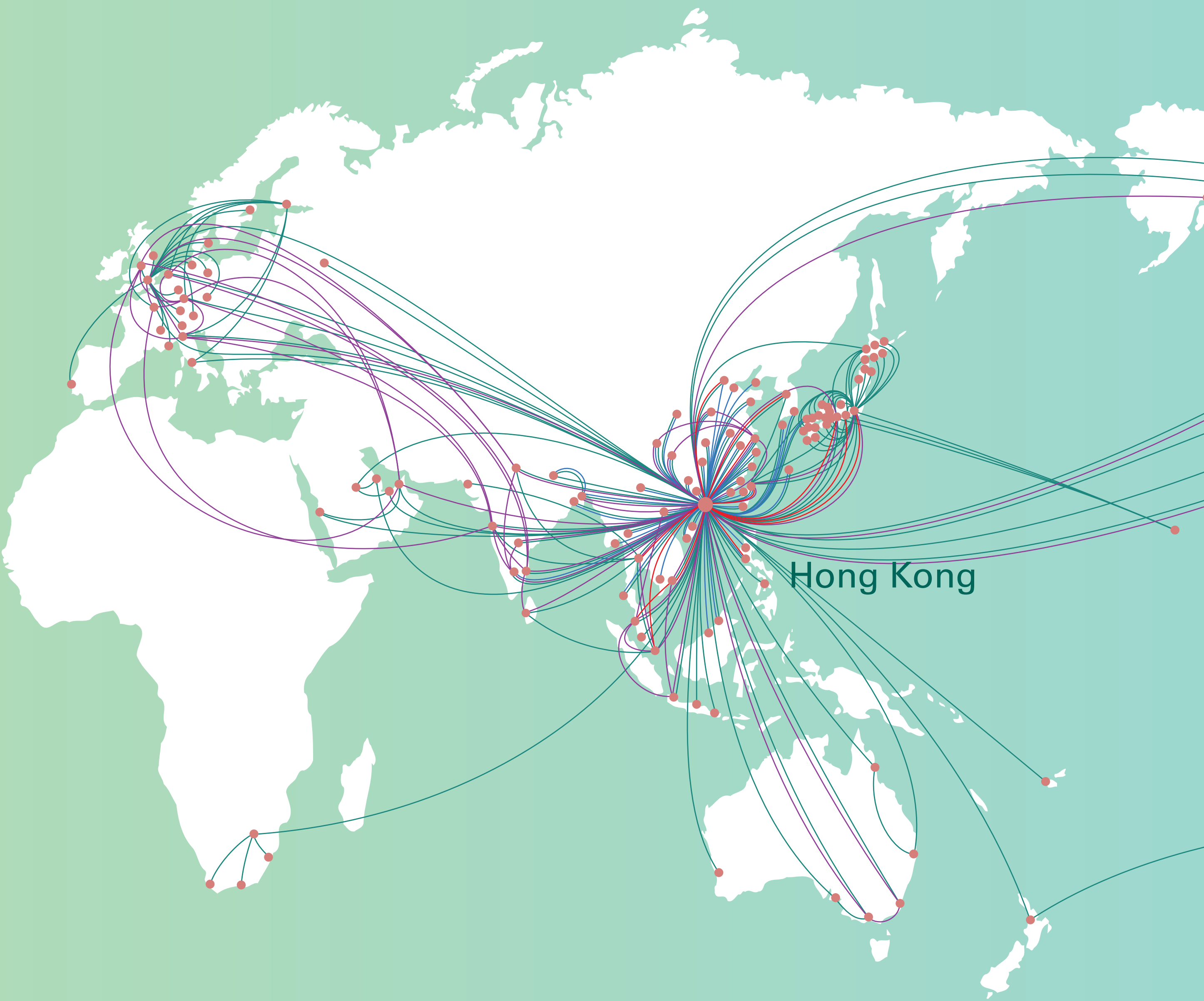
CATHAY PACIFIC

Cathay Pacific Airways Limited

Stock Code: 00293

Annual Report 2012



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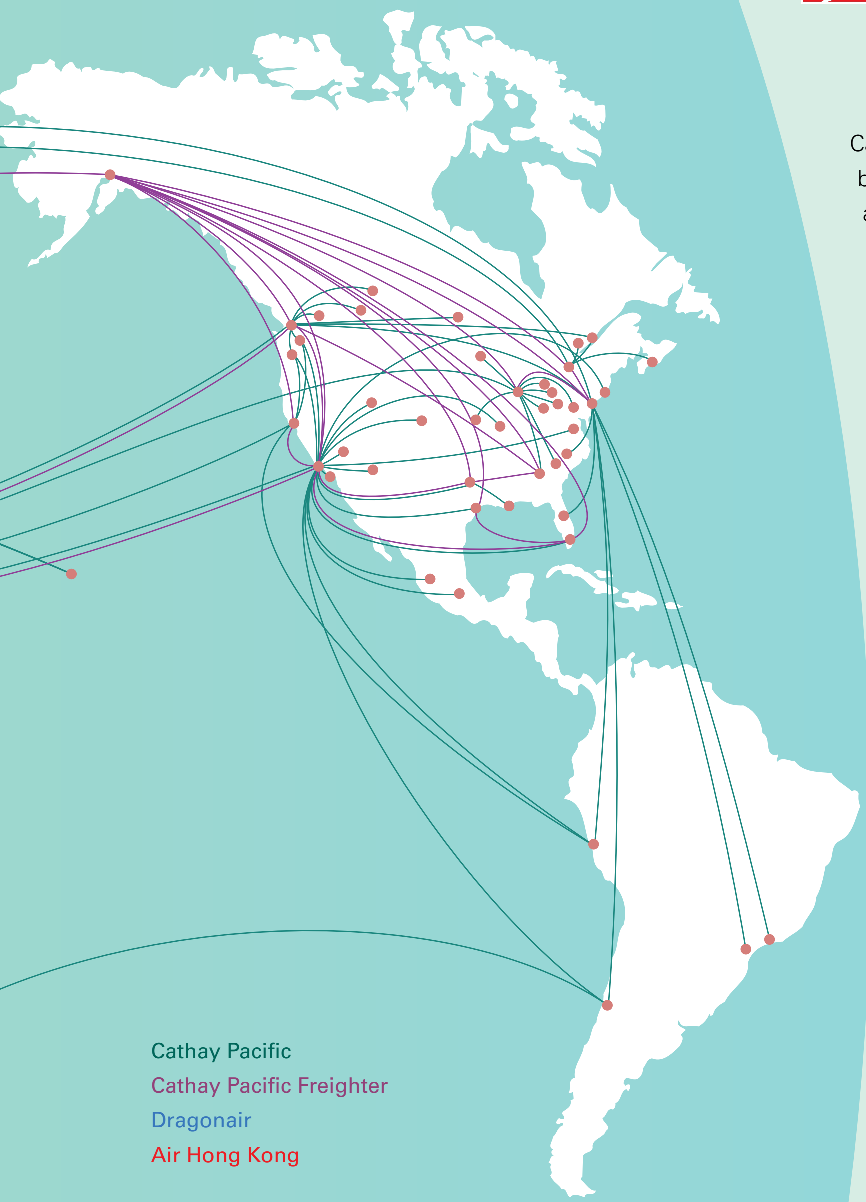


Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 172 destinations in 39 countries and territories.

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 138 aircraft, these investments include catering and ground-handling companies and the corporate headquarters at Hong Kong International Airport. Cathay Pacific continues to invest heavily in its home city and at 31st December 2012 had another 92 new aircraft due for delivery up to 2020. The airline recently completed construction of its own cargo terminal in Hong Kong, which commenced a staged transition of operations in February 2013.

Hong Kong Dragon Airlines Limited ("Dragonair") is a regional airline registered and based in Hong Kong. It is a wholly owned subsidiary of Cathay Pacific and operates 38 aircraft on scheduled services to 44 destinations in Mainland China and elsewhere in Asia. Cathay Pacific owns 19.28% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China. Cathay Pacific is also the 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 some 29,900 people worldwide (more than 22,800 of them in Hong Kong). Cathay Pacific is listed on The Stock Exchange of Hong Kong Limited, as are its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

Cathay Pacific is a founding member of the **one**world global alliance, whose combined network serves more than 800 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

		2012	2011	Change
Results				
Turnover	*HK$ million*	99,376	98,406	+1.0%
Profit attributable to the owners of Cathay Pacific	*HK$ million*	916	5,501	-83.3%
Earnings per share	*HK cents*	23.3	139.8	-83.3%
Dividend per share	*HK$*	0.08	0.52	-84.6%
Profit margin	*%*	0.9	5.6	-4.7%pt
Financial Position				
Funds attributable to the owners of Cathay Pacific	*HK$ million*	57,186	55,809	+2.5%
Net borrowings	*HK$ million*	35,364	23,738	+49.0%
Shareholders' funds per share	*HK$*	14.5	14.2	+2.1%
Net debt/equity ratio	*Times*	0.62	0.43	+0.19 times

Operating Statistics – Cathay Pacific and Dragonair

		2012	2011	Change
Available tonne kilometres ("ATK")	*Million*	26,250	26,383	-0.5%
Available seat kilometres ("ASK")	*Million*	129,595	126,340	+2.6%
Passengers carried	*'000*	28,961	27,581	+5.0%
Passenger load factor	*%*	80.1	80.4	-0.3%pt
Passenger yield	*HK cents*	67.3	66.5	+1.2%
Cargo and mail carried	*'000 tonnes*	1,563	1,649	-5.2%
Cargo and mail load factor	*%*	64.2	67.2	-3.0%pt
Cargo and mail yield	*HK$*	2.42	2.42	–
Cost per ATK (with fuel)	*HK$*	3.64	3.45	+5.5%
Cost per ATK (without fuel)	*HK$*	2.13	2.01	+6.0%
Aircraft utilisation	*Hours per day*	12.0	12.3	-2.4%
On-time performance	*%*	77.4	82.0	-4.6%pt
Average age of fleet	*Years*	10.1	10.6	-4.7%
GHG emissions per ATK	*Grammes*	600	601	-0.2%
Lost time injury rate – Cathay Pacific	*%*	26.4	33.8	-7.4%pt
Lost time injury rate – Dragonair	*%*	21.0	25.2	-4.2%pt

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$916 million for 2012. This compares to an attributable profit of HK$5,501 million for 2011. Earnings per share fell by 83.3% to HK23.3 cents. Turnover for the year increased by 1.0% to HK$99,376 million.

In 2012 the Group's core business was adversely affected by the high price of jet fuel, pressure on passenger yields and weak air cargo demand. Economic uncertainty, particularly in the Eurozone countries, and an increasingly competitive environment added to the difficulties. It was a challenging year for the aviation industry generally. The Group's share of profits from associated companies, including Air China, showed a marked decline.

Our passenger revenue for the year was HK$70,133 million, an increase of 3.5% compared to 2011. Capacity increased by 2.6%. We carried a total of 29.0 million passengers in 2012, a rise of 5.0% compared to the previous year. The passenger load factor fell by 0.3 percentage points. Yield increased by 1.2% to HK67.3 cents, largely due to higher fuel surcharges consequent upon a 1.7% increase in average fuel prices. Uncertain economic conditions and strong competition on key routes put pressure on yields. Premium class yields were affected by travel restrictions imposed by corporations. The high cost of fuel made it more difficult to operate profitably, particularly on long-haul routes operated by older, less fuel-efficient, Boeing 747-400 and Airbus A340-300 aircraft.

The Group's cargo revenue in 2012 was HK$24,555 million, a decrease of 5.5% compared to 2011. Yield for Cathay Pacific and Dragonair remained the same as last year at HK$2.42. Capacity was down by 3.1%. The cargo load factor was down by 3.0 percentage points to 64.2%. Our cargo business was affected by weak demand in major markets, particularly from Asia to Europe. Demand for shipments from our two key markets, Hong Kong and Mainland China, was well below expectations, although there were short-term upturns in March and in the last quarter, reflecting launches of new consumer electronics products. Capacity was adjusted in line with demand. We opened new routes where demand was robust. We introduced freighter services to Zhengzhou in Mainland China in March, Hyderabad in India in May and Colombo in Sri Lanka in December. We suspended our freighter service to Zaragoza in Spain in November 2012 and those to Brussels in Belgium and Stockholm in Sweden in February 2013.

Fuel is our most significant cost. Throughout much of 2012, fuel prices were at sustained high levels and this had a major impact on our operating results. The Group's fuel costs (disregarding the effect of fuel hedging) increased by 0.8% compared to 2011. Fuel accounted for 41.1% of our total operating costs – a decrease of 0.4 of a percentage point from the previous year. Managing the risk associated with high and sometimes volatile fuel prices remains a key challenge. We took advantage of a reduction in fuel prices in May and June to do more hedging with a view to mitigating the impact of future fuel price increases.

In May 2012, we announced measures designed to protect our business in an environment of high fuel prices and weak revenues. We accelerated the retirement of our less fuel-efficient Boeing 747-400 passenger aircraft. Three of these aircraft had left the fleet by November. We withdrew from service four Boeing 747-400BCF converted freighters. We changed schedules and reduced capacity on some long-haul routes. We stopped all but essential recruitment of ground staff. We introduced voluntary unpaid leave for cabin crew. By the end of the year costs, particularly of fuel and aircraft maintenance, had been reduced significantly from what they would otherwise have been as a result of reduced capacity and early retirement of aircraft. However, the reductions were not enough to offset in full the effects of high fuel prices and weak revenues.

At the same time as addressing the challenges to our business, we kept a clear focus on our key strategic goals: developing our network and our Hong Kong base; maintaining and enhancing the quality of our services (and so protecting the reputation of our brands); strengthening our relationship with Air China; and maintaining a prudent approach to financial risk management. We did not allow cost reductions to affect adversely the way in which we deal with our customers. We continued with our major investments in new aircraft and new products. We started to operate our own cargo terminal at Hong Kong International Airport in February 2013. This will bring significant benefits to our own cargo business and to Hong Kong as a centre for air cargo business.

We continued to upgrade the Cathay Pacific and Dragonair fleets in 2012, taking delivery of new aircraft which improve our operating economics and reduce our environmental impact. We received 19 new aircraft in 2012: four Airbus A320-200s, six Airbus A330-300s, five Boeing 777-300ERs and four Boeing 747-8F freighters. We placed orders for six Airbus A350-900 aircraft in January 2012. In August, we ordered 10 Airbus A350-1000 aircraft and converted an existing order for 16 Airbus A350-900 aircraft into an order for 16 Airbus A350-1000 aircraft. At 31st December 2012 we had 92 aircraft on order for delivery up to 2020. Because of their high operating costs, we have accelerated the retirement of our Boeing 747-400 passenger aircraft. Three of the fleet of 21 Boeing

747-400s were retired in the second half of 2012. Six will be retired in 2013. We reduced the size of our fleet of Boeing 747-400BCF converted freighters. Four Boeing 747-400BCF converted freighters were withdrawn from service and one of them was retired from the fleet in 2012. We withdrew another Boeing 747-400BCF from the fleet in February 2013. The third of four Boeing 747-400BCFs being sold to Air China Cargo, our cargo joint venture with Air China, was delivered in July 2012. The final one was sold in March 2013.

In March 2013, we entered into agreements in relation to our freighter fleet which are part of a package of transactions between The Boeing Company on the one hand and the Group, Air China Cargo (in which we have an equity and an economic interest) and Air China on the other hand. The transactions involve the Group purchasing three Boeing 747-8F freighters, cancelling orders for eight Boeing 777-200F freighters, acquiring options to purchase five Boeing 777-200F freighters and selling four Boeing 747-400BCF converted freighters, Air China Cargo acquiring eight Boeing 777-200F freighters and selling seven Boeing 747-400BCF converted freighters and Air China purchasing a number of other aircraft. These transactions will reduce our future cargo capacity (depending on whether we exercise the newly acquired purchase options and certain existing purchase rights) from what it would otherwise have been and allow Air China Cargo to replace its existing fleet of aircraft with a fleet of modern, fuel-efficient Boeing 777-200F freighters. The reduction in our capacity is considered desirable in the light of our reduced expectations for the future growth of air cargo shipments. If these reduced expectations prove misplaced, additional cargo capacity could be obtained by exercising the newly acquired purchase options and our existing purchase rights.

We adjusted our schedules in 2012 in light of the challenging business environment and the high cost of fuel. In September we reduced some passenger services on transpacific routes, enabling fuel-efficient Boeing 777-300ER aircraft to replace older Boeing 747-400 aircraft on some European routes. But we remained committed to maintaining the integrity of our network. We increased some regional services in response to more robust demand in parts of Asia. Cathay Pacific added frequencies on routes to India, Japan, Malaysia, Singapore, Taiwan, Thailand and Vietnam and introduced a new service to Hyderabad in India. Dragonair added frequencies on routes to secondary cities in Mainland China and introduced or resumed flights to eight destinations – Chiang Mai, Clark, Guilin, Haikou, Jeju, Kolkata, Taichung and Xi'an. In January 2013, Dragonair started flying to Wenzhou, Yangon and Zhengzhou and in March will start flying to Da Nang.

In an increasingly competitive environment it is crucial to maintain and develop passenger loyalty by providing high quality products and services. This remains a key focus of the Cathay Pacific Group. To this end, Cathay Pacific has introduced a new premium economy class, a new long-haul economy class seat and a new regional business class seat. Since its introduction in April 2012, premium economy class has been very popular on long-haul routes. By the end of 2012, the new class was available on 48 aircraft and will be available on 86 aircraft by the end of 2013. In April 2012, we started to introduce new long-haul economy class seats, which have been well received by passengers. The new regional business class seat was introduced in January 2013. Our long-haul business class was named World's Best Business Class in 2012 at the World Airline Awards run by Skytrax. Dragonair will also get new business class and economy seats from March 2013. On the ground, we completed refurbishment of the Level 7 business class lounge in The Wing at Hong Kong International Airport in January 2012. Renovations of the first class lounge were completed in February 2013. In August 2012, we opened a new lounge in Paris.

Our relationship with strategic partner Air China continues to strengthen. We announced the formation of a ground-handling company, Shanghai International Airport Services Co., Limited in March 2012. This joint venture between Cathay Pacific, Air China, the Shanghai Airport Authority and Shanghai International Airport Co. Ltd. started to operate in February 2013. It provides airport ground-handling services at Shanghai's two international airports, Hongqiao and Pudong.

The Cathay Pacific Group operates in a volatile and challenging industry, one that will always be highly susceptible to external factors that remain largely beyond our control. The cost of fuel remains the biggest challenge, particularly for an airline such as ours where long-haul operations form a significant part of our total operations. We believe we have taken the right measures to deal with current challenges and will take whatever further measures are necessary should the business environment not improve. Our focus will remain on protecting the business and managing short-term difficulties while remaining committed to our long-term strategy. Our financial position remains strong and we will continue to invest in the future. Our core strengths remain the same as ever: a superb team, a strong international network, exceptional standards of customer service, a strong relationship with Air China and our position in Hong Kong. These will help to ensure the success of the Cathay Pacific Group in the long term.

Christopher Pratt
Chairman
Hong Kong, 13th March 2013

2012 in Review

Consistently high fuel prices, pressure on passenger yields and weak cargo demand had an adverse impact on the Cathay Pacific Group's operating results in 2012. Despite these challenges, we remained focused on improving our products and services, enhancing our network where possible and continuing to take delivery of new, fuel-efficient aircraft. We will continue to make long-term investments that demonstrate our commitment to Hong Kong and help to reinforce Hong Kong's standing as a leading international aviation centre.

Award winning products and services

- Our new long-haul business class seats (which were first introduced in March 2011) will be fitted in all our Boeing 777-300ER and long-haul Airbus A330-300 aircraft by end of March 2013. Feedback from passengers has been very positive. We were proud to be named the World's Best Business Class at the 2012 Skytrax awards.
- In March 2012, we started to install a new economy class seat on our long-haul Boeing 777-300ER and Airbus A330-300 aircraft. By the end of 2013 the seats will have been installed in 64 aircraft. The new seat is more comfortable and has more storage space than the old one and has an outlet for mobile devices and a touch-screen television. It has been well received by passengers.
- In September 2012, we announced plans to introduce a new regional business class seat, to be installed on all of Cathay Pacific's regional Boeing 777-200, Boeing 777-300 and Airbus A330-300 aircraft. The new seats are more comfortable and versatile and have more functions than the existing seats. In January 2013, the new regional business class seat was introduced for the first time on a Boeing 777-300 aircraft. Airbus A330-300 aircraft are expected to start operating with the new seats in the fourth quarter of 2013. All of the airline's regional aircraft are expected to be operating with the new seats by the end of 2014.
- The new regional business class seat reclines more than the existing one and has a longer legrest. It has a 47-inch pitch and is 21-inch wide. It incorporates a larger meal table than the existing seat, an on-demand entertainment system and a 12.1-inch touch-screen monitor. The seat has a fixed shell, so giving passengers a sense of having their own personal space.
- Cathay Pacific is installing premium economy class cabins in its long-haul aircraft. The first flight of an aircraft fitted with a new cabin took place in April 2012. New cabins will be installed in all Cathay Pacific's long-haul aircraft. By the end of 2013 new cabins will have been installed in 86 aircraft.
- The seats in the new premium economy class are bigger and more comfortable than those in economy class and provide more legroom. Each seat has an 8-inch recline, a legrest or footrest, a 10.6-inch screen television and a multi-port connector. Premium economy class passengers have dedicated check-in counters, priority boarding and enhanced service in the air.
- In January 2013, we announced that new business class and economy class products will be fitted into the majority of aircraft in the Dragonair fleet. The business class seat echoes Cathay Pacific's new regional business class product, while the economy seat is based on the new long-haul economy class seat in Cathay Pacific aircraft. An interactive, on-demand inflight entertainment system is being introduced at the same time. The first aircraft with the new products will enter service in March 2013. Installation across the Dragonair fleet will be completed by the end of 2014.
- Work continued on the refurbishment of The Wing, Cathay Pacific's principal lounge at Hong Kong International Airport. The Level 7 business class lounge reopened to passengers in January 2012. The refurbishment was completed with the reopening of the first class lounge in February 2013.
- In August 2012 Cathay Pacific opened a new lounge at Charles de Gaulle International Airport in Paris.
- Cathay Pacific's "People and Service" advertising campaign continued in the first half of 2012. It featured new members of staff and appeared in print, online and outdoors.
- In August 2012, we launched the digital version of our inflight magazine, Discovery. It is available on the CX Discovery iPad magazine app, in a web-based magazine and on the Discovery website.
- In 2012 Cathay Pacific introduced new Chinese menus in business class, premium economy class and economy class.

