CATHAY PACIFIC

Cathay Pacific Airways Limited

Stock Code: 293

Annual Report 2015

oneworld

Contents

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 179 destinations in 43 countries and territories.

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

The Cathay Pacific Group operated 201 aircraft at 31st December 2015. Cathay Pacific has 146 aircraft. Its other investments include catering and ground-handling companies and its corporate headquarters and cargo terminal at Hong Kong International Airport. Cathay Pacific continues to invest heavily in its home city and at 31st December 2015 had 70 new aircraft due for delivery up to 2024.

Hong Kong Dragon Airlines Limited ("Dragonair"), a regional airline registered and based in Hong Kong, is a wholly owned subsidiary of Cathay Pacific operating 42 aircraft on scheduled services to 53 destinations in Mainland China and elsewhere in Asia. Cathay Pacific owns 20.13% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China. Cathay Pacific is the majority shareholder in AHK Air Hong Kong Limited ("Air Hong Kong"), an all-cargo carrier offering scheduled services in Asia.

Cathay Pacific and its subsidiaries employ more than 33,600 people worldwide, of whom around 25,800 are employed in Hong Kong. Cathay Pacific is listed on The Stock Exchange of Hong Kong Limited, as are its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

Cathay Pacific is a founding member of the **one**world global alliance, whose combined network serves more than 1,000 destinations worldwide. Dragonair is an affiliate member of **one**world.

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

Financial and Operating Highlights

Group Financial Statistics

		2015	2014	Change
Results				
Revenue	*HK$ million*	**102,342**	105,991	**-3.4%**
Profit attributable to the shareholders of Cathay Pacific	*HK$ million*	**6,000**	3,150	**+90.5%**
Earnings per share	*HK cents*	**152.5**	80.1	**+90.4%**
Dividend per share	*HK$*	**0.53**	0.36	**+47.2%**
Profit margin	*%*	**5.9**	3.0	**+2.9%pt**
Financial position				
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**47,927**	51,722	**-7.3%**
Net borrowings	*HK$ million*	**42,458**	43,998	**-3.5%**
Shareholders' funds per share	*HK$*	**12.2**	13.1	**-6.9%**
Net debt/equity ratio	*Times*	**0.89**	0.85	**+0.04 times**

Operating Statistics – Cathay Pacific and Dragonair

		2015	2014	Change
Available tonne kilometres ("ATK")	*Million*	**30,048**	28,440	**+5.7%**
Available seat kilometres ("ASK")	*Million*	**142,680**	134,711	**+5.9%**
Revenue passengers carried	*'000*	**34,065**	31,570	**+7.9%**
Passenger load factor	*%*	**85.7**	83.3	**+2.4%pt**
Passenger yield	*HK cents*	**59.6**	67.3	**-11.4%**
Cargo and mail carried	*'000 tonnes*	**1,798**	1,723	**+4.4%**
Cargo and mail load factor	*%*	**64.2**	64.3	**-0.1%pt**
Cargo and mail yield	*HK$*	**1.90**	2.19	**-13.2%**
Cost per ATK (with fuel)	*HK$*	**3.14**	3.50	**-10.3%**
Cost per ATK (without fuel)	*HK$*	**2.06**	2.12	**-2.8%**
Aircraft utilisation	*Hours per day*	**12.2**	12.2	**–**
On-time performance	*%*	**64.7**	70.1	**-5.4%pt**
Average age of fleet	*Years*	**9.1**	9.1	**–**
GHG emissions	*Million tonnes of CO_2e*	**17.1**	16.4	**+4.3%**
GHG emissions per ATK	*Grammes of CO_2e*	**569**	576	**-1.2%**
Lost time injury rate	*Number of injuries per 100 full-time equivalent employees*	**2.81**	3.67	**-23.4%**

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$6,000 million for 2015. This compares to a profit of HK$3,150 million in 2014. Earnings per share were HK152.5 cents compared to HK80.1 cents in the previous year.

The Group's performance in 2015 was better than in 2014. The business benefited from low fuel prices. The high passenger load factors experienced in the first half of the year continued in the second half. This reflected strong economy class demand. Premium class demand was not as strong as expected on some long-haul routes. Air cargo demand, which came under pressure during the second quarter of the year, remained weak in the second half. There was an improved contribution from the Group's subsidiary and associated companies.

The Group's passenger revenue in 2015 was HK$73,047 million, a decrease of 3.5% compared to 2014. Capacity increased by 5.9%, reflecting the introduction of new routes (to Boston, Düsseldorf, Hiroshima and Zurich) and increased frequencies on some other routes. The load factor increased by 2.4 percentage points, to 85.7%. Strong competition, a significant reduction in fuel surcharges, unfavourable foreign currency movements and the fact that a higher proportion of passengers were connecting through Hong Kong put downward pressure on yield, which decreased by 11.4%, to HK59.6 cents. Economy class demand was strong. Premium class demand improved on regional routes but was not as strong as expected on some long-haul routes.

The Group's cargo revenue in 2015 was HK$23,122 million, a decrease of 9.0% compared to the previous year. This mainly reflected a reduction in fuel surcharges consequent upon lower fuel prices. Capacity for Cathay Pacific and Dragonair increased by 5.4%. The load factor decreased by 0.1 percentage point to 64.2%. Strong competition, overcapacity, unfavourable foreign currency movements and the reduction in fuel surcharges put pressure on yield, which decreased by 13.2%, to HK$1.90. Demand was strong in the first quarter of 2015, assisted by industrial action at ports on the west coast of the United States. Overall demand was weak for the rest of the year, particularly on European routes.

Total fuel costs for Cathay Pacific and Dragonair (before the effect of fuel hedging) decreased by HK$14,561 million (or 37.8%) compared to 2014, despite increases in capacity. A 40.3% decrease in average prices was partially offset by a 4.3% increase in consumption. Fuel is still the Group's most significant cost, accounting for 34.0% of our total operating costs in 2015 (compared to 39.2% in 2014). Fuel hedging losses reduced the benefit of lower fuel costs. After taking hedging losses into account, fuel costs decreased by HK$7,331 million (or 18.2%) compared to 2014.

The Group's operating expenses exclusive of fuel increased by 2.3% in 2015 compared to 2014. This was mainly due to increased operations and a corresponding increase in the size of the workforce. Congestion at Hong Kong International Airport and air traffic control constraints in the Greater China region also increased operating expenses. Productivity improvements and favourable foreign currency movements kept the increase in non-fuel costs below the increase in capacity. There was a 3.1% reduction in non-fuel costs per ATK.

The contribution from Air China (the results of which are included in the Group's results three months in arrear) was significantly higher in 2015 than in 2014. The improvement principally reflected low fuel prices and strong passenger demand. In August 2015, devaluation of the Renminbi led to significant foreign exchange losses for Air China. However, the foreign exchange losses were more than offset by savings from low fuel prices.

In 2015, Cathay Pacific introduced passenger services to Zurich (in March), to Boston (in May) and to Düsseldorf (in September).They have been well received. Cathay Pacific will introduce passenger services to Madrid in June 2016 and to London's Gatwick airport in September 2016. Dragonair introduced passenger services to Haneda in Tokyo (in March 2015) and to Hiroshima (in August 2015). Frequencies on some other routes were increased. Cathay Pacific passenger services to Moscow and Doha and the Dragonair passenger service to Manila were discontinued. Cathay Pacific introduced a freighter service to Kolkata in March 2015 and increased freighter frequencies to North America and India. We adjusted our freighter network and capacity in line with demand.

In 2015, we took delivery of six Boeing 777-300ER aircraft and three Airbus A330-300 aircraft. The Boeing 777-300ER delivered in September 2015 was the 53rd and final aircraft of this type to join our fleet. Four Boeing 747-400 passenger aircraft and four Airbus A340-300 aircraft were retired in 2015. One Airbus A340-300 aircraft was retired in February 2016 and we have brought forward the retirement of our remaining three Boeing 747-400 passenger aircraft from 2017 to 2016. In 2013, we agreed to sell six Boeing 747-400F freighters to The Boeing Company. Two of these freighters have been delivered. The remaining four will be delivered by the end of 2016. At 31st December 2015, we had 70 new aircraft on order for delivery up to 2024. Our first Airbus A350-900XWB aircraft is scheduled to be delivered in May 2016. 12 of these aircraft are scheduled to be delivered in 2016. We took delivery of the first of two Airbus A350 simulators in May 2015.

We continue to invest heavily in our products and brands. Cathay Pacific's new livery was introduced in November 2015. Except for Boeing 747-400 and Airbus A340-300 passenger aircraft that are being retired, all Cathay Pacific and Dragonair wide-bodied passenger aircraft have been fitted or refitted with new or refreshed seats in all classes. Our new Airbus A350XWB aircraft will have new cabins, seats and entertainment systems. The first class lounge at The Pier at Hong Kong International Airport reopened in June 2015. We opened lounges in Manila in May, Bangkok in June, San Francisco in October and Taipei in November 2015.

Prospects

The operating environment was better in 2015 than in 2014, but we faced some significant challenges, which we expect to continue in 2016. Strong competition from other airlines in the region, foreign currency movements and weak premium class passenger demand will put pressure on passenger yield. Cargo demand will be adversely affected by industry overcapacity. Overall passenger demand remains strong and we expect to continue to benefit from low fuel prices. Our subsidiaries and associates are expected to continue to perform well.

We are confident of longer-term success, and we will continue to help our passengers to travel well. In January 2016, we announced that Dragonair is to be rebranded as Cathay Dragon, as part of an effort to create a more consistent travel experience between the two airlines. We will continue to invest in aircraft, in our products and in the development of our network. Our financial position is strong. Supported by our world-class team, we remain deeply committed to strengthening the aviation hub in Hong Kong, our home city for the past 70 years.

John Slosar
Chairman
Hong Kong, 9th March 2016

2015 in Review

The Group's performance in 2015 was better than in 2014. The business benefited from low fuel prices. The high passenger load factors experienced in the first half of the year continued in the second half. This reflected strong economy class demand. Premium class demand was not as strong as expected on some long-haul routes. Air cargo demand, which came under pressure during the second quarter of the year, remained weak in the second half. There was an improved contribution from the Group's subsidiary and associated companies. We strengthened our network and improved our products and services.

Our new livery was unveiled in November 2015. In January 2016, we announced that Dragonair is to be rebranded as Cathay Dragon, as part of an effort to create a more consistent travel experience between the two airlines. In our 70th anniversary year, we remain deeply committed to strengthening the position of Hong Kong as one of the world's leading aviation hubs.

Award-winning products and services

- The refreshment of the first class seats in our Boeing 777-300ER aircraft was completed in March 2015. We rejuvenated the look and feel of the cabins and improved bed linen, headsets and seat controls. 33 aircraft have the refreshed first class seats.
- The installation of the new long-haul business class and long-haul economy class seats was completed in all our Airbus A330-300 aircraft in May 2015 and Boeing 777-300ER aircraft in September 2015.
- The installation of new regional business class seats was completed in our Boeing 777-200 aircraft in January 2015. All of Cathay Pacific's regional aircraft now have these seats.
- At the end of 2015, five of Dragonair's Airbus A320-200 aircraft had been fitted with new business and economy class seats and wireless inflight entertainment systems. The rest of Dragonair's Airbus A320 aircraft will be fitted with new seats and entertainment systems by 2018.
- The first class lounge at The Pier reopened in June 2015 following an extensive refurbishment. Its design and services have been well received.
- The Pier business class lounge was closed for renovation in July 2015 and will reopen in the second quarter of 2016.
- Our new lounge at Haneda in Tokyo, which opened in November 2014, has been well received by passengers. We opened lounges in Manila (in May 2015), Bangkok (in June 2015) and Taipei (in November 2015). The design of all these new lounges follows the Haneda lounge.
- Our lounge in San Francisco has been expanded since October 2015. The expanded area has a new deli counter as well as additional shower rooms and seats.
- The final stage of the refurbishment of the business class lounge in Los Angeles was completed in May 2015.
- The first and business class lounge at Heathrow airport in London was closed for renovation and expansion in November 2015. It will reopen in the second quarter of 2016. We are relocating and updating our lounge in Vancouver, which is scheduled to reopen in the second quarter of 2016.
- We offer streamed digital newspapers and magazines in our Hong Kong lounges. We will begin to offer these services in our lounges outside Hong Kong from the last quarter of 2016.
- In 2015, Cathay Pacific was named Best Transpacific Airline in the Skytrax World Airline Awards; Most Attractive Employer in the Randstad Award; Best Frequent Flyer Programme and Best Airline Lounge in the Business Traveller Asia-Pacific Awards; and Best Airline for Inflight Retail at the Airline Retail Conference Asia Pacific.

- Cathay Pacific service teams and individual staff members won honours at the Inflight Sales Person of the Year Awards and the Customer Service Excellence Awards organised by the Hong Kong Association for Customer Service Excellence.
- In 2015, Dragonair was named World's Best Regional Airline (for the fourth time) and Best Regional Airline in Asia at the Skytrax World Airline Awards and was named Best Regional Airline in the TTG Travel Awards for the sixth consecutive year.

Hub development

- In 2016, Cathay Pacific celebrates its 70th anniversary as the home carrier of Hong Kong. We remain deeply committed to the long-term development of Hong Kong International Airport as a premier international hub for passenger and cargo traffic.
- Congestion at Hong Kong International Airport and air traffic control constraints in the Greater China area adversely affected our operations.
- We fully support the construction of the third runway at Hong Kong International Airport. We believe the construction of the third runway is critical to addressing the airport's shortage of capacity, and to maintaining Hong Kong's long-term competitiveness as a premier aviation hub.
- The development of our networks is a priority. But we manage capacity in line with passenger and cargo demand. In 2015, we cancelled flights for commercial and operational reasons, without affecting the integrity of our networks.
- The passenger capacity of Cathay Pacific and Dragonair increased by 5.9% in 2015 compared to 2014. This reflected the introduction of new routes and increased frequencies on some other routes. Cathay Pacific's passenger capacity increased by 6.1%. Dragonair's passenger capacity increased by 4.8%.
- In 2015, Cathay Pacific introduced passenger services to Zurich (in March), Boston (in May) and Düsseldorf (in September). We will introduce four-times-weekly passenger services to Madrid in June 2016 and to London's Gatwick airport in September 2016.
- We stopped flying to Moscow in June 2015. We stopped flying to Doha in February 2016, but continue to offer a codeshare service with Qatar Airways on this route.
- The Cathay Pacific service to San Francisco was increased from 14 to 17 flights a week in June 2015. The service to Chicago was reduced from 10 flights a week to daily in March 2015. To meet summer demand, the Toronto service was temporarily increased from 10 to 13 flights per week in July and August 2015.
- We increased Cathay Pacific's capacity by using Boeing 777-300ER aircraft to fly to Rome in June 2015 and for selected flights to Sydney in October 2015.
- We increased the frequency of the Adelaide service from four to five flights a week from December 2015 to March 2016.
- We increased the frequency of the Auckland service from one to two flights a day from December 2014 to March 2015. We increased capacity by using Boeing 777-300ER aircraft on one of the flights from December 2015 to February 2016.
- In 2015, Cathay Pacific increased its Jakarta service from 21 to 26 flights a week in January, its Bangkok service from 59 to 63 flights per week in March, its Manila service from 47 to 49 flights a week in March and its Ho Chi Minh City service from 16 to 18 flights a week in November.
- We reduced capacity on the Bangkok route from August to October 2015. Demand fell due to safety concerns. The full schedule was restored in November 2015.
- We reduced capacity on the Seoul route in March 2015 and again in June 2015. Demand fell due to the incidence of middle east respiratory syndrome in Korea. The full schedule was restored in September 2015.
- We increased the frequencies of our direct flights to Colombo from four flights a week to daily in October 2015.
- The service to Riyadh was reduced from five to four flights a week in October 2015.
- In 2015, Dragonair introduced a daily service to Haneda in Tokyo in March and a twice-weekly service to Hiroshima in August.

Joy of Discovery

Our modern fleet and growing network of destinations lets you live a Life Well Travelled.

- Dragonair stopped flying to Manila in June 2015.
- In 2015, Dragonair increased its Phnom Penh service from 10 to 12 flights a week in January, increased its Wuhan service from 10 to 11 flights a week in January, increased its Kolkata service from five to six flights a week in May, increased its Okinawa service from four flights a week to daily over the summer season, increased its Hongqiao in Shanghai service from seven to nine flights a week in November, increased its Penang service from 10 to 12 flights a week in November and started to use bigger (Airbus A330-300) aircraft on four of its 14-times-weekly Phuket flights in December.
- Our cargo capacity in 2015 increased by 5.4% compared to 2014. We operated more freighter services and carried a higher proportion (57.0%) of total cargo shipments in the bellies of passenger aircraft.
- We introduced a twice-weekly cargo service to Kolkata in March 2015. In the same month, we increased our Delhi cargo service from seven to eight flights a week.
- We added two cargo flights per week to North America in April 2015. We changed routings so as to increase cargo capacity on the Chicago, Los Angeles and New York routes. We also increased the frequency of the Columbus service from three to four flights a week from October 2015.
- 2015 was the second full year of operations for the Cathay Pacific cargo terminal at Hong Kong International Airport. The terminal handled 1.7 million tonnes of cargo in 2015, an increase of 13% compared to 2014. It serves 12 airlines, including Cathay Pacific, Dragonair and Air Hong Kong.

Fleet development

- We are investing heavily in new aircraft. This will make us one of the world's most modern and fuel-efficient airlines, and will strengthen Hong Kong's position as one of the world's premier international aviation hubs.
- At 31st December 2015, Cathay Pacific operated 146 aircraft, Dragonair operated 42 aircraft and Air Hong Kong operated 13 aircraft (a total of 201 aircraft for the Group). There are 70 new aircraft on order for delivery up to 2024.
- In 2015, we took delivery of nine new aircraft: six Boeing 777-300ERs and three Airbus A330-300s. The Boeing 777-300ER delivered in late September was the 53rd and final aircraft of this type to join our fleet.
- Four Boeing 747-400 passenger aircraft and four Airbus A340-300 aircraft were retired in 2015. One Airbus A340-300 aircraft was retired in February 2016 and we have brought forward the retirement of our remaining three Boeing 747-400 passenger aircraft from 2017 to 2016. In 2013, we agreed to sell six Boeing 747-400F freighters to The Boeing Company. Two of these freighters have been delivered, one in November 2014, the other in July 2015. The remaining four freighters will leave the fleet by the end of 2016.
- One of Cathay Pacific's regional Airbus A330-300 aircraft was transferred to Dragonair in December 2015.
- Our first Airbus A350-900XWB aircraft is scheduled to be delivered in May 2016. We have 48 Airbus A350 aircraft on order, comprising both the A350-900 and the A350-1000 aircraft types.
- We took delivery of the first of two Airbus A350 simulators in May 2015. We have purchased a new Airbus A330-300 simulator to replace an old one.

Advances in technology

- We introduced a travel retail platform in Hong Kong in April 2015, following its successful introduction in Australia and Singapore.
- We introduced a mobile application in May 2015 which enables flights to be booked on mobile devices. We also improved the design and content of our airline websites.
- In May 2015, we introduced a cloud-based catering system to improve productivity and efficiency and facilitate future improvements in catering. The rollout was completed across all the destinations in our networks by December 2015.
- We started to provide tablet devices to senior Cathay Pacific and Dragonair cabin crew in April 2015. These devices provide our crews with information that helps them to offer a more consistent and personalised travel experience to passengers.

- Self-service bag drop and kiosk bag tagging facilities were introduced in some airports on a trial basis in early 2016 and will be rolled out in Hong Kong in April 2016.
- We are developing a new system to replace the current Cathay Pacific cargo booking system. It is expected to be introduced in the second half of 2016.
- We introduced a new system for dealing with feedback and complaints from passengers.

Partnerships

- Cathay Pacific Chief Executive, Ivan Chu, became Chairman of the **one**world Governing Board in June 2015.
- In March 2015, Cathay Pacific and Qatar Airways extended their codeshare arrangements so as to include Qatar Airways flights between Doha and Muscat.
- In March 2015, Cathay Pacific and Dragonair ended their codeshare arrangements with Air Seychelles and Royal Brunei Airlines. We still have interline arrangements with these airlines.
- In June 2015, Cathay Pacific and Bangkok Airways entered into partnership arrangements in relation to their frequent flyer programmes.
- In July 2015, Cathay Pacific and Dragonair entered into interline arrangements with Eurowings, Germanwings and ACP Rail International.
- In August 2015, Cathay Pacific and Air New Zealand received reauthorisation for their strategic agreement on the Auckland Hong Kong route until 31st October 2019.
- Cathay Pacific discontinued its daily service to Doha in February 2016. It continues to offer a codeshare service with Qatar Airways on this route. The Qatar Airways code will remain on some Cathay Pacific routes to Australia, Japan, Korea and New Zealand.
- In November 2015, Cathay Pacific and American Airlines expanded their codeshare arrangements so as to include American Airlines flights between Los Angeles and Mexico City.
- In December 2015, Cathay Pacific and Dragonair entered into interline arrangements with Vueling Airlines.
- In January 2015, Dragonair entered into codeshare arrangements with Shenzhen Airlines in relation to Shenzhen Airlines flights between Hong Kong and Jinjiang.

Environment

- Cathay Pacific is involved in the Global Market-Based Measure Technical Task Force, under the auspices of the International Civil Aviation Organization. This task force is leading the industry's work to develop airlines' commitment to carbon neutral growth by 2020 and in developing proposals for a fair and equitable global agreement on emissions.
- Cathay Pacific engages with groups (the IATA Environment Committee, the Airlines Advisory Group on Global Market-Based Measures, the Sustainable Aviation Fuel Users Group and the Association of Asia Pacific Airlines) involved in shaping climate change and aviation policy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- In compliance with the European Union's Emissions Trading Scheme (EU ETS), our 2015 emissions data from intra-EU flights were reported on by an external auditor in January 2016 and our emissions report was submitted to the UK Environment Agency in February 2016. Cathay Pacific's greenhouse gas (GHG) emissions data for 2015 were reported by an external auditor.
- We purchased carbon credits certified to the Gold Standard from renewable energy projects in Mainland China and Taiwan for Cathay Pacific's "FLY *greener*" carbon offset programme. This programme allows passengers to offset the environmental impact of their travel.
- Since 2015, unopened food items from inbound Cathay Pacific flights to Hong Kong have been collected by Feeding Hong Kong, a non-profit organisation which provides surplus food to Hong Kong charities for distribution to people in need. More than 116 tonnes of surplus food have been donated.

- In March 2015, Cathay Pacific participated in WWF's annual Earth Hour activity. We switched off all non-essential lighting in our buildings and on our billboards.
- Our retiring Airbus A340 aircraft are being dealt with under PAMELA (Airbus' Process for Advanced Management of End-of-Life Aircraft). This enables old aircraft to be dismantled (and disposed of or recycled) in a sustainable manner. Four aircraft were recycled in 2015.
- We share environmental best practice and experience with Air China.
- Cathay Pacific is a constituent of the FTSE4Good Index and the Hang Seng Corporate Sustainability Index. We responded to the Carbon Disclosure Project climate change and supply chain questionnaires.
- Our 2014 sustainable development report (entitled "Sustaining a Life Well Travelled") is available at www.cathaypacific.com/sdreport.

Contribution to the community

- In February 2015, Hong Kong SAR Chief Executive CY Leung was the guest of honour on a community flight organised by Cathay Pacific. The 90-minute flight on a Boeing 777-200 aircraft was a special treat for 200 people from 60 less-advantaged families in Hong Kong. Most of the participants had never flown before. We operated another community flight in January 2016, again with the Hong Kong SAR Chief Executive as our guest of honour.
- In November 2015, Dragonair organised Journey of Dreams, a flight for 50 beneficiaries of the Hong Kong Labour and Welfare Bureau's Child Development Fund. The participants were from less-advantaged backgrounds and had never flown before. Prior to the flight, they were given a behind-the-scenes look at airline operations.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. In August 2015 we announced that the airline's passengers had contributed more than HK$11.3 million in 2014 to help improve the lives of less-advantaged children around the world. Since its introduction in 1991, more than HK$155 million has been raised through the programme.
- A percentage of "Change for Good" donations are passed to the Cathay Pacific wheelchair bank, which raises funds to provide specially adapted wheelchairs for children with neuromuscular diseases. Since its formation, the bank has raised more than HK$12 million and has benefited more than 400 children.
- In May 2015, a group of Cathay Pacific staff went to Sichuan province in Mainland China to see how "Change for Good" donations are put to good use within the local community.
- The Cathay Pacific Volunteers, made up of around 1,400 staff from the airline, contributed their free time to support the local community in Hong Kong. Their activities included the "English on Air" programme, which has helped more than 2,200 students to improve their conversational English skills and job interview skills, acting as mentors to beneficiaries of the Labour and Welfare Bureau's Child Development Fund, participation in a 24-hour pedal kart event to develop young people's teamwork and taking part in a food donation programme organised by Cathay Pacific Catering Services (H.K.) Limited and Feeding Hong Kong.
- We organised tours of our headquarters at Hong Kong International Airport for around 10,000 visitors from schools and NGOs in 2015.
- In October 2015, the Dragonair Youth Aviation Academy organised a career workshop for some 100 young people, providing them with an opportunity to learn about Hong Kong aviation organisations through talks and visits to facilities.

