2,189	1,613	744	367	–	–	–	**4,913**	4,975
Richard Hall	1,880	1,385	2,904	–	–	–	–	**6,169**	6,354
Rupert Hogg	2,079	1,419	1,366	530	859	189	3,051	**9,493**	9,597
Joseph Locandro (from August 2012)	2,176	769	1,070	324	–	–	–	**4,339**	1,734
Nick Rhodes	1,974	1,584	112	503	999	182	2,897	**8,251**	9,249
Tomasz Smaczny (up to August 2012)	–	–	–	–	–	–	–	**–**	5,360
James Woodrow (from September 2013)	502	–	116	128	–	18	723	**1,487**	–
2013 Total	**15,223**	**9,920**	**7,991**	**2,732**	**2,576**	**432**	**8,821**	**47,695**	
2012 Total	15,272	11,733	9,602	3,269	2,676	491	7,869		50,912

Bonus is related to services for 2012 and was paid in 2013.

28. Employee information

(a) The five highest paid individuals of the Company included three Directors (2012: two) and two executive officers (2012: three), whose emoluments are set out in note 27 above.

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

	2013			2012		
HK$'000	**Director**	**Flight staff**	**Other staff**	Director	Flight staff	Other staff
0 – 1,000	**12**	**10,462**	**9,332**	13	10,014	9,098
1,001 – 1,500	**–**	**390**	**304**	–	404	307
1,501 – 2,000	**–**	**472**	**131**	1	595	126
2,001 – 2,500	**–**	**662**	**61**	–	596	67
2,501 – 3,000	**1**	**405**	**17**	1	341	18
3,001 – 3,500	**–**	**224**	**8**	–	222	6
3,501 – 4,000	**–**	**121**	**3**	–	116	4
4,001 – 4,500	**–**	**28**	**6**	1	28	5
4,501 – 5,000	**–**	**1**	**3**	–	4	3
5,001 – 5,500	**–**	**–**	**2**	–	1	3
5,501 – 6,000	**–**	**–**	**–**	1	–	2
6,001 – 6,500	**1**	**–**	**3**	1	–	2
6,501 – 7,000	**1**	**–**	**1**	–	–	1
7,501 – 8,000	**–**	**–**	**–**	–	–	1
8,001 – 8,500	**1**	**–**	**1**	1	–	–
9,001 – 9,500	**–**	**–**	**1**	–	–	1
9,501 – 10,000	**–**	**–**	**–**	–	–	1
13,501 – 14,000	**1**	**–**	**–**	–	–	–
15,501 – 16,000	**–**	**–**	**–**	1	–	–
	17	**12,765**	**9,873**	20	12,321	9,645

Notes to the Accounts / Related Party Transactions

29. Related party transactions

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

	2013		2012	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Turnover	**226**	**12**	243	17
Aircraft maintenance costs	**827**	**2,355**	15	2,430
Operating costs	**463**	**–**	567	–
Dividend income	**273**	**–**	439	–
Fixed assets purchase	**–**	**7**	–	2
Sale of fixed assets	**206**	**–**	337	–

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, HAECO group in respect of aircraft maintenance and related services. The amounts payable to HAECO group for the year ended 31st December 2013 totalled HK$3,189 million (2012: HK$2,430 million was under the framework agreement between the Company and HAECO dated 21st May 2007, which was terminated with effect from 1st January 2013). The amounts receivable from HAECO group for the year ended 31st December 2013 totalled HK$15 million (2012: HK$17 million).

Transactions under the HAECO Framework Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure and shareholders' approval requirements in accordance with Chapter 14A of the Listing Rules. For a definition of terms, please refer to the Directors' Report on pages 35 and 36.

(ii) Under the Air China Framework Agreement with Air China dated 26th June 2008, the Group paid fees to, and received fees from, Air China group in respect of transactions between the Group on the one hand and Air China group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Air China Framework Agreement. The amounts payable to Air China group for the year ended 31st December 2013 totalled HK$350 million (2012: HK$318 million). The amounts receivable from Air China group for the year ended 31st December 2013 totalled HK$222 million (2012: HK$243 million).

Transactions under the Air China Framework Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For a definition of terms, please refer to the Directors' Report on page 36.

(b) The Company had an agreement for services with JSSHK ("JSSHK Services Agreement"). Under the JSSHK Services Agreement, the Company paid fees and reimbursed costs to JSSHK in exchange for services provided. Service fees calculated at 2.5% of the Group's profit before taxation, results of associates, non-controlling interests, and any profits and losses on disposal of fixed assets are paid annually. For the year ended 31st December 2013, service fees of HK$69 million (2012: HK$42 million) were paid and expenses of HK$155 million (2012: HK$159 million) were reimbursed at cost; in addition, HK$54 million (2012: HK$54 million) in respect of shared administrative services were reimbursed.

Transactions under the JSSHK Services Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For a definition of terms, please refer to the Directors' Report on page 35.

(c) Amounts due from and due to associates and other related companies at 31st December 2013 are disclosed in notes 19 and 22 to the accounts. These balances arising in the normal course of business are non-interest bearing and have no fixed repayment terms.

(d) Guarantees given by the Company in respect of bank loan facilities of an associate at 31st December 2013 are disclosed in note 30(b) to the accounts.

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

Notes to the Accounts / Supplementary Information

30. Capital commitments and contingencies

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

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Authorised and contracted for	**113,307**	99,146	**3,921**	5,283
Authorised but not contracted for	**15,897**	10,046	**12,499**	9,141
	129,204	109,192	**16,420**	14,424

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

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

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Subsidiaries	**–**	–	**5,218**	4,929
Associates	**753**	90	**90**	90
Related parties	**1,064**	1,051	**1,064**	1,051
Staff	**200**	200	**200**	200
	2,017	1,341	**6,572**	6,270

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

In March 2014, the Group provided a guarantee in respect of an associate amounting to HK$673 million.

(c) The Company has under certain circumstances undertaken to maintain specified rates of return within the Group's leasing arrangements. The Directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.

(d) The Company operates in many jurisdictions and in certain of these there are disputes with the tax authorities. Provisions have been made to cover the expected outcome of the disputes to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.

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

In 2006 the Competition Bureau of Canada (the "Bureau") commenced a non-public investigation of the Company's air cargo operations. On 20th June 2013, pursuant to a plea agreement entered into by the Company and the Bureau, the Ontario Superior Court of Justice accepted the Company's plea of guilty with respect to certain violations of the Canadian Competition Act relating to a NavCan surcharge. Pursuant to the plea agreement and the Court's judgment, the Company agreed to pay a fine of CAD$1.5 million (approximately HK$11.21 million at the exchange rate current when the judgment was entered). The Company has satisfied the judgment.