- Dishes from the Man Ho Chinese Restaurant at the JW Marriott Hotel in Hong Kong and from restaurants at the Mandarin Oriental Hotel in Hong Kong were introduced to Dragonair menus in April 2012. Shanghainese and Cantonese dishes from The Langham Xintiandi's Ming Court restaurant and European dishes from the Fairmont Peace Hotel's The Cathay Room were introduced to Dragonair menus in May 2012.
- Cathay Pacific was named Best Airline in the World and Best Airline First Class in the 2012 Business Traveller China Travel Awards and was also named Best First Class by Business Traveller Asia-Pacific.
- Cathay Pacific staff won three individual awards and one team award at the Customer Service Excellence Awards organised by the Hong Kong Association for Customer Service Excellence. The airline won the top Corporate Award at the annual Hong Kong International Airport Customer Service Excellence Programme organised by the Airport Authority of Hong Kong. Two of our airport staff won a team award for an act of outstanding service.
- Dragonair was named Best Regional Airline at the 2012 TTG Travel Awards.
- Cathay Pacific's travel reward programme, Asia Miles, was named Best Frequent Flyer Programme for the eighth consecutive year at the Business Traveller Asia-Pacific Awards.

Hub development

- The Cathay Pacific Group is committed to the long-term development of Hong Kong International Airport as a premier international hub for passenger and cargo traffic. We continue to strengthen our networks and to improve connections available from Hong Kong.
- Cathay Pacific supports building a third runway at Hong Kong International Airport. The airline is pleased that the Hong Kong Government has given in-principle approval for the project and that work on the environmental impact assessment and design details has begun.
- Economic activity in Asia remained generally robust in 2012 and our business within the region – both passenger and cargo – held up relatively well, with some exceptions. In view of this, we reinforced our regional network with additional frequencies and added a number of new destinations.
- Flights were added on the Bangkok, Kuala Lumpur, Nagoya, Penang, Singapore and Taipei routes in March 2012. There are now nine flights a day to Singapore. The Chennai service moved from four flights a week to daily from September.
- We increased the Ho Chi Minh City service from 14 to 16 flights a week in October.
- Dragonair added more flights on two secondary routes in Mainland China, Ningbo and Qingdao, increased its Okinawa service from two to four flights a week and used larger aircraft for some flights on the Guangzhou, Kunming and Xiamen routes. Services to Phuket and Kota Kinabalu increased from 10 to 12 flights a week and from five to six flights a week, respectively, in July. The number of flights per week to Phnom Penh was increased from seven to 10 in October.
- Dragonair added eight destinations to its network in 2012. It resumed services to Xi'an in April and to Guilin and Taichung in May. Services to Clark and Jeju were introduced in May and a seasonal service to Chiang Mai was introduced in July. This was later turned into year-round daily service due to strong demand. In October, the airline resumed flights to Haikou and in November introduced a four-times-weekly service to Kolkata – its second destination in India.
- In January 2013 Dragonair added three more destinations: Wenzhou, Yangon and Zhengzhou. It will introduce a service to Da Nang in March.
- Cathay Pacific started flying to Hyderabad in December – its fourth passenger destination in India.
- The high cost of fuel made it difficult to operate some long-haul services profitably in 2012. Cathay Pacific reduced the frequency of flights on the Los Angeles, New York and Toronto routes in September 2012. This enabled fuel-efficient Boeing 777-300ER aircraft to operate on the London, Paris and San Francisco routes and reduced the number of services operated by older, less fuel-efficient Boeing 747-400 aircraft. We will restore three flights per week on the Toronto route from March 2013, so that there will be 10 flights per week on this route and will also restore three flights a week on the Los Angeles route at the same time, to make a total of 20 flights per week. We will begin operating a fifth daily flight on the London route from June 2013.
- In 2012, Cathay Pacific reduced the frequency of its cargo flights on key routes in line with the level of demand.

- In March 2012, Cathay Pacific introduced a cargo service to Zhengzhou, a centre for the manufacture of hi-tech consumer electronics products in Henan Province in Mainland China. In May 2012, it launched a cargo service to Hyderabad in India. In November 2012, the airline suspended its freighter service to Zaragoza in Spain because a contract with a key shipper came to an end. A freighter service to Colombo, Sri Lanka, was introduced in December 2012.
- In February 2013 we reduced our European freighter services to a base schedule of 11 flights per week. This schedule better matches current demand on the Asia to Europe lanes. Cathay Pacific no longer offers freighter services to Stockholm in Sweden and Brussels in Belgium. However, these cities are now served by trucking services from our main continental gateways of Frankfurt, Amsterdam and Paris.
- Cathay Pacific's commitment to developing Hong Kong as a leading international air cargo centre is being reinforced by the phased opening of its own cargo terminal at Hong Kong International Airport. When fully operational, the HK$5.9 billion terminal will have an annual capacity of 2.6 million tonnes and will employ more than 1,800 staff. It will be one of the biggest and most sophisticated facilities of its kind in the world and will reduce the time it takes to process and ship cargo.

Fleet development

- Cathay Pacific is committed to upgrading and modernising its fleet. As at 31st December 2012, the Group has 92 new aircraft on order for delivery up to 2020.
- Six Airbus A350-900 aircraft were ordered in January 2012. In August, Cathay Pacific ordered 10 Airbus A350-1000 aircraft and converted an existing order for 16 Airbus A350-900 aircraft into an order for 16 Airbus A350-1000 aircraft.
- In 2012, Cathay Pacific took delivery of 15 new aircraft (five Boeing 777-300ERs, six Airbus A330-300s and four Boeing 747-8F freighters) and Dragonair took delivery of four new Airbus A320-200 aircraft and received two Airbus A330-300 aircraft from the Cathay Pacific fleet. Dragonair has an all-Airbus fleet of 38 aircraft.
- In response to the high cost of jet fuel, Cathay Pacific is accelerating the retirement of its older, less fuel-efficient Boeing 747-400 passenger aircraft. Three were retired from the fleet in the second half of 2012. There are now 18 Boeing 747-400s in the passenger fleet. By the end of 2013, this number will be reduced to 12. One more Boeing 747-400 aircraft will be retired in early 2014.
- The introduction of new Boeing 747-8F freighters has resulted in a significant improvement in the operating economics of our ultra-long-haul cargo services. Two aircraft of this type will be delivered in 2013. In addition, three more of these aircraft will be delivered in the second half of 2013 under the trade-in deal with The Boeing Company.
- One Boeing 747-400BCF converted freighter was retired from the fleet and scrapped in 2012. A further four Boeing 747-400BCF converted freighters were withdrawn from service in 2012 and early 2013 and were sold to The Boeing Company as part of the trade-in deal referred to below.
- In February 2013, we agreed to lease two new Airbus A321-200 aircraft. These aircraft will be delivered in February and October 2014.
- In March 2013, the Company entered into agreements with The Boeing Company under which we agreed to buy three Boeing 747-8F freighters and the agreement to purchase eight Boeing 777-200F freighters entered into in August 2011 was cancelled. Pre-delivery payments already made in respect of the eight Boeing 777-200F freighters (which were scheduled to be delivered from 2014 to 2016), will be credited to the consideration for the purchase of the three Boeing 747-8F freighters (which are scheduled to be delivered in 2013). Under the agreements, the Company also acquired options to purchase five Boeing 777-200F freighters and The Boeing Company agreed to purchase four Boeing 747-400BCF converted freighters, which were taken out of service in 2012 and early 2013. The transaction is part of a package of transactions between the Group, The Boeing Company, Air China Cargo and Air China.
- One Boeing 747-400BCF converted freighter being sold to our cargo joint venture with Air China was delivered in July 2012 and the final converted freighter was sold to Air China Cargo in March 2013.
- Two more flight simulators – for the Boeing 777-300ER aircraft and the Boeing 747-8F freighter – were installed in the Cathay Pacific Flight Training Centre in Hong Kong in the second half of 2012. The freighter simulator is the first of its kind in Asia. The centre now houses 10 simulators for Cathay Pacific and two simulators for Dragonair.

Advances in technology

- In February 2012, Cathay Pacific and Dragonair introduced a new reservations system. The airlines are planning the introduction of a new departure control system in 2014. In advance of this introduction, a successful trial of a weight and load management system has been conducted.

- Cathay Pacific Cargo has started a programme to replace its existing cargo booking system with a new system. The programme is intended to be completed in 2015.
- In January 2012, we introduced mobile boarding passes for flights from Hong Kong. Passengers can check in online and can receive their boarding passes on their mobile devices by text message or email. The service is being extended to flights from other Cathay Pacific and Dragonair destinations and by the end of 2012 was available from 20 destinations.
- In May 2012, a contract was entered into for the conversion of certain cockpit documents from paper form to electronic form. This is intended to improve the speed, accuracy, deployment and presentation of information between aircraft and ground infrastructure, informing and aligning decisions and actions for operational efficiency, maintenance effectiveness and service enhancement outcomes. Installation of the new electronic system into our aircraft will begin in 2013.

Partnerships

- In March 2012, airberlin joined the **one**world alliance as a full member and NIKI, an Austrian airline which is a member of the airberlin group, joined as an affiliate member.
- In May 2012, **one**world alliance members, including Cathay Pacific, won every top award in the Loyalty Programmes category of the FlyerTalk Awards.
- Malaysia Airlines became a member of **one**world in February 2013.
- SriLankan Airlines is expected to join **one**world in late 2013 or early 2014. Cathay Pacific will sponsor the carrier's entry into the alliance. Qatar Airways is expected to join **one**world by the end of 2013.
- In 2012, Cathay Pacific added its code on Dragonair flights to Chiang Mai, Guilin, Haikou, Jeju, Kaohsiung, Kolkata, Taipei and Xi'an. Wenzhou and Zhengzhou became codeshare flights in January 2013.
- Flybe Finland joined **one**world as an affiliate of Finnair in October 2012. SkyWest Airlines joined as an affiliate of American Airlines in November 2012. OpenSkies joined as an affiliate of British Airways in December 2012.
- Cathay Pacific and Air New Zealand have entered into a strategic agreement in November of 2012 for codesharing all their services between Hong Kong and New Zealand, effective from January 2013, which offers enhanced connectivity and frequent flyer benefits to their passengers.
- Cathay Pacific and Dragonair introduced interline partnerships with JetBlue Airways and Hawaiian Airlines in August and October 2012 respectively.

Environment

- Cathay Pacific continues to engage with regulators and groups involved in shaping aviation policy in relation to climate change. We work with the International Civil Aviation Organization, the International Air Transport Association Climate Change Task Force, Aviation Global Deal, the Sustainable Aviation Fuel Users Group and the Association of Asia Pacific Airlines. We aim to increase awareness of climate change issues and to develop appropriate solutions for the aviation industry.
- In compliance with the requirements of the European Union Emissions Trading Scheme (EU ETS), our emissions data has been externally verified. In March 2012, we submitted our emissions report for 2011 to the UK Environment Agency.
- Cathay Pacific supports emissions trading as one of the interim solutions to reduce aviation's emissions, but does not support the imposition of the EU ETS to carriers based outside Europe. We welcomed the European Union's announcement in November 2012 that it is deferring the application of the EU ETS to such airlines for one year. We hope that this deferment will offer an opportunity for a global solution to be found through the International Civil Aviation Organization.
- We purchased more carbon credits from renewable energy projects in Guangdong Province in Mainland China under our "FLY *greener*" carbon offset programme. This programme allows customers to offset the environmental impact of their travel.
- Our Sustainable Development Report 2011 was published in June 2012 on a dedicated website. The 2011 report, entitled "En route to Sustainability", includes sections dealing with the five priority areas of Cathay Pacific's sustainable development strategy: Operating Our Flights; Managing Our Infrastructure; Interacting with Customers; Working with Our Supply Chain; and Investing in Our People and Communities.
- For the fourth consecutive year, our sustainable development report was prepared according to the Global Report Initiative (GRI) Guidelines at Application Level A+. "A" is the highest such level and "+" indicates that the report has been the subject of external assurance.
- We continue to share environmental best practices with our strategic partner, Air China.

- In March 2012, Cathay Pacific participated in "Earth Hour", an annual event sponsored by WWF Hong Kong. We switched off all non-essential lighting in our buildings and billboards.
- Cathay Pacific was included on the FTSE4Good Index Series for the third year. The index comprises companies that meet globally recognised corporate responsibility standards and is intended to facilitate investment in those companies.
- In May 2012, we participated in the Airport Authority of Hong Kong's "World's Greenest Airport Pledging Ceremony", in order to support the airport's carbon reduction efforts.
- In May 2012, Cathay Pacific put a video about its sustainability efforts in its inflight entertainment systems. The video provides an overview of the company's environmental and social initiatives and includes interviews with staff, managers and directors.
- In September 2012, we decided to stop shipping unsustainably sourced sharks and shark-related products, based on sustainability considerations. It has been our policy for some time that certain unsustainably produced food items should not be served at company events or on aircraft.
- In October 2012, Cathay Pacific joined 16 other leading Hong Kong companies in a pledge to reduce carbon emissions in their buildings. The pledge is an initiative of the Business Environment Council and the Climate Change Business Forum.
- In December 2012, we participated in the Better Air Quality Conference in Hong Kong. In the same month, our wholly owned subsidiary Hong Kong Airport Services provided an electric vehicle for the Green Drive initiative.
- The new Cathay Pacific cargo terminal has been designed with a view to minimising electricity usage. The terminal has high-performance cladding, energy-saving LED lighting, demand-controlled ventilation and chilled-ceiling air-conditioning.
- Introduction of the plastics use study to reduce single use plastic items and to identify a strategy for 2013 onwards.

Contribution to the community

- In May 2012, Cathay Pacific received the 10 Consecutive Years Caring Company Logo 2002-2012 from the Hong Kong Council of Social Service. The award recognises the airline's commitment to caring for the well-being of the community, its employees and the environment. Dragonair was named a Caring Company for the seventh consecutive year.
- In August 2012, one-hundred Hong Kong students, aged between 15 and 18, graduated from the fifth Cathay Pacific "I Can Fly" programme, which is designed to increase young people's knowledge of aviation and to foster a commitment to their community. The six-month programme included visits to aviation facilities, workshops on aviation-related topics, social-service projects and overseas trips.
- In April 2012, our team in Thailand organised a successful local version of the "I Can Fly" programme for 15 students. Local versions of the programme have previously been organised in the United States and Canada.
- In January 2013 we organised a special community flight for some 200 people from some of the less-advantaged districts of Hong Kong. The participants were mainly from single-parent families and most of them had never flown before.
- The CX Volunteers, consisting of over 1,100 staff members, continued to help the local community. The volunteers spent around 3,300 hours serving the community in 2012. Their activities included the "English on Air" programme, which has helped more than 1,800 students, in particular at schools in Tung Chung, to improve their conversational English skills.
- Other initiatives that benefited the Tung Chung community – Tung Chung being the closest town to the airline's headquarters – included the E-cycle youth programme (designed to help 40 young people to be more creative and to build teamwork through a uniform design competition) and participation in a 24-hour pedal kart competition. The volunteers organised a charity sale for low-income families in Tung Chung for the fifth year in a row and hosted a Christmas party for underprivileged children at Cathay City.
- In December, more than 100 Cathay Pacific cabin crew performed a pre-Christmas flash mob dance at Cathay Pacific City. The activity helped to raise money for Operation Santa Claus.
- Cathay Pacific continued to support UNICEF through its "Change for Good" inflight fundraising programme. In June 2012, we announced that the airline's passengers had contributed more than HK$12.9 million in 2011 to help improve the lives of disadvantaged children around the world. Since the programme's launch in 1991, more than HK$120 million has been raised through "Change for Good".

- Staff from Cathay Pacific joined a trip to Laos organised by UNICEF. They were able to see how funds from "Change for Good" are put to good use in improving people's lives.
- Cathay Pacific continues to support events designed to improve Hong Kong's attractiveness as a place to live in and to visit. In March 2012, we co-sponsored the ever-popular Hong Kong Sevens rugby event. In November 2012, we were a sponsor of the Hong Kong Squash Open for the 27th consecutive year. In February 2013, the airline was the title sponsor of the annual International Chinese New Year Night Parade for the 15th consecutive year.
- Staff from Cathay Pacific support mentally and physically disadvantaged children in Hong Kong through the work of the Sunnyside Club. The Club benefited from a donation of HK$86,630 following a sale of toiletries from Cathay Pacific's first and business class cabins.
- Cathay Pacific organises tours of its headquarters at Hong Kong International Airport. Over 14,000 visitors from schools and NGOs were welcomed in 2012.
- Cathay Pacific has established the Cathay Pacific Charitable Fund to give all staff in the Group the opportunity to apply for financial support for approved charitable purposes, organisations and projects in which they personally participate.
- The Dragonair Youth Aviation Academy was established in 2011 with the aim of encouraging young people in Hong Kong to learn about aviation and to consider a career in the industry. It is essential that a steady stream of talented young people join the industry in order to secure Hong Kong's future as an aviation centre.
- The Dragonair Aviation Certificate Programme is jointly organised with the Hong Kong Air Cadet Corps. It is a one-on-one pilot mentorship programme, conducted over an eight-month period, that aims to inspire a new generation of aviators in Hong Kong. Twenty-four graduates completed the programme in 2012. The intake has been expanded to 30 for 2013. A total of 114 participants have graduated from the programme and more than 40 per cent of them have started to work in aviation.
- Since 2004, Dragonair has operated the "Change for Conservation" inflight fundraising campaign. HK$8.6 million has been raised to protect watershed areas in northwest Yunnan in Mainland China and to help to develop economic opportunities for the people there.

Commitment to staff

- At the end of 2012, the Cathay Pacific Group employed some 29,900 people worldwide. More than 22,800 of these staff are based in Hong Kong.
- The Cathay Pacific Group continued to recruit new pilots and cabin crew in 2012. Cathay Pacific recruited more than 500 cabin crew and more than 230 pilots. Dragonair recruited about 330 cabin crew and about 50 pilots as it expanded its network and fleet.
- There is currently a freeze on the recruitment of ground staff, except for those staff who are critical to operations. Cabin crew may take voluntary unpaid leave. These measures have been put in place in response to the current challenging business environment.
- The Cathay Pacific Cadet Pilot Programme continued to recruit and train the next generation of pilots, many of whom are from Hong Kong. In 2012, 52 cadets graduated from the programme. About 90 cadets are currently going through training. More than 60 former cadets are flying as captains with the airline. Dragonair runs its own cadet pilot scheme and about 20 graduated from the cadet pilot programme and the pre-qualified cadet pilot programme.
- In late 2012, we launched a dedicated website to generate more interest in the Cadet Pilot Programme. The site includes videos featuring a number of pilots who graduated from the programme.
- 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.
- Through the "We Suggest" internal ideas programme, Cathay Pacific staff can make suggestions for improving our business. In conjunction with the Environmental Protection Department of the Government of the Hong Kong Special Administrative Region, suggestions for improving sustainability were requested under the programme.
- The eighth annual Betsy Awards took place in July. These internal awards honour staff who go beyond the call of duty to assist passengers.

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

Fleet profile*

Aircraft type	Number as at 31st December 2012: Owned	Leased: Finance	Leased: Operating	Total	Firm orders: '13	Firm orders: '14	Firm orders: '15 and beyond	Total	Expiry of operating leases: '13	'14	'15	'16	'17	'18 and beyond	Purchase rights
Aircraft operated by Cathay Pacific:															
A330-300	13	16	8	**37**	5	5	3	**13**			2	1	3	2	
A340-300	6	5		**11**											
A350-900							22[a]	**22**							
A350-1000							26	**26**							20[b]
747-400	17		1	**18**							1				
747-400F	3	3		**6**											
747-400BCF	2[c]		4[d]	**6**[e]					2	1				1	
747-400ERF		6		**6**											
747-8F		8		**8**	2			**2**							
777-200	5			**5**											
777-200F						4	4	**8**[e]							
777-300	5	7		**12**											
777-300ER	4	11	14	**29**	9	7	5	**21**					2	12	20[f]
Total	55	56	27	**138**	16	16	60	**92**	2	1	3	1	5	15	40
Aircraft operated by Dragonair:															
A320-200	5		10	**15**							2	2		6	
A321-200	2		4	**6**							2	2			
A330-300	4	1	12	**17**					4	3	1	2	2		
Total	11	1	26	**38**					4	3	5	6	2	6	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6		**8**											
747-400BCF			3	**3**								1	2		
Total	2	6	3	**11**								1	2		
Grand total	**68**	**63**	**56**	**187**	**16**	**16**	**60**	**92**	**6**	**4**	**8**	**8**	**9**	**21**	**40**

** Includes parked aircraft. This profile does not reflect aircraft movements after 31st December 2012.*
(a) Including two aircraft on 12-year operating leases.
(b) Purchase rights to be exercised no later than 2024, for A350 family aircraft.
(c) One aircraft was parked in May 2012 and the other aircraft was sold to Air China Cargo in March 2013.
(d) Two aircraft were parked in July and December 2012, respectively.
(e) Four Boeing 747-400BCF aircraft were disposed of in a trade-in deal with The Boeing Company entered into in March 2013. The four aircraft included three Boeing 747-400BCF aircraft taken out of service during 2012 and one in February 2013. These aircraft will leave the fleet during 2013. The order for those eight Boeing 777-200F aircraft was cancelled and three new Boeing 747-8F aircraft will be acquired and delivered in 2013. The trade-in deal also included options to purchase five Boeing 777-200F aircraft.
(f) Purchase rights for aircraft to be delivered by 2017.
(g) In February 2013, the Group agreed to lease two new Airbus A321-200 aircraft. These aircraft will be delivered in February and October 2014.