- The Dragonair Aviation Certificate Programme is jointly organised with the Hong Kong Air Cadet Corps. In 2015, Dragonair pilots mentored 31 participants over nine months, aiming to inspire potential Hong Kong aviators by giving them first-hand knowledge of the aviation industry. To date, around 200 participants have graduated from the programme. Almost half of the graduates have started aviation-related careers.
- Cathay Pacific has received the Caring Company Logo from the Hong Kong Council of Social Service every year since 2003 in recognition of its good corporate citizenship. Dragonair has received the Caring Company Logo every year since 2005.

Commitment to staff

- At 31st December 2015, the Cathay Pacific Group employed more than 33,600 people worldwide. Around 25,800 of these staff are employed in Hong Kong. Cathay Pacific itself employs around 23,400 people worldwide. Dragonair employs around 3,400 people.
- Cathay Pacific recruited more than 1,700 staff in 2015, including around 840 cabin crew and around 300 pilots. Dragonair recruited around 190 cabin crew and around 40 pilots.
- Our airlines' cadet programmes bring new blood into Hong Kong's aviation industry. In 2015, 80 cadets graduated from the Cathay Pacific cadet pilot programme and 13 cadets graduated from Dragonair's cadet pilot programme.
- In 2015, 10 graduates (out of more than 500 applicants) were selected to join our IT graduate trainee programme. They joined Cathay Pacific's IT team in August 2015.
- In 2015, we recruited five people into our engineering trainee scheme. A number of participants from earlier years are now in senior positions.
- We regularly review our human resources and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.
- Cathay Pacific was named the most attractive employer in Hong Kong at the 2015 Randstad Award.
- The 11th annual Betsy Awards ceremony took place in August 2015. This internal programme honours staff from Cathay Pacific and Dragonair who go beyond the call of duty to help passengers.
- We introduced an internal social media platform in May 2015, for use by Cathay Pacific and Dragonair staff worldwide. The platform will help to keep staff more informed and better connected and is intended to facilitate more open communication within the airlines.

Fleet profile*

Aircraft type	Number at 31st December 2015				Firm orders				Expiry of operating leases						
		Leased													
	Owned	Finance	Operating	**Total**	'16	'17	'18 and beyond	**Total**	'16	'17	'18	'19	'20	'21 and beyond	Options
Aircraft operated by Cathay Pacific:															
A330-300	23	13	6	**42**							3	1	2		
A340-300	5	2		**7**[(a)]											
A350-900					12[(b)]	10		**22**							
A350-1000							26	**26**							
747-400	3			**3**											
747-400F	4			**4**[(c)]											
747-400BCF			1[(d)]	**1**							1				
747-400ERF		6		**6**											
747-8F	2	11		**13**	1[(c)]			**1**							
777-200	5			**5**											
777-200F															5[(e)]
777-300	11	1		**12**											
777-300ER	19	11	23	**53**						2	2			19	
777-9X							21[(c)]	**21**							
Total	72	44	30	**146**	13	10	47	**70**		2	6	1	2	19	5
Aircraft operated by Dragonair:															
A320-200	5		10	**15**							2	1	1	6	
A321-200	2		6	**8**									1	5	
A330-300	10		9[(f)]	**19**					3	4		2			
Total	17		25	**42**					3	4	2	3	2	11	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6	2	**10**							2				
747-400BCF			3[(f)]	**3**					1	2					
Total	2	6	5	**13**					1	2	2				
Grand total	**91**	**50**	**60**[(f)]	**201**	**13**	**10**	**47**	**70**	**4**	**8**	**10**	**4**	**4**	**30**	**5**

** Includes parked aircraft. The table does not reflect aircraft movements after 31st December 2015.*

(a) One Airbus A340-300 was sold in February 2016.

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

(c) In December 2013, Cathay Pacific agreed with The Boeing Company to purchase 21 new Boeing 777-9X aircraft (for delivery after 2020), three new Boeing 777-300ER aircraft and one new Boeing 747-8F freighter and to sell six existing Boeing 747-400F freighters. Three Boeing 777-300ER aircraft have been delivered to Cathay Pacific, one in April 2015, one in July 2015 and the third in September 2015. Two of the Boeing 747-400F freighters have been delivered to The Boeing Company, one in November 2014, the other in July 2015. Of the remaining four, one was parked in January 2014.

(d) The aircraft was parked in August 2013 and returned to service in September 2015.

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

(f) Of the total 60 operating lease aircraft, 55 are leased from external parties and five are under leasing arrangement within the Group (three Boeing 747-400BCFs and two Airbus A330-300s).

Review of other subsidiaries and associates

The share of profits from other subsidiaries and associates in 2015 increased by 86.2% to HK$2,428 million from HK$1,304 million. This mainly reflected a strong performance from our associate, Air China, whose results benefited from low fuel prices and strong passenger demand, offset in part by the devaluation of the Renminbi. Below is a review of the performance and operations of subsidiaries and associates.

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

- Air Hong Kong is the only all-cargo airline in Hong Kong. It is 60.0% owned by Cathay Pacific. It operates express cargo services for DHL Express.
- Air Hong Kong operates eight owned Airbus A300-600F freighters, two dry leased Airbus A300-600F freighters and three Boeing 747-400BCF converted freighters dry leased from Cathay Pacific.
- In March 2015, Air Hong Kong converted a wet lease of an Airbus A300-600F freighter to a dry lease.
- During 2015 Air Hong Kong operated six flights per week services to Bangkok, Ho Chi Minh City, Osaka, Penang (via Ho Chi Minh City), Seoul, Shanghai, Singapore, Taipei and Tokyo and five flights per week services to Beijing, Manila and Nagoya.
- On-time performance was 87.0% within 15 minutes.
- Compared with 2014, capacity in terms of available tonne kilometres increased by 0.6% to 776 million. The load factor increased by 0.4 percentage points to 66.5%. Revenue tonne kilometres increased by 1.3% to 516 million.
- Air Hong Kong achieved an increase in profit for 2015 compared with 2014.

Asia Miles Limited ("AML")

- AML, a wholly owned subsidiary, manages Cathay Pacific Group's reward programme. It has more than eight million members.
- There was a 10.0% increase in redemptions by Asia Miles members on Cathay Pacific and Dragonair flights in 2015.
- In 2015, AML achieved an increase in profit compared with 2014, due to an increase in business volume.

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

- CPCS, a wholly owned subsidiary, operates the principal flight kitchen in Hong Kong.
- CPCS provides flight catering services to 43 international airlines in Hong Kong. It produced 29.6 million meals and handled 72,000 flights in 2015 (representing a daily average of 81,000 meals and 196 flights and an increase of 8.9% and 4.1% respectively over 2014). CPCS had a 66.4% share of the flight catering market in Hong Kong in 2015.
- Increased business volume and effective management of costs resulted in higher revenue and profit in 2015.
- An expanded facility with 40% additional capacity is scheduled to open in the second half of 2016.
- Outside Hong Kong, profits were generally in line with expectations in all kitchens.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, operates the Group's cargo terminal at Hong Kong International Airport. It has the capacity to handle 2.6 million tonnes of cargo annually.
- Eva Air and AirAsia Zest became customers of CPSL in 2015. At the end of the year, CPSL provided cargo handling services to eight airlines. Four more airlines became customers in March 2016.
- CPSL handled 1.7 million tonnes of cargo in 2015, 51.0% of which were transhipments. Import and export shipments accounted for 17.0% and 32.0% respectively of the total.
- The 2015 operating performance was better than those of 2014. This reflected the addition of new customers and effective management of operating costs.

Hong Kong Airport Services Limited ("HAS")

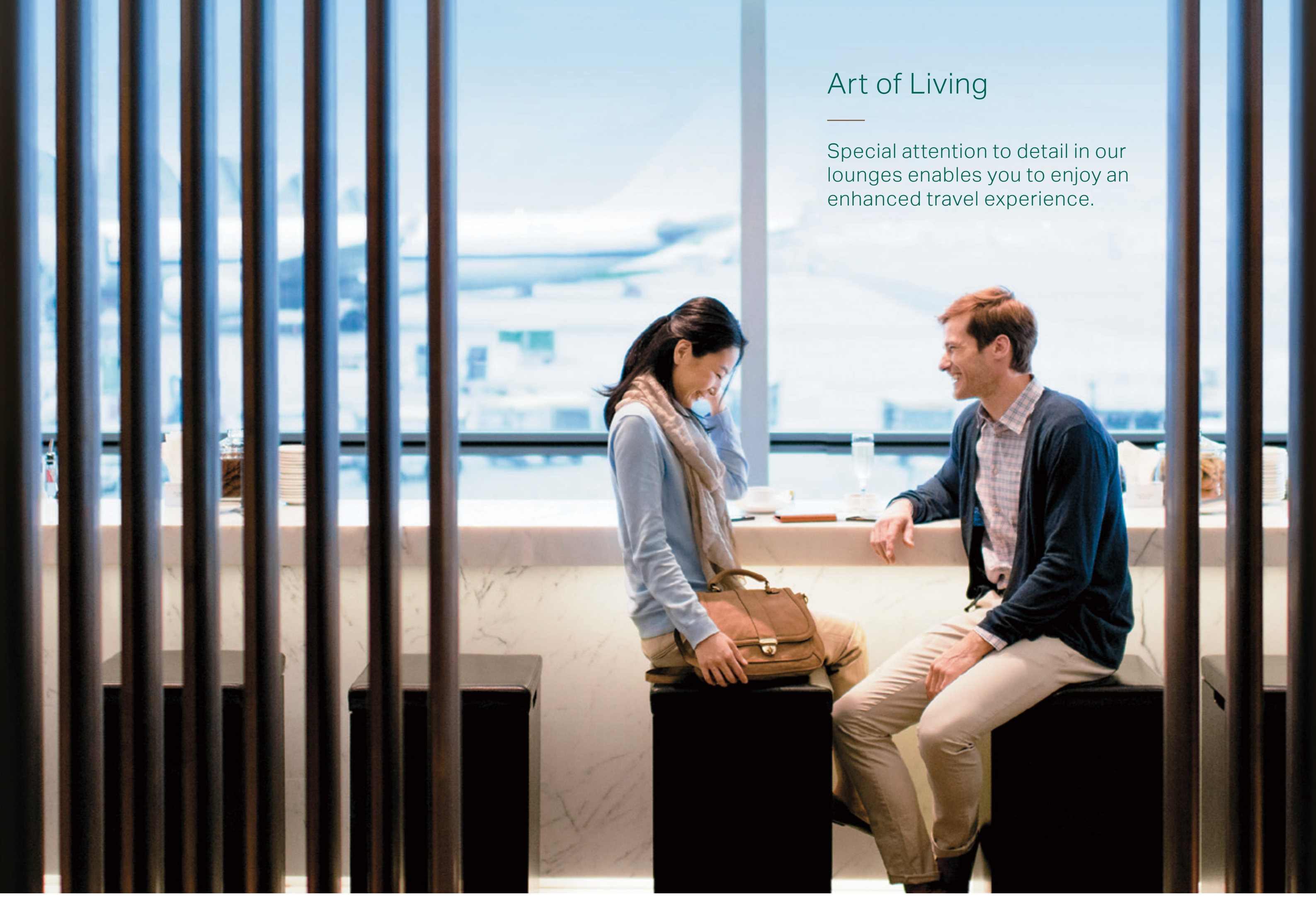
- HAS, a wholly owned subsidiary, provides ramp and passenger handling services in Hong Kong. It provides ground services to 22 airlines, including Cathay Pacific and Dragonair.
- In 2015, HAS had 47% and 20% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.
- In 2015, the number of customers for passenger handling was 20 and the number of customers for ramp handling was also 20. Both passenger and ramp handling flights decreased by 1.4% compared with 2014.
- The financial results for 2015 improved, reflecting higher efficiency, low fuel prices and effective yield management.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific has a 20.13% interest at 31st December 2015, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China. In July 2015, Air China proposed the issue of A shares. When the issue happens, Cathay Pacific's shareholding in Air China will be diluted.
- At 31st December 2015, Air China operated 245 domestic and 115 international (including regional) routes to 40 countries and regions, including 64 overseas cities, four regional cities and 106 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.
- In June 2015, Air China announced its subsidiary, Shenzhen Airlines, ordered 46 Boeing 737 aircraft. The aircraft are expected to be delivered from 2016 to 2020.
- Our share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently, our 2015 results include Air China's results for the 12 months ended 30th September 2015, adjusted for any significant events or transactions for the period from 1st October 2015 to 31st December 2015.
- For the 12 months ended 30th September 2015, Air China's results improved, principally as a result of low fuel prices and strong passenger demand. In August 2015, devaluation of the Renminbi led to significant foreign exchange losses for Air China. However, the foreign exchange losses were more than offset by savings from low fuel prices. Overall Cathay Pacific recorded an increase in profit from Air China in 2015.

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

- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest, is the leading provider of air cargo services in Mainland China. Its headquarters are in Beijing. Its main operating base is in Shanghai.
- At 31st December 2015, Air China Cargo operated 15 freighters. It flies to 10 cities in Mainland China and 11 cities outside Mainland China. Taking account of its rights to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections to 174 destinations.
- Air China Cargo's 2015 financial results were in line with those of 2014. The adverse effects of exchange losses on retranslation of United States dollar loans and lower yield in the highly competitive air cargo market were offset by the savings from low fuel prices.

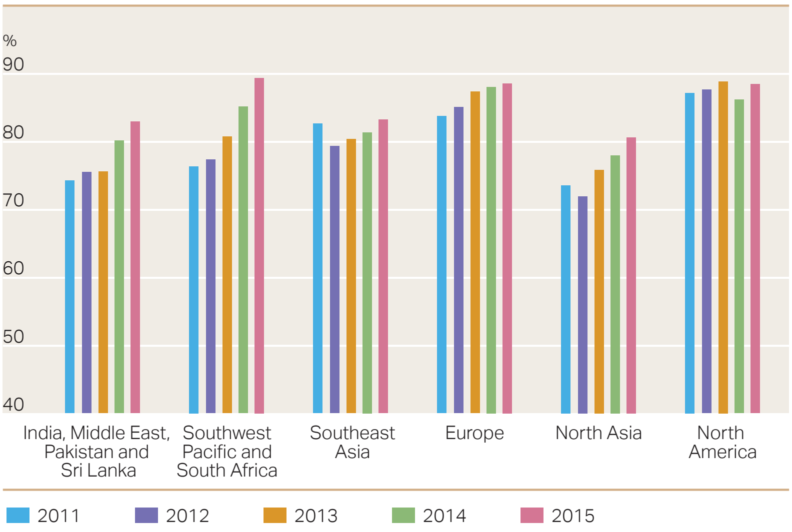


Art of Living

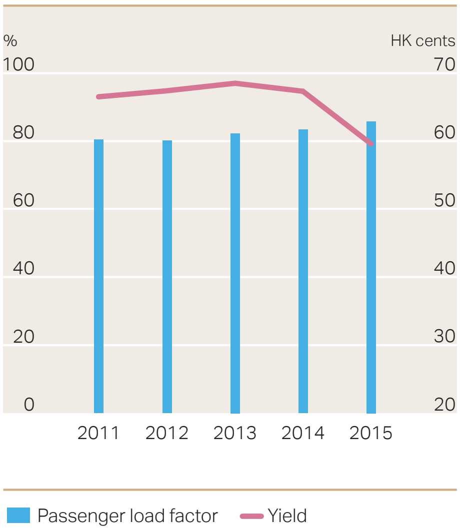
Special attention to detail in our lounges enables you to enjoy an enhanced travel experience.

Cathay Pacific and Dragonair carried 34.1 million passengers in 2015, an increase of 7.9% compared to 2014. Revenue decreased by 3.5% to HK$73,047 million. The load factor increased by 2.4 percentage points to 85.7%. Capacity increased by 5.9%, reflecting the introduction of new routes (to Boston, Düsseldorf, Hiroshima and Zurich) and increased frequencies on some other routes. Strong competition, a significant reduction in fuel surcharges, unfavourable foreign currency movements and the fact that a higher proportion of passengers were connecting through Hong Kong put downward pressure on yield, which decreased by 11.4%, to HK59.6 cents. Economy class demand was strong. Premium class demand improved on regional routes but was not as strong as expected on some long-haul routes.

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 2015 were as follows:

	ASK (million)			Load factor (%)			Yield
	2015	2014	**Change**	**2015**	2014	**Change**	**Change**
India, Middle East, Pakistan and Sri Lanka	**10,127**	10,685	**-5.2%**	**82.9**	80.1	**+2.8%pt**	**-8.0%**
Southwest Pacific and South Africa	**19,350**	18,032	**+7.3%**	**89.3**	85.1	**+4.2%pt**	**-13.9%**
Southeast Asia	**20,641**	18,625	**+10.8%**	**83.2**	81.3	**+1.9%pt**	**-10.6%**
Europe	**23,969**	21,056	**+13.8%**	**88.5**	88.0	**+0.5%pt**	**-12.7%**
North Asia	**30,267**	29,649	**+2.1%**	**80.6**	77.9	**+2.7%pt**	**-10.9%**
North America	**38,326**	36,664	**+4.5%**	**88.4**	86.1	**+2.3%pt**	**-10.8%**
Overall	**142,680**	134,711	**+5.9%**	**85.7**	83.3	**+2.4%pt**	**-11.4%**

Home market – Hong Kong and Pearl River Delta

- Demand for leisure travel from Hong Kong was strong in 2015, especially during the Chinese New Year, summer and Christmas peak periods.
- Japan was the most popular leisure destination for Hong Kong travellers in 2015. The depreciation of the Japanese yen increased demand.
- Demand for travel to Korea during the summer fell due to the incidence of middle east respiratory syndrome in Korea. We reduced our services accordingly, returning to a full schedule in September 2015.
- Demand for leisure and business travel originating from the Pearl River Delta increased in 2015. We increased our sales force in Guangzhou.

India, Middle East, Pakistan and Sri Lanka

- The performance of our India routes was satisfactory in 2015. There was more travel between India and Mainland China.
- Low fuel prices adversely affected the economy and the travel demand in the Middle East. Competition has increased, as Middle Eastern carriers operate more direct services to Mainland China, Southeast Asia and North America.
- Economy class demand, however, remained strong on the India subcontinent and Middle Eastern routes. To meet this demand, we have removed premium economy seats and increased economy class seat capacity for our Airbus A330-300 aircraft operating on these routes.
- We stopped flying to Doha in February 2016, but continue to offer a codeshare service with Qatar Airways on this route.
- Traffic on the Colombo route grew strongly. We increased the frequencies of our direct flights to Colombo from four flights a week to daily in October 2015.
- Dragonair increased Kolkata service from five to six flights a week in May 2015.

Southwest Pacific and South Africa

- The performance of our Australian routes was satisfactory in 2015. Demand for travel between Mainland China and Australia was stable. The value of the Australian dollars fell significantly. This increased demand for travel to Australia but adversely affected yield.
- Capacity was added on the Sydney route in October 2015 by using a Boeing 777-300ER aircraft on a second service from Hong Kong. We increased the frequency of the Adelaide service from four to five flights a week from December 2015 to March 2016.
- Business on the Perth route was affected by a downturn in the mining sector in Western Australia.
- Business on the New Zealand route was steady in 2015. We increased the frequency of the Auckland service from one to two flights a day from December 2014 to March 2015. We increased capacity by using Boeing 777-300ER aircraft on one of these flights from December 2015 to February 2016. In August 2015, Cathay Pacific and Air New Zealand received reauthorisation for their strategic agreement on the Auckland Hong Kong route until 31st October 2019.
- The performance of the South Africa route improved in 2015, as travel sentiment to Africa improved. Group travel recovered strongly. Demand for premium travel was strong.

Southeast Asia

- Demand for travel to Cambodia, the Philippines and Vietnam was strong in 2015. We increased the frequency of the Jakarta service from 21 to 26 flights a week in January 2015, increased the Manila service from 47 to 49 flights a week in March 2015, and increased the Ho Chi Minh City service from 16 to 18 flights a week in November 2015. Dragonair stopped flying to Manila in June 2015.
- We reduced capacity on the Bangkok route between August and October 2015. Demand fell due to safety concerns. The full schedule was restored in November 2015.

- Travel demand from Southeast Asian countries were adversely affected by depreciation of local currencies in the region in 2015.
- In 2015, Dragonair increased its Phnom Penh service from 10 to 12 flights a week in January and increased its Penang winter service from 10 to 12 flights a week in November.

Europe

- The performance of our European routes was strong in 2015. The weakness of the Euro stimulated demand for travel to Europe from Hong Kong, Mainland China and Taiwan.
- We introduced a daily service to Zurich in March 2015 and a four-times-weekly service to Düsseldorf in September 2015. The services have been well received.
- Demand for travel to Paris was affected for safety concerns in November 2015.
- We stopped flying to Moscow in June 2015.
- We increased Cathay Pacific's capacity by using Boeing 777-300ER aircraft to fly to Rome in June 2015.
- Demand for travel to London and Manchester routes was strong in all classes in 2015. Demand for travel between the United Kingdom and Southwest Pacific destinations was strong.
- We will introduce four-times-weekly services to Madrid in June 2016 and to London's Gatwick airport in September 2016.

North Asia

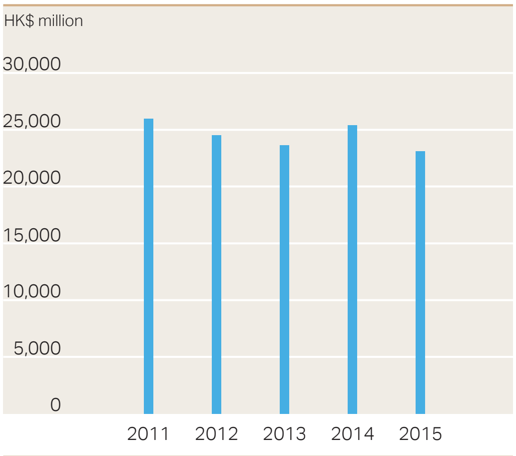
- Our Mainland China routes benefited from increased demand for international leisure travel from Mainland China. Europe, Japan, Southeast Asia and the Southwest Pacific were popular destinations.
- The performance of our Taiwan routes was satisfactory. Traffic grew despite more competition.
- The depreciation of the Japanese yen increased demand for travel to Japan, but yield was pressured by increased capacity and competition.
- The performance of our Korean routes was affected by middle east respiratory syndrome in the summer months. Demand for travel recovered after the summer, but promotional fares reduced yield.
- Dragonair introduced a daily service to Haneda in Tokyo in March 2015 and a twice-weekly service to Hiroshima in August 2015.
- In 2015, Dragonair increased its Wuhan service from 10 to 11 flights a week in January, increased its Okinawa service from four flights a week to daily over the summer season and increased its Hongqiao in Shanghai service from seven to nine flights a week in November.