In December 2008, the Company received a statement of claim, since amended, from the New Zealand Commerce Commission ("NZCC") with regard to the Company's air cargo operations. Agreement was reached between the Company and the NZCC to settle the allegations which arose out of the amended statement of claim. Under the settlement, which was approved by the High Court of New Zealand, the Company pleaded guilty to certain violations of the Commerce Act 1986 and agreed to make a payment of NZ$4.56 million (approximately HK$29.95 million at the exchange rate current when the judgment was entered), made up of a penalty of NZ$4.30 million and a contribution of NZ$0.26 million to the legal costs of the NZCC. The Company satisfied the judgment in April 2013.

In November 2010, the European Commission issued a decision in its airfreight investigation finding that, amongst other things, the Company and a number of other international cargo carriers agreed to cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57,120,000 (equivalent to HK$618 million at the exchange rate current as of the date of the announcement) on the Company. In January 2011, the Company filed an appeal with the General Court of the European Union. The appeal is currently pending.

30. Capital commitments and contingencies *(continued)*

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

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

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

31. Financial risk management

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

Derivative financial instruments are used solely for financial risk management purposes and the Group does not hold or issue derivative financial instruments for proprietary trading purposes. Derivative financial instruments which constitute a hedge do not expose the Group to market risk since any change in their market value will be offset by a compensating change in the market value of the hedged items. Exposure to foreign exchange rates, interest rates and jet fuel price movements are regularly reviewed and positions are amended in compliance with internal guidelines and limits.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group normally grants a credit term of 30 days to customers or follows the local industry standard with the debt in certain circumstances being partially protected by bank guarantees or other monetary collateral.

Trade debtors mainly represented passenger and freight sales due from agents and amounts due from airlines for interline services provided. The majority of the agents are connected to the settlement systems operated by the International Air Transport Association ("IATA") who is responsible for checking the credit worthiness of such agents and collecting bank guarantees or other monetary collateral according to local industry practice. In most cases amounts due from airlines are settled on net basis via an IATA clearing house. The credit risk with regard to individual agents and airlines is relatively low.

To manage credit risk, derivative financial transactions, deposits and funds are only carried out with financial institutions which have high credit ratings and all counterparties are subject to prescribed trading limits which are regularly reviewed. Risk exposures are monitored regularly by reference to market values.

At the reporting date there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position and the amount of guarantees granted as disclosed in note 30 to the accounts. Collateral and guarantees received in respect of credit terms granted as at 31st December 2013 is HK$1,333 million (2012: HK$1,308 million).

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

31. Financial risk management *(continued)*

(b) Liquidity risk

The Group's policy is to monitor liquidity and compliance with lending covenants, so as to ensure sufficient liquid funds and 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 2012. The undiscounted payment profile of financial liabilities is outlined as follows:

	2013				
	Within one year HK$M	**After one year but within two years HK$M**	**After two years but within five years HK$M**	**After five years HK$M**	**Total HK$M**
Group					
Bank and other loans	**(6,263)**	**(6,438)**	**(14,168)**	**(6,961)**	**(33,830)**
Obligations under finance leases	**(4,804)**	**(4,287)**	**(13,852)**	**(18,749)**	**(41,692)**
Other long-term payables	**–**	**(155)**	**(509)**	**(316)**	**(980)**
Trade and other payables	**(17,407)**	**–**	**–**	**–**	**(17,407)**
Derivative financial liabilities, net	**(635)**	**(283)**	**(69)**	**57**	**(930)**
Total	**(29,109)**	**(11,163)**	**(28,598)**	**(25,969)**	**(94,839)**

	2012				
	Within one year HK$M	After one year but within two years HK$M	After two years but within five years HK$M	After five years HK$M	Total HK$M
Group					
Bank and other loans	(4,746)	(5,330)	(12,065)	(4,077)	(26,218)
Obligations under finance leases	(4,127)	(3,704)	(13,050)	(18,369)	(39,250)
Other long-term payables	–	(128)	(508)	(443)	(1,079)
Trade and other payables	(16,383)	–	–	–	(16,383)
Derivative financial liabilities, net	(1,101)	(716)	(571)	55	(2,333)
Total	(26,357)	(9,878)	(26,194)	(22,834)	(85,263)

	2013				
	Within one year HK$M	**After one year but within two years HK$M**	**After two years but within five years HK$M**	**After five years HK$M**	**Total HK$M**
Company					
Bank and other loans	**(4,539)**	**(4,894)**	**(9,726)**	**(859)**	**(20,018)**
Obligations under finance leases	**(9,034)**	**(5,151)**	**(16,304)**	**(24,494)**	**(54,983)**
Other long-term payables	**–**	**–**	**(509)**	**(317)**	**(826)**
Trade and other payables	**(13,850)**	**–**	**–**	**–**	**(13,850)**
Derivative financial liabilities, net	**(549)**	**(268)**	**(69)**	**57**	**(829)**
Total	**(27,972)**	**(10,313)**	**(26,608)**	**(25,613)**	**(90,506)**

31. Financial risk management *(continued)*

	2012				
	Within one year HK$M	After one year but within two years HK$M	After two years but within five years HK$M	After five years HK$M	Total HK$M
Company					
Bank and other loans	(3,411)	(4,380)	(10,041)	(1,608)	(19,440)
Obligations under finance leases	(5,304)	(4,479)	(16,271)	(20,536)	(46,590)
Other long-term payables	–	–	(354)	(443)	(797)
Trade and other payables	(13,198)	–	–	–	(13,198)
Derivative financial liabilities, net	(1,051)	(666)	(557)	55	(2,219)
Total	(22,964)	(9,525)	(27,223)	(22,532)	(82,244)

(c) Market risk

(i) Foreign currency risk

The Group's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations. In this respect, it is assumed that the pegged rate between Hong Kong dollars and United States dollars would be materially unaffected by any changes in movement in value of United States dollars against other currencies. The currencies giving rise to this risk in 2013 and 2012 are primarily United States dollars, Euros, New Taiwan dollars, Singapore dollars, Renminbi and Japanese yen. Foreign currency risk is measured by employing sensitivity analyses, taking into account current and anticipated exposures. To manage this exposure, assets are, where possible, financed in those foreign currencies in which net operating surpluses are anticipated, thus establishing a natural hedge. In addition, the Group uses currency derivatives to reduce anticipated foreign currency surpluses. The use of foreign currency borrowings and currency derivatives to hedge future operating revenues is a key component of the financial risk management process, as exchange differences realised on the repayment of financial commitments are effectively matched by the change in value of the foreign currency earnings used to make those repayments.