Review of other subsidiaries and associates

The results recorded by our other subsidiaries were satisfactory overall. The share of profits from associates decreased by HK$1,076 million to HK$641 million. This was mainly a result of a poor performance from Air China and the Air China Cargo joint venture. Below is a review of the performance and operations of our other subsidiaries and associates.

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

- Air Hong Kong is the only all-cargo airline in Hong Kong. It is 60% owned by Cathay Pacific. 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 one wet-leased Boeing 727 freighter. In January 2013, the wet-leased Boeing 727 freighter was replaced by an Airbus A300-600F freighter.
- During 2012 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 Bangkok).
- On-time performance was 90% within 15 minutes.
- Compared with 2011, capacity increased by 11%. The load factor decreased by 4 percentage points. Yield improved by 7%.
- Air Hong Kong achieved an increase in profit for 2012 compared with 2011.

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

- CPCS, a wholly owned subsidiary, is the principal flight kitchen in Hong Kong.
- CPCS provides flight catering services to 39 international airlines in Hong Kong. It produced 25.0 million meals and handled 63,000 flights in 2012 (representing a daily average of 68,000 meals and 171 flights and an increase of 4% and 8% respectively over 2011). CPCS had a 63% share of the flight catering market in Hong Kong in 2012.
- The increase in business volume resulted in improved turnover and profit in 2012. However, increases in raw material, fuel and wage costs were reflected in a lower profit margin.
- In 2012, CPCS started to make investments intended to increase capacity to 100,000 meals per day from mid-2013.
- Outside Hong Kong, profits increased in Taipei and Canada and fell in Ho Chi Minh City and Cebu.

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 30 airlines, including Cathay Pacific and Dragonair.
- In 2012, HAS had 52% and 27% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.
- The number of customers for passenger handling increased from 22 to 25 in 2012. The number of customers for ramp handling decreased from 29 to 26. Passenger handling and ramp handling flights increased by 8% and 6% respectively in 2012.
- The 2012 results of HAS were lower than expected. This reflected high operating costs and manpower shortages at Hong Kong International Airport.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific has a 19.28% interest, is the national flag carrier and leading provider of passenger, cargo and other airline related services in Mainland China.
- At 31st December 2012, Air China operated 197 domestic and 87 international (including regional) routes to 29 countries and regions, including 45 overseas cities, four regional cities and 96 domestic cities.
- We have two representatives on the Board of Directors of Air China and equity account for our share of Air China's profit.
- Our share of Air China's results is based on its accounts drawn up three months in arrear. Consequently our 2012 results include Air China's results for the 12 months ended 30th September 2012, adjusted for any significant events or transactions for the period from 1st October 2012 to 31st December 2012.

- The Group recorded a decrease in profit from Air China's results in 2012. This primarily reflected reduced demand, increased fuel costs and unfavourable exchange rate movements.
- 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.

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 cargo services in Mainland China.
- The Group recorded an increased loss from Air China Cargo's results in 2012. This was mainly due to weak demand in the air cargo markets.
- At 31st December 2012, Air China Cargo had a fleet of 11 freighters. It operates scheduled freighter services to nine countries and regions. It flies to five cities in Mainland China and 12 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 146 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

- In September 2012, Hong Kong Aircraft Engineering Company Limited ("HAECO") and Cathay Pacific announced the formation of a joint venture to undertake inventory technical management. The joint venture started operations in November 2012. It is conducted through HAECO ITM Limited, a company incorporated in Hong Kong owned as to 70% by HAECO and as to 30% by Cathay Pacific.

Shanghai International Airport Services Co., Limited

- In March 2012, Cathay Pacific announced the formation of a new ground handling company, Shanghai International Airport Services Co., Limited. This joint venture between Cathay Pacific, Air China, the Shanghai Airport Authority and Shanghai International Airport Co. Ltd. provides airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport.

Our Investments

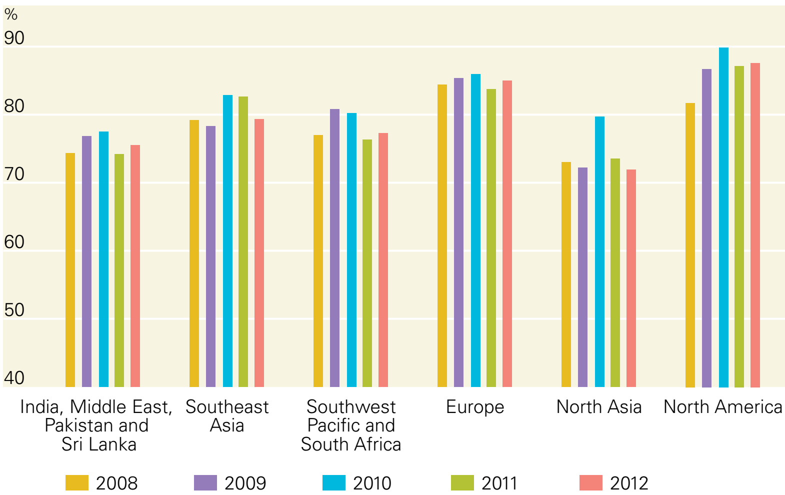
The Cathay Pacific Group has made big investments in its people to ensure the highest levels of professionalism.

As at 31st December 2012, we have 92 new, fuel-efficient aircraft on order for delivery up to 2020.

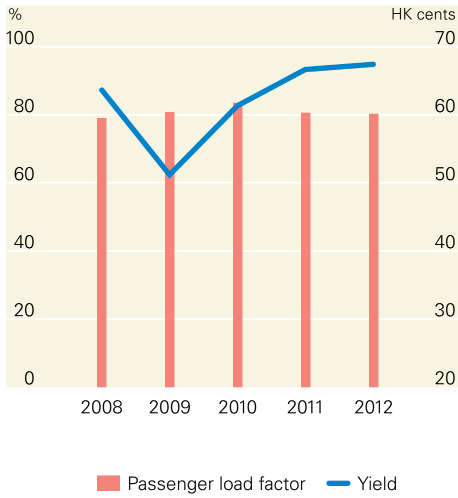
The HK$5.9 billion Cathay Pacific Cargo Terminal will boost both the capacity and efficiency of Hong Kong as a key air cargo hub.

Revenue from Cathay Pacific and Dragonair's passenger services grew by 3.5% to HK$70,133 million in 2012. The two airlines carried a total of 29.0 million passengers during the year, which represents an increase of 5.0% compared to 2011. The load factor decreased by 0.3 percentage points to 80.1%. Capacity rose by 2.6%. Passenger yield grew by 1.2% to HK67.3 cents, largely due to higher fuel surcharges consequent upon a 1.7% increase in average fuel price. Uncertain economic conditions and strong competition on key routes put pressure on yields. Premium class revenues were weak, including during what is normally the peak period for corporate travel after the summer. The number of passengers travelling in the premium classes and premium class yields were affected by economic weakness in major economies and travel restrictions imposed by corporations. High fuel prices significantly affected the profitability of our passenger services, particular on long-haul routes operated by older, less fuel-efficient aircraft.

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 2012 were as follows:

	ASK (million)			Load factor (%)			Yield
	2012	2011	**Change**	**2012**	2011	**Change**	**Change**
India, Middle East, Pakistan and Sri Lanka	**11,049**	11,467	**-3.6%**	**75.5**	74.2	**+1.3%pt**	**+2.4%**
Southeast Asia	**18,031**	16,020	**+12.6%**	**79.3**	82.6	**-3.3%pt**	**+0.9%**
Southwest Pacific and South Africa	**18,304**	19,082	**-4.1%**	**77.3**	76.3	**+1.0%pt**	**+1.7%**
Europe	**21,509**	22,552	**-4.6%**	**85.0**	83.7	**+1.3%pt**	**+1.9%**
North Asia	**27,980**	25,375	**+10.3%**	**71.9**	73.5	**-1.6%pt**	**-3.4%**
North America	**32,722**	31,844	**+2.8%**	**87.6**	87.1	**+0.5%pt**	**+3.1%**
Overall	**129,595**	126,340	**+2.6%**	**80.1**	80.4	**-0.3%pt**	**+1.2%**

Home market – Hong Kong and Pearl River Delta

- Demand for leisure travel on routes originating in Hong Kong was reasonably strong in 2012. However, yields were under pressure.
- There was an increasing trend for travellers – in all classes of travel – to seek out the best deals and to make bookings later.
- Our business was significantly affected by Typhoon Vicente in July. Other storms in the region in the summer and in North America in the autumn also had an impact on the business.
- In October we introduced a fare promotion, "fanfares", which offers weekly special offers to a number of Cathay Pacific and Dragonair destinations.
- We carried more passengers from the Pearl River Delta region transiting through Hong Kong, but this business is subject to increasing competition as Mainland China carriers start to fly direct to more overseas destinations.
- The corporate market was weak. Companies in Hong Kong (particularly in the financial sector, which accounts for a significant proportion of corporate travel originating in Hong Kong) reduced the amount of travelling done by their staff.

India, Middle East, Pakistan and Sri Lanka

- We introduced two new services in India in 2012 – a Dragonair service to Kolkata in November and a Cathay Pacific service to Hyderabad in December. We increased the frequency of our Chennai service from four flights a week to daily in September 2012. These new services and additional frequencies should increase the number of passengers transiting through Hong Kong, particularly to North America.
- Demand for travel to and from India was strong, though yields were under pressure. The weakness of the Indian rupee had a significant impact on our revenues derived from India.
- The Colombo, Dhaka and Karachi routes performed generally in line with expectations.
- Middle Eastern routes were affected by strong competition, which put pressure on yields. We reduced the capacity of flights to the region in response to reduced demand. This resulted in improved load factors and yields.

Southeast Asia

- The relative strength of the economies in Southeast Asian countries was reflected in robust passenger demand.
- We increased Cathay Pacific frequencies on services to Bangkok, Ho Chi Minh City, Kuala Lumpur, Penang and Singapore. New overnight flights to and from Kuala Lumpur and Singapore helped to increase the number of passengers transiting through Hong Kong.
- Business in the premium classes weakened in the second half of the year.
- The Indonesian route performed well. A number of extra sectors were added to Indonesian routes during the Lebaran holiday peak.
- Traffic to and from the Philippines was generally robust. Dragonair introduced services to Clark in May, but the route has not done well. Business was slow at the start but it has started to pick up since then.
- The Thailand routes performed well. A Dragonair service to Chiang Mai was introduced in July 2012. It has been well received by passengers.
- Dragonair introduced a service to Yangon in January 2013 in response to the growing interest in Myanmar as a business and leisure destination. In March, it will introduce a service to Da Nang.

Southwest Pacific and South Africa

- The Australia routes benefited from an increase in passengers from North Asia connecting to flights to Australia in Hong Kong. However, there was strong competition from Mainland China carriers, which increased capacity.
- The New Zealand route was weak. In November 2012, Cathay Pacific agreed with Air New Zealand to introduce codesharing on the two airlines' flights between Hong Kong and Auckland, with effect from January 2013, giving passengers more choice of flights.
- Business was under pressure on the South Africa route, with more airlines flying direct to South Africa from Mainland China and Japan.

Europe

- Business to and from Europe was significantly affected by the economic instability in the continent. Routes to continental Europe were generally weak.

- The London route was stronger than the continental routes, helped by stable demand from students and relatively robust premium class demand. There was a drop in demand before and during the Olympic Games in the summer. We will begin operating a fifth daily flight on the London route from June 2013.
- Strong competition from Middle East carriers affected business on routes between Australia and London.
- The new premium economy class has been very popular on the London route, with strong bookings since its introduction in April. Premium economy class has also been well received on the Frankfurt route.
- We reduced capacity on the Rome route for the 2012/13 winter in response to weak seasonal demand. The Milan route continues to perform well, with strong demand for premium class travel.
- In September 2012, we began to replace Boeing 747-400 aircraft with more fuel-efficient Boeing 777-300ER aircraft on some European flights. This greatly reduces the amount of fuel used and improves the operating economics of our European routes. More flights to Europe will be operated by Boeing 777-300ER aircraft in 2013 as we take delivery of more such aircraft and retire more Boeing 747-400 aircraft.

North Asia

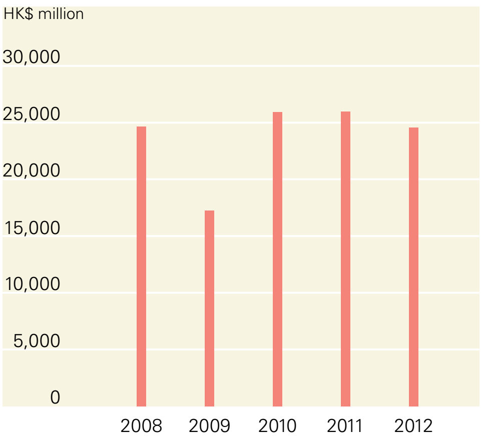
- In 2012, Dragonair started flying again Guilin, Haikou and Xi'an in Mainland China. In January 2013, Dragonair introduced services to Wenzhou and Zhengzhou, two important commercial cities. Dragonair strengthened services to a number of other secondary cities in Mainland China.
- The Mainland China economy slowed somewhat in 2012, especially in the second half of the year. Our business on the two major trunk routes to and from Mainland China, Beijing and Shanghai, was not as strong as in 2011. However, business on routes to and from secondary cities remained strong.
- Our Taiwan services continued to be affected by the growth in cross-strait capacity to and from Mainland China and there was an increase in competition on the Taipei route. However, Taiwan remained popular as a leisure destination for travellers from Hong Kong. Dragonair resumed flights to Taichung in May.
- The Korean route was strong in the first quarter of 2012. The market subsequently softened and competition increased. There was some increase in leisure travel to Korea from Hong Kong. Sales originating in Korea were affected by the weakening Korean economy. Dragonair introduced a service to Jeju in May. Performance on the route has been satisfactory.
- Demand on the Japan routes was generally robust in the first half of the year, but it was weaker on the Tokyo route than it was before the earthquake in March 2011. Business weakened significantly in the second half. Fewer people travelled in both directions. We reduced capacity accordingly.

North America

- We increased capacity on the Los Angeles route in March 2012, moving from 17 to 21 flights a week. However, in September we reduced frequencies on the Los Angeles, New York and Toronto routes. We did this in order to reduce the adverse effect of high fuel prices. We will restore three flights per week on the Toronto route from March 2013, so that there will be 10 flights per week on this route. We will also restore three flights a week on the Los Angeles route at the same time, to make a total of 20 flights per week.
- Economy class demand was strong on all United States routes throughout the year. Sales originating in Canada and the United States for flights to and beyond Hong Kong were encouraging. However, the Canada routes were affected by strong competition.
- Premium class revenues on the New York route were adversely affected by the weakness of the financial markets.
- Business on the Chicago route, which was introduced in 2011, continued to improve.

Cargo revenue generated by Cathay Pacific and Dragonair decreased by 7.4% in 2012. The cargo and mail tonnage carried by the two airlines fell by 5.2% to 1.6 million tonnes. By comparison with 2011, capacity was down by 3.1%. The load factor fell by 3.0 percentage points to 64.2%. Yield remained the same as last year at HK$2.42. Demand for shipments from our two key markets, Hong Kong and Mainland China, was well below expectations, although there were short-term upturns in March and in the last quarter reflecting launches of new consumer electronics products. Capacity was adjusted in line with demand. We opened new routes where demand was robust. We introduced freighter services to Zhengzhou in Mainland China in March, Hyderabad in India in May and Colombo in Sri Lanka in December. We suspended our freighter service to Zaragoza in Spain in November 2012 and those to Brussels in Belgium and Stockholm in Sweden in February 2013. The high price of fuel made it difficult to operate profitably on European routes. However, the new Boeing 747-8F freighters helped to improve our operating economics. The phased opening of our new cargo terminal began in February 2013.

Turnover



Capacity – cargo and mail ATK

Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for 2012 were as follows:

	ATK (million)			Load factor (%)			Yield
	2012	2011	**Change**	**2012**	2011	**Change**	**Change**
Cathay Pacific and Dragonair	**13,926**	14,367	**-3.1%**	**64.2**	67.2	**-3.0%pt**	**–**

- Demand for cargo shipments from our two main markets, Hong Kong and Mainland China, remained weak for most of 2012. Strong competition made things worse. Demand was particularly weak on routes to Europe, where economic conditions have affected business and consumer confidence.
- There was a temporary recovery in demand in March 2012, when new hi-tech consumer electronics products were shipped from Mainland China. However, both tonnage and revenue for the month were lower than in March 2011.
- Demand increased in the last quarter, the seasonal peak for airfreight shipments. This reflected shipments of consumer electronics and other products from Mainland China. However, there was no sustained cargo peak in 2012, rather a short two-month period of improved demand.
- We managed capacity in line with demand, reducing scheduled freighter services as necessary. Where possible, we operated extra sectors and charter flights to generate extra revenue.
- The air cargo market in the western part of Mainland China, where we launched services to Chongqing and Chengdu in late 2011, continues to mature. In March 2012, we began scheduled freighter services to Zhengzhou in Henan Province, in the central part of Mainland China. This route has proved successful, and in September we increased the frequency from two flights to six flights per week.
- The Shanghai route was affected by oversupply in the market and increasing pressure on yields.
- Market conditions on the North Asian routes were challenging, with aggressive competition from Japanese, Korean and Taiwanese carriers. Revenue and tonnage on North Asian routes were lower.
- In Southeast Asia, revenue and tonnage increased. The increases derived from Vietnam and Thailand reflected the strength of the manufacturing industries in the two countries. Increased passenger capacity on Southeast Asian routes allowed us to carry more cargo in the bellies of our passenger aircraft.
- The Indian market became more competitive, with carriers adding capacity on routes between India and Europe. This put pressure on tonnage and yields. Yields were also affected by the weakness of the Indian rupee. In May 2012, we introduced a freighter service to Hyderabad and increased the number of flights on the Bengaluru route from two to three a week. Frequency to Bengaluru went down to twice a week in January 2013.
- We introduced a weekly freighter service to Colombo in Sri Lanka in December 2012 in response to growing demand for garments, other products manufactured in Sri Lanka and fresh tuna to Japan.
- Demand for shipments from Asia to Europe remained weak. Economic difficulties continued to affect consumer and business confidence. We did our best to maximise yield against a background of significant capacity reductions. We stopped flying to Zaragoza in Spain in November 2012 because a contract with a major shipper came to an end. In February 2013 we reduced our European freighter services to a base schedule of 11 flights per week. This schedule better matches current demand on the Asia to Europe lanes. Cathay Pacific no longer offers freighter services to Stockholm and Brussels. However, these cities are now served by trucking services from our main continental gateways of Frankfurt, Amsterdam and Paris.
- Demand for shipments to and from the Americas was more robust than that for shipments to and from Europe. But it was difficult to maintain yields in an oversupplied market.
- Our Southwest Pacific business was dominated by exports of seafood and perishables to Asia. Imports into Australia remained strong due to the strength of the country's currency and strong online sales.
- High fuel prices had a significant impact on the profitability of our cargo operations, particularly on ultra-long-haul routes. Fuel surcharges were adjusted in line with fuel-price movements, but the increases only partly offset the increase in the cost of fuel.

- We continued to adjust our freighter fleet in 2012 in response to reduced demand and high fuel prices. We took delivery of four Boeing 747-8F freighters in 2012, which have improved our operating economics on ultra-long-haul transpacific routes. We now have eight of these aircraft in the fleet and will take delivery of two more in 2013. In addition, three more of these aircraft will be delivered in the second half of 2013 under the trade-in deal with The Boeing Company.
- One Boeing 747-400BCF converted freighter was retired from the fleet and scrapped in 2012. A further four Boeing 747-400BCF converted freighters were withdrawn from service in 2012 and early 2013 and were sold to The Boeing Company as part of the trade-in deal. The third of four Boeing 747-400BCF being sold to Air China Cargo, our cargo joint venture with Air China, was delivered in July 2012 and the final one was sold in March 2013.
- The new Cathay Pacific cargo terminal started to operate in February 2013. Cathay Pacific and Dragonair will move their cargo operations to the new terminal in Hong Kong in stages. By the fourth quarter of 2013, all cargo operations for the two airlines will be handled by the new terminal. In 2014, the terminal is expected to be in a position to provide cargo handling services for other airlines at Hong Kong International Airport.
- The HK$5.9 billion cargo terminal demonstrates Cathay Pacific's long-term confidence in Hong Kong as a centre for airfreight operations. When fully operational, the terminal will have an annual capacity of 2.6 million tonnes and will employ more than 1,800 staff. It will be one of the biggest and most sophisticated facilities of its kind in the world, significantly reducing the time it takes to process and ship cargo.

Asia Miles

- Asia Miles is the award-winning travel reward programme for Cathay Pacific and Dragonair. It has more than four million members worldwide.
- In 2012, for the eighth consecutive year, Asia Miles was named Best Frequent Flyer Programme at the Business Traveller Asia-Pacific Awards.
- In 2012, for the second consecutive year, the America Express Cathay Pacific corporate card was named Best Corporate Card at the CAPITAL Merits of Achievements in Banking and Finance Awards.
- Philippines Service Centre opened in May 2012 to provide better service for English speaking Asia Miles members.
- Asia Miles has over 500 partners in nine categories, including airlines, hotels and major financial institutions. There are 20 airline partners, which together fly to over 1,000 destinations.
- There was a 2% increase in redemptions by Asia Miles members in 2012. More than 90% of Cathay Pacific 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 and continues to defend itself vigorously. 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 97.

Our New Products and Services

The new Regional Business Class product is redefining comfort, versatility and function on Cathay Pacific and Dragonair short-haul flights.

We launched a Premium Economy Class cabin in 2012, while our new long-haul Business Class continued to win acclaim.

Our flagship lounge in Hong Kong, The Wing, has been completely refurbished, offering new levels of pre-flight comfort.