North America

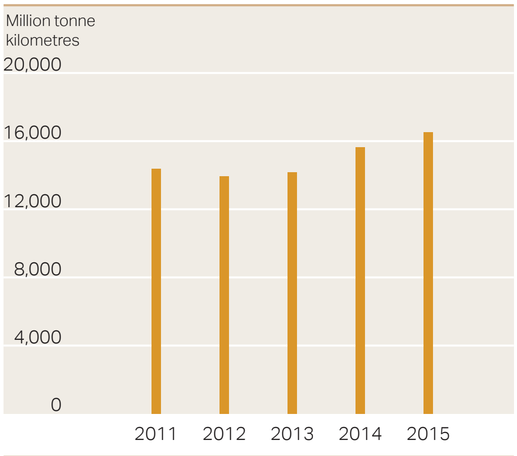
- Passenger numbers grew faster than the capacity increases. Premium class demand was less than expected on the New York and Los Angeles routes.
- We introduced a four-times-weekly service to Boston in May 2015. It has been well received. Load factors have been high.
- We increased the frequency of our San Francisco service from 14 to 17 flights a week in June 2015.
- We reduced the frequency of our Chicago service from 10 flights a week to daily in March 2015.
- We increased the frequency of our summer service to Toronto from 10 to 13 flights per week in July and August 2015.
- Load factors on the Vancouver route were high but yield was adversely affected by weakened Canadian dollars.

Cathay Pacific and Dragonair carried 1.8 million tonnes of cargo and mail in 2015, an increase of 4.4% compared to 2014. The cargo revenue of Cathay Pacific and Dragonair in 2015 was HK$20,079 million, a decrease of 8.9% compared to the previous year. This mainly reflected a reduction in fuel surcharges consequent upon lower fuel prices. Capacity for Cathay Pacific and Dragonair increased by 5.4%. The load factor decreased by 0.1 percentage point to 64.2%. Strong competition, overcapacity, unfavourable foreign currency movements and the reduction in fuel surcharges put pressure on yield, which decreased by 13.2%, to HK$1.90. Demand was strong in the first quarter of 2015, assisted by industrial action at ports on the west coast of the United States. Overall demand was weak for the rest of the year, particularly on European routes. We reduced capacity on some routes in line with reduced demand. We carried a higher proportion (57.0%) of total cargo shipments in the bellies of passenger aircraft.

Revenue



Capacity – cargo and mail ATK



Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for 2015 were as follows:

	ATK (million)			Load factor (%)			Yield
	2015	2014	**Change**	**2015**	2014	**Change**	**Change**
Cathay Pacific and Dragonair	**16,481**	15,630	**+5.4%**	**64.2**	64.3	**-0.1%pt**	**-13.2%**

- Cargo profits in 2015 benefited from low fuel prices. Low fuel prices meant lower fuel surcharges. This adversely affected revenue and yield. Low fuel prices also meant more market capacity. This also adversely affected yield. So did the depreciation of some currencies.
- We managed capacity in line with demand. We reduced schedules and made ad hoc cancellations where necessary.
- We carried a higher proportion (57.0%) of total cargo shipments in the bellies of passenger aircraft.
- Demand for cargo shipments from Hong Kong was strong in the first quarter of 2015 but weak from then until the year end peak period. There was no growth in demand for shipments to Europe in 2015. Demand for shipments to North America was better than expected and strong on the Indian route.
- Exports of cargo from Shanghai, Chengdu, Chongqing and Zhengzhou, particularly shipments of consumer electronic products to North America, are key sources of cargo revenue. The 2015 revenue from these sources in Hong Kong dollars was adversely affected by the weakness of the Renminbi. Our mail business in Mainland China is growing.

- There was strong demand for shipments of electronic parts and perishable goods from Vietnam.
- There was strong demand for shipments of cargo to India, particularly for infrastructure projects. We introduced a freighter service to Kolkata in March 2015 and increased the frequency of the Delhi service from seven to eight flights per week in March 2015. There was strong growth in demand for shipments of cargo from Bangladesh.
- Demand for shipments of cargo (milk powder to Mainland China, fresh products to Asia generally and chilled meat to the Middle East) from the Southwest Pacific traffic was strong. Demand for shipments to the Southwest Pacific was stable.
- Overcapacity on routes to Europe put heavy downward pressure on yield. We concentrated on shipping pharmaceutical and special products from Europe. The number of our freighter flights to Europe was between seven and nine a week, depending on demand.
- We added two cargo freighter services per week to North America in April 2015. We changed routings so as to increase cargo capacity on the Chicago, Los Angeles and New York routes. We also increased the frequency of the Columbus service from three to four flights a week from October 2015.
- 2015 was the second full year of operations for the Cathay Pacific cargo terminal at Hong Kong International Airport. The terminal handled 1.7 million tonnes of cargo in 2015, an increase of 13% compared to 2014. It serves 12 airlines, including Cathay Pacific, Dragonair and Air Hong Kong.
- In 2015, we introduced a mail scanning and tracking system.
- In 2013, we agreed to sell six Boeing 747-400F freighters to The Boeing Company. Two of these freighters have been delivered, one in November 2014, the other in July 2015. The remaining four freighters will leave the fleet by the end of 2016. We will take delivery of our 14th and final Boeing 747-8F freighter later in 2016.
- Our cargo business has many challenges. We have confidence in its long-term prospects and in Hong Kong's future as an international air cargo centre.

Loyalty and reward programmes

The Marco Polo Club

- The Marco Polo Club is the loyalty programme of Cathay Pacific and Dragonair, created to reward their valuable customers with benefits and services that enhance and elevate their travel experience. It has more than one million members.
- Members of the Marco Polo Club contribute to almost a quarter of the revenues of Cathay Pacific and Dragonair and fly on one-sixth of their flights.
- From 15th April 2016, Marco Polo Club will be moving to a new points-based system. Members will earn club points based on a combination of cabin class, fare class, and the distance travelled. This direction will better align with the industry direction to be able to better recognise the contribution of our passengers.
- All popular member benefits, including unlimited lounge access for Silver members and above, as well as priority boarding and check-in remain unchanged, but at the same time Marco Polo Club will introduce more flexible and family-friendly benefits.

Asia Miles

- Asia Miles is a leading travel and lifestyle rewards programme in Asia. It has more than eight million members and over 600 partners worldwide, including more than 25 airlines and 400 restaurants, plus hotels and shops.
- There was a 10% increase in redemptions by Asia Miles members on Cathay Pacific and Dragonair flights in 2015.
- Marco Polo Club members are also members of Asia Miles.

Antitrust proceedings

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions. The outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on relevant facts and circumstances in line with accounting policy 20 set out on page 105.

In December 2015, the General Court annulled the European Commission's finding against the Company in November 2010. The fine of Euros 57.12 million previously imposed on the Company had been refunded to the Company in early February 2016. The refund had been duly recognised in 2015 profit. More details on antitrust proceedings are disclosed in note 28(e) to the financial statements.

Joy of Life

The Cathay Pacific team will always ensure your journey gets off to the best possible start.

Financial Review

The Cathay Pacific Group reported an attributable profit of HK$6,000 million in 2015 compared with a profit of HK$3,150 million in 2014.

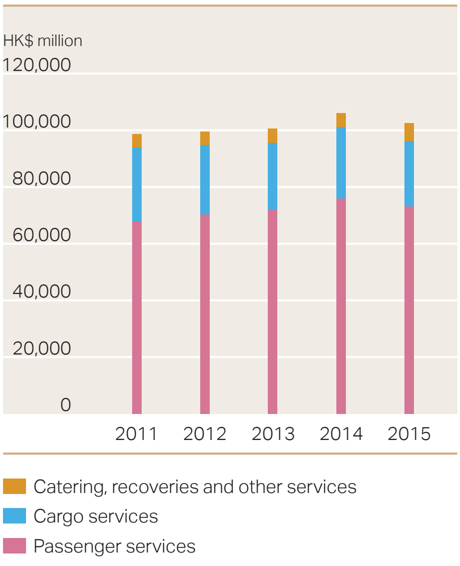
The business benefited from low fuel prices. The high passenger load factors experienced in the first half of the year continued in the second half. This reflected strong economy class demand. Premium class demand was not as strong as expected on some long-haul routes. Air cargo demand, which came under pressure during the second quarter of the year, remained weak in the second half.

There was an improved contribution from the Group's subsidiary and associated companies.

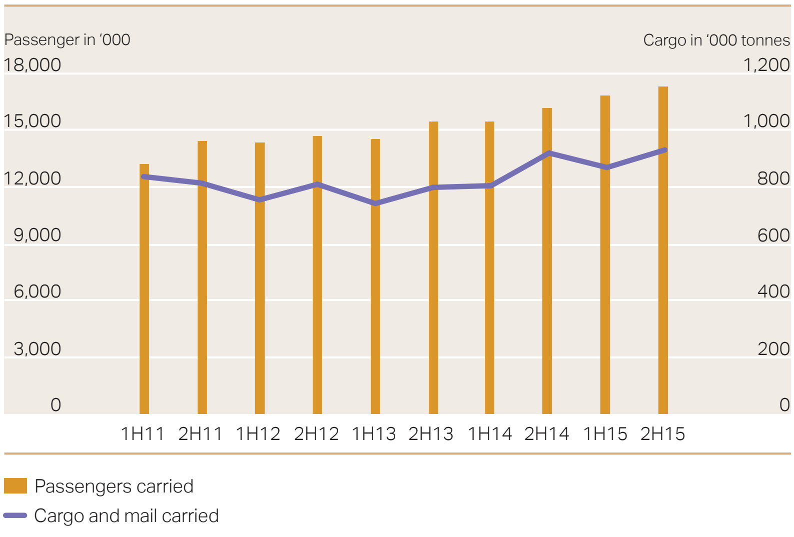
Revenue

	Group		Cathay Pacific and Dragonair	
	2015 HK$M	2014 HK$M	**2015 HK$M**	2014 HK$M
Passenger services	**73,047**	75,734	**73,047**	75,734
Cargo services	**23,122**	25,400	**20,079**	22,035
Catering, recoveries and other services	**6,173**	4,857	**5,590**	4,278
Total revenue	**102,342**	105,991	**98,716**	102,047

Revenue



Cathay Pacific and Dragonair: passengers and cargo carried

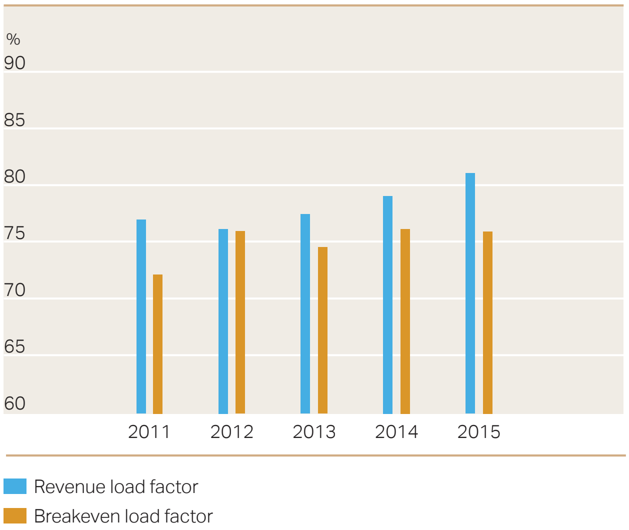


- Group revenue decreased by 3.4% in 2015 compared with 2014.

Cathay Pacific and Dragonair

- Passenger revenue decreased by 3.5% to HK$73,047 million. The number of revenue passengers carried increased by 7.9% to 34.1 million. Revenue passenger kilometres increased by 9.0%.
- The passenger load factor increased by 2.4 percentage points to 85.7%. Available seat kilometres increased by 5.9%.
- Passenger yield decreased by 11.4% to HK¢59.6.
- First and business class revenues decreased by 2.5% and the load factor increased from 71.4% to 71.8%.
- Premium economy and economy class revenues decreased by 4.0% and the load factor increased from 85.5% to 88.3%.
- Cargo revenue decreased by 8.9% to HK$20,079 million. There was a 5.4% increase in capacity.
- The cargo load factor decreased by 0.1 percentage point. Cargo yield decreased by 13.2% to HK$1.90.
- The revenue load factor increased by 2.0 percentage points to 81.1%. The breakeven load factor was 76.0%.

Cathay Pacific and Dragonair: revenue and breakeven load factor



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

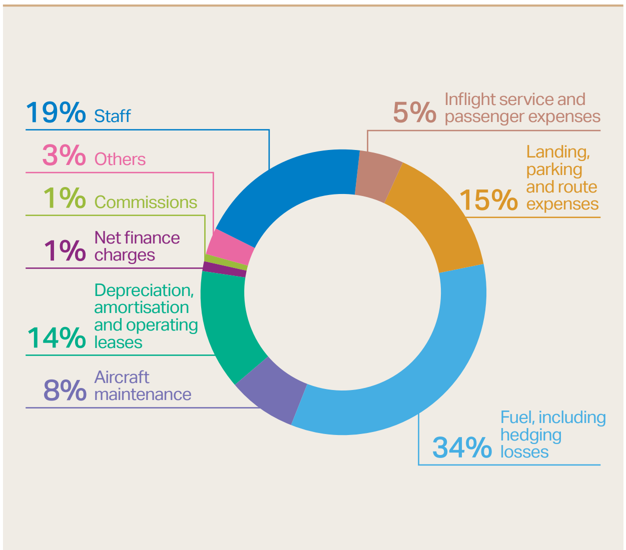
	HK$M
+ 1 percentage point in passenger load factor	**850**
+ 1 percentage point in cargo and mail load factor	**313**
+ HK¢1 in passenger yield	**1,223**
+ HK¢1 in cargo and mail yield	**106**

Operating expenses

	Group			Cathay Pacific and Dragonair		
	2015 HK$M	2014 HK$M	**Change**	**2015 HK$M**	2014 HK$M	**Change**
Staff	**18,990**	18,101	**+4.9%**	**17,028**	16,247	**+4.8%**
Inflight service and passenger expenses	**4,713**	4,438	**+6.2%**	**4,713**	4,438	**+6.2%**
Landing, parking and route expenses	**14,675**	14,196	**+3.4%**	**14,406**	13,954	**+3.2%**
Fuel, including hedging losses	**32,968**	40,299	**-18.2%**	**32,475**	39,473	**-17.7%**
Aircraft maintenance	**7,504**	7,077	**+6.0%**	**7,168**	6,766	**+5.9%**
Aircraft depreciation and operating leases	**10,883**	10,411	**+4.5%**	**10,724**	10,179	**+5.4%**
Other depreciation, amortisation and operating leases	**2,310**	2,116	**+9.2%**	**1,712**	1,490	**+14.9%**
Commissions	**798**	799	**-0.1%**	**798**	799	**-0.1%**
Others	**2,837**	4,119	**-31.1%**	**4,222**	5,177	**-18.4%**
Operating expenses	**95,678**	101,556	**-5.8%**	**93,246**	98,523	**-5.4%**
Net finance charges	**1,164**	1,158	**+0.5%**	**1,007**	1,115	**-9.7%**
Total operating expenses	**96,842**	102,714	**-5.7%**	**94,253**	99,638	**-5.4%**

- The Group's total operating expenses decreased by 5.7% to HK$96,842 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair decreased from HK$3.50 to HK$3.14.

Total operating expenses



Fuel price and consumption

Cathay Pacific and Dragonair operating results analysis

	2015 HK$M	2014 HK$M
Airlines' profit before taxation	**4,463**	2,409
Taxation	**(891)**	(563)
Airlines' profit after taxation	**3,572**	1,846
Share of profits from subsidiaries and associates	**2,428**	1,304
Profit attributable to the shareholders of Cathay Pacific	**6,000**	3,150

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

	HK$M	
2014 airlines' profit before taxation	**2,409**	
Decrease of revenue	**(3,331)**	– Passenger revenue decreased due to a 11.4% decrease in yield, offset in part by a 2.4% points increase in load factor and a 7.9% increase in passenger carried. – Cargo revenue decreased due to a 13.2% decrease in yield and a 0.1% point decrease in load factor, offset in part by a 4.4% increase in cargo and mail tonnage carried.
Decrease/(increase) of costs:		
– Fuel, including hedging losses	**6,998**	– Fuel costs decreased due to a 40.3% decrease in the average into-plane fuel price, offset in part by an increase in hedging losses and a 4.3% increase in consumption.
– Aircraft maintenance	**(402)**	– Increased mainly due to increase in operational capacity.
– Depreciation, amortisation and operating leases	**(767)**	– Increased mainly due to the delivery of new aircraft.
– Staff	**(781)**	– Increased mainly due to increases in headcount and salaries.
– All other operating expenses, including inflight service, landing and parking, commissions, net finance charges and others	**337**	– Increases in other operating expenses were offset by an exceptional credit (refund of fine from European Commission of Euros 57.12 million).
2015 airlines' profit before taxation	**4,463**	

Fuel expenditure and hedging

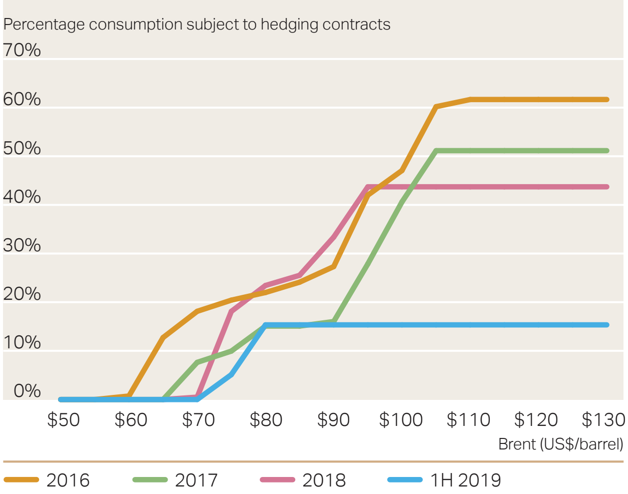
A breakdown of the Group's fuel cost is shown below:

	2015 HK$M	2014 HK$M
Gross fuel cost	**24,494**	39,388
Fuel hedging losses	**8,474**	911
Fuel cost	**32,968**	40,299

Fuel consumption in 2015 was 43.5 million barrels (2014: 41.7 million barrels).

- The Group's fuel hedging exposure at 31st December 2015 is set out in the table below.

Maximum fuel hedging exposure



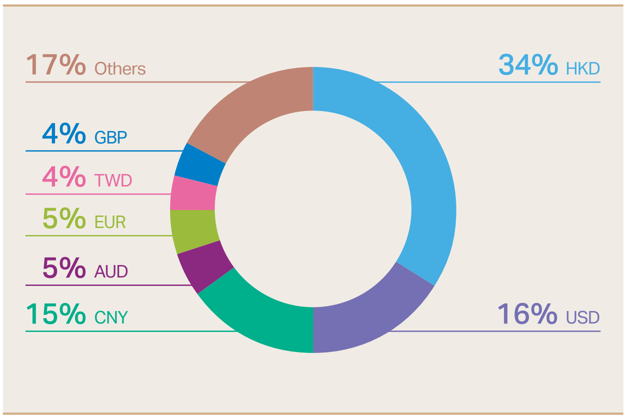
- The Group's policy is to reduce exposure to fuel price risk by hedging a percentage of its expected fuel consumption. As the Group uses a combination of fuel derivatives to achieve its desired hedging position, the percentage of expected consumption hedged will vary depending on the nature and combination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

Foreign exchange

- 50% of the Group's non United States dollars ("USD") revenue arises from foreign currencies, the five largest being Renminbi, Australian dollars, Euros, New Taiwan dollars and Pound sterling.

- The Group generates a surplus in most of its revenue currencies, although the USD is an exception as capital expenditure, debt repayments, and fuel purchases are typically denominated in USD. The Group maintains its deposits in USD to mitigate the natural operating shortfall. The Group manages its foreign exchange exposure by matching as far as possible, receipts and payments in each currency. Surpluses of convertible currencies are sold for USD as soon as practicable. The Group's policy is to reduce its exposure to foreign exchange risk by hedging a percentage of its forecast net foreign currency cash flows, primarily using foreign exchange forwards and swaps.

Revenue by currency



Taxation

- The tax charge increased by HK$558 million to HK$1,157 million, principally due to an increase in deferred tax charge arisen mainly from an increase in liability on accelerated tax depreciation.

Dividends

- Dividends proposed for the year are HK$2,085 million, representing a dividend cover of 2.9 times.

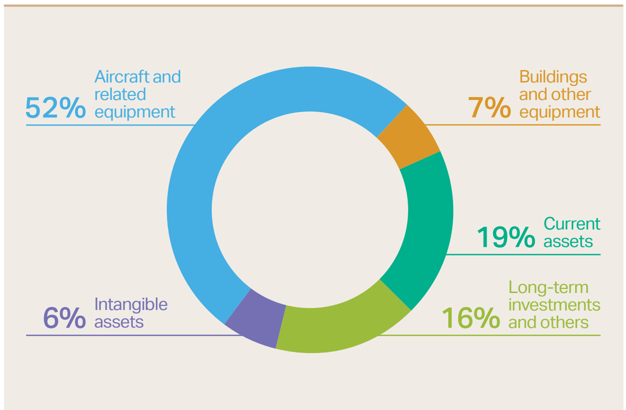
- Dividends per share increased from HK$0.36 to HK$0.53.

Assets

- Total assets at 31st December 2015 were HK$172,827 million.

- During the year, additions to property, plant and equipment were HK$12,419 million, comprising HK$10,489 million for aircraft and related equipment, HK$1,403 million for buildings and HK$527 million for other equipment.

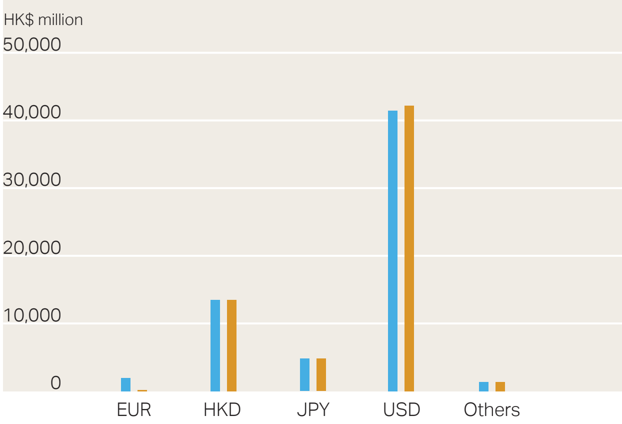
Total assets



Borrowings and capital

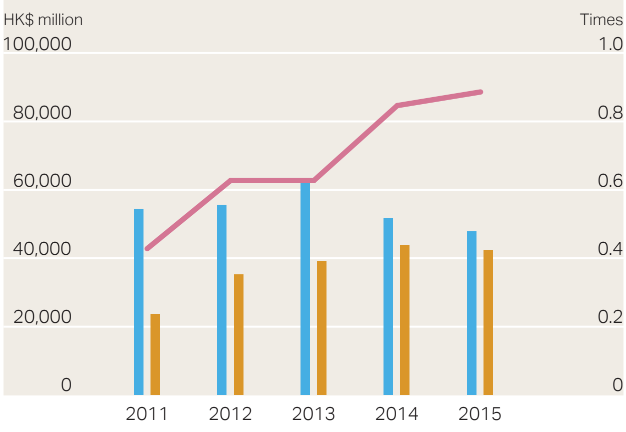
- Borrowings decreased by 3.1% to HK$63,105 million in 2015 from HK$65,096 million in 2014.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2027, with 49.1% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 76.9% of which are denominated in United States dollars, decreased by 2.1% to HK$20,647 million.
- Net borrowings (after liquid funds) decreased by 3.5% to HK$42,458 million.
- Funds attributable to the shareholders of Cathay Pacific decreased by 7.3% to HK$47,927 million. This was in part due to unrealised hedging losses of HK$5,417 million recognised in the cash flow hedge reserve, offset by retained profit and other reserve movements.
- The net debt/equity ratio increased from 0.85 times to 0.89 times.

Borrowings before and after derivatives



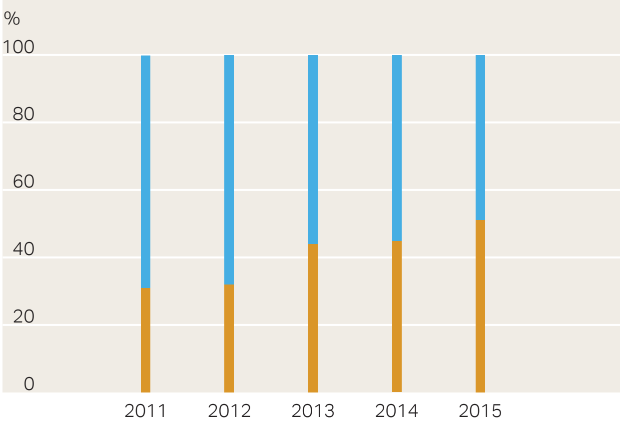
Before derivatives
After derivatives
Others include SGD.