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

	2013					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**SGD HK$M**	**RMB HK$M**	**JPY HK$M**
Group						
Trade debtors, other receivables and prepayments	**7,554**	**455**	**192**	**42**	**563**	**226**
Liquid funds	**14,894**	**53**	**5**	**76**	**6,188**	**94**
Long-term loans	**(10,535)**	**–**	**–**	**(1,532)**	**–**	**(1,454)**
Obligations under finance leases	**(28,786)**	**(2,610)**	**–**	**–**	**–**	**(3,760)**
Trade creditors and other payables	**(6,379)**	**(346)**	**(99)**	**(74)**	**(640)**	**(212)**
Currency derivatives at notional value	**22,340**	**(924)**	**(2,187)**	**(576)**	**(2,698)**	**(6,043)**
Net exposure	**(912)**	**(3,372)**	**(2,089)**	**(2,064)**	**3,413**	**(11,149)**

	2012					
	USD HK$M	EUR HK$M	TWD HK$M	SGD HK$M	RMB HK$M	JPY HK$M
Group						
Trade debtors, other receivables and prepayments	7,358	470	220	38	469	264
Liquid funds	16,318	49	120	68	2,647	337
Long-term loans	(8,266)	–	–	(1,585)	–	(1,309)
Obligations under finance leases	(28,685)	(2,909)	–	–	–	(2,119)
Trade creditors and other payables	(6,378)	(508)	(94)	(70)	(483)	(236)
Currency derivatives at notional value	33,205	(1,598)	(3,754)	(1,229)	(5,900)	(9,310)
Net exposure	13,552	(4,496)	(3,508)	(2,778)	(3,267)	(12,373)

31. Financial risk management *(continued)*

	2013					
	USD HK$M	**EUR HK$M**	**TWD HK$M**	**SGD HK$M**	**RMB HK$M**	**JPY HK$M**
Company						
Trade debtors, other receivables and prepayments	**6,607**	**455**	**169**	**42**	**307**	**222**
Liquid funds	**6,920**	**40**	**2**	**75**	**4,455**	**88**
Long-term loans	**(4,679)**	**–**	**–**	**(1,532)**	**–**	**–**
Obligations under finance leases	**(34,085)**	**(2,990)**	**–**	**–**	**–**	**(5,214)**
Trade creditors and other payables	**(5,774)**	**(323)**	**(61)**	**(67)**	**(223)**	**(180)**
Currency derivatives at notional value	**21,067**	**(924)**	**(2,187)**	**(576)**	**(1,334)**	**(6,043)**
Net exposure	**(9,944)**	**(3,742)**	**(2,077)**	**(2,058)**	**3,205**	**(11,127)**

	2012					
	USD HK$M	EUR HK$M	TWD HK$M	SGD HK$M	RMB HK$M	JPY HK$M
Company						
Trade debtors, other receivables and prepayments	6,266	466	194	38	252	259
Liquid funds	5,492	45	117	68	1,240	334
Long-term loans	(5,432)	–	–	(1,585)	–	–
Obligations under finance leases	(31,119)	(3,380)	–	–	–	(3,428)
Trade creditors and other payables	(5,822)	(469)	(58)	(64)	(135)	(209)
Currency derivatives at notional value	31,951	(1,598)	(3,754)	(1,229)	(4,552)	(9,310)
Net exposure	1,336	(4,936)	(3,501)	(2,772)	(3,195)	(12,354)

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

Sensitivity analysis for foreign currency exposure

A five percent appreciation of the Hong Kong dollar against the following currencies at 31st December 2013 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 2012.

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

31. Financial risk management *(continued)*

	2012	
	Net increase/ (decrease) in profit or loss HK$M	Net increase/ (decrease) in other equity components HK$M
United States dollars	781	(1,247)
Euros	23	167
New Taiwan dollars	(11)	171
Singapore dollars	(2)	134
Renminbi	(132)	259
Japanese yen	(19)	596
Net increase	640	80

(ii) Interest rate risk

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

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

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Fixed rate instruments				
Loans receivable	**663**	722	**663**	722
Long-term loans	**(3,502)**	(2,899)	**(3,502)**	(2,899)
Obligations under finance leases	**(10,486)**	(10,277)	**(12,437)**	(12,470)
Interest rate and currency swaps	**(24,351)**	(27,239)	**(23,958)**	(26,671)
Net exposure	**(37,676)**	(39,693)	**(39,234)**	(41,318)

	Group		Company	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Variable rate instruments				
Liquid funds	**27,736**	24,182	**17,272**	11,131
Long-term loans	**(27,286)**	(21,738)	**(15,500)**	(15,441)
Obligations under finance leases	**(25,778)**	(24,632)	**(35,242)**	(28,328)
Interest rate and currency swaps	**25,680**	28,120	**25,331**	27,619
Net exposure	**352**	5,932	**(8,139)**	(5,019)

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 2012.

31. Financial risk management *(continued)*

	2013		2012	
	Profit or loss HK$M	**Other equity components HK$M**	Profit or loss HK$M	Other equity components HK$M
Variable rate instruments	**(111)**	**236**	(121)	316

(iii) Fuel price risk

Fuel accounted for 39.0% of the Group's total operating expenses (2012: 41.1%). Exposure to fluctuations in the fuel price is managed by the use of fuel derivatives. The profit or loss generated from these fuel derivatives is dependent on the nature and combination of contracts which generate payoffs in any particular range of fuel prices.

Sensitivity analysis for jet fuel price derivatives

An increase/(decrease) of five percent in the jet fuel price at the reporting date would have affected profit or loss and other equity components for the year by the amounts shown below. These amounts represent the change in fair value of fuel derivatives at the reporting date.