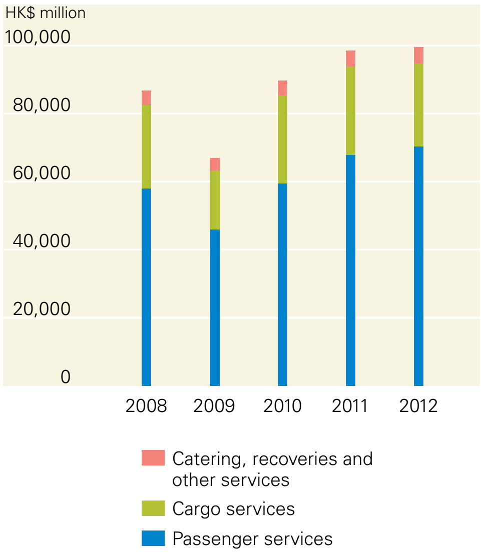
Financial Review

The Cathay Pacific Group reported an attributable profit of HK$916 million in 2012 compared with a profit of HK$5,501 million in 2011. The Group's core business was adversely affected by the high price of jet fuel, pressure on passenger yields and weak air cargo demand. Economic uncertainty, particularly in the Eurozone countries, and an increasingly competitive environment added to the difficulties.

Turnover

	Group		Cathay Pacific and Dragonair	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Passenger services	**70,133**	67,778	**70,133**	67,778
Cargo services	**24,555**	25,980	**21,601**	23,335
Catering, recoveries and other services	**4,688**	4,648	**4,037**	4,006
Turnover	**99,376**	98,406	**95,771**	95,119

Turnover



Cathay Pacific and Dragonair: passengers and cargo carried

- Group turnover increased by 1.0% in 2012 compared with 2011.

Cathay Pacific and Dragonair

- Passenger turnover increased by 3.5% to HK$70,133 million. The number of passengers carried increased by 5.0% to 29.0 million and revenue passenger kilometres increased by 2.3%.
- The passenger load factor decreased by 0.3 percentage points to 80.1%. Available seat kilometres increased by 2.6%.
- Passenger yield increased by 1.2% to HK¢67.3.
- First and business class revenues increased by 0.8% and the premium class load factor increased from 66.9% to 67.3%. Premium economy and economy class revenues increased by 4.8% and the economy class load factor decreased from 82.7% to 82.4%.
- Cargo turnover decreased by 7.4% to HK$21,601 million, with a 3.1% decrease in capacity.
- The cargo load factor decreased by 3.0 percentage points. The cargo yield remained unchanged at HK$2.42.
- The revenue load factor decreased by 0.8 percentage points to 76.2%. The breakeven load factor was 76.0%.

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:

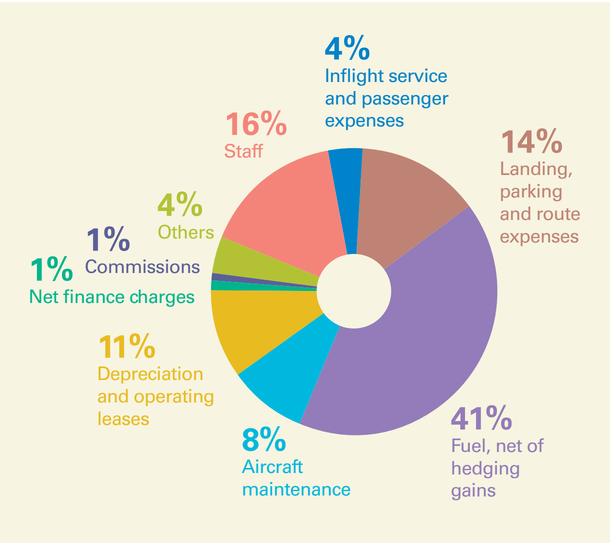
	HK$M
+ 1 percentage point in passenger load factor	873
+ 1 percentage point in cargo and mail load factor	336
+ HK¢1 in passenger yield	1,038
+ HK¢1 in cargo and mail yield	89

Operating expenses

	Group			Cathay Pacific and Dragonair		
	2012 HK$M	2011 HK$M	**Change**	**2012 HK$M**	2011 HK$M	**Change**
Staff	**16,073**	14,772	**+8.8%**	**14,545**	13,431	**+8.3%**
Inflight service and passenger expenses	**4,017**	3,794	**+5.9%**	**4,017**	3,794	**+5.9%**
Landing, parking and route expenses	**13,603**	13,105	**+3.8%**	**13,330**	12,820	**+4.0%**
Fuel, net of hedging gains	**40,470**	38,877	**+4.1%**	**39,590**	38,061	**+4.0%**
Aircraft maintenance	**8,197**	8,468	**-3.2%**	**7,961**	8,268	**-3.7%**
Aircraft depreciation and operating leases	**8,879**	8,197	**+8.3%**	**8,738**	8,049	**+8.6%**
Other depreciation, amortisation and operating leases	**1,432**	1,205	**+18.8%**	**1,173**	977	**+20.1%**
Commissions	**777**	791	**-1.8%**	**777**	791	**-1.8%**
Exchange gain	**(173)**	(416)	**-58.4%**	**(183)**	(423)	**-56.7%**
Others	**4,313**	4,113	**+4.9%**	**4,827**	4,625	**+4.4%**
Operating expenses	**97,588**	92,906	**+5.0%**	**94,775**	90,393	**+4.8%**
Net finance charges	**884**	744	**+18.8%**	**838**	701	**+19.5%**
Total operating expenses	**98,472**	93,650	**+5.1%**	**95,613**	91,094	**+5.0%**

- The Group's total operating expenses increased by 5.1% to HK$98,472 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair increased from HK$3.45 to HK$3.64.

Total operating expenses



Fuel price and consumption

Cathay Pacific and Dragonair operating results analysis

	2012 HK$M	2011 HK$M
Airlines' profit before taxation	158	4,025
Tax charge	(268)	(609)
Airlines' (loss)/profit after taxation	(110)	3,416
Share of profits from subsidiaries and associates	1,026	2,085
Profit attributable to the owners of Cathay Pacific	916	5,501

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

	HK$M	
2011 airlines' profit before taxation	4,025	
Passenger and cargo turnover	621	**Passenger** – Increased due to a 2.6% increase in capacity, a 0.3% points decrease in load factor and a 1.2% increase in yield. **Cargo** – Decreased due to a 3.1% decrease in capacity, a 3.0% points decrease in load factor and no change in yield.
Fuel	(1,529)	– Fuel costs increased due to a 1.7% increase in the average into-plane fuel price and a 70% decrease in fuel hedging gains, offset by a 0.7% decrease in consumption.
Landing, parking and route expenses	(510)	– Increased mainly due to an increase in flight frequencies and regional growth.
Aircraft maintenance	307	– Decreased mainly due to less shop visits.
Depreciation, amortisation and operating leases	(885)	– Increased mainly due to the acceleration of retirement of Boeing 747-400 aircraft.
Staff	(1,114)	– Increased mainly due to an increase in headcount driven by an increase in operations and salary increases.
Others	(757)	– Increased mainly due to an increase in inflight service and passenger expenses as a result of an increase in flight frequencies.
2012 airlines' profit before taxation	158	

Fuel expenditure and hedging

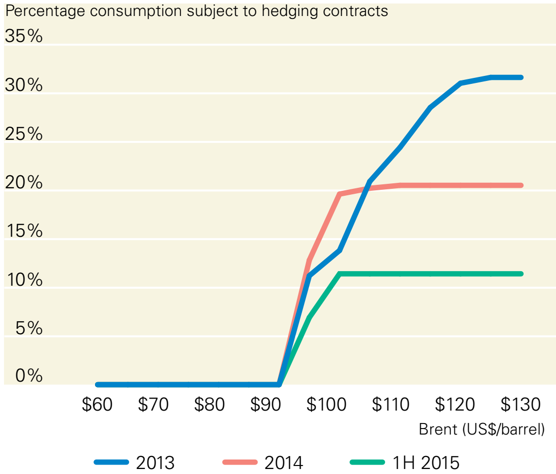
A breakdown of the Group's fuel cost is shown below:

	2012 HK$M	2011 HK$M
Gross fuel cost	**41,014**	40,691
Fuel hedging gains	**(544)**	(1,814)
Net fuel cost	**40,470**	38,877

Fuel consumption in 2012 was 40.1 million barrels (2011: 40.4 million barrels).

The Group's maximum fuel hedging exposure at 31st December 2012 is set out below:

Maximum fuel hedging exposure



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

Taxation

- The tax charge decreased by HK$386 million to HK$417 million, principally as a result of the lower profit.

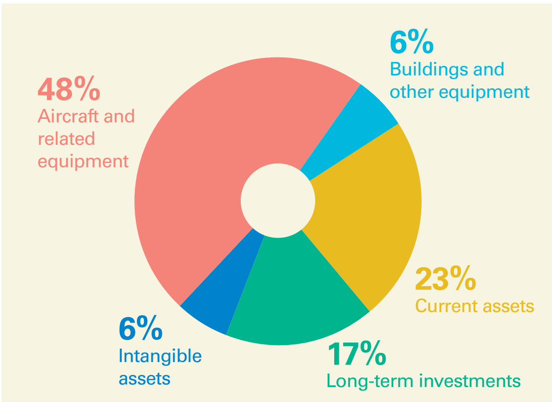
Dividends

- Dividends proposed for the year are HK$315 million representing a dividend cover of 2.9 times.
- Dividends per share decreased from HK$0.52 to HK$0.08.

Assets

- Total assets as at 31st December 2012 were HK$155,010 million.
- During the year, additions to fixed assets were HK$20,177 million, comprising HK$18,289 million for aircraft and related equipment, HK$1,393 million for buildings and HK$495 million for other equipment.

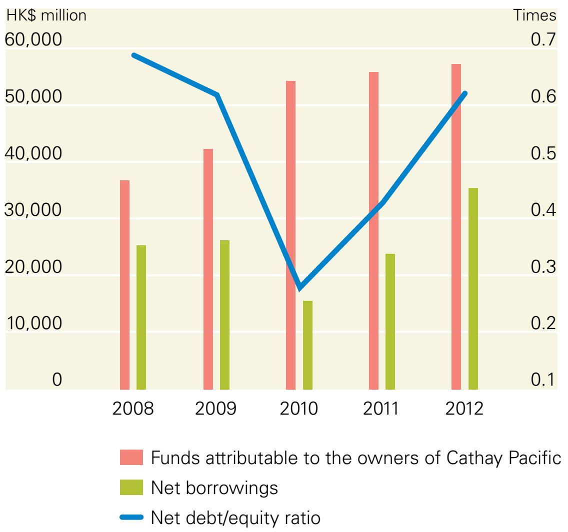
Total assets



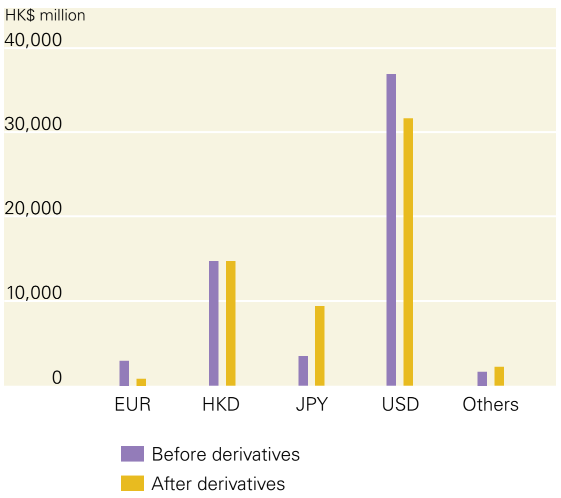
Borrowings and capital

- Borrowings increased by 37.4% to HK$59,546 million in 2012 from HK$43,335 million in 2011.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2024 with 68.0% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 67.5% of which are denominated in United States dollars, increased by 23.4% to HK$24,182 million.
- Net borrowings increased by 49.0% to HK$35,364 million.
- Funds attributable to the owners of Cathay Pacific increased by 2.5% to HK$57,186 million.
- The net debt/equity ratio increased from 0.43 times to 0.62 times.

Net debt and equity

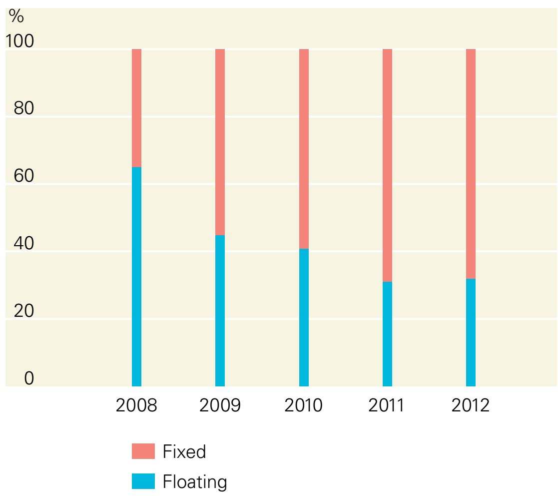


Borrowings before and after derivatives



Others include CAD, RMB and SGD.

Interest rate profile: borrowings



Our Contributions

- The Cathay Pacific "Change for Good" inflight fundraising programme has raised more than HK$120 million since the programme's launch in 1991.
- Staff from CX Volunteers contributed more than 3,300 hours of voluntary service in 2012.
- The signature "I Can Fly" programme has helped more than 3,000 young people build their aviation knowledge and community spirit.

Directors and Officers

Executive Directors

PRATT, Christopher Dale#, CBE, aged 56, has been Chairman and a Director of the Company since February 2006. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Hong Kong Aircraft Engineering Company Limited and Swire Properties Limited, and a Director of The Hongkong and Shanghai Banking Corporation Limited and Air China Limited. He joined the Swire group in 1978 and has worked with the group in Hong Kong, Australia and Papua New Guinea.

BARRINGTON, William Edward James#, aged 53, 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 51, has been a Director of the Company since March 2011. He was appointed Director Service Delivery in September 2008 and Chief Operating Officer of the Company in March 2011. He joined the Company in 1984 and has worked with the Company in Hong Kong, Mainland China, Taiwan, Thailand and Australia. He is also Chairman of AHK Air Hong Kong Limited and a Director of Hong Kong Dragon Airlines Limited.

MURRAY, Martin James#, aged 46, 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 56, has been a Director of the Company since July 2007. He was appointed Chief Operating Officer in July 2007 and Chief Executive of the Company in March 2011. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited, and Chairman of Hong Kong Dragon Airlines Limited and Swire Beverages Limited. He joined the Swire group in 1980 and has worked with the group in Hong Kong, the United States and Thailand.

Non-Executive Directors

CAI, Jianjiang, aged 49, has been a Director of the Company since November 2009. He is a Director and President of Air China Limited.

FAN, Cheng*, aged 57, 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 63, 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 57, 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 58, has been a Director of the Company since October 2008. He is also a Director of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Hong Kong Dragon Airlines Limited and Air China Limited. He joined the Company in 1978 and has worked with the Company in Hong Kong, the Netherlands, Singapore and the United Kingdom. He was appointed Director Corporate Development in September 2008 and served as an Executive Director of the Company from 1st October 2008 until 30th June 2010.

SWIRE, Merlin Bingham#, aged 39, has been a Director of the Company since June 2010. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London. He is a Director and shareholder of John Swire & Sons Limited and Swire Pacific Limited, a Director of Hong Kong Aircraft Engineering Company Limited and Swire Properties Limited, and an Alternate Director of Steamships Trading Company Limited.

WANG, Changshun, aged 55, has been Deputy Chairman and a Director of the Company since March 2012. He is General Manager of China National Aviation Holding Company and Chairman of Air China Limited.

ZHAO, Xiaohang, aged 51, 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 59, has been a Director of the Company since January 2010. She is Chairman of Hysan Development Company Limited, a Non-Executive Director of QBE Insurance Group Limited, an Independent Non-Executive Director of CLP Holdings Limited and Noble Group Limited and a member of the Advisory Council of JP Morgan Australia. She was a member of the Australian Government Takeovers Panel from March 2001 until March 2010.

SO, Chak Kwong Jack*, aged 67, 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 70, has been a Director of the Company since September 2002. He is Chairman and Chief Executive Officer of Orient Overseas (International) Limited. He is also an Independent Non-Executive Director of a number of listed companies, including BOC Hong Kong (Holdings) Limited, U-Ming Marine Transport Corp., Sing Tao News Corporation Limited and Wing Hang Bank, Limited. Mr. Tung was an Independent Non-Executive Director of PetroChina Company Limited and Zhejiang Expressway Company Limited until 18th May 2011 and 11th June 2012 respectively.

WONG, Tung Shun Peter*, aged 61, has been a Director of the Company since May 2009. He is currently Chief Executive of The Hongkong and Shanghai Banking Corporation Limited, a Group Managing Director and a member of the Group Management Board of HSBC Holdings plc and a Non-Executive Director of Hang Seng Bank Limited 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

CHAU, Siu Cheong William, aged 59, has been Director Personnel since May 2000. He joined the Company in 1973.

CHEUNG, Fung Ting Chitty, aged 47, has been Director Corporate Affairs since August 2012. She joined the Company in 1987.

DE GENTILE-WILLIAMS, Philippe Anthony Wynne#, aged 48, has been Director Service Delivery since July 2011. He joined the Swire group in 1988.

GIBBS, Christopher Patrick, aged 51, has been Engineering Director since January 2007. He joined the Company in 1992.

HALL, Richard John, aged 57, has been Director Flight Operations since August 2010. He joined the Company in 1988.

HOGG, Rupert Bruce Grantham Trower#, aged 51, has been Director Sales and Marketing since August 2010. He joined the Swire group in 1986.

LOCANDRO, Joseph Francis, aged 53, has been Director Information Technology since August 2012. He joined the Company in 2012.

RHODES, Nicholas Peter#, aged 54, has been Director Cargo since August 2010. He joined the Swire group in 1980.

Secretary

FU, Yat Hung David#, aged 49, 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 2012 which are on pages 52 to 97.

Activities

Cathay Pacific Airways Limited (the "Company") is managed and controlled in Hong Kong. As well as operating scheduled airline services, the Company and its subsidiaries (the "Group") are engaged in other related areas including airline catering, aircraft handling and aircraft engineering. The airline operations are principally to and from Hong Kong, which is where most of the Group's other activities are also carried out.

Details of principal subsidiaries, their main areas of operation and particulars of their issued capital, and details of principal associates are listed on pages 92 and 93.

Accounts

The profit of the Group for the year ended 31st December 2012 and the state of affairs of the Group and the Company at that date are set out in the accounts on pages 52 to 97.

Dividends

The Directors have declared an interim dividend of HK$0.08 per share for the year ended 31st December 2012. The interim dividend will be in lieu of a final dividend. This represents a total distribution for the year of HK$315 million. The interim dividend will be paid on 2nd May 2013 to shareholders registered at the close of business on the record date, being Friday, 5th April 2013. Shares of the Company will be traded ex-dividend as from Tuesday, 2nd April 2013.

Closure of register of members

The register of members will be closed on Friday, 5th April 2013, 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 Wednesday, 3rd April 2013.

To facilitate the processing of proxy voting for the annual general meeting to be held on 8th May 2013, the register of members will be closed from 3rd May 2013 to 8th May 2013, 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, 2nd May 2013.

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 56 and in notes 24 to the accounts, respectively.

Accounting policies

The principal accounting policies are set out on pages 94 to 97.

Donations

During the year, the Company and its subsidiaries made charitable donations amounting to HK$14 million in direct payments and a further HK$7 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 2012, 3,933,844,572 shares were in issue (31st December 2011: 3,933,844,572 shares). Details of the movement of share capital can be found in note 23 to the accounts.

Commitments and contingencies

The details of capital commitments and contingent liabilities of the Group and the Company as at 31st December 2012 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, 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 2012 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 2012. HAECO is a subsidiary of Swire Pacific; all contracts have been concluded on normal commercial terms in the ordinary course of the business of both parties.

Major transactions

Cathay Pacific Aircraft Services Limited ("CPAS"), a wholly owned subsidiary of the Company, entered into an agreement with Airbus S.A.S. on 8th August 2012 for the conversion of an existing order for 16 Airbus A350-900 aircraft into 16 Airbus A350-1000 aircraft and the acquisition of 10 additional Airbus A350-1000 aircraft. These transactions constituted major transactions under the Listing Rules in respect of which an announcement dated 8th August 2012 was published and a circular dated 17th August 2012 was sent to shareholders.

Discloseable transactions

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

CPAS entered into an agreement with The Boeing Company on 1st March 2013 for the acquisition of three Boeing 747-8F freighters. This transaction constituted a discloseable transaction under the Listing Rules in respect of which an announcement dated 1st March 2013 was published. Reference is made to the Company's announcement dated 10th August 2011 in respect of, among other things, CPAS entering into a purchase agreement with The Boeing Company for the purchase of eight Boeing 777-200F freighters which are scheduled to be delivered from 2014 to 2016. On 1st March 2013, the Group entered into agreements with The Boeing Company under which (i) the order for those eight Boeing 777-200F freighters was cancelled; (ii) pre-delivery payments already made in respect of those eight Boeing 777-200F freighters will be credited to the consideration for the purchase of the three Boeing 747-8F freighters; (iii) the Group acquired options to purchase five Boeing 777-200F freighters; and (iv) The Boeing Company agreed to purchase four Boeing 747-400BCF converted freighters from the Group. These related transactions are *de minimis* transactions for the Company under Chapter 14 of the Listing Rules.

Continuing connected transactions

During the year ended 31st December 2012, the Group had the following continuing connected transactions, details of which are set out below:

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

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

    The current term of the JSSHK Services Agreement is from 1st January 2011 to 31st December 2013 and it is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

    Swire is the holding company of Swire Pacific which owns approximately 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 and 1st October 2010 were published.

For the year ended 31st December 2012, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$42 million and expenses of HK$159 million were reimbursed at cost.

(b) Pursuant to a framework agreement dated 21st May 2007 ("HAECO Framework Agreement") with HAECO, HAECO and its subsidiaries ("HAECO group") provide services to the Group's aircraft fleets. The services include line maintenance, base maintenance, comprehensive stores and logistics support, component and avionics overhaul, material supply, engineering services and ancillary services at Hong Kong International Airport, Xiamen or other airports. Payment is made in cash by the Group to HAECO group within 30 days upon receipt of the invoice. The term of the HAECO Framework Agreement is for 10 years ending on 31st December 2016.

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

The fees payable by the Group to HAECO group under the HAECO Framework Agreement totalled HK$2,447 million for the year ended 31st December 2012.

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

The current term of the Air China Framework Agreement is for three years ending on 31st December 2013 and is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

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

For the year ended 31st December 2012 and under the Air China Framework Agreement, the amounts payable by the Group to Air China Group totalled HK$318 million; and the amounts payable by Air China Group to the Group totalled HK$243 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 and 8th August 2012 were published.