Net debt and equity



Funds attributable to the shareholders of Cathay Pacific
Net borrowings
Net debt/equity ratio

Interest rate profile: borrowings



Fixed
Floating

Directors and Officers

Executive Directors

SLOSAR, John Robert#, aged 59, has been a Director of the Company since July 2007 and its Chairman since March 2014. He was appointed Chief Operating Officer in July 2007 and Chief Executive of the Company in March 2011. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited and a Director of The Hongkong and Shanghai Banking Corporation Limited and Air China Limited. He joined the Swire group in 1980 and has worked with the group in Hong Kong, the United States and Thailand.

CHU, Kwok Leung Ivan#, aged 54, has been a Director of the Company since March 2011. He was appointed Director Service Delivery in September 2008, Chief Operating Officer in March 2011 and Chief Executive of the Company in March 2014. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited. He joined the Swire group in 1984 and has worked with the group in Hong Kong, Mainland China, Taiwan, Thailand and Australia. He is also Chairman of Hong Kong Dragon Airlines Limited.

HOGG, Rupert Bruce Grantham Trower#, aged 54, has been a Director of the Company since March 2014. He was appointed Director Cargo in September 2008, Director Sales and Marketing in August 2010 and Chief Operating Officer in March 2014. He joined the Swire group in 1986 and has worked with the group in Hong Kong, Southeast Asia, Australia and the United Kingdom. He is also Chairman of AHK Air Hong Kong Limited and a Director of Hong Kong Dragon Airlines Limited.

MURRAY, Martin James#, aged 49, has been Finance Director of the Company since November 2011. He is also a Director of Hong Kong Dragon Airlines Limited. He was previously Deputy Finance Director of Swire Pacific Limited. He joined the Swire group in 1995 and has worked with the group in Hong Kong, the United States, Singapore and Australia.

YAU, Ying Wah (Algernon), aged 57, has been a Director of the Company since September 2015. He has been Chief Executive Officer of Hong Kong Dragon Airlines Limited since July 2014. He was previously Chief Executive Officer of Cathay Pacific Services Limited, which operates the Cathay Pacific Cargo Terminal at Hong Kong International Airport. He joined the Company in 1982 and worked in a number of airport-related positions.

Non-Executive Directors

CAI, Jianjiang, aged 52, has been a Director of the Company since November 2009 and Deputy Chairman since March 2014. He is General Manager of China National Aviation Holding Company and Chairman of Air China Limited.

CUBBON, Martin#, aged 58, has been a Director of the Company since January 2015. He was previously a Director of the Company from September 1998 to May 2009. He is also Corporate Development and Finance Director of Swire Pacific Limited and a Director of John Swire & Sons (H.K.) Limited and Swire Properties Limited. He joined the Swire group in 1986.

FAN, Cheng*, aged 60, has been a Director of the Company since November 2009. He is a Director and Vice President of Air China Limited.

SHIU, Ian Sai Cheung#, aged 61, has been a Director of the Company since October 2008. He is also a Director of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Hong Kong Dragon Airlines Limited and Air China Limited. He joined the Company in 1978 and has worked with the Company in Hong Kong, the Netherlands, Singapore and the United Kingdom. He was appointed Director Corporate Development in September 2008 and served as an Executive Director of the Company from 1st October 2008 until 30th June 2010.

SONG, Zhiyong, aged 51, has been a Director of the Company since March 2014. He is a Director and President of Air China Limited.

SWIRE, Merlin Bingham#, aged 42, has been a Director of the Company since June 2010. He is also Chief Executive and a Director and shareholder of John Swire & Sons Limited and a Director of Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London. He is brother to Samuel Swire, a Non-Executive Director of the Company.

SWIRE, Samuel Compton#+, aged 36, has been a Director of the Company since January 2015. He is also a Director and shareholder of John Swire & Sons Limited and a Director of Swire Pacific Limited. He joined the Swire group in 2003 and has worked with the group in Hong Kong, Singapore, Mainland China, Sri Lanka and London. He is brother to Merlin Swire, a Non-Executive Director of the Company.

ZHAO, Xiaohang, aged 54, has been a Director of the Company since June 2011. He is Vice President of Air China Limited, Chairman of Dalian Airlines Company Limited and a Director of China National Aviation Corporation (Group) Limited and China National Aviation Company Limited.

Independent Non-Executive Directors

HARRISON, John Barrie*, aged 59, has been a Director of the Company since May 2015. He is an Independent Non-Executive Director of AIA Group Limited, Hong Kong Exchanges and Clearing Limited, The London Metal Exchange Limited, LME Clear Limited and BW Group Limited and Vice Chairman of BW LPG Limited. He was Chairman and Chief Executive Officer of KPMG, China and Hong Kong and Chairman of KPMG Asia Pacific from 2003 to 2009 and was Deputy Chairman of KPMG International from 2008 until his retirement from KPMG in September 2010.

LEE, Irene Yun Lien+*, aged 62, has been a Director of the Company since January 2010. She is Chairman of Hysan Development Company Limited, an Independent Non-Executive Director of CLP Holdings Limited, Noble Group Limited, HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. She was a member of the Australian Government Takeovers Panel from March 2001 until March 2010.

TUNG, Lieh Cheung Andrew+, aged 51, has been a Director of the Company since May 2015. He is an Executive Director of Orient Overseas (International) Limited and Director and Chief Executive Officer of Orient Overseas Container Line Limited. He is also an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited.

WONG, Tung Shun Peter*, aged 64, has been a Director of the Company since May 2009. He is currently Deputy Chairman and Chief Executive of The Hongkong and Shanghai Banking Corporation Limited, a Group Managing Director and a member of the Group Management Board of HSBC Holdings plc and a Non-Executive Director of Hang Seng Bank Limited and Bank of Communications Co., Ltd. He is also President of the Hong Kong Institute of Bankers and a member of the Exchange Fund Advisory Committee of Hong Kong Monetary Authority.

Executive Officers

CHENG, Ting Yat Dane, aged 52, has been Director Sales and Marketing since July 2014. He joined the Company in 1986.

GIBBS, Christopher Patrick, aged 54, has been Engineering Director since January 2007. He joined the Company in 1992.

GINNS, James William#, aged 47, has been Director Service Delivery since August 2014. He joined the Swire group in 1991.

LARGE, Simon Richard St. John#, aged 46, has been Director Cargo since August 2015. He joined the Swire group in 1991.

LOCANDRO, Joseph Francis, aged 56, has been Director Information Technology since August 2012. He joined the Company in 2012.

LOO, Kar Pui Paul, aged 47, has been Director Corporate Development since August 2015. He joined the Company in 1991.

OWEN, Tom William#, aged 47, has been Director People since August 2015. He joined the Swire group in 1995.

THOMPSON, Anna Louise#, aged 47, has been Director Flight Operations since April 2015. She joined the Swire group in 1990.

TONG, Wai Pong James, aged 51, has been Director Corporate Affairs since August 2014. He joined the Company in 1987.

Company Secretary

FU, Yat Hung David#, aged 52, has been Company Secretary since January 2006. He joined the Swire group in 1988. He is a member of the Takeovers and Mergers Panel and the Takeovers Appeal Committee of the Securities and Futures Commission of Hong Kong.

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

Directors' Report

We submit our report and the audited financial statements for the year ended 31st December 2015 which are on pages 54 to 105.

Principal activities

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

Details of principal subsidiaries, their main areas of operation and particulars of their issued capital, and details of principal associates are listed on pages 98 and 99.

Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries together with the Group's interests in joint ventures and associates. The financial performance of the Group for the year ended 31st December 2015 and the financial position of the Group and the Company at that date are set out in the financial statements on pages 54 to 105. Details of the joint ventures and associates are provided under note 10 to the financial statements.

Dividends

The Directors have declared a second interim dividend of HK$0.27 per share for the year ended 31st December 2015. Together with the first interim dividend of HK$0.26 per share paid on 5th October 2015, this makes a total dividend for the year of HK$0.53 per share. This represents a total distribution for the year of HK$2,085 million. The second interim dividend will be paid on 5th May 2016 to shareholders registered at the close of business on the record date, being Friday, 8th April 2016. Shares of the Company will be traded ex-dividend as from Wednesday, 6th April 2016.

Closure of register of members

The register of members will be closed on Friday, 8th April 2016, during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 7th April 2016.

To facilitate the processing of proxy voting for the annual general meeting to be held on 11th May 2016, the register of members will be closed from 6th May 2016 to 11th May 2016, 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, 5th May 2016.

Business review and performance

A fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of the likely future development of the Group's business (including, in each case to the extent necessary for an understanding of the development, performance or position of the Group's business, key performance indicators) are provided in the sections of this annual report headed Chairman's Letter (on pages 3 and 4), 2015 in Review (on pages 5 to 14), Review of Operations (on pages 16 to 20) and Financial Review (on pages 22 to 27) and in the notes to the financial statements. To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the section of this annual report headed 2015 in Review (on pages 5 to 14). To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's compliance with the relevant laws and regulations that have a significant impact on the Group is provided in the sections of this annual report headed 2015 in Review (on pages 5 to 14), Corporate Governance Report (on pages 37 to 48) and Directors' Report (on pages 30 to 35).

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

Accounting policies

The principal accounting policies are set out on pages 100 to 105.

Donations

During the year, the Company and its subsidiaries made charitable donations amounting to HK$12 million in direct payments and a further HK$10 million in the form of discounts on airline travel.

Property, plant and equipment

Movements of property, plant and equipment are shown in note 8 to the financial statements. Details of aircraft acquisitions are set out on page 12.

Bank and other borrowings

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

Share capital

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

At 31st December 2015, 3,933,844,572 shares were in issue (31st December 2014: 3,933,844,572 shares). There has been no movement in share capital during the year.

Capital commitments and contingencies

The details of capital commitments and contingent liabilities of the Group at 31st December 2015 are set out in note 28 to the financial statements.

Agreement for services

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

As directors and/or employees of the John Swire & Sons Limited ("Swire") group, John Slosar, Ivan Chu, Martin Cubbon, Rupert Hogg, Martin Murray, Ian Shiu, Merlin Swire and Samuel Swire are interested in the JSSHK Services Agreement (as defined below). Merlin Swire and Samuel Swire are also so interested as shareholders of Swire. W.E. James Barrington was so interested as an employee of the Swire group until his resignation with effect from 7th September 2015.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2015 are set out below and also given in note 27 to the financial statements.

Significant contracts

Contracts between the Group and Hong Kong Aircraft Engineering Company Limited ("HAECO") and its subsidiary, Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO"), for the maintenance and overhaul of aircraft and related equipment accounted for approximately 7.0% of the Group's operating expenses in 2015. HAECO is a subsidiary of Swire Pacific; all contracts have been concluded on normal commercial terms in the ordinary course of the business of both parties.

Continuing connected transactions

During the year ended 31st December 2015, the Group had the following continuing connected transactions, details of which are set out below:

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

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

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

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

For the year ended 31st December 2015, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$143 million and expenses of HK$209 million were reimbursed at cost.

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

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

For the year ended 31st December 2015 and under the HAECO Framework Agreement, the amounts payable by the Group to the HAECO group totalled HK$3,246 million; and the amounts payable by the HAECO group to the Group totalled HK$27 million.

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

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

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

For the year ended 31st December 2015 and under the Air China Framework Agreement, the amounts payable by the Group to the Air China group totalled HK$415 million; and the amounts payable by the Air China group to the Group totalled HK$232 million.

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

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

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

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

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

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

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

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

Major customers and suppliers

7% of sales and 26% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 2% of sales were made to the Group's largest customer and 10% of purchases were made from the Group's largest supplier.

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

Directors

John Harrison and Andrew Tung were appointed as Directors with effect from the conclusion of the 2015 Annual General Meeting held on 20th May 2015. Algernon Yau was appointed as a Director with effect from 7th September 2015. All the other present Directors of the Company whose names are listed on pages 28 and 29 served throughout the year. Jack So and Tung Chee Chen retired as Directors at the conclusion of the annual general meeting held on 20th May 2015. W.E. James Barrington resigned as a Director with effect from 7th September 2015.

The Company has received from all of its Independent Non-Executive Directors confirmation of their independence pursuant to Listing Rule 3.13 and considers all of them to be independent.

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

Article 93 of the Company's Articles of Association provides for all Directors to retire at the third annual general meeting following their election by ordinary resolution. In accordance therewith, Cai Jianjiang, Fan Cheng, Irene Lee and Peter Wong retire this year and, being eligible, offer themselves for re-election. John Harrison, Andrew Tung and Algernon Yau, having been appointed as Directors of the Company under Article 91 since the last annual general meeting, also retire and, being eligible, offer themselves for election.

Each of the Directors has entered into a letter of appointment, which constitutes a service contract, with the Company for a term of up to three years until retirement under Article 91 or Article 93 of the Articles of Association of the Company, which will be renewed for a term of three years upon each election or re-election. No Director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Directors' fees paid to the Independent Non-Executive Directors during the year totalled HK$2.8 million. They received no other emoluments from the Group.

Directors' interests

At 31st December 2015, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interest in the shares of Cathay Pacific Airways Limited:

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

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

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

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

Directors' interests in competing business

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

Directors of subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31st December 2015 or during the period from 1st January 2016 to the date of this Report are available on the Company's website www.cathaypacific.com.

Permitted indemnity

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

Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 31st December 2015 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

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

Note: At 31st December 2015:

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

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

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

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

(c) Swire and its wholly owned subsidiary JSSHK are deemed to be interested in a total of 2,949,997,987 shares of the Company by virtue of the Swire group being interested in 53.20% of the equity of Swire Pacific and controlling 62.60% of the voting rights attached to shares in Swire Pacific.

Public float

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

Auditors

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

By order of the Board
John Slosar
Chairman
Hong Kong, 9th March 2016

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Corporate Governance Report

Governance Culture

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

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

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

Corporate Governance Statement

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

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

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

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

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

The Board of Directors

Role of the Board

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

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

- maintaining and promoting the culture of the Company
- formulation of long-term strategy
- approving public announcements, including financial statements
- committing to major acquisitions, divestments and capital projects
- authorising significant changes to the capital structure and material borrowings
- any issue, or buy-back, of equity securities under the relevant general mandates

- approving treasury policy
- setting dividend policy
- approving appointments to the Board
- reviewing the board diversity policy with a view to the Board having a balance of skills, experience and diversity of perspectives appropriate to the Company's businesses
- ensuring that appropriate management development and succession plans are in place
- setting the Group remuneration policy
- approving annual budgets and forecasts
- reviewing operational and financial performance
- reviewing the effectiveness of the Group's risk management and internal control systems
- ensuring the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

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

Chairman and Chief Executive

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

John Slosar, the Chairman, is responsible for:

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

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

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

Board Composition

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

The Board comprises the Chairman, four other Executive Directors and twelve Non-Executive Directors. Their biographical details are set out on pages 28 and 29 of this report and are posted on the Company's website.

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

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

The Board considers that four of the twelve Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Rule 3.13 of the Listing Rules. Confirmation has been received from all Independent Non-Executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules.

The Independent Non-Executive Directors:

- provide open and objective challenge of management and Board members
- raise intelligent questions and challenge constructively and with vigour

- bring outside knowledge of the businesses and markets in which the Group operates, providing informed insight and responses to management.

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

Appointment and Re-election

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

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

Full details of changes in the Board during the year and to the date of this report are provided in the Directors' Report on pages 33 and 34.

Board Diversity

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

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

Responsibilities of Directors

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

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

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

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

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

Details of Directors' other appointments are shown in their biographies on pages 28 and 29.

Board Processes

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

The dates of the 2015 Board meetings were determined in 2014 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met five times in 2015. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 40. Average attendance at Board meetings was 82%. All Directors attended Board meetings in person or through electronic means of communication during the year.

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

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

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

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

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

A typical Board meeting would consist of:

- review of a report by the Chief Executive on the results since the last meeting and an explanation of changes in the business environment and their impact on budgets and the longer-term plan
- the raising of new initiatives and ideas
- the presentation of papers to support decisions requiring Board approval
- an update of legal and compliance matters for Directors' consideration
- any declarations of interest.

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

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

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

	Meetings Attended/Held				Continuous Professional Development
	Board	Audit Committee	Remuneration Committee	2015 Annual General Meeting	Type of Training (Note)
Executive Directors					
John Slosar – Chairman	5/5			√	a, b
W.E. James Barrington (resigned on 6th September 2015)	4/4			√	a, b
Ivan Chu	5/5			√	a, b
Rupert Hogg	5/5			√	a, b
Martin Murray	5/5			√	a, b
Algernon Yau (appointed on 7th September 2015)	1/1			N/A	a
Non-Executive Directors					
Cai Jianjiang	1/5			X	a, b
Martin Cubbon	5/5			√	a, b
Fan Cheng	3/5	0/3		X	a, b
Ian Shiu	5/5			√	a, b
Song Zhiyong	1/5			X	
Merlin Swire	5/5			√	a, b
Samuel Swire	5/5		2/2	√	a, b
Zhao Xiaohang	4/5			X	a, b
Independent Non-Executive Directors					
John Harrison (appointed on 20th May 2015)	3/3	2/2		N/A	a
Irene Lee	5/5	3/3	2/2	√	a, b
Jack So (retired on 20th May 2015)	2/2	1/1		X	a, b
Andrew Tung (appointed on 20th May 2015)	3/3		1/1	N/A	a
Tung Chee Chen (retired on 20th May 2015)	1/2		1/1	√	a, b
Peter Wong	2/5	1/3		X	a, b
Average attendance	82%	58%	100%	65%	

Notes:

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

b: Receiving training from the Company's external legal advisers about directors' duties.

Continuous Professional Development

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

Directors' and Officers' Insurance

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

Conflicts of Interest

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

Delegation by the Board

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

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

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

Securities Transactions

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

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

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

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

Directors' interests at 31st December 2015 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 34.

Board Safety Review Committee

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

Executive Committee

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

Management Committee

The Management Committee meets once a month and is responsible to the Board for overseeing the day-to-day operation of the Company. It is chaired by the Chief Executive and comprises three Executive Directors (Rupert Hogg, Martin Murray and Algernon Yau) and all nine Executive Officers (Dane Cheng, Christopher Gibbs, James Ginns, Simon Large, Joseph Locandro, Paul Loo, Tom Owen, Anna Thompson and James Tong).

Finance Committee

The Finance Committee meets monthly to review the financial position of the Company and is responsible for establishing the financial risk management policies. It is chaired by the Chief Executive and comprises two Executive Directors (Rupert Hogg and Martin Murray), three Non-Executive Directors (Fan Cheng, Martin Cubbon and Zhao Xiaohang), one Executive Officer (Paul Loo), the General Manager Financial Services (Andrew West), the Manager Treasury (Susan Ng) and an independent representative from the financial community. Reports on its decisions and recommendations are presented at Board meetings.

Remuneration Committee

Full details of the remuneration of the Directors and Executive Officers are provided in note 25 to the financial statements.

The Remuneration Committee comprises three Non-Executive Directors (Irene Lee, Samuel Swire and Andrew Tung). Two of the Committee Members are Independent Non-Executive Directors, one of whom, Irene Lee, is Chairman. Andrew Tung succeeded Tung Chee Chen as a member of the Remuneration Committee with effect from the conclusion of the Company's 2015 Annual General Meeting held on 20th May 2015. All the other members served for the whole of 2015.

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

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

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

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

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

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

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

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors and Executive Officers at its meeting in November 2015. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors and Executive Officers, as disclosed in note 25 to the financial statements, was comparable with that paid to equivalent executives in peer group companies.

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

The following fee levels have been approved by the Board:

	2015 HK$	2016 HK$
Director's Fee	575,000	575,000
Fee for Audit Committee Chairman	260,000	260,000
Fee for Audit Committee Member	180,000	180,000
Fee for Remuneration Committee Chairman	80,000	80,000
Fee for Remuneration Committee Member	58,000	58,000

Accountability and Audit

Financial Reporting

The Board acknowledges its responsibility for:

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

Risk Management and Internal Control

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's risk management and internal control systems. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed on pages 44 and 45.

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

Since profits are, in part, the reward for successful risk taking in business, the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

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

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

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

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

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

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

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

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

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

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

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

Internal audit: The Internal Audit Department performs regular reviews of key risk areas and monitors compliance with Group accounting, financial and operational procedures. The role of Internal Audit is discussed further on page 46.

Audit Committee

The Audit Committee, consisting of four Non-Executive Directors (Irene Lee, Fan Cheng, John Harrison 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, Irene Lee, is Chairman. Irene Lee succeeded Jack So as Chairman of the Audit Committee and John Harrison was appointed as a member of the Audit Committee with effect from the conclusion of the Company's 2015 Annual General Meeting held on 20th May 2015. All the other members served for the whole of 2015.

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 2015. Regular attendees at the meetings are the Finance Director, the Group Internal Audit Manager and the external auditors. The Audit Committee meets at least twice a year with the external auditors without the presence of management. Each meeting receives written reports from the external auditors and Internal Audit.

The work of the Committee during 2015 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2014 annual and 2015 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's risk management and internal control systems
- the Group's risk management processes
- the approval of the 2016 annual Internal Audit programme and review of progress on the 2015 programme
- periodic reports from Internal Audit and progress in resolving any matters identified in them
- significant accounting and audit issues
- the Company's policy regarding connected transactions and the nature of such transactions
- the relationship with the external auditors as discussed on page 46
- the Company's compliance with the CG Code.

In 2016, the Committee has reviewed, and recommended to the Board for approval, the 2015 financial statements.

Assessing the Effectiveness of Risk Management and Internal Control Systems

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

This assessment considers:

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

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

Expenditure Control Committee

The Expenditure Control Committee meets monthly to evaluate and approve capital expenditure. It is chaired by one Executive Director (Rupert Hogg) and includes one other Executive Director (Martin Murray) and two Executive Officers (Paul Loo and Tom Owen).

Company Secretary

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

Internal Audit Department

The Internal Audit Department assists the Audit Committee in carrying out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. The audit plan, which is prepared based on risk assessment methodology, is discussed and agreed every year with the Audit Committee. In addition to its agreed annual schedule of work, the Department conducts other special reviews as required. The 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 and recommendations aimed at resolving material internal control defects is reported quarterly to the Board and reviewed by the Audit Committee. As a key criterion of assessing the adequacy and effectiveness of the Group's risk management and internal control systems, the Board and the Audit Committee actively monitor the number and seriousness of findings raised by the Internal Audit Department and also the corrective actions taken by relevant departments.

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

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

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

External Auditors

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

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

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

Auditors' Independence

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

Provision of Non-audit Services

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

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

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

In 2015 the total remuneration paid to the external auditors was HK$23 million, being HK$14 million for audit, HK$8 million for tax advice and HK$1 million for other professional services.

Inside Information

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

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

Airline Safety Review Committee

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

Shareholders

Communication with Shareholders and Investors

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

The 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 20th May 2015. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 40.

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

- receiving the report of the Directors and the audited financial statements for the year ended 31st December 2014
- re-electing Directors
- re-appointing the auditors and authorising the Directors to set their remuneration
- a general mandate authorising the Directors to make on-market share buy-backs
- a general mandate authorising the Directors to allot and issue shares up to 20% of the number of shares then in issue, provided that the aggregate number of the shares so allotted wholly for cash would not exceed 5% of the number of the shares then in issue.

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

Shareholder engagement

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

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

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

Other information for shareholders

Key shareholder dates for 2016 are set out on page 112 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)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Cathay Pacific Airways Limited and its subsidiaries (together "the Group") set out on pages 54 to 105, which comprise the consolidated statement of financial position as at 31st December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2015 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis of opinion

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

Key audit matters

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

Revenue recognition

Refer to note 1 to the consolidated financial statements and the accounting policies on page 104.