	2013		2012	
	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%	**(98)**	**872**	(36)	857
Decrease in jet fuel price by 5%	**(38)**	**(736)**	33	(839)

(d) Hedge accounting

The carrying values of financial assets/(liabilities) designated as cash flow hedges as at 31st December 2013 were as follows:

	2013 HK$M	2012 HK$M
Foreign currency risk		
– long-term liabilities (natural hedge)	**(7,751)**	(6,170)
– cross currency swaps	**877**	(2)
– foreign currency forward contracts	**520**	(92)
– foreign exchange swap	**(1)**	1
Interest rate risk		
– interest rate swaps	**6**	(939)
Fuel price risk		
– fuel derivatives	**1,654**	1,142
Others		
– carbon offsets	**–**	(34)

31. Financial risk management *(continued)*

(e) Fair values

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

	2013		2012	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Group				
Loans receivable	**663**	**719**	722	817
Long-term loans	**(30,788)**	**(32,089)**	(24,637)	(25,687)
Obligations under finance leases	**(37,851)**	**(39,354)**	(38,874)	(40,840)
Pledged security deposits	**1,587**	**1,839**	3,965	4,291

	2013		2012	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Company				
Loans receivable	**663**	**719**	722	817
Long-term loans	**(19,002)**	**(19,587)**	(18,340)	(19,137)
Obligations under finance leases	**(48,551)**	**(51,405)**	(41,672)	(44,805)
Pledged security deposits	**872**	**1,108**	874	1,140

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

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

(f) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value as at 31st December 2013 across three levels of the fair value hierarchy defined in HKFRS 7 "Financial Instruments: Disclosures" with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. Level 1 includes financial instruments with fair values measured using quoted prices in active markets for identical assets or liabilities. Level 2 includes financial instruments with fair values measured using quoted prices in active markets for similar assets or liabilities, or using valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates, exchange rates and fuel price. Level 3 includes financial instruments with fair values measured using dividend discount model and discounted cash flow valuation techniques in which any significant input is not based on observable market data.

31. Financial risk management *(continued)*

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

	2012							
	Group				Company			
	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Recurring fair value measurement								
Assets								
Investments at fair value								
– listed	140	–	–	140	–	–	–	–
– unlisted	–	–	1,151	1,151	–	1,046	–	1,046
Liquid funds								
– funds with investment managers	–	9,353	–	9,353	–	–	–	–
– other liquid investments	–	1,529	–	1,529	–	1,260	–	1,260
Derivative financial assets	–	3,316	–	3,316	–	3,316	–	3,316
	140	14,198	1,151	15,489	–	5,622	–	5,622
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	–	(3,973)	–	(3,973)	–	(3,973)	–	(3,973)
Derivative financial liabilities	–	(2,230)	–	(2,230)	–	(2,144)	–	(2,144)
	–	(6,203)	–	(6,203)	–	(6,117)	–	(6,117)

31. 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 investment				
– Discount rate	8.0%	The higher the discount rate, the lower the fair value	+/- 0.5%	(79)/102
– Growth rate	4.1%	The higher the future growth rate, the higher the fair value	+/- 0.1%	17/(16)

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

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

	Group HK$M	Company HK$M
Investments at fair value – unlisted		
At 1st January 2012	1,062	963
Additions	47	47
Net unrealised gains or losses recognised in other comprehensive income during the year	42	36
At 31st December 2012	1,151	1,046

(g) Offsetting financial assets and financial liabilities

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

31. Financial risk management *(continued)*

	2012				
	Gross amounts of recognised financial assets/ liabilities HK$M	Gross amounts of recognised financial assets/liabilities offset in the statement of financial position HK$M	Net amounts of financial assets/liabilities presented in the statement of financial position HK$M	Financial instruments not offset in the statement of financial position HK$M	Net amount HK$M
Group					
Derivative financial assets	3,316	–	3,316	(1,404)	1,912
Related pledged security deposits	3,965	(3,965)	–	–	–
Obligations under finance leases	(3,965)	3,965	–	–	–
Derivative financial liabilities	(2,230)	–	(2,230)	1,404	(826)
	1,086	–	1,086	–	1,086

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

31. Financial risk management *(continued)*

	2012				
	Gross amounts of recognised financial assets/ liabilities HK$M	Gross amounts of recognised financial assets/liabilities offset in the statement of financial position HK$M	Net amounts of financial assets/liabilities presented in the statement of financial position HK$M	Financial instruments not offset in the statement of financial position HK$M	Net amount HK$M
Company					
Derivative financial assets	3,316	–	3,316	(1,404)	1,912
Related pledged security deposits	874	(874)	–	–	–
Obligations under finance leases	(874)	874	–	–	–
Derivative financial liabilities	(2,144)	–	(2,144)	1,404	(740)
	1,172	–	1,172	–	1,172

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

32. Capital risk management

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

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

33. Impact of further new accounting standards

HKICPA has issued new and revised standards which become effective for accounting periods beginning on or after 1st January 2014 and which are not adopted in the accounts.

(a) The amendment to HKAS 32 "Presentation – Offsetting Financial Assets and Financial Liabilities" is relevant to the Group and becomes effective for accounting periods beginning on or after 1st January 2014. The amendment clarifies the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement". It is not expected that this amendment will have a significant impact on the Group's accounts.

(b) HKFRS 9 "Financial Instruments" is relevant to the Group and the mandatory effective date has not been issued but will become effective for accounting periods no earlier than 1st January 2017. The standard requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The Group has yet to assess the full impact of the new standard.

Principal Subsidiaries and Associates

at 31st December 2013

Subsidiaries

	Place of incorporation/ establishment and operation	Principal activities	Percentage of issued capital owned	Issued and paid up share capital and debt securities
Abacus Distribution Systems (Hong Kong) Limited	Hong Kong	Computerised reservation systems and related services	53	15,600,000 shares of HK$1
AHK Air Hong Kong Limited	Hong Kong	Cargo airline	60*	54,402,000 A shares of HK$1 36,268,000 B shares of HK$1
Airline Property Limited	Hong Kong	Property investment	100	2 shares of HK$10
Airline Stores Property Limited	Hong Kong	Property investment	100	2 shares of HK$10
Airline Training Property Limited	Hong Kong	Property investment	100	2 shares of HK$10
Asia Miles Limited	Hong Kong	Travel reward programme	100	2 shares of HK$1
Cathay Holidays Limited	Hong Kong	Travel tour operator	100	40,000 shares of HK$100
Cathay Pacific Aero Limited	Hong Kong	Financial services	100	1 share of HK$10
Cathay Pacific Aircraft Acquisition Limited	Isle of Man	Aircraft acquisition facilitator	100	2,000 shares of US$1
Cathay Pacific Aircraft Lease Finance Limited	Hong Kong	Aircraft leasing facilitator	100	1 share of HK$1
Cathay Pacific Aircraft Services Limited	Isle of Man	Aircraft acquisition facilitator	100	10,000 shares of US$1
Cathay Pacific Catering Services (H.K.) Limited	Hong Kong	Airline catering	100	600 shares of HK$1,000
Cathay Pacific MTN Financing Limited	Cayman Islands	Financial services	100	1 share of US$1
Cathay Pacific Services Limited	Hong Kong	Cargo terminal	100	1 share of HK$1
Deli Fresh Limited	Hong Kong	Food processing and catering	100	20 shares of HK$10
Global Logistics System (H.K.) Company Limited	Hong Kong	Computer network for interchange of air cargo related information	95	100 shares of HK$10
Guangzhou Guo Tai Information Processing Company Limited	People's Republic of China	Information processing	100*	Paid up registered capital HK$8,000,000 (wholly foreign owned enterprise)
Hong Kong Airport Services Limited	Hong Kong	Aircraft ramp handling	100	100 shares of HK$1
Hong Kong Aviation and Airport Services Limited	Hong Kong	Property investment	100*	2 shares of HK$1
Hong Kong Dragon Airlines Limited	Hong Kong	Airline	100	500,000,000 shares of HK$1
Snowdon Limited	Isle of Man	Financial services	100*	2 shares of GBP1
Troon Limited	Bermuda	Financial services	100	12,000 shares of US$1
Vogue Laundry Service Limited	Hong Kong	Laundry and dry cleaning	100	3,700 shares of HK$500

Principal subsidiaries and associates are those which materially affect the results or assets of the Group.