The fees payable by the Group to HAESL under the HAESL Framework Agreement totalled HK$311 million for year ended 31st December 2012.

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

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

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

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

The Auditors of the Company have also reviewed these transactions and confirmed to the Board that:

(a) they have been approved by the Board of the Company;

(b) they are in accordance with the pricing policies of the Group (if the transactions involve provision of goods or services by the Group);

(c) they have been entered into in accordance with the relevant agreements governing the transactions; and

(d) they have not exceeded the relevant annual caps disclosed in previous announcements.

Connected transactions

Hong Kong Airport Services Limited ("HAS"), a wholly owned subsidiary of the Company, entered into a joint venture agreement (the "SIAS Joint Venture Agreement") on 30th March 2012 with Air China, Shanghai Airport Authority and Shanghai International Airport Co., Ltd. for the establishment of Shanghai International Airport Services Co., Ltd. ("SIAS") in Shanghai for provision of airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport. Under the SIAS Joint Venture Agreement, HAS paid capital contribution of RMB90 million to the registered capital of SIAS in cash in respect of its 25% shareholding in SIAS. As Air China is a substantial shareholder of the Company and HAS is a wholly owned subsidiary of the Company, the SIAS Joint Venture Agreement constituted a connected transaction for the Company under the Listing Rules, in respect of which an announcement dated 30th March 2012 was published.

The Company entered into a joint venture agreement (the "ITM Joint Venture Agreement") on 24th September 2012 with HAECO and HAECO ITM Limited (the "ITM Joint Venture Company") for the establishment of a joint venture to engage in the provision of inventory technical management services. Under the ITM Joint Venture Agreement, the Company advanced an interest-free shareholder's loan of HK$90 million to the ITM Joint Venture Company in respect of its 30% shareholding in the ITM Joint Venture Company. As HAECO and the ITM Joint Venture Company are subsidiaries of Swire Pacific, one of the Company's substantial shareholders, the ITM Joint Venture Agreement constituted a connected transaction for the Company under the Listing Rules, in respect of which an announcement dated 24th September 2012 was published.

Major customers and suppliers

6% of sales and 38% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 1% of sales were made to the Group's largest customer while 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

All the present Directors of the Company whose names are listed on pages 32 and 33 served throughout the year. Wang Changshun was appointed as a Director with effect from 14th March 2012. Kong Dong served as a Director until his resignation with effect from 14th March 2012.

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, Cai Jianjiang, Fan Cheng, Peter Kilgour, Irene Lee and Peter Wong retire this year and, being eligible, offer themselves for re-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 2012, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interest in the shares of Cathay Pacific Airways Limited:

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

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

Directors' interests in competing business

Pursuant to Rule 8.10 of the Listing Rules, Christopher Pratt, Cai Jianjiang, Fan Cheng, Kong Dong, 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 2012 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 2012:

(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 44.99% of the issued capital and approximately 59.43% 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, 13th March 2013

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 strategies are fulfilled. 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 its 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 both the potential Director and 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 broad range of stakeholder interests.

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
- 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, is responsible for:

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

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

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

Board Composition

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

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

W.E. James Barrington, 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 the 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 for three year terms 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.

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 2012 Board meetings were determined in 2011 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 six times in 2012. 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 87%. 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:

- a 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	2012 Annual General Meeting	Type of Training (Notes)
Executive Directors					
Christopher Pratt – Chairman	6/6			√	a, b
W.E. James Barrington	6/6			√	a, b
Ivan Chu	6/6			√	a, b
Martin Murray	6/6			√	a, b
John Slosar	6/6			√	a, b
Non-Executive Directors					
Cai Jianjiang	4/6			X	b
Fan Cheng	4/6	1/3		X	b
James W.J. Hughes-Hallett	4/6		2/2	√	b
Peter Kilgour	6/6			√	a, b
Kong Dong	1/1			N/A	b
Ian Shiu	6/6			√	a, b
Merlin Swire	6/6			√	a, b
Wang Changshun	1/5			X	b
Zhao Xiaohang	5/6			X	b
Independent Non-Executive Directors					
Irene Lee	6/6	3/3	2/2	√	a, b
Jack So	6/6	3/3		√	a, b
Tung Chee Chen	6/6		1/2	√	a, b
Peter Wong	4/6	2/3		√	b
Average attendance	87%	75%	83%	76%	

Notes:
a: Receiving training from the Company's external legal adviser about corporate governance requirements and statutory disclosure obligations.
b: Keeping 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 and forecast
- 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 2012 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 meets three times a year and comprises its Chairman (Dr. David King), two Executive Directors (the Chief Executive and Ivan Chu), one Independent Non-Executive Director (Jack So), three Executive Officers (Philippe de Gentile-Williams, Christopher Gibbs and Captain Richard Hall), the General Manager Flying (Captain Henry Craig) and the General Manager Corporate Safety (Richard Howell).

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 five Non-Executive Directors (Cai Jianjiang, Fan Cheng, Peter Kilgour, Wang Changshun 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 (William Chau, Chitty Cheung, Philippe de Gentile-Williams, Christopher Gibbs, Captain Richard Hall, Rupert Hogg, Joseph Locandro and Nick Rhodes).

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 General Manager Corporate Finance (Raymond Fung), the Manager Corporate Treasury (Andrew West) and an independent representative from the financial community. Reports on its decisions and recommendations are presented at Board meetings.

Remuneration Committee

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 2012.

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 the Swire group 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 the Swire group 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 2012. 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:

	2012 HK$	2013 HK$
Director's Fee	575,000	575,000
Fee for Audit Committee Chairman	240,000	240,000
Fee for Audit Committee Member	180,000	180,000
Fee for Remuneration Committee Chairman	75,000	75,000
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 page 46.

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 page 47.

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 2012.

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 2012. Regular attendees at the meetings were 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 2012 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2011 annual and 2012 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 and its compliance with the CG Code
- the Group's risk management processes
- the approval of the 2013 annual Internal Audit programme and review of progress on the 2012 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 pages 47 and 48
- the Company's compliance with the CG Code, in particular with the amendments which came into effect on 1st April 2012.

In 2013, the Committee has reviewed, and recommended to the Board for approval, the 2012 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 2012 the total remuneration paid to the external auditors was HK$26 million, being HK$13 million for audit, HK$12 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 9th May 2012. 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 2011
- 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.

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 2013 are set out on page 104 of this report.

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

Independent Auditor's Report

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

We have audited the consolidated financial statements of Cathay Pacific Airways Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 52 to 97, which comprise the consolidated and company statements of financial position as at 31st December 2012, the consolidated statement of 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

As stated in note 13 to the financial statements, the Group has applied the equity method of accounting for its investments in Air China Limited ("Air China") and Air China Cargo Co., Ltd. ("Air China Cargo"), to include in the Group's consolidated financial statements for the year ended 31st December 2012 the Group's share of the results and net assets of Air China for the year ended 30th September 2012 and as at that date (adjusted by the Company's management for any significant events or transactions for the period from 1st October 2012 to 31st December 2012) and of Air China Cargo for the year ended 31st December 2012 and as at that date.

In accordance with Hong Kong Standard on Auditing 600 ("HKSA 600"), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, these two associates are considered to be significant components of the Group, which should therefore be subject to audit as part of our audit of the Group's financial statements. However, Air China's published quarterly results for the three months to 30th September 2012 were unaudited and it was not practicable for an audit to be performed on the management accounts of Air China for the year ended 30th September 2012. Also, the audited results of Air China and Air China Cargo for the year ended 31st December 2012 have not been made available to us as at the date of this report. As there were no other satisfactory audit procedures that we could adopt, we were unable to fulfil the requirements of HKSA 600.

Consequently, we were unable to apply the requirements of all of the applicable auditing standards and we were unable to determine whether any adjustments were necessary to the carrying amount of the Group's investments in Air China and Air China Cargo and the Group's share of the results of these associates as included in the Group's consolidated financial statements as at and for the year ended 31st December 2012.

Our independent auditor's report on the Group's consolidated financial statements for the year ended 31st December 2011 was also qualified due to our inability to obtain sufficient appropriate audit evidence as to whether the carrying amount of the Group's investment in Air China and the Group's share of Air China's results for the year as included in the Group's consolidated financial statements as at and for the year ended 31st December 2011 were fairly stated. Air China Cargo was not considered to be a component that was significant to the Group for the year ended 31st December 2011.

Any adjustments that might have been found to be necessary in respect of the carrying amount of the investments in Air China and Air China Cargo as at 31st December 2011 and 2012 would have a consequential effect on the Group's net assets as at 31st December 2011 and 2012, and the Group's profit for the years then ended and related disclosures in these financial statements.

Qualified opinion

In our opinion, except for the possible effects 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 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

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

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
13th March 2013

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2012

	Note	2012 HK$M	2011 HK$M	2012 US$M	2011 US$M
Turnover					
Passenger services		**70,133**	67,778	**8,992**	8,689
Cargo services		**24,555**	25,980	**3,148**	3,331
Catering, recoveries and other services		**4,688**	4,648	**601**	596
Total turnover	1	**99,376**	98,406	**12,741**	12,616
Expenses					
Staff		**(16,073)**	(14,772)	**(2,061)**	(1,894)
Inflight service and passenger expenses		**(4,017)**	(3,794)	**(515)**	(486)
Landing, parking and route expenses		**(13,603)**	(13,105)	**(1,744)**	(1,680)
Fuel, net of hedging gains		**(40,470)**	(38,877)	**(5,188)**	(4,984)
Aircraft maintenance		**(8,197)**	(8,468)	**(1,051)**	(1,086)
Aircraft depreciation and operating leases		**(8,879)**	(8,197)	**(1,138)**	(1,051)
Other depreciation, amortisation and operating leases		**(1,432)**	(1,205)	**(184)**	(155)
Commissions		**(777)**	(791)	**(100)**	(101)
Others		**(4,140)**	(3,697)	**(531)**	(474)
Operating expenses		**(97,588)**	(92,906)	**(12,512)**	(11,911)
Operating profit	3	**1,788**	5,500	**229**	705
Finance charges		**(1,629)**	(1,726)	**(209)**	(221)
Finance income		**745**	982	**96**	126
Net finance charges	4	**(884)**	(744)	**(113)**	(95)
Share of profits of associates	13	**641**	1,717	**82**	220
Profit before taxation		**1,545**	6,473	**198**	830
Taxation	5	**(417)**	(803)	**(53)**	(103)
Profit for the year		**1,128**	5,670	**145**	727
Non-controlling interests		**(212)**	(169)	**(27)**	(22)
Profit attributable to the owners of Cathay Pacific	6	**916**	5,501	**118**	705
Profit for the year		**1,128**	5,670	**145**	727
Other comprehensive income					
Cash flow hedges		**1,587**	(546)	**203**	(70)
Revaluation surplus/(deficit) arising from available-for-sale financial assets		**46**	(217)	**5**	(28)
Share of other comprehensive income of associates		**83**	(158)	**11**	(20)
Exchange differences on translation of foreign operations		**83**	732	**11**	94
Other comprehensive income for the year, net of taxation	7	**1,799**	(189)	**230**	(24)
Total comprehensive income for the year		**2,927**	5,481	**375**	703
Total comprehensive income attributable to					
Owners of Cathay Pacific		**2,715**	5,312	**348**	681
Non-controlling interests		**212**	169	**27**	22
		2,927	5,481	**375**	703
Earnings per share (basic and diluted)	8	**23.3¢**	139.8¢	**3.0¢**	17.9¢

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 57 to 93 and the principal accounting policies on pages 94 to 97 form part of these accounts.

Consolidated Statement of Financial Position

at 31st December 2012

	Note	2012 HK$M	2011 HK$M	2012 US$M	2011 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	*10*	**84,278**	73,498	**10,805**	9,423
Intangible assets	*11*	**9,425**	8,601	**1,208**	1,103
Investments in associates	*13*	**18,481**	17,894	**2,369**	2,294
Other long-term receivables and investments	*14*	**6,617**	5,783	**849**	741
		118,801	105,776	**15,231**	13,561
Long-term liabilities		**(52,753)**	(38,410)	**(6,763)**	(4,924)
Related pledged security deposits		**1,364**	3,637	**175**	466
Net long-term liabilities	*15*	**(51,389)**	(34,773)	**(6,588)**	(4,458)
Other long-term payables	*16*	**(2,222)**	(2,612)	**(285)**	(335)
Deferred taxation	*18*	**(8,198)**	(6,797)	**(1,051)**	(871)
		(61,809)	(44,182)	**(7,924)**	(5,664)
Net non-current assets		**56,992**	61,594	**7,307**	7,897
Current assets and liabilities					
Stock		**1,194**	1,155	**153**	148
Trade, other receivables and other assets	*19*	**9,922**	9,859	**1,272**	1,264
Assets held for sale	*20*	**911**	746	**117**	95
Liquid funds	*21*	**24,182**	19,597	**3,100**	2,512
		36,209	31,357	**4,642**	4,019
Current portion of long-term liabilities		**(10,758)**	(10,603)	**(1,379)**	(1,359)
Related pledged security deposits		**2,601**	2,041	**333**	261
Net current portion of long-term liabilities	*15*	**(8,157)**	(8,562)	**(1,046)**	(1,098)
Trade and other payables	*22*	**(17,470)**	(17,464)	**(2,240)**	(2,239)
Unearned transportation revenue		**(9,581)**	(9,613)	**(1,228)**	(1,232)
Taxation		**(687)**	(1,368)	**(88)**	(175)
		(35,895)	(37,007)	**(4,602)**	(4,744)
Net current assets/(liabilities)		**314**	(5,650)	**40**	(725)
Total assets less current liabilities		**119,115**	100,126	**15,271**	12,836
Net assets		**57,306**	55,944	**7,347**	7,172
CAPITAL AND RESERVES					
Share capital	*23*	**787**	787	**101**	101
Reserves	*24*	**56,399**	55,022	**7,231**	7,054
Funds attributable to the owners of Cathay Pacific		**57,186**	55,809	**7,332**	7,155
Non-controlling interests		**120**	135	**15**	17
Total equity		**57,306**	55,944	**7,347**	7,172

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 57 to 93 and the principal accounting policies on pages 94 to 97 form part of these accounts.

Christopher Pratt
Director
Hong Kong, 13th March 2013

Jack So
Director

Company Statement of Financial Position

at 31st December 2012

	Note	2012 HK$M	2011 HK$M	2012 US$M	2011 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	*10*	**64,235**	54,722	**8,235**	7,016
Intangible assets	*11*	**1,733**	910	**222**	117
Investments in subsidiaries	*12*	**35,955**	29,997	**4,610**	3,845
Investments in associates	*13*	**9,921**	9,812	**1,272**	1,258
Other long-term receivables and investments	*14*	**4,908**	4,044	**629**	518
		116,752	99,485	**14,968**	12,754
Long-term liabilities		**(51,993)**	(34,715)	**(6,666)**	(4,450)
Related pledged security deposits		**832**	836	**107**	107
Net long-term liabilities	*15*	**(51,161)**	(33,879)	**(6,559)**	(4,343)
Other long-term payables	*16*	**(1,893)**	(2,033)	**(243)**	(261)
Deferred taxation	*18*	**(6,956)**	(5,415)	**(892)**	(694)
		(60,010)	(41,327)	**(7,694)**	(5,298)
Net non-current assets		**56,742**	58,158	**7,274**	7,456
Current assets and liabilities					
Stock		**1,037**	1,014	**133**	130
Trade, other receivables and other assets	*19*	**8,081**	7,874	**1,036**	1,010
Assets held for sale	*20*	**430**	746	**55**	95
Liquid funds	*21*	**11,131**	8,848	**1,427**	1,134
		20,679	18,482	**2,651**	2,369
Current portion of long-term liabilities		**(8,019)**	(8,806)	**(1,028)**	(1,129)
Related pledged security deposits		**42**	34	**5**	4
Net current portion of long-term liabilities	*15*	**(7,977)**	(8,772)	**(1,023)**	(1,125)
Trade and other payables	*22*	**(14,246)**	(14,567)	**(1,826)**	(1,867)
Unearned transportation revenue		**(9,089)**	(9,089)	**(1,165)**	(1,165)
Taxation		**(296)**	(860)	**(38)**	(110)
		(31,608)	(33,288)	**(4,052)**	(4,267)
Net current liabilities		**(10,929)**	(14,806)	**(1,401)**	(1,898)
Total assets less current liabilities		**105,823**	84,679	**13,567**	10,856
Net assets		**45,813**	43,352	**5,873**	5,558
CAPITAL AND RESERVES					
Share capital	*23*	**787**	787	**101**	101
Reserves	*24*	**45,026**	42,565	**5,772**	5,457
Total equity		**45,813**	43,352	**5,873**	5,558

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The notes on pages 57 to 93 and the principal accounting policies on pages 94 to 97 form part of these accounts.

Christopher Pratt
Director

Jack So
Director

Hong Kong, 13th March 2013

Consolidated Statement of Cash Flows

for the year ended 31st December 2012

	Note	2012 HK$M	2011 HK$M	2012 US$M	2011 US$M
Operating activities					
Cash generated from operations	*25*	**9,239**	15,393	**1,185**	1,973
Interest received		**221**	119	**28**	15
Net interest paid		**(664)**	(488)	**(85)**	(62)
Tax paid		**(1,356)**	(1,461)	**(174)**	(187)
Net cash inflow from operating activities		**7,440**	13,563	**954**	1,739
Investing activities					
Net (increase)/decrease in liquid funds other than cash and cash equivalents		**(1,267)**	6,185	**(162)**	793
Sales of fixed assets		**1,702**	2,288	**218**	293
Sales of assets held for sale		**43**	361	**6**	46
Net increase in other long-term receivables and investments		**–**	(1,604)	**–**	(206)
Payments for fixed and intangible assets		**(20,975)**	(17,610)	**(2,689)**	(2,257)
Dividends received from associates		**439**	417	**56**	53
Purchases of shares in associates		**(138)**	(3,098)	**(18)**	(397)
Loan to associates		**(90)**	–	**(12)**	–
Net cash outflow from investing activities		**(20,286)**	(13,061)	**(2,601)**	(1,675)
Financing activities					
New financing		**25,218**	12,187	**3,233**	1,562
Net cash benefit from financing arrangements		**1,461**	1,467	**187**	188
Loan and finance lease repayments		**(9,025)**	(8,874)	**(1,157)**	(1,138)
Security deposits placed		**(37)**	(56)	**(5)**	(7)
Dividends paid – to the owners of Cathay Pacific		**(1,338)**	(3,777)	**(171)**	(484)
– to non-controlling interests		**(227)**	(189)	**(29)**	(24)
Net cash inflow from financing activities		**16,052**	758	**2,058**	97
Increase in cash and cash equivalents		**3,206**	1,260	**411**	161
Cash and cash equivalents at 1st January		**9,612**	8,272	**1,232**	1,061
Effect of exchange differences		**(20)**	80	**(2)**	10
Cash and cash equivalents at 31st December	*26*	**12,798**	9,612	**1,641**	1,232

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Consolidated Statement of Changes in Equity

for the year ended 31st December 2012

	Attributable to the owners of Cathay Pacific							Non-controlling interests	Total equity
			Non-distributable						
	Share capital HK$M	Retained profit HK$M	Share premium HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Capital redemption reserve and others HK$M	Total HK$M	HK$M	HK$M
At 1st January 2012	**787**	**38,785**	**16,295**	**885**	**(2,417)**	**1,474**	**55,809**	**135**	**55,944**
Profit for the year	**–**	**916**	**–**	**–**	**–**	**–**	**916**	**212**	**1,128**
Other comprehensive income	**–**	**–**	**–**	**46**	**1,587**	**166**	**1,799**	**–**	**1,799**
Total comprehensive income for the year	**–**	**916**	**–**	**46**	**1,587**	**166**	**2,715**	**212**	**2,927**
2011 second interim dividend	**–**	**(1,338)**	**–**	**–**	**–**	**–**	**(1,338)**	**–**	**(1,338)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(227)**	**(227)**
	–	**(422)**	**–**	**46**	**1,587**	**166**	**1,377**	**(15)**	**1,362**
At 31st December 2012	**787**	**38,363**	**16,295**	**931**	**(830)**	**1,640**	**57,186**	**120**	**57,306**
At 1st January 2011	787	37,061	16,295	1,102	(1,871)	900	54,274	155	54,429
Profit for the year	–	5,501	–	–	–	–	5,501	169	5,670
Other comprehensive income	–	–	–	(217)	(546)	574	(189)	–	(189)
Total comprehensive income for the year	–	5,501	–	(217)	(546)	574	5,312	169	5,481
2010 final dividend	–	(3,069)	–	–	–	–	(3,069)	–	(3,069)
2011 first interim dividend	–	(708)	–	–	–	–	(708)	–	(708)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(189)	(189)
	–	1,724	–	(217)	(546)	574	1,535	(20)	1,515
At 31st December 2011	787	38,785	16,295	885	(2,417)	1,474	55,809	135	55,944

The notes on pages 57 to 93 and the principal accounting policies on pages 94 to 97 form part of these accounts.

1. Turnover

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

2. Segment information

(a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M	**2012 HK$M**	2011 HK$M	**2012 HK$M**	2011 HK$M
Profit or loss								
Sales to external customers	**98,198**	97,359	**1,178**	1,047			**99,376**	98,406
Inter-segment sales	**8**	8	**1,685**	1,569			**1,693**	1,577
Segment revenue	**98,206**	97,367	**2,863**	2,616			**101,069**	99,983
Segment results	**1,643**	5,325	**145**	175			**1,788**	5,500
Net finance charges	**(876)**	(737)	**(8)**	(7)			**(884)**	(744)
	767	4,588	**137**	168			**904**	4,756
Share of profits of associates					**641**	1,717	**641**	1,717
Profit before taxation							**1,545**	6,473
Taxation	**(376)**	(778)	**(41)**	(25)			**(417)**	(803)
Profit for the year							**1,128**	5,670
Other segment information								
Depreciation and amortisation	**6,571**	6,018	**168**	150			**6,739**	6,168
Purchase of fixed and intangible assets	**19,656**	15,110	**1,319**	2,500			**20,975**	17,610

The Group's two reportable segments are classified according to the nature of the business. The airline business segment comprises the Group's passenger and cargo operations. The non-airline business segment includes mainly catering, ground handling and aircraft ramp handling services. The unallocated results represent the Group's share of profits of associates.