The key audit matter	How the matter was addressed in our audit
Passenger and cargo sales are recognised as revenue when the related transportation service is provided. The value of passenger and cargo sales for which the related transportation service has not yet been provided at the end of the reporting period is recorded as unearned transportation revenue in the consolidated statement of financial position. The fair value of programme awards under the Group's customer loyalty programme, Asia Miles, is also deferred and included in unearned transportation revenue. This deferred revenue arises as members of the programme accumulate Asia Miles by travelling on the Group's flights or when the Group sells Asia Miles to participating partners in the programme. The deferred revenue is recognised as income when the related goods or services are provided subsequent to the redemption of the Asia Miles. The Group maintains sophisticated information technology systems in order to track the point of service provision for each passenger and cargo sale and also to track the issuance and subsequent redemption and utilisation of Asia Miles. The Group also estimates the unit fair value of Asia Miles which are initially deferred when earned by members of the programme. We have identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because it involves complicated information technology systems and an estimation of fair value, all of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation.	Our audit procedures were designed to challenge the accuracy of the amounts recognised as revenue. These procedures included testing controls over the Group's systems which govern the revenue recognition and substantive analytical procedures on the Group's passenger and cargo revenue and unearned transportation revenue. We scrutinised all manual journal entries related to revenue and inspected underlying documentation for any journal entries which were considered to be material or met other specified risked-based criteria. We assessed the reasonableness of the Group's estimate of the unit fair value of Asia Miles, with reference to the prices for third party Asia Miles sales and flight redemption values. We challenged this estimate by discussing alternatives with management and assessing whether or not there was an indication of management bias.

Hedge accounting

Refer to notes 11, 13, 16, 19 and 29 to the consolidated financial statements and the accounting policies on page 103.

The key audit matter	How the matter was addressed in our audit
The Group enters into derivative financial instrument contracts in order to manage its exposure to fuel price risk, foreign currency risk and interest rate risk, which arise during the normal course of its business. These contracts gave rise to derivative financial assets of HK$2,778 million and derivative financial liabilities of HK$21,871 million as at 31st December 2015. Hedge accounting under HKFRSs is applied for a majority of these arrangements. We have identified hedge accounting (including the valuation of hedging instruments) as a key audit matter because hedge accounting under HKFRSs is a complex area and the Group has entered into a high volume of hedge contracts, necessitating a sophisticated system to record and track each contract and calculate the related valuations at each financial reporting date. The valuation of hedging instruments and consideration of hedge effectiveness can involve a significant degree of both complexity and management judgement and is subject to an inherent risk of error.	Our audit team included financial instruments valuation specialists and our audit procedures included testing management's controls over derivative financial instruments and the related hedge accounting and the following substantive procedures which were performed on a sampling basis. We inspected management's hedge documentation and contracts for the purposes of considering whether the related accounting treatment was in accordance with HKFRSs. We re-performed year end valuations of derivative financial instruments and calculations of hedge effectiveness. We also requested written confirmations from contract counterparties for derivative financial instruments that existed at the reporting date.

Provisions for taxation, litigation and claims

Refer to notes 4, 19 and 28 to the consolidated financial statements and the accounting policies on page 105.

The key audit matter	How the matter was addressed in our audit
The Group had disputes with certain taxation authorities and was the subject of antitrust proceedings in certain jurisdictions at the reporting date. Provisions recorded at 31st December 2015 for taxation, litigation and claims, which represented management's best estimates of the amounts likely to be required to settle these matters, totalled HK$1,338 million and are included within the balance of other payables classified as current liabilities in note 19 to the consolidated financial statements. We have identified provisions for taxation, litigation and claims as a key audit matter because the estimates on which these provisions are based entail a significant degree of management judgement and may be subject to management bias.	Our audit team included tax specialists in Hong Kong and the relevant overseas jurisdictions, who assessed the adequacy of the Group's provisions for potential exposure to each material tax dispute by discussing with management to understand the dispute and reviewing correspondence with the relevant tax authorities to understand the relevant associated risks. We challenged the assumptions and critical judgements made by management which impacted their estimations of the provisions required. Consideration was also given to judgements previously made by the taxation authorities in the relevant jurisdictions and any relevant opinions given by third party advisors. We discussed the status and potential exposures in respect of significant litigation and claims with the Group's internal legal counsel and also obtained letters regarding the progress of litigation and claims from the Group's external legal counsel, including their views on the likely outcome of each litigation or claim and the magnitude of potential exposure. We challenged management's estimates using information and evidence that we gathered, as noted above, to assess whether or not there was an indication of management bias.

Carrying value of aircraft and related equipment

Refer to note 8 to the consolidated financial statements and the accounting policies on pages 101-102.

The key audit matter	How the matter was addressed in our audit
The carrying value of the Group's aircraft and related equipment as at 31st December 2015 was HK$89,299 million and the related depreciation charge for the year ended 31st December 2015 was HK$7,565 million. Depreciation rates and the carrying value of aircraft and related equipment are reviewed annually taking into consideration factors such as changes in fleet composition, current and forecast market values and technical factors which may affect the useful life expectancy of the assets and therefore could have a material impact on any impairment charges or the depreciation charge for the year. We have identified the carrying value of aircraft and related equipment as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management in considering the nature, timing and likelihood of changes to the factors noted above which may affect both the carrying value of the Group's aircraft and related equipment as well the depreciation charge for the current year and future years.	Our audit procedures were designed to challenge the application of the Group's depreciation policies, with reference to the estimated useful lives and residual values of aircraft and related equipment as well as management's plans for future fleet composition including future acquisitions and retirement of aircraft. We assessed the reasonableness of management's assertions and estimates using valuation reports published by third party specialists, our knowledge of the airline industry, policies of other comparable airlines and the Group's historical experience and future operating plans. We discussed indicators of possible impairment of aircraft and related equipment with the finance management team and, where such indicators were identified, assessed whether management performed impairment testing in accordance with the requirements of HKFRSs. We also challenged the assumptions and critical judgements used by management by comparing management's past estimates and plans the current year's estimates and plans and taking into account recent developments in the airline industry and future operating plans.

Aircraft maintenance provisions

Refer to note 13 to the consolidated financial statements and the accounting policies on pages 101-102.

The key audit matter	How the matter was addressed in our audit
The Group operated 55 aircraft held under external operating leases at 31st December 2015. Under the terms of the operating lease arrangements, the Group is contractually committed to return the aircraft to the lessors in a certain condition agreed with the lessors at the inception of each lease. Management estimates the maintenance costs as well as the costs associated with the restitution of life-limited parts at the end of each reporting period and accrues such costs over the lease term. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft, the expected cost of maintenance and the estimated lifespan of the life-limited parts. Maintenance provisions for aircraft maintenance costs totalled HK$1,561 million as at 31st December 2015 and are included within other long-term payables and trade and other payables in the consolidated statement of financial position. We have identified aircraft maintenance provisions as a key audit matter because of the inherent level of complex and subjective management judgements required in assessing the variable factors and assumptions in order to quantify such provision amounts.	Our audit procedures included testing the design and implementation of management's controls over making maintenance provisions for aircraft held under operating leases and performing substantive procedures relating to the provisioning model. We evaluated the methodology and key assumptions adopted by management in estimating the provisions. The evaluation included testing the integrity and arithmetic accuracy of the provision model through recalculation, reviewing the terms of the operating leases and comparing assumptions to contract terms, information from lessors and the Group's maintenance cost experience. We discussed with managers in the engineering department responsible for aircraft engineering the utilisation pattern and expected useful lives of life-limited parts of the aircraft and considered the consistency of the provisions with the engineering department's assessment of the condition of aircraft. We also challenged the assumptions used by management by comparing past assumptions made by management in prior years with actual events as well as the current year's assumptions.

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

The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

The Directors are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
9th March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31st December 2015

	Note	2015 HK$M	2014 HK$M	2015 US$M	2014 US$M
Revenue					
Passenger services		**73,047**	75,734	**9,365**	9,709
Cargo services		**23,122**	25,400	**2,964**	3,256
Catering, recoveries and other services		**6,173**	4,857	**792**	623
Total revenue		**102,342**	105,991	**13,121**	13,588
Expenses					
Staff		**(18,990)**	(18,101)	**(2,435)**	(2,321)
Inflight service and passenger expenses		**(4,713)**	(4,438)	**(604)**	(569)
Landing, parking and route expenses		**(14,675)**	(14,196)	**(1,882)**	(1,820)
Fuel, including hedging losses		**(32,968)**	(40,299)	**(4,227)**	(5,167)
Aircraft maintenance		**(7,504)**	(7,077)	**(962)**	(907)
Aircraft depreciation and operating leases		**(10,883)**	(10,411)	**(1,395)**	(1,335)
Other depreciation, amortisation and operating leases		**(2,310)**	(2,116)	**(296)**	(271)
Commissions		**(798)**	(799)	**(102)**	(102)
Others		**(2,837)**	(4,119)	**(364)**	(528)
Operating expenses		**(95,678)**	(101,556)	**(12,267)**	(13,020)
Operating profit	2	**6,664**	4,435	**854**	568
Finance charges		**(1,380)**	(1,460)	**(177)**	(187)
Finance income		**216**	302	**28**	39
Net finance charges	3	**(1,164)**	(1,158)	**(149)**	(148)
Share of profits of associates	10	**1,965**	772	**252**	99
Profit before taxation		**7,465**	4,049	**957**	519
Taxation	4	**(1,157)**	(599)	**(148)**	(77)
Profit for the year		**6,308**	3,450	**809**	442
Non-controlling interests		**(308)**	(300)	**(40)**	(38)
Profit attributable to the shareholders of Cathay Pacific		**6,000**	3,150	**769**	404
Profit for the year		**6,308**	3,450	**809**	442
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Defined benefit plans		**(210)**	(316)	**(27)**	(40)
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**(5,417)**	(12,468)	**(695)**	(1,598)
Revaluation of available-for-sale financial assets		**(321)**	67	**(41)**	9
Share of other comprehensive income of associates		**(741)**	(52)	**(95)**	(7)
Exchange differences on translation of foreign operations		**(1,060)**	(527)	**(136)**	(68)
Other comprehensive income for the year, net of taxation	5	**(7,749)**	(13,296)	**(994)**	(1,704)
Total comprehensive income for the year		**(1,441)**	(9,846)	**(185)**	(1,262)
Total comprehensive income attributable to					
Shareholders of Cathay Pacific		**(1,749)**	(10,144)	**(224)**	(1,300)
Non-controlling interests		**308**	298	**39**	38
		(1,441)	(9,846)	**(185)**	(1,262)
Earnings per share (basic and diluted)	6	**152.5¢**	80.1¢	**19.6¢**	10.3¢

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

The notes on pages 58 to 99 and the principal accounting policies on pages 100 to 105 form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2015

	Note	2015 HK$M	2014 HK$M	2015 US$M	2014 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment	*8*	**100,552**	98,471	**12,891**	12,624
Intangible assets	*9*	**10,606**	10,318	**1,360**	1,323
Investments in associates	*10*	**22,878**	22,918	**2,933**	2,938
Other long-term receivables and investments	*11*	**5,069**	6,372	**650**	817
Deferred tax assets	*15*	**497**	428	**64**	55
		139,602	138,507	**17,898**	17,757
Long-term liabilities		**(49,867)**	(55,814)	**(6,393)**	(7,156)
Related pledged security deposits		**–**	499	**–**	64
Net long-term liabilities	*12*	**(49,867)**	(55,315)	**(6,393)**	(7,092)
Other long-term payables	*13*	**(15,838)**	(10,439)	**(2,031)**	(1,338)
Deferred tax liabilities	*15*	**(9,278)**	(9,691)	**(1,190)**	(1,242)
		(74,983)	(75,445)	**(9,614)**	(9,672)
Net non-current assets		**64,619**	63,062	**8,284**	8,085
Current assets and liabilities					
Stock		**1,366**	1,589	**175**	204
Trade, other receivables and other assets	*16*	**9,715**	10,591	**1,246**	1,358
Assets held for sale	*17*	**1,497**	189	**192**	24
Liquid funds	*18*	**20,647**	21,098	**2,647**	2,705
		33,225	33,467	**4,260**	4,291
Current portion of long-term liabilities		**(13,782)**	(10,002)	**(1,767)**	(1,282)
Related pledged security deposits		**544**	221	**70**	28
Net current portion of long-term liabilities	*12*	**(13,238)**	(9,781)	**(1,697)**	(1,254)
Trade and other payables	*19*	**(23,025)**	(22,458)	**(2,952)**	(2,879)
Unearned transportation revenue		**(13,012)**	(12,238)	**(1,668)**	(1,569)
Taxation		**(502)**	(199)	**(65)**	(26)
		(49,777)	(44,676)	**(6,382)**	(5,728)
Net current liabilities		**(16,552)**	(11,209)	**(2,122)**	(1,437)
Total assets less current liabilities		**123,050**	127,298	**15,776**	16,320
Net assets		**48,067**	51,853	**6,162**	6,648
CAPITAL AND RESERVES					
Share capital and other statutory capital reserves	*20*	**17,106**	17,106	**2,193**	2,193
Other reserves	*21*	**30,821**	34,616	**3,951**	4,438
Funds attributable to the shareholders of Cathay Pacific		**47,927**	51,722	**6,144**	6,631
Non-controlling interests		**140**	131	**18**	17
Total equity		**48,067**	51,853	**6,162**	6,648

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

The notes on pages 58 to 99 and the principal accounting policies on pages 100 to 105 form part of these financial statements.

John Slosar
Director

Irene Lee
Director

Hong Kong, 9th March 2016

Consolidated Statement of Cash Flows

for the year ended 31st December 2015

	Note	2015 HK$M	2014 HK$M	2015 US$M	2014 US$M
Operating activities					
Cash generated from operations	*22*	**17,137**	12,274	**2,197**	1,574
Interest received		**152**	198	**20**	25
Net interest paid		**(825)**	(792)	**(106)**	(101)
Tax paid		**(469)**	(1,395)	**(60)**	(179)
Net cash inflow from operating activities		**15,995**	10,285	**2,051**	1,319
Investing activities					
Net (increase)/decrease in liquid funds other than cash and cash equivalents		**(2,521)**	4,540	**(323)**	582
Proceeds from scrap/sales of property, plant and equipment		**515**	1,864	**66**	239
Proceeds from sales of assets held for sale		**192**	97	**24**	12
Disposal of a subsidiary	*23*	**83**	–	**11**	–
Net decrease/(increase) in other long-term receivables and investments		**54**	(52)	**7**	(6)
Payments for property, plant and equipment and intangible assets		**(13,179)**	(14,818)	**(1,690)**	(1,900)
Dividends received from associates		**280**	221	**36**	28
Purchases of shares in an associate		**–**	(1,240)	**–**	(159)
Loans to associates		**(77)**	(1,377)	**(10)**	(176)
Net cash outflow from investing activities		**(14,653)**	(10,765)	**(1,879)**	(1,380)
Financing activities					
New financing		**8,268**	10,006	**1,060**	1,283
Net cash benefit from financing arrangements		**–**	1,195	**–**	153
Loan and finance lease repayments		**(10,050)**	(11,309)	**(1,289)**	(1,450)
Security deposits placed		**(44)**	(42)	**(6)**	(5)
Dividends paid – to the shareholders of Cathay Pacific		**(2,046)**	(1,022)	**(262)**	(131)
– to non-controlling interests		**(283)**	(292)	**(36)**	(38)
Net cash outflow from financing activities		**(4,155)**	(1,464)	**(533)**	(188)
Decrease in cash and cash equivalents		**(2,813)**	(1,944)	**(361)**	(249)
Cash and cash equivalents at 1st January		**10,211**	12,359	**1,309**	1,584
Effect of exchange differences		**(191)**	(204)	**(24)**	(26)
Cash and cash equivalents at 31st December	*24*	**7,207**	10,211	**924**	1,309

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

The notes on pages 58 to 99 and the principal accounting policies on pages 100 to 105 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2015

	Attributable to the shareholders of Cathay Pacific									
	Share capital HK$M	Share premium HK$M	Capital redemption reserve HK$M	Retained profit HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Capital reserve and others HK$M	Total HK$M	Non–Controlling interests HK$M	Total equity HK$M
At 1st January 2015	**17,106**	**–**	**–**	**42,156**	**1,051**	**(10,128)**	**1,537**	**51,722**	**131**	**51,853**
Profit for the year	**–**	**–**	**–**	**6,000**	**–**	**–**	**–**	**6,000**	**308**	**6,308**
Other comprehensive income	**–**	**–**	**–**	**(210)**	**(321)**	**(5,417)**	**(1,801)**	**(7,749)**	**–**	**(7,749)**
Total comprehensive income for the year	**–**	**–**	**–**	**5,790**	**(321)**	**(5,417)**	**(1,801)**	**(1,749)**	**308**	**(1,441)**
2014 second interim dividend	**–**	**–**	**–**	**(1,023)**	**–**	**–**	**–**	**(1,023)**	**–**	**(1,023)**
2015 first interim dividend	**–**	**–**	**–**	**(1,023)**	**–**	**–**	**–**	**(1,023)**	**–**	**(1,023)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(283)**	**(283)**
Disposal of a subsidiary (note 23)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(16)**	**(16)**
	–	**–**	**–**	**3,744**	**(321)**	**(5,417)**	**(1,801)**	**(3,795)**	**9**	**(3,786)**
At 31st December 2015	**17,106**	**–**	**–**	**45,900**	**730**	**(15,545)**	**(264)**	**47,927**	**140**	**48,067**
At 1st January 2014	787	16,295	24	40,342	984	2,340	2,116	62,888	125	63,013
Profit for the year	–	–	–	3,150	–	–	–	3,150	300	3,450
Other comprehensive income	–	–	–	(314)	67	(12,468)	(579)	(13,294)	(2)	(13,296)
Total comprehensive income for the year	–	–	–	2,836	67	(12,468)	(579)	(10,144)	298	(9,846)
2013 second interim dividend	–	–	–	(629)	–	–	–	(629)	–	(629)
2014 first interim dividend	–	–	–	(393)	–	–	–	(393)	–	(393)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(292)	(292)
Transfers (note 20)	16,319	(16,295)	(24)	–	–	–	–	–	–	–
	16,319	(16,295)	(24)	1,814	67	(12,468)	(579)	(11,166)	6	(11,160)
At 31st December 2014	17,106	–	–	42,156	1,051	(10,128)	1,537	51,722	131	51,853

The notes on pages 58 to 99 and the principal accounting policies on pages 100 to 105 form part of these financial statements.

1. Segment information

(a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2015 HK$M	2014 HK$M	**2015 HK$M**	2014 HK$M	**2015 HK$M**	2014 HK$M	**2015 HK$M**	2014 HK$M
Profit or loss								
Sales to external customers	**101,199**	104,869	**1,143**	1,122			**102,342**	105,991
Inter-segment sales	**8**	8	**3,478**	3,111			**3,486**	3,119
Segment revenue	**101,207**	104,877	**4,621**	4,233			**105,828**	109,110
Segment results	**6,402**	4,422	**262**	13			**6,664**	4,435
Net finance charges	**(1,040)**	(1,148)	**(124)**	(10)			**(1,164)**	(1,158)
	5,362	3,274	**138**	3			**5,500**	3,277
Share of profits of associates					**1,965**	772	**1,965**	772
Profit before taxation							**7,465**	4,049
Taxation	**(1,037)**	(600)	**(120)**	1			**(1,157)**	(599)
Profit for the year							**6,308**	3,450
Other segment information								
Depreciation and amortisation	**8,408**	7,919	**451**	420			**8,859**	8,339
Purchase of property, plant and equipment and intangible assets	**11,888**	14,348	**1,291**	470			**13,179**	14,818

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

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

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

1. Segment information *(continued)*

(b) Geographical information

	2015 HK$M	2014 HK$M
Revenue by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**51,443**	51,526
– Japan, Korea and Taiwan	**9,445**	10,932
India, Middle East, Pakistan and Sri Lanka	**4,442**	4,686
Southwest Pacific and South Africa	**6,456**	7,043
Southeast Asia	**8,611**	8,486
Europe	**8,485**	9,096
North America	**13,460**	14,222
	102,342	105,991

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

Analysis of net assets by geographical segment:

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

2. Operating profit

	2015 HK$M	2014 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
– leased	**2,234**	2,442
– owned	**6,153**	5,574
Amortisation of intangible assets	**472**	323
Operating lease rentals		
– land and buildings	**969**	979
– aircraft and related equipment	**3,318**	3,167
– others	**47**	42
Provision for impairment of property, plant and equipment	**–**	599
Provision for impairment of assets held for sale	**4**	14
Gain on disposal of assets held for sale	**(4)**	–
Gain on disposal of property, plant and equipment, net	**(49)**	(215)
Gain on disposal of a subsidiary	**(106)**	–
Cost of stock expensed	**2,002**	2,007
Exchange differences, net	**320**	316
Auditors' remuneration	**14**	15
Net losses on financial assets and liabilities classified as held for trading	**192**	89
Dividend income from unlisted investments	**(484)**	(15)
Dividend income from listed investments	**(5)**	(5)

3. Net finance charges

	2015 HK$M	2014 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**457**	664
– interest income on related security deposits, notes and zero coupon bonds	**(18)**	(37)
	439	627
– bank loans and overdrafts		
– wholly repayable within five years	**127**	139
– not wholly repayable within five years	**358**	230
– other loans		
– wholly repayable within five years	**101**	107
– not wholly repayable within five years	**16**	16
– other long-term receivables	**(22)**	(24)
	1,019	1,095
Income from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	**(41)**	(57)
– bank deposits and others	**(128)**	(175)
	(169)	(232)
Fair value change:		
– gain on obligations under finance leases designated as at fair value through profit or loss	**(157)**	(40)
– loss on financial derivatives	**471**	335
	314	295
	1,164	1,158

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

Included in the fair value change in respect of financial derivatives are net losses from derivatives that are classified as held for trading of HK$192 million (2014: net losses of HK$89 million).

4. Taxation

	2015 HK$M	2014 HK$M
Current tax expenses		
– Hong Kong profits tax	**170**	181
– overseas tax	**197**	177
– under provisions for prior years	**63**	20
Deferred tax		
– origination and reversal of temporary differences (note 15)	**727**	221
	1,157	599

4. Taxation *(continued)*

Hong Kong profits tax is calculated at 16.5% (2014: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 28(d) to the financial statements).

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

	2015 HK$M	2014 HK$M
Consolidated profit before taxation	**7,465**	4,049
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2014: 16.5%)	**(1,232)**	(668)
Expenses not deductible for tax purposes	**(364)**	(122)
Tax under provisions arising from prior years	**(63)**	(20)
Effect of different tax rates in other countries	**282**	157
Recognition of tax losses previously not recognised/(tax losses not recognised)	**49**	(57)
Income not subject to tax	**171**	111
Tax charge	**(1,157)**	(599)

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

5. Other comprehensive income

	2015 HK$M	2014 HK$M
Defined benefit plans		
– remeasurements recognised during the year	**(243)**	(356)
– deferred taxation (note 15)	**33**	40
Cash flow hedges		
– recognised during the year	**(13,780)**	(14,385)
– transferred to profit or loss (note 21)	**7,473**	427
– deferred tax recognised (note 15)	**890**	1,490
Revaluation of available-for-sale financial assets		
– recognised during the year	**161**	67
– reclassified to profit or loss	**(482)**	–
Share of other comprehensive income of associates		
– recognised during the year	**(741)**	(52)
Exchange differences on translation of foreign operations		
– recognised during the year	**(1,075)**	(525)
– reclassified to profit or loss	**15**	(2)
Other comprehensive income for the year	**(7,749)**	(13,296)

6. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the shareholders of Cathay Pacific of HK$6,000 million (2014: HK$3,150 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2014: 3,934 million) shares.

7. Dividends

	2015 HK$M	2014 HK$M
First interim dividend paid on 5th October 2015 of HK$0.26 per share (2014: first interim dividend of HK$0.10 per share)	**1,023**	393
Second interim dividend proposed on 9th March 2016 of HK$0.27 per share (2014: second interim dividend of HK$0.26 per share)	**1,062**	1,023
	2,085	1,416

The second interim dividend is not accounted for in 2015 because it had not been declared at the year end date. The actual amount payable in respect of 2015 will be accounted for as an appropriation of the retained profit in the year ending 31st December 2016.