All shares are ordinary shares unless otherwise stated.

* *Shareholding held through subsidiaries.*

Associates

	Place of incorporation/ establishment and operation	Principal activities	Percentage of issued capital owned
Air China 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 accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") (which include all applicable Hong Kong Accounting Standards ("HKAS"), Hong Kong Financial Reporting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These accounts also comply with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") 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 accounts in conformity with HKFRS requires management to make certain estimates and assumptions which affect the amounts of fixed assets, intangible assets, long-term investments, retirement benefit obligations and taxation included in the accounts. These estimates and assumptions are continually re-evaluated and are based on management's expectations of future events which are considered to be reasonable.

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

- HKFRSs (Amendment) "Annual Improvements 2009-2011 Cycle"
- Amendments to HKAS 1 "Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income"
- Amendments to HKFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities"
- Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"
- HKAS 19 (2011) "Employee Benefits"
- HKAS 27 (2011) "Separate Financial Statements"
- HKAS 28 (2011) "Investment in Associates and Joint Ventures"
- HKFRS 10 "Consolidated Financial Statements"
- HKFRS 11 "Joint Arrangements"
- HKFRS 12 "Disclosure of Interests in Other Entities"
- HKFRS 13 "Fair Value Measurement"

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

The annual improvements to HKFRSs 2009 to 2011 Cycle consist of six amendments to five existing standards, including an amendment to HKAS 34. It has had no significant impact on the results and financial position of the Group.

The amendment to HKAS 1 "Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income" focuses on improving the presentation of components of other comprehensive income items. It requires items presented in other comprehensive income to be grouped on the basis of whether they are potentially reclassifiable to profit or loss subsequently or not. The Group's presentation of other comprehensive income in the accounts has been modified accordingly.

The amendments to HKFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities" introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 "Financial Instruments: Presentation" and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. The Group has made appropriate disclosures about the offsetting of financial assets and financial liabilities.

The amendments to HKFRSs 10, 11 and 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance" provide additional transition relief, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments have had no significant impact on the Group's accounts.

HKAS 27 (2011) "Separate Financial Statements" was issued following the issuance of HKFRS 10. The revised HKAS 27 only deals with the accounting for subsidiaries, joint ventures and associates in the separate financial statements of the parent company. The amendment has had no significant impact on the results and financial position of the Company as it already complies with the requirements of the standard.

HKAS 28 (2011) "Investments in Associates and Joint Ventures" includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11. The amendment has had no significant impact on the results and financial position of the Group.

HKFRS 10 "Consolidated Financial Statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1st January 2013.

HKFRS 11 "Joint Arrangements" which replaces HKAS 31 "Interests in Joint Ventures", divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

The adoption of HKFRS 11, which converges with International Financial Reporting Standard ("IFRS") 11 "Joint Arrangements", has affected the Group's share of profits of associates. One of the Group's associates, on adoption of IFRS 11 in the current year, has changed its accounting policy with respect to the interests in joint ventures, for which proportionate consolidation was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 31st December 2012 and the result for the year ended 31st December 2012 as summarised in the table below.

HKFRS 12 "Disclosure of Interests in Other Entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group has provided the disclosure requirements applicable to the Group.

HKAS 19 (2011) "Employee Benefits" was amended in 2011. The impact on the Group's defined benefit plans and post employment benefits is as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. In addition, it removes the accounting policy choice that previously permitted the recognition of only those actuarial gains and losses outside the 10% "corridor" in the statement of profit or loss. Instead all such remeasurements are required to be recognised in other comprehensive income when they occur. The above change is required to be applied retrospectively. Some of the Group's associates also made certain adjustments to their opening retained profit as at 1st January 2012 on adopting the revised HKAS 19.

The effect of the adoption of the revised HKAS 19 and HKFRS/IFRS 11 is summarised in the table below.

	As previously reported HK$M	Effect of adopting revised HKAS 19 HK$M	Effect of adopting HKFRS/ IFRS 11 HK$M	As restated HK$M
Consolidated statement of profit or loss and other comprehensive income for the year ended 31st December 2012:				
Staff expenses	(16,073)	(175)	–	(16,248)
Share of profits of associates	641	(10)	123	754
Taxation	(417)	19	(11)	(409)
Profit attributable to the owners of Cathay Pacific	916	(166)	112	862
Defined benefit plans	–	142	–	142
Share of other comprehensive income of associates	83	(80)	–	3
Exchange differences on translation of foreign operations	83	(1)	1	83
Total comprehensive income attributable to the owners of Cathay Pacific	2,715	(102)	113	2,726
Total comprehensive income attributable to non-controlling interests	212	(3)	–	209
Consolidated statement of financial position as at 31st December 2012:				
Investments in associates	18,481	(94)	135	18,522
Other long-term receivables and investments	6,617	(363)	–	6,254
Other long-term payables	(2,222)	(983)	–	(3,205)
Deferred tax assets	79	16	–	95
Deferred tax liabilities	(8,277)	133	(12)	(8,156)
Reserves	(56,399)	1,288	(123)	(55,234)
Non-controlling interests	(120)	3	–	(117)
Consolidated statement of financial position as at 31st December 2011:				
Investments in associates	17,894	(1)	9	17,902
Other long-term receivables and investments	5,783	(292)	–	5,491
Other long-term payables	(2,612)	(1,038)	–	(3,650)
Deferred tax assets	28	12	–	40
Deferred tax liabilities	(6,825)	135	(1)	(6,691)
Reserves	(55,022)	1,184	(8)	(53,846)

HKFRS 13 "Fair Value Measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use in all relevant HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how fair value should be measured where its use is already required or permitted by other standards in HKFRSs. It also provides new disclosure requirements. The adoption of HKFRS 13 only affects disclosures of fair value measurements of financial assets and financial liabilities in the Group's accounts.

2. Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and its subsidiaries made up to 31st December together with the Group's share of the results and net assets of its associates. Subsidiaries are entities controlled by the Group. 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 accounts.

Goodwill represents the excess of the cost of subsidiaries and associates over the fair value of the Group's share of the net assets at the date of acquisition. Goodwill is recognised at cost less accumulated impairment losses. Goodwill arising from the acquisition of subsidiaries is allocated to cash-generating units and is tested annually for impairment.

On disposal of a subsidiary or associate, goodwill is included in the calculation of any gain or loss.

Non-controlling interests in the consolidated statement of financial position comprise the outside shareholders' proportion of the net assets of subsidiaries and are treated as a part of equity. In the statement of profit or loss and other comprehensive income, non-controlling interests are disclosed as an allocation of the profit or loss and total comprehensive income for the year.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment loss recognised. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. Associates

Associates are those companies, not being subsidiaries, in which the Group holds a substantial long-term interest in the equity share capital and over which the Group is in a position to exercise significant influence.

The consolidated statement of profit or loss and other comprehensive income includes the Group's share of results of associates as reported in their accounts made up to dates not earlier than three months prior to 31st December. In the consolidated statement of financial position, investments in associates represent the Group's share of net assets, goodwill arising on acquisition of the associates (less any impairment) and loans to those companies.

In the Company's statement of financial position, investments in associates are stated at cost less any impairment loss recognised and loans to those companies.

4. Foreign currencies

Foreign currency transactions entered into during the year are translated into Hong Kong dollars at the market rates ruling at the relevant transaction dates whilst the following items are translated at the rates ruling at the reporting date:

(a) foreign currency denominated financial assets and liabilities.

(b) assets and liabilities of foreign subsidiaries and associates.

Exchange differences arising on the translation of foreign currencies into Hong Kong dollars are reflected in profit 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 differences on net investments in foreign subsidiaries and associates (including intra-Group balances of an equity nature) and related long-term liabilities are taken directly to equity.

5. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment.

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

Depreciation of fixed assets is calculated on a straight line basis to write down cost over their anticipated useful lives to their estimated residual values as follows:

Passenger aircraft	over 20 years to residual value of the lower of 10% of cost or expected realisable value
Freighter aircraft	over 20-27 years to residual value of between 10% to 20% of cost and over 10 years to nil residual value for freighters converted from passenger aircraft
Aircraft product	over 5-10 years to nil residual value
Other equipment	over 3-4 years to nil residual value
Buildings	over the lease term of the leasehold land to nil residual value

Major modifications to aircraft and reconfiguration costs are capitalised as part of aircraft cost and are depreciated over periods of up to 10 years.

The depreciation policy and the carrying amount of fixed assets are reviewed annually taking into consideration factors such as changes in fleet composition, current and forecast market values and technical factors which affect the life expectancy of the assets. Any impairment in value is recognised by writing down the carrying amount to estimated recoverable amount which is the higher of the value in use (the present value of future cash flows) and the fair value less costs of disposal.

6. Leased assets

Fixed assets held under lease agreements that transfer substantially all the risks and rewards of ownership are treated as if they had been purchased outright at fair market value and the corresponding liabilities to the lessor, net of interest charges, are included as obligations under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership are treated as operating leases.

Amounts payable in respect of finance leases are apportioned between interest charges and reductions of obligations based on the interest rates implicit in the leases.

Operating lease payments and income are charged and credited respectively to profit or loss on a straight line basis over the life of the related lease.

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

7. Intangible assets

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

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

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

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

13. Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. 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. Frequent-flyer programme

The Company operates a frequent-flyer programme called Asia Miles (the "programme"). As members accumulate miles by travelling on Cathay Pacific or Dragonair flights, part of the revenue from the initial sales transaction equal to the programme awards at their fair value is deferred. The Company sells miles to participating partners in the programme. The revenue earned from miles sold is also deferred. The deferred revenue and breakage revenue are recognised when the awards are redeemed by members. For redemption on the Group's flights, this is deemed to occur when the transportation service is provided which represents the miles. The breakage expectation is determined by a variety of assumptions including historical experience, future redemption pattern and programme design.

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

		2013	2012# (restated)
Consolidated profit or loss summary	*HK$M*		
Passenger services		**71,826**	70,133
Cargo services		**23,663**	24,555
Catering, recoveries and other services		**4,995**	4,688
Turnover		**100,484**	99,376
Operating expenses		**(96,724)**	(97,763)
Operating profit/(loss)		**3,760**	1,613
Profit on disposal of investments		**–**	–
Gain on deemed disposal of an associate		**–**	–
Net finance charges		**(1,019)**	(884)
Share of profits/(losses) of associates		**838**	754
Profit/(loss) before taxation		**3,579**	1,483
Taxation		**(675)**	(409)
Profit/(loss) for the year		**2,904**	1,074
Profit attributable to non-controlling interests		**(284)**	(212)
Profit/(loss) attributable to the owners of Cathay Pacific		**2,620**	862
Dividends paid		**(551)**	(1,338)
Retained profit for the year		**2,069**	(476)
Consolidated statement of financial position summary	*HK$M*		
Fixed and intangible assets		**104,737**	93,703
Long-term receivables and investments		**27,449**	24,776
Borrowings		**(67,052)**	(59,546)
Liquid funds less bank overdrafts		**27,736**	24,182
Net borrowings		**(39,316)**	(35,364)
Net current liabilities (excluding liquid funds and bank overdrafts)		**(19,110)**	(15,711)
Other long-term payables		**(1,318)**	(3,205)
Deferred taxation		**(9,429)**	(8,061)
Net assets		**63,013**	56,138
Financed by:			
Funds attributable to the owners of Cathay Pacific		**62,888**	56,021
Non-controlling interests		**125**	117
Total equity		**63,013**	56,138
Per share			
Shareholders' funds	*HK$*	**15.99**	14.24
EBITDA	*HK$*	**3.04**	2.31
Earnings/(loss)	*HK cents*	**66.6**	21.9
Dividend	*HK$*	**0.22**	0.08
Ratios			
Profit/(loss) margin	*%*	**2.6**	0.9
Return on capital employed	*%*	**4.0**	2.3
Dividend cover	*Times*	**3.0**	2.7
Cash interest cover	*Times*	**23.8**	20.9
Gross debt/equity ratio	*Times*	**1.07**	1.06
Net debt/equity ratio	*Times*	**0.63**	0.63

Includes HKFRS/IFRS 11 restatement figures.