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

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

2. Segment information *(continued)*

(b) Geographical information

	2012 HK$M	2011 HK$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**44,970**	42,915
– Japan, Korea and Taiwan	**12,775**	13,598
India, Middle East, Pakistan and Sri Lanka	**4,521**	4,708
Southeast Asia	**7,968**	7,259
Southwest Pacific and South Africa	**6,875**	7,136
Europe	**8,760**	9,518
North America	**13,507**	13,272
	99,376	98,406

India, Middle East, Pakistan and Sri Lanka includes the Indian sub-continent, 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

	2012 HK$M	2011 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– leased	**2,317**	1,971
– owned	**4,300**	4,156
Amortisation of intangible assets	**122**	41
Operating lease rentals		
– land and buildings	**823**	734
– aircraft and related equipment	**2,715**	2,465
– others	**34**	35
Provision for impairment of fixed assets	**52**	250
Provision for impairment of assets held for sale	**140**	–
Loss on scrapping an aircraft	**247**	–
Loss on disposal of fixed assets, net	**101**	159
(Gain)/loss on disposal of assets held for sale	**(34)**	17
Cost of stock expensed	**2,074**	2,162
Exchange differences, net	**(173)**	(416)
Auditors' remuneration	**13**	11
Net losses/(gains) on financial assets and liabilities classified as held for trading	**19**	(120)
Dividend income from unlisted investments	**(58)**	(36)
Dividend income from listed investments	**(4)**	(4)

4. Net finance charges

	2012 HK$M	2011 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**752**	676
– interest income on related security deposits, notes and bonds	**(247)**	(318)
	505	358
– bank loans and overdrafts		
– wholly repayable within five years	**186**	132
– not wholly repayable within five years	**74**	51
– other loans		
– wholly repayable within five years	**55**	41
– not wholly repayable within five years	**40**	9
– other long-term receivables	**(28)**	(13)
	832	578
Income from liquid funds:		
– funds with investment managers and other liquid investments	**(164)**	(255)
– bank deposits and other receivables	**(98)**	(68)
	(262)	(323)
Fair value change:		
– obligations under finance leases designated as at fair value through profit and loss	**224**	340
– financial derivatives	**90**	149
	314	489
	884	744

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$115 million (2011: net gains of HK$58 million).

5. Taxation

	2012 HK$M	2011 HK$M
Current tax expenses		
– Hong Kong profits tax	**145**	116
– overseas tax	**218**	272
– over provisions for prior years	**(149)**	(53)
Deferred tax		
– origination and reversal of temporary differences (note 18)	**203**	468
	417	803

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations (see note 30(d) to the accounts).

5. Taxation *(continued)*

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

	2012 HK$M	2011 HK$M
Consolidated profit before taxation	**1,545**	6,473
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2011: 16.5%)	**(255)**	(1,068)
Expenses not deductible for tax purposes	**(327)**	(146)
Tax over provisions arising from prior years	**149**	53
Effect of different tax rates in overseas jurisdictions	**41**	223
Tax losses not recognised	**(109)**	(55)
Income not subject to tax	**84**	190
Tax charge	**(417)**	(803)

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$2,190 million (2011: HK$4,687 million) has been dealt with in the accounts of the Company.

7. Other comprehensive income

	2012 HK$M	2011 HK$M
Cash flow hedges		
– recognised during the year	**1,818**	485
– transferred to profit and loss	**(222)**	(1,081)
– transferred to intangible assets (note 11)	**148**	–
– deferred tax recognised	**(157)**	50
Revaluation of available-for-sale financial assets		
– recognised during the year	**46**	(217)
Share of other comprehensive income of associates		
– recognised during the year	**83**	(158)
Exchange differences on translation of foreign operations		
– recognised during the year	**83**	732
Other comprehensive income for the year	**1,799**	(189)

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$916 million (2011: HK$5,501 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2011: 3,934 million) shares.

9. Dividends

	2012 HK$M	2011 HK$M
No interim dividend paid for the period ended 30th June 2012 (2011: first interim dividend of HK$0.18 per share)	**–**	708
Interim dividend proposed on 13th March 2013 of HK$0.08 per share (2011: second interim dividend of HK$0.34 per share)	**315**	1,338
	315	2,046

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 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**
At 1st January 2011	67,398	42,853	2,942	478	5,257	1,920	120,848
Exchange differences	6	–	–	–	–	–	6
Additions	10,039	3,980	325	–	266	2,362	16,972
Disposals	(5,909)	–	(51)	–	(13)	–	(5,973)
Reclassification to assets held for sale	(1,172)	–	–	–	(13)	–	(1,185)
Transfers	666	(666)	–	–	–	–	–
At 31st December 2011	71,028	46,167	3,216	478	5,497	4,282	130,668
Accumulated depreciation and impairment							
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**
At 1st January 2011	35,912	13,969	2,062	350	2,443	–	54,736
Charge for the year	3,778	1,954	191	17	187	–	6,127
Impairment	250	–	–	–	–	–	250
Disposals	(3,451)	–	(50)	–	(13)	–	(3,514)
Reclassification to assets held for sale	(416)	–	–	–	(13)	–	(429)
Transfers	898	(898)	–	–	–	–	–
At 31st December 2011	36,971	15,025	2,203	367	2,604	–	57,170
Net book value							
At 31st December 2012	**32,865**	**41,681**	**1,279**	**95**	**2,926**	**5,432**	**84,278**
At 31st December 2011	34,057	31,142	1,013	111	2,893	4,282	73,498

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 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**
At 1st January 2011	51,069	41,573	1,118	478	564	94,802
Additions	4,804	9,069	195	–	259	14,327
Disposals	(5,378)	–	(26)	–	–	(5,404)
Reclassification to assets held for sale	(608)	(564)	–	–	–	(1,172)
Transfers	1,948	(1,948)	–	–	–	–
At 31st December 2011	51,835	48,130	1,287	478	823	102,553
Accumulated depreciation and impairment						
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**
At 1st January 2011	31,436	13,399	782	349	377	46,343
Charge for the year	3,095	2,038	93	17	22	5,265
Impairment	100	–	–	–	–	100
Disposals	(3,435)	–	(26)	–	–	(3,461)
Reclassification to assets held for sale	(252)	(164)	–	–	–	(416)
Transfers	898	(898)	–	–	–	–
At 31st December 2011	31,842	14,375	849	366	399	47,831
Net book value						
At 31st December 2012	**18,026**	**44,854**	**650**	**95**	**610**	**64,235**
At 31st December 2011	19,993	33,755	438	112	424	54,722

(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 2012, nineteen Airbus A330-300s (2011: nineteen), nil Airbus A340-300 (2011: two), one Boeing 747-400 (2011: five), one Boeing 747-400BCF (2011: one), fourteen Boeing 777-300ERs (2011: eleven), ten Airbus A320-200s (2011: six) and four Airbus A321-200s (2011: 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$15,045 million (2011: HK$13,925 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 2012 for each of the following periods are as follows:

	2012 HK$M	2011 HK$M
Aircraft and related equipment:		
– within one year	**2,909**	2,640
– after one year but within two years	**2,569**	2,228
– after two years but within five years	**6,395**	6,042
– after five years	**7,271**	7,351
	19,144	18,261
Buildings and other equipment:		
– within one year	**681**	611
– after one year but within two years	**432**	488
– after two years but within five years	**439**	365
– after five years	**135**	217
	1,687	1,681
	20,831	19,942

(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$5,245 million (2011: HK$4,301 million) for the Group and HK$236 million (2011: HK$271 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$52 million was recognised for the year ended 31st December 2012 (2011: HK$250 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 to sell. The recoverable amount was determined based on the fair value less costs to sell by reference to the estimated sales value as at 31st December 2012.

11. Intangible assets

	Group				Company		
	Goodwill HK$M	Computer systems HK$M	Others HK$M	Total HK$M	Computer systems HK$M	Others HK$M	Total HK$M
Cost							
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**
At 1st January 2011	7,666	981	–	8,647	952	–	952
Additions	–	638	–	638	610	–	610
At 31st December 2011	7,666	1,619	–	9,285	1,562	–	1,562
Accumulated amortisation							
At 1st January 2012	**–**	**684**	**–**	**684**	**652**	**–**	**652**
Charge for the year	**–**	**122**	**–**	**122**	**115**	**–**	**115**
At 31st December 2012	**–**	**806**	**–**	**806**	**767**	**–**	**767**
At 1st January 2011	–	643	–	643	616	–	616
Charge for the year	–	41	–	41	36	–	36
At 31st December 2011	–	684	–	684	652	–	652
Net book value							
At 31st December 2012	**7,666**	**1,611**	**148**	**9,425**	**1,585**	**148**	**1,733**
At 31st December 2011	7,666	935	–	8,601	910	–	910

The carrying amount of goodwill allocated to the airline operation is HK$7,627 million (2011: 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% (2011: 1.0%) 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% (2011: 8.5%) 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. Subsidiaries

	Company	
	2012 HK$M	2011 HK$M
Unlisted shares at cost	**9,748**	1,259
Other investments at cost	**14,186**	11,556
Net amounts due from subsidiaries		
– loan accounts	**7,718**	6,619
– current accounts	**4,303**	10,563
	35,955	29,997

Net amounts due from subsidiaries are non-interest bearing and have no fixed repayment terms.

The Company acquired direct interests in one wholly-owned subsidiary in 2012 which used to be held indirectly through an intermediary holding subsidiary.

Principal subsidiaries are listed on page 92.

13. Associates

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Hong Kong listed shares at cost (Market value: HK$16,526 million, 2011: HK$14,457 million)	**–**	–	**9,830**	9,804
Unlisted shares at cost	**–**	–	**1**	17
Share of net assets				
– listed in Hong Kong	**12,742**	11,642	**–**	–
– unlisted	**1,555**	2,110	**–**	–
Goodwill	**4,087**	4,135	**–**	–
	18,384	17,887	**9,831**	9,821
Less: Impairment loss	**–**	–	**(3)**	(12)
	18,384	17,887	**9,828**	9,809
Loans due from associates				
– Interest-free	**97**	7	**93**	3
	18,481	17,894	**9,921**	9,812

	2012 HK$M	2011 HK$M
Summarised financial information of associates (100 percent):		
Assets	**239,211**	224,749
Liabilities	**(170,403)**	(159,950)
Equity	**68,808**	64,799
Turnover	**106,376**	100,451
Net profit for the year	**4,280**	8,942

The Group's 2012 results include Air China's results for the 12 months ended 30th September 2012 and any significant events or transactions for the period from 1st October 2012 to 31st December 2012. Air China's most recently available accounts were drawn up to 30th September 2012 (2011: 30th September 2011). The Group has taken advantage of the provision contained in HKAS 28 "Investments in Associates" whereby it is permitted to include the attributable share of associates' results based on accounts drawn up to a non-coterminous period end where the difference must be no greater than three months. The Group's share of the results and net assets of Air China and of Air China Cargo included in the Group's consolidated financial statements for the year ended 31st December 2012 amounted to HK$552 million and HK$13,834 million respectively.

Principal associates are listed on page 93.

14. Other long-term receivables and investments

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Equity investments at fair value				
– listed in Hong Kong	**140**	136	**–**	–
– unlisted	**1,151**	1,062	**1,046**	963
Leasehold land rental prepayments	**1,429**	1,472	**–**	–
Loans and other receivables	**1,312**	1,635	**1,307**	1,629
Derivative financial assets – long-term portion	**2,222**	1,186	**2,222**	1,186
Retirement benefit assets (note 17)	**363**	292	**333**	266
	6,617	5,783	**4,908**	4,044

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK$1,472 million (2011: HK$1,514 million).

15. Long-term liabilities

	Note	2012 Current HK$M	2012 Non-current HK$M	2011 Current HK$M	2011 Non-current HK$M
Group					
Long-term loans	*(a)*	**4,428**	**20,209**	5,832	12,858
Obligations under finance leases	*(b)*	**3,729**	**31,180**	2,730	21,915
		8,157	**51,389**	8,562	34,773
Company					
Long-term loans	*(a)*	**3,173**	**15,167**	4,415	7,040
Obligations under finance leases	*(b)*	**4,804**	**35,994**	4,357	26,839
		7,977	**51,161**	8,772	33,879

(a) Long-term loans

	Group 2012 HK$M	Group 2011 HK$M	Company 2012 HK$M	Company 2011 HK$M
Bank loans				
– secured	**8,372**	10,230	**2,075**	2,995
– unsecured	**12,729**	7,802	**12,729**	7,802
Other loans				
– unsecured	**3,536**	658	**3,536**	658
	24,637	18,690	**18,340**	11,455
Amount due within one year included under current liabilities	**(4,428)**	(5,832)	**(3,173)**	(4,415)
	20,209	12,858	**15,167**	7,040
Repayable as follows:				
Bank loans				
– within one year	**4,361**	5,832	**3,106**	4,415
– after one year but within two years	**4,986**	2,450	**4,098**	1,454
– after two years but within five years	**9,380**	6,959	**7,530**	4,769
– after five years	**2,374**	2,791	**70**	159
	21,101	18,032	**14,804**	10,797
Other loans				
– within one year	**67**	–	**67**	–
– after one year but within two years	**68**	–	**68**	–
– after two years but within five years	**2,029**	–	**2,029**	–
– after five years	**1,372**	658	**1,372**	658
	3,536	658	**3,536**	658
Amount due within one year included under current liabilities	**(4,428)**	(5,832)	**(3,173)**	(4,415)
	20,209	12,858	**15,167**	7,040

Borrowings other than bank loans are repayable on various dates up to 2022 at an interest rate of 3.1% per annum while bank loans are repayable up to 2023.

Long-term loans of the Group and the Company not wholly repayable within five years amounted to HK$6,931 million and HK$1,792 million respectively (2011: HK$6,809 million and HK$1,363 million).

As at 31st December 2012, the Group and the Company had long-term loans totalling HK$28,994 million and HK$27,960 million respectively (2011: HK$23,943 million and HK$22,368 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 netted off in the accounts.

15. Long-term liabilities *(continued)*

(b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2013 to 2024. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Future payments	**43,567**	33,677	**47,752**	37,114
Interest charges relating to future periods	**(4,693)**	(3,354)	**(6,080)**	(5,048)
Present value of future payments	**38,874**	30,323	**41,672**	32,066
Security deposits, notes and zero coupon bonds	**(3,965)**	(5,678)	**(874)**	(870)
Amounts due within one year included under current liabilities	**(3,729)**	(2,730)	**(4,804)**	(4,357)
	31,180	21,915	**35,994**	26,839

The present value of future payments is repayable as follows:

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Within one year	**6,330**	4,771	**4,846**	4,390
After one year but within two years	**3,755**	5,273	**3,981**	3,829
After two years but within five years	**12,507**	9,052	**14,539**	10,750
After five years	**16,282**	11,227	**18,306**	13,097
	38,874	30,323	**41,672**	32,066

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

As at 31st December 2012, the Group and the Company had obligations under finance leases amounting to HK$5,858 million and HK$1,054 million respectively (2011: HK$6,493 million and HK$1,083 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 netted off in the accounts.

As at 31st December 2012, the Group and the Company had financial liabilities designated as at fair value through profit and loss of HK$3,973 million (2011: HK$4,156 million) and HK$3,973 million (2011: HK$4,156 million) respectively.

16. Other long-term payables

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Deferred creditors	**1,079**	906	**797**	392
Derivative financial liabilities – long-term portion	**1,143**	1,706	**1,096**	1,641
	2,222	2,612	**1,893**	2,033

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 funds administered by independent trustees. The retirement schemes in Hong Kong are registered under and comply with the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Schemes Ordinance ("MPFSO"). Most of the employees engaged outside Hong Kong are covered by appropriate local arrangements.

The Group operates the following principal schemes:

(a) Defined benefit retirement schemes

The Swire Group Retirement Benefit Scheme ("SGRBS") in Hong Kong, in which the Company, 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.

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 principal plans in Hong Kong are valued annually by qualified actuaries, Towers Watson, for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance. Defined benefit plans are valued using the projected unit credit method in accordance with HKAS 19 "Employee Benefits" ("HKAS 19"). For the year ended 31st December 2012, the HKAS 19 disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2012. For the year ended 31st December 2011, the HKAS 19 disclosures are based on valuations prepared by Towers Watson at 31st December 2009, which were updated at 31st December 2011 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit plans.

	2012		2011	
	SGRBS	**CPALRS**	SGRBS	CPALRS
The principal actuarial assumptions are:				
Discount rate used	**3.32%**	**3.32%**	3.96%	3.96%
Expected return on plan assets	**7.5%**	**6.5%**	7.5%	6.5%
Future salary increases	**2-6.88%**	**0.6-5%**	3-5%	1.75-5%

The Group's obligations are 89% (2011: 88%) covered by the plan assets held by the trustees as at 31st December 2012.

	2012 HK$M	2011 HK$M
Net expenses recognised in the Group's profit and loss:		
Current service cost	**388**	349
Interest cost	**299**	302
Expected return on plan assets	**(509)**	(550)
Actuarial losses recognised	**53**	–
Total included in staff costs	**231**	101
Actual return on plan assets	**887**	(412)

17. Retirement benefits *(continued)*

	Group 2012 HK$M	Group 2011 HK$M	Company 2012 HK$M	Company 2011 HK$M
Net asset recognised in the statement of financial position:				
Present value of funded obligations	**9,102**	8,362	**8,333**	7,658
Fair value of plan assets	**(8,119)**	(7,324)	**(7,458)**	(6,714)
	983	1,038	**875**	944
Net unrecognised actuarial losses	**(1,346)**	(1,330)	**(1,208)**	(1,210)
	(363)	(292)	**(333)**	(266)

	Group 2012 HK$M	Group 2011 HK$M	Company 2012 HK$M	Company 2011 HK$M
Movements in present value of funded obligations comprise:				
At 1st January	**8,362**	7,615	**7,658**	6,991
Movements for the year				
– current service cost	**388**	349	**354**	316
– interest cost	**299**	302	**272**	276
– employee contributions	**7**	9	**7**	9
– benefits paid	**(400)**	(525)	**(347)**	(481)
– actuarial losses	**446**	612	**389**	547
At 31st December	**9,102**	8,362	**8,333**	7,658

	Group 2012 HK$M	Group 2011 HK$M	Company 2012 HK$M	Company 2011 HK$M
Movements in fair value of plan assets comprise:				
At 1st January	**7,324**	8,077	**6,714**	7,396
Movements for the year				
– expected return on plan assets	**509**	550	**464**	500
– employee contributions	**7**	9	**7**	9
– employer contributions	**302**	175	**276**	159
– benefits paid	**(400)**	(525)	**(347)**	(481)
– actuarial gains/(losses)	**377**	(962)	**344**	(869)
At 31st December	**8,119**	7,324	**7,458**	6,714

	Group 2012 HK$M	Group 2011 HK$M	Company 2012 HK$M	Company 2011 HK$M
Fair value of plan assets comprises:				
Equities	**4,095**	4,484	**3,719**	4,104
Debt instruments	**2,172**	2,018	**1,941**	1,805
Deposits and cash	**1,852**	822	**1,798**	805
	8,119	7,324	**7,458**	6,714

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

17. Retirement benefits *(continued)*

	Group				
	2012 HK$M	2011 HK$M	2010 HK$M	2009 HK$M	2008 HK$M
Present value of funded obligations	**9,102**	8,362	7,615	7,460	7,108
Fair value of plan assets	**(8,119)**	(7,324)	(8,077)	(7,217)	(5,924)
Deficit/(surplus)	**983**	1,038	(462)	243	1,184
Experience adjustments on plan liabilities	**20**	310	(203)	1	(390)
Experience adjustments on plan assets	**(377)**	962	(302)	(1,207)	3,368

	Company				
	2012 HK$M	2011 HK$M	2010 HK$M	2009 HK$M	2008 HK$M
Present value of funded obligations	**8,333**	7,658	6,991	6,870	6,522
Fair value of plan assets	**(7,458)**	(6,714)	(7,396)	(6,583)	(5,426)
Deficit/(surplus)	**875**	944	(405)	287	1,096
Experience adjustments on plan liabilities	**1**	264	(204)	43	(350)
Experience adjustments on plan assets	**(344)**	869	(283)	(1,092)	3,070

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$269 million to the schemes in 2013.

(b) Defined contribution retirement schemes

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

Under the terms of these schemes, other than the Company contribution, staff may elect to contribute from 0% to 10% of their monthly salary. During the year, the benefits forfeited in accordance with the schemes' rules amounted to HK$20 million (2011: HK$8 million) which have been applied towards the contributions payable by the Company.

A mandatory provident fund ("MPF") scheme was established under the MPFSO in December 2000. Where staff elect to join the MPF scheme, both the Company and staff are required to contribute 5% of the employees' relevant income (capped at HK$20,000 up to 31st May 2012 and HK$25,000 from 1st June 2012). 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 and loss were HK$951 million (2011: HK$864 million).