8. Property, plant and equipment

	Aircraft and related equipment		Other equipment		Buildings		
	Owned HK$M	Leased HK$M	Owned HK$M	Leased HK$M	Owned HK$M	Under construction HK$M	Total HK$M
Group							
Cost							
At 1st January 2015	**88,290**	**51,897**	**4,082**	**478**	**11,747**	**460**	**156,954**
Exchange differences	**(1)**	**–**	**–**	**–**	**–**	**–**	**(1)**
Additions	**10,489**	**–**	**527**	**–**	**407**	**996**	**12,419**
Disposals	**(5,126)**	**–**	**(250)**	**–**	**–**	**–**	**(5,376)**
Disposal of a subsidiary	**–**	**–**	**(36)**	**–**	**–**	**–**	**(36)**
Reclassification to assets held for sale	**(6,374)**	**–**	**(198)**	**–**	**(31)**	**–**	**(6,603)**
Transfers	**5,899**	**(5,899)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2015	**93,177**	**45,998**	**4,125**	**478**	**12,123**	**1,456**	**157,357**
At 1st January 2014	80,124	58,056	3,852	478	11,431	298	154,239
Exchange differences	(1)	–	3	–	–	–	2
Additions	13,148	–	351	–	318	162	13,979
Disposals	(7,252)	–	(124)	–	(2)	–	(7,378)
Reclassification to assets held for sale	(3,888)	–	–	–	–	–	(3,888)
Transfers	6,159	(6,159)	–	–	–	–	–
At 31st December 2014	88,290	51,897	4,082	478	11,747	460	156,954
Accumulated depreciation and impairment							
At 1st January 2015	**38,417**	**13,505**	**2,638**	**412**	**3,511**	**–**	**58,483**
Charge for the year	**5,339**	**2,226**	**312**	**8**	**502**	**–**	**8,387**
Disposals	**(4,710)**	**–**	**(237)**	**–**	**–**	**–**	**(4,947)**
Disposal of a subsidiary	**–**	**–**	**(31)**	**–**	**–**	**–**	**(31)**
Reclassification to assets held for sale	**(4,901)**	**–**	**(159)**	**–**	**(27)**	**–**	**(5,087)**
Transfers	**3,979**	**(3,979)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2015	**38,124**	**11,752**	**2,523**	**420**	**3,986**	**–**	**56,805**
At 1st January 2014	38,494	14,897	2,475	399	3,039	–	59,304
Exchange differences	–	–	2	–	–	–	2
Charge for the year	4,816	2,429	284	13	474	–	8,016
Disposals	(5,614)	–	(123)	–	(2)	–	(5,739)
Impairment	428	171	–	–	–	–	599
Reclassification to assets held for sale	(3,699)	–	–	–	–	–	(3,699)
Transfers	3,992	(3,992)	–	–	–	–	–
At 31st December 2014	38,417	13,505	2,638	412	3,511	–	58,483
Net book value							
At 31st December 2015	**55,053**	**34,246**	**1,602**	**58**	**8,137**	**1,456**	**100,552**
At 31st December 2014	49,873	38,392	1,444	66	8,236	460	98,471

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

(a) Finance leased assets

Certain aircraft are subject to leases with purchase options to be exercised at the end of the respective leases. The remaining lease terms range from 1 to 10 years. Some of the rent payments are on a floating basis which are generally linked to market rates of interest. All leases permit subleasing rights subject to appropriate consent from lessors. Early repayment penalties would be payable on some of the leases should they be terminated prior to their specified expiry dates.

(b) Operating leased assets

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

Under the operating lease arrangements for aircraft, the lease rentals are partially fixed and partially floating and subleasing is not allowed. At 31st December 2015, thirteen Airbus A330-300s (2014: thirteen), nil Boeing 747-400 (2014: one), one Boeing 747-400BCF (2014: one), twenty-three Boeing 777-300ERs (2014: twenty-three), ten Airbus A320-200s (2014: ten), six Airbus A321-200s (2014: six) and two Airbus A300-600Fs (2014: one) held under operating leases, most with purchase options, were not capitalised. The estimated capitalised value of these leases being the present value of the aggregate future lease payments is HK$18,831 million (2014: HK$21,234 million).

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

The future minimum lease payments payable under operating leases committed at 31st December 2015 for each of the following periods are as follows:

	2015 HK$M	2014 HK$M
Aircraft and related equipment:		
– within one year	**3,673**	3,493
– after one year but within two years	**3,581**	3,577
– after two years but within five years	**8,308**	8,733
– after five years	**7,786**	10,233
	23,348	26,036
Buildings and other equipment:		
– within one year	**769**	787
– after one year but within two years	**600**	664
– after two years but within five years	**922**	1,196
– after five years	**410**	456
	2,701	3,103
	26,049	29,139

(c) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years. As at the year end, advance payments included in owned aircraft and related equipment amounted to HK$3,697 million (2014: HK$3,842 million) for the Group. No depreciation is provided on these advance payments.

(d) Security, including charges over the assets concerned and relevant insurance policies, is provided to the leasing companies or other parties that provide the underlying finance. Further information is provided in note 12 to the financial statements.

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

(e) No impairment loss was recognised for the year ended 31st December 2015 (2014: HK$599 million). For the year ended 31st December 2014, impairment in value of aircraft and related equipment was considered by writing down the carrying value to the estimated recoverable amount of HK$2,623 million which was the higher of the value in use and the fair value less costs of disposal. The recoverable amount was determined based on the fair value less costs of disposal, using a market comparison approach by reference to the estimated sales value at 31st December 2014. During the year, a number of aircraft have been transferred to assets held for sale. The fair value on which the recoverable amount is based is categorised as a Level 2 measurement.

9. Intangible assets

	Goodwill HK$M	Computer software HK$M	Others HK$M	Total HK$M
Cost				
At 1st January 2015	**7,666**	**3,738**	**253**	**11,657**
Additions	**–**	**760**	**–**	**760**
At 31st December 2015	**7,666**	**4,498**	**253**	**12,417**
At 1st January 2014	7,666	2,938	214	10,818
Additions	–	800	39	839
At 31st December 2014	7,666	3,738	253	11,657
Accumulated amortisation				
At 1st January 2015	**–**	**1,338**	**1**	**1,339**
Charge for the year	**–**	**468**	**4**	**472**
At 31st December 2015	**–**	**1,806**	**5**	**1,811**
At 1st January 2014	–	1,016	–	1,016
Charge for the year	–	322	1	323
At 31st December 2014	–	1,338	1	1,339
Net book value				
At 31st December 2015	**7,666**	**2,692**	**248**	**10,606**
At 31st December 2014	7,666	2,400	252	10,318

The carrying amount of goodwill allocated to the airline operations is HK$7,627 million (2014: 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% (2014: 1.0% to 3.0%) which does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rates used of approximately 8.0% (2014: 8.5%) are pre-tax and reflect the specific risks related to the relevant segments. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

10. Investments in associates

	2015 HK$M	2014 HK$M
Share of net assets		
– listed in Hong Kong	**15,282**	15,082
– unlisted	**2,241**	2,316
Goodwill	**3,882**	4,068
	21,405	21,466
Loans due from associates	**1,473**	1,452
	22,878	22,918

At 31st December 2015, the market value of the Hong Kong listed shares is HK$16,092 million (2014: HK$16,513 million).

At 31st December 2015, included in the loans due from associates is a loan of HK$1,170 million (2014: HK$1,226 million) which is unsecured, interest-bearing at 2.0% per annum (2014: interest-free) and repayable before 23rd March 2019. Terms are subject to review annually.

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

	2015 HK$M	2014 HK$M
Gross amounts of the associate's		
– current assets	**25,706**	27,020
– non-current assets	**237,315**	232,435
– current liabilities	**(66,060)**	(76,773)
– non-current liabilities	**(116,086)**	(107,483)
Revenue	**130,432**	129,998
Profit from continuing operations	**8,909**	3,275
Other comprehensive income	**(1,594)**	284
Total comprehensive income	**7,315**	3,559
Dividend received from the associate	**175**	150
Reconciled to the Group's interests in the associate		
– gross amounts of net assets of the associate	**80,875**	75,199
– Group's share of net assets of the associate at effective interest (2015: 20.13%; 2014: 20.13%)	**16,280**	15,138
– effect of cross shareholding and others	**(998)**	(56)
– goodwill	**3,882**	4,068
	19,164	19,150

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

10. Investments in associates *(continued)*

Aggregate information of associates that are not individually material

	2015 HK$M	2014 HK$M
Aggregate carrying amount of individually immaterial associates	**3,714**	3,768
Aggregate amounts of the Group's share of those associates		
– profit from continuing operations	**139**	121
– other comprehensive income	**(164)**	(68)
– total comprehensive income	**(25)**	53

Principal associates are listed on page 99.

11. Other long-term receivables and investments

	2015 HK$M	2014 HK$M
Equity investments at fair value		
– listed in Hong Kong	**433**	284
– unlisted	**584**	1,196
Leasehold land rental prepayments	**1,301**	1,344
Loans and other receivables	**1,118**	1,170
Derivative financial assets – long-term portion	**1,633**	2,378
	5,069	6,372

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK$1,344 million (2014: HK$1,386 million).

12. Long-term liabilities

		2015		2014	
	Note	Current HK$M	Non-current HK$M	Current HK$M	Non-current HK$M
Long-term loans	*(a)*	**9,164**	**26,438**	6,025	27,672
Obligations under finance leases	*(b)*	**4,074**	**23,429**	3,756	27,643
		13,238	**49,867**	9,781	55,315

(a) Long-term loans

	2015 HK$M	2014 HK$M
Bank loans		
– secured	**22,213**	18,181
– unsecured	**9,780**	11,468
Other loans		
– unsecured	**3,609**	4,048
	35,602	33,697
Amount due within one year included under current liabilities	**(9,164)**	(6,025)
	26,438	27,672
Repayable as follows:		
Bank loans		
– within one year	**8,833**	5,664
– after one year but within two years	**4,616**	8,206
– after two years but within five years	**9,060**	7,824
– after five years	**9,484**	7,955
	31,993	29,649
Other loans		
– within one year	**331**	361
– after one year but within two years	**1,870**	331
– after two years but within five years	**894**	2,842
– after five years	**514**	514
	3,609	4,048
Amount due within one year included under current liabilities	**(9,164)**	(6,025)
	26,438	27,672

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 2027.

Long-term loans of the Group not wholly repayable within five years amounted to HK$21,615 million (2014: HK$17,698 million).

At 31st December 2015, the Group had long-term loans totalling HK$33,703 million (2014: HK$36,617 million) which were defeased by funds and other investments. Accordingly, these liabilities and the related funds, as well as related expenditure and income, have been defeased in the financial statements.

12. Long-term liabilities *(continued)*

(b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2016 to 2025. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	2015 HK$M	2014 HK$M
Future payments	**30,898**	35,871
Interest charges relating to future periods	**(2,851)**	(3,752)
Present value of future payments	**28,047**	32,119
Security deposits, notes and zero coupon bonds	**(544)**	(720)
Amounts due within one year included under current liabilities	**(4,074)**	(3,756)
	23,429	27,643

The present value of future payments is repayable as follows:

	2015 HK$M	2014 HK$M
Within one year	**4,618**	3,978
After one year but within two years	**3,845**	4,622
After two years but within five years	**9,707**	10,916
After five years	**9,877**	12,603
	28,047	32,119

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

At 31st December 2015, the Group had obligations under finance leases amounting to HK$215 million (2014: HK$1,062 million) which were defeased by funds and other investments. Accordingly these liabilities and the related funds, as well as related expenditure and income, have been defeased in the financial statements.

At 31st December 2015, the Group had financial liabilities designated as at fair value through profit or loss of HK$2,593 million (2014: HK$3,129 million).

13. Other long-term payables

	2015 HK$M	2014 HK$M
Deferred liabilities	**2,390**	2,103
Derivative financial liabilities – long-term portion	**12,415**	7,747
Retirement benefit liabilities (note 14)	**1,033**	589
	15,838	10,439

At 31st December 2015, the Group had a maintenance provision of HK$1,561 million (2014: HK$1,133 million) for returning the aircraft under operating leases to certain maintenance conditions. The provision is included in above, except for HK$3 million (2014: HK$48 million) which is included in trade and other payables.

14. Retirement benefits

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

The Group operates the following principal schemes:

(a) Defined benefit retirement schemes

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

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

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

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

Contributions to the defined benefit retirement schemes are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past service liabilities, on an on-going basis, as computed by reference to actuarial valuations. The principal schemes in Hong Kong are valued annually by qualified actuaries for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance. For the year ended 31st December 2015, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2015. For the year ended 31st December 2014, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2012, which were updated at 31st December 2014 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes.

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

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

14. Retirement benefits *(continued)*

The Group's obligations are 88.4% (2014: 93.4%) covered by the plan assets held by the trustees at 31st December 2015.

	2015 HK$M	2014 HK$M
Net expenses recognised in the Group's profit or loss:		
Current service cost	**331**	324
Net interest cost	**39**	15
Total included in staff costs	**370**	339
Actual return on plan assets	**64**	325

	2015 HK$M	2014 HK$M
Net liabilities recognised in the statement of financial position:		
Present value of funded obligations	**8,912**	8,961
Fair value of plan assets	**(7,879)**	(8,372)
Retirement benefit liabilities (note 13)	**1,033**	589

	2015 HK$M	2014 HK$M
Movements in present value of funded obligations comprise:		
At 1st January	**8,961**	8,414
Remeasurements:		
– actuarial (gains)/losses arising from changes in financial assumptions	**(253)**	600
– experience losses/(gains)	**209**	(226)
Movements for the year		
– current service cost	**331**	324
– interest expense	**262**	322
– employee contributions	**4**	5
– benefits paid	**(565)**	(438)
– transfer	**(7)**	(40)
– disposal of a subsidiary	**(30)**	–
At 31st December	**8,912**	8,961

The weighted average duration of the defined benefit obligations is seven years (2014: seven years).

	2015 HK$M	2014 HK$M
Movements in fair value of plan assets comprise:		
At 1st January	**8,372**	8,353
Movements for the year		
– return on plan assets excluding interest income	**(287)**	18
– interest income	**223**	307
– employee contributions	**4**	5
– employer contributions	**163**	167
– benefits paid	**(565)**	(438)
– transfer	**(7)**	(40)
– disposal of a subsidiary	**(24)**	–
At 31st December	**7,879**	8,372

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

14. Retirement benefits *(continued)*

	2015 HK$M	%	2014 HK$M	%
Fair value of plan assets comprises:				
Equities				
– Asia Pacific	**1,016**	**13**	1,138	14
– Europe	**460**	**6**	476	5
– North America	**947**	**12**	981	12
– others	**709**	**9**	832	10
Debt instruments	**1,935**	**24**	2,283	27
Deposits and cash	**2,812**	**36**	2,662	32
	7,879	**100**	8,372	100

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

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

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$164 million to the schemes in 2016.

	2015		2014	
	SGRBS	**CPALRS**	SGRBS	CPALRS
The significant actuarial assumptions are:				
Discount rate	**3.22%**	**3.22%**	3.27%	3.27%
Expected rate of future salary increases	**5.00%**	**3.06%**	5.00%	3.41%

The sensitivity of the defined benefit obligations to changes in the actuarial assumptions are set out below. This shows how the defined benefit obligations at 31st December 2015 would have (increased)/decreased as a result of 0.5% change in the actuarial assumptions:

	Increase in 0.5%		Decrease in 0.5%	
	2015 HK$M	2014 HK$M	**2015 HK$M**	2014 HK$M
Discount rate	**282**	303	**(298)**	(315)
Expect rate of future salary increases	**(323)**	(283)	**310**	275

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

14. Retirement benefits *(continued)*

(b) Defined contribution retirement schemes

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

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

Under the terms of these schemes, other than the Company's contribution, staff may elect to contribute from 0% to 10% of their monthly salary. During the year, there were no benefits forfeited in accordance with the schemes' rules (2014: nil) which have been applied towards the contributions payable by the Company.

A mandatory provident fund ("MPF") scheme was established under the MPFSO in December 2000. Where staff elect to join the MPF scheme, both the Company and staff are required to contribute 5% of the employees' relevant income (capped at HK$30,000). Staff may elect to contribute more than the minimum as a voluntary contribution.

Contributions to defined contribution retirement schemes charged to the Group's profit or loss were HK$1,134 million (2014: HK$1,089 million).

15. Deferred taxation

	2015 HK$M	2014 HK$M
Deferred tax assets:		
– provisions	**(169)**	(169)
– tax losses	**(1,591)**	(1,637)
– cash flow hedges	**(2,104)**	(1,214)
– retirement benefits	**(127)**	(69)
Deferred tax liabilities:		
– accelerated tax depreciation	**4,063**	3,511
– investments in associates	**779**	625
Provision in respect of certain lease arrangements	**7,930**	8,216
	8,781	9,263

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

	2015 HK$M	2014 HK$M
Net deferred tax asset recognised in the statement of financial position	**(497)**	(428)
Net deferred tax liability recognised in the statement of financial position	**9,278**	9,691
	8,781	9,263

15. Deferred taxation *(continued)*

	2015 HK$M	2014 HK$M
Movements in deferred taxation comprise:		
At 1st January	**9,263**	9,429
Movements for the year		
– charged to profit or loss		
– deferred tax expenses (note 4)	**727**	221
– operating expenses	**59**	48
– charged to other comprehensive income		
– transferred to cash flow hedge reserve (note 5)	**(890)**	(1,490)
– transferred to retained profit (note 5)	**(33)**	(40)
– initial cash benefit from lease arrangements	**–**	1,195
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	**(345)**	(100)
At 31st December	**8,781**	9,263

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$9,654 million (2014: HK$12,424 million) to carry forward against future taxable income. These amounts are analysed as follows:

	Group	
	Unrecognised tax losses	
	2015 HK$M	2014 HK$M
No expiry date	**2,426**	8,444
Expiring beyond 2021	**7,228**	3,980
	9,654	12,424

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2017 to 2026 (2014: 2016 to 2025) as follows:

	2015 HK$M	2014 HK$M
After one year but within five years	**2,373**	2,096
After five years but within 10 years	**5,557**	5,173
After 10 years	**–**	947
	7,930	8,216

16. Trade, other receivables and other assets

	2015 HK$M	2014 HK$M
Trade debtors	**5,360**	5,527
Derivative financial assets – current portion	**1,145**	891
Other receivables and prepayments	**3,083**	4,050
Due from associates and other related companies	**127**	123
	9,715	10,591

At 31st December 2015, total derivative financial assets of the Group which did not qualify for hedge accounting amounted to HK$1,222 million (2014: HK$1,315 million).

	2015 HK$M	2014 HK$M
Analysis of trade debtors by invoice date:		
Current	**4,453**	4,808
One to three months	**522**	562
More than three months	**385**	157
	5,360	5,527

	2015 HK$M	2014 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**5,038**	5,379
One to three months overdue	**167**	96
More than three months overdue	**155**	52
	5,360	5,527

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:

	2015 HK$M	2014 HK$M
At 1st January	**52**	53
Amounts written back	**–**	(1)
At 31st December	**52**	52

17. Assets held for sale

	2015 HK$M	2014 HK$M
Assets held for sale	**1,497**	189
	1,497	189

An impairment loss amounting to HK$4 million was recognised for the year ended 31st December 2015 (2014: HK$14 million). Impairment of assets held for sale is considered by writing down the carrying value to the estimated recoverable amount of HK$62 million (2014: HK$97 million) which is the higher of the value in use and the fair value less costs of disposal. The recoverable amount was determined based on the fair value less costs of disposal, using market comparison approach by reference to the estimated sales value at 31st December 2015 and 2014. The fair value on which the recoverable amount is based is catergorised as a Level 2 measurement.

18. Liquid funds

	2015 HK$M	2014 HK$M
Short-term deposits and bank balances (note 24)	**7,207**	10,211
Short-term deposits maturing beyond three months when placed	**7,715**	2,176
Funds with investment managers		
– debt securities listed outside Hong Kong	**4,698**	6,780
– bank deposits	**7**	224
Other liquid investments		
– debt securities listed outside Hong Kong	**817**	1,295
– bank deposits	**203**	412
	20,647	21,098

Included in other liquid investments are bank deposits of HK$203 million (2014: HK$412 million) and debt securities of HK$134 million (2014: HK$250 million) which are pledged as part of long-term financing arrangements. The arrangements provide that these deposits and debt securities must be maintained at specified levels for the duration of the financing.

19. Trade and other payables

	2015 HK$M	2014 HK$M
Trade creditors	**5,341**	5,671
Derivative financial liabilities – current portion	**9,456**	7,291
Other payables	**7,732**	8,996
Due to associates	**227**	239
Due to other related companies	**269**	261
	23,025	22,458

At 31st December 2015, total derivative financial liabilities of the Group which did not qualify for hedge accounting amounted to HK$175 million (2014: HK$201 million).

	2015 HK$M	2014 HK$M
Analysis of trade creditors by age:		
Current	**5,023**	5,476
One to three months overdue	**308**	176
More than three months overdue	**10**	19
	5,341	5,671

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

20. Share capital

	2015		2014	
	Number of shares	HK$M	Number of shares	HK$M
Issued and fully paid				
At 1st January	**3,933,844,572**	**17,106**	3,933,844,572	787
Transition to no-par value regime on 3rd March 2014 (note 21)	**–**	**–**	–	16,319
At 31st December	**3,933,844,572**	**17,106**	3,933,844,572	17,106

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the year. At 31st December 2015, 3,933,844,572 shares were in issue (31st December 2014: 3,933,844,572 shares). The transition to the no-par value regime under the new Hong Kong Companies Ordinance (Cap. 622) occurred automatically on 3rd March 2014. On that date, the share premium account and any capital redemption reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the new Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been made in accordance with the requirements of Parts 4 and 5 of the new Ordinance.

21. Reserves

	2015 HK$M	2014 HK$M
Retained profit	**45,900**	42,156
Investment revaluation reserve	**730**	1,051
Cash flow hedge reserve	**(15,545)**	(10,128)
Capital reserve and others	**(264)**	1,537
	30,821	34,616

	Share premium HK$M	Capital redemption reserve HK$M	Retained profit HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Capital reserve and others HK$M	Total HK$M
Company							
At 1st January 2015	**–**	**–**	**34,952**	**792**	**(10,162)**	**(1)**	**25,581**
Profit for the year	**–**	**–**	**5,579**	**–**	**–**	**–**	**5,579**
Other comprehensive income	**–**	**–**	**(190)**	**(446)**	**(5,404)**	**–**	**(6,040)**
Total comprehensive income for the year	**–**	**–**	**5,389**	**(446)**	**(5,404)**	**–**	**(461)**
2014 interim dividend	**–**	**–**	**(1,023)**	**–**	**–**	**–**	**(1,023)**
2015 first interim dividend	**–**	**–**	**(1,023)**	**–**	**–**	**–**	**(1,023)**
	–	**–**	**3,343**	**(446)**	**(5,404)**	**–**	**(2,507)**
At 31st December 2015	**–**	**–**	**38,295**	**346**	**(15,566)**	**(1)**	**23,074**
At 1st January 2014	16,295	24	31,656	743	2,435	(1)	51,152
Profit for the year	–	–	4,586	–	–	–	4,586
Other comprehensive income	–	–	(268)	49	(12,597)	–	(12,816)
Total comprehensive income for the year	–	–	4,318	49	(12,597)	–	(8,230)
2013 interim dividend	–	–	(629)	–	–	–	(629)
2014 first interim dividend	–	–	(393)	–	–	–	(393)
Transfers (note 20)	(16,295)	(24)	–	–	–	–	(16,319)
	(16,295)	(24)	3,296	49	(12,597)	–	(25,571)
At 31st December 2014	–	–	34,952	792	(10,162)	(1)	25,581

21. Reserves *(continued)*

Distributable reserves of the Company at 31st December 2015 amounted to HK$38,295 million (2014: HK$34,952 million), as calculated under the provisions of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622).

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

Capital reserve and others of the Group comprise the capital reserve of HK$23 million (2014: HK$23 million), exchange differences arising from revaluation of foreign investments which amounted to HK$1,187 million (2014: HK$2,247 million) and share of associate's other negative reserve of HK$1,474 million (2014: HK$733 million).