2011# (restated)	2010# (restated)	2009# (restated)	2008 (restated)	2007 (restated)	2006 (restated)	2005 (restated)	2004 (restated)
67,778	59,354	45,920	57,964	49,520	38,755	32,005	26,879
25,980	25,901	17,255	24,623	21,783	18,385	15,773	12,965
4,648	4,269	3,803	3,976	4,055	3,643	3,131	2,917
98,406	89,524	66,978	86,563	75,358	60,783	50,909	42,761
(93,125)	(78,672)	(62,583)	(94,911)	(67,831)	(55,687)	(46,934)	(37,595)
5,281	10,852	4,395	(8,348)	7,527	5,096	3,975	5,166
–	2,165	1,254	–	–	–	–	–
–	868	–	–	–	–	–	–
(744)	(978)	(847)	(1,012)	(787)	(465)	(444)	(583)
1,708	2,577	264	(764)	1,057	301	269	298
6,245	15,484	5,066	(10,124)	7,797	4,932	3,800	4,881
(779)	(1,441)	(275)	1,366	(775)	(769)	(482)	(438)
5,466	14,043	4,791	(8,758)	7,022	4,163	3,318	4,443
(169)	(185)	(170)	(224)	(187)	(183)	(170)	(98)
5,297	13,858	4,621	(8,982)	6,835	3,980	3,148	4,345
(3,777)	(1,691)	–	(2,438)	(2,245)	(2,992)	(2,196)	(2,189)
1,520	12,167	4,621	(11,420)	4,590	988	952	2,156
82,099	74,116	73,345	73,821	70,170	65,351	50,416	50,607
23,393	17,512	14,321	14,504	15,923	12,452	7,230	7,332
(43,335)	(39,629)	(42,642)	(40,280)	(36,368)	(31,943)	(22,455)	(22,631)
19,597	24,194	16,511	15,082	21,637	15,595	13,405	11,444
(23,738)	(15,435)	(26,131)	(25,198)	(14,731)	(16,348)	(9,050)	(11,187)
(16,685)	(14,022)	(12,864)	(16,887)	(13,094)	(9,019)	(6,767)	(6,381)
(3,650)	(1,700)	(1,086)	(5,509)	(1,222)	–	–	(294)
(6,651)	(5,842)	(5,255)	(4,737)	(6,752)	(6,550)	(6,470)	(7,265)
54,768	54,629	42,330	35,994	50,294	45,886	35,359	32,812
54,633	54,476	42,182	35,878	50,116	45,731	35,073	32,673
135	153	148	116	178	155	286	139
54,768	54,629	42,330	35,994	50,294	45,886	35,359	32,812
13.89	13.85	10.72	9.12	12.72	11.62	10.37	9.69
3.34	5.80	2.95	(1.00)	3.41	2.75	2.44	2.77
134.7	352.3	117.5	(228.3)	173.5	112.9	93.2	129.2
0.52	1.11	0.10	0.03	0.84	0.84	0.48	0.65
5.4	15.5	6.9	(10.4)	9.1	6.5	6.2	10.2
8.4	21.7	8.7	(12.3)	12.3	8.7	8.5	11.7
2.6	3.2	11.8	(76.1)	2.1	1.2	1.9	2.0
41.7	35.2	5.1	3.7	14.2	15.1	17.1	14.6
0.79	0.73	1.01	1.12	0.73	0.70	0.64	0.69
0.43	0.28	0.62	0.70	0.29	0.36	0.26	0.34

Statistics

		2013	2012
Cathay Pacific and Dragonair operating summary*			
Available tonne kilometres	*Million*	**26,259**	26,250
Revenue tonne kilometres	*Million*	**18,696**	18,819
Available seat kilometres	*Million*	**127,215**	129,595
Revenue passengers carried	*'000*	**29,920**	28,961
Revenue passenger kilometres	*Million*	**104,571**	103,837
Revenue load factor	*%*	**77.5**	76.2
Passenger load factor	*%*	**82.2**	80.1
Cargo and mail carried	*'000 tonnes*	**1,539**	1,563
Cargo and mail revenue tonne kilometres	*Million*	**8,750**	8,942
Cargo and mail load factor	*%*	**61.8**	64.2
Excess baggage carried	*Tonnes*	**2,599**	2,711
Kilometres flown	*Million*	**512**	502
Block hours	*'000 hours*	**735**	715
Aircraft departures	*'000*	**160**	154
Length of scheduled routes network	*'000 kilometres*	**576**	602
Destinations at year end	*Number*	**190**	179
Staff number at year end	*Number*	**24,572**	23,844
ATK per staff	*'000*	**1,091**	1,110
On-time performance*			
Departure (within 15 minutes)	*%*	**75.5**	77.4
Average aircraft utilisation*	*Hours per day*		
A320-200		**9.1**	8.8
A321-200		**8.8**	8.9
A330-300		**12.0**	12.3
A340-300		**13.3**	12.7
A340-600		**–**	–
747-400		**10.9**	12.7
747-200F/300SF		**–**	–
747-400F/BCF		**10.9**	11.4
777-200/300		**8.3**	8.4
777-300ER		**15.8**	15.7
Fleet average		**11.8**	12.0

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

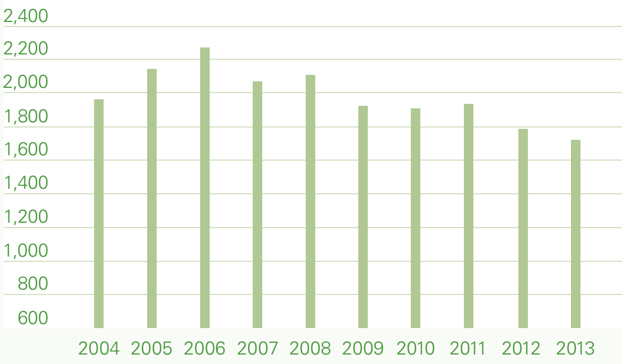
	2013	2012
Fleet profile		
Aircraft operated by Cathay Pacific:		
A330-300	**35**	37
A340-300	**11**	11
A340-600	**–**	–
747-400	**13**	18
747-200F	**–**	–
747-400F	**6**	6
747-400BCF	**1**	6
747-400ERF	**6**	6
747-8F	**13**	8
777-200	**5**	5
777-300	**12**	12
777-300ER	**38**	29
Total	**140**	138
Aircraft operated by Dragonair:		
A320-200	**15**	15
A321-200	**6**	6
A330-300	**20**	17
747-200F	**–**	–
747-300SF	**–**	–
747-400BCF	**–**	–
Total	**41**	38