18. Deferred taxation

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Deferred tax assets:				
– provisions	**(117)**	(96)	**(99)**	(75)
– tax losses	**(1,283)**	(1,054)	**(918)**	(852)
– cash flow hedges	**(103)**	(260)	**(84)**	(239)
– customer loyalty programmes	**(1)**	(15)	**(1)**	(15)
Deferred tax liabilities:				
– retirement benefits	**20**	3	**19**	2
– accelerated tax depreciation	**2,658**	2,295	**1,780**	1,525
– investments in associates	**471**	385	**–**	–
– others	**–**	27	**–**	27
Provision in respect of certain lease arrangements	**6,553**	5,512	**6,259**	5,042
	8,198	6,797	**6,956**	5,415

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Movements in deferred taxation comprise:				
At 1st January	**6,797**	5,815	**5,415**	4,550
Movements for the year				
– transferred from the profit and loss				
– deferred tax expenses (note 5)	**203**	468	**169**	183
– operating expenses	**41**	50	**36**	41
– transferred to cash flow hedge reserve	**157**	(50)	**155**	(55)
– initial cash benefit from lease arrangements	**1,461**	1,467	**1,461**	1,467
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	**(461)**	(953)	**(280)**	(771)
At 31st December	**8,198**	6,797	**6,956**	5,415

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$10,040 million (2011: HK$9,371 million) to carry forward against future taxable income. These amounts are analysed as follows:

	Group	
	Unrecognised tax losses	
	2012 HK$M	2011 HK$M
No expiry date	**5,955**	5,095
Expiring beyond 2025	**4,085**	4,276
	10,040	9,371

18. Deferred taxation *(continued)*

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2014 to 2023 (2011: 2013 to 2022) as follows:

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
After one year but within five years	**1,735**	1,489	**1,441**	1,199
After five years but within 10 years	**3,658**	2,865	**3,658**	2,684
After 10 years	**1,160**	1,158	**1,160**	1,159
	6,553	5,512	**6,259**	5,042

19. Trade, other receivables and other assets

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Trade debtors	**5,600**	5,908	**4,840**	5,142
Derivative financial assets – current portion	**1,094**	1,044	**1,094**	1,044
Other receivables and prepayments	**3,141**	2,844	**2,106**	1,674
Due from associates and other related companies	**87**	63	**41**	14
	9,922	9,859	**8,081**	7,874

As at 31st December 2012, total derivative financial assets of the Group and the Company which did not qualify for hedge accounting amounted to HK$1,349 million (2011: HK$1,105 million) and HK$1,349 million (2011: HK$1,105 million) respectively.

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:				
Current	**5,467**	5,839	**4,729**	5,087
One to three months overdue	**115**	59	**94**	47
More than three months overdue	**18**	10	**17**	8
	5,600	5,908	**4,840**	5,142

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	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
At 1st January	**60**	195	**42**	158
Amounts written back	**(6)**	(135)	**(6)**	(116)
At 31st December	**54**	60	**36**	42

20. Assets held for sale

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Assets held for sale	**911**	746	**430**	746
	911	746	**430**	746

20. Assets held for sale *(continued)*

Impairment of assets held for sale is considered by writing down the carrying value to fair value less costs to sell, determined by reference to the estimated sales value as at 31st December 2012. An impairment loss amounting to HK$140 million was recognised for the year ended 31st December 2012 (2011: nil).

21. Liquid funds

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Short-term deposits and bank balances (note 26)	**12,798**	9,612	**9,715**	7,256
Short-term deposits maturing beyond three months when placed	**7**	228	**7**	228
Funds with investment managers				
– debt securities listed outside Hong Kong	**9,353**	7,778	**–**	–
– bank deposits	**203**	106	**–**	–
Other liquid investments				
– debt securities listed outside Hong Kong	**1,529**	1,515	**1,260**	1,242
– bank deposits	**292**	358	**149**	122
	24,182	19,597	**11,131**	8,848

Included in other liquid investments are bank deposits of HK$292 million (2011: HK$358 million) and debt securities of HK$1,529 million (2011: HK$1,515 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	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Trade creditors	**7,357**	7,663	**5,430**	5,816
Derivative financial liabilities – current portion	**1,087**	1,182	**1,048**	1,149
Other payables	**8,716**	8,318	**7,505**	7,342
Due to associates	**56**	49	**42**	37
Due to other related companies	**254**	252	**221**	223
	17,470	17,464	**14,246**	14,567

As at 31st December 2012, total derivative financial liabilities of the Group and the Company which did not qualify for hedge accounting amounted to HK$339 million (2011: HK$356 million) and HK$339 million (2011: HK$356 million) respectively.

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Analysis of trade creditors by age:				
Current	**7,039**	7,428	**5,210**	5,638
One to three months overdue	**298**	225	**210**	172
More than three months overdue	**20**	10	**10**	6
	7,357	7,663	**5,430**	5,816

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

23. Share capital

	2012		2011	
	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 (2011: nil).

24. Reserves

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Retained profit	**38,363**	38,785	**28,631**	27,779
Share premium	**16,295**	16,295	**16,295**	16,295
Investment revaluation reserve	**931**	885	**795**	759
Cash flow hedge reserve	**(830)**	(2,417)	**(718)**	(2,291)
Capital redemption reserve and others	**1,640**	1,474	**23**	23
	56,399	55,022	**45,026**	42,565

	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 2012	**27,779**	**16,295**	**759**	**(2,291)**	**23**	**42,565**
Profit for the year	**2,190**	**–**	**–**	**–**	**–**	**2,190**
Other comprehensive income	**–**	**–**	**36**	**1,573**	**–**	**1,609**
Total comprehensive income for the year	**2,190**	**–**	**36**	**1,573**	**–**	**3,799**
2011 second interim dividends	**(1,338)**	**–**	**–**	**–**	**–**	**(1,338)**
	852	**–**	**36**	**1,573**	**–**	**2,461**
At 31st December 2012	**28,631**	**16,295**	**795**	**(718)**	**23**	**45,026**
At 1st January 2011	26,869	16,295	928	(1,720)	23	42,395
Profit for the year	4,687	–	–	–	–	4,687
Other comprehensive income	–	–	(169)	(571)	–	(740)
Total comprehensive income for the year	4,687	–	(169)	(571)	–	3,947
2010 final dividends	(3,069)	–	–	–	–	(3,069)
2011 interim dividends	(708)	–	–	–	–	(708)
	910	–	(169)	(571)	–	170
At 31st December 2011	27,779	16,295	759	(2,291)	23	42,565

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 (2011: HK$24 million), capital reserve of HK$23 million (2011: HK$23 million), exchange differences arising from revaluation of foreign investments which amounted to HK$2,273 million (2011: HK$2,190 million) and share of associate's other negative reserve of HK$680 million (2011: HK$763 million).

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

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

	2012 HK$M	2011 HK$M
Turnover	**(613)**	(1,274)
Fuel	**957**	2,122
Others	**83**	449
Net finance charge	**(205)**	(216)
Net gains transferred to the profit and loss	**222**	1,081

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

	Total HK$M
2013	**(26)**
2014	**(80)**
2015	**189**
2016	**231**
2017	**224**
Beyond 2017	**292**
	830

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

25. Reconciliation of operating profit to cash generated from operations

	2012 HK$M	2011 HK$M
Operating profit	**1,788**	5,500
Depreciation of fixed assets	**6,617**	6,127
Amortisation of intangible assets	**122**	41
Provision for impairment of assets held for sale	**140**	–
Provision for impairment of fixed assets	**52**	250
Loss on disposal of fixed assets, net	**101**	159
Loss on scrapping an aircraft	**247**	–
(Gain)/loss on disposal of assets held for sale	**(34)**	17
Currency adjustments and other items not involving cash flows	**(479)**	(1,359)
Increase in stock	**(39)**	(134)
(Increase)/decrease in trade debtors, other receivables and other assets and derivative financial assets	**(1,075)**	1,148
Decrease in net amounts due to related companies and associates	**(15)**	(104)
(Decrease)/increase in trade creditors, other payables, derivative financial liabilities and deferred creditors	**(393)**	2,694
(Decrease)/increase in unearned transportation revenue	**(32)**	447
Non-operating movements in debtors and creditors	**2,239**	607
Cash generated from operations	**9,239**	15,393

26. Analysis of cash and cash equivalents

	2012 HK$M	2011 HK$M
Short-term deposits and bank balances (note 21)	**12,798**	9,612
	12,798	9,612

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$'000	**2012 Total HK$'000**	2011 Total HK$'000
Executive Directors									
Christopher Pratt	1,246	1,306	72	489	404	–	846	**4,363**	3,514
W.E. James Barrington	1,903	1,842	2,339	747	1,154	80	–	**8,065**	6,629
Ivan Chu (from March 2011)	2,580	1,840	665	568	–	–	–	**5,653**	3,603
James E. Hughes-Hallett (up to November 2011)	–	2,724	–	–	–	–	–	**2,724**	7,138
Martin Murray (from November 2011)	1,920	177	337	754	93	60	2,926	**6,267**	587
John Slosar	4,228	4,694	263	1,660	1,635	–	3,262	**15,742**	11,824
Tony Tyler (up to March 2011)	–	1,817	–	–	–	–	–	**1,817**	7,432
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	–	–	–	–	–	–	**115**	575
Ian Shiu	–	–	–	–	–	–	–	**–**	–
Merlin Swire	–	–	–	–	–	–	–	**–**	–
Wang Changshun (from March 2012)	460	–	–	–	–	–	–	**460**	–
Zhang Lan (up to May 2011)	–	–	–	–	–	–	–	**–**	240
Zhao Xiaohang (from June 2011)	575	–	–	–	–	–	–	**575**	335
Independent Non-Executive Directors									
Irene Lee	826	–	–	–	–	–	–	**826**	813
Jack So	815	–	–	–	–	–	–	**815**	815
Tung Chee Chen	633	–	–	–	–	–	–	**633**	633
Peter Wong	755	–	–	–	–	–	–	**755**	755
2012 Total	**17,386**	**14,400**	**3,676**	**4,218**	**3,286**	**140**	**7,034**	**50,140**	
2011 Total	17,569	12,706	5,569	3,254	2,766	147	4,212		46,223

(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 2011 and was paid in 2012.

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$'000	**2012 Total HK$'000**	2011 Total HK$'000
William Chau	1,917	1,491	481	422	–	–	–	**4,311**	4,117
Chitty Cheung (from August 2012)	614	133	197	135	–	–	–	**1,079**	–
Quince Chong (up to August 2012)	1,472	1,287	333	124	–	–	–	**3,216**	3,923
Ivan Chu (up to March 2011)	–	–	–	–	–	–	–	**–**	715
Philippe de Gentile-Williams (from July 2011)	1,306	513	250	513	406	67	1,982	**5,037**	1,706
Christopher Gibbs	2,187	1,701	720	367	–	–	–	**4,975**	4,914
Richard Hall	1,860	1,503	2,991	–	–	–	–	**6,354**	6,214
Rupert Hogg	1,890	1,730	1,092	742	1,046	218	2,879	**9,597**	8,326
Joseph Locandro (from August 2012)	907	75	617	135	–	–	–	**1,734**	–
Nick Rhodes	1,974	1,938	124	775	1,224	206	3,008	**9,249**	7,900
Tomasz Smaczny (up to August 2012)	1,145	1,362	2,797	56	–	–	–	**5,360**	3,846
2012 Total	**15,272**	**11,733**	**9,602**	**3,269**	**2,676**	**491**	**7,869**	**50,912**	
2011 Total	14,031	9,942	6,891	2,170	1,526	396	6,705		41,661

Bonus is related to services for 2011 and was paid in 2012.

28. Employee information

(a) The five highest paid individuals of the Company included two Directors (2011: three) and three executive officers (2011: two), whose emoluments are set out in note 27 above.

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

	2012			2011		
HK$'000	**Director**	**Flight staff**	**Other staff**	Director	Flight staff	Other staff
0 – 1,000	**13**	**10,014**	**9,098**	14	9,699	8,228
1,001 – 1,500	**–**	**404**	**307**	–	486	298
1,501 – 2,000	**1**	**595**	**126**	–	646	117
2,001 – 2,500	**–**	**596**	**67**	–	512	68
2,501 – 3,000	**1**	**341**	**18**	–	331	14
3,001 – 3,500	**–**	**222**	**6**	–	197	4
3,501 – 4,000	**–**	**116**	**4**	2	89	7
4,001 – 4,500	**1**	**28**	**5**	–	21	2
4,501 – 5,000	**–**	**4**	**3**	–	3	3
5,001 – 5,500	**–**	**1**	**3**	–	1	2
5,501 – 6,000	**1**	**–**	**2**	–	–	1
6,001 – 6,500	**1**	**–**	**2**	–	–	2
6,501 – 7,000	**–**	**–**	**1**	1	–	–
7,001 – 7,500	**–**	**–**	**–**	2	–	–
7,501 – 8,000	**–**	**–**	**1**	–	–	1
8,001 – 8,500	**1**	**–**	**–**	–	–	1
9,001 – 9,500	**–**	**–**	**1**	–	–	–
9,501 – 10,000	**–**	**–**	**1**	–	–	–
11,501 – 12,000	**–**	**–**	**–**	1	–	–
15,501 – 16,000	**1**	**–**	**–**	–	–	–
	20	**12,321**	**9,645**	20	11,985	8,748

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:

	2012		2011	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Turnover	**243**	**17**	287	23
Aircraft maintenance costs	**15**	**2,430**	2	2,287
Operating costs	**567**	**–**	584	–
Dividends received	**439**	**–**	417	–
Fixed assets purchase	**–**	**2**	–	1
Sale of fixed assets	**337**	**–**	442	–

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, the Group paid fees to HAECO group in exchange for maintenance services provided to the Group's aircraft fleets. Service fees paid to HAECO group for the year ended 31st December 2012 were HK$2,447 million (2011: HK$2,287 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 Directors' Report on page 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 2012 totalled HK$318 million (2011: HK$356 million). The amounts receivable from Air China group for the year ended 31st December 2012 totalled HK$243 million (2011: HK$287 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 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 2012, service fees of HK$42 million (2011: HK$136 million) were paid and expenses of HK$159 million (2011: HK$146 million) were reimbursed at cost; in addition, HK$54 million (2011: HK$55 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 Directors' Report on pages 35 and 36.

(c) Amounts due from and due to associates and other related companies at 31st December 2012 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 2012 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 Directors' Report and Corporate Governance Report). Remuneration of Directors and executive officers is disclosed in note 27 to the accounts.

30. Commitments and contingencies

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

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Authorised and contracted for	**99,146**	99,272	**5,283**	5,701
Authorised but not contracted for	**10,046**	17,175	**9,141**	8,962
	109,192	116,447	**14,424**	14,663

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	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Subsidiaries	**–**	–	**4,929**	4,120
Related parties	**1,141**	489	**1,141**	489
Staff	**200**	200	**200**	200
	1,341	689	**6,270**	4,809

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

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

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

(e) Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions and continues to defend itself vigorously. The proceedings are focused on issues relating to pricing and competition. The Company is represented by legal counsel in connection with these matters.

In December 2008, the Company received a Statement of Claim from the New Zealand Commerce Commission ("NZCC") with regard to the Company's air cargo operations. In December 2012, the Company and the NZCC reached an agreement to resolve this matter and in February 2013, the High Court of New Zealand, pursuant to such agreement, held a hearing. The Court has yet to enter its judgment.

In July 2009, the Company received an Amended Statement of Claim ("ASOC") from the Australian Competition & Consumer Commission ("ACCC") with regard to the Company's air cargo operations. In November 2012, the Company and the ACCC reached an agreement to resolve this matter and in December 2012, the Federal Court of Australia, pursuant to such agreement, entered its judgment against the Company for A$11.25 million and costs of A$0.5 million (total equivalent to HK$94.6 million at the exchange rate current as of the date of payment). Cathay Pacific has satisfied the judgment.

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. 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 and Australia alleging violations of applicable competition laws arising from the Company's conduct relating to its air cargo operations. In addition, civil class action claims have been filed in the United States and Canada alleging violations of applicable competition laws arising from the Company's conduct relating to certain of its passenger operations. The Company is represented by legal counsel and is defending those actions.

The proceedings and civil actions, except as otherwise stated above, are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with accounting policy 20 set out on page 97.

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 2012 is HK$1,308 million (2011: HK$1,208 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 2011. The undiscounted payment profile of financial liabilities is outlined as follows:

	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)**

	2011				
	Within one year HK$M	After one year but within two years HK$M	After two years but within five years HK$M	After five years HK$M	Total HK$M
Group					
Bank and other loans	(6,024)	(2,617)	(7,431)	(3,749)	(19,821)
Obligations under finance leases	(2,916)	(3,134)	(8,817)	(12,527)	(27,394)
Other long-term payables	–	(251)	(415)	(240)	(906)
Trade and other payables	(16,282)	–	–	–	(16,282)
Derivative financial liabilities, net	(1,119)	(459)	(618)	(76)	(2,272)
Total	(26,341)	(6,461)	(17,281)	(16,592)	(66,675)

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)**

	2011				
	Within one year HK$M	After one year but within two years HK$M	After two years but within five years HK$M	After five years HK$M	Total HK$M
Company					
Bank and other loans	(4,514)	(1,538)	(4,993)	(874)	(11,919)
Obligations under finance leases	(4,635)	(4,139)	(11,639)	(15,480)	(35,893)
Other long-term payables	–	–	(152)	(240)	(392)
Trade and other payables	(13,418)	–	–	–	(13,418)
Derivative financial liabilities, net	(1,084)	(426)	(573)	(76)	(2,159)
Total	(23,651)	(6,103)	(17,357)	(16,670)	(63,781)

(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 2012 and 2011 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.

31. Financial risk management *(continued)*

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

	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)**

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

	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)**

31. Financial risk management *(continued)*

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

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 United States dollars.

Sensitivity analysis for foreign currency exposure

A five percent appreciation of the Hong Kong dollar against the following currencies at 31st December 2012 would have resulted in a change in profit and loss and other equity components by the amounts shown below. This represents the translation of financial assets and liabilities and the change in fair value of currency derivatives at the reporting date. It assumes that all other variables, in particular interest rates, remain constant. The analysis has been performed on the same basis as for 2011.

	2012	
	Net increase/ (decrease) in profit and 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**

	2011	
	Net increase/ (decrease) in profit and loss HK$M	Net increase/ (decrease) in other equity components HK$M
United States dollars	448	(903)
Euros	1	135
New Taiwan dollars	(10)	197
Australian dollars	(3)	90
Renminbi	(107)	226
Japanese yen	(45)	584
Net increase	284	329

31. Financial risk management *(continued)*

(ii) Interest rate risk

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

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

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Fixed rate instruments				
Loans receivable	**722**	780	**722**	780
Long-term loans	**(2,899)**	(658)	**(2,899)**	(658)
Obligations under finance leases	**(10,277)**	(10,510)	**(12,470)**	(13,087)
Interest rate and currency swaps	**(27,239)**	(18,855)	**(26,671)**	(18,119)
Net exposure	**(39,693)**	(29,243)	**(41,318)**	(31,084)

	Group		Company	
	2012 HK$M	2011 HK$M	**2012 HK$M**	2011 HK$M
Variable rate instruments				
Liquid funds	**24,182**	19,597	**11,131**	8,848
Long-term loans	**(21,738)**	(18,032)	**(15,441)**	(10,797)
Obligations under finance leases	**(24,632)**	(14,135)	**(28,328)**	(18,109)
Interest rate and currency swaps	**28,120**	19,192	**27,619**	18,542
Net exposure	**5,932**	6,622	**(5,019)**	(1,516)

Sensitivity analysis for interest rate exposure

An increase of 25 basis points in interest rates at the reporting date would have decreased profit and loss and increased other equity components for the year by the amounts shown below. These amounts represent the fair value change of interest rate swaps and financial liabilities designated as at fair value through profit and loss at the reporting date and the increase in net finance charges. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis has been performed on the same basis as for 2011.

	2012		2011	
	Profit and loss HK$M	**Other equity components HK$M**	Profit and loss HK$M	Other equity components HK$M
Variable rate instruments	**(121)**	**316**	(108)	230

31. Financial risk management *(continued)*

(iii) Fuel price risk

Fuel accounted for 41.1% of the Group's total operating expenses (2011: 41.5%). 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 a change in profit and loss and other equity components for the year by the amounts shown below. These amounts represent the change in fair value of fuel derivatives at the reporting date.

	2012		2011	
	Net increase/ (decrease) in profit and loss HK$M	**Net increase/ (decrease) in other equity components HK$M**	Net increase/ (decrease) in profit and loss HK$M	Net increase/ (decrease) in other equity components HK$M
Increase in jet fuel price by 5%	**(36)**	**857**	97	119
Decrease in jet fuel price by 5%	**33**	**(839)**	(74)	(118)

(d) Hedge accounting

The carrying values of financial assets/(liabilities) designated as cash flow hedges as at 31st December 2012 were as follows:

	2012 HK$M	2011 HK$M
Foreign currency risk		
– long-term liabilities (natural hedge)	**(6,170)**	(2,303)
– cross currency swaps	**(2)**	(1,062)
– foreign currency forward contracts	**(92)**	(231)
– foreign exchange swap	**1**	–
Interest rate risk		
– interest rate swaps	**(939)**	(695)
Fuel price risk		
– fuel options	**1,142**	749
Others		
– carbon offsets	**(34)**	(168)

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:

	2012		2011	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Group				
Loans receivable	**722**	**817**	780	875
Long-term loans	**(24,637)**	**(25,687)**	(18,690)	(19,202)
Obligations under finance leases	**(38,874)**	**(40,840)**	(30,323)	(31,716)
Pledged security deposits	**3,965**	**4,291**	5,678	6,198

	2012		2011	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Company				
Loans receivable	**722**	**817**	780	875
Long-term loans	**(18,340)**	**(19,137)**	(11,455)	(11,689)
Obligations under finance leases	**(41,672)**	**(44,805)**	(32,066)	(34,805)
Pledged security deposits	**874**	**1,140**	870	1,166

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 2012 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. Level 3 includes financial instruments with fair values measured using valuation techniques in which any significant input is not based on observable market data.

31. Financial risk management *(continued)*

	Group				Company			
	2012 Level 1 HK$M	**2012 Level 2 HK$M**	**2012 Level 3 HK$M**	**2012 Total HK$M**	**2012 Level 1 HK$M**	**2012 Level 2 HK$M**	**2012 Level 3 HK$M**	**2012 Total HK$M**
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)**

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

31. Financial risk management *(continued)*

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

	Group HK$M	Company HK$M
Investments at fair value – unlisted		
At 1st January 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**

	Group HK$M	Company HK$M
Investments at fair value – unlisted		
At 1st January 2011	1,232	1,133
Net unrealised gains or losses recognised in other comprehensive income during the year	(170)	(170)
At 31st December 2011	1,062	963

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 103 and a ten year history is included on pages 98 and 99 of the annual report.

33. Impact of further new accounting standards

HKICPA has issued new and revised HKFRS which become effective for accounting periods beginning on or after 1st January 2013 and which are not adopted in the accounts. Revised HKAS 19 "Employee Benefits" is relevant to the Group and becomes effective for accounting periods beginning on or after 1st January 2013. The standard eliminates the corridor method and requires all actuarial gains and losses to be recognised immediately in other comprehensive income. The Group is in the process of assessing the impact of this new accounting standard on both the results and the financial position of the Group.