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

The loss transferred from the cash flow hedge reserve of the Group to profit or loss items was as follows:

	2015 HK$M	2014 HK$M
Revenue	**1,295**	489
Fuel	**(8,489)**	(743)
Others	**–**	73
Net finance charge	**(279)**	(246)
Net loss transferred to the profit or loss (note 5)	**(7,473)**	(427)

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

	Total HK$M
2016	**(6,935)**
2017	**(5,930)**
2018	**(3,655)**
2019	**(298)**
2020	**239**
Beyond 2020	**1,034**
	(15,545)

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

22. Reconciliation of operating profit to cash generated from operations

	2015 HK$M	2014 HK$M
Operating profit	**6,664**	4,435
Depreciation of property, plant and equipment	**8,387**	8,016
Amortisation of intangible assets	**472**	323
Provision for impairment of assets held for sale	**4**	14
Provision for impairment of property, plant and equipment	**–**	599
Gain on disposal of assets held for sale	**(4)**	–
Gain on disposal of property, plant and equipment, net	**(49)**	(215)
Gain on disposal of a subsidiary	**(106)**	–
Currency adjustments and other items not involving cash flows	**7,791**	619
Decrease/(increase) in stock	**223**	(78)
Decrease in trade debtors, other receivables and other assets and derivative financial assets	**2,351**	1,008
Decrease in net amounts due to related companies and associates	**(8)**	(28)
Increase in trade creditors, other payables, derivative financial liabilities and deferred creditors	**5,526**	12,821
Increase in unearned transportation revenue	**774**	1,001
Non-operating movements in debtors and creditors	**(14,888)**	(16,241)
Cash generated from operations	**17,137**	12,274

23. Disposal of a subsidiary

	2015 HK$M	2014 HK$M
Net liabilities disposed of:		
Property, plant and equipment	**5**	–
Trade, other receivables and other assets	**14**	–
Trade and other payables	**(18)**	–
Others	**(8)**	–
Total net liabilities	**(7)**	–
Reversal of non-controlling interests	**(16)**	–
Gain on disposal	**106**	–
Total consideration	**83**	–
Analysis of net cash inflow from disposal of a subsidiary:		
Sales proceeds	**125**	–
Less liquid funds disposed of:		
– short-term deposits	**(20)**	–
– bank balances	**(22)**	–
Net cash inflow from disposal of a subsidiary	**83**	–

24. Analysis of cash and cash equivalents

	2015 HK$M	2014 HK$M
Short-term deposits and bank balances (note 18)	**7,207**	10,211
	7,207	10,211

25. Directors' and executive officers' remuneration

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

	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$'000	**2015 Total HK$'000**	2014 Total HK$'000
Executive Directors									
John Slosar	228	1,147	6	77	359	–	166	**1,983**	7,367
Christopher Pratt (up to March 2014)	–	140	–	–	–	–	–	**140**	862
W.E. James Barrington (up to September 2015)	1,442	1,649	1,592	487	1,041	209	–	**6,420**	7,243
Ivan Chu	3,453	3,840	1,781	1,022	–	–	–	**10,096**	7,372
Rupert Hogg (from March 2014)	2,400	1,809	689	811	1,054	15	4,339	**11,117**	6,524
Martin Murray	2,518	1,631	581	851	906	101	3,151	**9,739**	9,110
Algernon Yau (from September 2015)	631	166	159	95	–	–	–	**1,051**	–
Non-Executive Directors									
Cai Jianjiang	575	–	–	–	–	–	–	**575**	575
Martin Cubbon (from January 2015)	–	–	–	–	–	–	–	**–**	–
Fan Cheng	755	–	–	–	–	–	–	**755**	755
Ian Shiu	–	–	–	–	–	–	–	**–**	–
Song Zhiyong (from March 2014)	575	–	–	–	–	–	–	**575**	462
Merlin Swire	–	–	–	–	–	–	–	**–**	–
Samuel Swire (from January 2015)	–	–	–	–	–	–	–	**–**	–
Wang Changshun (up to January 2014)	–	–	–	–	–	–	–	**–**	41
Zhao Xiaohang	575	–	–	–	–	–	–	**575**	575
Independent Non-Executive Directors									
John Harrison (from May 2015)	467	–	–	–	–	–	–	**467**	–
Irene Lee	885	–	–	–	–	–	–	**885**	835
Jack So (up to May 2015)	320	–	–	–	–	–	–	**320**	835
Andrew Tung (from May 2015)	392	–	–	–	–	–	–	**392**	–
Tung Chee Chen (up to May 2015)	243	–	–	–	–	–	–	**243**	633
Peter Wong	755	–	–	–	–	–	–	**755**	755
2015 Total	**16,214**	**10,382**	**4,808**	**3,343**	**3,360**	**325**	**7,656**	**46,088**	
2014 Total	16,611	9,550	4,878	2,773	3,037	239	6,856		43,944

(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) Management bonus is related to services for 2014 and was paid in 2015. Other discretionary bonus is paid in 2014 or 2015.

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

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

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

	Cash			Non-cash					
	Basic salary HK$'000	Bonus HK$'000	Allowances & benefits HK$'000	Contributions to retirement schemes HK$'000	Bonus paid into retirement schemes HK$'000	Other benefits HK$'000	Housing benefits HK$'000	**2015 Total HK$'000**	2014 Total HK$'000
William Chau (up to August 2013)	–	–	–	–	–	–	–	**–**	799
Dane Cheng (from July 2014)	1,765	855	639	289	–	–	–	**3,548**	1,477
Chitty Cheung (up to August 2014)	–	–	–	–	–	–	–	**–**	3,164
Philippe de Gentile-Williams (up to July 2014)	–	635	–	–	492	–	–	**1,127**	4,662
Christopher Gibbs	2,412	1,780	1,106	405	–	–	–	**5,703**	5,119
James Ginns (from August 2014)	1,732	440	1,337	585	328	80	1,635	**6,137**	2,329
Richard Hall (up to April 2015)	670	1,316	855	–	–	–	–	**2,841**	6,431
Rupert Hogg (up to March 2014)	–	–	–	–	–	–	–	**–**	4,019
Simon Large (from August 2015)	642	–	481	213	–	32	788	**2,156**	–
Joseph Locandro	2,346	1,056	1,066	352	–	–	–	**4,820**	5,206
Paul Loo (from August 2015)	596	140	259	98	–	–	–	**1,093**	–
Tom Owen (from August 2015)	627	–	269	212	–	32	769	**1,909**	–
Nick Rhodes (up to July 2015)	1,259	1,715	35	425	1,094	137	1,585	**6,250**	8,302
Anna Thompson (from April 2015)	1,175	–	1,426	397	–	118	–	**3,116**	–
James Tong (from August 2014)	1,746	845	502	286	–	–	–	**3,379**	1,164
James Woodrow (up to September 2015)	1,200	1,052	593	405	799	163	1,511	**5,723**	6,850
2015 Total	**16,170**	**9,834**	**8,568**	**3,667**	**2,713**	**562**	**6,288**	**47,802**	
2014 Total	15,341	11,987	7,358	2,736	3,585	460	8,055		49,522

(a) Bonus is related to services for 2014 and was paid in 2015.

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

26. Employee information

(a) The five highest paid individuals of the Company included four Directors (2014: four) and one executive officer (2014: one), whose emoluments are set out in note 25 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:

	2015			2014		
HK$'000	**Director**	**Flight staff**	**Other staff**	Director	Flight staff	Other staff
0 – 1,000	**15**	**11,494**	**9,978**	14	11,102	9,717
1,001 – 1,500	**1**	**614**	**301**	–	423	301
1,501 – 2,000	**1**	**362**	**121**	–	343	142
2,001 – 2,500	**–**	**595**	**83**	–	692	67
2,501 – 3,000	**–**	**449**	**25**	–	419	21
3,001 – 3,500	**–**	**265**	**7**	–	250	6
3,501 – 4,000	**–**	**152**	**6**	–	142	1
4,001 – 4,500	**–**	**91**	**1**	–	54	3
4,501 – 5,000	**–**	**27**	**3**	–	5	2
5,001 – 5,500	**–**	**4**	**–**	–	1	5
5,501 – 6,000	**–**	**–**	**2**	–	–	–
6,001 – 6,500	**1**	**–**	**2**	–	–	1
6,501 – 7,000	**–**	**–**	**–**	1	–	2
7,001 – 7,500	**–**	**–**	**–**	3	–	–
8,001 – 8,500	**–**	**–**	**–**	–	–	1
9,001 – 9,500	**–**	**–**	**–**	1	–	–
9,501 – 10,000	**1**	**–**	**–**	–	–	–
10,001 – 10,500	**1**	**–**	**–**	–	–	–
11,001 – 11,500	**1**	**–**	**–**	–	–	–
	21	**14,053**	**10,529**	19	13,431	10,269

27. Related party transactions

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

	2015		2014	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Revenue	**240**	**19**	226	11
Aircraft maintenance costs	**1,102**	**2,140**	948	2,207
Operating costs	**761**	**–**	514	–
Dividend income	**280**	**11**	221	8
Finance income	**19**	**–**	–	–
Property, plant and equipment purchase	**–**	**6**	–	13

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

(i) Under the HAECO Framework Agreement with HAECO and HXITM, the Group paid fees to, and received fees from, the HAECO group in respect of aircraft maintenance and related services. The amounts payable to the HAECO group for the year ended 31st December 2015 totalled HK$3,246 million (2014: HK$3,167 million). The amounts receivable from the HAECO group for the year ended 31st December 2015 totalled HK$27 million (2014: HK$13 million).

Transactions under the HAECO Framework Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure and shareholders' approval requirements in accordance with Chapter 14A of the Listing Rules. For a definition of terms, please refer to the Directors' Report on page 32.

(ii) Under the Air China Framework Agreement with Air China dated 26th June 2008, the Group paid fees to, and received fees from, the Air China group in respect of transactions between the Group on the one hand and the Air China group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Air China Framework Agreement. The amounts payable to the Air China group for the year ended 31st December 2015 totalled HK$415 million (2014: HK$430 million). The amounts receivable from the Air China group for the year ended 31st December 2015 totalled HK$232 million (2014: HK$224 million).

Transactions under the Air China Framework Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For a definition of terms, please refer to the Directors' Report on pages 32 and 33.

(b) The Company has an agreement for services with JSSHK ("JSSHK Services Agreement"). Under the JSSHK Services Agreement, the Company paid fees and reimbursed costs to JSSHK in exchange for services provided. Service fees calculated at 2.5% of the Group's profit before taxation, results of associates, non-controlling interests, and any profits or losses on disposal of property, plant and equipment are paid annually. For the year ended 31st December 2015, service fees of HK$143 million (2014: HK$81 million) were paid and expenses of HK$209 million (2014: HK$214 million) were reimbursed at cost; in addition, HK$68 million (2014: HK$50 million) in respect of shared administrative services were reimbursed.

Transactions under the JSSHK Services Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For a definition of terms, please refer to the Directors' Report on page 32.

(c) Amounts due from and due to associates and other related companies at 31st December 2015 are disclosed in notes 16 and 19 to the financial statements. These balances arising in the normal course of business are non-interest bearing and have no fixed repayment terms.

(d) Guarantees given by the Company in respect of bank loan facilities of an associate at 31st December 2015 are disclosed in note 28(b) to the financial statements.

(e) There were no material transactions with Directors and executive officers except for those relating to shareholdings (as disclosed in the Directors' Report and the Corporate Governance Report). Remuneration of Directors and executive officers is disclosed in note 25 to the financial statements.

28. Capital commitments and contingencies

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

	2015 HK$M	2014 HK$M
Authorised and contracted for	**94,272**	100,841
Authorised but not contracted for	**5,096**	10,102
	99,368	110,943

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

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

	2015 HK$M	2014 HK$M
Associates	**4,776**	3,112
Related parties	**1,186**	1,032
Staff	**200**	200
	6,162	4,344

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

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

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

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

The proceedings and civil actions, except as otherwise stated below, are ongoing and the outcomes are subject to uncertainties. The Company is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with the accounting policy 20 set out on page 105.

In November 2010, the European Commission issued a decision in its airfreight investigation finding that, amongst other things, the Company and a number of other international cargo carriers agreed to cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57.12 million on the Company. In January 2011, the Company filed an appeal with the General Court of the European Union. The appeal was heard by the General Court in Luxembourg in May 2015. The General Court delivered judgment in December 2015 annulling the European Commission's finding against the Company. The fine of Euros 57.12 million had been refunded to the Company in early February 2016. The European Commission had until 26th February 2016 to appeal against the General Court's decision, no appeal had been lodged.

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

28. Capital commitments and contingencies *(continued)*

The Company was a defendant in various putative class action cases filed in the United States, in which the plaintiffs alleged the Company and other carriers that provide air cargo services fixed the prices of various air cargo charges and surcharges in violation of United States federal antitrust laws. Those were consolidated into one case for all pre-trial purposes, In re Air Cargo Shipping Services Antitrust Litigation, MDL No. 1775, EDNY. Damages were demanded, but the amounts were not specified. The Company reached an agreement to settle this matter in February 2014, by paying the plaintiffs US$65 million (approximately HK$504 million at the exchange rate current at date of payment). The settlement, which was approved by the Court in October 2015, resolved claims brought by all putative class members who chose not to opt out of the agreement. Certain plaintiffs opted out of the agreement. The claims of opt-out plaintiff DPWN Holdings (USA) were resolved by the payment of US$15.4 million (approximately HK$119.4 million at the exchange rate current at date of payment) in December 2014. The claims of opt-out plaintiff Schenker, AG were resolved by the payment of US$8.2 million (approximately HK$63.6 million at the exchange rate current at date of payment) in January 2015. The Company is not aware of any other opt-out plaintiff having asserted a claim, but none of the other opt-outs' claims would be material.

The Company was a defendant in various putative class action cases filed in the United States, in which the plaintiffs alleged the Company and other carriers fixed certain elements of the price charged for passenger air transportation services in violation of United States antitrust laws. Those cases were consolidated into one case for all pre-trial purposes, In re Transpacific Passenger Air Transportation Antitrust Litigation, MDL No. 1913, N.D. Cal. Damages were demanded, but the amounts were not specified. The Company reached an agreement to settle this matter in July 2014 by paying the plaintiffs US$7.5 million (approximately HK$58.1 million at the exchange rate current at date of payment). The settlement, which was approved by the Court in May 2015, resolves claims by all putative class members who chose not to opt out of the agreement. Only one passenger opted out. The Company is not aware of any claim being filed by that passenger, but any claim on behalf of that passenger would not be material.

The Company is a defendant in three putative class action cases filed in Canada, in which the plaintiffs allege the Company and other carriers that provide air cargo services fixed the prices of various air cargo charges and surcharges in violation of the Canadian Competition Act. Two of the actions were stayed pending resolution of the third class action, which was certified in August 2015. Damages were demanded, but the amounts were not specified. The Company reached an agreement to settle all three actions in December 2015, by paying the plaintiffs CAD$6 million (approximately HK$34.9 million at the exchange rate current at date of payment). The settlement, which is subject to Court approval, will resolve claims by all putative class members in all three actions.

29. Financial risk management

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

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

(a) Credit risk

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

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

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

At the reporting date there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position and the amount of guarantees granted as disclosed in note 28 to the financial statements. Collateral and guarantees received in respect of credit terms granted at 31st December 2015 is HK$1,373 million (2014: HK$1,413 million).

The movement in the provision for bad debts in respect of trade debtors during the year is set out in note 16 to the financial statements.

29. 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 2014. The undiscounted payment profile of financial liabilities is outlined as follows:

	2015				
	Within one year HK$M	**After one year but within two years HK$M**	**After two years but within five years HK$M**	**After five years HK$M**	**Total HK$M**
Group					
Bank and other loans	**(9,806)**	**(7,148)**	**(11,559)**	**(10,945)**	**(39,458)**
Obligations under finance leases	**(4,470)**	**(4,302)**	**(10,917)**	**(10,535)**	**(30,224)**
Other long-term payables	**–**	**(312)**	**(1,091)**	**(987)**	**(2,390)**
Trade and other payables	**(13,569)**	**–**	**–**	**–**	**(13,569)**
Derivative financial liabilities, net	**(9,331)**	**(7,553)**	**(4,917)**	**2**	**(21,799)**
Total	**(37,176)**	**(19,315)**	**(28,484)**	**(22,465)**	**(107,440)**

	2014				
	Within one year HK$M	After one year but within two years HK$M	After two years but within five years HK$M	After five years HK$M	Total HK$M
Group					
Bank and other loans	(6,526)	(9,125)	(12,107)	(9,386)	(37,144)
Obligations under finance leases	(4,122)	(4,615)	(12,582)	(13,690)	(35,009)
Other long-term payables	–	(319)	(800)	(984)	(2,103)
Trade and other payables	(15,167)	–	–	–	(15,167)
Derivative financial liabilities, net	(7,147)	(3,779)	(3,979)	16	(14,889)
Total	(32,962)	(17,838)	(29,468)	(24,044)	(104,312)

(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 2015 are primarily United States dollars, Euros, Australian dollars, Singapore dollars, Renminbi and Japanese yen (2014: United States dollars, Euros, New Taiwan dollars, Singapore dollars, Renminbi and Japanese yen). Foreign currency risk is measured by employing sensitivity analysis, taking into account current and anticipated exposures. To manage this exposure, assets are, where possible, financed in those foreign currencies in which net operating surpluses are anticipated, thus establishing a natural hedge. In addition, the Group uses currency derivatives to reduce anticipated foreign currency surpluses. The use of foreign currency borrowings and currency derivatives to hedge future operating revenues is a key component of the financial risk management process, as exchange differences realised on the repayment of financial commitments are effectively matched by the change in value of the foreign currency earnings used to make those repayments.

29. Financial risk management *(continued)*

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

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

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

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, Australian dollars, Singapore dollars, Renminbi and Japanese yen.

29. Financial risk management *(continued)*

Sensitivity analysis for foreign currency exposure

A five percent appreciation of the Hong Kong dollars against the following currencies at 31st December 2015 would have resulted in a change in profit or loss and other equity components by the amounts shown below. This represents the translation of financial assets and liabilities and the change in fair value of currency derivatives at the reporting date. It assumes that all other variables, in particular interest rates, remain constant. The analysis has been performed on the same basis as for 2014.

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

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

(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:

	2015 HK$M	2014 HK$M
Fixed rate instruments		
Loans receivable	**536**	601
Long-term loans	**(2,972)**	(3,411)
Obligations under finance leases	**(7,427)**	(8,592)
Interest rate and currency swaps	**(21,005)**	(24,057)
Net exposure	**(30,868)**	(35,459)

29. Financial risk management *(continued)*

	2015 HK$M	2014 HK$M
Variable rate instruments		
Loans due from associates	**1,467**	1,356
Liquid funds	**20,647**	21,098
Long-term loans	**(32,630)**	(30,286)
Obligations under finance leases	**(20,076)**	(22,807)
Interest rate and currency swaps	**22,070**	25,201
Net exposure	**(8,522)**	(5,438)

Sensitivity analysis for interest rate exposure

An increase of 25 basis points in interest rates at the reporting date would have decreased profit or loss and increased other equity components for the year by the amounts shown below. These amounts represent the fair value change of interest rate swaps and financial liabilities designated as at fair value through profit or loss at the reporting date and the increase in net finance charges. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis has been performed on the same basis as for 2014.

	2015		2014	
	Profit or loss HK$M	**Other equity components HK$M**	Profit or loss HK$M	Other equity components HK$M
Variable rate instruments	**(98)**	**149**	(91)	190

(iii) Fuel price risk

Fuel accounted for 34.0% of the Group's total operating expenses (2014: 39.2%). Exposure to fluctuations in the fuel price is managed by the use of fuel derivatives. The profit or loss generated from these fuel derivatives is dependent on the nature and combination of contracts which generate payoffs in any particular range of fuel prices.

Sensitivity analysis for jet fuel price derivatives

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

	2015		2014	
	Net increase/ (decrease) in profit or loss HK$M	**Net increase/ (decrease) in other equity components HK$M**	Net increase/ (decrease) in profit or loss HK$M	Net increase/ (decrease) in other equity components HK$M
Increase in jet fuel price by 5%	**–**	**1,187**	(21)	1,695
Decrease in jet fuel price by 5%	**–**	**(1,187)**	12	(1,702)

29. Financial risk management *(continued)*

(d) Hedge accounting

The carrying values of financial assets/(liabilities) designated as cash flow hedges at 31st December 2015 were as follows:

	2015 HK$M	2014 HK$M
Foreign currency risk		
– long-term liabilities (natural hedge)	**(6,662)**	(7,482)
– cross currency swaps	**–**	519
– foreign currency forward contracts	**1,442**	1,168
– foreign exchange swaps	**–**	(4)
Interest rate risk		
– interest rate swaps	**(290)**	(258)
Fuel price risk		
– fuel derivatives	**(21,291)**	(14,307)

(e) Fair values

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

	2015		2014	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Loans receivable	**536**	**575**	601	650
Long-term loans	**(35,602)**	**(37,202)**	(33,697)	(35,185)
Obligations under finance leases	**(28,047)**	**(28,904)**	(32,119)	(33,171)
Pledged security deposits	**544**	**671**	720	855

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

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

29. Financial risk management *(continued)*

(f) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 31st December 2015 across three levels of the fair value hierarchy defined in HKFRS 13 "Fair Value Measurement" with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. Level 1 includes financial instruments with fair values measured using only unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes financial instruments with fair values measured using inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value has been determined based on quotes from market makers or discounted cash flow valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates, exchange rates and fuel price. Level 3 includes financial instruments with fair values measured using discounted cash flow valuation techniques in which any significant input is not based on observable market data.

	2015				2014			
	Level 1 HK$M	**Level 2 HK$M**	**Level 3 HK$M**	**Total HK$M**	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Recurring fair value measurement								
Assets								
Investments at fair value								
– listed	**433**	**–**	**–**	**433**	284	–	–	284
– unlisted	**–**	**–**	**584**	**584**	–	–	1,196	1,196
Liquid funds								
– funds with investment managers	**–**	**4,698**	**–**	**4,698**	–	6,780	–	6,780
– other liquid investments	**–**	**817**	**–**	**817**	–	1,295	–	1,295
Derivative financial assets	**–**	**2,778**	**–**	**2,778**	–	3,269	–	3,269
	433	**8,293**	**584**	**9,310**	284	11,344	1,196	12,824
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	**–**	**(2,593)**	**–**	**(2,593)**	–	(3,129)	–	(3,129)
Derivative financial liabilities	**–**	**(21,871)**	**–**	**(21,871)**	–	(15,038)	–	(15,038)
	–	**(24,464)**	**–**	**(24,464)**	–	(18,167)	–	(18,167)

29. Financial risk management *(continued)*

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

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

Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Positive/(negative) impact on valuation (HK$M)
Unlisted investments				
Discount rate	2015: 10.0% (2014: 8.0%)	The higher the discount rate, the lower the fair value	2015: +/- 0.5% (2014: +/- 0.5%)	2015: (11)/11 (2014: (76)/100)

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

	2015 HK$M	2014 HK$M
Investments at fair value – unlisted		
At 1st January	**1,196**	1,085
Additions	**–**	78
Disposals	**(143)**	(9)
Net unrealised gains or losses recognised in other comprehensive income during the year	**13**	42
Net unrealised gains or losses reclassified to profit or loss	**(482)**	–
At 31st December	**584**	1,196

29. Financial risk management *(continued)*

(g) Offsetting financial assets and financial liabilities

	2015				
	Gross amounts of recognised financial assets/liabilities HK$M	Gross amounts of recognised financial assets/liabilities offset in the statement of financial position HK$M	Net amounts of financial assets/liabilities presented in the statement of financial position HK$M	Financial instruments not offset in the statement of financial position HK$M	Net amount HK$M
Group					
Derivative financial assets	**2,778**	**–**	**2,778**	**(2,022)**	**756**
Related pledged security deposits	**544**	**(544)**	**–**	**–**	**–**
Obligations under finance leases	**(544)**	**544**	**–**	**–**	**–**
Derivative financial liabilities	**(21,871)**	**–**	**(21,871)**	**2,022**	**(19,849)**
	(19,093)	**–**	**(19,093)**	**–**	**(19,093)**

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

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

30. Capital risk management

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

The Group regards the net debt/equity ratio as the key measurement of capital risk management. The definition of net debt/equity ratio is shown on page 111 and a ten year history is included on pages 106 and 107 of the annual report.