2011	2010	2009	2008	2007	2006	2005	2004
26,383	24,461	22,249	24,410	23,077	19,684	17,751	15,794
19,309	19,373	16,775	17,499	16,680	14,452	12,813	11,459
126,340	115,748	111,167	115,478	102,462	91,769	82,766	74,062
27,581	26,796	24,558	24,959	23,253	18,097	15,438	13,664
101,536	96,588	89,440	90,975	81,801	72,939	65,110	57,283
77.0	81.1	77.7	75.1	75.6	76.2	75.2	74.8
80.4	83.4	80.5	78.8	79.8	79.5	78.7	77.3
1,649	1,804	1,528	1,645	1,672	1,334	1,139	990
9,648	10,175	8,256	8,842	8,900	7,514	6,618	6,007
67.2	75.7	70.8	65.9	66.7	68.6	67.0	68.7
3,103	4,053	3,883	2,963	2,310	2,218	2,489	2,530
494	464	431	460	422	357	317	285
695	652	605	649	598	489	431	386
146	138	130	138	131	98	84	77
568	535	481	453	442	457	403	386
167	146	122	124	129	125	92	90
23,015	21,592	20,907	21,309	19,840	18,992	15,806	15,054
1,184	1,165	1,053	1,185	1,194	1,173	1,147	1,066
82.0	80.9	86.8	81.4	83.9	85.2	86.1	90.3
8.9	8.2	8.0	8.4	8.5	8.2	–	–
8.4	8.6	7.8	8.4	8.9	8.9	–	–
12.1	11.6	10.8	10.9	10.7	11.2	10.8	10.1
13.0	13.8	12.2	14.7	15.3	14.9	15.1	13.6
–	–	–	11.4	14.4	14.9	15.3	13.6
13.7	13.2	12.9	14.1	14.5	14.9	14.7	13.9
–	–	5.4	7.5	10.8	11.8	11.8	13.3
13.8	14.4	13.2	13.1	14.0	15.3	16.1	16.3
8.2	8.0	8.1	8.7	8.4	9.0	9.1	8.8
15.7	15.3	15.8	14.3	10.7	-	-	-
12.3	12.0	11.2	11.5	11.7	12.5	12.6	12.0
33	32	32	32	29	27	26	23
13	15	15	15	15	15	15	15
–	–	–	–	3	3	3	3
21	22	23	23	24	22	22	21
–	–	–	5	7	7	7	7
6	6	6	6	6	6	6	5
8	12	13	10	6	5	1	–
6	6	6	2	–	–	–	–
4	–	–	–	–	–	–	–
5	5	5	5	5	5	5	5
12	12	12	12	12	12	11	10
24	18	14	9	5	–	–	–
132	128	126	119	112	102	96	89
11	11	9	10	10	10	11	10
6	6	6	6	6	6	6	6
15	14	14	16	16	16	13	10
–	–	–	1	1	1	1	1
–	–	–	–	3	3	3	3
–	–	–	2	3	1	–	–
32	31	29	35	39	37	34	30

Statistics

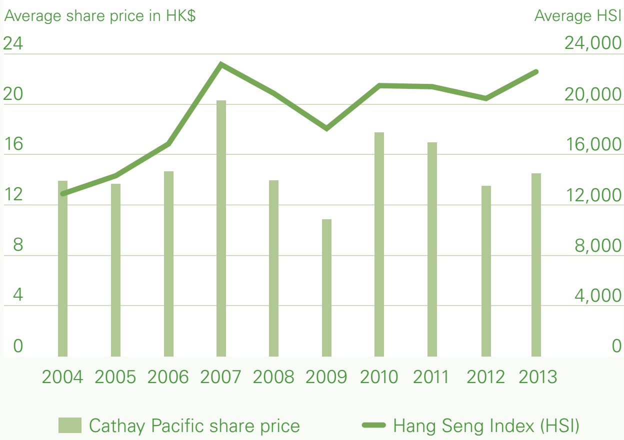
Cost per ATK (with fuel)

ATK per HK$'000 staff cost



Aircraft utilisation

Share price



		2013	2012# (restated)	2011# (restated)	2010# (restated)	2009# (restated)	2008 (restated)	2007 (restated)	2006 (restated)	2005 (restated)	2004 (restated)
Productivity*											
Cost per ATK (with fuel)	*HK$*	**3.58**	3.65	3.46	3.16	2.76	3.81	2.88	2.76	2.57	2.31
ATK per HK$'000 staff cost	*Unit*	**1,720**	1,785	1,936	1,905	1,919	2,106	2,066	2,270	2,140	1,960
Aircraft utilisation	*Hours per day*	**11.8**	12.0	12.3	12.0	11.2	11.5	11.7	12.5	12.6	12.0
Share prices	*HK$*										
High		**16.8**	15.9	23.1	24.1	14.7	20.3	23.1	19.5	15.1	16.4
Low		**12.2**	11.9	11.9	12.8	7.0	7.1	18.3	12.7	12.0	12.5
Year-end		**16.4**	14.2	13.3	21.5	14.5	8.8	20.4	19.2	13.6	14.7
Price ratios (Note)	*Times*										
Price/earnings		**24.6**	64.9	9.9	6.1	12.3	(3.9)	11.8	17.0	14.6	11.4
Market capitalisation/ funds attributable to the owners of Cathay Pacific		**1.0**	1.0	1.0	1.6	1.4	1.0	1.6	1.7	1.3	1.5
Price/cash flows		**4.6**	6.1	3.4	4.5	12.7	8.9	5.0	6.1	5.3	4.7

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

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

Includes HKFRS/IFRS 11 restatement figures.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate and Shareholder Information

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

Investor relations

For further information about Cathay Pacific Airways Limited, please contact:
Corporate Communication Department
Cathay Pacific Airways Limited
7th Floor, North Tower
Cathay Pacific City
Hong Kong International Airport
Hong Kong
Email: ir@cathaypacific.com
Tel: (852) 2747 5210
Fax: (852) 2810 6563

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

Registered office

33rd Floor, One Pacific Place
88 Queensway
Hong Kong

Depositary

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

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

Stock codes

Hong Kong Stock Exchange	00293
ADR	CPCAY

Registrars

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

Auditors

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

Financial calendar

Year ended 31st December 2013	
Annual report available to shareholders	4th April 2014
Annual General Meeting	14th May 2014
Six months ending 30th June 2014	
Interim results announcement	August 2014
Interim dividend payable	October 2014

DESIGN: FORMAT LIMITED www.format.com.hk Printed in Hong Kong

SWIRE

www.cathaypacific.com