34. Event after the reporting period

In March 2013, the Group entered into a trade-in deal with The Boeing Company to dispose of four Boeing 747-400BCF converted freighters which were taken out of service in 2012 and early 2013; and to cancel an existing order for eight Boeing 777-200F freighters and to purchase three Boeing 747-8F freighters. The trade-in deal also included options to purchase five Boeing 777-200F freighters. The aforementioned transactions are part of a package of transactions between The Boeing Company and i) Air China Cargo, under which Air China Cargo will purchase eight Boeing 777-200F freighters and will sell seven Boeing 747-400BCF converted freighters; and ii) Air China, under which Air China will purchase two Boeing 747-8I aircraft, one Boeing 777-300ER aircraft and 20 Boeing 737-800 aircraft from The Boeing Company.

Principal Subsidiaries and Associates

at 31st December 2012

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
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*
VN/CX Catering Services Limited	Vietnam	Airline catering	40*

* *Shareholding held through subsidiaries.*

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

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

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.

2. Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and its subsidiaries made up to 31st December together with the Group's share of the results and net assets of its associates. Subsidiaries are entities controlled by the Group. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

The results of subsidiaries are included in the consolidated statement of comprehensive income. Where interests have been bought or sold during the year, only those results relating to the period of control are included in the accounts.

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

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

Non-controlling interests in the consolidated statement of financial position comprise the outside shareholders' proportion of the net assets of subsidiaries and are treated as a part of equity. In the statement of comprehensive income, non-controlling interests are disclosed as an allocation of the profit or loss 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 comprehensive income includes the Group's share of results of associates as reported in their accounts made up to dates not earlier than three months prior to 31st December. In the consolidated statement of financial position, investments in associates represent the Group's share of net assets, goodwill arising on acquisition of the associates (less any impairment) and loans to those companies.

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

4. Foreign currencies

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

(a) foreign currency denominated financial assets and liabilities.

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

Exchange differences arising on the translation of foreign currencies into Hong Kong dollars are reflected in profit and loss except that:

(a) unrealised exchange differences on foreign currency denominated financial assets and liabilities, as described in accounting policies 8, 9 and 10 below, that qualify as effective cash flow hedge instruments under HKAS 39 "Financial Instruments: Recognition and Measurement" are recognised directly in equity via the Statement of Changes in Equity. These exchange differences are included in profit and loss as an adjustment to the hedged item in the same period or periods during which the hedged item affects profit and loss.

(b) unrealised differences on net investments in foreign subsidiaries and associates (including intra-Group balances of an equity nature) and related long-term liabilities are taken directly to equity.

5. Fixed assets and depreciation

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

Depreciation of fixed assets is calculated on a straight line basis to write down cost over 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 to sell.

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 and loss on a straight line basis over the life of the related lease.

7. Intangible assets

Intangible assets comprise goodwill arising on consolidation, expenditure on computer system development and others. The accounting policy for goodwill is outlined in accounting policy 2 on page 94.

Expenditure on computer system development which gives rise to economic benefits is capitalised as part of intangible assets and is amortised on a straight line basis over its useful life not exceeding a period of four 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 and loss.

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

Funds with investment managers and other liquid investments which are managed and evaluated on a fair value basis are designated as at fair value through profit and loss.

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

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

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

9. Financial liabilities

Long-term loans, finance lease obligations and trade and other payables are stated at amortised cost or designated as at fair value through profit and loss.

Where long-term liabilities have been defeased by the placement of security deposits, those liabilities and deposits (and income and charge arising therefrom) are netted off, in order to reflect the overall commercial effect of the arrangements. Such netting off occurs where there is a current legally enforceable right to set off the liability and the deposit and the Group intends either to settle on a net basis or to realise the deposit and settle the liability simultaneously. For transactions entered into before 2005, such netting off occurs where there is a right to insist on net settlement of the liability and the deposit including situations of default and where that right is assured beyond doubt, thereby reflecting the substance and economic reality of the transactions.

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

Financial liabilities are recognised or derecognised when the contracted obligations are incurred or extinguished.

Interest expenses incurred under financial liabilities are calculated and recognised using the effective interest method.

10. Derivative financial instruments

Derivative financial instruments are used solely to manage exposures to fluctuations in foreign exchange rates, interest rates and jet fuel prices in accordance with the Group's risk management policies. The Group does not hold or issue derivative financial instruments for 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 and loss as an adjustment to revenue, net finance charges or fuel expense in the same period or periods during which the hedged transaction affects profit and loss.

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

Derivatives which do not qualify as hedging instruments under HKAS 39 "Financial Instruments: Recognition and Measurement" are accounted for as held for trading financial instruments and any fair value change is recognised in profit and loss immediately.

11. Fair value measurement

Fair value of financial assets and financial liabilities is determined either by reference to quoted market values or by discounting future cash flows using market interest rates for similar instruments.

12. Retirement benefits

Arrangements for staff retirement benefits vary from country to country and are made in accordance with local regulations and customs.

The retirement benefit obligation in respect of defined benefit retirement plans refers to the obligation less the fair value of plan assets where the obligation is calculated by estimating the present value of the expected future payments required to settle the benefit that employees have earned using the projected unit credit method. Actuarial gains and losses are not recognised unless their cumulative amounts exceed either 10% of the present value of the defined benefit obligation or 10% of the fair value of plan assets whichever is greater. The amount exceeding this corridor is recognised in profit and loss on a straight line basis over the expected average remaining working lives of the employees participating in the plans.

13. Deferred taxation

Provision for deferred tax is made for all temporary differences.

Deferred tax assets relating to unused tax losses and deductible temporary differences are recognised to the extent that it is probable that future taxable profits will be available against which these unused tax losses and deductible temporary differences can be utilised.

In addition, where initial cash benefits have been received in respect of certain lease arrangements, provision is made for the future obligation to make tax payments.

14. Stock

Stock held for consumption is valued either at cost or weighted average cost less any applicable allowance for obsolescence. Stock held for disposal is stated at the lower of cost and net realisable value. Net realisable value represents estimated resale price.

15. 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 to sell.

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 and loss on consumption and as incurred respectively.

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

		2012	2011
Consolidated profit and loss summary	*HK$M*		
Passenger services		**70,133**	67,778
Cargo services		**24,555**	25,980
Catering, recoveries and other services		**4,688**	4,648
Turnover		**99,376**	98,406
Operating expenses		**(97,588)**	(92,906)
Operating profit/(loss)		**1,788**	5,500
Profit on disposal of investments		**–**	–
Gain on deemed disposal of an associate		**–**	–
Net finance charges		**(884)**	(744)
Share of profits/(losses) of associates		**641**	1,717
Profit/(loss) before taxation		**1,545**	6,473
Taxation		**(417)**	(803)
Profit/(loss) for the year		**1,128**	5,670
Profit attributable to non-controlling interests		**(212)**	(169)
Profit/(loss) attributable to the owners of Cathay Pacific		**916**	5,501
Dividends paid		**(1,338)**	(3,777)
Movement in retained profit for the year		**(422)**	1,724
Consolidated statement of financial position summary	*HK$M*		
Fixed and intangible assets		**93,703**	82,099
Long-term receivables and investments		**25,098**	23,677
Borrowings		**(59,546)**	(43,335)
Liquid funds less bank overdrafts		**24,182**	19,597
Net borrowings		**(35,364)**	(23,738)
Net current liabilities (excluding liquid funds and bank overdrafts)		**(15,711)**	(16,685)
Other long-term payables		**(2,222)**	(2,612)
Deferred taxation		**(8,198)**	(6,797)
Net assets		**57,306**	55,944
Financed by:			
Funds attributable to the owners of Cathay Pacific		**57,186**	55,809
Non-controlling interests		**120**	135
Total equity		**57,306**	55,944
Per share			
Shareholders' funds	*HK$*	**14.54**	14.19
EBITDA	*HK$*	**2.33**	3.40
Earnings/(loss)	*HK cents*	**23.3**	139.8
Dividend	*HK$*	**0.08**	0.52
Ratios			
Profit/(loss) margin	*%*	**0.9**	5.6
Return on capital employed	*%*	**2.3**	8.6
Dividend cover	*Times*	**2.9**	2.7
Cash interest cover	*Times*	**20.9**	41.7
Gross debt/equity ratio	*Times*	**1.04**	0.78
Net debt/equity ratio	*Times*	**0.62**	0.43

2010	2009	2008	2007	2006	2005	2004	2003
59,354	45,920	57,964	49,520	38,755	32,005	26,879	18,920
25,901	17,255	24,623	21,783	18,385	15,773	12,965	10,704
4,269	3,803	3,976	4,055	3,643	3,131	2,917	2,726
89,524	66,978	86,563	75,358	60,783	50,909	42,761	32,350
(78,471)	(62,499)	(94,592)	(67,619)	(55,565)	(46,766)	(37,514)	(30,125)
11,053	4,479	(8,029)	7,739	5,218	4,143	5,247	2,225
2,165	1,254	–	–	–	–	–	–
868	–	–	–	–	–	–	–
(978)	(847)	(1,012)	(787)	(465)	(444)	(583)	(620)
2,587	261	(764)	1,057	301	269	298	126
15,695	5,147	(9,805)	8,009	5,054	3,968	4,962	1,731
(1,462)	(283)	1,333	(799)	(782)	(500)	(446)	(384)
14,233	4,864	(8,472)	7,210	4,272	3,468	4,516	1,347
(185)	(170)	(224)	(187)	(184)	(170)	(99)	(44)
14,048	4,694	(8,696)	7,023	4,088	3,298	4,417	1,303
(1,691)	–	(2,438)	(2,245)	(2,992)	(2,196)	(2,189)	(1,035)
12,357	4,694	(11,134)	4,778	1,096	1,102	2,228	268
74,116	73,345	73,821	70,170	65,351	50,416	50,607	50,176
17,285	14,349	14,530	15,015	12,232	7,184	7,332	4,473
(39,629)	(42,642)	(40,280)	(36,368)	(31,943)	(22,455)	(22,631)	(26,297)
24,194	16,511	15,082	21,637	15,595	13,405	11,444	15,186
(15,435)	(26,131)	(25,198)	(14,731)	(16,348)	(9,050)	(11,187)	(11,111)
(14,022)	(12,864)	(16,887)	(13,094)	(9,019)	(6,767)	(6,381)	(4,439)
(1,700)	(1,059)	(4,606)	(1,490)	(170)	(72)	(102)	(181)
(5,815)	(5,255)	(4,831)	(6,621)	(6,508)	(6,460)	(7,280)	(7,762)
54,429	42,385	36,829	49,249	45,538	35,251	32,989	31,156
54,274	42,238	36,709	49,071	45,386	34,968	32,855	31,052
155	147	120	178	152	283	134	104
54,429	42,385	36,829	49,249	45,538	35,251	32,989	31,156
13.80	10.74	9.33	12.45	11.53	10.34	9.75	9.29
5.85	2.97	(0.91)	3.46	2.78	2.49	2.79	1.86
357.1	119.3	(221.0)	178.3	115.9	97.7	131.4	39.0
1.11	0.10	0.03	0.84	0.84	0.48	0.65	0.48
15.7	7.0	(10.0)	9.3	6.7	6.5	10.3	4.0
22.0	8.7	(11.8)	12.6	8.9	8.8	11.8	4.7
3.2	11.9	(73.7)	2.1	1.2	2.0	2.0	0.8
35.2	5.1	3.7	14.2	15.1	17.1	14.6	7.2
0.73	1.01	1.10	0.74	0.70	0.64	0.69	0.85
0.28	0.62	0.69	0.30	0.36	0.26	0.34	0.36

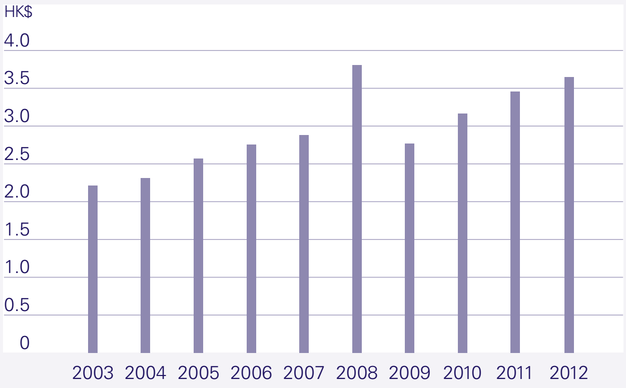
		2012	2011
Cathay Pacific and Dragonair operating summary*			
Available tonne kilometres	*Million*	**26,250**	26,383
Revenue tonne kilometres	*Million*	**18,819**	19,309
Available seat kilometres	*Million*	**129,595**	126,340
Revenue passengers carried	*'000*	**28,961**	27,581
Revenue passenger kilometres	*Million*	**103,837**	101,536
Revenue load factor	*%*	**76.2**	77.0
Passenger load factor	*%*	**80.1**	80.4
Cargo and mail carried	*'000 tonnes*	**1,563**	1,649
Cargo and mail revenue tonne kilometres	*Million*	**8,942**	9,648
Cargo and mail load factor	*%*	**64.2**	67.2
Excess baggage carried	*Tonnes*	**2,711**	3,103
Kilometres flown	*Million*	**502**	494
Block hours	*'000 hours*	**715**	695
Aircraft departures	*'000*	**154**	146
Length of scheduled routes network	*'000 kilometres*	**602**	568
Destinations at year end	*Number*	**179**	167
Staff number at year end	*Number*	**23,844**	23,015
ATK per staff	*'000*	**1,110**	1,184
On-time performance*			
Departure (within 15 minutes)	*%*	**77.4**	82.0
Average aircraft utilisation*	*Hours per day*		
A320-200		**8.8**	8.9
A321-200		**8.9**	8.4
A330-300		**12.3**	12.1
A340-300		**12.7**	13.0
A340-600		**–**	–
747-400		**12.7**	13.7
747-200F/300SF		**–**	–
747-400F/BCF		**11.4**	13.8
777-200/300		**8.4**	8.2
777-300ER		**15.7**	15.7
Fleet average		**12.0**	12.3

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

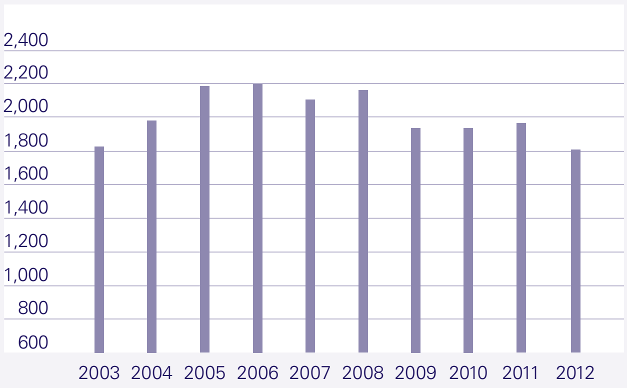
	2012	2011
Fleet profile		
Aircraft operated by Cathay Pacific:		
A330-300	**37**	33
A340-300	**11**	13
A340-600	**–**	–
747-400	**18**	21
747-200F	**–**	–
747-400F	**6**	6
747-400BCF	**6**	8
747-400ERF	**6**	6
747-8F	**8**	4
777-200	**5**	5
777-300	**12**	12
777-300ER	**29**	24
Total	**138**	132
Aircraft operated by Dragonair:		
A320-200	**15**	11
A321-200	**6**	6
A330-300	**17**	15
747-200F	**–**	–
747-300SF	**–**	–
747-400BCF	**–**	–
Total	**38**	32

2010	2009	2008	2007	2006	2005	2004	2003
24,461	22,249	24,410	23,077	19,684	17,751	15,794	13,355
19,373	16,775	17,499	16,680	14,452	12,813	11,459	9,371
115,748	111,167	115,478	102,462	91,769	82,766	74,062	59,280
26,796	24,558	24,959	23,253	18,097	15,438	13,664	10,059
96,588	89,440	90,975	81,801	72,939	65,110	57,283	42,774
81.1	77.7	75.1	75.6	76.2	75.2	74.8	71.1
83.4	80.5	78.8	79.8	79.5	78.7	77.3	72.2
1,804	1,528	1,645	1,672	1,334	1,139	990	889
10,175	8,256	8,842	8,900	7,514	6,618	6,007	5,299
75.7	70.8	65.9	66.7	68.6	67.0	68.7	68.7
4,053	3,883	2,963	2,310	2,218	2,489	2,530	2,190
464	431	460	422	357	317	285	238
652	605	649	598	489	431	386	322
138	130	138	131	98	84	77	65
535	481	453	442	457	403	386	377
146	122	124	129	125	92	90	87
21,592	20,907	21,309	19,840	18,992	15,806	15,054	14,673
1,165	1,053	1,185	1,194	1,173	1,147	1,066	903
80.9	86.8	81.4	83.9	85.2	86.1	90.3	91.0
8.2	8.0	8.4	8.5	8.2	–	–	–
8.6	7.8	8.4	8.9	8.9	–	–	–
11.6	10.8	10.9	10.7	11.2	10.8	10.1	9.2
13.8	12.2	14.7	15.3	14.9	15.1	13.6	12.4
–	–	11.4	14.4	14.9	15.3	13.6	11.7
13.2	12.9	14.1	14.5	14.9	14.7	13.9	12.8
–	5.4	7.5	10.8	11.8	11.8	13.3	13.3
14.4	13.2	13.1	14.0	15.3	16.1	16.3	16.4
8.0	8.1	8.7	8.4	9.0	9.1	8.8	8.7
15.3	15.8	14.3	10.7	–	–	–	–
12.0	11.2	11.5	11.7	12.5	12.6	12.0	11.4
32	32	32	29	27	26	23	23
15	15	15	15	15	15	15	15
–	–	–	3	3	3	3	3
22	23	23	24	22	22	21	19
–	–	5	7	7	7	7	6
6	6	6	6	6	6	5	5
12	13	10	6	5	1	–	–
6	6	2	–	–	–	–	–
–	–	–	–	–	–	–	–
5	5	5	5	5	5	5	5
12	12	12	12	12	11	10	9
18	14	9	5	–	–	–	–
128	126	119	112	102	96	89	85
11	9	10	10	10	11	10	8
6	6	6	6	6	6	6	6
14	14	16	16	16	13	10	9
–	–	1	1	1	1	1	–
–	–	–	3	3	3	3	3
–	–	2	3	1	–	–	–
31	29	35	39	37	34	30	26

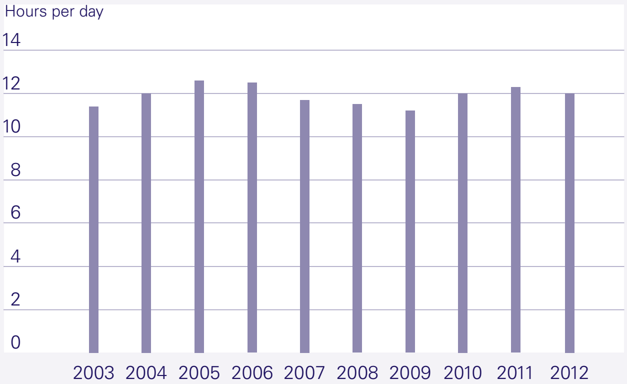
Cost per ATK (with fuel)



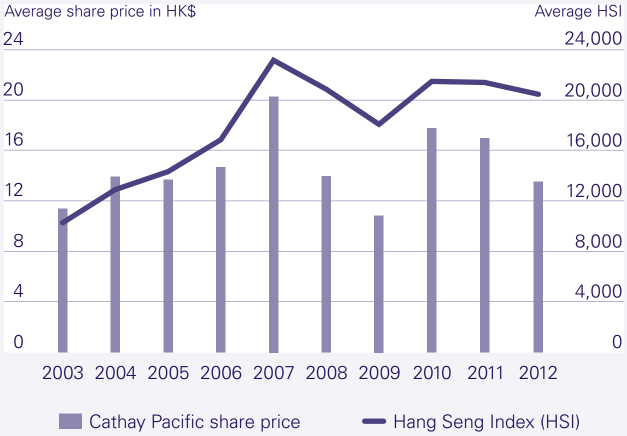
ATK per HK$'000 staff cost



Aircraft utilisation



Share price



		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Productivity*											
Cost per ATK (with fuel)	*HK$*	**3.64**	3.45	3.16	2.76	3.80	2.87	2.75	2.56	2.31	2.21
ATK per HK$'000 staff cost	*Unit*	**1,805**	1,964	1,933	1,932	2,160	2,105	2,197	2,183	1,978	1,825
Aircraft utilisation	*Hours per day*	**12.0**	12.3	12.0	11.2	11.5	11.7	12.5	12.6	12.0	11.4
Share prices	*HK$*										
High		**15.9**	23.1	24.1	14.7	20.3	23.1	19.5	15.1	16.4	15.5
Low		**11.9**	11.9	12.8	7.0	7.1	18.3	12.7	12.0	12.5	8.4
Year-end		**14.2**	13.3	21.5	14.5	8.8	20.4	19.2	13.6	14.7	14.8
Price ratios (Note)	*Times*										
Price/earnings		**61.1**	9.5	6.0	12.2	(4.0)	11.4	16.5	13.9	11.2	37.9
Market capitalisation/ funds attributable to the owners of Cathay Pacific		**1.0**	0.9	1.6	1.4	0.9	1.6	1.7	1.3	1.5	1.6
Price/cash flows		**6.0**	3.4	4.5	12.7	8.9	5.0	6.1	5.3	4.5	7.8

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

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

Glossary

Terms

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

Net borrowings Borrowings and bank overdrafts less liquid funds.

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

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

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

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

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

EBITDA Earnings before interest, tax, depreciation and amortisation.

Recoveries Cost recoveries from incidental activities.

Ratios

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

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

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

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

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

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

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

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

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

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

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
E-mail: 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
Hong Kong

Financial calendar

Year ended 31st December 2012	
Annual report available to shareholders	5th April 2013
Annual General Meeting	8th May 2013
Six months ending 30th June 2013	
Interim results announcement	August 2013
Interim dividend payable	October 2013

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