31. Company-level statement of financial position

	Note	2015 HK$M	2014 HK$M	2015 US$M	2014 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment		**79,154**	77,208	**10,148**	9,899
Intangible assets		**2,931**	2,631	**376**	337
Investments in subsidiaries		**34,329**	36,436	**4,401**	4,671
Investments in associates		**10,802**	10,726	**1,385**	1,375
Other long-term receivables and investments		**3,335**	4,655	**427**	597
		130,551	131,656	**16,737**	16,879
Long-term liabilities		**(48,279)**	(53,474)	**(6,190)**	(6,856)
Related pledged security deposits		**–**	499	**–**	64
Net long-term liabilities		**(48,279)**	(52,975)	**(6,190)**	(6,792)
Other long-term payables		**(14,972)**	(9,725)	**(1,919)**	(1,247)
Deferred tax liabilities		**(7,929)**	(8,498)	**(1,017)**	(1,089)
		(71,180)	(71,198)	**(9,126)**	(9,128)
Net non-current assets		**59,371**	60,458	**7,611**	7,751
Current assets and liabilities					
Stock		**1,141**	1,379	**146**	177
Trade, other receivables and other assets		**8,989**	9,599	**1,152**	1,231
Assets held for sale		**1,493**	189	**192**	24
Liquid funds		**14,985**	11,357	**1,921**	1,456
		26,608	22,524	**3,411**	2,888
Current portion of long-term liabilities		**(13,006)**	(9,089)	**(1,667)**	(1,165)
Related pledged security deposits		**544**	21	**70**	3
Net current portion of long-term liabilities		**(12,462)**	(9,068)	**(1,597)**	(1,162)
Trade and other payables		**(20,272)**	(19,490)	**(2,599)**	(2,499)
Unearned transportation revenue		**(12,619)**	(11,577)	**(1,618)**	(1,484)
Taxation		**(446)**	(160)	**(57)**	(21)
		(45,799)	(40,295)	**(5,871)**	(5,166)
Net current liabilities		**(19,191)**	(17,771)	**(2,460)**	(2,278)
Total assets less current liabilities		**111,360**	113,885	**14,277**	14,601
Net assets		**40,180**	42,687	**5,151**	5,473
CAPITAL AND RESERVES					
Share capital and other statutory capital reserves	*20*	**17,106**	17,106	**2,193**	2,193
Other reserves	*21*	**23,074**	25,581	**2,958**	3,280
Total equity		**40,180**	42,687	**5,151**	5,473

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

The notes on pages 58 to 99 and the principal accounting policies on pages 100 to 105 form part of these financial statements.

John Slosar
Director

Irene Lee
Director

Hong Kong, 9th March 2016

32. Impact of further new accounting standards

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

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

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

The International Financial Reporting Standard ("IFRS") 16 "Leases" becomes effective for accounting periods beginning on or after 1st January 2019. The standard eliminates the lessee's classification of leases as either operating leases or finance leases as is required by International Accounting Standard 17 "Leases" and, instead, introduces a single lease accounting model. Applying that model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss. We expect that the HKICPA will issue the equivalent standard soon to maintain convergence with IFRSs and such future standard will be relevant to the Group. The Group has yet to assess the full impact of the new standard.

33. Event after the reporting period

In December 2015, the General Court annulled the European Commission's finding against the Company in November 2010. The fine of Euros 57.12 million previously imposed on the Company had been refunded to the Company in early February 2016 as disclosed in note 28(e) to the financial statements. The refund had been duly recognised in 2015 profit.

Principal Subsidiaries and Associates

at 31st December 2015

Subsidiaries

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

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

All shares are ordinary shares unless otherwise stated.

* *Shareholding held through subsidiaries.*

Associates

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

* *Shareholding held through subsidiaries.*

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

Principal Accounting Policies

1. Basis of accounting

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") (which include all applicable Hong Kong Accounting Standards ("HKAS"), Hong Kong Financial Reporting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The measurement basis used is historical cost modified by the use of fair value for certain financial assets and liabilities as explained in accounting policies 8, 9, 10 and 12 below.

The preparation of the financial statements in conformity with HKFRS requires management to make certain estimates and assumptions which affect the amounts of property, plant and equipment, intangible assets, long-term investments, retirement benefit obligations and taxation included in the financial statements. These estimates and assumptions are continually re-evaluated and are based on management's expectations of future events which are considered to be reasonable.

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

- Amendments to HKAS 19 (2011) "Employee Benefits: Defined Benefit Plans: Employee Contributions"
- HKFRSs (Amendments) "Annual Improvements to HKFRSs 2010-2012 Cycle"
- HKFRSs (Amendments) "Annual Improvements to HKFRSs 2011-2013 Cycle"

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

The amendments to HKAS 19 (2011) "Employee Benefits: Defined Benefit Plans: Employee Contributions" applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment permits (but does not require) contributions from employees or third parties that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered, rather than being attributed to periods of service as a negative benefit. The amendments have had no significant impact on the Group's financial statements.

The improvements to HKFRSs cycles consist of amendments to existing standards. The amendments have had no significant impact on the Group's financial statements.

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December together with the Group's share of the results and net assets of its associates. Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

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

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

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

3. Associates

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

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

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

4. Foreign currencies

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

(a) foreign currency denominated financial assets and liabilities.

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

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

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

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

5. Property, plant and equipment

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

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

Depreciation of property, plant and equipment is calculated on a straight line basis to write down cost over their anticipated useful lives to their estimated residual values as follows:

Passenger aircraft	over 20 years to residual value of the lower of 10% of cost or expected realisable value
Freighter aircraft	over 20-27 years to residual value of between 10% to 20% of cost and over 10 years to nil residual value for freighters converted from passenger aircraft
Aircraft product	over 5-10 years to nil residual value
Other equipment	over 3-25 years to nil residual value
Buildings	over the lease term of the leasehold land to nil residual value

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

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

6. Leased assets

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

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

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

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

7. Intangible assets

Intangible assets comprise goodwill arising on consolidation, acquisition of computer software licences and others. The accounting policy for goodwill is outlined in accounting policy 2 on pages 100-101.

Expenditure on computer software licences and others which gives rise to economic benefits is capitalised as part of intangible assets and is amortised on a straight line basis over its useful life not exceeding a period of four to ten years.

8. Financial assets

Other long-term receivables, bank and security deposits, trade and other short-term receivables are categorised as loans and receivables and are stated at amortised cost less impairment loss.

Where long-term investments held by the Group are designated as available-for-sale financial assets, these investments are stated at fair value. Fair value is based on quoted market prices at the end of the reporting period without any deduction for transaction costs. Fair values for the unquoted equity investments are estimated using an appropriate valuation model. Any change in fair value is recognised in the investment revaluation reserve. On disposal or if there is evidence that the investment is impaired, the cumulative gain or loss on the investment is reclassified from the investment revaluation reserve to profit or loss.

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

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

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

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

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

9. Financial liabilities

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

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

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

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

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

10. Derivative financial instruments

Derivative financial instruments are used solely to manage exposures to fluctuations in foreign exchange rates, interest rates and jet fuel prices in accordance with the Group's risk management policies. The Group does not hold or issue derivative financial instruments for proprietary trading purposes.

All derivative financial instruments are recognised at fair value in the statement of financial position. Where derivative financial instruments are designated as effective hedging instruments under HKAS 39 "Financial Instruments: Recognition and Measurement" and hedge exposure to fluctuations in foreign exchange rates, interest rates or jet fuel prices, any fair value change is accounted for as follows:

(a) the portion of the fair value change that is determined to be an effective cash flow hedge is recognised directly in equity via the statement of changes in equity and is included in profit or loss as an adjustment to revenue, net finance charges or fuel expense in the same period or periods during which the hedged transaction affects profit or loss.

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

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

11. Fair value measurement

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

12. Retirement benefits

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

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

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

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

13. Deferred taxation

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

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

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

14. Stock

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

15. Assets held for sale

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

16. Revenue recognition

Passenger and cargo sales are recognised as revenue when the transportation service is provided. The value of unflown passenger and cargo sales is recorded as unearned transportation revenue. Income from catering and other services is recognised when the services are rendered. Interest income is recognised as it accrues while dividend income is recognised when the right to receive payment is established.

17. Maintenance and overhaul costs

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

18. Loyalty programme

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

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

19. Related parties

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

20. Provisions and contingent liabilities

Provisions are recognised when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits is required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

Statistics

		2015	2014
Consolidated profit or loss summary	*HK$M*		
Passenger services		**73,047**	75,734
Cargo services		**23,122**	25,400
Catering, recoveries and other services		**6,173**	4,857
Revenue		**102,342**	105,991
Operating expenses		**(95,678)**	(101,556)
Operating profit/(loss)		**6,664**	4,435
Profit on disposal of investments		**–**	–
Gain on deemed disposal of an associate		**–**	–
Net finance charges		**(1,164)**	(1,158)
Share of profits/(losses) of associates		**1,965**	772
Profit/(loss) before taxation		**7,465**	4,049
Taxation		**(1,157)**	(599)
Profit/(loss) for the year		**6,308**	3,450
Profit attributable to non-controlling interests		**(308)**	(300)
Profit/(loss) attributable to the shareholders of Cathay Pacific		**6,000**	3,150
Dividends paid		**(2,046)**	(1,022)
Retained profit for the year		**3,954**	2,128
Consolidated statement of financial position summary	*HK$M*		
Property, plant and equipment and intangible assets		**111,158**	108,789
Long-term receivables and investments		**27,947**	29,290
Borrowings		**(63,105)**	(65,096)
Liquid funds less bank overdrafts		**20,647**	21,098
Net borrowings		**(42,458)**	(43,998)
Net current liabilities (excluding liquid funds, bank overdrafts and current portion of borrowings)		**(23,961)**	(22,478)
Other long-term payables		**(15,838)**	(10,487)
Deferred taxation		**(8,781)**	(9,263)
Net assets		**48,067**	51,853
Financed by:			
Funds attributable to the shareholders of Cathay Pacific		**47,927**	51,722
Non-controlling interests		**140**	131
Total equity		**48,067**	51,853
Per share			
Shareholders' funds	*HK$*	**12.18**	13.15
EBITDA	*HK$*	**4.45**	3.44
Earnings/(loss)	*HK cents*	**152.5**	80.1
Dividend	*HK$*	**0.53**	0.36
Ratios			
Profit/(loss) margin	*%*	**5.9**	3.0
Return on capital employed	*%*	**7.6**	4.7
Dividend cover	*Times*	**2.9**	2.2
Cash interest cover	*Times*	**28.9**	20.7
Gross debt/equity ratio	*Times*	**1.32**	1.26
Net debt/equity ratio	*Times*	**0.89**	0.85

2013	2012	2011	2010	2009	2008	2007	2006
71,826	70,133	67,778	59,354	45,920	57,964	49,520	38,755
23,663	24,555	25,980	25,901	17,255	24,623	21,783	18,385
4,995	4,688	4,648	4,269	3,803	3,976	4,055	3,643
100,484	99,376	98,406	89,524	66,978	86,563	75,358	60,783
(96,724)	(97,763)	(93,125)	(78,672)	(62,583)	(94,911)	(67,831)	(55,687)
3,760	1,613	5,281	10,852	4,395	(8,348)	7,527	5,096
–	–	–	2,165	1,254	–	–	–
–	–	–	868	–	–	–	–
(1,019)	(884)	(744)	(978)	(847)	(1,012)	(787)	(465)
838	754	1,708	2,577	264	(764)	1,057	301
3,579	1,483	6,245	15,484	5,066	(10,124)	7,797	4,932
(675)	(409)	(779)	(1,441)	(275)	1,366	(775)	(769)
2,904	1,074	5,466	14,043	4,791	(8,758)	7,022	4,163
(284)	(212)	(169)	(185)	(170)	(224)	(187)	(183)
2,620	862	5,297	13,858	4,621	(8,982)	6,835	3,980
(551)	(1,338)	(3,777)	(1,691)	–	(2,438)	(2,245)	(2,992)
2,069	(476)	1,520	12,167	4,621	(11,420)	4,590	988
104,737	93,703	82,099	74,116	73,345	73,821	70,170	65,351
27,449	24,776	23,393	17,512	14,321	14,504	15,923	12,452
(67,052)	(59,546)	(43,335)	(39,629)	(42,642)	(40,280)	(36,368)	(31,943)
27,736	24,182	19,597	24,194	16,511	15,082	21,637	15,595
(39,316)	(35,364)	(23,738)	(15,435)	(26,131)	(25,198)	(14,731)	(16,348)
(19,110)	(15,711)	(16,685)	(14,022)	(12,864)	(16,887)	(13,094)	(9,019)
(1,318)	(3,205)	(3,650)	(1,700)	(1,086)	(5,509)	(1,222)	–
(9,429)	(8,061)	(6,651)	(5,842)	(5,255)	(4,737)	(6,752)	(6,550)
63,013	56,138	54,768	54,629	42,330	35,994	50,294	45,886
62,888	56,021	54,633	54,476	42,182	35,878	50,116	45,731
125	117	135	153	148	116	178	155
63,013	56,138	54,768	54,629	42,330	35,994	50,294	45,886
15.99	14.24	13.89	13.85	10.72	9.12	12.72	11.62
3.04	2.31	3.34	5.80	2.95	(1.00)	3.41	2.75
66.6	21.9	134.7	352.3	117.5	(228.3)	173.5	112.9
0.22	0.08	0.52	1.11	0.10	0.03	0.84	0.84
2.6	0.9	5.4	15.5	6.9	(10.4)	9.1	6.5
4.0	2.3	8.4	21.7	8.7	(12.3)	12.3	8.7
3.0	2.7	2.6	3.2	11.8	(76.1)	2.1	1.2
23.8	20.9	41.7	35.2	5.1	3.7	14.2	15.1
1.07	1.06	0.79	0.73	1.01	1.12	0.73	0.70
0.63	0.63	0.43	0.28	0.62	0.70	0.29	0.36

		2015	2014
Cathay Pacific and Dragonair operating summary *			
Available tonne kilometres	*Million*	**30,048**	28,440
Revenue tonne kilometres	*Million*	**22,220**	20,722
Available seat kilometres	*Million*	**142,680**	134,711
Revenue passengers carried	*'000*	**34,065**	31,570
Revenue passenger kilometres	*Million*	**122,330**	112,257
Revenue load factor	*%*	**81.1**	79.1
Passenger load factor	*%*	**85.7**	83.3
Cargo and mail carried	*'000 tonnes*	**1,798**	1,723
Cargo and mail revenue tonne kilometres	*Million*	**10,586**	10,044
Cargo and mail load factor	*%*	**64.2**	64.3
Excess baggage carried	*Tonnes*	**2,596**	2,699
Kilometres flown	*Million*	**576**	550
Block hours	*'000 hours*	**823**	789
Aircraft departures	*'000*	**173**	167
Length of scheduled routes network	*'000 kilometres*	**620**	586
Number of destinations at year end	*Destinations*	**193**	210
Staff number at year end	*Number*	**26,833**	25,755
ATK per staff	*'000*	**1,120**	1,104
On-time performance *			
Departure (within 15 minutes)	*%*	**64.7**	70.1
Average aircraft utilisation *	*Hours per day*		
A320-200		**9.4**	9.2
A321-200		**9.8**	9.9
A330-300		**12.1**	12.4
A340-300		**8.5**	11.6
A340-600		**–**	–
747-400		**5.7**	8.2
747-200F/300SF		**–**	–
747-400F/BCF/8F		**11.9**	11.8
777-200/300		**8.6**	8.8
777-300ER		**15.9**	16.1
Fleet average		**12.2**	12.2

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

		2015	2014
Fleet profile			
Aircraft operated by Cathay Pacific:			
A330-300		**42**	40
A340-300		**7**	11
A340-600		**–**	–
747-400		**3**	7
747-200F		**–**	–
747-400F		**4**	5
747-400BCF		**1**	1
747-400ERF		**6**	6
747-8F		**13**	13
777-200		**5**	5
777-300		**12**	12
777-300ER		**53**	47
Total		**146**	147
Aircraft operated by Dragonair:			
A320-200		**15**	15
A321-200		**8**	8
A330-300		**19**	18
747-200F		**–**	–
747-300SF		**–**	–
747-400BCF		**–**	–
Total		**42**	41

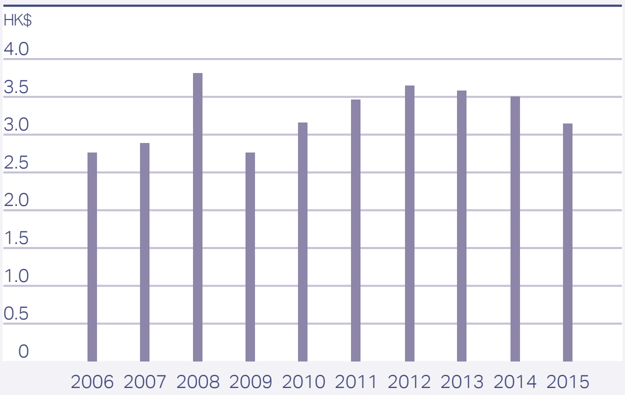
	2013	2012	2011	2010	2009	2008	2007	2006
	26,259	26,250	26,383	24,461	22,249	24,410	23,077	19,684
	18,696	18,819	19,309	19,373	16,775	17,499	16,680	14,452
	127,215	129,595	126,340	115,748	111,167	115,478	102,462	91,769
	29,920	28,961	27,581	26,796	24,558	24,959	23,253	18,097
	104,571	103,837	101,536	96,588	89,440	90,975	81,801	72,939
	77.5	76.2	77.0	81.1	77.7	75.1	75.6	76.2
	82.2	80.1	80.4	83.4	80.5	78.8	79.8	79.5
	1,539	1,563	1,649	1,804	1,528	1,645	1,672	1,334
	8,750	8,942	9,648	10,175	8,256	8,842	8,900	7,514
	61.8	64.2	67.2	75.7	70.8	65.9	66.7	68.6
	2,599	2,711	3,103	4,053	3,883	2,963	2,310	2,218
	512	502	494	464	431	460	422	357
	735	715	695	652	605	649	598	489
	160	154	146	138	130	138	131	98
	576	602	568	535	481	453	442	457
	190	179	167	146	122	124	129	125
	24,572	23,844	23,015	21,592	20,907	21,309	19,840	18,992
	1,091	1,110	1,184	1,165	1,053	1,185	1,194	1,173

	75.5	77.4	82.0	80.9	86.8	81.4	83.9	85.2
	9.1	8.8	8.9	8.2	8.0	8.4	8.5	8.2
	8.8	8.9	8.4	8.6	7.8	8.4	8.9	8.9
	12.0	12.3	12.1	11.6	10.8	10.9	10.7	11.2
	13.3	12.7	13.0	13.8	12.2	14.7	15.3	14.9
	–	–	–	–	–	11.4	14.4	14.9
	10.9	12.7	13.7	13.2	12.9	14.1	14.5	14.9
	–	–	–	–	5.4	7.5	10.8	11.8
	10.9	11.4	13.8	14.4	13.2	13.1	14.0	15.3
	8.3	8.4	8.2	8.0	8.1	8.7	8.4	9.0
	15.8	15.7	15.7	15.3	15.8	14.3	10.7	–
	11.8	12.0	12.3	12.0	11.2	11.5	11.7	12.5

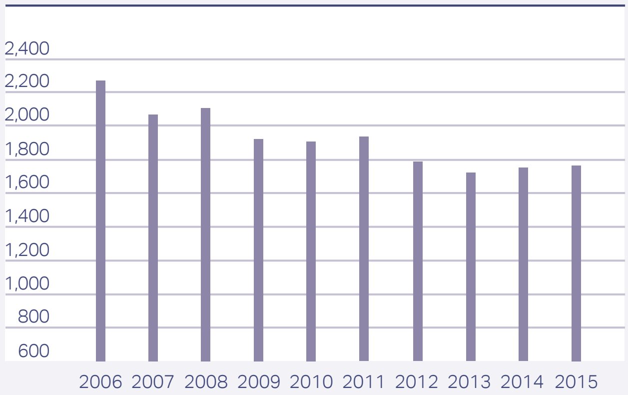
	35	37	33	32	32	32	29	27
	11	11	13	15	15	15	15	15
	–	–	–	–	–	–	3	3
	13	18	21	22	23	23	24	22
	–	–	–	–	–	5	7	7
	6	6	6	6	6	6	6	6
	1	6	8	12	13	10	6	5
	6	6	6	6	6	2	–	–
	13	8	4	–	–	–	–	–
	5	5	5	5	5	5	5	5
	12	12	12	12	12	12	12	12
	38	29	24	18	14	9	5	–
	140	138	132	128	126	119	112	102

	15	15	11	11	9	10	10	10
	6	6	6	6	6	6	6	6
	20	17	15	14	14	16	16	16
	–	–	–	–	–	1	1	1
	–	–	–	–	–	–	3	3
	–	–	–	–	–	2	3	1
	41	38	32	31	29	35	39	37

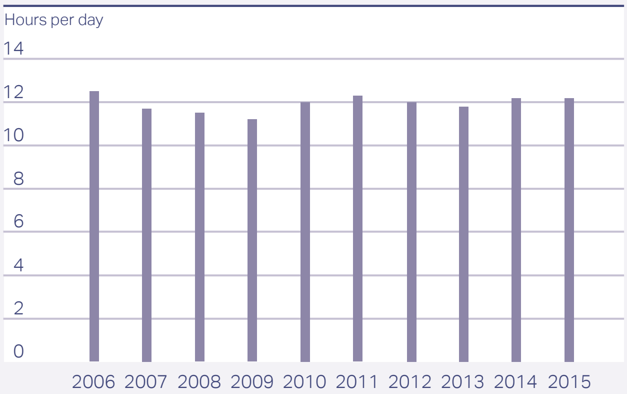
Cost per ATK (with fuel)



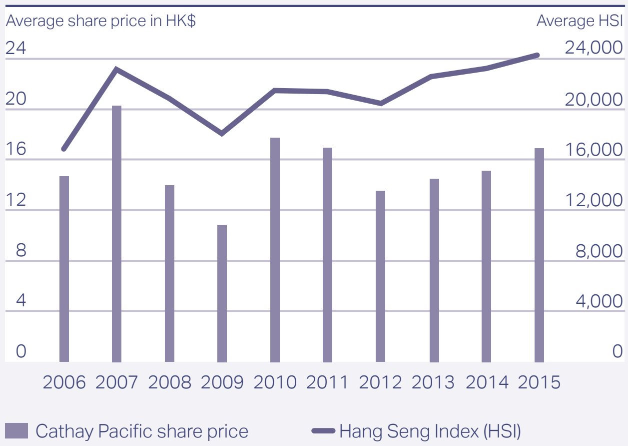
ATK per HK$'000 staff cost



Aircraft utilisation



Share price



		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Productivity *											
Cost per ATK (with fuel)	*HK$*	**3.14**	3.50	3.58	3.65	3.46	3.16	2.76	3.81	2.88	2.76
ATK per HK$'000 staff cost	*Unit*	**1,764**	1,750	1,720	1,785	1,936	1,905	1,919	2,106	2,066	2,270
Aircraft utilisation	*Hours per day*	**12.2**	12.2	11.8	12.0	12.3	12.0	11.2	11.5	11.7	12.5
Share prices	*HK$*										
High		**20.6**	17.7	16.8	15.9	23.1	24.1	14.7	20.3	23.1	19.5
Low		**12.7**	13.7	12.2	11.9	11.9	12.8	7.0	7.1	18.3	12.7
Year-end		**13.4**	16.9	16.4	14.2	13.3	21.5	14.5	8.8	20.4	19.2
Price ratios (Note)	*Times*										
Price/earnings		**8.8**	21.1	24.6	64.9	9.9	6.1	12.3	(3.9)	11.8	17.0
Market capitalisation/ funds attributable to the shareholders of Cathay Pacific		**1.1**	1.3	1.0	1.0	1.0	1.6	1.4	1.0	1.6	1.7
Price/cash flows		**3.1**	5.4	4.6	6.1	3.4	4.5	12.7	8.9	5.0	6.1

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

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

Glossary

Terms

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

Net borrowings Borrowings and bank overdrafts less liquid funds.

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

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

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

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

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

EBITDA Earnings before interest, tax, depreciation and amortisation.

Recoveries Cost recoveries from incidental activities.

Ratios

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate and Shareholder Information

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

Investor relations

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Financial calendar

Year ended 31st December 2015	
Annual report available to shareholders	8th April 2016
Annual General Meeting	11th May 2016
Six months ending 30th June 2016	
Interim results announcement	August 2016
Interim dividend payable	October 2016

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